

Wrap-up plan poses Olympic feat

By ELLIS SIMON

LAKE PLACID, N.Y.—The local organizers here of the 1980 Winter Olympics are attempting an Olympic feat: Remarketing a wrap-up insurance program on \$70 million in construction projects in progress.

The remarketing is on the recommendation of a consultant who had been brought in to review the adequacy of the coverage and premium price. He was hired after federal officials and competing agents and brokers in the area had objected to the insurance being placed through a broker related to a member of the Lake Placid

Olympic Organizing Committee. The insurance on the construction project of facilities for the 1980 games generates annual premiums of between \$800,000 and \$900,000 a year.

"Changing insurers on a wrap-up program is like changing coaches between halves of a football game," observed Richard Grennan, risk manager for Nebraska Public Power District. Mr. Grennan has put together wrap-up programs for his company's huge power generating projects (BI, Jan. 23, 1978).

The ideal situation is to stay with the existing workers compensa-

tion and liability insurer because an insured is locked in on his loss conversion factors, Mr. Grennan explained. A wrap-up must be put together with the understanding that the insured and insurer are in it together as partners, he said.

Lake Placid's attempt to re-market its wrap-up coverage and obtain liability coverage for the games could be marred by charges raised by some federal engineers that structural deficiencies exist in some of the facilities under construction and that workers are

careless at the construction sites.

Placid Management Co. placed the original program over two years ago with Aetna Life & Casualty Co. Robert Damp, principal of the agency, is a nephew of organizing committee member Jack Wilkins, who also owns his own real estate and insurance agency in this Adirondack Mountain village of 3,000.

Officers and directors of the mammoth project receiving federal funds and their immediate
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Week of May 14, 1979

business insurance

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

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75¢ a copy; \$15 a year

Insurers protest co-op product liability plan

By JERRY GEISEL

WASHINGTON—Insurance industry trade associations denounce a Commerce Department proposal that would make it easier for companies to set up insurance cooperatives to handle their product liability risks.

In an 11-page comment filed with the Office of Management and Budget (OMB), the American Insurance Assn. (AIA) charges that the proposal could actually exacerbate insurance availability problems and increase premium rates.

The Alliance of American Insurers, the other leading industry trade group, contends there is no need for such a proposal because of the recent improvement and increased competitiveness in the product liability insurance marketplace.

The impact of the opposition is unclear. However, some observers believe insurance industry lobbying may be holding up OMB approval of the proposal. OMB, however, has had only about three months to review the proposal in detail and a quick decision wouldn't normally be expected on a proposal of such far-reaching significance.

The Commerce Department proposal, which would require congressional approval, has two key provisions, both calling for radical changes in the regulation of insurance.

Under one section of the proposal, businesses would be allowed to band together to form insurance cooperatives or "risk retention groups," pooling all or a portion of the participants' product liability exposures.

These risk retention groups appear to be roughly analogous to the rash of trade association and group-owned captive insurance companies that have sprung up in the last few years. But under the

Commerce proposal, they would be exempt from state regulation.

Instead, these groups would be regulated by the federal government. Before deciding whether to allow a risk retention group to operate, the federal government would review the group's assets, reserves, loss prevention efforts and management expertise to determine whether they are adequate.

Premiums paid into the risk retention groups generally would be tax deductible so long as there was sufficient spreading and sharing of

risk to satisfy Internal Revenue Service requirements. Based on a recent IRS private letter ruling, it would appear that a participating company could control no more than 5% of the group's business in order to be eligible for premium tax deductions.

Furthermore, under the proposal's second section, companies could unite to purchase product liability insurance on a group basis. The Commerce Department believes group purchases of insurance would drive down insurance

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End doctor control over Blues: Report

WASHINGTON—The Federal Trade Commission staff has proposed a draft rule to bar physician organizations from controlling Blue Shield plans and to sharply limit individual doctors' role in the governing boards of the plans.

The staff recommendation comes at the conclusion of an FTC probe of the extent, impact and legality of medical control of state Blue Shield plans.

The three-year investigation revealed that doctor domination of Blue Shield has resulted in "numerous specific instances when the medical profession's interests have prevailed over subscribers' interests in the making of Blue Shield policy."

The FTC staff concluded that physician control of Blue Shield plans may result in an inherent conflict of interest since physicians have a vested interest in rising health care costs.

Physician domination of Blue Shield is widespread, the report

Blue Cross/Blue Shield Assns. recommends its plans stop routinely paying for admission tests for surgical patients. Page 72.

found. Doctors control decisions involving the payment of fees to physicians in most of the nation's 70 Blue Shield plans and physician organizations select the majority of the members of the governing boards of 32 plans.

The FTC staff proposal would bar medical societies from controlling Blue Shield plans. Furthermore, doctors would be prohibited from occupying more than 25% of the seats of a plan's governing board even if they don't represent a medical organization.

BC/BS president Walter McNerney lashed out at the FTC staff proposal charging that it is "unnecessarily costly to American taxpayers, potentially harmful to Blue Shield subscribers and factually
Continued on page 72

For malpractice costs

Hospital fees to rise if HEW cuts funds

By SUSAN ALT

CHICAGO—Corporate employers and third-party payers may be hit in the next year with enormous additional benefit costs as a result of a newly proposed government rule prohibiting hospitals from recouping any risk management or insurance costs from Medicare and Medicaid patients other than those directly attributed to their care.

"To the extent that Medicare pays less of our costs, somebody else is going to have to pay more. And that somebody is going to be employers who pay hospital bills for their employees," either under self-insured programs or through group health insurance carriers, said R. Paul Venzke, director of insurance and risk management for the Sisters of Mercy Health Corp. in Farmington Hills, Mich., which operates 20 hospitals with 5,500 beds in the Midwest.

The proposed regulation on reimbursement of hospital costs was circulated by the Department of Health, Education and Welfare Mar. 15. It means billions of dollars in insurance and loss costs will have to be spread over non-Medicare patients in hospitals through



Health care costs would rise if HEW cuts hospitals' funds, warns James Groves of the American Hospital Assn.

adjustments in rates charged private sector patients.

Not only will corporate benefit costs reflect higher costs that the federal government isn't willing to pay, but the proposed regulation also creates enormous problems for hospital risk management pro-

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RIMS Report

Managers seek answers

Employe benefit and risk managers converge on Chicago for the annual RIMS conference to dissect, diagnose and prescribe cures for their insurance headaches. A full report on the ills, the prognosis and treatments runs from pages 13 to 69.

Leaders lash competition

Four heavyweights in the insurance industry representing brokers and underwriters pass the buck for fueling the alternating insurance market cycles. Lloyd's leader Robin Jackson, AIG president Maurice Greenberg, Inscos executive vp Leslie Dew and Matthews Wrightson broker Gordon Henry disclaim any influence over the markets in a spirited and barb-filled debate. Page 13.

The people column
page 78

Pregnancy benefit guidelines frustrate employers, insurers

By MARY ELLEN McKEE

CHICAGO—The Equal Employment Opportunities Commission's (EEOC) guidelines on pregnancy discrimination have sparked some intense reactions from employers and insurers who say the guidelines go beyond the original intention of the law.

Although employers aren't happy about having to extend maternity benefits to employes' spouses, the guidelines firing the most controversy state that extended benefits under a medical plan cannot be given "on a less favorable basis" than under maternity plans.

Employers and insurers also oppose the requirement that payment for total disability be treated the same as payment of pregnancy related cases.

A *Business Insurance* survey of 15 employe benefit managers and seven risk managers revealed that of the 22 contacted, 18 flatly oppose the guidelines and three are taking a wait-and-see approach. One cautions that the guidelines are not law but simply interpretative and that people handling benefits should consider that before drastically changing any programs.

The EEOC guidelines are designed to aid employers in implementing the new federal law requiring companies to offer equitable benefits for pregnancy in their group health insurance plans. The law went into effect April 29 (BI, April 30).

The EEOC guidelines are not regulations; they do not carry the weight of law. However, the courts often have used such guidelines in resolving legal issues.

The guidelines now drawing ob-

jections were not part of the first set of EEOC guidelines issued two months ago, claims William Knapp, a staff attorney with the U.S. Chamber of Commerce, leaving this group a little "stunned."

In the first set of guidelines, the Chamber of Commerce objected to the government requiring employers offering coverage for dependents in their group health insurance plan to provide for pregnancy-related expenses of any employe's spouse and a provision stating that an employer cannot refuse to hire a woman if she is pregnant as long as she can perform "the major functions" of the job.

The Chamber of Commerce sent a long letter to the EEOC opposing these guidelines and discussing at length the group's opposition. "We were not given the same chance to respond to these new guidelines, which we oppose just as strongly as the others," Mr. Knapp stated emphatically.

Meanwhile, employe benefit managers and risk managers nationwide are confused and anxious about what these guidelines will mean to their premium rates. Of the 22 benefit managers contacted by *Business Insurance*, seven revealed that they have received absolutely no word from their insurers concerning an impending rate hike, 10 revealed their insurers are taking a wait-and-see approach before hiking premiums and four revealed that the insurers are raising the premiums "significantly."

One Midwestern risk manager using two HMOs and two insurance companies in his employe benefits program, said one HMO is raising rates, another is not, one insurance company is not going to increase rates until they have at

least four months of claims experience, while the other insurance company has already raised premiums.

"What employe benefit and risk managers have to keep in mind," Stephen Webber, municipal risk manager for Jefferson County in Alabama warned, "is that EEOC are practitioners only and the guidelines are merely their interpretation of the possible legal issues that may arise as a result of the pregnancy discrimination law. Benefits managers should not rush out and change their benefit plans to comply with everything the guidelines requires."

"The guidelines are to be used as a device to gauge how well the employer is complying with the pregnancy discrimination law as applied to that employer's individual plan," Mr. Webber explained. "If an employer has any questions about any of his/her plans being contrary to the guidelines he can take that legal point to task."

The EEOC did a reasonable job of issuing the guidelines covering every facet of the pregnancy discrimination law, according to Mr. Webber. However, the guidelines fall short in that they are "bent toward the legal rather than the administrative nitty-gritty in complying with the law," Mr. Webber remarked.

William Blick, risk manager for The Allen Group Inc., a New York-based manufacturer of automotive parts, was quite willing to treat pregnancy benefits the same as all other medical benefits. As a matter of fact, Mr. Blick wrote to the EEOC long before the first set of guidelines was distributed asking if he could provide pregnancy benefits on an equal footing with medi-

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for your information

J&H wins trade group contract for offshore captive study

WASHINGTON—Johnson & Higgins beat out four rival brokers and a consulting firm to win the eagerly sought contract to determine the feasibility of an offshore, group-owned insurance subsidiary for members of the Grocery Manufacturers of America.

As currently envisioned, the J&H study for the huge trade group is expected to be divided into two broad phases. Phase one, which is expected to be completed by July 1, will determine if there is enough interest and financial support to make a group-owned insurance subsidiary feasible.

If the answer is yes, J&H will get the go-ahead to launch the second phase of the study to determine how the insurance subsidiary should be structured, the kind of risks that would be put into it and the amount of capital needed. This phase is tentatively scheduled to be completed by April 1, 1980.

The other brokers that submitted bids for the GMA feasibility study were: Alexander & Alexander; Corroon & Black; Fred S. James, and Marsh & McLennan. Consultant Armrisk Inc. of Englewood Cliffs, N.J., also submitted a proposal.

James ponders London link

CHICAGO—Fred S. James & Co. could have an interest with a London brokerage syndicate soon, says senior vp John C. Crane. "I expect we might enter into an interest" with a London house, Mr. Crane said after the company's annual meeting, adding that the company is currently "exploring" possibilities.

James is currently without an equity interest in any U.K. broker. James and J&H Minet Holdings Ltd. of London established a jointly held subsidiary, Minet-James International in 1974, but James withdrew from that arrangement this month after Minet and Corroon & Black announced a decision to pool operations.

James, chairman James H. Vaughn also said his company plans to form a management underwriting company in New York "late in the year" and is "considering" forming a syndicate or reinsurance company depending on the development of the New York Insurance Exchange. But, he noted, "we're going to have a very minimal position."

AIG Oil Rig suffers biggest loss

CHICAGO—A drilling rig that suffered a fire and blowout late last month is expected to produce the largest loss to date for the American offshore drilling rig market, according to Roy Williams, president of AIG Oil Rig.

The rig, a jack-up type, was lost in the Vermillion Block off the Louisiana Coast when a blowout preventer, reportedly able to withstand 8,000 pounds per square inch pressure, was subjected to forces twice as powerful. Salen Offshore Drilling Co., a subsidiary of Salen Energy Co. of Scandinavia, owned the rig.

Total insured value on the rig was \$28 million, according to Mr. Williams. Included in that total was \$20.8 million for hull and machinery, \$5.2 million for increased values and improvements and \$2 million for extra expenses.

AIG Oil Rig had 45% of the hull and machinery coverage, Mr. Williams said. The balance, he believed, was placed mostly in the London market. The loss is expected to be the first total loss of an offshore drilling rig in 21 months, he added.

No lives were lost in the incident.

Price control threatens markets

NEW YORK—Insurers must resist Presidential pressure to control rates if they expect to avoid the pitfalls that resulted in the disastrous underwriting results of 1975-1976, counsels David C. Hemley, economist with Chase Econometrics Inc.

The Council of Wage and Price Stability is seeking to control premium increases at a time when insurance company profits are likely to decline anyhow, Dr. Hemley told members of the New York chapter of CPCU. "It's like double dipping," he said.

Under voluntary price guidelines established by the Carter Administration, companies can increase prices by more than 6% where compelling circumstances exist, Dr. Hemley said.

Property/casualty insurance underwriting profits are expected to drop during 1979 and 1980, resulting in lower margins. But Barry Bosworth, chairman of the CWPS, is calling upon insurers to assume an 8½% inflation rate instead of a 10% rate in calculating premium increases, Dr. Hemley said.

Fla. passes work comp bill

TALLAHASSEE—The Florida house and senate recently passed a new workers compensation law which is awaiting the veto or approval of the governor.

Under the bill, permanently or totally disabled employes who regain an earning capacity are only compensated for the loss of wages as a result of an injury. The final draft of this bill is a compromise, consolidating the recommendations of Associated Industries of Florida Assn., AFL-CIO, the joint legislative committee and a Senate commerce committee, according to a spokesman for the department of insurance.

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Resignations jar Inesco, Bermuda market

By KATHRYN J. McINTYRE



Peter Foley, Inesco vp for 11 months in charge of casualty underwriting, left the Bermuda company because he was "unhappy with the company," and had a "personality clash" with executive vp Leslie Dew.

lowing capacity. You don't have a say in the market," he says.

Mr. Bailey will assume the number two spot under G.C. Wakefield at Terra Nova, the huge insurer in London owned by major U.S. stock companies and writing an overall portfolio of reinsurance.

But there has been much speculation about Mr. Foley's abrupt departure, ranging from suggestions that he and Mr. Dew disagreed over reserving practices to reports that Mr. Dew objected to some of Mr. Foley's underwriting practices.

Mr. Dew and Mr. Foley both denied there were any disagreements over reserving practices. "There were no disagreements," Mr. Dew stated emphatically. Mr. Foley responded, "If anyone had the answer to IBNRs, (incurred but not reported claims), he would be a genius."

Mr. Dew did divulge, however, that he had gone over all of Mr. Foley's underwriting with auditors and increased IBNR reserves by about \$3 million, out of a total of \$15 million on casualty business.

Asked why Mr. Foley wasn't accorded the three-month transition period Mr. Bailey was granted, Mr. Turnbull pointed to the substantially larger underwriting responsibilities Mr. Foley had as the casualty underwriter for the company that concentrates on casualty rather than property insurance.

Although otherwise happy working in Bermuda and optimistic about the development of a worldwide insurance market there, Mr. Foley said he resigned from Inesco because, "I was unhappy with the company. We had disagreements and when push came to shove, I lost out." The disagreements, Mr. Foley indicated, were spelled out in a memorandum he submitted to Inesco management asking for an agreement to meet certain conditions regarding the "overall game plan for Inesco, internal restructuring and our direction in the marketplace."

The memorandum was apparently viewed by Mr. Dew as an "ultimatum," but Mr. Foley called it "a master plan for Inesco," though he admits he had included within it a time frame for action to be taken. When it was clear Inesco management and Mr. Foley couldn't agree, Mr. Foley offered his resignation effective after a transition period. It was accepted immediately, on April 3.

Mr. Foley had argued for "backing off and working on our internal system," during this competitive cycle in the world insurance market, he contended. "It's the opportune time to sit back and get systems ready" for the next insurance capacity crunch, he maintains.

He wanted to see Inesco's staff beefed up, for instance. "We're dealing in a market so new, so expensive to bring in experienced people, it adds to the stress of the system," he observed. "And we're operating in a market where you

can't just put your hand on a new computer. That compounds the problems."

Reports have indicated Mr. Foley also wanted to see Inesco switch to U.S. statutory accounting instead of recording premiums on a cash basis.

Mr. Foley, formerly with General Reinsurance Corp., was next in line to run Inesco when Mr. Dew left. Mr. Dew has four years remaining on his six-year contract, but he can leave in two years.

Inesco president Mr. Turnbull maintains many of Mr. Foley's suggestions in his memorandum were already being acted upon at Inesco. And he claimed that Mr. Foley's preference for U.S. statutory accounting was news to him. "There was no mention of accounting in that memo," Mr. Turnbull said. "This is the first time I've heard of this nonsense; we're substantially following U.S. practices now." The exception is the company's practice of recording record premiums as reported and taken into income, he said, "because much of our business comes out of London and they are very slow to report."

Accounting for premiums on a cash basis, however, can alter the pattern of financial statements soon as a company slows down its underwriting, sources explained. For 1978, Inesco reported \$86 million in gross or booked premium, nearly double the \$43.9 million re-

ported for 13 months in fiscal 1977.

Mr. Foley, meanwhile, believes Inesco has also cut off five or six accounts he underwrote. "But I know the brokers have had no problem replacing Inesco with licensed U.S. carriers. It's good business thrown out the door," he glibed.

Mr. Turnbull maintains that anything cut out of Inesco's books recently was simply business renewed by Mr. Foley but originally underwritten before Mr. Foley joined Inesco.

"This was more of a personality clash than anything else," Mr. Foley observed of his departure from Inesco. "I don't want to taint Inesco's name. It's a financially solvent company and it's very strong, considering the parent company." Mr. Foley is also "optimistic" about the future growth of the Bermuda market.

But Mr. Dew "is difficult and hard-headed and I am, too," Mr. Foley confided. "And it's a different culture; he's 65 and I'm 31. I have a different approach. At times I may be too adamant. I do respect the man."

Mr. Dew, too, sings Mr. Foley's praises as a talented underwriter and says he's recommended Mr. Foley to a slew of potential employers courting him right now. Mr. Foley is currently torn between a position in the U.S. and staying in Bermuda.

N.Y. Exchange aims to open in late '79 with \$400 million

By ELLIS SIMON

NEW YORK—The New York Insurance Exchange has begun accepting applications for membership from underwriters and brokers in expectation of opening its doors for business by the end of 1979.

Between 20 and 30 underwriting syndicates, funded mostly by existing insurance companies, are expected to be in operation by that time, according to Maurice R. Greenberg, president of American International Group and chairman of the exchange's interim board of governors. Minimum capacity is expected to be \$400 million, he added.

Among those who have an-

nounced their intention to form syndicates on the exchange are Allianz Insurance Co. and INA Corp., while American International Group and Chubb & Sons are sure to form syndicates, too.

The interim board of governors has a 70-day life span that began with appointment this month of its seventh member, Atlantic Cos. chairman Harold Eckmann.

Several exemptions from New York insurance law were granted to underwriting syndicates on the exchange under regulations promulgated late last month by insurance superintendent Albert B. Lewis. The exemptions include a waiver of state capital and surplus requirements as well as waivers of

the licensing and approval sections of the state insurance code.

In addition, the regulations permit foreign interests to participate in underwriting syndicates subject to the superintendent's approval and prohibit a licensed insurer from becoming an exchange member. Licensed insurers can own stock in corporations that are underwriting members, however.

The regulations also specify the type of securities that may be used to represent a syndicate's surplus and restrict underwriting activity in New York to the exchange itself. The words "exchange" and "reinsurance" are not permitted to be included in the name of an underwriting syndicate corporation on the exchange.

the benefit beat

Braniff attendants land disability, pension gains

Flight attendants for Braniff International Airways won a revised pregnancy benefit that allows them to work while pregnant until a doctor advises them it is no longer safe to remain on the job. In addition, attendants can take a sick leave during that disability and sick time and longevity will accrue during pregnancy leave.

Some 2,000 Braniff attendants gained that improvement as part of a 3½-year contract with the air carrier.

Also agreed upon was a pension option allowing attendants to take a lump-sum benefit if they leave the airline before normal retirement. The payment would be based on years of service and length of participation in the plan; attendants would contribute \$10 a month, said Don Hayes, vp of labor relations for the airline.

Under the attendants' current pension plan, the airline matches employe contributions. This plan will continue to apply for employes staying in service until normal retirement, said Mr. Hayes.

Benefits paid strikers

United Airlines is offering its 19,000 striking machinists the option of remaining covered for medical and dental benefits during the strike, now a month old. Spokesmen for the International Assn. of Machinists said the airline has notified ma-

chinists of the option by mail.

If individual members elect to take the coverage, they will be billed at the end of the strike, according to a spokesman for the IAM. The airline currently pays a premium of \$86 per month per employe for major medical coverage.

New dental plan

A new dental plan, is in effect for some 1,800 meat cutters at the Iowa Beef Processors plant in Dakota City, Neb.

The plan, part of a four-year contract between the company and the Amalgamated Meat Cutters union agreed to last year, is scheduled to cover to 80% of all dental services except orthodontia. There is a deductible of \$100 per calendar year and the maximum benefit is \$750 yearly.

Great West Life Assurance Co., lowest among six bidders, will underwrite the plan. The company will pay the entire premium of \$335 per month per employe.

HMO asks rate hike

Genesee Valley Group Health Assn., a health services corporation and federally qualified health maintenance organization serving approximately 36,000 people in the Rochester vicinity, has filed for a 6% across the board rate increase effective July 1.

Under the proposed changes, monthly rates for individuals would increase to \$32.70 from \$30.85 and for families to \$81.76 from \$77.13. The request is subject to approval by the New York Department of Insurance.

Alcoholism treatment covered

Treatment in alcoholic rehabilitation centers will be covered at no additional cost in small group health insurance programs underwritten by the Equitable Life Assurance Society of the U.S.

Groups of 150 lives or less will receive this coverage automatically. The insurer is recommending that its customized larger plans include this feature in the health insurance plans.

Coverage of treatment at such facilities eliminates the need for costly care in general hospitals, said Equitable president Coy Eklund.

Benefit Beat keeps risk managers and employe benefit managers abreast of changes in plans around the country as well as other important developments. We'd like to know if you've made any changes or know of any significant developments. Write Kathryn J. McIntyre, Business Insurance, 740 N. Rush St., Chicago, Ill., or call (312) 649-5286.

Regulators seize assets, limit business of insurer

By JOHN MAES

CHICAGO—Insurance regulatory agencies in Illinois and Rhode Island have assumed control of the assets of the financially-troubled American Reserve Corp.'s two main subsidiaries in those states.

The court-ordered regulatory action, announced May 7, came less than a week after insurance officials in both states ordered the two subsidiaries—American Reserve Insurance Co. of Providence, R.I. and Reserve Insurance Co. of Illinois—to stop writing new and renewal property and liability insurance in all 50 states. Both firms are wholly-owned subsidiaries of the parent, American Reserve Corp.

James Huber, senior v.p.-marketing for the parent firm said approximately 62% of its \$131 mil-

lion premium volume for 1978 was personal lines with the other 38% in commercial insurance.

A spokesman for the Illinois state insurance department said he did not know for how long the state would have custody of the firm's assets, nor how long the prohibition on writing new business would last.

"Subject to further orders of the court, both companies will continue to process and pay claims in the ordinary course of business while under state supervision," the insurance department said.

The Delaware-based holding company recently disclosed its financial position and supplied figures showing that a net operating loss after taxes of \$17.6 million in 1978 had reduced the available surplus below the level needed to continue current property and liability

operations.

Adding to the difficulty is that the holding company has failed so far in its efforts to raise enough capital to maintain current operations. Raising the possibility the parent firm may have to sell some or all of its subsidiaries, the company said recently.

The company has also received cancellation notices from its reinsurers, further impeding its ability to do business, the firm said.

Mr. Huber said property and liability business makes up about 85% of total gross premiums earned by the subsidiaries a year. He said American Reserve will continue to sell life insurance and will also renew efforts to raise capital.

"We're hopeful that some outside relief can be found," said Mr.

Huber. He said, however, that it was unknown right now what measures will be taken but said such things as the sale of the subsidiaries and a merger are under consideration.

The company has sufficient reserves to handle all outstanding claims, a company spokesman said.

The first indications of financial difficulty came last March when the company announced it was bolstering claims reserves by \$8.6 million to cover underestimated losses on commercial lines.

The company said although business in recent years had been profitable overall, it was still feeling the effects of bad claims experience in the early 1970s from its extensive commercial excess and surplus lines business.

The company has declined to

identify specific problem risks but at the time it announced the beefing-up of reserves, officials disclosed the excess and surplus lines sales had been curtailed in the last few years.

Various Chicago-area brokers said American Reserve had been selling high-risk, high-premium liability coverage in such areas as long-haul trucking, carnivals and for racing and spectators.

Last month, insurance regulators in Illinois and Rhode Island announced they were conducting extensive examination of American Reserve to determine its financial health.

American Reserve's \$17.6 million 1978 loss was substantially higher than a \$2.1 million loss reported for 1977. At the end of 1978, debts were \$4.2 million higher than assets. The year end statement did not reflect the sale of American Reserve's interest in the Ryan Insurance Group Inc., which generated a capital gain of \$3.4 million. Nor did the year end report show a \$600,000 gain from a reinsurance agreement for credit life, credit accident and health insurance business. Both of those transactions took place early in 1979.

The corporation said that as of Dec. 31, 1978, the net worth of its insurance subsidiaries was \$11 million. The subsidiaries make up all but \$5 million of American Reserve's assets.

Most brokerage houses contacted by *Business Insurance* said they had never placed any business with American Reserve. Others said they had, but said they severed connections some time ago. "We got word of their condition and took appropriate steps," said a Chicago-area broker.

Meeker-Magner Insurance Agency of Park Ridge, Ill. placed a small amount of business with American Reserve but "we don't know them too well," said president Gerald Magner Jr. Most of the coverage they placed was property and liability insurance for substandard, unoccupied buildings.

The major effect that American Reserve's plight will have on the market is that it will "cause some companies to re-look at reserves to see if they are adequate," Mr. Magner said.

Several brokers said they felt American Reserve wasn't a major factor in the property/liability or excess and surplus lines market.

In a related development, Florida insurance commissioner Bill Gunter said American Reserve's financial troubles have led him to call for a bill to create a life and health insurance guaranty fund to protect consumers from firms that fail.

Florida has ordered American Reserve subsidiaries in that state to refrain from writing further property and liability business.

The California department of insurance has also said it ordered the California offices of the Rhode Island and Illinois subsidiaries to cease writing property and liability insurance.

In addition to the Rhode Island and Illinois firms, American Reserve subsidiaries include Market Insurance Co.; American Reserve Insurance Co. of New York; Guaranty Reinsurance Co. Ltd.; American Reserve Life Insurance Co.; American Reserve Brokers Inc.; Portfolio Properties Inc. and United Budget Co. ■

Zurich acquires firm

The U.S. branch of the Zurich Insurance Co. has acquired a majority interest in Empire Fire & Marine Insurance Co. based in Omaha, Neb. and its wholly owned subsidiary, Empire Indemnity Insurance Co.

What J&H doesn't know about London, Willis Faber does.

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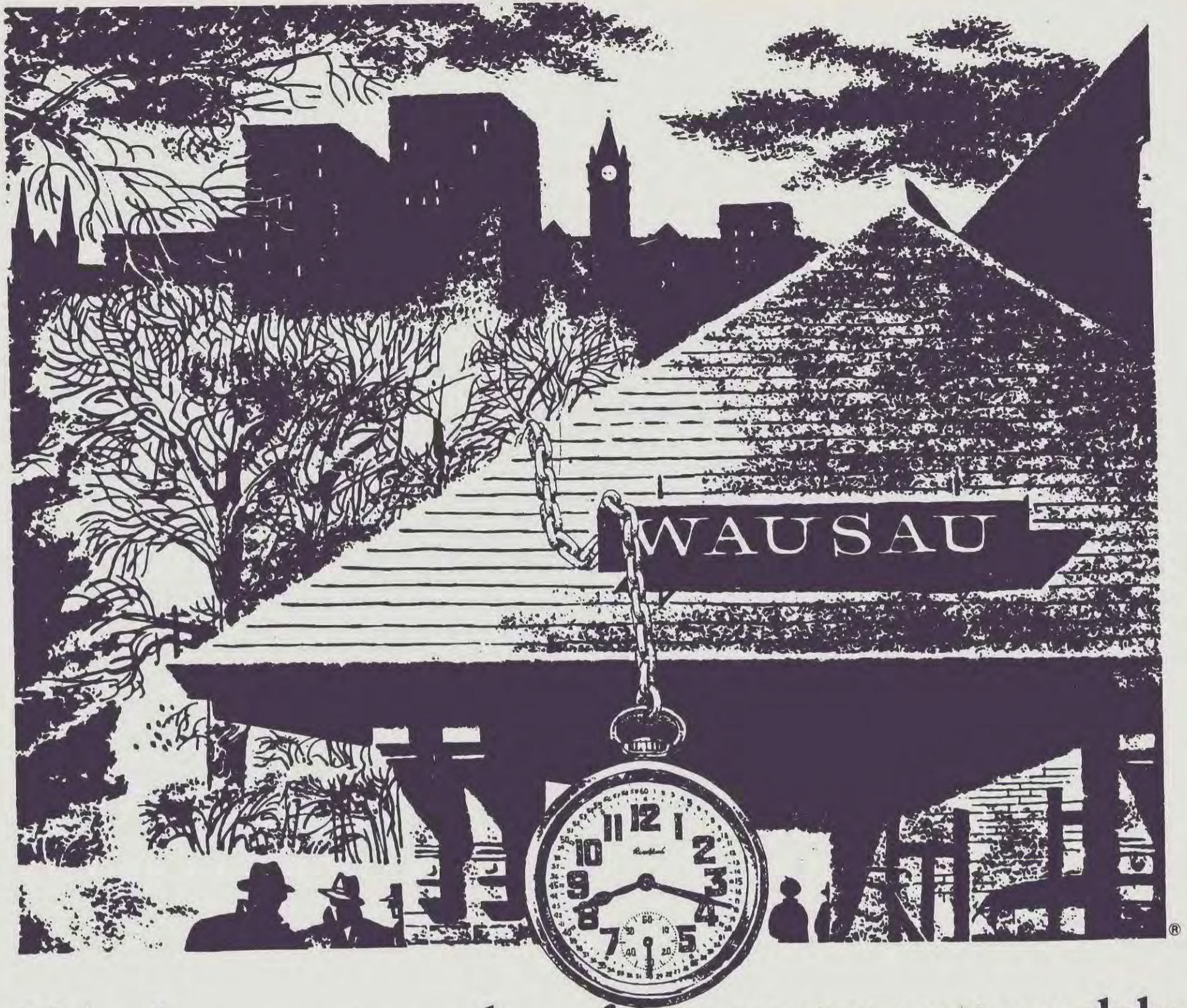


Representatives of Willis, Faber & Dumas and Johnson & Higgins meet frequently. Here the senior officers of both firms discuss recent developments. Seated (l. to r.) A. Ronald Taylor, Chairman WF&D; David V. Palmer, Deputy Chairman WF&D; Robert V. Hatcher, President J&H; Richard I. Purcell, Chairman J&H.

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Employers Insurance of Wausau

Calif. officials probe Omni/Bellefonte dealings

By JOANNE GAMLIN

SAN FRANCISCO—The California Insurance Department will hold a closed investigatory hearing May 10 on the issues in litigation between Bellefonte Insurance Co. and its former managing general agent for general aviation, Omni Aviation Managers Inc., *Business Insurance* learned.

The department refused to comment on the hearing, but confirmed it will be held.

Omni Aviation Managers, as reported in *Business Insurance* April 30, had filed a \$100 million antitrust action against nine defendants, mainly Bellefonte Insurance Co.; its parent company Armco International Corp.; Aviation Office of America Inc. in Dallas, described as a principal competitor of Omni, and Crum & Forster Insurance Co.

The lawsuit charges the defendants conspired in a "predatory plan... to take affirmative steps in the London market to prevent Omni from obtaining reinsurance on policies to be issued by Bellefonte..." The defendants then claimed that the failure of Omni to obtain reinsurance constituted a breach of the Omni/Bellefonte agency agreement.

The purpose of these acts was to drive Omni out of the general aviation insurance business and to divert Omni's business to the defendants, particularly Aviation Office of America (AOA), the 21-page suit charges.

Omni states that as a result of these actions it has been unable since January 1979, to continue in its business as an aviation insurance managing general agent.

It further states that it has lost profits, trade, customers, business opportunities and other advantageous business because of the actions of the defendants.

In response to the Omni antitrust action, a Bellefonte spokesman said that his company regards the lawsuit as totally without merit.

"It appears to be nothing more than an effort to divert attention from the very serious claims which Bellefonte has against Omni as a result of Omni's agency representation of Bellefonte in the aviation insurance field since 1975," he said (*BI*, March 19).

"Bellefonte has previously brought action in the California state courts demanding among other things an accounting of all premium dollars collected by Omni with respect to Bellefonte business written by Omni since

1975.

"The filing of this suit will not impede Bellefonte's active prosecution of its suit against Omni now pending in California state courts."

The antitrust lawsuit argues that Omni, in business about 10 years, has developed at "great effort and expense" market acceptance for policies insuring general aviation aircraft and owners against the loss damage to the aircraft. Because of this effort, Omni has generated the confidence of the London and world insurance and reinsurance markets and has fostered favorable relations with agents and producers of aviation insurance business, the suit claims.

Also as a result of its 10-year effort, Omni has been able to service a significant portion of the general aviation insurance market at com-

petitive rates, according to the suit.

The suit describes the conspiracy as consisting of a joint undertaking of the defendants, beginning on a date prior to Jan. 31, 1979, and continuing to the present, "which had... as its purpose the elimination of Omni from the United States market for the sale of general aviation insurance." The suppression of competition in the general aviation market acted to inflate prices and to restrain interstate trade in violation of the Sherman Act, the suit continues.

Aviation Office of America and Crum & Forster further conspired to restrain trade by diverting Omni's business to AOA, it charges.

The suit says that the defendants instructed agents and adjusters for general aviation insurance that Omni was not authorized to obtain general aviation insurance or to adjust claims. As a result of these instructions, agents referred their general aviation business and claims to AOS and its affiliated companies, according to the suit.

The suit also charges that the defendants caused lawsuits to be filed for the purpose "of causing Omni's name to be sullied by scandalous and untrue accusation of wrongdoing" and of encouraging press releases "quoting what would otherwise be the slanderous and untrue allegations of the complaint so as to encourage a public attitude of wrongdoing at Omni."

According to the suit, on or about Feb. 17, 1978, Omni, for a valuable consideration, entered into a written agreement with Bellefonte Insurance, Bellefonte Underwriters and Compass Insurance Co., all defendants. Under the terms of the agreement any intent to terminate the policy was to be delivered to Omni on or before July 1, 1978. Since no such notice was tendered by defendants prior to Dec. 31, 1978, the suit argues that the earliest the contract can be terminated is Dec. 31, 1979.

Despite the terms of the contract, the suit says that in Feb. 1979, the defendants terminated the said agreement with Omni "unilaterally and without just cause on the basis that Omni failed to procure reinsurance effective Jan. 1, 1979."

It continues: "Said reinsurance would have gone into full force and effect but for defendants' instructions to said reinsurers broker not to incept the reinsurance."

The lawsuit says the defendants have further breached the contract by continuing acts from Jan. 1, 1979, to the present. These acts include issuing instructions to producing agents and adjusters that plaintiff has no authority to accept business or adjust claims on policies written on behalf of any member of the Bellefonte group and advising the agents to place Omni's business with AOA and its affiliated companies.

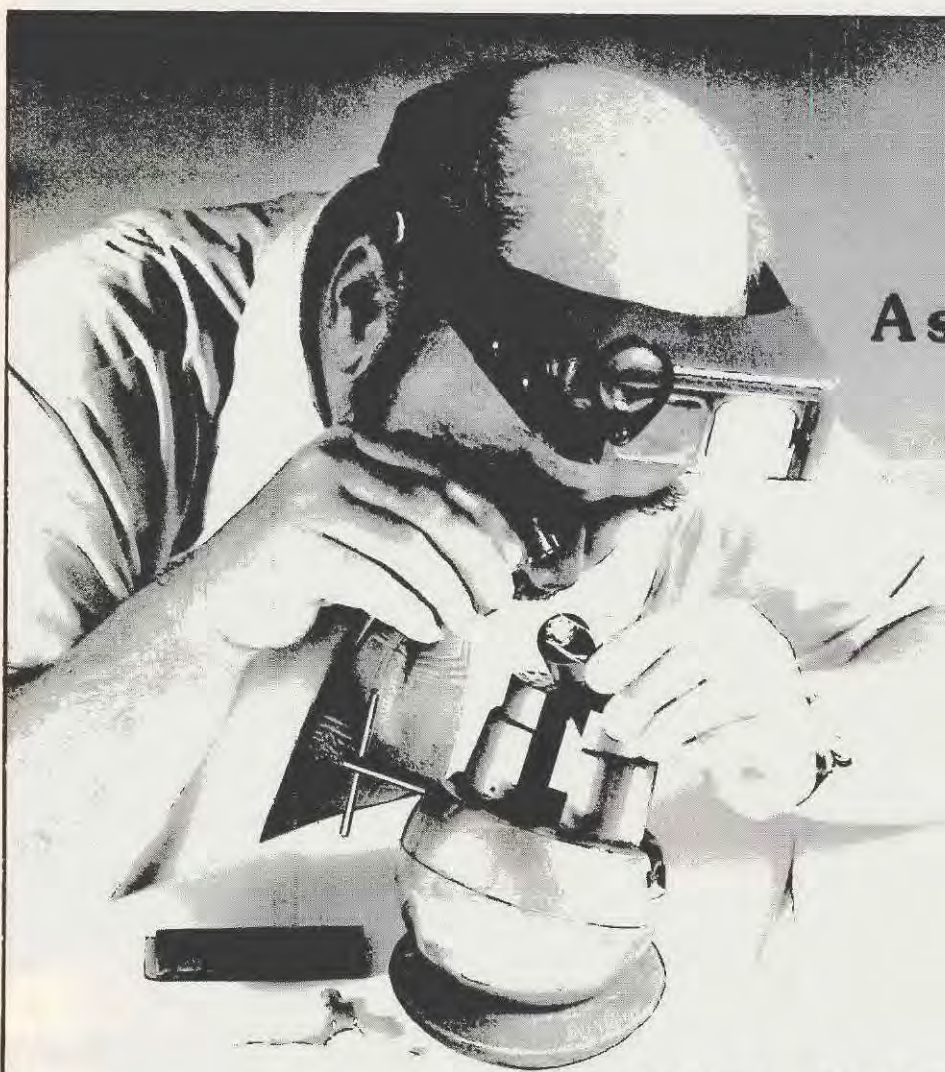
Omni is represented in this case by Gibson, Dunn & Crutcher, one of the largest law firms in California.

Pension commission picks chief actuary

WASHINGTON—Preston Bassett, former chief actuary of the actuarial consulting firm of Towers, Perrin, Forster & Crosby, will become staff actuary for the President's Commission on Pension Policy.

Mr. Bassett, who at one time had been rumored as possible member of the commission, was with the actuarial firm for 28 years.

Judith W. Mares, a financial analyst with General Mills Inc. in Minneapolis, will also work with the commission staff for six months.



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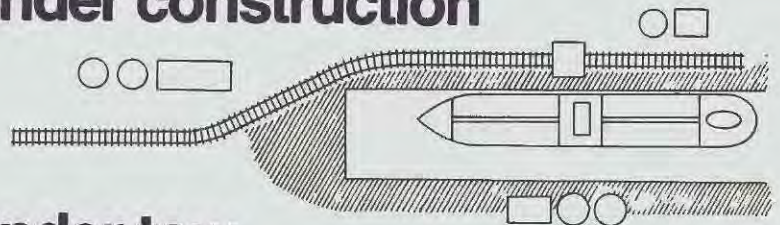


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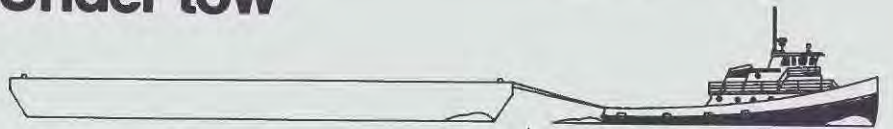
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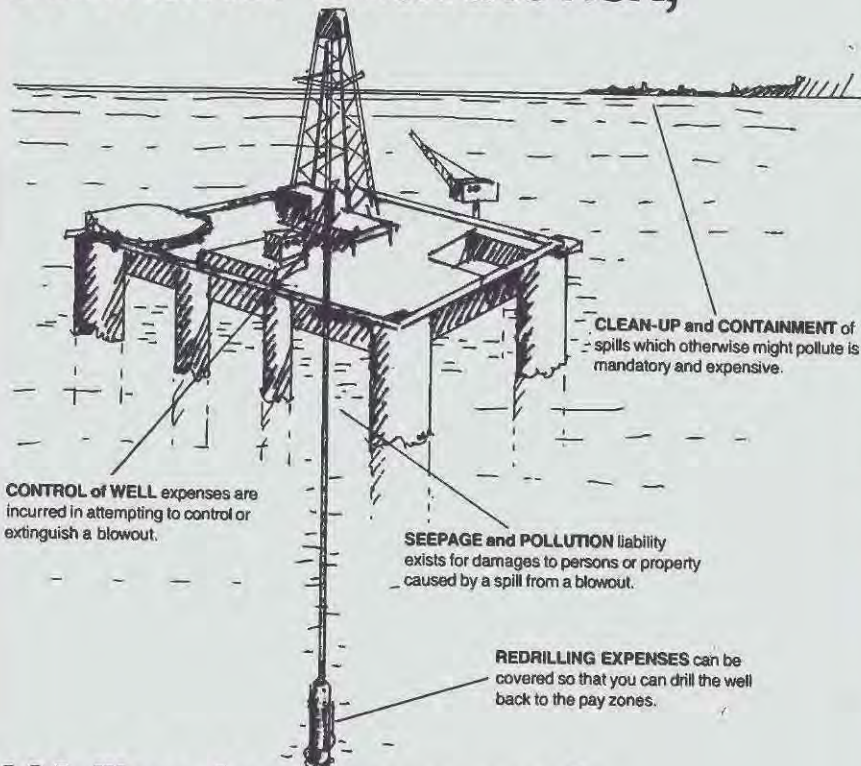
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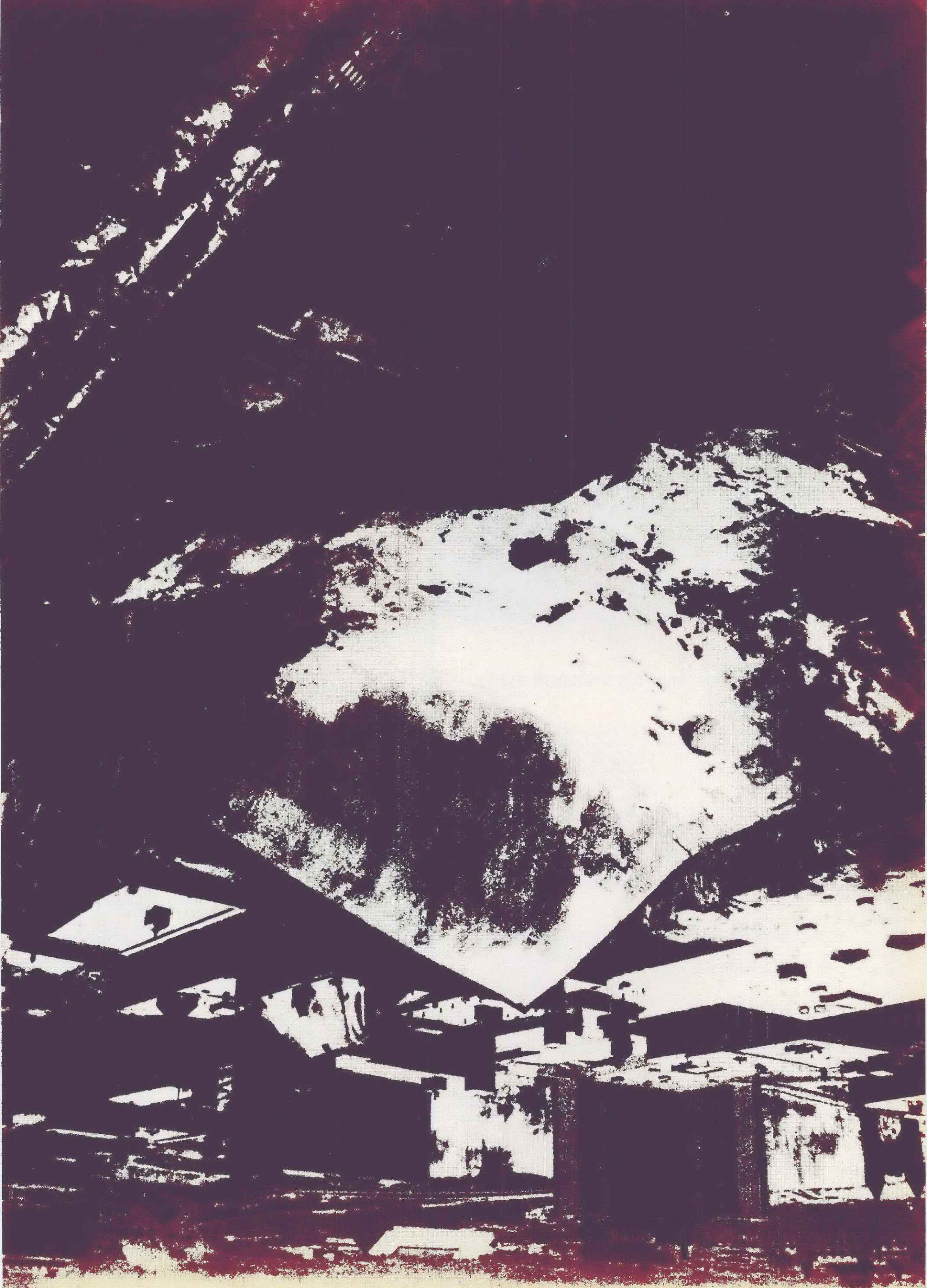
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In fact, the chances of the Coliseum's roof ever collapsing were about 5,000,000 to 1. But as every gambler knows, even when the odds are in your favor, you can still lose. Everything.

Fortunately, for Hartford, they were covered.

Unfortunately, there are many people with valuable property and businesses who aren't covered. And when the impossible happens, they can lose everything. Their property. Their business. And every dime they ever put into it.

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editorial opinions

Salute a safety pro

SAFETY MANAGEMENT has moved into a new era.

This is largely attributable to efforts of the American Society of Safety Engineers, which has now joined forces with St. Louis-based Monsanto Co. and added another feather to its cap by initiating the annual Edgar Monsanto Queeny Safety Professional of the Year Award.

We applaud the society and Monsanto for establishing this annual competition. We're proud to say it incorporates much of the thought and many of the general management criteria devised by *Business Insurance* for its Risk Manager of the Year competition.

■ Risk managers, insurance professionals, safety specialists and anyone involved in corporate risk management should take special note of this award competition. Support it by participating.

Nominations will be accepted through Jan. 31, 1980 with the first winner to be announced at the ASSE conference in June 1980 (*BI*, Apr. 16).

Monsanto, which has agreed to fund the award and present a \$1,000 prize to the winner each year, agreed to be a sponsor because of a strong belief that hazard control is vital to a company's financial success and operating posture. The ASSE is handling all administrative details, with members of the society's awards and honors committee doing the judging.

The annual award will honor an association member for exceptional performance in the occupational health and safety field.



'You're not in control here. We'll be getting the benefits we want.'

It is designed to focus public and industry attention on the importance of good safety practices in the workplace and to motivate industry employees to exercise good safety practices on the job.

■ The Monsanto/ASSE Safety Professional of the Year award program will help elevate the status of safety management as an integral part of corporate risk management. At the same time it will give recognition to people with the skills, knowledge, ingenuity and commitment to make safety work.

Judging performance

HOW DO YOU APPRAISE the risk manager's performance?

That's been a difficult question for many financial and administrative executives whose subordinates include risk and insurance managers. Similarly, it has troubled risk management consultants called in to audit risk management programs, insurance plans and report on the performance of the risk manager.

An outgrowth, hopefully, of the Risk Manager of the Year competition is that the nine broad criteria established for

judging nominees will serve as yardsticks for performance appraisal.

They resulted from conversations with about 50 risk management experts around the country. And they were refined this year to nine from 10, because the tenth criterion was felt to overlap and dovetail too much with one of the other nine.

These guidelines, however, recognize, we think, the full range of managerial responsibilities, including the insurance and financially oriented tasks, that are uniquely part of a risk manager's role.

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.

Too expensive

To the editor: Re: Editorial, April 16.

I don't believe it is too hard to understand why more carriers haven't jumped into boiler and machinery insurance when you look at the expense ratio of Hartford Steam Boiler Inspection & Insurance Co. From 1973 to 1977, their average expense ratio was 59.2% according to A.M. Best. The expense of writing this coverage is mainly due to the tremendous amount of inspection work that must take place.

Most insurers are simply not willing to make this type of financial commitment when there are easier and less costly lines they can develop. Also, companies like HSB will set up a reinsurance arrangement whereby they reinsure a company 100%, do all the service work (sometimes even issue policies) and pay a ceding commission to the company. So, with this available, there is no real incentive for most companies to enter into this market. For example, this is precisely the arrangement I helped set up for the insurance company for whom I formerly worked.

Now that I am on the brokerage side, naturally I would like to see more competition in this area. However, I can certainly understand why a company would be extremely hesitant to enter this line of insurance. If I were the company executive making the decision whether to enter directly the boiler and machinery market or not and had the reinsurance alternative, I'd pick reinsurance.

I believe the bottom line is clear. Boiler and machinery insurance is going to be an area dominated by only a few carriers for years to come. No matter how hard risk managers try to devise methods of reducing their rates for this coverage, they will only be able to accomplish it by taking on more exposure themselves through higher deductibles, etc.

Harry L. Baker

President, Professional Insurance Consultants Inc., Seattle

Why London?

To the editor: I was appalled to read the report of the "London Line" in the April 16 edition of *Business Insurance*.

The New York Insurance Exchange has been promoted as the American insurance industry's solution to the premium drain to foreign markets. This is the U.S. insurance industry's answer to Lloyd's in the London market and

would show the world what our talent and capacity could do.

Now we read that underwriters are being recruited in London to run the business of the syndicates in the New York exchange. Is this an admission that the industry lacks talent and all it can supply is money?

If it should come to pass that the American insurance industry entrusts the underwriting security of the New York Insurance Exchange to underwriters from abroad it would appear that the only contribution the American insurance industry has to make is one of money and not one of talent. This seems to contradict much of the flamboyant talk that surrounded the formation of the exchange.

I can't help but wonder how a typical London underwriter would react to the environment of a U.S. exchange, accustomed as they are to the relative quiet and tranquility of the Room at Lloyd's where brokers stand in polite queues and talk in hushed tones. This is unlike what I think we can expect here from brokers who will exude power and exert pressure amid the din of telephone bells and the clacking of Telex machines.

While I do admire and respect London underwriters, I sincerely hope that we can locate sufficient underwriting talent within our own industry to staff our own creation.

William L. Doran

President, Dorex Inc., Mechanicsburg, Pa.

It was us

To the editor: The consultant mentioned but not named in your Apr. 16 article on Nashville was our firm.

Jack G. Harris

Vp, Insurance Audit & Inspection Co., Indianapolis

No claims service

To the editor: As a regular reader of *Business Insurance*, I was much impressed by Amos Rosenbloom's article in the April 2 issue. What impresses me is this situation is not confined to Minneapolis—it is nationwide. Nor are the hours confined just to the loss or claims department. It is any department.

Take last Friday, Good Friday. Some of the company offices closed at noon, not to re-open until this morning, Tuesday. There was hardly any way for an agent or broker to get in touch with any department.

Continued on page 78

business insurance

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

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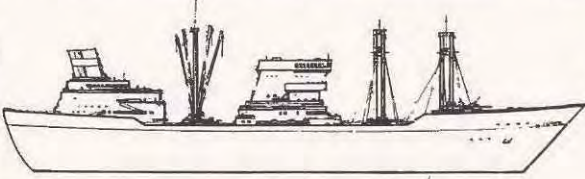
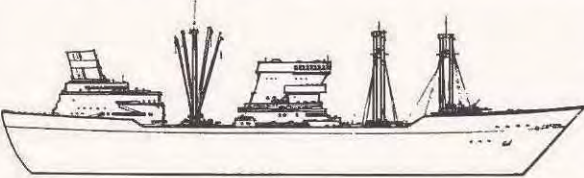

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RIMS REPORT

Competition: Leaders decry influences . . .

By STUART EMMRICH

CHICAGO—Competition.

Its praises as part of the capitalist economy have been sung by economists from Adam Smith to John Maynard Keynes. But unbridled competition is the cause for many of the ills now facing the insurance industry, speakers charged at the keynote risk management session of the annual RIMS conference here.

Heavyweights in the insurance field from London, Bermuda and the United States all placed the blame for what they see as an insurance market threatening to go out of control on the participants—insurers', brokers', buyers'—desire for profit at all costs.

Underwriters, brokers and risk managers all were charged with ruining the insurance markets during the spirited and barb-filled session before more than 2,000 people midweek during the April 30 to May 4 conference.

The emphasis on who was most guilty, however, varied with the

perspective of the speaker.

Among the most blunt of the speakers was Robin Jackson, managing director of Merrett Dixey Syndicates of London: "I can think of no other product which has been handled, packaged and sold in such an irresponsible manner for so long by so many people."

He lashed out at risk managers, saying, "They have become convinced that if they do not get a rate reduction they will be failing in their duty." Likewise, he blasted brokers for being "mainly interested in increasing their own earnings at the expense of the competitors." Underwriters weren't spared, as he said, "the combination of greed and ego and the need for continuous growth in premiums and short term products has overwhelmed responsible attitudes." All of these, said Mr. Jackson, have contributed to the "gross mismanagement" of the insurance industry during the past decade.

Mr. Jackson's comments were among the most direct of the day, but his criticisms gained plenty of

support from the other speakers.

Maurice R. Greenberg, president of American International Group, said the insurance industry is dangerously ignoring the effects of inflation by lowering rates during a time when all other costs are rising.

Although the speeches were heavier on rhetoric than hard facts, Leslie Dew, vp of the Bermuda-based Insko Ltd., said competition and price-cutting were getting so fierce that he was turning down renewals because brokers and buyers are demanding too much of a discount.

"One renewal I turned down last week was a leading Chicago retail chain whose business was eventually won by a small Chicago office. The coverage involved a \$5 million umbrella liability layer which had been underwritten for a \$375,000 premium charge for three years, costing an average of about 19.5 cents per hundred dollars coverage. The underwriter that won the business provided \$25 million in coverage at a rate of about 11.25 cents for the first \$5 million and a rate of 5 cents for the next \$15 million over that.

"I consider that murder and suicide," he argued.

"I consider that murder and suicide," complains Insko's Leslie Dew of price cutting he's seeing.



"The combination of greed, and ego has overwhelmed responsible attitudes," charges Lloyd's leader Fobin Jackson.

Graphic though Mr. Dew's example might have been, however, at least one powerful U.S. broker in the audience, a former risk manager, questioned its validity in a subsequent discussion. He wondered whether the rates cited had actually declined because of competitive forces or for other reasons,

such as the size of risks insured, improved loss prevention and lowered losses or a decrease in the number of exposure units on which the rates would be based.

Other examples of the effects competition is having on the industry came from several speakers
Continued on page 68



"Whomsoever calleth the shots, it is not I," declares broker Gordon Henry about market control.

"The colonists have learned something in 200 years," retorts AIG president Hank Greenberg to London skepticism.



. . . And claim they have none

CHICAGO—It was among the most prestigious gatherings in the insurance industry. Four men, each a powerful influence in the worldwide market, on the same panel to talk about who controls the insurance field today.

The answer, of course, was obvious to the more than 2,000 people who showed at the Marriott's grand ballroom to hear them wax eloquent: The four of them.

Not quite.

To hear of each of them—Robin Jackson, Leslie Dew, Maurice R. Greenberg, E.J. Gordon Henry—tell it, they held no more influ-

ence over the market than some lowly broker in Rochester.

"Whomsoever calleth the shots, it is not I," said Mr. Henry, chairman of Matthews Wrightson Holdings Ltd. of London, to the approving murmurs of his fellow panelists.

The others were equally adept at deflecting whatever influence there might be in the market to almost anyone in earshot.

"Who calls the shots?" asked Leslie Dew, vp of Bermuda's Insko Ltd. "The consumer of course. I'd like to think it is the reinsurer and the underwriter second, but that's just

Continued on page 68

National commentators debate insurance issues

By JERRY GEISEL

CHICAGO—Two noted political commentators, one conservative and the other liberal, clashed sharply at the closing session here of the 1979 RIMS conference over whether a national health insurance program should be enacted.

James J. Kilpatrick, a conservative syndicated columnist, said national health insurance is unnecessary because about 90% of Americans already are covered by public or private health insurance plans.

But Shana Alexander, who appears weekly along with Mr. Kilpatrick on the CBS news show "60 Minutes," said a national health insurance plan offers the best hope of curbing rising health care costs, which are expected to top the \$200 billion mark this year.

They also debated the merits of no-fault insurance and federal regulations.

Ms. Alexander pointed to Canada, whose 10 provinces and two territories sponsor comprehensive prepaid health care plans to all residents, as an example of how national health insurance has successfully restrained costs.

In 1968, just before Canada adopted its last phase of national health insurance, the U.S. and Can-

ada were each spending 6.2% of the gross national product on health care. Ten years later, health care expenditures in the U.S. consumed 8.8% of GNP, but in Canada health care only soaked up 5.1% of GNP, Ms. Alexander noted.

Mr. Kilpatrick warned that adop-

tion of national health insurance would lead to an enormous increase in federal expenditures. National health insurance could swell the federal budget by as much as \$189 billion, he said.

"Where is that money going to

come from? Higher taxes of course," Mr. Kilpatrick said. "There is no such thing as a free lunch," he added.

Mr. Kilpatrick said national health insurance would rob Americans of the free choice they now have in selecting benefits from the

hundreds of insurance companies that offer hospital and medical insurance plans. Diversity is always better than regimentation of benefits, he added.

Ms. Alexander countered that national health insurance enjoys
Continued on page 68



Photo: Jerry Geisel

Conservative commentator James Kilpatrick argues that national health insurance would be too expensive.

Finale draws SRO crowd

CHICAGO—It was standing room only at "Kaleidoscope," the final closing session of the RIMS conference as RIMS registrants and their spouses jammed the Marriott grand ballroom to hear political commentators James Kilpatrick and Shana Alexander square off on a wide range of insurance and social issues.

Aside from the attraction of hearing the eloquent Mr. Kilpatrick and the equally articulate Ms. Alexander, Kaleidoscope offered a stunning smorgasbord of cheeses, fruits and breakfast sausages. At times more than 500 persons were standing in line at the INA-sponsored brunch buffet tables.

Prior to the hour-long debate between Mr. Kilpatrick and Ms. Alexander, registrants and spouses listened to the brassy sounds of the Red Norvo quartet in the massive, darkened ballroom.

Kaleidoscope was the result of RIMS inviting INA to sponsor a significant closing event that would be appropriate and entertaining for conference registrants and spouses.



Photo: Jerry Geisel

Liberal commentator Shana Alexander claims a national health insurance plan can curb rising health care costs.

Lack of trust affects use of quantitative tools

By SUSAN ALT

CHICAGO—The mathematical tools of risk management decision-making are little-used but much-discussed among risk managers gathered to talk about the cutting edge of their profession.

This was evident at a RIMS conference seminar attended by 50 or so insurance buyers, brokers, insurers and consultants eager to learn from a panel of four speakers what could be done with probability distributions, econometric forecasting and computerized data systems.

In an audience with about one-third insurance buyers and risk managers and two-thirds suppliers of insurance or services, only about three people indicated they'd ever even attempted to do a distribution analysis using a

company's loss history over five years to try and determine the best deductible levels or the annual level of expected losses.

Perhaps part of the problem is that smaller companies appear stymied by a lack of losses to analyze, a dilemma indicated by a member of the audience who asked hopefully how many different losses or events there have to be before a good distribution analysis can be made.

He looked crestfallen to hear Tom C. Allen of Fred S. James & Co. say that at least 1,000 separate events or losses are necessary before a valid graphic picture of past losses can be used for decision-making.

On the other hand, moderator Russell A. Drake, director of corporate risk management for Bor-

RIMS REPORT

den Inc., doubted the value of the use of probability distributions for decision-making at the most basic level. Though his views aren't shared by a growing number of risk managers in large corporations, he was adamant that he's "done frequency and severity distributions for years, and has yet to use them for decision-making."

"We rely on a good lunch, at least one glass of wine and close our doors to do our thing and come up with our ideas" of what deductibles and stop-loss levels should be, he said. His department relies on gut feel for the situation and intuitive judgment more than any mathematical process.

Mr. Drake defended his methods on the grounds that experience has been good to him, his forecasts of losses have been very close to the mark. And he doesn't seem ready to alter his methods or accept some of the computerized analytical techniques others relish.

"We work 1½ years ahead, so we are forecasting this year what we think expected losses will be in 1981, based on our knowledge of this year and our feel for the economy and things like workers compensation benefit levels in the states. Our accuracy over the last five years doing it this way has been within 1.5% deviation on total losses of between \$13 million and \$15 million a year."

Mr. Drake maintained that most risk management decisions are based on subjective judgments

anyway. Even by using more complex analytical techniques or computerized modeling, "you're really doing nothing more than guessing" when trying to establish probabilities and make other assumptions to predict future losses for the coming year or longer, he maintained.

Despite the guesswork that goes into forecasts, responded Duane E. Allen, assistant treasurer of Hanna Mining Co., the value of well-reasoned mathematical calculations for budget forecasts isn't negated. "I do budget forecasts for five years into the future. And if we're going to build a new facility, I do 20-year forecasts," he noted, indicating that nobody expects them to be infallible. "At least it's my best guess," he declared.

Mr. Allen did point out, though, that the difficulty in using any of the quantitative analysis or loss forecasting techniques is that "none of them work without loss frequency." In some cases even large companies like Hanna Mining often fail to have the necessary number of losses to do any valid analysis. "For example," he said, "we had only five auto accidents last year and one product liability claim."

Mr. Allen has applied distribution analysis and loss forecasting techniques based on automated loss simulations since 1959 in many other property and casualty areas.

For smaller companies, said Dr. Allen, Fred S. James is compiling a data base of almost 600,000 workers compensation claims in manufacturing and retailing businesses. Companies short on loss histories or events will be able to use the experience of other firms with similar exposures to extrapolate data and draw conclusions about future losses.

A guide sometimes used to decide how much to depend on these mathematical tools in making decisions is to give about 30% of the weight to the mathematical analysis and about 70% of the weight to a manager's "feel" for the past and the future, said Michael W. Bryant, director of property and casualty insurance at Westinghouse Electric Corp. "But in some situations, I will sometimes base almost 100% of a decision on my own knowledge and understanding."

One of the most important advantages of mathematical risk analysis, said Dr. Allen, is that a manager can play "What if...?" games, calculating what the outcome would be if certain factors were changed or if losses increased more than expected. ■

Insurers ignore loss forecasting

CHICAGO—A recent survey of executives of 10 leading insurance companies indicates to Dr. Tom C. Allen of Fred S. James & Co. that they haven't done enough thinking about econometric forecasting.

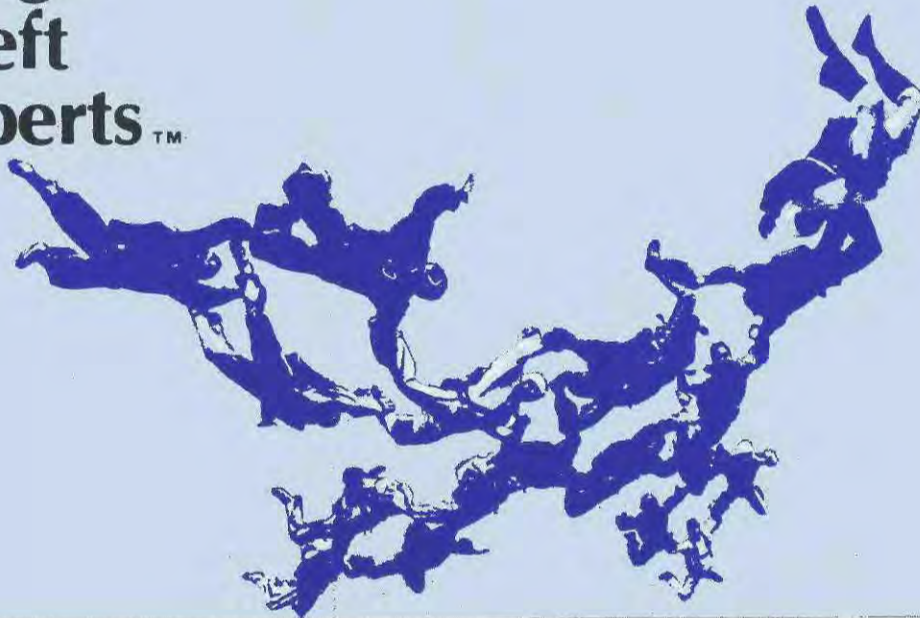
"In the survey I asked them what would happen to their companies' profit expectations and to their underwriting practices if we had a mild depression in 1980, with about a 6% dip in GNP," he said.

Out of 10 responses, he received nine totally different answers. A significant share of them contended that the insurance industry is insulated against any slowdown in the economy and that there would be little or no effect, except maybe to increase demand for insurance.

"What I gathered from the tenor of their responses is that they haven't even considered what would happen in this situation," he asserted. ■

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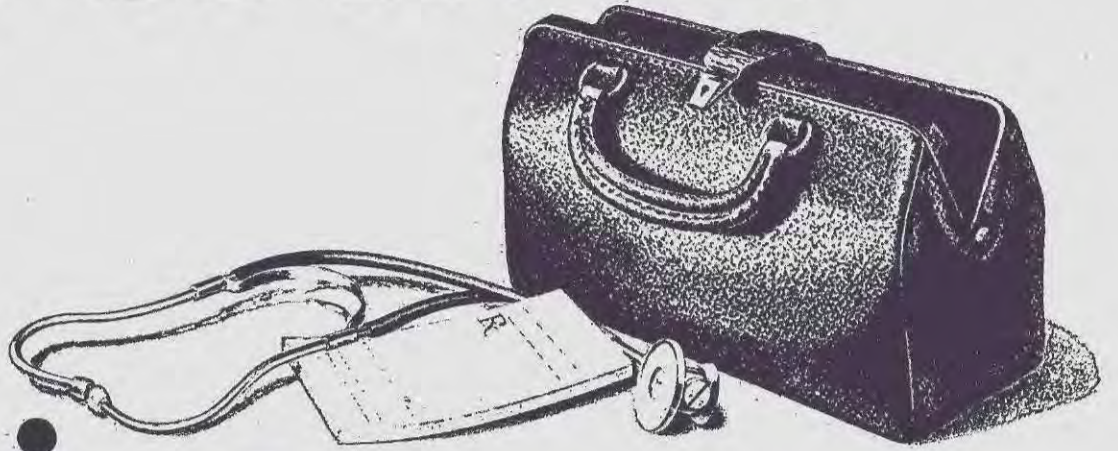
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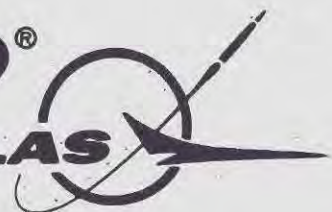
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Claims emphasis cuts paper company's costs

By MARY ELLEN McKEE

RIMS REPORT

CHICAGO—International Paper Co. has saved approximately \$3.5 million in disability costs in two years, proving there's more than one way to trim escalating costs of benefits.

G. Richard Androvic, manager of compensation and benefits for the New York-based paper company, skirted any changes in plan design and plan funding arrangements, both common targets when a company tries to cut costs.

Instead, he zeroed in on the actual administration of the plan.

All benefit costs at International Paper reached \$160 billion in 1978, representing costs rising at a rate

of \$10 billion per year since 1971. Costs increased \$21 billion between 1975 and 1976 alone.

"We found that a large percentage of our costs were attributed to the abuse and misuse of the disability claims payment system," Mr. Androvic explained.

The company decided to devise a way in which to attack claims abuse and misuse. At the same time it wanted to meet the needs of the employee and the company, retain the competitive nature of the benefit, develop cost efficiencies and orchestrate an integration of statutory benefits. The last was especially important since International Paper has a 45% international work force.

In establishing a formal method of cutting disability claims, management first had to see how well the employees in various locations understood how to use the disability benefit, Mr. Androvic said.

"What we found is that most of the employees received their notions on how to abuse and misuse the system from fellow employees, who found based on past experience that you can really milk the system," Mr. Androvic noted.

"That's the kind of problem that feeds on itself. It won't get better until you compel the claims administrators of the various plans to get out there and keep a re-education process rolling non-stop" the benefits and compensation manager noted.

"Setting the claims administration program in motion was simple," Mr. Androvic said. To set it off, the company emphasized its position that misuse of the system would not be tolerated and that abuse undermines benefits.

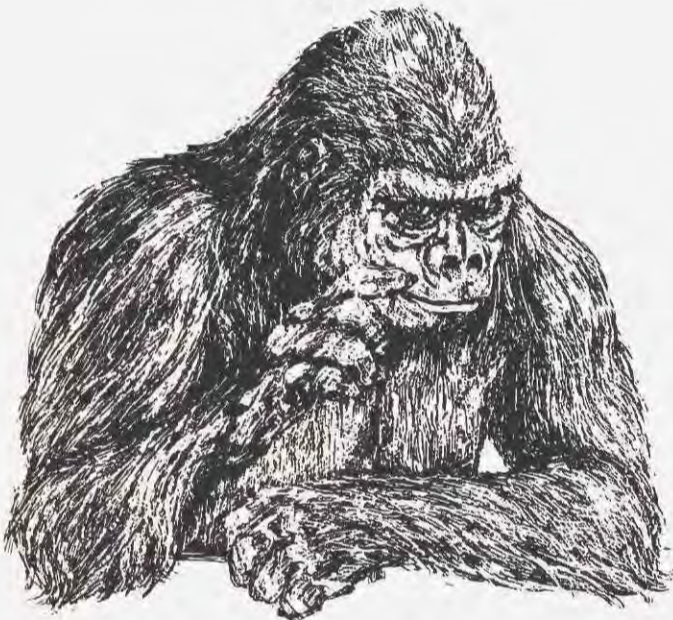
"If your company decides to attack its claims administration of benefits, it must take several aggressive steps," Mr. Androvic explained. They are:

- Conduct an ongoing and extensive profile of claims.
- Follow up claims to check the quality of rehabilitation services rendered and also ensure that the employee's ailment is legitimate.
- Attend to disability cases after the claims are filed and periodically after a certain degree of recovery has been achieved. "The best thing a company can do is to reinforce the point that a company is providing the benefit for the well being of the employees," Mr. Androvic said.
- Work on the administrative details of the claims administration points with the union.
- Call in a claims consultant if you don't have the expertise within the company.
- Establish formal guidelines for each claims department in each outlet of the company.

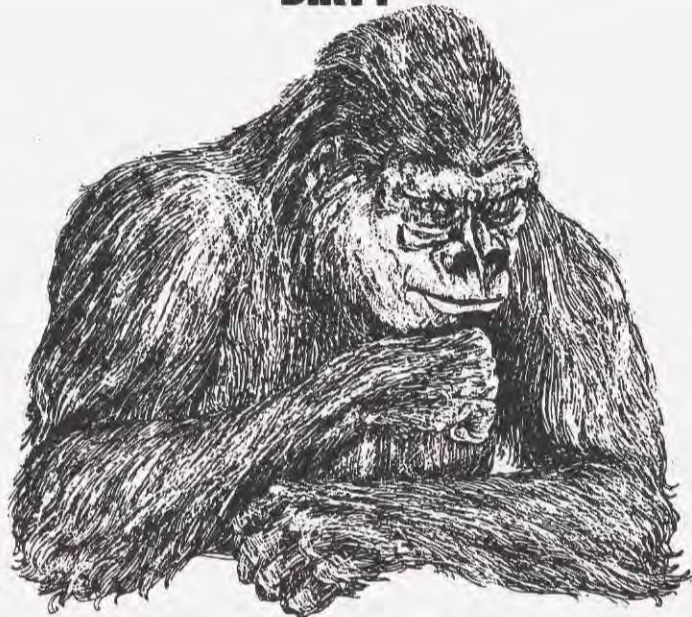
Of all the time-consuming steps involved in a claims administration revamp, the newest but the most important one is to work with the medical community, maintains Mr. Androvic. International Paper found that going into the medical community and explaining some of the information was vital to providing adequate benefits to the employee.

The New York-based company found that one achieves a closer camaraderie with the sometimes aloof medical community by reinforcing the image of a company concerned with the health of the employees and the smooth and efficient payment of claims.

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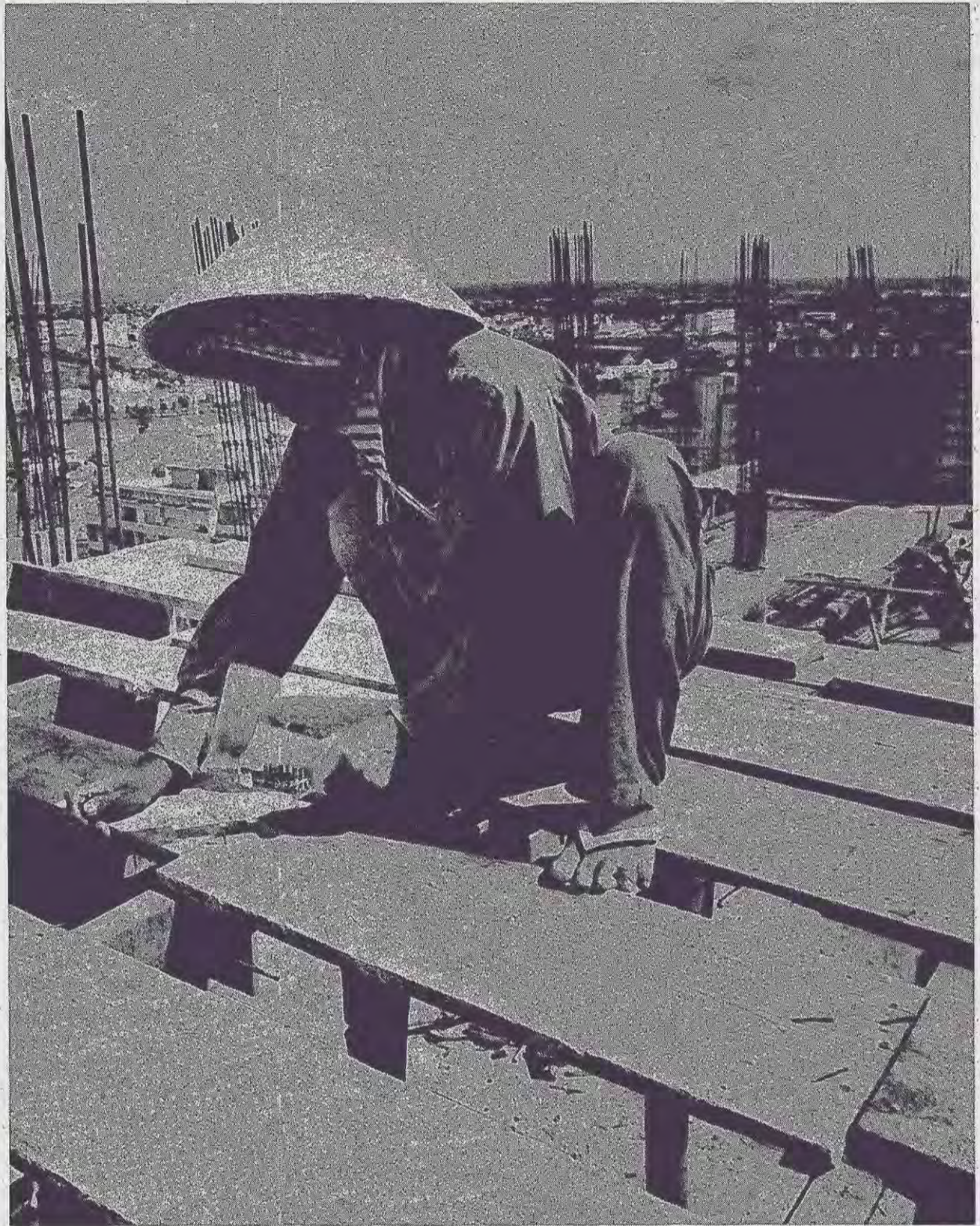
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In Canada

Dental insurance soars after wage fetters cut

RIMS REPORT

CHICAGO—After being held in check for the last three years during wage and price controls, employer sponsored prepaid dental programs are Canada's fastest growing new benefit now that the controls have been lifted.

During the three years of controls, implementation of new group dental plans almost ground to a halt. It was generally believed that employees preferred that the small increases permitted in their compensation go for wage hikes, not for adding new benefits, John M. Christie, assistant vp of William M. Mercer Ltd., told a RIMS work-

shop.

Now that the controls have been lifted, dental plans are "the hottest area" of benefit growth, Mr. Christie observed. By the end of the year, as many as 60% of major Canadian firms may be sponsoring prepaid dental plans for their employees, he predicted.

In the health care field, a combination of generous government and employer plans assures that Canadian workers have protection against hospital and medical bills, Mr. Christie said.

Canada's 10 provinces and two territories operate, with heavy federal assistance, health insurance plans that cover hospital costs and most medical-related expenses.

In addition, many Canadian firms offer major medical plans to fill in the gaps not covered by the provincial plans. These corporate medical plans typically provide such benefits as prescription drugs, hearing aids, vision care and a private or semi-private hospital room, Mr. Christie said.

The satisfaction level of Canadian employers and employees with their provincial health insurance plans is "pretty high," Mr. Christie said. However, some Canadian doctors, particularly in Ontario, are grumbling that the fees they are permitted to charge under the provincial plans are too low.

As a result, an increasing number of doctors have chosen not to participate in the plans and charge their own fees rather than abide by the fee schedules that are negotiated annually by provincial and medical association officials.

In Ontario, for example, as many as 15% of the province's doctors no longer participate in the provincial health insurance plan. This increase in "physician opt-outs" has aroused the concern of government officials, Mr. Christie said. An effort may be made to stem this growing exodus, he added.

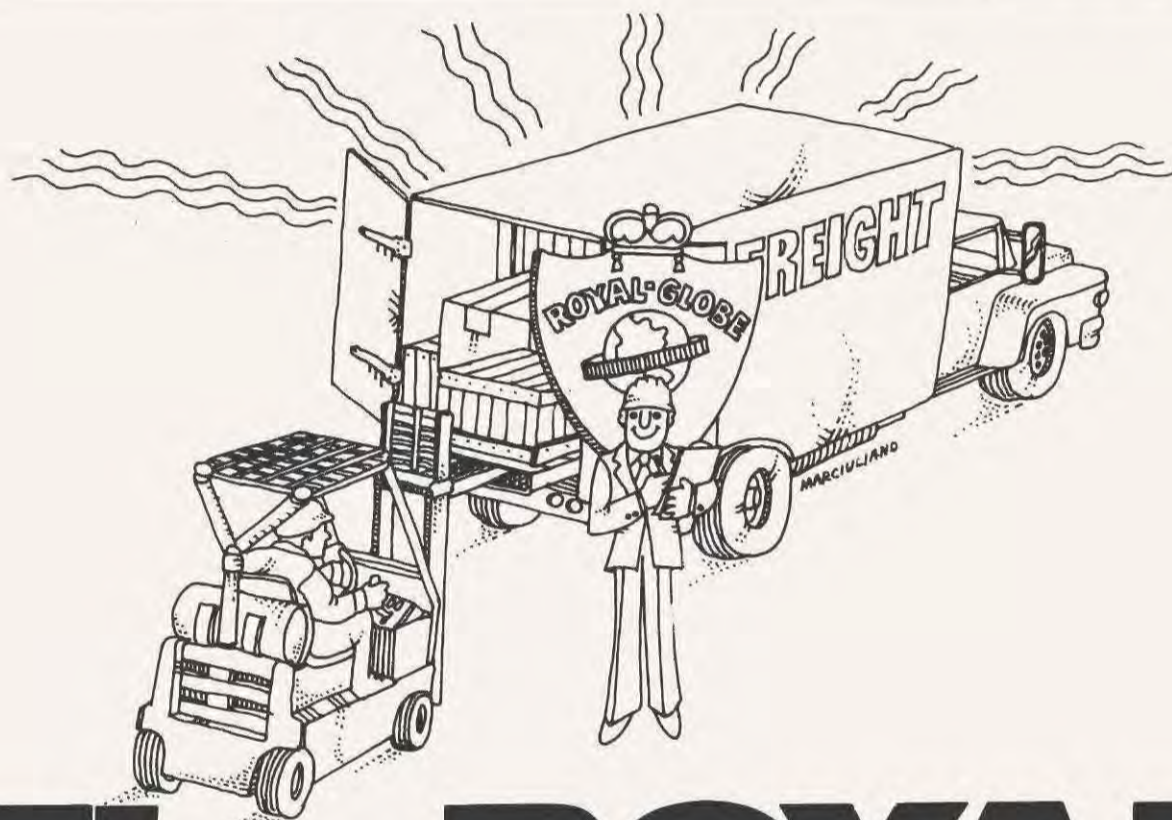
In the pension arena, U.S. and Canadian corporate retirement plans differ in two key ways, Mr. Christie said. Firstly, employee contributions into Canadian pension plans are tax deductible. As a result, corporate pension plans for salaried employees are contributory.

By contrast, in the U.S., employee corporate pension plans are not tax deductible. Since there are no tax advantages for employees to contribute to their pensions, U.S. corporate pension plans often are non-contributory.

Furthermore, Canadian firms often maintain separate pension plans for top corporate executives which provide higher benefits than plans for salaried employees, Mr. Christie said. In the U.S., the pension reform law generally bars such top management favoritism in companies.

Canadian social security benefits have been rising about 12.5% annually, Mr. Christie said. This rise in benefits has prompted the same concerns found in the U.S. about the future solvency of the social security fund.

However, the recent increase in the number of women entering the work force has swelled employee contributions to the fund, putting off for another 10 years a real financial funding crisis, he said.



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Persuasion keys rental industry risk control plan

CHICAGO—The rental or leasing company risk manager holds one of the most challenging risk management jobs, contends a former risk manager for a car leasing firm who is now a broker.

"Insurers don't like this class of business," observed Sal Scuderi, assistant vp of Marsh & McLennan and formerly risk manager for Hertz Corp.

Indeed, small rental firms are paying as much as 18% of gross sales for liability insurance, Mr. Scuderi said. Larger rental firms with the capability of assuming losses generally take \$250,000 deductibles on their liability insurance just to get into the insurance market. Then, however, they can cut their premium costs to perhaps 4% of sales, Mr. Scuderi observed at a session for rental company risk managers at the RIMS conference

RIMS REPORT

here.

One of the insurance industry's chief complaints against the leasing business is the corporate risk manager has no control over the drivers of the rented vehicles.

While many commercial enterprises renting equipment and vehicles can and do provide their own liability insurance, many commercial customers still request that they be insured under the rental company's policy.

The customers that demand the insurance are often the worst risks, one risk manager observed.

But the rental company risk managers are flexing their muscles

to exert some control, sometimes clashing with the marketing force that wants to sign up customers.

One effective loss control approach would be gaining the authority to approve providing the insurance in contract with a customer, Mr. Scuderi said. His recommendation, however, was greeted with nervous laughter from the risk managers who admit that authority won't land on their desks.

"We can suggest, advise, recommend, but we can't implement," confessed the risk manager for a major car rental company.

Advice and recommendations on customers can carry more clout when one bombards management with statistics, it was suggested. "Develop a list of unprofitable accounts," Mr. Scuderi said. When the cost of providing insurance for

a customer approaches or surpasses the revenues realized from leasing him equipment, the risk manager has a strong case for taking him off the insurance policy.

The risk manager should also request loss statistics on every new customer to come under the company's policy. "If anyone doesn't give them it's a red flag," Mr. Scuderi suggested. The marketing force is likely to object to requesting so much information from potential customers, but they have to be educated that it's needed, said another risk manager.

Short of removing a troublesome customer from the insurance policy, "make the customers responsible for some part of the physical damage," Mr. Scuderi suggested.

Gentle persuasion could and has been effective in controlling

losses, suggested two risk managers at the session.

"We have to get society to drive more safely," maintained Rolland L. Krefall, director of insurance for National Car Rental System Inc. "We don't have the girl at the counter saying, Drive safely. As an industry we ought to advertise it."

Jerry Thomas, insurance administrator for Ryder Truck Rental Inc. observed that speed and fatigue are the major causes of accidents. The company pushes a dollar and cents comparison of driving 55 mph versus 62 mph. "That sells," he observed, except when the driver is paid by the number of miles and not the trip."

Controlling the size of a claim payment after a loss is an often overlooked risk reduction technique, suggested Phil Schuster, director of risk management for Leaseway Corp.

"The concept of claims management should start when looking at the insurer or claims servicing organization," he said. "What kind of control will they give you over claims? Will you get the files on certain sized claims? Will they notify you of reserves or consult you on settlements? Can you get authority to approve settlements?"

Leaseway's underwriter must secure the company's approval before paying more than \$5,000 on an auto claim. Not wanting to offend the underwriter, Mr. Schuster declined to name the company, but noted ultimately the cost ends up in Leaseway's captive.

Mr. Schuster also recommends regular checks of the claims service. His claims check includes:

- Looking in on the mailroom, checking for the oldest piece of mail.
- Having lunch with the functionaries, not management.
- Calling after hours to see how they respond to an after-hours claim report.

Sale of rented items poses product risk

CHICAGO—Rental companies selling their cars and trucks face a potential product liability exposure much greater than that of the average used car dealer, warns an attorney.

The manufacturer is the first one liable in a product liability suit, says John Folsom. But the seller has an obligation too. "And it's greater (for leasing companies) because they exercise a lot of control over the car," warns Mr. Folsom, who is a partner in Dinner Levison Co. of San Francisco.

Selling rental cars or other leased equipment to a wholesaler rather than retailing it doesn't protect the seller from suits. But, "it adds another person to the chain" in the litigation, Mr. Folsom noted.

Two ways to mitigate this product liability exposure recommended by Folsom are:

- Document the vehicle's life. Check it after each lease and before selling it. List all complaints about it so it can be established later in the face of a product liability suit that the defect was latent. Liability is then shifted to the manufacturer.
- Contract for the reconditioning work of a vehicle with another firm.

The company should also be sure that the comprehensive auto policy is extended to cover product liability suits when rental vehicles are sold, Mr. Folsom stressed.

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Pursuant to Section 425-a of the New York Insurance Law, the New York Insurance Exchange, Inc. has been formed on April 30, 1979. As required by law, the Initial Meeting of Underwriting Members and Broker Members will be held at 10 A.M. on July 9, 1979 at Conference Room B, The Chase Manhattan Bank (National Association), One Chase Manhattan Plaza, New York, New York 10005, for the purpose of electing the Board of Governors, as provided in the Constitution and By-Laws enacted by the State of New York. Only Underwriting Member and Broker Member applicants which have been approved for membership by the Initial Board of Governors prior to the date of such meeting are entitled to vote at the Initial Meeting. In order to give the Initial Board of Governors sufficient time to process and conduct any necessary investigations with respect to such applications prior to the Initial Meeting, it is essential that such applications, appropriately completed, be received at the Information Center no later than June 4, 1979. Applications received subsequent to that date or still pending after June 25, 1979 will be processed subsequent to the Initial Meeting. There can, of course, be no assurances that delivery of an application to the Information Center by June 4, 1979 will assure that the Initial Board of Governors will be able to complete its investi-

gation or other processing of such application by June 25, 1979; nor can there be any assurances that any applicant will be approved for membership by the Initial Board.

All applications for Underwriting and Broker Members must be accompanied by, among other things, initiation and processing fees and an opinion of counsel to the effect, among other things, that such application has been duly executed. In addition, applications for Underwriting Members must be accompanied by evidence as to compliance with the statutory requirement of initial paid-in-capital and surplus of at least \$3,550,000.

Copies of the Exchange's Constitution and By-Laws, which set forth the basic rules governing membership in the Exchange, the enabling legislation and insurance department regulation and the Certificate of Incorporation, together with application forms for Underwriting Members and Broker Members may be obtained by written request on an applicant's letterhead to the Information Center of the New York Insurance Exchange, Inc., c/o College of Insurance, 123 William Street, New York, New York 10038, such request to be accompanied by a check or money order payable to the Exchange in the amount of \$25 to cover a portion of the cost of supplying the materials.

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In shopping malls

Safety, claims program checks premium spiral

CHICAGO—After almost a decade of watching liability insurance rates go up at its New Jersey malls at an average of 20% to 25%, Rouse Co. halted that spiral last year by implementing detailed loss prevention and claims investigating procedures.

Risk management officials at the Maryland-based company say they held the ground on increasing rates by grilling mall managers and employees on how to look for potential problems and then deal with incidents when they occur. The success of the formalized education program has given the com-

RIMS REPORT

pany hope about the future of its insurance rates.

"To hold firm for even one year was a real breakthrough," said Steven Sachs of Rouse, while speaking at a real estate industry session at the RIMS conference.

The program focused on making the individual mall managers realize that their rents were affected by the cost of insurance and that they better start taking more control over the area of injuries and claims.

Making them conscious of not encouraging claims in areas where there might not be any helped, too. For instance, when someone fell in a mall, the manager or security guard was supposed to go to him immediately, calmly introduce himself and try to elicit the person's name. Then, coolly and with little outward sign, he was supposed to note the condition of the person, whether he appeared intoxicated, the lighting of the area, any structural problems, whether there was any water around and what store owners (and possible witnesses) might have been in the area when the incident occurred.

All this would be computed on a form when the manager got back to his office and filed away in case there was a claim reported in the future. Attached to it would be a picture taken at the scene right after the incident was over.

Of paramount importance, Mr. Sachs said, was that the manager not encourage, either through actions or words, any thought by the person that he might be able to file a claim. Also, the "incident" would not be considered reason enough to file a report with the insurance company unless an actual claim was made.

By not overreacting nor ignoring incidents like these, and by learning to look closely at malls for potential problems, Mr. Sachs said companies may not "stop premium increases, but you should be able to slow the rate of increase."

One other way that companies have to improve their chances of escaping high claims losses is by backing up the safety inspections of underwriters, Mr. Sachs and other risk managers said.

"Insurance companies are great at post-loss engineering, but not that great at spotting in advance what problems there might have been in construction," complained Aubrey Griffith, risk manager of Union Realty in Memphis.

Mr. Sachs agreed. "We had a playground in one of our malls that was a literal death trap for children. When the insurance company came back to us with a report on the mall, they said everything was just wonderful, and they especially liked the playground. It took one of our people to spot the problems there."

Group life sales up

Group life insurance set up under new or revised group contracts totaled \$10.2 billion in January, compared with \$7.68 billion a year earlier. Industrial life insurance purchases in January were \$432 million compared with \$443 million a year earlier. Total purchases in January were \$32 billion, compared with \$26 billion a year earlier.



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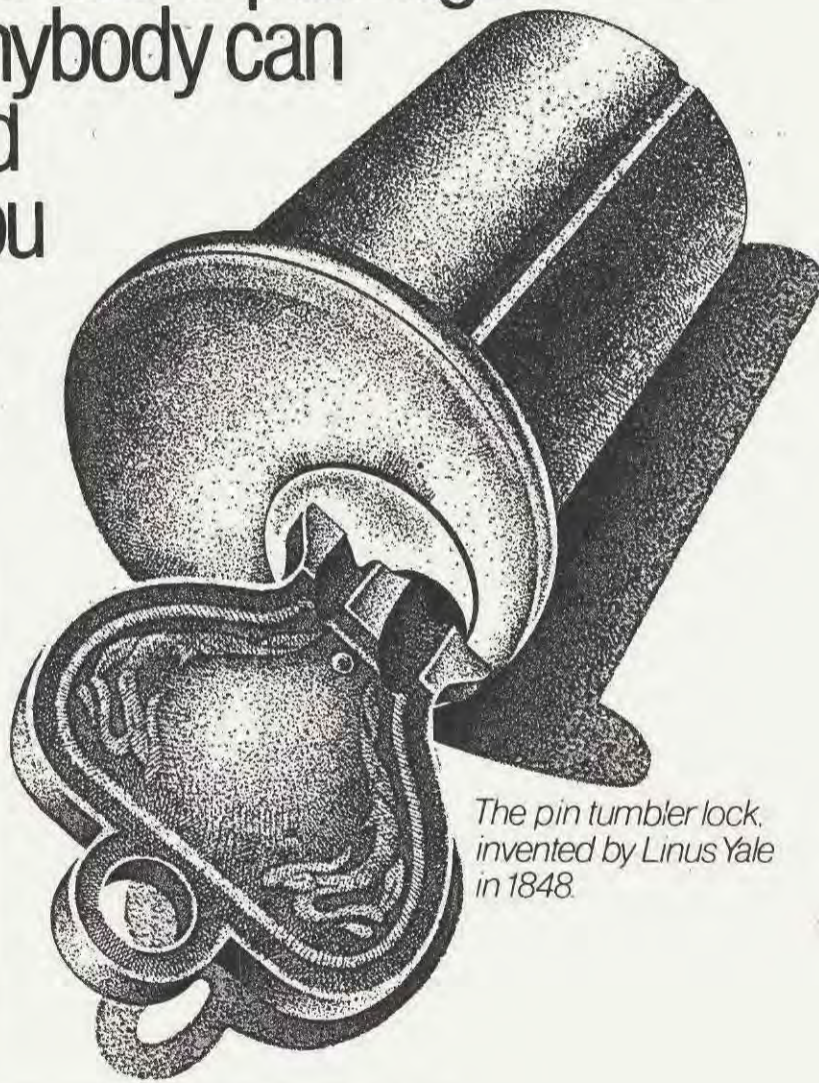
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New pension bill improves the system: Javits aide

By JERRY GEISEL

CHICAGO—The latest comprehensive congressional legislation to revamp the pension reform law is an attempt to ensure that the private pension plan system is strong enough to meet the retirement income needs of America's vastly expanding pool of retirees, maintains a top Senate aide.

Sen. Harrison Williams (D-N.J.) and Sen. Jacob Javits's (R-N.Y.) new bill (S. 209) would strengthen the private pension plan system by giving tax credits to small employers that start new plans and by allowing tax deductions for employee contributions into corporate pension plans. Peter Turza, Senator Javits's aide on pensions, told a RIMS general session.

In addition, Sens. Williams and Javits's bill would make ERISA a little easier to live with by dropping some currently required re-

ceive adequate death benefits.

But Mr. Turza pointed out that "death should not mean a forfeit of benefits. We felt vested means vested. Something should be paid." It isn't fair that if, for example, a 45-year old worker with a fully vested pension benefit

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should die that the spouse is unable to receive this benefit.

A strong effort will be mounted

to knock the mandatory survivor's benefit out of the bill, "but my guess is that the provision will stay in," Mr. Turza predicted.

The Williams-Javits bill attempts to balance the competing interests on whether ERISA prevents states from enforcing benefit

requirements, he said.

Some members of Congress believe states have the right to pass laws requiring specific benefits, but others contend that ERISA preempts the states from imposing benefit requirements.

The new bill tries to seek the



Photo: George Poulous

"Death should not mean a forfeit of (pension) benefits," argues Javits aide Peter Turza.

porting forms and establishing a single federal agency to administer the pension law, scrapping the present tripartite system.

The new federal agency, the Employee Benefits Commission, would take over the present ERISA-related responsibilities of the Labor Department, the Internal Revenue Service and the Pension Benefit Guaranty Corp. That would cut down on red tape and bureaucratic inefficiency, Mr. Turza asserted.

However, the single agency approach recently came under fire from some members of the business community who believe that the government should concentrate on the "unfinished" business of issuing final pension regulations rather than making dramatic regulatory shifts.

Mr. Turza conceded that a provision in the Williams-Javits bill calling for mandatory joint survivor's benefits has drawn a lot of flack from business and insurance trade groups. Under this provision, a surviving spouse would be entitled to the deceased's vested pension.

Business groups contend that adding mandatory survivor's pension is unnecessary since corporate group life insurance plans assure that a surviving spouse will

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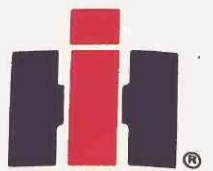


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middle ground between these opposing positions by precluding states from passing specific benefit requirements, but saving from ERISA preemption Hawaii's pre-paid health care law or any substantially identical state law. "It is quite hard to decide on where to come down" on the pre-emption issue, Mr. Turza observed. It is difficult to eliminate the hodge-podge of varying state bene-

fit requirements that present problems for employers with multi-state operations, without simultaneously wiping out "bona-fide" state benefit laws, he explained. During an earlier round of hearings on the bill, Sen. Williams hinted that the preemption section might be revised. Mr. Turza did not give an indication of what shape the revision would take, but he noted that preemption "will be a

debate to watch." Mr. Turza said he doubts if the Senate would take any independent action on possible legislation to regulate public pension plans which are now exempt from ERISA jurisdiction. Most likely a public pension bill (PERISA) will be introduced in the House by Rep. John Erlenborn (R-Ill.) later this year. "We will react to

their initiative," just as the Senate set the pace in the drafting and enacting of ERISA, Mr. Turza said. If a PERISA type bill does gain congressional approval, the legislation only would make recommendations concerning vesting and funding requirements rather than impose mandatory vesting standards as ERISA does for private pension plans, Mr. Turza said.

Health plan is sacred: Union exec

CHICAGO—Health insurance benefits are a "sacred cow" to steelworkers that will be dearly protected, counsels a union administrator. An attempt to shift any part of health care costs to the workers could result in a strike, warns Thomas F. Duzak, director of insurance and pensions for the United Steelworkers of America. The steelworkers sit down to the bargaining table for a new contract in 1980. Health insurance is the "sacred cow" of benefits and a strike could result if employers demand that workers pay deductibles or accept co-payment provisions, Mr. Duzak said here. "It's a very valuable ben-

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efit." United Auto Workers president Douglas A. Fraser took the same stand on the issue last month, Mr. Duzak noted. Mr. Fraser stated publicly the auto manufacturers would invite "the longest strike they've ever seen," if they attempted to introduce employee cost-sharing of health benefits into upcoming negotiations (BI, April 30).

Over the years, steelworkers "have not done an outstanding job" in procuring wage increases, making comprehensive benefits vitally important as a measure of income security, said Mr. Duzak. He sympathized with corporations in their struggle to contain health care costs and overutilization of plans, but said charging a deductible is not the way to contain costs. Rather, corporations and health insurers should try to influence hospitals and delivery systems to institute cost-control measures, he suggested. He sees little evidence of that type effort by corporations now, he said. Deductibles and co-payments, Mr. Duzak said, may cause workers to make "stupid judgments" and neglect medical care when they should have it. "A worker might not take a kid to the doctor when he really needs to go," he explained.

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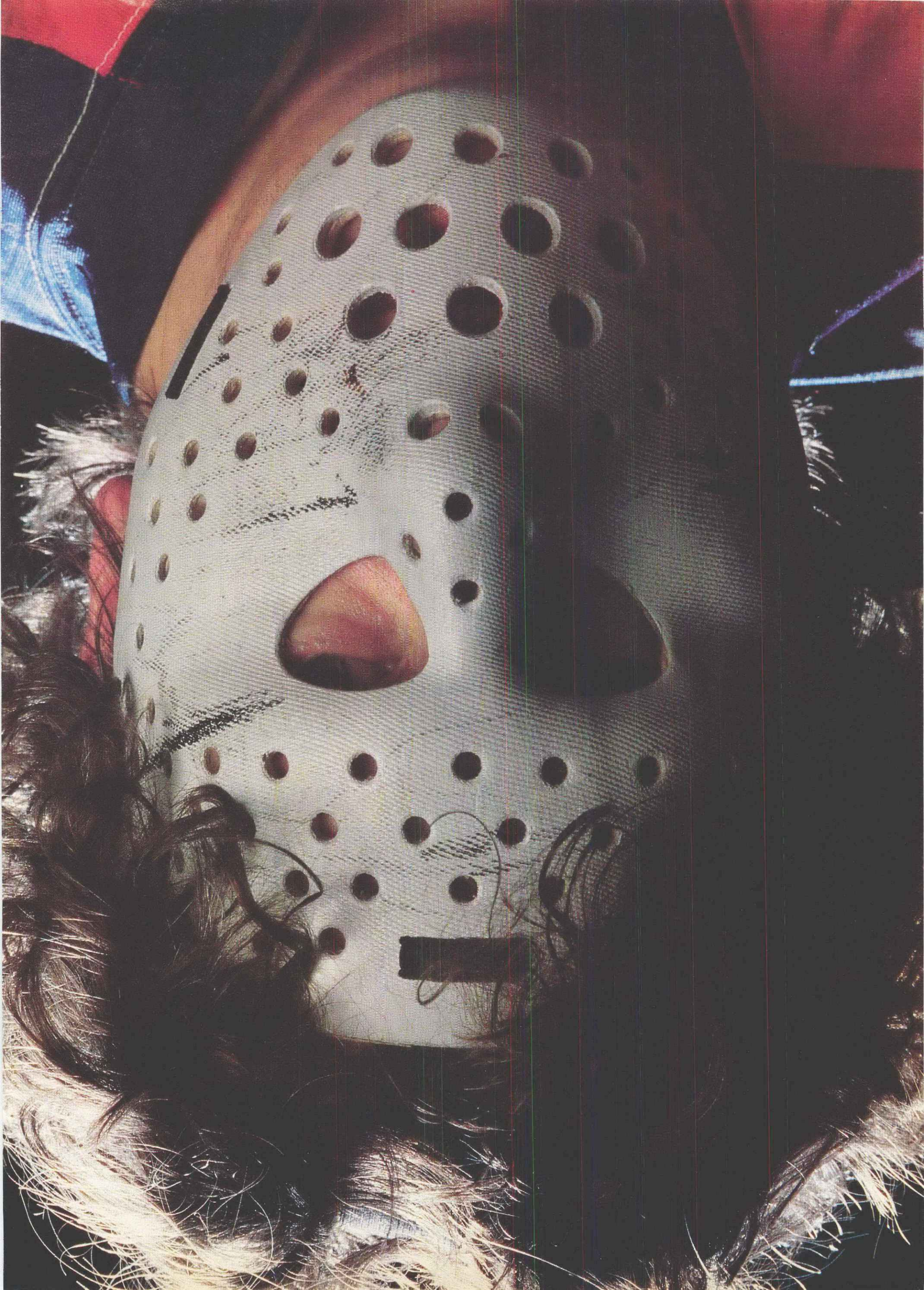
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It's not unusual for an insurance company to offer a coverage one year and then fail to offer it the next because of substantial losses in that particular market area. After all, for an insurer to be consistent within a market, be it hard or soft, and to avoid panicking at the sight of a few setbacks, it must have the resources to provide appropriate coverages on a long-term basis. It must have the ability to be patient. It must be, to put it simply, a specialist.

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Insurer describes criteria for writing excess cover

CHICAGO—Several factors shape an insurance company's evaluation on whether it will supply excess insurance to an employer self-insuring workers compensation exposures.

First, excess insurers want evidence that the employer's risk management staff is capable of installing and maintaining a good loss prevention program, said Royal Youngs, vp of Employers Reinsurance Corp.

In addition, excess insurers expect that the employer be willing to deal with injured workers in a fair way so that claims can be quickly closed, he said.

Furthermore, insurers want clear, easy-to-understand reports

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describing a company's manufacturing operations so they can gain a better handle on measuring the firm's potential exposures.

Underwriters prefer, though they do not insist, that the employer hire a servicing company to adjust claims and provide engineering safety services. However, an excess insurer will occasionally provide coverage to a company that self-administers its workers compensation if the firm has top-notch claims and loss control staffers, Mr. Youngs said.

Two basic kinds of excess insurance are available for companies that want to self-insure a chunk of their workers compensation exposures, Mr. Youngs told a seminar on self-insuring workers compensation.

Specific excess insurance is purchased to cover individual catastrophic losses above the self-insured retention, Mr. Youngs said.

A self-insurance fund sponsored by the Associated Industries of Florida, for example, purchases two layers of specific excess insurance. The first layer covers any individual loss from \$100,000 to \$1 million, while the second layer covers losses from \$1.1 million to \$2.1 million.

For added protection, a company self-insuring workers compensation can buy aggregate excess insurance, Mr. Youngs said. Under an aggregate excess policy, the self-insured company establishes a fund to pay claims. Once the fund is exhausted, the aggregate policy will pay all claims over a certain number of years, up to the limit of the policy.

Hidden costs cut savings of self-funding

CHICAGO—Risk managers should be careful not to overlook the "hidden costs" of self-insurance before deciding to switch to a self-insured workers compensation program, advises an expert.

Frequently overlooked costs of self-insuring workers compensation include purchasing excess insurance and loss control services, says Robert C. Kent, assistant vp at Rollins Burdick Hunter Co.

Bonding fees and the expense of gaining state approval to operate as a self-insurer also fuel workers compensation self-insurance costs, Mr. Kent added.

He warned that self-insuring workers compensation may not be every corporation's cup of tea. For example, a company with only marginal profits may lack the financial resources to cover a large self-insured loss.

Insurance companies that supply specific excess insurance for firms that self-insure a portion of their workers compensation risk include American Home Assurance Co., INA, Aetna Life and Casualty Co. and Employers Reinsurance Corp.

Underwriters that are active in the aggregate excess insurance market for workers compensation are Employers Reinsurance, Safety Mutual Corp. and American Mutual, Mr. Kent said.

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Alternative compensation sought

Key man health benefit under government fire

CHICAGO—Company medical reimbursement benefits for top executives will be severely restricted or prohibited by the government next year, forcing employers to either change those popular plans or find other ways to compensate key employes.

Because these so-called "first dollar" medical payment programs normally only cover senior executives, the government thinks they are illegally discriminatory and have to be opened up to a wider range of employes or eliminated.

Medical reimbursement plans for key executives have become increasingly popular employe benefits in the last five years. They supplement a company's basic health and major medical plans by reimbursing 100% of the medical costs of key executives, and sometimes of their families. Under these plans, for example, an employer pays for the full cost of such things as physical examinations, prescription drugs or hospital care disregarding the deductibles or 20% coinsurance that's usually required under the basic health benefit plans for lower level employes.

Companies can try to get around this costly requirement that all workers be offered the plan by either tightening the rules for entry—such as years of service or age—or by using an insurance policy to cover the costs.

Because of quirks in the law, an insured health plan can be as discriminatory as the company wants, said Michael Yates of A.M. D'Alessandro & Co. Inc. However, using captives for this can cause other legal problems, he warned.

Speaking at an employe benefits workshop at the RIMS conference here, Mr. Yates said employers could also get around the law by allowing reimbursements to be declared taxable income for employes and either paying the em-

RIMS REPORT

ployes' tax or raising their gross pay to cover the additional taxes.

But because these alternatives might seem self-defeating to employers, some are looking for other ways of compensating employes that do not have the same legal problems.

Among the most popular ways of increasing benefits to these executive employes are various stock option plans. Two of the newest are "stock appreciation rights" and "phantom" stock plans.

With a stock appreciation right, usually offered in tandem with a standard non-qualified stock option plan, an employe is offered the right to buy a number of shares at their current price in future years. For example, if a stock was originally selling at \$20 and jumped to \$100 at the specified time of purchase, the employe could still buy it at \$20. If an employe doesn't want to buy the stock, but instead exercises a stock appreciation right, the employe can collect the \$80 difference between the two prices.

The only restrictions on this benefit are that it is taxable income, can't be exercised for at least six months and can only be done within three to 12 days after a quarterly report is issued.

Under a "phantom" stock plan, an employe gets a bonus tied to the rising price of the company's stock. He is awarded a number of shares of phantom stock and then in a few years he is paid the value of that stock at current prices.

This benefit is attractive to employers because it involves no actual transfer of stock and as such does not have to be approved either by a board of directors or the shareholders.

Risk society grows up, annual report illustrates

NEW YORK—The Risk & Insurance Management Society's annual report for fiscal 1977-78 depicts a maturing professional organization for risk managers.

The society is growing financially and in membership, is nurturing educational, research and communication campaigns and is solidifying relationships with governmental and industry groups.

RIMS's total revenues for 1978 increased to \$1.5 million, up 22% from \$1.2 million in 1977. Total expenses increased to \$1.4 million, up 33% from \$1 million in 1977. RIMS ended the year with excess revenues of \$115,267, which brought the general fund to \$491,635.

The annual RIMS conference generated 56.5% of the society's revenues in 1978. More than 400 additional registrants attended the 1978 conference in New Orleans than the 1977 conference in New York, increasing revenues 22.4% to \$831,498 in 1978 from \$679,157 in 1977.

The addition of 334 new members also increased the society's membership dues collections to \$263,045, up 25.7% from \$209,297 collected in 1977. Three new chap-

ters were added in 1978—Central Penn (Harrisburg), Cumberland (Nashville) and Northeastern Illinois—bringing the total number of RIMS chapters to 57 and membership to over 2,800.

RIMS's largest expenditures include the annual conference, up 21.8% to \$467,694 in 1978, and administration, up 17.2% to \$203,500. Other expenses include publication of the society's professional journal, membership, education and schools and research, the last of which was increased 55.5% from 1976 to \$28,727. For the first time the society identified the cost of its executive referral service: \$19,952 in 1977-78.

Other highlights of RIMS's activity in 1978 included:

- Development of job descriptions and other guidelines to help counsel companies seeking guidance on the development of a risk management department.
- Commission of Sibson & Co. to conduct a study on the responsibilities and compensation of the risk manager.
- Increased efforts by the insurance market liaison committee to meet with insurers to increase understanding between the risk manager and insurer.

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Personalized policy follows D&O expert to INA

By JOANNE GAMLIN

CHICAGO—Bangar Punta Inc. moved its directors and officers (D&O) insurance to Insurance Co. of North America from The Home Insurance Co. because of a personnel change.

Peter Wood, who set up the directors and officers coverage for The Home was lured to INA.

Bangar Punta, a Greenwich, Conn., company which counts Smith & Wesson as one of its subsidiaries, moved its D&O coverage when it was up for renewal on Nov. 1, revealed risk manager Bob Wiltshire during a session on leisure products industry at the RIMS conference.

Mr. Wiltshire, who with John Pinner, assistant treasurer for Mattel Inc., led the session, said the entire D&O market is comprised of

only about seven insurers. Three insurers are in London and all the insurers work on a highly personal basis.

This personal nature of the business is why the departure of Peter Wood from The Home induced him to move his D&O coverage to Mr. Wood's new home, Mr. Wiltshire said.

INA entered the D&O market only late last spring.

Bill Geary, of INA in Philadelphia said the company's portion of the D&O market is still small. However, he pointed out that INA plans to make a major foray with D&O coverage in the Canadian market in the near future.

Canada passed a law in 1976 mandating that all companies have D&O coverage by 1981. "INA plans to capitalize on this law," he said.

RIMS REPORT

On the question of whether subsidiaries should have separate D&O coverage, Mr. Pinner said that because Mattel is centralized, he does not purchase separate D&O insurance coverage for the company's subsidiaries. "If the officers and directors of the units have a lot of separate power, they should have separate D&O coverage," he illustrated.

Mr. Pinner said he objects to the question on D&O applications of whether company officials have possible knowledge of future claims. There are always one or two officers who can envision a possible future claim, he said.

In a session that touched on a

wide range of aspects of insurance for leisure products companies, Jack Biddick, corporate insurance manager for Parker Pen Co. in Janesville, Wis., illustrated the growing influence of corporate insurance departments.

Mr. Biddick's department prevented the acquisition by one of Parker's subsidiaries of a company that the department feared would generate large insurance losses but small profits. His department's objections to the acquisition of an aerospace component manufacturer by a Parker unit were effective when he pointed out that everyone from the bottom up is sued when an airplane crashes, Mr. Biddick said.

Mr. Pinner of Mattel noted his department performs an insurance audit on a pending acquisition de-

pending on its magnitude. Such an audit was performed, he said, when Mattel recently acquired Western Publishing.

But when Ringling Bros., a Mattel subsidiary, purchased the Ice Follies and Holiday-on-Ice in late March, he did nothing more than look at their insurance coverages, he said.

On loss control, low-cost items such as coffee and doughnuts and pens are effective rewards for units that reduce their loss ratios, Mr. Pinner continued. Pointing out that Mattel units are charged for their losses, he said that subsidiaries that shrink sky-high loss ratios, say from 100% to 20%, are gratified by the recognition that comes with nickel-and-dime rewards.

Mr. Pinner has also adopted a system of having Mattel subsidiaries pay for the first visit to a doctor by an injured worker whose disability in a product loss is insignificant enough to be taken care of with a single trip to a physician. In this manner, he said, product liability loss ratios are kept lower.

Mr. Pinner, who noted he believes risk managers have a right to know what their broker is earning, said that Johnson & Higgins, Los Angeles, which has been the toy manufacturer's principal broker for several years, "stonewalls" on the subject of its commissions.

"They just won't talk about them," he said.

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Design faults underinsured: agency exec

CHICAGO—If a construction project topples or fails due to errors in workmanship and design, the loss could be greatly underinsured, warns Denis J. Shillington, executive vp of Encon Insurance Underwriting Agency Ltd.

Although the errors and omissions portions of many multi-peril property policies are as high as \$500,000, "it still leaves a large gap with respect to the errors in the design of projects," according to Mr. Shillington of Ottawa, Canada.

As a result, "they are not covered sufficiently" because losses stemming from failure of a major construction project are usually substantially higher than those limits, he told risk managers of construction companies at a seminar.

He pointed to two cases in recent years where damages to structures tied to faulty workmanship and design were found to be uninsured. One of the cases involved a bridge in Saskatchewan which collapsed. The other was at a generating plant in New Mexico, whose foundation sank in the mud.

The claims were denied and the denials were upheld in court because the insurance policies on both did not specifically cover losses from design deficiencies.

Mr. Shillington's firm insures those types of risks in Canada and overseas. The company will open a United States branch in the near future to handle construction projects here. "The market and the need is there," he said.

The coverage excludes structural failures triggered by winds, fires, vandalism and other conditions but is essentially insurance for the "design professions, architects and engineers."

Encon's coverage is offered with deductibles of \$10,000 for coverages on differences in structural conditions and at \$25,000 for errors in design, said Mr. Shillington.

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'Make me a risk exec' say new college grads

By JOANNE GAMLIN

RIMS REPORT

CHICAGO—A career in risk management is firing the imagination of the young, particularly young women, interviews with some of the 16 risk and insurance students who were guests of the RIMS conference reveal.

Catherine Frost, who graduates May 19 from the University of Iowa in Iowa City, said she has tentatively selected a job as a casualty underwriter for Crum & Forster in Chicago. However, like several other students interviewed by *Business Insurance*, she hastily added that a career in risk management is her 10-year job ambition.

"When I am 34 years old in 10

years, I would like to be an assistant risk manager for a Fortune 100 company," she asserted, "or, if I am employed by a smaller firm, I should like to be the risk manager or close to it."

Ms. Frost, who earned a 3.5 grade average in insurance on a 4-point system, said her first choice is risk management because she is excited by the variety of challenges people in that field encounter.

But if she becomes enchanted with the insurance industry and decides to stay with it for the long haul, she hopes to be branch manager of an insurance company office in a decade.

Demonstrating that risk management careers are rising in the eyes of more than one young woman, Jill Baker, about to graduate from the University of Nebraska, said her ultimate goal, too, is a risk management career.

Unlike Ms. Frost, Ms. Baker expects to put in a longer, five-to-seven-year apprenticeship in the insurance industry as a property or casualty underwriter before making the transition into risk management.

Still, Ms. Baker, an insurance major in a program leading to a degree in business administration, envisions herself a decade from now as a risk manager who is highly professional, given the extensive period she will have been in the industry.

Hiroshi Ito, a student at the University of Oklahoma, also plans to become a risk manager for one of the growing number of Japanese corporations recruiting risk managers.

Noting that his father is a risk manager for Kubota Steel Co., Mr. Ito said he is one of the few Japanese students studying insurance in this country not sponsored by a Japanese company.

Jim Tiffany, who is about to receive a degree in insurance from Arizona State University in Tempe, Ariz., indicated he is in the lucky position of having a choice of immediate jobs. He can either join his father's insurance agency in a small Wisconsin town or go to the U.S. Department of the Navy as an assistant risk manager.

Yet, his dreams belong to a risk management career. If he could design his own future, Mr. Tiffany said he would undoubtedly become a risk manager.

The field is so broad, there are so many aspects to it, it has to be endlessly interesting, said Mr. Tiffany. He believes the annual risk management conference is a great place to search for a job.

Nancy Coleman, who just earned an MBA degree from Temple University in Philadelphia, said employee benefits, particularly pension and profit-sharing plans, were of special interest to her at Temple.

About the only thing of any concern, she said, is her belief that insurance companies have quite a distance to go before they begin to treat women as equal with men.

David Soule, armed with a degree from the College of Insurance in New York, has been working for Johnson & Higgins for four years and doesn't see any reason to veer from that path. He aspires to be an account executive for a brokerage firm in 10 years.

Mr. Soule's field of expertise is a trendy one—property insurance for nuclear plants.

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Cost controls jeopardize medical care: AMA leader

By ELLIS SIMON

CHICAGO—Cost rather than quality would become the "keystone of medical care" in the United States if three federal government proposals designed to control health care costs come to pass, warns Hoyt D. Gardner, president-elect of American Medical Assn.

"Quality is the keystone of medical care and costs should be dependent on it," said Dr. Gardner. "But, there are those who believe that costs are the keystone and that quality should be dependent on them."

Efforts by the Department of Health, Education and Welfare to put a cap on hospital cost increases, support for national health insurance and Federal Trade Commission support for advertising by physicians all point to a shifting of priorities in health care, he said.

The HEW-proposed 9.7% ceiling on increases in hospital costs threatens to "stymie" a voluntary effort begun by hospitals in 1977 to

RIMS REPORT

reduce rate increases by 2% annually, Dr. Gardner charged. In the first year of the program, the hospital inflation rate decreased by 2.8% to 13.6% from 16.4% he added.

"The very threat of that limit could stymie the voluntary effort by inciting hospitals to boost their spending to an expedient level beforehand," Dr. Gardner cautioned.

Wages and supplies are the main sources of hospital costs and inflationary pressures. However, there is little that can be done to control costs in these areas, according to Dr. Gardner.

"Medical care is likely to bear much of the brunt of any federal curb on hospital costs—and that would mean rationing," he said.

But, Dr. Gardner conceded that the cost of maintaining underutilized hospital facilities, such as empty beds, is built into hospital charges. He justified this, comparing it with having a gas station attendant's idle time built into the

price of a gallon of gasoline.

Restrictions on hospital costs and physicians fees contained in a national health insurance plan could also have the same inflationary impact, Dr. Gardner noted. Such an idea is championed by Sen. Edward Kennedy (D-Mass.) and United Auto Workers union president Douglas Fraser.

However, such systems in the United Kingdom and Canada have resulted in reductions in the quality of care, Dr. Gardner claimed. Quoting a Chicago Tribune editorial, he noted that in Canada soaring costs have forced federal and provincial governments to cut back on services and several hundred physicians have chosen not to participate in the Canadian health care system.

"The net effect is that such a program greatly increases the cost for most," he said, citing a report on the Canadian system by University of California economist Cotton M. Lindsay.

"The average citizen must with this sort of giveaway program pay for his medical care twice, first by



'Medical care is likely to bear much of the brunt of any federal curb on hospital costs. And that would mean rationing.'

—Hoyt D. Gardner

Photo: George Poulos

paying taxes to finance it and secondly by waiting in line or putting up with lower quality medical care."

Advertising by physicians could also have a detrimental impact upon the quality of health care, according to Dr. Gardner. The FTC sees this as a way of increasing competition and decreasing fees, he explained.

AMA guidelines do not prohibit physician advertising, "but only the solicitation of patients through statements that are deceptive, erroneous or inflated," he said.

"How can anything as complex as medical diagnosis and treat-

ment be spelled out in a sales-pitch type of ad and how can such an ad ensure a genuine saving in fees, not to mention a safe degree of quality?" Dr. Gardner pondered.

"The FTC action reflects a widespread but risky idea that medicine is a trade, that the health care field in which it works is an industry and that this industry can function or be made to function according to the same economic formulas as the companies listed in stock-market quotations," he said.

"There can be no tailor-made medicine at bulk rates and tailor-made medicine is the very essence of high quality care."

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PERSPECTIVE

Develop nuclear emergency plans; mind lessons of Pa. plant accident

By Robert F. Mendes

THE ACCIDENT at the Three Mile Island nuclear power plant accomplished two of the many objectives that constantly preoccupy safety engineers:

- We were reminded of our fragile hold on life and treasure and of our consequent obligation to preserve both.

- We learned again, and in the most graphic way, that even loss potentials as monumental as those posed by nuclear power reactor accidents are susceptible to control and limitation.

This last, of course, is vital. It was not long ago that we were entirely pessimistic. After Hiroshima and World War II, the prudent reaction to any threat of radioactive emissions was to keep your car in readiness for full and long flight, and—just in case you were stuck—build a fallout shelter in your cellar. Your dosimeter was an inch-long strip of film attached to your lapel. When radioactive emissions made its texture dry and black, you could expect that so also was the state of your white blood corpuscles.

This hopeless attitude has been put away by time, wishful thinking, sheer indifference, and—now—by the example of Three Mile Island. At last the generations of people who have been born since the early 1950s know the truth about nuclear power reactors and nuclear risk, which is that nuclear accidents are like earthquakes, landslides, and conflagrations: No matter how severe the risk, only trained, determined people can control the threatened losses.

But first, entities such as industrial and commercial plants must develop an emergency procedure for a nuclear accident just as they have developed procedures for fire, flood, loss of electric power and other catastrophes.

In the environs of Harrisburg, plant managers have learned already some important lessons during the hectic week of March 26. They were forced by circumstances to struggle with emergency actions to mitigate the contamination of person or product, especially if they are in the food, cosmetic, or

Robert Mendes is chief of loss control services for E.G. Bowman Insurance Co., a brokerage firm based in Brooklyn.

Safety engineers will recognize that a nuclear accident is as threatening as more traditionally feared catastrophes.

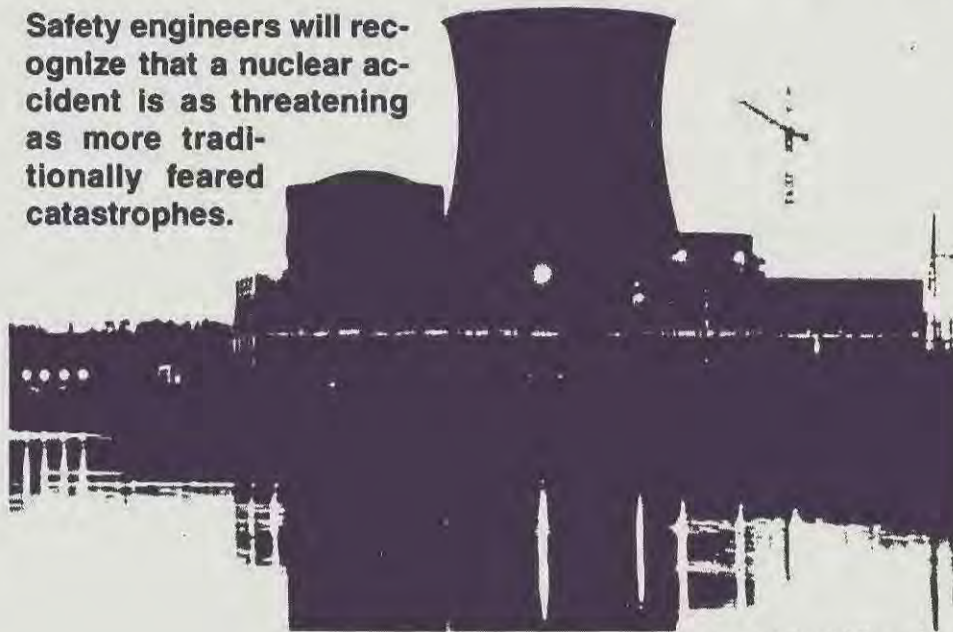


Photo: Atomic Industrial Forum Inc.

drug business where ingestion of product by humans, or direct contact of product with exposed human skin is anticipated.

Although all the facts are not yet in, safety engineers will recognize that a nuclear accident threatens their personal and corporate health in a manner similar to a fire, hurricane, flood, blizzard, earthquake, enemy action or other peril: First, there is a warning of danger, then speculation about danger, and lastly there is danger. Since emergency action must be put into place at the very first level of perception—the warning of danger, or the threat of loss—the planning and organization of the emergency procedure must be accomplished long before it is actually needed.

Despite our continuing ignorance regarding nuclear energy, this planning can be done now. A baseline of information exists upon which a solid, although admittedly general, emergency procedure can be implemented at the first indication that a plant is threatened by loss from radioactive emissions. The following format is suggested:

The company policy is to provide a safe and healthful work environment for all employees. The positive control of losses due to accident, injury, property damage or fire, or any other peril is a management responsibility and a supervisory function. In the event of a nuclear accident, safety and loss control capabilities will be severely tested. Accordingly, the following emergency procedures are effective immediately:

1. Notify all key personnel on and off duty to assemble at a designated location for orientation and assignment.

2. Evaluate the validity and severity of the available information.

3. Designate a liaison officer to work with appropriate government (federal, state and municipal) agencies at the scene and/or to obtain proper information and instructions from their local district offices.

4. Designate a public relations officer who shall have the sole authority to make statements to the public, press or other me-

dia.

5. Engage a hygienist on a consulting basis immediately.

6. If contamination is known or suspected, protect and segregate all products destined for human consumption, finished or unfinished, including raw materials which may subsequently enter therein.

7. If necessary and where practicable, suspend plant operations and secure machinery until plant atmospheres have been sampled and radiation monitoring has been established.

8. Establish check points at all plant entrances and exits to prevent entrance of any persons, vehicles or materials from the contaminated area until the area has been examined by hygienist equipped with monitoring device. Record the nature and time of all such traffic.

9. Regulate personnel working system, as indicated. Prepare to provide chartered buses or plant transportation for temporary evacuation of wives, children, etc. of the key administrative, maintenance and security personnel who will be expected to remain in plant caretaker roles until the danger becomes imminent.

10. Evaluate the marketing and distribution net and notify shipping, receiving, wholesale, retail, agent, broker, etc. relationships where production interruptions can be expected to cause losses through lack of inventory for committed promotions and advertisements, bonded obligations, etc.

11. Notify insurance department at corporate level of all developments.

12. If the emergency lengthens, personnel remaining in caretaker roles should be provided with personal dosimeters, both the cumulative type and the single-incident audible type. Rotate all such personnel to keep each within the tolerable 12.5 millirems per hour. For the total eight-hour shift, this totals 100 millirems or .1R. This is tolerable and allowing three workdays per

Continued on page 46

New yardstick measures pension adequacy

By Kenneth K. Keene, F.S.A.

OUR FIRM RECENTLY commissioned two major surveys designed to uncover American attitudes toward pensions and retirement. One survey was among a national cross-section of 1,699 current and retired employees. The other survey involved business leaders from 212 companies done through normal statistical sampling techniques: Louis Harris & Associates conducted both surveys. Our input was limited to advice and assistance in designing the surveys and drafting the questionnaires, and in the full funding of the project.

We'll be using the survey results as a basis for future comment. At this juncture, the focus will be confined to a single question: How do you get a handle on pension benefit adequacy?

Employe demands

- 81% of current employees, 84% of retired employees and 82% of business leaders believe the worker's standard of living at retirement should be "about the same" as

Ken Keene, a regular contributor to this magazine and an expert on employe benefits, is senior vp and a director of Johnson & Higgins, New York.

right before retirement.

- 54% of current and retired employees and 89% of business leaders say that the retirees themselves should be at least partly responsible for their own economic security.

- Of important advice which retirees would give to younger people, 49% urge early planning for retirement, 48% advise the accumulation of personal savings to supplement company pensions and Social Security, while 44% suggest that employees should work for employers with good pension plans. Interestingly, only 38% of current employees ages 50-64 say they have done enough planning for retirement.

- Employees covered by pension plans, by a margin of 74% to 16%, say they would be willing to contribute or contribute more if their plan provided benefits which increase with inflation and 74% say they would be willing to receive smaller benefits initially if the benefit goes up with the cost of living.

These findings call for the use of a special, newly developed analytical tool—the Benefits Adequacy Index. Basically, an index is calculated separately for each employe to be included in the evaluation. This index is the ratio of projected spendable income after retirement to the spendable income in the last year before retirement. The computerized technology for the index rests on three vital considerations:



The Louis Harris poll findings on American attitudes toward pensions call for the use of a special, newly developed analytical tool: the Benefits Adequacy Index.

—Ken Keene

- The company adopts specific objectives for the level of the pension benefit with an eye, however, to acceptable cost limitations. The company might determine that a reasonable objective for a longer service career employe is an index in the range of 75% to 90%, i.e., the spendable income at retirement should replace 75% to 90% of what the employe had in his last year before retirement. This would represent the objective to be derived from Social Security and pension and profit sharing plans. It would be supplemented by individual savings and the use of personal assets such as equity in a home.

- Spendable income is estimated in the year before retirement and during retirement of each employe in the study. This

adjusts for federal and state income taxes and for Social Security taxes. It also takes account of the effect of employe contributions to benefit plans. Then, too, recognition is given to the fact that Social Security benefits are completely free of income tax.

- Simulation models are utilized to gauge how a particular benefit formula would adjust to changing conditions in the future. Inflation, the impact of Social Security investment returns under defined contribution plans and the effect of non-mandatory retirement should be considered.

Over-achievement

Most pension plans are designed through

Continued on page 46

PERSPECTIVE

Calif. court unleashes 15 opportunities to sue insurer and adjuster also

By Frederick J. Fisher

IN A LANDMARK four to three decision, the California supreme court has ruled that a plaintiff may now sue the defendant's insurance company for violation of California's unfair claims settlement statute.

This means that people who believe that they have sustained damages can file two lawsuits: one suit against the individual who they think is liable and another against the defendant's insurer and adjuster to speed the settlement or win additional damages.

Specifically, the insurance code defines (sections 790.03) 15 separate claims practices as unfair methods of competition and unfair and deceptive acts or practices in the business of insurance.

In the past, it has been ruled time and time again that a plaintiff may not sue a defendant's insurance company without having an assignment of rights from the defendant. The most common assignment of rights is when it is alleged that the insurance company failed to settle with the plaintiff when it had an opportunity to do so, thus exposing the defendant to a verdict in excess of policy limits. Usually the defendant would assign his cause of action against the insurance company for bad faith to the plaintiff, allowing the plaintiff to directly sue the insurance company.

15 chances

But, the California supreme court has now held that although the plaintiff must still conclude his action against the defendant before bringing any such claim against an insurance company, he may now sue the defendant's insurance company once the main action against the defendant has been concluded under any of the 15 different enumerated unfair claims settlement practices.

Royal Globe v. Superior Court arose when the plaintiff filed an action for personal injuries incurred as a result of a fall when she slipped at a food market. She named as defendants Royal Globe Insurance Co., which had issued a policy of liability insurance to the market, and the independent adjusting

Frederick J. Fisher, manager of Miller & Gilbert of Southern California, specializes in adjusting professional liability claims and providing errors and omissions loss control and consulting services to real estate agents and brokers, insurance agents and brokers and product manufacturers.

company, which provided adjusting services to Royal Globe and was alleged to be its agent.

The complaint charged that Royal Globe had violated section 790.03 (H)(5) of the insurance code by failure to make a good faith attempt to reach a prompt and equitable settlement of the claim even though liability was reasonably clear and because the adjuster had induced the plaintiff not to retain an attorney, thus violating subdivision (H)(14) of the insurance code.

No end

This case will have far reaching effects in California because the opinion is open-ended. Specifically, an independent tort action has been created so that the plaintiff may now sue the defendant's insurance company when he has concluded his action against the defendant. This term "concluded" is so open-ended that it not only includes judgment, but possibly also settlements.

Thus, what happens if an adjuster offers to settle the case for \$2,000 with a demand of \$7,000? The attorney files a lawsuit, incurring additional expenses and filing fees, deposition costs and file expenses. But later on, the defense attorney settles for \$4,000. It would not be uncommon under this case for the plaintiff then to sue the insurance company and its adjusters for failing to offer \$4,000 in the first place!

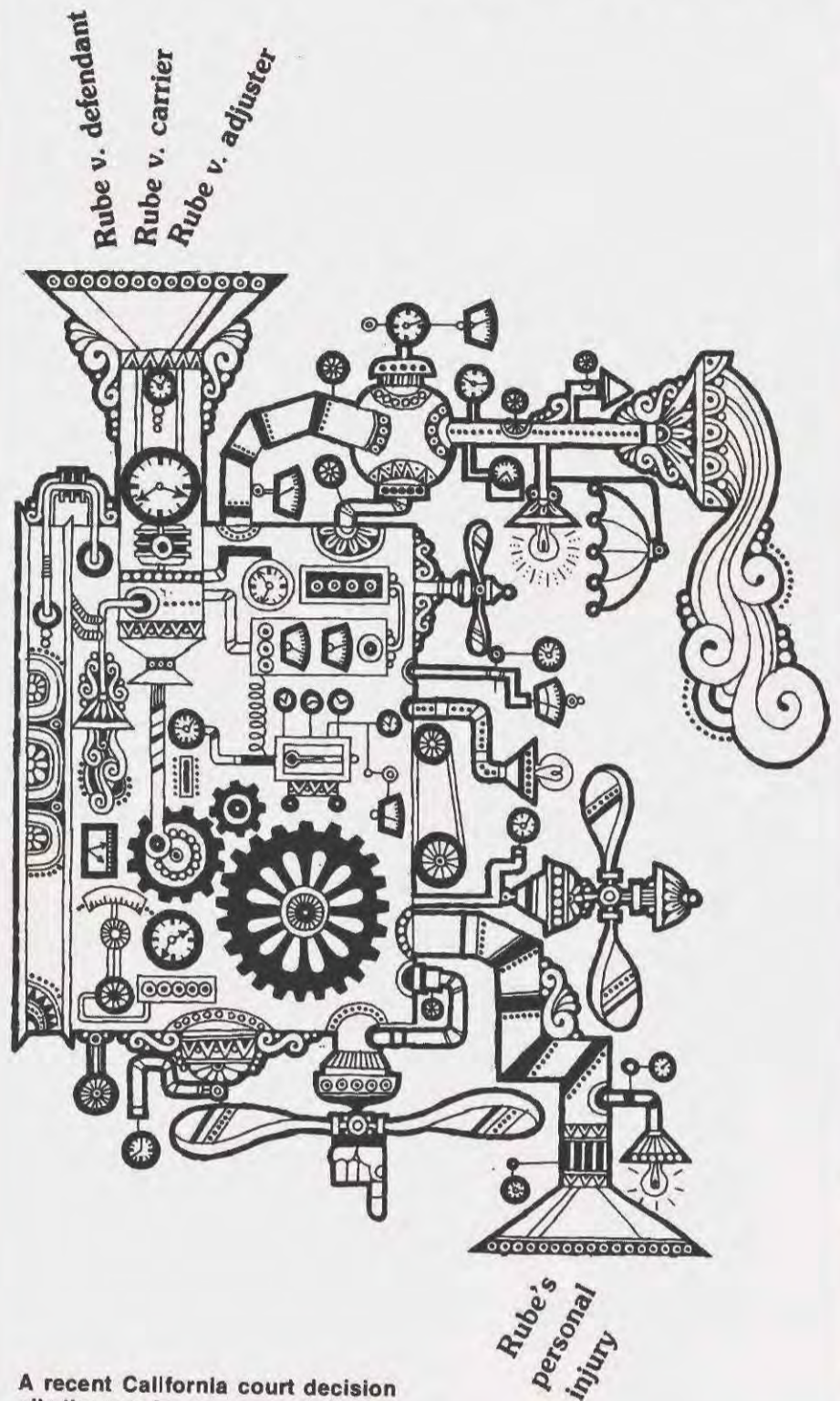
In addition, the most common action will probably fall under subdivision (H)(5) for failure to attempt to reasonably settle and reach a claim settlement where liability has "become reasonably clear." This is a question of fact of course, and such questions of fact when dealing with an insurance company's bad faith has always been hindsight.

Suppose an attorney demands \$7,000 and in all good faith the insurance company believes the case is only worth \$4,000. The case goes to trial and the jury does in fact return a verdict of \$7,000. The carrier would presumably be held in bad faith because the jury's determination of damages will be binding on the insurance company because certainly the insurance company claims executives have far more experience to determine the reasonableness of a case than a jury and therefore should have seen the exposure prior to the case having to go to a jury.

One defense counsel has already noted he

Continued on page 46

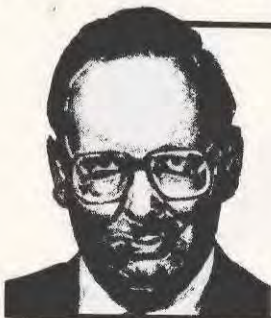
Calif. Legal Machinery



A recent California court decision oils the way for even more litigation in liability cases, making it easier for a plaintiff to also sue the defendant's insurer and the claims adjusters.

Calculators drive risk analysis into 20th Century

By Peter Downes



'Proper use can be made of more advanced statistical concepts and decision analysis techniques which were formerly confined to a select few working as actuaries.'

—Peter Downes

which may interest the risk manager. Consequently, since a computer is not readily available for such work then the risk manager must resort to other means.

20th Century

As little as 10 years ago at least, risk management was still in the horse and buggy stage. When joining a major corporation as its insurance manager just a little before this, I found that I was the proud possessor of an electronic calculator for the first time in my life. It was a simple four-function machine, somewhat bigger than the usual office typewriter. From this I graduated to a smaller desk model which had no less than two memories and a square root key. Now, even my children have slide-rule calculators and I play with a programmable machine which has a printer attachment.

This represents the state of the art at the time of writing, and so what? For me, at any rate, it permits the use of all those lessons I learned so many years ago in connection with statistical methods. This may not sound very much of anything, but nevertheless

Continued on page 46

use regularly. In my own case, our entire ocean marine claims activities are programmed for the benefit not only of myself, but, of the controller's department, and of management in general. Likewise, the risk manager who does not have a built-in replacement cost factor in his corporation's assets inventory is very much behind the times.

Prime time

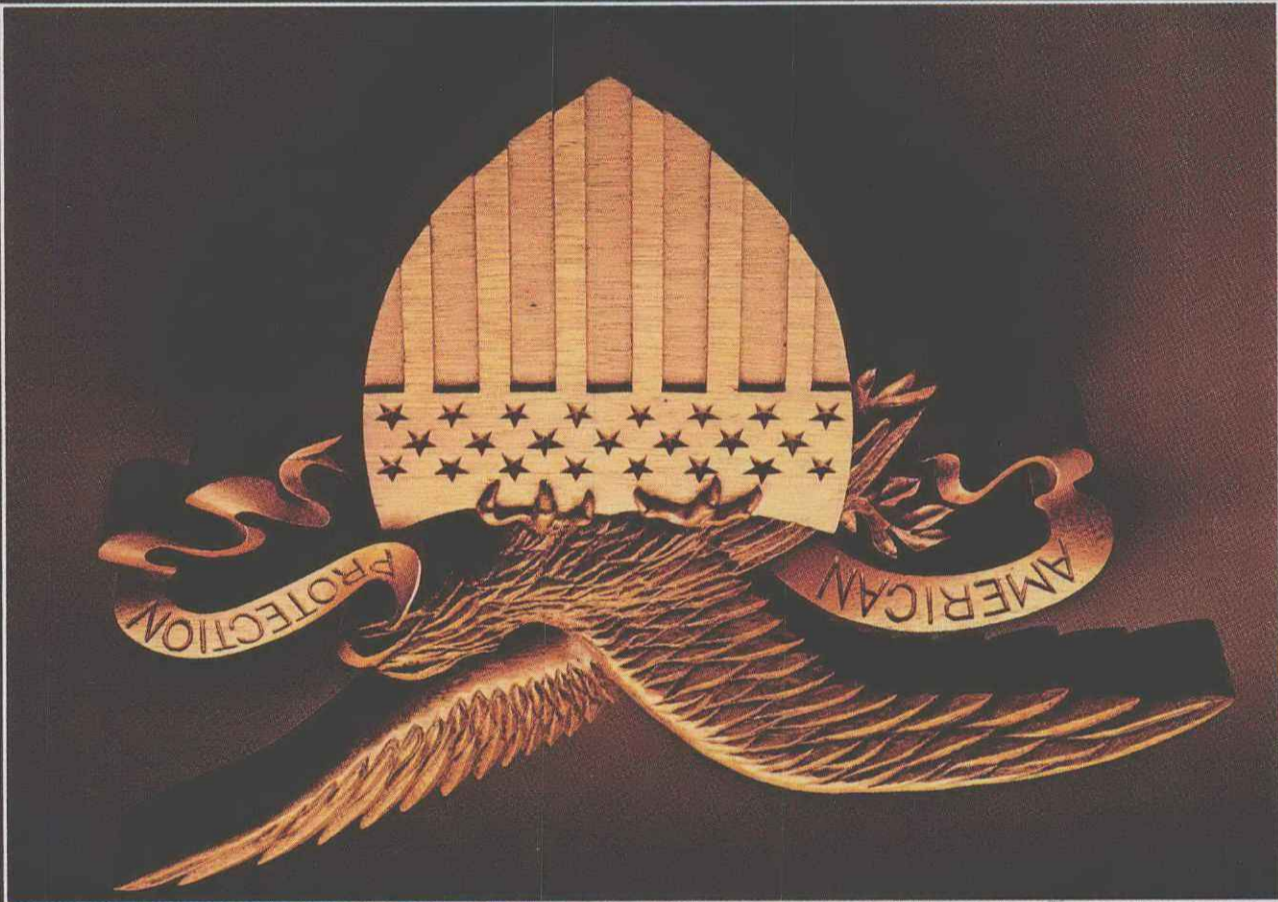
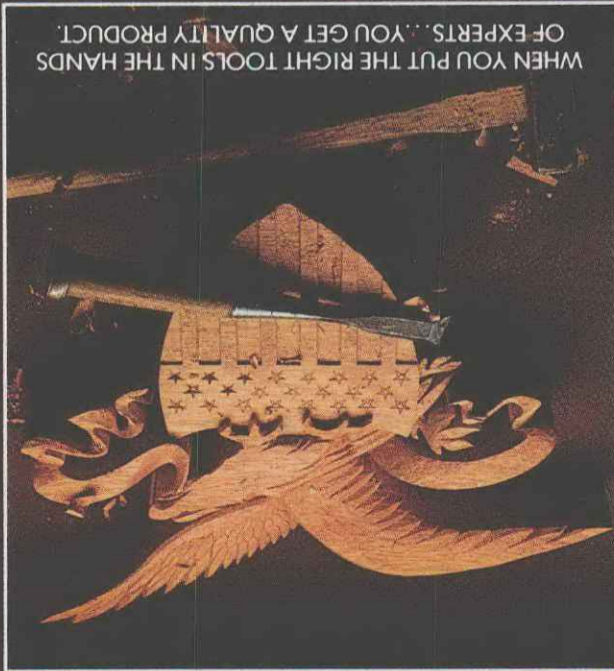
Nevertheless, computer time is valuable, and if the risk manager is misguided enough

to want the use of a computer in order to experiment with this problem and that, he will very likely be told that there are a great many more immediate problems which require solution here and now. Consequently, he may well have to forego his Monte Carlo simulation during the foreseeable future.

Moreover, in many corporate structures the function of the computer is to sort out data and report the information in an orderly form with appropriate summaries. Many systems departments just do not have the time nor the inclination to devote themselves to analytical problems of the kind

Peter Downes is manager of insurance at American Trading & Production Corp., Baltimore.

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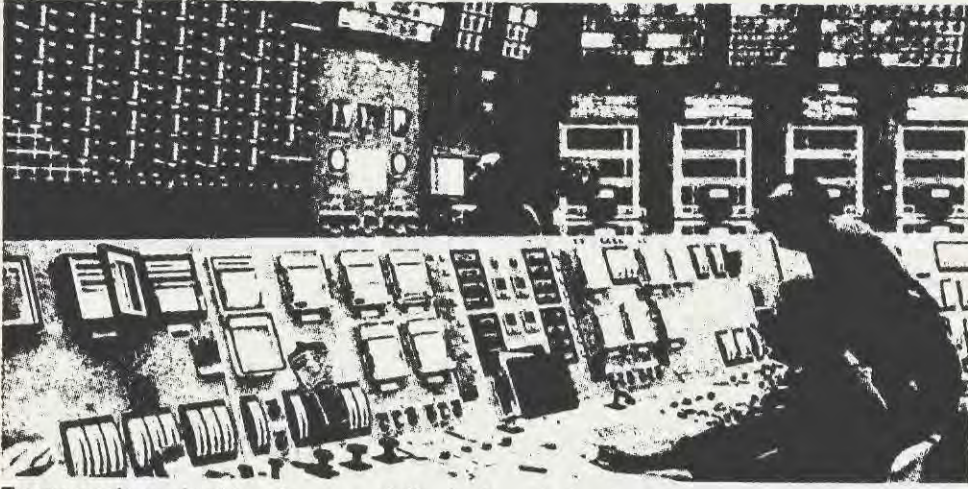
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PERSPECTIVE



Every nuclear plant needs a specially designed plan to guide personnel through an emergency.

Nuclear emergency plans . . .

Continued from page 43

week per man, each individual will be limited to .3R. This is the maximum tolerable weekly dose that can be repeated continuously. The extra manpower needed for this working system should be anticipated and provided.

13. Place the plant and the emergency personnel under medical surveillance.

14. Provide a journal so that written entries may be made on a chronological basis, recording all personnel entering and leaving plant, the time of their entry and departure, special incidents, water and air readings by radiation monitors with times and locations, and all orders and information received from the civil authority which has been established for the emergency with the time indicated.

The nature of the company operation, the location, the weather, the distance from the alleged accident, its nature, the type and construction of the plant buildings, the speed and effectiveness of the plant management and, in particular, the plant emergency organization, in dealing with the emergency will determine finally the extent of the loss in life, property, business interruption, customer goodwill, corporate image and other possibilities.

The most important action that plant management can take while awaiting the next nuclear accident is to order the plant safety committee to meet promptly to consider this type of emergency and to plan a response which is more specifically designed for the special needs of the business, the location and the full satisfaction of the company's objectives. ■

New pension yardstick . . .

Continued from page 43

examination of gross income relationships. However, this is theoretical—it is the amount of spendable income which counts. Obviously, there is a significant difference between gross and spendable income. Take, for example, an hourly employe retiring next year at age 65 who accrues a pension of \$10 per month for each year of service. If this worker has always earned the average wage covered by Social Security—currently approaching \$11,000—then he would receive a pension after 30 years of service of \$3,600 from the plan plus an estimated \$7,973 from Social Security (including the spouse benefit) for a total of \$11,573. Going into retirement, he would be replacing 105% of his pre-retirement gross income, but he would be replacing about 128% of his pre-retirement spendable income. Obviously, such a plan over-achieves.

The above example highlights a little-

recognized fact about the benefit levels provided through Social Security plus private pensions. While the talk concentrates on the inadequacy of benefits, many companies have inadvertently incorporated overly generous benefits. For example, this can happen in the case of (1) lower paid employes because of the heavy Social Security benefit weighting in their favors and (2) longer service employes at all compensation levels covered by relatively mature pension plans in combination with profit sharing or thrift plans. The Harris surveys suggest that such plans might retrench on the benefit accruals, and then apply some or all of the resultant gains to help on the cost of living problem after retirement.

The Benefit Adequacy Index addresses directly the findings in the Harris survey. The determinations are made on a spendable income basis, the company's objective is set at a lower level for pension and Social

'The new Benefit Adequacy Index technique represents yet another significant advance in the how-to technology of plan design. A visual display of the results through charts and graphs can bring the message home to decision-makers in a most dramatic fashion.'

—Ken Keene

Security benefits combined to recognize some degree of individual savings and relief from work-related expenses in retirement, and the output of the simulations can be used to provide pre-retirement planning guides for individual employes. The matter of post-retirement adjustments on account of inflation can also be tackled through the index. The company may wish to adopt a formula method for coping with inflation or, more likely, ad hoc adjustments will be considered. And employers may take a clue from the Harris surveys, i.e., introduce employe contributions in exchange for a benefit with some inflation protection features or downgrade the initial benefit in exchange for future benefit escalations.

The Benefit Adequacy Index is most valuable if used to:

- Design new pension formulas and establish deferred profit sharing contribution

levels;

- Examine the effectiveness of established benefits;
- Compare the given plan with others based on the employer's particular employe mix;
- Analyze the impact of changes in laws, regulations, demographics or economics;
- Provide for individual pre-retirement counseling;
- Devise collective bargaining strategy;
- Determine whether or not benefit improvements can be afforded.

The new Benefit Adequacy Index technique represents yet another significant advance in the "how-to" technology of plan design (pension plans in particular, but also adaptable to life insurance and disability coverages). A visual display of the results through charts and graphs can bring the message home to the decision-makers in a most dramatic fashion. ■

20th Century analysis . . .

Continued from page 44

less, I feel it represents a great step forward.

At the beginning of my business career, the average insurance officer had no use for statistical methods, and Bayesian analysis was not even in his vocabulary. If one attempted to raise such topics within the hearing of such a person, all one would hear would be a remark something like "figures can lie and liars figure" and this was meant to bring any such conversation to a halt. Add to this such publications as "How to Lie With Statistics" which many managers often knew of but had never read, coupled with an assumption that this was all that was done with statistics, then it is perfectly understandable that one's analytical knowledge was pushed into the background and ultimately forgotten about.

It is at least arguable that insurance managers of the day were well able to do without such learning. One thinks back to such luminaries as Charles Groves, Claude Rice, Stan Goodwin, Charles Thiele, Burt Kelley and many others, and they got along very well without such knowledge, or at least without any apparent use of it if they did possess it. From time to time they gave the impression that they were no further advanced than the colonial farmer who, if he had a few coins in his cash box, considered himself solvent. But such a farmer had no use for the sophisticated techniques of modern business.

Another era

Thus it was during the period that insurance managers were striving to tell the world that they were really risk managers after all. It was also an era when selling a deductible policy was a work of art and not a commonplace, or a \$2 million limit under one's liability policy seemed fantastically high and there were just a handful of directors and officers liability policies in force with limits to \$100,000 or so. It was sufficient for an insurance manager of that day to calculate his past losses and match them against premiums. They were all the statistics anyone needed.

And, of course, those insurance managers were right. For many, as articles written during that period reflect, risk management meant no more than buying all the insurance which was deemed necessary. And another factor which mitigated against the use of analytical methods was simply their time-consuming nature. Textbooks of the period often had a chapter at the end describing the hardware of the day and how difficult it was to get access to it. Compiling data with the aid of adding machines of the time meant spending several hours computing the most basic data which probably nobody but the compiler knew anything about in the first place.

How this has changed! With a simple program fed into a hand-held calculator plus a few minutes feeding variables, a whole range of basic statistics may now be printed out in a matter of seconds. If one becomes a little more adept, then proper use can be made of more advanced statistical concepts and decision analysis techniques which were formerly confined to a select few working as actuaries and the like.

Philosophers at last

In this, as in all such matters, there are levels of sophistication. For example, I have a number of books on the subject which have been sent to me from time to time but which I am completely unable to read because I do not have a master's degree in mathematics. All this means to me is that I shall never design a statistical method, although this will not preclude my use of them. In similar vein, I am incapable of designing an automobile but I can drive.

Stone Age critics may well complain that this is merely a philosophical discussion but I would beg to dispute with them. As long ago as the 18th Century, Bishop Joseph Butler wrote that "probability is the very guide of life," and probability is what statistical methods and risk management are all about. Even as he wrote it, he surely had in mind what Sir Thomas Browne said in *Religio Medici*: "to believe only possibilities is but mere philosophy." ■

Calif. court unleashes . . .

Continued from page 44

probably has 100 files in his office where the insurance company probably antagonized and alienated a plaintiff's attorney. He expects to see several cases where the plaintiff's attorney will agree to settle the case with the defendant for, say, \$2,500 and then add that he will not agree to release the insurance company unless they pay an additional \$1,500 because he didn't like the way it was handled.

California liability insurance companies can now look forward to increased expenses for its adjusters in providing full investigation of claims in order to protect themselves from claims of bad faith. They can also expect more difficult times in attempting to settle nuisance claims and claims in general in view of this additional cause of action the plaintiff now has. In addition, we can all look forward to an increase of litigation which presumably will mean a substantial rise in liability insurance premiums.

Unanswered questions

There are several other unanswered questions in this open-ended opinion as well. Does a defense counsel representing the defendant owe any duty to the claimant now to reach settlements since liability has become reasonably clear? Technically, the defense counsel cannot represent the insurance company and the insured at the same time as this creates a potential conflict of interest. However, there have already been indications where this particular issue may be tested. In that case, the plaintiff's bar in Cali-



Adjusters will do more work and charge more to protect themselves from bad faith claims, predicts Fred Fisher.

fornia may not only eliminate the adversary system of liability insurance, but also eliminate the defense bar at the same time.

What about reinsurance treaties? Most treaties do not cover bad faith or punitive damages?

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Mexico welcomes pools of foreign benefit plans

CHICAGO—A generally favorable attitude toward foreign investment in Mexico makes it a good country in which to set up an international pooling arrangement for employee benefits.

But, according to a panel of experts, high tariffs and governmental restrictions create a bleak outlook in Brazil for such an arrangement and low group life rates and a "cutthroat" market paints an equally dark picture in England.

Harald Feldhaus, an actuary and commercial director for Brockman & Schuh in Mexico City, said the country is a "haven" for pooled benefit arrangements, funding mechanisms used to combine and experience-rate the premiums of

RIMS REPORT

the subsidiaries of a multinational employer.

The Mexican government looks favorably upon pooling arrangements because the country has many multinational corporations, most of which are American, said Mr. Feldhaus.

As a result, Mexican law allows normal dividends to leave the country, tariff laws are less strict and experience rating of premiums is also permitted. In addition, there is little animosity from local insurance carriers over the loss of business, he said.

"It's going to go on and it's going to be a good example of how international pools can work out fine," he said.

However, the climate is far less favorable in Brazil where a tough 1972 tariff regulates dividends, insurance not admitted by the government is outlawed and reinsurance is strictly government-controlled, said David H. McKay, manager for Johnson & Higgins-Eluma in Rio De Janeiro.

The tariff law mandates that a non-Brazilian insurer return 50% of its profit to the country, said Mr. McKay. His firm serves about 120 multinational firms in Brazil, but only six or seven of them are members of international pools, he added.

In addition, Brazil's tariff laws would double the costs of doing pooling business for local insurers. And Brazil's largest insurance companies, "don't need that business," he said.

Also, employe groups of less than 500 cannot be experience-rated according to Brazilian laws, he said.

The environment is also bleak in the United Kingdom where participation in international pools has been historically low, according to Barry Young, a director with Willis Faber Advisory Services of London.

Group life insurance rates in England are low and the market for business is "absolutely cutthroat," he said, with brokers handling virtually all group life contracts. "We're isolationist... but because of sound commercial sense."

OPIC holds volume line, ups income

WASHINGTON—The Overseas Private Investment Corp. (OPIC) issued more than \$663 million in new insurance coverage in fiscal 1978, about the same amount issued during the agency's previous fiscal year.

Gross income, however, climbed to a record \$60.4 million, an increase of about \$4.6 million over the 1977 record of \$54.8 million.

Total insurance and finance revenues jumped to \$383 million compared to \$330.1 million in 1977.

Of the \$663 million in insurance OPIC issued, \$230 million covered expropriation, \$191 million covered inconvertibility of currency risks and \$242 million was for protection against war, revolution or insurrection.

OPIC is the federal agency that provides political risk insurance and finance guarantees to encourage private U.S. investment overseas in less developed countries. ■

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Limit benefits to cut costs, say Social Security pros

CHICAGO—Social Security, formed to provide a "floor of protection" for retiring Americans should continue to do just that and no more, maintains Robert J. Myers, former chief actuary of the Social Security Administration.

Mr. Myers, now a professor at Temple University, said he opposes the move led by Joseph Califano, Secretary of Health, Education and Welfare, to expand Social Security and eliminate the private pension system.

Business considers Social Security desirable for providing a benefits floor and the public is dissatisfied with the heavy cost of maintaining the Social Security system, Mr. Myers observed.

"The public must weigh the benefits and costs of Social Security against each other," suggested Paul Van der Water, acting director of the Social Security Administration's office of policy analysis.

The only way Social Security taxes can be lowered is through lower benefits or transfer to another form of taxation, he said.

Under 1977 amendments to the Social Security Act, taxes will rise considerably in 1981, costing the average working American an additional \$70 per year. Because of low reserves anticipated for 1980, there is no way that implementation of that tax can be avoided in 1981, Mr. Van der Water said.

Even reductions in Social Security benefits proposed by the Carter Administration would not likely be sufficient to offset the need for the increase, he said.

Use of an alternative form of taxation could take the burden off Social Security taxes. Financing Social Security through a value added tax, similar to a national sales tax, has been mentioned by



Photo: Ellis Simon

Social Security taxes can be lowered only if benefits are cut, maintains Paul Van der Water of the Social Security Administration.

Sen. Russel Long (D-La.) and Rep. Al Ullman (D-Ariz.). But such a tax would be no less regressive than the existing tax and would be inflationary, Mr. Van der Water said.

Another alternative would be financing Social Security through general revenues. But, this could lead to overexpansion of the program, Mr. Myers said. "People think government has money of its own and such a funding mechanism would be ideal for the expansionists since people will not see the costs."

A value added tax would be a

better funding mechanism than use of general revenues, he suggested.

Mr. Myers also urged that Social Security be expanded to cover all government employees. This would have a short-range cash flow benefit resulting in a slight reduction in the demand on payroll taxes, but it would also cut out the double dip-

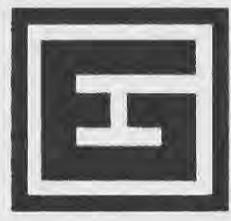
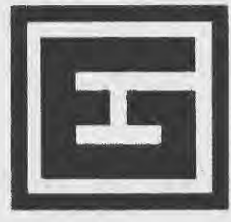
RIMS REPORT

ping by civil service retirees who also get Social Security benefits after having taken a new job, he noted.

Some 80% of civil service retirees are receiving or will receive retire-

ment benefits from Social Security, he said.

However, Mr. Van der Water noted that federal employe retirement systems suffer from underfunding problems far worse than those of Social Security and warned that integrating federal employe pensions with Social Security could open up a Pandora's Box.



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Outside directors D&O

Insurer predicts others will copy its new policy

CHICAGO—American International Group expects more insurers to follow its lead and start selling directors and officers liability insurance for the outside corporate director.

AIG is the first insurer to sell such a policy, designed for corporations whose top executives serve as directors of other companies and want protection against liability suits without being included on their own corporation's D&O policy. That would necessitate increasing the policy limits.

No one had purchased the outside directors D&O policy, in the

RIMS REPORT

first three weeks it was available, admitted Joseph DeAlessandro at the RIMS conference here when he officially announced the program. Several companies have indicated interest in purchasing the policy, noted the president of National Union Fire Insurance Co., one of AIG's subsidiaries.

The AIG program is available only to those corporations that already buy D&O policies from the

company and is not available to people who want to purchase only the outside D&O liability policy.

As Mr. DeAlessandro explained, the new policy gives outside directors their own policies with their own premiums and limits. The premiums would not be based on any percentage of the original policies, but would be tied to the risk exposure and insurance rates of the outside companies.

The coverage will be in excess of any insurance the outside corporations carry for their directors and any indemnification agreements.

Each of the individual officers to be insured, must apply for the policy and they must provide annual reports of each company where they sit on the board.

Outside D&O policies will not be available to directors of a corporation that is unable because of loss records, for instance, to purchase any D&O coverage for its own directors and officers. ■

Educator advises:

Communication bolsters success of risk control

CHICAGO—If risk managers of smaller companies with premium volumes in the neighborhood of \$1,500,000 are to succeed, they must increase their communications with their middle-level and top-level management, advises a college professor.

E.J. Leverett of the College of Business Administration of the University of Georgia observed. "Risk managers are bad communicators because they tend to rely on jargon."

Mr. Leverett and four former students discussed risk management techniques for smaller companies

at the RIMS conference.

Susan "Kim" Backus, director of risk management for Goodpasture Inc. in Houston, a grain operator, said she has upgraded communications between her office and location managers. She sends them insurance manuals after casualty insurance renewal and then updates the manual after property insurance renewal.

"If safety programs are to succeed, middle-line managers must be informed of what the insurance situation is," said Ms. Backus, who noted Goodpasture's premium volume amounts to about \$3.5 million. The first \$500,000 of most claims is self-insured, she said.

Top-line managers are also vital to the success of risk management programs, said David G. Hampson, risk analyst of Harris Corp. in Melbourne, Fla.

Noting that his company's total premium volume is approximately \$5 million, including premiums and self-insurance costs, Mr. Hampson said that his two-man department maintains a systematic form of written communication to Harris's board of directors.

The insurance department reports to the board of directors include such information as the insurance expenses, coverages, large losses, brokerage changes, gross premium and claim expenses and net premium and claims expense.

"The corporate experience, highlighting its best and worst claims experience, is part of the report," said Mr. Hampson. Workers compensation claims costs by major cause are also included.

The risk analyst said that oral reports often accompany the detailed written communication.

"Many risk managers get fired," he said, "because top management does not understand what they do."

A near overflow crowd of risk managers attended the session, many of them people who were tossed into their new jobs after holding fairly unrelated positions.

"A lot of risk managers have recently been thrown into their jobs because of the scarcity of trained risk managers," observed Jim Charpie, risk manager for the Container Corp. of America in Chicago. Mr. Charpie, for instance, was asked to become risk manager last June after serving Container as a purchasing agent. ■

Calif. city picks broker from bids

PASADENA, Calif.—The city of Pasadena has named Kindler & Laucci, a broker with offices in Los Angeles and in Pasadena, as its new broker for its entire property/casualty insurance program, according to Don Jack, who acts as an outside risk management consultant to the city.

The premium value of the program is approximately \$1 million. Kindler & Laucci was the low bidder on the business. In the past, Pasadena has had a number of brokers, including Kindler & Laucci.

Among the 10 competitors for the new, consolidated account were Bayly, Martin & Fay, Johnson & Higgins and Rollins Burdick & Hunter. ■

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Corporate goals define benefit thrift: Claims man

By ELLIS SIMON

RIMS REPORT

CHICAGO—Companies can reduce their health plan bills with improved plan design, claims administration and funding techniques, experts suggest.

But top management must establish policy that will guide benefit managers in implementing these goals, advises William B. Batte, chairman of Bloomquist Batte & Campbell, a third-party claims administrator.

Too often, top management does not have a focus on what it wants in employe benefits, he says.

As a result, the benefit managers' efforts in containing costs are not likely to be as effective, he said.

Management policy toward benefits and employes will affect the way in which cost control measures are implemented. Different steps are likely to be taken by a company interested in being a benefits leader as opposed to one that merely wishes to be competitive in the labor market, Mr. Batte said.

For instance, management would probably not wish to implement cost control measures that directly impact upon employes if it is trying to preserve a union-free work environment, he said.

The effort to control health care cost must be coordinated if it is to be successful, said Dr. Richard Egdahl, director of Boston University's Center for Industry and Health Care. While one industry can control its costs through a coordinated effort, true containment of health care costs can not be achieved unless changes occur in the health care delivery system.

According to Dr. Egdahl, that means further development of health maintenance organizations. However, HMO development has been too slow because of the capitalization required.

Although industry could step up its efforts in forming HMOs on its own, doctor organized independent practice associations (IPAs) perform the same function with less capitalization, the doctor said. Dr. Egdahl is a member of such an association formed in Boston primarily to enable physicians to regain some market share lost to the highly successful Harvard Medical Plan.

IPAs, because they operate on a fixed prepayment plan, force physicians to "turn the screws harder" to keep costs down, he explained. Utilization control, the key to HMO success, is the only way to get doctors to control their fees, Dr. Egdahl added.

However, doing this on an arbitrary basis, such as lopping 10% or 20% off a physicians fees, could result in an adversary relationship developing between patient and physician, he cautioned. A third party should be called in to review fees and assure that they are proper, Dr. Egdahl added.

Mr. Batte suggested use of pretreatment planning as a means of controlling costs. Insurers and third-party administrators should review the proposed treatment and recommend changes where appropriate, he said.

Sometimes, proposed changes in treatment may cost more now to save money in the long run, he noted. He denied that pretreatment planning usurps the physician's role as health care provider.

Mr. Batte also recommended providing coverage for home health care as a means of keeping people out of hospitals and establishing programs that would involve employes in their own care such as personal fitness programs, lifestyle counseling and annual physical exams.

In addition, he urged that corporate management participate on hospital boards and that companies establish alcohol and drug

abuse programs. These not only reduce health care costs, but result in less turnover and a lower rate of absenteeism, Mr. Batte said.

He doesn't consider a second surgical opinion particularly effective. Where it yields savings, it probably means physicians were not doing their jobs properly in the first place, he said.

On the claims administration front, companies can keep costs down by staying within the parameters of their covered sicknesses and accidents, Mr. Batte continued. "Don't pick up anything unless its covered in your policy. Every time the parameters are penetrated, it invites further violation."

Employers should also monitor their claims administrators to insure they are not overcharging for their services. Retaining the ser-

While one industry can control its costs through a coordinated effort true containment of health care costs cannot be achieved unless changes occur in the health care delivery system.

—Dr. Richard Egdahl

VICES of professional standards review organizations can help determine what "reasonable and customary" charges in a given locale actually are, he said.

For companies currently using a standard-rated group health insurance package, converting to a self-insured program can yield savings

of up to 10% in the first year with additional savings over the long run, Mr. Batte said.

Companies covered under modified cost-sharing plans would realize smaller savings, but could benefit from conversion to an administrative services only contract, he added.

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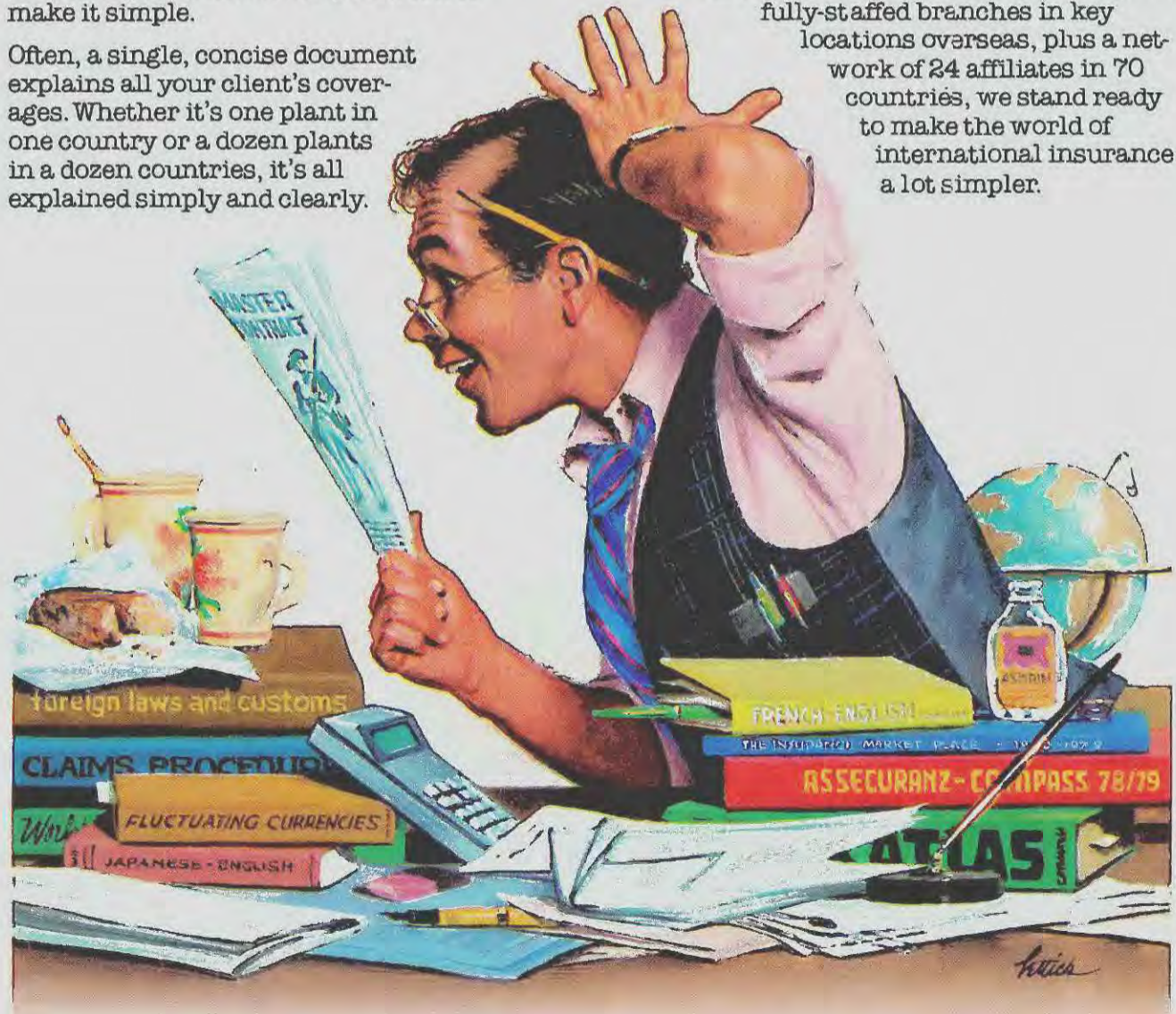
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Hospital liability has reached crisis proportions because of the increasing tendency toward malpractice litigation. Everywhere, insurance plans and policies are surfacing, aiming to protect hospitals from the huge losses now possible. But the problem is, the crisis developed so quickly that hospital administrators haven't had a chance to gain enough experience to evaluate insurance proposals thoroughly. It's hard to know what to look for, especially with the pressure of getting *some* form of protection together.

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safety control and claims management systems; the attorneys' handling of claims defense; the trust documents and fiduciary. What's more, with Schinnerer's extensive experience and data resources, we can help build the hospital's loss prevention system with valuable information for employee education and defense of claims.

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Minority hiring . . .

Continued from previous page
With the help of people from the World Bank and from the Urban League, he said he was able to ferret out blacks with experience in life and in personal lines and to interest them in forming a brokerage firm.

"There are minority-owned brokerage firms in the country," he said, "but you have to go out and find them. They don't have the power to advertise their capacity."

Minority-owned firms must, at the same time, be able to fulfill needs and should not be selected for any reason other than that they can deliver needed services, he underscored.

Ms. Terry of The Equitable, on the other hand, advised risk managers to take stock of the risks that come with the affirmative action movement.

"You owe it to your company to let it know of legal defense costs in affirmative action lawsuits," she asserted.

Social changes being wrought as part of the movement, such as the much higher percentage of women, the handicapped and persons with little education in the workforce, should be analyzed by the risk manager, Ms. Terry said.

She noted, for example, that plant safety programs were often designed 10 to 20 years ago with the white, middle-class worker in mind. Today, risk managers should think about putting up signs in Spanish for the growing sector of the workforce that uses English as a second language, said Ms. Terry. She was instrumental in doing this for a former employer that had plants in California.

The growing number of handicapped who are employees also must be taken into account in risk and safety programs, she said. Fire alarms, for instance, do no good for the deaf.

Equitable has a four-pronged affirmative action program, encompassing equal employment, entrepreneurial development, social-priority investment and corporate support, Ms. Terry noted. Equitable's general operating policy includes such things as policies on minority purchasing, advertising and minority banks.

Mr. Ackerman suggested that while companies would be wise to expand the insurance market by selecting good minority-owned insurance firms, blacks have an obligation not to use affirmative action as a bludgeon.

Minority insurance firms that take the attitude that, "we want your business and if we don't get it you're in trouble," are committing a grave error, he said. ■

Former risk manager:

New pressures to shrink ranks of captive market

CHICAGO—Captive insurance companies are going to become a thing of the past.

So believes insurance consultant Robert L. Siegel, who in 25 years with Deere & Co. established several insurance subsidiaries for the firm.

Increasing capitalization requirements and the lack of underwriting talent to manage these facilities is likely to lead to a sharp decline in the number of captive insurance companies over the next few years, he said. Most of the insurance subsidiaries will be phased out, merged with other in-

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surers or joined together to form industry mutual companies, he predicted.

The independent insurance subsidiaries that remain will be only the largest firms and those with the best management, Mr. Siegel said. These firms are likely to become an increasing important factor in world insurance capacity through participation in reinsurance treaties.

He cautioned, however, that managers of insurance subsidiaries seeking treaty retrocessions must know the markets. Factors such as the ceding company's stability, track record, integrity and personnel must be considered by the risk taker just as a risk manager would consider these factors in selecting a primary insurer, Mr. Siegel advised.

The insurance subsidiary manager must also understand the conditions in the reinsurance markets do not parallel those of the primary market. If the manager chooses to participate in a reinsurance pool, he should study the practices and objectives of its underwriting manager, he said.

Hiring a full time underwriter for the insurance subsidiary staff is the safest way to evaluate retrocessions, Mr. Siegel recommended. Giving the underwriting pen to outsiders, particularly captive management subsidiaries of large brokers, should be avoided, he counseled. The commingling of brokers' marketing activity with underwriting raises some concern, Mr. Siegel explained. Their results have not been as good as other underwriting managers, he added.

While accepting outside business is attractive to captive insurance company operators because returns appear to be good, it is an extremely difficult business to get into, said Tom N. Kellog, senior vp of General Reinsurance Co.

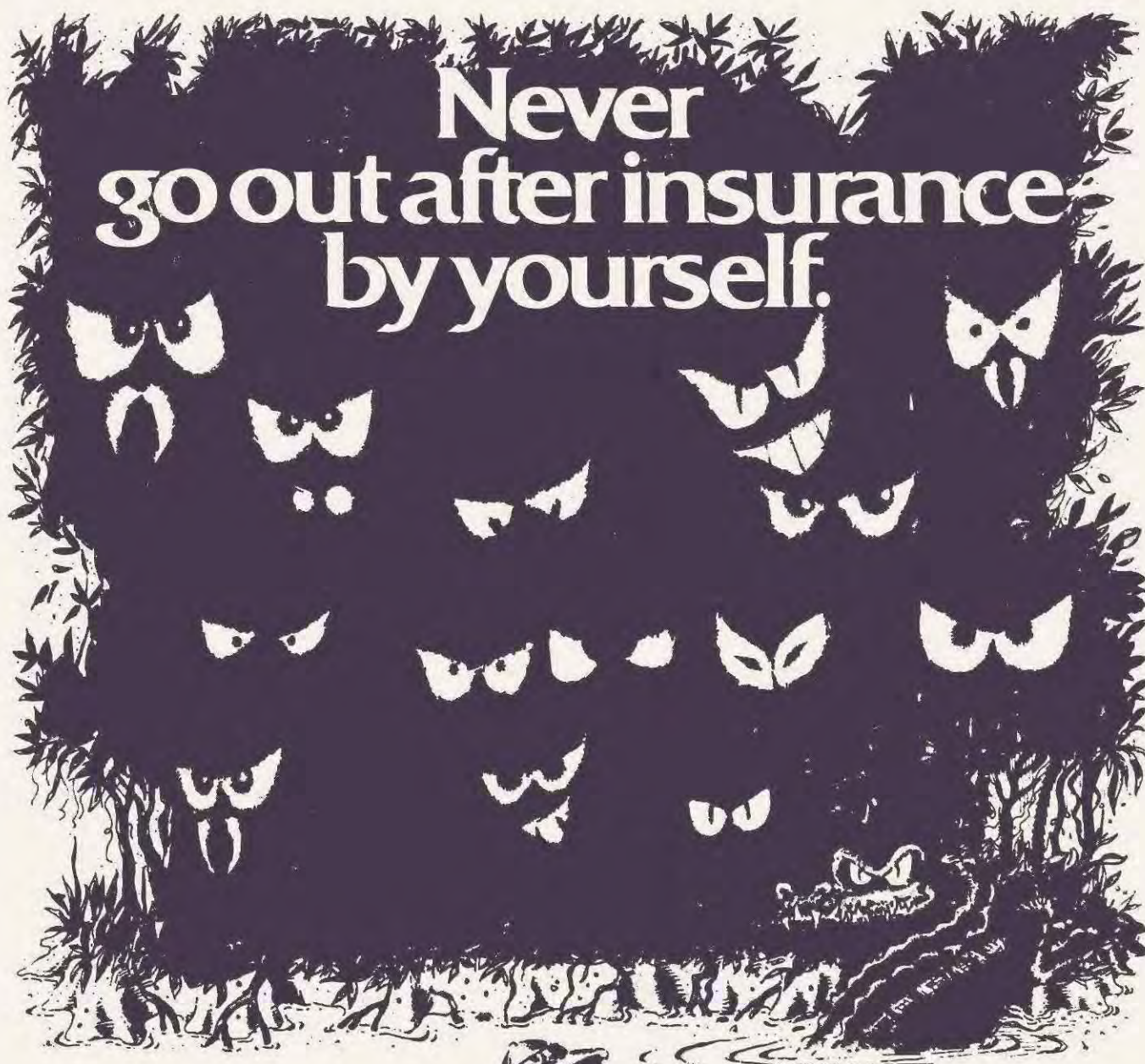
A captive would have to prove that it had good security to get good risks, he said. With the tail on liability treaties stretching out 13 years and longer, a ceding company would want to know that its reinsurer will be around to pay claims 20 years hence, he explained.

In addition, ceding companies should insist upon their reinsurers following their lead in claims handling, Mr. Kellog said.

The traditional insurers' view has been that captives are run by buyers and not risk takers and therefore should be avoided as a reinsurance market, observed Andy Barile, president of Andrew Edwards & Co., a reinsurance intermediary. But an increasing number of insurers are looking upon them as untapped capacity, he said.

Some captive owners have forged a new phase in captive development by acquiring existing insurance companies after having learned the insurance business through operation of a captive, he noted. The acquisition of the Indiana Insurance Group by National Distillers & Chemical Corp. is an example of this, he said.

With 600 giant industrial concerns owning offshore captives, the potential market development is so astounding that this part of the industry must be watched, Mr. Barile said. ■



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Flintkote saves 10% on new property plan

By ELLIS SIMON

CHICAGO—Through a program combining seven property policies into one, Flintkote Co.'s assistant treasurer Seymour Weiss achieved a 10% premium reduction, expanded coverages and limits and elimination of some of his administrative headaches.

The conventional program that existed before 1977 provided "islands of protection in a sea of perils," he said. With separate policies covering such diverse exposure as electronic data processing (EDP), railroad rolling stock, and personal property, coverage was on a piecemeal basis with gaps in between, explained the risk manager from Rochelle Park, N.J.

Originally, Mr. Weiss said he had intended to lump all property coverages into a self-insured program with an aggregate stop loss. However, analysis of the existing program revealed that certain coverages, such as highly protected risks, should be insured.

He chose to develop what he calls a "block" program that incorporates the desirable features of HPR coverage over other exposures with substantial deductibles. "The HPR program became the cornerstone around which the block was built."

Along with HPR risks, boiler and machinery, marine and primary EDP coverages were insured separately from the block because of their special characteristics.

"In effect, the block functions as an umbrella policy," Mr. Weiss said. It provides broad coverage on a custom-made manuscript form with few exclusions, no coinsurance, valuations prior to loss, full territorial coverage and total blanket limits, he added.

"Underwriters tend to waive exclusions when writing lumped, all inclusive coverage," he continued. Coverages such as accounts receivable, valuable papers, railroad rolling stock, loss of services, excess EDP, personal property, temporary warehouses and installations were added at no additional cost.

Other coverages, like property in transit, were obtained for much less than if purchased separately. Flintkote and its broker, Marsh & McLennan, predetermined the amount of premium they wished to pay and the broker negotiated the extra coverages from the underwriters, Mr. Weiss explained.

The block program also provided Flintkote with higher limits of protection. The pre-existing difference in conditions policy had a \$15 million limit which an analysis showed to be insufficient, he said. Underwriter fear of earthquakes and Flintkote's concentration of exposures in California made it difficult to obtain this coverage at a reasonable cost, he added.

The new program has a \$25 million per occurrence limit with a \$25 million annual aggregate limit on flood and earthquake losses.

The policy's \$1 million primary layer was written 85% in London with the balance placed with Employers of Wausau. Excess coverage is layered and placed with domestic and London markets.

The program has a \$100,000 per occurrence deductible. Losses over \$25,000 are capped by a \$600,000 aggregate stop loss. Originally, the stop loss program was written to cover losses over \$1,000 per occurrence, but that low level proved to be impractical.

Because of company policy, Mr. Weiss declined to reveal the amount of his premium. But, he said, total exposure at risk, which

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included the HPR program and business interruption coverage amounts to \$850 million. Business interruption accounts for \$200 million of that and HPR represents three-fourths of the balance.

Now Mr. Weiss has only one policy to review and monitor and he is reporting annual values once instead of to a number of insurers. In addition, he does not have to worry about new acquisitions not being automatically covered and he does not have to report a schedule of his locations.

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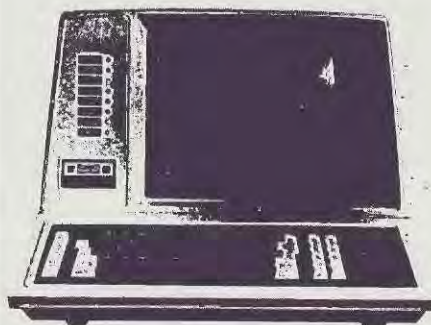
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EDP market needs expert input: Insurer

CHICAGO—Effective dialogue between risk managers and underwriters is needed if markets for electronic data processing coverages are to remain open, says one EDP underwriter.

Moreover, risk managers must be able to identify their EDP exposures, be sensitive to them and be able to communicate them, said Dean P. Felton of Reliance Insurance Co. The risk manager must understand the priority of an exposure to the underwriter and be able to communicate that exposure to him.

With computer technology changing with increasing velocity, the risk manager faces the choice of "drowning in EDP buzzwords or learning about computer technology and exposures and swimming," Mr. Felton said.

The same choices face the underwriter, he added, noting that "ignorance should not put the insurance industry in the position of not being able to service its clients."

To provide that service, the EDP underwriter must have a need for that type of risk, well-defined underwriting criteria, prior experience with the type of risk and satisfaction that submissions to him accurately reflect the risk, he explained. To manage the EDP risk, the risk manager must either learn data processing or hire the expert, Mr. Felton contended.

"Stripped to its essentials, the data center is no more difficult an environment in which to assess risk than the accounting department or the production line," said Steven J. Ross, assistant vp of Irving Trust Co. of New York. "A firm grounding in EDP concepts—input, process, output, tape and disk data storage, even a little telecommunications—will enable the risk manager to aid data processing management in finding ways to identify risks."

While traditionally the risk manager's role with the data center

1st incident can breed more losses

CHICAGO—Following a partial loss of computer facility due to smoke or water damage, prevention of further deterioration of the facility becomes the greatest problem facing risk managers, adjusters and insurers.

And there is no standard procedure to determine how to do it.

Although a system may seem to be partially salvageable, exposure to smoke and water can result in further damage following the initial occurrence, according to public adjuster Leonard Theran. Such was the case in a \$5 million loss adjusted in 1976 for First Data Corp. of Waltham, Mass.

Actual physical damage due to a fire in the computer room amounted to \$200,000, but smoke and water exposure eventually destroyed the system. A preventive maintenance program implemented after the fire prolonged the computer's use for a month. But it eventually fell apart and the insurer replaced it.

Loss prevention steps recommended by Mr. Theran included installation of smoke detectors, halon and sprinkler systems, fire-proof files for papers, photos of the contents of a facility in normal times and duplicate media and records stored off premises.

He also recommends buying extra expense insurance and property insurance on a replacement cost basis. ■

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was limited to protecting it against fire and other forms of destruction, "a more meaningful role today is "to determine the extent of corporate dependency on automated facilities and the degree of protection needed to minimize corporate vulnerability to those facilities," he added.

With products and services of many firms becoming an extension of their computer, data security becomes "the security of the organization itself," Mr. Ross said.

EDP risk can be controlled through control itself, he noted. EDP managers should be guided by the precept that "only author-

ized persons shall perform only authorized transaction."

Such techniques as segregating functions like accounting and bookkeeping reinforce internal control, added Mr. Felton. To prevent computer theft, the system should be designed so the "guy in inventory does not have access to the payroll."

Scrambling of data through encryption devices also serves as a deterrent to theft and programs that report exceptions to normal procedures can be built into systems, Mr. Felton said. Some systems have devices that shut them down when unauthorized persons seek access and detection devices can be designed to report the terminal location of the undesirable entry attempt, he noted.

In addition, computer maintenance should be performed on

down time and be carefully monitored, Mr. Felton said. An unscrupulous repairman can slip a key protective device out of the hardware, creating a change in computer logic that permits access to the system.

Errors and omissions are the greatest computer security threat in the United States, accounting for between 50% to 80% of all losses, according to Patrick F. Sullivan, systems security consultant for IBM. Following in rank are employee dishonesty, fire, sabotage by disgruntled employees, water damage and external attacks.

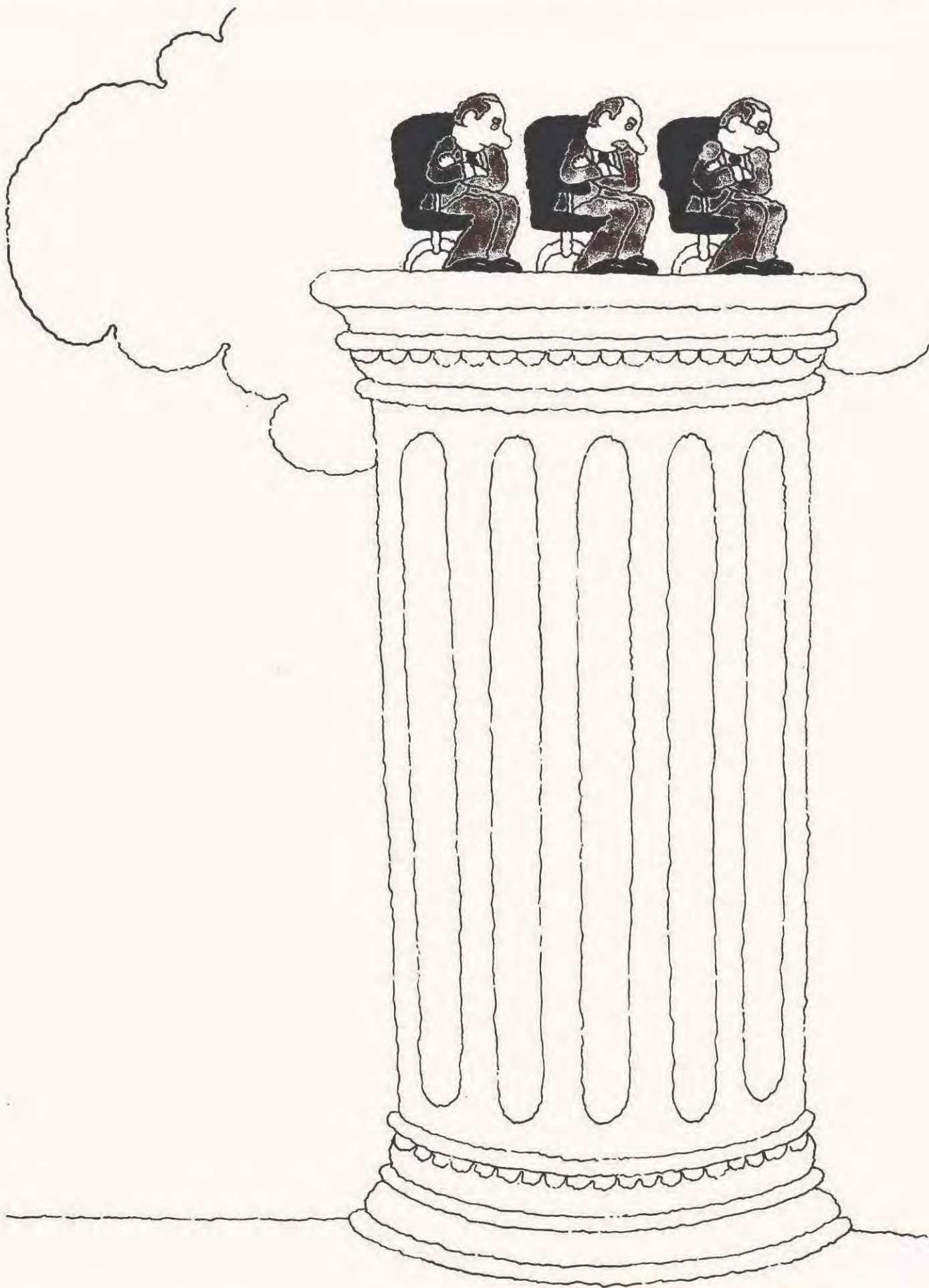
While crime is the hottest computer security topic, "focusing on crime rather than protection and accepted standards places the burden of proof on the criminal," said Irving Trust's Mr. Ross. "We can

never know that a particular system is impervious to crime; we can only know or hope to know that crime has not occurred yet.

"The lack of managed and anticipated risk and tested countermeasures leaves systematic loopholes which a criminal might exploit. Crime will never go away, but its relative impact can be predicted and dealt with, like other exposures."

Crime insurance cannot be a substitute for effective loss prevention, said Reliance's Mr. Felton. "Companies should make the cost of bridging computer security so high as to discourage computer theft."

Data systems security will increase in importance as systems become more sophisticated and decentralized, IBM's Mr. Sullivan noted. More people will have access to terminals and it will take increasing vigilance to prevent the wrong people from gaining access to the wrong data, he added. ■



Sold out exhibit area draws corporate services hunters

By JOHN MAES

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CHICAGO—Mike Gron of RIMS remembers when the RIMS conference exhibit area consisted of four or five insurance companies handing out pamphlets.

It's changed dramatically over the last several years.

The 1979 conference exhibits here were an array of colorfully appointed, professionally designed displays set up by not only insurance companies, but also by risk management consulting firms, security companies and even a book publisher.

The exhibit hall displays have been steadily gaining sophistica-

tion since they were begun in 1970. But, "this is the first year it's been quite this good," according to Mr. Gron, advertising manager of RIMS.

Companies with products and services to sell to risk managers and employe benefit managers have realized that exhibiting at the RIMS conference can be a valuable advertising and educational tool, he said.

RIMS exhibits have become so

popular that the society sold all available display space in the Chicago Marriott Hotel within a week and a half last May. There were 31 exhibitors at the 1979 conference, each firm paying \$1,000 for each 8' x 10' space it occupied.

"When we sell the booths at the outset we encourage people to come up with educational stuff and ideas," said Mr. Gron. "And it's not just for sales, we want people to be able to walk up to a booth and learn something.

"We really tried to get other industries than just insurance, like safety and security, all the services a risk manager would want," he said.



Photo: George Poulos

Wharton School professor Dr. John Cozzolino, left, attracted RIMS conference attendees to the INA booth with his discussion of the science of risk aversion.

One of the exhibitors, Joe Nigro of the General Adjustment Bureau, said his organization has

been displaying at RIMS conferences for 10 years. It has been an "invaluable" tool for marketing and advertising GAB's services, he said.

A lot of the people who stop by GAB's display are from firms about to enter the self-insurance market and are "hunting, feeling as much as they can for answers," said Mr. Nigro, manager of marketing support and advertising for GAB.

Factory Mutual System promoted its "eyes of awareness" safety campaign at its brightly-colored display booth.

A mini-theatre show in the FM booth presented a five-minute film on industrial safety and accident prevention.

One of the features of INA's sprawling display was Dr. John Cozzolino, professor of operations research at the Wharton School, discussing the science of risk aversion with the aid of a computer screen.

Matthew Bender & Co. Inc., a publisher of law and tax books, was a first-time exhibitor. It went to the conference to expose risk managers to the company's line of books on product liability laws, OSHA requirements and other insurance and safety-related law, said Dennis M. Toomey, management service director.

"Risk managers are becoming professionals and if you give them better information at their fingertips, they'll do a better job," said Mr. Toomey.

While the exhibit hall at times would take on the look of a fair with conference attendees strolling from one booth to the next, Mr. Gron said the RIMS society tries to keep the event "educational" and asks exhibitors to avoid lavish drawings or giveaways.

About the most extravagant giveaways were at the Alexander & Alexander booth where the company had a computer set up to produce individual biorhythm charts while it advertised its new risk information service.

At another, members of the Atlanta RIMS chapter were busy promoting their city as the site of the 1980 conference. Their giveaway? Snack bags of Georgia peanuts.

New broker named

Champlin Petroleum has named Emmett & Chandler in Los Angeles as broker for its workers compensation and comprehensive general liability coverages, *Business Insurance* learned. The two coverages were previously brokered by MIS, a Texas brokerage firm which is being acquired by Alexander & Alexander. The Union Pacific Co., which owns Champlin Petroleum, has used Emmett & Chandler as its broker for years, according to the petroleum company spokesman. The premium volume of the workers compensation and comprehensive general liability is about \$1 million.

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Letter lobbying can shape laws: Adviser

CHICAGO—The business community can influence the course of regulation and legislation, but only if it responds quickly to government proposals, a veteran benefits consultant says.

"You'd be surprised how your comments are taken into account" by government policymakers, says Theresa Stuchiner, partner at Kwasha Lipton, a national benefits consulting firm.

Drafters of the pension reform law, for example, dropped a provision that would have frozen integration levels between private pension plans and Social Security after the business community rallied in opposition to the provision, Mrs. Stuchiner noted.

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More recently, a flood of complaints (more than 450 letters in all) from employers has convinced the Labor Department to reexamine a proposal that would require companies to furnish pension plan participants with benefit statements within 60 days of receiving a request for the information. Employers contend the 60-day deadline doesn't give them enough time to supply the information.

Congressional committee staffers are eager to hear from employers, Mrs. Stuchiner observed. "Staffers, above all, want to achieve balance and fairness in legislation," she said. And such a balance is possible only if business and other interest groups come out in the open and make their views known, she explained.

Aside from responding to proposed regulations and legislation, business can take an active role in the formation of long-range policy by assisting government task forces and commissions, Mrs. Stuchiner said.

For example, President Carter's new commission on pension policy, which is looking at some of the problems facing public and private retirement plans, is "very understaffed. Every bit of backup support" from employers can only help, she said.

Turning to pending benefits legislation in Congress, Mrs. Stuchiner doubts if Sen. Harrison Williams (D-N.J.) and Sen. Jacob Javits's (R-N.Y.) latest sweeping attempt (S.209) to amend the pension reform law will be approved by Congress during the current session. But she believes the bill will be reintroduced during the following session.

There is enormous support, however, for legislation that would permit for the first time tax deductions for employee contributions into corporate pension plans.

Allowing tax deductions for employee contributions to corporate pension plans would give employees an incentive to beef up the plans' benefits to ensure that they will have adequate retirement income, she said.

One major obstacle standing in the way of approval of tax deductions for pension plan contributions is opposition from the Treasury Department, which fears that enactment of such a proposal would result in a major revenue loss.

Several bills have been introduced in Congress this year that embody the tax deduction concept. Of those proposals, Sen. Lloyd Bentsen's bill (S.557), which would permit annual tax deductions of \$1,500 or 15% of compensation, whichever is less, probably is most appealing to plan sponsors because it could be implemented within a minimum of disruption, she said.

Broker acquired

Corroon & Black Corp. has acquired Sanders & Sullivan, a San Jose-based brokerage firm, through an exchange of stock. With annual revenues of almost \$2 million, Sanders & Sullivan was the largest independent broker in the San Jose area. And San Jose is one of the fastest growing areas in California, according to Robert F. Corroon, chairman of Corroon & Black.



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Highway risk management

Mich. county agency paves new risk control path

By MARY ELLEN McKEE

CHICAGO—The Oakland County Road Commission, unknown beyond the city limits of Detroit, is paving a new path in risk management: highway risk management.

The Michigan county road commission is the only public body of its kind in the country to launch a separate and comprehensive highway risk management program to cut down on the number of accidents on roadways and the liability exposures of the public agency.

"We don't have any figures to back any claims that the system solves all the problems of highway liability exposures, but what we are seeing is a change in the attitudes, awareness and philosophy of the people within the road commission," noted the commission's risk management coordinator Brent Bair. "The road engineers, the maintenance crew, all the way down to the clerical help, are now thinking like risk managers."

A separate body from the rest of county government, the Oakland County Road Commission launched this program after seeing the death toll on its roadways rise to 820 and injuries mount to 87,000 in a five-year period.

The public cost of all accidents exceeded \$500 million, or more than \$3,000 for every highway crash. By late 1977, accident liability claims against the road commission totaled \$72 million, which is almost three times the commission's budget.

"If we had continued under the old program, liability coverage would have cost the commission at least \$1.5 million, a substantial jump from the \$60,000 cost in 1973," Mr. Bair emphasized.

As part of the risk management program, the road commission is self-insuring against liability claim losses up to \$100,000 per claim with an annual aggregate of \$1 million per year.

"We expect this to save the commission at least \$400,000 in the first year alone. Self-insuring has already meant an insurance premium reduction from \$1.2 million to \$513,240," the commission's risk management coordinator boasted.

In addition to the cost savings of going self-insured, this funding method allows the commission to more efficiently analyze claims in-house to determine where hazards exist and methods of eliminating such hazards for the traveling public.

Road commission employees and the traveling public are the keys to the success of the program, according to Mr. Bair.

To start the program, over 10,000 consumer complaints were processed by the commission and the records of previous and current accident liability claims against the public agency were analyzed to find out what were the major weaknesses in the 2,500 miles of roadway under the purview of the commission.

The agency found that potholes and edge ruts are not simply an inconvenience but often created significant safety problems. As a result, the road commission allocated \$600,000 more for repairing potholes and edge ruts.

Storm losses estimated

Wind, hail, tornadoes and ice connected with two separate storm systems that struck nine Midwestern and Eastern states early in April and caused insured losses estimated at \$38 million, according to the American Insurance Assn.

Employe safety hazards are getting the same kind of treatment in the program. Through an employe feedback process, the commission determined that employe safety efforts existed but were not effective because of a lack of coordination, Mr. Bair explained. So, the commission compiled all employe safety procedures and rewrote them in a standardized style into a single safety handbook.

The commission's risk manage-

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ment program, in the planning stages since late 1977 and in practice at the beginning of this year, is also providing extensive road safety training programs for the commission's 520 employes and a pink slip program.

Pink slip programs are simply a

method the commission is using to encourage employe identification of safety problems on the roads to sharpen risk management awareness and provide more timely notice of weak points.

The commission designed forms so that each employe could report a risk exposure spotted in their daily travels, Mr. Bair explained. "We encourage employes to put some of the forms in the glove com-

partment of a car, so upon seeing the exposure they can fill out the form, thus ensuring greater accuracy," Mr. Bair added.

"Reducing the number of severe accidents does not necessarily solve liability problems on the roadways, but the risk management program in Michigan provides a better defense for the public agency in court and ensures the agency's financial stability," Mr. Bair said.

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Basic health plan mandate due: Panel

CHICAGO—Some form of national health insurance will be passed by Congress next year and will be in effect within four years, predicts Norman Minor, vp of Johnson & Higgins.

Although other members of a panel at the RIMS conference discussing the future of employe benefits were skeptical of this prediction, Mr. Minor was adamant that

the government will soon require all employers to provide a basic health care plan for their workers. The mandated benefits may be similar to those under the present Medicare health program for the elderly, he suggested.

In a wide-ranging discussion about possible changes in employe benefit practices and laws, the panel members also predicted that

in the future:

- A general erosion of mandatory retirement laws would bring about massive changes in the structure of pension plans.

- More employes would retire at close to 100% of their final take-home salary.

- Employes will begin to shift away from demanding increased and expanded benefit programs.

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but will place more emphasis on salary increases.

- Cost of living adjustments would become more prevalent for retirees on company pensions.

A shift to retirement at older ages and an elimination of laws requiring employes to retire after age 65 or 70 were seen by each of the panelists as a sure trend of the 70s. This would not only keep more people in the work force, but would change the way companies handled their pension programs, the experts added.

"Rather than the present all or nothing, I think we will see employes offered partial pensions during the later years when they might stay with the company, but not on a full-time basis," predicted Ed Bush, vp of Towers, Perrin, Forster & Crosby, a management consultant firm. "I think we will start easing the transition to retirement, rather than having this sharp

break at 65."

At retirement, employes will find their benefits come close to providing the same spendable income as their former salary, said Davis Roenisch, senior consultant for Compensation & Capital Inc. The combination of Social Security, the employer's pension program and a company employe's contribution fund (such as stock options) will provide this wealthy retirement benefit, Mr. Roenisch said.

Benefit programs, however, will not increase at the same rate they have for the past decade, Mr. Roenisch suggested.

Instead of greatly expanding present plans or adding legal service plans, group auto insurance, health club memberships and tax consultant services, in response to union demands, employers will switch their emphasis to higher pay, Mr. Roenisch said. This would not only help employes cope with inflation, but would also reduce some economic burden on the employer, he said.

For example, Mr. Roenisch explained, each 1% increase in pension and retirement benefits adds up to a 7% compounded cost for the company.

Foreign branches need benefit rules: Manager

CHICAGO—Benefit managers of foreign subsidiaries should operate under a uniform set of standards to prevent wide discrepancies between operating units, counsels a benefits manager.

While it is necessary for a corporate benefits manager to regularly visit foreign facilities and meet with local management, it is difficult for the corporate manager to run the overseas benefits programs on a day-to-day basis, said Horace Schwartz, corporate employe benefit manager at Bell & Howell.

Because social security benefits vary from country to country, dif-

ferent levels of pension funding are also needed, he said. In addition, costs should be carefully watched to see how they compare with the rest of the international program.

A regional benefits consultant serving facilities in several coun-



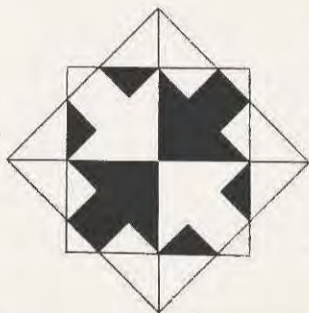
Photo: Ellis Simon

Benefit managers of foreign subsidiaries should use uniform standards says Bell & Howell benefit manager Horace Schwartz.

tries might be beneficial in this task, said Mr. Schwartz. Use of a regional consultant lends itself to more uniform design and implementation of programs in the various countries, he explained.

Among the standards suggested by Mr. Schwartz for guiding benefit managers in various foreign subsidiaries are: comparing the plan offered in one country with that offered by competitors; full integration with local social security programs; current management funding current liabilities and use of cost sharing with employes where labor market conditions will permit.

Overseas benefit managers should avoid, however, voluntary indexing of benefits, pension benefits based on final year's pay, pyramiding of benefits, reacting to individual cases and incorporating the best features of each competing plan, because they sometimes are in conflict, he warned.



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Captives offer options, require analysis: Panel

By KATHRYN J. McINTYRE

CHICAGO—Operating a captive insurance company not only provides the parent company with a stable insurance market but also a flexible one, says Duane Allen, assistant treasurer of Hanna Mining Co.

"You can vary retentions with the conditions of the market-place," he said, illustrating how Hanna Mining has altered its charterer's liability insurance program over the last few years.

In 1970 the premium on the purchased policy jumped to \$150,000 from \$15,000 while the \$10,000 deductible was to increase to \$50,000. As a result, Hanna Mining jumped the deductible to \$100,000, insuring \$90,000 over the first \$10,000 of a loss in its Bermuda insurer Oceanview.

In 1972, in response to still-changing market conditions, Hanna Mining purchased its charterer's liability insurance with a \$10,000 deductible but also assumed a 2½% quota share of the risk on the \$6 million policy.

Mr. Allen illustrated this advantage of maintaining a captive insurance company to one of the best-attended sessions of the RIMS conference. The turnout for a panel discussion on captives illustrated the continuing interest and fascination risk managers have with forming captive insurers.

Two panel members, however, stressed the importance of full analysis of the risk funding alternative by a company before it joins the legions of captive owners.

The proliferation of captives to some 900 "concerns me," said Tom C. Allen of Fred S. James & Co. "I wonder how many of them are soundly conceived. How many are properly managed? How many have planned for their future? How many will fall when the wind of risk blows hard upon them?"

He recommended that risk managers take advantage of the systems "now available which encompass the broad spectrum of financial decisions which confront the management of insurance risk. Modern technology, including the electronic capability provided by the computer, make all this possible" he said.

Fred S. James, for example, uses its own mathematical model to calculate risk scientifically, he said. "If a captive company can weather such rigorous examination, it must be soundly based."

Ernest Liebre, assistant treasurer of FMC Corp., also stressed the importance of thorough financial analysis before embarking on formation of captive. He suggested that a company should particularly consider the alternatives to a captive, such as self-insurance or loss-sensitive insurance policies.

Structuring retrospectively rated insurance plans so that the buyer, not the insurer, holds reserves and premiums are paid monthly instead of annually can provide cash-flow advantages, he noted.

But if a captive is decided upon, its formation should undergo the same financial analysis applied to any new business enterprise, he recommended.

The questions from the audience, however, revealed a wide divergence of understanding of captive insurance company operations. Most queries indicated interest in basic information.

The two-year old tax issue was raised. Many people seem to still misunderstand Internal Revenue Service opposition to deducting as

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a business expense premiums paid to wholly owned offshore captives.

Access to the reinsurance market was questioned, which panel member Edward P. Lalley, president of Ideal Mutual Insurance Co., rather played down. Whether one operates a captive or not, entry to Lloyd's of London is still through a Lloyd's broker, he noted.

The tough questions, such as how to repatriate earning from a captive, were dodged as too difficult to answer in such a forum. ■

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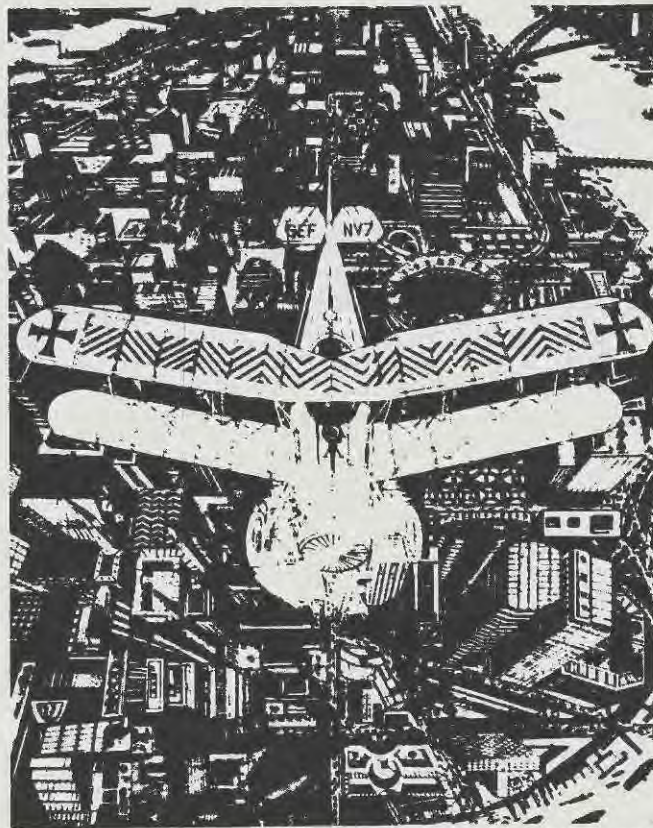
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Excess and Surplus Lines

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Mind employe reaction to self-funding: Execs

CHICAGO—Self-funding employe health benefits and using tax-exempt trusts aren't guaranteed to save money for every corporation.

Benefit specialists warn the advantages and disadvantages of self-funding should be carefully studied before a corporation adopts the funding mechanisms.

One place where it has worked thus far, however, is at Brown & Williamson Industries in Petersburg, Va. The company has been phasing in self-funding of its health insurance benefits since 1976. Benefits manager J.T. Burkhardt said the company saved some \$260,000 in the first year of the program and about \$700,000 as

additional employe benefits went self-insured.

The company, however, couldn't self-fund plans for all employes. While the idea was accepted by the majority of its 10,000 employes, who are mostly tobacco workers, about 1,000 craft union workers preferred to stay covered by Blue Cross/Blue Shield.

The self-insured plan also does not extend to the firm's approximately 70 overseas workers who are covered under a conventional insurance plan with an international carrier, he said.

The plan so far appears to be working, according to Mr. Burkhardt. "There are some start-

up expenses but the pluses outweigh the minuses."

Mark C. Sysler, risk and employe benefits manager for City Stores Co. of New York, said a company should move to self-insurance only after carefully weighing its advantages and disadvantages.

A company should start by analyzing the money saving aspects of self-insurance with its financial department. A feasibility study prepared by a broker, benefits specialist or in-house staff is the next step.

Although some firms have realized savings, there are drawbacks, Mr. Sysler said. "If your plan is contributory, your employes might not want to contribute to it and don't want to participate in it because they don't understand it. They like the feeling of paying premiums to an insurance company." The solution to that problem is effective communications to employes about exactly what the plan means, he said. ■

It's a buyer's market in Canada, too: Broker

CHICAGO—The time is right for Canadian buyers to improve liability coverage and to reduce costs since the country's liability market has finally reached a manageable point, a Reed Shaw Stenhouse Ltd. broker suggests.

A Canadian excess and surplus lines broker agrees with him, but worries that current soft market conditions will lead to a repeat of the capacity crunch suffered in 1975 and 1976.

Loss experience in the primary liability class in Canada should increase by at least 10 points from last year, predicts Arthur W. Despard, the Reed Shaw Stenhouse broker. He bases his prediction on loss experience last year which

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was 88% on \$375 million in volume compared to the 76% ratio in 1977. That's up from the 66% ratio of 1976 and the 56% the year before that.

"The trend is disaster," Mr. Despard states emphatically. "Although the insurers deny it, reserves were increased in the liability lines last year to eat up some of the profit of the property lines, thus providing a hedge."

If this is the case, Mr. Despard maintains, the adequacy of reserves will be realized by settlements of claims during the past 12-month period. Mr. Despard also maintains that the results should be a considerable improvement from the 88% experience, but since 88% was fictional, so will be the new figures.

"We have also seen considerably more companies willing to quote liability than in previous times, but rates seem to be holding very closely to previous years," he said.

Mr. Despard expects that claims experience will again deteriorate in Canada and that premium rates will increase by approximately 100%. "Law changes will dictate those hikes in premiums rates," according to Mr. Despard. While nothing of note seems to be happening now, there are a number of things going on that can do nothing but cause difficulty to our legal system," said Mr. Despard.

Where the U.S. is now working diligently to modify its strict liability approach and get back to a negligence approach on products liability, it appears the Canadian legal system is looking to adopt a strict liability concept.

"Legal schools are graduating a tremendously large number of new lawyers, but there is not sufficient work for these lawyers at the present time and having spent the time and effort to get a degree, they will be aggressively looking for work," Mr. Despard added.

Prepaid legal expenses, a new product in Canada, will provide for defendant actions and plaintiff actions. With a coinsurance clause in the policy, money will be readily available for an injured person to take action against a corporation.

Ian Elliott, president of an excess and surplus lines agency bearing his name, warns buyers of insurance to beware of "flaky" markets and the sudden changes the buyer of insurance is subject to in this market climate.

In 1975, Mr. Elliott recalled, insurance buyers were hurt by amateur brokerage houses offering in-house excess and surplus lines coverage at low prices. When one insurance buyer's first layer of excess liability insurance was up for renewal in 1976, two days before the expiration date the coverage was cancelled. The layer was replaced in eleventh hour negotiations at a much higher premium.

"What this should have taught buyers and brokers is to think twice before switching brokers if one offers premiums attractively lower than the ones you are paying now, Mr. Elliott noted. "Consider the servicing of the account and especially consider that this excess and surplus lines broker will probably carry you through any market crunches," Mr. Elliott added.

"Switching reinsurers at the sight of lower premiums is not good marketing and is poor risk management of an account," Mr. Elliott warned. ■



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Congressional inaction delays pollution policy

CHICAGO—Congressional approval of an appropriations bill authorizing the federal "superfund" to cover offshore pollution liability is a cloud hanging over offshore oil facility operators and owners, according to the president of AIG Oil Rig.

Once the legislation is passed, every company involved in offshore oil operations must have proof of financial responsibility to \$35 million for each facility, Roy Williams said (BI, April 30). Under regulations recently issued by the Coast Guard to implement the 1978 Amendments to the Outer Continental Shelf Lands Act, owners as well as operators are subject to this burden of proof.

The \$200 million superfund, financed through general revenues and a 3 cents per barrel surcharge on oil produced offshore, would cover losses over the \$35 million for which owners and operators are liable.

Because liability of offshore owners is proportional to their financial stake in an offshore facility, furnishing proof of financial responsibility could become cumbersome, Mr. Williams said. Investment houses such as Merrill Lynch market shares in offshore facilities for as little as \$5,000 and \$10,000, he noted.

In addition, requiring that insurance companies that will be approved for writing the coverage be available for direct suit scares off a lot of insurance companies and eliminates use of certain foreign insurance companies, Mr. Williams said. The government also has not published its definition of an "approved" insurance company.

AIG Oil Rig, a pool of almost 300 American insurers, has developed a rating formula for offshore pollution liability and is drafting a form that it intends to submit to the Coast Guard for approval. However, until Congress appropriates money for the superfund, "no one in D.C. wants to talk to you," Mr. Williams complained.

All American Marine Slip, another American offshore pool, has said it will write offshore pollution coverage and the London market is expected to, also.

Mr. Williams said his syndicate's rates for offshore pollution coverage will be in line with the pollution aspect of well control policies currently being sold.

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To date, experience in the Outer Continental Shelf has been good, Mr. Williams said. The greatest hazard is likely to be a well blow-out, he added.

Crude oil is biodegradable after an extended period and it tends to spread out on top of the water, he continued. Fish tend to avoid it by swimming around oil slicks.

Major toxic effects normally occur only when the oil settles along the shore, creating problems for aquatic plant life and oyster beds adjacent to the coastline.



Photo: Ellis Simon

AIG Oil Rig is ready to submit its rating formula to the Coast Guard, says president Roy Williams.

Political risks loom: Exec

CHICAGO—The corporate risk manager should determine the degree of a company's risks overseas and should walk through a set of standard steps to help minimize those hazards, according to Roy E. Pedersen, assistant manager of corporate insurance for Johnson & Johnson Inc.

Recent governmental upheavals, particularly in Iran where there have been sizeable losses, makes it important for the risk manager of a multinational firm to assess the company's risks abroad and take steps to minimize them, Mr. Pedersen said.

A company should estimate the financial impact of losing an overseas facility to expropriation or loss due to rioting or civil strife, he said.

The risk manager should also determine how the host government views the industry the individual

firm is engaged in and how important it is to that nation's economic well-being. This should give the risk manager a pretty good idea as to whether the country would take over the firm's facilities in the event of a rebellion, he said.

After making this assessment, risk managers should then take "corrective action" to reduce the possibility of losses, he said.

Among the safety steps he recommended was for the company to diversify its risk in more than one nation so an upheaval in one country will not wipe out a company's entire overseas operations.

Other productive measures Mr. Pedersen suggested include anticipating governmental action as best as possible, avoiding joint ventures and trying to procure payments in Western currencies.

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N.Y. Exchange backer deflects London's scorn

CHICAGO—The New York Insurance Exchange, much ballyhooed as a lusty competitor for the lucrative Lloyd's business, may not be all it is cracked up to be, several prominent speakers at the annual RIMS conference suggested.

Robin Jackson, managing director of London-based Merrett Dixey Syndicates Ltd., predicted during a speech at the keynote general session that it might be years before the exchange would have any meaningful impact on the insurance industry.

"I find it very hard to believe that the exchange will be operating in any significant way before the end of 1980," he argued. "I think people are now going to start discovering

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it is much easier to think of the idea, put it into writing and get through the New York legislature than it is to actually carry it out."

He said he doubted—and Inso's vp Leslie Dew agreed—that many new syndicates would be started by the end of next year, and that the only ones actively doing business would be offshoots of existing underwriting organizations.

With Maurice R. Greenberg, American International Group president and one of the prime influences behind the formation of the exchange sitting next to him on

the dais, Mr. Jackson said he doubted that the exchange would be able to bring in investors from outside the industry or greatly increase capacity, two reasons it was started.

Mr. Greenberg rejoined, however, by pointing out that the "colonists have learned something in 200 years" and argued that the exchange would be able to learn from Lloyd's past mistakes in doing its job. He agreed that it would take a few years for the exchange to establish itself as a major factor in the insurance field, but added he thought it would be an important one when coupled with the free trade zone. (AIG has written between \$5 million and \$6 million to date in the free trade zone, Mr. Greenberg revealed to *Business Insurance* following his speech.)

The exchange is now receiving applications for prospective underwriting and broking members and is scheduled to open in late 1979.

Competition . . .

Continued from page 13 after the session.

Mr. Greenberg said his company is finding that it's getting between 10% and 15% fewer risk submissions than a year ago and that for policies underwritten, premiums have dropped as much as 25% from a year ago, with most averaging between 10% and 15% less.

Trying to hold firm on premium rates will mean that Merrett Dixey will lose between 20% and 25% of its American casualty excess business, Mr. Jackson predicted. He said he has already noticed submissions are down about 25% or 30%. And premium reductions have ranged anywhere between 50% and 10%, he said.

Clients who go jumping from one underwriter to another in search of bargains may find that the original underwriter will have a long memory about it, however, he warned.

"We are trying to make note of those who could have bought their product cheaper and didn't," Mr. Jackson said, arguing that buyers are better off not moving around in a competitive market because that way they will have a

home when the market gets tight.

His contention was supported by AIG's Mr. Greenberg who said a study his company commissioned showed that clients were better off staying with one company during the peaks and valleys of the market cycle, rather than switching around at whim.

Part of the cause of this fluctuating market, Mr. Jackson argued, was that underwriters and insureds were always trying to get back at each other for what they see as past years of price gouging or spectacular rate reductions. This pattern of risk managers retaliating for times they thought they were being treated unfairly and insurers getting back for years of large losses is aggravated by brokers who fight for rate reductions because they are "more scared of losing an account than anything else," Mr. Jackson said.

This maneuvering back and forth is only worsened by a pattern Mr. Jackson sees as too many insurers "writing business today who are significantly underreserved."

He said moving away from the old standard of a 2-to-1 premium to surplus ratio to ratios of 4-to-1 or

5-to-1 borders on fiscal lunacy because investors won't put their money into insurers and the industry won't attract new capital.

Captives and reinsurers also came in for some criticism, particularly from Mr. Greenberg.

Captives are increasingly moving into third-party business, a trend he sees as ballooning the glutted reinsurance market.

"The rush to establish captives has outgrown the original purpose. Companies have stretched them far beyond this purpose," Mr. Greenberg said.

These trends, plus others that Mr. Dew said were symptomatic of a frenzied industry—three-year casualty policies being written again, policies written without any cancellation penalty provisions, and "risks are being written, rewritten and rewritten" again as brokers play underwriters off each other—are ones that might continue ad infinitum, Mr. Jackson predicted.

Pointing out that he spoke of the same industry ills 10 years ago, Mr. Jackson said he hoped that the industry would finally learn from its mistakes. But he doesn't have much faith in underwriters, whom he said could find soul mates in the populations of "lemmings and ostriches."

RIMS elects 1980 officers; adds two new vice-presidents

CHICAGO—Berry L. Griffin, risk manager of Baker International Corp., of Orange, Calif., is the 1979-80 president of the Risk & Insurance Management Society elected at its 17th annual convention here.

Elected first vice president and likely to succeed Mr. Griffin as president during 1980-81 was Paul H. Ozan, assistant corporate secretary and assistant general counsel of American Greetings Corp. of Cleveland.

Newly elected vice presidents of RIMS are: John Robert James, vp of Chemical Bank New York Trust Co., serving his second term as RIMS vp-communication; Marc Darby, insurance coordinator of Societe d'energie de la Baie James of Quebec, serving as vp-member affairs and secretary; William K. Hopewell, manager of employe benefits of Beaunit Corp. of Raleigh, serving as vp and treasurer, and Steven B. Steinberg, risk manager of Weingarten Inc. of Houston, serving as vp-conference.

Four separate vice presidents were established this year, one each for research, education, gov-

ernmental affairs and business and industry liaison. Previously, there had been two separate vice presidents, one for research and education and one for government and industry relations.

Filling those new positions are: Edith F. Lichota, assistant treasurer of Carborundum Co. of Niagara Falls, N.Y., vp-governmental affairs; Kathryn H. Carroll, corporate insurance manager of Varian Associates of Palo Alto, vp-education; William P. Stouffer, operating vp and director of corporate insurance of Federated Department Stores of Cincinnati, vp-research, and C.J. Spivey, executive director of the Insurance and Risk Management Committee of Charlotte Mecklenburg, N.C., vp-business and industry relations.

The first Harry and Dorothy Goodell Award in recognition of significant contribution to the growth of RIMS and presented by the society's first president and his wife was given to E.W. Altstaetter, staff vp and pension, insurance and risk manager at Rockwell International Corp. of Pittsburgh.

Mr. Altstaetter was president of

RIMS during 1974-75 and has been active in other insurance and industrial organizations.

The Kansas City RIMS chapter presented its Dick Bland Award for contributions in the legislative area to Russell A. Drake Jr., director of risk management for Borden Inc. Mr. Bland was a former member of the Kansas City chapter who was killed in an automobile accident.

A special award was presented by RIMS to J. Carroll Bateman, retiring president of the Insurance Information Institute, for his efforts at developing an improved liaison between the insurance industry and RIMS.

In addition, outgoing president C. Paul Kipp announced that the RIMS executive committee has established a scholarship fund in memory of Robert S. Spencer. Mr. Spencer, who was president of RIMS during 1977-78 and vp-insurance at Fuqua Industries of Atlanta, died of a heart attack in February.

The new RIMS officers assumed their responsibilities to the society May 1.

London connections can hurt buyers: Observer

CHICAGO—Who gains more when a marriage is made between American and London brokers, the U.S. buyer or his broker?

The question was asked by E.J. Gordon Henry, chairman of the London-based Matthews Wrightson Holdings Ltd. during his speech to the general session of risk managers at the RIMS conference here.

There may not be a correct answer, but the question is one that every U.S. insurance buyer should be considering as links between U.S. brokers and London brokers are being established, he suggested.

The danger lies not only in the question of who really benefits, but in a possibility that by tying in with a London broker, the U.S. representative might become a "one-channel operator" in the London market, "thus diluting the benefits of competition and denying access to specialist skills available elsewhere," Mr. Henry observed.

He acknowledged some benefits of the U.S.-London affiliations, such as the advantages direct access to the London market can bring. But he added that these often long-standing business connections between the two countries' brokers are going through "the most considerable upheaval in their history."

Small companies, especially vulnerable to the large broker hook-ups, are the ones who most need stability and continuity in the insurance market, Mr. Henry said. Yet, price competition is only further fueled by these large broker links. The only ones who benefit under circumstances like that are the very large corporations, he urged.

Commentators . . .

Continued from page 13 enormous popular support in countries where it is offered. In Canada, for example, 84% of residents said they approve of the provincial health insurance plans, the highest rating given to any public program.

In the U.S., however, national health insurance lacks public support, Mr. Kilpatrick said. A more desirable alternative to a comprehensive plan might be a program in which Americans were assured protection against "catastrophic" medical or hospital bills, Mr. Kilpatrick predicted that legislation providing catastrophic benefits might gain congressional approval during the current session.

Ms. Alexander advocated the adoption of a national no-fault automobile insurance plan so that more benefits would be paid to the accident victims rather than being snared by the trial lawyers.

But Mr. Kilpatrick said it remains unclear if no-fault really works as well as its advocates claim. Furthermore, each state would have the right to decide for itself whether it wants to adopt such a system instead of having Washington impose federal standards.

Mr. Kilpatrick opposed a no-fault automobile compensation system on philosophical grounds, noting that "we ought to be responsible for our accidents."

Not surprisingly, Ms. Alexander and Mr. Kilpatrick also were at loggerheads on the need for federal regulation. Mr. Kilpatrick said regulations are beginning to intrude

He also indicated that these very large brokers have the potential to misuse their influence to force underwriters into cutting premiums to dangerously low levels.

Large U.S. brokers are already switching their clients' business in the London markets out of some Lloyd's brokerage firms and into the firms with which the U.S. firms have set up affiliations, Mr. Henry said.

Captive funds expand pool of capacity

CHICAGO—The growth of Bermuda captives continues unabated, with the top 27 facilities now representing an estimated \$823 million in total capital and surplus, Leslie Dew disclosed at the RIMS conference here.

There are now 750 active captives out of the 900 registered in Bermuda, with those smaller than the top 27 representing an estimated \$1.5 billion in additional surplus and capital, said Mr. Dew, vp of Inso Ltd., Gulf Oil's large Bermuda insurance subsidiary.

Captives going into the third-party business have doubled in number over the past year, Mr. Dew said, with the amount of third-party business written now variously estimated at between \$3 billion and \$4 billion.

The future of facultative reinsurance doesn't look good in Bermuda, however. There are only about five or six leaders in the field there now and that really isn't enough, he said.

on personal liberties and that the costs of regulation are just going out of sight.

But Ms. Alexander said federal regulation can be deflationary since the benefits sometimes far exceed the costs.

Claim . . .

Continued from page 13 not so. In reality, the broker is neck-and-neck with *Business Insurance* in calling the shots. But I think the broker will come in ahead in that race by many lengths . . . or any lengths."

That disavowal of power was about the only thing the four of them agreed on the entire session. Just getting them to sit together was a feat of diplomacy.

As Mr. Henry pointed out in his speech, "I am honored to share this platform with these three gentlemen who are reluctant to share anything with anyone."

Donald Browne, vp of Atlanta-based First National Holding Corp. and moderator of the session, said he figured the only way to get all four to come to the panel was if "I invited them all at the same time and told them who else would be there. I figured if I did that, none of them could afford not to come." (Peter Wilson of the Weavers Syndicate in London did manage to decline, however.)

Once there, the speakers had to decide who would speak when. Lots were drawn with Mr. Jackson first and Mr. Henry closing, which none seemed particularly charmed about.

Experts debate merits of no-fault system

CHICAGO—Sparks of controversy flew as three prominent legal experts squared off to debate the merits of scrapping the current tort liability system with a no-fault compensation system.

No-fault zealot Jeffrey O'Connell, a law professor at the University of Illinois, charged that the current fault-based system is a nightmare for everyone "save the trial lawyers."

"The accident victim doesn't know if he will be compensated, when he will be compensated and how much he will be compensated," Mr. O'Connell said. "Right now it is hard to imagine anything working worse than our fault system," he contended.

But Robert Begam, a former president of the Assn. of Trial Lawyers of America, said the tort liability system has a vital "therapeutic" effect. The fear of a large jury verdict acts as a powerful incentive for manufacturers to produce safe products, he maintained.

Chicago defense attorney Louis A. Lehr also defended the fault system, contending that no-fault would not save the dollars its proponents claim, since "there would be a dramatic increase in the number of claims filed."

Mr. O'Connell told a special RIMS seminar on the future of no-fault that an enormous amount of money is wasted in a fault-based system. For example, only about 28 cents of each medical malpractice insurance dollar ever reaches the injured victims, with the rest going to pay defense and plaintiff attorneys and other insurance costs.

Mr. Begam conceded that the tort system is expensive and at times, inefficient. "But it is a terribly appropriate system for a democratic system. Quickness and efficiency are not necessarily virtues when you are talking about justice."

Mr. O'Connell cited Michigan's no-fault automobile law as a shin-

RIMS REPORT

ing example of how no-fault can dramatically raise the level of benefits going to accident victims at no higher cost than the fault system in which benefits are much lower. Coverage under Michigan's no-fault law pays unlimited medical expenses as well as up to \$58,000 for lost wages. This insurance costs about the same as only \$20,000 of traditional liability insurance based on fault in which relatively few of the seriously injured victims were paid much, if at all, Mr. O'Connell contended. ■

Easy to read contracts are best: Exec

CHICAGO—The contract that says it is the simplest says it the best, maintains the assistant corporate insurance manager for Pullman Inc. here.

Contractual arrangements are often a touchy, sensitive matter and their provisions are best spelled out in plain, simple English rather than the often lofty and complicated legal language, or "gobbledygook," as Raymond A. Zadenetz called it.

For the risk manager, this is especially important in the area of contract indemnification, which if written in as short and simple a form as possible will ensure that all parties are aware of who is insured and who is not, he said.

"Gobbledygook in contracts has got to go," said Mr. Zadenetz at a RIMS seminar on managing contractual exposures. "Would you believe I once saw a 42-page lease for a small office?" he asked. "It was probably drawn up by a young lawyer who wanted to be proper and legal."

But whether the reading is simple and brief or lengthy and arduous, Mr. Zadenetz said the risk manager should read the entire contract to get a "full idea" of the corporation's liability exposure. ■

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THE HARTFORD



Benefits abroad:

Changing rules upset plans, managers

By STUART EMMRICH

NEW YORK—Uncertainty over proper methods of funding and administering benefit plans for West German employees is confusing and worrying managers, said Gunther Hox, managing director of Swiss Life Insurance Co. at a conference here on international employe benefits.

West Germany's courts and government are at odds over what the rules should be for establishing benefit plans and paying claims, he said at the meeting sponsored by the World Trade Institute.

No one knows right now what to do on questions of pension vesting, pension eligibility and the integration of benefit plans with social se-

curity. As a result, Mr. Hox said, the benefit field is in limbo. Any benefit changes are being deferred.

Elsewhere around the world, mandated benefit changes seem assured, speakers said. In Belgium, a transition to a new government seems certain to bring changes in laws affecting employe benefits. These imminent changes are creating confusion and delays in benefit administration, said Koan De Ryck, division manager of Banque Bruxelles Lambert S.A.

Belgium's depressed economy is making benefit managers even more wary of making changes in benefit plans, said Mr. Ryck, who noted that no one seems willing to

put money into new benefits because companies might be in financial jeopardy and might not be around five or 10 years hence. Moreover, he said, benefits in Belgium are already at high levels.

U.S. corporations sending workers to Great Britain are having to deal with the enormous tax bite as high as 83% of gross pay taken out of an employe's paycheck, said Vincent Simone, managing director of international benefit services for Leslie & Godwin Ltd., based outside London.

To compensate for the high tax rate, many employers pay astronomically high salaries to employes sent to the U.K. simply so they can maintain the same standard of living they had in the U.S.,

he said. For example, an employe making \$50,000 in the U.S. may have to earn \$150,000 in the U.K.

What's more, an employer sending a worker to Britain will end up paying about five-sixths of the cost of national health and social security benefits in the U.K. which are mandatory for everyone, employed or not. These benefit costs are high and going higher, Mr. Simone pointed out.

South Africa appears to be moving toward mandatory pensions, said Jan Snyman of South African National Life Assurance Co. Most employers already provide pensions for their workers, he said, although some—both large and small companies—still do not have

retirement programs.

If a pension law does pass, as expected, employers with workers in South Africa will probably have to provide "final pay" schemes, said Mr. Snyman. Although these are more costly than pensions based on career average pay, the law is likely to require that pensions be based on final pay because of South Africa's high inflation rate.

South Africa also is likely to prohibit lump sum payments of retirement benefits, he cautioned employers at the benefit conference. This would require many companies now distributing pension funds to retiring workers in lump cash payments to change their programs. The law is likely to require employers to pay retirees in periodic installments out of a U.S.-style pension trust fund, to protect employes over the long run, Mr. Snyman believes.

Workers in Australia demand better pensions

NEW YORK—Australian workers are increasingly discovering the need for retirement benefits, promising to make pensions the industrial relations issue of the next decade there, predicts an Australian benefits expert.

A union strike of one of the nation's largest retailers over pension demands indicates increasing labor interest in pensions, says Bruce Cook of the Australian actuarial firm of Campbell & Cook. Traditionally, contract negotiations between Australian companies and employes have centered only on salaries, he said.

Only 56% of the Australian work force is covered by pension plans. Long periods of employment are required before employes can join the plans and even then full benefits are not guaranteed as in the U.S. under the pension reform law's vesting rules.

In the recent strike over pension issues, the Storemen and Packers Union demanded that the Woolworth's retail chain (not related to the U.S. stores) provide a pension fund that allowed full vesting after three months. That demand—which Mr. Cook said the union would "never" get—would, in effect, allow employes to walk away from the company with a substantial tax-free savings fund made up of employer and employe contributions after only a few years of employment.

The union also wanted the company to give it control over the huge amount of pension funds.

"If this were successful, there would have been a chain reaction. One company would have fallen after another," Mr. Cook argued at the recent conference in New York on international employe benefits.

Although the union was ultimately defeated in its strike by successful cooperation among competing retailers, publicity over the issue of pension benefits is bound to have lasting results in Australia, Mr. Cook said.

As one union leader was quoted during the strike, "Anyone who doesn't believe that the industrial issue to dominate the next decade will be the question of benefits which should accrue to workers on retirement is stark raving bonkers."

Some business leaders and consultants are calling for an employer-controlled national pension fund to correct participation and vesting problems and to head off the union demands for control, Mr. Cook said. But chances are slim that will happen, he added.

Some reforms seem possible, though full vesting will probably be instituted after five years, with lower eligibility periods required, Mr. Cook predicted. He suggested that employes should contribute 2.5% of salary, and the employer add between 2.5% to 5% of salaries.

Canada will mandate higher pensions: Expert

NEW YORK—Canada is sure to change its laws governing pensions in the next few years, requiring higher employer contributions to plans and increasing benefits for employes, a top Canadian actuary says.

John Seltzer, president of GBB Associates Ltd. in Toronto, told participants at the International Employe Benefits conference here that sweeping changes will alter the pension system by 1980, no matter what party wins the current election.

The level of pensions will likely jump to about 60% of the average wage, up from the present 35% to 40%, Mr. Seltzer said. Employer contributions to pension plans will probably double in the next couple of years to approximately 13.5% of payroll from the present 3.6% to 6.8% of payroll.

Another change seems likely in

the area of vesting. Although the law presently allows a lengthy period before employes are vested in a pension plan, Mr. Seltzer predicts it will be changed to allow complete vesting when the employe's age plus years of service equals 35.

Employers will also be forced to pay a greater share of the cost of funding the pension plan for employes in the early years of employment, he added. Under the present system, employes pay the entire contribution to the pension program during their first few years of participation in the plan. Any change in the pension law will probably require that the employer share in the costs from the beginning of employment, Mr. Seltzer said.

Also being debated by politicians and government agencies include some form of inflation insurance for pensions.

info for buyers

• The U.S. Chamber of Commerce is offering its latest analysis of **workers compensation** laws in the U.S., Guam, Puerto Rico and Canada. The analysis lists mandated benefits and provides a reference of workers compensation administrators and commissioners in the 50 states. Cost is \$6 for single copies, discounts for bulk orders. Write Chamber of Commerce of the United States, 1615 K St., N.W., Washington, D.C. 20062.

• The Labor Department has published the first of a 12-part series of brochures in Spanish explaining the rights of **pension plan** participants under the Employee Retirement Income Security Act (ERISA). Free copies of the brochure, "Informacion General de ERISA," may be obtained from the Pension and Welfare Benefit Programs, Labor-Management Services Administration, Room N-4659, Third St. and Constitution Ave. N.W., Washington, D.C. 20216.

• New Directions in Employe Communications is the name of a newsletter available from Kwasha Lipton. The brochure examines the traditional means of communicating **employe benefits** and offers some new things to consider when designing a communication pro-

gram. For a free copy write Dept. M, Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• **Profiting from Safety** is the name of a booklet published by Industrial Indemnity of San Francisco illustrating the benefits of a safe and healthful working environment realized in the workers compensation program. The booklet also highlights federal and state regulations, first-aid capabilities and claims and rehabilitation services and lists information sources specially prepared for numerous types and sizes of businesses. For a free copy write Home Office Loss Control Dept., Industrial Indemnity, P.O. Box 3660, San Francisco, Calif. 94120.

• Are there any loopholes or weak points in the insurance program for your truck and automobile sales and service agency? RIMCO Inc. is offering a checklist that it says can quell your doubts. The **insurance checklist** provides specific guidelines, questions to ask and points to consider when evaluating an insurance program. Cost is \$10. Write RIMCO Inc., 10300 N. Central Expressway, Suite 350, Dallas, Tex. 75231.

• Industrial Risks Insurers is now

offering a four-page **arson checklist** to help the property owner evaluate his defenses against incendiary. For a free copy write Communications Dept., Industrial Risks Insurers, 85 Woodland St., Hartford, Conn. 06102.

• **Loss prevention and protection** for chemical and petrochemical plants is the subject of an Industrial Risk Insurers brochure which analyzes 110 fires and explosions over \$250,000 each in chemical and petrochemical plants. The brochure reveals that the major cause of the losses was equipment design and operator error and then discusses increased hazards, construction suggestions, fire protection procedures and an extensive bibliography. For a free copy write Communications Dept., Industrial Risks Insurers, 85 Woodland St., Hartford, Conn. 06102.

• Even if you are a small private company you may have considered instituting an **employe savings plan**. Savings plans are no longer limited to the larger Fortune 500 companies. Pension Planning Co. Inc. has prepared a summary of plan provisions which may answer some of the questions you've been asking. For a free copy write Communications Dept., Pen-

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sion Planning Co. Inc., 355 Lexington Ave., New York, N.Y. 10017.

• **A Comparison of Pension Plans** is a four-page brochure from David Langer Co. Inc. that contrasts a prior plan and an amended plan. Factors considered are number of covered employes, total salary, annual pension benefits, insurance volume, pension contributions and insurance premiums. For a free copy write the company at 60 E. 42nd St., New York, N.Y. 10017.

• Clayton Environmental Consultants, a technical services unit of Marsh & McLennan is now offering a brief summary of recent **federal laws relating to health and safety of toxic materials**. For a free copy write Clayton Environmental Consultants, 25711 Southfield Rd., Southfield, Mich. 48075.

• Do you know how the **new man-**

datory retirement act will affect your company's benefit program? If not, then read a newsletter prepared by the Pension Planning Co. Inc. that reviews the basic provisions of this law and the possible impact it will have on employe benefits in the future. For a free copy write Communications Dept., Pension Planning Co. Inc., 355 Lexington Ave., New York, N.Y. 10017.

• **Safety & Security for Supervisors** is a 40-page, pocket-size daily calendar booklet. It provides an on-going supervisory training program including questions and answers about OSHA, a safety checklist form and case histories, articles and forms on industrial safety and security. For a free sample of the calendar designed to sharpen safety awareness write Bruce Singer, assistant editor, Man and Manager Inc., 799 Broadway, New York, N.Y. 10003.

Lloyd's broker targets expansion of U.S. business

By JOHN H. MILLER

LONDON—Lloyd's brokers Alexander Howden plans to increase its share of the U.S. market—\$500 million in 1978—by intensive development of business interests.

"We intend to continue our policy of local growth in the U.S. where we have close relationships with several major brokers and insurance producers going back many years," announced group chairman, Kenneth V. Grob.

Howden group already has a strong U.S. organization and is giving top priority to further corporate acquisitions. One of its U.S. directors, B.J. Daenzer, reportedly earned nearly \$600,000 last year.

Reciprocal law

Draft proposals for quicker ways of enforcing major U.S. court awards in Britain are still being examined by government lawyers.

The issue was first raised two years ago (*BI*, June 13, 1977) after joint talks between the U.S. and U.K. Governments led to a scheme for a reciprocal law convention between the two countries.

This would have led to either country's court awards being automatically enforced in the other country instead of having to go through lengthy legal processes as at present.

But when businessmen in Britain realized the mounting size of some U.S. product liability awards, they immediately protested that the new convention would be unfair because the legal systems in the two countries are different in many ways.

For example, there is no such thing as punitive damages in Britain. Awards are made by specialist judges on the basis of the victim's losses which are actually incurred, rather than on the judgment of juries, which virtually no longer exist in the U.K. for civil suits.

Daniel Meinertzhagen, chairman of Royal Insurance group, recently joined the opposition to the convention. The convention will import a system of foreign law in Britain, he said, because some of the U.S. awards are made on a basis alien to British attitudes of law.

Efforts to restrict the convention by excluding "grossly excessive" damages and other controversial aspects are now being studied by U.K. Government legal officials in the hope of presenting them to the new government which will take office after the General Election.

Marine market row

London marine insurers are involved in another row over the level of premium rates that ought to be offered to major world shipping owners in times of fierce competition.

Leading Lloyd's underwriter Michael Maughan of the R.W. Sturge syndicate has quit the insurance market's Joint Hull Committee on a point of principle after internal arguments over rates.

His place as deputy chairman is being filled for the time being by John Oliver, another top Lloyd's man. But there will still be further moves in June to re-elect the committee's executive officers.

John D. Russell Taylor of the company market, who represents the Sun Alliance London group on the Institute of London Underwriters, is staying as chairman of the committee. The committee tries to act as a voluntary body in regulating competition.

Dissension is believed to have been caused by recent renewal levels for the Y.K. Pao shipping fleet at keen prices which some underwriters felt necessary in order to retain the business.

Though only 10% of the fleet's \$600 million world cover is placed in London, it is sufficiently large to make it attractive to any syndicate looking for business that might otherwise be picked up in U.S. or other competitive markets.

But there are some members of the London market who say that shipping risks should not be accepted at unrealistic levels just in order to keep clients happy. They argue that underwriting losses al-

ready loom too heavily to justify cheap rates.

Twice before there have been resignations from the joint hull committee on "rate cutting" issues, first by A. Henry Chester of Lloyd's in 1976 and then by E.D. ("Ted") Rainbow of the company market in 1977.

Vietnam oil risks

Leaders of Vietnam's state-controlled insurance industry are placing substantial reinsurance lines for its newly emerging offshore oil projects in the London market.

They have recently visited the

U.K. for talks with international brokers Sedgwick Forbes Bland Payne, a recognized specialist in handling worldwide oil risks for many years.

During their visit they met Peter Green, one of the Lloyd's marine market leaders in offshore risks, and other underwriters in this field.

The result is likely to be that virtually the entire reinsurance cover will be met in the near future by the London market, though it could be spread over other markets if intended oil production meets or exceeds expectations in the years ahead.

So far Vietnam's inquiries have

involved only reinsurance for drilling rigs, usually worth up to \$30 million, and other units needed for exploration off the southern coasts of Vietnam near Ho Chi Minh City and other areas in that proximity. The new regime in Vietnam has embarked on an oil program intensively in the last six months, with offshore leases being granted to Canadian, German and Italian companies for potential development.

Direct insurance for exploration risks is being placed with Baoviet, the Vietnamese state insurance company, which will then lay off some of its exposure through reinsurance.



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Blues to cut payments for more hospital tests

By JOHN MAES

CHICAGO—Blue Cross/Blue Shield Assns. has recommended that member plans include surgical patients in a project to cut rising hospital costs by reimbursing patients for routine hospital admissions tests only when they are specifically ordered by a physician.

The association of plans announced last February it would recommend that Blue Cross/Blue Shield reimburse non-surgical patients for the "admissions battery" only when ordered by a doctor (*BI*, Feb. 19). The new measure would include patients being admitted for surgery as well.

Blue Cross/Blue Shield is the nation's largest third-party health care payers with 130 member plans paying medical and hospital bills for 112 million persons.

The admissions battery includes such tests as chest x-rays, electrocardiograms, urine analysis, blood chemistry screening, complete blood count and a check for venereal diseases.

Walter J. McNerney, president of the plans, said that the new measures could not only cut costs, but would also "assure that the procedures performed on our subscribers are consistent with professional standards for quality medical care."

The association said it was too early to predict how much money would be saved per year. Some 16 million persons are admitted to hospitals each year as surgical pa-

tients and \$1.1 billion is spent on admissions tests, an average of about \$69 per patient. The non-surgical portion of the program could save plans as much as \$200 million of the \$1.3 billion annual cost of admissions batteries for them, Mr. McNerney has said.

Surgical patients make up about 45% of all those admitted to hospitals each year, a Blue Cross/Blue Shield spokesman said.

It will take about a year before the new policy on admissions batteries becomes operational among member plans, Mr. McNerney said. But an association spokesman said the non-surgical portion is already at work in Arizona while hospitals in Michigan may adopt it in July. ■

Doctor influence . . .

Continued from page 1
unsupportable."

Mr. McNerney said Blue Shield has successfully held down costs and that 62% of Blue Shield subscribers are in plans run by boards with nondoctor majorities.

Futhermore, Mr. McNerney contended that there is little or no correlation between the number of physicians on the Blue Shield plan

boards and the prices charged to subscribers.

Under FTC procedures, public hearings must be held on the staff's proposal. At the end of hearings, it will be up to the FTC commissioners to decide if they want to adopt, amend or reject the draft proposal.

Observers believe that a final rule could be at least several years away. ■

Pregnancy benefits . . .

Continued from page 2

cal benefits. The reply he received is one very similar to the recent guidelines, Mr. Blick claimed.

"This ultra-liberal interpretation of the law by taking an idea and reversing it is a dangerous concept and an unacceptable practice," argues Mr. Blick. "The problems stemming from this interpretation will extend beyond that of extra premium burdens. What's to stop similar thinking about old age discrimination and providing benefits for the retiree equal to those for the person working and the pregnant woman."

Pricing problems

Meanwhile, most insurers are going to wait before pressing the panic button to see what kind of effect these guidelines will have on benefit costs, but all of the insurers contacted by *Business Insurance* are upset about the nine-month extension of all medical benefits to women disabled by pregnancy on pregnancy leave.

"Aetna Life & Casualty Co. will follow the instructions of its policyholders" says group experience rating director F.X. McLennan. "We will comply with federal maternity guidelines. The latest change will stay in effect until Oct. 29, marking the one-year anniversary of the federal maternity law."

Mr. McLennan foresees, however, problems in determining how to price the nine-month extension, but admits that that's because these guidelines hit the industry by surprise. "We had no idea these

guidelines would be thrown into the final EEOC regulations, so obviously, we have not given any thought to rating schemes."

Likewise, Prudential will cover whatever the regulations ultimately "are proven to mean," states Dennis Walsh, vp. "We will insure, subject to the request of our policyholders," he asserted, adding, however, that Prudential will absolutely not market the coverage.

"This extension will be hard to market and difficult to administer," claimed George Walsh, Prudential's vp-group insurance of Chicago.

"Open-ended"

Connecticut General, on the other hand, has not decided its position as to how the guidelines will determine premium rates yet. However, the major group benefit insurance company is going to wait until the insurance industry, trade associations and employer groups meet with EEOC this week for a confrontation on the issue. "It is possible that the guidelines could lead to litigation," admitted a staff attorney for Connecticut General.

"EEOC has given us an extremely open-ended set of guidelines, leaving employers and insurers no choice but to fight back," the Chamber of Commerce's Mr. Knapp added. ■

New services outlet

ESIS Inc., an INA Corp. company, has opened a satellite office in Seattle to provide risk management services to companies in the Northwest.

errors & omissions

• In the April 30 issue of *Business Insurance* it was mistakenly reported that the directory of HMOs across the country which was prepared by the National Assn. of Employers on Health Maintenance Organizations is available for \$25. The directory is available only to NAEHMO members and for \$325.

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around the states

N.C. bill seeks reports on product liability losses

RALEIGH—Legislation has been introduced in the North Carolina house requiring insurance companies doing business in the state to report their product liability loss and claims experience to the insurance commissioner.

Ten other states have passed similar reporting bills in the last year.

The reporting bill also would authorize the state legislative research office to analyze tort reform bills that have been passed in recent years in other states.

Tex. awards benefits

AUSTIN—The Texas supreme court has upheld a lower court decision that the widow of an oil field worker who choked to death while eating a midnight supper in a company-owned house trailer is entitled to workers compensation benefits.

Texas Employers Insurance Assn. had declined to pay benefits.

N.D. work comp

BISMARCK—Workers compensation premiums paid by North Dakota employers will increase an average of 9%, according to the chairman of the state's Workmen's Compensation Bureau.

Bronald Thompson attributed the premium raise to increased widows' benefits, average weekly wage increases and rising medical costs.

Premiums for nine job classifications with significant losses will be increased 17% to 18%. Premiums for 45 classes with relatively good records will increase 3% to 7%, while premiums for 89 other classes will increase 7% to 14%.

A bill approved by the 1979 legislature to provide supplementary benefits to claimants will result in larger increases in premiums in the future, Mr. Thompson said. The bill prohibits raising premiums during the next two years because of the additional benefits.

Me. mandates benefits

AUGUSTA—A measure requiring that female workers be covered for pregnancy-related disabilities by all employers offering other disability coverage was signed into law by Maine Gov. Joseph E. Brennan.

The new law is designed to insure that no pregnant women be forced out of their jobs or be denied sick leaves or other medical benefits.

Basically, employers will be required to treat women workers who cannot work because of pregnancy the same as they treat other workers who cannot work because of another disability not connected with work.

Calif. rules on pensions

LOS ANGELES—A Los Angeles superior court judge has ruled that California retirement laws that interfere with judges' widows' right to remarry are an unconstitutional denial of equal protection.

Judge Alfred Margolis ruled that the Judges Retirement Law as it relates to surviving spouses is a "hodge-podge," which in most cases does not allow remarriage without loss of benefits.

While the ruling applies only to the Judges Retirement Law, it could have a significant impact on other state, county and city retirement plans if upheld on appeal.

The judges ruling will affect 207 judges' widows, 90% of whom

could have lost their husbands' retirement benefits.

No comp benefits

FRANKFORT—A death and injury resulting from the 1977 Beverly Hills Supper Club fire were not work-related and claimants are not entitled to workers compensation benefits, the Kentucky court of appeals ruled.

The three-judge appellate panel ruled in a case brought by Robert J. McCoart, guardian of James P. Lyon's children. Mr. Lyon, killed in the fire, was president of the Lyon Steel Corp. in Covington. A foreman of the company's opera-

tions in Murray injured in the fire also sought benefits.

The claims contended the two had gone to the Southgate, Ky., nightclub the night of the disastrous fire to discuss business and they deserved payment under workers compensation.

The appellate court said that no business had been discussed during the evening. "In our view the evidence is not so strong as to compel a different result," the appeals court said.

Minn. work comp

ST. PAUL—Insurance companies will ask the Minnesota insur-

ance commissioner to increase workers compensation insurance rates by 38%.

The request will be filed this month with the insurance division of the state commerce department, said John Hildebrandt, general manager of the Minnesota compensation ratings bureau.

The bureau, which is financed and governed by the insurance industry, prepares an industry-wide rate request based on financial data from roughly 260 companies that sell workers compensation insurance in Minnesota.

A year ago, former insurance commissioner Berton Heaton approved a 30.5% increase in workers

compensation rates. Last year, Minnesota employers paid \$379 million for workers compensation coverage.

Ohio targets arson

COLUMBUS—The state capital of Ohio is laying the groundwork for an arson control program it hopes will make the city "the arson and detective and prevention center of the world."

Mayor Tom Moddy said the program will be developed by the city fire and police divisions along with Battelle Memorial Institute, an independent research organization, and the Ohio Insurance Institute. ■

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Olympic feat . . .

Continued from page 1

families are prohibited from profiting from the venture. However, nephews are not among those considered to be "immediate family," Mr. Damp argues.

The U.S. Department of Commerce's Economic Development Administration, which has poured \$57 million into the construction of the sports and athlete housing facilities, still objected to the use of Placid Management as broker and urged an outside consultant be hired.

The consultant, Douglas Spear of Utica, recommended that the coverage be rebid after reviewing the policy. Mr. Spear declined to discuss problems in the existing policy, but said there would be few changes in the specifications when it is put out to bid again. Coverage is likely to be obtained at a savings, he added.

Current program

The existing wrap-up program provides workers compensation, builders risk and inland marine coverage on the construction and primary and umbrella liability for the contractors and administrators of the games.

"Liability limits are \$5 million on the basic coverage and \$10 million on the umbrella," said Mr. Damp.

An attempt in March to remarket the Olympic wrap-up program was unsuccessful. Several hundred agents and brokers were solicited at that time to bid on coverage for a program to take effect April 1, the anniversary date of the existing policy with Aetna.

Only eight bids were received

and none met the specifications for the program, Mr. Spear said. As a result, coverage was temporarily renewed with Aetna through Placid Management.

According to an executive at one insurance company that bid, there were tremendous price variations among those who bid.

Several of the bids came in for less than the premium on the existing coverage, Mr. Spear said. But a comparison with the existing coverage would be unfair because none of the bids met the coverage specifications, he added.

One coverage that must be purchased now that was not included in the existing wrap-up program is liability coverage for the organizers during the games. When the coverage was put out to bid in March, liability insurance on the games was included in the wrap-up program.

However, Mr. Damp said he has recommended to Mr. Spear that insurers be given the option of bidding separately on liability coverage during the games or as part of the total package. Whether that recommendation will be implemented will be learned when the bid notices are released later this month.

Building problems

Mr. Damp intends to rebid for the coverage at that time, he said. Finding an insurer to beat Aetna's price would be unlikely, he added. Aetna has collected premiums for completed operations that it continues to insure and a new carrier would have to build up premium to cover this, he explained.

Most of the alleged structural deficiencies concern the 10,000-seat field house that will house most of the skating events. Structural steel for the facility was inadequately braced, according to David Evans of the EDA.

This problem was corrected, but there have been three investiga-

tions, two completed and one still in progress, into the construction.

Unsafe conditions

A study conducted by the inspector general of the Department of Commerce is being reviewed by the U.S. Attorney for the Southern District of New York for possible criminal prosecution, according to William Randolph, acting assistant inspector general.

Mr. Randolph would not reveal contents of the study while it is in the federal prosecutor's hands.

The ongoing study is being conducted by Skilling, Helle, Christiansen & Robertson of New York under contract of Gilbane Building Co., the main Olympic contractor. Mr. Randolph said the New York engineering firm has "impec-

cable" credentials.

In addition to structural deficiencies, Mr. Evans charged the Olympic contractors with using unsafe ladders and scaffolding, failure to provide safety nets and "extremely poor housekeeping." Workers are constantly tripping on the site, half the workforce does not wear hard hats and earth moving equipment does not have warning buzzers that sound when backing up, he added.

Mr. Spear however, doubts that the accusations will affect the ability of Lake Placid to find a market for wrap-up coverage or liability insurance during the games. Most underwriters have recognized that several misquotes and inaccuracies are involved in the charges and have ignored them, he contends.

Insurers denounce . . .

Continued from page 1

costs. Currently, state laws governing fictitious groups bar businesses from forming groups expressly to purchase insurance.

Government officials believe state insurance regulations are more appropriate for large multiline commercial insurers than for businesses wanting to establish insurance cooperatives.

State regulations requiring such things as high capitalization of insurers have played a major role in the rush by U.S. companies to set up insurance subsidiaries offshore where capitalization requirements and regulations are much lower.

By tailor making insurance regulations to meet the special needs of businesses forming their own insurance cooperatives and allowing the same tax deductions companies now are given for purchasing insurance from commercial insurers, government officials believe the flow of capital outside the U.S.

can be slowed. Moreover, they would like to see more competition injected into the market.

Insurers, though, doubt this will occur. The AIA, for example, believes the "cream" or best risks would be skimmed off by the risk retention groups, leaving commercial insurers with only the least desirable risks, forcing rates higher.

However, a government official observed that so long as insurers keep their product liability insurance rates competitive, there is no reason why insurance companies should not be able to keep their fair share of good risks.

The Alliance of American Insurers said the proposal is unnecessary because product liability insurance problems have eased and the market is competitive.

Charles Derr, senior vp at the Machinery & Allied Products Institute said: "To say that the market is competitive is a bit of an exaggeration."

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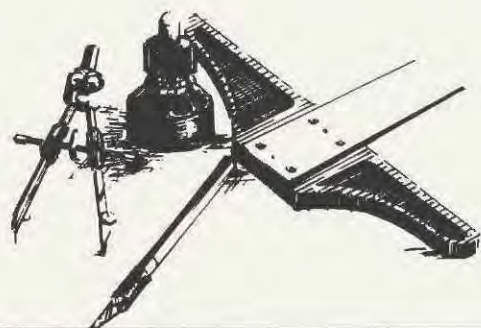
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MONDAY, JUNE 11

9:00 am: Federal Regulation—Is It Really Coming? An examination of the outlook for passage of a federal Workers Compensation law and speculation on possible provisions and their effect.

10:00 am: Federal Regulation—Impact On Employers. Daniel M. Kasper, Assistant Professor, Harvard Business School, takes an in-depth look at what federal Workers Compensation control would mean to employers.

11:15 am: Risk Managers And Regulation. Michael Craig, Manager of Insurance, Transcon Lines, and Howard T. Weber, Director of Insurance, 3M Company, discuss whether risk managers should be involved in the issue of regulation, how they should advise their companies, and what position risk managers take.

12:30 pm: Luncheon.

2:00 pm: Concurrent Sessions. Four intensive sessions—attend the one of your choice:

- How To Uncover And Prevent Fraud. James D. Strader, General Attorney—Workers Compensation & Casualty, U.S. Steel Corp., and Jon Shebel, President, Associated Industries of Florida.

- Pre-placement Screening And Counseling As A Loss Control Tool. Judith Stockman, Director of Safety, Weiser Lock Division of Norris Industries.

- How To Limit Serious Injury Liability. Gus E. VonBolschwing, Attorney, Golman & VonBolschwing, and Richard Carroll, Principal, Carroll & Company.

- Calculating And Quantifying Your Workers Compensation Exposures. Joseph A. Destein, President, Risk Sciences Group.

3:45 pm: Concurrent Sessions. The previous sessions are repeated so you can attend one more of your choice.

5:15 pm: Reception.

TUESDAY, JUNE 12

9:00 am: Faceoff—Are Workers Compensation Rates Fair? William Cain, Director of Insurance & Risk Management, Dayton Hudson Corporation; Richard I. Fein, Actuary, National Council on Compensation Insurance; Myra L.

Tobin, Vice President & Senior Casualty Officer, Casualty Division, Marsh & McLennan Companies, Inc.; Palmer App, President, Central Division, Kemper Insurance Companies; and Douglass Stevenson, Partner, Rook, Pitts, Fullager & Poust, discuss and debate this central Workers Compensation issue.

12:00 noon: Luncheon.

1:00 pm: Can The Wage-Loss Concept Really Work? John H. Lewis, Attorney, discusses Florida's experiment with the wage-loss concept.

1:45 pm: Concurrent Sessions. Four additional intensive sessions; attend the one of your choice:

- Rehabilitation—Controlling The Loss After The Injury. Gayle C. Foster, Assistant Secretary, General Reinsurance Corporation.
- Should You Use Your Captive For Workers Compensation? Robert A. Reeves, Vice President—Insurance, Hospital Corporation of America.

- Safety And Loss Prevention. Michael Krikorian, Corporate Manager of Safety, Brunswick Corporation, and James Dugan, Manager of Safety, Allegheny Ludlum Industries, Inc.

- Auditing And Monitoring Your Insured And Self-Insured Workers Compensation Program. Donald R. Czerniach, Vice President—Manager, Administrative Claim Service Dept., Fred S. James & Company of New York, Inc.

3:30 pm: Concurrent Sessions. The previous sessions are repeated so you can attend one more of your choice.

5:00 pm: Reception.

WEDNESDAY, JUNE 13

9:00 am: Top Management's View on Workers Compensation. The perspective from the top on the issues and an examination of the opportunities for managing the risks.

10:15 am: Product Liability And Workers Compensation. Victor Schwartz, Office of the Secretary, U.S. Department of Commerce, discusses aspects of the Department's proposals on product liability and their relationship to Workers Compensation.

11:30 am: Taxes As Loss Prevention Incentives. Richard Bergman, Executive Director, Interagency Task Force on Workplace Safety & Health, and Robert Collyer, Executive Assistant, UBA Incorporated, discuss whether a change in the tax code to limit employer Workers Compensation tax deductions to the average for their industry would provide an incentive to improve safety and reduce workplace injuries.

12:30 pm: Adjournment.

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Small pension plans fold under ERISA

By JERRY GEISEL

WASHINGTON—More than 18% of the nation's small pension plans have terminated since the enactment of the 1974 pension reform law, a just-published General Accounting Office (GAO) survey reveals.

At the same time, however, the Pension Benefit Guaranty Corp., (PBGC) reports that the number of pension plan terminations has dropped markedly since the end of 1976, reversing a two-year-old trend.

The number of small plan terminations may seem high but the GAO survey suggests that the ef-

fect of the terminations on plan participants appears to have been minimal.

About 30% of the 82,000 sponsors who terminated plans added new plans or expanded existing plans, ensuring that workers in terminated plans continued to receive pension benefits.

In addition about half of the terminated small plans failed to meet basic ERISA participation and vesting standards. Rather than improve the plans to meet the minimum standards, the sponsors elected to kill the plans.

Of the 388,000 small plans that continued following the passage of

ERISA, a whopping 89% of them had to be revised to meet ERISA requirements, the GAO said.

Sixty-one per cent of the plans had to be revised because they did not meet ERISA participation standards, while 15% of plans did not meet vesting requirements.

These revisions significantly expanded the net of pension coverage to workers. "Evising plans to meet ERISA's minimum participation and vesting requirements resulted in at least 410,000 additional employees becoming participants in small pension plans," according to the GAO study.

The GAO study, which was requested by the 116 congressmen, is

based on a sample of 750 small plans.

Meanwhile, the PBGC found that pension plan terminations hit their zenith in the last three months of 1976 when a record 2,200 plans terminated. During the quarter ending Sept. 30, 1977, the number of terminations dropped to 1,200 a 45% decrease from 1976.

The downward trend in pension plan terminations continued last year when 901 plans terminated in the three-month period ending Sept. 30, 1978.

For every pension or profit-sharing plan terminated in 1977, 2.2 new plans were formed. In 1976,

the ratio of new plans formed to terminating plans was 1.6 to 1.

About half of the plans terminated in 1977 because of bankruptcy, adverse business conditions, a change in ownership or because the plan was too costly. Only 22% of the terminating plans cited ERISA as the sole reason for folding.

Terminating plans tended to be small, with half of them providing benefits to less than seven participants. The rate of termination among plans with less than six participants was 20 times greater than for plans with more than 500 participants, according to the PBGC. For every 1,000 plans with less than five participants, about 130 terminated in 1977, but among every 1,000 plans with more than 500 participants, only seven terminated.

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Hospital loss costs . . .

Continued from page 1
grams, says the American Hospital Assn. and other hospital risk management experts who oppose the new rule.

How much higher hospital rates will be for corporations whose workers are hospitalized is still uncertain. No one has had time yet to break out statistics about the exact costs they'll have to cover by other means than claiming federal reimbursement for average charges spread over all patients.

But one hospital risk manager attending an industry session at the annual RIMS conference in Chicago said he already knows that about \$500,000 in insurance and risk management costs during 1979 and 1980 won't be covered by HEW's Medicare plan any more. This means he'll adjust hospital rates per day for all other patients in order to recoup this amount. "And this will be covered by Metropolitan Life, by the Blues, and by other companies paying the bills for employees," he said.

The new rule is designed to save federal money, reducing the amount HEW pays hospitals under programs established to allocate costs related to patients covered by government welfare plans.

HEW estimates that more than

\$300 million will be saved in the first year, more than \$700 million will be saved the second year and more than \$1 billion can be saved each year by the early 1980s. What HEW "saves," other payers will have to cover when unrecovered costs are allocated over non-Medicare hospital patients.

Urges comments

Hospitals were originally given only until May 1 to respond to the HEW proposal, but were granted an extension until May 15 at the request of the AHA, said James Groves, AHA risk manager.

"Even though corporate risk managers and employe benefit managers won't have time to write to HEW and oppose the rule because of its potentially disastrous impact on hospitals and health care costs, we'd like to see them write to their Congressional representatives to intervene and fight this rule," said Mr. Groves.

In an effort to mobilize support for hospitals opposing the rule, the AHA has talked with RIMS legislative experts and the head of RIMS's new employe benefit committee, enlisting their support. "The issue is this: It'll either cost employers and patients \$1 billion or hospitals will lose \$1 billion," said Mr. Groves.

The rule, if passed as part of Hospital Care Financing Administration guidelines, will reimburse hospitals only for malpractice and liability insurance, self-insurance and risk management costs directly attributable to Medicare patients. It would, says the AHA in unison with many other hospital executives and risk management consultants, also impose colossal risk management related problems on health care institutions.

Based on a hospital claims study done in 1976, HEW figures Medicare patients generate only 5.1% of all hospital malpractice insurance claims, while Medicaid patients

generate only 7.5% of claims. Thus, it reasons, the federal government should help pay for only that portion of insurance costs or self-insurance funding by hospitals.

This would significantly restrict the methods hospitals have used to spread costs over all patients and recoup them from the government in proportion to the number of Medicare and Medicaid patients they serve.

"This regulation assumes that the sole purpose of buying insurance is to pay losses. We believe the purpose of insurance is much broader. . . to protect assets," says Mr. Groves of the AHA. The association wrote a letter to HEW opposing the proposed rule on the grounds it is illegal and is based on faulty assumptions.

May "go bare"

The rule may force hospitals unable to cover their insurance and self-insurance costs in the old way to "go bare," maintains Kay Hartlieb of Alexander & Alexander in Chicago, a specialist in hospital malpractice insurance and risk management.

Mr. Groves of the AHA agreed. Because the rule creates financial problems for hospitals, they might

not be able to afford malpractice insurance or to self-fund for future losses under self-insurance programs, he said. He fears they will go without any insurance if HEW's new regulation puts them in the position of being strapped for cash.

A hospital controller at the industry session said the rule will create a very difficult cash flow problem for his institution in the near future.

Moreover, the way the new regulation on cost reimbursement is worded, it wouldn't allow hospitals to allocate to the federal government the costs of anything but "paid claims." It ignores the added costs involved in reserving for

claims, defense costs, incurred-but-not-reported claims, loss prevention costs, and other risk-related expenses spread over all patients using a hospital, say the experts.

The rule appears to allow reimbursement of indemnity payments only, the AHA and other risk management observers worry.

Among the firms opposing the rule in responses sent to HEW are Wyatt Co., Marsh & McLennan and Blue Cross/Blue Shield Assns. The American Council of Life Insurance is considering taking a stand, but the Health Insurance Assn. of America appears to want to stand clear of the issue.

Reinsurance broker reorganizes office

Stewart Smith has reorganized its Chicago reinsurance brokerage office under the corporate title Stewart Smith Reinsurance Intermediaries Inc. Charles B. Litzinger has been elected president and John J. Norton has been named executive vp. The company provides full service nationally in casualty, property, and life reinsurance as well as facultative placements. Both domestic and world-wide markets are available through its affiliation with the Stewart Wrightson group.

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people

Willey joins food chain as benefits and risk exec

Michael R. Willey is the new benefits and risk administrator for Wendy's International Inc. in Dublin, Ohio, a new position. Mr. Willey formerly was corporate insurance and tax manager for Bergstrom Paper Co. in Neenah, Wis., which has merged with Glat Felter. In his new position, he is responsible for property/casualty insurance as well as employee benefits including pension and profit sharing plans and a stock ownership program. Prior to being with Bergstrom, Mr. Willey was an insurance and tax consultant. He's also worked for Aetna Life & Casualty. He is studying for a risk management and a CPCU designation.

Fred Wettstaedt has joined Land O' Lakes in Minneapolis as a risk management specialist. Mr. Wettstaedt, 28, was most recently at International Multi Foods as a tax accountant. He replaces **Stella**

Alexis, who recently left to become claims and loss prevention administrator at McQuay-Perfex Inc. Mr. Wettstaedt, who will handle comprehensive liability and casualty insurance for the company, reports to Gary Swoverland, risk administrator.

The Valero Energy Corp. has hired **Gary Spangler** to fill the newly created position of risk manager in its Houston, Tex., office. Mr. Spangler comes to Valero, formerly known as Lo-Vaca Gathering Corp., from Eastern Airlines in Miami, where he was a senior insurance analyst. Mr. Spangler, 36, will report to vp and treasurer Ed Benninger. He has an MBA from Florida Atlantic University and a BA from the University of South Florida. Eastern Airlines has filled Mr. Spangler's old position by reorganizing the department.



Emmett M. Clark

Emmett M. Clark has been appointed to the newly created position of supervisor of property loss prevention in Southern Railway

System's Lexington, Ky., office. Mr. Clark will be responsible for Southern's fire prevention and protection program in Kentucky, Ohio, Indiana, Illinois and Tennessee and will report to George Buckley, director of insurance. Prior to joining Southern, Mr. Clark was an instructor at Kentucky State Fire Services Training and spent a year with the Henderson, Ky., fire department. He has a degree in fire technology from Western Kentucky University.

Mark S. Mitchell is the new claims supervisor in the office of risk management for the Metropolitan Government of Nashville and Davidson County. His primary duties will be claim supervision for the Metro self-insured liability plan and the schools' self-insured plan and will report to risk manager R.L. Sinclair. Mr. Mitchell was formerly a claims representative for State Farm Insurance Co. in Midland, Tex.

Great Atlantic & Pacific Tea Co. in Montvale, N.J. has hired **Pamela Dumochel** as its group benefits manager. Ms. Dumochel, 30, comes from Marsh & McLennan, where she was a benefit claims consultant. Her new position comes as a result of promotions in the New Jersey company. Ms. Dumochel reports to Richard Porrett, director of risk management.

Judith A. Roberts has joined Compugraphic Corp. in Wilmington, Mass. in the newly created position of risk manager. Ms. Roberts, whose responsibilities include property and casualty risk management and insurance, re-

ports to Stephen Smith, financial manager. Ms. Roberts was formerly assistant insurance manager for Data General Corp. She obtained her BA from Brandeis University and holds an associate in risk management degree. She is also editor of the Massachusetts Risk and Insurance Management Society newsletter.

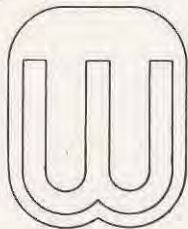
Anthony Giardino has joined Interway Corp. of New York as its manager of risk management and insurance. Mr. Giardino, who will have direct responsibility for Interway's worldwide casualty and liability insurances, will report to Dennis J. Kenny, vp and general counsel of the company. Mr. Giardino was most recently at Bankers Trust Co. in New York, where he was associate insurance officer. Prior to that he was with Macmillan Inc. He has a BA degree from Fairleigh Dickenson University and is an adjunct assistant professor at the College of Insurance Graduate School in New York.

Mr. Giardino's leaving Bankers Trust resulted in a minor reorganization of that company's department, with the creation of an additional insurance analyst position, to be filled by **Linda Szychowski**. Miss Szychowski, 26, was previously an insurance analyst for the Wallace Murray Co. In her new position, she will report to Paul Higgins.

We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Business Insurance, 708 Third Ave., N.Y. 10017 or call 212-986-5050. We'd also like to receive pictures of those involved.

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Letters column . . .

Continued from page 10

ment until those companies reopened the morning, regardless what the need may have been.

Some years ago I was a vice president of a national property and casualty company in charge of several states. One of the first things I did was install an "after-hours" telephone recording device, one of the first then in use. It began "You have dialed X Insurance Co. Our office is closed until . . . If you have a claim to report, please dial . . ." (and there were three numbers, mine being the final number). This device was "hooked up" at the end of each business day—not just weekends or holidays. Some of the most important calls ever received by the office came after hours, not just claims reports either. Those numbers were claim numbers but the claims people took other calls, too. I don't remember the cost, but it was negligible compared to the favorable response we got from it.

Later, as a broker, I tried one of the (800-) numbers to report a claim. A man answered. He didn't know me, didn't know of the brokerage firm which was, and is now, one of the largest and best known in its service area. All he did was take my name and number and tell me a claims representative for our area would soon be in touch with me. This was early on a Saturday morning.

Involved was a very valuable show horse, insured by a livestock firm providing mortality by a well known national company, occasionally on tv. The claims representative did not phone. We then tried the home office. One of the officers answered. He was not fa-

miliar with what to do. We explained the policy provided for notice to be given to a certain person before an animal could be destroyed. He replied he did not know how to get in touch with that particular claims person but would put a message on his desk. Needless to say, the veterinarian ordered the horse destroyed because of its rapidly deteriorating condition.

Finally, on Monday afternoon, the call came through. When we explained the horse had been destroyed Saturday afternoon on orders of the vet, the manager said he would have to deny the claim because he had not received notice prior to the destruction. He later reversed himself but not until we went through other channels, explaining we had spent almost all day Saturday trying to get in touch with some one in the organization as required but finally yielded to a humane decision to put the animal out of its misery, with the vet in charge.

Right now, in our size organization, we have little latitude on claims service; we are at the mercy of the companies, open to us from 9 to 4:30 or 5 and who take every opportunity for coffee breaks, lunch hours, holidays and weekends. And, as Mr. Rosenbloom so aptly states, accidents, fires, windstorms, etc, do not follow regular hours. They happen around the clock all over the world, not necessarily at a time convenient for the clock watchers and computers.

Harry Lee Petrey
Principal, Ernest Q. Petrey Inc.,
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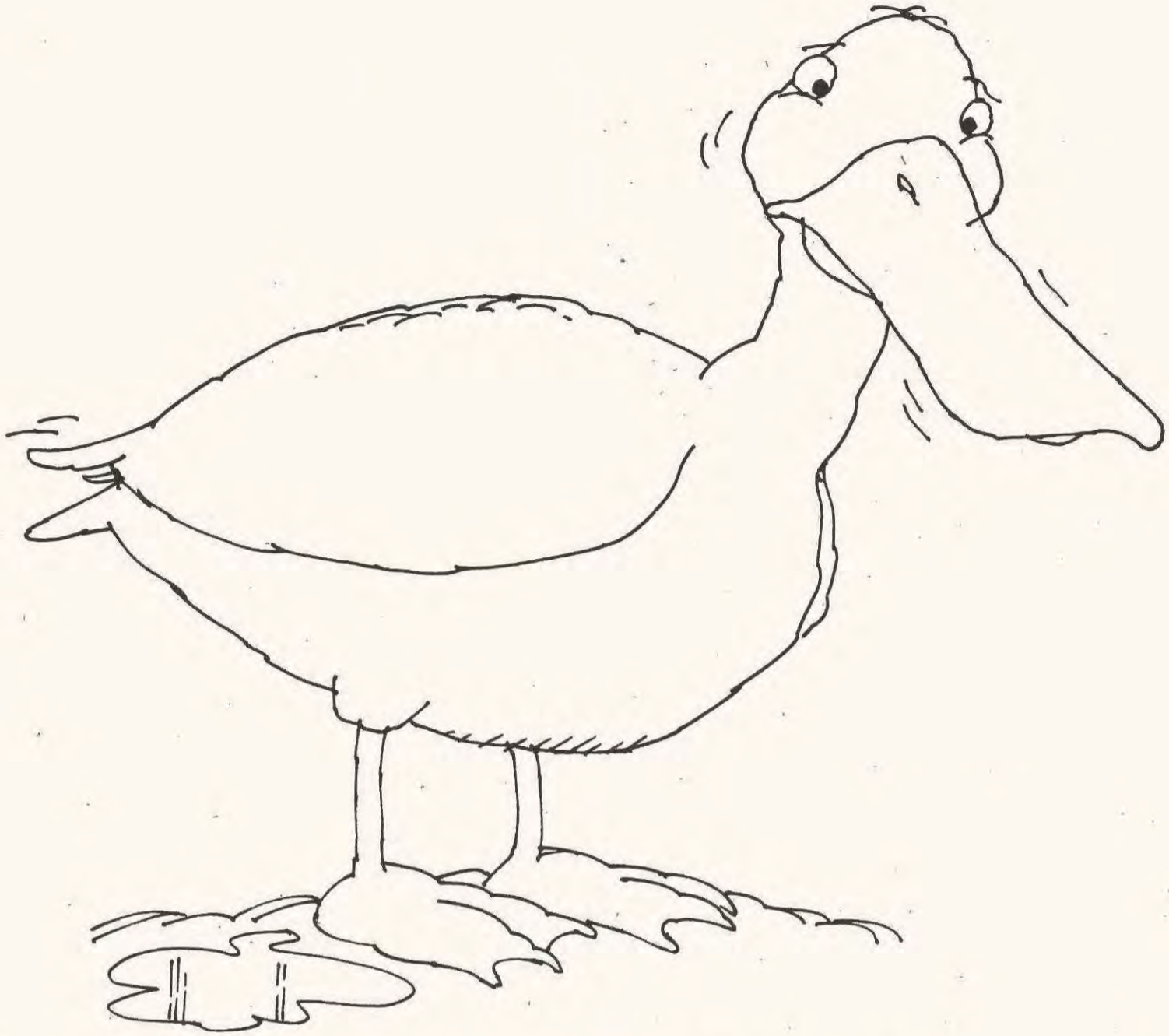
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