

# business insurance

WEEK OF MAY 17, 1982

update:

## Underwriters to pay if pope cancels trip

LONDON—British insurers may have to pay out as much as 7.5 million pounds (\$13.5 million) if Pope John Paul II cancels his pilgrimage to Britain later this month, says William Robertson of the London brokerage of Robertson Taylor Ltd.

The Vatican said last week that the pope would not go to Britain May 28 if Britain  
*Continued on next page*

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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## Risk managers say they're ready for EPA's rules

By KATHRYN J. McINTYRE

Risk managers say they are on top of their companies' pollution liability risks and already are in compliance with pending insurance requirements issued by the Environmental Protection Agency.

Only a few risk managers, however, are buying insurance for non-sudden or gradual pollution, when not required to do so by the EPA.

The most recent survey of the *Business Insurance Risk Management Board* reveals 91% of the risk managers responding have assessed their potential pollution liability risks. Of those, 62% found their company could pollute the environment, 51% by a sudden accident and 51% by activities that could be the source of gradual or non-sudden pollution, with most respondents facing both pollution risks.

All those with a risk of an accident that could immediately pollute the environment say they have insurance against such a loss. But only 33% of those with a risk of gradually polluting the environment said they have

purchased environmental impairment liability insurance to cover the risk.

The *Business Insurance Risk Management Board* is composed of risk managers in corporations and government entities who have volunteered to respond to regular surveys. Fifty-eight of the 94 risk managers on the panel responded to the most recent survey.

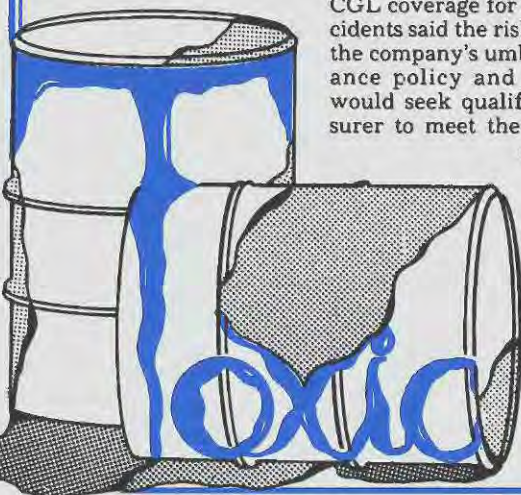
The survey was designed to determine how risk managers are handling pollution risks and their use of the new environmental impairment liability insurance policies that are marketed to cover gradual pollution risks. Gradual pollution risks are excluded under comprehensive general liability insurance forms.

All but one of the respondents with a sudden pollution risk said coverage for the risk was provided under a comprehensive general liability insurance policy that alone or in conjunction with excess insurance meets the EPA requirements.

The EPA is requiring all generators of toxic substances to have insurance covering sudden pollution accidents of \$1 million per occurrence and \$2 million aggregate by June 15, or 60 days after the April 16 publication of the rules in the *Federal Register* (BI, April 5, May 3).

The one respondent without primary CGL coverage for sudden pollution accidents said the risk was covered under the company's umbrella liability insurance policy and that the company would seek qualification as a self-insurer to meet the EPA insurance requirements.

Only five of the respondents are managers of a toxic waste facility that will be required to buy insurance against non-sudden or gradual insurance under the EPA regulations. Two have pur-  
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Graphic: Jim Bakasetas

## STOCKHOLDER SUITS

### Firms find it easier to settle than to fight D&O claims

By RHONDA L. RUNDLE

LOS ANGELES—Two Fortune 500 companies and their directors and officers liability insurers will settle out of court for large sums rather than fight lawsuits brought by disgruntled shareholders.

Mattel Inc. in Hawthorne, Calif., has disclosed court approval of a \$3.9 million settlement of a class-action lawsuit brought against it and several executives last year. The company will pay \$2.9 million and its D&O underwriter, Harbor Insurance Co., will contribute the balance.

The Firestone Tire & Rubber Co. in Akron, Ohio, has agreed to tentative settlement of an action filed by a shareholder and former employee who charges the tire maker and several of its directors and officers with a number of improper and illegal activities. Also named in the lawsuit is Coopers & Lybrand, Firestone's independent auditor.

The proposed settlement, which must be approved at a June 21 hearing in the Summit County Court of Common Pleas, calls for payment to the company's shareholders of \$1.3 million by Firestone's D&O insurer, the National Union Fire Insurance Co. of Pittsburgh, Pa., plus \$125,000 from Coopers & Lybrand.

In announcing their settlement intentions, both Firestone & Mattel stressed that they and their directors and officers were not admitting liability or guilt. Firestone said it agreed to settle to "avoid the expense, inconvenience and distraction of further expensive and protracted litigation."

Mattel, in a recent report to stockholders, stated that "the decision to settle is based primarily on the estimated expenses of extended litigation and the indeterminate cost and impact of the attendant management distraction from the business."

Court documents show that the Mattel plaintiffs' legal costs for fees to three separate firms and their expenses will be about \$1.3 million, or one-third of the settlement amount.

A D&O lawsuit that pits the corporation's shareholders against its directors and officers can be a no-win proposition. Even if the shareholders prevail in court, they may lose more through depressed earnings because top managers are diverted from running the business. This doubly hurts directors and officers, who are often major shareholders with a big stake in corporate performance.

Does that mean directors and officers are more eager to expeditiously settle D&O suits than other kinds of legal actions?

"Usually that is correct," says Grant R. Hubbard, vp of underwriting for Shand, Morahan & Co. Inc. in Evanston, Ill., a market for D&O liability insurance. Directors and officers are more prone to settle than shareholders, whose interests are typically represented by a litigation committee made up of outside counsel and uninvolved directors.

When corporate executives are charged with dishonesty or fraud, however, they may resist settlement because they want complete vindication, says Mr. Hub-  
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## Cities' benefit cost increases outpace industry's

By JERRY GEISEL

WASHINGTON—The gap is widening between what the nation's cities spend on employee benefits as a percent of pay for hours worked and what private industry spends.

These costs for municipal police and fire personnel climbed to 47.5% in 1979, up from 46% in 1977.

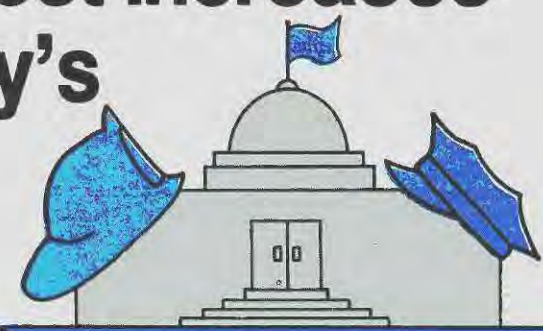
At the same time, benefit costs as a percentage of pay for hours worked for other city workers rose to 43.8% from 42.7%.

By contrast, benefit costs as a percentage of pay for hours worked among a broad cross section of private industries increased just 0.3%, to 42.2% from 41.9% between 1977 and 1979.

The growing gap in benefit costs between municipalities and private employers is one of several key findings reported in the latest U.S. Conference of Mayors' survey of employee benefits for municipal workers.

To get a handle on benefit trends, the mayors' conference, with the aid of Edward H. Friend & Co., a Washington-based actuarial consulting firm, surveyed 2,480 cities with populations of more than 10,000. Some 991 cities returned questionnaires, a response rate of 40%.

(Using a slightly different methodology, the U.S. Chamber of Commerce found that benefit costs as a percent of payroll among a broad cross section of  
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### Benefits as a percentage of pay for hours worked

	1979	1977
<b>MUNICIPAL</b>		
Fire and police officers	47.5%	46.0%
Other city employees	43.8%	42.7%
<b>INDUSTRY</b>		
Non-manufacturing industry employees	41.4%	41.0%
All industry employees	42.2%	41.9%

Source: 1979 National Survey of Employee Benefits for Full-Time Personnel of U.S. Municipalities.

Graphic: Amy Palmer

INSIDE:

Court upholds DES concert-of-action theory  
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## update:

### Papal no-show to cost insurers

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and Argentina are still fighting over the Falkland Islands. Some sponsors of the visit and souvenir makers could be hard hit by a cancellation if they did not buy non-appearance insurance from Lloyd's of London and other British markets.

Geoffrey Fox, a director of Lloyd's broker Adam Bros. Ltd., said he had placed about 4 million pounds of the coverage before the market for the risk closed.

The escalating conflict in the Falklands also has prompted Lloyd's marine underwriters to cancel all war risk coverage on vessels within 200 miles of the Falklands, including Argentine waters, effective May 27.

Shipowners, however, may be able to renegotiate coverage with Lloyd's underwriters, said a Lloyd's spokesman.

The coverage cancellation does not include war risk insurance for cargo or coverage for British ships sailing with the British naval task force, the Lloyd's spokesman said.

### South Tucson raises offer

SOUTH TUCSON, Ariz.—In what may be its final attempt at compromise, financially strapped South Tucson has offered to pay former Tucson policeman Roy Garcia a damage settlement worth \$3.8 million. The offer includes a \$2.2 million structured settlement for Mr. Garcia and \$1.6 million to cover attorney fees, says Lowell Rothschild, attorney for South Tucson.

The latest offer comes on the heels of a Arizona Superior Court order that it pay Mr. Garcia, who was paralyzed when he was hit by a bullet fired by a South Tucson officer during a mutual-aid police call, more than \$4.5 million in five equal annual installments, and tax its citizens, if necessary, to raise the money (BI, May 10).

### ABC wins defamation suit

CLEVELAND—ABC-TV successfully has defended a \$40 million libel and slander suit involving a March 17, 1980, telecast of its "20-20" news program, but still faces two defamation suits totaling \$40 million from the same telecast.

A U.S. District Court jury ruled May 11 that ABC had neither slandered nor libeled Sandra Boddie of Akron, Ohio. Miss Boddie, a 31-year-old mother of four, was depicted on the broadcast as having sexual relations with a former Summit County judge to win a lighter prison sentence for a theft conviction.

The two other defamation suits stemming from the same telecast were filed by Akron resident William Brooks, who is suing the network for \$20 million, and Robert and Joanne Blakemore, also of Akron, who also are seeking \$20 million.

### CU responds in Hyatt suit

KANSAS CITY, Mo.—Internal corporate documents show that more than a year before the skywalk collapse at the Kansas City Hyatt Regency Hotel, Hyatt Corp. took responsibility for obtaining liability coverage for the hotel, Hallmark Cards Inc.'s primary and first-layer excess insurer argues.

Hallmark, the parent company of the hotel's owner, agreed only to obtain primary property coverage for the hotel and excess liability coverage for construction-related risks, Commercial Union Insurance Co. argues in a court brief filed May 11.

The court document is a response to allegations made by Northbrook Excess & Surplus Insurance Co., Hyatt's primary excess insurer. In a March 23 motion, Northbrook asked Jackson County Circuit Judge Timothy D. O'Leary for an immediate ruling that, based on insurance contract language, CU breached a duty to defend Hyatt and owes Northbrook \$11 million (BI, March 29).

CU's response argues that numerous notes, memos, letters and minutes of meetings among Hyatt, Hallmark and Marsh & McLennan, both companies' broker, show Hyatt's insurers, including Northbrook, should respond to liability claims from the July 17, 1981, collapse.

### Helmet maker ordered to pay

LOS ANGELES—A Superior Court jury has ordered helmet maker Riddell Inc. to pay \$3.5 million in compensatory damages to a 26-year old quadriplegic who broke his neck in a high school football game.

"There is not one iota of physical evidence to substantiate that the injury was caused by the helmet," said a Riddell executive. Riddell will ask the trial judge to throw out the verdict as clearly not being supported by the evidence, said the spokesman. He said that the company has obtained defense verdicts in 36 of 38 product liability trials involving its helmets.

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# Insurers try to block release of report on comp ratemaking

By JERRY GEISEL

WASHINGTON—The author of a report recommending that regulators take insurers' investment income into account when approving workers compensation rates is causing as much controversy as his work.

J. Robert Hunter, in a report commissioned by the Labor Department, charges that the traditional profit margin used in ratemaking is arbitrary since it ignores the effect of investment income on profits.

"If the process of establishing profit margins is to have any integrity, accounting for investment income

should be made a routine part of the regulatory process," recommends Mr. Hunter, a former acting administrator of the Federal Insurance Administration.

If investment income were taken into account, rating bureaus no longer could use the traditional formula in which workers compensation rates are expected to produce at least a 2.5% underwriting profit.

Since underwriting losses in periods of high interest rates can produce "reasonable returns," insurers could cut rates on workers compensation and still make money, Mr. Hunter suggests.

But the insurance industry isn't accepting Mr. Hunter's recommendations. In fact, Mr. Hunter, who is currently president of the National Insurance Consumer Organization, a Ralph Nader-supported group based in Alexandria, Va., contends that insurance trade groups tried to block the release of his report.

Insurers do not deny the charge.

In a letter dated Sept. 30, 1981, the Alliance of American Insurers, the American Insurance Assn., the National Assn. of Independent Insurers, the Independent Insurance Agents of America and the Professional Insurance Agents asked Labor Secretary Raymond Donovan to withhold release of a study "of such dubious validity."

The insurers noted that Mr. Hunter "is an avowed public antagonist of the insurance industry and could not be expected to produce an objective report. We

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## Annual agent/broker survey

Attention agents and brokers: Want to be included in the most comprehensive directory of agents and brokers?

Then return your completed questionnaire for the *Business Insurance* 1982 agent/broker directory by June 1. The annual directory will appear in the annual Agent/Broker Profile issue June 28.

Companies listed in last year's directory should have received a questionnaire in the mail last week. Others can obtain a questionnaire by contacting Sallie Drury, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611; 312-649-5398.

## Village in Illinois taking its chances on uninsured rock

BOURBONNAIS, Ill.—The village fathers here are letting their pet rock go free—of property insurance coverage, that is.

Bourbonnais village trustees didn't realize they were paying to insure a huge boulder held captive on the front lawn of the village hall.

The 1,000-pound rock was listed as a "monument" on the village's insurance policy because a small plaque dedicated to the town's founding fathers adorns one of its sides.

At a routine weekly meeting earlier this month, village officials and their insurance agent were reviewing the items covered under the village's property insurance policy.

When Chuck Dennison of Bliss Insurance Co. in Bloomington, Ill., mentioned that a monument was among the items insured under the policy written by Royal Globe Insurance Co., trustees looked to the mayor, who said "That's no monument. It's a rock!"

The truth of the matter, says village Administrator John Layden, is that the rock is probably worth more than the plaque simply because it would be so expensive to haul it away.

"It would cost a mint to get it removed from the village hall front lawn," said Mr. Layden.

Either way, village officials have decided the rock, valued at \$700, doesn't belong among the \$700,000 in property covered under a \$2,000-a-year insurance policy.

But this town of 13,500, located 60 miles southeast of Chicago near Kankakee, won't save any money by wiping the monument off the policy, says Mr.



Photo: The Daily Journal, Kankakee, Ill.

Property insurance on this rock in front of the Bourbonnais village hall is being dropped.

Layden. "It's zero savings, but it might save on paperwork," he says.

However, in a related action, the board decided to remove all items valued at less than \$1,000 from the policy. Collectively, this will save the village \$200 to \$300 on its premium, said Mr. Layden.

Mr. Dennison, however, cautions that the rock could be vandalized and the village would not be covered for repairs. The insurance protected the rock from fire, theft or damage.

Bourbonnais officials have decided they will take the risk.

"I don't want no rock insured," laughs Mr. Layden.

As of Aug. 1, it will be free.

—By Eileen Norris

# N.Y. wants intermediaries to check reinsurer solvency

By BILL DENSMORE

NEW YORK—Superintendent of Insurance Albert B. Lewis wants to

force reinsurance intermediaries to police the solvency of reinsurance transactions and to disclose more information to their clients.

Under a proposed set of rules, licensed reinsurance intermediaries in New York state would have to document the financial condition of their reinsurance markets as well as provide in writing other details of their business.

## errors & omissions

•Lester W. Eckert and Mendel S. Kaliff were incorrectly identified in the May 3 issue as defendants in a slander and breach-of-contract lawsuit involving broker Frank B. Hall & Co. Inc. filed by former Hall employee Larry W. Buck of Houston.

The story, based on information contained in the lawsuit's original petition, second amended petition and the charge of the court, also erroneously reported that Mr. Eckert and Mr. Kaliff were ordered, along with Frank B. Hall, to pay the \$2.3 million judgment. Mr. Eckert was a named defendant in the original suit, but was dropped from an amended suit. Mr. Kaliff, also a named defendant in the original suit, was dropped from the complaint on the eve of the trial. The judgment was handed down Dec. 16, 1981, against Frank B. Hall only. *Business Insurance* regrets the errors.

"We believe there will be an additional cost (to insurance buyers)," says Stewart A. Keir, supervising insurance examiner in the Insurance Exchange and Excess Lines Bureau of the state Insurance Department. "But the costs will be minimal compared with the benefits in reducing some of the abuses that have cost millions of dollars."

He did not cite any specific abuses.

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# Court upholds DES concert-of-action theory

By JERRY GEISEL

ALBANY, N.Y.—Victims of the cancer-linked anti-miscarriage drug DES can sue a drug manufacturer that acted in concert to market the product even if the specific manufacturer cannot be identified, New York's highest court has ruled.

The unanimous decision by the New York State Court of Appeals May 11 in *Bichler vs. Eli Lilly & Co.* marks the first time a state high court has upheld the so-called concert-of-action theory in a DES case, which can result in one company being saddled with the liability of an entire industry.

In upholding a \$492,000 award to 28-year-old Joyce Bichler, a victim of vaginal and cervical cancer, the New York justices said traditional

tort law had to move ahead in long-latent disease cases where the plaintiff can't identify the manufacturer of the product that caused the injury.

"The DES daughters faced a dilemma," Associate Judge Bernard Meyer wrote. "They have, if their claim is upheld, been injured by paralleled conduct of a group of pharmaceutical manufacturers. But the practical impossibility often exists for most victims to pinpoint the manufacturer directly responsible for their particular injury. . .

"Products liability law cannot be expected to stand still where innocent victims face inordinately difficult problems of proof," Judge Meyer added.



Graphic: Milt Priggee

To surmount that obstacle, a plaintiff can pick a defendant from among the manufacturers that worked together to produce the same product, according to the concert-of-action theory upheld by the court.

Lilly, the Indianapolis-based pharmaceutical giant, downplayed

the decision. A spokeswoman said the company believes the case is unique and doesn't establish a precedent that could apply to the 350 DES cases pending against the company.

Lilly said the original trial judge's instructions to the jury on what constitutes a concert of action were so broad that the jury had no choice but to rule against the firm.

The company also noted that other courts have rejected the concert-of-action theory, including a Massachusetts federal judge (*BI*, May 4, 1981).

But other experts believe the impact of the Bichler decision could be enormous. "It opens the door wide to the prosecution of other cases," says Alfred Julien, an attorney with Julien, Schlesinger & Pinz, the New York law firm that

represented Ms. Bichler.

The decision means that "one firm can be held liable for the conduct of an entire industry," warned product liability expert Victor Schwartz, an attorney with Crowell & Moring in Washington.

Other legal experts say the Bichler decision may prove more devastating to manufacturers than the 1980 California Supreme Court ruling in the *Sindell* case.

In that case, the court said when a product causing injury is made by many different manufacturers and the specific manufacturer cannot be identified, liability must be divided among the makers based on their share of the market (*BI*, March 31, 1980).

Under *Sindell*, a plaintiff has to sue an entire industry, which can

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## San Diego firms attack hospital overcharges

By CAROL G. BLITZER

SAN DIEGO—A group of area businesses are hoping a hospital review program focusing on ancillary charges will trim their bulging health care expenditures.

"Room charges are not accurate indications of the true cost of hospital care. The ancillary charges really are a significant portion of the bill," says Bob Colasanto, manager of insurance for PSA Inc. of San Diego and the president of the Employers Health Cost Coalition of San Diego.

Ancillary services, including X-rays, diagnostic laboratory tests and items like inhalation and physical therapy, can total more than half of an employee's hospital bill, experts say.

The employers' coalition thinks its Coalition Action Program (CAP), started last month with three major San Diego-based employers, will eliminate unnecessary ancillary procedures or reduce needless repetition of them.

PSA, Rohr Industries Inc. and the San Diego Community College District are paying \$25 per employee hospital admission to fund the program. Three more organizations will join the program this month: Cubic Corp., San Diego Federal Savings & Loan Assn. and the Electrical Workers Health & Welfare Trust.

Although no health care providers are members of the coalition, it has communication with providers through the San Diego County Medical Society's health cost-containment committee, notes Steve Rosinski, vp of industrial relations for Rohr Industries Inc. in Chula Vista and one of the coalition's founders.

The coalition selected the San Diego Foundation for Medical Care to administer the CAP program. The foundation is a physician-sponsored, non-profit organization active in peer review that was founded in 1959 as an offshoot of the San Diego County Medical Society.

The CAP program consists of three major components, beginning with pre-admission review of non-emergency hospitalizations.

The patient's attending physician shares diagnosis and other supporting information with the foundation, whose staff reviews the material in one working day to see if it conforms with admission criteria set by the local medical society.

If everything checks out, the admission is certified and can proceed.

The plan's second component monitors the use of ancillary services

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Graphic: Amy Palmer

## Stretching benefits

### Rubber workers pact expands health plan, pensions

By JAMES C. LAWSON

AKRON, Ohio—Workers at the three largest U.S. tire companies are rolling along smoothly under a new master contract that contains a host of improved benefits.

But their United Rubber Workers brethren at the nation's No. 4 tire maker, Uniroyal Inc., could be in for a bumpier ride. They're still at the bargaining table trying to work out up to \$10 million in concessions to aid the financially-troubled company, a package that the union admits could include some benefit cuts.

"We have committed to give relief up to \$10 million," explains John Izzard, a URW coordinator responsible for negotiations with Uniroyal. "There's no doubt we'll continue to negotiate. We have to put a price tag on the new benefits that were negotiated in the master agreement."

The new three-year master contract applies not only to URW workers at the Big Three tire makers—Goodyear Tire & Rubber Co., Firestone Tire & Rubber Co. and BFGoodrich Co.—but also to employees at a host of smaller tire and rubber companies. Individual companies can also add benefits that are not in the master agreement.

The pact offers more than 40,000 union employees improvements in medical, life, pension and short-term disability insurance coverages. It also increases the rubber workers' pension contributions.

It also provides some tire company employees with new prescription drug and vision care plans.

Under the contract, the rubber workers' basic hospitalization plan is strengthened in several ways. For example, the plan now covers all reasonable and customary charges for emergency room treatment following an accident.

The hospitalization plan now pays an annual maximum of \$1,600 for X-rays and therapy. The old maximum was \$1,150. And the plan now pays \$25 for each inpatient physician visit, an \$8 increase.

Payments for hospital therapy and treatment for nervous disorders have been increased \$15 to \$60 per claim. The maximum for such treatment has been hiked to \$1,500 per year from \$1,150.

The major medical plan's annual maximum for active employees has been increased to \$100,000 from \$75,000, and the lifetime maximum has been



Photo: BF Goodrich

**Most rubber workers can expect improved benefits under the new union master contract.**

increased to \$400,000 from \$300,000.

The new major medical lifetime maximum for retirees is \$60,000, a \$20,000 increase.

Under the contract, the major medical plan requires a \$100-per-person deductible and a 20% co-payment on all charges.

The new contract also will establish a "Medical Surveillance Program" for Goodrich workers, which a Goodrich spokesman described as a preventive medicine program designed to detect illnesses in their early stages.

The plan, the spokesman said, is part of the rub-

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# Self-insurers discuss work comp reforms

By EILEEN NORRIS

BLOOMINGDALE, Ill.—

A group of self-insured employers is attempting to forestall the day when business will be expected to pay for all employee ills.

The National Council of Self-Insurers is polling its 79 employer members and 28 state self-insurance associations to gauge support for a state-by-state reform of workers compensation laws.

The guidelines the group devised are based on the theory that state workers compensation laws will continue to become more liberal, "eroding to the point where employers will compensate employees for all illnesses of life and the irreversible effects of the aging

process," says Donovan J. Jones, director of safety for Taley Industries Inc. in Mesa, Ariz.

"If business doesn't push such a movement, it can expect to fund a federal occupational disease compensation law in about five years," predicted Mr. Jones.

The 14-point guide for reform attempts to eliminate present abuses in state laws and put off the day when Congress will pass a federal occupational disease compensation law, said Mr. Jones, secretary of the National Council of Self-Insurers, during his presentation at the NCSI annual meeting May 2-5.

The recommended reforms range from shoring up workers compensation as the exclusive remedy available to employees injured on the job and limiting an employer's liability for on-the-job injuries to capping compensation benefits.

"For employers today, the need for reform to eliminate abuses within state workers compensation is overwhelmingly obvious," said Mr. Jones.

"The statutes of all the states, to a greater or lesser extent, have been liberalized judicially, legislatively and administratively to the point that abuses have resulted that are rapidly making the system unaffordable," he said.

The costs of workers compensation nationally, he told the NCSI members, rose to about \$17 billion in 1978 from about \$5 billion in 1970 and is projected at \$23 billion for 1980.

"It becomes easy to anticipate in about five years, in addition to existing abuses, a federal occupational disease compensation law funded by business," he said.

Rep. George Miller, D-Calif., recently in-

troduced the third Occupational Health Hazards Compensation Act to be filed in Congress in the last six months, following earlier proposals by Rep. Millicent Fenwick, R-N.J., who is now co-sponsoring Rep. Miller's bill, and Sen. Gary Hart, D-Colo.

Under Rep. Miller's H.R. 5735, employees disabled by asbestos or uranium-ore diseases or their survivors would be eligible for two-thirds of their pre-disability earnings and complete medical benefits.

The bill includes a provision for bringing additional diseases and occupations under the act as scientific and medical evidence warrants. That's what has business scared (*BI*, March 22, 1982).

"Guidelines must be developed that clearly identify abuses and provide recommenda-

*Continued on page 41*

# Harvester workers get profit-sharing plan

If financially troubled International Harvester Co. bounces back into the black in the next two years, its unionized workers will share in its profits.

The new benefit is a major ingredient in a 29-month contract between the truck and farm equipment manufacturer and some 20,000 active Harvester employees represented by the United Auto Workers.

The Harvester profit-sharing plan is the latest in a series of such programs the UAW has negotiated with financially troubled companies in exchange for wage and other concessions. But unlike the profit-sharing plans set up by Ford Motor Co. and General Motors Corp. for their workers, Harvester's blue-collar employees will not receive a set percentage of

## benefit beat

profits or sales.

Instead, the Harvester plan—which is effective Nov. 1, the beginning of fiscal 1983, and runs through fiscal 1984—will pay workers a share of profits from U.S. operations based on the total number of hours worked by employees.

For example, if Harvester would earn \$200 million on its U.S. operations in fiscal 1983, the payout per worker would average \$431, assuming the 31,000 hourly and salaried workers work a total of 56 million hours.

The employees' share of profits, if any, will be readjusted in fiscal 1984 to reflect wage increases.

Earlier this year, the company suspended contributions to a profit-sharing program it offered to management and other white-collar employees. That plan, company officials say, will be continued when Harvester returns to profitability.

In exchange for the profit-sharing plan, Harvester will be allowed to skip its contributions to the employees' pension plan until September 1984 when the contract expires. However, the company will have to repay all missed pension contributions at that time.

The contract does not affect Harvester's contributions to other employee benefit plans nor the amount of benefits workers receive.

International Harvester, based in Chicago, has posted net losses of \$397.4 million and \$393 million during the last two fiscal years. The company reported a net loss of \$299.4 million on net sales of \$1.44 billion for the first quarter of fiscal 1982, which ended Jan. 31.

The new contract, which includes wage concessions, is projected to save Harvester at least \$100 million per year.

## Blood pressure tests

Federal employees in Indiana, Maryland, Richmond, Va., and the Philadelphia area can participate in a pilot hypertension-control program conducted by local Blue Cross/Blue Shield plans.

The program, which is expected to provide more than 80,000 federal

employees with a free blood pressure screening and follow-up exams at their worksites, is being conducted in conjunction with the Office of Personnel Management, the agency that oversees federal employees' benefits.

The year-old program could eventually be expanded to other states and private sector industries.

The Hypertension Control Project is one means of detecting, diagnosing and controlling high blood pressure and related diseases before they cause serious damage, says Theodore Raichel, executive director of research and development for the Blue Cross & Blue Shield Assns. in Chicago.

An estimated 5,000 federal employees die annually from high blood pressure and related diseases, BC/BS reports. In addition, about 790,000 federal employees around the nation, including 123,000 in the four participating plan areas, may suffer from high blood pressure.

"Hypertension lends itself to preventive approaches," says Mr. Raichel, explaining the motive behind the program. "And the treatment is very successful."

In less than a year, more than 2,000 federal employees have been screened for high blood pressure. It's estimated that about 80% of all the eligible employees will undergo blood pressure tests this year.

Under the program, the Blue Cross/Blue Shield affiliates, working with community volunteers, will conduct screenings once a year at federal worksites. Follow-up sessions will be done during the year.

Federal employees who are found to have hypertension will be advised to see a physician. The employee's progress will be periodically checked to help them keep their blood pressure controlled.

## Dental plan

The 275 employees of the Louisville Water Co. in Louisville, Ky., have won an improved dental plan that provides them and their dependents with orthodontics coverage for the first time.

The upgraded plan, underwritten by CompDent Dental Plan, a prepaid dental services firm, replaces one offered by Delta Dental Plan of Kentucky, another prepaid dental services firm. CompDent is a division of CompCare Inc. of Louisville.

It provides employees with an upgraded preventive services fee schedule and orthodontic and periodontic coverages not in the previous dental plan.

Under the new plan, employees pay no deductible. They paid a \$25 per-person annual deductible under the old program.

The new plan, part of a three-year contract won by members of the American Federation of State, County & Municipal Workers with 100% coverage for preventive treatment, diagnostic examinations, twice-a-year cleanings, fluoride treatments and local anesthetics charges.

It also pays 40% of all orthodontics charges up to a lifetime maximum of \$650 for all employees and dependents.

Restorative services are covered by a schedule that pays the bulk of the charges. The employee pays:

- \$6 for a cavity filling.
- \$50 for gold restoration on one surface tooth.
- \$90 for a porcelain crown.
- \$10 for a simple tooth extraction.
- \$90 for a two-canal root canal procedure.

Made any benefit changes? Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

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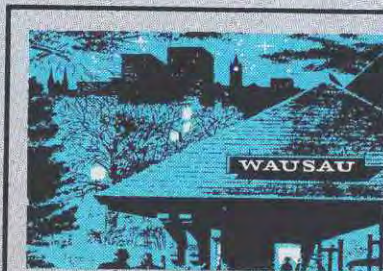
Lenox — renowned for fine china and crystal — has 16 locations, from Lawrenceville, New Jersey to Austin, Texas. At each, they need an objective insurer — one that concentrates on *essential* services. And at each, the local Wausau service people have established effective day-to-day relationships with the Lenox people.

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to Wausau, I saw a significant difference in the way our insurance programs were handled. Wausau focuses on our *important* exposures, not routine 'inspections' or fussing over trivia.

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It's crystal clear. The partnership between Lenox and Wausau works.



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# editorial opinions

## A show worth watching

**YOU HAVE A PERFECT** opportunity to communicate with your employees, fellow workers and bosses about the problem of rising health care costs through a spellbinding medium.

The television.

We've just read a promotion for a television program to be broadcast over the Public Broadcasting Service in June called "Money & Medicine." It sounds like a program you will want to promote to your workers.

We can't tell from the synopsis whether we will agree with all the points that will be made in the program, but we are enthused about the airing of any television program that will bring this important problem before a large audience.

We like the producers' and writers' contention that consumer education about the need for more cost-efficient choices in the health care industry is a major first step toward controlling costs.

And we can't argue with the conclusion that "Government, insurance companies and the providers of health care have had, despite brave claims, little success in the last decade containing health care costs."

The program contends the failure lies in "attacking the techniques rather than the structure" and that

"America must shift responsibility for cost cutting from regulatory agencies to the competitive forces generated by a free market."

Some of the recommendations proposed in the program for improving the health care system while lowering costs include:

- More health maintenance organizations.
- Shorter hospital stays or no hospitalization at all when possible.
- Chronic care hospitals to serve patients whose condition does not require the medically intensive and expensive acute care hospital.
- More outpatient and preventive care services.
- Private emergency centers requiring no appointments and providing services for non-life-threatening conditions.
- Individual consumer responsibility for healthy living and informed decision making about medical care when it is needed.

"Money & Medicine" is a production of Amagin Inc., an affiliate of WQLN-TV in Erie, Pa., and was funded by a grant from The John A. Hartford Foundation. You should contact your local PBS station to learn the date and time of broadcast in your area.

## letters

### Cafeteria plans: More than a fad

To the editor: We are responding to your article on cafeteria plans (*BI*, April 26).

Yaffe & Offutt Associates Inc. is a Baltimore compensation and employee benefits consulting firm with more than a passing interest in what we prefer to call "flexible compensation" plans, a term emphasizing the correlation between direct compensation and benefits.

For the last two years, we've been conducting research into the technical, legal, psychological and administrative aspects of flexible compensation, and therefore, feel well-qualified to question Risk Planning Group Vp Robert Preston's position that the cafeteria approach to benefit programs could be "trendy."

We have evidence to the contrary. First, we operate our own flexible compensation plan at Yaffe & Offutt. Second, we are partners in a joint venture producing flexible compensation plan software. Each move was made on the basis of research, and the conclusion that flexible compensation is not a "passing fad," but rather one viable solution to some of the very problems Mr. Preston mentioned—the alarming rise in benefit costs and the different needs of the work force.

Third, we are involved in the design of flexible programs for our clients, another move we would not have made unless it was warranted by demand, necessity and those "population trends" Mr. Preston refers to. . . trends that we see as enduring social changes, judging by our clients' demographics.

To answer Mr. Preston's questions:

- An employee need not become a compensation specialist. Of course, complex plans like American Can's or Loew's require careful selection, but all plans are not and need not be so complex. Plans offering choices among a few medical options or vacation/cash trade-offs are fairly simple to administer and use, and give employees an opportunity to choose what they really want and need.

- For the same reason, such plans can improve employee morale. As for increased productivity, they should be only part of a broad scheme to make total compensation truly reflective of individual performance and company profitability.

- Yes, it makes sense to concentrate on the basics Mr. Preston lists. Self-insur-

ance, cost containment, deferred compensation and flexible benefits should all be integral parts of a total compensation program that the very sociological groups mentioned demand.

Of course, some "cautionary comments" are in order. Flexible compensation plans are not easy to install and administer; no major compensation change ever is. And they could require a thorough rethinking of a company's goals and the obligations between employer and employee. Thorough rethinking and careful design, suitable to each company's size, employee demographics and administrative capability, however, are the keys to avoiding a "passing fad that might be short-lived."

**Victoria M. Moulton**  
Yaffe & Offutt Associates  
Baltimore

### Gov. Carey's plan

To the editor: New York Gov. Hugh Carey's ingenious solution to the medical malpractice insurance problem (*BI*, April 12) has been favorably received by doctors and hospitals. Health insurers and patients are probably still in shock.

The governor's proposal, which would create a state fund to pay 90% of all claims of \$250,000 or more up to a \$1 million in installments, is the most ingenious way of having claimants pay their own claims.

The fund would have the authority to levy annual assessments on health insurers equal to the total cost of all such claims in the state. Ultimately, the policyholder will pay this cost in increased premiums.

The governor's proposal raises a number of issues, in addition to the question of fairness of having victims of malpractice finance payment of their own claims.

If doctors and hospitals get a state fund, why not have a fund for lawyers, engineers, architects and other professionals? Why not one for product liability? Can a state, by law, deprive a claimant of a lump-sum settlement and force him to accept a structured settlement?

Will the fund be represented in settlement negotiations of claims that exceed \$250,000? If not, what incentive would malpractice insurers have to reduce the claim to less than \$250,000? If an award exceeds \$1 million, will the fund pay a million and the malpractice insurers the balance? If so, will the malpractice insurer pay his share in a lump sum while the fund pays its share in installments?

There may be a medical malpractice in-

surance problem and ways may have to be found to finance the risk in a manner that will relieve the financial burden on doctors and hospitals, but forcing future victims to contribute toward payment of their own claims seems outrageous.

**Roland Rueger**  
Teaneck, N.J.

### Pension statistics

To the editor: Your review issue of the Risk & Insurance Management Society Conference (*BI*, April 26) was excellent, as is your publication.

Regarding the article on my presentation, I would like to add that 88% of families with members between the ages of 65 and 69 in 2004 should receive employer pensions. This compares with 22% in 1967 and 53% in 1979.

The labor force growth will decrease dramatically during the 1980s, from more than 2% per year to less than 1%, but the Census Bureau is projecting a turnaround in the 1990s.

These points, combined with the creation of 134,233 new pension plans in 1980 and 1981 with 7.2 million participants, indicate that employer pensions will increasingly contribute to retirement income.

**Dallas L. Salisbury**  
Executive director  
Employee Benefit Research Institute  
Washington

### Which is better?

To the editor: Considering the mention of higher retirement ages (*BI*, April 26), one question to be pondered is: Which is it better to pay—pensions to people over 65 years old or unemployment to people under 25 years old who can't enter a crowded job market?

I would be happy to retire and let a young person start a career—if my pension would keep a roof over my head.

Cutting millions off Social Security is no good if millions more are spent supporting families on unemployment and welfare.

**Marjorie Horrigan**  
Cambridge General Agency  
San Francisco, Calif.

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

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Published weekly at 740 Rush St., Chicago, Ill. 60611. Offices: 220 East 42nd St., New York, N.Y. 10017; Suite 515, National Press Building, Washington, D.C. 20045; 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 5327 N. Central Expwy., Suite 200, Dallas, Texas 75205; 25 Bedford Square, London WC1B 3HG, England. \$1 a copy, \$40 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$35 for air delivery. First-class mail to U.S. and Canada only, add \$50. Bermuda only, \$85 per year expedited delivery. WILLIAM STRONG, vp-circulation. DIANNE WALSH, circulation manager. ROGER DIGREGORIO, fulfillment director. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



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# Florida cuts comp rates another 2.6%

TALLAHASSEE, Fla.—Employers keeping a running tally of workers compensation insurance rate reductions in Florida should add another 2.6% to the total.

That is the amount of the latest rate cut approved May 3 by State Insurance Commissioner Bill Gunter. The cut is retroactive to Jan. 1.

A spokesman for Mr. Gunter says the reduction is meant to supplement a 10% rate cut that went into effect Jan. 1, which the commissioner says did not go far

## around the states

enough in providing relief to certain classes of employers.

Together, the 12.6% in rate reductions this year mean total workers compensation rates in Florida have been cut by 54.6% since the state's Wage-Loss Reform Act was passed in August 1979, the spokesman says.

Unlike previous rate reductions, largely credited to improved loss

experience under the wage-loss law, this year's reductions are due to changes in the system Florida uses for calculating the workers compensation premiums employers pay, the spokesman says.

Before 1976, premiums were determined by multiplying a company's payroll, based on only the first \$100 of each employee's weekly earnings, by the applicable

workers compensation rate classification.

Now, each employer's total weekly earnings are multiplied to arrive at the premium.

Elimination of the partial-payroll system was followed by a six-year transition program that gave contractors, large manufacturers and other high-wage industries—hardest hit by the change—time to adjust, the spokesman says.

About 15% of Florida's employers were still in the transition program when it expired Dec. 31, 1981.

This year's 12.6% workers compensation rate reduction, including the 2.6% supplemental decrease, is designed to further cushion the effects of the premium-calculation system change.

As a result, rates for more than 60 employer classifications are being reduced from 2% to 39%.

Of Florida's 118,000 employers required by state law to have workers compensation coverage, 106,500 are covered by commercial insurance companies and 9,500 are self-insured.

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## Work comp rate cut

COLUMBUS, Ohio—Workers compensation premium rates charged to state agencies will be cut an average of 25% starting in July, saving taxpayers almost \$4 million during the fiscal year 1983, the chairman of the state Industrial Commission says.

Premium rates for 88 state agencies will decrease, premium rates for 26 agencies will increase and the rates for 12 agencies will remain the same.

The lower rates resulted from decreased costs of on-the-job accidents of state employees.

## Unavailable coverage

LANSING, Mich.—The state Insurance Department has come out with its quarterly list of lines of insurance for which coverages are unavailable in the authorized market.

The lines include animal mortality; environmental impairment; kidnap and ransom or extortion; liability for entertainment, recreational or sporting events; personal injury and/or assault and battery when not written with bodily injury; and products recall insurance.

Also, property/casualty insurance on mobile or traveling recreational or amusement businesses; property insurance on vacant buildings not insurable through the Michigan Basic Property Insurance Assn.; rain or pluvial insurance; product liability coverage when written alone; railroad liability; flood insurance not provided under the Federal Flood Insurance Program; and high-hazard cargo insurance.

Any person may request in writing that a coverage be added or removed from the current list. Requests are granted or denied within 30 days after the written request is received by the Insurance Department.

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# Agency mandates lawn mower safety device

By JERRY GEISEL

WASHINGTON—A new Consumer Product Safety Commission rule will require lawn mower manufacturers to install a so-called "dead-man" control, which stops the blades three seconds after the operator releases the handle of the mower.

The rule, which goes into effect June 30, is an attempt to reduce the thousands of mower-related injuries that occur each year. Many of the injuries occur when operators stick a hand or foot underneath a mower while the blades are still whirling.

Installing the dead-man control, which some lawn mower manufacturers resisted, could increase the price of a power mower by \$20 to \$75, according to the safety com-

## washington

mission.

Power mowers that don't have the safety device can be sold after June 30 only if they were previously in a store's stock.

### Rising costs

There's nowhere to go up but up.

That's how Rep. John Erlenborn, R-Ill., describes the federal government's entitlement programs, whose costs increase automatically as inflation rises.

For example, the cost of Social Security benefits has jumped more than 400% during the last 10 years because benefits are linked to increases in the Consumer Price

Index.

In 1972, the government spent \$39.4 billion for Social Security benefits. This year, Social Security benefits will cost about \$154.8 billion.

The costs of other benefit programs has risen just as much.

For example, in 1972, 2.1 million retired federal and military workers collected \$7.6 billion in pension benefits. This year, the 3.3 million federal government retirees are expected to collect \$35 billion in pension benefits.

Paring the costs of entitlement programs is very difficult, Rep. Erlenborn notes, because Congress can only reduce entitlement costs

by changing the laws that authorize the programs.

### Multiemployer plans

Want to find out what notice must be filed with the federal government when a multiemployer pension plan is facing insolvency?

You soon may have an answer.

The Pension Benefit Guaranty Corp., the federal agency that insures workers' pensions, expects to issue 17 regulations during the next six months on the operation of single and multiemployer pension plans.

They will include:

- Rules for recovery of benefit overpayments and benefit reduction for early retirees.

- Rules establishing interest on withdrawal liability payments.

- Rules governing the duties of sponsors of plans that have terminated by mass withdrawal.

- Rules governing the arbitration of disputes concerning employer liability.

### ERISA requirements

The Advisory Council on Employee Welfare and Pension Benefit Plans will meet on May 25 to discuss reporting, disclosure and recordkeeping requirements under the Employee Retirement Income Security Act.

The 15-member council, which advises the secretary of labor on issues relating to the pension reform law, also will discuss prohibited transactions and fiduciary requirements.

The meeting, which will begin at 9:30 a.m., will be held in Room S-4215 in the Labor Department Building, 200 Constitution Ave. N.W.

### Pension insurance

A pension trade group believes Congress shouldn't approve increased pension termination insurance premiums that employers pay to the Pension Benefit Guaranty Corp. until the agency cuts administrative expenses.

The American Society of Pension Actuaries believes one way administrative costs could be cut would be for the PBGC to quit auditing terminating pension plans with fewer than 100 participants to see if they had enough assets to pay guaranteed benefits.

Instead of the PBGC auditing the plans, they could obtain a certification letter from an enrolled actuary documenting that the plan has sufficient assets to pay guaranteed benefits, the actuarial society suggests.

"We would be happy to work with the PBGC to implement this simplified processing procedure for small, sufficient plans," said ASPA President Gerald D. Facciani in a letter to Secretary of Labor Raymond Donovan.

The PBGC's board of directors recently recommended that pension termination insurance premiums be increased to \$6 per plan participant per year from \$2.60. Congress has not approved the increase yet.

### Coal mine safety

Operators of underground coal mines are expected to equip miners with self-contained, self-rescue devices as soon as possible, the federal Mine Safety and Health Administration says.

Delays in equipping miners with the self-rescue devices, which allow users to escape from toxic or oxygen-deficient mine atmospheres, will result in citations, warns MSHA Administrator Joseph Lamonica.

"MSHA has determined that the necessary number of self-contained, self-rescuers can be available at all mines before Oct. 1, 1982. Delays in accepting delivery...when the devices are available from the manufacturers will result in citations," Mr. Lamonica said.

### PBGC report

The Pension Benefit Guaranty Corp.'s latest annual report, revealing the federal agency's deteriorating financial condition, is now available.

Free copies can be obtained by sending a postcard to the PBGC (160), Annual Report, 2020 K St. N.W., Washington, D.C. 20006, or by calling the agency at 202-254-5176.

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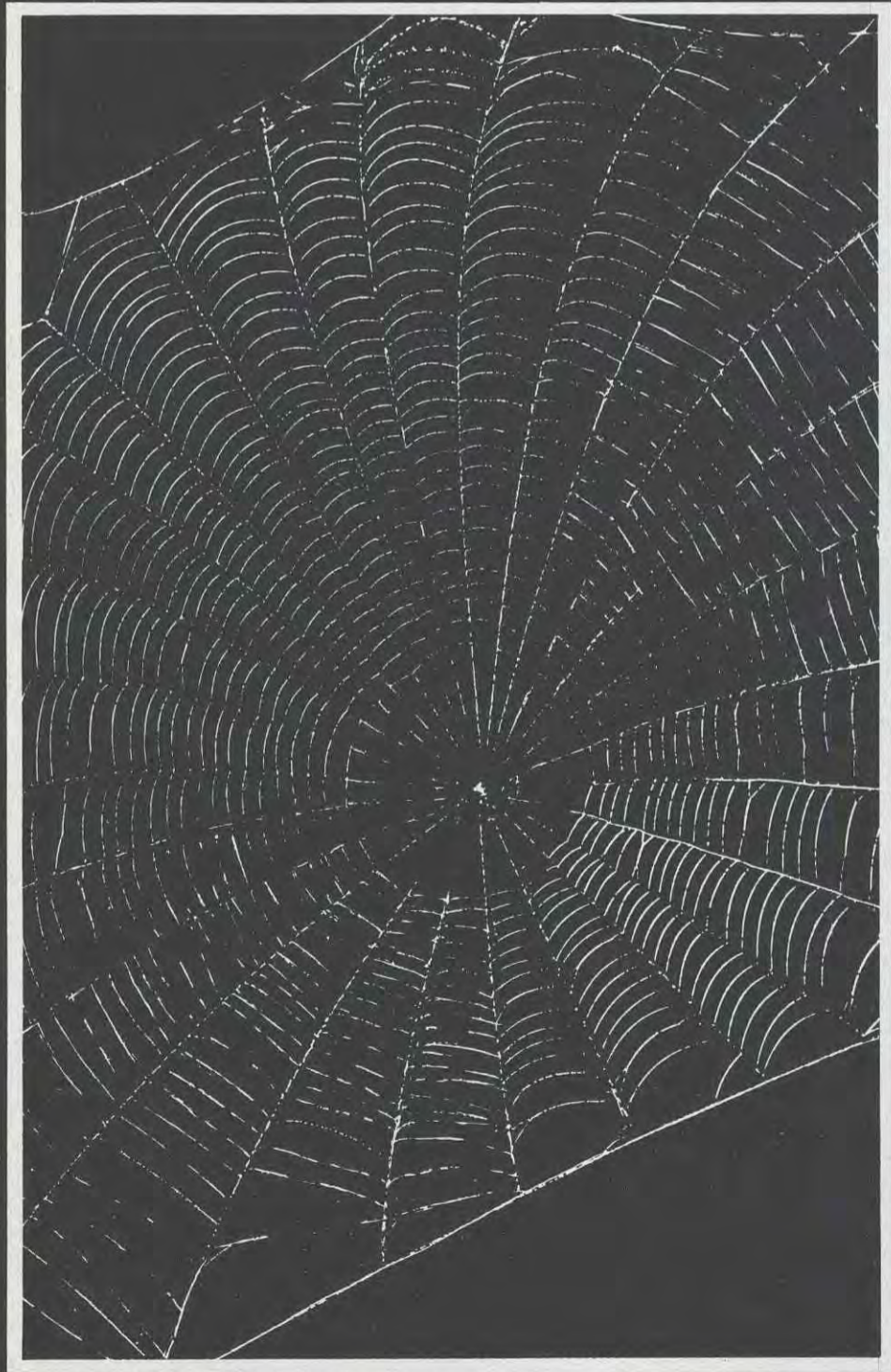
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**Gen Re hoping to draw more captive business**

General Reinsurance Corp. is strengthening its captive insurance company service operations by assigning three executives to drum up captive business nationwide.

Gen Re, which currently manages two captive operations through Bermuda subsidiary General Reinsurance Services Ltd., is making the staff changes as "another sign to the marketplace that we take captive business seriously," says Peter Nance, vp and head of Gen Re's direct business group.

The three executives who will concentrate on captive business are: Henry J. Anderson, a second vp and captive/risk retention specialist in the Hartford, Conn., office; Willard Duitsman, a second vp in the Chicago office; and James C.

**markets**

Damonte, a second vp in the Los Angeles office.

All three formerly were in Gen Re's facultative reinsurance department.

Currently, General Reinsurance Services Ltd. manages Shippan Insurance International Ltd., an insurer that writes black lung and other commercial lines, and is underwriting manager for an association captive.

Gen Re also is adding to the computer capability of its Bermuda subsidiary, Mr. Nance says.

**Charter approved**

GIC Reinsurance Co. has received formal approval of its charter from the state of Texas and will reinsure credit life, credit accident and health, group life, group medical and all forms of ordinary life insurance.

Capitalized with \$2 million, the San Antonio-based market is a joint venture by eight northern European and U.S. reinsurers.

**New company**

Milton R. Cheverton and a group of long-time associates have established Cheverton & Associates Insurance Services in San Diego. The firm also has purchased certain accounts that its employees serviced when an earlier agency, Cheverton-Bach Insurance, was sold to brokerage Bayly, Martin & Fay International.

That acquisition was a multistage transaction from 1973 and 1981, leaving the brokerage with complete ownership of Cheverton-Bach stock in March of last year.

Mr. Cheverton cited the group's desire to "maintain our close ties to San Diego" as the reason he formed a new agency and purchased the accounts from BMF. The company will include about 20 executives and staff members, most of whom were members of the original Cheverton-Bach organization.

**Operation expanded**

Life Insurance Co. of North America, a subsidiary of INA Corp., has established a group insurance and pension facility in its Portland, Ore., offices. The new operation will serve Oregon and southern Washington.

**New reinsurer**

Frankona Rueckversicherungs-A.G., a reinsurance company based in Munich, West Germany, has established a U.S. property/casualty reinsurance operation licensed in Missouri called Frankona Reinsurance Co.-U.S. Branch.

The new market joins Frankona American Life Reinsurance Co., formed in 1979 and located in Kansas City, Mo.

**Underwriting manager**

J.H. Ferguson & Associates, a surplus lines underwriting manager located in Evanston, Ill., now represents an admitted insurance company in New York state.

President James H. Ferguson declined to name the market, but indicated the company will underwrite various risks including malpractice, errors & omissions, garage keepers legal liability, primary and excess liability, comprehensive general liability, personal high-profile umbrella liability, property, fire, inland marine and special multiperil.

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# Lloyd's computer crime cover selling well, underwriter says

By STACY SHAPIRO

LONDON—Lloyd's of London's computer crime insurance policy for financial institutions is alive and selling well despite competition from U.S. insurers and criticisms from buyers.

"The reaction has been tremendous," said David Newman, deputy underwriter at K.F. Alder Underwriting Agency Ltd. Mr. Newman helped create the computer crime insurance policy to complement the bankers blanket bond (BI, Nov. 16).

Policies have been sold to banks in the United States, Mr. Newman said, although he wouldn't reveal how many banks have bought it. And he noted that Lloyd's has received queries about the coverage from other banks all over the world.

"About the only place we haven't had any queries from is Argentina," he said.

The Lloyd's policy, however, has its critics, who say that the form is too long and the required risk survey is too detailed.

And others believe that coverage for computer crime exposures should have been incorporated into the bankers blanket bond, where it has been excluded.

But Mr. Newman doesn't agree with these critics.

If the required risk survey were too long, "I wouldn't be writing the amount of risks that I am writing," said Mr. Newman. The survey, conducted by a consulting firm, examines a bank's security system to pinpoint the computer crime risk and is designed to cater to each bank's individual needs, he said.

"Of the risks we have written, no two policies are the same. The wordings have changed as they were supposed to," said Mr. Newman, who calls the policy a "program."

And if the client needs the policy quickly to meet financial deadlines, it can be done, he said.

"One client wanted coverage that was not catered for in the program outline. But the senior vice president of the company was here, empowered to make decisions on the spot," said Mr. Newman.

With the cooperation of consultants, brokers, insurers and clients, the bank had its computer crime package within 72 hours.

The only way to broaden the coverage was to have a consultant inspect the bank's computer security system, he said. "This (policy) involves the cooperation of senior management in coordination with the risk manager, underwriter, broker, attorney and consultant."

There have, however, been some modifications to the computer crime form since it was introduced.

For example, the underwriter, and not the bank, must now prove that an employee, not an outsider, committed a crime involving the computer. The policy excludes crimes committed by employees, which are included in the bankers blanket bond.

The policy's limits also have been increased, in some cases to \$50 million from the original \$25 million, he said, adding that even higher limits are available.

Other portions of the policy may be changed along the way, he said. "We have always said that we will negotiate the wording."

But Lloyd's will not include computer crime risks in the bankers blanket bond for now, he said.

## london line

tain Forrestry Ltd. subsidiary for 1 million pounds (approximately \$1.87 million).

"As it is the policy of the Stewart Wrightson Group to concentrate its resources on the development of insurance and broking, the board believes that the future successful

development of Fountain Forrestry Ltd., in the best interests of clients and employees, will be better secured by these new arrangements," Stewart Wrightson announced.

The forestry subsidiary was sold to its executive directors and an institutional investment trust, Sharp Unquoted Midland Investment Trust Ltd. The company will be renamed Fountain Forrestry Holdings Ltd. ■

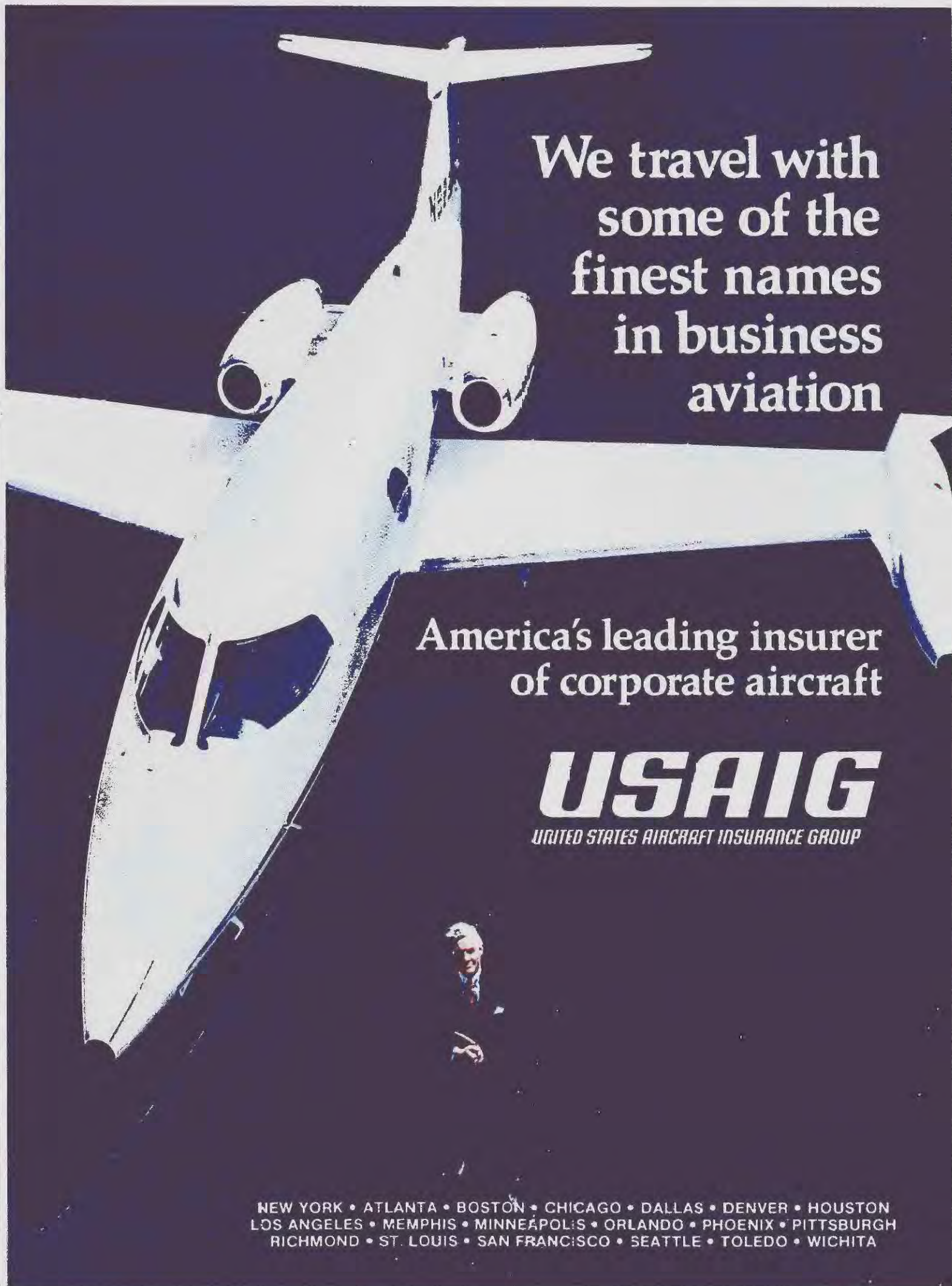
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## Subsidiary sold

Stewart Wrightson Insurance Broking Group is getting out of the forestry business, selling its Foun-

# British shipowners buy war risk cover

By STACY SHAPIRO

LONDON—The owners of some of the 40 merchant vessels that sailed with the British naval task force to the Falkland Islands purchased war risk insurance before they started the voyage, *Business Insurance* has learned.

However, some shipowners, whose vessels were requisitioned by the government last month, did not have time to search for insurance against loss of profits due to requisitioning as did Cunard Lines

Ltd., the owner of the luxury liner Queen Elizabeth 2, which was requisitioned this month (*BI*, May 10).

Discussions between shipowners and the British government are under way over who will pick up the bill for lost profits, war losses and the operating costs of the requisitioned vessels.

"We have the verbal assurance from the Department of Trade that we would be fully and fairly consulted," said a spokesman for Peninsular & Oriental Steam Naviga-

tion Co. There have been, however, "one or two hiccups in the negotiations," he said. "There have been no set rules for compensation or guidelines involved and we are discussing with the government on that basis."

Protection and indemnity clubs, which insure some of the vessels for war risks, are also negotiating with the government over how much will be paid for lost ships.

Usually, the government pays P&I clubs 100% in reinsurance for losses caused by the "queen's ene-

mies" if the lost ship is British-registered, said a P&I club manager. The government, however, froze the level of its reinsurance payments on April 1, the day before the Argentines captured the Falklands.

P&O was the first shipping line to have vessels requisitioned by the British government after the Falklands crisis broke out. Four of its ships, including the liners Canberra and Uganda, are now in the task force.

But the government's call for the

ships came so quickly that P&O didn't have time to get a government guarantee that it would pay damages if its ships were hit by the Argentines, the spokesman said. So, P&O quickly took out war risk insurance with Lloyd's of London before the ships set sail, he explained.

But P&O did not have time to buy coverage for loss of profits due to requisitioning since the government took the vessels so quickly, the spokesman said.

"But I don't believe it is necessary," he said. The government has given its assurance it will pay proper compensation, he said, adding that so far P&O has received between 1 million pounds and 2 million pounds (approximately \$1.8 million to \$3.6 million) from the government.

How losses will be calculated, however, may prove difficult.

The P&O spokesman said the lines' biggest worry is its consequential marketing losses while its cruise ships are in the South Atlantic. With its cruise liners in government service, competitors, especially Soviet ships sailing to England, can attract P&O's former customers.

"The Russians are increasing their berths by 40%," said the spokesman. "That has to be of concern to us, and we have to win those passengers back afterward."

P&O is also incurring considerable costs in operating its vessels in the South Atlantic, and it wants the government to pay for those expenses. Although P&O wouldn't confirm the amounts, the Financial Times in London reported that it costs 100,000 pounds (\$180,000) per day to operate the Canberra in the war zone.

P&O, of course, is hoping that none of its ships are lost, no matter who will pick up the tab. The shipping line only earned 40.9 million pounds (\$72.6 million) before taxes last year, compared with 47 million pounds (\$84.6 million) in 1980. The company, however, says its 1980 earnings were inflated by the sale of 14 ships.

## Work injuries on the rise in California

SAN FRANCISCO—Disabling work injuries in California increased nearly twice as fast as the work force during the 1970s, according to the state Division of Labor Statistics and Research.

The number of employees covered by the state's workers compensation system increased 41% to 9.8 million in 1979 from 6.9 million in 1970, the study shows. However, the number of disabling injuries increased to 882,227 in 1979 from 213,262 in 1970, a 79.2% increase.

The injury rate per 1,000 employees also jumped significantly. More than 39 workplace injuries per 1,000 employees were reported in 1979, up 27% from 31 injuries per 1,000 workers in 1970.

However, workplace fatalities in California declined during the decade. The state reported 669 worker deaths in 1979, a 10.8% drop from the 750 deaths recorded in 1970.

The number of women injured on the job also increased greater than the number of women employed. The number of women covered by workers compensation grew 52% during the 1970s, while the number of workplace injuries reported by women increased 134%.

Injuries to women accounted for 23% of total injuries in 1979, compared with 18% in 1971.



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# Surety companies beginning to feel pinch

By STEPHEN TARNOFF

Tight credit, the recession and more competition in the construction industry are making 1982 a financially uncertain year for surety companies, the outgoing president of the National Assn. of Surety Bond Producers says.

**Mr. Wiley** Thomas R. Wiley, a vp at Schwartz Brothers Insurance Agency Inc. in Chicago, says that the depressed state of the construction industry will lead to more construction company bankruptcies—up 50% from a year ago—and, thus,

more financial problems for surety companies.

Since surety bonds guarantee the performance of contractors to third parties, more bankruptcies mean surety companies will be paying out more money.

"If it's bad for the construction industry, it is bad for the surety industry," said Mr. Wiley, who has been in the industry for more than 50 years.

"The surety industry is tied body, soul and britches to the construction industry."

So far, the construction industry's problems have yet to be felt by the surety companies, Mr. Wiley explains, adding that it takes about two years for the surety companies to be hit by contractor failures. Last year, surety companies did surpris-

ingly well, posting combined ratios of less than 100%.

"But 1982 will be a very questionable year for the surety industry, a very iffy year," Mr. Wiley says.

"Every segment involving bonds is in a very negative pattern," he says.

The situation likely will remain that way until interest rates decline and construction picks up, Mr. Wiley said.

Right now, the Southwest, the Rocky Mountain states and Florida are the only areas where construction activity is strong, Mr. Wiley said.

In 1981, the premium volume paid to the surety industry, which includes many of the nation's major insurers, was \$850 million, down slightly from the year before. That

figure is expected to dip slightly again this year.

And, because of the recession, surety companies could be less willing to write risks.

"Surety companies will become more conservative. As the risk goes up, underwriting will become more stringent," Mr. Wiley said.

The construction industry's economic problem is not the only thing plaguing the surety business, which represents 1% of the total property/casualty insurance revenues.

Another worry is federal income tax changes proposed by the U.S. Treasury Department that could have a devastating effect on the construction industry and, eventually, surety companies, according to Mr. Wiley.

Currently, a contractor does not

pay federal income tax on a project until the job he is working is completed.

The government, however, wants to collect the tax according to a contractor's estimated profit at the end of the calendar year.

Thus, a contractor would have to pay tax for estimated compensation not yet received, even though he could lose money on the whole project when it is completed, Mr. Wiley said.

While the government would refund money in such a situation, in many cases, it might be too late. "The refund may go to bankruptcy court," Mr. Wiley said.

"The entire construction industry is vehemently opposed to the change," Mr. Wiley said. "We, as supporters of the construction industry, agree.

"If Reagan doesn't back down in this, he can very well lose the support of the construction industry. The average guy really gets slugged with this kind of change," Mr. Wiley explains.

The federal government has recently become involved in another area of the surety industry, this one more beneficial to some buyers.

Under a program administered by the Small Business Administration, the government reinsures up to 90% of some risks accepted by surety companies. The program is intended to increase minority participation in the construction business, guaranteeing bonds for risks that surety companies would not ordinarily assume.

The amount of government reinsurance is being sharply reduced, however, in the wake of hard economic times, inept claims handling, fraud and poor loss ratios, Mr. Wiley said.

For every dollar collected for contract bonds in 1981, surety companies paid out 45 cents to 50 cents in losses, Mr. Wiley said. However, for risks in the SBA program, \$4 was paid out in losses for every \$1 collected.

"We think the program will continue," Mr. Wiley said. "Hopefully, it will be better policed than in the past. The government itself must look at it and understand the losses going out.

"But funding will be reduced. And it will create more pressure on the surety companies to write bonds.

"You could really have bloodbaths writing for these people," he added. "The industry probably wouldn't write them."

Mr. Wiley does, however, see a "bright light" in the surety industry's profitable results last year, adding that the surety industry will improve when the construction industry does.

The United States would do well to learn from Canada's approach to the construction and surety businesses, Mr. Wiley says. There, surety companies consistently have loss ratios that are 50% less than those of U.S. companies.

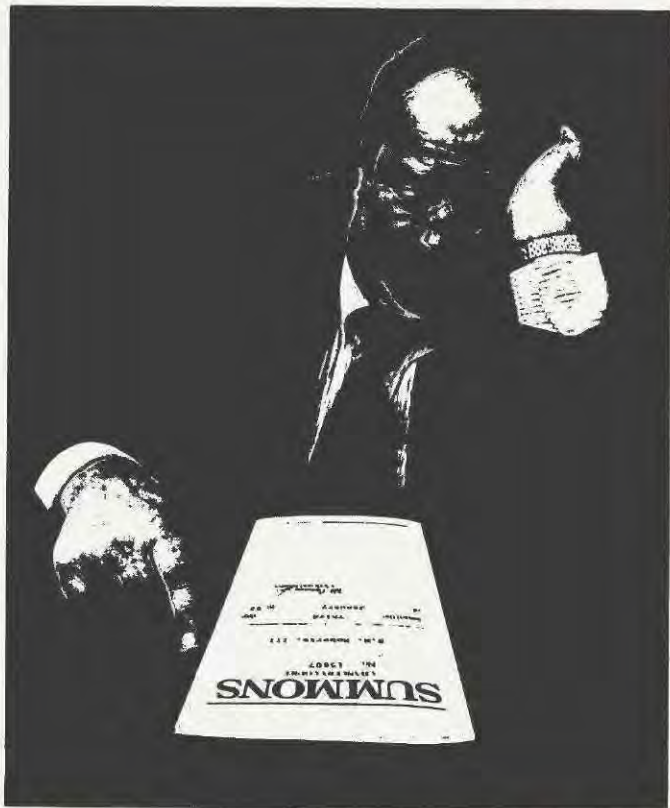
Canada's success is in partly due to the "extremely close relationships" between the construction industry and the charter or national banks, he explains.

Canadian banks have more knowledge of the construction businesses than U.S. banks, extend more credit to the industry and are not as apt to allow contractors to go into default.

Mr. Wiley added that surety companies will attract better-trained personnel, including more skilled underwriters.

There is an "ongoing, never-ending shortage of trained personnel," but it should ease with the establishment of NASBP training schools, he says.

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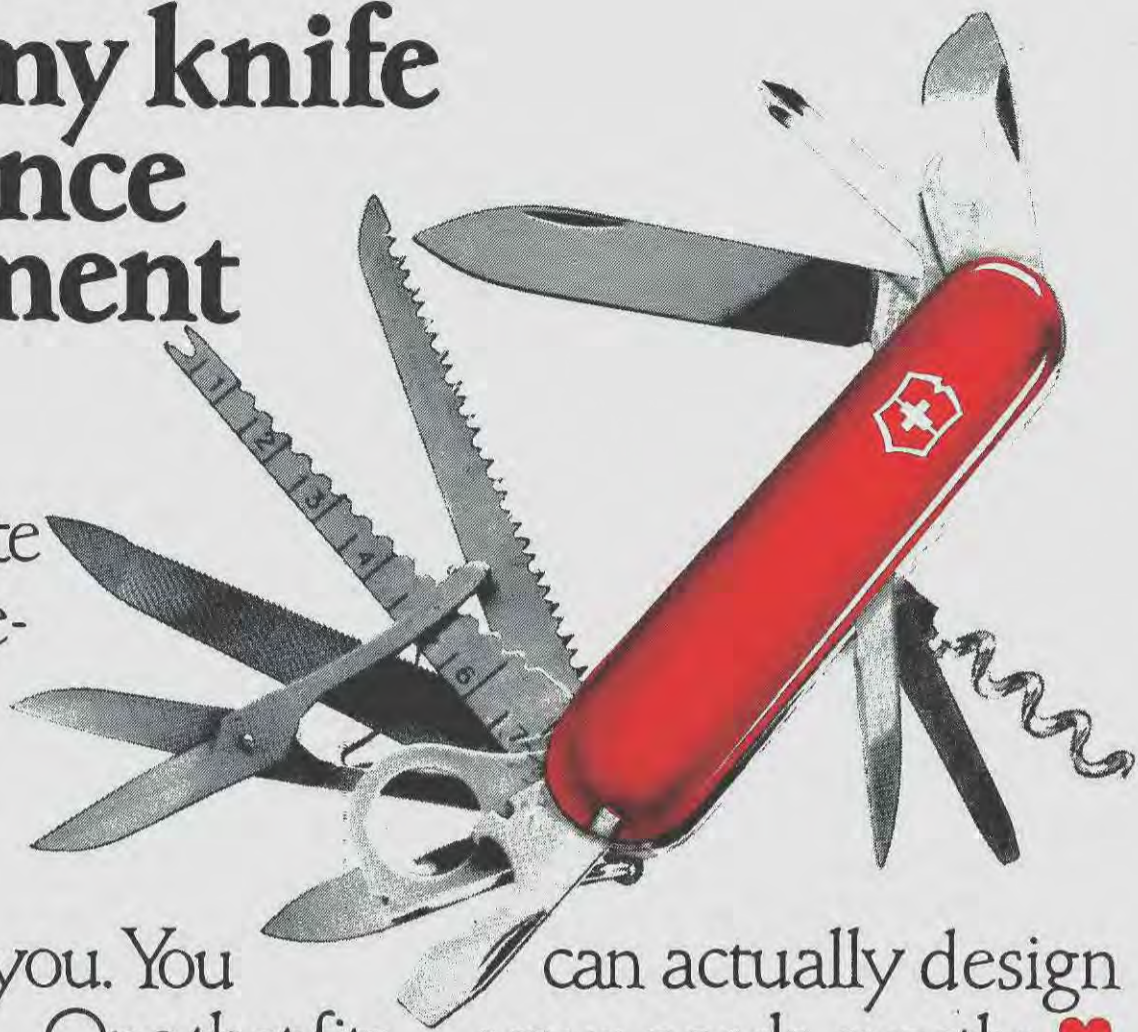
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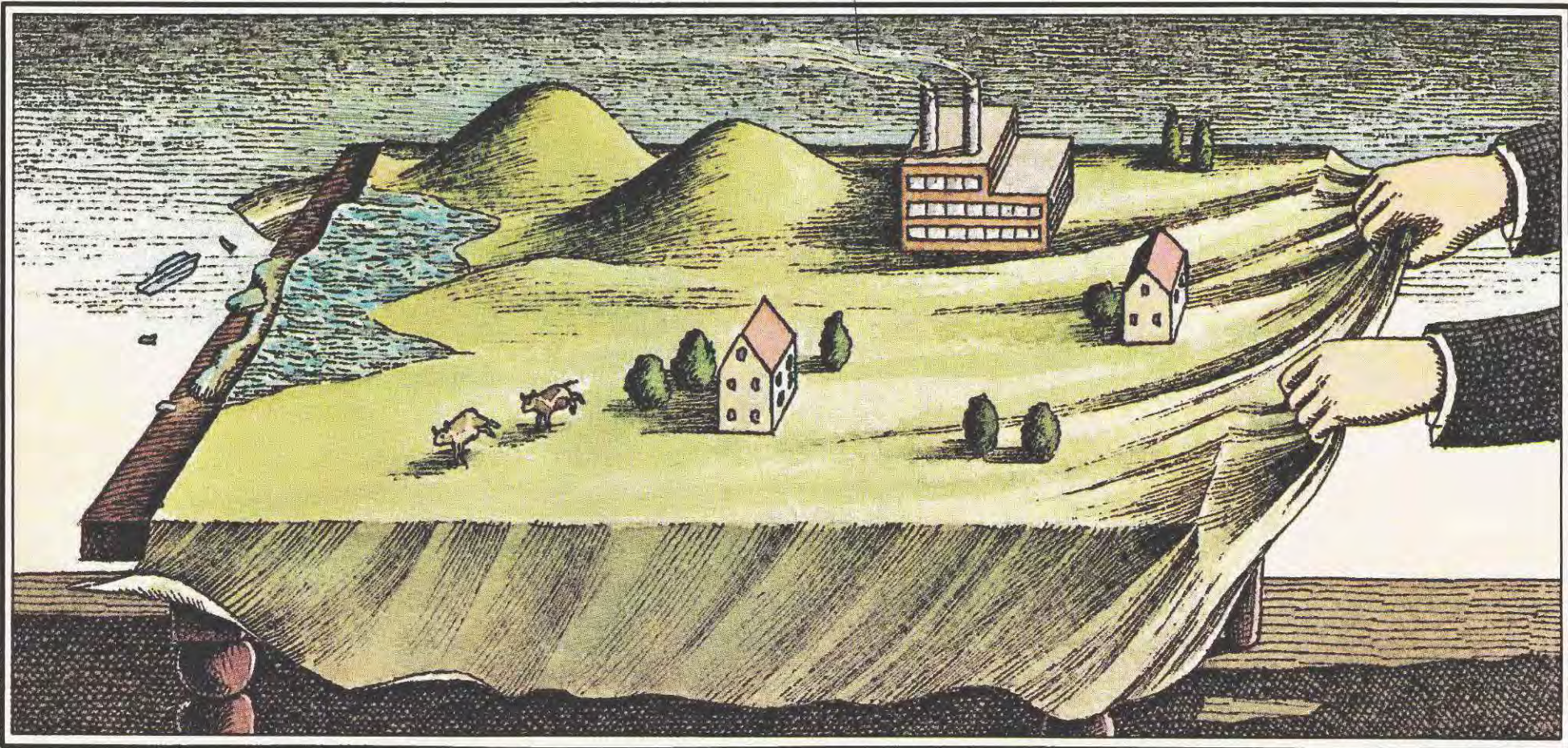


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# Unsettling Risks



Today, the largest risks for multinationals may come from governmental acts that rarely reach the headlines and in countries no one regards as radical.

INA explores a range of foreign risks from expropriation to exchange rules and recommends the best forms of protection.

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It was once common knowledge that the riskiest overseas investments were in the least developed lands.

Not any more. Risk managers are learning that the most developed nations—including some of this country's leading trade partners—can also be hazardous places to do business.

Sudden changes in currency exchange rules, so-called "non-tariff" trade restrictions, licensing laws, political embargos, even bilateral tax agreements can be almost as

damaging as coups, revolts and outright seizures.

And since the stakes involved in doing business in developed nations can be higher, the ultimate losses may be much greater.

## The Lowlands rise, the British muddle and the French take over

The Belgian and Dutch economies have had recent major foreign exchange emergencies combined in Belgium, with growing labor troubles.

The British first eased their traditionally stringent exchange rules, and are now considering making them more restrictive once again.

The most significant nationalizations of recent times took place in France—a country for which few firms carry expropriation insurance.

Of equal concern, these emerging risks strike hardest at some of America's fastest growing forms of foreign trade. U.S. service industries, including banking, insurance, telecommunications and construction, earned a \$36 billion trade surplus in 1980, as against a \$25 billion deficit for merchandise—and much of this growth remains in developed countries.

Economic tremors close to home are creating new challenges for both underwriters and risk managers.

# in Stable Nations

One form of coverage many companies are investigating is currency inconvertibility.

Balance of payments problems, currency fluctuations and loss of capital have forced a number of governments to unexpectedly change their currency exchange rules. Currency inconvertibility insurance can protect a firm that finds its investments stranded in a foreign country or discovers that vital profits, locked in another currency, cannot be repatriated.

## Complicated coverage for complex new risks

International competition has grown so fierce that foreign governments have begun to use local regulations as trade barriers. These restrictions—which are sometimes called “non-tariff” barriers—range from sudden changes in licensing laws to technical standards that are re-

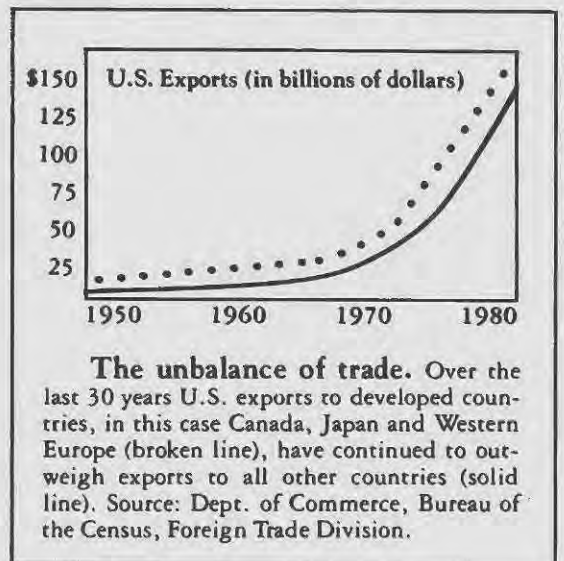
drawn to bar competing foreign merchandise or services.

If these governmental rulings change the conditions of a contract, then contract repudiation insurance can protect a company that has already made substantial investments in personnel or machinery.

## Plotting a course in uncharted waters

Foreign trade between advanced economies is increasingly a matter of intangibles. Data, experience, and service are becoming as important as goods and products. And here, regulations governing data transfers, tax laws, admittance of foreign bankers and insurance companies for instance can have tremendous effect. There are few insurance vehicles that cover this kind of transaction—but they will likely be a growing area in the future.

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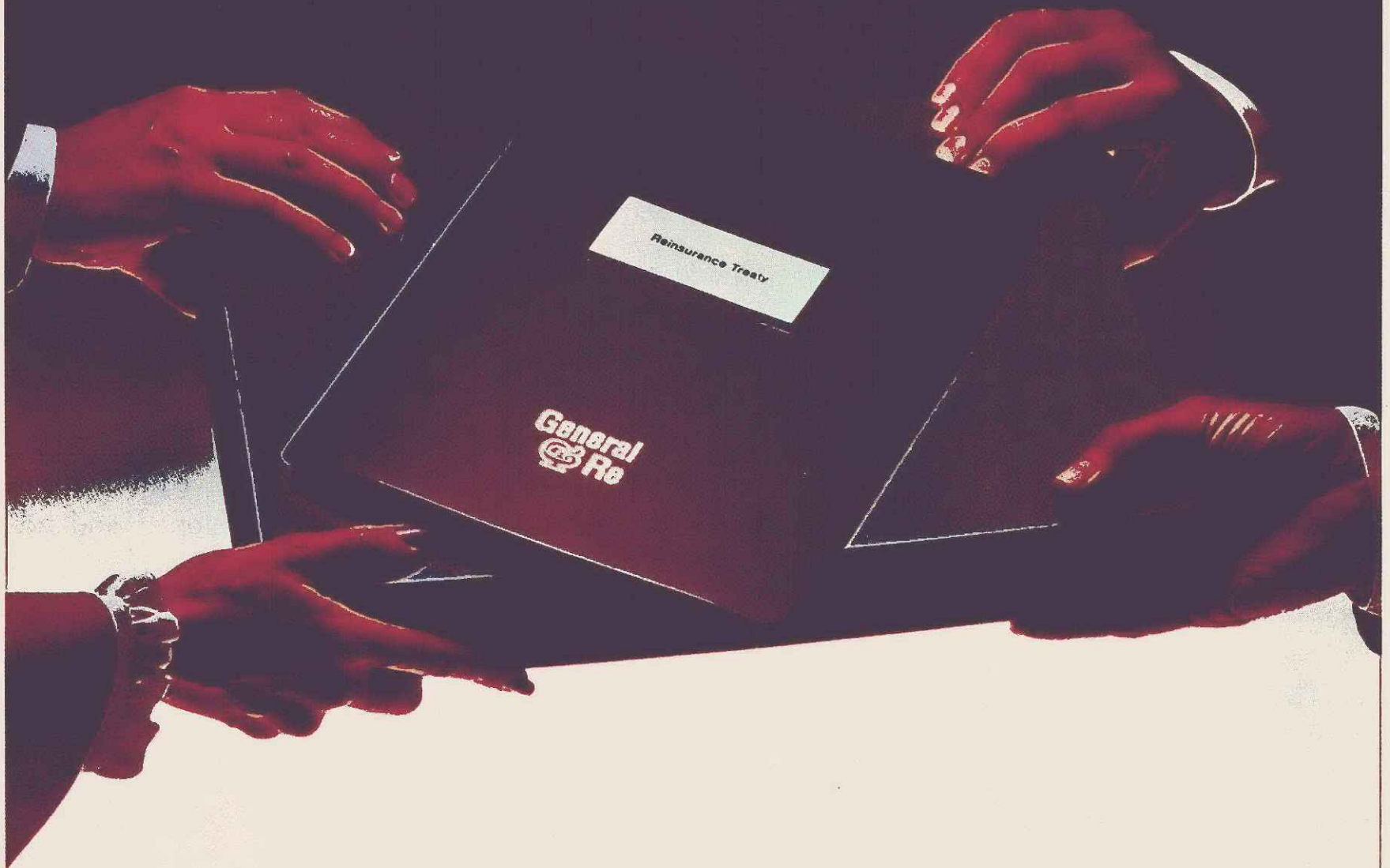
The challenges of new risks in advanced economies should not obscure the vital role insurers play in less developed lands. Private underwriters—as well as public agencies—make it possible for businesses to make investments in third-world nations. A variety of coverages are involved. Political risk insurance is, of course, important. But so are various forms of property and casualty, product liability and benefits for local workers as well as third country nationals. Countries that admit large international insurers often find this makes investment more attractive to established multinational firms.



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thrift tips

# THE FUTURE OF MEDICAL CARE

## Can technology and cost containment mix?

By Peter B. O'Brien

FOR EVERY DOLLAR spent on health care cost control, there are thousands that are pumped into medical research and development to keep us happy and healthy.

These vast sums of money come from publicly supported charities and from the profits of giant corporations that produce medical equipment for the health care industry.

The money has been well-spent. We are on the threshold of major breakthroughs in medical technology. We've all heard of computer tomography scanning, CT, or "cat" scanner, but who's heard about the new nuclear magnetic scanner? And what about the plastic-aluminum heart? How about artificial skin? Do you know what a linear accelerator is?

To get a current reading of where we stand today, we visited three health care institutions. Our mission was to determine:

- The major causes of sickness and death.
- How much it costs to go to the hospital today.
- What's ahead.

First, let's focus on the three main health hazards in the United States:

- Heart disease. In 1982 almost a million of us will die because of myocardial infarctions, or heart attacks. Countless others will become disabled. "Heart attacks" are caused by a blockage in the arteries that carry blood from the heart. The condition stems from inherited deformities as well as damage we inflict on ourselves through poor health maintenance.

- Cancer. Millions become ill and almost a half-million people will die this year because of malignant neoplasms, cancer. Men die primarily from lung cancer, while women usually succumb to breast cancer. Like heart disease, some forms of cancer are avoidable. If people stopped smoking, for example, lung cancer would almost disappear.

- Stroke. Nearly 200,000 deaths will be attributed to stroke this year. Untold millions are handicapped as a result of stroke. Cerebral atherosclerosis is the result of a blockage in the blood vessels to the brain. Yet this might be the disease that is most controllable. Weight and hypertension control have proven to be effective guards against this killer.

What about the cost? We currently average about \$300 for each day in a hospital. This represents basic room and board plus the extras: drugs, oxygen, therapy. The average stay lasts about a week. Therefore, the bill amounts to about \$2,000.

To this we add the doctors' charges. These can range from hundreds to thousands of dollars for a sophisticated operation. And, of course, there are bills from various specialists; radiologists, cardiologists and others, plus private nurses. In short, you better be wealthy or covered by a well-designed medical insurance plan.

Most of us are not "self-funded," but have a health insurance plan. The days of \$25,000 or \$50,000 major medical maximums are long gone. We now find commonplace \$1 million plans or even unlimited pay plans, and for good reason. Some organ transplants are more than \$25,000. An open-heart bypass operation is approximately \$20,000. A normal delivery is about \$2,250.

Most of us only see copies of these bills—they're paid for by our companies' health insurers. Our paycheck shows

we split the cost somewhat with our employer. But we all have heard that our benefit "package" is a major expense and can represent 40% or more of our direct salary.

We are in a recessionary economy and corporate belt-tightening now is the name of the game.

But are hospital care costs going to stabilize? No way! Should they? No! The health care industry is devoted to doing what's best for the patient. So be it. When we get sick, we want only the best. Personal health is our most important asset. When the chips are down, we all want state-of-the-art technology on our case.

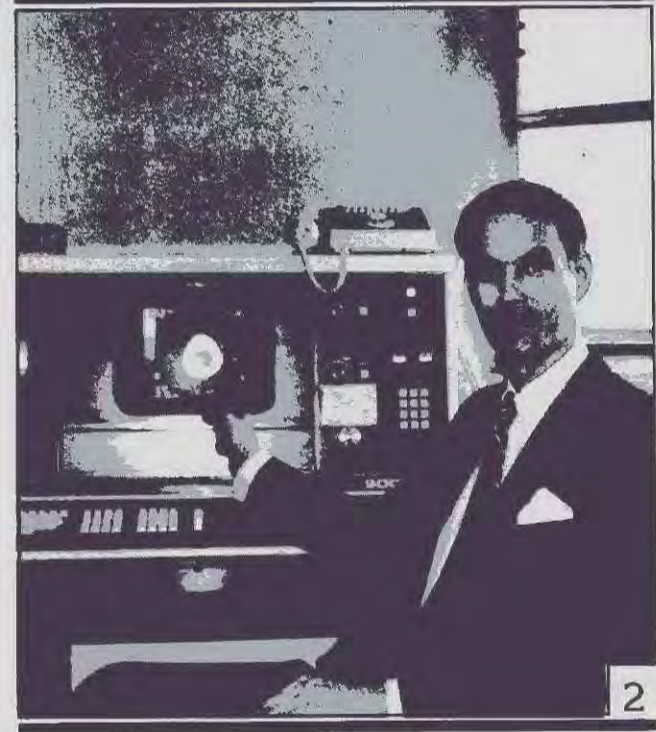
To see what's ahead in medical technology, we visited one of nation's most prestigious hospitals in New York City. We found an extremely optimistic air and sincere desire to deliver the most sophisticated medical technology to patients, but with every attempt to keep a watchful eye on cost.

The most striking advancements are being made in the radiology department. The hospital we visited had four CT scanners operating. They were not the latest models, but rather first- and second-generation machines.

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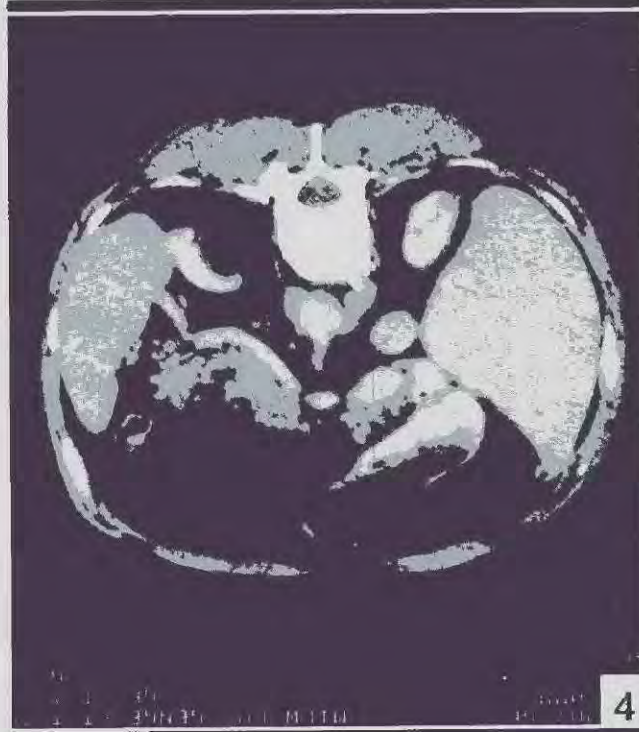
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1. CT scanners are used to take 'pictures' of the brain.
2. The author examines a brain scan readout.
3. A radiologist points out an ultrasound scanner.
4. A state-of-the-art scan shows a cyst in the left kidney.
5. A CT scanner "room."

## perspective

# Rating environmental testing services

By Denis C.K. Lin

**A**N ESTIMATED \$400 million in environmental testing services will be purchased this year.

However, not everyone is going to get his money's worth.

Perhaps overawed by bewildering laboratories or the exotic talk of scientists, many clients buying pollution testing services may eventually find that data produced is flawed, non-reproducible and, subsequently, totally unacceptable.

For any company, accurate environmental data and hazardous waste trend analysis can, and should, form the basis for company planning in pollution control equipment, monitoring programs and, as is many times the case, the cornerstone for legal and regulatory responses in case of litigation.

Yet a lack of familiarity with admittedly complex equipment and procedures need not deter users of environmental testing services from making informed and intelligent decisions about the quality of work offered by competing laboratories.

Actually, scientists have already done much of that work for them by establishing quality assurance controls to measure the precision and accuracy of their own work. By reviewing the testing procedures used to analyze hazardous wastes and the quality assurance controls that must be applied during that process, companies can begin to feel confident that investment in laboratory services will result in quality data.



Dr. Denis C.K. Lin is vp of operations and research for Environmental Testing & Certification Corp. of Edison, N.J.

In the past decade, in courts of law and in administrative hearings, criteria concerning the acceptability of analytical data have been established. Therefore, these standards should also be applied to data collected and analyzed in the normal course of business. Quite often, it is that very data and those standards upon which the company will have to rest its defense in case of litigation.

To be acceptable in a courtroom or during a regulatory hearing, sample data must be accurate in reflecting conditions at the site, and it must be demonstrated that this data has not been adversely affected by the sample collection and testing process. The data submitted on behalf of a company should be generated by an independent testing laboratory, and procedures for recordkeeping must assure all parties involved that neither the samples nor the data have been tampered with. These should be the main concern of environmental testing services.

For example, a person planning to take a sample for testing who simply reaches into a drawer to find a bottle or uses one that has not been specifically prepared for analytical purposes can easily destroy the integrity of samples before analysis begins.

Bottles used to collect samples for quality hazardous waste analysis must be free of contaminants. To analyze the volatile components, sample bottles should be designed to allow for "zero-headspace" so that samples fill bottles completely, eliminating any air spaces in the bottle that would allow compounds of interest to enter or escape the samples.

Also, clients should check to see that laboratories use proper preserving agents to prevent continuing chemical reactions in the sample bottle, another typical cause of distortion in test data. To accurately measure levels of chlorinated compounds in drinking water, for example, a preservative must be used; if not,

continuing chemical reactions sparked by the water's chlorine will produce artificially high levels of these compounds.

The manner by which samples are transported from the site to the laboratory should also be scrutinized. To minimize risk of loss in any future legal proceedings, sample bottles, once sealed, should be assigned a unique number to establish a "chain-of-custody," the legal paperwork that will document the sample's history.

Temperature control is critical. Samples must arrive at the laboratory within a temperature range of zero to 4 degrees Celsius to be of any analytical value.

As samples arrive at the laboratory, the chain-of-custody continues. A testing service client should ask the laboratory to show its system for tracking a sample through the various analytical processes. There must be no room for doubt about the whereabouts of samples or the identities of the individuals handling them. The chain-of-custody can be the first, and easiest, point of attack by opposing lawyers attempting to disqualify test data.

Yet the integrity of test data will also be attacked from another viewpoint: the quality assurance procedures used by the testing laboratory during its analytical work.

Quality assurance testing lies at the heart of the analytical process. It allows scientists to confirm the validity of their findings and, at the same time, should give customers an insight into the reliability of the testing methods used by the laboratories they are considering. Essentially, quality assurance procedures should act as a guarantee that the data produced from test samples have not been influenced by machine, material or operator error.

The "blank," for example, refers to a controlled sample that must be processed along with materials from the site to assure that no substances from the

laboratory's glassware, instruments or solvents have contaminated the samples.

Another quality assurance test, the "spike blank," is run to reflect the performance of laboratory technicians processing the samples and to assure that they are doing so in the prescribed manner. Customers should satisfy themselves that their laboratories are using "blind numbering" systems to conceal the sources of all samples, and thus protect against any prejudices on the part of the laboratory technicians.

Another quality assurance test, the "matrix spike," must be run to confirm that the test being used to determine the presence of a hazardous substance in the sample is the proper one for that sample. Laboratories should also run quality assurance tests involving "surrogates," substances not found in the environment, to measure the reliability of the control limits used for the test. Data showing calibration of equipment during testing must also be collected.

Clients should investigate beforehand the manner in which laboratory data will be presented to them. Those purchasing environmental testing services should expect to receive not only the results of any sample testing, but also of the quality assurance steps used during testing. Laboratory data should be delivered to a client in a convenient, easy-to-read form.

It should inform the customer of all hazardous waste information relevant to permit levels and statutory limits. For corporations with plant locations in a number of different states, a laboratory's ability to centralize information for various cities becomes another important consideration.

The importance of quality assurance data cannot be overstressed. In the end, it is the consumer's only guarantee that sample data collected for a company will stand up to scrutiny.

## Can cost control and technology mix?

Continued from previous page

General Electric seems to lead the parade in manufacturing CT scanners. Their popular 7800 and 8800 models sell for about \$950,000. The latest 9800 model is priced at \$1.2 million.

The hospital has the 9800 model on order with a scheduled July delivery date. Why do they need a fifth scanner? Because there is a 30-day wait for the four scanner "rooms" now in operation. The present equipment produces images reasonably well during the 18 seconds it takes for the average "shot." The 9800 model provides extremely sharp fidelity in only two seconds; a major coup for trauma patients and infants.

This is just the beginning. General Electric has competition. Siemens, Pickers and Phillips also make scanning and diagnostic equipment. A few hospitals around the world are testing amazing new diagnostic procedures. In some cases, they make the CT scanner seem obsolete, for others they might supplement present computer tomography.

The new methods are called positron emission tomography (PET) and nuclear magnetic resonance (NMR). Both positron and nuclear imaging have already proved themselves by providing clear pictures of

pathologies that were completely missed or even invisible to current CT scanners.

The cost: very high. One NMR scanner, which requires 1,000 square feet of space, is about \$1.7 million. The benefits to mankind: tremendous. Will it happen? Yes. Should it? Of course.

What's more, improvements are being made in sonic scanners. Our hospital tour looked in on a pregnant patient undergoing an ultrasonic scan. We actually were able to see her twins. Not only complete skeletal outlines, but the four chambers of one of the fetus' hearts. The other was trying to suck its thumb. It was amazing. But it's done with another expensive piece of equipment.

We went on to see a linear accelerator, a machine that focuses a laser-type beam on cancerous tumors and is able to block their growth through temperature change. We heard about burn patients that have been healed utilizing a new plastic-type cheesecloth that forms the basis for new skin growth. Plastic-aluminum hearts and artificial joints are a few developments we have read about.

Another advancement is hospital laser storage technology. They now have a single phonograph record-type disc that can store 1,000 medical records on each side. In the future you will be able to have an immediate, permanent medical history of all exams at your doctor's fingertips. The cost? It's still being developed and it won't be cheap, but the benefits again are obvious. Where are we going? I see \$500 a day for hospital care

quite soon, probably by 1985. Of course, all this wonderful new equipment and technology must fight its way through government red tape, boards of trustees and health care purchasing agents. But it will cut its way through and be available to most of us during this decade. And we will all have to pay for it.

There is an encouraging side to the cost picture. Many doctors feel the new diagnostic equipment will eliminate the need for many of the currently popular tests. The barium enemas, intravenous pyelogram (I.V.P.) G.I. series, which involves dye injection, and even X-rays may well become obsolete with nuclear, ultrasound and positron imaging devices. Also, with no harmful side effects and no bodily invasive preparation, the testing time period could drop markedly. Our average length of stay may well drop to five days by 1985, bringing the total tab to \$2,500, which isn't that shocking.

In summary, cost-containment programs are competing against a huge wave of technology funded by formidable war chests. After all, the primary concern of the medical industry is to do what's best for the patient—not to control cost. We can't and shouldn't hold back inevitable progress. We can, however, make proper preparations.

If you don't have a properly designed health insurance package, now is the time to restructure it. High maximums, pooling points, coinsurance, in-full payments, deductibles and employee contributions should be revised with an eye for what's ahead.

Peter B. O'Brien is a vp and senior employee benefits coordinator at Alexander & Alexander of New York Inc. His column appears the third Monday of each month.

## Higgitt named president of Baccala & Shoop

Noel Higgitt has been appointed president and chief operating officer of Baccala & Shoop in Newport Beach, Calif. He was the company's executive vp.

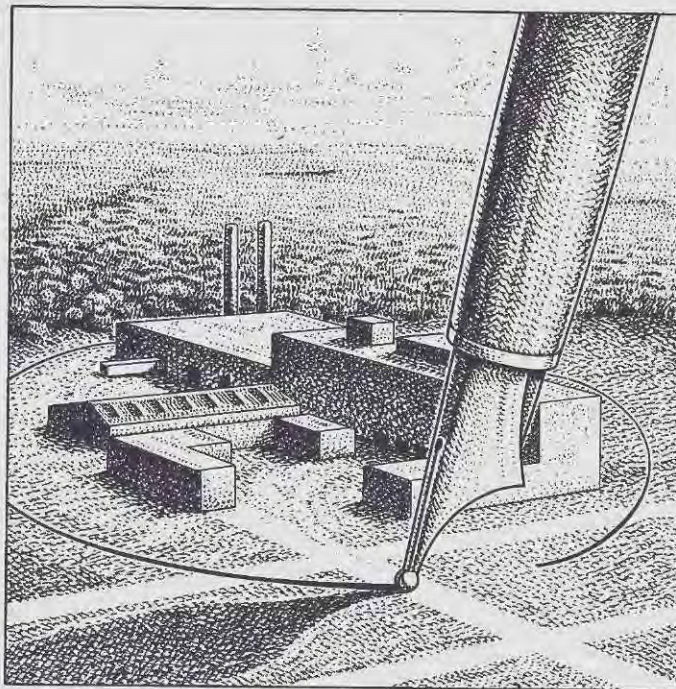
Mr. Higgitt replaces Jack Shoop, one of the underwriting manager's founders, who is retiring.

**Other excess/surplus changes:**  
O. Erik Hallberg appointed vp of casualty underwriting and marketing at Crump/Specialty Risk Underwriters Inc., a specialty brokerage affiliate of E.H. Crump & Cos. Inc. in Kirkland, Wash. He will be responsible for marketing and underwriting casualty lines including excess, umbrella and primary liability products. Mr. Hallberg was most recently a brokerage manager for Sayre & Toso.

### comings & goings: industry

Angeles aviation office; M.D. Macolino named vp in the New York marine office; R.J. DePole named vp and manager of the San Francisco office; and B.J. Stewart named vp and manager of the Seattle office.

T. Stephen Helms promoted to senior vp at Booke & Co., consultants and actuaries in Winston-Salem, N.C. He was previously assistant vp at the company. Bob Ingco, who joined Booke this year, was promoted to vp and actuary. ■



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## Insurers

Lawson L. Swearingen will retire as chief executive officer of Commercial Union Insurance Cos. in Boston in August. He will continue as chairman of the board of Commercial Union Insurance Cos. and a board member of Commercial Union Corp., the holding company for CU. A successor has not yet been named. Mr. Swearingen joined CU in 1963. He was elected senior vp in 1974, executive vp in 1975, president and chief executive officer in 1976 and chairman in 1980.

### Other insurer changes:

St. Paul Fire & Marine Insurance Co.'s new medical services division has named five officers: Timothy L. Graham, actuarial services officer; Walter B. Marquis Jr. and Richard G. Pfeiffer, senior underwriting officers; Timothy R. Morse, senior marketing officer; and Howard I. Richert, underwriting officer. The new division, providing marketing and underwriting of all property/liability insurance for health care providers, is based in St. Paul, Minn.

Brian G.R. Hughes joined U.S. Aviation Underwriters Inc. in New York as senior vp in charge of the commercial satellite underwriting operations. He was most recently with Corroon & Black/Inspace Inc. as executive vp.

Bruce J. Ebert named regional vp of American International Group in Chicago. He was most recently AIG's vp for marketing.

Two job changes were announced at Consolidated Underwriters Inc. of Houston. Don Robison appointed vp of finance and administration. Steven Rubin joined company as vp, underwriting.

## Reinsurers

Michael L. Bouris and Donald W. Bradford were named vps of General Reinsurance Corp. in Greenwich, Conn. Mr. Bouris is in the San Francisco office and Mr. Bradford is in the Hartford, Conn., office.

Paul J. DeStefano is head of treaty marketing in the Northeast region for Scor Reinsurance Co. in Hartford, Conn. Mr. DeStefano was most recently in charge of all casualty facultative business in the Northeast. Paul R. Benarz is now in charge of the region's casualty facultative business. He was previously assistant manager.

## Other suppliers

Toplis and Harding Inc., an insurance adjusting firm based in Chicago, announced six promotions. F.D. Ratliff named director in the Chicago office; D.H. Malvern named vp and manager of the Los Angeles office; John B. Owens named vp and manager of the Los

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# Health insurer competition

## Proponents say it wouldn't be burdensome

By STEPHEN TARNOFF

CHICAGO—"Our proposal will not make health care a freely traded commodity. It will not place an undue burden on consumers and expect them to be experts on health benefits or medical treatment."

"It will not interfere with or intrude into employers' management of labor agreements or benefit packages. It will not cause wholesale failure of hospitals."

Defending the Reagan administration efforts to implement more competition among health insurers to hold down health care costs, Dr. Robert J. Rubin explained the administration's goals at the Health Insurance Assn. of America's annual meeting here.

"Our goals for competition are simple, yet compelling," said Dr. Rubin, assistant secretary for planning and education in the Department of Health and Human Services. "We hope to institute changes in the insurance markets that will encourage greater consumer cost sensitivity, give people an economic reason to seek less costly care, create competition among providers and reward those plans that are less costly."

Dr. Rubin said he wanted to defuse four myths surrounding implementation of a more competitive approach to health care: that competition entails radical change, that it means price competition only, that it means total deregulation and commercialization of health care and the debasement of medical ethics and that economics will take precedence over need.

"Our options are clearly not radical ones."



Dr. Rubin

the HHS official explained, indicating that they are the ones guiding the bulk of the economy.

Price is not the only concern for consumers when they buy other commodities and it will not be their only concern when they buy health insurance, he said.

He said also that saving money will not necessarily lead to an eroding quality of care, nor will it commercialize medical care more than it already is.

Dr. Rubin listed a number of reasons the government is interested in curbing rising health care costs that for Medicare and Medicaid alone will likely grow to 2% of the gross national product by 1990, compared with less than 1% in 1976.

This spending for entitlement programs is eating into funding for discretionary social programs, Dr. Rubin said.

The increases also undermine the administration's ability to balance the budget, create more unpopular regulation and compromise the fiscal integrity of health entitlement programs, he added.

The administration's proposals for controlling health care costs, for which the specifics have not been worked out, include:

- Giving Medicare beneficiaries vouchers that would allow them to join an HMO or use traditional health insurance from the private market.

- Restructuring basic Medicaid and Medicare benefits to include cost sharing by beneficiaries.

- "Neutralizing" current tax policies to reduce first-dollar insurance coverage among everyone in the private sector.

All are necessary in light of "structural defects" in the current health care system that create few incentives for holding down the cost of health care and encourage greater

*Continued on facing page*

## Proposal won't control costs: Professor

CHICAGO—Administration proposals to increase competition among health care insurers will not be the answer to skyrocketing medical costs, says a prominent health care economist.

Marc J. Roberts, professor of political economy and health policy at the Harvard School of Public Health, told members of the Health Insurance Assn. of America that political pressure and the complexity of the health care system will create obstacles to the Reagan administration's proposed consumer-choice solution.

"It (health care) is a very complicated problem and part of the difficulty we face is the enthusiasm of the American political-economic system for simple answers," said Mr. Roberts, speaking at the HIAA annual meeting here.

"It is possible, Virginia, that there is no Santa Claus, and that what we face is a complicated system for which nothing will work very well and for which there also is no single solution that will operate uniformly across the country."

Mr. Roberts questioned the assumptions upon which the Reagan administration bases its health care proposals.

He said the Reagan administration very possibly is emphasizing the wrong theory to determine where resources are incorrectly utilized.

The theory emphasized by the administration is that too much is spent on the "worried well" or those who aren't really sick but are always running to the doctor for reassurance.

A contrary theory says that it is the critically ill who are using most of the resources,

often to no avail. One study cited by Mr. Roberts showed that a typical bill for a stay in an intensive care unit was \$40,000, but that only one out of six intensive-care patients was still living six months after that acute care.

"The question is, what exactly do we think the problem is?" Mr. Roberts said.

Questioning the administration emphasis on the worried well, Mr. Roberts said "the evidence for that proposition is unclear at best." He cites a study that showed that 40% of hospital care costs are typically attributed to 4% of the patients.

This suggests that overutilization exists more with the very sick than the worried well and that making people pay an extra \$2 a visit to their pediatrician will not solve the problem of high health care costs, Mr. Roberts added.

Another question to ask when considering the competitive approach to health care coverage is how much insurance do we want, Mr. Roberts said.

Under a competitive approach, which would have employers offer employees several health insurance plans with varying degrees of coverage at correspondingly different costs, people who know they are likely to be healthy will buy insurance plans that provide less coverage, he said.

People who are sick will buy plans with high coverage. Eventually, the cost of high coverage plans will be high and the cost of low coverage plans will be low.

"We thereby will have diminished the amount of cross-subsidy of the sick by the well and reduced the amount of insurance in the system," Mr. Roberts said.

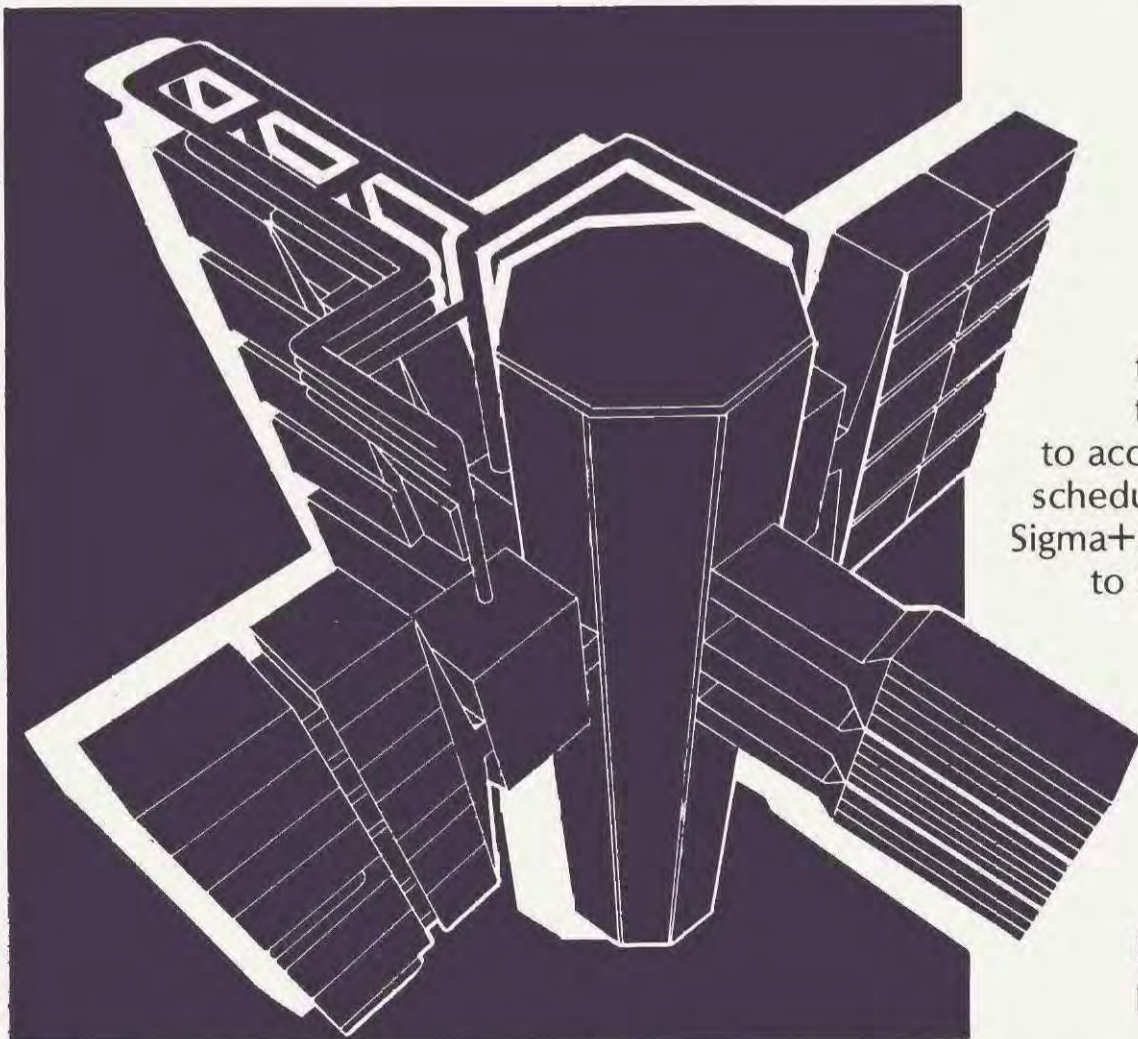
"Do we want to diminish the cross-subsidy of the sick by the well?" Mr. Roberts asked. "That is the key question."

*Continued on facing page*



Mr. Roberts

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# The case for competition

Continued from facing page  
spending and inefficiency, Dr. Rubin said. Such defects result because government:

- Stimulates both demand and cost increases in its public health insurance programs by offering few or distorted cost-containment incentives for beneficiaries.

- Provides open-ended tax subsidies for employer contributions to traditional private insurance, leading to comprehensive insurance especially for inpatient care with few incentives for use of less-costly care.

"The growth of open-ended insurance has reduced the sensitivity of patients and providers to the cost of care," Dr. Rubin explained.

"It has created the incorrect perception that health care is free and that more is always better," he added.

- Accepts, if not encourages, provider inefficiency by paying providers through retrospective cost-based reimbursement for Medicaid and Medicare patient treatment.

The retrospective cost-based reimbursement system is inherently inflationary, pays inefficient providers more than efficient ones and retards innovation but does not allow sufficient capital formation to meet future capacity needs, he added.

Dr. Rubin pointed out that consumers' shares of their health care costs have not increased nearly as much as hospital care costs over

the last 30 years.

"In 1950, the consumer paid 30% out of pocket. In 1980 the consumer paid 9%, so that as his hospital costs were increasing 450%, the consumer saw an increase in real dollars of only \$2, from \$7 to \$9," Dr. Rubin said.

In addition, he cited a study by the Rand Corp., a think tank, that showed that those people who paid more used the health care system less.

Consumers were not sicker as a result, but they did change their medical care habits, Dr. Rubin said.

"People stopped going to physicians for diseases best-characterized as benign, self-limited, easily diagnosable and easily treatable with over-the-counter medications," he said. ■



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## Opposing view

Continued from facing page

"It is sufficient to say that the problem with the medical care sector is that it is not a market of the sort we economists draw on our blackboards," he added.

"It is not a simple, purely competitive market. It is a highly complex market with highly differentiated products, limited consumer information and limited numbers of competition."

"I at least believe that the implications are that we should not take our belt off before we have purchased our suspenders."

"At a minimum, it is extremely unwise of the administration to dismantle certain kinds of regulatory and resource-limiting programs in the hope that competitive proposals it may produce next month and that Congress eventually will put into place will produce market cost-constraining programs."

The varying interest groups often working at cross-purposes in health care also create problems for a consumer-choice system.

The administration, he said, is an uneasy coalition of conflicting ideas, policies and interest groups committed to a wide variety of conflicting ends.

"That's why the administration has had difficulty putting (health care) proposals on the street," Mr. Roberts said.

"Whatever way it goes, it's quite likely to offend one or another of its would-be constituents and with the election year approaching, it's not terrifically attractive to irritate either the hospital or the health insurance industry or the typical consumers or the unions or the corporations."

Moreover, if the administration attempts to please everyone, it will run into budgetary problems.

Mr. Roberts, however, did admit that market forces do play a role in health care and incentives are needed to keep down medical costs. Based on that, he said he agrees with the spirit if not the substance of the administration's proposals. ■

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BI-5-17

## Government cost shifting hurts employers: Insurer

CHICAGO—Private health insurers should launch an all-out assault on medical cost shifting by the government, a life insurance official told members of the Health Insurance Assn. of America.

"A year ago, the issue of cost shifting was a quiet conspiracy," said John A. Miller, president and chief executive officer of Provident Mutual Life Insurance Co. of Philadelphia. "Today, however, cost shifting is very much a public policy issue" that threatens the viability of the insurance industry.

Cost shifting occurs when the government pays less than the full cost for services provided by hospitals and physicians to Medicare and Medicaid patients.

Providers then must charge private-sector patients more to compensate for the shortfall in government reimbursement, which in 1981 was projected to be \$4.8 billion.

"Government keeps changing the ground rules for reimbursement to hospitals, cutting a benefit here, a benefit there, and every time payments are lowered, our business bleeds a bit more," he said.

"Eventually, the shortfall will cripple and destroy the health care delivery system in this country," Mr. Miller said.

Compounding the problem is the fact that Blue Cross plans often negotiate their own discount arrangements with providers for treatment for policyholders. By doing so, Blue Cross is insulated from cost shifting in a number of states and adds to the burden other policyholders must bear, he added.

Both Blue Cross discounts and government cost shifting hurt the competitive marketplace and hinder efforts to control health care costs, he said.

To counteract these effects, the HIAA is support-

ing remedial action, including:

- Developing model legislation to be implemented on the state level to make it an unfair trade practice for hospitals to negotiate exclusively with Blue Cross or discriminate in how they define costs.

- Pressing for expanded use of the waiver approach under which the federal government agrees to waive its Medicaid and Medicare payment restrictions and pay hospitals on an equal basis with other insurers.

- Debating the government cost shifting issue in public, especially where it can be linked to the pro-competition movement for health care insurance.

- Taking advantage of activities at the state level to address cost shifting, such as efforts to promote hospital rate-setting systems.

- Exploring the idea of making private insurers the primary insurer for persons over 65 who are still working instead of enrolling them in Medicare. It has been proposed that employers' group health benefits pick up these costs.

- Studying what "reasonable" costs mean under Medicare and Medicaid and determining ways to interpret the term more broadly.

Support for these actions is being drummed up through a national advertising campaign, testimony before congressional committees and increased media attention.

"We know, too, that our position and our advertising messages have gotten through to the administration and have been the subject of discussion," Mr. Miller said.

But for now, the Medicare/Medicaid waiver of cost shifting is the only way for hospitals to equitably spread their costs, he adds.

## Labor unions still want universal health cover

CHICAGO—Organized labor may have put national health care legislation on the back burner, but it has not given it up as an important goal, a major union official said recently.

Bert Seidman, director of the Department of Social Security for the AFL-CIO, told members of the Health Insurance Assn. of America that with unemployment approaching 10%, the need for guaranteed health care for everyone is evident.

"For the present, we recognize we have lost the chance for national health insurance," he said.

But what is even more frightening is that programs that began to broaden access to health care are now being "slashed, gutted and eliminated."

As the economy worsens and unemployment rises, more workers are losing not only their income but their health care benefits, too.

"We have got to break the chain between the loss of income and the loss of health care coverage," he stressed.

For example, the United Auto Workers in recent contract negotiations won more health care coverage for displaced workers, despite making other concessions to help the ailing auto industry, Mr. Seidman explained.

He said labor is clinging to its basic principles despite having "other fish to fry at the present time."

"Those basic principles are a comprehensive single standard of (health care) services available for everybody in the country. Universal coverage and access to health care as a matter of right."

Mr. Seidman said that if the federal role in health care is contracted, the local, state and private role will have to be expanded.

He also assured the audience that

workers are vitally interested in bringing down the increase in health care costs.

"We are very concerned when we see medical care costs once again far outstripping prices in the economy," he said.

The unions realize the more costs skyrocket the more difficult it will be for them to just hold on to current coverage, he said.

And they know that putting more money into medical benefits to keep pace with rising costs will mean that other items in the bargaining package will suffer.

In addition, most workers do not have all of their health care costs insured, so rising medical costs also can mean higher deductibles and more paid out of employees' pockets under coinsurance provisions, he said.

Workers also are concerned because they help pay for public programs like Medicare, Medicaid and public hospitals, Mr. Seidman added.

The reasons he sees for rising health care costs include:

- The open-ended reimbursement system for both institutional and non-institutional health care providers.

- The emphasis on inpatient care at hospitals, which is the most expensive type of care.

- The dominant fee-for-service system of reimbursing doctors and cost-reimbursement for institutional care that does not encourage effective or efficient organization and delivery of care or cost restraint.

- The use of deductibles and cost-sharing and coinsurance provisions in health insurance policies that erect barriers to care at the earlier stages and thereby skew the system more toward care in hospitals and acute care that is covered by insurance.

## Insurer asks Greek regime to aid market

ATHENS—Efforts to put new life into the Greek insurance market are being frustrated by lack of positive action by government authorities, a leading Greek insurer says.

Nicolas Adamantiadis, chairman of the influential Assn. of Insurance Companies in Greece, complains that contributions by the government to the private insurance sector actually have been negative.

Greece's entry into the European Economic Community should have opened up new horizons for the nation's insurance industry to explore with the backing of the government, he says.

"It was a unique opportunity for our market to discard its worn-out profile and rejuvenate itself, but nothing was done, and the state seems unable to plot a national insurance policy which will invigorate our insurance conscience and allow the development of a knowledgeable insurance industry."

The association's annual report state that Greece needs more cooperation between government and the business and insurance sectors to improve fire safety.

Greece reported fire losses of more than 3 billion drachma (approximately \$48 million), which are regarded as a "particularly high burden" for a market beset by earthquakes, arson and terrorist losses on top of normal industrial and commercial risks, the report said.

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## Liability policy covers non-profit organizations

L.W. Biegler Inc. is offering a revised and expanded liability policy for directors, officers and employees of non-profit organizations.

The new product includes direct coverage for the non-profit organization. Coinsurance has been eliminated where permissible. The coverage also features a 12-month discovery clause and includes subsidiary coverage.

Salaried and non-salaried personnel, like volunteers or board members, also are covered. Coverage is written on a claims-made basis with prior acts coverage included. Limits of \$25 million are written, with higher limits available on request.

The policy is available in most states through International Insurance Co., a Crum & Forster subsidiary. For more information, contact Bruce Henriksen, L.W. Biegler Inc., 100th Floor, Sears Tower, 233 S. Wacker Drive, Chicago, Ill. 60606; 312-876-3141.

### Florist coverage

New Hampshire Insurance Group, an affiliate of American International Group, has introduced a new policy for retail florists called Florist Protector.

The policy is designed for florists with gross revenues of less than \$1 million per year and fewer than five employees.

The coverage provides replacement cost on buildings other than greenhouses, business personal property, loss of business income and business liability. Limits are determined by the buyer, but cannot exceed \$1 million.

Other included coverages are fire legal liability, \$50,000 per occurrence; medical payments, \$500 per person, \$10,000 per accident; employee dishonesty, \$5,000 per occurrence; extended crime, \$2,500 per occurrence. Exterior grade floor glass, refrigerant leakage and interruption and extended liability risks are also covered.

This coverage is now available in 38 states. For more information contact a local independent agent.

### Truck cargo policy

Commercial Union Insurance Cos. has introduced a motor truck cargo policy with broader limits.

The form covers damage to cargo for common or contract carriers on a named-peril or all-risk basis. It covers carrier liability for cargo under tariffs, bills of lading or shipping receipts. This coverage also fulfills Interstate Commerce Commission requirements for carriers' financial responsibility.

Various limits can be written. Coverage can be extended to goods at terminals. For further details contact Van Priest, Commercial Union Insurance Cos., 1 Beacon St., Boston, Mass. 02108; 617-725-7598.

### Health profiles

Health Evaluation Programs Inc. is now offering its Health Status Profiles service to corporations, associations and other groups.

The profiles outline employees' health risks, physical fitness, nutrition and stress factors. Each profile is analyzed by computer, using information provided by the employee. This information is then compiled into a group statistical report for the employer. Individual employee reports are confidential.

The employer's statistical report compares health statistics for compatible age and sex groups. It also compares actual age with a projected statistical age based on current health habits.

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how to improve health habits, how to correct hazardous habits like cigarette smoking and encourage wellness practices. Health Evaluation Programs provides fitness, nutrition and health education programs as a follow-up to the profiles.

The profiles cost about \$15 per employee. The cost can vary for groups of 100 or more.

For details contact Lew Malter, Health Evaluation Programs Inc., 808 Busse Highway, Park Ridge, Ill. 60068; 312-696-1824.

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June 21	San Francisco	The Fairmont

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#### Agenda

1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

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# Panel suggests changes in N.Y. regulations

By BILL DENSMORE

NEW YORK—The state should repeal laws that prohibit insurers from offering claims and other administrative services to employers that self-insure their workers compensation risks, a blue-ribbon panel appointed by Gov. Hugh L. Carey recommends.

The proposal is one of more than 40 contained in a 112-page report by the Executive Advisory Commission on Insurance Industry Regulatory Reform. The 10-member panel was named Oct. 29 by the governor to come up with ways to reform the state's 40-year-old insurance code (BI, April 26).

At a May 6 news conference, Gov. Carey said his staff would submit legislation embodying some of the panel's recommendations.

But those recommendations are encountering opposition. As Gov. Carey spoke, the New York Public Interest Research Group Inc., a consumer organization, distributed a release in which it attacked the report.

"It is amazing that Gov. Carey has the chutzpah to appoint to the commission a 'who's who' of the insurance industry, with no effective consumer representation," said Mel

Goldberg, a staff attorney for the group. He called the report, put together following what he said was just a single public meeting, "an industry propaganda piece, paid for by the taxpayers with the seal of the state on its cover."

The panel was chaired by John G. Heimann, a former comptroller of the currency and New York state banking commissioner. He is now chairman of the executive committee of an investment banking firm of Warburg Paribas Becker Inc. and is also a director of Colonial Penn Group Inc.

Among other members of the panel were Maurice R. Greenberg, president and chief executive officer of American International Group Inc.; Harold A. Eckmann, chairman of Atlantic Mutual Insurance Co.; and Robert A. Sherman, a senior vp at Eastman Kodak Co. and a director of Aetna Life & Casualty Insurance Co.

The report notes that only New York and Massachusetts prohibit fee-based administrative services by insurers for workers compensation programs. Only a limited number of attorneys and independent adjusting companies can offer such services in New York, it says.

"Such self-insureds are generally

highly sophisticated consumers with risk managers and internal staffs that are capable of determining the best approach to their workers compensation services," the panel's report says.

"We believe that the law should be amended to allow such self-insurers to retain an affiliate of an insurer under appropriate safeguards," it said.

Most of the panel's other recommendations center on two points:

- Reducing the authority of the insurance superintendent to exercise prior approval over rates.

- Easing strict rules governing insurance company diversification and investments.

The former would have more of an impact on personal lines, like auto insurance, than on commercial lines.

But changes in the rules governing diversification and investments could result in reduced commercial rates if they allowed insurers to operate more efficiently.

Specifically, the panel said the state should:

- Replace detailed schedules in the insurance law listing the types of stocks and bonds an insurer may purchase for its portfolio with what the panel termed "flexible govern-

mental oversight of an insurer's performance."

The panel recommended that "direct regulation of the insurer's portfolio should occur only when the insurer has shown signs of financial weakness."

- Allow insurers to purchase up to 49% of the voting stock of another company as an investment. Currently, the law restricts such purchases to not more than 5% of the voting stock.

- Repeal current restrictions on the acquisition of non-insurance subsidiaries by insurers. Current state law allows insurers to acquire only companies providing insurance-related services, like pension and benefit administration or investment services.

The panel said insurers should be able to acquire subsidiaries engaged in "any lawful business activity."

- Allow New York-based life insurance companies to offer universal life insurance as well as to offer group pension contracts providing for accumulation of pension or annuity funds not contingent on the continuance of human life. Current law forbids both.

The panel also says mutual life insurers should be able to convert to stock ownership.

- Repeal the statutory requirement that a majority of the directors of a New York insurer be residents of New York or an adjoining state.

Despite its many recommendations, the panel sidestepped at least one hot topic and appeared to have made a concession to New York Insurance Superintendent Albert B. Lewis on a second.

The first issue involves New York laws that require "mandated benefits" in group health insurance offered in the state.

"Because the law applies to insurers, not employers, the self-insurer need not provide these mandated coverages," says the report.

The report says New York requires insurers to include benefits based on type of illness, injury or condition, like mental illness, drug addiction, alcoholism and maternity care; based on class of the individual covered, like newborn children and handicapped people; and based on the services provided, like chiropractic or nursing care, second surgical opinions and pre-admission testing.

However, the report does not recommend that the law be changed, but says "any further legislative or regulatory attempt to mandate health insurance benefits should be scrutinized from the point of view of the disparity between insured plans and self-insured plans."

The apparent concession to Mr. Lewis came after one of the commission's working groups had suggested that the six-member state Advisory Board on Insurance Laws & Regulation be given authority to override the insurance superintendent on some actions.

Mr. Lewis, in a scathing attack on the panel during its public hearing, denounced the idea, charging such a board would "emasculate and lay siege to the New York Insurance Department."

The panel's final report contains a recommendation simply to expand the membership on the dormant insurance board to include more public members, but it fails to suggest giving the board anything more than advisory power.

Mr. Lewis says he can live with that recommendation.

At his news conference, Gov. Carey pointed out the economic importance of the insurance industry to New York state, saying it employs about 169,000 people. New York's 213 property/casualty companies represent 7.2% of the nation's 2,953 companies, according to the panel, and in 1979 they held \$174.2 billion of assets. ■

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- City Financial Business Publications Ltd. has published a new reference guide called "The 1982 International Handbook and Legal Guide for the Insurer and Reinsurer." The handbook gives a **synopsis of insurance legislation in 122 countries**. It also covers licensing and supervision, reserving requirements, regulations affecting reinsurance and premium taxes in force. The book contains a list of sources to contact if a reader has a question about a jurisdiction's insurance rules. The book costs 20 pounds (approximately \$36). For more information contact City Financial Business Publications Ltd., Orient House, 42/45 New Broad St., London EC2M 1QY England.

- A new book, "Insurance for Construction and Engineering Contracts, Current Trends, Problems and Developments," published by Gower Publishing Co. Ltd., outlines **risk analysis and identification of the conditions of a construction contract**. Liability policies are also examined, as well as bonding, business interruption and transit and marine risks. The cost is \$56.50 plus postage. For more information contact Gower Publishing Co. Ltd., Gower House, Croft Road, Aldershot, Hants GU11 HR England.

- Kwasha Lipton offers a booklet containing the firm's views on issues raised by the **Financial Accounting Standards Board discussion of employers' accounting for pensions**. For a free booklet write Department M, Kwasha Lipton, Box 1400, Fort Lee, N.J. 07024.

- An **employee wellness and cost-containment program** is covered in the bimonthly newsletter, "Healthier Life." For a free copy of the newsletter write Dick White, Healthier Life, 4182 Gann Store Rd., Hixson, Tenn. 37343.

- "Tender Offer Defense Expense Insurance" is a brochure by NAS Insurance Services describing the policy, benefits, covered expenses and exclusions of **tender offer insurance**. For a free brochure write Leonard Nelson, NAS Insurance Services, Box 54831, Los Angeles, Calif. 90054.

- "The Importance of Reporting an Unusual Occurrence and Preparing an Unusual Occurrence Form" is a two-part program to enhance **development of hospital risk management information systems**. A filmstrip costs \$90; a slide presentation costs \$145. The preview charge is \$25. For information contact David Sniff, Illinois Hospital Research and Educational Foundation, 1200 Jorie Blvd., Oak Brook, Ill. 60521.

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**MAY 24. Ways to Contain Business Health Care Costs** seminar in St. Paul, Minn., sponsored by Control Data Management Institute; \$195. Control Data, Box O, Minneapolis, Minn. 55440; 800-638-6590.

**MAY 24-25. Guard Training** program in Chicago, sponsored by the American Society for Industrial Security; members, \$240; non-members, \$325. Lewis C. Schneider, ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

**MAY 25-26. Asbestosis, DES and Agent Orange Claims** symposium in Chicago, sponsored by the Society of Chartered Property & Casualty Underwriters; members, \$185; non-members, \$195. Harry Niemann, Director of Continuing Education for CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355; 215-648-0440.

**MAY 26. Employee Training Programs: How to Achieve Cooperation and Compliance** seminar in Chicago, sponsored by Carnow, Conibear & Associates Ltd.; \$15. Carnow, Conibear & Associates Ltd., 20 N. Wacker Drive, Chicago, Ill. 60606; 312-782-4486.

**MAY 26-27. Health Care Cost Containment** workshop in Chicago, sponsored by the Health Research Institute; \$395. Also **June 15-16** in St. Louis. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

**MAY 26-28. Safety Management in the Petrochemical Industry** conference in Houston, sponsored by International Safety Associates Inc.; \$395. International Safety Associates Inc., 126 Northpoint Drive, Houston, Texas 77060; 713-999-0000.

**MAY 27. Greater San Diego Insurance Day** meeting in San Diego, sponsored by the Independent Insurance Agents & Brokers Assn. of San Diego; \$20. IIAABA, 3421 Park Blvd., San Diego, Calif. 92103.

**MAY 27-28. Practical Methods of Combining Safety and Production** seminar in El Paso, Texas, sponsored by the Paso Del Norte Chapter of the American Society of Safety Engineers; members, \$40; non-members, \$50. Jim Jordan, Seminar Chairman, 10727 Gateway West, El Paso, Texas 79935; 915-593-3400.

**MAY 28. First Annual Bay Area RIMS** conference in Palo Alto, Calif., sponsored by the Northern California and Santa Clara Valley chapters of the Risk & Insurance Management Society; \$40. Stephen Deness, University of California, 1942 University Ave., Berkeley, Calif. 94704; 415-642-3754.

**JUNE 14. Inspector Training** seminar in San Diego, Calif., sponsored by the International Safety Academy; \$490. International Safety Academy, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

**JUNE 24. Application of Risk Control and Financing** seminar in Richmond, Ky., sponsored by Eastern Kentucky University's insurance, fire prevention & control and security & safety departments; \$325. Division of Special Programs, Eastern Kentucky University, Richmond, Ky. 40475; 606-622-1444.

**JUNE 25. Dollars & Sense of Local Government Risk Management** conference in San Antonio, Texas, sponsored by the Public Risk & Insurance Management Assn.; members, \$250; non-members, \$325. PRIMA Conference, 1120 G St. N.W., Suite 707, Washington, D.C. 202-737-7556.

**JUNE 34. Ergonomics** course in Los Angeles, sponsored by the University of Southern California, Institute of Safety & Systems Management; \$195. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

**JUNE 34. Disaster Management** workshop in Harrisburg, Pa., sponsored by the Disaster Management Committee of the American Society for Industrial Security; members, \$240; non-members, \$325. Lewis C. Schneider, ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

**JUNE 6-9. Dialogue with Senior Management** forum in Boston, sponsored by Arthur D. Little Inc.; \$975. Janet Maurer, Arthur D. Little Decision Resources, 17 Acorn Park, Cambridge, Mass. 02140; 617-864-5770, ext. 4400.

**JUNE 7-11. Basic Safety Management** seminar in Houston, sponsored by the International Safety Academy; \$535. Also **July 12-16** in Houston. International Safety Academy, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

**JUNE 7-11. Reinsurance Practice** course in Warwick, Bermuda, sponsored by Risk Research Group; 630 pounds (approximately \$1,109); 560 pounds for each additional participant from same company (approximately \$986). Course Coordinator, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

**JUNE 8-10. Financial Analysis for Risk Management Decisions** seminar in Washington, sponsored by Cozzolino Associates Inc.; \$685, plus \$50 registration fee per company. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

**JUNE 8-10. Industrial Fire Brigade** seminar in Columbus, Ohio, sponsored by Mead Loss Control Consultants Inc.; \$300. Mead Loss Control Consultants, Courthouse Plaza N.E., Dayton, Ohio 45463; 513-223-1300, ext. 240.

**JUNE 9. Risk Management Information Systems** seminar in Tulsa, Okla., sponsored by Corporate Systems; \$50. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

**JUNE 9-11. Advanced Safety Management** course in Atlanta, sponsored by International Loss Control Institute; \$350. ILICI, Box 345, Loganville, Ga. 30249; 404-466-2208.

**JUNE 14. Analytical Approach to Risk Management** briefing in New York, sponsored by *Business Insurance*; \$435. Also **June 16** in Chicago. Beth Levine, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0229.

**JUNE 14-15. The Mine Safety and Health Act** conference in Denver, sponsored by The Energy Bureau Inc.; \$650. Jane Marsik, The Energy Bureau, 41 E. 42nd St., New York, N.Y. 10017; 212-687-3178.

**JUNE 14-16. 1982 Washington Legislative Update** program in Washington, sponsored by the International Foundation of Employee Benefit Plans; members, \$390; non-members, \$465. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

**JUNE 14-16. Techniques of Risk Management** course in Hartford, Conn., sponsored by the Risk & Insurance Management Society; members, \$345; non-members, \$445, \$195 for each additional participant from same company. Claudia Shnyder, RIMS Schools Administrator, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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\*An Audience Profile of the Business Insurance Reader, 1980

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# Risk managers prepared for EPA rules

Continued from page 1

chased the environmental impairment liability insurance that will be required, one has applied for it, one says it will buy the insurance and the fifth says it probably will self-insure.

The EPA insurance requirements for managers of toxic waste facilities, which will be phased in over three years beginning in January 1983, mandate liability insurance against gradual pollution liability insurance of \$3 million per occurrence and \$6 million in the aggregate, or financial proof that the risk can be self-insured.

A machinery and chemical manufacturer that operates a toxic waste facility already has purchased insurance from the London and domestic insurance markets, said its director of risk management. The policy, purchased through Swett & Crawford and ERAS Ltd. in London, carries a limit of \$50 million, far exceeding the EPA requirements.

A manufacturing company with \$3 billion in sales purchased the insurance from Lloyd's of London underwriters in January 1981 with limits of \$20 million per occurrence and \$40 million in the aggregate.

An education, research and patient care concern that will be subject to the non-sudden pollution liability insurance mandate is preparing an application to buy the environmental impairment liability insurance with a self-insured retention of \$300,000, said its director of risk management.

A paper and products company with \$215 million in annual sales will buy the required insurance, says its risk manager.

A chemicals and metals company with \$2.2 billion in sales expects to apply for qualification as a self-insurer to meet the EPA non-sudden pollution liability insurance mandate, said its assistant treasurer.

Among the other 25 respondents identifying a risk of gradually polluting the environment but who will not be required by the EPA to buy insurance, only eight have purchased insurance to cover such a loss.

Four of these risk managers say their companies purchased the insurance long before the EPA issued proposed liability insurance requirements.

A chemical and petrochemical transporting company with \$36 million in annual revenues purchased \$10 million of non-sudden pollution liability insurance from The Carriers Insurance Co. in 1974, said its risk manager.

An entertainment and wood-working company with \$500 million in sales in 1979 bought \$1 million of insurance against gradual pollution, said its corporate director of risk management.

An oil and gas exploration and production company with \$1.5 billion in annual revenues bought the specialized insurance in 1979,

## Costs increase

ST. PAUL, Minn.—Blue Cross & Blue Shield of Minnesota subscribers' hospitalization costs increased 15.5% last year, a drop from the 20.3% cost increase in 1980, the health care plan reports.

Average daily hospital charges increased 20.9% to \$324.73, compared with \$268.53 in 1980, the Blues report. The average room and board rate rose 15.8% while ancillary charges increased 24.8%, BC/BS said.

However, the number of hospital days per 1,000 subscribers declined 4.5%, the plan said.

The average hospital stay dropped to 6.08 days in 1981 from 6.15 days in 1980.

said its risk manager.

A diversified manufacturer with \$3 billion in sales finances its gradual pollution risk through its two captive insurance companies under a manuscripted primary policy with Lloyd's of London and London companies providing excess insurance under a following form policy. The coverage, of up to \$70 million per occurrence with no aggregate limit, was established in the mid-1970s, said the vp of insurance.

More recently, a manufacturer with \$175 million sales purchased \$10 million of insurance against gradual pollution from The Hartford through broker Marsh & McLennan, said its vp.

And a food and chemical manufacturer with \$4 billion sales purchased \$20 million/\$40 million of insurance against gradual pollution losses from International Insurance Co., effective January 1982.

A diversified company with \$2 billion in sales in activities ranging from hotels/resorts to horticulture has no risk of a sudden pollution accident but does have a moderate risk of gradual pollution. The company has \$10 million of environmental impairment liability insurance, purchased July 1, 1981, from U.S. Fire Insurance Co., said its director of risk management.

An energy concern stated it has insurance against non-sudden pollution but did not give any details in its response.

Pollution liability risks were identified by risk managers most often from surveys conducted by internal staff. Of the 91% who said they had assessed their pollution liability risk, 89% said they used in-house staff and 18% said they hired a consultant, with some overlap of in-house staff and consultants conducting the study.

Among those using a consultant was the hotel/resort concern, which hired Environmental Risk Assessment Service Ltd. in Boston.

Some of the respondents said

they are in the midst of their study, like an electrical equipment manufacturer with \$450 million in sales that is using in-house staff to assess its pollution risks.

The risk management department of a pharmaceuticals and consumer products company with \$1 billion in sales intends to participate in the development of a self-audit program to be administered by the corporate environmental engineering department. The audit program will detect environmental exposures requiring treatment and attention, said the risk and insurance analyst.

A refuse-hauling company with \$30 million in sales, which is completing an application for gradual pollution insurance, intends to hire a consultant to review its internal staff assessment of its exposures after it receives a premium quote.

Of those who have completed their pollution liability studies, only 27%, or 16 of the survey respondents, say they have instituted new loss-control measures as a result of their pollution risk studies.

Among the strongest measures was the action taken by the education, research and patient care concern with \$600 million in annual revenues. It has hired a hazardous waste manager and technician and built a facility to package and inventory shipments of hazardous wastes.

A manufacturer of burial caskets, hospital equipment and luggage with \$367 million in sales, which is now studying the purchase of insurance against gradual pollution, already has instituted new loss-prevention measures as a result of a study by in-house staff and a consultant. The company has "new drum storage facilities with controlled drainage, new tank-measuring methods, spill-control procedures and employee training," said its director of management.

A paper and products company

with \$215 million in sales has reduced its storage sites, changed its storage methods and containers and is attempting to isolate its hazardous wastes, said its risk manager. It also is considering the purchase of environmental impairment liability insurance.

Although facing only a moderate gradual pollution risk, the conglomerate with hotel/resort and horticultural operations is considering new procedures that were recommended for disposing of wastes and for clearer labeling of products and storage, noted the director of risk management.

A transportation company with \$650 million in revenues has updated its environmental protection programs, which "were instituted a long time ago," said its risk manager.

Five risk managers said they didn't have to institute new loss-control procedures as a result of their pollution liability assessments because they already had adequate procedures.

"We reiterated existing procedures," said the manager of corporate insurance and risk management for an electronics manufacturer with \$4.2 million in sales.

"It's an ongoing process," said the insurance manager for a pharmaceutical and chemical company.

"Our institution has long-standing procedures which we feel are kept up-to-date," said the risk manager for a state university.

"We have maintained a program for several years," said the corporate risk manager for a pulp and paper/forest products concern with \$2.9 billion in revenues. "Our environmental health and safety personnel constantly monitor our various waste treatment plants."

"We have had an elaborate dust collection system in place for several years," noted the risk manager for a furniture manufacturer, who found no pollution liability risk based on a study by in-house staff.

Among the other 21 companies that reported no pollution risk was a manufacturing company with \$70 million in sales. "We determined that any hazardous materials are properly removed by authorized haulers and such materials are not considered highly dangerous," said the corporate secretary/treasurer.

Others reporting no pollution liability risk included a county government, a commercial bank, a bank holding company, a university, a confectionary manufacturer, a retailer, a restaurant chain, a steel and alloy plate manufacturer and a motor club and insurance writer.

The assistant vp for risk management of a retail drug store chain and pharmaceutical manufacturer plans to further assess the company's exposure before determining if it has a pollution risk.

A manufacturer of telecommunications systems said its pollution study has only been "partial," with "all wastes under review for recapture and recycling. All transport and disposal sites are under review."

The four companies that admitted to not assessing their pollution risks were: a financial and insurance concern that said the study was not applicable, a manufacturer and marketer of industrial products that intends to distribute a questionnaire to its divisions, an energy concern that says it has insurance for the loss anyway and a wholesale food distributor.

Risk managers and buyers of property/casualty insurance are invited to join the Business Insurance Risk Management Board. Just send a card with your name, title, company and address, noting you would like to join the Risk Management Board, to Kathryn J. McIntyre, Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. You will receive six surveys during the year on risk management and property/casualty insurance issues.

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# Court upholds DES concert-of-action theory

Continued from page 3

be difficult, noted plaintiffs' attorney Paul Rheingold of New York.

But with the concert-of-action theory, the plaintiff just has to select a major manufacturer. That company, if found liable, would have to sue others to get contributions to the award, experts say.

As a result, "a company can be liable for beyond its market share," observed Mr. Schwartz, the former chairman of a federal task force on product liability problems during the late 1970s.

Ironically, during the 1979-80 trial of the Bichler case, a New York jury was not convinced that Lilly actually made the DES that Joyce Bichler's mother took in 1953 during her pregnancy.

During the trial, the pharmacist who dispensed the DES to Ms. Bichler's mother testified that while he stocked DES from four or

five manufacturers, including Lilly, he could not recall whose product he used to fill the prescription.

But the jury accepted Ms. Bichler's argument that Lilly was liable under a concert-of-action theory because the company, along with other DES manufacturers, "wrongfully" tested and marketed the drug.

Lilly appealed the lower court decision. But in reviewing the case, a New York appellate court noted that beginning in 1939, at the prodding of the U.S. Food and Drug Administration, Lilly and 12 other manufacturers worked together to win approval to market the anti-miscarriage drug.

Through a voluntarily formed committee, known as the "Small Committee," which was chaired by Lilly, the drugmakers pooled all clinical data pertaining to DES for

submission to the FDA.

Because it pooled DES information, there was ample evidence that Lilly engaged in concerted action to produce the drug, the appellate court noted.

"Because Lilly was found to be a participant in concerted action, Lilly is jointly and severally liable as but one of a number of wrongdoers. . . . It is plaintiff's option to proceed against any joint tort-feasor," the appellate court said last year (*BI*, March 6, 1981).

One insurance industry attorney noted that if other states adopt the concert-of-action theory, pharmaceutical manufacturers may be reluctant to share information that could lead to the development of safer products for fear of incurring liability.

"While Ms. Bichler may have won, society could be the loser," observed Les Cheek, a Washington

lobbyist and vp of federal affairs for Crum & Forster.

But attorney Thomas Bleakley, who represents many DES victims in the Detroit area, says the concert-of-action theory is a good law because "the plaintiffs didn't create the situation in which it would be impossible to identify the manufacturer."

Under the concert-of-action theory, Lilly still can sue other manufacturers that it believes are liable.

But Lilly, right now, is reviewing "all options," the spokeswoman said, adding that the company hasn't decided whether to appeal the Bichler case to the U.S. Supreme Court.

But even if Lilly does appeal, it's highly unlikely the high court would review the case, experts say, noting that it already had declined to review the Sindell decision.

Exactly who will pay the

\$492,000 award remains in doubt. Lilly currently is suing more than 60 insurance companies and Lloyd's of London underwriters that provided excess and umbrella liability insurance to the drugmaker from 1942 through 1976 in an effort to broaden its insurance coverage (*BI*, March 22).

Lilly, like several other DES manufacturers, wants the U.S. District Court in Washington to apply the District of Columbia Court of Appeal's landmark Keene asbestos decision to DES awards.

The Keene ruling says all of a manufacturer's insurers from the time a claimant is exposed to asbestos through diagnosis of an injury are liable for damages paid to the claimant (*BI*, Oct. 12, 1981).

So far none of Lilly's insurers has paid anything toward the drugmaker's DES-related costs and losses, its legal office has said. ■

# Firms choose to settle stockholders' suits

Continued from page 1

Without the accused directors' and officers' consent, the D&O insurer may be contractually prohibited from settling the case out of court.

There is no statistical evidence that D&O suits are settled more readily than other types of liability cases, notes Warren G. Brockmeier, director of risk management services at The Wyatt Co., a consulting firm that publishes director & officers liability survey studies.

"But because of the high cost of top management's time to litigate these cases, it makes sense to me that companies would be eager to settle," Mr. Brockmeier adds. Some chief executive officers for major U.S. corporations are paid more than \$1 million a year, he points out.

The Mattel suit was brought by

investor Wayne S. Spilove and Spruce Hill Court, a Pennsylvania company in which he is a general partner, on behalf of all shareholders who purchased stock between Sept. 10 and Dec 1, 1980.

The plaintiffs charged that the toymaker and entertainment company caused an artificial inflation in its stock price by misrepresenting certain facts and failing to disclose others in violation of U.S. securities laws. In particular, they complained that Mattel and its directors and officers misled investors and analysts about demand for its hand-held electronic games.

Mattel's extremely favorable reports of its electronic games coupled with forecasts of stronger sales in fiscal year 1981 sparked a dramatic increase in trades and the market value of Mattel's shares by the end of 1980, the plaintiffs con-

tend. On Nov. 20 and 21, Mr. Spilove and Spruce Hill Court purchased more than 2,000 shares at an aggregate cost of \$34,296.

Three days later, Mattel announced that it expected to report lower earnings for the third quarter and for the fiscal year ending Feb. 2, 1981. The reaction in the investment community was swift. Trading in Mattel stock was delayed by the New York Stock Exchange for three hours. When it reopened, the price dropped precipitously.

The plaintiffs sold their shares on Dec. 11, 1980, for \$21,393—a loss of almost \$13,000. They filed suit the following February against Mattel on behalf of a class of all shareholders who suffered damages as a result of stock purchases from September through November.

Besides the corporation, the lawsuit named as defendants Arthur S. Spear, chairman, chief executive officer and director; Robert E. An-

derson, president, chief operating officer and director; Kenneth T. Creed, senior vp and chief financial officer; Raymond W. Ferris, senior vp for corporate development and secretary; Spencer C. Boise, vp for corporate affairs; Raymond P. Wagner, president of Mattel Toys; and Joshua W. Denham, president of Mattel Electronics.

Former Firestone employee John R. Buck filed suit against the tire maker, some of its directors and officers, members of the Firestone family and the company's outside auditor on behalf of himself and all other Firestone shareholders.

He charged that present and former directors and officers of the company authorized or acquiesced in a long list of improper acts, including maintenance of political slush funds and off-book accounts; tax evasion; illegal or improper foreign payments; wastage of corporate assets; and insider trading of Firestone stock.

Besides payments from National

Union and Coopers & Lybrand, terms of the settlement include \$271,101 in cash representing a reimbursement to Firestone by Robert P. Beasley, a former Firestone director and officer. Mr. Beasley also has forfeited deferred compensation valued at more than \$185,000 and has released Firestone from its obligation to pay him supplemental pension benefits of \$168 per month.

Raymond C. Firestone will pay the company \$250,000 in cash "for reasons related to the political contributions program having been maintained during his tenure as Firestone's chief executive officer," according to the proposed settlement. Members of the Firestone family also have paid \$200,000 to reimburse the company for services rendered to them in past years.

An additional \$44,525 has been collected by Firestone from "certain recipients of or intermediaries with respect to illegal or unauthorized political contributions." ■

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## Broke MET affects thousands

LANSING, Mich.—As many as 1,600 small Michigan employers are scrambling to find health insurance coverage for their workers after a self-funded multiple employer trust and its underwriting insurer went broke.

The same MET collapsed in neighboring Illinois only months earlier, leaving at least \$200,000 in unpaid medical claims (*BI*, Feb. 22).

Michigan doesn't know how many claims are left outstanding by the insolvency of the Small Business & Independent Trade Assn. Trust (SBIT) and Business Insurance Life of America, a Louisiana underwriter that has been placed in receivership by the Louisiana Insurance Department.

The Michigan Insurance Department is now trying to help employers find insurers willing to pick up the coverage.

"We have people down in Louisiana now trying to figure out how many unpaid claims there are," said Tom Pierson, Michigan's deputy insurance commissioner.

"But we do know that the claims to date exceed the assets of both SBIT and the Louisiana underwriter," he said.

"Those employees affected must be in the thousands," he said, estimating that 1,200 to 1,600 small employers with two to 200 employees each are affected by the demise of the companies.

METs, which provide comprehensive health insurance benefits to individuals and small employers, become more attractive when health care costs soar as they have over the last several years. Individuals and small employers who cannot afford the premiums for health insurance provided by commercial insurers are attracted to the METs, which promise a high level of coverage at a lower premium.

METs avoid state regulation by contending they qualify as a benefit plan under the Employee Retirement Income Security Act of 1974, which pre-empts state regulation.

By the time the Department of

Labor rules on whether a trust is really an ERISA benefit plan, it's usually too late. The trust skips to another state and starts up business, usually under another name.

Michigan, Illinois, Alabama, Georgia, Florida and California have all had problems this year with METs that became insolvent, leaving employees with no health insurance and overdue medical bills.

Rep. John Erlenborn, R-Ill., says he plans to introduce legislation, possibly this week, that would allow states to regulate METs until the U.S. Labor Department rules that the trust is an employee benefit plan. ■

## Group disability plans surveyed

WASHINGTON—Eighty-six percent of group disability policies written by commercial insurers pay benefits to injured workers starting the day of the accident, a new survey says.

However, if an employee is disabled by illness rather than an accident, most plans—73%—provide benefits beginning on the eighth day, while most of the remainder begin coverage on the fourth day of illness.

Most group short-term disability plans provide 26 weeks of benefits, according to the survey by the Health Insurance Assn. of America.

In most of the plans surveyed, coverage is limited to either 60% or 66.7% of wages. Insurers say the 100% wage replacement is not considered reasonable since disability benefits have substantial tax advantages to the recipient.

Some 45% of short-term disability plans limit weekly benefit payment to \$200, the report says.

Single copies of the report, "New Group Disability Insurance, 1981," are available free from the Public Relations Division, Health Insurance Assn. of America, 1850 K St. N.W., Washington, D.C. 20006.

# Cities' benefit costs outpace industry's

Continued from page 1  
 American industry fell to 36.6% in 1979 from 36.7% in 1977. Last year, benefit costs as a percent of payroll among employers climbed to 37.1%, according to the Chamber (BI, Dec. 21, 1981).

(However, Friend & Co. computed benefit costs as a percentage of pay for hours worked instead of as a percent of payroll and concluded that benefit costs for private industry employers rose to 42.2% from 41.9% between 1977 and 1979.)

Historically, municipalities have led the way in offering benefits to employees. For example, some of the first pension plans were set up for municipal employees. However, the gap between the benefit costs as a percentage of pay for municipal workers and private industry employees grew even more in the latest survey because of the slowdown in salary hikes for employees of financially hard-pressed cities, according to Friend & Co.

As salary increases shrink, benefit costs, which are more difficult to control, often increase as a percentage of pay.

The biggest chunk of cities' employee benefit expenditures was gobbled up by retirement programs. Out of every \$1 cities spent on employee benefits in 1979, about 35 cents went to fund pensions and Social Security.

Paid vacations consumed another 12 cents of each benefit dollar, while health insurance and holidays each ate up 10 cents.

The survey reveals sharply higher benefit costs for police officers and firefighters compared with other city workers.

For example, providing pension and Social Security benefits for police officers and firefighters cost cities an average of \$2,274 per employee in 1979. Providing these benefits to other city workers cost an average of \$1,603.

Cities spent an average of \$720 in 1979 to provide health insurance benefits for each policeman and firefighter, compared with \$612 for other municipal employees.

In addition, paid sick leave programs averaged \$363 per employee for police and fire personnel, while sick leave benefits cost an average of \$269 per employee for others.

The survey showed that cities were much more likely to use a final-pay formula to determine an employee's pension benefit.

This final-pay method offers greater protection against inflation than a career-average formula since salary, on which the benefit is based, is usually highest during an employee's last years of service.

Some 89.3% of cities in 1979 used a final-pay formula to compute retirement benefits for general workers, while 10.7% used a career-average formula.

By contrast, 78% of the nation's 100 largest corporations in 1980 used a final-pay formula to compute pension benefits, while 13% used a career-average formula, according to a recent survey by Greenwich Research Associates.

Benefit costs varied geographically. For example, benefit costs for police officers, as a percentage of pay for hours worked, topped 50% in Northeastern and North Central states. In the South, however, benefits for police officers amounted to just 41.4%.

The nation's biggest cities had the highest benefit costs. For example, cities with populations of more than 500,000 spent an average of 47.2% of pay on employee benefits compared with 40.8% for cities with populations of 10,000 to 25,000.

Other findings include:  
 • About 44% of municipalities have enrolled their police and fire

personnel in Social Security, while 75% have enrolled their general employees. Participation in Social Security is voluntary for state and local governments.

• Like private employers, nearly all cities provide group health coverage for employees.

• Most cities provide at least 10 days of vacation after one year of service, 12 days after five years and 15 days after 10 years.

Copies of the "Fifth Annual Survey of Employee Benefits for Full-Time Personnel of U.S. Municipalities" are available from the U.S. Conference of Mayors, Labor Management Relations Service, 1620 I St. N.W., Washington, D.C. 20006; 202-293-6790. The cost is \$7 per copy.

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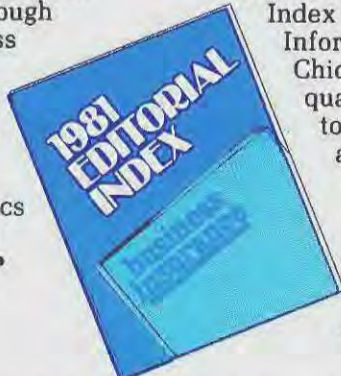
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# N.Y. proposes new reinsurance rules

Continued from page 2

A public hearing on the proposed Regulation 98 is scheduled for May 25 at the state Department of Insurance offices in New York.

Mr. Lewis, who has had statutory authority since 1976 to invoke the rules, says he didn't do so earlier because "we would be almost in a situation of driving intermediaries into other states." But, Mr. Lewis told *Business Insurance*, insurers are behaving "even stupider" than before in their dealings with shaky reinsurers and the rules are warranted.

"The idea behind it is basically good," says Charles W. Havens, a Washington-based partner in the New York law firm of LeBoeuf, Lamb, Leiby & MacRae and former president of the Reinsurance Assn. of America. "In fact, many of these things the legitimate operators are doing already."

Mr. Havens fears, however, that added regulations won't stop transactions by unscrupulous reinsurers. "If a guy is crooked anyway, he'll sign anything," he says.

Some intermediaries contacted by *BI* said they were still studying the proposal to decide their reaction to it.

Robert J. Sullivan, vp of government affairs for Crum & Forster, says he thinks some of the disclosure requirements would be "burdensome and costly." The Richard

Whiley Inc. subsidiary of Crum & Forster Managers Corp. is a reinsurance intermediary.

Mr. Sullivan says he hopes Mr. Lewis will apply the regulation to treaty contracts only and not facultative transactions.

He also questions the regulation's approach to protecting the insurer and the reinsurer by imposing greater regulations on the intermediary that brings them together.

Regulation 98 specifically would require intermediaries to:

- Furnish written evidence to insurers of the intermediary's scope of authority and provide written evidence that a risk has been reinsured.

- Inquire into the financial stability of unauthorized reinsurers not subject to New York's solvency rules and disclose the findings to ceding insurers.

- Disclose to parties to any reinsurance transaction any direct or indirect financial interest the intermediary holds in any of the parties, including parties to any retrocessions.

- Disclose to parties to any reinsurance transaction the identity of all retrocessionaires and the commissions earned or expected to be earned in connection with any retrocessions.

- Keep records of contracts, periods of coverage, reporting and settlement requirements, names

and addresses, commission rates, proof of placement, retrocession details, financial records and correspondence related to a transaction, generally for five years.

- Segregate funds that the intermediary holds as a fiduciary from funds held for any other insurance operation.

Under Regulation 98, an intermediary must notify an insurer promptly and in writing any time it makes a commitment for reinsurance on behalf of the insurer.

## Ratemaking report draws critics

Continued from page 2

hope you agree awarding any contract to special interest advocates serves no good public interest."

The Labor Department, which stressed that the \$10,000 contract for the study was awarded during the Carter administration, has not officially released it.

But the department denies Mr. Hunter's charges that insurance industry pressure played a role in its decision not to publish the report.

In fact, Labor Department officials say Mr. Hunter's delay in responding to criticisms of the report by the National Council on Compensation Insurers was the reason it didn't publish it after it was completed last September.

If the intermediary's representation is "on a bordereau basis, such notification shall be made at least quarterly," the regulation adds. An Insurance Department attorney said that language would appear to apply where an intermediary represents more than a single risk.

Mr. Lewis also is proposing a second amendment to Regulation 20 aimed at extending the reach of Regulation 98 beyond New York's borders. The amendment would at-

tempt to force New York-admitted insurers to obtain information similar to that required in Regulation 98 from intermediaries operating outside of New York.

It would do so by specifying that in the absence of such documentation, the admitted insurer won't be able to credit the reinsurance toward its required policyholder surplus. Under such circumstances, the reinsurance would not be recognized to allow the insurer to underwrite more premiums.

"We weren't going to release it until Mr. Hunter addressed the concerns raised by NCCI," Robert Copeland, assistant secretary for policy, told *Business Insurance*.

Mr. Hunter recently delivered a written rebuttal of the NCCI's criticisms to the department, which is now studying it, Mr. Copeland said.

In the meantime, while the Labor Department will not officially publish Mr. Hunter's report, which was co-authored by Raymond Hill, an assistant professor of economics at Princeton University, it will give copies of the report to anyone asking for it.

Mr. Hunter isn't the only one who thinks investment income should be taken into consideration

in rate setting. For example, Cook County, Ill., Circuit Judge James C. Murray last year ordered 250 workers compensation insurers to refund about \$1.1 billion to Illinois employers because the state Insurance Department did not consider investment income in approving a 24% rate hike in 1979 (*BI*, June 29).

And in Minnesota, Insurance Commissioner Michael Markman last year ordered insurers to disclose all income when seeking rate hikes (*BI*, April 27, 1981).

But the NCCI, which recommends comp rates in 32 states, says the report has not produced "a shred of evidence" that the traditional ratemaking formula has produced excessive returns.

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##### Commercial Consumers

Administrative Management:  
owners, presidents  
vps, etc. 6,823

Financial Management:  
chief financial officers,  
vps of finance, secretaries,  
treasurers, etc. 9,385

Insurance Management:  
vps, directors, managers of  
insurance, risk, benefits,  
compensation, safety,  
security, etc. 5,791

Government, Associations,  
Unions, Educational  
Institutions 1,001

Commercial Consumers  
Sub-total 23,000

Insurance Agents  
& Brokers 9,741  
Insurance Cos. 4,735  
Financial Institutions 303  
Actuaries, Attorneys,  
Adjusters, Appraisers  
& Consultants 2,208  
Others allied to the field 776

**TOTAL 40,763**

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## Computer tracks GM's claims

BLOOMINGDALE, Ill.—For General Motors Corp., it's not a question of whether to computerize its workers compensation program.

Instead, it's time to add new features to the computer, which GM has used for three years.

The corporation's workers compensation computer system is at the stage now where "enhancements" have been added to give GM and its employees even better, quicker service, said Daniel Osborne, administrator of workers compensation for the corporation.

He spoke to the National Council of Self Insurers at its annual meeting earlier this month.

"It can't interview claimants or call doctors, but the computer helps," he told NCSI members.

Before getting the system, GM experienced a shortage of manpower to administer workers compensation claims, he said.

Computerization saves time and gives a better framework for training, Mr. Osborne said. "We have one of the most comprehensive systems there is, but we continue to add enhancements."

Each of GM's locations that is hooked up to the master computer inputs claims information via a CRT terminal. A printer at each location generates the weekly benefit checks for claimants.

But the system doesn't stop there.

The computer automatically adjusts liabilities and reserves, audits claims on a weekly basis and

maintains summary reports for miscellaneous expenses, said Mr. Osborne.

The system also has been programmed to give the operator a warning note to check information further to see if regulation in that particular state would affect the claim.

A "tickler file" notifies the operator if a doctor is to be called or if an item has to be rechecked before a check is issued.

"One of our new features generates reports for state regulators in four states. We hope to expand that feature so that the computer will generate reports for all the states we do business in," he said.

The state regulatory report usually includes a summary of claims that are open at the end of the year, he added.

The local CRT operator also is able to generate information on claims experience by asking the computer questions like, "What is the average duration of disability, the average settlement cost for a specific injury or the average attorney fee for a particular injury?"

The CRT operator can input a claimant's Social Security number and injury date and get back from the computer the appropriate average weekly wage for the particular area in which the claimant lives.

"That's a process that used to take us 40 to 90 minutes manually, but it takes the computer 10 to 15 seconds," he said.

## Make sure liabilities are met: Expert

BLOOMINGDALE, Ill.—If you want to know just how important it is to have a good information system, ask any employer whose right to self-insure has been challenged, a cost-control specialist says.

"You have to be able to provide management with risks and future losses, but your right to self-insure could be jeopardized if you're not meeting legal liabilities under the various state laws," said Kenneth L. Gipson, manager of cost containment for Weyerhaeuser Co. in Tacoma, Wash.

Mr. Gipson told the National Council of Self Insurers that he is well aware of the importance of a good information system, having been former administrator of the Georgia-Pacific Corp. workers compensation program for 25 years.

State laws governing self-insured employers vary, but most require that employers file annual or biannual reports detailing claims experience and future expected losses with the state's insurance department.

"I'm no expert on record management, but I do know of a company whose reports showed 3,000 new industrial injuries every year, when it was really 10,000 injuries," he explained.

"The company did not correlate its workers compensation costs with the injuries and thought it had a good cost-control program going," he said.

Having a precise information system can help a self-insured employer know if the company has the proper excess insurance, but it's just as important to preserve the

right to self-insure, Mr. Gipson said.

"We know that self-insurance is the most effective vehicle in the system, but each year our right to self-insure is challenged by the state you do business in.

"Collecting and preserving information is vital to providing the state regulators with the correct information," he said.

A system doesn't have to be sophisticated, said Mr. Gipson. It just has to work.

"If it doesn't and employees' claims aren't paid in a timely fashion, the company suffers," he added. "We have an obligation to our employees."

Self-insurance is here to stay, he said. "Just make certain your information system provides the service you need to do the job right." ■

## Rubber industry pact stretches benefits

Continued from page 3  
ber makers' long-term program to cut their health care expenditures.

The program will provide physical examinations and eye tests to all Goodrich workers.

Benefits paid under short-term disability plans also have been increased. Workers can receive a maximum of \$150 per week in short-term disability payments for the next 12 months, a \$25 increase. On May 1, 1983, maximum short-term disability payments will increase to \$170 per week, and they will rise to \$185 per week on May 1, 1984.

The short-term disability plan pays benefits for a maximum of 52 weeks, the same maximum as in the previous contract.

Firestone and other rubber companies also will offer their union workers a prescription drug program for the first time. The program covers the cost of all prescription purchases, less a \$1-per-purchase deductible.

Goodyear and Goodrich employees already have a similar program under the old contract.

Also, most rubber workers will receive a vision care program for the first time. Currently, only Goodyear employees receive such a benefit.

The Goodyear plan, underwritten by Metropolitan Life Insurance Co., provides employees with annual checkups and pays the cost of new lenses and frames.

Rubber company and URW offi-

cialists said the vision care plan under the new contract had not yet been finalized, and could not give specifics on coverage levels or deductibles.

Life insurance coverage for active-employees has been increased to a \$15,000 maximum from \$13,000. Workers can purchase additional life insurance coverage through payroll deductions. Life insurance coverage for spouses has been doubled to \$10,000. Coverage for other dependents can be purchased through payroll deduction up to a maximum of \$2,000, double the old maximum.

The new contract also provides surviving spouses under age 65 with \$200 a month. Surviving spouses 65 and over now receive \$300.

The new contract also calls for the rubber workers to increase their pension contribution for active workers to \$16.50 per month, a \$1.50 increase.

Retirees will have their pensions increased by 50 cents per month for each year they worked in the rubber industry.

Goodyear workers at the company's Akron facility are now eligible for a profit-sharing program, the details of which have not been finalized.

The benefit improvements and other contract changes won't come cheap for the rubber industry, which has been crippled by the recession and by the lack of demand for new automobiles.

At BFGoodrich, for example, the new contract raises the cost of wages and benefits by a total of 22.5%. Goodrich reported a \$18.4 million loss during the first quarter of fiscal 1982, compared with earnings of \$27.3 million for the same period a year ago. The company's first-quarter sales fell about 6% to \$728.6 million from last year's \$780.4 million.

The industry's troubles also have hurt the union members. Approximately 20,000 URW members have been laid off by the Big Four rubber companies in the last three years.

BFGoodrich workers were the first to ratify the new contract, inking the pact on April 20 shortly before the old agreement expired.

Other tire and rubber companies covered by the URW master contract include Aeme Boot; Armstrong Rubber Co.; Midwest Rubber Reclaiming Co. and Richardson Corp. ■

### Merger completed

TORONTO—Reed Stenhouse Inc., the U.S. subsidiary of Reed Stenhouse Cos. Ltd. of Toronto, has completed its acquisition of Schiff Terhune International Inc., a major U.S. insurance brokerage.

The purchase price of \$15 million included cash and 276,410 Reed Stenhouse Cos. common shares. More than 30,000 other shares will be acquired by Schiff Terhune shareholders in the next 60 days. ■

## Self-insurers discuss work comp changes

Continued from page 3

tions for reform of state workers compensation laws to eliminate the present abuses and forestall a federal occupational disease compensation law," said Mr. Jones.

"This guide must provide recommendations for reform, including occupational disease compensation, that will establish worthwhile goals and objectives for all concerned."

"We should emphasize the need for legislation to roll back things to a degree that the employer does not become the guarantor for all the employee's frailties and illnesses," said Mr. Jones.

NCSI members will have 30 days to comment and vote on each of 14 recommendations. They include:

- Rewriting laws so the employer isn't responsible for any personal physical, mental or emotional problems, any ordinary disease of life or irreversible effects of the aging process. This would include psychological ailments, respiratory ailments, cardiovascular ailments, congenital, degenerative and progressively worsening diseases of the back or skeletal system and pre-existing back problems.

- Making employers responsible only for disabilities that result directly from injuries caused by an accident on the job.

- Limiting an employee's attorney fees to reasonable time and expense charges paid from the employee's award when the employee prevails, or paid by the employer when the employee loses.

- Limiting the maximum benefit award to 66.7% of the employee's average gross weekly wage up to the maximum established under the state's law. (In some states, maximum compensation benefits can equal 66.7% of the employee's average gross weekly wage up to 200% of the state's average weekly wage).

- Allowing compensation payments to be terminated based on medical reports that release the employee to return to work or indicate the capability to return to work.

- Permitting and encouraging recovery of compensation payments made while a hearing

and/or appeal is pending if the state's industrial commission terminates or reduces compensation payment effective prior to the commission's decision.

- Requiring all workers compensation claims to be filed within one year of a job-related injury when an accident is involved, or in the case of occupational disease, within one year of the date the employee knew, or should have known, that there was a real probability that the disease resulted from an on-the-job exposure.

- Prohibiting the employee from receiving compensation the first seven days of disability to provide the employee with a financial incentive to return to work. In most states, there is a three-day waiting period.

- In states where abuses exist, rewriting laws so that benefits are provided only for wages actually lost. The laws should provide awards for actual loss or loss of function of body parts.

- Limiting permanent partial disability awards for disfigurement under scheduled injuries to scars on or near the face, neck or ears that clearly show when the claimant is fully dressed and have clearly resulted in potential wage losses.

- Coordinating state workers compensation laws, the Social Security law and other disability and pension programs so that a worker is not rewarded for having on-the-job accidents or exposures.

- Compensating employees for occupational disease only if it is clearly due to harmful exposure to chemical substances or physical agents or from exposure to biological agents unique to the work environment.

- Returning the injured worker to the work force by initiating an intensive job search to match the individual's skills and capabilities with available occupations.

- Coordinating state workers compensation laws with other laws so that workers compensation is the exclusive remedy for employee on-the-job injuries and diseases resulting from on-the-job exposure to harmful substances. ■

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## Employers to check costs

Continued from page 3  
while the patient is hospitalized as well as his length of stay.

"The average hospital bill contains \$700 of inappropriate ancillary services," points out Lowell

Foster, director of hospital review for the foundation, noting that many services are routinely ordered even if a patient does not need them.

Nurses chosen by the foundation

for their interpersonal skills review the patients' medical records and status. If a nurse questions a procedure, she calls for a reviewing physician from the foundation who has the same specialty as the attending physician. However, if the attending physician still maintains the procedure is necessary after peer review, the procedure will be performed and the foundation will recommend to the employer that the bill be paid.

"Our program has no provision for dealing with a physician who refuses to participate," notes Mr. Foster. When the reviewing physician disagrees, a note will be attached to the bill, "but we do not expect the employer to deny the claim," explains Mr. Foster.

"There's no point in punishing from time to time each of the 2,000 physicians, especially since, occasionally, they may be right. But if one consistently disagrees, some action will be taken," he notes.

Mr. Foster stresses that the foun-

dation itself will not punish disagreeing physicians. Employers and insurers have agreed to pay claims, but "I'm not sure how long they'll continue paying if the reviewing physicians are ignored."

The foundation itself is highly accepted by local physicians, Mr. Foster says. "It's almost as if their own medical society is doing the review."

The final aspect of the program deals with discharge planning, helping to decide whether a patient can be released or transferred to a non-acute care facility. "This program is really an extension of the peer review process into the hospital setting," says PSA's Mr. Colasanto.

Some hospitals initially indicated some concern about the program, but five of the six largest hospitals in San Diego County—comprising 75% of county hospital admissions—are already involved in CAP, with the sixth in the process of joining. The coalition is aiming that

all 32 hospitals in the county will be fully participating in the program by the end of the summer.

One reason for the hospitals' initial hesitation was because the plan was negotiated between employers and physicians, and only later were the hospitals included, says John Ferman, vp of government relations for the California Hospital Assn. in Sacramento.

"The hospitals objected because they didn't want to expose themselves to the liability of participating in a utilization review program without being a party to the development of the contract," he explains.

However, Mr. Ferman says he thinks the program has a very good chance of working. "To the degree that it is successful—keeping patients out of the acute care setting, which is the most costly—it will allow hospitals to better adjust to this change in demand from one of inpatient care to a more ambulatory setting."

Mr. Ferman also points out that employers have emphasized that the program's aim is not to penalize hospitals but to influence physicians' patterns of behavior.

"They're more interested in winning the war than the battle," he adds.

Even though area hospitals were not included in the plan's formation, they are involved in the plan's day-to-day operation. The plan is managed by a review committee that includes representatives of employers, hospitals, physicians and third-party payers. "We tried to make this a program with a broad-based community support," notes Mr. Colasanto.

CAP has encouraged participation by health insurers. Last month, Aetna Life & Casualty Insurance Co., with about 200,000 local policyholders, endorsed the plan.

"We were expecting to have to market this ourselves, but to have someone like Aetna involved is incredible," says Mr. Foster. "It speaks well for the kind of reception review programs like this can expect in other communities."

"When a program gets as large as this will be in six months, there's just no way a hospital can view it as anything other than part of the landscape," he adds.

Overall, the Employers Health Cost Coalition of San Diego consists of about 50 major employers in the San Diego area that have joined forces to address the problem of escalating health care costs. Besides CAP, the coalition is involved in supporting legislation like S.B. 1675, which advocates mandatory rate-fixing at California hospitals. ■

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### About the Speaker

Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

### Seminar Dates

May 17	New York	St. Regis-Sheraton
May 19	Chicago	The Ritz Carlton
May 24	San Francisco	The Fairmont
June 14	New York	St. Regis-Sheraton
June 16	Chicago	The Ritz Carlton
June 21	San Francisco	The Fairmont

### Agenda

1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

## Australian rates to rise: Broker

SYDNEY, Australia—Australian insurance buyers could soon be paying more for coverage, according to Sedgwick Pty. Ltd., a Sydney-based insurance brokerage.

Most major insurer operating in Australia reported increased underwriting losses in 1981, Sedgwick says, and reduced overall profitability could mean higher rates. The brokerage signaled out workers compensation and motor vehicles as two lines where rates will likely be increased.

Insurers are being more selective in accepting new business, Sedgwick points out, adding that some Australian insurers have stopped writing coverage to gain cash flow.

Sedgwick says that Australian buyers may have to accept the higher rates.

"It is unpalatable for any business to accept an increase in costs, but a secure and stable insurance market is an essential ingredient in the operation of industry and commerce," the brokerage says. ■

# Revenues from acquisitions raise some brokers' results

By LEN STRAZEWSKI

REVENUES FROM recent acquisitions are helping to boost revenues and income for several of the major publicly held insurance brokerages, first-quarter reports show.

Earnings per share, however, another major indicator of the brokers' strength, show the companies continuing to lose ground against growing acquisition expenses.

E.H. Crump Cos. Inc., Alexander & Alexander Services Inc. and Poe & Associates all posted revenue gains and solid improvement in net income—thanks to acquisitions.

Crump, based in Memphis, Tenn., reported the strongest first-quarter revenue gains among the brokers. Revenues skyrocketed more than 62% to \$12.5 million from \$7.7 million in the same period last year. Net income, which shrank steadily all last year, grew 11.8% to \$934,000 from \$835,000.

Nearly all the gains came in the company's insurance brokerage activities, notes James Power, vice chairman and chief financial officer. Southern American Insurance Co., its specialty underwriting subsidiary, posted relatively flat net income of about \$295,000.

Last year's acquisitions, funded by the Reliance Group's 40% investment in Crump, all contributed to the revenue gains this year, Mr. Power added, but also helped to dilute earnings per share as the company generated additional stock. First-quarter per-share earnings dropped to 26 cents from 33 cents for the same period in 1981.

Alexander & Alexander's acquisition of Alexander Howden Group Ltd. also stimulated extraordinary financial results for the first three months of 1982. Gross revenues grew 40.6% to \$166.8 million from \$118.7 million for the first quarter in 1981. Excluding Howden revenues, however, A&A gross revenues grew only 6.1%, the company noted.

Net income grew 16.5% to \$18.8 million in the first quarter of 1982 from \$16.1 million last year, but earnings per share dropped nearly 10% to 73 cents from 81 cents for the corresponding period last year.

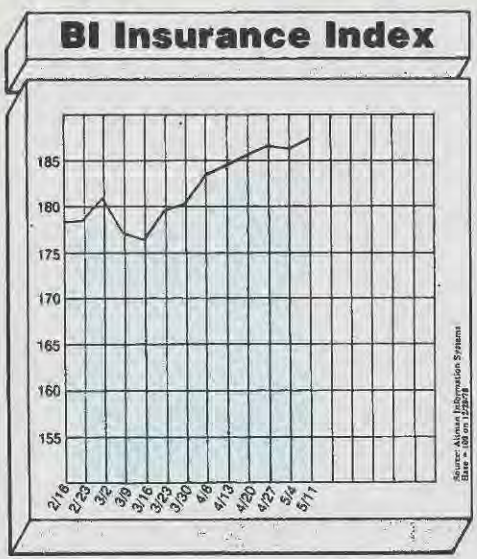
"Howden's improved operating results for the first quarter of 1982 were offset, in part, by the related costs of the acquisition," said the brokerage's prepared statement. "These

## BI ticker

### First quarter broker results

(in millions)

	Gross revenues	% change	Net income	% change
Alexander & Alexander	\$166.8	40.6	\$18.8	16.5
Corroon & Black	43.5	12.3	4.6	32.3
E.H. Crump	12.5	62.3	0.9	11.8
Frank B. Hall	93.9	8.8	9.3	0.3
Fred S. James	61.6	1.1	4.6	-7.1
Marsh & McLennan	237.7	8.7	34.8	2.5
Poe & Associates	6.4	40.5	0.6	9.9
Rollins Burdick Hunter	20.4	-0.7	2.0	-16.9



Insurance industry stocks inched upward last week as the *Business Insurance* stock index gained 0.8 points to 187.3 from 186.5. Twenty-seven stocks posted gains, 27 posted losses and 15 remained unchanged. The largest increases were reported by Combined International Corp., 7.6%; Gulf United Corp., 6.9%; Tokio Marine & Fire Insurance Co., 6.6%; Penn-corp Financial Inc., 6.2%; and Crown Life Insurance Co., 5.9%. The largest declines were suffered by SRI Corp., 9.3%; Mission Insurance Group Inc., 5.6%; Equifax Inc., 4.1%; Reed Stenhouse Cos. Ltd., 4.1%; and Washington National Corp., 3.9%. The *BI* index gained 0.4% during the period, less than the other major stock market averages.

### British Issues

11 May	Price	P/E	Div. pence	Yield %	1 Week High—Low
Comm Union	134	12.2	16.86	12.6	134—126
Eagle Star	363	12.3	21.43	5.9	365—354
Genl Accident	306	7.9	23.21	7.6	306—290
Gdn Royal Exch	296	7.1	25.00	8.4	296—284
Phoenix	254	8.5	24.00	9.4	254—238
Royal	343	8.9	36.07	10.5	345—332
Sun Alliance	818	9.7	61.43	7.5	818—804

Brokers	Price	P/E	Div. pence	Yield %	1 Week High—Low
CE Heath	332	9.6	15.71	4.7	332—317
Hogg Robinson	109	8.4	8.57	7.9	111—109
JM Minat	175	10.9	8.14	4.6	178—174
Sedg Grp	169	10.9	8.57	5.1	169—167
Stenhouse Hldg	114	8.3	7.28	6.4	115—114
Stow Wrightson	250	8.9	18.57	7.4	255—250
Willis Faber	478	11.9	21.43	4.5	478—475

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

factors, together with the increased number of shares, accounted for approximately one-half of the decline in earnings per share."

The Howden acquisition added \$29 million to A&A's overall expenses, helping to boost first-quarter expenses 51% to \$132.5 million.

Poe & Associates also acquired a London subsidiary that greatly boosted revenues, but also improved earnings per share slightly through tight expense control and new business gains.

Poe, based in Tampa, Fla., with offices primarily in the Southeast, increased its revenues 40.5% to \$6.4 million in the first quarter of 1982, from \$4.5 million in the corresponding period of 1981. Net income grew about 10% to \$624,000 from \$568,000 last year as earnings per share rose a penny to 33 cents.

"About two-thirds of our gains can be directly attributed to the acquisition of Stetzel, Thomson & Co. Ltd., Pan American Insurance Management Corp. and Matterhorn Bank Programs Inc.," a spokesman said. "But at least one-third of the gains were real growth in new business."

Two of the acquisitions, not widely reported, are expected to help position the na-

tion's 19th-largest brokerage for greater competition with larger firms. Pan American, an agency holding company, operates several offices throughout the East, including Virginia and Maryland. Matterhorn, a specialty broker and underwriter for financial institutions, is expected to compete directly with other brokers in the market, including Rollins Burdick Hunter's Rollins Wrightson joint venture and Scarborough Inc., a division of Ryan Insurance Group.

After a series of disappointing quarters, Corroon & Black Corp. also rebounded in the first quarter, increasing revenues 12.3% to \$43.5 million from \$38.7 million in the corresponding period last year. Net income grew a resounding 32.3% for the best income gain of all the public brokers. The company reported first-quarter net income of \$4.6 million, up from \$3.5 million last year, and earnings per share jumped to 60 cents from 45 cents in the first quarter of 1981.

Analysts that watch the brokers, however, view the gains somewhat skeptically. Corroon & Black's surplus lines underwriter, Baccala & Shoop, re-established market connections and is once again contributing income to the company, but C&B also borrowed about \$500,000 against next quarter's contingent commissions, a common but somewhat inflating practice.

"The contingents helped the earnings increase," noted Alice L. Cornish, an analyst with Lehman Brothers Kuhn Loeb Research, "but the effect won't continue in the second quarter."

Rollins Burdick Hunter was the biggest loser of the quarter, while most of the other brokers produced unsurprising, relatively flat results. RBH gross revenues dropped slightly less than 1% to \$20.4 million from \$20.6 million during the first quarter last year. Although commissions and fees actually grew 2% this year, those gains were offset by shrinking investment income and contingent commissions.

Net income also fell about 2% to \$2 million from \$2.4 million in 1981 and earnings per share dropped substantially to 47 cents from 55 cents last year.

The good news, according to Chairman Charles R. Hall, was that first-quarter operating expenses grew only 5%.

Among the other brokers:  
 • Frank B. Hall & Co. Inc.'s revenues grew 8.8% to \$93.9 million from \$86.3 million last year. Net income grew only slightly to \$9.3 million from about \$9.2 million in the first quarter of 1981, and earnings per share grew to 81 cents from 80 cents last year.

• Marsh & McLennan Cos. Inc.'s revenues grew 8.7% to \$237.7 million from \$218.8 million in 1981. Net income increased 2.5% to \$34.8 million from about \$34 million in the first quarter of last year, while earnings per share grew only slightly to 94 cents from 93 cents in 1981.

• Fred S. James & Co. Inc. reported only a slight 1.1% increase in revenue to \$61.6 million from \$60.8 million. Net income, however, dropped 7.1% to \$4.6 million from \$4.9 million and earnings per share followed suit, dropping to 51 cents from 55 cents in the first quarter of 1981.

## BI Industry Stock Report

MAY 11, 1982										5/5/82 THRU 5/11/82									
Insurance Cos.	Price	% Chg.	P/E	\$ Div	% Yld	High	Low	Vol. (000)		Price	% Chg.	P/E	\$ Div	% Yld	High	Low	Vol. (000)		
Aetna Life & Cas Co	NYSE	42.25	-2.3	6.8	2.52	6.0	43.25	42.25	671.3	United Fire & Cas Co	OTC	29.50	-0.8	4.7	0.88	3.0	29.75	29.50	0.7
American Bankers Ins Group	OTC	8.38	-1.5	7.0	0.48	5.7	8.50	8.38	87.5	United States Fid & Gty Co	NYSE	44.63	1.1	8.0	3.60	8.1	44.88	44.25	136.3
American Gen Ins Co	NYSE	42.13	2.1	6.2	2.20	5.2	42.13	41.38	104.1	United Svcs Life Ins Co	OTC	16.25	3.2	6.0	1.00	6.2	16.25	15.75	15.4
American Indty Finl Corp	OTC	15.00	-1.6	8.8	1.12	7.5	15.25	15.00	14.7	UsLife Corp	NYSE	19.75	0.0	4.1	0.84	4.3	19.75	19.25	387.6
American Intl Group Inc	OTC	68.75	-1.1	11.4	0.48	0.7	69.75	68.50	280.1	Washington Natl Corp	NYSE	18.63	-3.9	7.8	1.08	5.8	19.75	18.63	60.1
American Natl Ins Co	OTC	15.13	-3.2	6.6	0.76	5.0	15.88	15.13	99.9	Zenith Natl Ins Corp	OTC	16.50	-2.9	7.9	0.76	4.6	16.75	16.50	13.8
American Sta Life Ins Co	OTC	16.50	-2.9	5.3	0.80	4.8	17.00	16.50	2.3	INSURANCE COMPANIES				AVERAGE		7.0		4.5	
Aneco Reins Ltd	OTC	1.75	0.0	0.0	0.00	0.0	1.75	1.75	7.8	AGENTS/BROKERS									
Aveco Corp	AMEX	11.88	2.2	7.3	0.54	4.5	11.88	11.63	4.9	Alexander & Alexander Svcs	NYSE	27.88	0.5	9.6	1.94	7.0	28.63	27.75	250.4
Banks Iowa Inc	OTC	39.50	0.0	6.8	1.48	3.7	40.00	39.50	2.3	Baldwin & Lyons Inc	OTC	35.50	0.0	6.6	0.80	2.3	35.50	35.50	12.1
Bitco Corp	OTC	29.50	0.0	4.4	1.92	6.5	29.50	29.00	8.3	Corroon & Black Corp	NYSE	21.75	5.5	11.3	1.76	8.1	21.75*	20.63	24.0
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	1.6	Crump E H Cos Inc	OTC	8.50	3.0	18.1	0.40	4.7	8.50	8.38	19.0
Chubb Corp	OTC	44.50	-5.3	5.5	2.92	6.6	44.50	42.63	147.4	Hall Frank B & Co Inc	NYSE	29.38	1.7	11.0	1.70	5.8	29.38	26.50	295.2
Combined Intl Corp	NYSE	23.00	7.6	6.2	1.80	7.8	23.00*	22.00	194.0	Integrated Res Inc	AMEX	14.63	-0.8	5.2	0.00	0.0	14.63	14.50	21.5
Continental Corp	NYSE	26.63	-3.6	7.5	2.60	9.8	27.88	26.50	229.3	James Fred S & Co Inc	NYSE	22.13	3.5	10.5	1.60	7.2	22.25	21.88	29.8
Crawford & Co	OTC	14.50	0.0	10.9	0.56	3.9	14.50	14.50	0.9	Marsh & McLennan Cos Inc	NYSE	34.75	0.7	10.6	2.00	5.8	35.00	34.25	262.9
Crown Life Ins Co	OTC	90.00	5.9	6.6	3.10	3.4	90.00*	85.00	0.4	Pennacorp Fincl Inc	NYSE	8.63	6.2	6.7	0.16	1.9	8.63*	7.88	487.2
Crum & Forster	NYSE	29.13	5.0	5.2	1.64	5.6	29.38	28.00	246.1	Pinhurst Corp	OTC	9.00	-2.7	10.8	0.00	0.0	9.25	9.00	3.9
Employers Cas Co	OTC	32.75	5.6	7.1	1.20	3.7	32.75*	31.25	5.4	Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	0.1
Equipax Inc	NYSE	32.00	-4.1	9.6	2.60	8.1	33.13	32.00	24.7	Reed Stenhouse Cos Ltd	OTC	11.75	-4.1	9.6	0.60	5.1	12.25	11.75	4.2
Excelsior Ins Co	OTC	17.00	-1.4	44.3	0.70	4.1	17.25	17.00	0.1	Rollins Burdick Hunter Co	OTC	18.75	1.4	12.3	1.32	7.0	18.75	18.50	16.5
Farmers Group Inc	OTC	36.88	-0.3	10.4	1.24	3.4	37.13*	36.63	378.9	AGENTS/BROKERS				AVERAGE		9.2		5.2	
First Colony Life Ins Co	OTC	66.25	0.0	18.8	1.02	1.5	66.25	66.25	16.8	Alexander & Alexander Svcs	NYSE	27.88	0.5	9.6	1.94	7.0	28.63	27.75	250.4
Foremost Corp Amer	OTC	31.75	5.8	8.9	1.12	3.5	31.75*	30.25	51.7	Baldwin & Lyons Inc	OTC	35.50	0.0	6.6	0.80	2.3	35.50	35.50	12.1
Great West Life Assurn Co	OTC	210.00	0.0	6.2	10.00	4.8	210.00	210.00	0.0	Corroon & Black Corp	NYSE	21.75	5.5	11.3	1.76	8.1	21.75*	20.63	24.0
Hanover Ins Co	OTC	31.25	-3.8	4.3	0.88	2.8	32.50	31.00	35.1	Crump E H Cos Inc	OTC	8.50	3.0	18.1	0.40	4.7	8.50	8.38	19.0
Hartford Steam Boiler Insnpt	OTC	41.50	0.0	7.7	2.80	6.7	42.00	41.50	6.7	Hall Frank B & Co Inc	NYSE	29.38	1.7	11.0	1.70	5.8	29.38	26.50	295.2
Jefferson Natl Life Ins Co	OTC	41.00	-3.5	11.2	0.76	1.9	42.50	41.00	3.0	Integrated Res Inc	AMEX	14.63	-0.8	5.2	0.00	0.0	14.63	14.50	21.5
Kemper Corp	OTC	34.38	2.6	5.6	1.80	5.2	34.38*	33.63	73.1	James Fred S & Co Inc	NYSE	22.13	3.5	10.5	1.60	7.2	22.25	21.88	29.8
Lincoln Natl Corp Ind	NYSE	44.00	3.5	7.2	3.00	6.8	44.50*	43.38	109.0	Marsh & McLennan Cos Inc	NYSE	34.75	0.7	10.6	2.00	5.8	35.00	34.25	262.9
Mission Ins Group Inc	NYSE	25.50	-5.6	6.5	0.80	3.1	26.88	25.50	43.2	Pennacorp Fincl Inc	NYSE	8.63	6.2	6.7	0.16	1.9	8.63*	7.88	487.2
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	1.3	Pinhurst Corp	OTC	9.00	-2.7	10.8	0.00	0.0	9.25	9.00	3.9
Northwestern Natl Life Ins	OTC	27.25	-2.2	5.4	1.50	5.5	27.88	27.25	9.7	Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	0.1
Ohio Cas Corp	OTC	42.63	-1.2	6.6	2.36	5.5	43.13	42.63	18.3	Reed Stenhouse Cos Ltd	OTC	11.75	-4.1	9.6	0.60	5.1	12.25	11.75	4.2
Old Rep Intl Corp	OTC	19.38	2.6	4.6	0.92	4.7	19.38	18.88	37.8	Rollins Burdick Hunter Co	OTC	18.75	1.4	12.3	1.32	7.0	18.75	18.50	16.5
Preferred Risk Life Ins Co	OTC	21.13	-1.7	6.1	0.92	4.4	21.13	21.13	1.8	CONGLOMERATES/HOLDING COS.				AVERAGE		7.8		3.1	
Provident Life & Acc Ins Co	OTC	47.50	3.3	5.9	2.44	5.1	47.50	46.00	11.3	American Express(Fireman's Ed)	NYSE								

# "The Hartford will even do a Loss Control analysis before it quotes the business."

**An interview with  
Bill Nebraska, Vice President,  
Loss Control Department,  
The Hartford.**

**Q. How can a Hartford prequote Loss Control analysis cut business insurance costs up front?**

**A.** Our Loss Control professionals will research the company and help develop

a program tailored to the situation. We'll show how The Hartford can help the company control losses. By coming in before we make a quote, we can explore ways of reducing losses up front to help customers control their insurance costs.

**Q. What is the scope of The Hartford's Loss Control capability?**

**A.** Our range of Loss Control services is one of the broadest in the industry. It covers construction, fire protection, commercial auto, industrial hygiene, medical professional liability, manufacturing...you name it. And we're one of the few companies equipped to handle security and crime prevention.

We have the people, too—some 450 experienced Loss Control consultants located throughout the country, with an additional 75 or so in the home office.

**Q. Is that tremendous capability available to companies across the country?**

**A.** Absolutely. We're ready to respond on an "as-needed" basis anywhere in the U.S. And we'll bring in whatever level of expertise the situation demands.

**Q. Is it available to big risks on an unbundled basis?**

**A.** Yes, through our subsidiary, Hartford Specialty. Some of the largest corporations in the country currently take advantage of The Hartford's Loss Control capability on an unbundled basis.

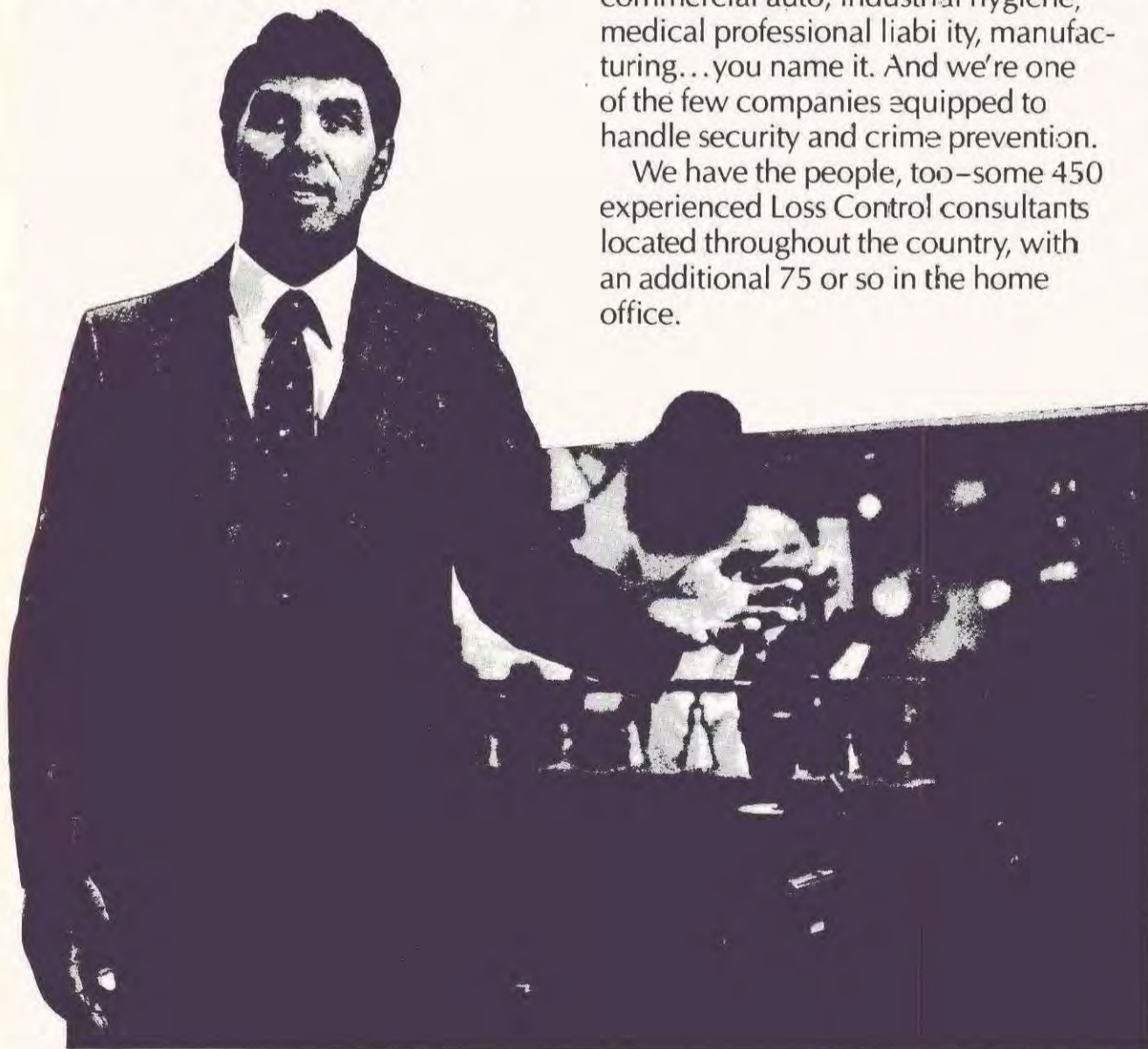
**Q. It sounds like The Hartford has made a major commitment in the Loss Control area.**

**A.** Yes. And an ongoing commitment. We're always trying to improve the scope and quality of our Loss Control services. For example, we recently doubled the size of our industrial hygiene lab and added sophisticated new equipment to increase our effectiveness in this key area.

**Q. How can insurance buyers find out more about The Hartford's Loss Control capability?**

**A.** By contacting their broker or independent agent who represents The Hartford.

**Don't make a decision on business insurance without a quote from The Hartford.**



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