Lloyd's rebuffs U.S. brokers, fears control

By ELLIS SIMON
and JOHN H. MILLER



'Our interest in becoming a Lloyd's broker had to do with long term rather than short term advantages. Our clients expect us to be everywhere and we are everywhere except Lloyd's.'

—John Regan Jr.
Marsh & McLennan

NEW YORK—Fear of disruption of competition among Lloyd's brokers may have prompted the Committee of Lloyd's to reject efforts by Marsh & McLennan and Frank B. Hall & Co. to acquire two London brokerage houses having direct access to Lloyd's.

Hall announced in mid-April that it intended to make a cash offer to acquire Leslie & Godwin (Holdings) Ltd. and a few days later it was learned that Marsh & McLennan was making overtures to several Lloyd's brokers, including Wigham-Poland (Holdings) Ltd.

The Committee of Lloyd's vote came within a week of the intentions of the two U.S. brokerage giants becoming public knowledge. A "working party" committee had been reviewing qualifications for ownership of Lloyd's brokerages since August 1977 and its report was said to be the basis for the full committee decision.

A statement released by the full committee said its ruling was intended to "avoid inconsistencies" in treatment of applicants for registration as Lloyd's brokers.

"The working party was at pains to eliminate all issues of nationality or place of residence in its recommendations," the statement said. "Its prime consideration was to insure that all Lloyd's brokers remain genuinely independent so that, free from pressure from their ultimate owners, they can continue to obtain the best service for their clients at either Lloyd's or with insurance companies."

The degree of control by outside insurance interests, including non-Lloyd's brokers, was held by the committee to be the fundamental factor in testing the degree of independence, according to the statement. Lloyd's reaffirmed its previous position that outside insurance interests could control no more than 20% of the equity in a Lloyd's brokerage.

"The ruling would benefit a company like ourselves," said

Continued on page 40

RIMS Report

Bank insurance

Some experts believe the presently dismal bank insurance market will improve, but revisions are expected in the basic bankers blanket bond policy. **Page 11.**

Expanded captive

A larger underwriting operation is being formed to succeed Gas Ltd., the captive insurance company created in 1974 to provide liability insurance for gas utilities. **Page 11.**

Unappreciated? Ignored?



If you believe you are unappreciated, ineffective or ignored, it may not be the way you do your job but the way you communicate, says a panel of top risk managers. **Page 11.**

Communication awards

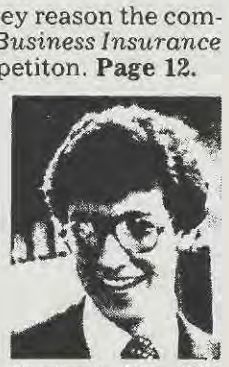
Levi Strauss says a large budget was a key reason the company won two first place awards in the *Business Insurance* Employe Benefit Communication Competiton. **Page 12.**



Michael McDonald of Blue Shield debates a Metropolitan vp on the virtues of the Blues versus commercial insurers. **Page 16.**



Sheldon Roth of Phillips Van-Heusen says the way to control benefits costs is to share expenses with employes. **Page 20.**



Students like Bill Fairbanks of the University of Minnesota say the RIMS conference renewed faith in the future. **Page 28.**

Other RIMS reports

- LEGISLATORS WANT help, a veteran lobbyist argues. **Page 17.**
- DIVERSE RISKS are the pride, and the prejudice, of public bodies. **Page 18.**
- RISK MANAGERS' compensation trails their peers' despite gains. **Page 24.**
- AGING, NOT JOBS, is behind many cumulative injury claims. **Page 26.**
- SHOTGUNNED EXCESS market may recoil, says a wholesaler. **Page 27.**

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Week of May 1, 1978

business insurance

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

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Huge Grant suit clouds D&O market, experts say

By ELLIS SIMON

NEW YORK—Several lawsuits filed against directors and officers of the defunct W. T. Grant Co. are expected to "hang over the D&O insurance industry for several years," according to D&O experts.

The largest of these suits seeks damages in excess of $800 million.

A shareholders class action suit filed in federal court in 1975 has yet to come to trial and the legal battleground was intensified last month by two suits brought by the trustee of the W.T. Grant Co. estate on behalf of its creditors.

The one-time 1,200-unit retail chain was declared bankrupt and went out of business in April 1976.

Trustee Charles G. Rodman filed separate actions in federal court and before the New York supreme court against 22 former directors and officers, the Grant Foundation and Connecticut Bank and Trust Co.

The defendants are charged with violating federal securities laws and state consumer fraud law for the transfer of stock from the foundation and other trust funds to the store's employe stock ownership plan.

The Home Insurance Co., underwriter of W.T. Grant Co.'s $5 million D&O policy, was named as an additional defendant in the case. Attorneys for the plaintiff and The Home said they believed this policy was the sole D&O coverage carried on behalf of the defunct retailer.

The D&O suit is not the only action pitting Mr. Rodman against The Home. In March 1977, Mr. Rodman sued the insurance company for non-payment on a $3 million blanket crime policy that covered loss from fraud and other dishonest acts committed by employes.

Although that case is still in litigation, The Home's attorney, Henry Wallach, said there has been some discussion towards a settlement.

Mr. Rodman's suit in federal court seeks damages of approximately $50 million reflecting the $35.4 million received by the Grant Foundation for sale of its stock holdings and the $14.3 million received by trusts managed by Connecticut Bank and Trust due to the

Continued on page 38

Risk managers' policy sparks cautious interest

By JERRY GEISEL

WASHINGTON—Although intrigued, risk managers are taking a wait-and-see attitude before making a solid commitment to the new errors and omissions policy designed to insure corporate buyers of property and casualty insurance.

The policy, which is available exclusively through Fred S. James & Co. until the middle of this month when it will become available through other brokers as well, is intended to protect insurance buyers against slip-ups that may nullify an insurance policy and result in an uninsured loss.

"Sure I'm intrigued," said John Woods, insurance manager of the Marriott Corp. in Washington, D.C. "Anybody should be intrigued . . . but I'm not going to jump on a bandwagon before I see the new policy."

Whether a bandwagon rush for coverage will unroll remains unclear, though James officials believe there might be a stampede for the policy if several highly regarded risk managers purchase the coverage.

But interest in the policy clearly is there. The James New York office alone received more than 150 inquiries in one week after the policy was announced.

The need for such a policy was the topic of intense debate among risk managers at the recent RIMS conference in New Orleans, Mr. Woods of the Marriott Corp. reported.

But that interest, intense as it may be, does not translate into an intention to buy. "The feeling at RIMS was 'hmmm, that's interesting, maybe we should look into it.' But I don't know of anyone who rushed out to buy it," said Robert

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Pension plans can't require women to pay more, Supreme Court decides

WASHINGTON—The U.S. Supreme Court ruled late last month that it is unlawful to require women to contribute a larger proportion of their salaries to pension plans than men.

However, the court said the ruling would not be retroactive because of the "devastating liability" that would involve.

At issue was whether pension plans could require larger contributions from women since studies show that women on the average live longer than men and thus receive pension benefits over a longer period of time.

The case involved five female employes of the Los Angeles Water and Power Department who sued the city for forcing them to pay a 15% larger contribution than men into the department's compulsory retirement fund.

In writing the decision for the court Justice John Stevens said the plan violated the Civil Rights Act of 1964 which forbids sex discrimination against any individual in employment practices and compensation.

That act's focus on the individual is "unambiguous," Justice Stevens wrote for the majority in the 6 to 2 decision. "It precludes treatment of individuals as simply components of a racial, religious, sexual or national class."

Thus, if height is required for a job, a tall woman could not be refused employment just because on the average women are too short.

But even generalization about a class, such as the average life expectancy of women is longer than men's, "is an insufficient reason for disqualifying an individual to whom the generalization does not apply," Justice Stevens said.

The heart of the matter is that the civil rights act requires people to be treated as individuals, not as members of a class. That proposition is of "critical importance" since there was no assurance that any individual woman working for the Water and Power Department actually fit the generalization on which the department's policy was based.

Many women participating in the pension plan will not live as long as the average man. Those women however would receive smaller paychecks because of their sex, but would not receive a compensating advantage when they retired, the court said.

Group insurance programs always involve some subsidies, Justice Stevens wrote.

The courts also said that it did not intend to "revolutionize the insurance and pensions industries." Nothing in the court's decision, Justice Stevens said, would prevent an employer from setting aside an equal retirement contribution for each employe and allowing each worker to purchase the highest benefit his or her contribution could command.

Thus, it would appear that insurance companies could continue to charge women higher rates in policies sold directly to them as individuals. The civil rights law governs only relationships between employers and their workers in this case, the court said.

In recognizing the impact of the decision on pension plans that have treated women differently than men, the court said the ruling should not be applied retroactively.

"Retroactive liability could be devastating for a pension fund," Justice Stevens said. If plaintiffs were allowed to recover contributions from a pension plan, the administrators would be forced to meet unchanged obligations with diminished assets.

A district court ruled earlier that the higher contributions by women were illegal and ordered a refund of all excess contributions made to the plan. A U.S. Court of Appeals in December 1976 affirmed the lower court ruling. ▪

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European leaders agree to send aid to victims of Amoco Cadiz disaster

LONDON—Leaders of the European Common Market have agreed to aid victims of the Amoco Cadiz disaster with immediate grants up to $1.9 million for pollution damage from the tanker's oil spill.

This will be used for final clean-up of the coastline in Northern France where claims for government compensation, which in turn will be passed on to marine insurers and oil companies up to an agreed total limit of $30 million, are being prepared.

But the British government is already planning legislation which will hike compensation payable for future offshore oil pollution around its own coastline to $45 million.

The legislation will enable the U.K. to ratify the 1976 convention on civil liability, which will start initially with a $35 million limit but will rapidly ride to the higher figure as soon as suitable arrangements can be made.

This scheme will be on a no-fault basis, aimed generally at offshore operators after the Ekofisk blow-out in the North Sea last year caused anxiety over the extent of pollution damage which can be caused in that area.

Meanwhile, Royal Dutch Shell has confirmed the $20 million cargo it was shipping in the Amoco Cadiz was completely self-insured.

OPIC authority finally approved

WASHINGTON—The House and Senate last month completed final action on legislation that extends the underwriting authority of the Overseas Private Investment Corp. to Sept. 30, 1981.

OPIC now will be able to issue new policies again for political risk insurance for companies that want to invest overseas. Earlier, OPIC stopped writing new policies when its underwriting authority expired last December.

Merrett Dixey asked to manage Sasse

LONDON—The Merrett Dixey underwriting syndicate has been invited to take on the management of the suspended Lloyd's syndicate F.H. Sasse & Others, which is trying to recover $3.1 million from Brazilian reinsurers IRB over large fire claims in New York.

But this will only be for administrative purposes until the Sasse organization is able to sort out its financial affairs. It faces solvency problems because it has paid out large sums in settlement of U.S. claims which are now being disputed by the reinsurers, Instituto de Reasuregos do Brazil.

Litigation involving F.H. Sasse and I.R.B. will reach the U.K. High Court this month in the form of a preliminary hearing over their dispute and the Sasse group is preparing further details of its financial position for the committee of Lloyd's to examine.

In a completely unrelated move, Lloyd's has suspended a small U.K. insurance broking group, Armour Hick & Partner, which has run into temporary financial problems because of suddenly excessive administrative costs and other factors. It largely deals in livestock coverage and is hopeful of resuming business again shortly.

Report says HMOs are mismanaged

WASHINGTON—A Senate report released last month found that many HMO programs, particularly in California, are grossly mismanaged with widespread fraud and patient mistreatment.

Unless tougher safeguards are adopted, "Patient mistreatment, medical commercialism and an outlandish waste of taxpayer funds could well become the cornerstone of the federal HMO program," warned Sen. Charles Percy (R-Ill.)

Court to rule on pension and divorce

WASHINGTON—The Supreme Court agreed last month to review a case involving the legal right of a wife, in divorce proceedings, to claim an interest in pension benefits her husband expects to receive under the Federal Railroad Retirement Act. At issue is a lower court ruling that all retirement benefits are community property subject to division between divorcing spouses.

Catastrophe losses in '78 set record

NEW YORK—Property and casualty insurance companies paid out $196 million in claims as a result of 11 separate major winter-related storms in the first three months in 1978. The amount is the largest ever paid out for the first three months of a year.

There were 256,980 claims, many involving flooding, roof collapses and widespread wind and ice damage.

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errors & omissions

- John Hancock Insurance Co. has corrected the figure previously released as its savings by coordinating health benefits. The insurer estimates that it saved $36.9 million by coordinating benefits in 1977 on $608.1 in health premiums or 6.1% of premiums.
- A story in the April 17 issue about an advertisement that said product liability could drain the economy of $100 billion by 1980 did not make it clear that the figures cited from the Insurance Services Office closed claim study were trended.

Lawyers prepare large lawsuits in ski accident

By MARGARET LeROUX

SQUAW VALLEY—As investigators were trying to determine the cause of a tramcar ski lift accident that killed four people and injured 31 others here late last month, lawsuits seeking awards in the millions of dollars and charging the famed ski resort with negligence were being prepared by attorneys for the survivors.

The resort is insured with American Home Assurance Co. as part of a group plan put together for the National Ski Areas Assn. by Kendall Insurance Inc. of Rochester, N.H.

Richard H. Williams, broker for the association plan, declined to comment on the specifics of Squaw Valley's insurance program, confirming only the resort's participation in the plan. "Each of the participants has a program designed to meet its own needs," Mr. Williams said.

Terry Ford, counsel for Squaw Valley Inc., also declined to comment on the resort's insurance program. He noted that investigators could find nothing in the wreck of the tram that indicated a brake failure.

The accident occurred as the tramcar, the biggest in the world and part of a $2.5 million system, started to descend a 2,000-foot section of the mountain in storm conditions with winds gusting up to 40 m.p.h.

Investigators said it appeared that one of the track cables slipped, snapped downward and literally sliced through the 130-foot cabin, pinning several persons inside to the cabin floor.

It took rescuers more than five hours to get all 36 survivors out of the wrecked tramcar which dangled 80 feet above snow.

Squaw Valley has a history of serious chairlift accidents—seven since the 1960 Olympics were held here, making the resort world famous. In 1974 a state industrial safety board fined the resort $6,700 for safety violations.

William Boardman, assistant to the general manager of Squaw Valley, said the tramcar system had its most recent state inspection in February. The system had been shut down for three days the week before the accident for repairs and was scheduled to be shut down for off-season maintenance the day after the accident.

The Squaw Valley accident, coupled with a $1.5 million award to a skier injured in a Vermont ski accident, "will have a serious affect on the liability market for ski resorts," a spokesman for another Lake Tahoe ski resort said. ■

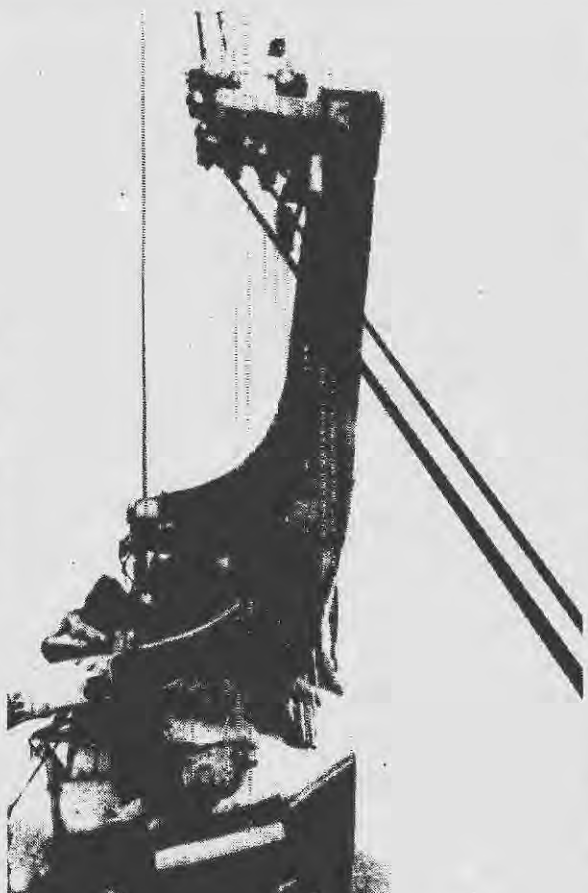


Photo: Wide World

Massive gondola hangs by a sagging cable at the famed Squaw Valley ski resort. It took rescuers five hours to remove the passengers.

Florida plan ponders workers comp benefits based on lost wages

By JERRY GEISEL

TALLAHASSEE—Florida is considering a proposal that would award workers compensation benefits on the basis of loss of actual wages rather than on the degree of impairment and loss of earnings capacity.

The proposal, which is now being considered by the state legislature, is seen as offering an incentive to employers to provide rehabilitation services so that injured employes can get their old jobs back.

Florida state officials in addition believe that should the proposal be adopted it will help resolve the current problem of overcompensation for minor disabilities in the permanent partial area and undercompensation for more serious disabilities.

The replacement of lost wages is based on what is called the "80% of 80% formula." The calculation to determine the amount of compensation for a worker with a permanent partial disability would work this way:

If an employe earned $200 before an accident and $100 after, the difference would be $100. Eighty percent of the old weekly wage, or $200, is $160. The current weekly wage or $100 would be subtracted from 80% of the old weekly wage ($160) for a remainder of $60. The worker would receive $48, or $80% of $60 as long as the wage loss continued.

Disabled workers also would receive a lump-sum payment based on the severity of the injury. A worker would receive $100 for each percentage point of disability, up to 10% disability. Workers who are 11% to 25% disabled would receive $200 for each percentage point of impairment.

For example, a worker with a 5% disability would receive a cash settlement of $500. Determining the percentage of disability would be based on model guidelines established by the American Medical Assn.

Since benefits could continue to 65, "The employer and carrier are being given a lot of incentives to rehabilitate disabled employes because the better the job they find for him, the less is their exposure to wage loss," said John H. Lewis, vice chairman of the Florida workers compensation advisory council.

Under the state's present system, compensation for permanent partial disabilities is based on the degree of impairment and the loss of earnings capacity, whichever is greater.

Just what earnings capacity is has presented Florida workers compensation administrative judges with some thorny problems, Mr. Lewis pointed out.

A worker, for example, may have an injury that renders him 10% disabled. But the worker may claim that the 10% disability has reduced his earnings capacity by 50%.

Mr. Lewis said it is very difficult to determine the extent to which a disability reduces wage earnings capacity. The result often leads to confusion and overcompensation.

The number of weeks benefits are paid is based on the percentage of disability or loss of earnings capacity divided by the maximum number of weeks benefits can be paid, which in Florida is 350 weeks. ■

the benefit beat

Premiums slashed for Illinois, employes in new pact

ILLINOIS AND ITS EMPLOYES will get a break on health insurance costs this July under a renewed contract with Chicago Blue Cross/Blue Shield. Premiums for 138,000 active and retired employes will actually decrease the first year under the two-year contract that allows a maximum second year premium increase of 20% plus a bad experience carryover of up to $2 million. The premium decrease compared to current rates is also the result of benefit changes to contain costs and stiff competition, said Thomas P. Wall, manager of group insurance in the state personnel department. CNA and Metropolitan also bid but came in 20% over the BC/BS bid on the contract that is expected to generate $87.4 million in premiums, $62.6 million paid by the state and $24.8 million paid by employes. The single employe monthly premium, all state paid, will be reduced to $38.32 from its current tag of $40.96. The high option plan for two or more dependents will cost the employe only $71.58 monthly instead of the current $78.98 with the state continuing to pay an additional $7 contribution for the coverage.

Cost containment benefit changes include institution of a $50 deductible on all hospitalization, eliminating the old current waiver of the deductible after 11 days in the hospital. A $100 deductible will apply to all physician's charges before 80% reimbursement instead of first dollar 80% reimbursement when a technical procedure is involved and a $200 deductible and then 50% reimbursement when no technical procedure is performed. A pre-existing condition clause to apply the first six months of employment if the condition was known in the three months prior to employment was added. Hospitalization for nervous and mental disorders will be limited to a $25,000 annual benefit and out-patient treatment will be limited to once a week at 50% or $25 per visit reimbursement.

Crown Life of Canada beat out eight other bidders to renew its life insurance contract with the state, which is expected to generate $6.4 million in premiums, $3.5 million to be paid for by the state and $2.9 million paid for by the employes.

CATERPILLAR TRACTOR CO. has contracted with the Peoria area professional standards review organization to monitor hospitalization of its 30,000 employes. So far the concurrent review is being conducted in four area hospitals but it will be extended eventually to 26 hospitals in the Peoria region. While instituting the concurrent review procedure, Caterpillar is educating employes about their health care benefits in a series of articles in the company newspaper, initially focusing on full coverage for outpatient diagnostic testing under the company's self-administered minimum premium plan with Metropolitan. The company is hoping concurrent review of hospitalization and the employe education program will at least reduce the rate of inflation in its health care costs.

SOCIAL SECURITY benefits for U. S. and Italian citizens who work in the other country can be totalized under an international agreement between the countries sent to Congress by President Carter. It's the first totalization arrangement, authorized by the 1977 Social Security amendments, between the U.S. and a foreign country. Congress has 90 days from Feb. 28 to veto the arrangements but that's not expected. The agreement provides that a citizen of either country working in the other will not have to contribute to both Social Security systems, nor will he accrue benefits simultaneously under both. The employe and employer will need to participate under only the Social Security system of his home country, or, if he participates in the Social Security system of the foreign country, the period of participation will count toward the benefit to be paid by the other country's program. A pro-rata portion of the benefits generated by each system will be paid by that system, provided the employe has six quarters coverage under the U.S. system and one year's coverage under the Italian System. Employers who are contributing to both the American and Italian Social Security systems for an employe can apply for exemption from participation in the program of one of the countries by applying with the American consulate in Italy or with the Social Security agency of either country.

CARTER ADMINISTRATION'S proposal to limit tax deductions for medical expenses and casualty losses was rejected late last month by the House Ways and Means Committee. The Administration had called for combining medical and casualty loss deductions and limiting them to amounts in excess of 10% of gross income. The Administration also had proposed to exclude the first $100 of casualty losses as the law does now. Currently, a taxpayer who itemizes deductions may deduct 50% of the first $300 of health insurance premiums. Medical expenses that exceed 3% of income also are deductible. Medicine and drugs exceeding 1% of income may be counted toward the 3% ceiling. The committee voted instead to require taxpayers to include the cost of health insurance premiums as part of the overall medical deduction, rather than deducting it separately as is the case now. Thus health insurance premiums and expenses only could be deducted if they exceeded 3% of income. The committee also voted to make the cost of all prescription drugs and insulin deductible, rather than only allowing a deductible if the amount exceeds 1% of income.

MANDATORY RETIREMENT is once again the target of a new legislation introduced by Rep. Claude Pepper (D.-Fla.), the architect of the recently enacted law that prohibits forced retirement before age 70. Rep. Pepper proposes that the new higher retirement age also apply to top-level executives and tenured college and university professors. The legislation signed last month by President Carter exempts executives with an annual pension benefit of $27,000 or more from the higher retirement age. In addition, college and university professors will not be covered until July 1, 1982. Rep. Pepper also would like to eliminate a series of statutory exemptions permitting mandatory retirement of several categories of federal employes including Foreign Service officers, air traffic controllers and members of the Central Intelligence Agency.

london line

Italy probes citizens with Lloyd's kidnap policies

By JOHN H. MILLER

LONDON—Rich industrialists in Italy who have privately insured themselves at Lloyd's or other European markets against kidnap risks are being probed by their own state police to see if they broke currency rules to get the premium payments to London.

Ten insurance broker offices in Milan and Florence have been raided by currency squad detectives. It is believed that about 30 Milan businessmen, who have taken out ransom coverage up to $5 million or more, are involved.

Notices have been served on them alleging possible violation of currency laws. Milan assistant district attorney Emilo Alessandrini said translators were at work on a large number of documents, many of them in English, that were seized during the raids.

Italian law bans ransom insurance, but brokers use such phrases as coverage "for any event affecting loss of work facilities" as a convenient means of placing the risks in markets outside Italy.

The negotiations are conducted carefully and most insured businessmen have to agree to meet a substantial deductible, 10% to 20%, of the ransom demands so as to avoid any collusion with suspected criminals to stage bogus hijackings.

But even then there are suggestions that at least one of the businessmen involved in the latest probe may have been a willing party to his kidnapper's ransom demands so that he could share in their haul.

Estimates are circulating on the Continent that Lloyd's collected a premium income of $50 million on kidnap risks in the past two or three years, but the real figure could be much higher than that as it is a special market that keeps strict secrecy over its business.

Premium levels vary widely according to the importance of the client involved and the likelihood of his being kidnapped if he is a public figure.

Marine building

Marine insurers are being warned that orders for new ships throughout the world are likely to reach only about 12 million gross tons this year.

This is less than the shipbuilding capacity of Japan, according to U.K. experts who have analyzed the recession in the shipping industry.

Robert A. Huskisson, chairman of Lloyd's Register of Shipping (which is operated separately from the Lloyd's insurance market) comments: "The over-capacity of shipping tonnage in relation to current needs is frightening. The tanker scene remains disastrous, with well over 350 ships laid up, but deliveries of new ships are still being made."

Ex-CU chief

Commercial Union directors are planning a $200,000 severance payout to its former chief executive, Gordon Dunlop, who quit the company last year after an internal dispute over its future business attitudes.

He has been acting in an advisory capacity since then, but will now formally leave its employment, as he was succeeded by Jack Emms nine months ago.

Big cutbacks in U.S. operations, reaching over $100 million, were introduced in 1975-76 after it had recorded huge underwriting losses under Mr. Dunlop's efforts to expand overall premium income.

Since then, however, the worldwide group has made a big recovery and turned in a $6 million profit on its U.S. lines last year, against a $50 million deficit in 1976.

Barge loss

Although a $17 million jackup-type drilling rig that went aground off Guernsey Island in the English Channel was saved, the $3 million barge on which it was traveling has been declared a total loss.

The Houston-based Offshore Co.'s Orion was being towed aboard a pontoon barge owned by Global Transportation Organization of San Francisco from Rotterdam to Natal, Brazil, when the craft went adrift in a storm Feb. 1.

A German-owned tugboat that had been towing the rig and barge failed to restore the tow because of the rig's resistance to the gale winds and the barge struck rocks off the Guernsey Coast.

Dutch salvage experts cut the drilling rig free from the barge and blasted the rocks beneath it to provide ground on which the rig's jack-up towers could be lowered. Once the barge was removed, the drilling rig was towed to Cherbourg, France, where only minor repairs were required.

According to Ron Guidry, Offshore Co. insurance manager, the rig was loaded aboard another Global-owned barge for completion of the trip. While the rig is capable of being towed without being placed on a barge, barge loading speeds up travel time.

The Orion had been covered by a trip insurance policy placed in the London market. Offshore's captive, Malvern Insurance Co. Ltd., did not participate in the risk.

The original barge, Federal 400-2, was sold for $120,000 to a Dutch salvage firm that is looking into the possibility of rebuilding the craft, said Bruce Rogerson, Global's director of insurance.

Coverage on the barge was under Global's general hull program, which is written by insurers in the London, U.S., Continental and Japanese markets, he said. ■

Members sought

The New York Brokers Claims Association Inc., an organization of claims persons employed by licensed brokers to negotiate claims on behalf of clients, is seeking to expand its membership. Interested persons should contact Frank J. Castaldi, president, at 212-425-3010 or Viola Lepastat, secretary, at 212-233-2422.

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Since your company has assumed a risk retention profile through higher deductibles, self-insurance programs or a captive insurance company, you need to know the techniques the insurance companies apply to reduce their real loss paid by recouping a high net recovery dollar on merchandise, equipment, vehicles or products exposed to distressed conditions.

If your company experiences a loss on a $100,000 inventory,

WRONG.

the temptation may be to declare a total loss, because of product integrity or products liability, and replenish the damaged stock with $100,000 of your risk reserve or operating capital. Then write it off. This type of action can have a severe impact on your cash flow and reserves.

But, USCC can come in and do for your cash flow what we've done for insurance companies for years.

USCC will identify the salvable merchandise and its current market value, market it to our network of known buyers and return a significant sum of money to your cash flow picture. At the same time, we will react quickly, maintaining product integrity, protection for products liability and documentation for every step of the program we develop for your specific needs.

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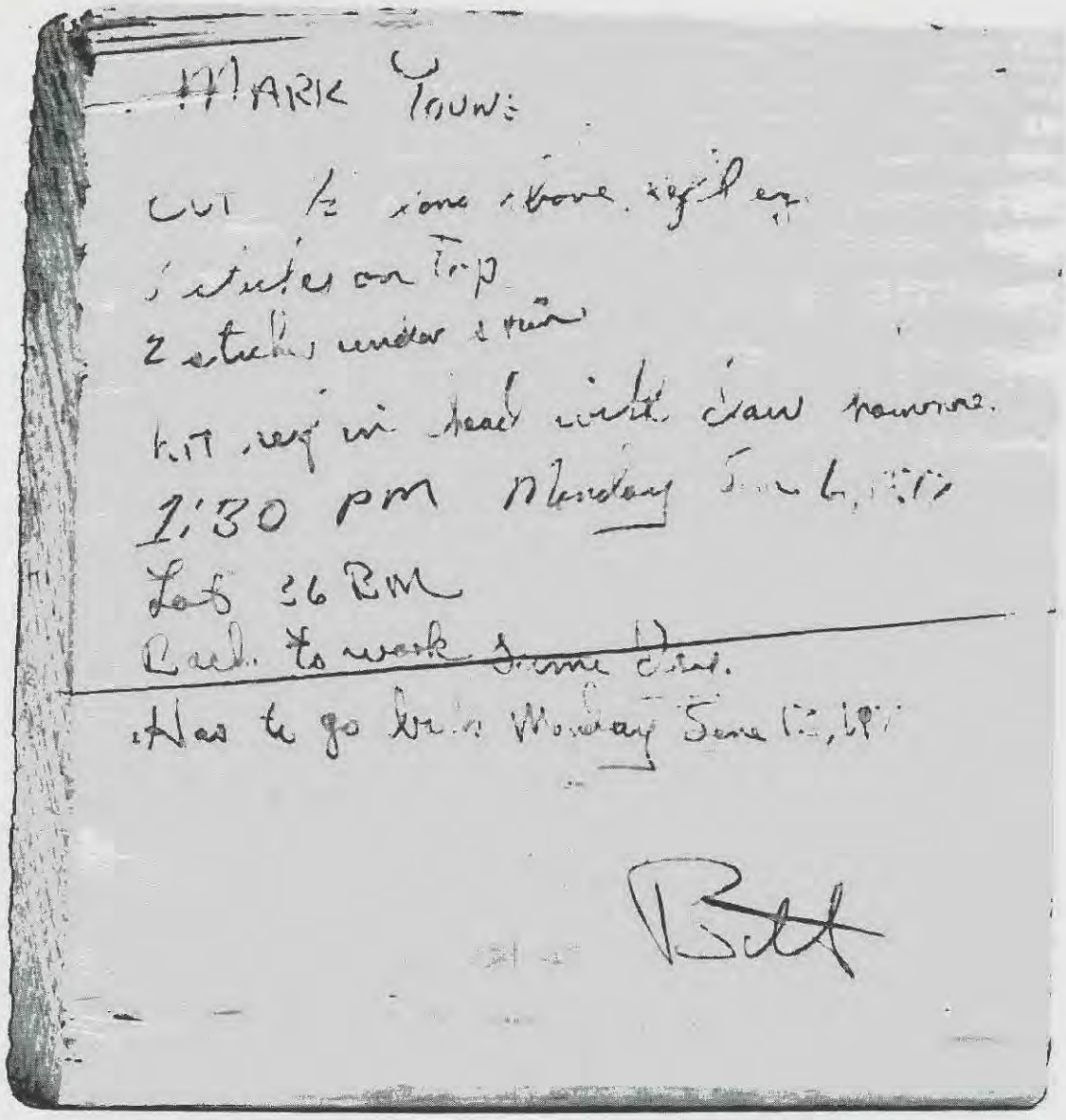
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From the Partnership People

EMPLOYERS INSURANCE OF WAUSAU Wausau Wisconsin

Courts approve some state regulation of benefits

By GREG DAVID

WASHINGTON—Two recent federal court decisions indicate that states may indirectly regulate employe benefit plans but may not pass laws that directly regulate those programs.

The U.S. Supreme Court, acting on the advice of the Justice Department, refused to review a federal appeals court decision that said states may require certain benefits in group insurance contracts.

The federal appeals court in Boston had ruled the pension reform law's preemption provision did not affect a New Hampshire law that requires group insurance contracts covering individuals who live and work in that state to provide coverage for mental and emotional illness.

At the same time, a federal appeals court in San Francisco upheld a lower court ruling that California's Knox-Keene law, designed to regulate medical service organizations not covered by the state insurance code, is preempted by ERISA.

The decisions appear to mean that employers or union plans that provide benefits through insurance contracts will have to comply with state laws as well as ERISA, while firms or unions that self-insure will only have to comply with ERISA.

The pension reform law says that states are preempted from regulating employe benefit plans. But ERISA also says that states may continue to regulate the "business of insurance," although they may not "deem" employe benefit plans to be in the "business of insurance."

Congress decided to exempt employe benefit plans from varied state laws when passing the pension reform law because ERISA imposed new requirements on benefit programs. But state officials argue the preemption provision conflicts with the regulation of insurance granted the states under other federal legislation.

Two union benefit plan administrators in New Hampshire challenged that state's law requiring group insurance contracts to provide coverage for mental and emotional illness on the grounds that the preemption clause of ERISA prohibits state regulation of employe benefit plans. The state law requires the plans to offer these benefits if the administrators opt to insure the benefits, the administrators argued.

But both the district and appeals courts disagreed, saying that ERISA does not disturb the state's power to regulate insurance contracts. Thus, states could indirectly regulate benefit programs that provide coverage through insurance contracts, the appeals court said.

In a brief filed with the Supreme Court, the Justice Department said it agreed with the appeals court reasoning. The government brief, which was also signed by top attorneys in the Labor Department, also rejected a contention by the plan administrators that the Supreme Court should decide "the conflict which exists between state regulators and the department of labor" over the preemption provision.

"There is no single preemption issue where state laws regulating insurance are concerned," the government attorneys wrote. "Each issue must be decided on its facts . . . Congress preserved authority in the states to regulate insurance and if petitioners find the result burdensome, their recourse is to Congress or to the state legislatures."

In California, district court judge Charles Renfrew had ruled that ERISA preempted that state's Knox-Keene law because the law directly regulated employe benefit plans. Judge Renfrew has also ruled that Hawaii's prepaid health care law, which established minimum benefits for health insurance programs, was also preempted by ERISA.

In upholding Judge Renfrew's decision, the appeals court dismissed state arguments that Congress had not intended to preempt the Knox-Keene law, that Knox-Keene was an insurance law outside the reach of the preemption provision and that ERISA was unconstitutional if it did preempt the state law.

"If California desires to regulate employe benefit plans as part of its comprehensive health care services regulation," the appeals court wrote, "then California must ask Congress to make appropriate changes in ERISA." ■

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Two recovering from incidents

John J. Murphy, vp-insurance and safety for Avis Rent-A-Car System Inc. in Garden City, N.J., is recuperating at his home after being released from a New Orleans hospital April 20 following treatment for injuries sustained during the RIMS conference.

Mr. Murphy, an outspoken proponent of the no-fault system, was standing with Ed Lalley of Ideal Mutual Insurance Co. and Miles Chenault of Midland Insurance Co. after dinner at a New Orleans restaurant April 12 when he was hit by a car. As the group waited for Mr. Murphy's rental car to be brought around to the entrance, the 1978 model Cadillac rented by Mr. Murphy careened toward the group, missing Mr. Lalley and Mr. Chenault but hitting Mr. Murphy. Mr. Murphy broke his right arm in three places and suffered a mild concussion and badly bruised right leg.

Apparently, the automatic choke in the Cadillac stuck.

Mr. Murphy's injuries weren't thought to be permanent or serious, although it's not known when he'll return to work.

Meanwhile, Richard J. Burns is recuperating in Chicago from being tied up and robbed in his hotel room at the Hilton during the RIMS conference. Mr. Burns, a vp of Corporate Policyholders Counsel Inc., had been scheduled to speak at a Wednesday session on employe benefits but instead returned to Chicago soon after the Tuesday night robbery.

Several individuals were admitted by Mr. Burns, who was alone in the CPC hospitality suite at the Hilton. They subsequently tied him up, stole several hundred dollars and his credit cards and aggravated an old spinal disc injury. Mr. Burns is in good condition.

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editorial opinions

Ford Motor's appeal

FORD MOTOR CO. had its punitive damage award of $125 million, made by a jury to a boy badly burned in a Pinto accident, reduced to $3.5 million. More reasonable, indeed. But for Ford, the judge's reduction wasn't enough. The company will appeal the reduced award, contending there shouldn't be any punitive damages at all in the case.

But the plaintiff clearly showed that Ford knew full well of the injury and death risks in the configuration of the Pinto and its fuel tank, but chose to take the risk and not change the design.

Now $125 million paid to one plaintiff is absurd. We've contended all along that punitive assessments against corporations shouldn't be part of the "awards" made to plaintiffs anyway. But for Ford to have knowingly put a highly dangerous product on the roads—we acknowledge that all cars are inherently dangerous but this one was even more so—and then to say that it shouldn't have to pay any punitive damages is infuriating.

The jury felt Ford clearly needed a financial penalty in this case to deter it from making the same kind of decision again in the face of information about possible overriding risks in its products.

Farewell, Bob Spencer

WE BID BOB SPENCER farewell as president of RIMS, after a year of hard work and hard-won recognition for risk managers, a year in which risk management came into its own for a variety of reasons, not the least of which was Mr. Spencer himself.



From the perspective of those of us often in need of counsel, Bob has been a boon. He has been outspoken in his frank discussions of how things work in the insurance business. He's done a great deal to help us understand the intricacies of the insurance and risk management, putting facts about his own experiences and those of his company out on the table as examples for interested listeners.

Mr. Spencer has long been an articulate spokesman for his own company, Fuqua Industries. He's helped immeasurably this past year as a spokesman for risk managers as well, helping to bring issues like the argument over coverage for punitive damages to the fore. In the process, he's been willing to deal in facts, naming names when necessary if a discussion centered on his own insurance-buying activities.

The mysteries of the insurance business—the "deals," the special services, the problems—would be much less of a hindrance to professional risk managers if there were more people like Bob Spencer around. Accessible, informative, straight-talking.

We wish him well.

What Lloyd's reads

LLOYD'S COMMUNITY newspaper recently landed on our desk, containing an entertaining list of all the new volumes added to the Lloyd's library in London.

Among the approximately 140 texts and periodicals were several fascinating entries which provided a bit of insight into the varied interests of Lloyd's underwriters.

Britishers are avid sailors, we know, and several books on sailing were purchased, along with a volume on "In Search of Ancestry," following the international "Roots" phenomenon, perhaps. To help meet the yearend audit requirements, Lloyd's members can now turn to "Practical Book-Keeping and Accounts."

Politics gets into the act with the purchase of "Subsidies and the Press in Europe." Fun and games are not ignored; insurers at Lloyd's will now be able to plan weekend strategies using "Wisden Cricketers Almanac."

The Lime Street denizens are also apparently doing their best to make their policies clearer and easier to read. The evidence of this is in the half-dozen or so books now available on "Using Words," "Training for Communication" (with policyholders, maybe?) and, best of all, "The Golden Book on Writing." We'll be watching for the language of insurance to graduate from the arcane to the sublime.

Outpatient care

IF HEALTH INSURERS are sincere about their claims of wanting to slow escalating health costs and contain the amounts they're paying in health benefit claims, why don't they agree to pay for more outpatient care?

Take the specific case of hospice care for the terminally ill, for example. This is a new form of "outpatient" care, to assist dying patients to spend the last days of their lives in pleasant surroundings—either special wings of hospitals or, preferably, at home—with a minimum of pain and suffering.

The hospice movement has gained momentum across the country in recent months. Besides being a humane idea, it is intelligent because once a patient is said to be terminally ill, the person won't be kept alive for a long time by using medical procedures and technology to simply prolong the suffering.

The problem is this: Hospice programs—and most home care programs, for that matter—haven't been able to get insurance companies to provide coverage for home visits by doctors, nurses and other hospice staff members. By being an immovable force, the health insurance industry is only helping to keep its bills high and hospital costs climbing.

letters

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

Howard Weber

To the editor: I think your experts displayed their high degree of capability by having chosen Howard Weber as Risk Manager of the Year. Certainly Howard's capabilities set him far in the lead above others.

However, in your article there is one particular characteristic of Howard's which I think has not been emphasized properly. I have found that Howard is always willing to discuss subjects with other risk managers at a level which helps many of us arrive at better solutions to our own problems.

Ross L. Oliver
Manager, Corporate Insurance, The Signal Cos., Beverly Hills, Calif.

Who's responsible?

To the editor: I was amazed and flabbergasted to read your editorial, "ERISA Loophole Somebody Should Plug."

You pointed out in the editorial that the employes are represented by the Newspaper Guild and as such, Field Enterprises has the responsibility of negotiating for its members. Under the law, that is not the responsibility of Field Enterprises. Under the law, Field Enterprises has to negotiate with the union and if possible, arrive at an acceptable agreement.

Why do you condemn Field Enterprises for complying with the law rather than condemn the Newspaper Guild for being an apparently irresponsible union amazes me.

William F. Boyd
President, Wabash Inc., Palatine, Ill.

Our point was not that Field Enterprises had any legal responsibility to eliminate this provision in its contract with the Guild. Nor do we believe that Field Enterprises had any responsibility to protect its employes from a contract that the Guild negotiated. In this respect, we agree wholeheartedly with your letter.

On the other hand, we do think that any provision in a benefit plan or a union contract which provides either severance or pensions, to the extent that a vested pension benefit could be reduced to zero, is irresponsible. Our point was to chide the union for having negotiated such a provision—or to

Continued on page 38

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Humans not threatened by PCB contamination

WASHINGTON—Although it caused property damage in excess of $1.5 million, the distribution to feed grain mixers in 10 states of 800,000 pounds of contaminated tunameal is not expected to cause harm to humans.

Further, it is not expected to impair efforts of feed grain manufacturers to resolve product liability problems they face as a result of the Michigan Farm Bureau incident several years ago.

According to a Food & Drug Administration spokesman, the tunameal was isolated as the source of PCBs (polychlorinated biphenyls) found in poultry and animal feed produced at several commercial and private mixing plants in the Southwest.

FDA investigators traced the contaminated meal back to a warehouse in Puerto Rico leased by a Ralston Purina Corp. subsidiary, the spokesman said. It was learned that 2,000 pounds of a PCB-laden coolant had leaked from two transformers in the warehouse and spread over the meal during a fire in April 1977.

Ralston said that it has contacted all customers who received the tainted tunameal and any of the meal that had not been consumed has been destroyed or withdrawn from the market.

Approximately 400,000 chickens that were exposed to the poisoned meal have been destroyed. Egg-laying hens are carried on farmers books at an average value of $3. In addition, since March 16 about 15,000 dozen eggs have been destroyed daily, with total retail value of about $350,000.

Three brokers, H.J. Baker & Bros. Inc. of Fort Smith, Ark.; Atlantic Shippers of Texas Inc. of Port Arthur, and Neese & Sons Inc. of Ankeny, Iowa, were the principal distributors of the tainted meal. FDA sources did not have available the number of firms that received the bad product, however.

Officials at Ralston would not comment on what steps would be taken to compensate affected farmers or whether the company would indemnify the brokers and commercial feed manufacturers against any claims. However, there are indications that settlements will be made quickly.

"Questions of litigation haven't even appeared on the scene," said Vincent A. Winsch, vp in H.J. Baker's New York office. "I don't know of anybody who has to resort to litigation." Mr. Winsch added that the FDA and Ralston had the situation "under good control."

In large doses, PCBs can cause skin and eye irritations in humans. Although the FDA spokesman said it is conceivable that PCBs from the affected batch of tunameal could have gotten into the human food cycle, she added that the levels of contamination were insufficient to pose a threat to human health.

The Ralston incident resembles the Michigan Farm Bureau disaster in which highly toxic polybrominated biphenyls (PBBs) were substituted for a cattle feed nutrient. Forty million dollars in claims have been paid out as a result and product liability insurance costs for feed manufacturers soared as a result.

However, PCB contamination in fish meal is nothing new, according to Robert Rich, director of risk management and insurance for Gold Kist Inc., the southern farmers co-op. Mr. Rich serves as chairman of the insurance subcommittee of the American Feed Manufacturers Assn.'s product liability committee.

There has never been a big products claim on PCBs and the Ralston incident "doesn't pose a threat to AFMA's product liability program," he said. ■

Fire losses up

Fire in the U.S. caused an estimated $381 million in losses in February, a 22.5% increase over losses for the same month in 1977. The February figure is an increase of $70 million over January and $19 million more than February 1977, formerly the month with the highest amount of both insured and uninsured fire losses.

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RIMS REPORT

Bank experts 'hopeful;' policy revisions due

By GREG DAVID

NEW ORLEANS—Some experts believe the presently dismal insurance market for bankers blanket bond will improve.

"The market is a bit softer this year, but it is still difficult," said Norman Clark, vp for financial institutions at Alexander & Alexander, at a RIMS conference seminar.

But Francis X. LeMunyon, secretary of the insurance industry's Surety Assn. of America, didn't agree and predicted 1977 loss figures to be released next fall will show the same severe losses as 1976.

And bank risk managers will be faced in coming months with more revisions in their basic bankers blanket bond policy. Although Mr. LeMunyon indicated the changes would mostly involve incorporating the many riders of recent years into the main policy, he left the door open for substantive revisions.

Donald W. Chopp, vp at Union Investment Co., said the recent underwriting profits of insurance companies and the Insurance Services Office's decision to withdraw the punitive damage exclusion are two industry reasons to be optimistic about the insurance market for financial institutions.

The American Bankers Assn. program to certify bank loss control efforts and the new pool for ERISA liability coverage being arranged by Johnson & Higgins are two moves by financial institutions that should aid the marketplace, he continued.

The loss ratio for all insurance companies on bankers blanket bonds in 1976 was 126.7, not including operating expenses, Mr. LeMunyon said. That was up from a 1975 loss ratio of 90.7.

The overall loss ratio for all companies on surety operations improved to 77.9 in 1976 from 85.3 in 1975, the Surety Assn. secretary said. But for members of the Surety Assn. the loss ratio worsened to 81.3 in 1976 from 72.2 in 1975.

"We're not in the black by any means," Mr. LeMunyon observed.

A&A's Mr. Clark surveyed 22 banks and 10 insurance companies providing coverage for financial institutions to determine how banks and insurers perceive the market.

Four banks said they found the insurance industry more receptive this year toward bankers blanket bond coverage, while four banks said insurers were less receptive and 12 discerned no difference.

Three insurance companies said the market was more receptive to banks while one said it was less receptive and six said there was no difference in the insurance industry's attitude.

Although three insurance companies said the market was more receptive toward banks, none of the surveyed companies said individually it was more receptive. One company said it was less receptive and nine said their corporate attitude was unchanged.

Four of the mostly large banks surveyed by Mr. Clark said they had encountered difficulty at their last renewal obtaining coverage for risks that had been covered under their previous policy, but 17 banks said they had no difficulty with previously covered exposures.

Thirteen banks told Mr. Clark they had received quotes from more than one insurer while eight obtained only one quote, numbers the A&A executive found surprisingly high in light of the difficult market.

Ten banks reported that insurers simply declined to quote on their risk while 11 said they did not find any insurance company unwilling to quote.

Eight banks reported their premiums increased less than 25% for bankers blanket bond at their last renewal. Two banks said their premiums increased 25% to 49%, five reported jumps of 50% to 99% and one bank said its premiums increased more than 100%.

One bank said it had been able to win a premium reduction. One bank reported its premium remained about the same while another said its premium re-

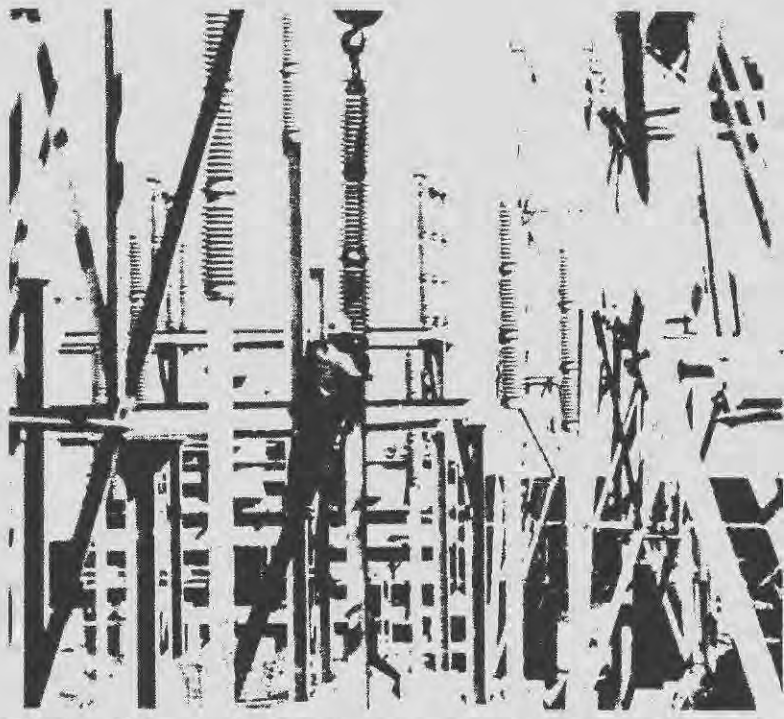
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Bankers implored to act

Risk managers must convince their management that the problem of senior officer dishonesty has to be tackled if the insurance market for financial institutions is going to return to "some semblance of normalcy," the secretary of the Surety Assn. of America told a RIMS conference seminar.

Quoting from a *Business Insurance* story on the Sibson study of salaries and responsibilities, Francis X. LeMunyon said risk managers are in a key position to convince bank management of the need for preventive measures such as outside audits.

These steps might be expensive, Mr. LeMunyon conceded, but so are the vaults and alarms banks have installed to prevent burglaries and other crimes by outsiders.



Electric utilities are also eligible to join the expanded captive, Associated Electric Gas & Insurance Services Ltd.

Revised captive succeeds Gas

By REBECCA A. FANNIN

NEW ORLEANS—A larger underwriting operation is being formed to succeed Gas Ltd., the captive insurance company created in 1974 to provide liability insurance for public gas utilities.

Just as Gas Ltd. was formed to respond to the difficult casualty market of the '70s and the general reluctance of underwriters to stay with gas liability business, the new captive, Associated Electric Gas & Insurance Services Ltd., (AEGIS) responds to continuing difficulties in this market.

AEGIS underwrites a broader industry group than Gas Ltd., which was limited to underwriting gas utilities, and electric utilities only if they include both gas and electric operations. AEGIS, however, provides insurance for both gas and electric utilities.

Gas. Ltd. officially became AEGIS on Jan. 1.

The underwriting facility was expanded to electric utilities because electric utilities, which purchased insurance from the open markets, began to experience the same difficulties as the gas utilities, said Bruce H. Suter, senior vp of Ebasco Risk Management Consultants Inc.

AEGIS also offers insureds higher limits of primary coverage. While Gas Ltd. offered $1 million limits, AEGIS offers $2.5 million per occurrence.

This increase helps some utilities avoid trouble in layering coverage among insurers to reach the $2.5 million limit of coverage, Mr. Suter said.

AEGIS is considering making it

Continued on page 14

Top risk managers urge colleagues

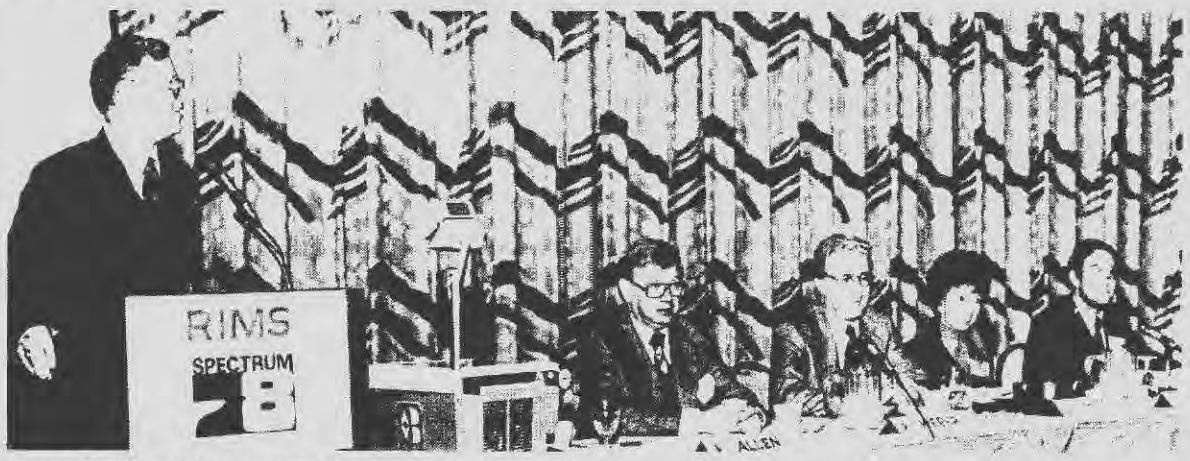
Unappreciated? Stick your neck out, communicate

By KATHRYN J. McINTYRE

NEW ORLEANS—If you feel as though you are unappreciated, ineffective and sometimes downright ignored in your company, it may not be the way you do your job but how you communicate what you are trying to do.

Try face-to-face discussions with the people you want to reach. Control your tendency to speak in insurance jargon and talk their language. Identify and focus on their concerns. Stick your neck out, keeping corporate objectives in mind. It will enhance your productivity and your stature in the company, a panel of risk managers said at the annual RIMS conference here.

They agreed that oral communication is more effective than written explanations. Maple Leaf Mills Ltd. risk manager Carol A. Caswell noted that "during my regular inspection visits to the branches, an explanation of insurance programs and accident procedures generally developed into a broader discussion of the end result."



Duane E. Allen (left), assistant treasurer of The Hanna Manufacturing Co., moderated the discussion on dealing with management on risk management decisions. Participants were (left to right) Howard T. Weber of 3M Co., R.S. Johnson of Owens Illinois, Carol Caswell of Maple Leaf Mills and Robert A. Reeves of Hospital Corp. of America.

Owens Illinois Inc. director of risk management R.S. Johnson found that fire safety matters became more important and relevant to division managers when inspection reports from insurance company and in-house engineers were summarized and presented at a meeting using an overhead projector than they were when they were distributed piecemeal after inspections.

When the written word is the only viable approach, Hospital Corp. of America vp-insurance Robert A. Reeves suggested the report be "brief and to the point," incorporating charts and graphs. A one-page report is preferable, but when a longer document is necessary—such as a captive insurance company feasibility study—it should be covered by a one-page summary.

In both oral and written communication, the risk manager should realize "you will never make insurance experts out of your senior management, so stop trying," Mr. Reeves admonished. "Avoid technical risk management jargon."

Noting that most risk managers are part of their corporation's financial organization, 3M Co. director of insurance Howard T. Weber proposed that although "we spend a lot of our time on subjects such as loss prevention and claims handling, when we communicate the results of our activities to our boards of directors, our finance committees or our vps of finance,

Continued on page 15



Business Insurance publisher Alfred Maiecki announces the winners of the magazine's employe benefits communications competition after being introduced at the RIMS conference by Ernest Reach of U.S. Industries.



Al Schlachtmeyer (left) of Hewitt Associates, whose company consulted on both award-winning total communications programs, stands with (left to right) Barbara Ruane and Lena Belapiarte of first place winner Hoffman-LaRoche and Joseph Young of second place winner Miller Brewing Co.



Meg Franklin of Levi Strauss (center) and David Gladstone of Hazlehurst & Associates (left) hold the top personalized correspondence award and Dick Sears of Kwasha Lipton holds second place for his client, The Bergen Record.

Hoffman-LaRoche, Revlon also tops in communication competition

Levi Strauss captures 2 first place awards

By REBECCA A. FANNIN

NEW ORLEANS—Large departmental budgets to expand benefits communication helped three companies—Levi Strauss & Co. of San Francisco, Hoffman-LaRoche Inc. of Nutley, N.J., and Revlon Inc. of New York City—win top honors in the sixth annual Employee Benefit Communications Competition sponsored by *Business Insurance*.

The winners were selected from 145 entries and were presented awards at a luncheon during the Risk & Insurance Management Society's annual conference here last month.

Levi won in two categories, personalized correspondence and benefit booklets

One of the reasons Levi won was its use of a springy, light theme that was chosen by employes, said manager of communications Meg Franklin.

The theme chosen emphasizes employe's growth with the company by displaying seeds bursting into flowery designs.



Awards for booklets were accepted by (left to right) J. Kevin Gill of second place Avon, Meg Franklin of first place Levi Strauss and Robert Hemrich of its consultant Olanie, Hurst & Hemrich, Patrice English of third place Heublein and Al Schlachtmeyer of its consultant.



Hal Hudson (far right) of Revlon holds the first place audio-visual award. Bruce Strausberg (far left) of Bath Iron Works chats with John Kerney of Kwasha-Lipton about their second place award. Helen McMullen (center) of third place Honeywell and Al Schlachtmeyer of Hewitt, which assisted first and third, listen.

Levi's prime concern wasn't cost since the company had budgeted a large amount to begin emphasizing the communication of benefits more, Ms. Franklin said.

"If employes don't know of their good benefits, then they're just wasting money," Ms. Franklin said. The company found out the "more we communicated, the more the employes wanted to know."

The staff was expanded to meet the increased demand. Ms. Franklin, who joined the company in 1976, has hired a staff of five to produce communications internally at Levi Strauss.

With the expanded communications staff, all communications work was transferred from the company's consultant, Olanie, Hurst & Henrich, to in-house.

The change was made, according to Ms. Franklin, to answer employes' questions more readily and to personalize communications.

Hoffman-LaRoche, which was judged best for its total communication program, also used an overall theme. To spark employe's interest in reading the booklets, a colorful rainbow banner was highlighted on all literature.

The use of several unique ideas helped the company win, said manager of employe benefits Barbara Ruane. Among them were use of a mailbox located in the cafeteria for claims drop-off, a benefits hotline and a memo form designed to respond quickly to employe questions.

While Ms. Ruane said its consultant, Hewitt Associates, helped with a lot of ideas, most ideas came from in-house brainstorming sessions of the 15-member benefits department.

Hewitt designed the audio-visual portions of the entry while Hoffman-LaRoche designed the booklets and individual memos.

Cost of the communications was less important than the company's new desire to emphasize benefit communications.

Although Ms. Ruane couldn't estimate the total cost of the program, a staff of four from the benefits department worked on the project over a year. The large company had the advantage of curtailing some costs because printing and designing were done in-house.

Revlon Inc. won first place for its audio-visual presentation which was designed by Sidney Chayes, director of compensation and benefits, and produced by Hewitt Associates.

"We won because it was a damn good job," Mr. Chayes said.

RIMS REPORT

A simplistic theme using a cartoon figure helped unify the package and keep it from getting too serious, Mr. Chayes said. "It was on a more relaxed basis that way," he added.

Reinforcement of benefit details also helped the entry win, Mr. Chayes said. "We could have used just 35 slides to present the program but we used much more than that to reinforce points and to analyze more difficult points," he noted.

"The result was quite good. In fact, we passed the best test because our own advertising staff liked it," he said.

Total cost of the production was approximately $13,000, less than the project had been budgeted for.

During a three-month period Mr. Chayes worked alone to develop the layout and text ideas in rough form. Hewitt then produced the audio visual according to his specifications.

Revlon's audio-visual presentation was judged best out of 39 competing programs in the same category while Hoffman-LaRoche won over 20 entries in the total communications category. Levi's booklets entry was the best of 60 entries and its personalized correspondence entry won from a field of 26 programs.

Hewitt Associates of Deerfield, Ill., again led the benefit consultants for most prizes won, assisting on five prize-winning programs. Kwasha Lipton followed with two award winners. Other consulting firms were Olanie, Hurst & Hemrich of San Francisco, Hazelhurst & Associates of Bellevue, Wash., and Visual House of New York.

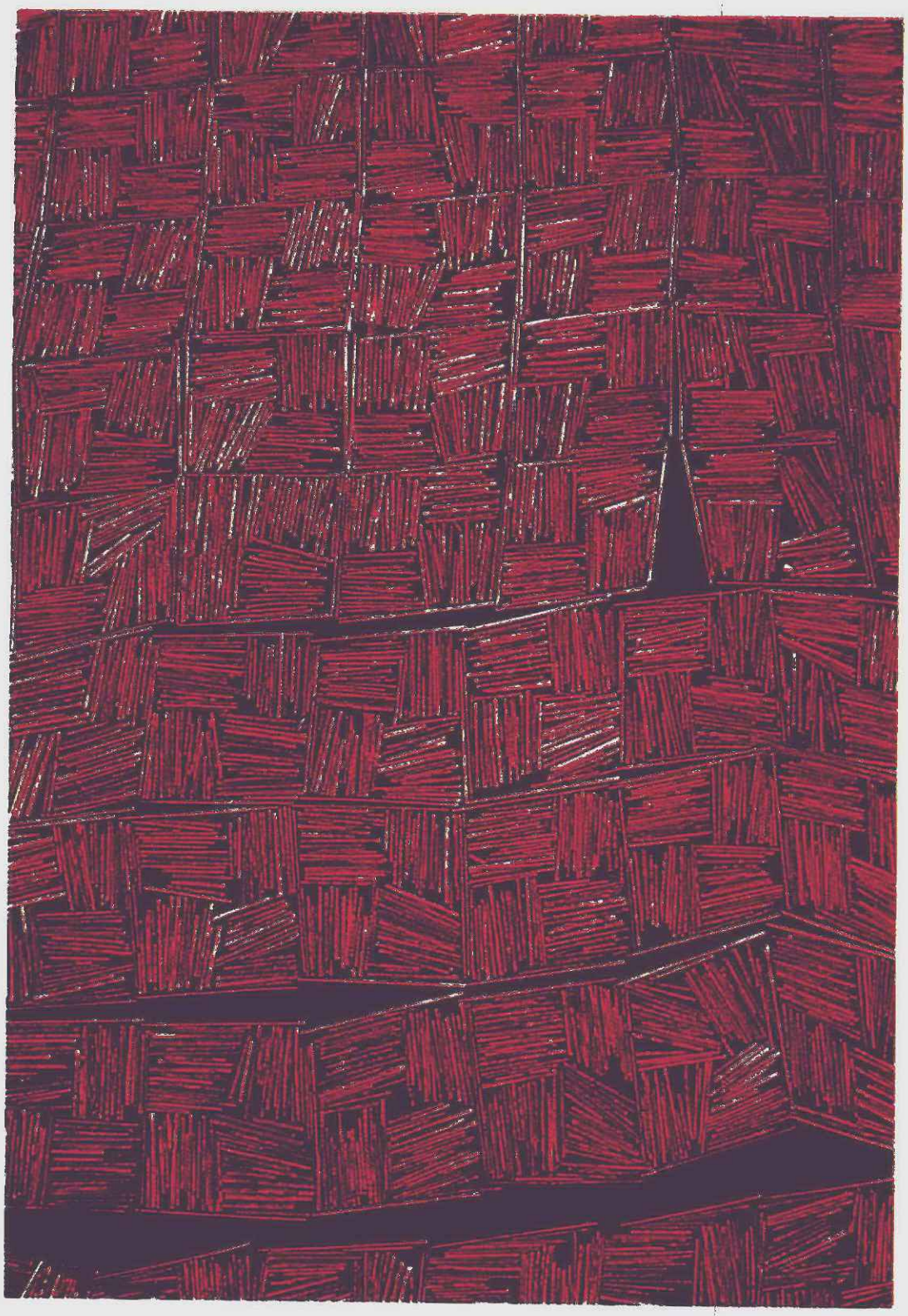
Thirteen judges, experienced communicators and benefit managers, chose the winners after several days of discussion and screenings of the entries.

Runners-up behind Hoffman-LaRoche for total communications programs were Miller Brewing Co. of Milwaukee and Pfizer Inc. of New York.

In the audio visual category, runners-up behind Revlon were Bath Iron Works of Milwaukee, a division of Congoleum Corp., and Honeywell Inc. in Minneapolis.

The Bergen Record in Hackensack, N.J., was in second place behind Levi Strauss for personalized correspondence. Judges didn't name a third place winner.

In second place in the booklets category behind Levi Strauss was Avon Products Inc. of New York. Heublein Inc. of Farmington, Conn., took third place honors for its booklets.



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New captive . . .

Continued from page 11
mandatory for insureds to buy the first $2.5 million or whatever total limit it buys up to that amount of coverage from its facility, which is headquartered in Bermuda and managed by Ebasco.

The decision will depend on what reinsurance arrangement AEGIS obtains. A.J. Borris, principal consultant of Ebasco, said AEGIS is working on offering $1 million limits to insureds with an excess policy of $9 million, which would eliminate the mandatory 2.5 million limit.

RIMS REPORT

AEGIS is experiencing difficulty in obtaining an excess treaty of $7.5 million of coverage, above its $2.5 million limits.

Both domestic and Lloyd's markets are reluctant to write utility business, one broker told the utility industry session at the annual RIMS conference.

Domestic insurance markets aren't actively writing any utility business since The Home Insurance Co. pulled out of the market last fall, said Emmett F. McGee, assistant vp of Frank B. Hall.

But L.B. Cannell, senior vp of Alexander & Alexander, disagreed, adding that he has one large account that is 70% insured in the domestic market.

Lloyd's underwriters will "take a lot of time" in deciding to write above the $2.5 million AEGIS limits because they are concerned about the financial stability of AEGIS at $2.5 million, said John Holford, director of Sedgwick Forbes, Lloyd's brokers.

Mr. Holford added that Lloyd's underwriters may be stubborn about writing any business above AEGIS if they can't write $1.5 million above $1 million, as practiced under Gas Ltd. operations.

AEGIS mandates that insureds assume a minimum deductible of $100,000.

A very broad excess general liability and auto policy are available with AEGIS. Optional coverages include excess workers compensation, directors and officers, brownout, fiduciary, aircraft and watercraft insurance.

Rating is based on gross revenues for general liability, units for auto and payroll for workers compensation.

A retrospectively rated plan is mandatory and consists of three separate plans based on individual loss experience, group experience or AEGIS experience. Insureds are placed in a group depending upon the retention selected.

Based on an 85% loss ratio under the first plan, as an example, the insured would be subject to a potential additional premium of 50% or return premium of 20%.

The second plan, based on group experience, calls for a possible additional premium of 50% as does the third plan based on AEGIS experience.

Under any of the programs, an insured would never be subject to more than 100% of his original premium.

Loss control services are offered free to insureds in AEGIS. Ebasco plans to inspect every utility.

The number of insureds in the Gas Ltd. program reached 117 by the end of 1977, up from 66 utility companies at the end of 1976.

AEGIS has a sizeable potential number of policyholders to draw upon. The non-cooperative utility industry consists of approximately 1,200 gas companies and 200 electric companies.

Since the creation of Gas Ltd., policyholders have paid in approximately $20.5 million against incurred losses of $10.3 million. Assets currently stand at $27 million with policyholders' surplus of $2.5 million.

Unlike Gas Ltd., AEGIS can pay a commission to brokers but will also work on a direct basis with clients. Approximately 85% of business placed in Gas Ltd. was handled by brokers, many on a client-fee basis. ■

Banks . . .

Continued from page 11
mained the same only after it assumed a higher deductible.

Four insurance companies said their loss experience worsened in 1977 while two reported better experience and four maintained they had about the same loss record.

Six of the insurers favored further restrictions on bankers blanket bond policies while three said they did not favor any changes in the basic policy. Not one insurance company wanted to broaden coverage.

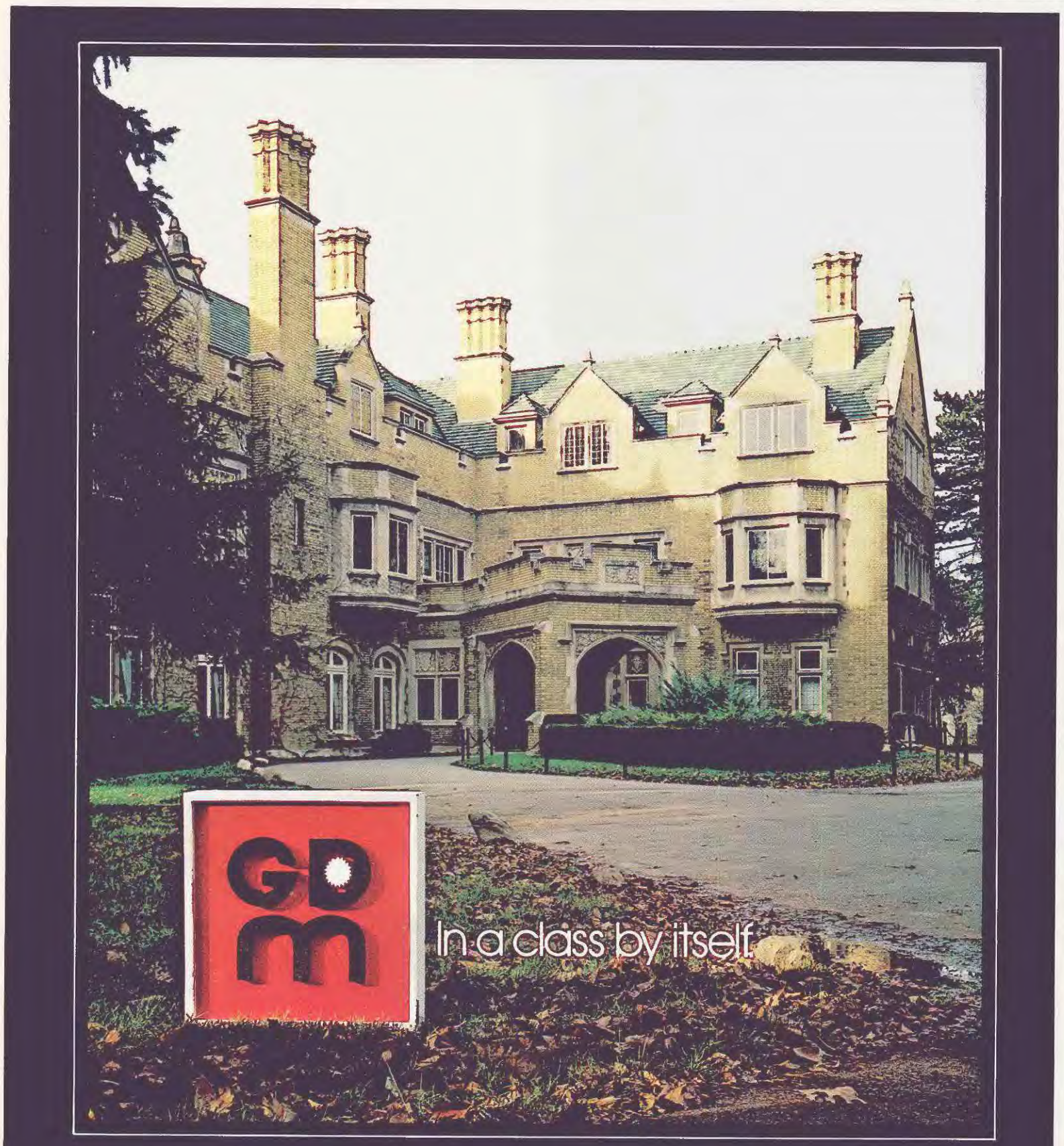
One insurance company said it preferred to provide insurance to large banks because of their better controls and ability to assume meaningful deductibles. Four insurers preferred smaller banks and five said they had no preference.

The 20 banks responding to Mr. Clark's survey listed 10 different insurance companies as their blanket bond carrier. Although it is often assumed that only three or four companies will write this insurance, Mr. Clark said, the list shows that there are a number of insurers still active.

The 10 companies listed in the survey were Aetna Casualty & Surety, Lloyd's, Employers of Wausau, INA, Fireman's Fund, St. Paul, Continental, Chubb & Son, Fidelity & Deposit and American Insurance Co.

Two of the banks said they had found insurance companies more receptive toward providing umbrella policies for banks. But 12 reported the insurance industry was less receptive on umbrella policies and seven said the insurance industry's attitude on umbrella policies was unchanged.

Three banks said their umbrella premiums increased less than 25%, two said increases were between 25% and 49%, one reported an increase between 50% and 99%. But the majority (12) said their umbrella policies jumped more than 100% on renewal. One bank said its umbrella premium remained the same and another said its premium was reduced. ■



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Advice . . .

Continued from page 11

we have to convert all of this to dollars and cents. Their primary interest in our function is financial results."

In that regard, Mr. Weber suggested he wouldn't just tell his management that projected 1978 risk management expenses are $30 million. "They don't know how to react to that. They may react with shock because they didn't remember we are that big a cost center, but they still have nothing to relate it to."

While expressing insurance costs as a percent of sales and comparing 1978 to 1970 cost gives management something to relate to, a 0.7% of sales cost in 1978 compared to 0.4% in 1970 would evoke a negative response, he observed.

Instead, Mr. Weber said he would point out that losses in 1970 were $3 million and in 1978 losses are predicted at $21 million—$16 million of which could be recaptured if the losses do not occur.

As for the other $9 million of the budget, Mr. Weber tells his management that 15% is for purchased services (loss adjustment, engineering), 42% is for insurance company overhead, profits and premium taxes and 43% is for pure financial protection against unexpected losses.

Highlighting that only 13% of the total insurance cost forecast is for pure financial protection for losses over and above predicted levels leaves management with "a much greater appreciation for the limited and true function of insurance," Mr. Weber maintained.

"When you put your costs in this perspective, your financial managers have a much greater ability to assess the performance of the risk management department," he continued. "The importance and effectiveness of the corporate loss control function can be much more easily identified when expected losses are set out as a separate item in the expense forecast."

Hospital Corp.'s Mr. Reeves agreed that risk managers should use the tools that senior management uses to control other functions, such as keying the risk management function to its budget. He added that an annual plan including financial and non-financial objectives should be submitted to senior management annually and progress reports quarterly.

When consulting senior management on matters exceeding the risk manager's authority—such as increasing the deductible on product liability to $2 million from $100,000—the risk manager should present "an analysis detailing the pros, cons and financial ramifications," Mr. Reeves said.

"Such an analysis should always conclude with your recommendations. Do not be afraid to be wrong," he asserted. "After all, you are the in-house risk management expert and how do you ever expect to increase your authority if you do not evidence to top management your willingness to provide input and take a stand?"

Job security should not make the risk manager overly cautious in his recommendations because "it's not difficult to find a job . . . . And you're not making enough money if you've been there 10 years," Mr. Reeves observed. Having recently moved to Hospital Corp. from Ashland Oil Inc., Mr. Reeves said, with a smile of experience, changing jobs is one way for the risk manager to be paid what he is worth.

While Mr. Reeves stressed that the risk manager should put himself "at risk" with recommendations when communicating with senior management, 3M's Mr. Weber counseled, "We can push the frontiers of management but we can't ask to be unique or else we'll run into problems."

He advised risk managers to be sure they are listening to top management to understand its goals in such areas as return on net equity, profit margin, capital turnover rate, capital expenditure forecast, debt-equity ratio and growth.

"Make sure you are listening and that you understand their goals and concerns. And make sure you are communicating in ways that they can understand so they will be listening to you," Mr. Weber urged. ■

RIMS REPORT

Get involved in accounting: Weber

NEW ORLEANS—"If you aren't deeply involved in your accounting systems, then you are missing a great opportunity to communicate," advises Howard T. Weber, director of insurance for 3M Co.

As manager of a risk management department that operates as an in-house insurance company for the St. Paul-based manufacturing concern, Mr. Weber knows "if you see to it that your cost of risk is allocated directly to your sources of risk then you will find a lot more attention being paid to what it is you are trying to do."

It wasn't so long ago that "the most sophisticated insurance accounting system consisted only of determining an estimated cost for the year and then developing a cost allocation that would spread the cost over the whole corporation so no one got hurt and no one complained." Mr. Weber maintains that today the sophisticated risk management department "underwrites and rates the risk and charges appropriate insurance premiums to each business segment for its own risk—based to the extent possible on its own loss experience."

Though a tough job, "It is a great form of communication," Mr. Weber said.

Jack Dimmitt used to work overtime to understand his employee benefits.

Here's how Benefacts helped Fairfield Manufacturing create an easy-to-understand employee benefits handbook.



Like many employees, Jack Dimmitt used to read his employee benefits handbook and not understand a lot of it. It all sounded impressive, but when he was done he still didn't really know what his benefits were.

Jack's employer, Fairfield Manufacturing, Inc., a large midwest gear manufacturer, decided to do something to help Jack and their other 1100 employees fully understand the company's benefits. Said C. E. Kramer, President, "Our employees are our biggest asset. We want them to understand what their company is doing for them."

Fairfield turned to Benefacts for help in creating and producing a new, easy-to-read, easy-to-understand employee benefit handbook. The General Communication Services Division of Benefacts worked with company management quickly and effectively to produce the kind of proven "plain talk" employee benefits handbook that all of Fairfield's employees, including Jack Dimmitt, can now read and understand.

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Short RIMS walk reveals marathon gap between insurers, self-insurers

By GREG DAVID

NEW ORLEANS—"If you're expecting blood you'll be disappointed. There isn't going to be any blood here."

That's what a Metropolitan Life Insurance Co. vice president told a RIMS conference seminar on the differences between commercial insurance companies and Blue Cross/Blue Shield.

But there might have been blood on the floor if Metropolitan vp Leon Moskowitz and Blue Cross/Blue Shield representative Michael P. McDonald had attended a seminar across the hall on alternatives to insuring employe benefits.

RIMS REPORT

There, three risk managers and a senior vp at Fred S. James trumpeted the idea of self-insurance, either through a minimum premium plan, an administrative services only contract or the purest of self-funded arrangements, a 501(c)(9) trust.

"You will pay your own way" even in a classic insured program, emphasized Charles A. Schoenster, senior vp at Fred S. James & Co.

Group insurance companies will no longer accept risk, "what they do best," complained Charles A. Gauen, vp for insurance at Wetterau Inc. Although pushing the concept of self-insurance, Mr. Gauen advised that "if your experience is worse than average you should be insured."

Using as an example a company that paid $3 million a year for its health insurance program, Mr. Schoenster estimated an insurance company's retention would be about 6% or $200,000. A self-funded program can buy the necessary actuarial help, hire a top-notch firm to pay claims and prepare all the necessary booklets for $100,000, leaving a $100,000 savings in the first year.

The aversion of many risk managers and brokers to insurance companies was illustrated by a discussion of whether a firm moving to self-insurance should ask its insurer to return the reserves built up under an insured program. "If the insurance company offers to return the reserves, don't take them," warned Mr. Schoenster, since they are probably underfunded.



Blue Cross/Blue Shield representative Michael P. McDonald (left) debates Metropolitan vp Leon Moskowitz.

Mr. Gauen of Wetterau explained the savings of a 501(c)(9) trust or other type of completely uninsured program by breaking down the premium paid an insurance company. He referred to the insurer's allocation for profit as "G&A—greed and avarice."

But across the hall not a word was heard about the possibilities of self-insuring. Blue Shield's Michael McDonald jumped on the cost containment bandwagon by saying the Blue Cross/Blue Shield close relationships with providers offers one of the best hopes for controlling costs.

Mr. Moskowitz of Metropolitan recommended companies decide what sort of image they want to present to their employes when choosing either Blue Cross/Blue Shield or a commercial insurance company to deliver their medical benefits. Employes usually identify benefits as either being provided by Blue Cross/Blue Shield or by their own company through a commercial insurance company, he suggested.

Mr. Moskowitz and Mr. McDonald found wide areas of agreement, clashing only on the effect on the close relationship between Blue Cross/Blue Shield and the providers of medical services, the Blues role in forcing other insurance companies to eliminate deductibles and coinsurance and the tug of war over the Blue Cross "discount."

Mr. McDonald stressed the major advances in the health of the U.S. population in response to Mr. Moskowitz's complaints that the Blue Cross-forced elimination of deductibles is a major factor in the increase in health care costs.

In the other seminar, Mr. Schoenster advised that companies that don't wish to completely self-insure can approach the savings of a 501(c)(9) trust by using a minimum premium plan or administrative services only arrangement with an insurance company. But substantial savings can be achieved only if a company has leverage. "One million dollars is not leverage," he said. "Twenty million dollars a year in premiums is."

Another way to maximize savings on an employe benefit plan is to have the insurer of a group life program cede a portion of the premium to a corporation's captive, said Paul W. Willey, director of financial administration for Dresser Industries. Mr. Willey said 50% of the $1 million underwriting profit on his company's $5 million annual premium group life program is ceded to Dresser's captive. The move adds outside business to the captive and allows the company to make money on the cash flow. ■

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Legislators want help, says veteran lobbyist

RIMS REPORT

NEW ORLEANS—Legislators need help from the business community to help them weed their way through the mass of legislation that is introduced every year, says a veteran political strategist.

Rather than being a dirty word, lobbying is a vital part of the lawmaking process, W. T. Hembree, staff director of employe benefits for United Telecommunications Inc. in Kansas City told a RIMS legislative action session.

In a presentation entitled "How a Country Boy Lobbies," Mr. Hembree, legislative chairman of the RIMS Greater Kansas City chapter, discussed how he maneuvers through the Kansas and Missouri political battlegrounds.

Rather than spreading himself thin, Mr. Hembree tries to get to know the eight or 10 legislators in each branch, who are involved in insurance-related legislation.

Risk managers trying to increase their political leverage should not overlook a legislator's secretary. A secretary, Mr. Hembree observed, controls the vital lines of communication and often decides which calls will get through right away.

As a first step to improved access to a legislator, "Don't only invite the senator to lunch, but ask his secretary too," he said.

The best time to catch a senator or representative is early morning before the pressure of the day's events builds.

Campaign contributions are a sensitive issue in this post-Watergate era, but Mr. Hembree noted that an enduring fundamental fact of political life is that legislators need money to get reelected and that the dollars spent reap political dividends.

A campaign contribution can help shore up a political ally. "A contribution is never mentioned, but always remembered," Mr. Hembree said.

Speaking from the other side of the political table, Utah state Sen. Fred W. Finlinson said the first step to getting legislation passed is to get bipartisan support and to build a coalition of interest groups.

In a short legislative session, bills should be ready for introduction before the session begins. "What a great way to lose something—not on its merits, but because time ran out and the bill wasn't printed in time," Sen. Finlinson said.

The best way to influence a legislator is through personal contact, said Sen. Finlinson, who sponsored the first comprehensive product liability bill to pass a state legislature. "If you helped a legislator during his campaign and to win the election, you'll have a great advantage."

Still, there comes a time when lobbying volleys should cease. "After a certain point a legislator is ready to vote. If you've already convinced him, continued misuse of his time may cost you a vote," Sen. Finlinson said. ■

Are consumers ones to blame?

NEW ORLEANS—Consumer pressure for a single comprehensive general liability policy is partly to blame for the dearth of reliable product liability statistics.

INA associate general counsel William B. Pugh Jr. told a RIMS seminar that insurance companies in the 1950s began to lump product liability into general liability policies in response to public demands for a single policy.

As a result of this combination, insurers were unable to break out product liability costs from other types of liability experiences when the product liability crisis atmosphere began to develop in the mid-1970s.

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Diverse risks: Cities' pride, prejudice

RIMS REPORT

By KATHRYN J. McINTYRE

NEW ORLEANS—Government risk managers say they contend with a broader spectrum of exposures than corporate risk managers. That gives them a sense of pride, but it also gives them insurance headaches because underwriters know it too.

Sentry Insurance Co. president Donald E. Reutershan reminded the public risk managers of their tough assignment during their industry session at the annual RIMS conference here.

"Up until a few years ago, government liability was not a problem because of governmental immunity," said the Stevens Point, Wis., insurance company president. "We gave away the insurance." But now, with an increased liability exposure per risk and an increasing number of risks as governments provide more services, "there is no industrial customer with as wide a variety of exposures as a city of 100,000," he said.

Street and road design and maintenance, traffic signal failures and police departments were conceded to be the most troublesome areas by the risk managers.

Continuing his defense of the insurance industry's aversion to insuring the public entity, Mr. Reutershan chastised the risk managers for putting their insurance out to bid every year, "encouraging irresponsible bidding and too short a relationship." He explained, "If I do a good engineering job, the benefit accrues to someone else. If the loss picture improves, it encourages others to bid and they underbid because they won't provide the good services."

He was taken to task on that assessment, however, by Jim Spivey of the insurance and risk management committee for government entities in Charlotte, N.C. "I challenge you to update yourself. We don't put our insurance out to bid. We haven't for years."

Only one risk manager out of the 60 at the meeting said he puts his insurance out to bid annually and that's only because he is forced to do so by law. He scribbled a note to himself that he was alone in this quandary to bolster his efforts to have the law amended.

Mr. Spivey asked, "If we can convince you we're in for the marriage rather than the affair, will you change your attitude toward acceptability and pricing?" Mr. Reutershan answered "yes on acceptability," but noted that price is a function of losses.

Beating the risk managers to the punch on criticizing insurers for their inability to identify what public liability losses have been, Mr. Reutershan pulled out a jar filled with a rainbow of colored candy. Explaining the jar represents a computer filled with general liability losses, the insurance industry spokesman said the problem with providing governments with their loss histories is that their losses—perhaps represented by the red candies spread throughout the jar—weren't counted before they were mixed in with others.

He maintained it's clear there are large losses in there though, citing classic awards such as one for $950,000 recently made by a jury in Brookfield, Wis. However, a liability limit of $25,000 will have to be overturned for that award to stand, it was noted by a government risk manager.

Mr. Reutershan boasted though that his company has improved its statistical work and can now "tell you the losses for every municipality we write" and provides its policyholders who pay more than $25,000 annually in premiums with a printout of their yearly losses.

The underwriter spurned government risk managers' complaints that an insurer charges an unconscionable premium when it does agree to underwrite their risks. The cheapest premium should not be the most attractive, he argued. "The cheapest doesn't save you money. If that were true you'd wear the cheapest clothing and stay in the cheapest hotels. But you know that doesn't save you money. And that's true of insurance too."

Insurers have to make a profit, he continued. "If you want socialism, make sure there is no profit system," he said sternly. The room broke up in laughter, however, when he asked, "Would you rather deal with another bureaucrat or an independent entrepreneur?"

Turning to self-insurance, Mr. Reutershan suggested the government risk manager would have more sympathy for the insurance companies after a round at self-insuring.

"When you become responsible and see that departments won't cooperate on safety, you'll rant and rave for a safety director because you can't afford the losses. The fact that an insurance company may have recommended a safety director five years ago will be forgotten," he predicted.

Irrespective of who is recommending it, the government risk managers devoted half of an afternoon to a discussion of safety programs during their two-day meeting.

Though the erosion of governmental immunity has unearthed governments' exposure to large losses—turning insurers cold on the public risk and risk managers hot on improving their skills—Mr. Reutershan doesn't advocate a return to the old days. "I don't think it would fly," he said, but he suggested a statutory limit on liability is a possibility.

The risk managers were quick to challenge the observations of their speaker. "Insurance companies have an old stereotype of a municipality. You have to see the professional people there now," Westchester County risk manager Robert Bieber suggested. "We are as proficient as our brethren in industry and in some ways more so," Mr. Spivey asserted. ■

Product liability pales in Canada

NEW ORLEANS—Product liability problems in Canada, although growing, do not begin to compare to the situation in the United States, the legislative chairman of the RIMS British Columbia chapter told a legislative policy session.

William S. Tully, risk and insurance manager for British Columbia Forest Products Ltd., said Canadian law has held down the number of suits filed by requiring losing parties to pay court costs.

In addition, the contingency fee arrangement has not taken hold making it more difficult for many persons to file suit. An injured party cannot collect workers compensation benefits and then sue another corporation. When a plaintiff does win a case, the damages awarded tend to be much lower than in the U.S. ■

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32 Calif. cities dive for savings in pooling

RIMS REPORT

NEW ORLEANS—Thirty-two cities in Southern California expect to save at least 20% on their automobile and general liability insurance costs by pooling their risks in the Southern California Joint Powers Insurance Authority.

Addressing 60 risk managers for government entities who attended the annual RIMS conference here, two principals of the West Coast consulting firm of Warren, McVeigh & Griffin outlined the mechanics of the pool they helped set up and discussed the advantages and disadvantages of governments pooling their risks.

First year premiums to the authority, which was activated April 1, are $2.5 million, $500,000 more than the consultants said is needed to successfully operate a pool. The deposit premium for each city is 80% of what the municipalities were paying for insurance and the maximum premium is twice the minimum deposit, though the cities can be assessed five times the first year premium.

Each city is responsible for the first $10,000 of loss on an occurrence and a portion of all JPA losses between $10,000 and $100,000. This type of loss allocation is loss sensitive and motivates loss control, Donn McVeigh stressed. Losses between $100,000 and $500,000 are pooled and commercial insurance is purchased to cover losses greater than $500,000.

The cities share the operating costs of the JPA such as reserves for catastrophes (losses assumed by the pool exceeding $100,000), the cost of excess insurance, claim adjusting expenses and administrative expenses.

The consultants listed among the advantages of pooling the cost savings from the elimination of overhead charges and group purchasing power as well as the benefits of risk management and loss prevention services made available, control over claims handling and the development of loss statistics.

"We had a terrific problem getting loss statistics together," Bud Griffin said. "Cities don't have records and the brokers weren't much help." It's a problem that plagues the formation of all municipal pools, he observed, but the consultants were able to extract enough of the needed information from insurance companies.

To counter the problem of adverse selection, the cities agreed to commit themselves by council resolution to a minimum of three years of participation in the pool. Though it was suggested that council resolutions don't hold water and a city might decide to "bail out," Mr. McVeigh responded, "Where are they going to bail to?" The JPA was created to solve availability as well as affordability problems.

Municipalities can pool to serve all their insurance needs, such as seven cities in Sonoma County, Calif., have done by sharing their liability, property and workers compensation risks. The Contra Costa Municipal Risk Management Authority of 13 California cities will expand from pooling liability risks to include workers compensation and property risks beginning July 1.

Workers compensation costs are easier to pool than general liability, Mr. McVeigh noted, because the losses are more predictable. Property losses, however, are the most unpredictable.

Only one government risk manager attending the industry session said he'd be interested in joining a pool. The others said they were larger than the 100,000 population that the consultants cited as the maximum size for a candidate for a pool.

But as the government risk management authorities in their areas for smaller communities, at least serving as informal consultants, the risk managers tucked away Washington risk manager Jim McLee's assessment that "pooling is excellent for solving the problems of smaller and middle sized municipalities." ■

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CORRESPONDENTS IN ALL STATES — EXCLUSIVELY THROUGH AGENTS AND BROKERS

Benefit tensions grow between workers, employers

By JOANNE GAMLIN

LOS ANGELES—Tension is mounting between employes who want ever increasing benefits and employers who fear another leap in benefit costs could result in red ink on the bottom line, experts told a RIMS conference seminar on employe benefits today.

Sheldon M. Roth, director of insurance and employe benefits for Phillips-Van Heusen Corp., said his company strives to have employe contributions pay 50% of the company's total benefit program including life insurance, health coverage, accidental death and dismemberment benefits and long term disability plans.

Mr. Roth admitted, however, that that goal has seldom been achieved.



Sheldon Roth of Phillips-Van Heusen and Edward Denari of Aerospatiale Helicopter ask if benefits will lead to red ink.

Pointing out that he is philosophically opposed to the apparent desire of Americans for protection from birth to death and that he believes that the nation's social welfare programs have gone too far, Mr. Roth said that Phillips-Van Heusen some time ago decided that "the only way to control the employe benefits cost spiral is to put the people who are directly involved in the spending of the dollar in line with the people who are sending out bills.

"Consequently, we adopted a policy of cost sharing with our employes," he said. "We do not pay 100% of anything, including the premiums."

Mr. Roth acknowledged that his company has been subjected to great pressure to modify its position on employe contributions. But it has resisted, he said, contending it owes as much responsibility to its shareholders as it does to its employes.

He said the employe benefit program for PVH's salaried employes is retrospectively rated. By contrast, the program for union employes is not on a retro basis.

On the subject of persuading employes to accept an increase in their contribution level, he related that last February his group insurer demanded a considerable hike in premiums.

"We sat down and decided to tell our employes the truth; there was no way we could fake it. It was not a horrendous increase in contributions, but it was an increase. We drafted a letter signed by the president of PVH in which we explained why it had happened and what we were planning to do about it," he explained.

Once the communications effort was completed, Mr. Roth said he did not receive many complaints.

"I am hopeful that, on the whole, American employes are intelligent enough to realize that corporate profits are not a bottomless pit," he said, inspiring a few members of the audience to voice their disagreement.

He said Phillips-Van Heusen Corp. reported a profit of $5 million in 1976 on sales of approximately $300 million, arguing that such modest earnings don't allow a lot of latitude for the expansion of benefits.

In mapping out future benefits, Mr. Roth said that he strives to remain aloof of direct comparisons with what other textile companies are offering.

"I refuse to be in a position that I have to defend my program against the guy next door," he asserted.

Edward J. Denari, director of administration at Aerospatiale Helicopter Corp., also hit on the theme of the conflict between the rocketing cost of benefits and an employer's fiscal fragility. He pointed to Eastern Airlines "as an example of the outer extremes . . . of the things being done for the good, old American theme of making a profit to stay in business."

Similarly, a man in the audience from Ingalls Shipbuilding volunteered the fact that his firm is attempting to curb runaway benefits costs among its union employes. He said that every six months, representatives of the broker and insurer, armed with experience records, descend upon union leaders to discuss abuses in the benefits program.

The hope, he said, is that the leaders will relay to their members that if abuses continue, they will have to give up more dollars during the next negotiation from cash wages to benefits.

Unlike Mr. Roth, Mr. Denari said that competitive pressures do exert an influence in benefits planning at Aerospatiale Helicopter Corp. Moreover, employe pressure can lead to benefit changes too, he said.

He related how he came to boost maternity benefits at his small company, which employs only 150 permanent workers. An angry new father questioned the company's $650 limit when he was socked with a bill for $150 more. Surveying hospitals in Dallas, Mr. Denari said he discovered that the average cost of a child's birth was around $800 and so he recommended that the benefit be raised to that level. And it was.

Mr. Denari, who is in charge of both employe benefits and risk management, spoke of the rapidly intensifying interest in benefits of employes of all ages.

"They regard benefits as a form of income," he said, "but we see the impact of benefits on the bottom line." ■

RIMS REPORT

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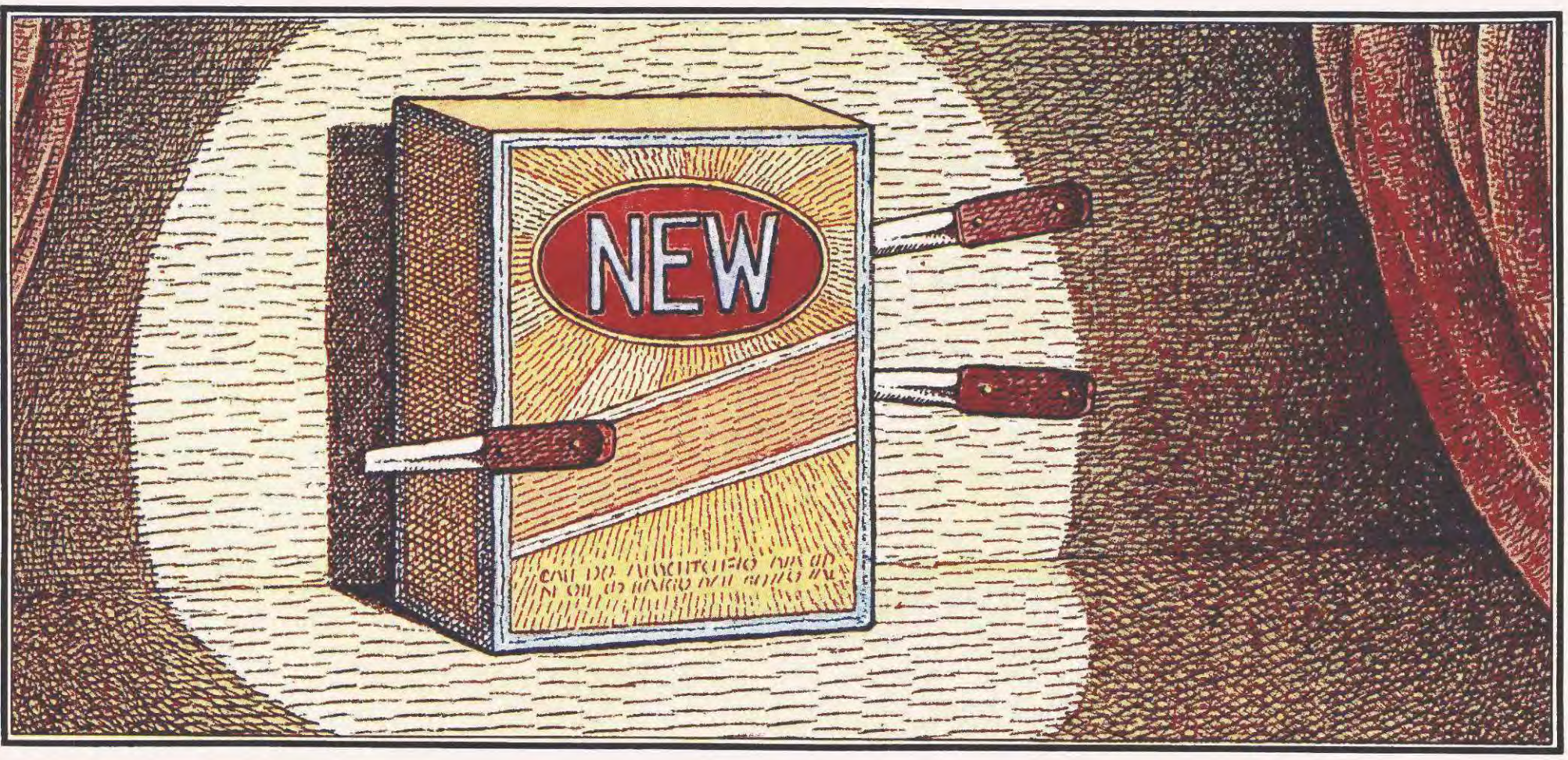
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Reducing Product



With product liability insurance increasingly restricted in terms of coverages, manufacturers are putting more stress on loss control and safety programs to hold down claims and lawsuits.

A brief review by INA of an insurance topic of interest to business executives.

Although product liability insurance is still generally available to manufacturers, rates have gone up sharply over the past few years and coverages have been significantly reduced. The insurance now issued usually provides for relatively high deductibles, so that more of the risk is shifted to the manufacturer. In addition, there has been a trend toward policies covering the current year only, excluding all claims not made during that year, which can also add to a company's risk.

Virtually all manufacturers have been affected by product liability difficulties. Companies making such products as pharmaceuticals, chemicals, machine tools, power mowers and sporting goods have been particularly hard hit. The problem is so widely recognized that 189 remedial bills have been introduced in 42 states, in addition to a variety of measures pending in Congress.

Legislative changes, however, can at best provide long-range solutions. Meanwhile, manufacturers are utilizing several approaches, including the establishment of self-insurance reserves where possible and, with some larger companies, the formation of "captive" insurers.

Most companies don't stop there, however. Spurred by a variety of influences, they are tightening and extending their product safety and loss control programs. The starting point is often an extensive survey, the objective of which is to reveal every potential hazard, both to people and property, which might result from the use of the product under all conceivable conditions.

Some insurance companies will conduct such surveys either in conjunction with insurance coverage or separately. Surveys

Liability Exposures

of this kind generally examine the two basic aspects of product safety—control of the product itself and control of the conditions under which it is used.

Sensing the pitfalls

For example, a survey made for a manufacturer of road paving equipment resulted in specific suggestions for improvements in product design and manufacture. In design, it was recommended that a railing be installed behind the operator's platform, together with additional hand holds. In manufacture, critical parts—parts whose failure might result in injuries to users—were identified and quality control standards drawn up for them. Another suggestion was for the establishment of a tag system for rejected parts, to ensure that they would not find their way back to the assembly line.

And to cut down on accidents on the road, recommendations were made for lights and turning signals on the machines and for such equipment as safety chains for towing.

As for control of conditions of use, all operating and maintenance manuals, sales literature and advertising were reviewed for clarity and avoidance of misleading wording. Express warranties were changed—the phrase "a fail-safe brake system" became "a safer brake system." Pictures were deleted of machines performing tasks that might tax their limits of strength under certain conditions. And it was suggested that some warnings appearing in instruction manuals also be placed on the equipment itself.

Following through

Plans for safety and loss control programs are one thing—implementing them is another. Although corporate risk managers can make recommendations based on surveys and other information, few of them have the authority to see that they're actually accomplished. This usually becomes the responsibility of plant managers or of industrial relations people. In any event, perhaps the most important stimulus to safer products and fewer product liability claims is the commitment of company management to these goals.

Through its insurance facilities and through ESIS, its self-insurance subsidiary, INA provides professional counsel and services in the development of comprehensive product liability risk management programs.

* * *

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INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in product liability, write INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.



Helmet can't block every kick, court finds

Even a well-designed football helmet can't protect a player against all head injuries, an Arizona court has found.

In clearing a helmet manufacturer of liability in a $2.5 million product suit, the court determined that the injury resulted, not from a blow to the helmet, but from an uppercut to an exposed part of the face—something a helmet could not be expected to protect against.

Scientific tests showed that the helmet held up under blows far more powerful than would be received in a football game and that it was free from defects.

INA

The Professionals

Despite gains, says survey

Risk managers' salaries trail peers'

NEW ORLEANS—Insurance executives at U.S. corporations have forged major gains in salary and bonuses, although they ranked eighth or ninth in an Arthur Young survey of 10 top corporate financial positions.

James A. Giardina of Arthur Young & Co. told a RIMS conference session that a mixed picture for risk managers emerges from his company's survey.

The average salary for insurance officials jumped 36.3% over the last five years while all financial executives' salaries increased only 30.2%. Bonuses soared 52.8% compared to 42.9% and total compensation sprinted 39% versus 32.3%. Nevertheless, Mr. Giardina said risk managers consistently ranked eighth or ninth in the list of 10 top financial executives.

RIMS REPORT

"We cannot say yet 'we've come a long way, baby,' " said William Altstaetter, head of the risk management department at Rockwell International in Pittsburgh and a former RIMS president.

Risk managers can increase their salaries by going to work for larger companies and by reporting to officials as close as possible to the rank of chief executive officer, said W. Donald Gough of the Sibson & Co. of Princeton, N.J. Sibson recently conducted the survey of risk management salaries that said the average salary was $28,800.

"It would also help if you move your corporate headquarters to Alaska or Hawaii, or failing that to New York or Los Angeles," he said. Broadening your area of responsibility also pushes up compensation, Mr. Gough added.

A large part of the reason why risk managers have made notable gains in compensation over the five years, Mr. Altstaetter said, is that their mistakes have come to have a powerfully negative impact on the chief financial officer.

"Today if there is a major foul-up in risk management, the chief financial officer could lose his job and therefore he is very sensitive about the area," he said.

In candid fashion, the respected risk manager went on to advise his colleagues not to live in fear of their subordinates. A risk manager can jeopardize a promotion if he has not groomed a subordinate to assume his duties.

Members of the audience, equally frank in their questions to the panelists, were vocal in their dissatisfaction with management consultants' portrayal of their position.

In particular, they zeroed in on the Sibson survey. They said that it was intended by individual RIMS members to be used as a tool to boost salaries but that it failed in this regard because the average salary found by the survey of $28,800 is too low. If the Sibson survey had been constructed to gain the cooperation of more large corporations, it would have come up with a higher average salary which could have been used by RIMS members to prod their superiors for raises, audience members said.

Mr. Altstaetter, however, said risk managers want to maintain an extremely low profile and yet they also yearn for recognition from higher management which can only come from higher visibility.

Mr. Altstaetter told the story of a conversation he had with the chief financial officer of another Pittsburgh corporation. After describing his risk management duties for Rockwell, Mr. Altstaetter heard the chief financial officer state that "we should have someone like that on our staff."

"Well, he did. The executive was a member of the local RIMS chapter," said Mr. Altstaetter. "But this guy had such a low profile that he was unknown even to his own CFO."

Mr. Giardina of Arthur Young said later that he believes risk managers are making a mistake in turning to management consultants to sharpen up their image with top management.

"The battle can only be won internally," he said. "Risk managers will have to gain greater visibility on their own management teams."

All panelists agreed that if risk managers can bring their images into sharper focus with top management their salary boosts can be taken for granted. ■



Polar acquires New York broker

NEW YORK—Polar International Brokerage Corp. has acquired Philip Amin Associates Inc., a New York broker specializing in life and general insurance.

Polar president Stanley Kleckner said the acquisition will bring Polar's client total to 7,500, making it one of the largest independent brokers in the New York area.

Philip Amin, founder and president of the Amin firm, will become chairman of the board of Polar. ■

Insurer predicts decline in government programs

NEW ORLEANS—"Will we have national health insurance? Will benefits under private plans continue to be expanded by legislative mandate?"

Probably not, says G. Frank Purvis Jr., chairman of the Pan-American Life Insurance Co. of New Orleans.

Mr. Purvis predicted that this year will see a decline in the number of new government programs financed by taxes and administered by government agencies as well as less compulsory legislation forcing additional costs on employers.

"There seems to be a strong indication that the American taxpayer is no longer willing to pay taxes where he feels he is carrying an unequal burden and is not getting value received," Mr. Purvis told the annual RIMS conference.

The recent labor settlement in the coal industry is an example of this, Mr. Purvis said, since the miners eventually agreed to accept deductibles and coinsurance provisions in their medical program, realizing there is a limit to what employers can afford.

Mr. Purvis called on RIMS members to get involved in shaping legislation, reviewing measures affecting employe benefits.

"If each of you carefully considers all pending and proposed legislation in the employe benefits field, uses your knowledge and



G. Frank Purvis says the taxpayer is no longer willing to finance programs that aren't worth the money spent on them.

RIMS REPORT

ability to see that each mandated change in the private sector and each government program is truly in the public interest," he argued, "we should see significant improvement in the evolving state of legislation in the future."

Mr. Purvis detailed a laundry list of state legislation requiring group insurance programs to provide alcoholism and drug abuse coverage, benefits for handicapped children, maternity care and conversion rights.

In addition, he said states are attempting to eliminate traditional risk classifications, impose their laws on employers and insurers operating in other states and apply provisions retroactively when policies are merely renewed.

"It is difficult to deal with all the state and federal legislation and regulatory law with which we have to comply, but our problems are compounded by questions of preemption and conflict between the two," Mr. Purvis said.

The insurance company executive also warned that federal legislation to protect the privacy of patient records could present problems for employers and insurance companies.

"If people are to ask employers and insurers to take sizeable risks, they must agree to provide and have others reveal sufficient information so the risk can be evaluated," Mr. Purvis contended.

"Neither the individual nor the employer or insurer should be required to surrender the determination of what is relevant and proper to a disinterested, uninformed government agency." ■

Surplus lines group

Carl A. Wilson, vp of the Southern States General Agency Inc. in Ruston, La., has been elected president of the Louisiana Surplus Lines Assn. for 1978. Alexander & Alexander vp Maurice F. Hatrel Jr. was named vp of the surplus lines association.

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Aging, not job, causes many claims for cumulative trauma, study says

NEW ORLEANS—Some workers abuse California's workers compensation system by filing cumulative injury claims that are associated with aging rather than occupation, concludes a study by the California Workers Compensation Institute.

This finding parallels another study result that more than half of all cumulative injuries are claimed by workers 50 years or older.

"Cumulative injury is the latest wrinkle in workers comp that is causing rate increases," said C. David White, assistant vp of Marsh & McLennan, at a RIMS mini-seminar.

The incidence and cost of cumulative injury claims show no signs of abating, the Institute study found. Not only is the number of claims increasing 20% to 25% a year, but the claims amount to $137.5 million annually (11.5% of all insured benefits) and are rising.

This cost problem began in 1959, when a California court ruled that an employe's back injury was due to the cumulative effect of work aggravating a prior condition. This decision led to claims being paid more on the basis of the wear-and-tear of ordinary life than of employment, the study said.

The California study noted that all costs of a cumulative injury claim for job-induced emphysema

RIMS REPORT

are charged to the employer even if the effects of three-packs-a-day smoking and other non-occupational causes are latent.

It's one thing for the workers compensation to provide medical care, income replacement and restore employment services, the study said. But on the other hand, "if the system is expected to provide these same services not only for job-incurred disability but also for systematic disorders, the aging process and myriad other conditions that can affect the human organism—then that's a vastly different system dictating a massive upheaval of human and economic resources."

Higher claims costs have also resulted because benefits are paid in accordance with the schedule in effect at the date of injury even though the injury developed over a period when benefits were lower, concluded the study conducted last fall. A period of two months—January and February 1977—were studied.

The study found that cumulative injury is both complex and emotional. Several startling cases were cited by Mr. White at the seminar.

One such case, he said, was a male employe who underwent a sex change and was teased by fellow employes. Subsequently, he sued for cumulative trauma and won a permanent disability award for psychosis caused by his job's emotional stress and strain.

The California study cited a case of a 50-year-old math teacher who suffered a heart attack after a heated family argument. His physician said the attack was caused from heavy smoking and blood lipid elevation and that the teacher could return to work. But several months later, after applying for retirement from the school system, he filed for workers compensation benefits claiming cumulative injury brought on by the emotional stress of 23 years of teaching.

One of the most wasteful aspects of cumulative injuries is the expense involved in litigation, which exceeds the expense of medical treatment of such injuries, the study said.

Moreover, the study found that 94% of all cumulative injury claims are litigated, and in the vast majority of instances, an adversary relationship instantly develops because the insurer first learns of the injury when a filing of an application for adjudication is made.

The handling of such litigated cases is frequently futile, long and expensive because of the volume of such cases, the difficulties of investigation and defense, and the dilution of liability among several insurers of the worker's previous employers. However, a recent California law transfers cumulative injury liability to the last employer.

The study profiled employes affected by cumulative injury, finding that four out of every five employes are male, a ratio nearly identical to the percentage of male workers in the total injured workforce. In addition, most are average wage earners with salaries of $202 weekly compared to a statewide average of $206. Most are stable employes, half having worked more than five years for the same employer.

Workers with cumulative injuries are significantly older than other injured workers, the study said, with a median age of 51 years compared to 33 years for the entire injured workforce.

While the study said this age finding isn't particularly surprising since the injuries accumulate over a period of time, the data also suggest that cumulative injury claims are related to retirement of an employe.

Nearly half of affected workers are more than 52 years old, an age when many employes become eligible for early retirement. In addition, the study said, one worker in 11 already is retired before claiming compensation.

The most common cumulative injuries, the study found, are related to back injuries, heart and vascular conditions, loss of hearing and extremity disability.

While back injuries are the most common, heart and vascular conditions are most expensive, accounting for 41% of all cumulative injury compensation payments.

By occupation, the study found, more than 60% of all workers compensation payments are made to employes of five broad industry groups: state and local governments, construction, metalworking, wholesale and retail trade and clerical and professional.

Among the institute's solutions to the problem were developing a more equitable method of apportioning costs of cumulative injuries so the eight-hour workday isn't held solely responsible for conditions resulting from the remaining 16 hours of the employe's daily routine.

A stronger work-related test for payment of workers compensation claims is also needed. In addition, the study said, current statutory provisions that attribute the cause of certain conditions solely to employment should be examined. Also needed is a revision of the permanent disability benefit structure to assure payments are made only for their intended purpose. ■

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Shotgunned excess market may recoil: Broker

NEW ORLEANS—Swett & Crawford wholesalers were elated when the Sturge Syndicate at Lloyd's agreed to lead on a $100 million builders risk policy for a U.S. utility. The underwriter had even accepted the proposed deductible of $25,000 and the rate of 30 cents per $100.

They gloated all the way back to the office and until the underwriter called a few minutes later to withdraw the lead. The next wholesaler in line had presented the syndicate with the same risk, but asked only for $10 million of insurance with a $100,000 deductible at a suggested rate of 26 cents per $100. That was almost 90% of the premium at 10% of the risk.

The moral of the sad tale is that you don't shotgun the excess/surplus market, said Swett & Crawford vp Robert B. Angle in relating it at a RIMS conference seminar here. Though the denouement is yet to be revealed, it's clear the underwriter "will never view the first proposal as a viable one. He felt he had given away the store," said the branch manager of Swett & Crawford's Greensboro, N.C., office.

First State Insurance Co. first vp James V. Maguire added that excess/surplus underwriters, who still practice the art of underwriting without handy rate books, won't spend a lot of time on a risk if they see it from four or five brokers. "He knows others are seeing it too so there's less chance he will get the business," Mr. Maguire explained.

Panelists at the seminar agreed a risk manager can use more than one broker on a risk if he assigns them markets so they aren't tripping over each other. But in the tale of woe told by Mr. Angle, it was the retail broker who had given the risk to two different wholesalers, proving the risk manager has to keep tabs on who is ultimately brokering his risk and to whom.

The prudent risk manager will want to be sure the excess/surplus lines brokers are assigned markets to preclude the unfortunate "market blocking" that exists, Mr. Angle told *Business Insurance*. In market blocking, one excess/surplus lines broker approaches a market he knows he won't use just to block it for a competing wholesaler. It's possible to do so because the insurers operate on a first come, first underwrite basis.

Marsh & McLennan assistant vp Richard L. Johnson recommended that everyone "take a look at your deductible—the higher the better" and "examine your own situation to see if you're not carrying limits that are too high."

First State's Mr. Maguire observed that the best time to approach the excess/surplus market is in July or October, "but be sure your primary premium is all set."

With the right approach, buyers will find a more responsive market in 1978, the panelists agreed. "Know how to get a cheap umbrella?" Mr. Angle asked rhetorically. "Hammer the hell out of the primary," he answered, since umbrella rates are based on the primary premium.

Mr. Angle pointed to some umbrella policies that were recently renewed at the same as expiring premium as evidence of an improving market. But M&M's Mr. Johnson interjected, "I have suspicions on accepting the same as expiring premium. It may mean the price was too high last year."

The troublesome buffer lawyer could become just a bad memory in a year if experience doesn't deteriorate, Mr. Angle predicted, because primary insurers will accept risks to higher limits and the umbrella underwriters will dip down lower. ■

RIMS REPORT

Punitive pleas may lead to more litigation

NEW ORLEANS—The proliferation of pleas for punitive damages in lawsuits and subsequent awards, symptoms of our litigious society, may generate even more litigation—against plaintiffs and insurance companies.

John J. Murphy, vp-insurance and safety for Avis Rent-A-Car System Inc., suggests defendants should countersue plaintiffs when the plea for punitive damages is frivolous or excessive. "I want to sue for the embarrassment caused me in the excess insurance market," he told a seminar at the annual RIMS conference. He noted that underwriters are more inclined to recall the large punitive damages sought than they are the ultimate resolution of the case.

CNA Cos. senior vp and general counsel Ronald A. Jacks conceded that lawyers for policyholders seeking payment for punitive damages will seize on the insurance industry's short-lived endorsement that excluded punitive damages from insurance as proof the industry knows how to limit coverage but chose not to do so. This argument could, however, pose a very difficult case for the defense, he added.

Such lawsuits are "how a lot of law is made," observed Albert F. Nork, secretary for special accounts at The Hartford Group. Case law on the insurability of punitive damages awards is unclear in nearly half the states in the U.S., he noted, and it varies in states where there are precedent setting court decisions. ■

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Students drop books, sample RIMS and get fired up about the future

RIMS REPORT

NEW ORLEANS—For college students, accustomed to cracking books and beers, a week of taking in the annual RIMS conference and the sights here proved both educational and entertaining.

Valerie Kwiatkowski, 30, who will earn her MBA in August from the University of Dallas, decided she really wants to pursue risk management in a corporation rather than take any of the jobs offered to her by brokers and insurance companies. "It all came together this week," she said.

Connor Harrison, 22, who is working on his master's degree in insurance at Georgia State University discovered "the textbooks are six years behind where risk management is today. They don't adequately describe the risk management function."

Ms. Kwiatkowski and Mr. Harrison were two of 16 students from 12 universities hosted at the RIMS conference, 15 sponsored by RIMS and one sponsored by Exxon. They attended industry sessions, seminars and general meetings by day and toured the hospitality suites, sipped and supped at special affairs thrown for them by evening and found time to wander Bourbon St. as other conference attendees did.

"Great," they chimed, when asked about their week.

They praised the sessions they attended. Mr. Harrison took in the excess/surplus lines seminar both days, studying his textbook at night. "We learn the generalities and they're talking about the specifics," he observed.

But the students said they really appreciated the opportunity to talk to people who are already in the profession they are working to join. "It gave me self-confidence, that I can talk about what I know instead of just writing papers," Ms. Kwiatkowski said.

Tom Wander, 23, who will graduate in May from the University of Wisconsin at Madison with an MBA, also focused on "the people I got to meet. Talking to risk managers, I found out the job is really exciting. They are gung ho."

Mr. Wander is joining the Darien, Conn., consulting firm of Risk Planning Group in August and is convinced he's entering the risk management field "at the ideal time. There are endless opportunities."



Photo: Kathryn J. McIntyre

Even at 7:30 a.m. breakfast meetings, the students were smiling and eager to learn. Left to right, Pamela Olsen of the University of Minnesota, student committee chairman Walt Woodard of Boeing, Bill Fairbanks of the University of North Carolina and Suzanne Biber of Temple

Other students believe that too. Pamela S. Olsen, who is pursuing an MBA and law degree at the University of Minnesota, wants to start in risk management to "move into general management." Ms. Kwiatkowski agreed "risk management is a good springboard."

Dell Edwards, who is also studying business administration and law at the University of South Carolina, observed, "The risk manager has his hand in everything. Eventually he will report to the president and it will become a good stepping stone."

Before moving to a corporate risk management position, some of the students want to start with an insurance broker. Bill Fairbanks, who is joining Fred S. James of Los Angeles after graduating from the University of North Carolina at Chapel Hill, explained, "With a broker, you can go immediately and do risk management work with larger accounts. It offers more experience initially."

Mr. Fairbanks spoke for all the students when he thanked RIMS for its generosity. They were grateful for the experience.

And the shrimp cocktail to cherries jubilee dinners weren't bad either. ■

Settle bad cases, attorney urges

NEW ORLEANS—A prominent trial attorney urged businesses to settle "bad" product liability claims before the case goes to trial to avoid high court awards.

"A bad product liability claim is never going to get better," St. Louis attorney John C. Shepherd told a RIMS seminar. Settling out of court not only protects a firm from a high award, but also shields the company from damaging publicity that may be released during the discovery process.

If the case does go to trial, the attorney, a member of the firm of Coburn, Croft, Shepherd, Herzog & Putzell, said a defendant should not be afraid to mobilize emotion.

For example, instead of asking a high-priced safety engineer to testify how a product is made, get the man or woman on the assembly line to testify, he urged.

"The man on the line might impress a juror a lot more than an engineer in a coat and tie," Mr. Shepherd said. "If the assembly line worker gets up on the stand and says the product was not defective when he approved it, that is going to impress the jury."

Better cooperation between defense attorneys and the company that is the target of a product liability suit will result in a stronger defense in the courtroom. ■



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Become your top exec's aide, risk managers told

NEW ORLEANS—Risk managers were challenged to expand their horizons and step into all aspects of corporate planning by a panel at the annual RIMS conference here.

"Someone needs to analyze all risks, develop long range plans for growth, be responsible for pulling it all together," said Kenneth F. Reimer, executive vp of administration and finance at Austin Industries Inc. "The chief executive officer needs help."

Political risks in foreign countries, economic developments affecting new and existing ventures and markets, political appointments in the U.S. (particularly to regulatory agencies), changing social patterns, declining resources and new technologies are among the concerns risk managers should be attending to, Mr. Reimer said. "I suggest only you perceive this as outside your responsibility."

Considering industry's track record with new technologies, he observed there is an obvious need for the risk manager to sit on new products committees.

Rein Lemberg, president of Lemberg Consultants Ltd., proposed that the risk manager improve "probabilistic thinking" in corporations, becoming involved in the company's general operations. On a capital project, for example, he said the risk manager should provide answers to such questions as:

"What can go wrong or not according to the plan? When would it occur in the project cycle? What can we do about it? What would be the net result in terms of extra cost and/or extra time? What is its chance of occurrence? Should we change the basic construction plan? If so, how?"

Since the risk manager already provides the insurance coverage, he can naturally broaden the spectrum of risks he considers when looking at a capital project, Mr. Lemberg argued.

Orio Giarini, secretary general of the Geneva Assn., also recommended that the risk manager assume the responsibility for analyzing entrepreneurial risks as well as pure or insurable risks.

Hazel Henderson, co-director of the Princeton Center for Alternative Futures, warned of the unknown outcome of the "socio-economic transition now underway in all mature industrial societies." She suggested that the risk manager should see to it that thermodynamicists are hired to "check your economists' models, particularly regarding their assumptions as to future capital productivity, investment decisions and inflation causes."

RIMS REPORT

Concerned about the unknown risks of new technologies, she suggested risk managers "examine innovative options in inherently lower-risk, decentralized technological modes: solar, wind and geothermal energy . . . as well as recycling systems, bioconversion of wastes and investments in energy conservation."

Mr. Reimer predicted, "Vp of risk management and planning is a position that is coming." But the risk manager will have to effect its development by being grounded in financial analysis and thinking about more than insurance. "No prudent manager will hold back a contribution. It's up to you to start the breakthrough from insurance manager." ■

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Broad panel key step to safe products

NEW ORLEANS—Establishing a product safety committee is a vital first step for a company that wants to design safe products to prevent accidents and the liability suits that result from them.

It should be up to the safety committee to set up guidelines for product design, development, manufacture and advertising, Charles R. Revie, director of risk management and insurance of Bucyrus-Erie Co. told a RIMS seminar on product liability defense.

Mr. Revie said the safety committee should review all warranty claims and accident reports so action can be taken to prevent those accidents from occurring again.

To give the safety committee support, members should be drawn from engineering, insurance, sales and service departments, Mr. Revie said.

Aside from establishing a safety committee, immediate investigation into a product accident can hold down claims. Generally, "The most effective product accident investigation is coordinated by the manufacturer," Mr. Revie said.

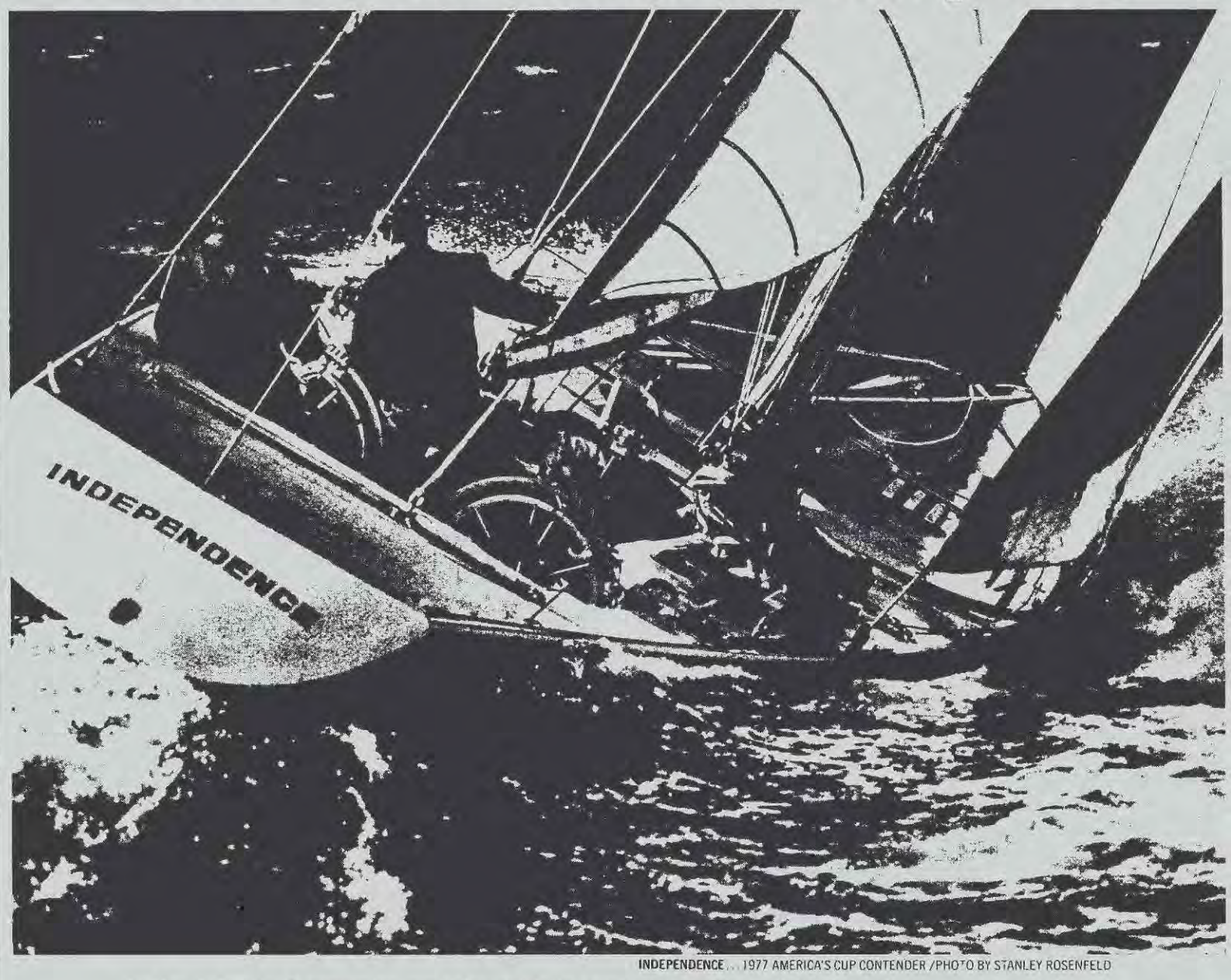
The manufacturer experienced in claims investigation and defense knows its products better than anyone else and is in the best position to find out what happened, he said.

Product accident investigation should begin as quickly as possible. To ensure that accidents are reported promptly, a company should supply field personnel with accident report forms, he advised.

Mr. Revie emphasized that information collected on the accident report form must be recorded factually, without editorialization.

"It should be left up to the lab investigations, expert analysts and ultimately the courts to determine if welds looked bad or if bolts were defective. ■

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Broker says 'buenos dias' at RIMS

NEW ORLEANS—A Latin American brokerage firm has been claiming more frequently, "we know who you are but you don't know who we are."

So to introduce themselves, the firm hosted a hospitality suite for the first time at the annual RIMS conference.

Those who visited it learned the firm is Segurosca, is headquartered in Venezuela and is Latin America's number one insurance brokerage firm.

The broker's main aim at the conference was to gain more U.S. clients. The broker already places insurance for at least 42 major multinational accounts.

The firm's sales pitch emphasizes that Segurosca is staffed with nationals, who are aware of local idiosyncracies in each country and are fully conversant with local legislation, market practice and interpretation of international corporate insurance guidelines.

"That's something you won't receive from the foreign branches of U.S. brokerage houses," said Enrique Vidal Hintze, director of Segurosca.

Segurosca places insurance equal to annual premiums of $200 million in Latin America, the Caribbean area and Spain.

Segurosca works with Marsh & McLennan, Alexander & Alexander and Hudig-Langeveldt in placing insurance.

Among its U.S. clients are Xerox Corp., General Foods Corp., Proctor & Gamble Co., Cheseborough-Ponds Inc. and Sherwin Williams Co.

Through associated companies, Segurosca offers services in risk identification and analysis, loss prevention and control studies, employe benefit programs and reinsurance.

Consultant urges AT&T utility for health care

RIMS REPORT

NEW ORLEANS—A national, privately owned corporation to deliver health care?

The vice chairman of the Martin E. Segal consulting firm suggested it at the annual RIMS conference as the best way to solve the current crisis in the American health care system.

Robert D. Paul pointed to the 7,000 independently run hospitals in the nation as an example of "the most irrational possible system on earth for health care delivery." Instead, he urged a national health care corporation modeled on the American Telephone & Telegraph Co. be formed to provide all the medical care in the U.S. This privately owned and operated corporation would have regional subsidiaries for local flexibility and would be regulated like any other utility.

In addition, the Martin Segal vice chairman predicted that Congress would enact some sort of national health insurance program in the next few years. But with the labor movement retreating from its insistence on a comprehensive, government-run program, it is possible that a plan acceptable to corporations will be approved, he said.

Mr. Paul favors, and considers likely, a program that establishes a minimum level of health insurance with a great deal of involvement by the private sector and insurance companies.

With the passage of national health insurance near, corporations should not eliminate employe contributions to medical insurance programs, Mr. Paul advised. It appears that any national health program will allow corporations to place some of the burden on their workers, but it may be difficult to reinstitute employe contributions where they have been eliminated, he said.

Mr. Paul listed four ways employers can help to control health care costs: careful design of benefits, monitoring of claims, reducing administrative expenses and corporate involvement in the health care system.

"I am a great believer in incentives rather than coercion," he said, suggesting that too much stress may have been placed on deductibles and coinsurance as cost containment techniques. These options may merely transfer costs rather than contain them, he said.

Instead, Mr. Paul recommended coordination of benefits, preadmission testing, second surgical opinions, support for HMOs, routine physical exams and a new emphasis on alcohol and drug abuse programs as effective cost control measures.

Mr. Paul also urged adoption of a prospective reimbursement system where a hospital would be paid a set fee for an operation rather than paid on the basis of the number of days in the hospital. ■



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OPIC moves add influence to insurers

NEW ORLEANS—The commercial insurance market for political risk insurance has become more important as the federal Overseas Private Investment Corp. (OPIC) places more restrictions on available coverage.

Still, the private market should be tapped only as a supplement, not as a substitute for OPIC, since OPIC coverage limits are much higher than limits in the private sector, according to Christine LaSala, an account executive at Johnson & Higgins in New York.

OPIC, for example, only supplies coverage for new substantial investments or major expansions of existing projects. The private market, which consists of the American International Group, Lloyd's and the London market, lacks such a restriction, John P. Keyser, a Johnson & Higgins vp told a RIMS seminar on political risk insurance.

In addition, an OPIC policy generally limits coverage to less developed countries with a per capita income of less than $1,000.

Under legislation passed by Congress this year, OPIC no longer can offer coverage for copper mining projects or for projects that involve the production of palm oil and citrus crops for export to the U.S. These projects can be covered in the commercial market.

RIMS REPORT

OPIC, though, offers its own set of advantages. It will pay the brokerage fees of small businesses, those that fall below the Fortune 1,000 list, that want to invest overseas. OPIC rates also generally are uniform and are public. For example, OPIC insurance for war risks and confiscation is usually 60 cents per $100 of coverage. Insurance for currency inconvertibility is 30 cents per $100 of coverage.

Ms. LaSala said rates in the private market vary depending on such factors as:

- Political instability of the country.
- Financial health of the country.
- Relationship of the investing corporation with the host country.
- The type of industry that is being insured. Projects involving the extraction of natural resources, cost more to insure than coverage for a manufacturing project.
- The percentage of the host country's labor force involved in the project. The higher the percentage, the lower the premium, generally speaking. ■

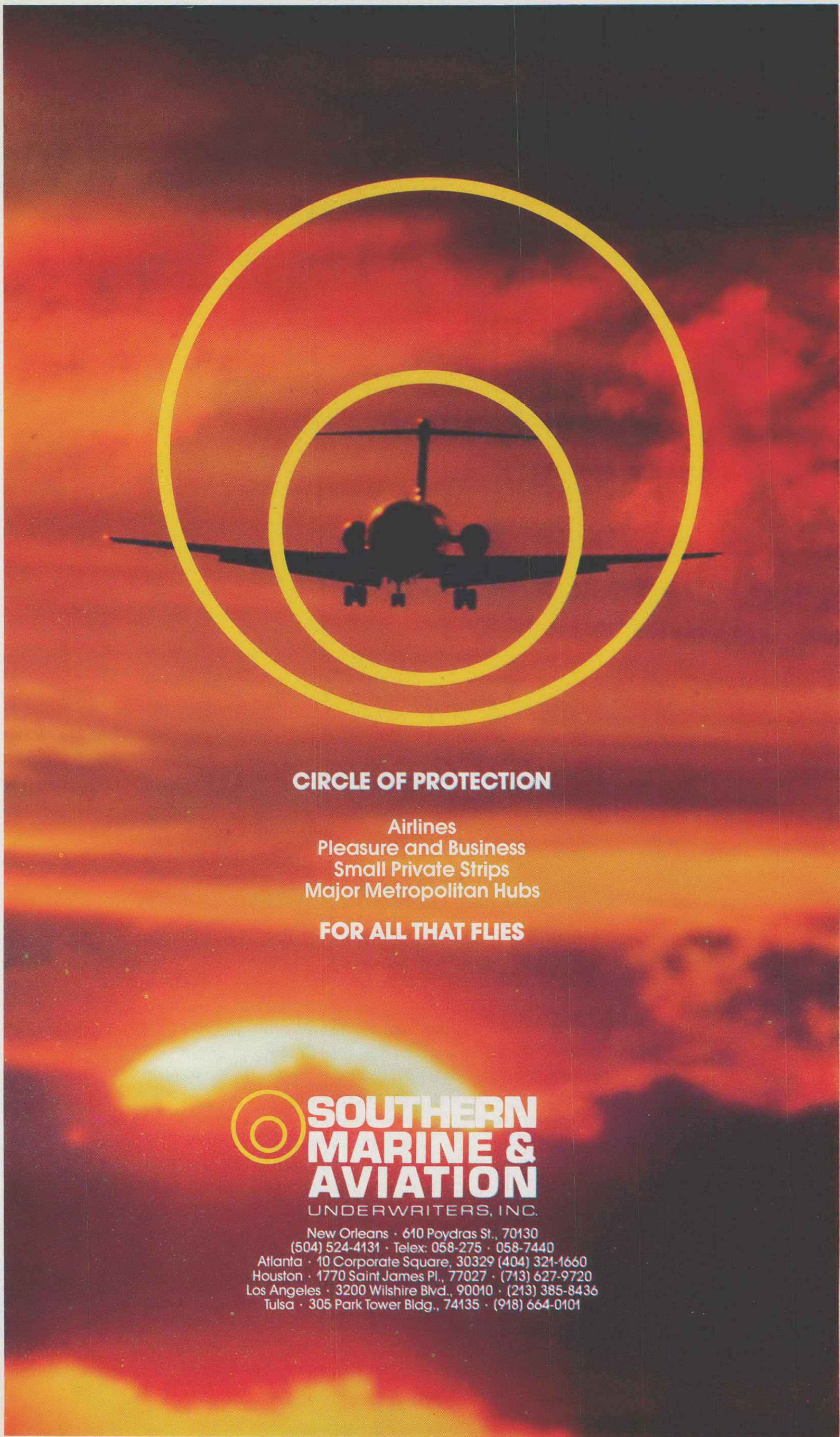
Nebraska OKs malpractice rate

LINCOLN—The Nebraska insurance department has approved an average 28% rate decrease for physicians and surgeons malpractice insurance requested by St. Paul Fire & Marine Insurance Co.

The decrease, effective May 1, comes after two years of declining malpractice claims in the state. The insurance department said it would continue to monitor claims so that Nebraska residents benefit from favorable experience. ■

Bellefonte funds

Bellefonte Financial Corp. a subsidiary of Armco Steel Corp., has increased the capitalization of Bellefonte Insurance Co. by $5 million. Bellefonte now has $58 million in capitalization and the move is designed to increase Bellefonte's underwriting capacity.





ESIS Profiles: Risk management's new breed.

Russell A. Drake, Jr.
Director, Corporate Risk Management,
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"At Borden, our commitment to safety and loss control saved $4,000,000 last year."

"Over the past few years, management has become painfully aware of our rising insurance and claims costs, and is anxious to control them. So we've expanded our self-insurance program to the point where we self-insure 99% of our claims.

"Naturally, higher deductibles have meant even greater attention to safety and loss control, and this is one of the areas where ESIS is helping. We use their International Safety Academy for training, and a variety of ESIS statistical reports to track our loss experience and alert us to problem areas.

"Indirectly, we are saving much more than $4,000,000, because our improved safety record is keeping our insurance premiums down and our employee productivity up."

More and more risk managers like Russ Drake are turning to ESIS. Why? ESIS is the leading administrator of self-insurance programs in the U.S. ESIS provides all of the administrative, claims handling, loss control and statistical reporting functions normally performed by an insurance carrier. To find out how ESIS can help your company's self-insurance program, write to us or contact your insurance agent or broker.

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PERSPECTIVE

Despite the cries of doom, pension plans aren't massive drain on U.S. corporations

By Kenneth Keene, FSA
Senior vp and director
Johnson & Higgins
New York

LONG AGO, in a galaxy far, far away, there used to be a time when the establishment of a pension plan was considered a genuine fringe benefit offered by a company to its employes—the mark of a benevolent employer. The idea was a good one and caught on to the point where almost all companies in the Fortune 500 now have plans. In fact, the idea was such a success that something fateful was bound to happen.

Something fateful did. It's called ERISA, which, after the initial shock waves passed, was not such a bad thing in itself. But what followed in its wake was a cumbersome bureaucracy with its reporting and disclosure requirements which in turn meant that the spotlight was turned on pension plans and their sponsors. We are now being led to believe by some commentators that pension funding is inadequate and stockholders will be left holding the bag.

Numerous persons testifying before Congress and certain articles in the press have gone out of their way to point out that pension plans are:

a. underfunded
b. mismanaged
c. profit eaters
d. ill-designed
e. all of the above*

*the more realistic answer, for the most part, is not included here. It's "f. none of the above."

Everyone wants in

It seems that everyone now wants to get in on the act which innocently began as an employe benefit for workers: the Securities & Exchange Commission ("an interest in a pension fund is a security subject to the antifraud provisions . . . "), the Oval Office (via a presidential commission to do a national study on retirement plans), Fortune magazine ("those pension funds are even weaker than you think") as well as the usual alphabet agencies such as IRS, DOL, PBGC, etc.

The corporate voice has had a hard time struggling to be heard amidst all the commotion making front-page news in business journals. Pension funds are, to be sure, one of the largest pools of capital in the world. The drain on corporate treasuries is hefty indeed to pay for the past, present and future retirement of 30 million workers. Even so, it's vital to view these outlays in proper perspective.

Because the outlays are so large and so much has been adversely written about pension funds, Johnson & Higgins several months ago began a survey to assess just how pension funds impact upon the corporate balance sheet and the income statement. Annual reports to stockholders for 1976 fiscal years were collected for 316 of the Fortune 500 companies. The pension cost generally reported in the footnotes to the financial statements was compared to pretax revenues, to numbers of employes, to wages and salaries; in addition unfunded vested benefits were calculated as a percent of net worth—among other things.

Some recent fallacies

Highlights of the survey results presented here should put to rest some of the fallacies recently trumpeted about the extent of the financial impact of pension funds on a corporation and its stockholders. Take Exhibit I, for instance, which breaks down pension cost as a percent of pretax revenues. Pretax revenue, instead of net profit, was used as the measuring device, since contributions to qualified retirement plans are tax deductible.

This measurement is perhaps the truest yardstick for finding out how pension costs affect profits. These costs have a flow-through effect on balance sheet values such as net worth and shareholders equity. Exhibit I shows that five out of every six of

Continued on following page

Exhibit I: Pension Cost as a percent of 1976 Pretax Revenue

	No. of Companies in Sample	.1-9.9%	10-19.9%	20-29.9%	30-39.9%	40-49.9%	At Least 50%	Co. had Pretax loss
Fortune 1-99	74	29	17	9	8	3	7	1
Fortune 100-199	75	32	19	15	4	0	5	0
Fortune 200-299	61	25	19	6	5	1	4	1
Fortune 300-399	63	21	25	7	4	0	6	0
Fortune 400-500	43	19	15	5	1	0	1	2
	316	126 (40%)	95 (30%)	42 (13%)	22 (7%)	4 (1%)	23 (7%)	4 (1%)

Exhibit II: Unfunded Vested Liabilities (UVL) as a Percent of Net Worth, 1976

	No. of Companies in Sample	UVL = 0	UVL = 1-9.9% of net worth	UVL = 10-19.9% of net worth	UVL = 20-29.9% of net worth	UVL is at least 30% of net worth
Fortune 1-99	63	17	19	13	6	8
Fortune 100-199	66	10	37	12	5	2
Fortune 200-299	48	17	20	5	3	3
Fortune 300-399	53	16	29	4	1	3
Fortune 400-500	35	10	19	3	3	0
	265	70 (26%)	124 (47%)	37 (14%)	18 (7%)	16 (6%)

Exhibit III: Pension Cost as a Percent of Wages And Salaries, 1976

	No. of Companies	.1-4.9%	5-9.9%	10-14.9%	15-19.9%	At least 20%
Fortune 1-99	50	6	20	16	6	2
Fortune 100-199	23	2	13	6	1	1
Fortune 200-299	18	5	9	3	0	1
Fortune 300-399	14	2	8	3	1	0
Fortune 400-500	8	3	1	2	2	0
	113	18 (16%)	51 (45%)	30 (27%)	10 (9%)	4 (3%)

Skeptical reinsurer views captives

Your boss must know the risks of captives

By James F. Billett
Vp
General Reinsurance Corp.
Greenwich, Conn.

Many insurance industry skeptics seriously question the motivation of those who are aggressively entering their volatile industry by forming their own captive insurance companies, says General Reinsurance's James F. Billett.

THE RECENT INCREASE in casualty exposures and premiums written by captive insurance companies has been the subject of much skepticism by commercial insurers and reinsurers and some scrutiny by auditors and the IRS.

Much of the skepticism has to do with the nature of the liability insurance business itself. Liability coverage is, after all, a product sold at a competitive price in the hope that actual cost will be somewhat less than what was charged. Until the final tally is in (if indeed it ever is on lines like workers compensation and product liability), commercial insurance carriers employ varying levels of actuarial sophistication to case loss development and estimates for incurred-but-not-reported losses in order to assure that sufficient funds are reserved to meet eventual losses. By these means, they avoid declaring profits on their business until they are certain profits have been made.

Further skepticism by the commercial industry is the result of the rather modest capital commitments in relation to insured exposures that parent companies make to their captives to tide them over until the returns on their premiums are in.

The skepticism embodies more than just "sour grapes" on the part of the insurance industry. After all, most of the skeptics have been recently drowned in a $9 billion underwriting bloodbath where, coincident with bad economic conditions, the only thing draining out of the tub was capital. Improved casualty results in 1977 did reduce the deficit by 11%, but in the face of continuing economic and social inflation, the industry's wounds are far from being healed.

All of this combined with the fact that property and liability companies have wider fluctuations in earnings and lower price/earnings ratios than the parents of most captives, leads many industry skeptics to seriously question the motivation of those who are aggressively entering their volatile industry.

For obvious reasons, more emphasis has been placed on the scrutiny than on the skepticism. Much of the scrutiny has to do with the commingling of prudent insurance company accounting and proper GAAP expense accounting in something presumed to be less than a true arm's length environment wherein the insured is also to some degree the insurer. However, in an effort to divert scrutiny, many captives have taken what may prove to be fatal steps in terms of their original purpose by assuming outside (non-parent) business. This has given rise to even more industry skepticism and in the long run may not even satisfy the concerns of either the accountants or the IRS.

With some notable exceptions, captives have begun writing outside business without the corresponding infusions of either underwriting talent or additional capital

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PERSPECTIVE

Brokers' bombast, underwriters' unilateral: A jaundiced glossary to enigmatic claptrap

By Peter Downes
Manager of Insurance
American Trading & Production Corp.
Baltimore



"This is Mr. Craxton—my policy interpreter."

RULERS OFTEN SET themselves impossible tasks. President Carter did this when he demanded that government regulations be rewritten in plain, straightforward English.

About a half-century ago Sir Leonard Woolley and other archaeologists dug up the ruins of ancient Babylon. Its glory had long since departed, but what remained? Inventories compiled by Hammurabi's civil servants. Likewise, in Egypt, scribes kept copious records but with few exceptions the treasures have been lost.

It took linguists decades to decipher all the material they found and I have long been convinced that their translations have given us a totally unrealistic picture of those ancient kingdoms simply because their bureaucrats wrote everything in gobbledygook.

This has been true throughout the ages. For example, it is recorded that Queen Elizabeth I of England once wished to say to one of her recalcitrant bishops, "You will remember what you were before I made you what you are. You shall obey me or I will unfrock you—by God!" Now that's the way to write a memo. However, her clerk decided to put it into proper form and began "I am commanded by her most puissant majesty, Elizabeth, by grace of God Queen of England and Ireland, Defender of the Faith, to remind your lordship that before your lordship by the grace of God and her majesty was translated to his present estate" etc. Obviously, this took the edge off the whole thing.

Shortly after World War II, the British government went on a reform binge and employed Sir Ernest Gowers to accomplish the same end as that sought by Mr. Carter. He did a lot of good work but it was found that as soon as one set of bad habits was eliminated, another set immediately took its place. Consequently, current rules, regulations and correspondence of British government departments remain as obscure as they ever were.

The reason for this is not hard to find. Bureaucrats, accountants, systems managers and specialists of all kinds invent their own language for specific purposes. This type of invention is not limited to government circles alone, but may be readily found throughout academic and business circles. It has occurred to me, therefore, that perhaps a short glossary describing some of these languages may be useful.

Accountants' Argot—A special vocabulary and idiom used by accountants to communicate privately that they do not know what they are talking about.

Auditors' Ambivalent—Language used by internal auditors in particular acknowledging that everything appears to be in order but hinting that diabolical methods have been used to conceal the true facts.

Brokers' Bombast—Verbose grandiosity of language used by insurance brokers to describe their abilities and facilities.

Bureaucratic Baroque—Style of speech characterized by grotesque ornamentation and ambiguities, spoken by bureaucrats and other illiterates. Sometimes described as gobbledygook, bureaucratese, officialese, etc.

Commissioners' Claptrap—A subspecies of bureaucratic baroque used by lesser bureaucrats and other defectives such as insurance commissioners. Always delivered in a ranting voice and invariably condemning something or somebody.

Controllers' Camouflage—A controller can never admit that he does not know anything or has not done something. This style of speech is used to persuade the listener that notwithstanding appearances everything is really under control and that it is only a question of time before everything looks right, too.

Engineers' Enigmatic—A mode of diction which may be translated into normal English usage quite easily but leaves the untutored reader with the impression that there is some hidden meaning which only initiates may detect. For example, in a Travelers Insurance Co. publication on product safety we read that the charter (i.e. job) of the product engineer is "to translate the final conceptual design into the reference design via an engineering definition which will optimize the fabrication of an end product meeting design requirements," etc.

Legal Logorrhea—A spate of words often irreverently described as verbal diarrhea. Especially beloved of lawyers who delight in pleonasms and tautologies, to wit: "The decedent, who perished in a storm and tempest, left a will and testament in which he bequeathed and devised all his goods and chattels to his heir and successor."

Personnel Persiflage—Some people call this lying; the personnel department calls it tact. For example, in answer to a job application, the candidate will be told that his resume has been received but unfortunately there is nothing available at the present time. However, it will be kept on file for use at a future date.

Policywriters' Polysyllabic—Some hold that it takes long and arduous training to write in this style. According to one writer, one of the methods adopted is to write out a straightforward statement and then by a judicious use of dictionary and thesaurus to convert every short simple word into a long complicated one. After this one increases the complexity by dividing the statement into three separate parts, with overlaps, and then incorporates them in separate endorsements within a policy.

Presidential Periphrasis—Circumlocutory mode of expression often used by corporation presidents to gloss over the real state of affairs. Company annual reports are prime examples of this usage.

Risk Managers' Rodomontade—A variant form of Broker's Bombast with rather more bluster.

Secretarial Simplistic—Expresses a secretary's need to tell the world what her boss really meant. For example, "I stayed up all night with my sick daughters" will become "My boss stayed up all night with two girls."

Systems Semantics—A catachrestical form of language in which nothing means what it appears to say. The spiritual forebears of systems managers are Dogberry and Mrs. Malaprop.

Underwriters' Unilateral—An assertive form of language used by blackmailing underwriters to attain their own ends. Always incorporates a threat to cancel something or at least make it more expensive.

Verbocrap Academica—Verbocrap is listed by J. A. Cuddon in his "Dictionary of Literary Terms" and was perhaps coined by him. This particular subspecies of gobbledygook is the love child of educators who, had they but done a proper teaching job in the first place, need not have given rise to all these silly definitions. An example taken from a professional publication is worth repeating in part. "Due to increased verbalization, the educationist desires to earnestly see school populations achieve cognitive clarity, auracy, literacy and numeracy both within and without the learning situation. . . . It must now be fully realized that the secondary educational scene has embraced the concept that literacy has to be imparted and acquired via humanoid-to-humanoid dialogue."

Doubtless this verbiage is veridical and as the Bard of Avon indicated, a hybrid tea emits an identical odor regardless of nomenclature. In other words, this stinks. ■

Pension plan impact . . .

Continued from preceding page
the sample Fortune 500 companies had pension outlays under 30% of pretax revenues.

For those who think that some companies are merely pension funds that happen to manufacture or sell goods on the side, the figures in Exhibit I show otherwise. For instance, 126 companies or 40% of the surveyed companies had pension costs of less than 10% of pretax revenues. If pretax revenues were averaged out over 12 months, then roughly 8% of earnings would accrue monthly. On this basis these 126 companies' pension costs only accounted for roughly one month's earnings. Another 30%, or 95 companies, had pension costs that ran from 10% to 19.9% of pretax earnings. In short, fully 70% of our sample had pension costs of less than 2.5 months worth of pretax revenues.

On the other side of the scale, 23 companies, or 7% of the sample, had pension costs in excess of 50% of pretax revenues. One-third of these companies were representatives of the steel industry, which has been severely affected by economic crises, import competition and relatively generous pension plans.

Even after taking on the critics on what they believe to be their most fertile ground—unfunded vested liabilities as a percent of net worth—the picture turns out to be not nearly as catastrophic as it's painted to be.

Liability vs. net worth

Exhibit II bears this out. Eighty-four percent, or 265 out of 316 companies, disclosed unfunded vested liabilities in their annual reports. Of these 26%, or 70 companies, reported **NO** unfunded vested liabilities. Forty-seven percent reported unfunded vested liabilities of less than 10% of net worth. These two categories made up 73% of the survey result! Only 6%, or 16 companies, recorded unfunded vested liabilities of more than 30% of net worth—and, again, seven of these companies came from the steel industry.

So, even using an unrealistic measurement for assessing a pension fund's economic health—and that of the sponsoring corporation—the survey results indicate that the pension funds are in good shape overall. The unfunded status of the pension fund creates a strain in just a few of the companies. And using the ERISA-permitted 30-year amortization of unfunded liabilities (40 years for certain prior liabilities) eases the financial problem considerably for all the companies considered in the survey.

Another excerpt from the survey—pension cost as a percent of wages and salaries for 1976—is presented in Exhibit III. Of the annual reports, 113 specifically disclosed a figure for wages and salaries. The remainder counted it as "administrative expenses." Almost one-half of the reporting companies had a pension cost between 5% and 9.9% of wages and salaries. A little more than one-quarter of the companies came in at 10% to 14.9% of wages and salaries. One-sixth of the companies had a very low ratio of pension cost to wages and salaries—from 1% to 4.9%.

One further point—the ban on age-connected mandatory retirement in industry prior to age 70 (effective Jan. 1, 1979, at the national level) will lessen the financial pressure on pension plans. The magnitude will depend on how many elect to postpone retirement and whether or not pension accruals and actuarial adjustments are stopped at age 65.

The proper context

It's important to recognize that pension costs represent just one of the major expense elements in the operations of a company. These costs are necessarily factored into pricing decisions and add to the total charge for the product. But each company has to remain competitive—on product prices, on services to its customers and on wages and benefits for its employes. To pick on pension costs and/or liabilities is to take things out of context. A company's viability in all of its activities is the really important consideration. ■

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PERSPECTIVE

Needed risk managers control their own future, advises insurer

By Donald H. Moore
President
Philadelphia Manufacturers
Mutual Insurance Co.
Valley Forge, Pa.

DEFINE THE FUNCTIONS of a risk manager and you've described the corporate Mr. Clean: key decision maker, protector of the corporate insurance dollar, producer and manager of the company's loss prevention program and guardian of the balance sheet, at least where property losses are concerned.

Exaggerated perhaps, but, nevertheless all attributes many expect to find in a good corporate risk manager. As important as the risk manager is to industry, he is equally important to those of us in the highly protected risk insurance business. In fact, I'm sometimes inclined to believe that he is as much one of us as we are ourselves. It is through his efforts and the success his corporation enjoys that we in the insurance business stand to gain.

Needless to say, I for one am delighted to witness the growing numbers of qualified risk managers. It is the risk manager, representing his corporation and working in conjunction with the insurance company that affords us our greatest opportunity to slow the continually rising property loss trend. It would be safe to assume, I'm sure, that a company's property losses are directly proportional to the effectiveness of the company's risk manager and his staff.

To be a bit more specific about the responsibilities of the risk manager, I consider him to be the person charged with analyzing all those risks to which his company is exposed which could impact on the balance sheet. Once he has analyzed each risk, he must determine whether the risk can be eliminated, whether it should be protected and to what degree or whether it should be minimized. It is his decision to determine how much of that risk should be transferred to somebody else, namely the insurance company.

Our changing economy

It cannot be denied that he has a formidable group of responsibilities requiring an individual expert in the insurance business and with more than a passing knowledge of finance, accounting law and engineering. Add to that a natural leaning toward salesmanship and human relations and a working knowledge of communications and you have a rare breed of individual. Be assured this person does exist and his numbers are growing every day.

It's not all plaudits for the growing risk management profession, however. There is still a tendency for all too many risk managers to rationalize away their dormant state in their particular corporation. While it is probably true that the number of companies who aggressively practice risk management by funding programs and providing manpower to implement the programs is still outnumbered by the less aggressively managed corporations, I must place the major burden of blame on the risk manager himself. It is he who must herald the merits of his profession and prove through his actions his true value to his company.

There are many ways a risk manager can improve himself and his profession. Because of the vast knowledge required, it would behoove the up-and-coming executive in this profession to further his education in the areas of expertise where he needs it most. Certainly any individual who can claim a working knowledge of all the aforementioned specialties (accounting, law, finance, engineering) would be a valuable asset to any corporation.

Initiating his own self-improvement program will earn the risk manager the respect of his superiors. The risk manager must cut through the corporate structure with his own deeds and actions if he is to achieve his desired recognition.

While I place the burden for advancing the risk management profession directly on the shoulders of the risk manager himself, it must be realized too that a decade ago—in fact, as recently as seven or eight years ago—there were very few risk managers as we know them today. We must credit those early insurance managers who functioned without portfolio, so to speak, with creating the profession as we know it today. It is they who rose to assume increased responsibilities and contribute measurably to their respective companies. But the ground is barely broken.

Too many rationalize

Perhaps the greatest thing going for the new and growing risk management profession is the fact that it is a sorely needed function. Examine the facts. Industry is growing more complex with each passing day. Equipment destroyed in a matter of minutes frequently cannot be replaced for months or longer. Rapidly growing inflation combined with material shortages and increasingly strict governmental building codes makes building replacement a major cost even when heavily insured. Add to these costs the hidden costs of property losses estimated at four times that of the property value and you have a truly astronomical figure. Many of these losses can either be eliminated or certainly drastically reduced through the risk management function.



There is still a tendency for all too many risk managers to rationalize away their dormant state in their particular corporation, says Donald Moore.

Add to this the dollar outlays saved by astute insurance purchasing based on accurate risk evaluation, the property saved in a well-planned and well-implemented property conservation program and the case for risk managers looks even better.

The new industrial concepts on the horizon represent a multitude of challenges. With every challenge confronting the risk manager, a new opportunity exists for him and his profession. The faster the rising young risk manager grasps the new opportunities the faster his profession will grow and mature and he will grow with it. ■

Reinsurer views captives . . .

Continued from page 33

earmarked for that portion of the venture. While these captives take comfort from having followed only a select number of worldwide underwriters who are supposed to be successful at their trade, it should be remembered that these underwriters were, in part, responsible for that $9 billion debacle. This is not necessarily a condemnation of their abilities. They are, after all, attempting to predict the future from the experience of the past.

But, captives who follow the leader should also be aware that the leader generally represents a substantial capital base and has gone to extraordinary means to protect that base by securing highly complex reinsurance protection. Therefore, while the ultimate goal of making an underwriting profit may be the same for both leaders and followers, there is a strong likelihood that their respective means of attaining that goal are not identical.

Many of those same captives take further comfort from having hedged their outside bet by assuming only very modest per loss commitments and writing what is touted to be a balanced book—a little property, a little casualty, a little marine, etc. Looking back at recent heavy losses, even a modest commitment to certain loss-producing lines could and did cripple adequately capitalized companies and would permanently and totally disable most captives. Balance can create equally false security.

Balance is spread, spread is average and average in the insurance business has of late been a losing proposition.

So what's a captive to do? They should do what many of their number already have done: make their parents face the truth about their own casualty exposures.

They should start by explaining that insuring their own risk through a captive deserves no less consideration or appropriate investment than any other form of diversification that can have an impact on their bottom line. They should further explain that while the experience of their particular account may appear to be better than the commercial market tells them it is, that market has a history of badly undershooting the target. They should remind their parents that earnings derived from investment income on loss reserves presupposes the insurer has an adequate capital and premium base to be able to establish those reserves in the first place. Finally, they should warn their parents, if they are counting on future premiums to cover any shortfall for losses attributable to current coverages, by the time they find out how badly they underestimated those losses (five to 25 years hence) they may have kited a series of blank checks for all the subsequent years.

If the captive has an understanding parent and has not been told to leave the corporate house after having a "heart to heart discussion" like the one recommended above, there are a number of positive steps that should be taken to establish a continuing realistic relationship:

- Secure the most conservative appraisal available of the ultimate value of the primary experience (i.e., within the first $25,000, $50,000 or $100,000 of loss) of the lines of business to be written for the most recent five years. If there are no losses, do not assume the parent has good experience. Assume the parent has no experience and use industry averages for the class of business represented by the parent.
- Trend those numbers into the future, taking into account economic inflation, social inflation, incurred-but-not-reported losses and projected exposure increases.
- Use any of a variety of funding mechanisms to more than adequately handle those trended and developed losses that are contained within some specific primary limit (i.e., $10,000, $25,000, $50,000).
- Establish a "true surplus" for the captive that is well in excess of the remaining unfunded portion of those trended and developed average annual losses.
- Assume an unfunded per loss retention for the captive of 1% of the true surplus. Virtually all of the trended and developed average annual losses should be contained within the combination of the funded layer and this retention. This is admittedly a conservative approach.
- If the combination of the fund and the retention is so modest as to make it practically impossible to buy excess-of-loss protection, contact a reinsurer who is willing to lend balance sheet support to the captive over a specific period of time on a retrospectively rated basis up to the level where that reinsurer is then willing to attach on a guaranteed cost basis.
- Establish an unfunded aggregate loss retention by line of business for the captive which represents all the captive is willing to lose by line of business in a given calendar year. This number should probably not exceed 75% of the true surplus.
- The captive should contact a reinsurer who is willing to lend calendar year—as opposed to accident year—stop-loss support to the captive up to a level where the captive, the parent and the reinsurer feel that exposure to loss is somewhat theoretical. That level will vary by insured and line of business written, but as a rule of thumb two to three times surplus should serve the purpose. ■

What's up in the industry

INSURANCE BROKERS continue to be part of a lucrative profession. **Marsh & McLennan,** the nation's largest brokerage firm, reports that gross revenues increased 17% or $18.4 million in the first three months of 1978 to $125.3 million. Net income amounted to $19 million compared with $16.3 million for the same period in 1977.

Frank B. Hall, the nation's fourth largest insurance broker, says gross revenues reached $43.3 million in the first quarter, up 23% from the $35.1 million figure for 1977. Net income at Hall increased 23% to $5.6 million from $4.55 million for the first three months last year.

"Although the prospect of more competition in commercial lines of insurance will undoubtedly produce slower growth in 1978 and 1979 than in 1977," says analyst Leonard Wilson of Drexel Burnham Lambert, "the prospective absolute rate of progress still seems attractive." Mr. Wilson has continued his "buy" recommendation for the stocks of M&M, Alexander & Alexander, Frank B. Hall, Fred S. James, Corroon & Black and Rollins Burdick Hunter.

* * *

On the insurance company side of the ledger, **INA Corp.** has formed a new company, INA Insurance Co. of Canada, to provide property/liability insurance in all parts of Canada except Quebec. INA also acquired Abbey International Insurance Co. of Bermuda from Fencourt Insurance Co. Ltd. INA will rename the company, which specializes in ordinary life insurance, Colina Insurance Co.

Farmers Alliance Mutual Insurance Co. of McPherson, Kan., acquired the $13 million a year premium excess/surplus business of NATESCO of Dallas. Farmers also acquired Yukon Indemnity Co. of Oklahoma.

—*Greg David*

Art, not science, adjusts interruption claims

NEW ORLEANS — Adjustment of business interruption losses is more of an art than a science because the insured must be able to present a credible story of what conditions would have been like had there been no loss, says a general adjuster of Industrial Risk Insurers.

Edwin W. Whitmore stressed the need for better communication between the insured and the insurance company adjusters at a RIMS conference seminar on business interruption losses. While most business interruption losses are resolved easily, problems that arise are often caused by the failure of either the insured or adjuster to make their views understood.

William F. Foley Jr., assistant vp for Johnson & Higgins in New York, said that insureds who surprise an adjuster with an interruption loss estimate or who assume that "the loss is the loss, whatever it comes out," are looking for trouble.

"Let the adjuster have the flexibility to go to his principal and increase the company's reserves," he urged. "If you embarrass or surprise an adjuster, he will react like any human being—he will become resentful."

A member of the audience noted that he has witnessed instances when the claim shot up after the adjuster pressed an insured to make an estimate of a loss. "Then you have the feeling the adjuster will drag his heels on your claim because you didn't know what his reserves should be at the time he was pressuring you to make your loss estimates," he said.

Here are the do's and don'ts of a business interruption loss, according to Johnson & Higgins's William F. Foley.

- Do not ask the adjuster, who is hired to assess the loss, to compute the business interruption claim. It is the risk manager's job to present the claim.
- Do not establish format at one plant, based on one loss and a limited situation, and expect it to set a pattern.
- Do not assume continuing or discontinuing expenses will be the same during a loss period as they were under everyday conditions. Establishing a rigid format in business interruption coverage is dangerous.
- Do not farm out the audit or accounting work solely to an outside firm. Rather, assign a knowledgeable employe to work with that firm.
- Do not allow the adjuster to leave the plant without a final review and an agreement on the facts.

To be covered under a BI policy, the property damage must interfere with or prevent the insured from realizing a profit from his business, according to the broker.

Offering a graphic example of how BI coverage works, Mr. Whitmore posited a property loss equal to 200 tons to a company selling a product worth $300 a ton. However, during the period when the plant shut down, the company saved $100 on material and supplies and $25 on non-continuing costs, reducing the value of the product to $175 a ton.

"Therefore the amount that would be covered under the BI policy is $175 times 200 tons or $35,000 or close to half the $60,000 that could have been claimed had the product value not been reduced by the savings in materials and other costs," he explained.

Once a BI loss occurred, it is the duty of the insured to establish accounts for charges that are incurred solely for the purpose of reducing the loss, Mr. Foley continued.

"It is necessary for the adjuster to make clear to the insured that these extraordinary expenses are only collectible to the extent that they reduce the loss," he added.

Mr. Foley said that J&H looks at the importance of the employes to the insured when considering payroll expense. Under the gross earnings form of BI policies, key workers are covered for their payroll expenses during a loss period.

However, Mr. Foley explained that under most policies an insured will only be reimbursed for these expenses if his employes stay home. If they are utilized elsewhere, he cautioned the insurer will presume that the insured is receiving a value for the wages and/or salaries paid to these workers. ■

RIMS REPORT

"As soon as you discover that your estimate is incorrect, notify the adjuster," replied Mr. Whitmore. He said that while most insureds prefer to negogiate BI loss adjustments on the basis of actual experience, they often must rely on loss estimates, a totally valid tool. It is essential for insurance companies to get good loss estimates, he said, in order to set up adequate loss reserves.

Problems spring up for insurers when losses occur at the end of a fiscal period. Mr. Whitmore said that IRI, an association of 45 capital stock companies, must even at such a late date struggle to obtain the best financial information it can.

Mr. Foley, who noted his loss load runs to some 300 cases a year, said that business interruption insurance is written on the two item or gross earnings form and is available for both manufacturing and non-manufacturing risks. He said the gross earnings form covers the reduction of gross earnings minus charges and expenses that do not continue during the period of interruption.

The forms designed for manufacturing and non-manufacturing risk are essentially the same, although the definition of gross earnings differs somewhat for the two types of risk.

Mercer acquires Midwest firm

NEW YORK—William M. Mercer Inc., a unit of the Marsh & McLennan Cos., has acquired Carlin-Black Co., a Midwest employe benefit consulting firm.

Terms of the acquisition were not disclosed. Carlin-Black has offices in Columbus, Ohio, and Louisville, Ky. David P. Carlin and Philip E. Carlin, the top two officials of the Midwest firm, will remain with the company. ■

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Six short weeks

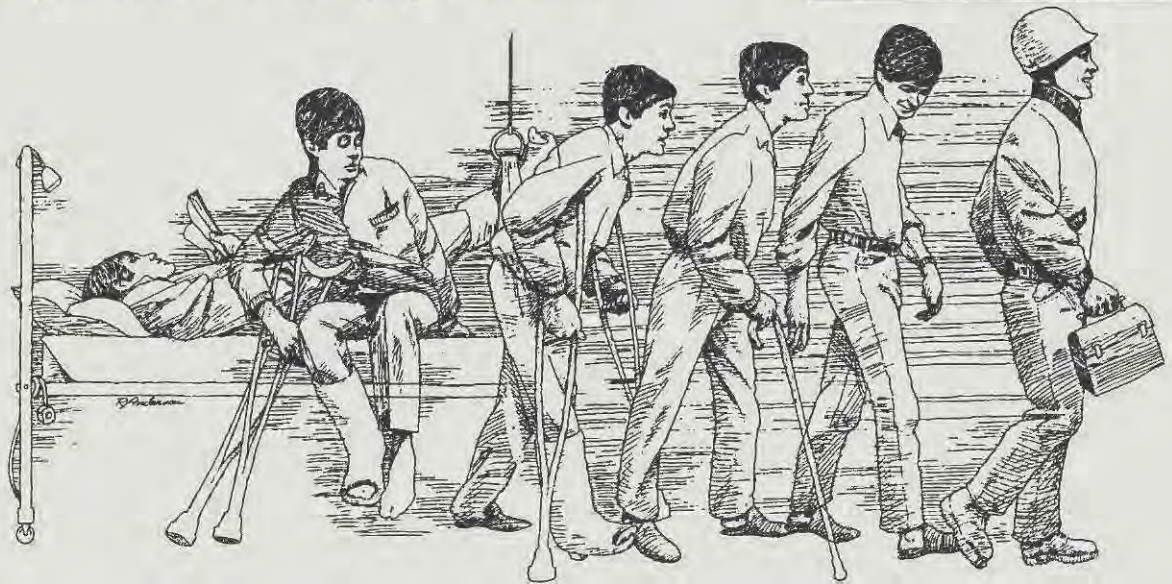
Wayne S., a 29-year-old assembly line worker had been a paraplegic for 14 months, as a result of an automobile accident, when his case was referred to IRA. An IRA rehabilitation specialist found that Wayne wanted to return to work and that his previous job could be done in a sitting position, except for the need to pick up parts across the plant floor. IRA convinced his employer to have another worker replenish the parts twice a day. Wayne went back to work, full time, just six weeks after the initial interview, saving the insurance carrier over $100,000.

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Taking the Risk out of Business

Grant D&O suit . . .

Continued from page 1

stock transfers.

The foundation and the bank are cited for the same amounts in the state action brought by Mr. Rodman. That suit asks total damages in excess of $800 million.

If awarded, the damages would be used to compensate creditors, said an attorney for the trustee. Claims against W. T. Grant Co. now run approximately $5 billion and final claims are expected to run between $1 billion and $1.5 billion, he said. The retailer's assets are about $600 million.

A 78-page complaint filed on behalf of Mr. Rodman and the creditors cited corporate management for failure to control the granting and collection of retail credit accounts, store expansion, inventory and computer operations. In addition, the complaint alleges inaccurate financial reporting and maintenance of a buyers slush fund.

Other suits

Similar grounds were cited in the shareholders action brought by William M. Weinberger and others. That action, which seeks an unstated amount of damages, charged 17 former directors and officers with presenting a "falsely optimistic picture" of the company's financial status.

Also named as defendants in the suit were 27 lending agents led by Morgan Guaranty Trust Co. and Ernst & Ernst, the former retail giant's public accountant.

The original complaint in that suit was dismissed last year by federal judge Kevin Duffy. However, an amended complaint is still pending.

"Any time you get a suit of that magnitude ($800 million), it will hang over the industry for three to four years," said Thomas F. Sheehan, a D&O expert and managing general agent for Imperial Casualty & Indemnity Co. Excess D&O underwriters would probably become leery because of the amount sought, he added.

One D&O expert predicted that the suits would probably come to trial and Mr. Sheehan said there probably would be "a lot of dollars" spent for defense.

A great number of difficult legal problems will probably arise out of this case, predicted J.W. Page, senior vp at J.H. Blades & Co.

Both Mr. Sheehan and Mr. Page drew analogies between the Grant cases and the shareholders suit filed against directors and officers of the Penn Central Transportation Co.

That suit, which was settled in September 1975 for $12.6 million, charged the bankrupt railroad's directors and officers, financial advisers and subsidiaries with selling Penn Central stock at a profit before the railroad's troubles became public knowledge.

The Home's options

Approximately $2.4 million was paid from a $10 million D&O policy written by Lloyd's of London. Lloyd's had brought suit to cancel the policy and refund premiums paid, but that suit was dropped at the time of the settlement.

Sources close to the Grant's cases indicate that The Home could seek to disallow claims against the D&O policy if the insurer could show that it had been provided with misleading information about the retailers financial status.

Mr. Rodman, in the suit brought before the state court, had asked for an injunction barring The Home from paying any D&O claims other than his. However, the insurer's attorney, Winthrop J. Allegaert, said if a judgment is awarded in the shareholders suit and the grounds were covered by the policy, the shareholders would also be entitled to money from the insurance company.

Many of the causes for action cited in the state suit filed by Mr. Rodman could be defended under the "business judgment" rule, noted Mr. Sheehan. Such a rule would apply if the directors and officers could show that their actions were taken on a reasonable basis, that they acted in good faith and that they were uninfluenced by other considerations, he explained.

The best thing for the defendants to do is to show that there was no misrepresentation of the facts, Mr. Sheehan said. ■

letters

Continued from page 8

have let it get by—and the note that if the federal pension law is truly designed to protect pensions, then somebody had better take note of this kind of gimmick.

Two to tango

To the editor: With respect to your editorial about the Chicago Daily News shutdown April 3 perhaps you should remember that it takes two to tango . . . there are two parties to the contract that you so heartily criticize. The guild can share with the publishers whatever criticisms and/or comments you wish to make. I would assume that both parties negotiated in good faith, that documents have long been published and/or available, and that at various points in time both the publishers and guild agreed upon the allocation of negotiated increases to or not to the fund and its terms, all of which was approved by the membership. The publishers fulfilled the promises they made; you just don't happen to agree with them.

In retrospect, it may not have been the best provision under these circumstances, but it was what the parties to the agreement thought . . . over a long number of years . . . was in their best interests.

I could not agree with you more regarding the bureaucratic paper mill in Washington; however, your other editorial comments and singular criticisms of the publisher are unwarranted and unfair.

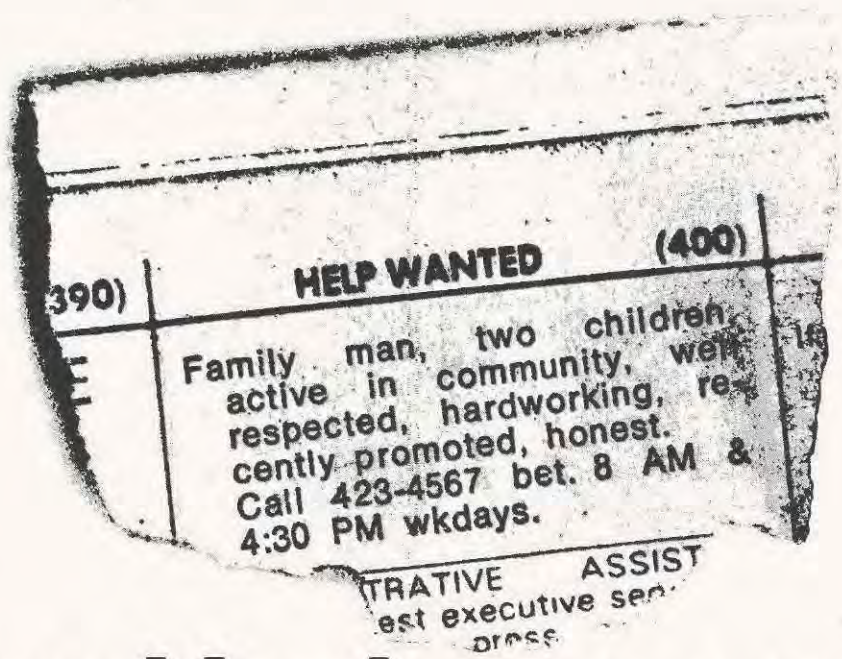
W. A. Smetts
Vp, Industrial Relations, The Stearns & Foster Co., Cincinnati, Ohio

New Orleans

To the editor: Ellis Simon's condemnation of New Orleans (April 3) cannot pass without comment. To do an article complimentary of Houston is fine; to downgrade our fine city just to enhance Houston is childish.

I have lived and worked in both cities and could do an equally strong slam on Houston's problems, but I will not. I will simply state that New Orleans is a delightful city with a thriving insurance industry. An industry filled with top flight people and reflecting all of the fascinating aspects of a very complex business.

John G. Dupuis
President, George S. Kausler Ltd., New Orleans



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E&O policy . . .

Continued from page 1

S. Spencer, vp risk and insurance for Fuqua Industries Inc. in Atlanta.

The E & O policy originated in 1977 when Leo C. Havey, vice chairman of Fred S. James in Philadelphia, began to explore professional liability fields for which there wasn't insurance protection.

As Mr. Havey put it, "It suddenly occurred to me that there wasn't any errors and omissions coverage for the insurance buyer."

In developing the E & O policy, Mr. Havey found that each insurance company he consulted had encountered at least two significant losses where a policy was nullified or seriously impaired due to an omission or oversight.

The E & O policy would provide protection where an honest mistake of the risk manager or others in the insured organization inadvertently nullified a policy.

Honest mistakes

According to Mr. Havey, honest mistakes that would be covered in the buyers E & O policy include:

- Failure to report a loss.
- Failure to renew a policy before expiration.
- Failure to report newly acquired properties that have a significant exposure.

Two basic policies are being offered, one with a $1 million limit and the other with a $3 million limit. There is a $100,000 deductible and 10% coinsurance on the first $1 million of coverage.

The rate for the policy, which is being underwritten by Capacity Managers International Ltd. of New York and insured by First Insurance Co. of Boston, is based on the total property/casualty premiums paid by a company.

For the $1 million policy, the model rate is $2,500 per million dollars of property/casualty premiums. A $1 million policy would cost $10,000 for a firm that spends $4 million in premiums.

On the $3 million policy, the rate is $3,750 per million dollars of premiums. However, there is a $5,000 minimum premium for the $1 million policy and a $7,500 minimum premium for the $3 million policy.

Coverage for more than $3 million can be arranged, but this would have to be done on an individual basis, Mr. Havey said. The rates charged could vary depending on such factors as whether the risk manager is a CPCU and a member of RIMS and how often a company changed brokers.

When asked to describe a situation in which the E & O policy would come into play, Mr. Havey said: "In order to get coverage, an insurer may insist that the policyholder notify the insurance company if the sprinkler system is shut off.

Superfluous?

"Suppose the worst happens. A shop superintendent turns off the sprinklers. He doesn't tell anyone. A fire erupts and the plant burns down. The insurance company can deny liability."

Some risk managers, however, believe the E & O policy may be superfluous and a better way to reduce potential exposure is to insist on broadly written policies.

"I certainly wouldn't accept a policy in which I had to notify the insurance company if the sprinklers were cut off," said Mr. Spencer of Fuqua Industries. "You don't have to do that today."

Several risk managers agreed that timely reporting of claims—one of the inadvertent mistakes covered in the E & O policy—is a problem due to fouled-up communication lines.

But they said insurance companies recognize that delays do occur in reporting claims and they would be unlikely to deny coverage if a claim were reported late.

"As long as fraud was not involved, insurance companies recognize reporting a claim late as part of the problems in a multi-plant operation," said Richard C. Heydinger, director of risk management and retirement for the Anchor Hocking Corp.

"I don't think carriers are looking for ways to chop off accounts they have worked darned hard to place on their books," Mr. Heydinger added.

Mr. Havey of Fred S. James believes the policy has the potential to gather $50 million in premiums in the next few years. ■

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Lloyd's rebuff . . .

Continued from page 1

Vaughn Harris, manager of the New York office of R. Greenway Inc., a Lloyd's broker. The decision precludes the non-Lloyd's brokers from gaining direct market access, he noted.

"If the U.S. houses bought in, there'd be a realignment of many accounts," observed Robert Quinn, president of J.H. Blades, a Houston-based Lloyd's coverholder specializing in oil risks.

One potential victim of a Hall-Leslie & Godwin marriage would have been Sedgwick-Forbes, which currently brokers the largest part of Hall's Lloyd's business. Ian Finlay, the current chairman of Lloyd's, previously was chairman of Sedgwick Forbes.

John E. Holfard, a director of Sedgwick Forbes N.A. Ltd., said it would be inappropriate to comment on the ruling.

Hall spokesman Peter Ripp said the merger with Leslie & Godwin would not necessarily have meant business would have been transferred from Sedgwick Forbes.

Ruling draws reaction

Prior to the Lloyd's ruling, Robin Singer, chief executive of Leslie & Godwin, told *Business Insurance* that "if our deal goes through, there can be a very competitive edge arising in the London market for insurance buyers. The expertise of the Lloyd's underwriters will be directly available to Frank B. Hall, which will make quicker decisions possible."

The Lloyd's ruling indicates that its top people perceive the moves by M&M and Hall as being "not in the long term best interest of the London brokers," said Jack Bogardus, president of Alexander & Alexander. Lloyd's feels that if American brokers had a controlling interest, they would put much of their business in their controlled source, he explained.

However, Mr. Bogardus contended that even with a controlling interest in a Lloyd's broker, an M&M or a Hall would be "hard put" to place all of its business through its London subsidiary since London brokers tend to specialize in certain risks.

A&A has not sought to acquire control of a London house, according to Mr. Bogardus. While the firm has lots of "friends" in the London market and the subject of acquisition has arisen from time to time in conversations, A&A has preferred "sitting on the sidelines," he said.

M&M president and chief executive officer John M. Regan Jr. told *Business Insurance*, "Our interest in becoming a Lloyd's broker had to do with long term rather than short term advantages. Our clients expect us to be everywhere and we are everywhere except Lloyd's.

"It's not our purpose to save $2 on a commission or to transfer accounts away from talented co-brokers, but rather to get a better handle on the business. It's better to be at the table than to be an outsider getting hearsay evidence."

Leonard Wilson, a securities analyst with Drexel, Burnham Lambert who specializes in brokerage firms, agreed with Mr. Regan's analysis of the need for a Lloyd's affiliation, explaining that such an acquisition would enable U.S. firms to acquire a more meaningful international ability to place risk.

Mr. Regan called the Committee of Lloyd's decision a "mistake" and said he hoped they would reconsider. "I can't imagine us as anything but good owners" of a Lloyd's brokerage firm.

Hall withdrew its offer for Leslie & Godwin following the Lloyd's announcement.

Hall had intended to use the proposed merger to expand its international operations and bolster its reinsurance opportunities, Mr. Ripp said. While he would not comment on what specific steps Hall would take as a result of the Lloyd's decision, he said the firm would consider other acquisition deals or joint ventures.

British club

Nationalistic and personal feelings may have contributed to Lloyd's decision to bar M&M and Hall, said Mr. Bogardus.

"Lloyd's is a club and it felt that this would be the forerunner of other moves by U.S. firms," noted Mr. Wilson.

"The system has existed for 400 years under British control and from a practical point of view they don't want to change it," said Mr. Quinn of Blades.

Exclusion from Lloyd's is unfair to U.S. firms since British are permitted to operate in this country with complete access to the U.S. market, said Mr. Bogardus.

One firm which has taken advantage of this is Reed Shaw Stenhouse, whose principal operations are in Canada but which owns three Lloyd's brokerages.

"We have not had any difficulties operating as both Lloyd's brokers and direct elsewhere in the world," said director John M. Riley. "Each unit operates individually and makes its own decisions which best serve our clients.

Reed Shaw

"With regards to our direct operations in the U.K. and elsewhere, we would only channel business into our own affiliates at Lloyd's if it is in the best interest of the customers we serve. A majority of the business channeled into Lloyd's may indeed go to other than our affiliates."

Reed Shaw argued its Lloyd's connection was a result of mergers, not acquisitions.

If Lloyd's does not budge on the issue of brokerage control, U.S. brokers will have to be content with minority positions or joint ventures, said Mr. Wilson.

M&M, A&A, Johnson & Higgins and Arthur J. Gallagher & Co. are among American brokerage firms currently involved in joint ventures with Lloyd's brokers.

J.H. Minet & Co. and C.T. Bowring Ltd., two British firms, have interests in Fred S. James & Co. and Victor O. Schinnerer & Co.

In addition, Corroon & Black has a 35% interest in Glanvill Enthoven & Co. while M&M controls 20% of Bland Payne Ltd.

Corroon & Black senior vp Hunter Armistead said he did not know whether the Lloyd's ruling would force his company to reduce its holdings in Glanvill Enthoven. An "ex post facto" ruling could allow the holdings to remain intact, he said.

According to Mr. Regan, M&M began seeking partners among its other London correspondents only after Midland Bank Ltd., which controls the remaining 80% interest in Bland Payne, declined to sell its shares. ■

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riskWatch

By REBECCA A. FANNIN

Head hunters grab risk management bandwagon but dispute salary study

Executive recruiters are learning fast about one of the radical management changes that's occurred in insurance departments. They've discovered that no longer do insurance managers blindly buy insurance like clerks but that nowadays they buy less insurance and they control losses to build company profits. These so-called risk managers are gaining responsibilities, commanding larger salaries and sometimes even climbing the corporate ladder to the rung of treasurer.



Fannin

So many executive recruiters, never ones to miss an opportunity, are scrambling to place risk managers in lucrative positions. It's all because they can cash in on higher commissions from higher salaries for risk managers.

Big-name head hunters, who never peeked at the insurance department before, have expanded their recruiting staffs or efforts to take a long, hard look at the new-born managers. And specialists in brokerage firm and insurance company recruiting have opened departments to specialize in risk management openings too.

With their new-found wisdom and, of course, their new way to earn a profit, head hunters have become somewhat defensive about the risk manager's opportunities. They've become downright upset too—most recently with the Risk & Insurance Management Society's survey that disclosed risk managers earn an average salary of $28,800. Witness the comments of Robert Murphy, president of Robert Murphy Associates in New York. He says it's hard to believe that a risk manager could earn as low as $15,000 or only as high as $60,000. That feeling's based on his own recent placements—three with earnings in excess of $60,000 and two current searches for risk managers that also will pay more than $60,000.

■ Lamalie Associates Inc. of New York, which places approximately 30 risk managers a year, has also taken note. It surveyed the 50 largest American companies presently upgrading the risk management function and found that many have established compensation levels up to $75,000.

That these recruiters work for such large conglomerates as Gulf & Western Industries Inc., Union Carbide Corp. and Phelps Dodge, tends to expose them to the highest salaries. Mr. Murphy claims another reason for the wide salary disparity. "If you're super and earning top dollar, then you don't need to belong to an organization like RIMS," he claimed.

Head hunters also are emotional about risk managers' upward mobility. They feel sorry that risk managers are entangled in a Catch-22 web—they can't move up to a higher-paying, higher-level job because as they grow they move deeper into their own insurance and risk specialty.

"I feel frightened for the person that has a stable job as an insurance specialist in a large company," said Richard W. Meyers, a recruiter with Wall Associates Inc. in New York, whose firm places approximately 30 risk managers a year at such companies as Mobil Oil Corp., General Foods Corp. and International Business Machines. "The risk manager's just stuck there, in a specialty position that a large company selfishly created," he said.

Mr. Meyers noted that the route to assistant treasurer is well-traveled because both fields are financially related. But he added they "don't move up to vps or assistant vps," and only occasionally to vp of risk management if the company sheds new light on the risk manager's responsibilities."

■ What are risk managers doing to escape the bind? Most executive recruiters agree that once risk managers have reached their limits, they join the brokerage firm ranks.

While there's a lot more glory in working on the corporate side, Mr. Murphy said, the trouble is the salary. Besides, "it's the brokers who are the brains, although the risk managers don't want to admit it," he added. Not only is there constant change and challenge in brokering, but their pay is going up in "leaps and bounds," he noted, adding that some brokers he's placed are earning up to $200,000.

A brokerage firm will pay whatever it takes to get a good broker, he said, but seldom will a company match an offer for a risk manager.

Is it also true, as Mr. Murphy says, that the "most a risk manager can hope to be is another risk manager"?

people

Continued from page 42

trator, a new position. He's responsible for the overall administration of insurance and reports to insurance manager Anthony J. Burlando. Previously, Mr. Fertelmes was supervisor of commercial underwriting for Continental Insurance Co.

* * *

Richard T. Stockwell, 53, has been promoted to insurance manager of Pepsi-Cola General Bottlers Inc. in Chicago, reporting to Glen N. Buckley, vp of administration. Mr. Stockwell's been with the company since 1969 as corporate safety director. He replaces **Ralph M. Parilla,** who retired March 31 after serving 12 years as insurance coordinator.

* * *

Michael J. Moody, 34, has joined Kellwood Co. in St. Louis as risk manager. He reports to assistant controller Jack Hashman and is responsible for property, casualty and financial benefit duties. Previously, Mr. Moody was assistant risk manager at May Department Stores in St. Louis, where he hasn't been replaced.

* * *

Andrea Hammer, 33, has been named insurance manager for Diamond/Sunsweet Inc. in Stockton, Calif., replacing **William O. Wagner,** who has retired. She's responsible for property, casualty, liability and workers compensation coverages. Previously, she was insurance supervisor.

* * *

Lachman Daryani 53, has joined Flexi-Van Corp. in New York as insurance analyst, reporting to risk manager Michael McCarthy. Previously, he was a claims manager for Prudential Lines Corp. in New York.

* * *

Laura VonGlahn, 25, has joined Branch Motor Express in New York as workers compensation supervisor. She reports to director of insurance Robert Blanda. Previously, she was a workers compensation adjuster for United States Fidelity & Guaranty Co.

* * *

A. Wayne Klokis, 26, has joined Warner-Lambert Co. in Morris Plains, N.J., as corporate insurance supervisor, reporting to Edward Mench, insurance manager. Previously, he was claims handling supervisor for Travelers Insurance Co. in New York for 4½ years. In his new position, he replaces **G. Robert Doyle,** 36, who joined NL Industries Inc. in Highstown, N.J.

* * *

Alfred D. Jordon, 26, has joined CIT Financial in New York as assistant risk manager. Previously, Mr. Jordon worked as a senior risk analyst for Arlen Realty & Development in New York, where he hasn't been replaced.

* * *

Brian T. Costello, 29, has joined Babcock & Wilcox Co. in New York as insurance risk analyst. He reports to insurance manager Jack W. Lyon. Previously, Mr. Costello was supervisor of the claims department of the Travelers Insurance Co. in New York for seven years. Mr. Costello replaces **Ints Rupners,** 36, who joined General Electric in New York as insurance analyst, reporting to K.C. Hall, insurance manager. Mr. Costello worked for Babcock & Wilcox for approximately four years.

* * *

Anna L. Dicembre, 23, has joined Chemical Bank Corp. in New York as insurance analyst. She replaces **Beth Danzeger** and reports to John Robert James, vp of risk management. Previously, she was assistant casualty underwriter for American International Underwriters Corp. in New York.

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info for buyers

• The Society of Chartered Property and Casualty Underwriters has published **Self-Insurance: A Risk Management Alternative.** The book includes an overview of the self-insurance program, a discussion of medical malpractice and self-insurance, FASB-5, bankers blanket bond, workers compensation, liability self-insurance, as well as a step-by-step case study of the self-insurance technique. Price is $10. Write the Director of Communications, Society of CPCU, Kahler Hall, Providence Rd., (CB#9), Malvern, Pa. 19355.

• **About Health Care Costs** is a 19-page color brochure from U.S. Administrators. Among the topics considered are implementing quality assurance, medical, dental and drug plans and workers compensation. For a free copy write Samuel X. Kaplan, President, U.S. Administrators, 8383 Wilshire Blvd., Beverly Hills, Calif. 90211.

• **A Computer Security Bibliography,** which cites 135 computer security sources and includes summary descriptions of more than 100 of them, is available from the Computer Security Institute. For a free copy of the 12-page booklet write John C. O'Mara, Computer Security Institute, 43 Boston Post Road, Northboro, Mass. 01532.

• **Cost of Risk Finance Plan** describes the program of Corporate Systems for forecasting and allocating the cost of risks among divisions, profit centers and cost centers of a corporation. The plan also includes a retrospective experience adjustment. For a free copy write Marvin Gwinn, Corporate Systems, P. O. Box 2827, Amarillo, Tex. 79105.

• The defense of medical malpractice cases is the subject of the recently published **Medical-Legal Monograph** offered by the Defense Research Institute. A collection of five articles provides observations regarding the investigation and preparation of medical malpractice litigation, the medical standard of care, the statute of limitations and informed consent. An appendix outlining a strategy of discovery for the defense, an annotated bibliography and case references to nearly 90 briefs are included. Each copy of the monograph costs $7.50. Write William H. Kotlowski Jr., Information Director, Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233.

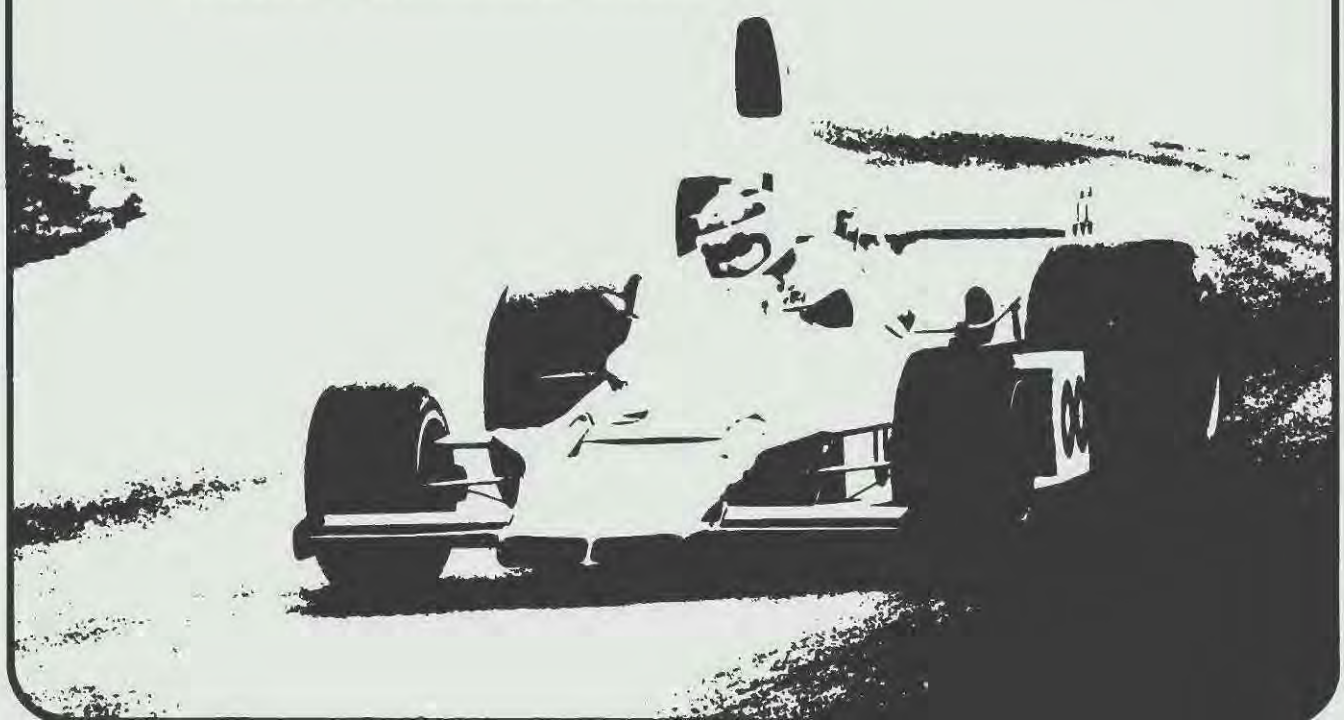
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people

Houston food firm picks Lower as risk manager

John R. Lower has been named corporate risk manager, a new position for Fairmont Foods Co. in Houston, Tex. He was formerly insurance administrator for Owens Illinois in Toledo, Ohio. Mr. Lower reports to William G. Wald, vp and secretary and general counsel at Fairmont Foods Co.

* * *

Cathy Lowenbraun, 27, has been promoted to director of employe benefits and corporate communications at Kane-Miller Corp. in Tarrytown, N.Y. She's been given additional responsibilities in employe benefits, corporate public relations and non-financial communications from her previous position as manager of employe benefits. Ms. Lowenbraun reports to treasurer Richard A. Winfield. She joined Kane-Miller in 1972 as insurance manager.

* * *

Michael J. Horray, 32, has been appointed fire protection specialist in the risk management branch of the Navy Resale System Office in Brooklyn, N.Y. Reporting to risk manager H. Miller, he is responsible for the fire protection program for Navy Exchanges worldwide. Previously, Mr. Horray was a high school teacher of social sciences. He replaces **Meyer Hunger,** who retired approximately two years ago.

* * *

Robert S. Gyory, 60, has joined GAF Corp. in New York as manager of risk insurance, a new position. He reports to Robert Miller, director of financial planning. Mr. Gyory is former president of Gyory Associates Inc., risk management consultants. He previously served as assistant treasurer of U.S. Industries Inc. and vp of Federal Life & Casualty Co.

* * *

Roger S. Fertelmes, 24, has joined Joy Manufacturing Co. in Pittsburgh as insurance adminis-

Continued on page 41

classified advertising

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PPG Industries, Inc.

The Corporate Insurance Department of PPG Industries, Inc. has an immediate need for an individual with expertise in risk control and insurance planning at Pittsburgh headquarters. You will be responsible for evaluation, recommendation, and implementation of amounts and types of insurance coverage within the Corporation.
You should have five to ten years experience in a similar capacity and be proficient in risk management techniques with complete familiarity of insurance company activities concerning coverages, rates, and philosophies. Proficiency in written and oral communications essential. Salary commensurate with experience. Excellent benefits program. Please submit resume and salary requirements to:

Andrew J. Minarchek
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One Gateway Center
Pittsburgh, PA 15222

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To initiate a risk management department for growing firm in motor transportation field located in large mid-western city. Responsibilities will include property and casualty insurance, loss prevention and claim control. Send resume including references and salary requirements to:

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PROPERTY INSURANCE MANAGER
Large well established Agency/Broker located in Mid-East and Southern Area seeks a highly qualified individual with experience in Commercial Fire, Inland Marine, Multi-Peril and knowledge of Factory Mutuals. Candidates should possess college degree, minimum of five years insurance experience supplemented by formal insurance education. CPCU designate and knowledge of coal industry desired but not required. Must have management abilities as well as knowlege of insurance markets. Compensation commensurate with qualifications.

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You may be the Corporate Benefits Manager of a small to medium sized corporation now, but if further career progress is limited due to the corporate structure . . . now's the time to join the Miller Brewing Company. We're in the midst of developing one of the nation's most progressive industrial relations teams. A staff of professionals charged with the reponsibilities of meeting the demands created by Miller's industry record breaking growth. This means broad career opportunities that cannot be matched by most companies.

As the Corporate Benefits Analyst, you'll be given the opportunity to utilize your professional talents in the development of all facets of benefits administration.

Position requires 2 or more years of related experience at the Corporate level. Heavy involvement with ERISA and experience with consultants, actuaries, carriers and other third parties helpful. A degree is preferred.

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740 Rush St., Chicago, Ill. 60611

RISK MANAGEMENT CONSULTANT SENIOR CONSULTANT
Rapidly expanding Consulting Firm is seeking a highly-motivated individual with strong technical background for the position of Senior Consultant. Duties contemplate interfacing with Executives, Risk Managers, as well as Agents, Brokers and Insurance Company personnel. Excellent communication skills both written and oral a must. Ability to analyze and evaluate Risk Management programs necessary. Decisiveness of utmost importance. Professional designation is desired but practical experience will weigh heavily. Top salary and excellent growth potential. Send resume in confidence to: **Kevin F. Donoghue & Associates, 735 Morrissey Boulevard, Boston, MA 02122**

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National brokerage with strong SE reputation seeks sales manager to head dynamic field sales force. Must have major or National Accounts experience with solid exposures to self-insurance or captive programs. Ideal candidates will have proven field sales background with a large commercially oriented agency or with a leading direct writer in a National Accounts division. Sales Management experience required.
ACCOUNT EXECUTIVE (Texas) to $30K
Texas brokerage seeks individual to service an existing multi-million dollar book of commercial accounts. Captive or self-insurance experience desired.
MARKETING EXECUTIVE $25K/$30K
Texas agency seeks individual with experience in the placement of medium to large commercial accounts (casualty oriented). Client will consider individual with strong casualty underwriting background who has interests in entering the agency/brokerage environment.
PARTIAL LISTING ALL FEES PAID
Contact: Jim Gilbert
INSURANCE RECRUITERS, INC.
3707 Rawlings, Suite 416
Dallas, Texas 75219 (214) 528-0090

SAFETY ENGINEER
Progressive Medical Center in San Antonio, Texas, is in immediate need of an experienced Safety Engineer. Individual is responsible for overall safety, fire protection, environmental health, workers' compensation, and OSHA regulations. Prefer degree in Engineering with safety background. Salary negotiable. Send resume including salary history to: Director of Personnel, **SANTA ROSA MEDICAL CENTER, P.O. Box 7330, Station A, San Antonio, Texas 78285.**

Retire in sunny south Texas.
The Independent Insurance Agents of Corpus Christi are seeking a part-time executive. Retired trade association executive or retiree with broad insurance knowledge is desired. Salary negotiable. Contact: Gordon Hurst, 850 Petroleum Tower, Corpus Christi, TX 78474.

EXCESS & SURPLUS LINES CASUALTY UNDERWRITER
E&S company seeking individual with at least 8 yrs solid casualty underwirting experience to assume territorial underwriting responsibilities. Prefer individual with college degree, knowledge of E&S operations and imaginative mind. Company offers outstanding opportunities for professional achievement and personal growth. Send resume and salary history to Al Sonsini, Jersey/International, Inc., P. O. Box 3030, Haddonfield, NJ. 08033

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Fast growing Midwest based Employee Benefit Consultant and Administrator seeking qualified Marketing Consultant to work with E.R.I.S.A. Trusts, Stop-Loss Reinsurance and Third-Party Administrative services. Five years experience as group insurance account executive or employee benefits consultant for actuarial or third party administrative firm desired. Duties will include design and implementation of marketing programs, selling stop-loss reinsurance, third party services, insured plans and consulting services. Compenation determined by your credentials. Excellent fringes.

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Pension & Group Services, Inc.
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Kalamazoo, Michigan 49007

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Midwestern brokerage firm is seeking experienced person to assume major responsibility in existing Loss Control Department. P.E. or C.S.P. very desirable!
Must have ability and experience in developing comprehensive loss control programs based on individual clients physical and psychological needs.
Send resumes to:

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DIRECTOR
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An audience of nearly 100,000* corporate, financial, administrative and risk management executives along with their brokers, agents, consultants and underwriters will be reading this special **RISK MANAGEMENT SERVICES** issue to find out what's new and where these services are available, who's behind the innovations and how progressive companies are complementing their insurance programs with risk management services.

If this is your market, you should make your advertising reservations now for the May 29 **RISK MANAGEMENT SERVICES** issue—reservations close on May 16.

For additional information, contact Don Walsh, Advertising Sales Director, at (212) 986-5050. Or contact a sales representative at one of our offices listed below.

*Figure includes pass-along readership. An Audience Profile Among Buyer Readers. 1977; A Profile of the B.I. Agent and Broker Reader. 1975.

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