

business insurance

Week of May 12, 1980

Wage-loss

Delaware is likely to be the first state to follow Florida and institute wage-loss workers comp rules: **Page 3.**

Product liability

The American Machine Tool Distributors Assn. is set to offer members a liability package underwritten by Lloyds: **Page 10.**

Capacity crunch

Inflation may force a reduction in U.S. capacity this year, according to a study by a Lloyd's broker: **Page 12.**

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President's panel on pensions: Commission leans toward mandate

By JERRY GEISEL

BOSTON—The President's Commission on Pension Policy will recommend this month in its interim report that federal legislators seriously consider requiring all employers to provide pension plans.

Although the commission's members are leaning toward mandatory pensions, they won't publicly favor such a far-reaching step in the report being issued next week. Commission members are waiting for a staff report on the estimated cost impact of such a law on large and small employers before making a final recommendation.

In mapping out the future direction the U.S. pension plan system should take, the commission is also suggesting:

- The Administration and Congress consider equalizing the tax treatment of employer and employee pension contributions to retirement plans. Currently, only an employer's contribution to a corporate pension plan is tax deductible. As a result, most pension plans are noncontributory.

- As a general principle, vesting requirements should be shortened.

- Social Security benefits should be taxed, at least for those with taxable income, but the contributions would be tax deductible.

- All new public employees should be covered under Social Security.

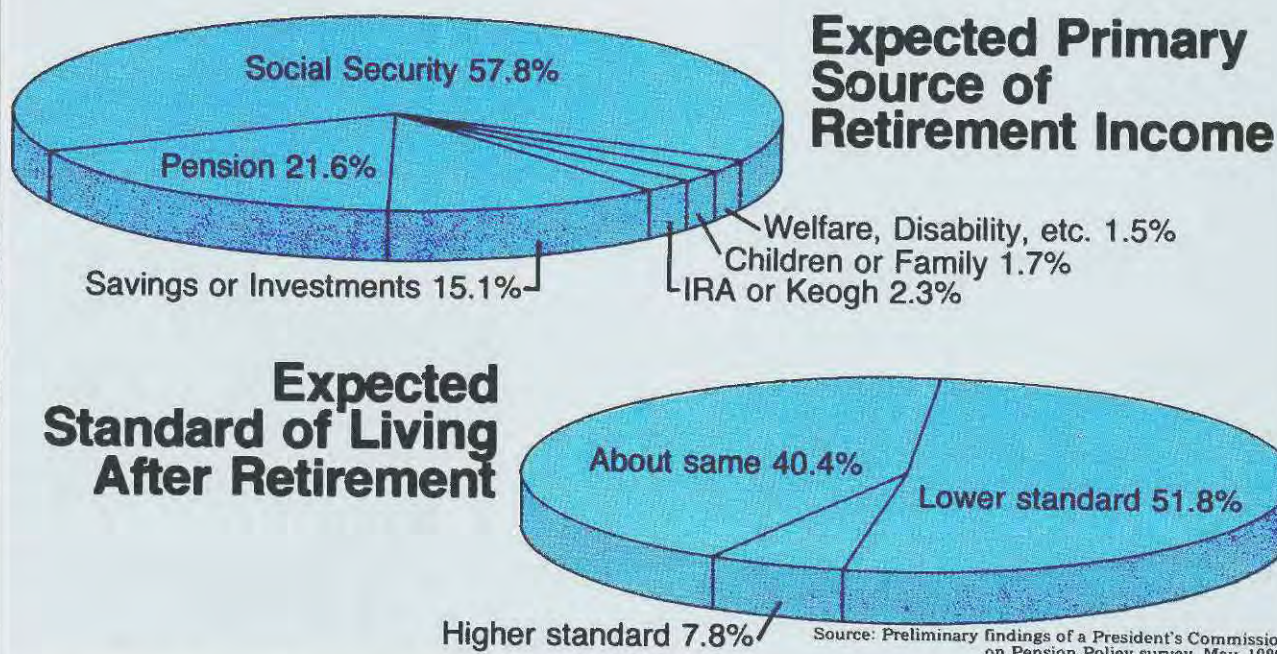
- Tax credits should be given for low and moderate income persons for their pension contributions to encourage savings, depending on the findings of a study now underway.

- Eliminating the current disparity in permissible contributions to different pension plans. Currently an individual generally may only contribute \$1,500 to an Individual Retirement Account, while the annual limit for Keogh plans, heavily used by professionals, is \$7,500.

These recommendations were hammered out dur-

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Retirement Outlook



Few workers vested: Poll

The President's Commission on Pension Policy has a preference for universal private pension plans and faster vesting, shaped by the results of a massive, just-released pension survey revealing that the pension umbrella is disappointingly small.

In the last eight years, the percentage of the working population covered by private plans has stagnated at about 50%. And despite ERISA's liberalized vesting requirements, only 25% of all employees are fully vested, according to a commission-ordered survey.

The survey, performed by Market Facts Inc., a Chicago-based research corporation, is the most up-to-date source of information on a broad range of retirement income is-

sues. More than 6,100 adults were surveyed last fall about their participation in pension plans, entitlement to benefits and attitudes regarding retirement prospects.

Key findings include:

- Most workers believe their standard of living will decline after retirement.
- A majority of those surveyed believe Social Security will be their primary source of retirement income.
- About half of all people surveyed intend to retire at age 62 or earlier.
- Women are much more pessimistic than men about their retirement prospects.

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UAW plans fight against carcinogens

By JOHN MAES

DETROIT—Automobile industry labor and management may work together on a new UAW program designed to locate and remove harmful disease-causing chemicals and substances from the workplace.

The program calls for data gathering, inspections, medical examinations and other methods to detect harmful elements and devise methods to eliminate them

from the work environment.

The program was announced shortly after new federal guidelines gave the U.S. Occupational Safety and Health Administration power to identify and regulate cancerous substances in the workplace.

It also follows disclosures by the National Institute of Occupational Safety and Health that woodshop workers at Ford Motor Co. and General Motors Corp. suffer from abnormally high rates of cancer

linked to carcinogens in wood dust (BI, March 17).

Two of the Big Three auto manufacturers, General Motors Corp. and Chrysler Corp., said they support the intent of the plan and hope the firms and the UAW could cooperate to improve workplace safety.

Ford Motor Co. would not comment on the UAW announcement because it wasn't fully informed about the program. But Ford supports the campaign to eliminate hazards from the work environment.

GM has already been active in workplace safety, said a spokesman. In 1973, the UAW and GM formed joint health and safety committees at all GM-UAW plants. The panels watch for reports of abnormal death rates and then plan corrective action.

Chrysler said it has also acted on



Photo: GM

Follow-up steps

The program follows disclosures that woodshop workers suffer from higher rates of cancer.

- Initiating investigations when a high number of cancer cases in a plant is reported to the union.

- Asking local union officials to gather data needed to evaluate the cases and seeking employer cooperation. The UAW will set up a special educational program to

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Space shuttle
Page 3

for your information

Kentucky regulators take over insurer under investigation

LEXINGTON, Ky.—Highlands Mutual Insurance Co., a small local insurer recently investigated by postal inspectors and an Eastern District grand jury (BI, April 14), is now under rehabilitation by the state insurance department.

A preliminary audit by the insurance department has revealed at least two unpaid commercial claims for physical damage coverage on Kentucky coal-hauling trucks. The claims, according to supervising insurance examiner Jim Dickinson, total about \$30,000.

"We may be able to pay those claims if we can get premium back from the reinsurer," explained Mr. Dickinson. Robert Campbell, who formerly operated Highlands Mutual, also owes the firm about \$50,000 in premiums paid to his brokerage, Transportation Insurers Inc.

"But we are not expecting to get that back," Mr. Dickinson added. "It appears that Transportation Insurers is at least \$400,000 in debt."

Mr. Campbell, one figure in a twisted trail of bogus trucking coverages and lost premiums, is being sued by American National General Agencies, the surplus broker that replaced the failed Highlands Mutual coverage with Great American Surplus Lines in Cincinnati. ANGA is seeking \$498,000 in compensatory damages and \$500,000 in punitive damages. Mr. Campbell recently surrendered his broker license.

Other intermediary brokers, including Bill Monroe Inc. of Monterey, Calif., report outstanding debts from Mr. Campbell and Transportation Insurers, but a final tally is waiting for the results of the grand jury that has seized the brokerage records.

Swine flu claims continue

WASHINGTON—The Justice Department says 3,905 claims asking for \$3.5 billion in damages have been filed in connection with the federal government's 1976 swine flu inoculation program.

As of April 18, 217 claims had been settled for a total of \$7.5 million. The amounts of the settlements range from \$49.90, awarded to a woman who contended the shot left her with one very sore arm, to \$399,000 awarded in a wrongful death case.

The size of settlements is expected to rise in the months ahead as more suits are decided.

Aviation insurers suffer in '79

WASHINGTON—The world's aviation underwriters suffered their worst year in history in 1979 with \$550 million in losses.

The figures were disclosed in a report by the Aviation Insurance Offices Assn., which estimated the damage of the 19 commercial airliners that crashed last year at \$220 million. Half of that total was accumulated by three DC10 jet crashes in Chicago, Mexico City and Antarctica.

Last year's passenger death total of 880 was up from 663 in 1978.

Kansas veto override fails

TOPEKA—The Kansas legislature failed to override Gov. John Carlin's veto of a comprehensive product liability reform bill (BI, May 5). The veto kills the chances of tort reform in Kansas for at least another year.

The veto came after Gov. Carlin said there was no evidence to support the price hikes insurers have imposed on businesses buying product liability insurance.

Since the tort reform movement began in 1977, governors in two other states—Connecticut and North Dakota—also vetoed product liability bills.

Ill. fines insurer over trusts

SPRINGFIELD—The Illinois insurance department has fined Union Fidelity Insurance Co. of Trevese, Pa., \$250,000 for allegedly selling group insurance in the state without a license through five trusts the company administers.

The trusts, each fined \$50,000, are the United Catholic Group Insurance Trust, the United Credit Card Holders Group Insurance Trust, the Fingerhut Group Insurance Trust, the National Senior Citizens Group Insurance Trust and the United Veterans Group Insurance Trust. Union Fidelity has an Illinois license but the trusts do not, the insurance department says.

Pension plans may get loans

WASHINGTON—Employee pension and welfare benefit plans may now obtain interest-free loans to meet operating expenses of the employers and unions that sponsor the plans, under a new Labor Department exemption.

Business groups had urged that such loans are needed to enable plans to meet temporary cash shortages to pay benefits or to meet long-term capital needs.

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Photo: Mary Cairns

"There's enough business out there for everybody," says Rep. Bernard Epton.

Ill. exchange will seek world risks: Lawmaker

By JOHN MAES

CHICAGO—The Illinois Insurance Exchange should be ready to compete with the large international insurers for worldwide business after two years, said the state lawmaker whose bill created the exchange.

"There's no reason that two years or so from now we shouldn't be able to compete with AIG for business in mainland China," said Rep. Bernard E. Epton (R.-Chicago).

Mr. Epton said earlier this month that he intends to invest in an underwriting syndicate on the exchange, slated to open July 1 (BI, May 5).

He predicts the exchange will aggressively seek worldwide risks after about two years, saying he does not think that once it becomes established, it will have a difficult time competing with the newly formed New York exchange and Lloyd's of London.

"There's enough business out there for everybody and it will make Lloyd's and the New York exchange more competitive," he said.

Mr. Epton said he has been contacted by Chinese insurance officials who have expressed interest

in a joint insurance venture with the exchange for coverage of foreign investments the Chinese are trying to lure.

The Illinois exchange's freedom from rate and underwriting regulations makes it easier for the Chinese to do business with it rather than the New York exchange, he said.

Before competing for international business, however, the exchange will have to start out by insuring smaller, short-term risks and 2% or 3% of risks insured mainly by Lloyd's, he said. Mr. Epton is an investor in three Lloyd's syndicates.

Initially, risks placed with the exchange will include kidnap and ransom, rock concert and special event liability and construction project property and liability coverage. Chicago itself will be a good source of business, he said.

"We'll be looking for the quick in-and-out type risks rather than the long-term business because there will be more of it and it will be a better way to get started," Mr. Epton said. It could be disastrous for a newly formed syndicate to tie itself up in one or two long-term risks, but with risks of shorter duration, "We'd have to guess wrong 10 times to go under."

Mr. Epton said he will invest in the exchange but does not now know whether he will help form three syndicates capitalized at \$2 million each or one capitalized at \$10 million.

The legislator, chairman of the Illinois insurance laws study commission, said he does not believe he has a conflict of interest by investing in a syndicate. He compared investing in the exchange to a state lottery where "the only ones who can lose are the ones who choose to invest."

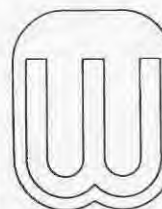
errors & omissions

• An April 7 letter to the editor from Lee Van Slyke, an actuary with Warren McVeigh & Griffin in Newport Beach, Calif., was incorrectly edited. The editing changed the sense of Mr. Van Slyke's comments. Contrary to the beliefs of an earlier contributor to *Business Insurance*, actuaries aren't guilty of having a narrow focus, said Mr. Van Slyke making a case that the actuary's background and training is very broad.

• A May 5 Around the states item about Minnesota legislation barring a hike in workers compensation rates was incorrect in several ways. We reported that the law was passed, but in reality Gov. Al Quie vetoed the legislation at the last minute. The state rating association has requested a 28% hike in rates, which haven't been increased in Minnesota since early 1978, based on 1976 statistics. The state insurance commissioner adamantly denies that he ever said he expects insurers to file for a 70% rate increase next year on top of this year's hike, as we quoted him.

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Del. bill would install wage-loss work comp

By JILL KAPLAN

DOVER—Delaware will become the first state to follow Florida's lead in adopting the wage-loss system for the payment of workers compensation claims, if a major new bill being drafted here is passed.

Insurance premiums for workers compensation would automatically be reduced by 7.5% under the new bill. Maximum benefits would be increased to 125% of the state average weekly wage from 66.6%.

Business, labor and the insurance industry worked together to draft the bill, which is expected to be filed in the senate by the middle of this week.

Gov. Peter duPont privately indicated he will sign the bill, said Robert Byrd, director of governmental affairs for the Delaware Chamber of Commerce.

The bill also would:

- Reduce litigation by cutting attorneys' fees.
- Provide amputees with benefits in addition to the wage-loss payment.
- Shift responsibility for the administration of workers compensation to the industrial affairs division from the industrial accident board.

Allow workers to receive payments immediately instead of waiting seven to eight months for an agreement to clear the industrial accident board.

Florida is now the only state with a system that bases benefits on wage-loss. But, whereas Florida requires a worker's post-injury income to be 85% of the pre-injury wage before benefits can be paid, Delaware will have no such threshold.

Delaware amputees will also receive higher impairment benefits

than workers in Florida, said John Lewis, a Florida attorney instrumental in the passage of the Florida plan.

The impairment benefit will be provided in addition to the wage-loss pay, but will be awarded in a lump sum only when the employee has returned to work.

"The whole key is eliminating litigation," said Robert Byrd of the Delaware Chamber of Commerce. "That is the biggest saving involved."

Under the new system, lawyers' contingency fees would only be based on the amount awarded in a

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Indexing dangerous

Inflation threatens pensions: Consultant

NEW YORK—The future of today's private and public sector pension plans could be seriously threatened if inflation persists at current levels, says William D. Welsford, director at William M. Mercer International.

Indexing pension benefits to the inflation rate to offset erosion of fixed retirement incomes is dangerous to pension plans, Mr. Welsford said at a Mercer-sponsored worldwide benefit review.

In the private sector, indexing is impractical because funds are limited, he said. For government plans, indexing may cause a rift between working and nonworking groups, he noted.

In the private sector, for every 1% of inflation, the new contribution to a fully indexed pension plan would have to be 6% to 10% of payroll, Mr. Welsford noted. At a 10% inflation rate the contribution would range from 10% to 25% of payroll, while at 15% inflation the new contribution would range from 15% to 35%.

The solution to this potential problem is to curb the rise in inflation and to use new funding approaches such as indexing

investments and greater diversity of foreign securities.

If these approaches are not implemented, Mr. Welsford said, the only alternatives are changes in retirement eligibility ages or cutbacks in benefits.

When government-funded pension plans are indexed to inflation, the benefit threatens the harmony established between the working and nonworking, says A. Haeworth Robertson, vp at William M. Mercer and former chief actuary of the U.S. Social Security System.

Mr. Robertson, in speaking at the benefit review, used for an example a 14.3% increase set to go into effect for Social Security recipients on July 3.

This indexing, he said, though morally acceptable, will put workers at a disadvantage unless they receive raises ranging from 18% to 20%—something unlikely.

"We have a real conflict," he said, emphasizing that projections show the number of retirees will increase while workers decrease. Currently there are 35 million persons on Social Security and 110

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Photo: Mary Cairns

Be sure a performance bond underwriter is capable of paying if a contractor defaults on a building project.

Bond fraud case teaches lesson

By MARY ANN MATLOCK

TRENTON, N.J.—Before accepting a bond that guarantees the performance of a contractor, check the bonding company's status with the state insurance department.

This simple sleuthing can reassure everybody with a building project that the bond underwriter is licensed, adequately financed and capable of paying if the contractor defaults.

It can also help avert the financial uncertainty various agencies, municipalities and companies in New Jersey now feel after accepting the performance bonds of Ronrich Inc., which traded as Somerset Insurance Co. of Cherry Hill, without checking.

Somerset and six persons associated with it were indicted April 30 for allegedly issuing or attempting to issue \$92.5 million in phony performance bonds from Jan. 1, 1978, to Dec. 31, 1979.

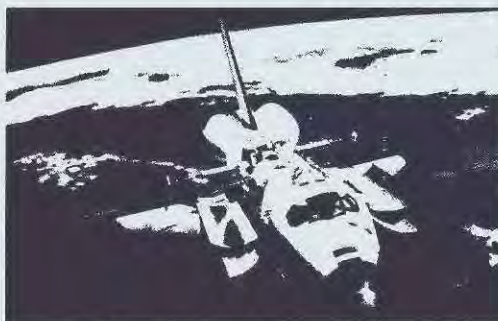
Specific charges in the indictment, issued by attorney general John Degnan, include: doing insurance business in New Jersey without being licensed by the insurance department; obtaining money by saying that Somerset was licensed; issuing bonds based on false financial statements, and issuing forged audit reports.

Somerset issued or attempted to issue the bonds to: the New Jersey

Continued on page 28



The shuttle orbiter Enterprise, the first shuttle craft to be moved to the launching pad, awaits inspections. The space shuttle will be launched with a booster rocket.



An artist's drawing shows an orbiter vehicle carrying Spacelab hardware as it will in future use.



The Enterprise separates from the carrier aircraft to begin its first unpowered flight over the California desert and mountains, one of several flight tests.

Photos: NASA

Execs explore space shuttle plan

By STACY SHAPIRO

WASHINGTON—Risk managers for contractors on the space shuttle are exploring any black holes before NASA begins its shuttle service to the final frontier.

A wrap-up liability insurance program for contractors is being investigated.

The wrap-up policy, if implemented, would take the heat off the product liability policies of the manufacturers of the shuttle, says Robert E. Butler, corporate director of risk management for Lockheed Aircraft Corp., a contractor on the project.

"The shuttle could plunge into Los Angeles," Mr. Butler says. Under the present NASA contracts, all the manufacturers would be liable under their own third-party liability insurance policies.

With a wrap-up policy, a manufacturer "would protect his own liability exposure program for a very small premium," says Mr. Butler, a member of a five-man committee exploring the wrap-up program.

Marsh & McLennan and some major London brokers were among the 35 people present at a general exploratory meeting here in February. Risk managers, NASA representatives and other major insurance brokerage firms appointed the ad hoc committee of five risk managers to further investigate the feasibility of the wrap-up policy for all participants in space shuttle flights, including NASA, contractors, subcontractors and users.

The committee is still on the launching pad, however, says Rob-

ert H. Hoff, manager of corporate insurance of Boeing and interim chairman of the committee. "We are in the preliminary stages at the moment," he says, "with nothing concrete yet."

Mr. Hoff and the committee—which includes Edward W. Altstaetter of Rockwell International Corp., Mr. Butler of Lockheed, Robert Moore of IBM Corp. and D. R. Reid of Hughes Aircraft Co.—plan to have a wrap-up liability insurance program by the launching this fall if it is feasible.

Hundreds of contractors are affected by the shuttle, says Mr. Hoff. "They are all buying insurance in the same markets and all buying in the same capacities." The world insurance market is needed to cover such an enormous risk, he says.

The committee will explore

what kind of policy would be most feasible for contractors of the space shuttle. It may be a three-year policy or a per-launch policy, Mr. Hoff says.

Another step is to appoint "a brokers committee from major firms to be draftsmen of the wording of the master wrap-up policy," Mr. Butler says.

Representatives from Corroon & Black, Marsh & McLennan, Alexander & Alexander, Frank B. Hall and Johnson & Higgins met in New York May 2 to discuss the project, *Business Insurance* learned. Results of the meeting will be presented to the committee at the Kennedy Space Center on or before May 29, when NASA will sponsor a conference for space shuttle users.

NASA hopes risk managers are

successful in implementing a wrap-up policy, says Neil Hosenball, general counsel of NASA. "It would simplify our problems and would cover everybody on the shuttle plus the U.S. government."

NASA currently insures users of the shuttle in excess of \$500 million. But contractors were not considered for this policy when it was implemented in 1979.

"It would have been nice to have started five years ago," says Mr. Hoff of the wrap-up project. "It didn't come to the attention of the people quick enough."

The shuttle, which could go up as early as November, will cut in half the cost of sending satellites into space, Mr. Hosenball says. Three companies will be able to send equipment up together because the shuttle carries up to 65,000 pounds of payload.

Avoid Persian Gulf, tanker firms warn

International tanker firms in Britain and Norway are advising their ships to stay outside the Persian Gulf until they have a definite oil cargo to pick up so the firms can avoid high war risk insurance charges.

"Usually our ships anchor inside the gulf for convenience but this keeps them there for a week or more before loading begins," said a spokesman at British Petroleum. "At the moment they have been told to stay outside the Straits of Hormuz as long as necessary to avoid any flare-up in Iranian waters. We don't want them accidentally trapped inside the gulf if there is trouble between Iran and the U.S."

The war risk surcharge is going up and down daily among different underwriters in London, says a spokesman for Lloyd's of London. The rate is still "rather reasonable," he added.



Photo: The Institute of London Underwriters

Tense situation

The war risk surcharge on ships traveling the Persian Gulf has been going up and down daily among different London underwriters.

Legislation seeks renewal of OPIC insurance power

By JERRY GEISEL

WASHINGTON—The underwriting authority of the Overseas Private Investment Corp. would be extended another four years under new legislation that would also increase OPIC's capacity by \$2.5 billion and encourage use by small firms.

OPIC, a federal agency, provides political risk insurance.

Sponsors Sen. Jacob Javits (R-N.Y.) and Sen. Abraham Ribicoff (D-Conn.) want OPIC to continue to provide the coverage through

1985 to businesses that want to invest in less-developed countries. OPIC's underwriting authority is set to expire next year.

The legislation would also remove the current restrictions that hamper OPIC's ability to provide insurance to firms that want to invest in countries where the per capita gross national product is more than \$1,000.

Reflecting more OPIC demand from oil and mineral prospectors, the legislation (S. 2186) calls for increasing OPIC's insurance authority to \$10 billion from the current \$7.5 billion. OPIC's guaranty authority would be boosted to \$1 billion, a \$250 million increase.

The Javits bill also would extend OPIC's ability to insure existing investments. Currently, OPIC can only insure new projects.

The bill encourages smaller firms to tap the OPIC market by eliminating the 10% coinsurance requirement for companies smaller than the Fortune 1,000.

Meanwhile, the political risk insurance agency reported increasing use and revenues in its annual report released last week. Gross revenues for fiscal 1979 reached a record high of \$67.7 million, 12% more than the previous year.

Net income climbed to a new high of \$58 million, 10% more than the previous high of \$52.7 million recorded in fiscal 1978.

OPIC also noted a significant increase in its insurance program. Coverages totaling \$803 million, an increase of 21% over fiscal 1978, were provided for 69 projects.

Of the insurance provided, \$232 million covered the risk of currency inconvertibility; \$293 million covered expropriation; \$268 million covered war, revolution and insurrection risks, and \$10 million covered construction contractors against the risk of arbitrary drawing of on-demand letters of credit.

OPIC also seems to have been successful in heeding congressional demand for more small business coverage. In 1979, 31% of the insurance contracts issued covered investments by businesses with annual sales of less than \$110 million or net worth of less than \$36 million.

During fiscal 1979, OPIC paid out \$7.2 million to settle 11 insurance claims. Claims pending at the close of the fiscal year, which ended Sept. 30, 1979, totaled \$15 million.

Three new members were added to the Overseas Investment Reinsurance Group, formed in 1978 to provide private reinsurance for OPIC's expropriation and inconvertibility portfolios. The new members, joining the 14 original companies, are: National Fire Insurance Co. of Pittsburgh, Fremont Indemnity Co. of Los Angeles and Groupe Josi Compagnie Centrale d'Assurances of Belgium.

Committee chairman

D.G. (Ben) Lyon, joint deputy chairman and managing director of Jardine Matheson Insurance Brokers Ltd. and chairman of its major subsidiary, Jardine Thompson Graham Ltd., has been elected chairman of Lloyd's Insurance Brokers Committee of the British Insurance Brokers Assn. The Lloyd's committee acts as a trade association for all Lloyd's brokers.

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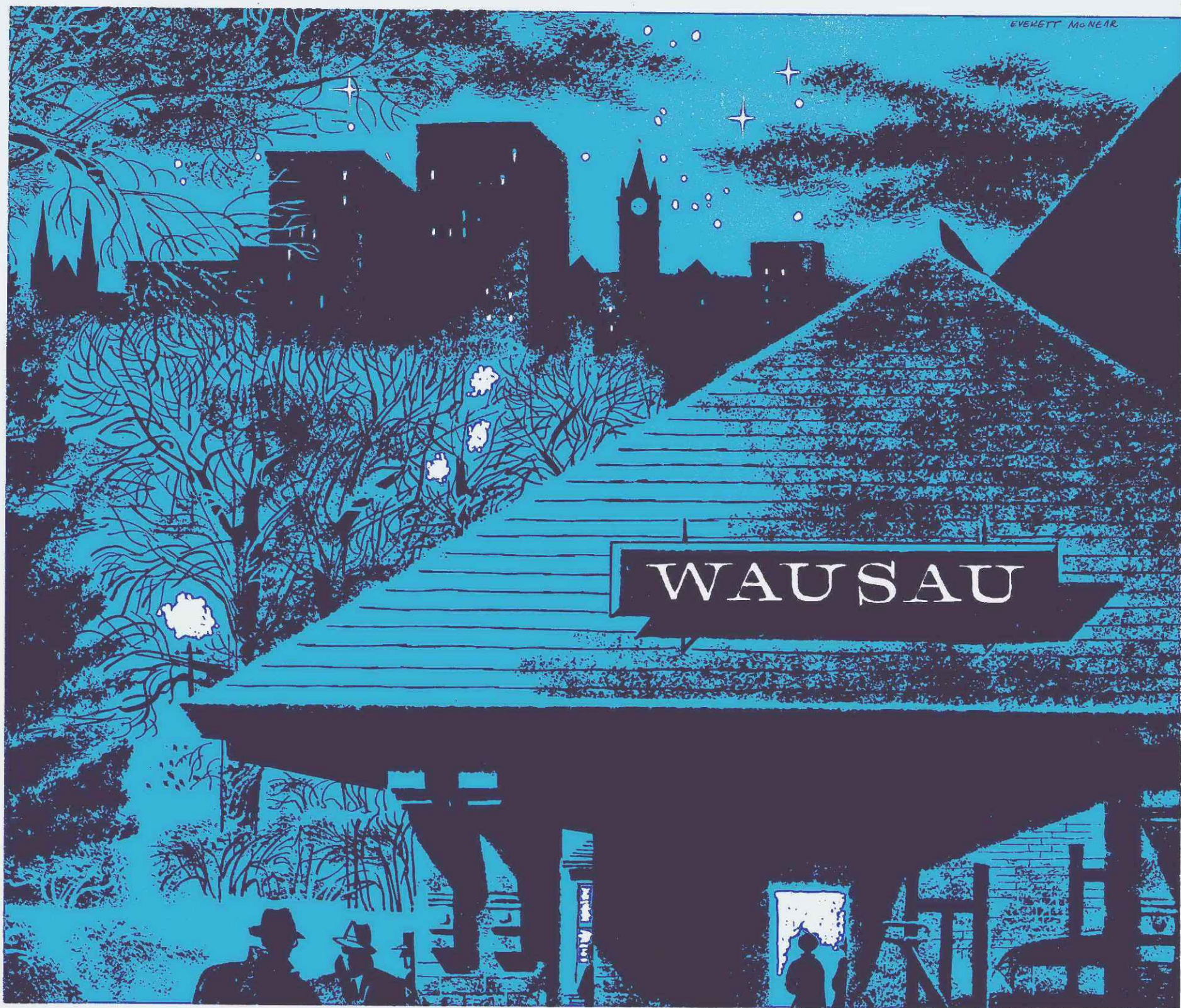
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Wallace Murray moves group package

IN A MOVE to consolidate its multiple group insurance plans and cut costs, Wallace Murray Corp. in New York has moved \$6 million of its health, life and dental coverage to the Prudential Insurance Co. from John Hancock Mutual Life Insurance Co.

About 7,000 of the company's 12,000 to 13,000 employees are affected by the move and the benefits they receive under the new minimum premium program will remain the same, said Charles Wackenhuth, director of employee benefits. Prudential was selected through competitive bidding conducted by Wallace Murray and its broker, Johnson & Higgins.

The company, with more than 30 autonomous operating units, had acquired more than 70 pension and group insurance packages

benefit beat

along with its corporate acquisitions, resulting in the use of 14 insurers. In consolidating its benefit programs and improving control of their administration, Wallace Murray also has taken other steps:

- Claims ultimately will be paid for by the operating unit in which they occur.
- Control has been tightened over misuse of the coordination of benefits provision.
- Monthly statistical claim reports are sent to all company locations where suspect claims can be more easily tracked down.
- A communications program has been launched to educate employees in filing claims properly, in

order to reduce paperwork.

Pension guarantee

Retired workers at the bankrupt Wisconsin Steel Co. in Chicago will continue to receive pension and insurance benefits guaranteed by International Harvester.

Harvester sold the mill to Envirodyne Industries Inc. in 1977, but agreed to guarantee workers' pensions if the mill closed before 1982. Wisconsin Steel went bankrupt in March.

About 2,000 currently retired workers as well as future retirees will continue to receive medical, life, Medicare reimbursement,

contributory hospitalization, accidental death and dismemberment, long-term disability and management retirement supplement benefits. Aetna underwrites the benefit program.

If the Pension Benefit Guaranty Corp. assumes its obligations to the folded plant, Harvester will pay the difference between the pension benefits for which a worker is eligible as of March 31 and the combined benefits paid out by the PBGC and the remaining funds in the company's pension trust.

Harvester has not yet figured the cost of guaranteeing the pensions, a Harvester spokesman said.

HMO contracts

The state of Illinois has renewed

its contracts to provide medical care to two health maintenance organizations, the Foundation for Medical Care of Central Illinois and the Abraham Lincoln plan in Lincoln, Ill. The new agreements take effect July 1.

The state offers employees a choice of conventional hospital insurance or membership in an HMO. The Foundation is the largest of six HMO programs offered for state employees and their families, serving about 6,000 persons. The Lincoln program has an enrollment of about 200.

Made any benefit changes? Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

Exchange eases syndicate rule

NEW YORK—Unauthorized insurers can serve as underwriting managers for New York Insurance Exchange syndicates under an amended regulation issued by the state insurance department.

Under state law, unauthorized insurers would have to set up an admitted subsidiary before they could underwrite from New York, explained Mario Carfi, director of the department's exchange bureau. Now unauthorized insurers only need approval from the superintendent of insurance to manage exchange syndicates.

This change makes it easier for unauthorized insurers to manage a syndicate on the exchange.

No unauthorized insurers are acting as insurance exchange underwriting managers now, Mr. Carfi said.

The amended regulation requires authorized and unauthorized insurers to maintain separate accounts for business done as syndicate underwriting managers. ■

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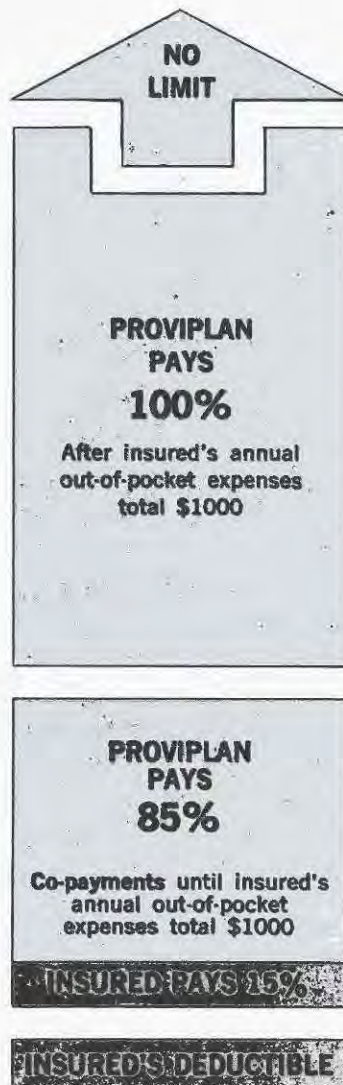
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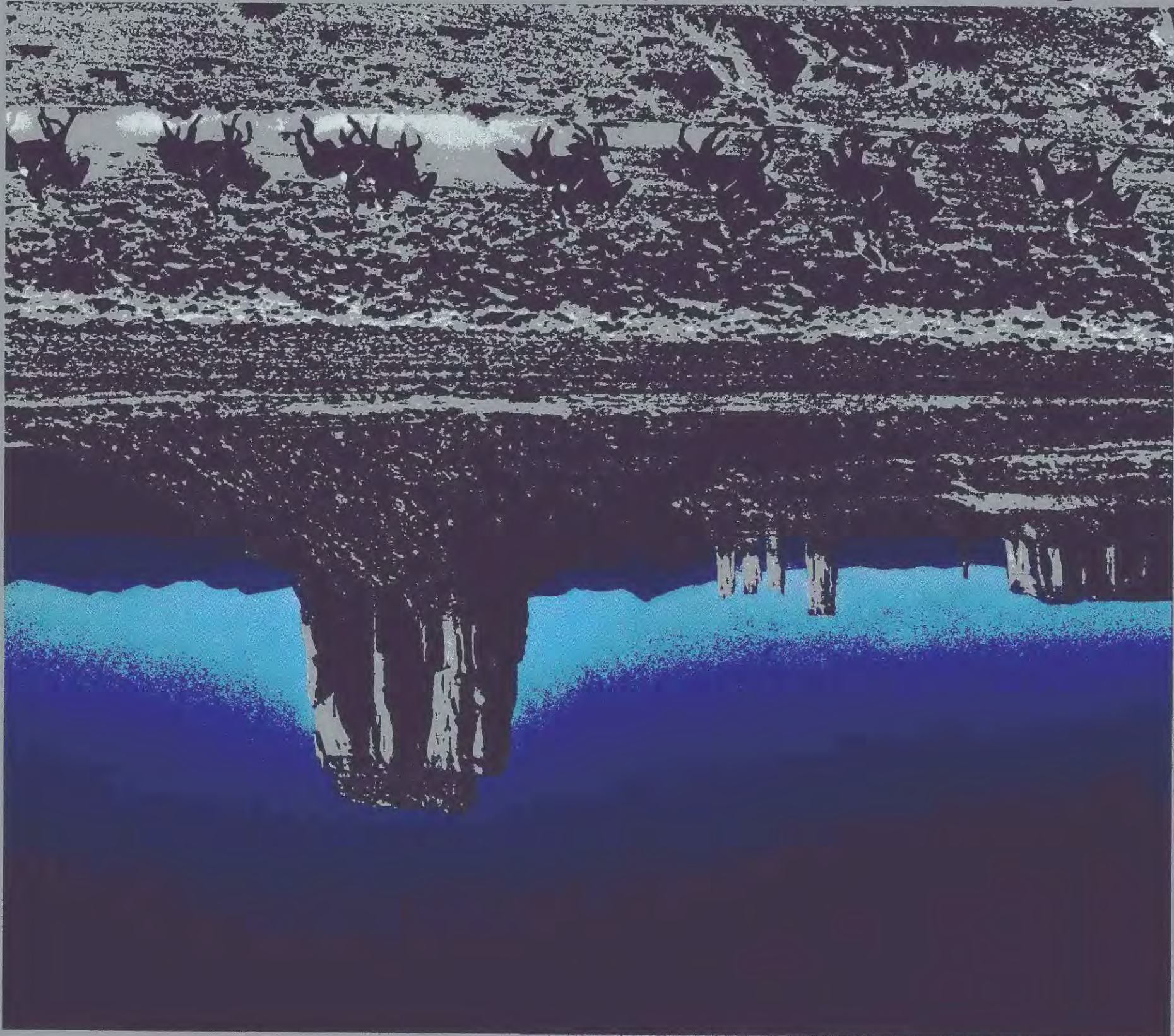
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editorial opinions

Victory for buyers

CALIFORNIA'S SUPREME court affirmation of an earlier decision saying Safeway Stores had no duty to settle a claim simply to protect the excess insurer's moneybags represents a victory for risk managers and policyholders everywhere.

In the Commercial Union vs. Safeway case, Commercial Union argued that Safeway should have agreed to settle a claim at about \$60,000, within its self-insured retention. Instead, Safeway chose to fight the claim and ultimately cost itself and CU a great deal more than that. Safeway ended up paying \$100,000 and CU paid \$25,000.

The court decision that Safeway was entitled to fight and wasn't obligated to accept the settlement offer to avoid costing CU anything gives risk managers much more leverage over claims handling, leverage they need and should have had all along.

Insurance buyers should be forewarned, though, that insurers are now likely to attempt to insert stronger language in policies giving underwriters total authority to settle claims. They might also try to insert in policies wording that says insurers won't pay losses if a policyholder chooses

to fight a claim and the decision leads to a larger award or loss than the earlier settlement amount would have been.

This is the time for buyers to assert their rights and propose specific language to insurers broadening the power of the policyholder to refuse a settlement, even if there's a chance a final payout may cost the insurer more than a convenient earlier escape.

Companies often think it's important to fight some claims and lawsuits in order to avoid setting legal precedents and to uphold a management philosophy of not giving in to people who want to profit from circumstances that might not have even caused a loss or any measurable damages. Insurers may think this is nuts, given the inclination of the courts to give corporate money to plaintiffs regardless of actual losses, simply for the anguish of having been hurt in some way.

But it's impossible to change the course of legal and insurance-loss history without putting up a fight and denying invalid claims or claims that ask for too much money. And a policyholder should apply just as much pressure as possible to convince insurers of the need to take a tough stance on claims.

Tailor-made advantage

APANEL DISCUSSION at the RIMS conference in Atlanta focused on manuscripting insurance policies, a practice becoming widespread among risk managers whose corporate exposures are better covered by a tailor-made policy and whose premiums are big enough that insurers bow to the pressure to agree to a special policy form.

Some cautionary words for buyers are in order, because a manuscript policy is anything but a panacea for all insurance and insurability problems. Indeed, a tailor-made policy form can conceivably get a buyer into loads of trouble if the wording is too vague or if the structure of the policy is confused. But these problems and potential pitfalls can easily be avoided by using a good broker and/or consultant who knows policy construction.

George Sterling of Burroughs thinks the manuscript policy is virtually the only way to go, given the balkiness of insurers to

accommodate buyers' needs in standard coverage and the narrowness and archaic coverage of standard policy forms.

Insurers, brokers and consultants are so busy cautioning buyers of the potential pitfalls of negotiating manuscript policies that they appear to be giving short shrift to the tremendous advantages of putting together tailor-made forms.

Obviously, conservative underwriters don't relish the added headaches and the prospects of hefty losses inherent in the tailor-made policies they're having to give customers. But insurers are most surely going to be faced with a growing demand for negotiated, manuscripted policies which, as George Sterling says, address the legitimate needs of buyers.

A risk manager, we would venture, who doesn't investigate the need for a manuscript policy to cover problematic liability or property exposures isn't doing his or her job well enough.

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.

E&O trap

To the editor: We read with interest Mike Hinchey's article April 21 about lawyers E&O discounts that may spur a trap in the errors and omissions marketplace. Our firm has been handling the adjustment of errors and omissions insurance claims for well over 10 years.

We have seen professional liability carriers come and go. We feel that the roller coaster market between the bureau companies and the special risk carriers as well as the resulting insurance crisis for the professionals is, more often than not, created by the insurance companies themselves and not as a result of bad losses.

More often than not, the special risk and surplus line insurance companies are able to write an errors and omissions program with a well-written policy and a well-coordinated claims procedure.

Defense attorneys and investigators are also consulted.

This insures a more stable program. In addition, premium rates are usually reasonably set and the policies are written in an unambiguous fashion with proper premium adjustments for prior acts coverage and reasonable deductibles.

Unfortunately, because the programs are so successful, the bureau insurance companies or the standard insurance companies get jealous of the amount of premiums being "snapped up" by the special risk carriers. What usually happens is that the marketing departments of the standard insurance companies decide they can do this too and jump in with cut-rate premiums to get the business, unlimited prior acts coverage and no deductibles, to make the policies more attractive to potential policyholders.

Although they may get a substantial amount of the business in the first couple of years, their claims departments are usually not equipped to handle these types of special risk claims, in which case the heavy losses and underwriting losses sustained by the insurance company are not created so much by the policyholders, but created by the insurance company's own handling of the claims and the fact that the marketing department appears to be more in control of the underwriters and claims departments.

We have seen several professional liability crises that occurred solely as a result of standard companies not handling their market and underwriting properly and not because of any outrageous or horrendous losses suffered by the companies at the policyholder's

hands.

We are seeing this exact same thing occurring now. For the last couple of years, the standard insurance companies have entered into the professional liability and standard risk marketplace and we are quite concerned that the same type of artificial crisis is going to occur within the next two years.

We suggest that if standard insurance companies are going to enter into the marketplace, that they attempt to coordinate their underwriting and claims handling more professionally.

Frederick J. Fisher
Miller and Gilbert
Culver City, Calif.

Superficial story

To the editor: Mike Hinchey's article in your April 21 issue, ("Lawyers E&O discounts may spur traps") has been read with some interest and a great deal of frustration.

The interest stems from some awareness of the problems facing attorneys and other professionals and the solutions that have been developed for them. The frustration arises from the somewhat superficial treatment given this very difficult subject and certain misleading information.

For example, while there may be 30 insurers underwriting professional liability coverage nationwide, there are less than half a dozen available in California for attorneys to consider.

Further, I believe the part we and others have played in creating an element of competition in the insurance marketplace has actually improved the climate for buyers of professional liability insurance. For example, we are gratified to have played a successful role in the establishing of a non-conventional program of professional liability insurance for the larger law firms in the San Francisco Bay area. This program now is meeting objectives set out of offering a stable, financially sound source of coverage for participants in the program.

J & H also played a part in the establishment of a lawyer-owned insurance company in Virginia. There have been other significant positive answers provided to this formerly vexing problem.

Therefore, I would say to Mr. Hinchey, accentuate the positive and eliminate the negative on future reporting on this subject.

Rich Glenn, Jr.
Assistant vp
Johnson & Higgins
San Francisco, Calif.

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Tool dealers plan product liability policy package

By JACK THORNTON

WASHINGTON—The American Machine Tool Distributors Assn. here will soon start offering its members a product liability insurance package from Lloyd's of London and Alexander & Alexander Inc.

The program is similar to a program offered by a competing group, the Machinery Dealers National Assn.

Both programs evaluate risks and calculate premiums based on the type of equipment sold (fabricating or chip-making) and whether the equipment is new, used, rebuilt or reconditioned.

The plan has just won AMTDA board approval.

The majority of the AMTDA members will pay \$1.50 to \$2 in premiums per \$1,000 of sales for up to \$500,000 in product liability coverage. Higher limits are optional.

Some AMTDA members are

three to four times higher than what companies had been paying. But many members could not get coverage at all, said Anthony Schopp, executive vp of MDNA.

Both Mr. Schopp and Robert A. Gale, AMTDA executive vp, plugged for passage by Congress of the Risk Retention Act. They say it would permit more companies to follow A&A's lead in covering industry groups.

The Risk Retention Act would allow manufacturers to form self-insurance or to buy insurance as a group.

Added benefit

A&A 'takes a very active legal stance,' says Norman Hannah of the AMTDA.

paying up to \$7 per \$1,000 in sales for similar coverage, said Norman Hannah Jr., director of management services for AMTDA. Many other members, especially those selling used fabricating machinery (press, press brakes and shears), aren't buying any insurance, often because of its high price.

All AMTDA members are eligible, but Alexander & Alexander will have the right to refuse coverage to a distributor with more than three losses exceeding \$10,000 in the past five years. A&A may also refuse companies with aggregate losses of \$100,000 or more in any year or \$50,000 or more in any two of the past five years, Mr. Hannah said.

An added benefit of the program, according to Mr. Hannah, is that A&A takes "a very active legal stance, fighting aggressively on almost every claim. They almost never settle out of court."

Many machine tool executives say privately this is one reason why they go without coverage. Some insurers settle out of court too quickly, they contend, regardless of the guilt, innocence or negligence involved. Such settlements needlessly raise premiums and unfairly downgrade a company's safety and product reliability efforts, the manufacturers complain.

The MDNA program, started last November, charges premiums

\$23 million damage

Thunderstorms, high winds, hail and tornadoes on April 7-8 caused an estimated \$23 million in insured property damage in Arkansas, Texas, Oklahoma, Missouri, Illinois, Tennessee, Wisconsin, Indiana and Kentucky, according to the American Insurance Assn. The Insurance Services Office has assigned the storm system Catastrophe No. 53.

Ill. unit offers work comp bill

The latest proposal for reforming Illinois' highly criticized workers compensation law is coming from the state's largest organization of governmental units.

The Cook County Council of Governments, which represents villages, towns and cities in Cook County and districts in Chicago, has presented its suggestions on workers compensation reform to the state senate labor and commerce committee.

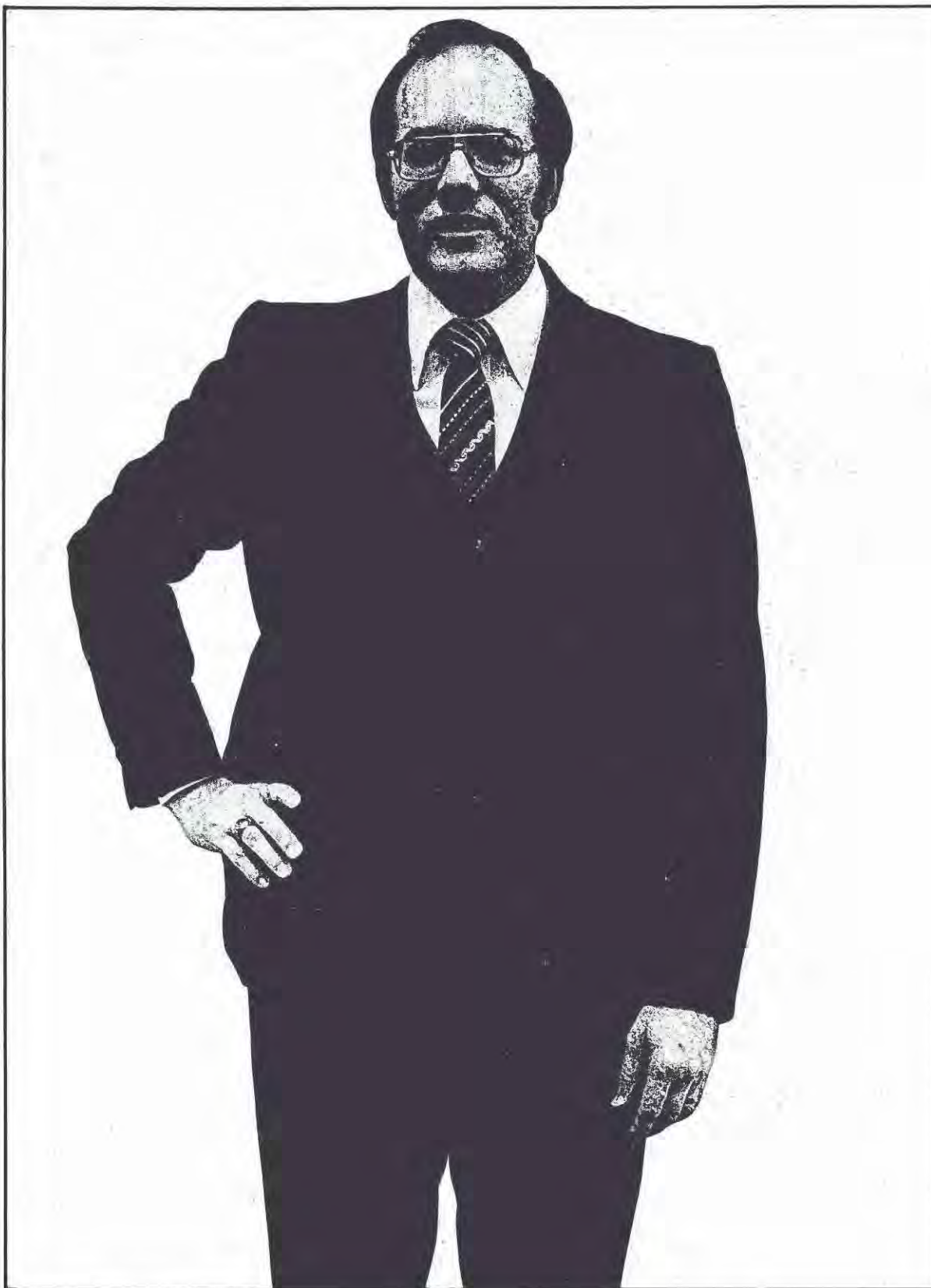
The bills (H.R. 3149, S.B. 2010) are endorsed by the workers compensation committee of the Chicago Bar Assn.

"Governmental units are concerned about the high cost of workers compensation claims because many are self-insured and others are moving in that direction," said Robert Gordon, a lawyer and COG vice chairman. "Governmental units carrying workers comp with private carriers also are

affected by high insurance premiums."

The government council proposals would:

- Require all new employees to disclose preexisting injuries or illnesses to employers. Employers remain responsible for aggravating any preexisting condition.
- Bar subsequent payments for injuries to the same part of the body when involved in an earlier claim.
- Require proof of substantial relationship between work and such illnesses as strokes, heart attacks, ulcers and psychological problems. This would prevent such cases as one last year in which benefits were paid to the family of a man who suffered a fatal heart attack during a company-sponsored office outing to a baseball game.
- Deduct from any work comp award benefits paid by a pension plan of any governmental employer.



Mich. can be sued over drowning

LANSING—The Michigan department of natural resources can be sued for negligence over drowning at state recreational areas, the state court of appeals has ruled.

The department had claimed "governmental immunity" against a lawsuit filed by the parents of a 15-year-old girl who drowned while wading in Silver Lake at the Pinckney State Recreation Area.

"The conduct and operation of a bathing and swimming area is a nongovernmental function to which the defense of immunity does not apply," the appeals court said. The court reversed a decision by the state court of claims to dismiss the lawsuit.

Under law, government agencies are generally immune from damage suits arising from func-

tions only they can provide, like police and fire protection and public education.

Malpractice panel

HELENA—The Montana supreme court has taken the extraordinary step of appointing Bozeman lawyer Douglas Drysdale as a special fact-finder in a lawsuit challenging the constitutionality of Montana's medical malpractice screening law.

The supreme court has assumed original jurisdiction over the class-action suit brought by patient Bruce Linder against two Sidney physicians, C.W. Smith and Roger

Murray. The case will bypass the district court. The supreme court will not deal with the alleged malpractice itself, but only with the acceptability of the screening law.

Mr. Linder contends in his complaint that he has been denied his right of direct access to the courts because of the malpractice screening law. The law was enacted in 1977 in reaction to a purported national crisis involving the unavailability and high cost of malpractice insurance. The law requires all malpractice claims to be submitted first to a Montana medical malpractice panel, consisting of three health professionals and three lawyers.

This panel's duty is to screen the claim for validity and to attempt a settlement before the claim may go to court, but its decisions are not binding. All proceedings and decisions are secret and witnesses cannot be sued for libel or any other civil cause.

Discrimination suit

MINNEAPOLIS—The University of Minnesota agreed to settle a 1973 discrimination suit filed by a woman who alleged she was not given a regular tenure-track position on the chemistry department faculty.

The university agreed to pay \$100,000 and "reasonable" attorneys' fees to Shyamala Rajender.

Ms. Rajender holds a Ph.D. degree from the University of Wyo-

oming and was hired as a temporary assistant professor in 1969, the only woman on the chemistry department faculty.

Besides the award, the settlement calls for a committee to consult with the administration on equal opportunity issues. The university also agreed to set up more comprehensive internal grievance systems.

Countersuit upheld

FRANKFORT—The Kentucky court of appeals has upheld part of a \$49,500 malpractice countersuit award to two Louisville physicians.

The court upheld compensatory damages of \$20,000 to Dr. Ronald J. Fadel and Dr. George Drasin, but remanded the punitive damages to a lower court for retrial. The doctors sued attorneys J.D. Raine Sr. and James H. Highfield for malicious prosecution and abuse of process after the doctors were dismissed from a \$500,000 malpractice suit.

Periodic payment

SACRAMENTO—A 1975 law that provides for periodic payment of malpractice claims is unconstitutional, the California first district court of appeals has reaffirmed.

The Community Hospital of Los Gatos-Saratoga had appealed a trial court's order of a lump-sum payment malpractice award. The appeals court said the provision violated constitutional guarantees of due process and equal protection by limiting the periodic payments to medical malpractice. ■

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Broker predicts drop in capacity of U.S. market

By JOHN H. MILLER

LONDON—The U.S. market may see a reduction in capacity this year as inflation begins to bite, predicts Ronald Taylor, chairman of Willis Faber Dumas, in presenting its latest trading report.

Auto and workers compensation awards will reflect inflation, chief executive David Palmer observes, causing rates to rise sharply to keep premiums in line with future trends and maintain solvency margins.

Because of the growing strength

london line

of the pound in international currency, Willis Faber's profits dipped from \$42 million in 1978 to \$38 million last year as overseas income was adjusted to U.K. currency values. The group is spending heavily on new business systems to keep it competitive and is reluctant to forecast the outlook for 1980, except to say premium rates will remain under pressure.

At a time when Marsh & McLennan is strengthening its London links, Willis Faber maintains it is happy over its long-established links with Johnson & Higgins.

"We made our first formal agreement with them over marine business in 1898, and that's been extended to other fields over the years," Mr. Taylor told *Business Insurance*. "We've no plans to change those relationships, and are much less vulnerable than other U.K. brokers to approaches from different U.S. sources. In the U.K. we look after 270 U.S. companies who are clients of Johnson & Higgins."

Oil platforms

London underwriters have had to develop a special policy wording for the construction, transit, installation, commissioning and maintenance of oil platforms used in the North Sea and other areas, says Peter J. Wingett, chairman of London's master drilling rig contract committee.

Normally the policy covers all contractors and subcontractors to avoid disputes over which policy should cover a claim, but a "terrorist exclusion clause" overrides other factors. The clause excludes any losses incurred directly or indirectly through any political or terrorist act, although a separate policy will cover this risk.

Similarly, the commercial market will not accept war risks on fixed platforms in offshore fields because of the massive concentration of such units, but is ready to cover war risks for waterborne units for 12 months.

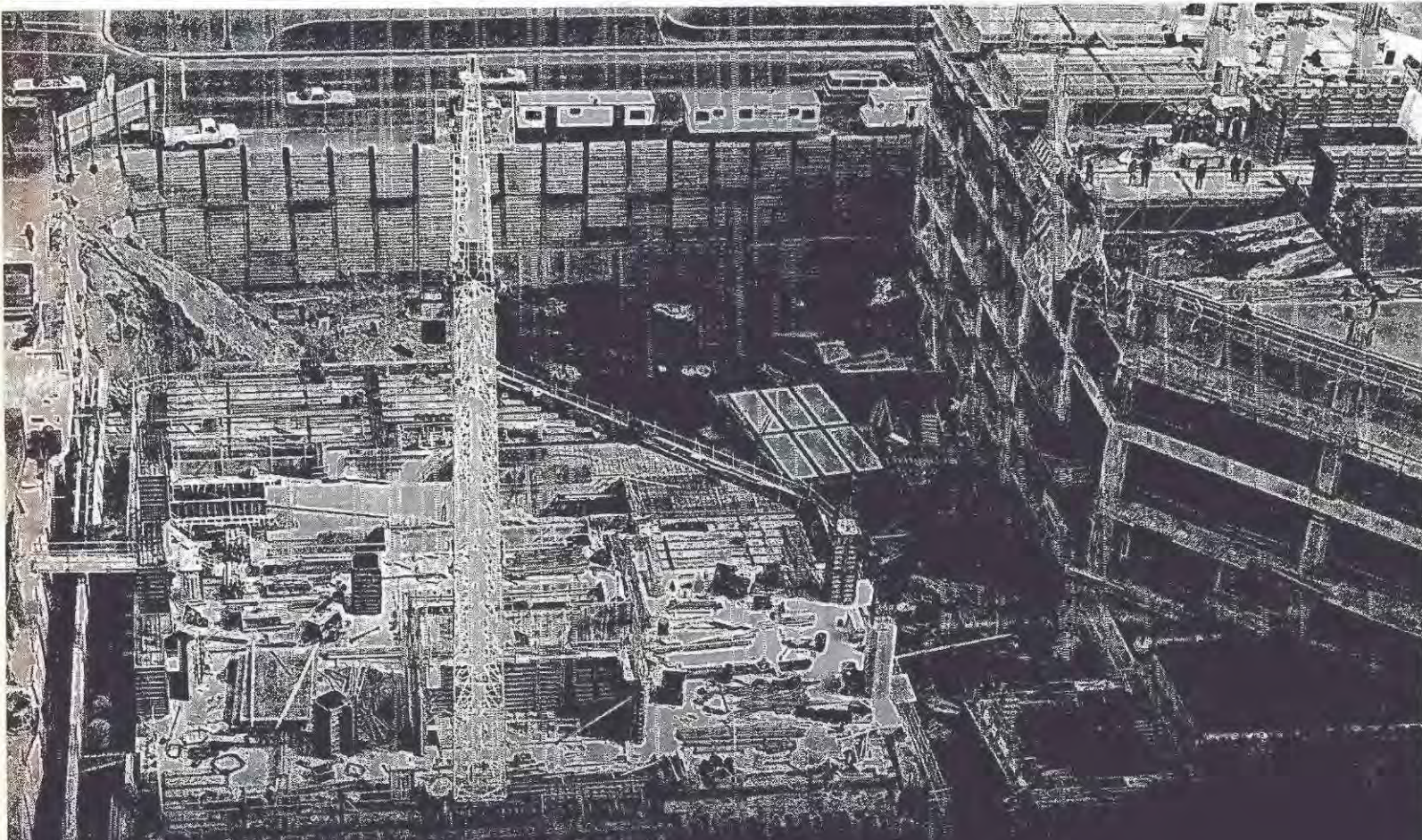
"Costs of offshore operations of all types have escalated at an unprecedented rate and values of the specially designed oil drilling units have also risen," Mr. Wingett, underwriter for Commercial Union's Indemnity Marine Assurance Co., told the London Insurance Institute.

"This is partly because of loss prevention measures and extra strengthening of these structures, for which underwriters have always been willing to give credit. But they must be able to command a fair premium in relation to potential losses and current marine account figures are very indifferent."

Warning that even greater single unit values will have to be covered in the next few years, he said, "Let's hope that underwriters don't drop this particular class of business." The North Sea, he said, has the worst weather of any of the world's offshore fields. ■

New consultant

John Rayner, previously with Factory Mutual International and the International Risk Management Group, has set up shop as a loss prevention engineering consultant at 9 Buckmaster Road, London, SW11 1EN. ■



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JUNE 9-11. Freight Claims in Plain English Course in Chicago, sponsored by Shippers National Freight Claim Council Inc.; \$275 for members, \$300 for nonmembers. SNFCC, 120 Main St., P.O. Box Z, Huntington, N.Y. 11743; 516-549-8984.

JUNE 9-11. Computer Security Conference in Boston, sponsored by the American Society for Industrial Security; \$245 for members, \$295 for nonmembers. Education & Seminar Programs, ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

JUNE 9-11. Techniques of Risk Management Course in Montreal, sponsored by the Risk & Insurance Management Society; \$225 for members, \$150 for each additional participant from the same firm and \$325 for nonmembers. Also **June 11-13** in New York. Lynn Fischhoff, RIMS, 205 E. 42nd St., New York, N.Y., 10017; 212-557-3294.

JUNE 9-13. Risk Management in Practice Course in London, sponsored by Risk Research Group Ltd.; £661.25. Elaine R. Cumberland, course coordinator, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD, England; 01-236-2175.

JUNE 12. Risk Management: Today's Techniques vs. Tomorrow's Risks Conference in Hartford, sponsored by Connecticut Valley chapter of the Risk & Insurance Management Society Inc.; \$50. M.J. Sullivan, RIMS, Connecticut Bank & Trust Co., One Constitution Plaza, Hartford, Conn. 06115; 203-244-5000.

JUNE 12-13. Society of Actuaries spring meeting in San Diego; \$55 for members, \$65 for nonmembers. Society of Actuaries, 208 S. La Salle St., Room 650, Chicago, Ill. 60604; 312-236-3833.

JUNE 13-14. Product Liability Update Seminar in San Francisco, sponsored by the Practising Law Institute; \$225. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JUNE 13-14. Emergency Forces Training Workshops in Detroit, sponsored by the National Fire Protection Assn.; \$30 for members, \$35 for nonmembers for one half-day workshop; \$50 for members, \$60 for nonmembers for two half-day workshops or one full-day workshop; \$90 for members, \$110 for nonmembers for two full days. NFPA seminars, continuing education division, 470 Atlantic Avenue, Boston, Mass. 02210; 617-482-8755.

JUNE 16-18. Data Processing Security Seminar in Pittsburgh; \$450. Director of seminars, Data Processing Security Inc., 200 East Loop 820, Fort Worth, Tex. 76112; 817-457-9400.

JUNE 16-18. International Security Conference in Chicago, sponsored by Security World Magazine; \$75 for one day of three seminars; \$175 for three days; exhibition free if preregistered two weeks before. Executive director, ISC, The Show Co. International, 8687 Melrose Ave., Los Angeles, Calif. 90069; 213-659-2050.

JUNE 16-20. Loss Control Management Seminar in Atlanta, sponsored by the International Loss Control Institute; \$450. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208. ■



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SAFECO tallies 9% higher income

SAFECO CORP. increased its first quarter operating income by 9% this year, to \$29.9 million from \$27.7 million, while net income increased 12% to \$31.5 million.

Although company president R.M. Trafton said SAFECO racked up satisfactory earnings figures during the year's first quarter, "turmoil" in the industry is causing the company some concern, he said. The life and health operations, for example, showed a 30% drop in operating income, to \$4.1 million from \$5.8 million.

"All lines are being carefully monitored for needed rate increases," Mr. Trafton said, arguing that the biggest roadblock to continued earnings increases is inflation.

Chubb

The Chubb Corp. recorded a 24% increase in operating income during the first three months of 1980, but investment losses of \$6.8 million dropped net income to \$19.9 million. This reflects a 14% decrease from the \$23.1 million earned in 1979's first quarter. Total operating income reached \$26.7 million, compared with 1979's \$21.5 million.

Property/casualty post-tax underwriting profit reached \$2.5 million, compared with a first quarter profit of \$1.5 million in 1979. Net premiums written by the insurer reached \$241 million, a 13% growth over 1979.

The company's first-quarter combined ratio dipped to 98% from last year's 98.7%.

Crum & Forster

Crum & Forster earned \$42 million from revenues of \$456 million during 1980's first quarter, an increase of 17% over the first three months of 1979. First-quarter net income in 1979 was \$35.9 million.

Net premiums written by the company during early 1980 increased 14% to \$431 million.

Hartford Steam

First-quarter earnings declined 21% for Hartford Steam Boiler Inspection & Insurance Co., a result

Trust elects new officers

CHICAGO—The First Illinois Religious and Charitable Risk Pooling Trust has elected officers and trustees.

Officers elected are: president, Fred A. Mauck of Mauck & Berkoff; first vp, John L. Doering of Peoples Energy Corp.; second vp, Preston B. Kavanaugh of Commonwealth Edison Co., and treasurer, Henry S. Kahn of Harris Trust Co.

Re-elected officers are: secretary, John C. Kern, consultant, and assistant secretary, Bernice D. Davidson, executive assistant for the trust.

New trustees are: Daniel Alvarez of Casa Central; Solon B. Cousins of National Council & National Board of YMCAs of the U.S.A.; Case Hoogendoorn of Kirkland & Ellis; Mr. Kahn; Wiley Moore of United Way of Metropolitan Chicago; William H. Schneider of Chicago Assn. of Retarded Citizens, and Loretta Willemain of Kendall College.

Re-elected trustees are: Bernard Kaplan of Little City Foundation; Fred C. Lickerman of Chicago Boys Clubs; Eugene McClory of Alfred Adler Institute of Chicago; Robert B. Oppenheimer, retired vp of North America Car Corp., and James P. Richter of Management Personnel Associates. ■

BI ticker

of "intense price competition" in the property/casualty industry, company officials said.

Net income declined to \$3.9 million from the \$4.9 million recorded

in 1979's first three months.

Company earnings, however, increased 8% during the same period, to \$43.6 million from \$40.2 million.

USF&G

Net income for USF&G's first quarter increased 2% to \$61.7 million from last year's \$60.4 million. The combined ratio for the quarter was 91.6%, compared with 1979's 90.8% and the 89.4% recorded during the same period in 1978.

Company officials said the first-quarter results for 1980 were somewhat better than those of industry competitors.

Net premiums have increased to \$1.9 billion from \$952.7 million and operating income has increased fivefold in the past five years, company officials said. ■

How GAB settled losses in insu

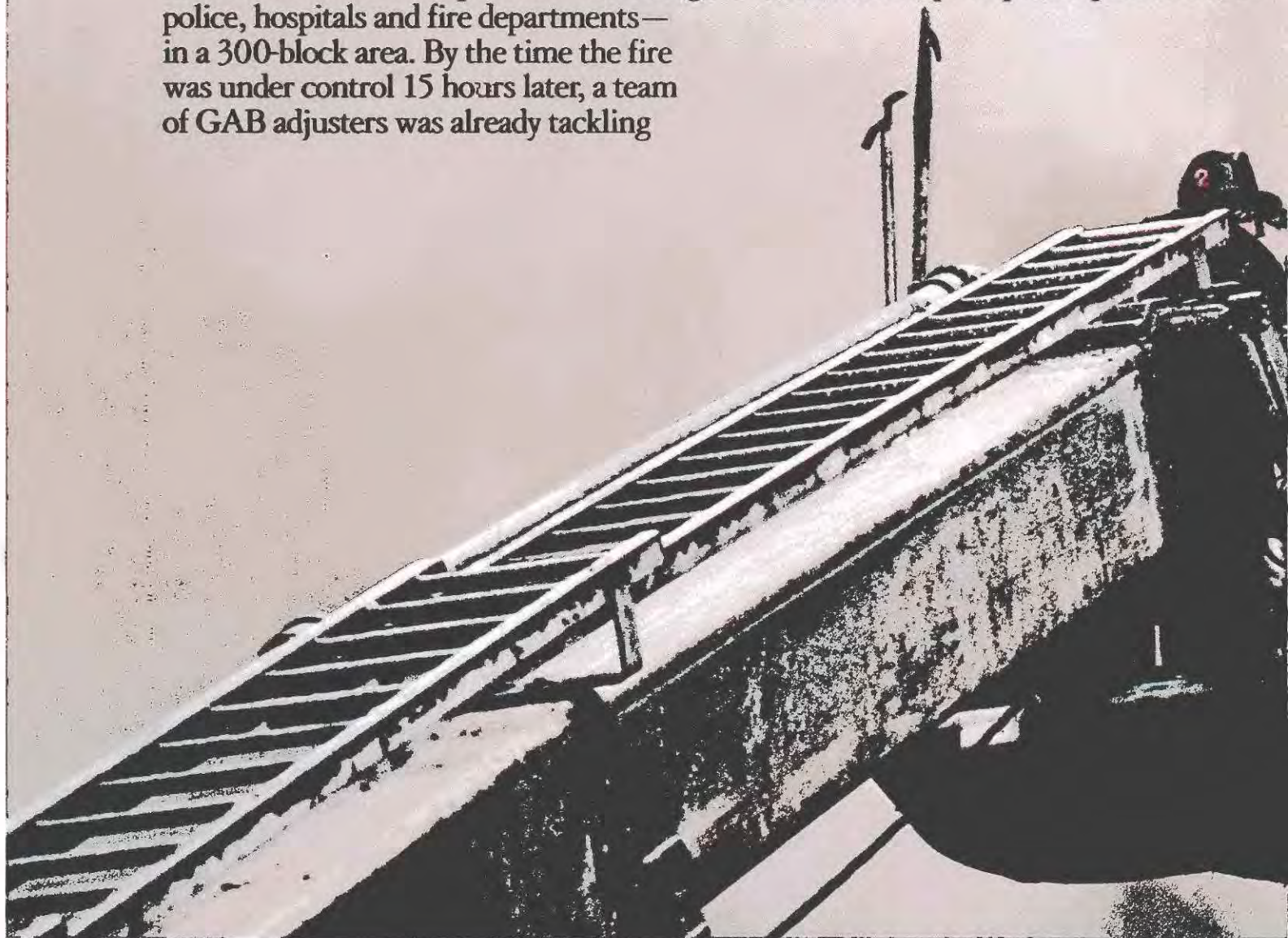
It took 700 firemen to bring this \$56 million blaze under control. Within hours, GAB was on the job as lead adjuster. The fast, fair settlement of this claim, which still ranks among the largest single losses in insurance history, is one more example of the professional capabilities that make GAB the leader in claim adjustment and administration.

A 5-alarm blaze that destroyed a telephone switching center serving 170,000 home and business telephones—including police, hospitals and fire departments—in a 300-block area. By the time the fire was under control 15 hours later, a team of GAB adjusters was already tackling

this enormous task. Initially estimated at \$76 million, the loss was eventually agreed and closed at \$56 million.

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GAB's network of more than 700 offices and over 3,400 career professional enables us to handle property losses of this, or any size and complexity, anywhere in the nation. Last year, GAB handled some 1,700,000 claims totaling over \$9 billion in value. GAB provides the means to fair, prompt compensation for



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info

- A comparative survey of **railroad retirement plans** is available free from William M. Mercer Inc. Write William M. Mercer Inc., department RR, 1211 Avenue of the Americas, New York, N.Y. 10036.

- Rainbow Claims Service Inc. is offering a free promotional brochure describing its services. The

firm handles every step of the preparation, presentation and **management of claims**. Write Rainbow Claims Service, P.O. Box 131, Glendora, Calif. 91740.

- Frenkel & Co. Inc. is offering **Current Insurance Trends**, a booklet outlining changes in underwriting practices, policy

conditions and regulations. For a free copy, write Frenkel & Co. Inc., Alfred J. Fina, director of administrative services, 123 William St., New York, N.Y. 10038.

- "Looking for a Dental Care Program for Your Group?" is the name of a revised pamphlet on the **dental plan** services of Delta Dental Plans Assn. The group's state and national programs, preventive benefits, professional supervision and subscriber services are described. For a free copy, write Delta Dental Plans Assn., 211 E. Chicago Ave., Chicago, Ill. 60611.

- "The California Department of Rehabilitation Would Like to Help You Help Injured Workers" is a folder briefly explaining the department's services in **rehabilitating** the disabled worker. For a free copy, write Department of Rehabilitation, 830 K. St. Mall, Sacramento, Calif. 95814.

- The U.S. Chamber of Commerce is accepting orders for the 1980 edition of **Analysis of Workers Compensation Laws**. For a free brochure on the publication, write U.S. Chamber of Commerce, 1615 H Street N.W., Washington, D.C. 20061. Request the order form for publication No. 6174.

- A fact sheet on the supplemental **safety services** of Gates, McDonald & Co. outlines the services available through Gates, McDonald that help companies keep abreast of the Occupational Safety and Health Act. For a free copy, write C.S. Jenks, assistant vp, Gates, McDonald & Co., One Nationwide Plaza, P.O. Box 1944, Columbus, Ohio 43216.

- "Dental Care: Questions and Answers" is the name of a booklet emphasizing the importance of **dental care**. Daily steps toward good dental hygiene, information about periodontal diseases, root canal therapy and X-rays and illustrations showing how early dental care saves dental bills later are some of the topics. For a free copy, write Metropolitan Life Insurance Co., 1 Madison Ave., Dept. F, Health and Safety Education Division, New York, N.Y. 10010.

- A promotional brochure on **group health and life self-insurance** is available from Celtic Life Insurance Co. For a free copy, write Frederick J. Manning, president, Celtic Life Insurance Co., 208 S. LaSalle St., Suite 2003, Chicago, Ill. 60604.

- Fireman's Fund Insurance Cos. has prepared a guide for employers on the **workers compensation system**. The brochure is also available in Spanish. For a free copy, write the public relations department, Fireman's Fund Insurance Cos., P.O. Box 3395, San Francisco, Calif. 94119.

- System Development Corp. outlines in a promotional brochure how to set up a **claims administration** system. For a free copy, write Arthur L. Slotkin, vp and general manager, System Development Corp., 2500 Colorado Ave., Santa Monica, Calif. 90406.

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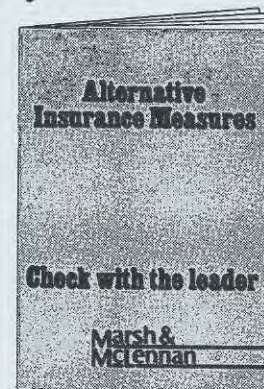
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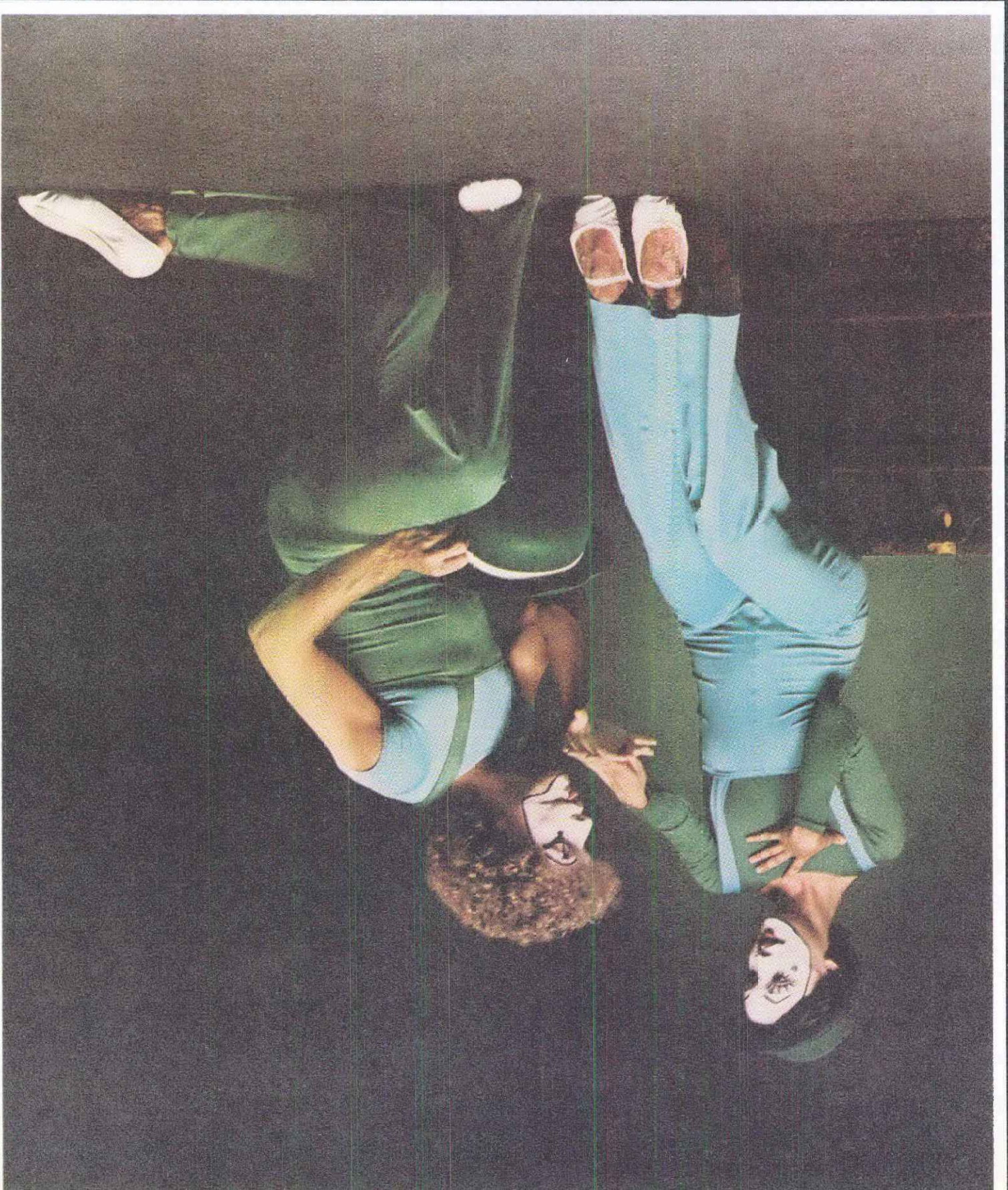
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perspective

Picture perfect

Photograph your risks for records

By Norman Hoffman

ONE OF THE MAJOR developments in the business world in the past generation has been the growth, utilization and dissemination of information. Management decision-making is now dependent upon vast amounts and the availability of accurate and timely information.

A risk manager serves as a conduit of corporate risk, safety and employee benefit facts, figures and data. He acts as a filter for information from insiders to such outsiders as brokers, insurers and adjusters. He also filters information from outsiders to his management.

If "one picture is worth 10,000 words," then photography as a means of communication is one that has been overlooked or underutilized in the risk management field. Photography offers a variety of tools for presenting information with unquestioned accuracy and detail as well as color and motion. Its technological advances have been considerable, so that today it offers a wide selection of instruments for both recording and then presenting information.

Still photography affords the opportunity to record facts, information and situations in black and white, color, infrared or X-ray. Still and sequence photography may be developed "instantly" while within the camera, or may be processed as negatives, prints or slides and then enlarged from macroclose-ups to almost infinite-sized enlargements. The projection of slides and motion pictures may be accompanied by sound so the viewer absorbs the information both visually and aurally.

The risk and benefit manager can use this technology in a variety of ways to record and evaluate risk information and present and communicate training and benefit information to employees.

One of the most common uses of photography in risk management is for security. All of us are familiar with the badges worn by employees to permit them to enter and exit from offices and plants. The use of photography for security is so much a part of American life that every teen-ager knows the necessity of carrying his or her ID card at all times. Security cameras are now in everyday use in banks, office buildings, retail stores, apartment houses and many sensitive areas of manufacturing premises.

Norman Hoffman, CPCU, is assistant professor of the N.Y. College of Insurance in the property/liability department.



Photo: Mary Cairns

But the initial function of a risk manager is to identify and evaluate risks. Photography can be eminently helpful in this valuation function. Pictures can be taken of vacant land and its environs; buildings under construction, altered or while in use; furniture; fixtures; machinery and equipment; inventory; fine arts, and especially property, which is inherently unique. Detailed photographs can help substantiate values for almost all risk management requirements: establishing policy values, determining claim values, preparing underwriting proposals and for safety, property conservation and loss control.

The risk manager preparing specifications for new, renewal or replacement of insurance coverage will greatly enhance his presentation to the underwriter by providing pictures showing the size, shape, physical characteristics and exposures of the prospective risk. Photographs of actual production processes and sales will be especially helpful.

Motion picture and sequence photography are valuable aids for provid-

ing instruction to employees. Libraries of motion pictures are available for a company's use and many prefer to produce their own so their safety or benefits message may be conveyed to their employees in exactly the manner management prefers.

A company's risk management manual is a logical outlet for photography, just as its annual report often utilizes pictures to tell a story. Copies of specimen forms to be used, examples of safety, loss control, accident prevention and employee benefit information may be displayed photographically.

Photography plays an important role in claim adjusting. Pictures of property before the occurrence of a loss provide irrefutable evidence of the existence and characteristics of the property. Photographs after the loss show the extent of damages and the repairs required. Pictures of accident scenes play critical roles in defending lawsuits. Photos of processes and products are useful in defending product liability claims.

Fine arts are now on display in many companies' plants and offices. Often the best inventory of them is provided by a file of photographs.

Executives and employees should be advised by the risk management department that photographing their household possessions will avoid possible problems in establishing the existence and value of their property after a loss. The combination of a household inventory booklet and photographs avoids adjusting difficulties.

Photography should be utilized in reviewing the exposures of acquisitions and additional facilities. It may reveal risks of losses that otherwise might go unnoticed or be overlooked before the acquisition or the start of new or changed operations.

Photography can provide a valuable service in the fields of property conservation and safety. Photographs of physical exposures to perils such as fire, collapse or normal wear and tear can be discovered and valued by normal black and white, by X-ray or by infrared or Polaroid filtered photography, possibly avoiding major losses.

There is no limit to the uses of pictures in the promotion of employee safety. They may be unobtrusively taken to demonstrate proper and improper working methods, conditions and the use or nonuse of safety equipment. The savings in pain, suffering and life and in economic value to the company can be considerable.

This, then, is a communications tool being underutilized by the risk management community. Lewis Carroll's Alice said: "What is the use of a book without pictures or conversations?" ■



Valuable tool

Photography as a means of communication is one that has been overlooked or underutilized in the risk management field, says Norman Hoffman.

perspective

Crossing the desert

By A. E. Schumacher

ITHAS BEEN said that a camel is the result of efforts of a committee that initially set out to design a horse. Surely at this point in time there appears to be a camel on the New York scene, and of the Bactrian, or two-humped, variety, no less. Yet this strange animal has proven to be one of the best means known to man for crossing a desert.

I'm talking about the New York Insurance Exchange and the Free Trade Zone.

Is there a desert to cross? Certainly, on the nonmarine side of the American market I think there is. And though a little sand may blow into our marine insurance machinery, if the desert can be conquered, the marine business may be better off for it.

I have long maintained that the future expansion of our marine business requires the establishment of a full service market on a broad scale. By this idea I do not mean simply adding more capacity. I mean also that there need to be facilities capable of generating rates, terms and conditions in every area that will be accepted by brokers and buyers and followed by underwriters throughout the world. We have pretty well achieved that position on hull and cargo business. We need to accomplish more in the areas of offshore property and marine liabilities. More flexibility in mixing marine and nonmarine business is also needed if and as occasion requires.

Marine insurers operate in an exempt area—relatively free spirits in American insurance—but we are only a very small part of today's property and casualty business. We realize marine insurance development cannot be divorced from management attitudes concerning property and casualty.

For this reason, it is my own evaluation that the Free Trade Zone idea is a move in the right direction. Deregulation of commercial coverage, particularly in the specialized and high risk areas, should encourage a general expansion of underwriting into such fields and with this indirect assist, marine insurance would benefit.

I said that some months ago at a marine insurance seminar. I have had no reason to change that view of the Free Trade Zone. If we don't need it for underwriting purposes, it should aid us in other ways.

Turning to the insurance exchange, I do not believe its broker proponents had marine insurance particularly in mind in planning this new marketplace, except possibly to attract additional capacity in support of offshore oil production and such exotic potential risks as ocean thermal energy conversion plants or offshore nuclear facilities that were considered a couple

of years ago.

Certainly, capacity for all other marine endeavors was and is excessive and readily available. I know the insurance companies that have gone along with the exchange idea had no thought about creating it for any marine insurance need.

Nevertheless, the exchange has been open from the outset for marine reinsurance and foreign direct business under the law and regulations as presently drawn. Some will find its way there. I would not expect the

underwriting manager of any early syndicate to regard this marine business as central to the book he will be trying to build. The marine offerings will be limited. Professional insurance men have learned that assessment of marine risks can be a tricky and expensive business.

Investors in exchange syndicates, however, will be attracted from outside the insurance community and may be susceptible to the lure of fast growth opportunities. An underwriting manager can be pressed to perform and so be tempted to accept whatever

offerings present themselves, like a good camel that can eat anything. Producers, desiring to encourage the new exchange, may support this effort, though certainly their clients would expect them to deal only with the most qualified and financially secure syndicates.

There can certainly be no objection to qualified marine underwriting facilities within the exchange, and in time these may develop. It is simply that I do not believe they are to be expected early in the evolution.

There are concerns, though, that affect not only the marine sector but also the entire property and casualty insurance field, that would have to come under the heading of "purity of underwriting intent."

If an underwriting syndicate were in any way used, wittingly or otherwise, with intent to press rates below levels to which the functioning of a proper, normal market would take them, grave harm could occur, in my opinion.

Further, the open reinsurance door into the exchange may prove a temptation too inviting for some to resist. The use of a captive as the direct underwriting vehicle with reinsurance through the exchange could circumvent the original intent of the founders.

Another subject requiring continued careful attention concerns the ultimate retention of lines written within the exchange. Underwriting managers must be prepared to run a fair measure of the risks they write, otherwise the exchange simply becomes another arena for gamesmanship. Moreover, while reinsurance and retrocession within the facility are certainly appropriate, I believe control of reinsurance exported from the exchange must remain an important consideration, particularly with the liberal entry requirements permitting foreign involvement, both of capital and of personnel.

In other words, while the U.S. may constitute one of the few remaining bastions of free trade, excessive drain from the exchange would seem to run counter to the expressed desires of founders that a primary purpose of the facility is to attract and keep home American insurance dollars.

The observations I have made here should not be construed to mean I view the exchange as a probable untrustworthy neighbor, filled with potential for manipulation and misuse. It is just that we have witnessed the courtship and coming together of two concepts which, if not actually disparate, are certainly different. The tests of the real relationship now lie ahead. There are pitfalls to be avoided and adjustments to be made.

All things considered, if the insurance exchange, in conjunction with the Free Trade Zone, can improve our underwriting flexibility, our resolve and our capability to enter new areas, and if at the same time it can provide brokers and insurance buyers with their long-sought American marketplace, then I believe it is worthy of the entire insurance community's support.

NY INSURANCE EXCHANGE

This strange animal—the combination of the New York Insurance Exchange and Free Trade Zone—may be one of the best means of crossing the American insurance market desert, says A. E. Schumacher.

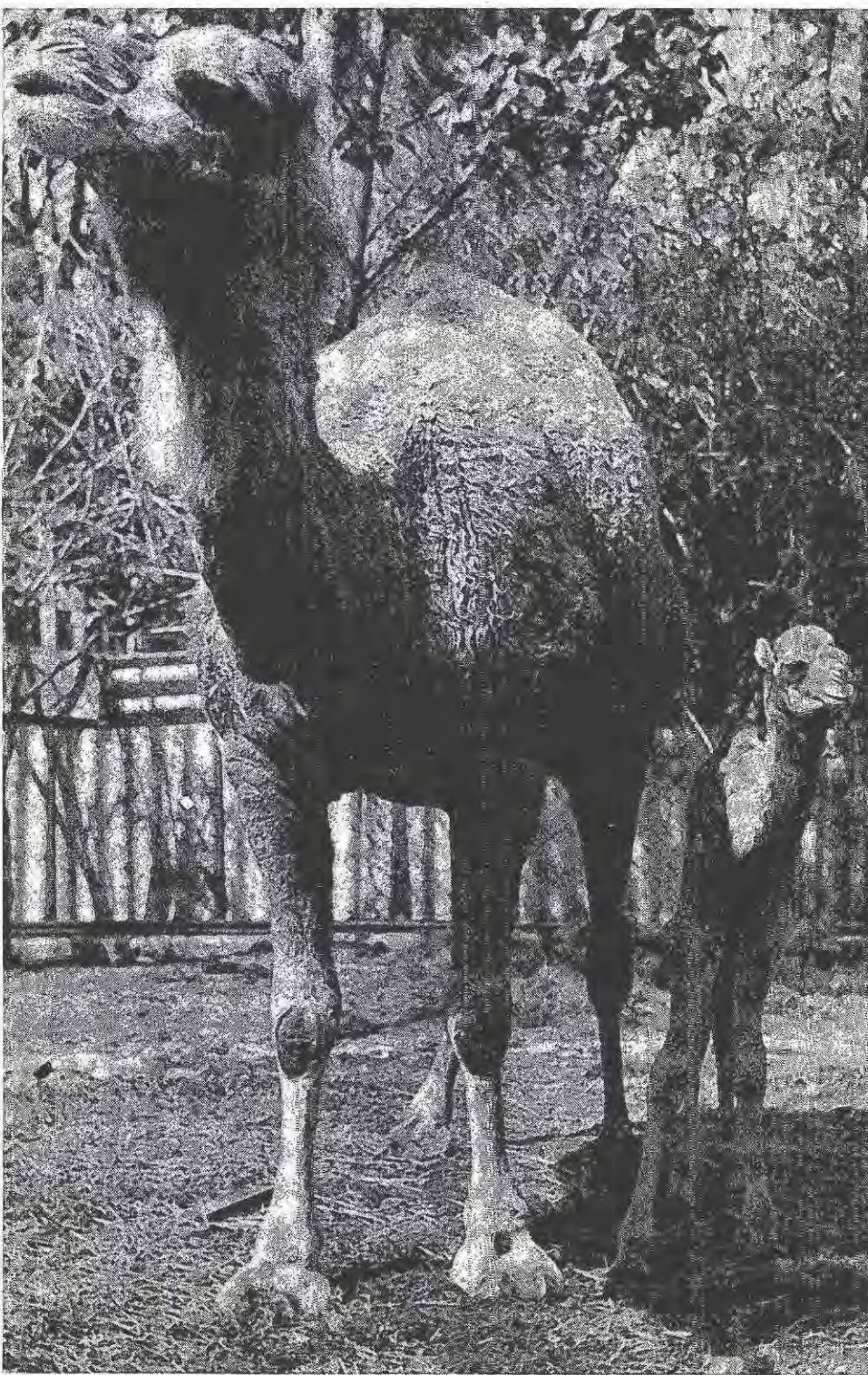
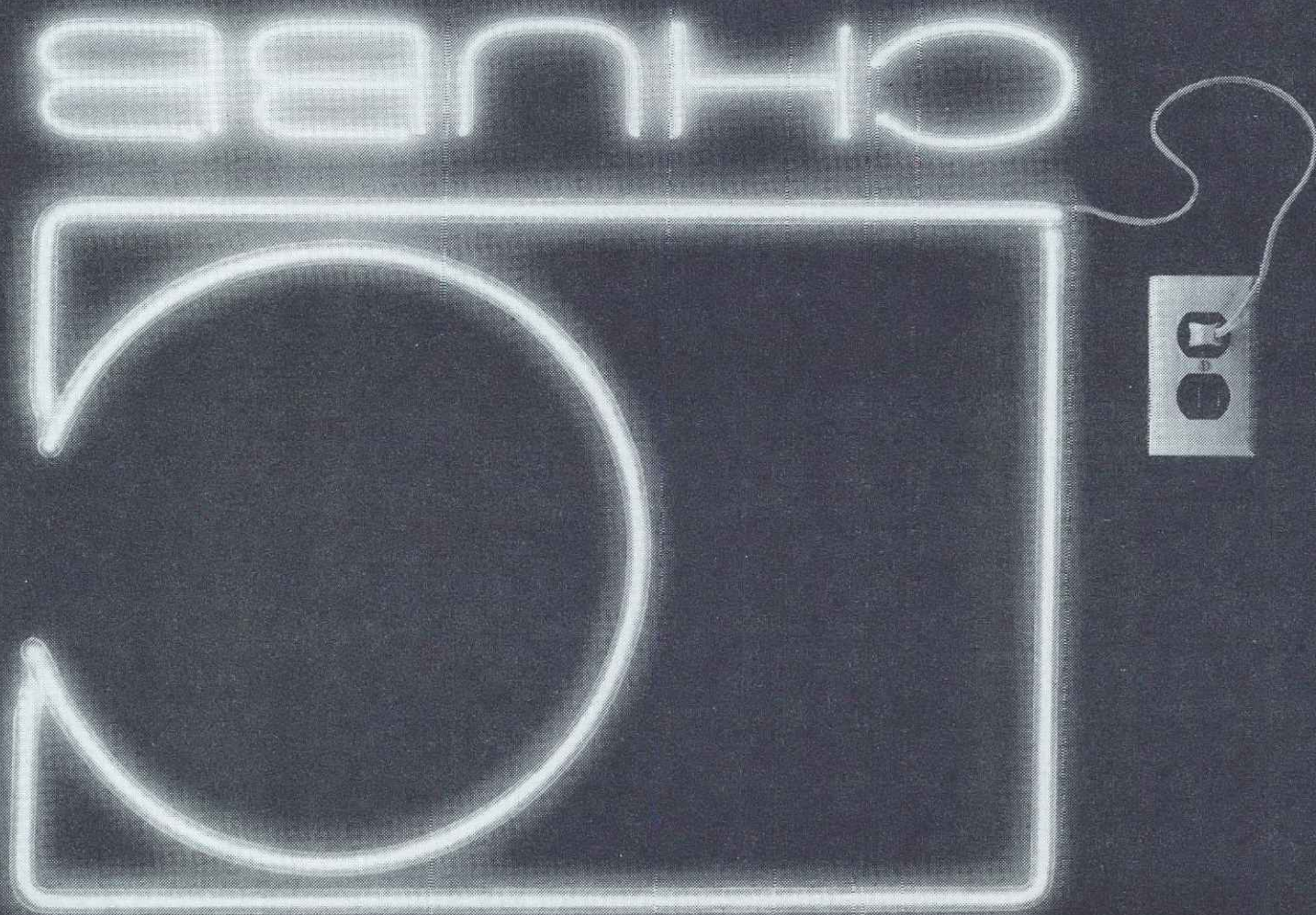


Photo: Wide World

A.E. Schumacher is chairman of the American Hull Insurance Syndicate. His remarks are taken from a speech given to the Insurance Institute of London last month.

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speaking out

Ratings game: Rules of the family keep players talking in circles

By Peter Downes

A RATHER DISTRESSING thing happened to me recently. My two teen-aged sons, who both drive, were complaining about the insurance premium which I insist they pay. Actually, I did offer to add the premium to their college bills, with interest, of course. After thinking things through, they decided they would not let me indulge in so generous an act. This was kind of them since at 1% over prime the offer was a pretty good one.

I'm the insurance professional in the family, so after hearing them out I sat down and patiently explained automobile insurance premiums and how they came about. I went through the whole bit about rating territories, sex, age and so on and in the process pointed out just how they could improve their own financial condition.

Both boys thereupon took the view that those who have accidents should indeed pay more for their insurance. Other than this they insisted that everybody should start with exactly the same rates regardless of where they live, what age they are and so forth.

I responded that I hold no brief for present methods of rating and that personally I would like to see all governmental influence disappear from insurance and let the laws of supply and demand and the ability of insurers to compete set the price of insurance. All that their demands amounted to, I suggested to the boys, was a further involuntary tax at the expense of people like myself.

They were horrified.

Apart from loading premiums following losses, both thought everybody should pay according to his or her ability to do so.

"Why should you think a crazy thing like that?" I wondered. They started their own patient explanation. They pointed out that in order for a vehicle to be licensed there must be insurance. Some people might lie about its existence but the law says it must exist. Consequently, it follows that if insurance is compulsory, so is the payment of premiums. I had already suggested that a premium is tantamount to being a tax.

To make matters easier, they said, premium could be tied to income and could be withheld like income tax and Social Security. As income increases, then so would insurance premiums—but everybody would enjoy the same rate. An additional advantage would be that it would allow us to dispense with insurance companies altogether since all they do is rip off the public anyway.

"All right, already!" I said. "I think you are talking nonsense. And how about surcharges following claims, how would you charge them?"

"That's easy, too. Just multiply the claim by three and add it or 20% to income, whichever is the less, and then pay premium tax on it," they said.

"You sound like Howard Metzenbaum. He's a senator from Ohio who wants to federalize insurance," I explained. "He was talking about fire insur-

Peter Downes's satire and humor on insurance issues regularly appear in the Perspective section. He is manager of insurance at American Trading & Production Corp. in Baltimore.

Disgruntled player

"I hold no brief for present methods rating and personally would like to see all governmental influence disappear from insurance," writes Peter Downes.



ance not long ago and said good risks ought to be charged bigger premiums to support bad risks."

"He's right."

"He's all wet. Ever since Nicholas Barbon, son of Praise-God Barebones and nephew of If-Christ-had-not-died-thou-would'st-have-been damned-Barebones, started the Hand-in-Hand Fire Office back in 1680, good risks have been charged low rates and bad risks high rates. The reason is simply to encourage the construction of good fire risks and reduce economic waste resulting from ruinous fires. In this way, bad fire risks themselves tend to become uneconomical and can be demolished and rebuilt."

That's unfair, complained the boys. People can't always help their social circumstances and if you make bad fire risks uninsurable, you will close down businesses and throw people out of work who will then become a charge on the community. What should be done is to charge good risks more premium so that they do not benefit from the savings they are now making at the expense of the less fortunate.

"Wherever do you get these weird ideas?" I asked.

"From you, Dad," said the elder of the two. "After all, you made us go to Sunday school and there they were always preaching that we should give all we have to the poor. We would like to think that you give your fair share."

"And then," said the other, "do you remember when we had that school project on state agencies and I had to write about workers compensation? You explained it all very carefully, pointing out that it is really a tax on payroll. As I remember, you said that all employees within a specified category had the same rate. However, employers who have a lot of claims pay a higher cost."

"True enough, but you never heard me say that I approve of that particular brand of theft," I replied.

So why not develop a similar system for other types of insurance? Sure, there would be different costs for a small passenger car and a semi trailer and no doubt different rates for different industries where fire insurance is concerned. But that would not alter the general principle of the thing."

"You realize that if all this comes to pass I shall be out of a job?"

"They no longer manufacture Model T cars, either."

Where did I go wrong?

Study sheds light on self-insured comp

By Z'ev Kronish

Examining Employers' Financial Capacity to Self-Insure Under Workmen's Compensation

By Larry D. Grant and Maurice E. McDonald

College of Business Administration,
Georgia State University,
University Plaza,
Atlanta, GA 30303

98 pp., \$7.95

THE STANDARDS for self-insurance of workers compensation have been found wanting. Faulty judgments on exposure and financial ability have brought about a mini-crisis.

The authors' selection of a handful of measures for a pragmatic perspec-

tive is in line with accepted financial strategy, but reveals nothing startling.

Nevertheless, though this tidy volume was developed in response to the situation in Georgia, its applicability is universal.

The first step in the self-insurance process, the authors observe, is to determine the firm's obligations for existing and future claims. Averages provide a general trend but to zero in on a firm's likely loss, its own past experiences are an indispensable guide.

The authors lean on the experience rating formula promulgated by the National Council on Compensation Insurance but they also illustrate the method developed by the state of New York.

In the hope of gleaning guidelines for considering whether to self-insure, the authors probed:

- What can be expected as the average amount of claims annually?
- What is the maximum probable loss?

books & ideas

Since frequency over a long time span is an essential element in accurate forecasting, computer simulation of actual experience offers a sound way to gauge a firm's annual catastrophic loss potential.

And their investigations on claim severity, based on 189,000 cases over a six-year period, reveals that the average came to \$678.65. This data was culled by the authors from both insured and self-insured records.

To round out the picture, medical only claims under \$100 were also projected. More than half these claims were below \$30.

The next phase in self-insurance qualification is financial ability, according to the authors. The crunch comes in the firm's fitness to make payments on a timely basis. The least complicated approach, the authors say, is to look at six financial concepts:

cash flow, liquidity, working capital, debt, profit and turnover.

Noting that cash flow and liquidity are complementary, the authors view these two yardsticks as a distinct category meriting special consideration when deliberating self-insurance. However, the authors warn, cash flow experience on an industrywide basis is hard to come by.

The aim of financial analysis is to detect any weakness to meet expenses as they come due. As an indicator, working capital reinforces initial impressions based on cash flow and liquidity information.

Management performance can be assessed by the profitability ratio—the return on assets. The authors explain that this ratio usefully indicates if the firm "may be likely to encounter future difficulties in other areas."

Comparing a firm's ratios to industry averages provides valuable insight. Unfortunately, the lag in collecting and publishing industry data somewhat diminishes its value.

Z'ev Kronish, who holds an M.B.A. degree from The College of Insurance, has handled corporate risk management and benefits administration. He is now in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.

Arizona county names Reynolds to new risk post

MARICOPA COUNTY, Arizona, has named **Sam A. Reynolds**, 36, to the new position of risk manager. Mr. Reynolds, who reports to director of personnel William Mann, was previously risk manager for the city of Phoenix, a position now vacant. Before that he taught risk management and insurance at Georgia and Arizona state universities. Mr. Reynolds has B.B.A. and M.B.A. degrees with emphasis in risk management and insurance from Georgia State University at Atlanta, and belongs to the Arizona chapter of RIMS.

comings & goings: buyers

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Eugene A. Morabito, 45, has been named director of general insurance at Carrier Corp. in Syracuse, N.Y., to replace **Jerrold Renske**, who joined Bellefonte Management Co. in Cincinnati as a vp/underwriting and marketing. Mr. Morabito, who reports to corporate treasurer Edward F. Hoover, was previously a casualty claims manager at Carrier, a position still vacant. Before that he worked for The Travelers. Mr. Morabito has a B.S. degree in business administration from Syracuse University and belongs to RIMS.

Tishman Management & Leasing Corp. in New York has named **Peter Perciasepe** director of insurance to replace **James T. Lenahan**, who is now a sales representative for Metropolitan Life Insurance Co. Mr. Perciasepe, recently insurance administrator at American Industries in New York, will be responsible for administering the insurance programs for properties managed by Tishman. He reports to Charles Quinn, executive vp. Mr. Perciasepe graduated from the business school of Florida Southern College, studied at The College of Insurance and the American Institute of Banking and is a licensed insurance broker.

Thomas J. Vetter, 27, has been named manager of loss control at the New York-based firm of North American Phillips Corp. to replace **Leo Canale**, who left the company as reported. Mr. Vetter, who reports to Tom Hassett, director of corporate risk management, previously worked as a property loss prevention consultant at Liberty Mutual Insurance Co. He has a bachelor's degree in engineering and electrical engineering from the State University of New York,

OSHA seeks public comment

WASHINGTON—The Occupational Safety and Health Administration is seeking comments on material it has gathered on hearing conservation programs.

The material being inserted into the rule-making record includes information on noise measurement, the wearing of ear protection, audiometric testing, costs of equipment and services and other related matters. Comments must be received by June 9.

The material is available for public inspection and copying from the OSHA docket officer, Docket No. OSH-11, Docket Office, Room S 6212, U.S. Department of Labor, Third Street and Constitution Ave. N.W., Washington, D.C. 20210. Copies will be mailed for a copying charge of 10 cents per page. ■

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A brochure detailing further the features of Tender Offer Defense Expense Insurance, a specimen policy and applications are available to brokers for their clients.

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USF&G picks Moseley as chairman

BALTIMORE—Jack Moseley has been elected chairman and chief executive officer of U.S. Fidelity & Guaranty Co. effective June 1. Mr. Moseley will also continue as the company's president and chief administrative officer, positions he has held since 1973.

Mr. Moseley succeeds Wilford Gragg, who is retiring as chairman and



Moseley



Bangs

comings & goings: industry

CEO after 43 years with USF&G. Meanwhile, E. Donald Bangs was elected vp at subsidiary Fidelity & Guaranty Life Insurance Co. Mr. Bangs has served as assistant vp in the agency and development department of USF&G since 1971.

In Philadelphia, James B. Ross has been named president and chief operating officer of INA International Corp., a subsidiary of INA Corp. He succeeds Guy K. Patter-



Ross

son, who continues as chairman and chief executive officer.

Mr. Ross has been part of the insurance industry for nearly 30 years, most recently as senior vp with Metropolitan Life Insurance Co. where he was in charge of group insurance marketing. Before that he was responsible for five of the company's 10 head offices.

Other insurer changes:

Russell D. Durkee named regional manager of Swett & Crawford's Pacific Northwest region; **Dennis Ransdell** named manager of the Seattle branch office.

R. Daniel DePalma named ex-

ecutive vp of Fremont Indemnity Co. in charge of marketing and division operations.

Gary A. McMillan and **James V. Paulsen** elected vps of American Home Assurance Co.; Mr. Paulsen also promoted to vp of National Union Fire Insurance Co.

Richard V. Carlson elected senior underwriting officer-institutional medical insurance of St. Paul Fire & Marine Insurance Co.

Arthur N. Dickerson named a vp in the Provident Life & Accident Insurance Co.'s group department; **Dan D. McLean** named regional vp for SAECO Insurance Cos.

Jack H. Coolidge appointed manager of the Columbus, Ohio, branch office of General Accident Group of Insurance Cos.

Elio Cabili elected senior vp of American International Underwri-

ters Corp.

Eugene L. Allen and **Edwin V. Hughes** named executive vps of Harbor Insurance Co.

Charles R. Anderson appointed assistant secretary of The Continental Insurance Cos.

E. Dennis Baer named Philadelphia branch manager for Interstate National Corp.

Gary Christensen appointed underwriting manager of Fremont Indemnity Co.'s treaty reinsurance division.

Raymond G. Bacon appointed vp of Fireman's Fund Insurance Cos.; **Stuart N. Lewick** and **Richard E. Sherman** appointed associate actuaries.

Stephen M. Duncan and **Robert L. Tate** elected vps of the Harleysville Mutual Insurance Co.; **Ernest R. Gaugler** elected assistant secretary-commercial lines underwriters.

Herbert H. Linder appointed assistant secretary of the U.S. Insurance Group; **Robert W. Merrill** elected vp-commercial property underwriting.

M.O. Lilly named vp-field operations for Gulf Insurance Co. in Baltimore.

Patrick J. Haverty promoted to vp-group department for Provident Life & Accident Insurance Co.

Robert van Harlingen appointed assistant vp of the Frontier Insurance Co.

David A. Stonecipher elected to the board of directors of Life Insurance Co. of Georgia.

Salvatore A. Chines promoted to executive engineer in the national research department of Industrial Risk Insurers.

James P. Browne appointed Argentina correspondent for the American Institute of Marine Underwriters.

Dean P. Felton elected corporate assistant secretary of Reliance Insurance Co.

Broker changes

Thomas L. Zack, assistant to the president at Ter Bush & Powell in Schenectady, is now directing the broker's branch and field office operations in Syracuse, N.Y.; Hoosick Falls, N.Y.; Cedarhurst, N.Y.; Long Island, N.Y.; Boston and Palm Beach, Fla. He will also be in charge of Whitehall Brokerage in New York City.

Other agent/broker changes:

Donald R. Bell named managing vp of the Long Island, N.Y., office of Alexander & Alexander, succeeding **David L. Moore**, who has been appointed senior account coordinator of the New York metropolitan region. Mr. Bell was regional production coordinator and headed the Alexis self-insurance subsidiary for the New York suburban region.

Lawrence R. Hoehne named vp of Corroon & Black in Minneapolis, involved in risk management services.

Dick Elliott named assistant vp and commercial marketing manager of the San Francisco branch office of Albert M. Bender Co., marketing new commercial and major accounts.

Michael R. Tatum named marketing specialist in the property boiler and machinery department of James S. Kemper Agency in Chicago.

John S. Agatston named senior consultant in charge of the actuarial department of the Pittsburgh office of Johnson & Higgins.

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The first thing you'll notice is our staff organization. For example, in the Sales and Service Division, we use an approach that's quite unique in the business. Our staff of account executives, research and support personnel is organized into teams. This offers the clients served by each team more resources to draw from as well as continuity of service.

This arrangement also allows us to rotate travel schedules so there's always a team member in the field to help clients deal with local problems.

YOU MENTION PROBLEMS. HOW INVOLVED DO YOU GET WITH YOUR CLIENTS' PROBLEMS?

We feel that one of our primary responsibilities is to help our clients and their advisers work together with our Associate Insurers to maintain an effective program. Although problems don't arise often, when they do we get as involved as necessary to bring about a quick and satisfactory solution.

Which brings me to another point that separates us from the rest: *flexibility*. If a client asks for something, our people know that they're to do everything possible to get

it done. Even if it's never been done before. And if it's a problem on the local level, we go as far up the ladder as necessary with our Associate Insurer to work it out. It's understood. We do it automatically, every day, no question.

So, as far as our clients are concerned, they'd say what really sets us apart is our people and how they work.

BESIDES THIS FLEXIBILITY, IS YOUR STAFF REALLY ANY DIFFERENT?

Definitely. First, we have more people than anyone else, which translates into better, more comprehensive service. But more important, there isn't another international network that compares with our staff in experience and overall competence.

WHERE DO YOU GET PEOPLE WITH THIS KIND OF EXPERIENCE?

Through our own training program. It allows future account executives to spend two or three years working with one of our teams before they assume responsibility for a client. It's been a very successful program.

Particularly in the field of international networks we feel experience is important. Because while our clients are very sophisticated people, the international concept is still relatively young. So they depend on

experienced account executives to guide them through the intricacies of this new business. Not just to service them.

HOW CAN YOU RUN AN ORGANIZATION LIKE THIS AT A COMPETITIVE COST?

Well, we're not always the cheapest, if that's what you mean. But at year end, when you add up all the money you save by eliminating the hidden costs inherent in a less efficient program, we feel we've got everyone beat. Most of the biggest multinationals—and many smaller ones—agree. If they didn't, we wouldn't be handling their business.

Actually, it's the classic difference between getting the lowest price and getting the most for your money.

HOW WOULD YOU SUMMARIZE THE ADVANTAGES OF IGP?

In two words: our people. Their experience. Their flexibility. And their ability to develop and maintain competitive, effective programs. But to see how true this reality is, you should talk to them. Just call (617) 421-2548. Then you'll see what makes IGP the best in the world.

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10 experts serve on President's retirement panel

BOSTON—Members of President Carter's Commission on Pension Policy making a two-year, \$2 million study of the nation's retirement income policies are:

- **C. Peter McColough**, panel chairman, is chairman and chief executive officer of Xerox Corp. He is the leading advocate of universal private pension coverage.

- **Henry L. Bowden** is a former Atlanta city attorney and a partner in the law firm Lokey & Bowden of Atlanta. He is one of the strongest voices for forced Social Security.

- **John Bragg** is a member of the Tennessee house of representatives and a former chairman of the National Conference of State Legislatures' task force on public pensions. Mr. Bragg is strongly opposed to an arbitrary age for eligibility to collect Social Security benefits.

- **Lisle C. Carter Jr.** is president of the University of the District of Columbia and a former assistant secretary of the Department of Health, Education and Welfare. Mr. Carter's major concern is the gaps in pension coverage.

- **James Clark Jr.** is a member of the Maryland senate and chairman of the state legislature's pension study committee.

- **Paul R. Dean** is a professor of law and former dean of Georgetown University Law School. He also serves as neutral trustee for the Health and Retirement Funds of the United Mine Workers of America.

- **William C. Greenough** is retired chairman and chief executive officer of Teachers Insurance and Annuity Assn. and College Retirement Equities Fund. He is considered the commission's most knowledgeable pension expert.

- **Martha W. Griffiths** is a Michigan attorney and a former congresswoman. Possibly the commission's most outspoken member, Ms. Griffiths fears a mandatory private pension system

Few workers vested: Poll

Continued from page 1

The survey reveals the striking sexual differences in pension coverage. While 56% of men who hold jobs participate in private plans, only 39% of working women do.

Furthermore, 54.3% of men covered by pension plans are vested, but only 51.3% of women.

The vast majority of those surveyed do not believe their lives after retirement will be the "golden years." On the contrary, a whopping 92% of adults believe their standard of living will either remain the same or drop.

A paradox in the results is that despite overwhelming worries about maintaining their standard of living after retirement, about half of those surveyed still want to retire before age 62.

The survey also indicates the enormous importance workers attach to Social Security. Some 57.8% of those surveyed expect Social Security to be their primary source of retirement income. ■

could be financially crippling to smaller firms.

- **Harvey Kapnick** is the former chairman of Arthur Andersen & Co. who resigned recently as deputy chairman of the First National Bank of Chicago.

- **John H. Lyons** is president of the International Assn. of Bridge, Structural and Ornamental Iron Workers. Because of the huge constituency he represents, Mr. Lyons is considered to be the most influential commission member. ■

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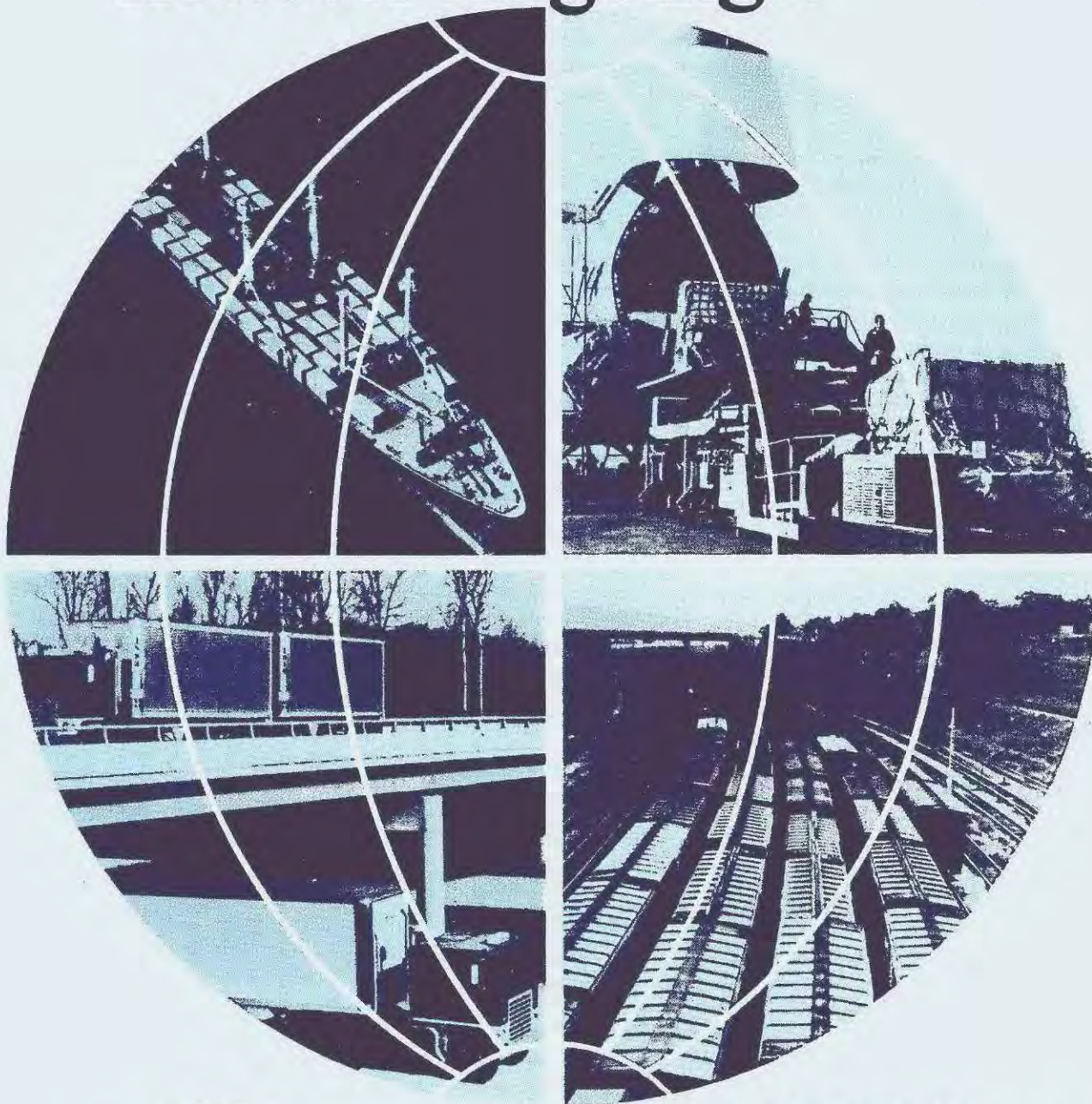
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Panel leans toward forced pensions

Continued from page 1
ing 20 hours of meetings here last weekend. The 10-member commission is to report this month to the President and Congress, with a final report to be submitted in February 1981.

Considerable debate surrounded the conflicting views of commission members. For example, the commission appeared ready to recommend raising to 68 from 65 the age at which full Social Security benefits can be collected. But it backed off from setting a fixed age after commission member John Lyons, president of the International Assn. of Bridge, Structural and Ornamental Iron Workers, raised vehement objections.

Midway through its two-year study, the commission appears

well-equipped to meet its objective of developing a national retirement income policy as mandated under President Carter's 1978 executive order.

Under the direction of executive director Thomas Woodruff, a former assistant to Ian Lanoff, the U.S. pension administrator, an impressive 16-member staff has been assembled to prepare, analyze and bring together a mass of pension-related issues to help the commissioners make decisions.

More work

But clearly much work remains to be done. The staff has been directed to complete studies, for example, on the cost implications of faster vesting, mandatory pensions and the elimination of sex-

based mortality tables before the commission will make final recommendations in these crucial areas.

The underlying basis for all the commission's suggestions is that the net of retirement income protection must be expanded by enlarging the private pension plan system. Social Security should be retained, but only to provide a floor of protection for all workers.

Commission member C. Peter McColough, chairman of the board at Xerox Corp., emerged as the most forceful and articulate spokesman for a universal private pension system.

"In our society, we have two classes of citizens. Those who have a meager benefit" and those who derive benefits from several sources. "We are not going to con-

tinue with two classes of citizens," the Xerox chairman said.

To boost retirement income, Mr. McColough said, "I would favor a simple private mandatory system. It is do-able. It is simple." Furthermore, there would be no competitive distortions in which one business has an advantage over another under a mandatory system, he added.

Expanded role

In addition, the commission agreed private plans are far better equipped than Social Security to take on an expanded role in providing retirement income.

As a pay-as-you-go system, Social Security does not provide a means for the accumulation of capital, which economists say is a

vital component of industrial expansion.

And with the upcoming demographic changes in which a small body of younger workers will have to pay the benefits for a huge pool of retirees, it is doubtful whether one generation can be expected to entirely support the preceding generation through the pay-as-you-go Social Security system. Already there is widespread rebellion against higher payroll taxes, Mr. McColough said.

But not all the commissioners were as willing as Mr. McColough to accept the premise that mandatory private pensions are the way to boost retirement income.

"How can you enforce mandatory private systems? I want to know how to enforce it," said Martha Griffiths, a Michigan attorney and a former congresswoman. "How many businesses will fail? I can foresee that the corner drug-stores will be gone. The chains will take them over," she predicted.

Before making a final recommendation, the commission wants to look at the cost implications of mandatory plans. Right now, "We don't know enough to go one way or another," said commissioner Lisle Carter, president of the University of the District of Columbia.

As a general principle, the commission advocates faster pension vesting. This recommendation comes on the heels of a commission-ordered study (see story page 1) revealing that despite ERISA's requirements, only 25% of the workforce is vested.

"It's very unfair; it makes no sense," Mr. McColough said of current vesting rules. "What about the person who works five jobs for nine years each and never vests?"

No specifics

But the commission is still far from setting a specific vesting requirement. Several commission members fear vesting that goes too far could impose horrendous cost burdens on businesses.

"I think we'd better get the numbers on faster vesting," said commissioner Harvey Kapnick. "I think an argument could be made that this would be disastrous" for smaller firms.

Mr. Lyons fears "Peter would be robbed to pay Paul" if a higher retirement age were adopted. Retirees who would collect Social Security benefits under current rules would be forced to apply for unemployment compensation, he argued.

Instead, the commission recommended that consideration be given to gradually raising the Social Security retirement age, but any age adopted would have to be backed up by actuarial data indicating how many years a person can expect to live after reaching 65. "We don't want an arbitrary figure," said commissioner John Bragg.

In what could have profound implications for future pension structuring, the commission urged consideration for equal tax treatment for all pension contributions. Only employer contributions are now tax deductible. If this suggestion were adopted, there might be substantial growth in contributory pension plans.

After extended debate, the commission recommended that Social Security be made mandatory for all future public employees. "Social Security should be the floor of all retirement income. Everyone should contribute to that floor," Mr. Carter said.

The commission said employers should give retirees periodic pension increases but rejected automatic indexing to inflation.

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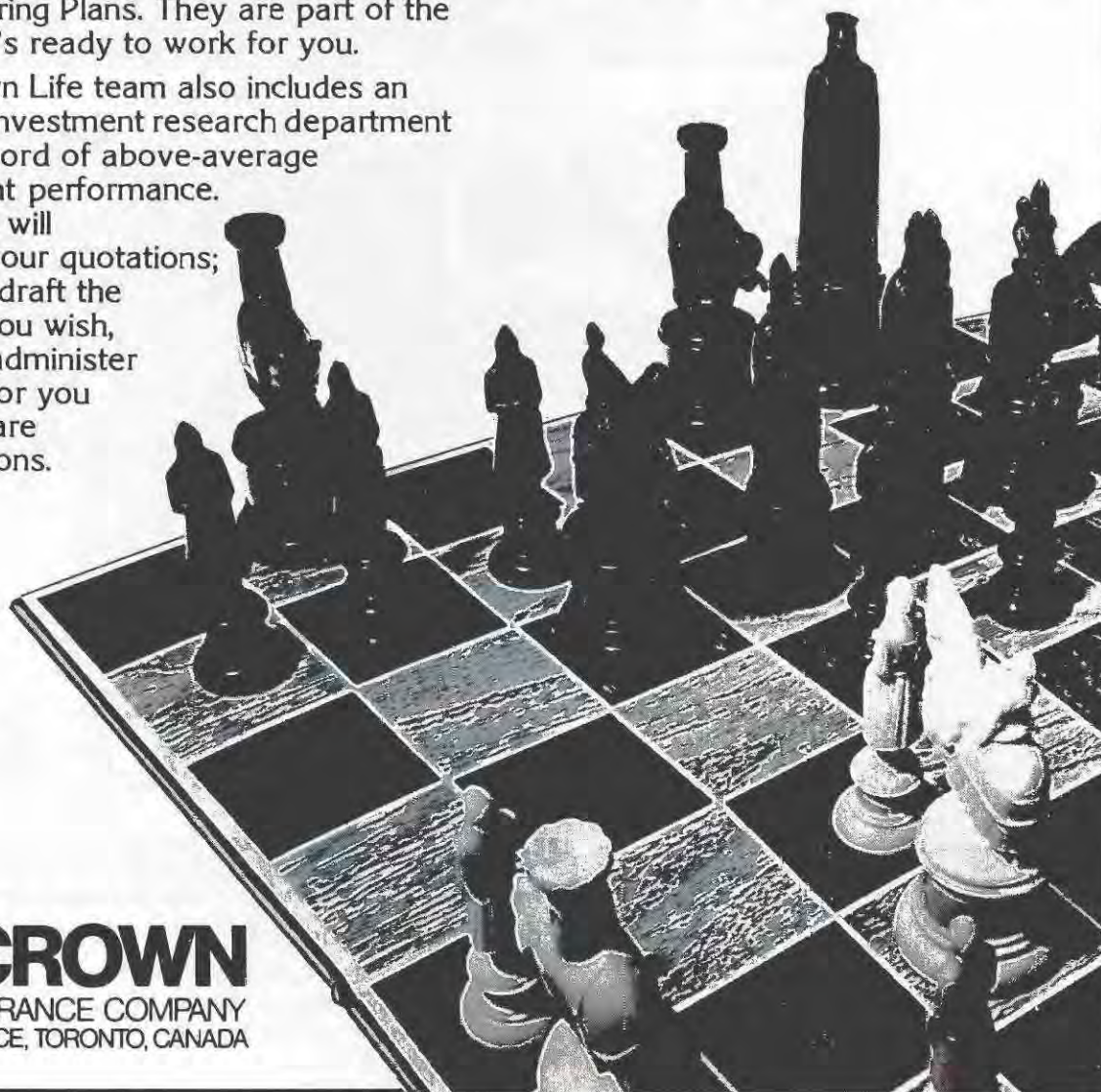
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UAW plans fight on carcinogens in the workplace

Continued from page 1
instruct local union leaders on how to compile data and spot cancer hazards.

- Visits by UAW health professionals to plants where a hazard is suspected, to inspect operations and determine if further investigation is needed.

- Recommending to the employer and local union that screening examinations be given for exposed workers where there is evidence of a cancer hazard.

- Inspecting the plant to see what safety improvements can be made in work practices.

- Conducting union studies of cancer rates and specific causes of death if trends among groups of workers become evident. The results would determine further actions by the union.

Independence

Frank Mirer, assistant director for the UAW social security department, said the union is starting the program to give it the "independent capability" to investigate workplace hazards. "We can't rely exclusively on the companies to do it and we can't rely exclusively on the government to take total responsibility for it," he said.

In the future, the union said it intends to work for broad-based research on occupational hazards affecting all UAW members in the auto, aerospace and agricultural implement industries.

"The union's new cancer policy should enable us to compile the data necessary to go to OSHA and, under their new carcinogen regulations, demand that they remove the cancer-causing agent," president Douglas A. Fraser said.

OSHA rules

Under the OSHA guidelines, occupational carcinogens will be identified and the agency will develop a priority list of elements every six months to protect

NAEHMO sets U.S. conference

MINNEAPOLIS—The National Assn. of Employers on Health Maintenance Organizations will sponsor a national conference on HMOs and other health care cost containment methods May 29-30 in Washington, D.C.

Speakers will include Sen. David Durenberger (R-Minn.); Howard Veit, director of the Office of Health Maintenance Organizations, and Dr. Richard Egdahl, director of Boston University Medical Center and Center for Industry and Health Care.

Meanwhile, a NAEHMO study has settled a procedural question. Companies negotiating with HMOs do not need uniform forms or procedures, agreed a task force of the National Assn. of Employers on Health Maintenance Organizations.

Many of the large employers that offer multiple HMOs have designed their own enrollment forms and procedures and have found the HMOs being implemented are willing to adapt to the employer's forms and procedures, the NAEHMO says.

More information is available from the NAEHMO, 1134 Chamber of Commerce Building, Minneapolis, Minnesota 55402; 612-338-4823.

workers from harmful effects (BI, Jan. 28).

The union has focused attention on carcinogens in the workplace after three studies showed abnormally high rates of cancer among automotive woodworkers. The studies, by the Sloan-Kettering Cancer Center in New York, NIOSH and the Michigan Cancer Foundation, concluded that automotive woodshop workers suffer from higher colon, stomach and rectal cancer rates than other auto workers due to occupational factors.

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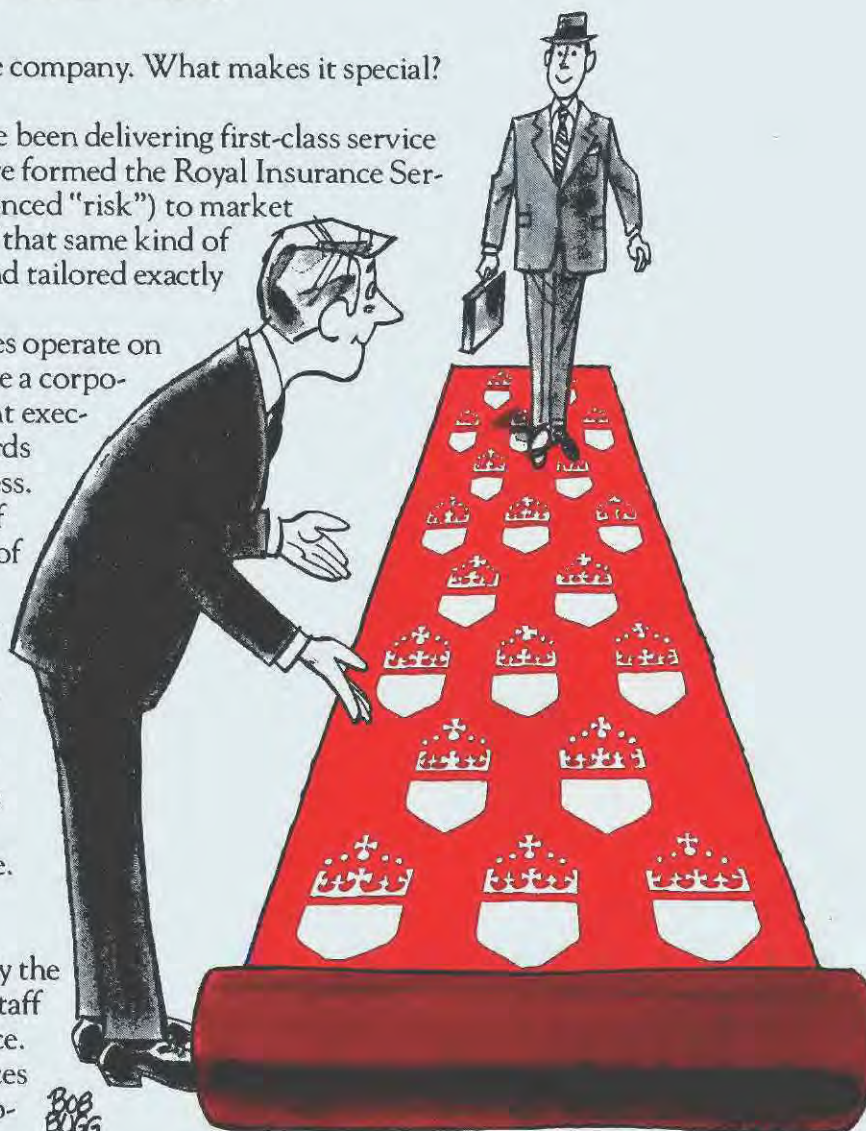
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Bond case teaches lesson

Continued from page 3

Turnpike Authority, \$434,000; the U.S. Department of Housing and Urban Development, \$3.7 million; the superior court of New Jersey, \$25,000; Grete Bay Hotel and Casino, \$1 million; Burlington County, \$982,610; City of Hoboken, \$532,000; borough of South Plainfield, \$153,414; Continental Grain Co., \$11 million, and Union City, \$230,000.

None of the federal agencies listed accepted the Somerset bonds, following a federal government rating service for the companies. The indictment does not specify which of the others did, said a

spokesman for the attorney general.

No specific instances of default have been proven yet but the potential for default may mean potential disaster for those who accepted the bonds.

"There's certainly a lot of evidence there are defaults, but you won't find where they've gotten a judgment yet," said Sandra Dick, deputy attorney general for the state.

Ms. Dick, who began the civil case against Somerset in July 1979 by obtaining a restraining order against the firm, said, "The facts point to default."

Normally, when a contractor de-

faults, the acceptor of the bond uses the bond money to pay for the job.

However, in this case, it is even uncertain whether Somerset's assets can cover its bonding liabilities.

Ms. Dick said the civil investigation is waiting for the criminal proceeding before the state grand jury.

No other sources could divulge the firm's assets.

Somerset is chartered in the Virgin Islands, but it is doubtful if the firm is actually licensed to sell insurance in any state, investigators say.

Inflation threatens pensions

Continued from page 3

million paying into the fund.

The solution, aside from curbing inflation, is to calculate more than one Consumer Price Index with which to index pensions. This is necessary, Mr. Robertson said, because inflation has different effects on different groups—such as workers and nonworkers.

In addition to warning against indexing pension benefits to the rate of inflation, the Mercer executives noted the following developments in specific countries:

- Japan: Legislation has been proposed to raise the retirement age to 65 from 60 and provide more jobs for the elderly.
- Canada: The private sector is backing a funding method that would convert excess interest earned on pension fund investment into pension increases.
- Western Europe: Most governments will begin indexing social security and private pension plans will be given financial incentives to improve benefits.
- Australia: Social security benefits will be indexed twice yearly.

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Del. bill would install wage-loss work comp

Continued from 3
final appeal. Lawyers now receive payments based on both initial and appeal awards.

Litigation would also be reduced by appointing two or three coordinators to effectively administer claims, sponsors of the bill contend. Coordinators would report to the division of industrial affairs rather than to the industrial accident board, which would handle only adjudication of cases.

"The problem is that there's no-

D.C. OKs cutback in comp

WASHINGTON—The District of Columbia city council last week approved controversial legislation cutting back workers compensation benefits.

But organized labor, bitterly opposed to the measure, vows to keep fighting. The unions opposing the legislation have threatened to block enforcement with lawsuits.

Labor groups and the U.S. Department of Labor say the city lacks authority to amend its program, which was placed under federal control by a 1928 congressional act.

The first step labor intends to take is to ask Congress to use its power to veto the bill. If such an effort fails, a legal challenge will follow.

The legislation, introduced by council member Willie Hardy, would reduce the future maximum weekly benefit to \$396 from \$426.

The measure also would make it easier for businesses to challenge claims and limit annual cost-of-living adjustments in benefits to 5%. Currently, benefits are indexed to increases in the national average weekly wage.

Mayor Marion Barry says he will sign the bill "as soon as it reaches my desk." However, under an amendment adopted on the city council floor, the measure only would affect claims filed after Oct. 1, 1981.

This year D.C. employers are expected to pay \$140 million in workers compensation premiums, a 700% increase in the last eight years.

Premiums began to soar in 1972 after the maximum benefit payments were quadrupled that year.

Surplus group elects officers

NEW ORLEANS—The Louisiana Surplus Line Assn. has elected new officers and board members for 1980-81. Officers are: president, Robert E. Cochran of Southern Insurance Services Inc.; vp, A. Gary Batten of Qualified Service Inc.; secretary, Thomas McMahon of Laurence Eustis Insurance Agency, and treasurer, Jim Dedrel of G&M Surplus Lines.

Elected to the board of directors were: Henry George of Frank B. Hall & Co. of Louisiana; Wayne Forest of B&F Special Risks; Noel Martinsen of The Insurance Market Place; William Eads of Gulf States Underwriters, and Eric Crousillac of Agency Management Corp.

body around to enforce penalties, short of lawyers who litigate," Mr. Lewis said.

Benefits would be reduced under the bill by redefining disfigurement as a scar on the face, hands or neck. Under current law, a worker is disfigured if a scar is visible when the person wears a bathing suit.

Workers would no longer be free to choose their own physicians, but would have to select from a panel supplied by the employer, if the proposal is passed.

Since the bill is the result of a cooperative effort of all the interest groups, supporters are confident

the bill will pass with little difficulty.

The switch to a strong workers compensation agency and a wage loss system will eliminate litigation and overlapping benefits, sponsors are convinced.

The bill is the culmination of two years of work by a series of two task forces appointed by Delaware Gov. duPont. Action on the bill will be taken by both the house and the senate by June 15, Mr. Byrd said.

A group of 26 is sponsoring the bill, with Sen. William Murphy as principal sponsor. A battery of lawyers has been drafting the bill for the past three weeks.

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26.	JUN 30	Jun 18
27.	JUL 7	Jun 25
28. Spotlight Report: Fidelity & Surety Bonds	JUL 14	Jul 1
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EPA waste rules could cost millions

By **STUART EMMRICH**

WASHINGTON—Long-awaited regulations from the Environmental Protection Agency setting strict rules for disposal of hazardous waste by chemical companies could cost the industry more than \$500 million a year.

Disposal methods for more than 90% of the "millions of tons of hazardous waste" being produced by the industry each year won't meet the new standards.

Spokesmen for some of the nation's largest chemical companies said it was too early to comment on the regulations that few have had a chance to see yet. Individual companies have not been able to determine how much the new regulations will cost, although a spokesman for one—American Cyanamid of Wayne, N.J.—said his company probably will have no trouble meeting the newly adopted regulations.

The Chemical Manufacturers Assn., an industry group, said it was "glad to see" the EPA issue

the regulations. They will go a long way toward preventing further accidents like the seepage in the Love Canal area and the recent explosion at an Elizabeth, N.J., dump site, the CMA said.

But the association also is "deeply disturbed by the agency's use of scare tactics to lobby for its 'super fund,'" to be used to clean up chemical pollution.

The EPA has been using the public's fear about further chemical waste disasters to gain support for a proposed industry-funded pool to pay the expenses of cleaning up existing hazardous waste sites, an association spokesman charged.

The EPA regulations will require companies to keep close track of their production, transportation and disposal of hazardous wastes.

The agency listed 416 chemicals covered by the new regulations and said more will be added later.

Over the next 90 days, all businesses handling these wastes must report their activity to the EPA. Af-

ter Nov. 1, large companies handling or storing wastes must apply for government permits to conduct business and must start making any needed changes in facilities that don't meet the new regulations.

The companies must also keep strict invoices of shipments of these materials and immediately report to the government if the material doesn't arrive at its destination.

The EPA said the new rules, first

proposed in December 1978, should "sharply reduce" the possible danger from shipping and storing wastes, especially the rules requiring companies with disposal facilities to devise emergency plans in case of accidents.

Benefit plan may need reshaping: Consultants

NEW YORK—Gloomy economic predictions mean benefit managers can no longer afford to view inflation's impact on employee benefits as temporary, consultants say.

Instead, benefit execs must re-examine current benefit packages and decide how they can be reshaped to meet the demands of employees in the 1980s at a predictable cost to employers.

Lagging investment returns, limited corporate dollars that will curb the addition of new benefits and changing lifestyles and demographics necessitate this balance, says Gerry Bell, partner at Kwasha Lipton and speaker at the firm's recent seminar on inflation and benefits.

"We're looking at a whole new set of needs. We need a whole new outlook," Mr. Bell said.

That outlook should begin with determining individual corporate objectives for benefits and how those objectives can be funded, said David Skovron, also a partner at Kwasha Lipton.

This step, requiring a shift of focus away from designing benefit packages with competition in mind, should be followed by:

- Communications programs ensuring that employees know the cost of benefits and how to effectively use their plan.
- Examination of benefits on an event-oriented basis to determine

New outlook

Firms can help retirees by granting ad hoc increases based on a percentage of the Consumer Price Index.

if benefits are redundant. For example, the benefits a disabled worker may receive could surpass the amount of his working salary.

• Participation in cost containment activities such as working with providers and medical societies, that help cut health care costs.

Although these general steps should be taken to reevaluate a firm's entire benefit package, Mr. Skovron offered some specific suggestions for pension plans.

"Indexing of pensions should be avoided," Mr. Skovron emphasized, saying it is simply too costly. Instead, he said, firms can help

retirees maintain their replacement or retirement income by granting ad hoc increases. These increases, he said, would be based on the percentage of the Consumer Price Index that actually affects retirees. A recent study showed that 70% of the CPI does so, Mr. Skovron noted.

Retirees can also be offered the option of a reduced initial pension with automatic provisions for cost-of-living increases, Mr. Skovron said.

Another alternative for employers is to give active workers fewer increases but increased retirement benefits, he noted.

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Union funds recover \$394,418

NEW YORK—An additional \$394,418 owed to eight union health and welfare funds has been recovered from Trans World Life Insurance Co., New York superintendent of insurance Albert B. Lewis announced.

This brings to \$2,278,648 the amount recovered by the department from the insurer for excessive retention levels and service fees. The department previously recovered \$1,884,230 owed to nine union funds (BI, April 14).

Two Trans World agents, Fringe Plan Administrators Ltd. and Group Writers Inc., were each fined \$10,000 for their role in the overcharges. Trans World and three other agents had been previously fined a total of \$70,000 for overcharges.

Funds benefiting from the new recoveries are: FLM Joint Board Welfare Fund, \$41,976; Amalgamated Meat Cutters Local 342 Welfare Fund, \$152,650; Amalgamated Meat Cutters Local 342 A & P Welfare Fund, \$22,378; Amalgamated Meat Cutters Local 5 Packing House Welfare Fund, \$15,314; Amalgamated Meat Cutters Local 400 Welfare Fund, \$17,923; Amalgamated Meat Cutters Local 174 Welfare Fund, \$86,248; Meat Industry Welfare Fund, \$57,570, and Meat Industry Trust Fund, \$359.



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A special section in the June 9 issue of *Business Insurance*

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- The active California excess and surplus market;
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- The huge commercial insurance market in the state and how it is regulated by a tough and well informed regulatory department;
- An analysis of the fastest growing commercial insurance buying areas of the state along with a score card of the leading brokers and underwriters in these areas;

- The state of competition among agents and brokers in California and how this compares with other states around the nation;

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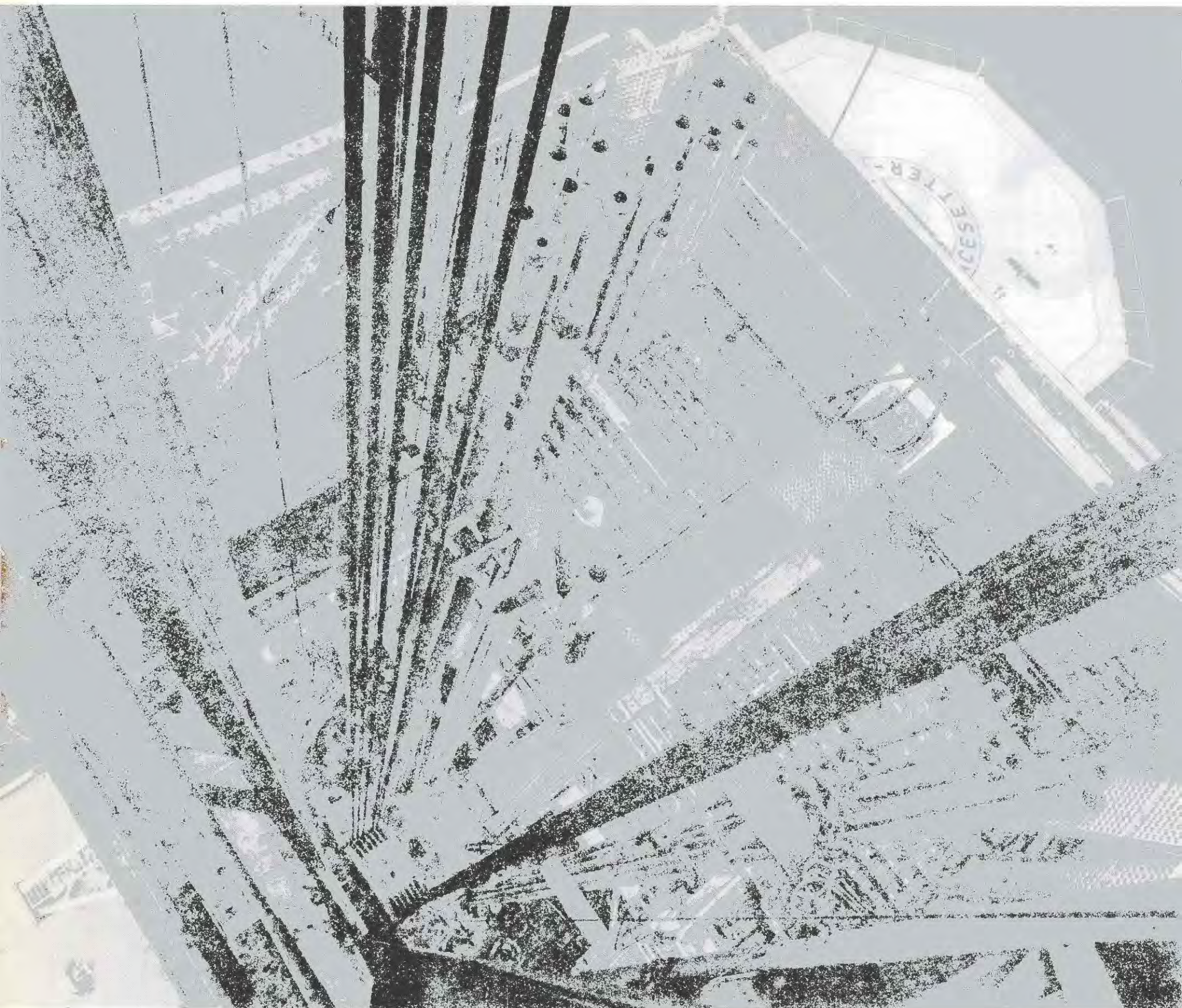
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