Week of May 26, 1980

business insurance

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Church captive

Roman Catholic churches in the U.K. form an offshore mutual insurer, an example of growing interest in the U.K. in captives: **Page 13.**

Boosting rehab

Changes in Social Security disability are expected: **Page 26.**

Cut-rate communication

Small businesses may be spending too much on fancy employe benefit communications plans: **Page 30.**

Riots in Miami ignite $100 million loss

By STUART EMMRICH

MIAMI—Insured losses from the looting and firebombings here are expected to top $100 million, making the recent race riots some of the worst in the country's history.

Damage estimates continue to grow each day from the rioting that enveloped the Northwest Miami area that local officials described as a "city under seige."

"I originally thought that the losses would total $40 million to $50 million, but now I'm sure that the final figure will at least reach $100 million," said Earl Lipnick, manager of the Miami office of Poe Associates.

If losses hit $100 million—an estimate other industry sources confirm—they will be more than double the record $44 million in insured losses resulting from rioting in the Watts section of Los Angeles in 1965.

Even adjusting for inflation, the Miami riot losses are likely to approach the magnitude of the damage in Watts.

The largest reported commercial loss so far is an $8.3 million binocular importing facility of the Tasco Sales Inc. National Union Fire Insurance Co. of Pittsburgh, Pa. underwrites a property insurance policy for Tasco that was brokered by Frank B. Hall & Co. of Miami, said Hall's local claims manager E. H. Trowbridge.

The Tasco warehouse was burned to the ground.

More losses, mostly from looting of small businesses in the southwest Miami area, range from $10,000 to millions of dollars.

Kemper Insurance Cos. officials have already identified one major property loss, that of a $1.5 million hardware wholesale facility that was destroyed by fire.

Kemper, however, will not be at risk for more than $400,000 to $500,000 because it insures only

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Photo: Wide World

A National Guardsman stands watch as the blazes continue in riot-torn Miami.

Firms must open worker medical records: OSHA

By JERRY GEISEL

WASHINGTON—Exposure to toxic substances or harmful agents at work entitles an employe to copies of medical records maintained by the employer, under new rules announced last week by the Occupational Safety and Health Administration.



Eula Bingham

The regulations, effective Aug. 21, allow an employe to examine and copy an employer's records of employe exposure to toxic materials, the employe's personal medical records and analyses based on these records.

"Today's standard will enable workers to obtain vital information which previously had been locked away in employer's files," said OSHA chief Eula Bingham. The new regulation is "the most important since I came here," she added.

Unions may also see an employe's health records with the written consent of the employe.

Companies have 15 days from the time of request to hand over medical records.

OSHA also will have access to employes' medical records, but it will not need the permission of an employe in order to obtain them.

This recent OSHA standard will apply to all employers engaged in general industry, maritime and construction whose employes are found to be exposed to toxic substances or harmful agents.

The new standard also requires employers to maintain an employe's medical records during

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NEWSPAPER

Volcano losses Page 3

Prepaid vision program may violate Minn. law

By STACY SHAPIRO

ST. PAUL—An unregulated, prepaid group vision benefits program administered and possibly marketed from the home of Onan A. Thompson, president of Delta Dental of Minnesota, could be violating state insurance laws.

The Minnesota attorney general's office and the state insurance department will investigate the business of Minnesota Vision Services Inc. and Thompson's involvement in the plan, as a result of a *Business Insurance* probe.

The Minnesota insurance department hasn't regulated Minnesota Vision Services because it has been under the impression that the organization was merely contracting with opticians for discounts on glasses, said Michael Markham, insurance commissioner.

When *BI* pointed out that Minnesota Vision Services Inc. is not regulated under the state statutes, Bob Clayton, special assistant attorney general, said, "Sounds to me like something that should be regulated."

Mr. Thompson has consistently declined to discuss anything about his business relationships with Minnesota Delta Dental or Minnesota Vision Services, advised by his attorney not to talk with *BI*.

The details of these operations were pieced together from interviews with former and current Delta Dental employes, officials of Minnesota Vision Services and state and federal regulators.

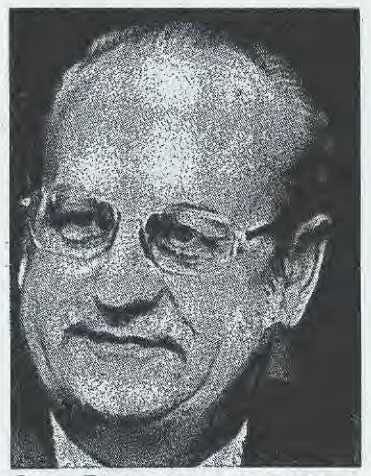
The U.S. Labor Department is also investigating Mr. Thompson and his affiliation with Delta Dental and Minnesota Vision Services, a department spokesman said. The department will scrutinize the relationships between these benefit services as well as dental and vision services in other states.

The Labor Department is known to be auditing the books of Minnesota Vision Services.

Vision Service Plan National, the parent organization of Minnesota Vision Services, is based in St. Louis. Delta Dental is based in Chicago.

Mr. Thompson, convicted April 28 by a St. Louis, Minn., county jury on charges of forging claims data of a school district account, will remain as president of Minnesota Delta Dental (*BI*, May 19).

He was convicted of altering loss reports in a letter to the school district, which lowered Delta Dental's profit on the account to $12,000 when it actually should have been shown as $29,000. The altered loss ratio didn't cost the school district any additional premiums under its guaranteed cost plan. The school district has also renewed its dental program with Delta Dental.



Onan Thompson's involvement in Minnesota Vision Services will be investigated by the state.

Mr. Thompson is petitioning the Minnesota supreme court July 15 for a retrial.

Minnesota Delta Dental is licensed and regulated by the state as a nonprofit, prepaid health insurance plan, said Mr. Clayton of the Minnesota attorney general's office.

But Minnesota Vision Services Inc., chartered in 1960

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for your information

Court rules firms must pay pre-1976 vested benefits

WASHINGTON—Employers are liable for employe pension benefits that were vested after the pension reform law was enacted but before the effective date of its vesting provisions, the Supreme Court ruled.

In a five-to-four decision, the Supreme Court rejected arguments by Nachman Corp. of Chicago that it was not liable to guarantee the pension benefits of its employes because it terminated its plan the day before ERISA's vesting provisions went into effect.

"The court's decision is important because it upholds our position on pre-1976 terminations," said Robert Nagle, executive director of the PBGC. "It means that participants in our trusteed plans that terminated prior to 1976 will receive their full guaranteed benefits under ERISA."

The decision affects about 136 plans that were terminated during the transition period with insufficient assets to pay promised benefits. Benefits totaling $53 million are due about 21,000 participants in these plans.

On Dec. 31, 1975, the day before ERISA would have required significant changes in its pension plan, Nachman folded its plan covering 135 employes.

Nachman filed a suit in 1976 against the PBGC, the federal agency that guarantees vested pension benefits through an insurance program, to prevent PBGC from taking action against Nachman to ensure that benefits were paid. Under ERISA, the PBGC can take over a pension plan and seize up to 30% of a company's net worth to ensure that vested benefits are paid.

"Congress clearly did not offer employers an opportunity to make cost-free terminations at any time prior to Jan. 1, 1976," said Justice Paul Stevens. "Quite the contrary, one of the express purposes of ERISA was to discourage terminations."

Ex-state official to face trial

BALTIMORE—A former state workers compensation commissioner will be brought to trial in federal court here Aug. 25 on charges of using his office to solicit payments from lawyers representing clients who appeared before him.

Joseph I. Paper, 70, is charged with eight counts of extortion and seven counts of violating federal mail fraud statutes by accepting cash and other items of value from lawyers.

An indictment, handed down by a special federal grand jury May 9, further charged Mr. Paper of Baltimore with actively soliticing the payments to influence his decisions on awards to claimants and attorney fees.

Mr. Paper, who served as commissioner from 1961 until his retirement in July 1979, pleaded not guilty at a May 16 arraignment. He faces five years imprisonment and/or a $1,000 fine for each of the seven mail fraud counts and up to 20 years imprisonment and/or a $10,000 fine for each of the eight extortion counts, if convicted.

Neither Mr. Paper nor his attorney, Howard Cardin, could be reached for comment.

Bridge wreck causes toll loss

TALLAHASSEE—Traffic over the remaining span of the Sunshine Skyway Bridge is off 20% but only half of that loss is attributable to the May 9 collapse of the southbound span, says a Florida department of transportation spokesman.

Since the bridge was rammed by the Liberian freighter Summit Venture and a quarter-mile section of the main span broke off into Tampa Bay, the daily vehicle count was down by 2,500 to 3,000, the spokesman said. Normal traffic reductions in May accounted for half of the loss, he said.

Florida is insured by National American Insurance Co. against loss of toll revenues because of traffic disruptions (*BI*,May 19). The policy has an annual limit of $2.9 million, the spokesman said. Passenger car bridge tolls are 50 cents.

National American also wrote physical damage coverage for the bridge. The policy covers 80% of repair costs up to $56.7 million—the assessed value of each span—and is subject to 5% deductible.

Policy covers baseball owners

NEW YORK—Despite reports in the nation's sports pages that major league baseball club owners are not insured in the event of a players' strike, owners are covered under a special policy underwritten by Lloyd's of London, other London companies and U.S. insurers, *Business Insurance* has confirmed.

The first $10 million layer over a $10 million strike fund was insured in the U.S. and mostly reinsured in London, sources said.

Alexander Howden Insurance Brokers Ltd. in London brokered 30% of the programs, with Marsh & McLennan acting as broker in the U.S., *BI* learned.

The policy will cover club owners for expenses such as stadium rentals and lost revenues (*BI*, April 7).

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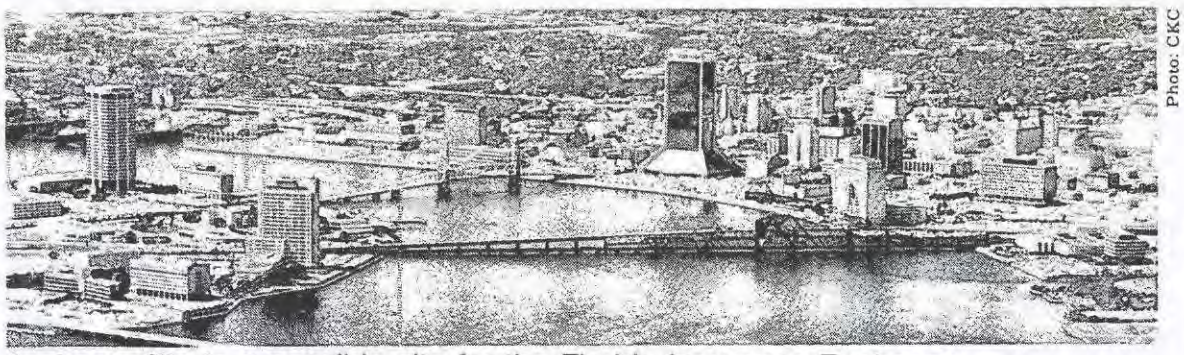


Photo: CKC

Jacksonville is a possible site for the Florida Insurance Exchange.

Florida is expected to OK risk exchange

By JOHN MAES

TALLAHASSEE—Legislation creating the Florida Insurance Exchange could be approved within the next two weeks, but where the exchange will be located—Miami, Jacksonville, or Tampa/St. Petersburg—is still a question.

A draft of the constitution and bylaws for the exchange will be submitted to the state legislature before the assembly adjourns in two weeks, said Gary Guzzo, an administrative aide to Florida insurance commissioner Bill Gunter.

No roadblocks to its passage are expected, but a location for the operation has still not been selected, Mr. Guzzo said. Site selection will fall on the shoulders of the interim board that will be appointed soon to draw up an operations plan.

Development of a Florida Insurance Exchange would create a third insurance market established in the U.S. to compete especially with London for commercial insurance business. The newly opened New York Insurance Exchange and the developing Illinois Insurance Exchange are also hoping to match the innovation of Lloyd's of London in underwriting commercial risks free of rate and form regulation.

The Florida legislature was bypassed on the headquarters matter to avoid a floor fight among lawmakers that could have delayed passage of the legislation, Mr. Guzzo said. "The legislators from Miami would want it located in Miami and the ones from Jacksonville would want it there."

Miami, the state's banking and commercial center, and Jacksonville, the insurance center, are the leading contenders. But Tampa/St. Petersburg is still in the running because it is a rapidly expanding metropolitan area with good transportation facilities, Mr. Guzzo said.

Also under consideration is putting the exhange in one city and branch facilities in several others. "But then you run into the problem of who gets the floor and who gets the electronic data processing center," he said.

The legislation would allow the exchange to become operational 60 days after it is enacted. But insurance officials say it will probably be at least Jan. 1, 1981, before doors open for business at a Florida exchange. The interim board will need that much time to put together the operations plan, Mr. Guzzo said.

Inquiries about syndicate formation have come from state and national insurers, banks, real estate firms and groups of private investors, Mr. Guzzo said. He would not name them until they make formal announcements.

Florida is trying to lure investors to its exchange by foregoing rate and form regulations and regulating only for financial solvency and consumer protection. It has also established capitalization requirements of $1.5 million per syndicate, lower than the $2.5 million New York requires for syndicates on its newly formed exchange and the $2 million set by the developing Illinois exchange. ■

Calif. workers comp bill could cost $330 million

By RHONDA L. RUNDLE

SACRAMENTO—A major workers compensation reform bill unveiled by Gov. Jerry Brown could cost California employers $330 million a year in higher benefits to injured workers, but could also reduce litigation expenses.

Advocates of the bill contend it could cut litigation costs in half, but at least one insurer is skeptical.

Masterminded by a powerful alliance of insurers, unions and employers, the bill (S.B. 375) is sponsored by Bill Greene (D-Los Angeles). The proposal recommends the most sweeping changes ever made in the state's 63-year-old workers compensation system.

Such "agreed bills," hammered out among the major interested parties, often sail smoothly through the legislature. Supporters of S.B. 375, however, are bracing for stiff resistance from California's workers compensation applicants and defense attorneys who fear the reforms could cut litigation in half.

In spite of this opposition, industry sources cautiously predict the bill will pass. State Workers Compensation fund president E.A. "Sandy" Sandberg, a strong supporter of the bill, notes that prospects for passage are good in the early stages, "but not if it drags into a long debate."

Protracted debate could chip away at the fragile compromise underlying the bill. Both the California Manufacturers Assn. and the California Self-Insurers Assn. are already calling for substantive amendments to the present draft,

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errors & omissions

• A May 12 story about eight union welfare funds in New York State recovering $394,418 was incorrect. The funds were recovered not from Trans World Life Insurance Co., as reported, but from Fringe Plan Administrators Ltd. and Group Writers Inc., agents of Trans World Life. The New York insurance department said it has now recovered a total of $2.2 million in connection with the group insurance practices of Trans World Life. Trans World Life has contributed $1.4 million to the money refunded to the welfare plans because of excessive retention levels and service fees.

Bill would make unions take bids

By ELLIS SIMON

NEW YORK—Welfare fund trustees in New York would be forced to "shop around for the best buy" on group insurance contracts if pending state legislation is passed.

Union welfare fund trustees would be required under the bill to provide insurers with proof that they considered a "reasonable number of comparative bids" before awarding a contract. Insurers would need that proof before they could write coverage.

Passed by the senate insurance committee and the assembly insurance committee, the bill is expected to be passed by the full legislature.

In addition, insurers would need approval from the insurance department before ceding more than 25% of the premium on welfare fund accounts to reinsurers under regulations expected to be introduced following passage of the bill, said superintendent Albert B. Lewis.

The bill's passage would yield savings to employers that foot the bills for excessive premiums and service fees charged by the beneficiaries of noncompetitive insurance buying practices, says insurance superintendent Albert B. Lewis. Union members would also be protected against high-priced contracts that "rip off the mem-

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Legislation would bar faster vesting proposal

By JERRY GEISEL

WASHINGTON—Rep. Barber Conable (R-N.Y.) plans to introduce legislation barring the Internal Revenue Service from imposing faster vesting requirements than the standards now set by ERISA.

The Conable legislation would make it clear that the IRS only could impose more rapid vesting if it found serious abuses in a pension plan such as the firing of employes just before they vested in their benefits.

The IRS has proposed regulations to impose faster vesting not only if there are abuses, but also if the plan discriminated in favor of highly compensated employes *(BI,* April 21).

Rep. Conable says ERISA allows faster vesting requirements only to correct abuses. "The legislation would make it clear that the three statutory vesting schedules must be applied unless an abuse situation exists. And when the more rapid vesting schedule is used, it must be limited to these abuse cases," he said.

The regulations have touched a sensitive nerve not only in Congress, but also in the benefit community. The IRS has received about 100 phone calls and about the same number of letters since the proposed regulations were published April 9, a Treasury Department spokesman said.

Public comment will be accepted until June 9.

Consulting firms already have lashed out against the proposed regulations. "In our judgment, the proposed action by the service clearly goes beyond the law and its intent," said Chicago-based A.S.Hansen Inc. "In addition, we expect few plans, if any, could satisfy the proposed rules."

"The IRS . . . appears to have been premature in its vesting proposals and has also failed to properly consult Congress prior to issuing these proposed regulations," said Frank B. Hall Consulting Co. of Briarcliff Manor, N.Y.

Under the IRS proposed regulations, the agency will examine employe turnover rate, average vesting of terminating employes and average time remaining for full vesting of current employes to determine whether discrimination exists favoring highly compensated employes. To avoid a finding of discrimination, employers have two options.

The first option would require 100% vesting after three years of service. The second option essentially would require 20% vesting for each year of service.■

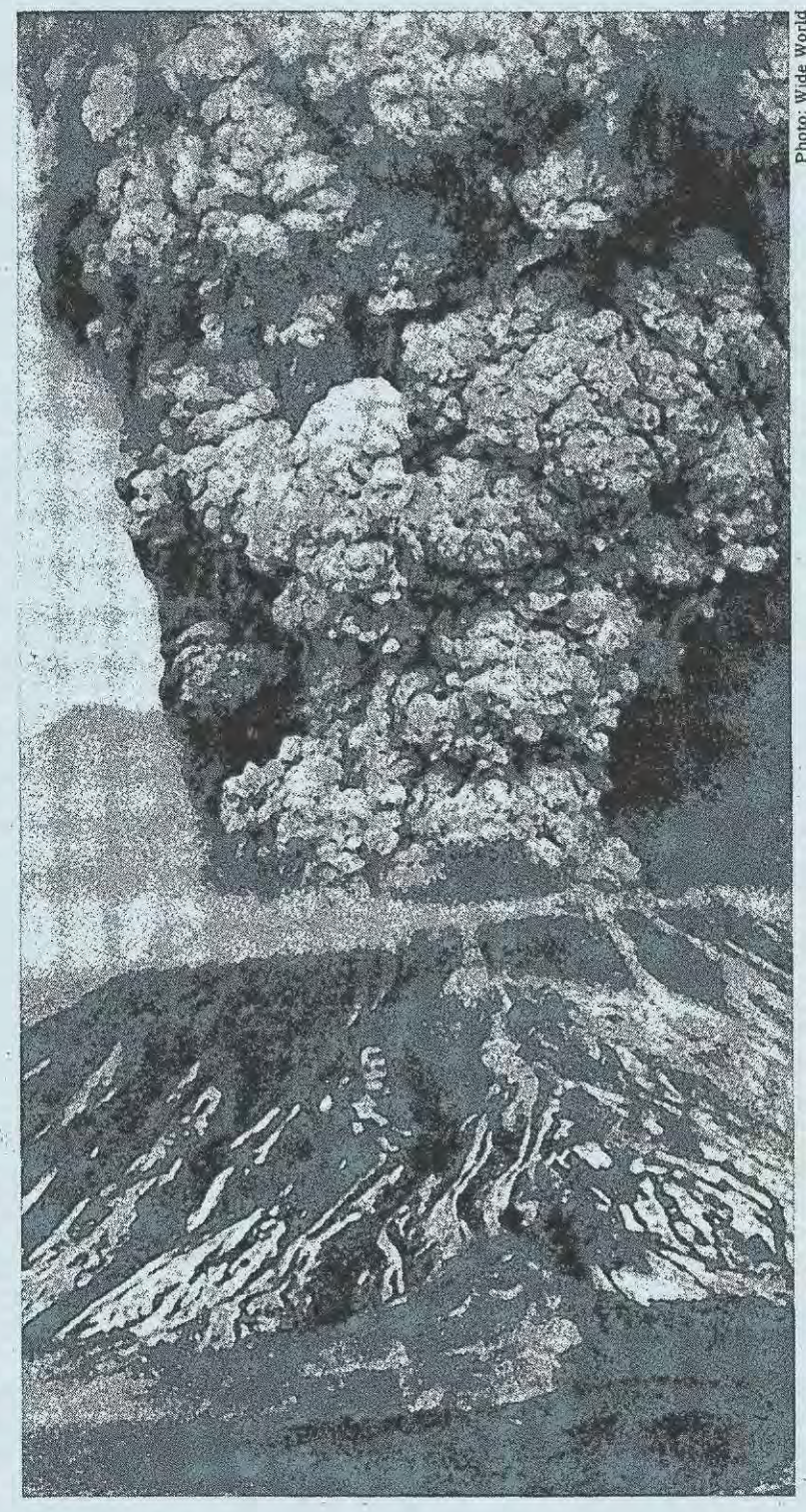


Photo: Wide World

GM employe claim fraud can't be stopped: Execs

By JOHN MAES

FLINT, Mich.—Aside from the possible license revocations of the doctors involved, there is apparently little that can be done to eliminate the fraudulent collection of sickness and accident benefits by General Motors employes here.

The Michigan attorney general's office and the state licensing department are looking into reports that doctors are signing work excuses for thousands of GM employes who avoid work even though they are not sick and collect benefits.

Four chiropractors and one medical doctor from the Flint area are the subject of the investigation launched after the Flint Journal disclosed such abuses in a series of articles.

Flint Journal reporters, posing as GM workers, collected 28 work excuses from the chiropractors and the doctor during a six-month period. In many cases, the reporters did not even claim to be sick or injured.

Benefits abuse is a nationwide problem affecting many industries, but the auto industry with its liberal benefit plans is particularly vulnerable, insurers and benefit managers say.

GM, its insurers and the United Auto Workers say little can be done to stop abuses and it's virtually impossible to eliminate them.

"We'd like to think we've done everything we can possibly do," said Michael Lucarelli, manager of group insurance claims for Metropolitan Life Insurance Co.'s Detroit office. Metropolitan handles all sickness and accident insurance for GM.

Metropolitan trains GM em-

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Risk: Public wants facts to bear its share

NEW YORK—Business executives, members of the financial community, legislative leaders, regulators and the general public are extremely optimistic that safety in the workplace is improving steadily.

All the groups except one—business executives—think government safety standards have a lot to do with the improvement.

Business may perceive the public as being unwilling to accept the risks technology and progress impose, but the public seems quite willing to accept risk if it has the information to assess the risk/benefit tradeoffs.

These are some of the key findings of a massive study Marsh & McLennan commissioned Louis Harris & Associates to undertake on the broad subject of risk and society. Five major groups were interviewed: top business executives, members of the financial community, members of Congress, federal regulators and the public.

Woven throughout the survey were questions about issues related to corporate risk management, occupational safety and health and the role of the insurance industry—including brokers and risk consultants—in a society faced with fast-changing risks.

The revelations uncovered by Harris included:

- Congress, regulators and the public overwhelmingly believe government safety standards have improved on-the-job safety, while corporate executives are generally convinced government standards haven't improved safety.
- Only members of Congress, of all the groups, believe OSHA has done a good job of making society acceptably safe. Corporate executives, investors/lenders and federal regulators conclude OSHA has done a fair-to-poor job.
- A majority of executives, financial leaders, members of Congress and regulators believe current regulatory practices have had a positive effect on employe health and safety.
- Most product injuries result from inappropriate use of products by consumers, say 65% of the public, 51% of Congress, 82% of the financial leaders and 79% of corporate executives. Of the five groups, only federal regulators disagreed that fault for most injuries lay with users.
- Each of the five groups overwhelmingly stated that consumers should be held financially responsible for their own misuse of products that causes injuries, by majorities ranging from 82% to 100%.



"The study heightens the importance of the corporate risk manager," says M&M vice chairman Harold H. Hines.

"The study heightens the importance of the corporate risk manager, because that is the discipline charged with determining risk," said Harold H. Hines, vice chairman of M&M.

This study clearly shows that "the public is interested in risk," said L. Patton Kline, M&M chairman. "Therefore, to the extent that risk affects a company, the risk manager has a role to play." Be-

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Volcano erupts $1 million loss for Wash. firm

By MARGARET LeROUX

MT. ST. HELENS, Wash.—The volcanic eruption that scattered acres of trees and logs like a giant game of "Pick-Up Sticks" caused uninsured losses of more than $1 million for the Weyerhaeuser Corp.

Weyerhaeuser lost approximately 5,000 acres of timberland and its logging site Camp Baker, 15 miles northwest of the volcano, was "wiped out" by rock and ash, according to Weyerhaeuser spokesman Tom Ambrose.

The timber company lost 38 log trucks and 22 crew buses at the Camp Baker site and "there was a lot of damage to the railroad system within the company's tree farm," Mr. Ambrose said.

More than 800,000 cubic feet of logs, each worth more than $300, were set loose by the volcanic explosion. Weyerhaeuser's efforts to rescue them from the Toudle River were hampered by threats of severe flooding as mudslides and volcanic debris strained against the river's natural dam.

Weyerhaeuser is self-insured to $1 million for property, liability, equipment and business interruption losses.

"Timberland is generally not insured," Mr. Ambrose said. "The cost is prohibitive so losses are generally absorbed as a cost of doing business."

Although several Weyerhaeuser employes were among the people listed as missing since the volcano erupted May 18, none of those still missing was on the job at the time of the explosion, the spokesman said.

Security guards at Camp Baker on duty at the time the volcano exploded were airlifted to safety by helicopter, Mr. Ambrose added.

Burlington Northern Inc. of St. Paul, Minn., which owned the top of Mt. St. Helens, saw its property go up in smoke when the volcano blew 1,200 feet off the top of the 9,677 foot peak.

The financial loss to the company hasn't been estimated but a resources division spokesman said the above-tree-line acreage wasn't being used.

The company also owns land in the vicinity of the mountain, but travel restrictions have prevented company personnel from assessing the damage to the property.

The U.S. Forest Service is the major landowner in the area. ■

Laid-off tire workers get early pension

UNITED RUBBER WORKERS members who will lose their jobs when the Dayton Tire plant in Barberton, Ohio, closes June 1 will receive extended insurance and pension benefits under an agreement between the union and Firestone Tire & Rubber Co., Dayton's parent company.

About 350 of the 700 workers to be laid off will be able to retire early under the provisions of the agreement. Early retirees with 25 years of service, no matter what their age, will receive full retirement benefits of $15 a month per year of service rather than the $12 a month they would have received under their present contract. Workers over 55 with fewer than 25 years service will receive reduced pension payments

Hospitalization insurance will be extended for a year. Firestone's hospitalization plan is self-insured.

In addition, the company will establish an outplacement program to help laid-off workers find new jobs.

benefit beat

Transit contract

In a binding arbitration decision, 11,000 Chicago Transit Authority bus drivers and rapid transit workers will receive higher pensions and new health benefits.

The workers, members of Local 241 of the Amalgamated Transit Union, will be offered a new option of participating in a health maintenance organization. A new vision care plan underwritten by The Travelers also will be added to the group health coverage.

Retirees will receive pension increases of $10 to $20 a month, depending on their retirement date.

Beneficiaries of transit workers killed in a felonious assault while on duty will receive $175,000, an increase from the previous $100,000.

The pact will be effective through Nov. 30, 1982.

Additional HMOs

Five more health maintenance organizations will be added to the list of those offering health care programs to Illinois state employes, bringing the total to 11 around the state. Their contracts begin July 1.

Newly added HMOs are: Michael Reese, sponsored by Michael Reese Hospital in Chicago; Roosevelt Health Plan, sponsored by Roosevelt Hospital in Chicago; Shawnee Health System, sponsored by Chicago Blue Cross in Carbondale; Communities Health, sponsored by Rockford Blue Cross and operating in nine northwest Illinois counties, and Carle Care Inc., backed by Carle Clinic Assn. in Champaign County, a new organization.

Participation in HMOs has been available to Illinois state employes since July 1, 1978. The state pays the entire monthly HMO fee for employes and $7 a month toward family coverage. In recent years, excess state funds were used to offset more of the employes' cost of dependent coverage, but those funds are nearly exhausted, said a spokesman for the department of personnel.

Rate increase

Hospital Plan Inc. and Medical & Surgical Care Inc., the Blue Cross & Blue Shield plans serving the city of Utica, N.Y., and neighboring counties, have applied for subscriber rate increases for some of their community-rated contracts.

Blue Cross has requested a composite 42.2% increase for four of its plans. The new rates would mean a 35.5% increase for subscribers under 65 and an 80.8% increase for subscribers over 65. Blue Cross received its last rate increase in 1977 on the contract for subscribers over 65.

Blue Shield requested a composite 109.6% increase that would only affect subscribers over 65. It received its last rate increase in 1974.

The increases would become effective Aug. 1.

Deferred income

Approximately 1,825 counties belonging to the National Assn. of Counties will be able to establish or improve their deferred compensation programs for their 2.5 million employes, with an assist from the NAC.

The NAC, with help from the Public Employe Benefit Service Corp. in Oklahoma City, is developing a prototype program expected to be available July 1 to members, said Chuck Oglebay, NAC director of administration and finance.

Bids from potential underwriters of the program are due June 2 and an actuary from Arthur Andersen will review and pick the five to 10 best bids.

The NAC will administer the program, and the only expenses to participating counties will be those incidental to payroll deductions.

Under a deferred compensation plan like that being developed by the NAC, an employe earns interest on before-tax income, deferring taxes on that pay until a time when his or her tax bracket is lower or when other tax benefits are available.

Under the tax laws, any public employe is eligible for such a program. Many counties already have such plans but 50% to 60% of the programs have technical deficiencies, Mr. Oglebay estimates.

Major medical

The 500 members of the New York Assn. of Theater Press Agents & Managers have won a new three-year contract with the League of N.Y. Theaters & Producers that for the first time will provide them with major medical coverage.

The producers have agreed to pay the full cost of $22.50 per member per week to provide the new coverage underwritten by Union Labor Life Insurance Co. Under the old medical plan, the producers paid $14.40 a week.

Under the new policy, members have a lifetime $100,000 limit on benefits and pay a $100 yearly deductible.

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The 70's were prosperous for most independent agents and brokers. Yet during the same ten years, a dramatic erosion of the independent's share of the property/casualty market occurred: from 63%, down to 43%. National brokers, who have captured 23% of this market are now seeking new business in the under $100,000 premium range. Direct writing companies, having won 34%, are relentlessly prospecting commercial lines.

Will this trend continue? A few fiercely independent agents and brokers voice a resounding "No!" Not if independents can provide themselves with a new range of services and resources to improve their competitive position—while maintaining their vital independence.

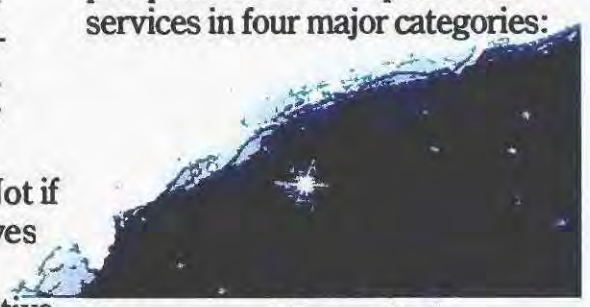
ISU Signals a Bright Future for the Enlightened Independent.

ISU—a new national support system—has been created to deliver to a select group of independents the expertise, financial sophistication, national reputation, recruiting, training, management skills and information resources previously available only to national insurance brokers.

ISU is a bold venture created for those who have the foresight to appreciate the power of an alliance of superior professionals. And the courage to do what has never been done before. ISU Independents, backed by the ISU system, will be setting a new standard of excellence for the insurance industry.

ISU Services and Expertise.

Among the principals and executives of ISU are individuals who have served as officers for some of the largest national brokers, insurance companies, and independent planning, risk management, and financial consulting organizations. ISU's staff consists of specialists with proven records in the design of the largest national brokers' commercial group programs, information processing systems, and communications, sales, education, training, and recruiting programs. Together, they are offering prospective ISU Independents services in four major categories:



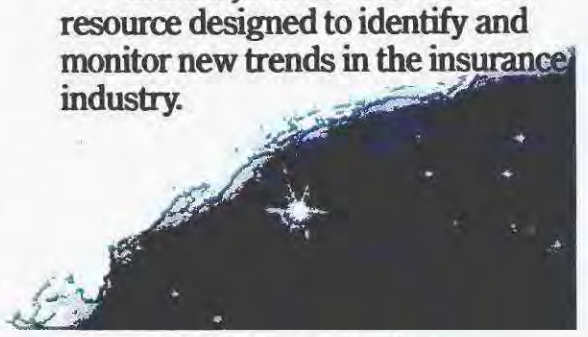
Insurance Knowledge.

The ISU Territorial Consultant: ISU is staffing its 50 geographic areas with proven insurance professionals of demonstrated organizational ability to deliver on-the-spot technical insurance knowledge, and as the ISU Independent's primary guide to the full range of ISU's business planning, management, sales, new product, insurance and risk management services.

ISU's National Services: Targeting and developing new insurance clients through specialty products and mass-marketing programs, ISU's National Services will not only enhance relationships between ISU Independents and quality insurance carriers, but will also access specialized service companies. This ISU department is also establishing reciprocal arrangements for multiple location accounts, referrals, and countersignature among ISU Independents.

The Answer-Line:™ ISU offers a 24-hour, toll-free "800" line source of objective insurance advice and information exclusively for ISU Independents.

ISU's Information Center: A resource designed to identify and monitor new trends in the insurance industry.



Financial Knowledge.

Business Perpetuation and Capital Value Guarantee—A unique plan to enhance each ISU Independent's economic viability which will enable the financing of his business for expansion, the purchase of other agencies, funding internal buy-sell agreements, or a variety of other business or personal goals.

ISU Money Management Programs—ISU is making available to its Independents sophisticated money management techniques similar to those used by major national brokers and leading financial institutions.

VISA and Master Charge Financing is offered to ISU Independents at attractively reduced rates for financing personal lines insurance premiums.

Financial Goal Management: Innovative management control systems have been designed for the ISU Independent to measure his agency's performance and productivity.



Human Resources Development and Training Knowledge.

ISU Training Services: Continuing insurance products knowledge

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ISU:

training through a series of self-study programs and workshops. Additional training services are offered in new business development, sales management, sales and client relations, financial management, agency planning, and all facets of communication.

An Educational Clearinghouse: Monitoring and evaluating educational programs and opportunities offered by the many outstanding agent and educational associations in the insurance industry.

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A New Breed of Insurance Professional: ISU is creating a network of proven insurance leaders. The prospective ISU affiliate is an independent who has owned an agency long enough to earn a solid reputation in his community. Dynamically aggressive, he's established his professional prowess and now wants to climb even higher mountains.

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Knowledge that the ISU Independent is Known and Respected.

National Communications Campaigns: Strong, thoughtful, effective advertising and public relations programs including television, radio, magazine and newspaper strategies to create an enhanced local identity and a superior national reputation for ISU Independents.

ISU was created to insure independence. ISU is committed to the American Agency System, and to those individuals who want to remain free to make their own choices, and chart their own futures. In today's insurance industry, only unlimited support can guarantee unlimited freedom.

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The ISU affiliation is currently available in California.

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editorial opinions

Shortsighted reaction

SATURDAY, MAY 17, 1980. The evening news. An announcer reports that the Environmental Protection Agency has released preliminary findings of an ongoing study that indicates chromosome damage to an extraordinarily large number of people living in the vicinity of Love Canal.

Next we hear from the president of Hooker Chemical Corp., who accuses the EPA of using scare tactics, of releasing unscientific findings prematurely, of jumping the gun on this whole thing.

From a risk management standpoint, Hooker and its executives may be shortsighted in the way they're handling this whole matter. The company came off as cold-hearted, inhumane and insensitive to the possible damage that may be done to people living in Love Canal by the chemicals seeping out of the ground.

Hooker, of course, is being sued for hundreds of millions of dollars and is conscious of not digging itself at this point into an even deeper liability hole than it may already be in.

Nonetheless, wouldn't it be refreshing to see a corporate executive at a time like this get up and say how sorry he is that these tragic events are taking place?

Every business executive must be a professional communicator, aware of the impact of public statements. They can either incite people's worst feelings toward big business or allay fears and pour oil on troubled waters, perhaps even easing the legal problems of the company later.

In the last two years, lawyers, airlines and airplane manufacturers have recognized the value of admitting liability and moving to efficiently negotiate the best possible settlements, paying people fairly for real damages and fighting those claims that are unjustified. The outcome has been very positive in the case of the Paris DC10 crash and the crash of two jumbo jets at Tenerife; settlements in both instances were far less than had been predicted.

Corporate executives facing litigation like that growing out of the Love Canal pollution case can take a lesson from the aviation litigation books. Callously denying responsibility and fighting even justified claims in court can only create ill will and encourage individuals to try to sting rich corporations, whether the rich corporations turn out to be guilty or not.

We wouldn't presume to judge Hooker guilty of negligence, criminality or any of those things. It will be months if not years before lawsuits involving Love Canal go to trial. But some facts are undisputed: The people of Love Canal are clearly suffering; Hooker clearly dumped chemicals in the area; there are clearly damages to homes and health.

We'd like to see Hooker express sympathy for those whose health and lives may be threatened, instead of sounding so defensive. Hooker can and should treat the preliminary government findings as alarming and potentially tragic, saying that every effort will be made to document any ill effects of the dumped chemicals and to cooperate with the agencies involved in investigating the outcome of the pollution.

Hooker can and should disclose what money it is spending, if any, to do its own studies, to clean up the mess or to help alleviate the immediate problems of people whose children are ill and whose homes have been boarded up.

There may in future years be many more unfortunate instances where actions taken by companies lead to dire consequences. In some cases, this will happen because the technology wasn't available to match the problem needing to be solved. Chemical storage problems like that at Love Canal is only the tip of the iceberg of the potential hazards that may emerge in coming years.

And when the problems do become known, effective risk management dictates that corporate officials begin practicing loss control. They can limit the adverse effects of risks by creating positive feelings among members of the public toward those who caused the problems, using good communications to defuse emotional time bombs instead of lighting additional fuses.

Corporate risk managers should recognize the opportunity to minimize potential losses in these situations. They should become involved as advisers to corporate officials in potentially inflammatory situations.

letters

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

Pensioner priority

To the editor: I read with interest "Mandatory pension issue splits panel," May 5, as written by Jerry Geisel. No one would deny the plight of the retired in the face of inflation, but I think the article would have been better served by a photograph of an elderly man in a wheelchair in front of a grocery store, and not a drugstore. The price of Cosmetic Puffs and Oil Of Olay do not exactly rate top spot on the inflation hit parade for pensioners.

Barbara M. Jones
Group marketing representative
Confederation Life Insurance Co.
Toronto, Ont.

Overlooked aspect

To the editor: I read with interest the article on page 39 of your May 5 issue regarding group self-insurance. My interest was particularly keen since we provide administrative services to various group self-insurance pools with over $50 million of combined standard premiums.

Ralph Adams of General Motors was quoted as saying, "Group self-insurers do not have the protections that insurance carriers have unless every company is a blue chip company and can minimize risks. It's difficult to believe that they're all blue chip companies and financially solvent." A very important financial feature of group self-insurance is overlooked by Mr. Adams, namely that under all enabling legislation with which I am familiar, every member participating in group self-insurance pools is jointly and severally liable for all obligations of the pool. Accordingly, it is only necessary that one member have financial dependability.

A properly structured group self-insurance program will preclude the possibility of any claimant not receiving his lawful benefits under the applicable workers compensation statutes. This is done by obtaining proper excess insurance and advance funding of deposits equal to standard premium by the participants. In addition, if all else fails, the self-insurers bond or comparable collateral posted by all pools can be called on for a final protection.

Since group self-insurance plans are an important segment of our business, we share in the concern that they be properly structured to assure that every claimant is paid. Proper diligence by sponsoring associations assures this.

James G. Lane
President,
Hewitt, Coleman & Associates
Greenville, S.C.

Vote added

To the editor: Regarding the use of the matte-finish paper stock versus the gloss-coated paper for the production of *Business Insurance*, I much prefer the matte-finish.

B. R. Kates
Administrative services department and risk manager
Saskatoon, Saskatchewan

Vote cast

To the editor: Re: "To gloss or not to gloss." Letters in your April 28 issue prompt me to be heard. Cast my vote to the temporary matte-finish paper!

Sally V. Couvillion
Insurance manager
Tidewater Inc.
New Orleans, La.

Name note

To the editor: Could you make a "note" to see that our name appears correctly—i.e., Crum and Forster, not Crum & Forster?

The legal name of the parent holding company is plain Crum and Forster (no Inc., Corp. or Co.). Your writeup on our first-quarter earnings and the *BI* Insurance Industry Index used the ampersand.

Admittedly, this is a minor point, but then I know you always like to be accurate. "C&F" is okay, but Crum & Forster is not.

Robert P. Vivian
Corporate communications
Crum & Forster
Morristown, N.J.

▪ *BI always changes the "and" in a corporate name to an ampersand. It is a style point similar to changing the word percent to the percent sign.*

Incredible!

To the editor: Your article "Tuscon risk exec wins self-funded comp plan" (May 15) quotes Terry Anderson as saying that persons traveling at high speed on the highways are "Hardly dangerous criminals." That's incredible!

With introverted logic he is concerned about skilled police personnel possibly causing injuries when trying to apprehend one of those idiots before they kill someone. The slaughter on the highways exceeds the deaths through crimes, war, etc.

The police find it necessary to speed generally because the car in question is speeding or the car in question refuses to pull over.

Mr. Anderson seems to be saying wait for the speeder to kill or injure someone before taking action.

Everest C. Hunter, CHCM
E.C. Hunter Associates Inc.
Syracuse, N.Y.

business insurance

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

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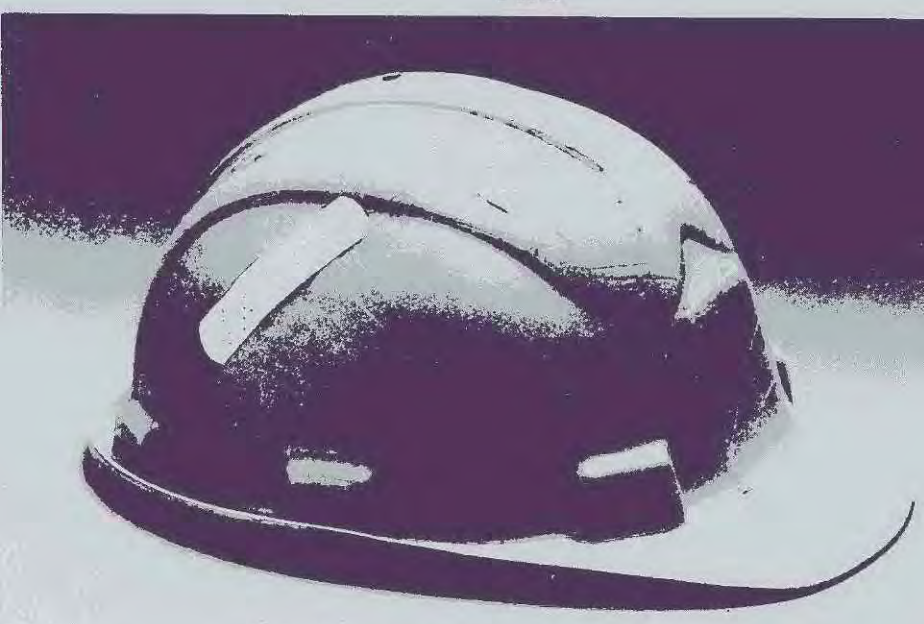
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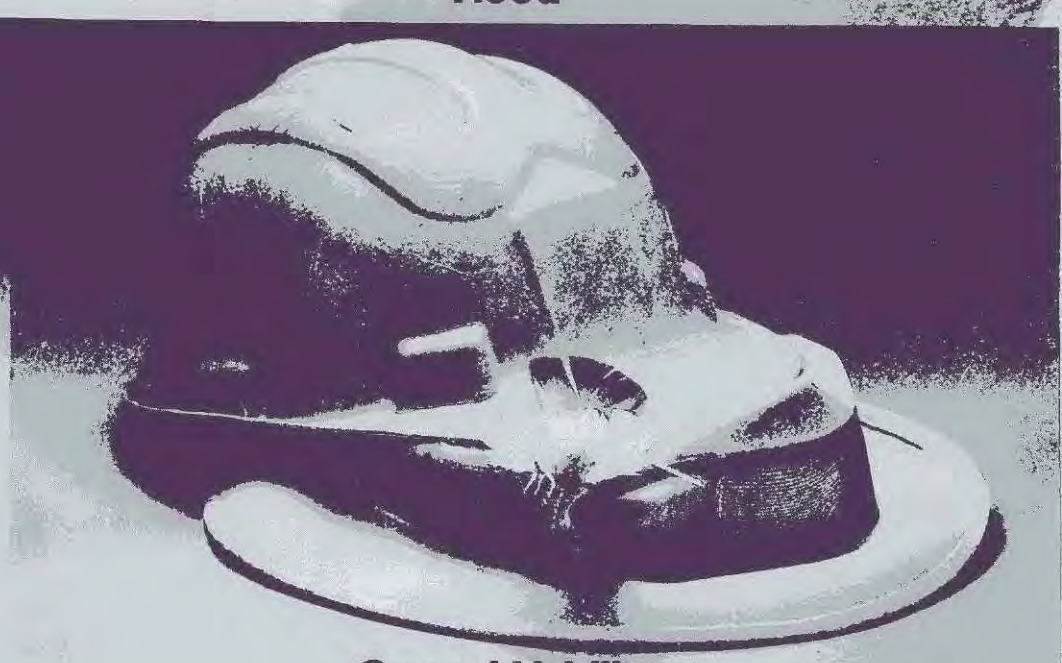
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Financial Strategies In Business Insurance

An INA Series



Shouldering our own burdens.
–3M's Howard Weber

For multinationals burdened with increased ocean marine premiums due to the necessity of purchasing coverages in separate countries, the solution can be a program of uniform, worldwide coverage.

One such program was successfully implemented by the 3M Corporation, a diversified manufacturer, whose overseas operations in 49 countries generate 40% of annual sales.

"Five years ago," recalls Howard Weber, Director of Insurance for 3M, "ocean marine cargo insurance was secured directly by all of our foreign subsidiaries at local-market rates." Costs were excessive because, individually, few of the subsidiaries had sufficient volume to be experience-rated in their respective countries.

Viewing the problem in an international context, INA's analysis revealed that 96% of 3M's total cargo risk was contained within predictable limits. Only 4% fell outside forecasting parameters. The decision was reached to place all predictable risk with 3M's insurance captive and to reinsure the remainder through INA.

The financial results were impressive. In 1976, the program began with a 10% reduction in premiums for the overseas subsidiaries. Since then, two additional rate reductions have been applied, and further reductions are contemplated for 1980. "Only a carrier with global capability could have provided the services and experience needed to make this strategy work," Weber concludes.

Putting compound interest to work.
–Frank B. Hall's Joseph E. Johnson



The ever-increasing number of third-party liability suits, coupled with higher jury awards, have given rise to a new method of reducing the burden of claims settlement.

Describing this method, Structured Claims Settlement, Joseph E. Johnson, Senior V.P. of Frank B. Hall & Co., Inc., comments: "The benefits show up on an insurer's or self-insurer's bottom line, and spread across many sectors of society as well."

Johnson cites a case where an award of $2.1 million was

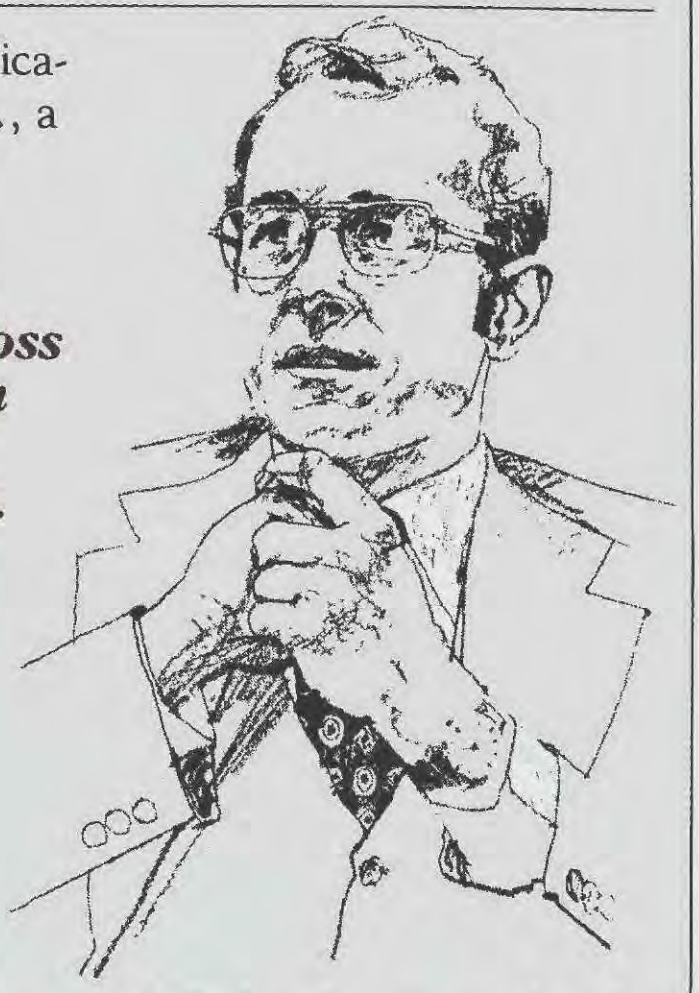
expected. Under the SCS approach, an immediate sum was paid to the surviving family. An annuity was purchased to provide monthly payments over a 30-year period. Total cost to the insurer: slightly over $1 million, about half of the expected lump sum settlement.

Through interest accumulation, the annuity purchased from INA could actually bring the family income in excess of the total settlement originally anticipated.

Because SCS brings benefits, such as long-term protection for claimants and families, and avoids or shortens court cases, many states are considering making SCS mandatory. Johnson notes: "When claims are settled in this manner, legal costs go down and reserve requirements are reduced."

The shutdown of a manufacturing facility can have implications far beyond business interruption for Medtronic, Inc., a major producer of sophisticated electronic medical devices. Entire markets can be jeopardized. Critical shortages of life-sustaining equipment may develop. "Under these circumstances," observes Donald Meck, Medtronic's Director of Risk Management, "insurance is never our only answer to risk.

Building loss prevention into the blueprints.
–Medtronic's Donald Meck



"In the U.S. and abroad," Meck continues, "Medtronic's practice has always been to invest in a full range of safety-engineering programs to prevent accidents from happening." This overriding concern for loss control was recently demonstrated when Medtronic expanded its largest overseas facility in Holland to meet a growing need in Europe for heart pacemakers.

Familiar with INA's long experience as an international carrier skilled in loss-control techniques, Medtronic called on the underwriter for assistance. From a nearby location in Europe, INA's safety engineers went directly to the Medtronic construction site and made recommendations on structural features, fire prevention, and employee training for emergencies.

To date, the factory's loss record has been flawless, thus satisfying Medtronic's corporate safety objective. A further benefit was insurance savings to offset loss control expenditures. Meck explains: "We expect to recoup the total cost of safety measures for our Dutch plant in only three years of premium savings."

Decision-making in business insurance has never been more complex. And the financial implications have never been greater. Today, devising cost-effective insurance programs requires knowledge, experience, capacity – and a complete range of products and services. Flexibility and the willingness to innovate are also essential.

INA's ability to combine these elements can assist you in developing practical solutions, new approaches, and better strategies. Consult the professionals. Write directly to John Cox, President, INA Property-Casualty Group, 1600 Arch Street, Philadelphia, PA 19101 or call (215) 241-2729.

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Insurance Professionals

Self-insurers plan claims data sharing

By MARY ANN MATLOCK

LOS ANGELES—A group of self-insured companies wants to share health plan claims information to improve the administration of medical and dental benefits.

About 70% of the 25-member Claims Administration Service Users Group agreed at an annual meeting to hire a consultant to study the feasibility of sharing claims information and the cost and time needed for the venture.

Other members of the group are being contacted to determine their interest in the feasibility study and claims sharing information.

If initiated, this claims sharing program will solve a problem unique to the self-insurer: lack of a nationwide data base on costs.

"We self-insured employers need to be sure we're not in the business of paying anything and everything that comes through," said Brenda Welsh, chairwoman of the Users Group and manager of employe benefits and services at the Automobile Club of Southern California.

Other members of the group, which all contract with System Development Corp. in Santa Monica, Calif., for their computer software, include: General Tire Corp., Garrett Corp., Denny's Inc., Motion Picture Health & Welfare Fund, Security Pacific National Bank, Weyerhaeuser Co. and Lincoln National Life Insurance Co.

Using the same computer service makes a claim information sharing project easier to accomplish.

Joint project

The claims data comparison would permit an individual employer to question costs above the norm and establish amounts that will be paid for nonemergency procedures.

Corporations in the group each employ 5,000 to 20,000 workers and in total cover a million employes and dependents.

CAS wants to know by July the number of employers interested in funding the feasibility study. Within months, the fate of the one-of-a-kind claims sharing project will be determined.

As envisioned, the program would allow comparisons of doctor charges, hospital stays and total costs for specific procedures such as appendectomies, Ms. Welsh said.

The comparisons would permit an individual employer to question costs above the norm and establish amounts that will be paid for nonemergency procedures, she explained.

This type of comparison is not available now because of the limited scope of each employer's data, Ms. Welsh noted.

"The program will provide better control over costs, including encouraging the employe to seek out better care," Ms. Welsh said.

The goal is to provide quality care at controlled costs, she emphasized. Costs above the group average that are justifiable by complications or ordered by a physician should be paid, she noted.

Response to the claims sharing idea has been very good, although Users Group members are reluctant to commit themselves to it without knowing the cost of the venture, Ms. Welsh said.

Cost and the time needed should be determined by the feasibility study. Ms. Welsh estimated that the concept would probably take one and a half to two years to become operational. About half of that time would be needed to commonly code and program data which members would have access to through computer terminals already at their firms. ■

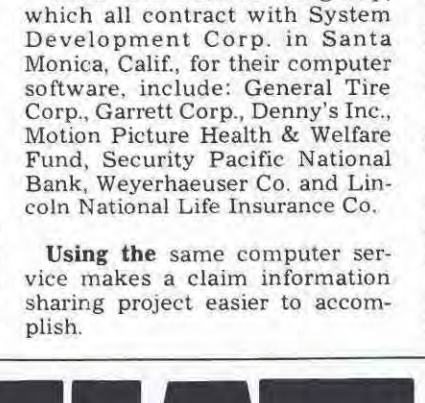
CPCU begins award program

CHICAGO—The Chicago chapter of the Society of Chartered Property & Casualty Underwriters has presented $5,000 to the Insurance School of Chicago to support a new award program for outstanding students. ■

WHAT PUTS THE BITE IN OUR GROUP DENTAL COVERAGE?

Our System.

Some insurance companies rely on computers to handle their group dental claims. Others pin their hopes mainly on human effort.



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Our computer network helps cut the cost of claims administration. And our claim forms carry the names and phone numbers of our claim representatives, so your employees can deal with people—not machines. You'll appreciate the savings. Your employees will appreciate the ease, convenience and human touch in receiving their dental benefit payments.



Perhaps our system is the reason last year we were the number one group dental insurance company—both in number of cases written and in employees covered. Or, maybe it's our 116 field offices across the country, staffed with the best group people in the industry, providing support services for clients with from four to more than two-million lives.



In either case, if you want to put some bite in your group dental program, our system can help. Contact your Independent agent or broker or The Travelers Group Field Office nearest you.

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Offshore mutual to cover British church property

By JOHN H. MILLER

LONDON—Four thousand Catholic schools and churches will insure more than $2 billion in property risks with a new offshore-based mutual insurance company.

Catholic National Mutual Insurance, based in Guernsey in the Channel Islands, will write property insurance for most of the 29 Catholic dioceses in England, Wales and Scotland as current insurance policies expire.

The premium volume of Catholic National Mutual, which will be owned by its policyholders, is expected to grow to $2.3 million over the next two years.

"The scheme is financed by the majority of the dioceses and will achieve premium savings for many of the parishes involved," project consultant John Shore of Bristol said.

"It will provide realistic insurance cover with competitive ratings for the many thousands of buildings owned by the church nationwide."

The various Roman Catholic bishops have approved the scheme, said Mr. Shore, chairman and managing director of consultants W.J. Shore & Co.

The mutual was formed after a financial study group set up by the Roman Catholic Church had explored the diverse risks insured in the commercial market, mainly with the Sun Alliance group or Royal Insurance Co.

Mutual plan
Savings will be achieved through an all-risks package.

The company is being managed in Guernsey by Alexander Howden group. Claims and other administrative details will be processed through the Catholic National Services Office in Bristol.

Existing commercial insurance for many Catholic churches was spread up and down the country, except for a small number of dioceses that for more than 50 years had pooled their own resources in Catholic National Insurance Trust Ltd.

This company's premium income was growing so much it would have had to comply with stricter U.K. solvency requirements under European Economic Community directives.

As a result, all the big dioceses in the U.K. were approached for support for a new and larger mutual.

Savings will be achieved by offering an all-risks package. This will reduce overhead expenses. Small claims are being eliminated to reduce administrative costs at the same time because most churches and schools will assume deductibles. They will bear the first loss of $120 on theft claims and $240 on all other claims except for fire losses, which will be met in full.

Values of the property to be insured will now be fixed by diocesan administrators instead of being left to a huge number of individual parish priests, as in the past.

"The reasons for locating the new company in Guernsey are purely technical, Mr. Shore said. "The original mutual, the Catholic National Insurance Trust, repaid any profits to members. But its solvency obligations were heavily increased in 1978 when new regulations for international insurance companies were brought in to meet stricter European laws.

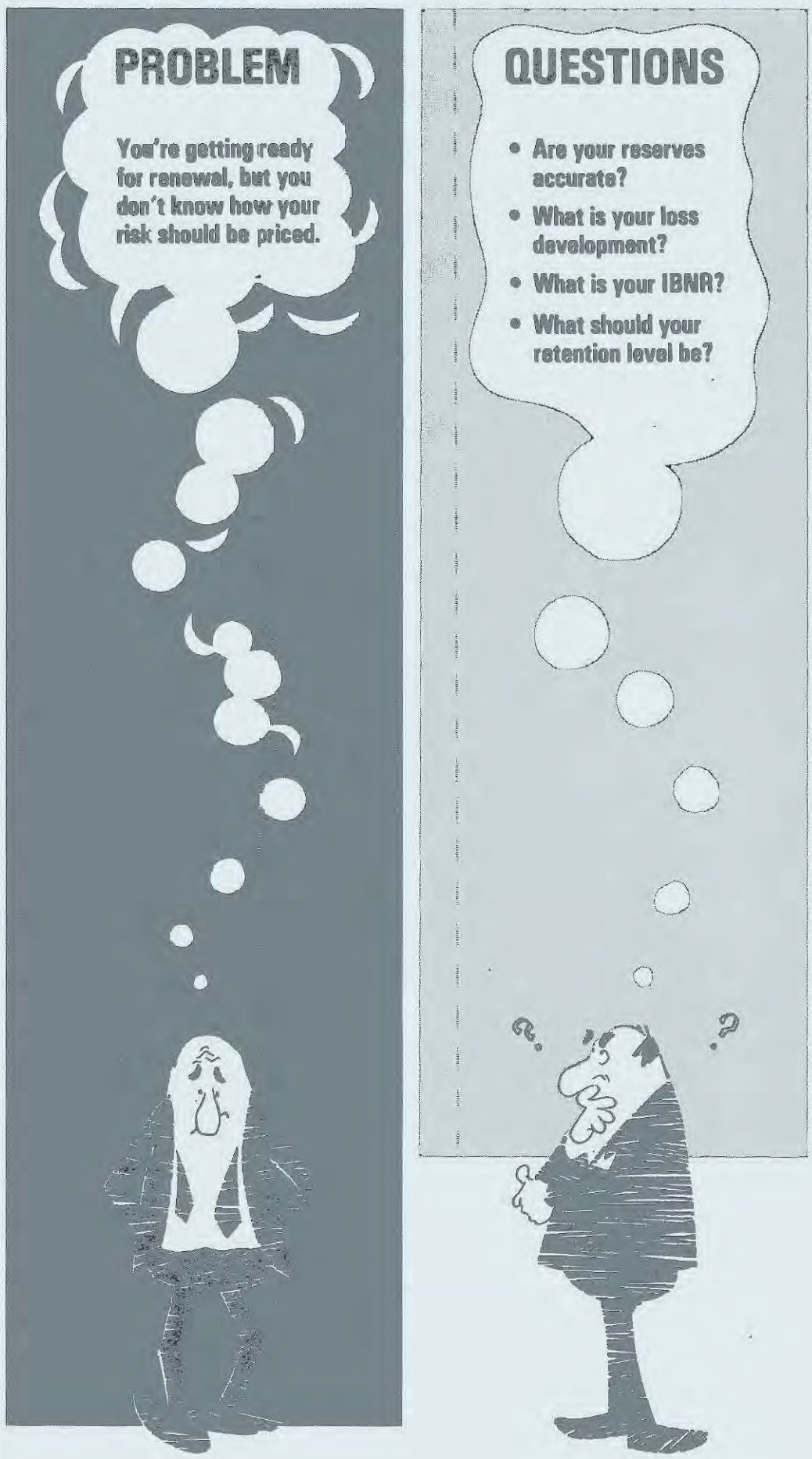
"Legislation controlling the operation of insurance companies in Guernsey is not as restrictive as in the U.K., however, so the newly created company will now work wholly from there." ■

Claims Reporter

Liability, Workers' Compensation, Property and General Casualty

Twice a month, the *Claims Reporter* briefs its readers on developments affecting liability, workers' compensation, property and general casualty claims. If you receive, investigate, analyze, pay or deny, manage or handle claims, or are financially responsible for claims-related decisions, the *Claims Reporter* can help you do a better job. *Claims Reporter* covers important claims events and developments and publishes organized briefs of selected, important court decisions.

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TRASOPs among Fortune 1,300

	1980 Survey	1979 Survey	1978 Survey	1977 Survey
Cos. having implemented a TRASOP	31.6%	30.4%	27.2%	9.4%
Cos. in the process of implementing a TRASOP	0.8	0.4	1.5	3.3
Cos. considering implementing a TRASOP	8.8	8.1	9.2	14.2
Cos. not considering implementing a TRASOP	58.8	61.1	62.1	73.1
	100.0%	100.0%	100.0%	100.0%

Size of Firms with TRASOPs

	TRASOP Prevalence			
Corporate Sales	1980 Survey	1979 Survey	1978 Survey	1977 Survey
Over $1 billion	46.7%	43.5%	41.4%	21.7%
From $500 million to $1 billion	24.7	32.2	24.6	16.3
Under $500 million	22.2	17.3	14.4	2.2

TRASOP growth brakes into '80s: Hewitt survey

CHICAGO—Tax credit employe stock ownership plans, once fast-growing employe benefits, continue to grow among the nation's largest firms, but at a progressively slower pace.

About one-third of the Fortune 1,300 offer a TRASOP benefit, according to a recent Hewitt Associates study that continues research recorded every year since 1977. Of the 1,300 firms polled, 646 responded.

The benefit and actuarial consulting firm noted that 31.6% of the respondents have implemented a Tax Reduction Act stock ownership plan, an increase of only 1.6% since last year. This is in dramatic contrast to the growth period of TRASOPs between 1977 and 1978 when the percentage of firms with the benefit increased to 27.2% from 9.4%.

Less than 1% of the firms polled this year are in the process of implementing a TRASOP, though nearly 9% have considered one.

TRASOPs enable employers to purchase company stock for employes with funds provided through a tax credit on corporate capital expenditures.

Among the respondents, the study also discovered:

- 204 firms have implemented a TRASOP.
- Five companies have made an internal decision to use the plans but haven't received approval by the board of directors.
- 57 companies do not have a TRASOP but are considering one.
- 380 are not interested.

"While the growth in TRASOPs since last year's survey appears to be slight," the report explains, "this can partially be accounted for by the expansion of the survey sample from 533 companies in 1979 to 646 companies in 1980."

The larger the firm, the more likely it is to have a TRASOP benefit, the study indicated. Of firms with more than $1 billion in corporate sales, 46.7% of the respondents have or are in the process of setting up a TRASOP, an increase of 3.2% from last year. During the 1977-1978 boom years, however, TRASOPs increased 20.3%.

Among smaller firms, from $500 million to $1 billion, the popularity declined 7.5%, though the drop seems to be a result of the larger sample. No TRASOPs known to Hewitt have terminated, the report noted.

The tax credit plans grew 4.9% among firms with less than $500 million in corporate sales, though this also is a dramatic slowing compared with the growth period of 1977-1978, when the plans jumped 12.2% in popularity.

The stock benefits continued to be most popular among industries needing a steady and large flow of capital funds: utilities; paper fiber and wood product firms; petroleum refining companies, and mining and crude oil production plants.

Over two-thirds of the respondents in those industries reported TRASOPs in operation, with utilities and petroleum refining firms reporting over 80% popularity. There has been little growth of those plans since 1978, however, according to the survey results.

Among the TRASOP plans in operation, the strongest trend in participation has been to include salaried employes only. Though only 20% of the companies with a TRASOP covered the salaried group in 1977, the proportion increased to 34.8% in 1980.

As in past years, about 10% of the plans in operation excluded senior executives. This increases the benefit provided eligible employes by excluding the salaries of the highest paid employes from the allocation base and avoids charges of executive control of the plans.

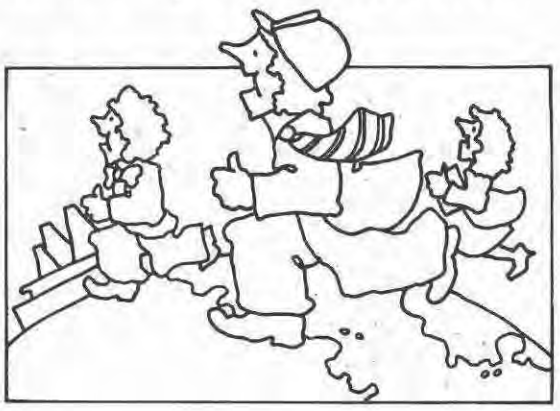
Annual TRASOP benefits for the average employe are about $200, according to the study. Only about one-third of the working plans allow employes to contribute directly to the plans. ■

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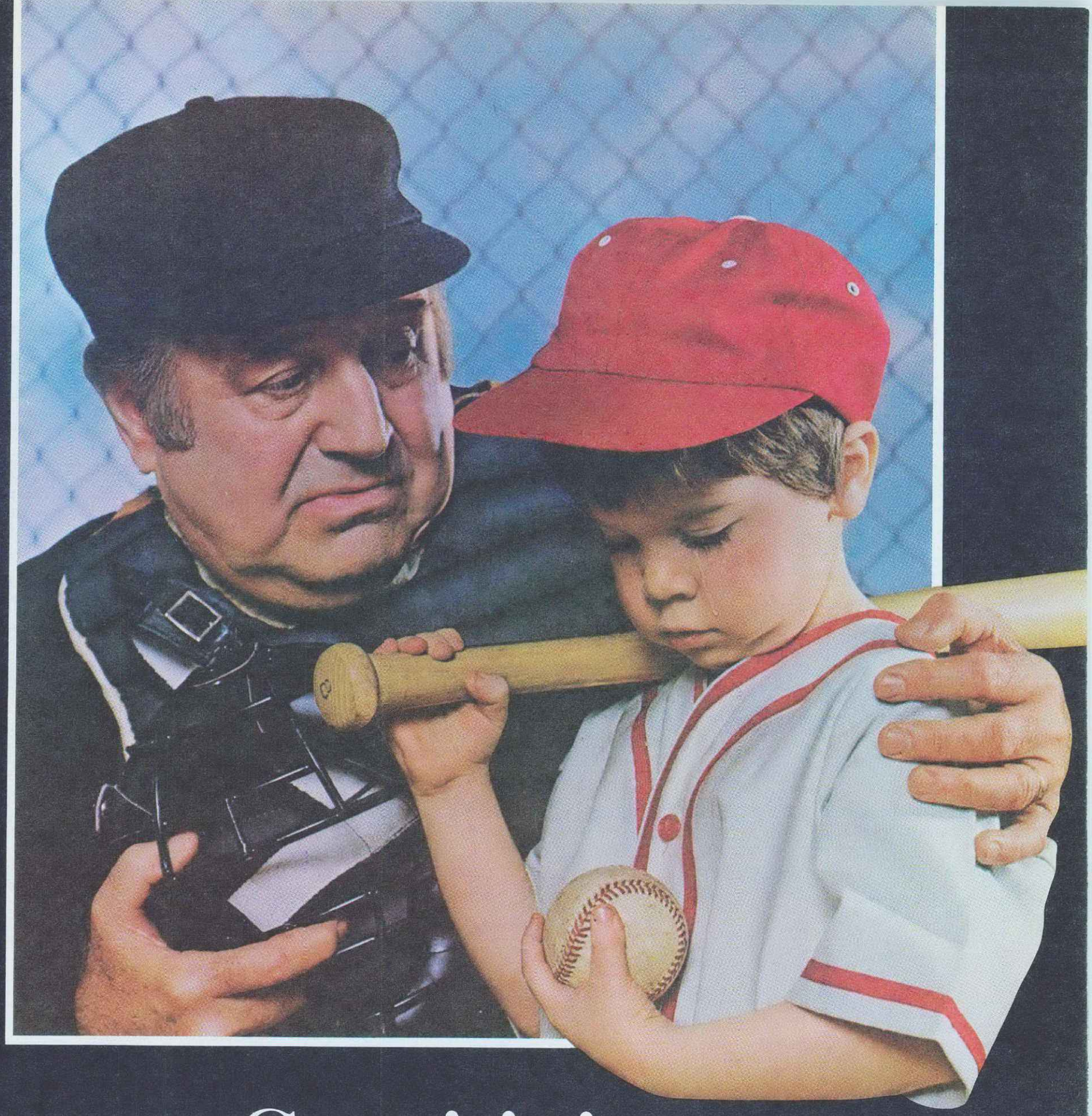
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Report from The Travelers

Inflation will force health plan rate hike

"EXTRAORDINARY inflation in health care costs" in the first few months of the year will mean higher rates for policyholders of The Travelers Corp. The company announced that its rates would be "adjusted accordingly" in the light of cost increases.

The Travelers' first-quarter operating income dropped 5% to $85.8 million, while net income went down 9% to $84.3 million.

Although earnings from the company's life operations increased 7% to $41 million, that gain was offset by a 9% drop in property and casualty earnings, to $44 million from $48.5 million during the same period a year ago. Company officials attributed the loss in income to the present down cycle and "intense competition and regulatory delays in rate approvals."

The company's combined ratio climbed to 103.7% from 1979's 98%.

Results from the group health and pension lines were mixed, according to the company. Premiums increased 22% and new group pension sales more than doubled last year's figure, producing the best quarter in the firm's history. Increased frequency and severity of health claims depressed group health earnings.

BI ticker

St. Paul

The St. Paul Cos. experienced an 11% drop in first-quarter operating income for the first three months of 1980 on a sales gain of 14%. Revenues climbed to $472 million from $411 million, while operating income dropped to $36.4 million from $40 million during the same period a year ago.

Net income, however, was boosted to $49.9 million by an investment gain of $13.5 million and that figure was a slight increase over the $49.4 million earned during 1979's first quarter.

Earnings for the company's property/liability operations showed a decline of 6% to $35 million, with the underwriting results experiencing a loss of $5.8 million.

"That we were unable to make a profit from underwriting property/liability insurance, our main business, is an unpleasant but not unexpected fact given the economic conditions in which this subsidiary had to operate," said company chairman Carl Drake Jr.

ENN Corp.

NN Corp. racked up record earnings and revenues for the first quarter of 1980. Operating income went up 6% to $6.3 million on sales of $105 million, a gain of 8% over the same period a year ago.

Although the property/casualty operations showed an underwriting gain of $422,000, that was still a 64% drop from the $1.1 million gain in 1979's first quarter. The combined ratio inched up to 98.8% from 97.6% a year ago.

Shareholders of the Milwaukee-based company will be getting regular quarterly dividends on June 13. Holders of common stock as of May 30 will get 50 cents per share while holders of preferred stock will get 90 cents per share.

Kemper

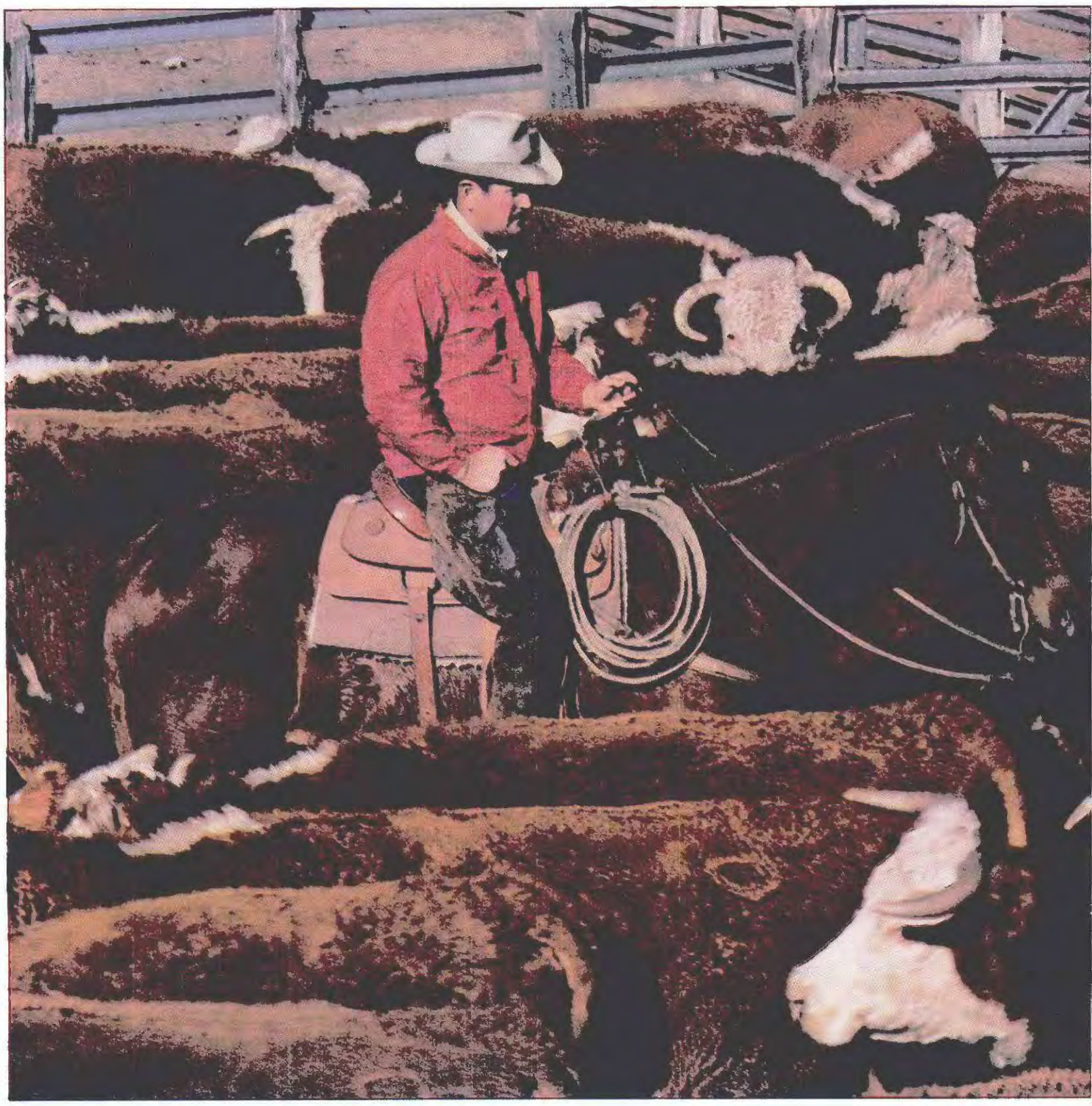
The Kemper Group had sales of $2 billion in 1979, a 17% gain over the $1.7 billion recorded in 1978. Combined assets increased 26% to $4.2 billion.

AVEMCO

AVEMCO Corp. set new records for revenues and earnings during the first quarter of 1980. Earnings went up 72%, to $1.1 million from $630,000, while total revenues jumped 33% to $5.6 million from $4.2 million.

Company officials said the rise in income resulted from higher earnings on investments, a substantially increased premium volume and a lower frequency and severity of aviation accidents.

The Maryland-based firm's principal subsidiary, AVEMCO Insurance Co., had a 43% gain in premium volume—to $7.1 million from $4.9 million—while the company's insurance broker operations increased its commissions to $43,000 from $39,000, a gain of 10%. ■



You can find ocean cargo business far from an ocean.

Shell to measure LNG blast dangers

By JOHN H. MILLER

london line

LONDON—In a first step toward developing risk prevention techniques for carriers of liquefied natural gas, Shell U.K. will conduct tests this summer on the explosive qualities of LNG.

The results of the blasts, to take place at a research base where the British government normally carries out military experiments, will be closely watched by U.K. insurers interested in knowing the full potential dangers of LNG vapor clouds.

LNG energy will come into greater use in the next decade in the U.S. and many other countries. Storage tanks and related industrial plants, as well as tankers taking the gas to Europe, Japan and the U.S. from the Mideast, are buying vast amounts of insurance.

Shell, one of the world's leading oil companies, decided to perform the tests after doing preliminary research on the hazardous properties of LNG. Shell has already noted its inflammable effect in land-based tests, but wanted to see what happens when large quantities are released at sea.

Tests will be carried out at Maplin Sands, a remote and isolated strip of land along the North Sea and the mouth of the Thames River. The Defense Ministry and the National Maritime Institute will cooperate in the tests, in which frozen gas will be discharged at high speed into ponds filled with seawater. Blasts will be measured for fire and destruction.

"I'm sure the findings will be of great value to everyone concerned with the safety of petrochemical tankers on either land or sea," said a Shell spokesman. "We've been doing small-scale tests for three years, but now want to find the effect of large-scale spillages of both LNG and liquefied petroleum gas."

Spiraling awards

Injury awards for victims of auto accidents are regularly topping $500,000, to the growing consternation of insurers here.

In deciding the amount of an award, U.K. judges consider the proven needs of claimants in meeting their lifetime financial requirements. Judges take little account of pain and suffering unless it is medically related to injuries.

In two recent cases, a 20-year-old man who is permanently confined to a wheelchair was awarded $525,000, and a 21-year-old man crippled for life while teaching a friend to drive was awarded $630,000. ■



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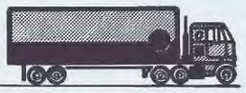
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Health plan would pay the non-user

By MARGARET LeROUX

SAN FRANCISCO—A consultant here is trying to sell West Coast corporations on a program to cut health care costs that essentially pays employes for not using the health care system.

"Some people think the whole idea was dreamed up in a hot tub," admits William Hembree, director of Health Research Institute, who developed the idea. But he maintains the program has the potential for long-range cost control and overhaul of group health insurance programs.

His proposal, which he dubs Health Promotion Organization, would work like this: Employers allocate a certain amount of money per employe for basic health benefits. The amount for the pilot program has yet to be determined, but for purposes of explanation Mr. Hembree used a hypothetical $1,500.

The employer would provide reimbursement for catastrophic illness, for which employes would pay approximately 10% of the hypothetical $1,500 allotment.

Employes, who would volunteer to be in the program, would also assume a sizable deductible, "probably a combination of fixed dollars and a percentage of pay," Mr. Hembree explained. In effect, the balance of the $1,500 not spent on catastrophic insurance can be used by employes to purchase health care services in the acute care system.

If employes in the pilot program require no medical attention during the course of the year, they are refunded the balance of their $1,500 allotment in cash.

Who would agree to such a program? Mr. Hembree is convinced there would be a healthy response—from healthy employes. "As the group health system is set up now, people who don't get sick are being penalized," he said. "They're subsidizing the overuse of acute care systems by their fellow employes.

"Regardless of how you slice it," he continued, "if you ask what level of risk the employe is at, there is very little difference among all varieties of benefit plans."

Mr. Hembree described the program as "the complete opposite of the acute care approach most group health plans now follow." He named the program a Health Promotion Organization, emphasizing it is a system competitive with health maintenance organizations as well as fee-for-service systems.

In the spectrum of health benefits, the consultant placed the HPO at the opposite end to acute care systems, with the HMO approach in between the two. "Our purpose is to offer another choice," he said.

Mr. Hembree outlined plans for the HPO pilot program for *Business Insurance* at a health food restaurant. As he spoke, a young woman in jogging attire sat down at an adjacent table and ordered a cup of herbal tea.

"That's the sort of person we expect will be immediately attracted to the HPO," he said. "Someone who is not only concerned about health, but doing something about it."

A major cause of health problems in the U.S. is lifestyle, the consultant says. "Stress shows up as heart problems, for example, not to mention all the dangers related to smoking.

"If an individual is willing to make sacrifices and changes in his or her lifestyle to become more healthy, he or she should be rewarded monetarily," Mr. Hembree said.

The HPO program is currently being presented to 28 of the largest employers in the San Francisco Bay area. Among them are: Bank of America, Bechtel Corp., Clorox Co., Fairchild Camera & Instrument Co., Levi Strauss & Co., Safeway Stores Inc., Transamerica Corp. and the University of California.

Mr. Hembree admitted the response so far has been mixed, ranging from pessimism that it will never work to a cautious optimism.

The consultant counters objections with a persuasive argument that the program's success depends on the cooperative efforts of all employers in the community.

"We at HRI don't plan to run it; we see our role as setting things in motion," he said.

The HPO would be no more difficult to administer than an HMO, Mr. Hembree said. "Most companies have got their basic benefit funding problems solved. The next challenge is to work on coordination of benefits among two-income families."

Coordination of benefits would be a major factor in the success of the HPO program. "We can't have employes taking part who are using the acute care benefits of their spouse's plan," the consultant said.

Mr. Hembree maintains the HPO could revolutionize the entire group health insurance system in the U.S. "As it is now, we don't have a health care system, we have a sickness care system," he contends.

Short-term fixes are not going to solve the long-term problem, he concluded. "This message has got to get across or we're going to be killed by health care costs." ■

Novel approach

'Some people think the whole idea was dreamed up in a hot tub,' admits William Hembree, who developed the HPO plan.



Storm losses

Wind, hail and tornadoes May 11-12 caused an estimated $7.5 million in insured property damage, according to the American Insurance Assn. The Insurance Services Office has assigned the storm system Catastrophe No. 59.

Workers' Compensation

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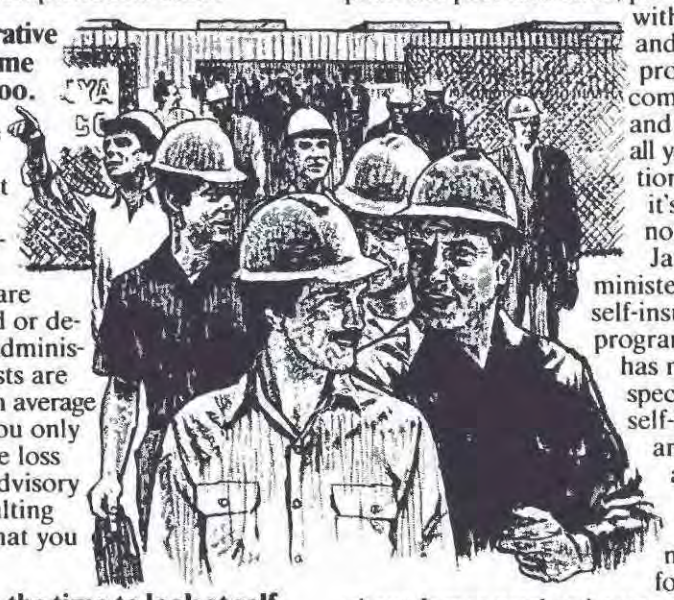
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perspective

Expediting exports

By Alfred C. Holden

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New Challenges

Risks in international activity are certainly worsened by the longer distances and more uncertain trade route schedules.

EXPORT ACTIVITY is more risky than domestic sales. It is also typically more profitable, during a period of sluggish and uneven U.S. economic prospects. The corporate risk manager thus has a strong incentive to evaluate the range of uncertainties and to undertake an appropriate series of steps—all permitting an American firm to exploit unprecedented global sales opportunities while navigating around the more predictable obstacles.

In formulating such a course, the risk manager will be coordinating others. Efficient linkage among the marketing/sales, production, traffic control, financing/credit responsibilities is most crucial in both evolution and maintenance of successful export activity. And the payoff is profitability when a business doing well domestically undertakes an equally full commitment to pursue opportunities in the over-$1 trillion global marketplace.

No business step outside the U.S. is without costs and related risks above and beyond those normally associated with pushing into a new region or product line. Among the myriad challenges, five are of particular interest: the need to evaluate the course of the global economy; the requirement to modify product line and overseas sales strategy as market conditions change; the necessity to ensure stringent delivery time and follow-up services; the pressure to arrange an attractive financing package for overseas customers, and the obligation to maximize and safeguard corporate assets during this entire process.

This is never a cut-and-dried process. There are plenty of differing expert opinions as well as continuous feedback between the $2.5 trillion U.S. economy and the 150 nations abroad. To emphasize this point, one need only note the impact of dramatic recent shifts in U.S. monetary and fiscal policy and some official reactions abroad. Meanwhile, the roller coaster of global prices continues for everything from currencies to precious metals to farm commodities to finance.

Nonetheless, a few basic guidelines apply, including one very fortunate circumstance. Of the now nearly $300 billion rate of U.S. exports ($200 billion in merchandise alone), three-quarters goes to slightly more than 15 countries. The bulk of these markets are generally quite credit worthy and at least as expansionary as our domestic market during the slow and uneven twists and turns of the new international economic environment.

This is not to say Canada, Japan, the U.K., Mexico and Germany—to name those over-$10 billion U.S. merchandise export markets in 1980—or that the Netherlands, France, Belgium, Saudi Arabia, Italy, Korea, Venezuela, Switzerland, Australia, Brazil and Taiwan—to name the other markets likely to exceed $3 billion—are doing everything right. Many confront an all-too-familiar burden of inflation, weak growth and costly oil imports, with no clear policy response. Yet the 15 are a formidable, relatively high-income starting point for U.S. export targeting; a proven group quite comfortable with U.S. products, and areas where data about market fluctuations is available.

Risks in international activity are certainly worsened by the longer distances and more uncertain trade route schedules, with many more hands and agencies involved in the process once the goods move beyond New York, Chicago, Houston or San Francisco. It is then never too early in the process to think in terms of transport/delivery commitments, not only because they are typically spelled out in a letter of credit or other document but also because of distinct seasonal or linkage situations in the buyer's market. Accommodation of overseas subsidiaries, dealers or users is, after all, the bottom line in a firm's ability to win repeat sales and thereby sustain or significantly improve an emerging export-orientation.

Few successful firms ignore the mechanics in this process even as the order is being negotiated and later produced. An established relationship between the firm's shipping department and a good freight forwarder eases the sales/marketing manager's burden. Simultaneously, it generates fewer problems for the financial/credit manager in terms of documentation revision and renegotiation of contract with financial institutions and overseas customers.

Moreover, whether the export is commodities, stylized clothing or essential equipment, the great bulk of international transactions goes out in response to urgent needs overseas. Perhaps local suppliers are woefully inadequate, perhaps delivery of other foreign competitors is too slow or too costly or perhaps few are aware of the opportunity. But all too often, a late, damaged or incomplete cargo can be useless, and lost resale translates into exceedingly high prices and risk of business failure abroad.

Then, too, procedures to ensure a timely supply of adequate spares and follow-up service should always be in place. As with domestic transactions, nondelivery of anything less than a complete package is a certain impediment to renewed sales opportunities, while distances and other complications certainly magnify the risk for even the most experienced exporters.

Cost, risk and profitability are concepts in constant need of fine-tuning. Fluctuations in domestic and overseas interest rates, daily shifts in international currencies, de jure or de facto imposition of credit controls or rationing and the evolving credit worthiness of overseas buyers are part of the balancing process. For the 1980s, it will be more necessary than ever that all U.S. participants in the financing package be fully committed to sustaining export sales.

Despite this maze of apparent difficulties, the day-to-day trade-offs inherent in export activity are calculable. More significantly, by utilization of proven techniques, exporters can minimize many risks while profitability is maximized. In this regard, an important tool available is the export credit insurance program.

This kind of coverage is designed for U.S. companies not fortunate enough to secure cash in advance. It offers insurance of export receivables to cover the unexpected political events: the revolution in Nicaragua, the lack of foreign exchange in Turkey or the takeover of some assets in Iran.

The commercial risks of buyer nonpayment are also covered, ranging from sudden bankruptcy and prolonged difficulties with cash flow, to such circumstances as death of a principle, the results of a severe new tightening in monetary policy abroad or the adverse impact of a devaluation upon the importer.

In terms of maximizing productive facilities, exporters carrying this tailormade protective cover can undertake to match overseas demands and meet foreign competition.

Perhaps most crucial is that the cash position of the U.S. firm extending terms can be as sound as one demanding the more traditional letter of credit. Hundreds of U.S. banks are quite familiar with the advantages of financing export transactions insured by foreign credit insurance: no political risk, minimal commercial risk and the insured obligation does not count against the institution's legal or in house overseas lending limits.

Thus, exporters can leverage their corporate resources very productively by discounting insured receivables and assigning the proceeds to the financing institution.

There are risks at every step in the export orientation of American industry. There are plenty of opportunities for mistakes: not evaluating fully the rapid gain in global market potential; not fine-tuning the match between product and end-user; not delivering the package of goods and related services; not arranging appropriate financing, and not protecting the resultant receivables. ■

Alfred C. Holden is vp for the Foreign Credit Insurance Assn., a foreign credit insurer.

perspective

More on the BAP

Articles leave false impression

speaking out

The Insurance Services Office business auto policy continues to generate controversy. After two Business Insurance Perspectives tried to clear up confusion, it seems there's even more to explain.

By B. Joseph Shelley

WITHIN JUST OVER A YEAR, *Business Insurance* has published two articles by Henry Salfeld criticizing ISO's business auto policy. In the first of these articles (*BI*, Dec. 25, 1978), Mr. Salfeld claimed that the BAP excludes coverage for bodily injury and property damage resulting from loading or unloading a covered auto. He admitted the existence of an amendatory endorsement eliminating the exclusion, but then left the incorrect impression that some policies with the exclusion were in force. Carole J. Banfield of our organization rebutted these statements in a *Business Insurance* article last spring (*BI*, April 16, 1979), pointing out that the BAP as originally developed did exclude loading and unloading, but this version of the policy was never put into effect in any jurisdiction.

Despite Ms. Banfield's clear rebuttal, Mr. Salfeld's second article (*BI*, Feb. 25) implies that the exclusion remains in effect in New York. Therefore, we must repeat that the exclusion never applied in New York and never went into effect anywhere else.

This old exclusion is not the main thrust of Mr. Salfeld's second article, however. Instead, Mr. Salfeld has chosen to examine the wording of the same amendatory endorsement, and once again, he has come to an erroneous conclusion that the BAP leaves gaps in coverage.

Mr. Salfeld is correct that the BAP, as endorsed, does not cover bodily injury or property damage resulting from handling of property by a mechanical device (other than a hand truck) not attached to the covered auto. However, Mr. Salfeld states that the general liability policy also excludes loading and unloading, by whatever means. This simply is not true.

When ISO filed the amendatory endorsement to the BAP, we also introduced an amendatory endorsement to the general liability policy. With this endorsement (GL 00 19), the general liability policy picks up coverage for loading and unloading where the BAP leaves off.

Mr. Salfeld's recent article also questions the BAP's clause excluding coverage for handling property "before it is moved from the place where it is accepted by the insured for movement into or on the covered auto, or after it is moved from the covered auto to the place where it is finally accepted by the insured."

Mr. Salfeld expresses concern over possible judicial interpretations of the terms "accepted" and "finally delivered."

The meaning of the terms will be determined by the facts of each individual case. However, property is generally "accepted" when, for instance, a delivery person signs the bill of lading for it. Property is "finally delivered" when the customer signs the invoice for it. For example, when a store's truck driver delivers a refrigerator to a customer, the refrigerator is "finally delivered" when the trucker has placed it where the customer wants it and the customer has signed for it.



Photo: Merrill Saltzman

Property is generally 'accepted' when, for instance, a delivery person signs the bill of lading for it.

It is possible, of course, that a customer might want the refrigerator placed on his front porch, rather than in his kitchen. That's up to the customer. But the property is "finally delivered" when the customer has the property where he told the driver to put it.

Mr. Salfeld seems to imply that these terms might limit coverage in some unspecified way. To the contrary, we believe that the language is quite clear and that the coverage is significantly broader than in the policies the BAP replaced, the basic and comprehensive auto liability policies. Both of those policies, and the original version of the BAP before the amendatory endorsement, intended to limit coverage to only the immediate act of loading and unloading the covered auto. The language in the current version of the BAP embraces a complete operation concept of coverage.

We believe the amended BAP and general liability policy, taken together, provide complete coverage for loading and unloading. There is no gap.

ISO, however, appreciates Thomas J. Malloy's kind words about our business auto policy (*BI*, Feb. 25). We agree that the BAP is "a truly remarkable document," and we feel that one of the things that makes it remarkable is its

B. Joseph Shelley is vp in the commercial lines department of the Insurance Services Office in New York.

Uncle Sam wins in stock option plans

IRS taxes gains as earned income in a nonqualified arrangement

By Joseph S. Robinson

Attorney-at-law

benefit tax slants

NONQUALIFIED STOCK option plans seem to attract many executives. It gives them the right to purchase company stock in the future at a price set at the time the option was granted. The hope is for a long-term reward based on the stock price increase between the time of the grant and the time the option was picked up.

The trouble is, there's a tax due at the time the executive exercises his option. And, to add salt to the wound, the gain over the option price is taxed as earned income—not as capital gains rates.

Here's how Uncle Sam became an equal partner in one executive's good fortune:

John Kluge is chairman of the board of Metromedia Inc. The proxy material of this large broadcast company shows that Mr. Kluge, who is 65 years old, received stock options five years ago at the market price then of $15.19 a share, or a total value of $296,205. It further shows he exercised those options over 14 months ending March 2, 1980, when the shares were worth $1.3 million. Under tax law, Mr. Kluge is immediately subject to income taxes on his $1 million gain, as earned income at the 50% maximum rate, even though he has not sold the shares.

Mr. Kluge also has a consulting agreement that, starting in 1986 when he will be 71, will pay him $75,000 a year for 10 years. At his death, his estate will be paid $750,000, less any payments under the consulting agreement.

Vesting benefits

Generally, a pension plan may qualify for favorable tax treatment if it provides flat 100% vesting after 10 years of service. Here's a case in which the vesting formula did not meet the formula requirements:

The Caterpillar Tractor Co. maintained an IRS-approved pension plan for its employes. Following the enactment of ERISA, its plan was amended to include the following key provisions: "normal retirement age" was defined as age 65, mandatory retirement was set at age 66, and "normal retirement benefit" of a participant was defined as that amount payable to him under the specified formula "if he possessed at least 10 years of credited service upon retirement."

IRS attacked the amended plan for the following reason: Since the plan specified no minimum age for hiring new personnel, an employe who was over the age of 56 when hired by Caterpillar had no hope of receiving any benefit whatsoever when reaching the company's mandatory retirement age.

The tax court agreed. While a plan may opt for 100% "vesting" after 10 years of service, benefits "accrue" from the date that an employe becomes eligible to "participate" in the plan. "To be sure, such a service requirement (10-year vesting) is permitted, but it is clear that this requirement was directed at vesting of benefits prior to retirement. . . ."

The "forfeiture" upon an employe's retirement referred to in the tax law relates not to "vested" benefits, but rather to those that have been "accrued." To hold otherwise, according to the tax court, would be contrary to ERISA basic intent—to ensure that employes are not deprived of retirement benefits because of lengthy service requirements after reaching normal retirement age. Caterpillar's plan was therefore not qualified for favorable tax treatment (Caterpillar Tractor Co., 72 TC No. 89, 1979). ■

flexibility. Mr. Malloy objects to some of the very features that make the policy flexible; therefore, we must take issue with some of his arguments.

As Mr. Malloy correctly points out, a business that wants to provide full insurance coverage for vehicles it leases must buy the BAP with two endorsements, CA 99 16 (hired autos specified as autos you own) and CA 20 21 (additional insured-lessor). He feels this is cumbersome and suggests changing the words "owned auto" to "owned or leased auto" throughout the policy. This change would allow producers to use Symbol 2 (owned autos) on the declarations page with no endorsements relating to the fact that the vehicles are leased.

This suggestion is not feasible for several important reasons, all related to flexibility. The BAP is designed to insure all commercial ventures other than truckers and garage risks. This means that leasing concerns and the commercial clients they do business with will *both* be insured on the BAP. Therefore, the policy must suit the needs of these various businesses. With leased autos, we have to look at both sides of the lessor/lessee relationship. It is the leasing or rental agreement between the lessor and the lessee that determines which coverage modifications, if any, are required.

If the agreement is a typical short-term rental agreement, no endorsements are required for either policy. The auto is an owned auto for the lessor and a hired auto for the lessee. The lessee's policy would require either Symbol 1 (any auto) or Symbol 8 (hired auto) to cover the liability exposure. For physical damage coverages, Symbol 8 may also be used. As a practical matter, this coverage is seldom written for short-term hired cars. Medical payments, uninsured motorists insurance and no-fault coverages are *owned* car coverages and would not be provided for these exposures. When these coverages are written for owned cars on the lessee's policy, they will also provide coverage for a named insured and family members in the hired car, but the primary coverage will flow from the lessor's policy.

The main problem in Mr. Malloy's letter stems from situations in which the leasing agreement requires the lessee to provide primary insurance. Generally, these agreements apply only to cars leased for a year or more and they are by no means automatic even there. If a long-term agreement doesn't require the lessee to provide primary insurance, no endorsement is required for either party's policy.

But when the agreement includes an insurance provision, both policies are affected and both must be endorsed. From the lessor's side, insurance on the auto ceases, except when the auto is returned to the lessor for service. The lessee now provides the coverage—for himself and the lessor.

The endorsement to the lessor's policy is CA 20 12 (exclusion of certain leased autos). The endorsement to the lessee's policy is CA 20 01 (additional insured-lessor). Both of these forms were developed after extensive discussions with the leasing industry and both provide the coverages requested by the leasing industry.

As Mr. Malloy correctly notes, the lessee's policy in this situation also requires Endorsement CA 99 16 (hired autos specified as covered auto you own). With this endorsement, the policy covers the leased auto as if it were an owned auto. We agree that using CA 99 16 in conjunction with CA 20 01 is cumbersome and we will eliminate this situation shortly. We intend to incorporate the substance of CA 99 16 in a revised version of CA 20 01. (By the way, CA 99 16 will still be available to cover cases in which a lessee wants to provide primary coverage on a vehicle leased from someone not in the business of leasing autos.)

If we followed Mr. Malloy's suggestion, the policy would not be applicable to lessors. Moreover, changing Symbol 2 (owned autos) to include leased autos would automatically provide primary insurance (and therefore require owned auto rates) even when the leasing pact doesn't require it.

Finally, we do not believe that the endorsement requirements in this situation amount to a lot of work. Our manual rules explaining coverages available for lessors and the hired car rule highlight the requirements. We feel that both the endorsements and the manual rules are essential because of the language in various leasing agreements. ■



Photo: Merrill Saltzman

Property is 'finally delivered' when the driver puts it where the customer wants it.

Court denies ambiguity, upholds exclusion

An exception to an exclusion means coverage exists: Company

"THE EXISTENCE of an exception to an exclusion," the Minnesota supreme court said, "should only indicate that the exception is a grant of coverage if the policy as a whole is ambiguous."

Moorhead Machinery & Boiler Co. was issued a liability insurance policy by Employers Commercial Union Insurance Co. of America. Moorhead contracted to design and build two storage tanks on a customer's site. Later, one of the tanks collapsed because of a design flaw. Because the tanks were joined by a rigid catwalk, the other was also destroyed.

Commercial refused to pay Moorhead the $172,000 cost of replacing the tanks. Moorhead reconstructed the units and sued the insurer for the cost. A policy clause excluded property damage off of the policyholder's premises or for repair made necessary because of faulty workmanship.

However, such exclusion was not to apply to the policyholder's products when physical possession was relinquished or when the damages arose out of the completed operations hazard. Property damage to the policyholder's products was excluded by a clause. The trial court ruled against Moorhead.

On appeal, Moorhead contended an exception to an exclusion indicates coverage exists even though the coverage is later excluded by other exclusions. The court disagreed, saying coverage should be determined on the language of the individual policy. "Fairness to the insured," the court said, "is the primary consideration." Finding no ambiguity in the policy but acknowledging the policy's complexity, the court held there was no coverage. *Moorhead Machinery & Boiler vs. Employers Commercial Union*, Minnesota supreme court, July 20, 1979, rehearing denied Dec. 12, 1979 (BI/01/Ju.-$4).

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for $4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

Completed operation

Work is not complete, according to a North Carolina appellate court, under a completed operations hazard exclusion in a liability insurance policy, if a worker failed to perform some substantial requirement essential to its functioning.

An electrical contractor was insured under a multiperil policy containing an exclusion for a completed operations hazard. An employe of the contractor was sent to repair a malfunctioning fluorescent light fixture in an egg plant. Before the employe left the plant's premises wisps of smoke were seen around the lights.

Shortly after the employe left, the fixture caught fire, setting off a further blaze. The egg plant owner sued the contractor. The contractor submitted the defense to the insurer but was refused. Later, the contractor settled the damage suit for $25,000 and he brought the suit against the insurer. The trial court ruled in favor of the contractor.

On appeal, the insurer maintained that the completed operations hazard exclusion precluded coverage because the employe was shown to have left the plant about two hours before the fire was discovered. The court said the contractor's obligation to the egg plant owner was not "completed" until the light fixtures were put in a safe working condition. The court concluded the exclusionary clause was inapplicable. *Woodward vs. N.C. Farm Bureau Mutual Insurance Co.*, North Carolina court of appeals, Dec. 18, 1979 (BI/02/Ju.-$4).

Faulty work

The Tennessee supreme court held that the standard comprehensive general liability policy does not cover an insured contractor for a breach of contract action grounded upon faulty workmanship or materials when the damages claimed are the cost of correcting the work itself.

A contractor brought this suit against its insurer to recover its liability for work allegedly performed in an unworkmanlike manner. The contractor, in a separate lawsuit, has been found liable for damages for faulty design and construction of a client's warehouse.

The contractor's insurer had refused to defend that suit, contending there was no coverage. The policy covered property damage caused by an occurrence, but an exclusion clause provided that it did not cover liability assumed by the policy holder under any contract, except for a warranty that work performed by him or on his behalf was done in a workmanlike manner.

The lower courts dismissed the contractor's suit against the insurer.

On appeal, the court observed that this standard exclusion had been the source of disagreement among the courts. The court believed the coverage intended here was for tort liability for physical damages to others, not for the policyholder's contractual liability for economic loss because the product or completed work was not that for which the damaged person bargained.

The court concluded the policy did not cover an accident of faulty workmanship but rather faulty workmanship that causes an accident. *Vernon Williams & Sons vs. Continental Insurance Co.*, Tennessee supreme court, Dec. 27, 1979 (BI/03/Ju.-$4). ■

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

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

JUNE 13-14. Emergency Forces Training Workshops in Detroit, sponsored by the National Fire Protection Assn.; $30 for members, $35 for nonmembers for one half-day workshop; $50 for members, $60 for nonmembers for two half-day workshops or one full-day workshop; $90 for members, $110 for nonmembers for two full days of instruction. NFPA seminar, continuing education division, 47 Atlantic Ave., Boston, Mass. 0221 617-482-8755.

JUNE 16-18. Data Processing Security Seminar in Pittsburg $450. Director of seminars, Da Processing Security Inc., 200 Ea Loop 820, Fort Worth, Tex. 7611 817-457-9400.

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JUNE 23-25. American Society Safety Engineers Professiona Development Conference Houston; $245 for ASSE membe $295 for nonmembers and $195 f student members. ASSE, educ tion department, 850 Busse Hig way, Park Ridge, Ill. 6006 312-692-4121.

JULY 9. One-Day Benefit Briefi in Indianapolis, sponsored by t International Foundation of E ploye Benefit Plans; $100 for me bers, $125 for nonmembers. Al **July 10** in Kansas City. IFEB 18700 W. Bluemound Rd., P Box 69, Brookfield, Wis. 530 414-786-6700.

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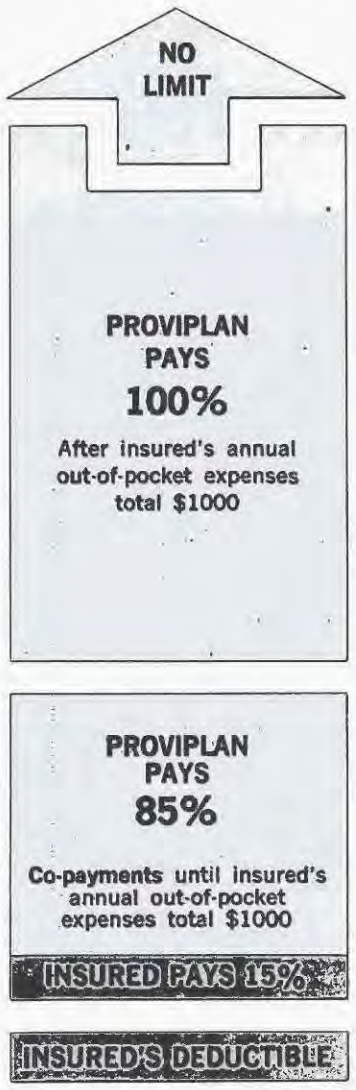
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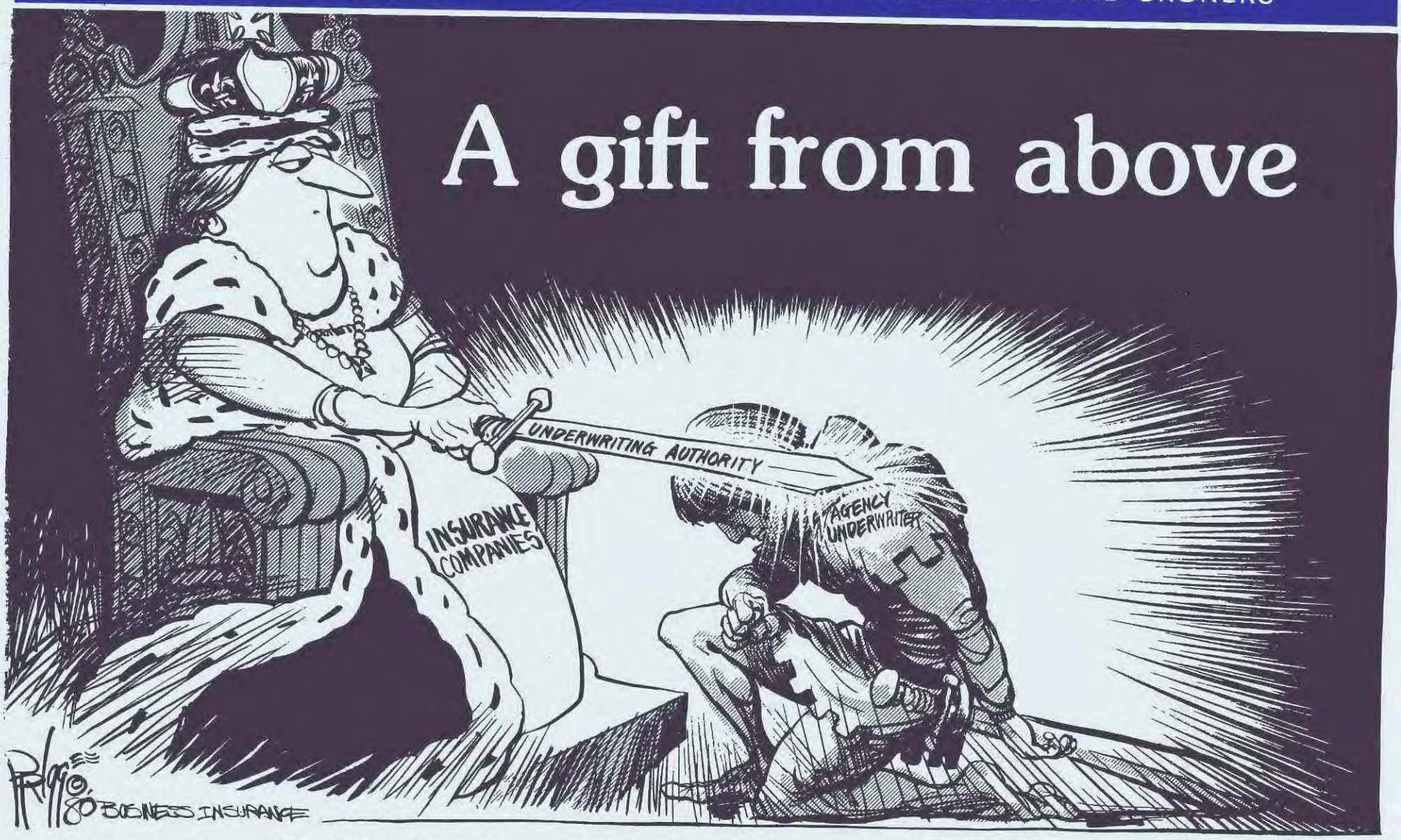


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agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS



More and more agents are getting underwriting authority from their markets. The goal: bigger profits for all.

By DAVE GALANTI

CHICAGO—There is a standing joke among agents about insurance company underwriters.

They're slow and they're uncooperative, the legend goes. They take a perverse pride at turning down risks, and they're cantankerous to boot.

Those agents, however, may soon find that the joke is on them. For those ornery, uncompromising underwriters may soon be the agents themselves.

Underwriting authority is the coming game in the agency business, and insurers are reporting that more and more activities currently handled in the branch office—from underwriting to policy issuance—will be delegated to independent agencies that can handle them.

Several property/casualty insurers, including The St. Paul Cos., Zurich-American Insurance Cos., The Kemper Group and Commercial Union Assurance Cos., have recently introduced programs that send a company-trained underwriter into the agency's midst to save agents time and eliminate duplication of paperwork between the insurer and agent.

Benefits for the agent include bigger profit sharing checks, faster policy turnaround and the chance to control policies from sales through acceptance.

Agents will be required to write a substantial amount of business for the insurer that grants underwriting authority and maintain a pristine loss ratio. They must also pay the underwriter, clerical help and any other facilities needed to keep the system going.

Zurich-American's program has been in operation for about a year, says Armand Ferrini, standard lines division vp. Formed with InsGroup, a national marketing linkup for small and medium-sized agents and brokers, the program now involves about 25 agents nationwide.

"Bob Howey (president of InsGroup) came to us with the feeling that we had to improve the working relationship between insurers and their agents," Mr. Ferrini says.

"He noted that companies were doing rating, typing and underwriting in the branch offices. The agents would get this work back, then check up on us on the first two and question the third. He felt this was a duplication of efforts for agencies large enough to do it all themselves," Mr. Ferrini said.

This problem was further aggravated by the lack of good underwriters and raters in the personnel marketplace, Mr. Ferrini adds. This duplication of effort makes finding good employes more difficult, too.

The bottom line, however, for both agencies and Zurich-American is increased profitability, he says.

"We think this program gives our InsGroup agents an extra foot in the door to get business, because they can improve service and control policy delivery in their own office," he says. "The profit sharing plan connected with the program has two- or two-and-a-half times the payback that our standard contract would provide. In some cases, the agency will get more at the 'back end' than on commission.

"On our end, we're getting the personnel help we need to relieve some of the burden on our branch offices," Mr. Ferrini adds. "That gives us some more time to spend on the rest of our agency force and improve service in that area."

Commercial Union's program may be typical of such underwriting programs. According to vp Dennis J. Looney, the independence program gives agents authority to underwrite, rate, quote, price and issue policies; to gather information about accounts, and

Continued on next page

Brokers limit insurer ties

CHICAGO—As some independent agents are drawing closer to the insurers via underwriting authority programs, the large national brokerages say they aren't looking to expand their underwriting clout.

Although the taboo against brokers becoming risk takers is slowly eroding as several of the nation's largest brokers now own insurer subsidiaries (*BI*, Aug. 6, 1979), several national brokers say the day probably won't come when they control both broker activities and a substantial amount of inhouse underwriting.

The reasons are both financial and theoretical, brokers say. Exposure to the ups and downs of the insurance underwriting cycle would increase if a major broker owned a major insurer. In addition, brokers believe there is a benefit in serving their clients without the taint of keeping some of the risk.

"Of course, there have always been areas of shared activities between brokers and insurers in this industry," says Richard J. Rice, the newly elected president of the National Assn. of Insurance Brokers.

"There has also been a shifting over the years so that the brokers are now providing more services to their clients than ever before. But I doubt we'll ever see a growing closer so that brokers and insurers

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INSIDE

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DEADLINE
June 13, 1980

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Annual A/B issue coming July 28

The eighth annual *Business Insurance* Agent/Broker Profiles issue, which contains vital information on more than 300 leading commercial insurance agents and brokers in North America, will be published July 28.

The annual Profiles issue has become a year-round reference source for corporate executives interested in services provided by insurance brokers. It is the most complete list anywhere of insurance brokers specializing in commercial accounts.

The special report will provide detailed looks at the 20 largest U.S. brokers and the largest Canadian firms. In addition to information on revenues, employes, acquisitions and future plans, *Business Insurance* will publish the salaries of the chief officers of the largest publicly held brokers. Information on gross revenues, employes, acquisitions and officers is also provided on other agents and brokers in the U.S. and Canada.

To qualify for the Profiles issue, an insurance broker or agent must deal directly with policyholders, must have an annual premium volume of $1 million or gross revenues of at least $150,000 and must generate at least 50% of its business from commercial accounts. Profiles will not be included without information on gross revenues and the number of employes. We must receive the questionnaire by June 13.

If you have any questions, write Kathryn J. McIntyre, editor, *Business Insurance*, 740 N. Rush St., or call 312-649-5286.

Many agents and brokers listed in previous Profiles issues have already received the questionnaire in the mail. The questionnaire on this page should not be filled out if you have already completed the questionnaire you received in the mail.

Insurers grant more authority to their agents

Continued from previous page
to pay certain claims.

CU planned the program, Mr. Looney says, to counteract the direct writers' intrusions into the commercial lines market. A program was needed to make the independent agent more competitive, he added.

Pricing authority under the CU program uses all filed company rating plans, including schedule and other judgment-type plans. The program also includes a monitoring system through which agent and company can review portfolio acitivity, Mr. Looney says. The maximum payout under the profit-sharing agreement can be as great as 40% of the profits produced by an agent's portfolio.

An increase in total commissions is also part of the St. Paul plan, says senior marketing officer Jerry Haug.

"We've been using our underwriting authority program for about three years," Mr. Haug says. "We think that certain of our agents can underwrite business more efficiently than we can.

"So we go to these agencies and see if they are interested," he adds. "If they are, we then have one person in the agency named as the underwriter with underwriting authority for St. Paul.

70 participants

"It's not required that the agency hire someone new to do this, but it is essential that it be one person so that we can provide the training the underwriter needs to become acquainted with us," he adds.

About 70 agents nationwide participate in the St. Paul program, out of about 8,700 agencies using St. Paul as a market.

"We don't look so much at agency size as much as how much business the agency can do with us," he says. "The agency has to be big enough to support the underwriter financially. If I had to put a dollar figure on it, however, I would say that any agency writing less than $1 million in premium would have a hard time dealing with our program—and that's probably low."

Mr. Haug says there is no limit to yearly volume under the program, although there are premium and exposure dollar limits on individual risks. Like other such plans, however, the basic requirements force the agency to make St. Paul one of the agency's main markets. The contract also requires yearly production increases above what would be considered normal.

Kemper's plan includes underwriting authority in such lines as workers compensation, commercial auto, commercial fire and SMP with authority levels substantially above what might be given ordinary agents, says commercial lines sales official John Ryan. The program is still in a pilot phase, with expansion possible if it meets company expectations.

Competitive pressure

"The agency can also take on claim handling and inspection to a certain extent, and policywriting and rating if they want it," Mr. Ryan says. "We haven't found that a lot of agents are very excited about the latter aspects, however."

Kemper decided to initiate the program in response to competitive pressures.

"It's just another turn of the wheel in the marketplace," he says. "At one time, this was the way many companies did business. Again today, it seems like this is a better and cheaper way of doing business for both us and the agent."

There are potential pitfalls. If agents abuse the system, problems could cost the insurers money. But Zurich-American's Mr. Ferrini is not worried about his system.

"The key is a trust relationship," he says. "The agent and the insurer really have the same goals. If we lose money, they lose money. They also have the investment in the underwriters. The only way to get that back via profit sharing is to be profitable."

Zurich-American is looking at ways it can delegate authority to more agents, Mr. Ferrini says.

"I don't think these types of programs will ever spread to all our agents, because it is intended for agencies with certain capabilities and a lot just can't afford to do it," he says. "But maybe someday we can take a look at each agency and delegate whatever duties they can handle. As long as it makes sense for both of us, why not do it?" ■

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"The current Social Security law singles out these agents for unfair treatment," says Howard Woodside.

Relief for retirement commissions

Bill would end benefit reductions

WASHINGTON—Retired agents or brokers watching their Social Security benefits being eaten away by renewal commissions earned before they retired may get relief from a bill currently before a U.S. Senate subcommittee.

The bill (H.R. 5295) would grant independent agents the right to renewal commissions as a retirement benefit without reduction in Social Security benefits. The measure passed the House of Representatives recently and is being considered by the Senate Social Security subcommittee.

The Social Security Amendments of 1977 consider renewal commissions as income earned after retirement that reduces Social Security benefits.

"Normally, deferred compensation payments are not included in income for the purpose of decreasing a person's Social Security benefit," says Howard Woodside, vp for Sentry Insurance in Stevens Point, Wis., who recently testified in favor of the bill.

"Unfortunately, by treating the deferred renewal commission compensation of self-employed agents differently than the deferred compensation paid any individual in another industry, the current law singles out these agents for unique and unfair treatment," Mr. Woodside says.

He sees the effect quite clearly he adds, because Sentry is both a direct writer and an independent

A/BT

agent company. Employed agents, he says, do not have this problem because the company terminates renewal commissions at retirement. Sentry's employed agents are then covered by a pension plan.

"We don't contribute to a retirement fund for a self-employed agent," Mr. Woodside adds. "That agent must rely on earnings generated from services rendered prior to retirement, including renewal commissions paid after retirement for services rendered before.

"It seems only equitable that the self-employed agent be granted the right to receive renewal commissions as a pension benefit without reducing Social Security benefits," he adds.

If passed, H.R. 5295 would affect retired agents between the ages of 62 and 72. Retirees in this age bracket are penalized $1 in Social Security benefits for every $2 in income they earn over $5,000 a year. The top age will be reduced to 70 in upcoming years under current law, however.

The effect of the bill would vary from agent to agent. However, it would be a matter of more than just pennies, says Michael Kerley, counsel on government affairs for the National Assn. of Life Underwriters.

"Judging from our mail, I would say this is a big worry among retired agents," Mr. Kerley says. "I've been hearing a lot of reaction, and the agents want the money they feel they have been cheated out of by the government."

The average retired life agent would make more than the $5,000 a year, he adds. In addition, any reduction in Social Security benefits is doubly painful because that income is nontaxable.

The total tab for H.R. 5295 would be painful to the government, however.

"Overall, the finance committee put the cost of restoring these benefits to all self-employed persons at $36 million in the first year and $14 or $15 million a year thereafter," Mr. Kerley says. The $36 million would include payments to persons for benefits lost since 1978.

"We got an estimate on a bill like this for just the life underwriters and the tab came to about $5 million," he adds.

Because of that cost, "balance-the-budget fever" may ultimately spell the bill's demise.

"A number of senators said they had a good feeling about the bill, and the Social Security commissioner said he felt it was well written," says Roger Joslin, a vp and treasurer for State Farm Mutual Automobile Insurance Co. who testified on the same panel with Sentry's Mr. Woodside.

"But you don't know what will happen. You get the impression that Congress may be unwilling in an election year to do anything to increase costs," he says. ■



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NAIB seeks new director

WAILEA, Hawaii—The National Assn. of Insurance Brokers has formed a five-person commission to search for a new executive director.

The committee's nominee will probably replace the NAIB's present executive director, R.L. Remington, who will leave the post June 30, a spokesman said. Mr. Remington has been chief operating officer of the association since 1965.

The search committee will be headed by new NAIB president Richard J. Rice, who was elected to the position at the NAIB's annual meeting here.

Mr. Rice, vp of Johnson & Higgins in New York, has been active in the association for the last six years.

The NAIB has set no target date for completion of the search committee's task, but work is not expected to be completed by the time Mr. Remington leaves, the spokesman said. ■

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A&A appoints three outside directors

NEW YORK—Following a trend among large U.S. corporations, Alexander & Alexander Inc. has appointed nonmanagement members to its board of directors.

The three new outside directors—James D. Berry, Roderick M. Hills and Vincent R. McLean—represent A&A's first effort to bring added expertise to the corporate board of directors, says president John A. Bogardus.

Added diversity may smooth decision-making about diversification and future growth, Mr. Bogardus adds.

"We've been thinking about doing this off and on for some time," he says. "Finally, we announced at last year's annual meeting that we would do it no later than this year.

"A combination of circumstances actually led us to make the final effort to go outside," Mr. Bogardus adds. "The Securities and Exchange Commission is strongly urging that this be done, although they aren't mandating it. In addition, A&A has grown to a size that we feel needs the views of people not connected with the present management.


Berry


Hills


McLean

'These people will question things we take for granted and that is a healthy process,' says John Bogardus.

"We plan to diversify in other areas outside the brokerage business, and we need new expertise to handle that—help in deciding what plunges to take. And a final reason is that we want to be considered good corporate citizens, and we want our goals to be the same as those of the community at large."

The new board members will serve on newly created audit and compensation committees, Mr. Bogardus says.

"An audit committee is almost a must these days," he says. "And the compensation committee will be good because we've always felt uncomfortable about setting our own salaries from within."

Mr. Bogardus says the selection process began when he asked other directors to suggest individuals who would fulfill A&A's needs. A&A was looking for directors versed in the legal, financial and planning fields, he says.

Mr. Hills, a partner in the law firm of Latham Watkins & Hills, filled the legal requirement. Financial expertise was acquired via Mr. Berry, chairman of the board and chief executive officer of Republic of Texas Corp., and Mr. McLean, executive vp of finance and planning for NL Industries Inc.

The three new directors were added to 12 inside directors.

"We would have taken a fourth outside director if we could have found someone who met our needs and had the time to serve," Mr. Bogardus says. "The odds are good that we'll add to our outside director total in the future.

"But many qualified outsiders are over-committed already," he adds.

"The final selection was among five people, and the two we didn't get to come with us basically fit into that pattern. We were looking for a substantial commitment from our outside directors."

The term for the new directors is one year, although Mr. Bogardus says he expects they would continue until they retire. Two of the new directors are 48, one is 59.

"They have varying degrees of exposure to insurance, but that really doesn't matter," he says. "Mr. McLean has the most, but it never was a prerequisite. We're more a financial corporation, not just purely insurance. But this may be a plus even as far as insurance is concerned, because they may ask more questions than we normally would."

The effect of the newcomers, Mr. Bogardus says, probably won't be seen from the outside.

"The greatest impact will be on internal affairs," he says. "The stockholders may be more comfortable because of this move, but the improvement will be seen mainly by the other directors. These people will question things we take for granted, and that is a tremendously healthy process." ■

Povenz heads ARM network

LANSING, Mich.—Douglas Povenz of Moore & Povenz in Port Huron, Mich., has become president of ARM of Michigan.

Also elected officers were: Dale Sheets of Lyman & Sheets in Lansing, vp; Eugene F. Lee of R.L. Jones & Associates in Livonia, Mich., secretary-treasurer; Robert McKinley of Moulthrop-Clift Inc. in Bay City, Mich, member-at-large; and Gary Cooper of Barnich Kavanaugh & Cooper in Sheboygan, Mich., member-at-large.

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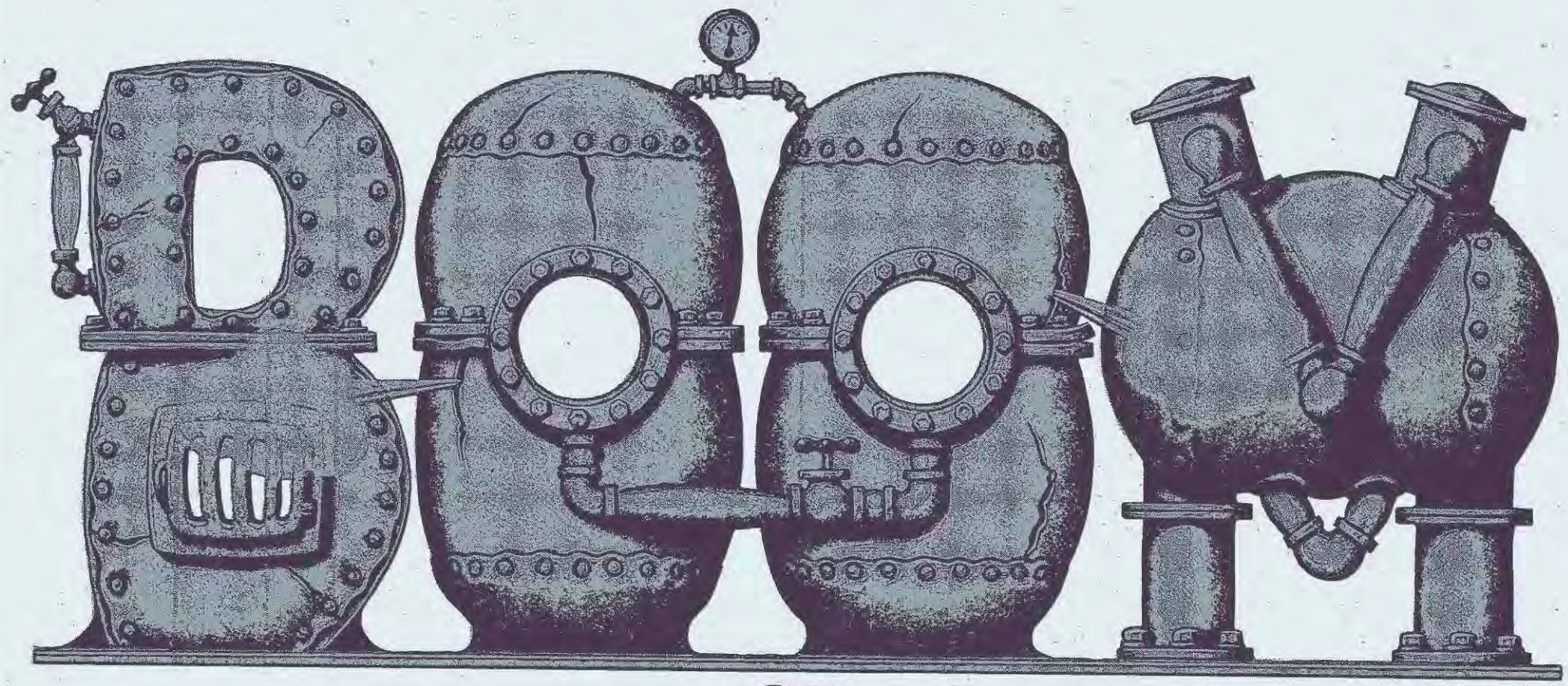
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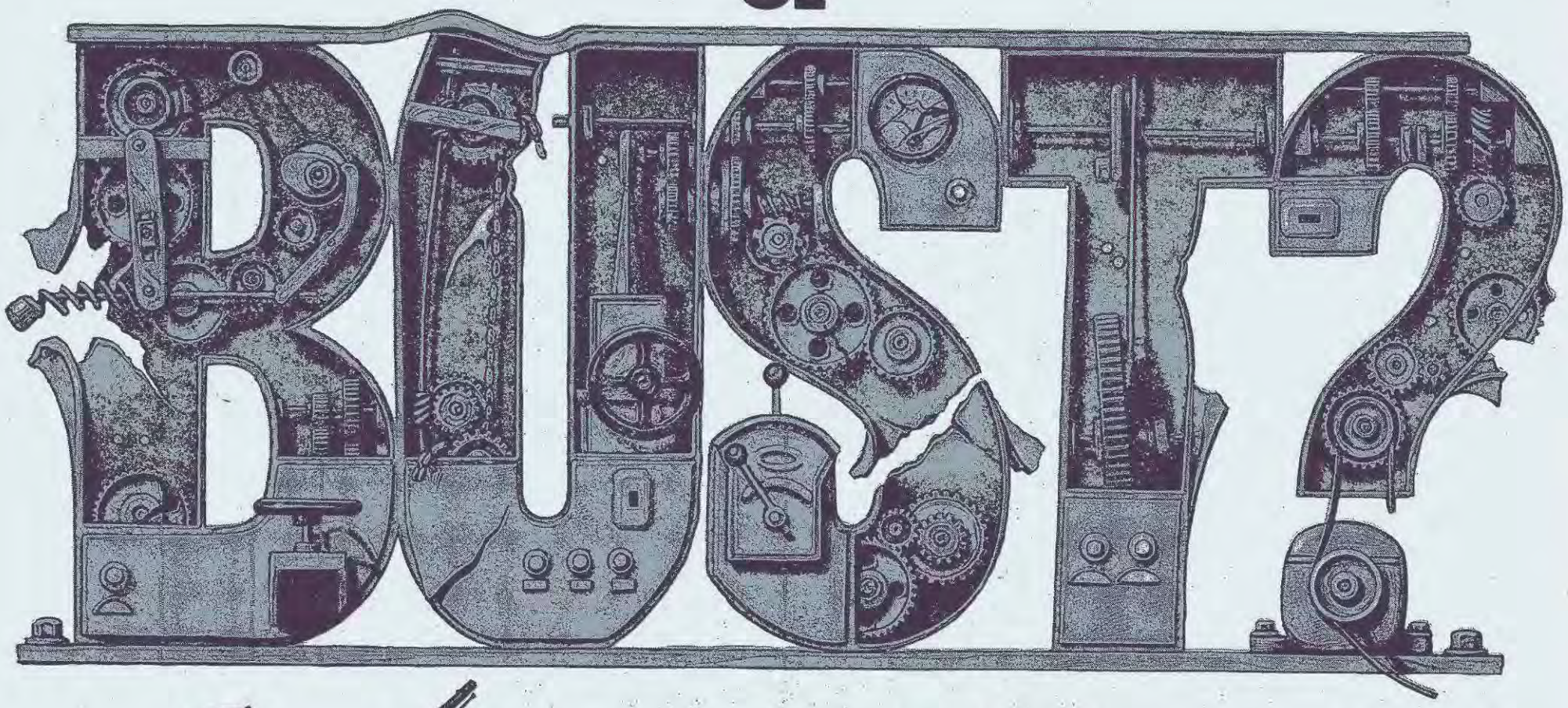
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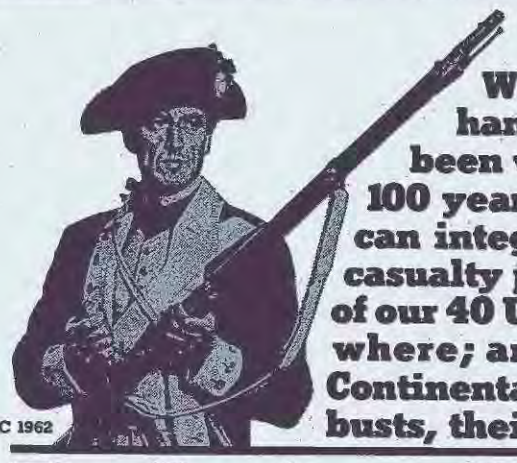
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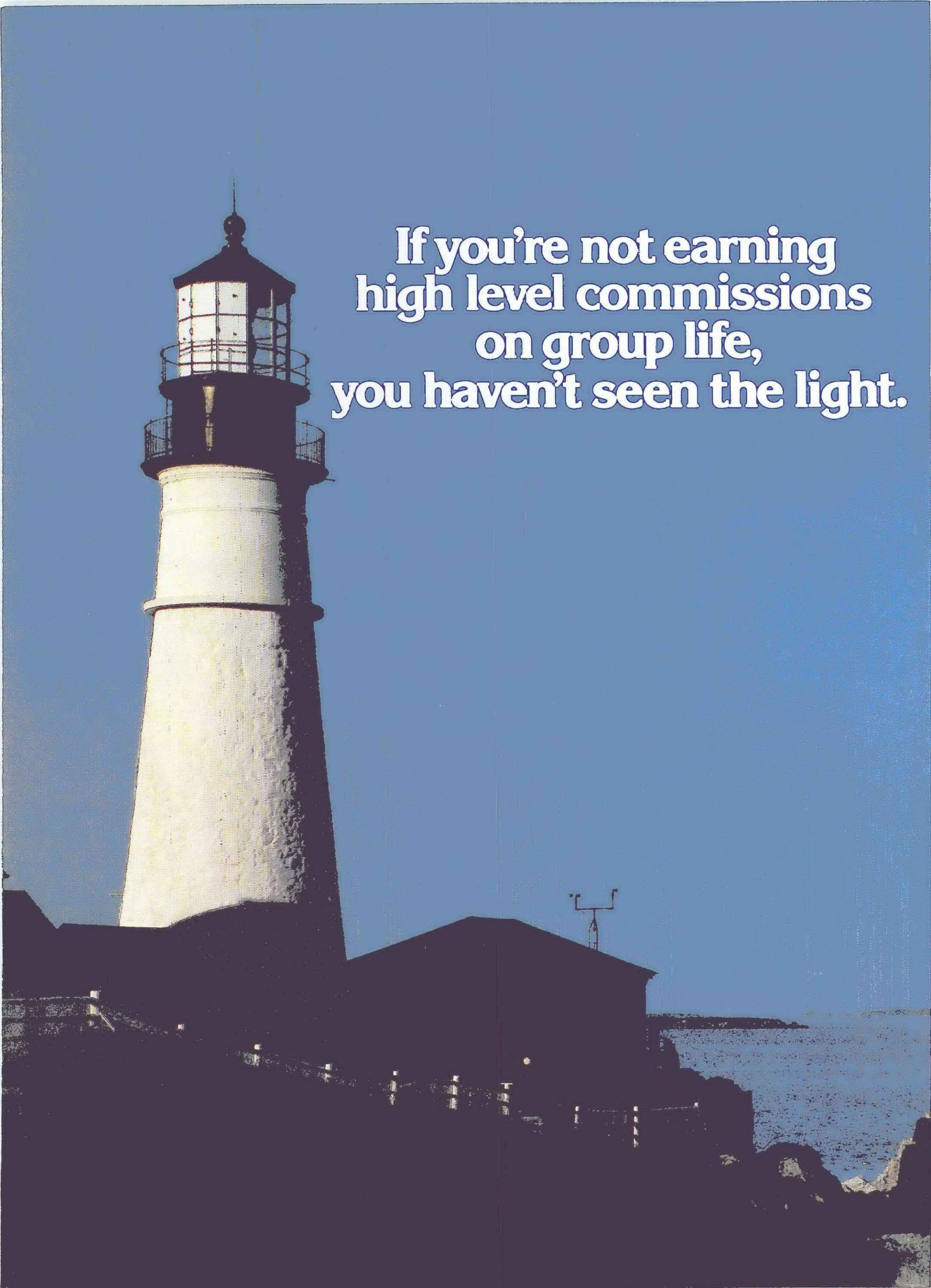


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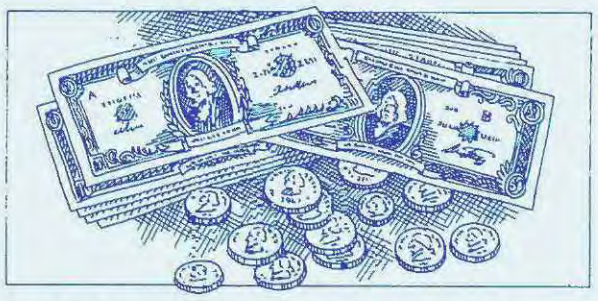

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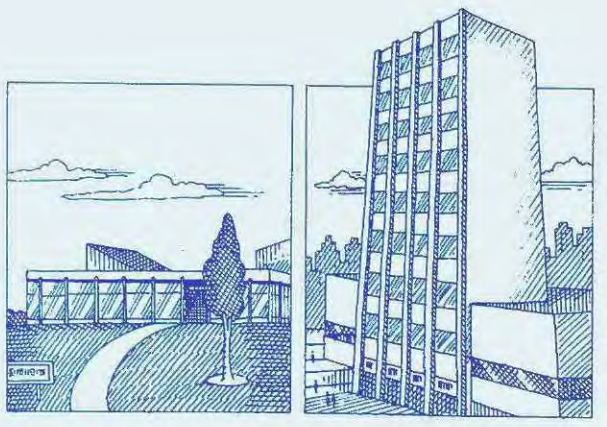
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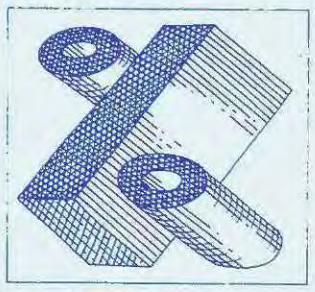
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Underwriting role demands new view

By Dennis J. Looney Jr.

WHAT NEEDS TO BE DONE both by an insurance company and an agent of the company so that greater autonomy can be ceded to the agent? In what ways does the independent agent have to change ways of thinking and functioning? What does the company have to do to ensure that such a venture works?

As the independent agency companies' share of the commercial market decreases, the direct writers move into commercial lines using underwriting techniques that have been highly successful in personal lines and the life insurance companies ready themselves to commit capital to the property and casualty business, it is increasingly evident that the traditional responses, particularly centralization of authority in company offices, has not brought desired growth, profits or prosperity either to companies or independent agents.



A/B/T perspective

Agents hold the key to the accomplishment of our objectives and are as concerned about the future as we are. Therefore, the time has come to make a major commitment to our agents so they and we are equipped to function successfully in the marketplace.

The closer underwriting is to the risk, the sounder the decision. Further, agents have been responding to marketplace demands by hiring qualified technical staff to provide the advice and service sought by clients. These professionals are well qualified to underwrite risks.

Alone, delegation of authority is not sufficient to significantly affect the commercial lines market. Agents need new products and programs to ensure that they will retain their existing accounts and successfully compete for new business.

But underwriting authority programs are being undertaken by a number of companies to recognize the agent's capabilities. In Commercial Union's program, each agent receives a three-year contract that may be extended for an additional year at the end of each contract year provided certain goals are met.

The provision for mutual agreement commits both agent and company to a partnership that should ensure attainment of goals. Thus, the agent is placed in a position where he can guarantee a stable and open market indefinitely for the agency. The Independence Program's profit sharing agreement gives agents significant financial incentive to underwrite business carefully.

This agreement is also the vehicle for compensating the agencies for many of the expenses incurred in underwriting business, which are not offset by reduced paperwork and increased efficiency. The maximum payout under the profit sharing agreement can be as great as 40% of the profits (protected by a stop-loss) produced by an agent's portfolio.

Improved agency cash flow is an attendant benefit of more timely issuance and billing of policies, endorsements, etc., under an underwriting authority program. Agents can proudly provide their clients with the level and quality of service to which they are entitled.

These programs will also free agents to find new business, thereby capitalizing on the authorities granted them. To survive, maintain and increase market share and to maintain profitability under inflation, agents must aggressively seek new accounts.

What is required of an agent interested in a program like this? Obviously, a change in the traditional method of agency operations is called for.

There must be a soul-searching analysis of both the insurer's vision of the marketplace in the 1980s and of the role of the agent—and the independent agency system—in the foreseeable future. The agent should be committed to making his agency a viable, growing and prosperous entity in that marketplace. The agent must be willing to make a commitment to compete and to grow—not to just "hold on" and sell out when retirement beckons.

Once attuned philosophically to such an ideal, the more mundane and practical aspects must be addressed.

Independent agents must have a willingness to make a financial investment in the program to make it work. The agency must take on some additional duties it hasn't handled before: the underwriting and issuing of policies. This really involves the assumption of productive, revenue-producing work in order to reduce and eliminate other nonproductive, expensive work.

Accounts can't be looked upon solely for their commission income value. The agent must want to use his agency's expertise to make those "risk acceptance" decisions agents have traditionally encouraged company underwriters to make and to accept the financial consequences of those decisions (profit sharing commissions).

It can even mean refusing to write certain accounts—and foregoing the commissions—if the account doesn't measure up to standards or doesn't respond to risk control efforts for improvement.

An additional consideration is

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that the agent must be willing to become more sales-aggressive. Any business that is to survive must grow. There must be a commitment to compete against the direct writers, the life companies as well as other agents. Thus, the agent must look to the agency's sales capabilities.

This look must go beyond the selling function and staff in the agency. Market strategies must be developed to ensure the most effective, efficient and profitable portfolio mix for the agency and its companies.

In short, the agent must come to the conclusion that he is willing to exercise greater control over his own destiny—to use the tools that will be available to him to make events happen the way he plans them to happen rather than to let events determine what happens to him, his agency and his business.

What does a program of underwriting authority require of an insurer? A substantial commitment—financial and moral—to a partnership with its agents. A company has to allocate its capital to these agents so they can grow and continue to write business in all types of markets. It has to entrust its underwriting loss ratios to their expertise. It has to provide them with an opportunity to substantially increase income both by underwriting and production activities. It has to develop training programs to assist agents in addressing the needs of their staffs in virtually every area—coverage, underwriting, sales, etc.

Insurers must work on a comprehensive financial aid package for agents so that those who wish to join us will not be financially prevented from doing so. Insurers should commit themselves to a partnership with agents which they believe will create a new distribution system for the '80s that will restore the independent agency system to prominence.

Insurers must also remain committed to work closely with agents who are not yet ready to make the transition to such programs but who nonetheless support our philosophies and want to ensure their own perpetuation, profitability and success.

We are convinced that many of our agents, over time, can be prepared and helped to accept varying degrees of underwriting authority so that they too can play an equally competitive role in their marketplace. ■

CNA sees expansion of agents

CHICAGO—In the face of recession, sagging underwriting profits and stiff competition, CNA Insurance Cos. will try to double its representation among independent insurance agencies over the next four years.

Such an increase is an important step in beefing overall volume earnings for CNA Financial Corp., says board chairman Laurence A. Tisch.

CNA's goal is to have 6,000 agencies selling its personal and commercial lines of insurance by 1984, up from the present level of about 2,900, says marketing vp Phillip Engel. The move is necessary for CNA to maintain its position in the insurance marketplace where companies are currently bedeviled by low rates and intense competition, he says.

CNA relies heavily on independent agencies to sell its products.

To lure new agencies, CNA will expand the incentive programs it now uses, including the high performance agency program that guarantees commissions and profit sharing advantages to participating agencies. In return, CNA asks agents to sell its products as 30% to 40% of their business, Mr. Engel said.

Although CNA is primarily a commercial insurer, the firm will stress personal lines this year. New products will be mostly in personal lines insurance and modification of existing commercial packages. ■

M&M vp on board

Thomas S. Chittenden, senior vp of Marsh & McLennan Inc., has been elected to the board of directors of the American Arbitration Assn., a national nonprofit organization that provides arbitration and mediation services. The association has 24 regional offices that administered more than 45,000 cases last year. More than 50,000 persons serve on its panels.

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Brokers restrict underwriting role

Continued from page 24A

are the same company."

Mr. Rice adds, however, that relations change fast in the insurance industry.

"There has been some mixing of identities—there's no doubt about that," he says. Insurance buyers form an insurance company to do their job better. Brokers manage those companies.

"The insurance companies see that encroachment and take stands either to battle the process or join it. It's the entrepreneurial spirit at work," he said.

"In that line, there are going to be pieces of the underwriting world that we brokers could share, but we probably should try to discriminate between what we could do and what we should. I think the preservation of the traditional roles of the broker and insurer will remain," Mr. Rice says.

That apparently is the position of privately held Johnson & Higgins, the nation's third largest brokerage. President Robert Hatcher has said that appearances of conflict of interest are one reason the broker doesn't enter the insurer field.

Limited use only

The only way J&H would follow the other brokers into the insurer field would be in a limited capacity, and then only to find markets for their policyholders.

Alexander & Alexander does have an underwriting operation, but it is far removed from the mainstream brokerage operations, says senior vp Gerard F. Curtis.

"We own 100% of Shand, Morahan & Co., and they in turn own 45% of Evanston Insurance Co.," Mr. Curtis says. "But when we bought Shand, Morahan about five years ago, we did so as an investment. We have no real management authority over them. It had to be that way because mixing brokerage operations and underwriting is a bad idea.

"Our relationship with Shand, Morahan and Evanston Insurance Co. is similar to what it would be if we bought a junk company as an investment," he adds. "We wouldn't interfere there, either. People over there treat us like any other broker. If we're first there, then they'll deal with us."

That's the way A&A wants it, Mr. Curtis says.

"I think this is the best way to do it," he says. "We don't want to start a history of buying up insurance companies and then destroying them by using them to solve our own problems."

If brokers ever do dive into underwriting in a big way, Mr. Curtis agrees, it would probably occur in tight insurance markets. If brokers are unable to find their clients insurance through the normal channels, they may be forced to start their own facilities, he adds.

"But I don't know whether that will happen or not," he says. "There is a question anyway about how far government would let you go. Maybe they would head brokers off at the pass.

Two roles

"It might be more hassle than it is worth to do that anyway. Brokers and insurers play two roles that don't easily meld with one another," Mr. Curtis says.

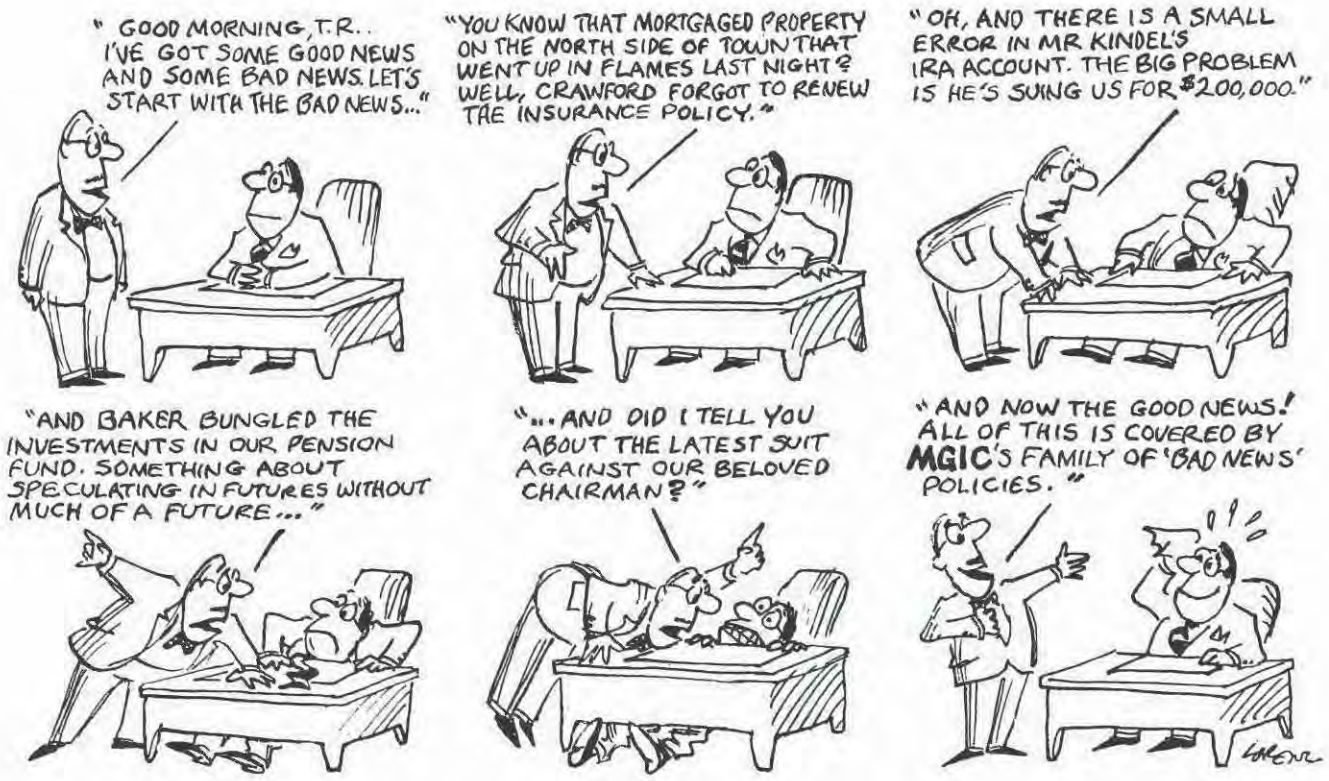
Though brokers may never make a career of underwriting, major property/casualty insurers may at some point buy into brokerages to help them steady rough financial waters caused by the underwriting cycle.

"It might flow that way," says NAIB's Mr. Rice. "In mass-marketing right now this might be happening to an extent. Some underwriters have strong marketing arms to sell this business, although this isn't a radical change from the past."

Even if that happens, however, Mr. Rice says the other brokers would survive.

"The fittest survive, and the brokers have been resilient in the past," he says. "But even if insurers do go into the broker business, I still see it in only a specialty-type situation. But all things change over time, so you don't know. It will be interesting to watch." ■

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Agent plugs in computer vendor

PORTLAND, Ore.—Dick Randall wants to operate a serious insurance agency specializing in commercial lines. Kim Walter wants to sell Redshaw computer software equipment.

The result is an agency that at the same time is a full-time commercial lines vendor and a proving ground for Redshaw products and services.

"Kim and I used to work together at an agency," Mr. Randall says. "He was the comptroller and I was in commercial lines. During that period of time, he kept mentioning how he would like to purchase an agency. We didn't do anything then, but when I decided recently that it was time for a change, we set up the present relationship.

"He had this shell corporation—Abernathy & Bishop—that he wasn't doing anything with," Mr. Randall adds. "When I made the decision to leave, we rented some space and started to set up the agency. Kim said he wanted to use it as a demonstration vehicle for Redshaw and I wanted to use it to go out on my own."

Mr. Randall says he is the only producer for Abernathy & Bishop, and business will center on commercial lines. His book of business includes several sawmill risks he brought from his previous agency. He said he has signed contracts with nearly a dozen markets, including Fireman's Fund, Commercial Union, St. Paul Cos., The Hartford and Royal Insurance Co.

He says he expects Abernathy & Bishop to be writing about $1 million in premiums by the end of 1980. The agency officially opened Feb. 1.

"We're not in the black yet by any means, but I have my own accounts from my previous agency and I solicit them," Mr. Randall says. "As I get those accounts, we'll put them into the system. I also hope to get a personal lines producer in here soon, and that will help."

The demonstration aspects of Abernathy & Bishop are made simpler because Mr. Randall's office is adjacent to Mr. Walter's Wade-Hampton Corp., which sells Redshaw services in the Western United States and Western Canada. Wade-Hampton provides Redshaw processing services and several part-time processing employes to Abernathy & Bishop for a monthly fee.

In return, Wade-Hampton uses the data from Abernathy & Bishop to sell other clients on the Redshaw system and test potential new products.

"Dick runs all the insurance aspects of the agency," Mr. Walter says. "I have no intentions of getting back into that area, although I have a minimum financial interest in both operations. What we get out of all this is an opportunity to show others how Redshaw works based on actual agency information.

"For example, if an agency with the system tells us it takes 10 hours to do some kind of work, we can check it out. If it takes our staff one or two hours, we know something's wrong," Mr. Walter adds.

A/B/T systems

Additional benefits include having potential buyers use Abernathy & Bishop for demonstration instead of bothering other Redshaw users, although buyers are still welcome to contact them, he adds.

As for Mr. Randall, however, he's more concerned about making his agency go on its own.

"We do have people in here to see how things work," he says. "But not all Kim's business is local and they're not in on a daily basis. I just want to keep business stable and get a good solid staff together to take care of our policyholders.

"There are plenty of rough edges left, but we have picked up the markets we need," he adds. "That's the hardest thing to do. Once that happens you can go out and get the accounts."

Mr. Randall adds he doesn't expect that working with Redshaw and Wade-Hampton will cause any problems.

"I must admit that I still have a lot to learn about the system," he says. "But at this point I'm too heavily involved in finding new business to bother much about it.

"I don't worry about being a salesman for Redshaw," he adds. "I have no financial interest in that. It just happened by accident that we got together." ■



"It just happened by accident that we got together," says Dick Randall of Abernathy & Bishop.

CNA offers agents INSITE

CHICAGO—Erosion in the independent agents' share of the Colorado commercial lines market has caused CNA to offer a new pricing and marketing program similar to the firm's Arkansas agents' package.

Labeled INSITE, the plan is designed to help agents build market strength through competitive pricing and special contractual guarantees, said CNA vp Peter P. Conway.

The guarantees include:

- A special three-year, no-cut agency contract that guarantees markets and commissions in return for an annual market plan commitment in personal, commercial and life business.
- A management and financial incentive package to agencies that wish to develop new producers. CNA will provide under INSITE sales and technical expertise and sales counseling. The insurer will also advance 75% of a new producer's salary for the first two years, with the agency repaying the loan in the third and fourth years.
- Financial assistance for agency expansion through purchase, buy-outs and mergers. ■



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Illustration: Maureen Moore

Agent-directors play Jekyll and Hyde role

By DAVE GALANTI

A/BT

CHICAGO—When is an independent agent not an agent?

When he is sitting on the board of directors of an insurance company.

An increasing number of agency principals are playing Jekyll and Hyde and taking on the role of insurance company manager. And in at least one insurance company, agents make up half the board.

Mostly small insurers have taken the step to smooth traditional tension and add an agent to their board of directors. But officials of insurers that have moved agents into the top ranks—as well as the agents—agree that more firms should try it.

Excelsior Insurance Co. of New York, whose five agent directors make up half the board, is in the forefront of the movement. It isn't a new idea for Excelsior—agents have always owned most of the stock and had a strong voice in corporate affairs. However, the idea works, says Excelsior president Charles R. Woolfort.

"Suppose you go to a store and get lousy service from someone," Mr. Woolfort says. "How fast will you come back? Probably not very fast. It's the same in the insurance business, so we want to provide excellent service to both our agents and our insureds.

"That philosophy has to extend right up to the top levels," he adds. "It doesn't necessarily matter if you have agents on the board or not, as long as they are good people. But if you do have agents, it gives you an added advantage because they know about the business, how we can best serve our other agents and how we can best serve our policyholders, whom they see every day."

Excelsior agent-director Paul R. Hertel, of Paul Hertel & Co. Inc. in Philadelphia, agrees. He has been on the Excelsior board since 1969.

"One benefit of my job here is that I can get a direct input on service," Mr. Hertel says. "I don't think many company officials always know where they stand with their agents. But at Excelsior, there are quite a few people who are directly experiencing that service.

"Of course, it might be said that service to us is better because we're on the board of directors," he says. "But I think when service from Excelsior has been rotten in general, there is no way the company can single out groups. Our agency has experienced the problems like any other. We can then comment on it and help solve the problem."

There are benefits to the insurer, too, Mr. Hertel says.

"As an agent, I tend to feel the competitive pressures before the insurers do," he says. "When business tightens up, the agent is among the first to know when the larger companies pull in their horns.

"A regular member of the board of directors might not realize this for weeks," Mr. Hertel adds. "In my case, if business is going begging, I'm on the phone to our underwriters right away, telling them what to expect."

Once an insurer decides to seek out an agent for a director position, the firm searches for a principal with a sound agency and a strong financial past.

"We look for a well-balanced person," Mr. Woolfort agrees. "Production with our firm isn't everything, and a person isn't going to make it solely because he writes a lot of Excelsior business.

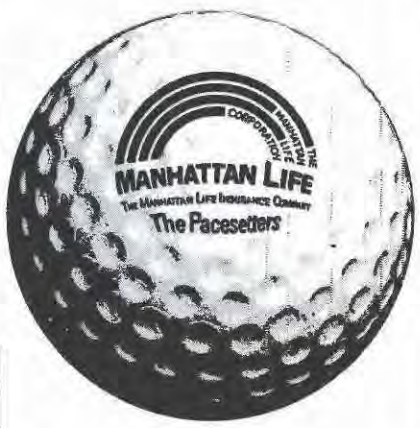
"We look for the person who runs his business firsthand and conducts business properly. We also have to feel that that person will make a contribution to the company, so we look for an agent with a background of interests other than running his immediate agency," he added.

That was the type of person Shelby Mutual Insurance Co. went hunting for in its first agent-director a year ago, says assistant vp John Brannan.

"Two years ago, we had nine persons on the board, and all were officer members," Mr. Brannan

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says. "We found that the terms of two of them expired through normal attrition last year. At that time, we decided to expand the number of directors by three, hire two more outside directors and have a 7-5 ratio. And as long as we were going to do that, who was better to put in than a seasoned agent?"

The agent they found, C. Goodman Jones, was not only president of the Mutual Insurance Agency in Bluefield, W. Va., but a former president of the National Assn. of Professional Insurance Agents.

"Mr. Jones has been very successful," Mr. Brannan says. "He operates his agency with three persons and was involved with the PIA.We feel he's one of the deans of the insurance business and thought he'd be a natural."

Mr. Jones took the job to make changes.

"When they came to me, they said they wanted to take a new, fresh approach to doing business," Mr. Jones says. "I took the job because I thought I could improve the relationship between the insurer and the agent. And it has been what I expected. I've been able to interject many things into the meetings that might not otherwise have come up."

Wearing two hats can cause problems, however. It may be hard to leave personal agency objectives and plans at home when the time comes to make the best decision for the insurer's financial health. The agent must not try to play only the role of agent's advocate. Other markets may also react negatively to an agent who has a financial stake in a competitor's well-being.

The first problem may be the toughest.

"Recently, I made a decision that was adverse to me in my own state," says John C. Hawkins, who was recently elected to his second term on the board of directors of Pennsylvania National Mutual Casualty Insurance Co. "But in making that decision I had to overlook my own concerns. If you go into that boardroom with a self-serving attitude, you won't do your job well."

Fellow Pennsylvania National agent-director Kenneth Beels agrees.

"You have to be fair," Mr. Beels says. "I've made motions to do some things that would affect me and limit our agents. But I felt it was good for the company and so I decided to make the motions myself rather than let someone else take the burden."

Most agent-directors would rather not attempt the role of agent's advocate.

"Our agents really don't use us as a sounding board," says John E. Engstrom, agent-director at Mutual of Enumclaw Insurance Co. "They bring us information and we look to them for it. But from the start I didn't want to be seen as the agency representative."

Shelby Mutual's Mr. Jones agrees.

"I don't feel that I am a voice for the producer groups," he says. "It's not like I am a union representative or anything like that."

"We have an agency advisory board, and the sole function of that is to provide feedback," says Penn National's Mr. Hawkins. "I'm not a sounding board. We may be asked to provide our opinion as agents, but that is very infrequent." The emphasis is more on management and administration of the insurer, he adds.

Response from competing markets varies, agents found.

"We write almost all of our business with this insurer, so we didn't have to worry about keeping others happy," says Mutual of Enumclaw's Mr. Engstrom.

"My other companies haven't been a problem, and I don't believe there ever was a problem there," agrees Edward Damitio, who serves with Mr. Engstrom at Mutual of Enumclaw. "I maintain my loss ratios with all of them and bend over backwards to make sure I don't favor anyone."

But the urge to serve exists.

"There is a temptation to do more business with your company because you naturally have a lot of friends there and have a financial stake in what goes on," says Pennsylvania National's Mr. Hawkins. "However, our agency represents 10 companies and I have to give them all a fair shake.

"After I joined the board, one of my other companies remarked that they probably wouldn't see any more business," Mr. Hawkins adds. "That irked me. But since then, they have grown larger in my agency than Pennsylvania National for a number of reasons. You just have to realize you can be subconsciously biased and take steps against it."



Caution

'You just have to realize you can be subconsciously biased,' says John C. Hawkins.



Not an advocate

'I don't feel that I am a voice for the producer groups,' says C. Goodman Jones.

Although many of the agents agree that having an agent on the board is nice, some aren't entirely sure it is necessary. They add that it does help, however.

"I'm not sure how acquainted top management in some of these insurers are with the idiosyncrasies of running an agency," says Russell Howard, president of the National Assn. of Professional Insurance Agents. "If they are not well acquainted with their agents, an agent-director can be of help.

"On the other hand, if a company has an effective advisory board and listens to what they have to say, that may be just as effective," Mr. Howard says.

That's a big "if", however, says Excelsior agent-director Josiah Welch.

"Agency advisory councils are what the company makes them," Mr. Welch says. "If they are good, you don't need an agent on the board. But some companies use them as a showcase and pick their larger agencies who are already pretty satisfied with what goes on.

"I can't see where an agent could be anything but helpful to an insurer," he adds. "Unfortunately, I don't see any great move toward acceleration of the trend." ■

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Nevada adopts mandatory ed rule . . .



Maps: Toby Roberts

CARSON CITY, Nev.—Nevada insurance agents will soon march along the mandatory continuing education trail, a route blazed by Oregon counterparts in 1978.

The Nevada rule, effective in July 1981, sets minimum education requirements for agents who have held licenses less than 20 years.

The requirements, similar to those in effect in Oregon (*BI*, Feb. 4), range from 35 classroom hours of education a year for the first three years an agent holds a license to 15 hours annually for agents holding licenses for three to 20 years.

After 20 years, agents will be exempt from any further educational requirement, says Georgia Massey, state licensing and research officer. Agents holding Certified Property Casualty Underwriter and Certified Life Underwriter designations will also be exempt, no matter how long they have had their licenses.

As in Oregon, agents will have to choose from a list of insurance department-approved courses and seminars to fulfill their requirements. CPCU and CLU courses will qualify, as will many others offered by state associations or educational institutions.

"We're in the process of establishing life/health and property/casualty committees of industry members to recommend to us which courses should meet the regulation's requirements," Ms. Massey explained. "Of course, the final decision will be up to the commissioner, but this will help us

A/BT

hold down costs quite a bit."

Ms. Massey adds she doen't know yet how much the new regulation will cost the department or whether it will be necessary to increase staff.

"We won't get an estimate on what staff we need until we get into it," she adds. "The first year will be the hardest, because many of the courses we'll be working on at that time don't change in essence very much from year to year. We're figuring that these courses won't need the degree of scrutiny the second or third year that we'll give it on the first."

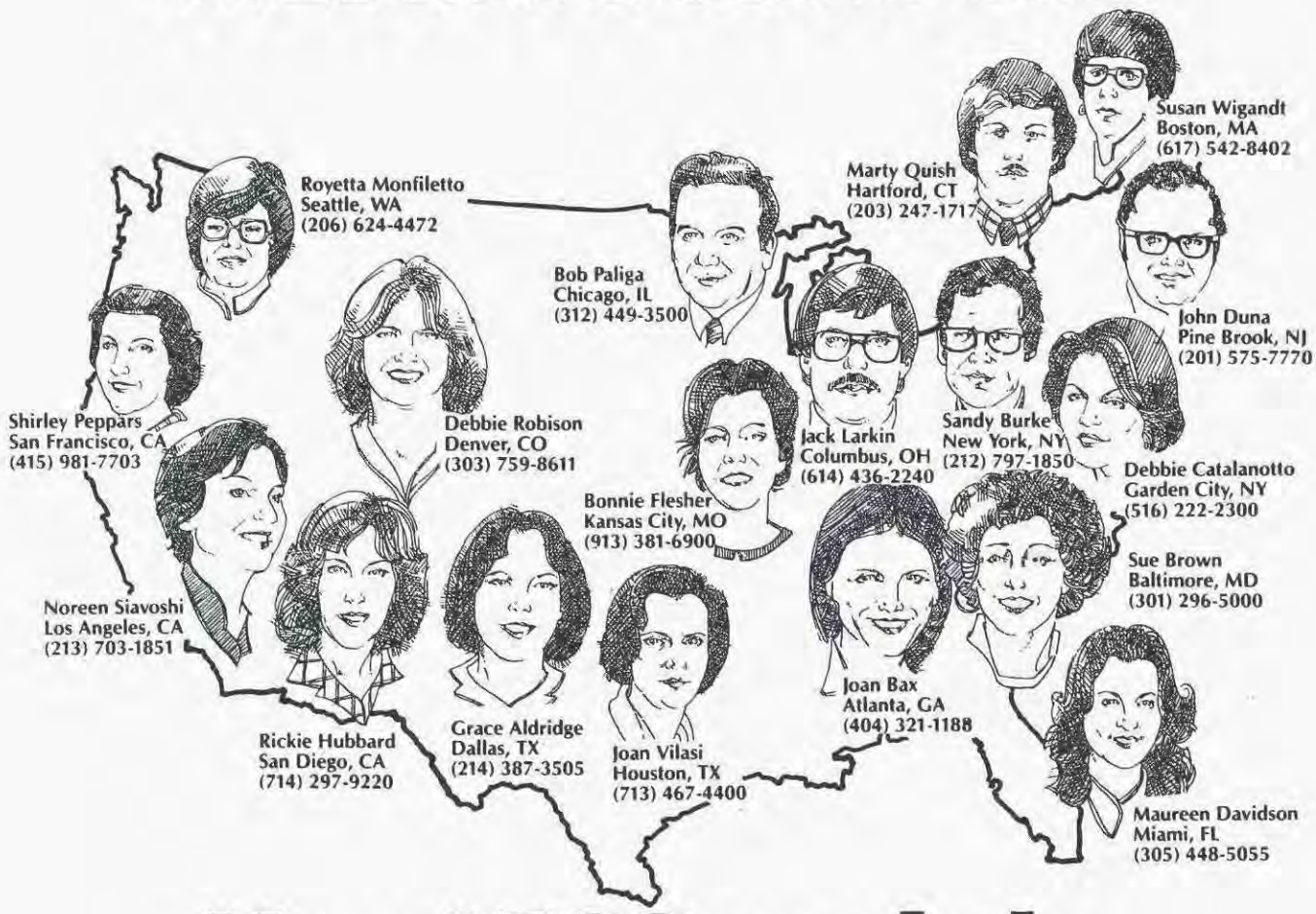
An agent's license will be suspended for noncompliance with the regulation, until the requirements are met. An early warning system for agents has yet to be devised, Ms. Massey says.

But she doesn't see very much trouble in getting the agents to comply. Both major independent agent groups in the state have endorsed the plan.

"The agents here are tied very close to the industry," Ms. Massey says. "On an individual basis there may be some agents who think we can't handle it, but on the whole they realize we're serious.

"In fact, I'm encouraged," she adds. "A provision in the regulation allows agents to use any excess hours earned one year in the next, and several agents say they plan to begin this July." ■

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. . . Fla. defeats ed bill

TALLAHASSEE, Fla.—The Florida house of representatives has defeated a bill that would set mandatory continuing education standards for the state's property/casualty agents.

The bill, introduced by state Rep. Terrence O'Malley, was turned down 7-0 in a vote of the house non-auto insurance subcommittee.

A similar bill in the Florida senate has been referred to three committees and no action is expected soon, agent observers say.

The bill was favored by the Professional Insurance Agents of Florida and the Caribbean and opposed by the Florida Assn. of Independent Agents.

David Watkins, executive vp of the PIA group, says his organization wanted to get a law on the books before legislators came through with a less favorable bill.

"We've been spending the past months working on such a bill with the insurance companies, the state insurance department and the FAIA," Mr. Watkins says. "We came up with what we felt was a pretty good bill.

"What we are really looking toward is the recodification of the entire insurance code, which is scheduled for 1982," he adds. "The trend of this process in other areas has been to add some kind of mandatory continuing education provision. We felt if we got something we backed in now, we could avoid trouble later."

The FAIA testified against the bill, said lobbyist Scott Johnson, because the organization does not favor making continuing education mandatory. It does support continuing education on a voluntary basis, he adds. ■

Court allows extra disability payments

COLUMBUS—A worker receiving benefits for an occupational disease that has rendered him permanently and totally disabled can still get additional benefits for a partial disability resulting from a separate injury, the Ohio supreme court held.

In another decision, the court ruled the state is not liable for death or injury of persons in state-owned parks if the victims didn't pay to enter the grounds.

In the injured worker case, a coal company employe hurt his back in May 1975 and filed for permanent and partial disability. Two months later, under a separate claim, the Ohio industrial commission found he was permanently and totally disabled because of black lung disease.

In 1978, a hearing officer and the commission's regional board of review found the worker was 30% disabled and entitled to additional benefits although he was already getting the 100% maximum allowed under the law.

The employer, Consolidation Coal Co., argued the state law doesn't intend for an employe to be paid for being both permanently disabled and partially disabled. It lost its appeal for a court order directing the commission to rescind the partial injury payments.

The park decision involved a broken ankle a woman suffered when she stepped into a hole and a damage claim by the mother of a girl who drowned in an accident involving a rented canoe. Lower courts held the state was not liable for the injuries because they were "recreational users" under state law and didn't pay to enter the park.

The victims argued they paid because they had bought food and gasoline or rented a canoe. The court disagreed, citing an earlier decision concerning the state's immunity and state law defining recreational users. The court also agreed the laws regarding use of state-owned land are constitutional because they apply equally to privately and publicly owned land.

Canceled contracts

TOPEKA—Blue Cross of Kansas may cancel contracts with hospitals that refused to cooperate with a prospective rate review plan, the Kansas supreme court has ruled.

One hundred and fifteen hospitals have now signed up voluntarily for the plan, under which Blue Cross requires justification of hospital rates and budgets. Blue Cross adopted the plan in 1977 and gave member hospitals until January 1980 to sign up or have their old contracts canceled.

Nonmember hospitals generally receive 80% of the reimbursement rate given member hospitals. Twenty-three hospitals have been given until May 30 to agree to join the prospective review plan or face a July 1 reduction in their reimbursement rate.

Rate requests

ATLANTA—Workers compensation insurers filing for rate revisions in Georgia must base their rate requests on each insurer's experience in the state, insurance commissioner Johnnie L. Caldwell has ruled.

Although insurers may continue to use rates filed by the National Council on Compensation Insurance that are currently in effect, rates filed by the NCCI may not be adopted for use by individual insurers except to the extent outlined in the directive.

around the states

The department will consider the credibility of the company's loss experience, the effects of experience rating and retrospective rating and all other relevant factors in determining the overall rate levels and industry group average rate levels. Investment income must also be considered.

A company may adopt experience rating plans, retrospective rating plans and premium discount plans filed by the NCCI and approved by the department.

Prisoners comp

COLUMBUS—Ohio counties will be allowed to provide workers compensation insurance for jail inmates and probationers on work-relief programs, under a system set up by the state workers compensation bureau.

Under the new system, a prisoner's maintenance cost will be used as the basis for premiums for him or her and the minimum wage will be used for probationers, who are not paid. Workers compensation premiums generally are based on a small percentage of an employe's salary.

The new system will allow some counties, particularly Fayette County, to restart work-relief programs that were suspended. Counties pushed for a change so they would not face suits and costly medical expenses if prisoners or probationers were injured while working, the bureau said.

State Rep. Bob McEwen (R-Hillsboro) and the County Commissioners Assn. worked out the arrangement, which is similar to that used for volunteer firefighters.

Proposal vetoed

DOVER—Small businesses in Delaware have been spared an increase in workers compensation rates after insurance commissioner David H. Elliott disapproved a proposal by the state compensation rating bureau.

The bureau, which files rates for workers compensation in Delaware, sought a reallocation of the expense portion of the rates charged to businesses, such as company administrative expenses and commissions paid to the agents selling the policies.

The changes would have resulted in substantial rate increases for very small policies and minor rate decreases for large policies without changing revenues generated, the commissioner said.

"The Delaware insurance department feels this is an inappropriate time for such an innovation," he explained, "although it may be feasible in the future." Small businesses are hard-pressed by high interest rates, inflation and recession, he said. "This is not the time to experiment with innovations in a program and system that has been in use for many years." ■

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The Rehabilitation Study Group

Bill would cap FICA disability benefits

By JILL KAPLAN

CHICAGO—A Social Security disability amendments bill designed to eliminate existing disincentives to return to work and to encourage new approaches to rehabilitation is expected to pass Congress this week.

The bill (H.R. 3236) would place a cap on the Social Security disability benefits a disabled worker is entitled to receive. A worker also would be required to submit to periodic reviews of whether he or she can return to work.

Some disabled workers would also be entitled to receive Medicare coverage sooner and for a longer period of time.

"The continued health of the Social Security disability insurance program is fragile," Rep. Daniel Rostenkowski (D-Ill.) told The Rehabilitation Study Group meeting here May 14. The new amendments, approved by Senate and House conferees, are designed not only to encourage new approaches to rehabilitation but also to slow the growth of the program's cost, he said.

About $1 billion in disability benefits is paid each month out of Social Security tax revenues to 2.8 million disabled workers and 1.9 million dependents.

"Increasingly high benefit formulas of the program have had the undesirable effect of adding a disincentive to maintain beneficiary status," Rep. Rostenkowski, a senior member of the House Ways and Means committee, said at the seminar.

Under the new bill, workers would only be entitled to receive benefits that replace 56% to 77% of prior earnings. Workers can now earn more from Social Security benefits than they did on the job, critics of the current system contend.

An amendment also would automatically re-entitle workers to Medicare benefits if they become disabled again within five years of the time their first coverage ends. Workers must now wait 24 consecutive months after becoming entitled to disability benefits to become eligible for Medicare coverage.

"The Medicare provisions are designed to encourage people to go back to work without the risk of loss of the health insurance benefits which are so crucial to them," Rep. Rostenkowski said. "The changes make a lot of sense."

The bill also would extend Medicare coverage for an additional 36 months after cash benefits cease for a disabled worker who is engaged in gainful activity.

Workers in approved vocational rehabilitation plans or programs would be able to continue to receive disability benefits. Currently, an individual is not entitled to benefits either under disability insurance or SSI after he or she is considered medically recovered, regardless of whether or not the worker completed a vocational rehabilitation program.

The number of beneficiaries in the Social Security disability program nearly doubled from 1965 through 1975, said the former chairman of the Medicare subcommittee. At the same time, costs of the program jumped to $8.4 billion annually from $1.6 billion.

"As the cash benefits paid as a percentage of predisability earnings rose by 50% during the years 1967 to 1976, the recovery rate declined by the same percentage over those years," Rep. Rostenkowski reported.

"In effect, the incentives to return to work provided by the trial work period and other provisions were all but negated," he said.

But Rep. Rostenkowski is hopeful the proposed legislation can bring about a change in a system gone awry. "Enactment of the disability amendments bill will not make fundamental changes in the government's approach to administering the disability program," he said.

"Hopefully, however, the enactment will result in incremental improvements in the operation of the program." ■

Delicate condition

'The continued health of the Social Security disability program is fragile,' says Rep. Daniel Rostenkowski.



Photo: Jill Kaplan

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Company cuts gas exposure

EVANSTON, Ill.—The American Hospital Supply Corp. has cut its level of employe exposure to ethylene oxide following studies that found 12 out of its approximately 85 workers have developed a chromosome abnormality.

Many hospitals also use the gas.

AHSC lowered its exposure limit to 10 parts per million parts of air, although the Occupational Safety and Health Administration limit is 50 parts per million.

AHSC exposure levels were already below the OSHA limit when the chromosome abnormality showed up in tests conducted by a San Francisco consulting firm, Occupational Medicine Assn. Inc.

Nearly 100 AHSC workers will use respiratory equipment such as fresh air supply hoses and self-contained oxygen units to reduce health risks. Exposure to ethylene oxide, the leading sterilizing gas, will be cut by re-engineering sterilization vessels. ■

Instill a healthy attitude in injured employe: Exec

CHICAGO—Quoting Robert Frost and espousing a love-thy-neighbor attitude, the chairman of Mutual of Omaha appealed to employers and insurers to provide a good rehabilitation program for injured employes.

The attitude of an injured worker—not the claimant's condition—is the most important in determining whether the worker returns to the job, adds V.J. Skutt.

By showing concern for injured employes, an employer or insurer can encourage a healthy attitude and help motivate the disabled worker to return to the job, Mr. Skutt told insurance and business representatives here at the national meeting of the Rehabilitation Study Group.

"Maintaining a disabled worker's self-confidence is one of the greatest things we can do," Mr. Skutt said. "People appreciate the personal attention they can receive."

Mr. Skutt advised firms to hire individuals who like to help sick people and are willing to put in the time and effort to do so. "Some people need more encouragement than others to undertake rehabilitation," he said.

Encouraging the right attitude in the disabled worker is of vital importance, said the chairman of the board.

A worker with arthritis or even a malignancy might have a positive optimistic outlook and therefore a relatively short period of disability, he said. But a negative individual with only a slight case of tonsilitis could be incapacitated voluntarily for an indefinite period.

The best example of the benefits of a positive mental attitude is the case of author Norman Cousins, Mr. Skutt said.

"Norman Cousins was informed by physicians after an insurance exam that he had a heart that would cease to beat very shortly," said the insurance executive. "One of those same doctors was astounded to meet Cousins 10 years later and to have his hand crushed by a healthy, hearty handshake."

The human mind can be trained to play an important part in both preventing disease and overcoming it, Mr. Skutt said.

He quoted the famous author: "I have learned never to underestimate the capacity of the human mind and body to regenerate—even when the prospects seem most wretched."

Every person must accept a measure of responsibility for his/her own recovery, stressed the insurance executive.

"Albert Schweitzer always believed the best medicine for any illness was the knowledge that he had a job to do, plus a good sense of humor," Mr. Skutt told the audience.

"Creativity, the will to live, hope, faith and love have biochemical significance and contribute strongly to healing and well-being," he said.

But it is important that someone show a personal interest in the disabled worker, Mr. Skutt said. "We're living in a mechanized age," he said. "A great many don't feel that anyone cares for them."

The lack of individuality and individual attention is one of the unfortunate results of progress made in industry, Mr. Skutt said.

"There is a temptation to go outdoors now and enjoy the warm weather rather than to help your unfortunate fellow brothers and sisters," Mr. Skutt said. ■

Best medicine

'Maintaining a disabled worker's self-confidence is one of the greatest things we can do,' says V.J. Skutt.



Photo: Jill Kaplan

$3.5 million losses

Wind, hail and tornadoes caused $3.5 million in insured property losses May 1-2 in Texas and Oklahoma, according to the American Insurance Assn. The Insurance Services Office has assigned the storm Catastrophe No. 57.

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• The fundamentals of selecting and working with claims management consultants are outlined in a new brochure available from National Loss Control Service Corp. For a free copy of **ABCs of Selecting and Working with a Claims Management Consultant,** write NATLSCO, Long Grove, Ill. 60049.

• A brief guide to the Occupational Safety and Health Administration's free job safety and health consultation service, **Onsite Consultation for the Employer,** is available free. Single copies can be obtained from OSHA area and regional offices and from the OSHA publications office in Room S-1212, Frances Perkins Building, Third Street and Constitution Avenue N.W., Washington, D.C. 20210.

• A new pocket-sized summary of key **property/casualty insurance statistics** is available free from the Insurance Information Institute. For single copies, write Insurance Information Institute, 110 William St., New York, N.Y. 10038.

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• The Profit Sharing Council of America is offering a report on the role of **profit sharing in the U.S.** The study reviews the history of profit sharing plans, types of plans and how employer contribution formulas are set up. Single copies are available free from PCSA, 20 North Wacker Drive, Suite 722, Chicago, Ill. 60602.

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• Underwriters Adjusting Co. is offering its 1980 **directory of service locations** for free. Write Underwriters Adjusting Co., marketing department, 80 Maiden Lane, New York, N.Y. 10038.

• Reymont Associates is offering an **EDP security checklist** for computer users. The report covers such areas as fire prevention, access control, flood exposure and personnel. Copies are $5 each from Reymont Associates, 29 Reymont Ave., Rye, N.Y. 10580.

• Hogg Robinson (Guernsey) Ltd. describes its services and appraises the advantages of basing a **captive insurer** in Guernsey, in a folder available for free. Write Hogg Robinson (Guernsey) Ltd., Provident House Havilland St., St. Peter Port, Guernsey, C.I. ■

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25.	EXCESS/SURPLUS	JUN 23	Jun 10
26.		JUN 30	Jun 18
27.		JUL 7	Jun 25
28.	Spotlight Report: Fidelity & Surety Bonds	JUL 14	Jul 1
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30.	AGENT/BROKER PROFILES	JUL 28	Jul 15
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Riot losses could reach $100 million

Continued from page 1
35% of the property, said Rudolph F. Landolt, vp and chief insurance officer. Kemper may also face business interruption losses from the riots, he said.

Poe clients have filed 72 claims totaling about $1 million, Mr. Lipnick said. The largest single loss, a local grocery store he would not identify, is estimated at $300,000.

Mr. Lipnick also declined to identify insurers hit by the losses, but said the claims probably would be spread among most of the major underwriters.

"There is no one in the area that could be called a big writer here. I think almost all the major companies will be hit by at least some losses," he said.

Insurers, usually among the first on the scene of major losses, are having a hard time gauging their losses because the riot-torn area has been under curfew that allows access only to residents.

Liberty Mutual, which admits to having "a substantial book of business" in the region, was "having difficulty getting into the area" late last week, a spokesman said. The insurer's Southern division property loss specialist was sent to the area.

CNA, which reported having only a few policies in the area, said it was estimating its exposure from television and newspaper reports of damage because it too could not get to policyholders' property to assess the damage.

Most of the claims will be fire loss claims, the CNA spokesman noted. Special coverage for riots and looting would have to be in effect to cover broken windows and other destruction from the riots that was not caused by fires.

Surplus market

The rioting losses are also expected to hit the surplus lines market, which has provided property insurance in areas with a riot history that the standard market didn't want.

"There is a lot of E/S business in Liberty City," the Miami community hardest hit by the riots, Mr. Lipnick said. "It has been a gray area for some time because there have been riots there in the past."

Southern Insurance Underwriters, a managing general agency in Miami, said it had received 11 loss reports so far from commercial clients in the riot-torn area.

Joseph McSherry, claims manager of Southern Insurance, said it will be at least a few days before the company has an idea of total losses, but the largest may run up to $50,000.

Among the insurance companies that have substantial exposures in the area hit by riots are Old Republic Insurance Co., Highland Insurance Co., Independent Fire Insurance Co., and Ranger Insurance Co., Mr. McSherry said.

Losses from the rioting, which started May 17 and continued last week, are expected to expand beyond property damage.

Businesses in the area have shut down, losing anticipated revenue. Other firms are operating with reduced hours.

Restaurants complain about business falling off and local tourism officials say that expected visitors to the area are calling to cancel vacation plans.

"That, in large part, is going to be an economic loss that the individuals themselves will have to withstand," says Lou Seitlin of Seitlin & Co., a Miami broker.

Uninsured losses

Many of these losses almost certainly will not be covered by insurance, although some companies may have purchased special business interruption insurance to cover these sorts of claims, industry sources say.

Businesses that placed insurance through Seitlin have reported about a dozen losses totaling almost $1 million, Mr. Seitlin said. The largest loss reported to Seitlin is $700,000 to an electrical supply store. ■

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Can't stop all fraud, execs say

Continued from page 3
ployes at the Flint plants as claims administrators, teaching them to spot "questionable" claims and either question the attending physician or turn the matter over to a joint union-GM committee to review the claim, Mr. Lucarelli said.

Otherwise, it's difficult to obtain proof of claims fraud or to determine whether a worker is really suffering pain that requires absence from work. About the most insurers and industry can hope for is that state agencies will penalize offending doctors, he said.

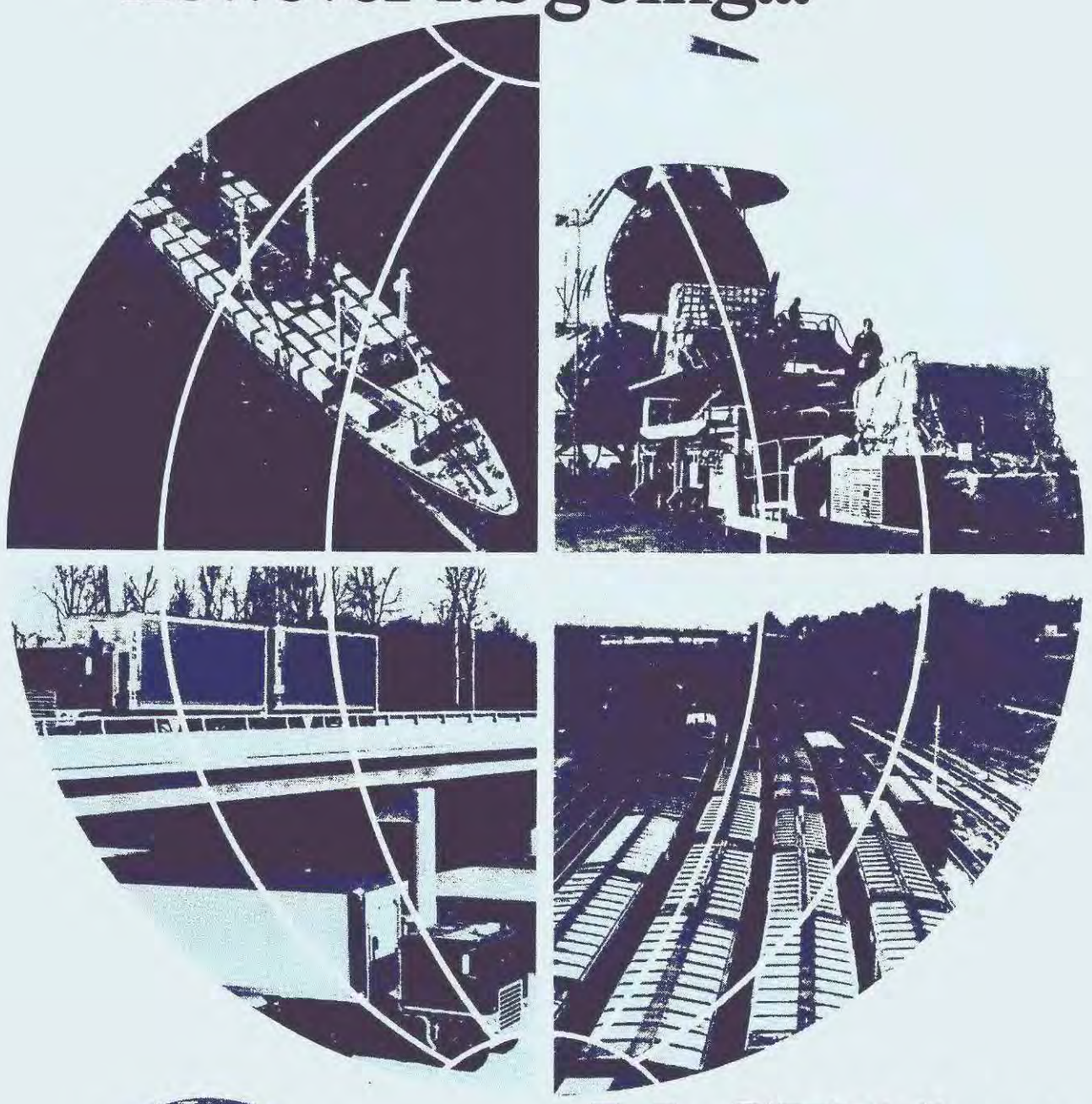
Benefit administrators at GM decline to discuss the problem or the Flint disclosures. The firm is extremely concerned about the overall problem of worker absenteeism which costs GM $750 million to $1 billion per year, a company spokesman said. GM pays about $250 million in sickness and accident benefits each year, an estimated 5% to 10% of which are to workers who "abuse the system."

A committee of high-level administrators from the firm and UAW has been formed to deal with absenteeism, he said.

The UAW, which also decries the practice, has tried to publicize to workers the consequences of benefits fraud. But there is usually not much that can be done to crack down on abuses unless there is proof against specific workers and doctors, according to a union spokesman. "We've suspected it for some time but proving it is another matter," he said.

William Hays, president of UAW Local 581 in Flint, said many union administrators are anxious to see the abuses curbed but added that the entire sick leave program would have to be discontinued for fraud to be eliminated. ■

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Personal meetings cut communications costs

By LEN STRAZEWSKI

growing pains

CHICAGO—Small firms can cut employe benefit communications costs by pumping less money into fancy booklets and benefit statements and more effort into personal meetings.

Companies with fewer than 500 employes may be paying too much for consulting, writing and computer benefit communication services they can do themselves, a brain trust of employe benefit communication experts told *Business Insurance*.

"Small employers have the same objectives as Fortune 500 firms with their benefits communications," explained Curtis L. Snodgrass, vp and principal of Towers, Perrin, Forster & Crosby. 'They are seeking more appreciation and more understanding of their benefit package."

The problem is money. Proud, growing firms want communication packages that are as slick as ones used by the Fortune 500. The unit cost for decorative booklets and the production costs for videotape presentations are much higher for small businesses.

"But little companies may be able to turn their disadvantage into an advantage," Mr. Snodgrass noted. "The firms should try to go one-on-one with employes or plan small group meetings to present benefit changes, rather than use formal slide or videotape presentations."

Presentation costs are nil and comments from employes become a natural outgrowth of the meetings. Employes are more likely to respond to their own personnel manager explaining their benefits. No one can talk back to a videotape.

"Small firms should also stress simple charts that the firm's presenters can use, rather than slides. The cost should be minimal and the presenters may be able to make the charts by themselves," he said.

Small businesses should also use consultants selectively or not at all, Mr. Snodgrass told *BI*.

"You should downplay fanciness and that includes using consultants," he said. "You may want to use some advice in planning, but you should avoid reinventing the wheel. That's the real expense of consultants."

Robert Ellis, assistant vp of Mercer Communications, agrees. Many firms hire consultants to do work they can do themselves and later complain about costs.

"If you have an inhouse marketing or advertising team, ask them if they want to take a crack at preparing a booklet before you call in artists and consultants," he suggested. "You may also have some audiovisual capabilities in your firm that could produce a slide show."

"We suggest a step-by-step approach for benefit communications," Mr. Ellis added. "Small firms should introduce levels of benefit communications one year at a time. They can begin with a corporate booklet, add personalized benefit statements the next year. If they like the results, they may want to try an employe newspaper the following year."

A staff accounting clerk may be able to compile the individual benefit statements better and cheaper than a computer if the group of employes is small enough, he suggested.

If a computerized benefit statement is wanted, small firms will find services willing to help cut costs. The consultants may also be willing to cut their rates for a shopper who knows what the market will bear.

Benefacts, one of the pioneers of the individualized benefit statement, charges $6,000 to $9,000 for statements for 1,000 employes, but can trim costs, said senior vp Robert Eilertson.

"There are several ways a small firm might cut costs under our plan," he explained. "We might suggest only one pension plan projection instead of several. Standard artwork and ordinary paper is cheaper."

Other large consultants charge similar rates, but competition in the field may be forcing prices down.

Beneplus, for example, a new entrant in the field, is touting an individualized benefit statement similar to the Benefacts plan but at a lower cost.

The new consultant is using many of the cost-trimming techniques to cut its own overhead and undercut many of the larger consultants.

The cost, said president Sidney Friedman, is about $650 for 1,000 employes, with estimates available with 10 days notice. The approach is no-frills, but the firm can process a company's benefit data according to a standard, simplified program.

The individual report booklets tap little special art, but can include a corporate logo and note from the employer on the back. In addition, the firm, like other consultants, promises quarterly meetings with the employes. ■

Do-It-Yourself Benefit Communications Tips

- Plan more person-to-person conferences.
- Use your own staff to calculate individualized benefit data.
- Write or design your own booklets or charts using your inhouse marketers.
- Avoid expensive papers or printing processes.
- Provide your own postage or distribution of benefit statements.
- Seek rebates or cost cuts from insurers that may duplicate your efforts with stock booklets.

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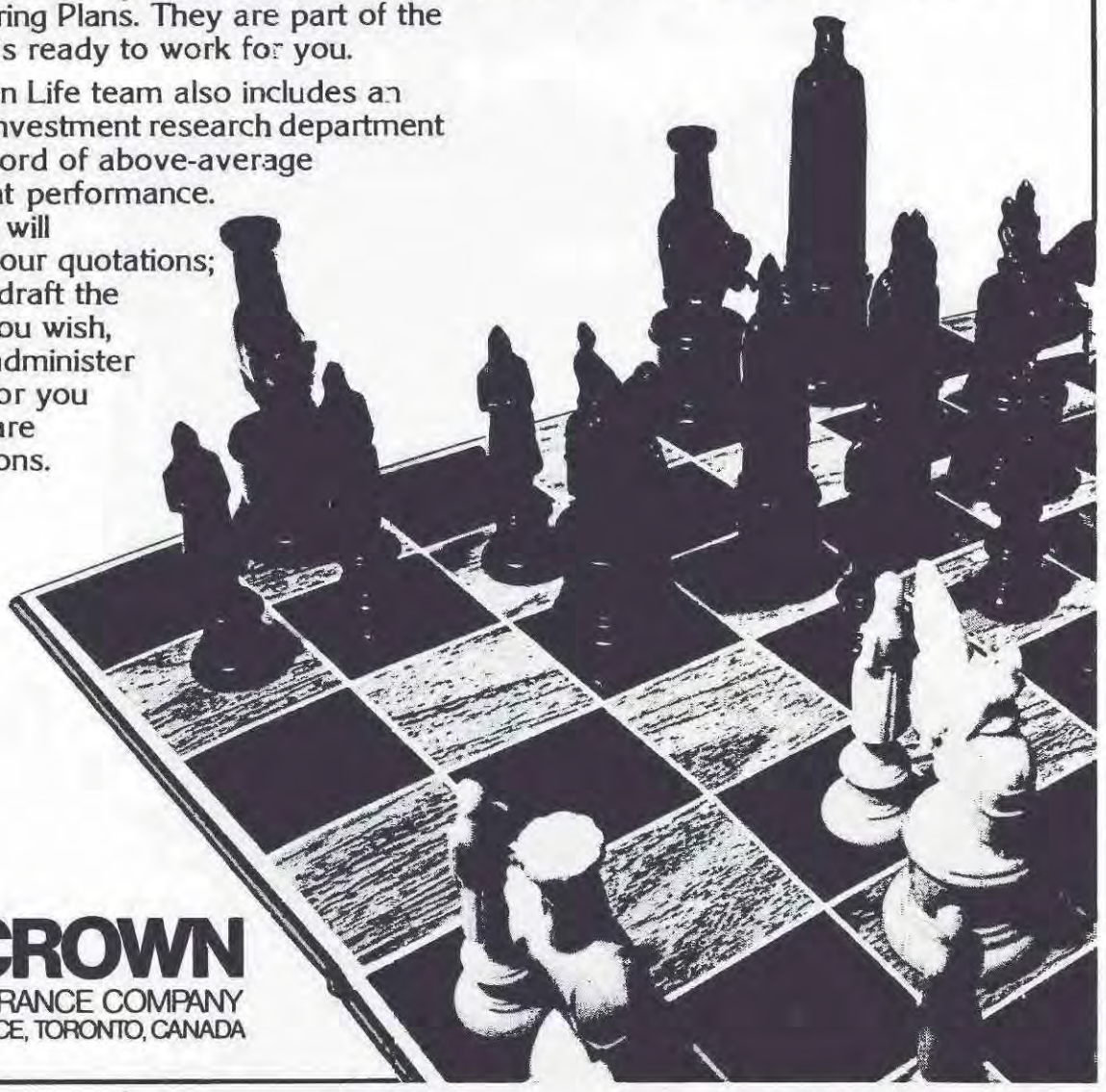
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Calif. work comp bill may cost millions

Continued from page 2

though they agree with the general principles of the plan.

The new bill offers higher benefits for injured workers in exchange for a number of procedural reforms to cut excessive litigation long-sought by employers and insurers.

The maximum weekly payment for temporary disability and permanent total disability would increase over 80% to $280, equal to approximately two-thirds of the statewide average weekly wage.

Surviving dependents of workers killed on the job would receive up to $280 in weekly pension payments until death, remarriage or a maximum payment of $200,000. The current maximum is $55,000.

The California Workers Compensation Institute estimates this benefit package will raise employer costs 13.1%. The increase should be offset, however, by lower litigation costs, especially attorneys' and physicians' fees, through the following administrative changes:

- A requirement that the injured employe provide written notice of a claim, eliminating the large volume of applications for adjudication that are often the employer's first notice of injury.
- Limiting use of "work capacity guidelines," a major determinant of residual permanent disability, to back injuries only.
- Modification of Labor Code Section 3202 requiring "all questions of fact, including questions of medical fact, shall be determined in accordance with the preponderance of the evidence."

Special weight

Under present law, workers compensation appeals board judges must give special weight to medical facts that favor the employe, even though the preponderance of facts clearly points to a decision favorable to the employer.

This is the so-called "liberal construction clause" that would be changed under S.B. 375 to strengthen the employer's case in a disputed claim.

To determine permanent disability the bill calls for mandatory informal rating by a disability evaluation bureau within the division of industrial accidents. This board would rate the employe's injury based upon findings of the employe's physician.

Either the worker or the employer could hire an attorney and appeal the evaluation. Unless the appeal increases the bureau's award by at least 5%, however, medical and legal fees could not be taken out of it.

This provision would make it hard for many workers to contest an unfair evaluation, argue attorneys, since few lawyers or doctors would be willing to wager their fees on the successful outcome of the appeal.

Attorneys also deny that the creation of a new bureaucracy will limit excessive litigation. It may merely substitute a new evil for a known one, they contend.

A *Business Insurance* survey of six California workers compensation insurers turned up unanimous support for the bill, but one underwriter doubts litigation costs will decline significantly.

"I support the legislation," says Donald Marken, president of Employe Benefits Insurance Co. "But my prediction is that the benefits will go up, the system won't change much and the cost will go up."

Call-to-arms

Critics of the proposed legislation also note it does not increase benefits for permanent partial disability, such as loss of a limb. The bill merely appropriates $200,000 for a study to investigate what those benefits should be.

In an "urgent alert" newsletter to attorneys, a prominent San Francisco law firm recently launched a call-to-arms against the bill, contending that "all compensation attorneys will be largely elbowed out of the picture."

"While the applicants' attorneys will fight it with all the resources at their command, they (like ourselves) are in an awkward position opposing it. They need all the help they can get," the newsletter said. "When asked what we could do, they suggested that we alert all defense counsel and, if possible, raise a war chest to hire a knowledgeable lobbyist."

One of the largest employer groups in the state, the California Manufacturers Assn., is proposing the following amendments to the present draft bill:

- Staged weekly benefit increases over a two-year period, instead of the one-time increase Jan. 1.
- An increase in the death benefits to $125,000 rather than $200,000 as proposed in the bill, and a limit on the amount paid as a lump sum.
- Clarification and strengthening of the language requiring that questions of fact be decided based on a preponderance of the evidence.

A public hearing on the proposed bill is scheduled for May 26 before the state assembly workers compensation subcommittee. Barring a hitch, the bill will then be referred to the full committee on finance, insurance and commerce on May 28, before a vote on the assembly floor.

If the amended measure passes the assembly, it would need only a vote of concurrence in the senate because S.B. 375 was approved there before recent amendments were made. ■

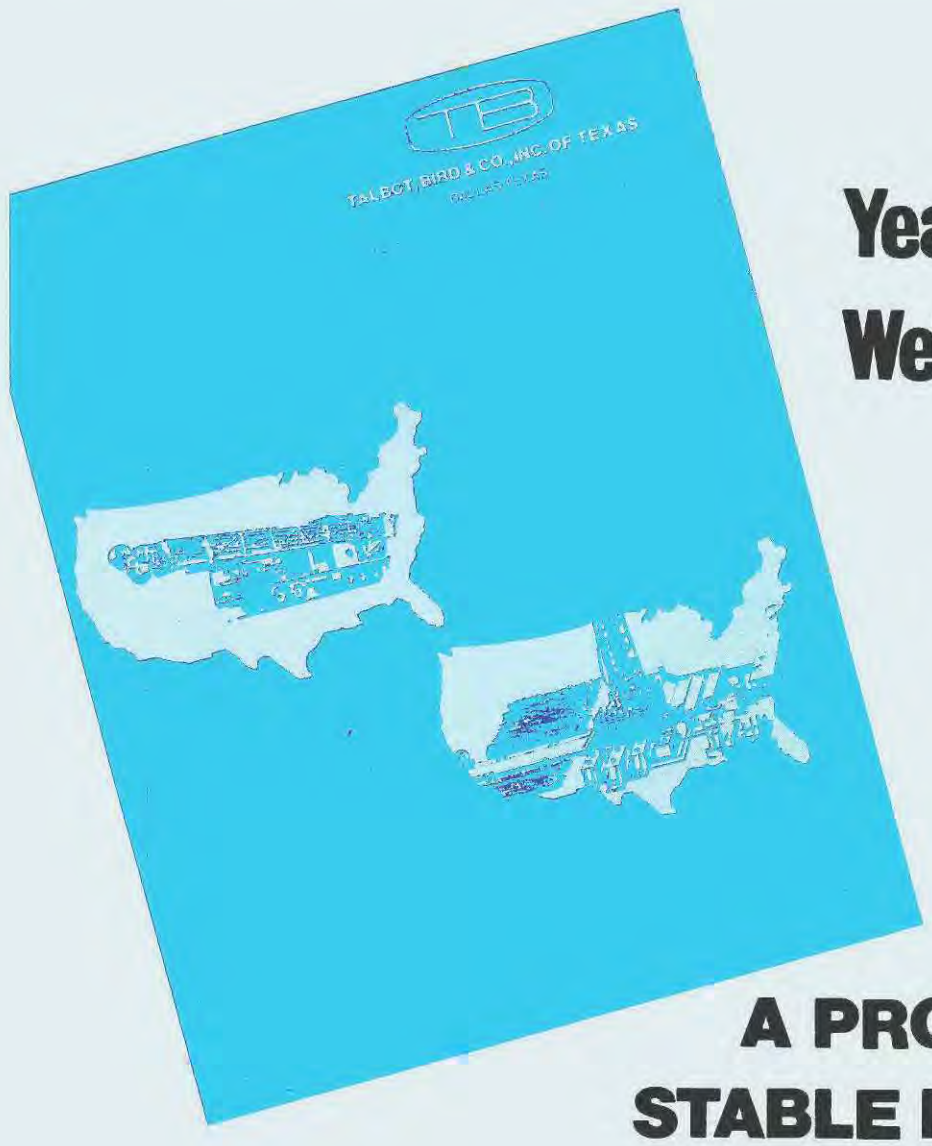
Tex. MDs oppose any NHI plans

HOUSTON—The Texas Medical Assn. went on record during the concluding session of its 1980 convention favoring multiple approaches to health care delivery.

The position reiterates earlier statements by the house of delegates. The physicians also reaffirmed their position against all existing proposals for compulsory National Health Insurance.

Texas physicians acknowledge HMOs as a viable alternative, executive director Link Williston told *Business Insurance*. "We also strongly favor extension of greater voluntary health insurance—more catastrophic insurance coverage," he said.

TMA has pledged to work with insurance companies and the Texas Hospital Assn. to get the full support of doctors for catastrophic coverages, he said. ■



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Cooke promoted

Carlson hires Ness as risk director



Ness

CARLSON COS. in Minneapolis, Minn., has named **Dennis L. Ness,** 36, director of risk insurance to replace **Don Cooke,** who was promoted to vp of administration for CSA Inc., a Carlson division. Mr. Ness, who reports to Richard Karkow, vp-finance and treasurer, will be responsible for supervising property and casualty insurance. He previously was manager of administration in the corporate risk management department at Control Data Corp. in Minneapolis, where a replacement has not been named. Mr. Ness was also property and casualty insurance manager at Economics Laboratory Inc. in St. Paul, Minn. He attended the University of Minnesota and Globe Business College and is a member of RIMS.

comings & goings: buyers

* * *

Ken Corrigan, 26, has been named corporate insurance coordinator at Becton, Dickinson & Co. in Paramus, N.J., to replace **Richard Feder,** who left the company as reported. Before accepting this new job, Mr. Corrigan was casualty claims supervisor for the brokerage firm of Schiff Terhune in New York. He has a B.A. degree from Brooklyn College and reports to John Statina, director of corporate risk.

* * *

Peter J. Babin, 36, has been promoted from manager of risk management and insurance to vp of risk management and insurance at The May Department Store Co. in St. Louis. Mr. Babin, in this newly created position, will be responsible for the administration of all property/casualty and group insurance programs while also assuming responsibilities of his old job. He joined the company in 1976 and before that was a staff attorney and district agency manager for Connecticut General Life Insurance Co. Mr. Babin, who reports to Dale W. Hilpert, senior vp of finance and control, has a B.A. degree from Wesleyan University and an LL.B. from the University of Connecticut School of Law.

* * *

Jerry Ciardelli, 36, has been named to the newly created position of risk manager for Jostens Inc. in Minneapolis. Mr. Ciardelli was previously assistant to the company treasurer. He attended the University of Minnesota and reports to Robb Prince, Jostens vp and treasurer.

•

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Firms must open medical data: OSHA

Continued from page 1

the employe's service and for 30 years after he or she leaves the company. Medical records include medical histories, examination and test results, medical opinions, descriptions of treatments, prescriptions and employe medical complaints.

In mergers, the new company assuming control must maintain all existing medical records. A firm going out of business must first provide its employes an opportunity to inspect their medical records.

The OSHA standard limits employes' rights to medical records in some cases. A medical diagnosis revealing that an employe has a terminal illness may be withheld. However, the employe would have to be informed that information was being withheld. The employe could then select a third party to review the information withheld and that person would decide if the employe should be allowed to see the medical diagnosis.

30-year rule

"Common sense dictates that the workers themselves be assigned a central role in the detection and solution of health problems," Dr. Bingham said. "This standard does this by providing workers with exposure and medical information that they can use to detect, treat and prevent occupational disease."

Robert Jennings, special assistant to Dr. Bingham, estimated the new standard would affect 25 million employes.

Maintaining medical records for 30 years after an employe leaves a firm will require a "tremendous amount of documentation," said Geraldine Cox, vp at the Chemical Manufacturers Assn. "A substantial data base will be necessary," she added.

OSHA, though, minimized the impact of the standard on employers. "Employers do not have to create new records. All this standard does is require that these records must be shown to employes," an OSHA spokesman said.

Dr. Bingham said she doubts the standard will cause tension between labor and management now that employes will become more personally aware of the hazards they face. "I hope that it would bring into focus a new labor-management relationship to clean up the workplace."

Authority questioned

Several business groups, such as the National Assn. of Manufacturers, requested more time to study the standard before commenting.

One source questioned whether OSHA has legal authority to issue such a sweeping requirement and predicted there would be legal challenges.

OSHA can only mandate employe access to medical records for workers who handle substances for which there is a specific OSHA rule limiting exposure, he suggested. ■

N.Y. bill would force unions to seek bids

Continued from page 2

bership," he said.

Mr. Lewis's department sought the legislation after it found excessive loss reserves and service fees were charged to welfare funds by Trans World Life Insurance Co. and some of its agents (*BI*, April 14, May 12).

The regulation under consideration would be a deterrent to fronting arrangements similar to that foisted upon the Central State Teamsters Welfare Fund and other unions by Joseph Hauser, Mr. Lewis said.

A U.S. Senate investigation shows Mr. Hauser used the now-defunct Old Security Life Insurance Co. to cede 98% of the union premiums to reinsurers that he controlled and from which he diverted funds for his own purposes.

Following an 18-month investigation, the state department recovered $2.2 million on behalf of 13 funds from Trans World, W.V. Brokerage Corp., Winick Associates Inc., Fringe Plan Administrators Ltd. and Group Writers Inc.

The principal of one agency involved is married to a cousin of one union president whose welfare fund was among those victimized, according to inside sources. Favoritism is suspected to have influenced the selection of insurance agents by some of the other funds, according to insurance department sources.

Organized labor and insurers, however, object to the bill. They charge it discriminates by regulating only union funds and could even be preempted by ERISA.

Also criticized are the absences of minimal standards for the number of bids required and guidelines on how the bids should be obtained.

Union Labor Life Insurance Co., a New York company that markets primarily to welfare funds, is "utterly opposed" to the legislation because it singled out health and welfare funds, a spokesman said.

"We are not unmindful of these arguments," said Gary Lavine, an aide to senate insurance committee chairman Martin S. Auer (R-Syracuse). "We have considered them and consulted with the insurance department. The bill is needed, because the problem exists in New York and the superintendent feels the need for a tool to deal with the problem."

Welfare fund trustees have a fiduciary responsibility to obtain coverage for the "best buy" and this bill requires that when they deal with a New York insurance company they must show they have met that responsibility, Mr. Lewis said.

Certification of competing bids is required under the bill before an insurer can write a policy for a union fund. The insurance department would use its power to fine and revoke licenses of insurers, brokers and agents to enforce the law, he said.

Mr. Lewis denied the law could be preempted by ERISA. "I'm not touching ERISA. ERISA has built a wall to protect welfare fund trustees from the consequences of illegality on their part." ■



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Photo courtesy Minneapolis Tribune

Prepaid program may violate Minn. law

Continued from page 1

and now including 178 doctors, also markets itself as a nonprofit, prepaid plan. But it isn't regulated by the state and isn't a licensed insurer, according to the state insurance commissioner.

"Either they're badly out of compliance with the law," said commissioner Markham, "or we have no authority. They could be exempt under ERISA."

The Employe Retirement Income Security Act of 1974 exempts employer-sponsored self-insurance plans, including bona fide self-funded multiple employer trusts, from state regulation, putting them under the regulation of the Labor Department.

Minnesota Vision Services doesn't call itself a multiple employer trust, however. "We're the same thing as Delta Dental," said Bill Boelter, president of Mid-America Vision Service Corp., a Des Moines, Iowa-based affiliate of Vision Service Plan National. Mid-America is taking over the administration and marketing of Minnesota Vision Services after the audit by the Labor Department.

"There's nothing slipshod or shady about our organization," said Dr. Milton Mootz, president of Minnesota Vision Services. "We have an enabling act through the legislature for a nonprofit organization to do what we're doing."

The insurance commissioner, however, said he "can't imagine what act that is. I'd sure be surprised if they can do what they're doing without registration or approval from the insurance department," he added.

Regulation questions

The regulation of vision services varies from state to state, says Bob Atwood, president of Vision Service Plan National in St. Louis. "In some states we are regulated, in some states we aren't. We don't have to be licensed in Minnesota, but there is some regulation," he added, although he didn't know exactly what the regulatory rules are.

State officials in Minnesota find it unusual, however, for a company like Minnesota Vision Services to issue insurance policies from a headquarters in a private home, which is where the offices of MVS are. They also find it curious that Minnesota Vision Services has no official address recorded with the corporate division of the secretary of state.

"Maybe they're trying to save money," Mr. Markham said. But he acknowledged that "it's unusual for an insurance company—if that's what Minnesota Vision Services is—to be run out of a person's home."

"It surprises me that they don't have an address," added Mr. Clayton.

Papers filed with the secretary of state do not list an agent of process, nor is an address recorded other than Minneapolis.

Past administration

Minnesota Vision Services was moved to the Thompson's home from the Delta Dental office six years ago when the insurance commissioner received complaints that Mr. Thompson was selling policies out of Delta Dental's office, Mr. Markham said.

Delta Dental handled administration and marketing of Minnesota Vision Services from 1972 through 1974. Delta Dental was paid a percent of MVS income for the administration, but Thompson was not a named official of MVS, said a Delta Dental spokesman.

Delta Dental severed the relationship in 1974 because it felt the group should not handle claims other than for dental care, said the spokesman.

At that point, Mae Thompson, Mr. Thompson's wife, took over the claims administration, working in the Thompson home. Delta Dental board members were aware that she was taking over the claims administration for Minnesota Vision Services.

Current administration

Dr. Mootz, president of Minnesota Vision Services, denies Mr. Thompson has any current affiliation with the company, although Mrs. Thompson is the claims administrator. While admitting Mr. Thompson marketed and administered the vision policies a few years ago, "Thompson gets no remuneration from Minnesota Vision Services that we know of at this time," he asserted.

Mr. Thompson is however, earning commissions for renewals on vision programs he marketed in the past, Dr. Mootz acknowledged.

BI called the official marketer for the vision plan, Gene Kindle of Kindle, Bolter Marketing Associates Inc. in Minneapolis.

"I'll send you a group plan if I can find it," said Mr. Kindle.

Mr. Kindle says Mr. Thompson has the plan in his home and markets it, "but not 100%."

Mr. Atwood of Vision Service Plan National in St. Louis says Thompson had been marketing and administering MVS plans up until a few weeks ago. The work, he says, had been split between the St. Louis-based organization and Thompson.

This will all change, however, when Dr. Mootz moves the records of Minnesota Vision Services out of the Thompson home, scheduled to occur June 2, to the Des Moines operation. "I will personally move everything out of their offices," Dr. Mootz said.

Reorganization due

The move is being made to improve the plan's cost-effectiveness by regionalizing the optical service, he contended. The reorganization has nothing to do with legal problems besetting Mr. Thompson, Dr. Mootz said.

A spokesman for the Labor Department, however, says no records will be moved "until all investigations have been concluded."

A call to the Minnesota Vision Services phone number led to the Minnesota Optometric Assn. instead, which referred the caller to another number.

Mrs. Thompson answered the phone at that number and said she would have a broker for the plan return the call.

When the call was never returned, the reporter called Mrs. Thompson again. "I just type claims checks," she said, referring the call to Dr. Mootz.

Last summer a Delta Dental employe raised a concern about Mrs. Thompson administering claims

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for Minnesota Vision Services while Mr. Thompson was president of Minnesota Delta Dental, a Delta Dental spokesman said. Delta Dental board members wanting to avoid the appearance of impropriety asked Mrs. Thompson to resign and she agreed, the spokesman said.

Mrs. Thompson has continued to administer claims for Minnesota Vision Services, but will relinquish the work when Mid-America Vision Services takes over the marketing and administration of the plan.

The benefits

Plans are sold to groups such as the Minneapolis Food Distributors Health and Welfare Fund, Teamsters Local 544, which includes employers from Super Valu Stores Inc.

If an optometrist is a member of Minnesota Vision Services, the vision policy pays for an exam once a year plus glasses, or $35 for contact lenses in lieu of glasses. Once every two years the policy will pay for new frames.

If an optometrist is not a member of the service, the policy will pay $25 for the examination, $15 for lenses, $20 for bifocals, $25 for trifocals and $30 for lenticular lens.

Delta Dental employes, including former salesmen and board members, told *BI* they have been aware of Mr. Thompson's affiliation with Minnesota Vision Services and the falsified claims reports to Delta Dental clients. But few people are willing to discuss any details.

Claims data for clients other than the school district were falsified by Mr. Thompson, says Leroy Hansen, former Delta Dental sales representative. He said he told this in an affidavit to a grand jury in August 1979. Mr. Thompson reported false claims data to Honeywell Corp. in 1974 on a cost-plus dental insurance plan, according to Mr. Hansen, who says he discovered the forgery.

Honeywell was entitled to a refund of $213,173 for February and March 1974, but Mr. Thompson reported that Honeywell was due only $89,149.72.

Honeywell only saw total claims payments and not a list of the individual claims. "Thompson falsified the sheet," said Mr. Hansen.

Mr. Hansen said he took the actual claims sheet and the falsified claims sheet and confronted Mr. Thompson.

When Mr. Thompson wouldn't listen, Mr. Hansen said, he took his evidence to Arthur Gillen, the legal counsel for Delta Dental, and Lyle Brecht, then chairman of the board.

And he went before the Minnesota Delta Dental board with his evidence. "The board gave a check to Honeywell and told them there was a computer error and we didn't even have a computer," he said. The check was for almost $146,000.

Al Brosius, director of corporate insurance and risk management for Honeywell, remembers the incident. "We weren't aware of the error at the time" until Delta Dental informed them of the "bookkeeping error," he says.

"They said they had made an accounting mistake. We were otherwise very satisfied with their service," he confirmed.

Honeywell refund

Honeywell audited Delta Dental's books several months later and found them all in order. Honeywell still buys a dental care plan for employes from Delta Dental because it has the best policy for the least amount of money, Mr. Brosius says.

When asked about the truth of the Honeywell incident, a board member told *Business Insurance*, "Mr. Hansen related the same story to me as he did to you."

Mr. Gillen, who resigned as Delta Dental's counsel late last year, would not comment.

Lyle Brecht, chairman of the board until August 1979, was relieved of his post after the audit of Delta Dental's books found the falsified claims ratio on the Virginia (Minn.) school district contract.

The statute of limitations has passed for the Honeywell incident.

Delta Dental's board members resigned following Mr. Thompson's conviction and a subsequent board vote of confidence allowing him to continue as president of Delta Dental, pending appeal. The resignations aren't effective until June 25, however, when a new board will be elected.

The Labor Department began its investigation when the Honeywell incident was brought to his attention, said a spokesman.

Initially, the Labor Department was scrutinizing policies covering collective bargaining units. These were issued in 1974 by Delta Dental to the Minneapolis Electrical Workers Welfare Fund and St. Paul Electrical Construction medical reimbursement plan.

The use of welfare plan assets was the subject of the investigation, not Delta Dental, said a Labor Department spokesman. "Delta Dental could be involved if they are found to have discretionary control over the management of plan assets," he said. The investigation has been broadened to include Mr. Thompson.

"We opened the vision case because of Delta Dental," said another Labor Department spokesman. "We will look into similar patterns of operation in both companies," he said. ■

Risk

Continued from page 3

cause the public is very astute at gauging risk, he said, risk managers must take an active part in explaining their companies and their products in terms of the risks to users.

Mr. Harris, the pollster, concludes that one message conveyed by this study is that "the public will willingly assume more responsibility and will finance more risk, but is saying, 'Let us participate.' "

People don't want products banned from the marketplace, he said, pointing to the study's findings. But the public wants to know the dangers so it can make choices. The indication, though, is that if they are misinformed or kept in the dark, they will retaliate, he said.

The consuming public appears willing to accept responsibility for injuries caused by misuse of products, but it is intolerant of producers who put defective products in the marketplace and would impose heavy penalties, Mr. Harris explained.

Even top corporate executives believe a manufacturer should be held financially responsible for injuries caused by proper use of a defective product, by a whopping 96%. All the other groups concurred by large margins. But members of the public were more willing than others (16%) for consumers or both producers and consumers to pay the price of injuries caused by proper use of a defective product.

In the forthcoming decade, workplaces will become safer than they now are, said a majority of each group. The public, however, was least optimistic, with 41% saying workplaces will stay about as safe in coming years as they are now.

Companies that don't comply with government safety regulations should be heavily fined, said a large majority of participants in each group. ■



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