business insurance

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

Week of May 28, 1979

75¢ a copy; $15 a year

U.S. insurers gauge computer lease risk that burned Lloyd's

By STUART EMMRICH

NEW YORK—American underwriters are warily surveying the damage left by Lloyd's recent fiasco with computer leasing insurance, apparently trying to decide if they should rush in where the London markets now fear to tread.

While approximately 60 syndicates at Lloyd's of London grapple with the problems of settling losses on the computer policies estimated at between $220 million and $230 million—making this "occurrence" the largest in Lloyd's history—at least some U.S. companies are considering picking up the potentially lucrative business abandoned by Lloyd's in 1977, *Business Insurance* learned.

Some computer leasing insurance is now available in this country, according to several people in the field; finding it, however, is a bit of a problem.

Because of the huge losses suffered by Lloyd's since it wrote the coverage in 1973, insurance company officials have been reluctant to discuss any action in the area.

And risk managers for large leasing companies have also been equally reluctant to tell competitors where they have managed to unearth the hard-to-find insurance.

Officials at Bank of America in San Francisco admit they have found underwriters for leasing insurance policies for their Decimus subsidiary, but won't say who they are. IMG Services Inc. in New York acknowledges that it is writing "a few" policies covering the residual value of computers

Continued on page 54

Bill to revamp ERISA bolsters states' power

By JERRY GEISEL

WASHINGTON—Comprehensive legislation to overhaul the pension reform law is out of committee for the first time, but it bears a provision that could spell major problems for multistate employers.

The provision, added by Sen. Edward Kennedy (D-Mass.) and Sen. Alan Cranston (D-Calif.), opens the door for the states to pass laws requiring employers to offer certain health care benefits to their employes.

The Kennedy-Cranston amendment would overturn a series of U.S. district court rulings that a section of ERISA preempts the states from imposing health care benefit requirements on employers.

Employer groups had resisted the amendment. They contend that the expected hodgepodge of varying state regulations will impose costly administrative burdens on businesses which will have to continually revamp their benefit plans to comply with the changing state regulations.

But Sen. Kennedy argued during debate that the amendment is needed in lieu of national health insurance, allowing states to move ahead in requiring a broad range of benefits until a national health insurance plan is enacted.

After extended debate on the Kennedy-Cranston amendment, the Senate Labor and Human Resources Committee approved the ERISA Improvements Act of 1979 (S. 209), sponsored by Sen. Harrison Williams (D-N.J.) and Sen. Jacob Javits (R-N.Y.).

The bill, which its sponsors say is designed to make ERISA a little easier to live with, calls for the creation of a single federal agency to enforce ERISA, thus scrapping the current tripartite system of administration.

A new federal agency, the Employe Benefits Commission, would take over the present ERISA-related responsibilities of the Labor Department, Internal Revenue Service and Pension

Continued on page 50

Fla. tests wage-loss plan in new workers comp law

By KATHRYN J. McINTYRE

TALLAHASSEE—Workers compensation insurance rates here will be slashed 15% on July 1 under a law signed this month by the governor radically reforming the state's workers compensation system based on the relatively untested but much heralded wage-loss concept.

Florida workers injured on the job after July 1 will no longer receive compensation beyond that paid for the time they are forced off the job unless they can prove they've lost wages in their post-injury work due to the injury. That means injuries per se won't be paid for, except in three extreme cases.

Instead, workers with permanent partial disablements will have to show they can't earn 85% of what they did before they were hurt. Those losing at least 15% of their pre-injury earnings when they are "as recovered as they can be" will get 95% of the difference between 85% of pre-injury wages and their new wages.

With this new law, Florida is putting the wage-loss concept into practice more than any other state in the country. The new law also raises benefit levels, overhauls administration of the workers compensation system, caps insurers' profits an annual average of 7.5% over a three-year period, forces claimants to pay their own attorneys' fees and makes the employer responsible for providing rehabilitation services to injured workers.

These and a host of other reforms in the new law are designed to cut the high cost of workers compensation benefits and insurance in Florida ($950 million in 1979) and to open up the restricted commercial insurance market. Presently, 40% of the state's employers are stuck in the assigned risk pool.

Florida business interests, which also convinced labor to lobby for the new law's increased benefit levels, pushed a reform measure through the legislature.

Workers compensation was worked over by the Florida legislature more than any other issue in recent years, says Rep. Bill Sadowski.

"This issue received as thorough a working over in this legislature as any in recent years," observed

Continued on page 56

The inside story

Insurers and FAA pool funds to pay claims in mid-air crash

By JOHN MAES

WASHINGTON—A multimillion dollar pool, funded by the federal government and insurers, is settling claims with the survivors of victims of the worst mid-air collision in U.S. history.

The crash of a Pacific Southwest Airlines jetliner and a light aircraft killed 146 persons in September 1978.

Participants in the pool are the U.S. government, on behalf of the Federal Aviation Administration, London and U.S. insurers for the airline and a U.S. insurer of the flying services operating the small airplane that collided with the PSA jet.

Clark Onstad, general counsel for the FAA, said the pool is designed to handle claims as quickly as possible and to avoid the lengthy litigation that has bogged down settlements in previous air disasters for years.

However, the parties may wind up in court, regardless. A number of the victims' survivors are unhappy with settlements offered by the airline and have requested a trial to determine liability, in hopes of collecting more money, said Gerald Sterns, a San Francisco attorney representing the estates of 10 victims.

Mr. Onstad said the pool essentially involves a fund from which money will be drawn to pay claims. But he cited an agreement between the parties that they would not comment while claims are pending, and declined to discuss the terms or conditions of the pool or its amount.

The fund is apparently somewhat similar to the arrangement set up after the March 27, 1977, collision of two Boeing 747 jets in Tenerife, Canary Islands, that claimed 583 lives. A source who was involved with handling claims for Pan American Airways in the crash said insurers for Pan American, KLM Dutch Airways, the Spanish airport authority and Boeing each contributed a percentage to a fund from which claims are being paid. So far 595 claims stemming from that disaster have been settled, with 49 still outstanding.

However, there may be variations in the PSA pool because of

Continued on page 52

Guide to agents/brokers to be published Aug. 6

CHICAGO—The 1979 Agent/Broker Profiles special report—the only directory to the business—will be published Aug. 6 by *Business Insurance*.

In its eighth annual report on the state of the insurance brokerage business, *Business Insurance* will examine the industry and rank the top 20 brokers according to gross revenues. The Aug. 6 issue will also carry financial information on hundreds of other commercial agencies and brokers.

A geographic directory listing the brokers' headquarters by city and state will be included.

The 1978 Agent/Broker Profiles issue published detailed information—premium volume, gross revenues, number of employes, principal officers and branch offices—on 368 agencies and brokers across the country in addition to expanded profiles on the top 20 firms.

While continuing the tradition of producing these directories for commercial insurance buyers, the 1979 Agent/Broker Profiles issue will also examine in news and feature articles the buyer/broker relationship and developments in the insurance brokerage business of interest to the insurance buyer.

Financial statistics on the agencies and brokers published in the special report are taken from questionnaires completed by the companies. Questionnaires requesting the financial and profile information have been sent to companies in *Business Insurance's* files. Companies that have not received the questionnaire and would like to be included in the directory should request a questionnaire by writing Phyllis Gallagher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611 or by calling (312) 649-5398.

To be included in the directory, the agency or broker must deal directly with insureds, have a premium volume of at least $1 million and at least $150,000 in gross revenues. ■

INA, London at risk for drilling rig collapse

By ELLIS SIMON

GALVESTON—INA Special Risk Facilities wrote primary liability coverage for the owners of a jack-up type drilling rig that collapsed earlier this month 12 miles south of here, killing eight workers.

The London market wrote excess coverage for Atlantic Pacific Marine Corp., a subsidiary of the Danish-owned Moller Industries Inc.

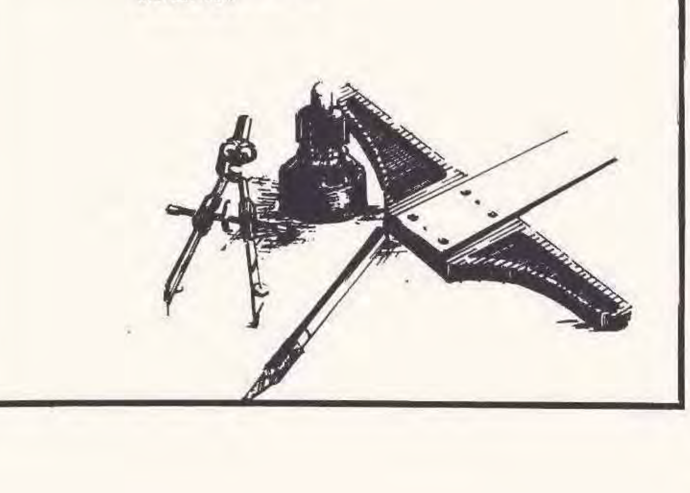
Ranger I, with a $4.8 million hull value, was on lease to Mitchell Energy & Development Corp. at the time. Liability coverage for Mitchell is written by The Continental Corp.

Half the hull coverage on the rig was placed in the London market, with the Scandanavian market taking a large portion of the rest, according to John Pope of Adams & Porter of Houston, broker for Atlantic Pacific.

One of three legs supporting the rig collapsed during drilling and the rig fell partway into 60 feet of water. A storm the following evening sank the craft.

The rig has been declared a "constructive total loss," but Atlantic Pacific is under court order to remove it from the area and some salvage could result, said Mr. Pope.

Ranger I had just been in drydock at Alabama Drydock & Shipbuilding of Mobile for an overhaul. Coast Guard officials investigating the loss have asked representatives of the shipyard to testify about their work. ■



errors & omissions

• International Paper Co. saved over $3 million in two years in the cost of all employe benefit programs for non-union, salaried employes by altering plan designs and adopting new funding techniques. An article in the May 14 issue reporting on G. Richard Androvic's presentation at the RIMS conference incorrectly identified the savings as occurring in the company's disability plan. In addition, the estimated $160 billion spent on health care services in the entire U.S. in 1978, and increases in those costs since 1970, were incorrectly identified as International Paper's benefit costs. Finally, Mr. Androvic said his comments about problems in administration of disability plans dealt with all disability plans in general and were not specifically related to International Paper's disability plan.

• Insurers are taxed as corporations under Section 77-01 of the Internal Revenue Code. A story in the April 16 issue incorrectly reported that the status was a result of Revenue Ruling 77-01.

• The monthly premium for each employe under the new dental insurance plan at the Iowa Beef Processors Plant in Dakota City, Neb., is $3.00. Great West Life Assurance Co., the underwriter, reserves the option of charging an additional 35 cents per month per employe depending upon plan costs. The cost was incorrectly reported in the May 14 benefit beat column.

for your information

Hall admits dubious tactics inflate profit profile $3.8 million

BRIARCLIFF MANOR, N.Y.—Possible illegal business practices of a Frank B. Hall & Co. Inc. subsidiary increased revenue reports by $3.8 million over a three-year period, according to the firm's 10-K report filed with the Securities and Exchange Commission (SEC).

Hall discovered the suspect business practices last year after an investigation by the firm's independent accountants revealed that the additional funds received through the questionable practices had been reported as revenues on corporate account books and tax returns. Hall then reported the matter to the Texas department of insurance, *Business Insurance* learned.

The former principal of the office, Mendel S. Kaliff, who sold Hall the operation in 1975 (Morris H. Kaliff & Son, San Antonio), has agreed to cover more than half of the broker's exposure resulting from the problem, secured by a $2 million letter of credit. He has resigned as officer of the company but remains as a senior consultant to the subsidiary.

There is no indication, reported Hall, that the matter has jeopardized business relationships of the company or will affect the operation or financial condition of the firm.

Politics stall work comp reform

BALTIMORE—A blue-ribbon task force appointed by Baltimore mayor Donald Schaefer to come up with solutions to the city's soaring workers compensation costs (*BI*, April 2) will not release its recommendations until after the November city elections. The report had been expected to be published in September.

But the official frankly acknowledged that political considerations played a role in the decision to delay the report. "There are enough problems without opening up a new can of worms," he said.

An earlier report, released by the city's finance department revealed that a combination of mismanagement and employe abuse has resulted in a tripling of the city's workers compensation expenses between 1974 and 1978.

Court bars GIs from nuclear suit

WASHINGTON—The Supreme Court this month let stand a lower court ruling barring soldiers exposed in 1953 to radiation during a nuclear bomb test explosion from suing the federal government for medical damages.

The justices turned down a request for a hearing from Stanley Jaffee, a 47-year-old former serviceman, who sought to sue the government on behalf of thousands of soldiers who were forced to witness in 1953, at a distance of between 2,000 and 3,000 yards without being given protective clothing, a nuclear explosion in the Nevada desert.

Mr. Jaffee said he developed inoperable breast cancer in 1977 as a result of being exposed to massive doses of this radiation.

Doctors acquited of malpractice

NEW YORK—A New York jury cleared two physicians of malpractice charges in the closing of a case that established the duty of physicians here to warn prospective parents about possible birth defects.

The jury cleared two Long Island physicians of charges they had breached their duty to warn parents of the danger that their child would be born with polycystic kidney disease.

The New York State Court of Appeals had cleared the way last December for the case to be heard when it ruled that if doctors fail to advise prospective parents of particular risks of birth defects and, if a defective child is born, the physicians may be required to pay the lifetime costs of caring for the child (*BI*, Jan. 8).

Tornadoes wreak record losses

NEW YORK—With insured damage approaching $240 million, the series of tornadoes and other storms that devastated Wichita Falls, Tex., and swept parts of 11 other states now ranks as the worst catastrophe from the standpoint of insured losses since 1974, says the American Insurance Assn.

The storms struck from April 10-17 and caused losses in Oklahoma, Texas, Kansas, Missouri, Arkansas, Illinois, Indiana, Tennessee, Louisiana, Mississippi, Alabama and Georgia.

The insured loss is the worst since early April of 1974, when wind, hail and tornadoes caused estimated insured losses of more than $430 million in 17 states.

Foley moves to U.S., INA

HAMILTON, Bermuda—Peter Foley, who resigned from Insco Ltd. here over disagreements with management, (*BI*, May 14) joins INA Special Risks Facilities Inc. June 1 as a group vp.

He will direct INA's professional liability underwriting, including INAX in Chicago, the new directors and officers operation in Boston and medical malpractice underwriting out of New York.

index

Vol. 13, No. 11—Business Insurance [ISSN 0007-6864] is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Controlled circulation postage paid at Brookfield, Wis., Chicago, Ill., and New York, N.Y.

the benefit beat

Airlines schedule higher dental, pension payments

United Airlines machinists apparently will return to work with the same increases in health, life and dental insurance that were included in a voted-down pact that led to a strike of the airline March 31 (*BI*, March 5).

The 18,600-member International Assn. of Machinists and the nation's largest domestic air carrier reached a tentative three-year pact ending the 50-day old strike that stemmed from disagreement over wage and cost of living increases.

Union spokesmen could not discuss terms of the pact but said benefit increases will stand pat. The contract calls for deductibles for medical coverage to be lowered from $200 per cause to $200 per year and for hospital room and board coverage to increase to $125 per day from $100. Payments for doctor's visits would also increase as would the maximum for major medical insurance to $250,000 from $200,000.

Among other changes are a doubling of life insurance to $20,000 in fully-paid coverage from $10,000, an increase in the optional purchase to $40,000 from $20,000 at 40 cents per thousand and dental coverage including coverage for almost all dental services at 100% instead of 80% of a fixed rate schedule with maximum benefits for various services doubling.

American's offer

American Airlines and the Assn. of Professional Flight Attendants have reached a tentative contract agreement that would improve the attendants' retirement benefits.

If the pact is ratified by the 5,800-member union, attendants will be able to retire at age 45 after 20 years of service with life insurance and health insurance coverage carrying a $200 a year deductible. Currently, only active attendants and those retiring at 55 receive health benefits and a $50 per year deductible. The tentative pact also calls for extending the lower deductible to those retiring at 45 when they reach 55.

In pension improvements, the minimum benefit would be raised to $23.50 from $19.25 per month per year of service. In addition, the formula used to determine average salary would be changed, raising employes' pension benefits.

Attendants would also be 50% vested in the pension fund after five years. Currently, the attendants aren't vested at all until full vesting after 10 years. Another provision calls for eliminating employe contributions to the pension fund. Attendants now pay 2% of annual base salary over $6,600.

New dental plan

Craft, production and maintenance employes at GTE Automatic Electric in Northlake, Ill., won a new dental plan in a three-year contract.

The plan for 5,400 workers covers preventive and general services such as cleanings, x-rays, fluorides, space maintainers for children, extractions, fillings, root canals and gum disease treatments. The maximum annual benefit is $500 per person.

The premium is fully paid for single employes, but for family coverage it is incorporated into a premium covering dental and basic medical. The family premium cost to an employe is $3 per month in the first year of the contract, $6 in the second year and $9 in the third. The Travelers Insurance Co. replaces Blue Cross/Blue Shield on the basic medical plan.

Other new benefits are company-paid hospitalization coverage for individual employes and retirees and an accidental death and disability plan to a $50,000 limit.

The company has also increased pension benefits from $8 per month per year of service for each eligible worker to $11 over the life of the contract.

Pension plans

A study of 299 pension plans of medium sized Midwest firms shows that 88% or 262 of the plans are entirely funded by the employer and 80% of the plans use 10-year "cliff vesting" procedures.

Coopers & Lybrand, actuarial consultants who conducted the study also found that about one-third of the plans require an employe to have one year of service and to be 25 years old before participating in the plans. Another 26% of the plans require only one year of service but no minimum age.

The majority of the employers (77%) compute benefits on the average of the employe's compensation over a five-year period when he earned the most. Most plans consider Social Security in computing benefits with 42% reducing the pension benefit by a percentage of the Social Security benefits.

The survey included employers in Illinois, Indiana, Wisconsin, Minnesota and Michigan with pension plans ranging in size from 200 to 2,000 participants.

Penalty paid

Nassau County has agreed to pay a $95,000 early cancellation penalty to Group Health Insurers Inc. for withdrawing its dental coverage from GHI and placing it with Connecticut General Life Insurance Co.

The county changed carriers earlier this year for lower premiums, better claims control and quicker turn-around time on claims (*BI*, April 2).

The contract with GHI was still in force when the change in insurers was made and GHI had considered suing the county to recover the lost premium. Despite the penalty, Nassau County still expects to save money.

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Benefit beat keeps insurance and employe benefit managers up-to-date on what other companies are doing and informed of current developments in the emoloye benefit field. We'd like to know if you've made any changes. Write Kathryn J. McIntyre, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5286.

U.K. women plot suits in U.S. over pill ills

By JOHN H. MILLER

LONDON—Drug companies in the U.S. are likely to face massive claims from British citizens for damages caused by birth-control pills.

Damages of up to $60 million may be sought, with the prospect of more claims from other countries in Europe or the rest of the world looming in the future.

Prominent U.S. attorney Gerald C. Sterns has been visiting the U.K. to make his services available to clients who have suffered thrombosis or other ailments after taking contraceptive tablets.

"As far as the insurance market is concerned, they've gone into this field with their eyes open," he told *Business Insurance*. "They'll start bleating about these claims, but I've little sympathy for the underwriters concerned."

Drug manufacturers are extremely tight-lipped about their liability insurance programs, which are quite difficult to place with insurers. Drug manufacturers may self-assume as much as the first $1 million or more of loss in order to get into the U.S. and U.K. insurance markets. No one insurer is noted for assuming pharmaceutical risks, but Robin Jackson of Merrett Dixey Syndicates and Peter Wilson of Weavers at Lloyd's are known to often lead the underwriting of the insurance.

The move to get Mr. Sterns's services for U.S. litigation was started by a group of 300 women known as the Pill Victim Action Group who claim to have been harmed by the tablets in recent years.

Between 60% and 70% of the birth-control pills taken by British women are produced by U.S. manufacturers by their subsidiary firms based in the U.K. or other agencies.

The companies involved, Mr. Sterns says, are Ortho Pharmaceutical Corp. of New Jersey, G.D. Searle & Co. of Skokie, Ill., Y.F. Wyeth of Philadelphia, Syntex Laboratories Inc. of Pala Alto, Calif., and Parke Davis Co of Detroit.

These five firms, together with Schering A.G., of Berlin, West Germany, may be cited in lawsuits which U.K. residents are threatening to bring in federal or state courts for compensation for physical damage they claim has been caused to them by the pills.

The basis of the lawsuits will be the argument that the type of contraceptive products marketed by the companies in the U.K. break product liability requirements that are common in their country of origin. The companies' liability is not the same under British law which makes domestic lawsuits hard to bring.

The difference is that in the U.S. pharmaceutical market, extensive warnings—running to four-page leaflets at times—are issued telling users in great detail of the potential dangerous side effects of the contraceptive pills.

Mr. Sterns is planning to argue in court that although less prominent warnings are accepted by health authorities in Britain, the U.S. manufacturers are still liable for defective products if they fail to give the same bold warning on their products sold abroad.

It is an entirely new concept of product liability which can take a long time to process through U.S. courts, but Mr. Sterns is confident there are ways of doing this.

He is now researching the law in about six states to see where action can be taken, as some of the projected lawsuits may be time-barred in some areas.

It is clear that many types of multi-national products may need to have their labeling carefully checked by risk managers if the projected litigation ever becomes effective in U.S. courts. Already there is a case in Sweden where Schering A.G. of Berlin is being sued over the death in 1968 of a 28-year-old Stockholm woman, Mrs. Anita Lindstroem. Her husband claims she had been taking the company's contraceptive products and the company failed to adequately warn about their risks.

Many of the British women who claim to have been affected made contact with Mr. Sterns in San Francisco after learning that he had previously won large damages (in the region of $15 million) in the U.S. for U.K. families who had lost relatives in the Turkish DC 10 plane crash in Paris five years ago.

They realized that the rigorous structure of U.S. product liability laws might provide a gateway for their own efforts to seek redress against the manufacturers, in the same way that McDonnel Douglas was finally sued in California for a completely foreign disaster.

Mrs. Judith Challenger of Abingdon in Oxford County is leading the move in the U.K. to take action in the U.S. courts.

She suffered a stroke 14 months ago after taking the pill, but felt unable to take legal action in Britain because of the difference in product liability laws. A business friend suggested she should try the U.S., and she is now actively campaigning to get clients for Mr. Sterns, who will act on a contingency-fee basis.

"The aim of my victims' group in the U.K. is to get suitable compensation for pill victims, many of whom have been left severely and permanently disabled, sometimes with young families to bring up," Mrs. Challenger said. "We also want to have full and proper warnings available to all about the side effects of the pill, for it has cruelly transformed the lives of many people."

She already has 300 members of her group who have suffered brain hemorrhage, thrombosis, paralysis or heart trouble after taking contraceptive pills. Up to 1,000 U.K. women may join the lawsuits, she believes. A reported number of deaths may also be cited.

Medical sources in the U.K. estimate that about three million women are on the pill, which is accepted by the Family Planning Assn. as being suitable if it is taken on proper medical advice, but opinions on its safety still vary.

Because the contraceptive pill is also being used extensively in other countries in Europe and in developing nations, there is the prospect of more extensive lawsuits in the U.S. if the U.K. women's litigation succeeds.

It is expected to be at least 18 months before any litigation from the U.K. claimants starts.

Mr. Sterns is demanding compensatory damages at this stage, and currently is not pursuing the idea of punitive damages, though it is in his mind if necessary. "The range of settlements in the U.S. for similar product liability cases has been between $1.2 million and $30,000," he said. ■

IRS grabs more tax on foreign reinsurance

By KATHRYN J. McINTYRE

WASHINGTON—An Internal Revenue Service ruling recently on how to figure the excise tax due on reinsurance premiums paid to foreign insurers appears to cause bigger problems of principle than of economics.

Companies whose captive insurers buy or sell foreign reinsurance on a facultative—risk-by-risk—basis may have a way around the ruling.

The 1% excise tax due on reinsurance placed with foreign insurers must be figured on the gross premium, not the net premium, the IRS ruled April 30 in Revenue Ruling 79-138.

Although opinions differ on how much this ruling will end up adding to the cost of reinsurance, corporate buyers will most likely pay the tab because insurers will pass through the added expense. Several reinsurance executives estimated the additional excise taxes will add only nominally to the cost of reinsurance.

Traditionally, U.S. insurers have subtracted ceding commissions and other cost-of-doing-business expenses from the gross premium before figuring the tax due on reinsurance placed with foreign insurers. They paid the tax on the actual amount of money paid to the foreign reinsurer.

The IRS had said repeatedly in private letter rulings since 1942 that this was the proper method of figuring the tax, said one tax attorney. But in the mid-1970s, the IRS changed its position, started questioning the calculation of the excise tax and issued at least one private letter ruling to an insurer saying the tax is due on the gross premium, he said.

The insurers have been arguing the point with the IRS. In the meantime, they thought they "could get around" the gross versus net premium problem by "writing a contract that ignores the ceding commission," said the tax attorney, who asked not to be identified. But the new revenue ruling says the IRS will "gross-up" the reinsurer premium paid to the reinsurer for purposes of calculating the tax to the percent of the risk assumed by the reinsurer.

"The law does not provide for reduction of gross premium paid for expenses incurred in connection with underwriting the taxable insurance contract or because a contract provides that a net amount be paid," the ruling states. For determining the excise tax due, the ruling continues, the premium "is the gross proportionate share of the premiums received by the domestic insurer that is attributable to the foreign reinsurer as a reinsurance premium even though the contract provides for payment of a net amount."

The IRS can determine this quite easily in treaty reinsurance. It will be difficult for the IRS, however, to trace it in facultative reinsurance, admits the tax attorney. "They can't can't handle that," he said.

Therefore, on the reinsurance of particular risks, insurers and captive insurers could base a contract on the net premium, not discussing ceding commissions or other expenses, and it will appear to be the gross premium, sources agree.

But captives involved in quota share reinsurance pools, for example, are open to IRS analysis of the calculation of the excise tax due.

How big a bite this change will take out of insurers' pockets depends on the perspective of the potential taxpayer.

Duane Allen, president of Captive Insurance Cos. Assn., noted that on a risk with a $200,000 premium and a 20% ceding commission, the difference in tax due on the gross premium and net premium is only $400 a year. "The people concerned are major reinsurers who place substantial amounts of business with non-admitted markets," he said.

Interestingly, reinsurance placed with Lloyd's of London for the most part won't be affected by this ruling because Lloyd's is an admitted market in most states.

One executive of a major reinsurance company, while lamenting the new ruling, admitted that he has estimated the total cost to the industry of this new ruling at $5 million at the most. That, he conceded, is not a very sizable bite considering the billions in reinsurance premiums written each year.

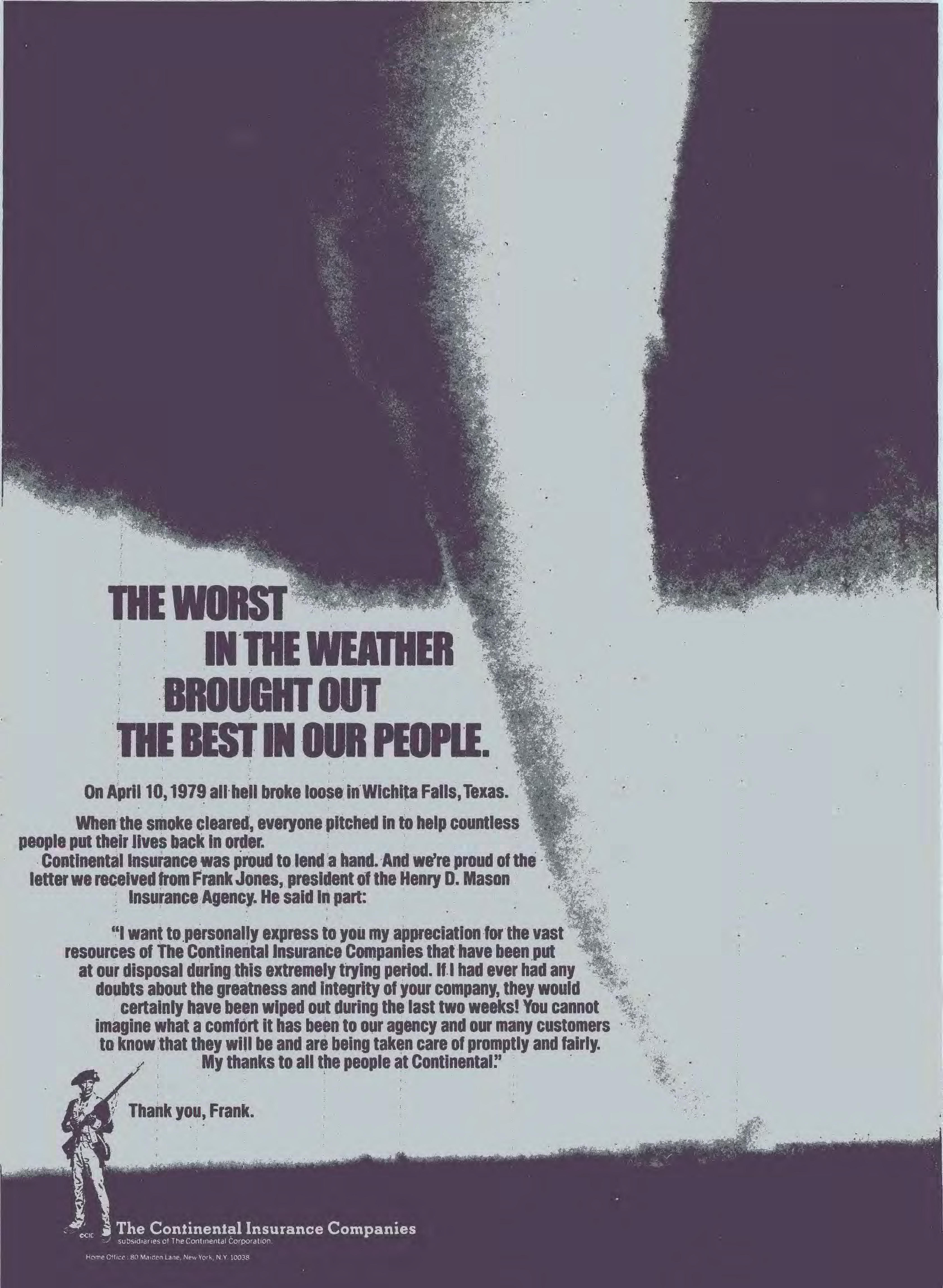
"It's going to represent an awful lot of problems," contended an executive of another reinsurer.

Especially disturbing to the industry is the IRS implication in the ruling that this has always been the law. "The IRS has not issued any effective date. We think they are wrong as a matter of law, but we think it should at least be applied prospectively," said the tax attorney, worrying about the effect of a retrospective application.

Whatever bite this revenue ruling takes out of the industry, the insurance buyer can expect to pay indirectly for this added cost since an increase in the cost of reinsurance is sure to be reflected in an increased cost of direct insurance.

ERISA in Spanish

The first in a 12-part series of Spanish-language brochures explaining the rights of pension plan participants under the Employe Retirement Income Security Act (ERISA) has been published by the Department of Labor. Copies are free from the Pension and Welfare Benefit Program, Labor-Management Services Administration, Room N-4659, Third St. and Constitution Ave., NW, Washington, D.C. 20216.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THE BEST IN OUR PEOPLE.
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Thank you, Frank.
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BI-4

Insurers weigh liability for Silkwood jury award

By MARGARET LeROUX

OKLAHOMA CITY—Whether punitive damages in the $10.5 million judgment against Kerr-McGee Corp. in the Karen Silkwood plutonium contamination lawsuit will be covered by the firm's insurer, American Nuclear Insurers (ANI), is being discussed by the pool as the corporation prepares an appeal of the award.

Meanwhile, the nuclear industry and ANI are trying to assess the expanded liability the case establishes for the industry.

Kerr-McGee is insured by ANI, an ANI spokesman confirmed, but he declined to comment further. Kerr-McGee officials said insurance coverage is "being assessed and pending appeal no further statement will be made."

In the nuclear industry's first case concerning liability for off-site contamination, it was contended that Ms. Silkwood, a lab technician at Kerr-McGee's Cimmarron plutonium plant north of Oklahoma City, was contaminated by radioactive material on three different occasions in 1974.

Ms. Silkwood died in November 1974 in a one-car crash on the way to a meeting with reporters where she said she would document her claims that conditions at the plant were unsafe. Her family brought the contamination damages suit against Kerr-McGee in March 1976.

The fact that Kerr-McGee is insured by the nuclear pool may not make any difference in the settlement of the case, according to an attorney for the Nuclear Regulatory Commission. "I'm not sure this case fits the definition of a nuclear incident," he said.

But the verdict sets a precedent in liability litigation for the nuclear industry. The trial judge ruled during the case that Kerr-McGee could he held strictly liable for escape of low-level radiation from its plants, allowing liability even if safety standards were met. Previously, negligence has had to be proven in such instances, reserving the doctrine of strict liability for major nuclear accidents.

The jury determined anyway that Kerr-McGee was grossly negligent in allowing plutonium to leave the Cimmarron plant and awarded the Silkwood family $10 million in punitive damages and $500,000 in compensatory damages. Plutonium contamination was also found in Ms. Silkwood's apartment.

Kerr-McGee closed the Cimmarron plant in 1975 and reported that 40 pounds of plutonium was missing from its stock.

Asked what impact the case will have the nuclear industry's liability exposure, an ANI spokesman said, "I wish I had an answer. This case is the first of its kind. It has to be looked at very carefully. We have to look at the judge's instructions to the jury as to what constitutes physical injury."

The effect of radiation contamination on Ms. Silkwood was at issue in the case. During deliberations, the jury requested the judge define physical injury. The judge said physical injury can include "nonvisible or nondetectable injuries . . . to bone tissue or cells. . . . If a person suffers a physical injury, under expert medical opinion, it is only necessary that the person believe they have been physically injured as a basis for mental pain and suffering. . ."

Attorneys for the Silkwoods predicted after the verdict was announced that if it held, the case would stimulate numerous lawsuits. It would allow people living around the Three Mile Island nuclear plant in Pennsylvania to sue effectively if it were established that radiation in harmful quantities had escaped in March.

They also predicted that insurers would decline to insure nuclear plants against accidents if the verdict and the legal precedent are upheld by higher courts.

If the nuclear liability policy with ANI doesn't cover the award, the exposure would fall under Kerr-McGee's provisions for comprehensive general liability risks.

Insurance may cover the punitive damages portion of the award in Oklahoma. ■

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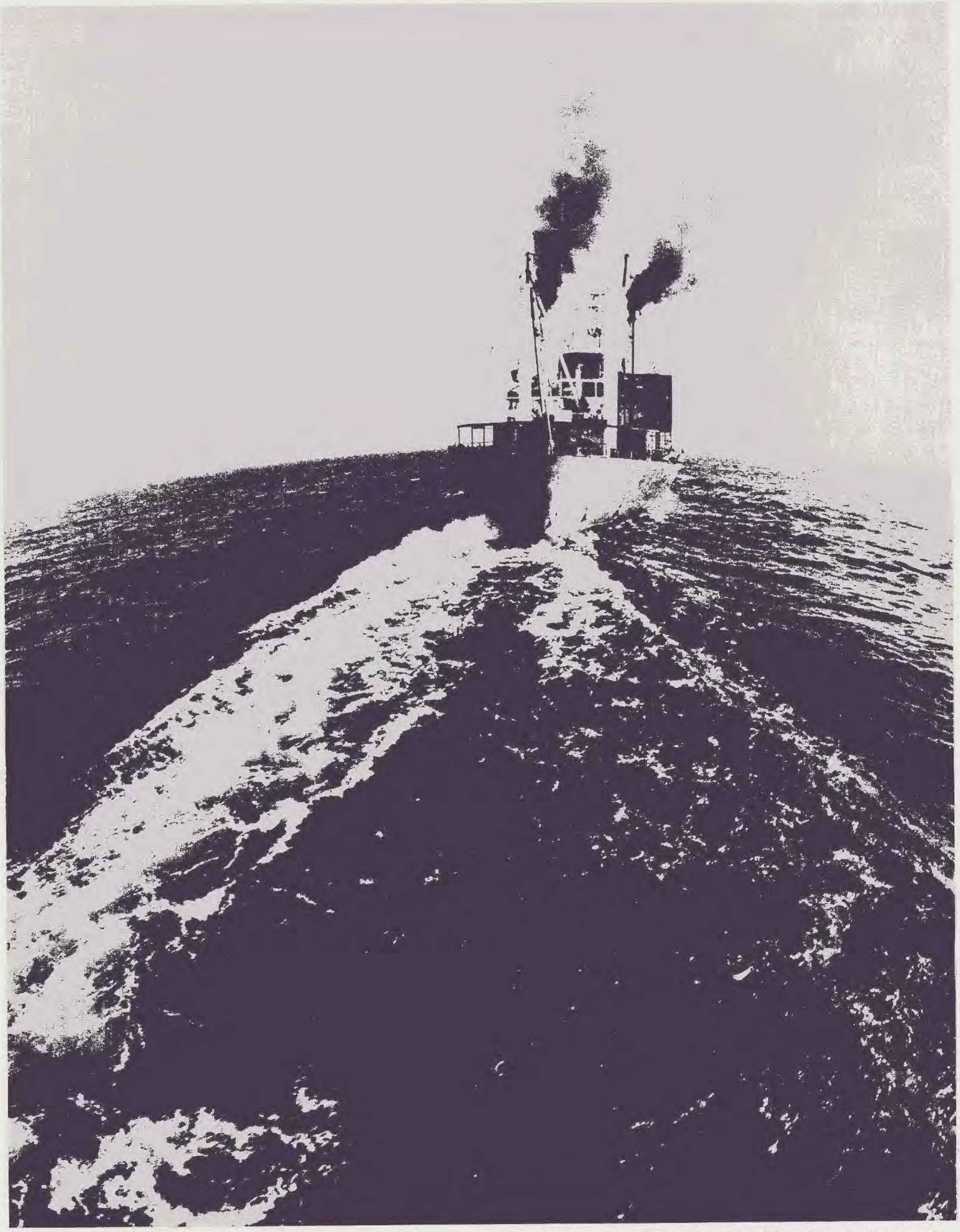

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Factory Mutual System

'True' group auto plan makes debut in Mich.

By JOHN MAES

GRAND RAPIDS, Mich.—A parts distributor here is claiming to be the first in the country to offer its employes a true group auto insurance benefit.

Under a policy with Aetna Life & Casualty Co., Import Motors Inc. is paying half of the premium for its employes' auto insurance. Employes pay the balance through payroll deductions. Already 117 of the 130 employes have signed up with the plan, which started May 1.

"So far, we've had favorable results," said Gene Naylor, administrative manager for the company. "About 85% of our employes did go with the plan and we've had good feedback."

There are four plans available. An employe and spouse with one car contributes $15 monthly. Adding a young driver age 16 to 24 adds $10 a month to the employe's premium. For an employe with two cars, the payment is $28. Add a young driver and it's $37 a month for two cars.

Deductibles on the policy are $200 on collision and $50 on comprehensive, Mr. Naylor said. The policy covers bodily injury, property damage, liability, uninsured motorists, personal injury and physical damage with a $300,000 per person limit on liability.

Aetna determines the initial premium for the group based on age, sex, marital status and salary makeup of the group as a whole. Participants cannot be denied coverage or cancelled because of their age or driving records, said an Aetna spokesman. The claims experience will be reviewed every year, after which rates will be adjusted according to the number of claims in the group.

Other insurers offer "mass marketed" auto coverage to groups of employes, but they all are, in effect, individual policies drawn up according to the "individual underwriting characteristics" of the employes. Thus, the Aetna plan earns the tag "true group," said a spokesman. "That's the nice part about it—if you're 16 or 68 and working at this place, you'll pay the same rate," he said.

When an employe leaves Import Motors, he or she is eligible for continued coverage, but not at the group rate.

Import Motors decided to offer the plan to its workers because it is trying to build the type of benefits plan that will attract new and career employes, said Mr. Naylor.

"It's especially helpful if you have a teenage driver and they have a bit of bum luck with a ticket or two and may be forced into a pool by insurance carriers," he explained.

"We like to be the first in our community to offer our employes a plan like this," he said.

Aetna is trying to establish itself as a force in the market for what it predicts will probably become one of the most sought-after employe benefits, said the spokesman. "Group auto is going to become attractive to employe groups. Many employes will want it in their benefit packages and we (Aetna) want to be in there.

"We felt it was a very marketable plan," he said. "We're very confident of seeing this type of plan pick up in the future. It will be something that will definitely catch on." ■

Groups schedule risk seminars

MALVERN, Pa.—In an attempt to coordinate projects of mutual interest, the Society of Chartered Property & Casualty Underwriters and the National Assn. of Professional Insurance Agents will jointly sponsor educational seminars this year.

The seminars, which will cover manufacturing risk analysis, is the first step in an agreement made recently by the executive committees of both organizations to coordinate as many activities as possible and to explore and identify other areas of cooperation, understanding and mutual benefit.

These seminars will be held November 25-27 in Las Vegas, Dec. 3-5 in New Orleans and Dec. 10-12 in Washington, D.C. ■

Paramedical liability.

Doctors aren't the only ones who require medical malpractice protection. Current law suits attest to exposure as well by: physical therapists, blood banks, labs, clinics, visiting nurses, social workers, emergency squads—in short, just about any entity or individual involved in a paramedical activity.

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editorial opinions

In search of solutions

ILLINOIS EMPLOYERS must be on the horns of a dilemma over whether to join President Carter in backing federal workers compensation standards.

On the plus side such standards would have the effect of raising most state's workers comp payments to Illinois levels, because our state is one of the most generous in this area. That, in turn, would go a long way in neutralizing one of the major reasons businesses give for not wanting to locate new plants here.

Rance Crain

On the minus side nobody likes to see the federal government invade an area that has been the prerogative of the states. What business people fear, of course, is that federal standards will be the first step toward a federally administered workers comp program.

The dramatic news that the Carter Administration would help draft and later support the federal minimum standards legislation came near the end of three days of hearings by a Senate panel.

The new federal standards would probably mean, if they're enacted, that an injured worker's claim would be handled at the state level, even if a state were not in full compliance.

However, after the worker was awarded his final benefit, he or she could file a claim with the Labor Department's benefit review board for supplemental compensation to make up for the difference between the state benefit and the federal standard.

That procedure would certainly even things out as far as Illinois is concerned.

But of course the federal standards, while putting Illinois on the same footing as everybody else, do nothing to check the more basic problems of excessive awards for nonpermanent injuries, fraud and other abuses in the system.

Maybe we can steal an idea or two from a new workers compensation law drafted by the Florida senate commerce committee and signed by the governor. Florida has been under some pressure to come up with a new workers comp law, since the current law was repealed last year. So the committee's findings are a bit more than whistling in the dark as is the case in this state whenever workers comp reform is bandied about.

The compensation of permanent partial disability, probably the most troublesome and inequitable aspect of the system in Florida, is now based on the wage-loss concept. And the law flatly states that no compensation shall be paid for permanent disability if the employe is engaged in or is physically capable of any form of gainful employment.

What makes the Florida proposal so appealing is that the type of disability, with all the medical and legal gyrations attached to determining the severity of the injury, wouldn't be a factor in setting most benefits. What counts is the disability's effect on earning capacity.

Under the law a permanently partially or totally disabled employe who reestablishes an earning capacity would be paid wage-loss benefits.

Such benefits would take into consideration the employe's salary before the injury and the amount he's able to earn after resuming work.

That figure, it seems to me, would be fairly easy to calculate, and would greatly reduce the legion of doctors and lawyers needed to decide how much a mangled limb is worth in Illinois.

Rance Crain was the first editor of Business Insurance at the time of its founding in 1968. He continues to keep a close eye on risk management and insurance issues affecting the corporate community. In his weekly column in Crain's new regional business publication, Crain's Chicago Business, he discussed the need for changes in workers compensation regulations.

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Published by Crain Communications Inc., Chicago, HERBERT ZELTNER, *group vp;* ALFRED MALECKI, J.J. GRAHAM, S.E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKENSON, ARTHUR E. MERTZ, *vice presidents;* JAMES M. FRANKLIN, *vp-finance and administration;* MERRILEE P. CRAIN, *assistant secretary.*

Published biweekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 75 cents a copy. $15 a year in U.S. Foreign $5 a year additional. WILLIAM STRONG, *vp-circulation*. PAMELA JANOUSEK, *circulation manager;* ROGER DiGREGORIO, *fulfillment director*. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 740 Rush St., Chicago, Ill. 60611. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.

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More on INACO

To the editor: Re: INA Construction Risks Inc.

Thank you for the generous coverage by your publication of the recent joint venture between the Insurance Co. of North America and RIMCO International (*BI*, April 30). Mary Ellen McKee did an excellent job in describing the program and outlining the reasons for its creation.

However, I would like to clarify a few points: There apparently was some confusion concerning RIMCO's role in INACO. The joint venture is between INA and RIMCO International, a holding company of which RIMCO Risk Management Inc. is a unit. RIMCO International will play a major role in the management of INACO.

RIMCO Risk Management Inc. will be responsible for the risk management audits on behalf of INA. In this respect, our consulting operation will be acting only as a consultant and educator for the contractor and his insurance producer while preparing an insurance submission for underwriting purposes.

Concerning who will be funding RIMCO's fees, we have been quite open and adamant over the fact that the contractor will be responsible for RIMCO Risk Management's fees. This is consistent with other audits and other specialty areas in the insurance industry such as hospital malpractice and pollution liability.

Some readers might think that my associates and myself were requested to resign by the membership of Insurance Consultants' Society. This is not the case, supported by the fact that our letters of resignation were the first notice that the ICS had of our arrangement with INA.

Perhaps one of the most important features of the program is the fact that only 50 premier contractors will be accepted each year, allowing for very special consideration to be given to these risks in the way of service and underwriting. Due to this small number of risks to be entertained and accepted, RIMCO Risk Management expects very little, if any, adverse reaction from the insurance marketplace or insurance agents/brokers. In addition, the program is intended to solve a problem which, to date, has not been really available in the standard market. Hopefully, this innovative approach will solve a very knotty problem for sophisticated and complex construction risks while blazing a trail for other difficult and complicated risks.

Wm. Stokes McIntyre, CPCU
Chairman of the board, RIMCO International Inc., Dallas

Our trademark

To the editor: Re: April 30 article on Chicago brokers' styles.

Mr. Strazewski's article refers to McManus & Pellouchoud as M&P. M&P is a registered trademark of Mack and Parker, and has been for several years.

Edward E. Mack III
Executive vp, Mack and Parker Inc., Chicago, Ill.

Compelled to answer

To the editor: Re: Norman Hoffman's Perspective article April 2.

I have read with extreme interest the above captioned article and feel compelled to answer. What concerns me most is the statement, "Business executives, fully cognizant that insurance premiums must cover losses, services and profit, still prefer to pay premiums rather than make a major commitment to loss control."

First of all, if business executives were cognizant as stated of the distribution of the insurance premium, why are they always on the lookout for the lowest price for insurance? Do they feel that insurance company profits are too high? A loss is a loss is a loss, regardless of which insurance company writes the policy; therefore, the only place to cut premiums is in services or profit.

Secondly, since when do the insurers have the "responsibility to control losses," as he stated? All the insurer can do is recommend actions; it is up to management to put them into effect. The real problem, in my opinion, is that safety directors have not been able to "speak management's language." They have been so wrapped up in engineering or health backgrounds that they do not understand financial statements, capital budgeting and other management tools.

I direct a graduate program in safety management and have graduated more than 35 students, the large majority of whom are currently employed in a safety management capacity of one type or another. The basic thrust of our program has been to teach safety people the language of management as well as safety and health. I like to think we have been successful inasmuch as we enjoy an excellent reputation in the business community.

If insurance is so good, why have so many firms been using high self-insured retentions? Is it because the cost of insurance is so definite, as Mr. Hoffman pointed out?

He also points out that improvement in loss experience might be due to "better working conditions, lower turnover, capital improvements, improved motivation or morale. . . ." Did he stop to think that many of these causes may have been instigated by the safety director?

Regarding his use of the adage that insurance is never bought, but sold, I wholeheartedly agree with this in the field of life insurance; however, in property/liability insurance so much of the insurance is required by law, by contracts, etc. that protection must be provided. The only thing that is sold in that area is the agent/broker and/or insurer; protection either under an insured or self-insured program is almost mandatory. The best example is workers compensation.

I would also take issue with his comment of large judgments being awarded because a company is a target risk. It is the suit that is filed that is due to the target nature of the firm, not the judgment. I would like to think that our judicial system is better than that!

My only hope is that Mr. Hoffman wrote his article tongue-in-cheek as some of your other authors have done.

Nestor R. Roos
Director, Safety Management Program, The University of Arizona, Tucson, Ariz.

Self-funding debate

To the editor: Re: the article April 2, entitled "Self-funded benefit boom draws concern." We also share the concern expressed in your article.

Self-insurance is a super con-

Continued on page 16

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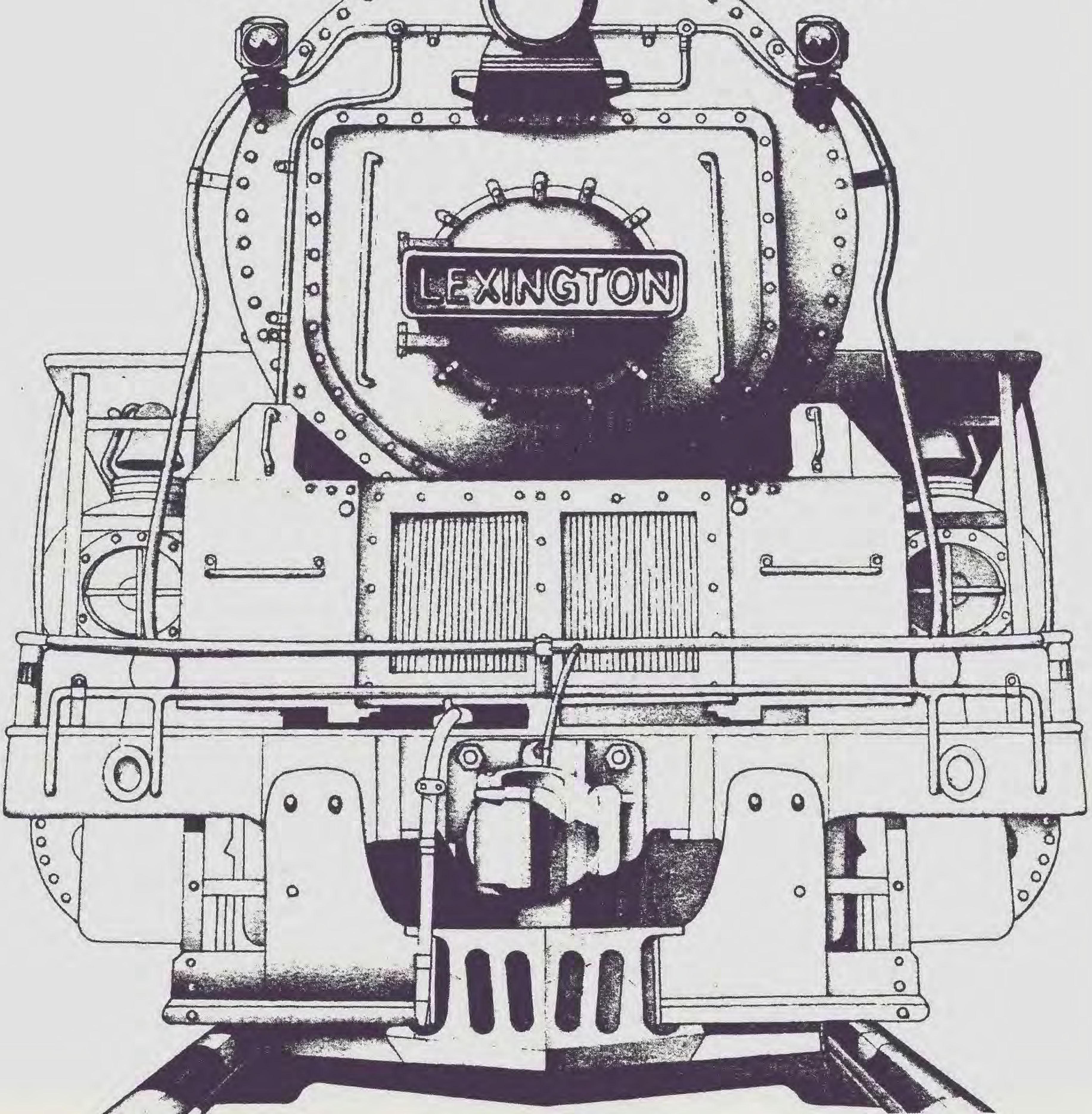

Letters column . . .

Continued from page 14

cept. The advantages are often great but—self-insurance may not be the best thing for everyone.

We fear that inexperienced promoters may be influencing the smaller (under 100 employes) and often unsophisticated (from an insurance standpoint) employers to self-insure without fully understanding the concept and risks involved. Quite frankly, for many small employers it doesn't make sense economically.

Back in the early 1970s the Lafayette Life was practically a lone voice in the wilderness promoting self-insurance and stop loss protection. Our primary market was employer groups with at least 150 employes. While we occasionally will write a group with less than 150 employes, the vast majority of our groups are considerably larger. The essence of self-insurance is that an employer should "budget for the predictable and insure the unknown." What might be predictable for the larger groups certainly becomes less predictable as the size of the group gets smaller. For an employer to gain a real benefit he must avoid trading dollars with the insurance companies. For smaller groups the expenses of administration, even with third-party administrators, plus the cost of the necessary stop loss protection with lower deductibles often will make the employer feel that any possible gains are just not worth the risk.

Again, self-insurance has many distinct advantages over a traditionally insured group health program. We support it and encourage it—for qualified groups. I just hope that others promoting it will honestly explain all of the pros and cons to the prospective buyer so that he can make an intelligent decision. I keep remembering that someone once said, "There's no such thing as a free lunch."

Steven P. Stucky, CLU
Group vp, Lafayette Life Insurance Co., Lafayette, Ind.

Wrong year

To the editor: I would like to call your attention to a misprint that appeared in *Business Insurance* on April 30, page 50.

The article entitled "Work Comp Costs Rise 20% a Year" cites the Chamber as stating that workers compensation cost employers $20 billion in 1977. In fact, however, we estimate that costs will approach $20 billion for 1979.

Eric J. Oxfeld
Associate director, employe benefits, Chamber of Commerce of the U.S., Washington, D.C.

Life insurer organizes property/casualty unit

MINNEAPOLIS—The Northwestern National Life Insurance Co. is entering the property/casualty reinsurance business and plans to start test sales of group auto and homeowners coverage by 1981.

Northwestern is setting up a separate company for the reinsurance and group business, which will be capitalized with $7.5 million, said John G. Turner, senior vp for group insurance. Officials hope the new firm, to be called NWNL Property/Casualty Insurance Co., can begin reinsurance business by July, as soon as it is licensed by Minnesota department of insurance.

The company will operate from Northwestern's main office here and will be manned with a separate underwriting staff, said Mr. Turner. The company will have a capacity of $20 million and it is looking for $1 million in premiums on reinsurance business in the first year of operation. It will not write direct property/casualty insurance.

No particular risks are in mind, said Mr. Turner. Business will depend on what is available among ceding companies. He mentioned, however, that building fire coverage, marine, product liability and other special risks are possible lines of business for the company.

The reinsurance firm will seek authority to do business in all 50 states, said Mr. Turner. "We have to go where the brokers and intermediaries are and most of that business is in the larger cities."

Northwestern already nets around $10 million yearly in reinsurance premiums through its life company, doing substantial business in catastrophic accident coverage.

Group auto and group homeowners coverage will be sold for the new reinsurance company beginning in 1981, marketed by Northwestern's existing group sales force, Mr. Turner said. "We see the opportunity for profit in the reinsurance business, but we feel there is also the opportunity for the marketing of our group auto and homeowners," he said.

The auto and homeowners package will be "true group" plans where all participants pay the same rate, he said.

The company will test market the coverage first before pushing any large-scale sales effort. "We'll start in Minnesota and a couple of other states where the regulatory climate and our presences in the group industry is strong enough to make the initial test," said Mr. Turner.

With Northwestern's substantial group insurance sales, the auto and homeowners coverage will probably be easily integrated into employe benefit packages, said Mr. Turner.

The company is also considering moving its group health insurance company into the new reinsurance firm from the life company, but no decision has yet been made, said Mr. Turner. He mentioned there are possible tax advantages to such a move. A life company is taxed on investment income, while a property/casualty operation pays only on the gains of its operations because investments are in tax free securities.

The company reported operating income for 1978 of $29.3 million, a 23.6% increase over the 1977 total of $24 million. Group and individual life insurance sales last year were $4 billion and the company had $22.5 billion in consolidated insurance in force last year, $3.2 billion more than in 1977. Assets stood at $1.6 billion at the end of 1978, $194 million more than the year before. ■

Fla. storm losses

Insured losses caused by wind, tornadoes and flooding which affected portions of Florida May 8-9 are estimated at $8 million by the American Insurance Assn. Heaviest damage occurred in Pinellas, Hillsborough, Polk and Volusia counties. This damage estimate does not include losses covered under the National Flood Insurance Program. Insurance Services Office assigned catastrophe number 98 to the storm.

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Lloyd's probes former Sasse syndicates

By JOHN H. MILLER

LONDON—Lloyd's has ordered an inquiry into the activities of all the insurance syndicates which have been controlled in recent times by troubled underwriter Frederick H. Sasse.

His Syndicate 762 has lost $27 million on U.S. and Canadian fire risks and computer leasing claims in a long-running story of problems which already goes back three years.

But in order to clarify its accounting position, there will be a probe into three other syndicates, one of which dealt with livestock cover, at the behest of Lloyd's.

This widens the work of Lloyd's underwriter Stephan Merrett, whose efforts to recover monies for some of the dismayed members of the syndicate have disclosed serious discrepancies in its accounts for the financial years 1976-77.

Mr. Merrett has agreed to continue the winding up management of the syndicate, which was suspended 18 months ago, so as to be able to help all concerned. Effectively, therefore, he has withdrawn his threat to quit this task, which he tendered alone.

The problem came to a head when the Lloyd's committee under chairman Ian Findlay offered a $14 million loan to tide the syndicate's members over their personal losses of $27 million on claims which have already been paid out for U.S. fire and computer leasing risks and Canadian fire exposure.

But Mr. Merrett felt this was not enough and announced that he felt obliged to cancel his contract to run the Sasse syndicate which he had accepted in May last year.

Lloyd's on the other hand argued that if it extended the "audit date" for the completion of Sasse accounts by two months to the end of July it would give more time to examine the situation and would allow breathing space for all.

There are reports of more lawsuits in the offing, with the troubled Sasse syndicate looking at the position of the Lloyd's broking group Brentnall Beard which introduced some of the controversial lines to it. In turn, Brentnall Beard intends to take action against some of the agents and subproducers in the U.S. who brought the risks to them through Den Har Underwriting Agency of Florida.

Dennis Harrison of Den Har is trying to get Brentnall Beard's claim against him for $2 million thrown out in the Florida courts, but his motion to deny the lawsuit on the ground that Brentnall Beard is a "foreign corporation" with no office in Florida will be resisted.

The troubled members of the Sasse syndicate, who feel responsibility for some of its affairs must rest with three of its principals to whom they were introduced by underwriting agents, are themselves forming an "action group" to protect their interests.

Joseph Benjamin, a U.K. financial expert, who has lost heavily in the syndicate told *Business Insurance:* "The Lloyd's rules are not good enough if we're suddenly facing enormous losses when we had no power to control the nature of the business, and that is why we think the extent of assistance so far offered us is not acceptable."

Sources at Lloyd's indicate that the syndicate was effectively being run during 1976 and 1977 when the losses mounted by Frederick H. "Tim" Sasse, a Lloyd's underwriter since 1951, Thomas Pierre Turnbull, a Lloyd's underwriter since 1949, and John Victor Scott, also at Lloyd's since 1965 as an underwriter.

Members face losses greatly in excess of their shares in it. For those with an average share of $80,000, their debts will amount to more than $300,000. Among the affected names is Princess Margaret's private secretary, Lord Napier, who stated that he does not yet know the size of his commitment.

But the difficulty is that many members of Lloyd's still believe the losses were due to bad underwriting judgment and so should be completely borne by its names in keeping with Lloyd's traditions. ■

Employers pay in Kennedy health care bill

By JERRY GEISEL

Insurers and employers are assigned roles in Sen. Edward Kennedy's new national health insurance bill.

WASHINGTON—Sen. Edward Kennedy's (D-Mass.) latest national health insurance bill gives a major role to insurers and employers, a significant departure from his previous proposals.

Even so, few predict the legislation will pass. Unlike his earlier measures in which benefits were to be provided by the federal government, Sen. Kennedy now wants employers to purchase a mandated benefit package for their employes from a "certified" group.

Meanwhile, President Carter was being urged by officials in his Administration to support a national health insurance plan that would cost about $20 billion a year—about $15 billion of it in federal funds and the rest coming from private industry. And others are promoting a proposal by Sen. Russell Long (D-La.).

Under the Kennedy plan, insurers and HMOs would have to join one of four consortia and meet more than 20 separate requirements. Employers who self-insure health benefits would also have to join one of the consortia.

Employes could be required to pay for up to 35% of the health insurance premiums; the exact percent would depend on the employe's income.

Comprehensive benefits provided under the Kennedy plan include full coverage for hospital care, physician services in and out of the hospital, laboratory services, ambulance services and medical equipment.

Costs of catastrophic illnesses, not defined in the bill, would be fully covered with no non-medical limits on the number of hospital days or number of physician visits to patients.

In addition, there would be limited benefits, also not defined, for drugs, home care, nursing home stays and mental health care.

If the plan were enacted, it would swell the federal budget by $28.6 billion annually, Sen. Kennedy said. The government would pay for coverage for the poor, the elderly and the unemployed.

Sen. Kennedy estimated the cost to employers of improving their benefit plans would be $11.4 billion. That's almost a third more than what employers paid for group health insurance in 1977, according to the Chamber of Commerce.

The Kennedy bill was endorsed by 65 interest groups representing labor, consumers, the elderly and religious and civil rights groups. AFL-CIO secretary-treasurer Lane Kirkland said the huge confederation of labor unions supported this bill because President Carter failed to fulfill campaign promises to enact national health insurance and now "we must go our own way."

The American Medical Assn. indirectly disputed Sen. Kennedy's cost estimate noting that the proposal would result in "huge costs." AMA executive vp James H. Sammons also charged the measure would lead to "rationing of health care services."

Sen. Bob Dole (R-Kans.) lambasted the bill. It would "cost the American taxpayer a great deal of money—unnecessarily—either directly through taxes or indirectly through higher costs for premiums or services," he charged.

But Sen. Jacob Javits (R-N.Y.) saluted the bill for "recognizing the important role of the private sector," and for its minimal impact on the federal budget.

Health, Education and Welfare secretary Joseph Califano said he supported the bill's introduction, but he cautioned that a health bill needs very broad support to have any chance of passage.

Most observers doubt that the Kennedy bill has a realistic chance of passage. But Sen. Dole predicted that Congress will approve legislation introduced by Sen. Long that would provide everyone with protection against "catastrophic" medical and hospital bills.

Under Sen. Long's bill (S.351), employers would have the option of purchasing catastrophic insurance from either private insurers or from a public plan. The insurance would cover all medical and hospital expenses that exceed $2,000.

The catastrophic health insurance program would be financed through a 1% payroll tax on employers. Employers who choose to buy coverage from private insurers would subtract from their 1% payroll tax liability the premiums paid for the catastrophic insurance policies.

Meanwhile, under one plan that has been submitted to President Carter, federal expenditures for the Medicaid program would be boosted by $12 billion to standardize and improve benefits. Medicaid provides health insurance coverage for the poor.

In addition, employers would be required to beef up their group health insurance plans to provide coverage for catastrophic illnesses. This requirement could add $5 billion to employers' health insurance premiums.

These options, along with several other features, would make up the first phase of the Administration's national health insurance program.

HEW secretary Joseph Califano said last summer that the Administration's national health insurance plan would be designed to be phased in gradually rather than being presented to Congress to be enacted in one big swoop because of political and economic considerations. ■

Advocates concede

Government can't pay full national health tab

WASHINGTON—National health insurance advocates today believe that the government should only provide a portion of health insurance benefits, an employe benefits expert says.

Contributing to the disenchantment with a full-fledged national health insurance program, at least within bureaucratic ranks, has been the administrative hassles encountered with the pension reform law, says Steven Schanes, president of the San Diego, Calif., consulting firm bearing his name.

Concern for run-away costs, recognition of improved employer-paid plans and political upheavals, such as the Watergate scandal, also quelled demand for full-scale national health insurance, he says.

Prior to the early 1960s, national health insurance (NHI) was envisioned as a federal takeover of the private health insurance system in which the government would provide comprehensive benefits to the entire population.

But in a fundamental shift over the last 15 years, NHI backers now see the government as a provider of benefits to persons who lack adequate health insurance rather than as a sponsor of a universal, mandatory plan.

This new, sharply limited view of the role of federal government in NHI reflects the fear that the huge cost escalations of other federal programs, such as Medicare, might be repeated in a comprehensive public program, according to Mr. Schanes.

Speaking before a Washington conference sponsored by the International Foundation of Employe Benefit Plans, Mr. Schanes said that before the mid-60s the debate surrounding NHI involved methods of financing and the range of coverage, rather than the extent of government participation.

In those days, most frequently discussed were how NHI should be financed and whether benefits would be provided throughout an individual's life. Generally, coverage was expected to be from cradle to grave, Mr. Schanes said.

But during the years of the Nixon Administration, the debate began to take a different focus. Employers were beginning to make enormous improvements in their group hospital and medical plans, reducing the pool of Americans unprotected against health care bills.

At the same time, the costs of other federal health programs,

Continued on following page

Advocates concede . . .

Continued from previous page
such as Medicare, which provides benefits to persons over 65, began to climb out of sight. Policymakers began to question whether the government had the resources, at a time of mounting inflation, to underwrite a massive new program.

As a result, Nixon staffers scaled back the scope of an NHI proposal, so that only the poor would receive federal health insurance benefits or subsidies. Under the Nixon Federal Health Insurance Plan, benefits only were to be payable to families with incomes of less than $4,800.

The Nixon plan, which also required employers to offer certain benefits, was very complex and self-defeating, said Mr. Schanes, who worked in the Commerce Department at the time.

While the Nixon lower-income health insurance plan never got off the ground, the Nixon years marked the beginning of a massive infusion of federal dollars to expand the number of prepaid health centers or health maintenance organizations (HMOs).

"All of a sudden, millions of dollars were available for starting HMOs," Mr. Schanes said. Some of those early HMOs turned out to be very good, while other HMOs proved disastrous and collapsed, he added.

Discussion of NHI and other health issues, though, came to a halt as the Nixon Administration and the country became increasingly distracted by Watergate.

With the election of Jimmy Carter in 1976, NHI once again became an issue. But by then, the enthusiasm of the Department of Health, Education and Welfare, a key backer of NHI, began to wither as it witnessed the problems the Labor Department and the Internal Revenue Service had in administering the pension reform law, Mr. Schanes said.

"Under ERISA, we learned the limitations of federal intervention and regulation of private industry. That had a quieting effect on the drive of HEW to take over the health care delivery system," said the former director of the Pension Benefit Guaranty Corp.

At the same time, President Carter's original commitment to NHI waned as potential costs mounted. Like former president Nixon, Mr. Carter wants a comprehensive health protection plan, but only if the government provides just a portion of the benefits, Mr. Schanes said.

Even Sen. Edward Kennedy (D-Mass.), the country's leading advocate of NHI for the last decade, now recognizes that soaring costs and improved employer sponsored health insurance plans have reduced the need for a mandatory government plan.

For example, Sen. Kennedy's latest NHI proposal leaves a significant role for private health insurers, a sharp departure from his earlier bills which would have eliminated insurance company participation in providing benefits. ■

HEW awards 2 grants to Conn. HMOs

STAMFORD—The Department of Health, Education and Welfare has approved grants for two organizations seeking to establish HMOs in Fairfield County here and is considering an application from an existing independent practice association for funds to upgrade into a federally qualified program.

Should all three ventures prove successful, the number of federally qualified HMOs in the county would quadruple.

Fairfield County is a rapidly growing corporate headquarters center and one of the most affluent sections of the United States.

At present, Connecticut Health Plan, a staff model facility, is the sole federally qualified HMO in the county. Bridgeport and Stamford are the two largest population centers in Fairfield County, connected by a 25-mile stretch of the Connecticut Turnpike.

Southern Connecticut Community Health Plan has been awarded a $1.5 million development grant from HEW. The organization, which is affiliated with Westchester Community Health Plan of White Plains, N.Y., is seeking to establish a staff model HMO here.

After two years of operation, the Westchester County HMO has attracted 15,000 members and is already operating on a break-even basis.

Several Connecticut employers, including Pitney Bowes, Xerox, American Can and Olin Corp., presently offer the Westchester plan to their employes living there and it is expected they will also offer the Southern Connecticut plan once it becomes fully qualified.

Approximately 6,000 persons are projected to enroll in the Southern Connecticut plan in its first year.

HEW also awarded a $150,000 planning grant to Greenwich Health Management Institute, which is seeking to establish an independent practice association in Greenwich. Greenwich Health Management Institute originally sought to establish a staff model HMO, but changed its posture because of the Southern Connecticut plan's presence.

Under federal law, employers are required to offer to employes participation in one federally qualified staff model HMO and one federally qualified independent practice association model HMO.

Meanwhile, Physicians Health Services Inc., an existing independent practice association serving Bridgeport, is awaiting notification on a $454,000 HEW grant that would allow it to upgrade into a federally qualified facility. ■

Cravens Re opens

Cravens Re, a new property facultative reinsurance market headquartered in San Francisco, has opened its doors. Highlands Insurance Co. of Houston, part of Halliburton Group, is the issuing company.

Cement companies set Bermuda captive plan

By JERRY GEISEL

HAMILTON, Bermuda—Ten cement manufacturing companies have banded together to form a new Bermuda group-owned insurance subsidiary to provide a stable market for their liability coverages.

Portland Assurance Ltd. (P.A.L.) will offer policyholders up to $1 million of primary coverage for workers compensation, general liability and automobile liability.

Primary policies will be issued by Ideal Mutual Insurance Co. of New York, which will retain some of the risk and reinsure the rest with P.A.L.

Various deductibles are available with the size of the deductible individually negotiated. In addition, policyholders can purchase up to $10 million of umbrella coverage through J.H. Blades & Co. Inc. in Houston, P.A.L.'s on-going consultant and coordinator.

Interest in P.A.L. began about two years ago when cement manufacturers were hit with big price

Product liability premiums increased by multiples, says J. H. Blades vp Bill Yeargan.

hikes in their product liability and umbrella coverages. "Product liability premiums were increasing in multiples in some cases," recalled Bill Yeargan, vp at J.H. Blades.

In the fall of 1977, Wyatt Co. was retained by the cement manufacturers to come up with an alternative to those rising liability insurance costs. After surveying participating companies' insurance costs and claims experience, Wyatt Co. found that a group-owned insurance company would help stabilize premiums and provide cash flow benefits.

During P.A.L.'s first year of operations, the annual premium flow should hit $2 million, Mr. Yeargan said. By the end of P.A.L.'s fifth year, the premium flow could be as much as $7 million or $8 million coming from 20 policyholders.

Premiums are expected to range from $150,000 to $1 million. The average premium probably will be about $400,000, Mr. Yeargan said.

Policyholders' claims will be adjusted by General Adjusting Bureau. Ideal Mutual will supervise the claims. Blades Management Co. of Hamilton, Bermuda, is managing P.A.L.

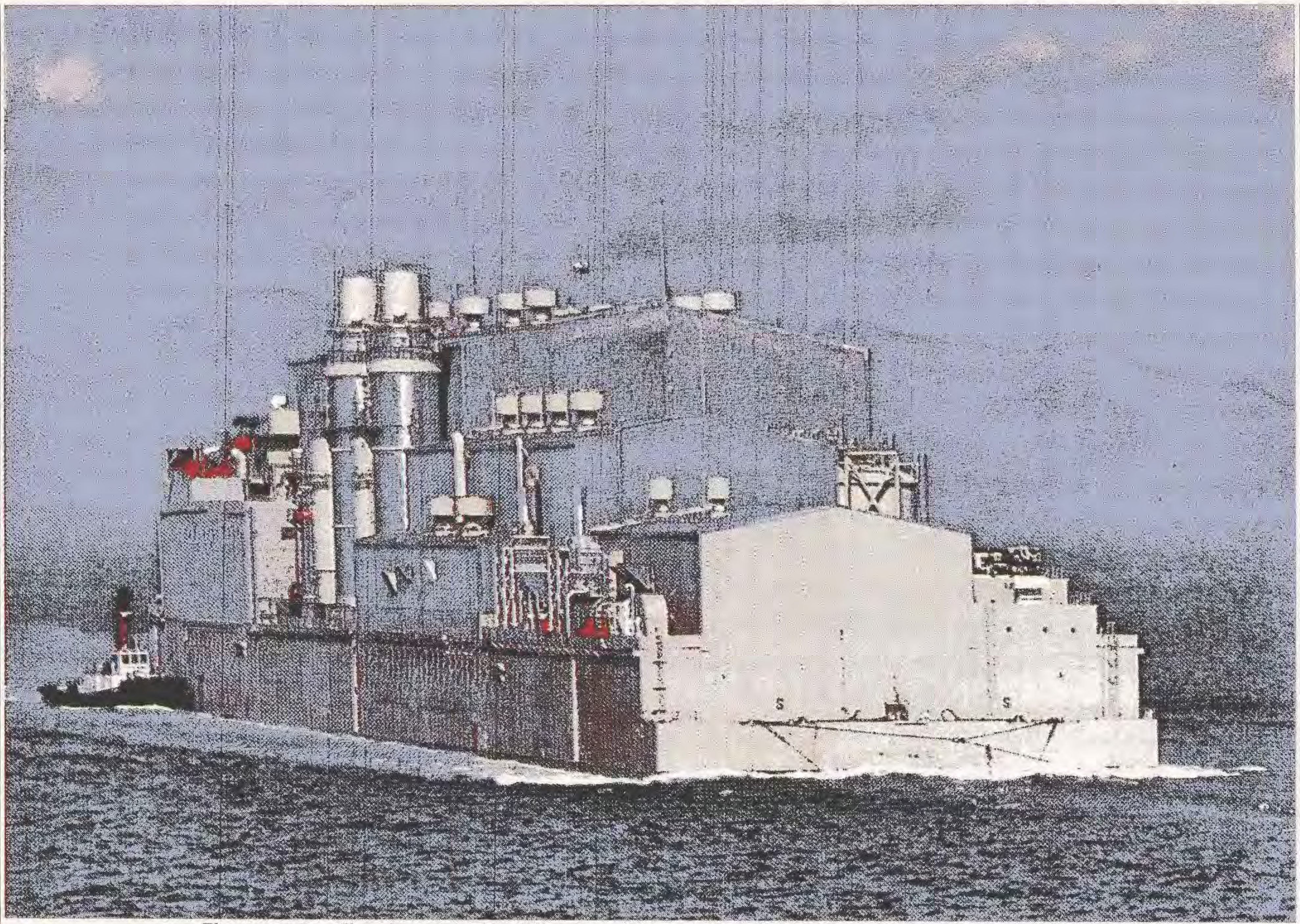
Initially, policyholders' premiums will be based on standard rates. However, premiums will be adjusted as policyholders' loss experiences unfold. Dividends will be available to reward companies with good loss records.

Cement manufacturing companies who join P.A.L. may be able to slash their liability insurance costs by 15% to 20% after three or four years, Mr. Yeargan said.

While premium savings should not be overlooked, the most important function of P.A.L. will be its ability to offer a stable, reasonably priced market able to provide the amount of coverages that the cement manufacturing companies need, Mr. Yeargan added.

Companies whose cement manufacturing sales comprise at least 50% of their total sales are eligible for P.A.L. primary and umbrella coverages. For companies whose cement manufacturing sales are less than 50% of total sales, the primary program is available only and then only, for the firms' cement manufacturing divisions. ■

Courtesy, Ishikawajima-Harima Heavy Industries Company Limited



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House panel approves pension insurance delay

WASHINGTON—The House Education and Labor Committee has approved legislation (H.R. 3915) to defer for 10 months the date the Pension Benefit Guaranty Corp. (PBGC) must guarantee benefits to members of terminating multiemployer pension plans.

Under the bill, introduced by Rep. Frank Thompson (D-N.J.), the PBGC would not be mandated to insure multiemployer pension plans until May 1, 1980. Currently, the PBGC is slated to begin mandatory coverage of multiemployer plans July 1.

Rep. Thompson said the delay in mandatory coverage is needed to give Congress sufficient time to review PBGC's long term solution for guaranteeing benefits of collapsing multiemployer plans.

Under PBGC's proposal, which was introduced in Congress earlier this month, premiums the agency charges multiemployer plans for termination insurance would be boosted gradually over a five-year period until they hit $2.60 per participant annually. The current premium is 50 cents per participant.

In addition, participants of terminating multiemployer plans would be guaranteed 100% of the first $5 per month per year in vested benefits and 60% of the next $15 per month per year in vested benefits. Currently, the PBGC has discretionary authority to pay monthly benefits of up to about $1,000 to members of a folded plan.

The new benefit guarantees would effectively limit PBGC's maximum monthly payout to between $500 and $600, but most payouts are expected to be lower.

For example, under the service-related formula, PBGC would provide a benefit of $350 per month for a participant with 25 years of service and $462 per month for a participant with 33 years of service.

Furthermore, the PBGC proposal would allow a plan in financial trouble to freeze benefits and reorganize rather than terminate.

The termination insurance rate hike and the reduction in guaranteed benefits are intended to ensure that the PBGC has sufficient assets to pay benefits for the expected rash of terminations of multiemployer pension plans.

A PBGC study found that about 2% of all multiemployer plans are experiencing "extreme financial hardship." ▪

Senator wants to dump pension reporting rule

WASHINGTON—Sen. Lloyd Bentsen (D-Texas) has renewed his drive to simplify the pension reform law by introducing legislation (S. 1089) that would relieve employers of the current requirement for distributing annual summary reports to plan participants.

The bill would also give taxpayers the option of filing annual pension reporting forms at the time they file their annual income tax returns. Currently, these forms must be filed no later than nine months after the close of a plan's year.

Furthermore, the legislation would require the Internal Revenue Service to prepare a guide to assist small firms in keeping accurate pension records.

While plan sponsors no longer would be required to distribute summary annual reports to plan participants, they would have to post an outline describing the plan and giving the name of a corporate official who could provide additional information about the plan. A statement explaining participants' rights under the plan would have to be included.

In calling for the elimination of the summary annual report, Sen. Bentsen noted that employers have found it costly to annually furnish this information about plan assets and investments. He also said that employes have not found the summary annual report useful.

However, employe interest groups, such as the Ralph-Nader-backed Pension Rights Center, insist that summary annual reports be retained so that plan participants can be in a position to determine if their contributions are being invested in their interests.

Sen. Bentsen introduced similar legislation during the last session but it failed to get congressional approval. The new bill now goes to the Senate Labor and Human Resources and Finance Committees. ▪

N.Y. firm pays in pregnancy plan beefs

ROCHESTER, N.Y.—Twenty-six women employed at Rochester Telephone Co. won a $40,000 settlement and a promise from their employer that pregnancy benefits will now be paid at the same level as the company's other disability benefits.

The settlement came after the women filed a discrimination complaint with the state charging that the company had been illegally denying them proper pregnancy benefits. They claimed that the company was circumventing an August 1977 state law that requires employers to treat pregnancy as they would any other temporary disability. It also specifically set minimum benefits for pregnant employes.

The company, which will pay settlements ranging from $4,667 to $714 out of its self-insured disability insurance fund, had for the past year only been providing pregnant employes with those benefits strictly mandated by the state law: eight weeks of half pay for normal pregnancies and up to 26 weeks for cases with complications.

But the state's Human Rights Division had ruled in January that the company was required by law to provide the same level of benefits as it would for any other disability, which, depending on an employe's years of service, might have been as much as double the state's minimum.

A spokesman for the telephone company said it now is following these state guidelines and offers the same level of benefits for all disabled employes.

The earliest of the claims against the company were filed in 1975, when the company was not paying any disability benefits at all to women with normal pregnancies, just those who had complications.

About two-thirds of the company's 4,600 employes are women. ▪

Firms undo joint office in Bermuda

HAMILTON, Bermuda—Hanna Mining Co. is digging deeper into the captive insurance company business, chipping out its niche as an owner of a captive management company as well as three captives.

But in the process, it has broken long-standing ties here with Cargill Inc. and Cargill's insurance subsidiary, Horizon Insurance Co. And Hanna has hired Horizon's staff to run its new management company.

"There's no animosity or ill feelings," says Hanna Mining's assistant treasurer Duane Allen. "We had different interests," says Irv Hyland, vp of the administration division of Cargill.

The different interests essentially were Hanna's desire to expand its Bermuda operations into captive management and Cargill's desire to solely own its management company.

Altamid Management Co. was formed last fall by Hanna to formalize an informal captive management program that had developed over the last nine years in Horizon's office here.

Hanna and Cargill had maintained a jointly funded office in Bermuda since 1961, which at first managed the business of steamship companies and trading companies. Cargill formed its captive in 1963, the first formed by Fred Reis's International Risk Management. Cargill's Horizon set up shop in the Bermuda office and Hanna's insurance subsidiaries followed suit in 1970.

"We cost shared," Mr. Allen explained, with Horizon billing Hanna Mining for the time of its staff and office facilities. The group-owned captive CIRCL that Hanna is part of also set up shop in Horizon's office on the same basis.

Part of the impetus to forming Altamid was the desire of the directors of CIRCL (Captive Insurance & Reinsurance Co. Ltd.) to have a "formal contract, so we had to form a management company to satisfy their desires," noted Mr. Allen. When Hanna formed Altamid, "we proposed Cargill take 50% ownership," Mr. Allen said. "They declined." After nine months of negotiations, Cargill formally announced this month it wanted no part in Altamid.

"Horizon Insurance Co. always provided administrative services for Oceanview and Erieview," said Cargill's Mr. Hyland. "When they got into CIRCL, they needed a management company. We didn't have the same emphasis as they."

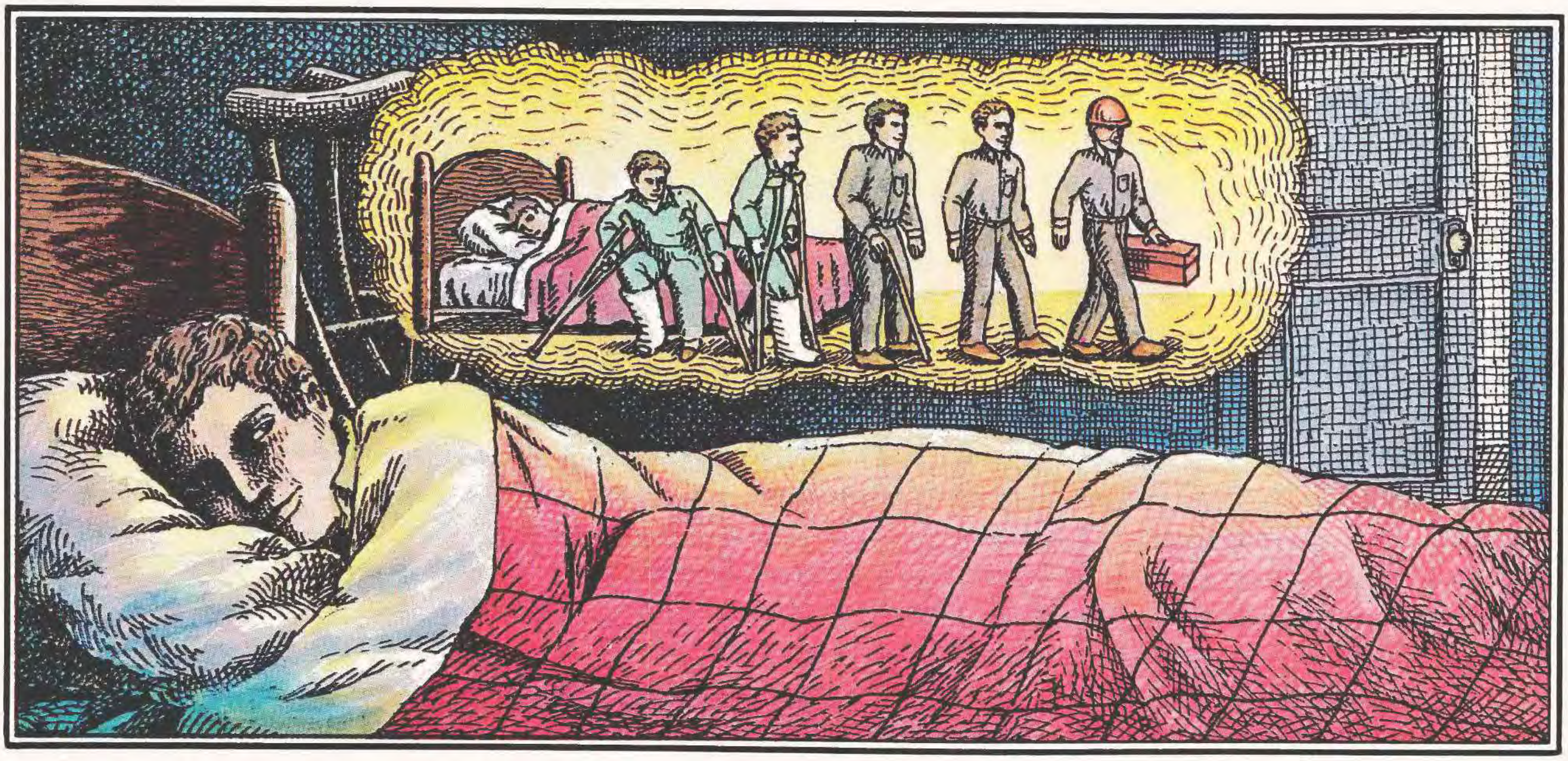
Horizon is not one of the 12 members of CIRCL.

"We are starting our own management company for Horizon," said Mr. Hyland. But Cargill, unlike Hanna, has no intention of managing other captives. Horizon is "a good sized company," Mr. Hyland says, with $20 million in assets and underwriting 70% to 80% of its business for third parties. Its insurance of Cargill ventures is mostly restricted to international operations, with Cargill's domestic operations insured in a Minnesota-based counterpart.

The five-person staff at Horizon, however, has chosen to stay with Hanna Mining to run Altamid, with Richard S. Thompson the managing director.

Hanna's investment in Altamid is $12,000. "It's not much and it gives us the formalized ability to provide contract management services to other companies," says Mr. Allen. "We hope to manage 20 companies eventually." ■

The Economics



Getting injured workers back to work is proving its worth in economic as well as human terms. The dollar benefits are increasingly apparent as more companies self-insure workers' compensation.

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

Many companies report that workers' compensation has become their highest property and casualty insurance cost. Added to the impact of increasingly liberal state laws and court settlements is the cost of injured workers who are slow to return to work or who do not return at all. A worker at home for life today could well draw total benefit payments of a quarter of a million dollars.

Beyond physical rehabilitation, vocational rehabilitation – making it possible for injured workers to return to gainful employment – is becoming increasingly important in answering this problem. Every dollar spent on rehabilitation can save as much as $10 in claims payments when a worker is reemployed. This recognition has spurred more corporations to utilize vocational rehabilitation, while several states have mandated it as part of their workers' compensation laws.

The dollar savings are particularly apparent to the increasing number of companies that self-insure workers' compensation. While a company that relies on an outside insurer will probably experience a premium savings if workers return to work more rapidly, self-insurers feel the economic benefit directly.

Moreover, benefits can extend beyond workers' compensation. For example, companies that self-insure automobile fleet coverage gain when employees injured in company vehicles are rehabilitated quickly. And firms providing long-term disability coverage also gain if employees who are incapacitated off the job return to work sooner.

A coordinated effort

Rehabilitation is most effective when the "whole person" is treated. Psychological counselling may be needed to reassure the patient about his or her ability to return to work and restore

# of Rehabilitation

the motivation to do so. And the patient's family should be urged to lend its encouragement.

The attending physician must be consulted to assess the injured's work capabilities. And, of course, the employer's cooperation must be solicited. Ideally, it will be possible for the recovered worker to return to the same or a related job, perhaps with a modification of work conditions. Many corporations now assign specific staff people to assist injured workers' reassimilation into the company.

It may be necessary, however, to find a new employer. And in severe cases, vocational training will be needed to prepare the disabled worker for a different kind of work.

Minor injuries–major cost

Severely injured workers obviously require an early rehabilitation response. But neglecting seemingly minor accidents – far larger in number, of course – can also be costly in the long run. Lower back strains, for example, too often turn into long-term disabilities. As the recovery period stretches out, the injured worker loses contact with the employer and can all too easily become resigned to staying home.

In fact, rehabilitation as a routine consideration for all accident victims is prudent company policy. While every case is unique and guidelines are difficult to establish, a worker in the hospital for more than ten days or not back on the job in six weeks should be considered a possible candidate for rehabilitation.

Experienced professionals are needed to develop and carry out rehabilitation programs that may involve doctors, therapists, vocational schools and employers, as well as patients and their families. While some insurance companies provide such services, most rehabilitation work is now being done by firms specializing in them.

Employee rehabilitation is an area in which INA has long had a particular interest, both as an insurance company directly involved in compensation claims and as the parent of a company specializing in this field, International Rehabilitation Associates. IRA provides rehabilitation services to all insurance companies, self-insured companies, governmental bodies and other clients.

* * *

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance and financial service companies. In property and casualty insurance and risk management services, life and group insurance, health care management, and investment banking, INA and its affiliated companies offer a unique combination of products and services to business and industry around the world.

INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on employee rehabilitation, write INA, 1600 Arch Street, Philadelphia, Pa. 19101.

Are the handicapped good insurance risks?

Many employers worry that rehabilitated employees with reduced mobility will have further accidents and raise insurance rates. Actually such employees are more careful and, when placed in proper jobs, have fewer accidents than workers generally. One major U.S. employer, for example, reports that 96 percent of its handicapped employees rate average or better in their safety records, both on and off the job.

INA
The Professionals

PERSPECTIVE

Self-insureds keep reserves under tough accounting rule

By Mike Shannon

MUCH HAS BEEN WRITTEN in this publication and elsewhere in recent years about the accounting rule known as Financial Accounting Standards Board Statement Number 5 (FASB No. 5). Recently, the FASB announced that it was going to review all its rules that have been in effect for some time. This review would be a basis for possible changes. Before we all leave for the Stamford, Conn. home of the FASB to picket, one more review of FASB No. 5 would seem to be in order.

Why do we have a FASB No. 5 in the first place? The FASB and the groups that went before it (Accounting Principles Board), have given substantially all their attention to specific issues. Sometimes this was in response to new circumstances such as passage of the investment tax credit in the early 1960s. More often, attention was directed to some alleged abuse or inconsistency between companies' reports. Little attention was given to such basic issues as what is a cost or when it should be recognized or how it should be measured.

As reported earnings and stock market performance became more important to company management, the desire for smooth earnings became greater. Management, supported by many financial analysts, felt that a company with stable or level earnings growth and no surprises would be rewarded by the stock market with high share prices.

Conservative motive

Companies that had a very good year would "put something away for the rainy day" by establishing all kinds of reserves for future possible problems. When the slow year came, the reserves would be used to level income. Companies that had a very bad year would also set up reserves for the future on the theory that the stock market didn't pay much attention to various shades of very bad. Companies might set up a reserve to cover costs they could incur if they later decided to close a division that was doing poorly. Or they might establish a reserve to cover future expropriation of foreign assets or future changes in currency rates.

In the same vein, some insurance companies established catastrophe reserves. These were designed to cover that significant trauma that occurs infrequently and were in addition to their normal reserves based on claims incurred. Each company determined its catastrophe reserves in its own way and this might change from time to time. Many carriers had no such reserves.

All of this accounting seemed to be supported by the accountants' traditional postulate called "conservatism." This encouraged the accountant to "recognize all losses but anticipate no gains." In effect, less was better when it came to reported income. However, comparisons between companies in this environment were impossible because there was no objective way to tell how conservative each had been. Worse, their degree of conservatism could change from year to year in ways that were hard for anyone to detect.

Self-insurance was not much considered in connection with FASB No. 5. Insurance premiums had not reached the relatively high levels of recent years, except in a few minor cases. Employe benefit plans were often less comprehensive and thus less costly. Most types of insurance coverage, such as product liability, workers compensation, medical, general liability and property damage were generally available at rates management considered reasonable. Policy deductibles were usually so low as to be insignificant in relation to company financial statements. The concept of professional risk management had just begun to develop.

Generalized reserves

Along came FASB No. 5. In the four years since its passage, it has brought many of the planned changes in company financial reporting. Generalized reserves for possible future problems have been eliminated. Likewise for catastrophe reserves of casualty insurance companies. The company that wants to set up a reserve for the loss it might suffer on the sale of a weak division, if it later decides to sell it, or to cover assets in some distant land with uncertain politics, cannot do so.

In that same time period, the retention by many companies of risks previously insured has become widespread. The many techniques and reasons have been well described in *Business Insurance*. With the rise in risk-retention has also come a parallel rise in confusion about the related effect on company financial statements.

FASB No. 5 sets up certain criteria for when a liability or loss in value of an asset should be recognized. Basically, the rules say that a liability will be recorded when, and not before, sufficient events have occurred to indicate that it is "highly probable" that a loss has occurred. When the weight of the evidence is only that a loss is possible, no liability can be recorded in the financials, but footnote disclosure is required.

When the facts support a conclusion that the existence of a loss is "remote," neither recording a liability nor footnote disclosure is appropriate. When it is highly probable that a loss has occurred, but it is not yet possible to determine the exact amount, the minimum amount is recorded. The difference between the minimum and maximum is treated as a

Continued on page 36

Mike Shannon is a CPA with Arthur Andersen & Co.'s business products division in Chicago.

FASB No. 5 sets up certain criteria for when a liability or loss in value of an asset should be recognized. Basically, the rules say that a liability will be recorded when, and not before, sufficient events have occurred to indicate that it is "highly probable" that a loss has occurred.

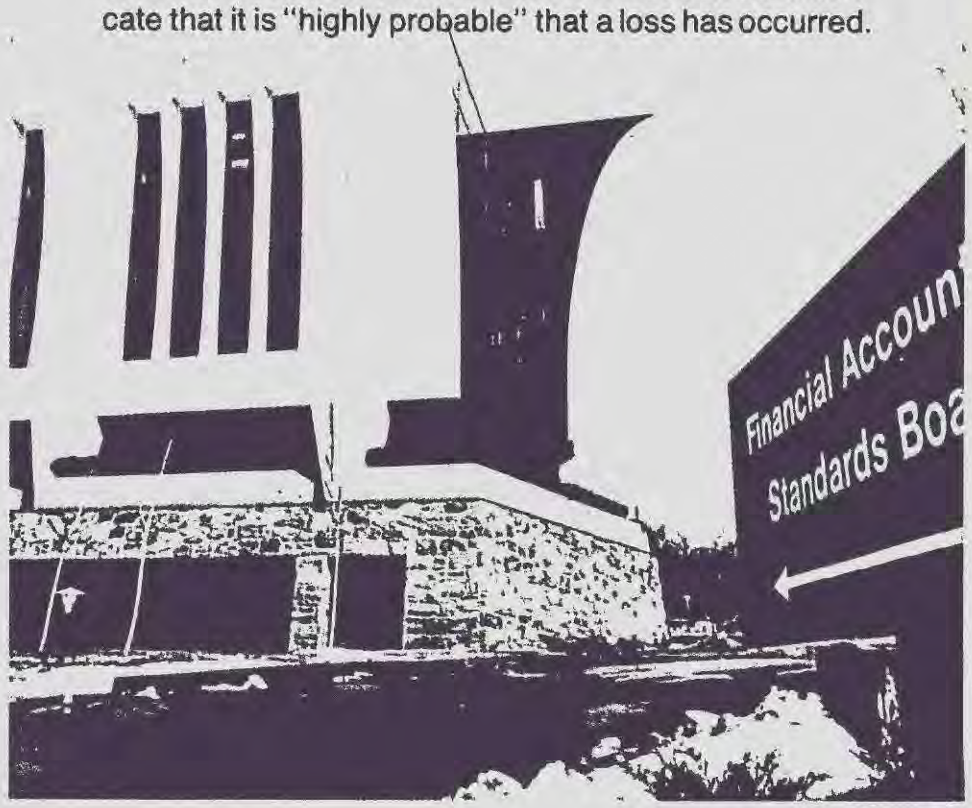


Photo: FASB

Reserve restraints don't make sense, complains risk exec

By Don M. Stuart

IT'S QUITE A WHILE now since I've heard anything about FASB 5. Not being an accountant and also being a Canadian, I never felt that I understood precisely what it was all about. However, the key point that seemed to be at issue was that the accounting fraternity did not accept the principle that a corporation could reserve against some fortuity that had not taken place. And as a practicing risk-insurance manager for quite a number of years I always did take violent exception with that thinking. The whole thing came up quite recently when I was having a discussion with a former colleague.

I retired in June of last year from the one company I ever worked. When I first became involved in the insurance scene about three decades ago, there was a very interesting "provision" account on the books, called "engine, flywheel and compressor self-insurance." It was mid-five-figure size and consisted of funds set aside over a number of years. This was at the time when this kind of machinery was used in the refrigeration center, with a piston steam engine driving a huge flywheel, in turn powering the refrigeration compressors, the whole thing connected by many feet of wide, heavy leather belting. It was a hedge against machinery breakdown, which was not insured then—and never has been.

As we set our ideas into motion into the broader field of self-assuming by means of deductibles we kept on accumulating $10,000 annually in this provision. Tax considerations were not a part of this—it was recognized that such funds could not be "put away" without paying taxes.

Back then the insurers would tell you that if they paid out more than 65 cents of every dollar the insured paid in premium, they were losing money; 35% went into all of the costs involved in the selling, overhead, taxes and whatever else ate into the premium dollar. Like many other companies, we decided that for basic losses we might as well pay the actual claims (and the adjustment expenses) as they occurred. From the first venture into this area more than 20 years ago, we never looked back.

But as bigger deductibles or areas of non-insurance were adopted, the need for a bigger provision became more and more evident. Canada Packers now self-assumes: motor vehicles liability for the first $250,000; motor vehicle physical damage in full; property for $100,000 of every claim, and insurance on ACV basis; business interruption for $500,000, and product liability for $250,000. The company purchases no crime coverages other than fidelity bond; no coverages beyond fire and extended perils; no coverage for machinery breakdown and only limited coverage on pressure vessels, and generally no aggregate or stop-losses.

We calculated that to do these things we should continue to add to the provision. It is possible to forecast the kind of exposures that could band together into a number of that could band together into a number of potential losses within a given period of time, necessitating some substantial reserve. When I left this package to a successor, we had this provision at $750,000 and approval to increase in an orderly fashion to $1 million.

If the accounting experts are going to take issue with this kind of operation, how can they realistically allow the insured to buy insurance? That is doing the same thing—simply hedging against the possible loss in the future by transferring the risk to an insurer.

But look at the statistics. In 1977, the results for the insurance business in Canada showed total premiums earned of $5.4 billion, and net claims and adjustment expense of $3.7 billion. More than $1.7 billion of the premium went into the expense factors.

These demonstrate that the corporation should be self-assuming everything it can reasonably afford. And it has to do its risk management "thing" in a way that makes reasonable certainty out of uncertainty. The proposals that have been introduced in at least two bills that I have read that would permit an insured to set up reserves within the income tax structure as provisions against future loss should receive resounding support from any forward-thinking business. With reasonable controls to assure that the funds are used only for the purpose intended, it has to be the way to go. When will it all get off the ground? ▪

Don Stuart, retired from risk management at Canada Packers, took time out during a vacation to pen these comments.

PERSPECTIVE

Proposed tax rules bestow new estate planning options

By Steven N. Schrenzel

ON FRIDAY, MARCH 2, 1979, the Internal Revenue Service released proposed rules affecting the estate and gift tax treatment of lump-sum distributions from qualified pension and profit sharing plans including Individual Retirement Plans, Keogh Plans and corporate plans. This article is limited to the impact of these proposals on corporate plans.

Our focus is on the problem that the proposed regulations will create for employe benefit managers and other advisers. Our intent is to encourage those concerned with administering and contributing to these funds to provide the IRS with guidance. (Comments on the proposed regulations were supposed to be submitted before May 1, 1979.)

The proposed regulations implement various provisions of both the Tax Reform Act of 1976 and the Revenue Act of 1978. The proposed regulations affect the estates of decedents dying after Dec. 31, 1976. There are specific transitional rules governing the estates of decedents dying after Dec. 31, 1976 and before Jan. 1, 1979.

Under the Tax Reform Act of 1976, estates of decedents dying during 1977 and 1978 were permitted to exclude from the decedent's gross estate payments in a form other than a lump sum distribution from a qualified pension, profit sharing or other qualified plan.

Lump sum payments

A lump sum distribution is payment of all benefits payable with respect to a decedent within one taxable year. Lump sum or other payments could be provided by election of the participant or the beneficiary. A lump sum distribution from such qualified plans, however, had to be included in the calculation of the gross estate. This was a recognition of the favorable income tax treatment enjoyed by the beneficiary recipient of such a lump sum distribution.

The Revenue Act of 1978 broadens the available exclusion. For estates of decedents dying after 1978, a portion of lump sum distributions may be excluded from the decedent's gross estate. Any such exclusion is conditioned, however, on the prior filing by each beneficiary of a binding election under Code Sections 402(a) and 403(a) to forego the favorable income tax treatment otherwise available. The beneficiaries cannot treat the distribution as a long term capital gain or utilize the 10-year averaging provisions under Section 402 of the Code.

Sample calculations

If for example, only one beneficiary of several files such an election, only that beneficiary's lump sum distribution will be considered in calculating the exclusion from the gross estate. If all beneficiaries file an election, the total distribution will be excludable from the gross estate, except for amounts attributable to employe contributions, if any.

The new proposed gift tax regulations also exempt from gift tax the distribution attributable to the employer's contribution.

The high earner who has a large balance in a qualified plan account must frequently decide which type of distribution would be most advantageous for his or her estate. Sometimes a beneficiary will have the election and similar considerations will enter into the decision making process. Assuming that the taxpayer is married and filing a joint return, the sample income tax rates in Chart I would apply while the taxpayer is working and in many cases in the year of death.

Even after the plan participant dies, it is reasonable to expect that the surviving spouse will remain in a relatively high income tax bracket. For purposes of analysis tax bracket assumptions should be made to provide a reasonable basis for calculating income tax liabilities for the beneficiary.

Estate taxes are relatively low and do not exceed 48% (the present maximum tax on earned income) until such time as the taxable estate approaches $2 million.

Sample estate tax caculations and also sample income tax calculations could determine the desirability of taking a lump sum distribution, which will be includable in the estate but treated favorably from the income taxation standpoint as opposed to electing to make it partially excludable from the gross estate, with the resulting loss of favorable income tax treatment. We suggest that such a calculation be undertaken before the form of distribution is elected.

In analyzing possible alternatives, it is also essential to consider the beneficiaries' substantial non-tax reasons for electing a lump sum distribution:

- The plan may not provide periodic payment options that are flexible enough to meet the personal goals of beneficiaries.
- Plan investment experience may be unfavorable and the beneficiary may feel that a better yield is available elsewhere.
- Psychological reasons including the desire to have control over the funds may motivate selection of a lump sum distribution.

Annuity option

The purchase of an annuity is a possible alternative. Many plans contain provisions that allow distribution of annuities which are specifically excluded from the definition of a "lump sum distribution." The flexibility and high yield currently available from major insurers in what are referred to as terminal funding products may make annuities a desirable investment. The purchase of an annuity may result in income tax benefits by deferring substantial withdrawals and at the same time may preserve the estate tax exclusion.

In most cases it is not appropriate for benefit managers to personally counsel plan participants on the appropriate method of withdrawal and on the appropriate beneficiary designations. It is, however, important

Continued on page 36

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Chart I

Taxable Income	Federal Income Tax	Rate On Excess
$ 3,200	—	14%
4,200	$ 140	15%
5,200	290	16%
6,200	450	17%
7,200	620	19%
11,200	1,380	22%
15,200	2,260	25%
19,200	3,260	28%
23,200	4,380	32%
27,200	5,660	36%
31,200	7,100	39%
35,200	8,660	42%
39,200	10,340	45%
43,200	12,140	48%
47,200	14,060	50%

Chart II

Taxable Estate	Federal Estate Tax*	Rate On Excess
$ 175,000	$ 0	32%
250,000	23,800	34%
500,000	108,800	37%
750,000	201,300	39%
1,000,000	298,800	41%
1,250,000	401,300	43%
1,500,000	508,800	45%
2,000,000	733,800	49%
2,500,000	978,800	53%
3,000,000	1,243,800	57%
3,500,000	1,528,800	61%
4,000,000	1,833,800	65%
4,500,000	2,158,800	69%
5,000,000	2,203,800	70%

The rates are those established by the Tax Reform Act of 1976 effective after Dec. 31, 1976, for those dying after 1980. Rates are slightly higher for those dying before that date.

Extra expense policy keeps presses rolling

By William H. Rodda

A DAIRY HAD A CONTRACT to supply milk, ice cream, and other dairy products to a fast food chain. The contract specified maximum and minimum quantities and prices. The term of the contract was one year. There was no provision for cancellation during the term of the contract. The dairy's plant burned, and for a period of six months it was unable to produce for delivery under its contract. The dairy said to the fast food chain, "We are sorry but we can't provide you with these products because our plant has burned." The fast food chain replied, "You have a contract to supply us with certain products. The contract says nothing about your plant burning. We are holding you to the terms of the contract." The dairy's lawyers advised that they were obligated to carry out the terms of the contract.

The dairy went into the open market to purchase the goods necessary to meet its contract. But inflation had reared its ugly head, and the dairy lost hundreds of thousands of dollars in meeting its contract.

Contract exposure

The dairy had a business interruption insurance policy covering reduction in its gross earnings during a period of shut down. But the only provision for payment of extra expenses in this business interruption policy was for such extra expenses as might reduce the loss of gross earnings. The policy had no provision for the extra expense that the dairy might incur in meeting the conditions of a contract to supply products to a customer. The dairy management and their insurance advisor had arranged for insurance policies that adequately covered the loss in gross earnings during a shut down but they had failed to determine whether there were any continuing contracts that might be costly for the dairy if their own facilities were out of commission.

Photo: UPI

A newspaper is one of the many businesses that can't afford to quit when hit with destruction, such as a fire. When the extra expense of continued publishing elsewhere exceeds the actual loss in gross income, only extra expense insurance will pay up, not business interruption insurance.

Suspended operations

The need for extra expense insurance arises in many cases because of the limitations in coverage under business interruption policies. A vital question for a business is whether it can afford to suspend operations. A catastrophe that puts a business out of commission may result in several kinds of losses contingent upon the cessation of operations. The simplest of these situations is where a business can stop for a few days or a few weeks but with prospects that normal operations and profits can be resumed when damages are repaired. Business interruption insurance is intended to cover the reduction in gross earnings that results during such a suspension of business.

The business interruption policy says in rather lengthy and detailed language that it covers only the loss that the insured sustains during the interruption of business. The insurance contemplates that the place will be out of operation for a period of time. The only coverage for extra expenses under a business interruption policy is that which would reduce the loss from the interruption.

There are many businesses that cannot afford to quit. An example is a bank. It has contractual and public obligations to be in business every day that banking is required

Continued on page 36

Bill Rodda is president of Chicago-based Marine Insurance Handbook Inc.

PERSPECTIVE

Extra expense insurance . . .

Continued from page 34

by law or by customer needs. A bank for which operations are impossible at its normal location must set up temporary quarters somewhere in the neighborhood, no matter what the cost. The securing of temporary space, the transfer of records and cash to the new location, the setting up of security at a temporary location, all may be very expensive. The business interruption insurance does not cover this extra expense of maintaining business at a temporary location or under unusual conditions.

A newspaper is another business that cannot afford to quit, even for a few days. Readers quickly learn to get their news from other papers or from radio and television. In addition there may be advertising contracts that must be honored. Continued publication may require the hiring of printing facilities from a competitor or from another printing plant. Temporary quarters may have to be rented for editorial offices. Such facilities that have to be secured under emergency conditions may cost a great deal more than they would if a more leisurely acquisition were possible. Such expenses may go far beyond the actual loss in gross income that would be sustained if the paper could just fold up and quit until its own plant was restored to service.

Plan ahead

Other businesses that may have to keep operating in order to retain their customers are retail delivery operations such as dairies, laundries and dry cleaners, and public utilities. Once the customer goes to another supplier, the business probably is lost forever.

Business management should examine its operation and determine whether the business can afford to quit until premises can be repaired, or would it be necessary to continue operations at whatever expense might be incurred. In this latter case, there is a need for extra expense insurance.

It may be difficult to estimate the amount of extra expense which would be required to continue operations. Planning should be done ahead of time and inquiry made to see what substitute quarters might be available and what they would cost, as well as what transportation expenses might be incurred in the movement of goods or personnel to a temporary location. Additional security expense may be incurred if temporary quarters do not contain vaults or other security measures comparable to the damaged premises.

Examine contracts

There are many cases, like our example of the dairy, where the insured may overlook an exposure to extra expense under a contract. Destruction of a processing plant may require the operator to go into the open market to purchase products or find some other source of supply that would be more expensive than the operation of its own plant. Many such contracts do not have any exculpatory clause which would relieve the supplier from liability from an interruption of operations.

It is important, therefore, for the risk manager to examine carefully all contracts which obligate the insured to supply materials or service to other organizations. Sometimes a business that is under contract will attempt to get the contract voided on the basis of *force majeure*. This is a legal principle that sometimes can be invoked to abrogate a contract on the basis that the event was of such a nature that it was beyond human control and could not have been avoided by foresight. This might be successfully invoked in the case of a natural disaster such as earthquake, but it is doubtful if it would be successful in the case of a fire. Fires are generally considered susceptible to control by manmade means. The only situation in which a supplier generally would be excused from contractual obligations as the result of fire would be an actual provision in the contract that the contract will be voided by named occurrences which might be fire, destruction by windstorm, or by labor disturbances or some similar event.

Dangerous assumption

The *force majeure* principle should not be relied upon for the abrogation of a contract. It may prove to be unattainable to the supplier even in the case of a natural disaster if the contract provides alternatives for the fulfilling of the contract. The dairy's contract, for example, may say that dairy products will be supplied from the XYZ plant of the supplier, or if not available from the XYZ plant, then they will be supplied from some other plant or source. This alternative provision may eliminate any chance that the supplier can be excused from the contract.

It would be dangerous for a business to assume that contractual obligations can be ignored following a catastrophe. Should the supplier default on its contract, then the other party to the contract may go into the open market and purchase the materials at the market price and then charge the extra cost to the supplier. The supplier under contract may be faced with the payment of extra expense either by complying with the contract at extra expense to itself, or by paying whatever extra cost may be incurred by the recipient. The important point is that any supplier who is under contract to another organization should consider whether the contract can be voided in case of specified occurrences or whether extra expense insurance should be purchased to meet the terms of the contract.

The use of a computer may introduce a situation where extra expense insurance would be advisable. Ocean carriers, for example, use computers to determine the placement of containers on shipboard, the determination of the center of gravity, and other factors in the loading of ships. Loss of the computer may require that these operations be carried out either by manual operation or by suddenly hiring the services of an outside computer. Either alternative may be expensive. Operations of any business requiring a computer should make an examination of the computer facilities to see if they can be discontinued for a period, or would it be necessary to go outside at considerable expense in order to carry on operations.

A department store that has its financial transactions on computer may require additional manual personnel if the computer is out of operation for a period. Regular store sales and operations may be able to continue but the usual method of handling transactions would be impossible. There could be a substantial additional expense in the handling of transactions manually during a period of computer outage.

The emergency leasing of facilities probably would be very expensive. A risk management question is whether arrangements should be made in advance for emergency services, or should the owner depend upon extra expense insurance to provide the emergency funds to carry on during a period of computer outage?

Questions to be determined in connection with extra expense insurance are:

- Must you continue in business or can you suspend for a time and recoup your business?
- What contracts to supply materials or services will have to be met?
- What additional costs will there be in continuing operations or in meeting contracts? ■

Self-insureds can reserve . . .

Continued from page 33

"possible" loss, namely, footnote disclosure.

How do these criteria apply to self-insurance? Until now, many companies have reported liabilities in the financial statements only for those events that had become formal claims by the end of the year. Setting aside the question of that part of insurance premiums that cover insurance company profit and operating costs, etc., the formal claims method of accounting for self-insured losses often yields a much different and more unstable income charge than would arise from insurance premiums.

Detailed study

One company attacked this problem by making a detailed study of its product liability losses for each product in each division for the past five years. Its study was intended to show not only when the product failure occurred in relation to when the formal claim was made, but also when the item was manufactured in relation to when it failed. From the study, management determined what percent of each sales dollar would eventually be paid out in product liability claims.

Now a certain percent of each period's sales dollars is set aside in a liability account by a charge to expense for claims that may not be filed or paid for several years. Enough data were collected during the study, and are being updated currently, for the company's accountants and risk managers to demonstrate to the outside auditors that it is proper under FASB No. 5 to account for the product liability risk at the time of sale rather than as claims are made.

One of the interesting sidelights of this study was its effect on other decisions. Prior to the study, product liability risks had been covered by insurance and the premium costs were allocated to the divisions and product lines based on some overall factors such as sales. The study clearly identified product liability costs with specific products. As a result, one of the company's divisions was found to be unprofitable based on this actual experience. Management thus embarked on a program to improve quality and raise prices; if this does not work, the division will be closed.

This method has some risks of its own. How does the company detect and measure changes that should alter the loss provisions rate?

One company, for example, sells a product that, when applied by a franchised dealer, protects a customer's property from the environment. In a given year, they changed the formula for the product, the special tools used to apply the product, and the dealer training program. All the changes were designed to improve performance. But how much improvement would be obtained? This company also accrued for product failure costs at the time of sale. Management, aided by research personnel, had to make a judgment about how much to change the percent of sales set aside for product liability out of current sales. This illustrates that estimates are often required in the application of FASB No. 5.

Another method used by a number of companies seeks to record those events that have occurred but are not yet reported as formal claims. For past claims, a comparison is made of the time between when the loss event occurred and when the claim was filed. From this, the company estimates the number and size of claims that exist at any point in time but have not yet been filed. This estimate is the basis of charges to set up a year-end liability account.

Critical distinction

A company could use this approach for product liability when it is not practical to establish the relationship between the product failure and when the product was made. It is also especially useful for workers compensation and employe medical risks. This approach is entirely consistent with what many accountants have long done to recognize that some portion of the items sold this year will be returned next year for credit.

What does all this show? It is true that FASB No. 5 only permits setting up accruals when events have occurred that establish that a loss is highly probable. The critical distinction to make in determining whether a charge to expense can be recorded is this: Have the events occurred which will cause a loss? If they have occurred and a loss is probable, a liability should be recorded.

Losses from workers compensation or product liability risks occur before formal claims are processed. Such losses can be estimated and the related liability can be recorded. On the other hand, it is not appropriate to record a liability for a fire that may occur or another catastrophe that could happen, even though the risk is self-insured.

When experience with a body of data enables a company to demonstrate that events have occurred, such as sale of products (some of which are going to fail), current provision for those losses is entirely proper under FASB No. 5.

The professional risk manager probably acquired most of the needed data during the process leading to a decision whether to retain the risk rather than pay premiums. What is needed now is to educate the company's accounting staff and to explain this information to the outside auditor. Appropriate information systems need to be developed and maintained by a company to see that the self-insured risks are given proper current recognition in the financial statements.

Self-insurance, no matter how good the accounting, will never yield the kind of level charges against earnings traditionally associated with paying insurance premiums. The way premiums have been increasing recently, even that method may not yield the stable results that are so prized. However, a sound approach to accounting for the retained risk should reduce the risk of wide earnings fluctuations to a level that is comfortably retained. ■

New proposed tax rules . . .

Continued from page 34

that the benefit manager and other advisers review the proposed regulations as well as their plans to determine any incompatibilities.

Within the context of the law it may be possible to suggest slightly different language for the proposed rules that will enable the plan to provide more options for covered participants. It also may be possible to make plan amendments that will result in no additional cost to the plan and will provide enhanced flexibility for participants and their beneficiaries.

It would also be appropriate for benefit managers to alert participants to the need to consult with estate planning advisers to determine the most appropriate form of distribution. The current status of the annuity market and available products should be considered in making a determination as to appropriate withdrawal or distribution mechanisms. In the event that the participant fails to give clear instructions or all options are available to a beneficiary or beneficiaries, it is also important that the benefit manager then make the beneficiaries aware that appropriate counsel should be sought prior to electing a distribution.

If the company offers or sponsors various forms of estate planning or financial counseling for executives, the benefit manager should be certain that the impact of various distribution options be fully considered in the counseling program.

In the author's experience, smaller companies quite frequently communicate better with their key executives with respect to available choices for distribution of employe benefit plans than do some of the larger firms. This is no doubt due to the fact that the executives in the smaller companies are closely involved in the decision-making process.

Must counsel

The larger firms need to be alert to assure that executives are advised of the impact of these proposed regulations and are made aware of the changes that may have financial consequences for them and their survivors. These regulations demand consideration by any executive with a large personal estate and a large account balance in a qualified plan.

The proposed regulations which make available a gross estate and gift tax exclusion for lump sum distributions from qualified employe retirement plan benefits offer companies a new opportunity to enhance the value of existing and future employe benefits. ■

london line

Aviation insurers decry policy terms

By JOHN H. MILLER

LONDON—Graham Willett, chairman of the U.K. Aviation Insurance Offices Assn., warns that too much airline business has been accepted on a long term, noncancellable basis at inadequate rates.

Provisions have been made with some of the insureds for substantial returns of premiums on programs with good loss experience. He fears that even if spectacular losses such as Tenerife do not occur, there is still little prospect of underwriting profits.

The effect of inadequate rates is felt by the association to be partially offset by the higher values of airline fleets, which will bring about higher insured sums and greater premium income. Further hikes in premium income are occurring on coverage of passenger liability, where premium is geared to revenue passenger miles, which continue to grow.

The recently introduced code of practice aimed at reducing renewal periods (*BI*, April 16) might benefit aviation underwriters vigorously trying to halt further rate reductions, insurers hope.

Looking at future prospects, Mr. Willett says, "There is a big demand for new aircraft, and manufacturers' order books are full. While airlines may be able to fill extra seating capacity and operate much higher load factors, the lower fare structures coupled with higher costs may well badly affect their profits. So any attempt to get increased rates may meet with stiff resistance."

Among other classes of risk, manufacturers' product liability is still attracting competitive quotations. There has been some improvement in ratings on aircraft owned by commercial and industrial organizations, and on helicopters and general aviation. But the record on these risks has been so poor in recent years that he sees no immediate prospect of underwriting profits.

Mr. Willett, who is retiring as chairman, is succeeded as new chairman of the Aviation Insurance Offices' Assn. by Jack W. Webb (Andrew Weir Insurance Co.). I.J. Purdue (English & American) is deputy chairman and Ray Dowlen (Commercial Union) is secretary.

Helicopter tests

Suspected cracks in the rotor blades of helicopters used in North Sea oil operations are being probed by Norwegian users after the crash of an S-61 helicopter of New York Airways in New Jersey recently.

The Oslo-based Helicopter Service firm has 20 Sikorsky S-61s, and one of them crashed over the North Sea last year killing 18 people. The crash of a similar helicopter in 1977 with a death toll of 12 is still unsolved.

Now tests are being made by the Norwegian group with the help of the U.S. manufacturers, Sikorsky, to find if there is any link with the New Jersey mishap where part of the honeycomb-type rear rotor is believed to have failed, according to U.K. aviation sources.

Two leading U.K. helicopter operators who regularly take passengers and equipment to North Sea drilling centers and platforms have replaced honeycomb rotors with ribbed blades in recent months. They are Bristow Helicopters and British Airways.

More competition

Forecasts of growing competition for U.S. business are being given by insurers in London.

The North American market is becoming "more competitive," according to Peter Wright, managing director of Sedgwick Forbes Bland Payne. The same view is reflected by another big broking group, C.T. Bowring, which predicts greater capacity being provided by the U.S. domestic markets.

Another U.K. broking group, Minet Holdings, reports through its chairman John Wallrock that in recent months there has been a slowdown in business from the U.S. because of an increased competitive situation among its domestic insurers.

These three brokers are now forming stronger business links with leading U.S. brokers, which in most cases should be completed before the end of the year.

Royal Insurance group, meanwhile, is restricting auto business in some U.S. areas because of reluctance by regulatory authorities to approve rate hikes. But it sees the chance of growth in its multi-peril lines.

Commercial Union also fears that competition will become more intense in the U.S. this year.

Chemical risks

Government health authorities in the U.K. are reducing the risk of exposure to acrylonitrile to levels comparable with those accepted in the U.S.

The current exposure allowed in industrial plants in Britain is 20 parts per million (ppm), but this must be cut to 2 parts per million by 1981, says the Health and Safety Commission.

Scientists have reported that acrylonitrile, a petrochemical product used for making acrylic fibers, can cause cancer to chemical plant workers based on findings from tests on animals carried out in the U.S. and elsewhere.

Many industrial plants in the U.K. have already reduced exposure levels to nearly acceptable limits, but a mortality study of 1,138 workers who might have been involved with acrylonitrile processes up to 1968 is now under way.

Hazardous cargo rules

New rules to protect the British public from potential spillage of dangerous materials being carried by road are planned by the government's health and safety executive.

They were announced shortly before the U.S. incident in early April when thousands of people fled from poisonous fumes released after a railway crash near Crestview, Fla., in which chemical-laden railcars left the track.

The British government scheme is intended to cover all hazardous substances carried on public roads. ■

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

Truckers haul big premium, loss problem

By LEN STRAZEWSKI

OMAHA, Neb.—"You don't have to love us, but a ittle understanding would help."

The slogan is printed on a trucker's calendar hang- ng in James Jacoby's office at Alexander & Alexan- der Inc. here. He believes it, and tries to be under- standing when he helps long-haul truckers with their complicated insurance problems.

"Truckers have been getting a lot of bad press lately, out the truth is that America lives by these truck ines," said Mr. Jacoby, the A&A vp who specializes in he insurance coverages required by long-haul truck ines.

"Steaks just don't come from Omaha to Chicago without the truckers to take them."

Depot Omaha

A&A and a few independent agents here have cor- nered the bulk of the commercial trucking business which has generally come to be centered in the Midwest and specifically in Omaha. Two major rea- sons are the jumbo meat-packing industry is based here and in Kansas City, Mo., and Omaha's position. It's the only decent-sized town on Interstate 80 be- tween Chicago and Denver.

Although Omaha is a large industrial city with all the ultural attractions metropolitan areas over 1 million n population attract, there is still something rural

Continued on following page

BEFORE WORLD WAR II only direct roads linked Omaha, Neb. to Chicago and poorly black-topped highways linked Chicago to the East Coast. Since the industrial boom of WW II, the trucking industry has grown, becoming increasingly complex, subject to state and federal regulations and requiring more complex forms of insurance.

Outer space, transportation experts suggest, is like the pre-WW II West, wide open for development and not often traveled. The space shuttle, they say, will be the long-haul truck of the space frontier, carrying everything from construction materials for space factories to "steaks for the boys at the space station."

You can expect insurance development to follow.

'Space truck' may rocket satellite brokers

NEW YORK—The advent of manned use of the space shuttle, a reusable orbital rocket that lands on airport runways like a glider, could rocket outer space insurance to new orbits, providing both opportunity and problems for brokers.

Outer space insurance? Yes. U.S. government satel- lites have the American public to underwrite launches, but private concerns and foreign govern- nents go to insurance brokers when rockets don't go up after the countdown.

Foreign governments and private businesses that need to insure space-related ventures call the giant Marsh & McLennan Inc. and the small Nausch, Hogan & Murray Inc.

"What we are talking about is the industrialization of space," explained Richard Nausch, president of N,H&M. "Up until the space shuttle, space has been ust a point of observation, and the biggest market has been for communication satellites, one of the only commercial uses.

"The space shuttle, however, will reduce the cost of business of space, the cost of putting up a payload and allow for additional uses of outer space, including use as a site for space factories using solar power."

Spaceman's comp

Space shuttle pilots have the potential for becoming the truckers of outer space. As orbital carriers, shuttle operators in the commercial field will not only need launch, property damage and liability insurance, but also will have to insure cargoes and crews.

"Certainly the space shuttle will increase the vol- ume of business and reduce the risk of launch loss," explained Gerald Frick, M&M vp of the aviation/ aerospace group. "Premiums will go down below rates for expendable launch vehicles."

Even the standby business for these space brokers, communication satellites, will change dramatically. The shuttle may be able to carry three or more payload satellites with one launch and place them in orbit vir- tually by hand, eliminating many of the for error fac- tors now covered in a launch insurance package.

Energy and manufacturing may soon be space in- dustries.

"Solar energy gathering is an absolute reality," said Mr. Frick. "Boeing already has a design for a solar energy gathering station that is 17 miles long. Some- one is going to have to transport it there (to space) and assemble it."

Industrial use of space is a can of worms. There must be employe benefits developed for space workers, workers compensation, safety programs and other ad- aptations of industrial earthbound insurance situa- tions, he said.

"Markets now simply can't handle it," Mr. Frick explained. "There's a $100 million limit on a single launch now and $70 million at least is a requirement, though launches are infrequent. The space shuttle will essentially be a cargo airline with all the insurance needs that are implied."

"The market for satellite insurance is very, very lim-

Continued on page 38P

INSIDE

Finding producers

The best way to find producers is to grow your own, according to Arthur J. Gallagher & Co. ex- ecutive vp John Gallagher. Recruiting and train- ing potential account executives while they're still in college has become the Gallagher way of maintaining a young and aggressive staff. **Page 38C.**

Selling in Indy

Indianapolis, Ind., brokers explain how their town should be one of the fastest growing insur- ance areas in the country, in the last of a three- part series on mini-markets in the Midwest. But instead, it's a healthy, stable market with a rural bias. Even most of the jumbo brokers haven't discovered it yet. **Page 38K.**

Buying computers

How many CRTs do you need? What accounting features should you look for? How much storage capacity does your agency require? Computer specialist George Coffman, president of Im- proved Insurance Systems Inc., explains how agents can plan for their future computer needs when buying today. **Page 38I.**

Trucking brokers shift

Continued from previous page
about its posture.

The steaks in Omaha may be the best in the U.S., but in South Omaha, where many truckers are based, natives talk more about the "best carp sandwich in the country," at Rudy's Bar & Grill or Joe Tess' fish house.

For commercial brokers, truckers offer a high premium volume business limited only by small commissions. Five percent to 15% is the standard range for most trucking risks, including physical damage, liability and cargo insurance. Ten percent is a reasonable average commission, half what other lines bring in, report the experts. With an average yearly premium of nearly $7,000 per truck, however, even low commissions can yield substantial profits.

"Most of the big lines are self-insured with a large risk retention, usually a minimum of a $250,000 retention, like P.I.E., Transcon and Yellow Freight," noted Mr. Jacoby. But smaller truck lines, the bulk of A&A's business, rely on smaller deductibles.

Retro rating

"Most of our business, truck lines with more than 20 trucks, is done on a retrospective rating basis with some retention, from $15,000 to $50,000," he said.

Almost without exception, the bulk of truck line insurance is placed with the Great West Casualty Co. of Sioux City, a wholly-owned subsidiary of the Pullman Corp. and a specialty carrier for the trucking industry.

"Standard carriers are in and out of the market. In the past, I placed coverage with INA whenever I could. They're not out of the truck business yet, but their interest is limited. The Hartford is pretty much out, but the St. Paul Cos. still write a little," he said.

The problem for most stock companies is that the casualty underwriters know next to nothing about the trucking industry. So they tend to write the business only when they happen to have an underwriter that has a trucking background, said Mr. Jacoby.

Training markets

"The companies understand most of the filings (legal requirements), but we find ourselves explaining some basic terms to them, like the difference between common and contract carriers," he explained.

Common carriers are licensed to haul all commodities, even in amounts less than one trailer load. Contract carriers, however, haul only full loads under a trip lease agreement for a single trip or "exempt commodities" like fish or produce, which don't require a common carriers license to haul.

When Mr. Jacoby is not educating his markets, he is educating his clients on why they should have a broad enough contract and what to do if they do not have broad form coverage.

"All my clients, I'm happy to say, do have an awareness of the coverage, rates and that in order to keep the rates down they must have a favorable loss ratio," he said.

Some small lines and independent owner/operators, however, are not as sophisticated as the giant lines (whose dispatching areas

James Rice
Crump-Babcock

Gerald Woolhiser
Insurance Agents

David Fulkerson
Countrywide Insurance

James Jacoby
Alexander & Alexander

Photos: Len Strazewski

into safety experts . . .

make airlines look tame). High loss ratios and poor safety records plague some operators of all sizes.

Insurance Agents Inc., the largest locally owned agency in metropolitan Omaha, is trying to build up its already large book of long-haul trucking business by taking on some of the less than perfectly desirable risks.

"What we have are a lot of truck lines here in Omaha that go to the East with meat, and just about all markets are gun-shy of that kind of cargo," noted Gerald Woolhiser, commercial lines manager.

"Truckers are a breed of themselves and that makes for very limited markets. Most major carriers are very choosy," he explained.

But the agency intends to solve trucker problems and provides what amounts to risk management services for truckers.

"We are trying to find truckers that have been having some problems, either with cargo loss, physical damage, safety, whatever, and present a whole program of safety and driver training," he noted.

Truckers, however, are notably independent, and tend to not follow advice.

"It takes a lot of talking. First you have to sell your customer on your program and then you have to sell your carrier on your customer," said Mr. Woolhiser. "What we do depends a lot on the individual account. For some we may suggest a course in defensive driving. In one case we brought in and paid for a safety consultant who corrected problems bit by bit."

In spite of the low commissions, agents can still afford to pay for special services for their clients, according to Mr. Woolhiser. A 50 truck line, needing cargo, liability, workers comp and physical damage insurance placed in the specialty markets can bring in $300,000 to $500,000 in premiums, "So we can afford to pay $20,000 on a consultant," he said.

Big premiums

Truckers are not rich, and so pay premiums only because they are required to by law. Some agents report trouble collecting premiums, and every agent reports difficulty in convincing clients to take more than minimum liability.

"The average operator who owns a brand new rig costing over $75,000 may be making payments on his truck of over $500 a week," said Mr. Woolhiser. "My good risks know that regulations and requirements are for his own good, but for the most part I'm asking clients to do more in insurance than they ever have before."

Safety decisions also require some understanding, he noted. In many cases, a truck line operations manager is also the safety chief. If it comes down to grounding a driver who may be close to his driving limit when there's a profitable load to be hauled, it's likely the administrator will decide on dollars, not safety.

Insurance Agents Inc. is getting assistance from Crump-Babcock Inc., wholesale brokers specializing in placing the difficult risks and in safety planning.

Crump-Babcock is currently working with over 240 individual producers from area agencies and is making a special effort to handle the trucking dilemmas.

"We've been trying to develop a book of long-haul business through independent agents," noted vp James Rice. "In addition, we want to set up service for our insureds to give them the immediate availability of an adjuster as opposed to having them wait a full day."

Speeding the adjusting process is not easy. The expert carriers like Great West have a 24 hour claims staff and airplanes to get them to the scene.

24-hour call

The other markets rely on the brokers and independent adjusters who may or may not have trucking expertise. At Crump-Babcock, Mr. Rice, a claims man with long-haul expertise, is on 24-hour call while he tries to build up a team of qualified adjusters around the country. The process is word of mouth research and trial and error.

"We may give a recommended adjuster a claim or two to handle to see if he knows what he is doing. After that we can tell. If he's good he gets more," said Mr. Rice.

Selling safety to prevent losses in the first place is hard, especially with independents and small lines. "We have to convince clients that we are doing it for them, but there comes a time when you have to tell them how it will finally come off the premium next year."

Dangerous risks, like cargoes of LPN gas and anhydrous ammonia, are difficult to place, especially considering additional liability requirements that can force insurers to replace everything after an accident including contaminated soil.

"We can find a market, but it is expensive," said Mr. Rice. Those chemicals and gas are on the prohibited list of many companies, but it is manageable. For a broker, however, it comes down to this. Is this a risk that you are willing to give to a company and lay your reputation on the line for?"

With safety so important, it is a wonder that any company wants to insure a breed that has gained national attention as the "new cowboys." But, some carriers find independents more profitable than fleets, according to David Fulkerson, president of Countrywide Insurance.

With 22 years experience in the trucking insurance business, Mr. Fulkerson notes a swing in insurer attention. "Fleets were always the company attractions, but after some big losses due to poor hired help, carriers are finding that independents are getting to be more profitable," he said.

The local owner/operator expert, Mr. Fulkerson writes most of his business in the American Owner/Operator program, a London market policy for single-truck owners over 25 and with a less than 50% loss ratio. He has over 2,500 clients.

Down-time plans

Risk retention is not the vogue for independents. "We try to convince our clients not to go broke if they have an accident, so we tend to discourage high deductibles and advise them to get down-time coverage," he said.

"There's not much we can do to emphasize safety, but basically truckers are pretty good drivers. CB-radio has hurt safety records because it has created a lot of one-armed drivers. We do try to tell clients that a bad safety record is bad advertising, promotes a bad feeling about the industry and leads to a loss of business."

Convincing and communicating is the main agent role in this business, clearing up the confusion of clients and insurers. Unfortunately, most agents are confused.

"It takes an expert. Most agents aren't able to communicate just what the premiums are paying for," Mr. Fulkerson remarked.

What about the new cowboy image?

"Just great," he responded. "It has made the industry more noticeable and brought many young people into what was considered an undesirable profession." ■

Early recruiting lands producers first

Gallagher training begins before college ends

ROLLING MEADOWS, Ill.—Arthur J. Gallagher & Co., the eleventh largest commercial broker in the U.S., grows its own producers with a training program here which finds potential employes long before other brokers even think of recruiting them.

Gallagher recruits college students during their sophomore year of college who it thinks might make good account executives and offers them summer jobs to expose them to the spectrum of brokers' jobs.

Though not every summer employe is offered a full time job later, executive vp John Gallagher is proud of one record. "We have never had a young person from the training program turn us down

when we offered the job. When one of the trainees has joined us, he has stayed with us."

The history of the program goes back to 1962—the beginning of a major growth period for the firm.

"In 1962, it was evident to me that there was as many people leaving the insurance industry as entering it, leaving little personnel for growth," explained Mr. Gallagher. "Young people in particular have always had a poor impression of the industry.

"The thought was that we could take the kids during the summer between their sophomore and junior years of college when they were still making up their minds about what they wanted to do and give them a chance to look at us while we take a look at them."

The program started with three trainees. Last summer, Gallagher sponsored 10 "though I really had to stretch the rubber band to do it," remarked Mr. Gallagher. About 25 of Gallagher's 60 full time account executives came up through the summer training ranks.

The summer session is simple. Trainees work a short time in every major aspect of the business, beginning in personal lines and working through claims and into property and casualty business. Assigned to work with an experienced account executive, the trainees follow him through calls, research and marketing.

When the summer is completed, the trainee writes a report on his experience and his instructor reports on the trainee.

Some of the trainees have been family members, including Robert Gallagher Jr., son of president Robert Gallagher; Warren Van der Voort Jr. and Craig Van der Voort, sons of vp Warren Van der Voort.

"My whole family is in the insurance business," remarked Craig Van der Voort, "and I suppose that's one reason why I got influenced to look at insurance. I almost went into medicine."

The summer session—his family's only pressure—changed Craig Van der Voort's mind then. He majored in insurance at the University of Arizona.

"In an industry in which most young people are turned off immediately, having a chance to work with a commercial agency and see the complexity and sophistication can really turn your mind around," he said.

Craig Van der Voort interned with Gallagher-Bassett claims administration division of Arthur Gallagher and traveled around the country helping to sell a subsidized life and health program to employes of Beatrice Foods, a Gallagher account. Now 25, he's been working 2½ years full time at Gallagher since graduation.

"The job invitation before your senior year of college even begins is a tremendous weight off your shoulders. You can relax in your last year of school knowing that you do not have to face the dreaded job market that everyone tells you is so rough," he noted.

The training program got him his own accounts after six months of full time work. He was introduced by the account executive in charge of some existing accounts and took them over soon after.

"The best thing about the program is reversing the stereotype of the insurance industry and getting enthusiastic over insurance. The

Photo: Mary Cairns

No summer trainee has refused an Arthur J. Gallagher & Co. job offer, said executive vp John Gallagher.

worst thing was that there were some times when I was idle, but I suppose that happens because a college student can't just have stuff dumped on him," said Craig Van der Voort.

Unlike his peers from the University of Arizona, Mr. Van der Voort says he has not had many rough spots to get over in his career choice.

"A friend from school joined a company and whenever I was talking to him during the first six months he was reading or studying a rate manual. He was really depressed . . . He didn't last long on the company side. He got into an agency as soon as he knew enough."

The program reaches beyond recruiting family members and friends. Now Gallagher combs colleges, placement centers and receives referrals from other agents. One summer trainee came out of the mailroom of another agency, Mr. Gallagher said.

"I look for a college student who has participated in extracurricular activities, especially sports," said Mr. Gallagher, "because they are already competitive and like to win. We like well-rounded kids. A little public-speaking helps."

"Natural salesman" aren't the goal.

"We can teach salesmanship, but we cannot teach desire. We've taken lots of quiet kids and made them into producers. If we do it right, the success syndrome rubs off on them. We try to keep up that atmosphere," he said.

One self-named "quiet kid" is account executive Peter Durkalski, who at 28 has made a firm commitment to the insurance field, despite an industrial engineering degree from Cornell University.

"I really had no intention of going into insurance. What I really wanted was a summer job to see what it was like to wear a tie every day," he explained.

Mr. Durkalski started with Gallagher a bit later than most trainees, the summer between his junior and senior years, introduced to the firm by his college chum Patrick Gallagher.

"People have a lot of false concepts of insurance, especially insurance selling. There's a needed sophistication and the property and casualty field is a far cry from calling your friends and selling life insurance," Mr. Durkalski remarked.

"The training program was like a day in the life. There were no formal classes. It was not very high pressure at all, but I did have to learn how to sell. I did, by following around an experienced account exec and watching what he did."

Arthur J. Gallagher is a firm that admits to nepotism and claims

Photo: Mary Cairns

Summer jobs in insurance can reverse a negative stereotype, notes account executive Craig Van der Voort.

"nepotism works." Much of the staff is family and friends of family. Inbreeding, however, has not limited the flood of new ideas, according to Mr. Gallagher.

"What usually happens in this business is that agencies are family-owned and operated. As the family grows old and the principal turns 60 or 70, he finds that he has no way to get out of the business. That won't happen here.

"We need new and fresh ideas from youth. It would be disasterous to not listen to their thoughts on new programs and ideas. Our average age is between 30 and 31 and getting younger because we do not believe in a long apprenticeship. We say that in four to five years a producer is ready for everything," said Mr. Gallagher.

A full time training director is in the offing for Arthur J. Gallagher, and so is year-round training.

"There's really no pitfalls. You just go do it," he said.

"The one thing to watch out for is to try to make the work your trainees do valuable, not make-work. The worst that can happen is to have someone sit for days in boredom, doing nothing," Mr. Gallagher said.

Photo: Mary Cairns

Gallagher's summer training convinced account executive Peter Durkalski not to work in industrial engineering.

"The college student has a very wrong view of the insurance agency business. I think he has the idea that the agent model is Willie Loman." ■

INA policy:

Failing agents deserve a second sales chance

A/BT

PHILADELPHIA, Pa.—Agents heading for termination with INA because of a poor loss ratio and unbalanced books of business will get another chance under a new policy, according to producer affairs vp Richard Light.

"There's a wide variety of circumstances that can occur with an agency," he said, "but most agency problems come as a result of an unbalanced book of business. They might be submitting highly exposed risks or other types of risks that are very unprofitable for us."

The alternative, or "rehabilitation program" is outlined in the new INA producer-company relationship policy and stops immediate termination except in cases in which the agent has directly violated the agency contract or fails to agree to or fulfill the responsibilities of a rehabilitation program.

"What we do is sit down with the agent and go over a general marketing plan and come up with a mutually agreed upon rehabilitation program that will bring his agency to a balanced book that will be profitable for both of us," explained Mr. Light.

"It may take three months, it may take nine months or longer, but we will sit down with the agent and work it out. For obvious reasons this can't be made into a written contract. It has to be an agreement between the agent and company that may change according to problems facing the agent."

Making a commitment to salvage unproductive agencies is a new wrinkle in the growing competition for the services of independent agents. INA and Industrial Indemnity are the first of the major carriers to put the policy in writing, according to Mr. Light.

"If an agency has a good working agreement with his carriers and knows what they expect of him as well as what he can expect of them, many of these problems would never happen. That's why we made this a written policy," he said.

"There isn't an agent in business who can underwrite against a carrier, they just cannot produce the volume to make it work. If they try, they wind up being unprofitable for the carrier with a poor loss ratio, which is the very thing we are trying to avoid: An agent that has put himself into a situation in which he is sure to be terminated."

INA service offices will keep closer tabs on agents, according to the policy, to "identify those agents with whom our relationship may no longer be feasible."

The policy calls for the service office to keep a formal record of agent problems for the purposes of making helpful recommendations.

"In this regard, an agent shall not be terminated only because of prior loss ratio experience," the written statement says. "Adverse loss ratio should trigger the evaluation of causes, among which can be the agent's marketing practices, mix of business, identification and submission of required underwriting information, follow through on loss control recommendations, claims handling and selection of company markets," it continues.

"The factors plus administrative considerations such as premium payment and other costs of doing business should be the backbone of the rehabilitation plan."

The service office will follow trouble reports with a written plan for improving the agency by specific target dates. Then the field men are required to discuss the plan with the agent and seek his advice on how it should work. Target dates are negotiable, according to the policy, "but may extend a year or more."

If the plan is not successful or an agent declines to work within the policy guidelines and must be terminated, "the company will furnish the agent an in-force run of existing business." ▪

A/BT

Calif. agents learn to lobby by district

Members are 'politically significant': Consultant

SACRAMENTO, Calif.—Agents battling to limit the insurance activities of bank-holding companies here are waving a new weapon: district-based political action strategy.

The lobbying technique is the brainchild of political consultant Roger Duerksen, who was recently hired by the Independent Insurance Agents Assn. of California to press its state legislative attack.

"Right now I'm blitzkreiging around the state, meeting with local agent groups to teach them that their political stature is marketable and to show them how to market their political significance," he explained.

District-based political action means taking advantage of the political influence, or "significance" as Mr. Duerksen calls it, of local agents to press for statewide goals in the California legislature.

The training is manifold and is actually a short course in political activism. For the present, the California goal is to get the bank-holding bill out of the insurance and financial institutions committee of the state senate. The committee, according to Mr. Duerksen, has supported banking in the past.

This means that the district-based attack is aimed at committee members.

"I am trying to teach the agents that they must translate their ongoing dialogue with political leaders into action. At the same time, however, it is important to realize that the legislators are busy, so you have to find a way to get a response and not get put at the bottom of the legislator's stack," he said.

In communicating with legislators, suggesting study or a general comment is not enough. A response should be virtually demanded.

"Agents should ask for a response. If a legislator says that he needs more information, tell him that you will send him some. Then make it a point to get some information to him that week. Then don't let it stop there. Include a hook in your letter that invites a response, like 'I look forward to discussing this information further with you.' "

California agents have many ready-made political contacts, according to Mr. Duerksen, based on a variety of exposures to political leaders. A "key-man" survey performed by the IIAC two months ago indicated that agents knew leaders through mutual friends, local business organizations, local party activities and family ties.

The association hopes to parlay these contacts into active lobbying pressure focused on the state goals.

"What we found out was that the insurance agent may not have much actual political visibility, but is part of the lifeblood of the political and economic life of a community. Agents, through their business, get to know very many people in a community and if they are good businessmen are part of the invisible yet substantial upper middle income community," he said.

Agents, according to the survey, do know opinion shapers in their districts, including television and print newsmen. In addition, some agents serve as directors of other businesses or wind up in local leadership roles on school boards, local chambers of commerce and other organizations.

"Once we located politically significant agents, the next step was to develop a strategy to train those people and make them aware of the value of what they already are in the community and help them develop a personal agenda of what they want and how they are going to make it happen," said Mr. Duerksen.

Sophisticated understanding of how a legislator works is also a major asset, according to Mr. Duerksen, formerly an administrative assistant to state Senator Newton R. Russell and consultant to the governmental organization committee of the California assembly.

"If a legislator knows that his constituents have a sophisticated knowledge of the procedures inside the capitol building, he will have to produce a better response. I know this from my years on the legislative side of the desk. Answers like 'I was out of the room when the committee voted,' will stop being sufficient."

Mr. Duerksen expects the locally-oriented lobbying to have a major impact on the bank-holding bill, which was easily passed by the California assembly but has been bogged down in the state senate. ■

AIG chases associations; taps INA

NEW YORK—American International Group is moving strongly into mass marketing of association insurance programs with a subsidiary similar to INA's Marketdyne and led by former Marketdyne vps.

Known as Marketpac International Inc., the new facility will work with trade associations on the design of insurance programs to be underwritten by other AIG companies and marketed through a network of agents and brokers under contract to Marketpac. The new facility will be based in Bala Cynwyd, Pa. (*BI*, April 26).

Raymond T. King Jr., executive vp, King, Kenneth J. Ford, president, and Donald C. Kintzing, senior vp, are former Marketdyne employes.

Marketpac will work on designing programs for special risk coverages as well as sophisticated group property and casualty programs, said Mr. King.

Once a program has been developed and underwritten, Marketpac will rely upon local agents and brokers operating under contract to market the coverage to trade association members in their locale, Mr. King continued. Business will also be accepted from agents who are not under contract with Marketpac, he said. ■

With our competitive edge you reap more group life sales...

with our higher commissions you earn more bread!

Computers: Buy what will pay tomorrow

By George Coffman

YOUR FUTURE COMPUTER needs can cause disaster! Before going out to purchase a computer system for your agency there are some things that you should know.

The purchaser of a computer must realize that he is involved with a long term purchase for use for seven to 10 years. Even though technology is changing, the user should not be concerned or affected by yearly sales pitches if he buys properly, including programs that perform the jobs he intended for it. There are many automobiles over 20 years old that still perform their basic function of transportation. Although designs have changed and there are some functional differences, the product still meets the needs. A buyer should set a 10 year goal for the exchange of a computer system.

George Coffman is president of Improved Insurance Systems Inc., a computer consulting firm specializing in the insurance industry. He has authored a consumer booklet on computer-buying.

Although you may find the selection of computer hardware confusing, you should be able to sort out the basic facts by asking questions. Selection of programs, while a bit closer to the buyer's level of knowledge, should get more than a cursory review. The buyer should look at his purchase as a partnership rather than for a one-time purpose. While some vendors are selling systems like they are selling cookies, you should realize that the larger your agency, the more you should look for more versatile systems.

In choosing a computer company, a buyer should also realize that though there are persons working on the "big-picture" for the year 2000, there are many new techniques available now that can be used and updated by a firm that buys the right computer. The computer company should obtain data directly from you and eliminate some of its own research functions. Many professional agencies have staffs that are better at understanding their work than the computer company. The agency should then look to the computer company for reimbursement for functions they perform to offset computer costs.

So why do I say that your future computer needs are an impending disaster? Let's look at hardware.

There are no computer bargains. You get what you pay for. We recently surveyed most computers on the market, including the macro units sold in stores. If you do the same you'll find that there is a 10% variance in capacity even when comparing units that are so-called equals. It's tough, if not impossible, for a first time user to know what to look for and to understand what power or lack thereof they are buying.

Power is defined as maximum speed in which data can be obtained, amount of information that can be stored for immediate access and the number of CRTs that can be put on the computer (as well as how those CRTs can be utilized). Though all computers have common elements such as storage, memory and CRTs (video display terminals for access and data entry), all have different power.

In my opinion, floppy disks or disk storage holding 5 million characters or less should not even be considered for an insurance agency. The ability to start storage at 10 million characters (megabytes) or more is better, but the ability to grow and add more storage is even more important for your future needs. The more the better, but make sure you understand what the cost requirements are for updating your capacity.

Also, the computer should operate in a way that allows you to perform multiple tasks or functions at the same time. You should be able to perform as many functions as you have CRTs. You should plan on being able to add one CRT for each three persons in your office. So if you project a staff of 21 people in 1985, you should be able to add a minimum of seven CRTs, each able to perform its own function independent of the others. I suspect a two-person to every CRT factor would be even better considering the growing role of computers in the industry. It would also be beneficial to have several printers for marketing, word processing and other related printed material needs.

Open item receivable and true open item payable functions are a must. Your system should go beyond accounting into management functions, management by objective calculations and paper processing. The most complete system of the future will use Point of Work (POW) processing. This means it is easier and cheaper to supply a CRT to an employe and perform the function immediately on a screen than on paper that is passed around for others to handle and process further. That is the way of the future and you should be planning for it.

Agency needs are dynamically changing. A smart principal will choose a computer system that is flexible enough to change and grow with this firm's needs. The agency should choose a computer vendor who likewise sees himself as a dynamically changing entity to meet cost reduction needs through advanced processing. The effectiveness of that kind of partnership will save $2 for every dollar spent on keeping up with new processing techniques—and avoid a computer needs disaster. ▪

Business lags behind potential in Indy

Country atmosphere keeps alphabet houses at bay

By BARBARA JEAN GRAY

A/B T markets

INDIANAPOLIS—This city should be one of the fastest insurance brokerage markets in the United States, but it's not—yet. Here's why, according to the brokers who work there.

- Despite a metro population of more than one million, it's still regarded by its natives as more country than city.
- Despite the fact that some 165 insurance companies are domiciled here, there's still a shortage of qualified insurance technicians for insurance agents to try to lure away.
- And despite an economy recently ranked by the Council on Municipal Performance as being tops in the country in terms of overall economic health (tied with Houston), Indianapolis is relatively undiscovered by the national alphabet houses.

A country atmosphere among 1.2 million people that has kept the alphabet houses at bay. Hoosiers—and residents of Indianapolis are more likely to think of themselves as Hoosiers than Indianapolisites—are more infectiously folksy and militarily chauvinistic about their home state.

"We're the third largest steel producing state in the union," John Bischoff vp of Insurance Agencies Inc., said of the state. "We're also the third largest corn growing state. And the corn growers run the state. That same farm town atmosphere has permeated the insurance industry and set up resistance to alphabet house market penetration."

Insurance Agencies Inc. is a combination of several small agencies, merged in 1970. Each agent still owns his own book of business even though on paper the business is corporately owned, Mr. Bischoff said. The firm generates about $750 000 in gross revenues.

"Indianapolis has not been invaded by the public brokers," observed William Ramey, local agency veteran of nearly 30 years, "and I don't know why. This city has more promise than practically any of the northern cities."

Mr. Ramey founded the Indiana Agency here in 1950 and merged it with the O.K. Mannan agency in 1957 Ramey Mannan & Co. Inc. merged with Rollins Burdick Hunter in late 1977 to become the third national brokerage affiliation in the city. It has 21 employes.

Mr. Ramey views the merger with RBH as a giant step forward for his $1 million revenue firm both in costs and in global connections. "In this business particularly, overhead must be watched more closely. Also, we now use an expanded market system. Where we were restricted to local markets before, we now have markets all over the world including foreign markets such as Lloyd's."

Even prior to the RBH merger however, Ramey Mannan was hardly provincial since it was licensed in 20 states. Still, 60% of its revenues are generated in the Indianapolis metropolitan area.

The city's oldest alphabet house address belongs to Marsh & McLennan, which came in through acquisition in the 1920s, according to local agents. M&M itself declined to be interviewed by *Business Insurance* and instead referred us to its headquarter office in New York. However, it then declined to be interviewed by its own national public relations department.

The third alphabet house here is Alexander & Alexander, which came in through acquisition in 1974. With revenues in excess of $3 million, it is generally regarded as the largest agency in the city.

It also probably leads in complexity of background.

The genesis of the present A&A office was the Bon O. Aspy sole proprietorship founded in 1924. In 1952, Mr. Aspy formed a partnership with Alex Somerville. Others also bought into the firm in the ensuing years and in 1969 the agency purchased the stock of the Barton, Curle & McLaren Inc. agency, another longstanding local firm. In 1971, the partnership was liquidated and the firm became known as the Barton, Curle & McLaren agency, which was acquired by Alexander & Alexander in 1974.

Photo: Barbara Jean Gray

Management Advisers Inc. plans to beef-up its Indianapolis office in the next five years to be one of the largest in its network, says executive vp Mel Matthews.

Two years later, A&A bought another well established local agency, from Emmett and Chandler of Los Angeles: Herman C. Wolf Agency. The California broker had entered the Midwest two years earlier with the acquisition of the Wolf agency from the American Fletcher Holding Co.

Today, A&A is expanding its present office space by one third in the Indiana Power and Light Co. building downtown. IPALCO has been a client of the agency's through the years, starting with Bon Aspy in 1924.

Among the new A&A departments is Risk Analysis & Management Services (RAMS), this office's name for A&A's self-insurance service. Brian Field, managing vp, said the two or three person department could be increased to 10 to 12 people quickly this year. In totalling, the office employs 64 people.

Mr. Field had been with the Barton, Curle & McLaren Agency. Prior to that he was an Aetna branch office manager in the bond department. He carried that specialization to A&A and the office is now still strong in bonds, with 10% of revenues generated there.

Carrying previous specialization

Continued on following page

Potential in Indy . . .

Continued from previous page
into the general agency ranks is also a characteristic of the Affiliated Agencies, a 12-year-old corporation generating a disproportionately high amount of revenues in its specialty: life insurance.

Of the $1 million in revenues Affiliated realizes, 20% of its gross income is in life but it devotes only between 5% and 10% of its time to it estimated Al Cohen. The vp and a few of his associates began their insurance careers in life insurance and carried it over into the property and casualty business with the goal of being able to handle all of a client's insurance needs. Affiliated also holds a general agency contract with a life insurance company.

Approximately 95% of the revenues of the 40 man office are generated in the metropolitan area, Mr. Cohen estimated. Although he described the national brokerage firm as "sleeping giants" in competition, the eyeball-to-eyeball competition has not developed yet.

"We try to specialize in the size firm that is not sophisticated enough to have an insurance buyer, where we're dealing with the principal of the firm and where they appreciate the knowledge and expertise we can give them," he said.

Keeping a high level of expertise in an Indianapolis agency can be a challenge.

Indianapolis's wealth of insurance companies, unfortunately for agents, doesn t provide a built-in breeding ground for agency employes. "Most company people are very specialized," commented Mr. Cohen. "Their experience is limited."

Sandra Cave, vp and treasurer of Robert N. Bowen and Associates Inc., concurred that the abundance of insurance companies doesn't necessarily crank out a steady flow of insurance agency people. "It's hard in this town to find knowledgeable insurance people. The industry is finally realizing you have to pay and it's not as easy to steal people as it used to be."

'It's hard in this town to find knowledgeable insurance people. The industry is finally realizing you have to pay and it's not as easy to steal people as it used to be.'

—Sandra Cave
Robert N. Bowen & Associates

As an example, she pointed out that Bowen received two qualified replies to a recent newspaper ad for an underwriter compared to 30 replies to a similar ad the year before.

Bowen, the Assurex affiliate here, was formed in 1941 by Robert N. Bowen Sr., father of the present chairman and president. Last year, the agency generated slightly under $500,000 in revenues, 80% of which was in commercial business. It is seeking to either acquire another agency or add new producers this year to grow and to replace the four producers who left last year to form their own agency.

Like Affiliated, Bowen generates most of its volume in the metropolitan area. However, a number of other agencies located here only look to the city for a fraction of their business.

One of these is Hanna & Associates, a seven-year-old corporation that generates 80% to 85% of its business outside the metropolitan area. If Hanna's statewide record is any indication (a doubling of revenues for each of the first five years of business culminating in a revenue mark of $1.6 million), the firm is most likely the new kid on the block to watch here.

President Dick Hanna said he hasn't staked out any specific territory for future expansion, nor has he ruled out Indianapolis. "We'll write business where we can. In some of the rural areas, there's less competition and people pay their bills better."

The firm has nine producers, including Mr. Hanna, and is aiming for a 30% to 40% revenue growth.

Two other large agencies, both headquartered here but not particularly strong in this market yet, are ogling this city.

One is Management Advisors Inc., a relative newcomer moving here in late 1977 from neighboring Anderson. Management Advisors is equal parts general insurance agency and association business.

Indianapolis provides only 5% to 6% of AIM's revenues now, said executive vp Mel Matthews, but that's changing. It's planned for the office to be one of the largest in the six-office network within five years. As for the program half of the business, the city accounts for 14% of revenues and that proportion is scheduled to hold steady in the firm's overall projected growth rate of 35% annually. Management Advisors generates $1.3 million in gross revenues.

Baldwin & Lyons began as an agency some 30 years ago, then developed a casualty insurance company, Protective, as a subsidiary. All subsidiaries combined produced revenues of $32 million last year, $4 million of which were from the insurance agency.

Although Indianapolis-based business represents 2% or less of the volume done here, the accounts are notable. Two of the city's Fortune 500 companies—P.R. Mallory, an electronics firm, and Stokely Van Camp, the food concern—are partially insured through Baldwin and Lyons. ■

Errors & omissions

• Joseph Holloway, president of LPLIC, was quoted in an April 16 Agent/Broker Topics story as saying that the Florida Bar had asked him to head up their newly-endorsed insurance carrier. He clarified it was just a member of the Florida bar that had approached him. Mr. Holloway also notes that the key reason he left Poe & Associates was that Poe had been less than candid with the bar regarding its decision to administer or not to administer Lawyers Professional Liability Insurance Co.'s program, not because of undocumented rate increases as reported.

• Arthur J. LeBlanc, quoted in the March 19 Agent/Broker Topics story on exhibit booths, is assistant vp and director of research and development for James S. Kemper & Co.

N.Y. agents oppose revealing split fees

By STUART EMMRICH

A/BT

NEW YORK—The New York Insurance Department intends to start requiring insurance agents who share commissions on policies placed for local and state governments disclose commissions. The state's independent agents vehemently oppose the move.

At a recent public hearing in New York City, a lawyer for the Independent Insurance Agents Assn. of New York said the proposed regulation "was inconsistent with (the department's) statutory authority and amounted to an administrative intrusion into an area that should be left to the legislature."

The state department wrote the regulation because investigations have shown that some agents apparently shared fees for placing government policies, even though they did no work. They apparently were the recipients of political patronage from party bosses in several New York counties, the investigations showed.

Although the agents association said it agreed that agents should not receive money for work not performed, it argued that the action by the state to stop the illegal sharing practice was unconstitutional and hampered by "vague, broad generalizations."

But Donald Gabay, first deputy superintendent of the state's insurance department, said the objections didn't change his mind about the need for the regulation.

"I have heard nothing here today that would seem to be a valid reason for not going through with this regulation," Mr. Gabay said, adding that opponents had several weeks to send their written objections to the department. After that, the department went ahead with its plan to make insurance brokers file with the state disclosure forms each April 15 about their commissions.

One suggestion for change did seem agreeable to the state, however, Mr. Gabay said that insurance agents who place policies for the government, but do not share the commissions, do not have to file the detailed disclosure forms about the amount of business placed.

He agreed with insurance officials who said the requirement would further restrict agents from working the municipal markets, which Mr. Gabay said was "hard enough as it is."

For those that do share commissions, the disclosure forms will require them to state who received any money, what services they performed and what public position, if any, they hold.

Francis Stinzano, a lawyer for the independent agents, said these requirements were unconstitutional because they forced a "disclosure function which appears far more stringent than any disclosure required of any similarly situated group." That, he said, violated the equal protection rights of the 14th Amendment.

Another representative of an insurance agents' group, however, praised the regulation.

Donald Gardiner, executive director of the Professional Insurance Agents Assn. of New York, said the proposed regulation will provide "the necessary checks and balances to maintain the principle that only those licensed agents or brokers who actually perform services related to governmental units' insurance needs receive commissions." ■

C&B combines with Calif. firm

SAN JOSE, Calif.—Corroon & Black Corp. has completed a business combination with the Sanders & Sullivan brokerage here, the largest independent brokerage in the area.

Sanders & Sullivan produces annual revenues of about $2 million and employs 30 people in brokerage and risk management. ■

RIMS: Broker's bait too much to swallow

By Len Strazewski

MOST SMALL AND MEDIUM SIZED agents don't get to see the inside of the Risk & Insurance Management Society convention where all the big wheeling and dealing is done among jumbo corporate risk managers, jumbo corporate risk takers and jumbo brokers.

If you got the chance to tour the RIMS hospitality suites as I did to view the big money in action, you know that it's not the jumbo accounts that really matter; it's the jumbo shrimp.

The real competition between brokers at RIMS seems to depend less on what accounts can be attracted, charmed or placated and more on how fancy and sumptuous the suites and furnishings are. A few years ago *BI* wrote about the costs of entertainment at RIMS, noting that the price of shrimp then reached about a dollar apiece.

But costs are hardly important. The key is that without shrimp, big brokers would be just like everyone else, using the same sales tools that even small agents have. Here's what happened on the inside.

When I entered the suite sponsored by ABC Inc., the giant alphabet brokers, the first thing I noticed was that nearly everyone was clustered in the corner, leaving the bar virtually devoid of customers. I didn't think that was really unusual because, after all, this is the era of Perrier water and lime. But I did wonder what kind of deal was being constructed inside the tight circle of assistant vps.

The last time I had seen a gathering of that type was behind the football stadium seats at my high school where cubes of ivory were rolled for cigarettes and gas money.

Instead of "Come on, seven," more interesting phrases were coming from the crowd, though much harder for me to understand.

"Look at that! Unbelievable! How did they manage to get something that big. Somebody must've been paid off for that one."

Oh boy. Scandal.

I elbowed my way into the crowd, hoping to see the story that would make my career in the insurance industry. What I found was the well known chairman and president of ABC hunched over a table near a bowl of shrimp swiped from a neighboring suite. The bowl was as large as my living room furniture.

"I told you we should've placed the order earlier. It's your fault," said the chairman.

"No it's not," replied the president. "It's nobody's fault. Those guys from CAB Brokers Inc. must've gone out and caught these by themselves."

He held up a fist-sized boiled shrimp and compared it to one from their own bowl. The ABC hors d'oeurve was. . .well. . .a shrimp by comparison.

"There goes the convention," said the chairman. "We might as well pack it up and head back to New York. We won't get any business here."

I have never seen producers so demoralized. I was intrigued, too, because I have never seen so much depend on a small sea animal. Wouldn't meatballs in tomato sauce do as well?

So I left and followed the crowd to the CAB suite. It was a little smaller than its competition's, but was packed to the gills with risk managers and CAB producers. Mostly they were talking about seafood.

"That's a whale of an account," said one producer to another. "I sure would like to land that baby."

One vp told a risk manager for a noted manufacturer "Product liability coverage for football helmets? Wouldn't touch it with a 10 ft. pole. Stinks like a dead mackeral."

The president was greeting visitors and I thought that if anybody knew what was going on, he would. He was all smiles and happily explained.

"The trouble with these conventions is that you are not really supposed to talk business. In theory everyone is here to learn and have a good time. But basically we're all business people out to do our jobs. We don't have much else to talk about. So we make the food the subject of conversation."

A junior exec joggled his elbow and said, "Excuse me, boss, but the buyer from All-American Oil just came in." The president scurried off to attend to the big client and I followed at a discreet distance.

The conversation was not to be missed.

"Hello George, how's business?"

"Not so good Henry. Ever since we changed to ABC, everything's been going up and up. Last year we had to put up . . . uh . . . two million . . . shrimp."

"Really, we can go much better than that. We have several new markets for our. . .uh. . .seafood."

"Oh, how much can you cut it down?"

The president reached into his bowl of giant shrimp and selected a winner. Then he reached into another smaller bowl full of tiny rejected shrimp. He held the big one next to the little one in front of the eyes of the risk manager. Then he handed him the smaller.

"George, I think your company can swallow this a lot easier."

"Henry, I'll call you Monday."

Big business in action. I left to get a cheeseburger. ■

James elects senior vps and directors

Fred S. James & Co. Inc. named **James W. Bayless, Alton F. Irby III** and **John R. Patchett** senior vps at the Chicago board of directors meeting. Mr. Bayless is president of the James Oregon subsidiary and oversees James offices in Alaska, Idaho, Montana, Oregon and Washington. Mr. Irby supervises international operations and Southeastern offices. Mr. Patchett is president of the James California division and also directs the Arizona office. Also at that meeting, **Timothy J. Mahoney, Daniel V. Malloy** and **John C. Crane** were elected to the board of directors.

* * *

A/B/T **people**

Alexander & Alexander Inc. has appointed seven vps around the U.S. In the New York branch, **Joseph M. Rosenthal** was named vp and in the Long Island, N.Y., office **Theodore A. Kobre** was appointed vp and **Rudolph B. Jordan** assistant vp. **Robert E. Boff** was elected assistant vp in the Bloomfield, N.J., office. In St. Paul, Minn., **Dale W. Turnham** was named vp. **David G. Dupar** in San Francisco and **Jerry A. Miller** in Atlanta were also appointed assistant vps.

* * *

Gaiennie

Sulpizio

The Professional Insurance Agents of California and Nevada have installed **Frank W. Gaiennie** president of its 3,600 member association. Mr. Gaiennie succeeds John Baker of San Diego and is a former vp of the association. He is owner of In State Insurance Services of Calif. Inc.

Jerome Aparton and **Robert Sulpizio** have been elected to the board of directors of Clifton & Co. in San Francisco. Mr. Aparton is vp and manager of the firm's risk management department. Mr. Sulpizio is vp and senior account executive.

* * *

Shirley P. Harrington has joined Associated Insurers in Raleigh, N.C., as senior account underwriter. She previously worked for other brokers and the Great American Insurance Co.

* * *

Glen Dye, formerly Alexander & Alexander vp in Tulsa, Okla., has become manager of the oil and gas department of brokers Warren & Sommers in Denver, Colo.

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We'd like to report on staff changes. Just drop a note to Len Strazewski, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5393. We'd also like to receive pictures of those involved.

Mall office draws sales: Neb. agency

OMAHA, Neb.—Shopping centers are not the usual site for the offices of commercial insurance agents, but Insurance Agents Inc., the largest locally owned commercial agent in this metropolitan area, makes the location work.

"Two years ago we were almost completely a personal lines agency and this location was an advantage," said Gerald J. Woolhiser, commercial lines manager. "Now we're at least 70% into commercial lines, but still maintain a large personal lines book with some 35 to 40 walk-ins from the mall a month."

Insurance Agents Inc. has four offices in the Omaha-Council Bluffs, Iowa, area garnering a combined premium volume of almost $20 million. The shopping center office south of the city in suburban Bellvue's Southroads shopping center offers an advantage.

The agency's center of commercial activities, especially the long-haul trucking business (see cover story), is located near the new commercial/industrial heart of Omaha, southwest of the downtown area that is declining in economic strength.

Though trucking is the leading commercial specialty of the agency, small municipal accounts rank number two in volume and are a growing part of the firm's commercial lines.

Contracting firms and restaurants balance the agency's commercial book of business.

"We pretty much had to move away from personal lines because the direct writers are getting a pretty strong chunk of the business," explained Mr. Woolhiser. "I heard a speaker at a recent industry meeting suggest that agencies should get out of personal lines altogether because the direct writer will soon completely control the personal lines business. He made a lot of sense."

Direct writers are also penetrating commercial lines in the Omaha area, according to Mr. Woolhiser, especially in the "mom-and-pop main street risks.

"It's even affected some larger accounts," he noted. "For example, one account I have is a truck parts operation with four offices in the area. A direct writer came in and made him a quote that was significantly cheaper (40%) and provided more coverage than I did.

"I had to tell my client that I couldn't beat the price, though he stayed with me. I think it was actually that he didn't like the idea of going into a Sears store to talk about his insurance." ▪

Agent/Broker guide to appear on Aug. 6

The EIGHTH ANNUAL *Business Insurance* Agent/Broker Profiles issue, which contains vital information on more than 350 leading commercial insurance agents and brokers in North America, will be published Aug. 6.

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.

This special report will also provide detailed looks at the 20 largest U.S. brokers and the largest Canadian firms.

Many agents and brokers listed in previous Profiles issues have already received the questionnaire in the mail. Don't fill this out if you have already completed a mail questionnaire.

To qualify for the Profiles issue, an insurance broker or agent must deal directly with insureds, 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.

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

DEADLINE for returning the questionnaire is July 1.

Space trucks . . .

Continued from page 38A

ited," noted Mr. Frick, "And the relationship between the broker and the underwriters is crucial."

M&M, the largest space broker, has marketed several satellite accounts for foreign governments in addition to private U.S. enterprises, including Western Union. The broker has found insurance against losses from physical damage to a satellite while it's on the ground, improper orbit, liability for the launch, satellite malfunction and launch vehicle failure.

Mostly the satellite risks are placed with Continental European markets—French, German and Italian companies—according to Mr. Frick, though he expects the "U.S. market will become a major factor soon."

U.S. capacity

"The Lexington of AIG is one of the few U.S. markets in this business, and they only have about a $50 million capacity," he explained. "But we are seeing additional interest from reinsurance groups and the life insurance companies."

One major task facing the broker for space-shot risks is educating the markets on exactly what a carrier is facing in insuring a launch. Surprisingly, scientific secrets do not get in the way of developing background in the field.

"NASA has some of the most helpful people in the world," remarked Mr. Frick, "and the information on launch vehicles, for example, is carefully organized and recorded. The majority of manufacturers are likewise open if you know what to ask for."

Most information that relates to U.S. industrial shots is not classified, though some military information is still kept under wraps, according to Mr. Frick. Launch vehicle success rates, the data that allows a broker to calculate a loss history, is very accessible.

"It's a different game completely outside the United States," noted Mr. Frick, "and there's a bit of hesitancy on the part of foreign clients who are a little reluctant to divulge the information."

Local politics is an issue. If a government loses interest in a communications satellite project, it simply may never take off. If the local M&M representative does not have a perfect relationship with the local government or markets, the task of preparing a launch risk may become very difficult to impossible.

M&M is actively involved in Arabian, Italian and Brazilian satellite projects. The broker had invested a year-and-a-half in researching an Iranian communications project until the Shah of Iran was deposed. Since these special risks yield commission-based compensation for brokers, M&M was out its time and didn't make a dime.

"Most projects require two to three years lead time," explained Mr. Frick, and premiums usually run 8% to 10% of the insured value. The success rate of launch vehicles, for example is about 92%, so there isn't a great profit margin.

"We spend a lot of time talking to our markets," Mr. Frick noted. "We feel that the U.S. market should make more of a commitment. Ninety percent of the $65 million in premiums for this type of risk has left the U.S. We will need the capacity in the long run and most of the usage is by the U.S."

Whatever business M&M does not write of the $65 million in total premiums on satellite risks is handled by a small New York broker that made its early reputation in marine insurance: Nausch, Hogan & Murray Inc.

Although the firm does write significantly less than its jumbo colleague, president Richard Nausch is regarded as having equal expertise.

Research

Mr. Nausch and his staff have supervised insurance for five Japanese communications satellites and were co-brokers on projects for the European Space Agency. Brazilian, Indian and Chinese projects are on the drawing board.

"The kind of information we need to gather is determined by the buyer," said Mr. Nausch. "It's back to the business of being a broker. We have to find out how much the buyer can afford to lose and how he sees his risks."

"Up to now, almost all space shots have used the same technology, so the risks are comparable," he noted.

"Launch vehicle information is available from NASA and you check the performance of similar equipment, develop a failure rate and have some predictability. If you are doing it on a continuous basis you try to stay current."

Brokers should get into the planning of a satellite launch early, according to Mr. Nausch.

"Part of it is taking a chance, but once you have been doing it for five to eight years, you get to know most of the problems. For a new broker getting into the field, you have to do the same kind of research as you would in getting into any other new field. But there's no guaranteed return," he said. ■

riskWatch

By JERRY GEISEL

Federal work comp bill could prompt fresh look at state laws

For the last six years, Sen. Harrison Williams and Sen. Jacob Javits have waged a lonely battle to impose minimum federal standards on state workers compensation programs.

During that six-year period, the two senators introduced three separate bills calling for the establishment of minimum standards. While the proposals initially attracted some interest, strong support failed to develop and the bills always died in committee.

This year, however, things could be different. During recent Senate hearings on the latest Williams-Javits minimum standards bill, the Carter Administration threw its support behind the concept, the first time the executive branch has endorsed federal standards for workers compensation.


Geisel

Even with the Carter Administration's declaration of support, passage of a minimum standards bill remains, at best, a distant long shot. A powerful coalition of 28 business and insurance trade groups already has banded together to resist the passage of minimum standards legislation.

While imminent passage of a minimum standards bill is unlikely, the decision of the Administration to endorse the idea will focus increasing attention on whether state programs provide adequate workers compensation benefits to injured workers.

Unquestionably, the states have made dramatic progress in upgrading benefits since a 1972 national commission found serious deficiencies in most state programs.

The Alliance of American Insurers, an industry trade group, reported recently that the states have adopted about 70% of the national commission's "essential" recommendations. Several states, for example, have boosted maximum temporary total disability benefits by more than 300% during the last six years, an increase far in excess of the rate of inflation.

But other states have lagged behind. In Arkansas, for example, the maximum weekly total disability benefit is only $87.50. In 20 states a worker who is permanently disabled can receive benefits as low as $25 a week, Sen. Williams observed recently.

Just how inadequate some state benefit programs are was brought home by a recent story in the Washington Post describing the inability of a 27-year-old Virginia woman, who lost four fingers in a gruesome workplace accident, to collect full medical benefits.

Although the woman was able to gain compensation to cover her initial medical and hospital bills, which totaled about $20,000, the state program is structured in such a way that the woman may have to pay for future operations to correct nerve damage to her hand.

Some business and insurance officials acknowledge that severe gaps exist in many state workers compensation programs. But consideration cannot be given to raising benefits, as Sens. Williams and Javits propose, until something is done about curbing fraud and abuse in the state programs, these officials maintain.

For example, employe fraud and abuse were major factors in the tripling of Baltimore's workers compensation expenses in the last four years, a city department of finance report revealed (*BI*, April 2).

One Baltimore city official pointed to the case of a recreation and parks department employe who filed 23 claims against the city in his 16 years of employment, illustrating how workers are abusing the system. The official doubted if all the claims were valid, noting that the alleged injuries involved almost every part of the worker's body.

Some observers believe the most promising solution to curb abuse lies in Florida's innovative moves to make its much-criticized workers compensation program more efficient by basing benefits on the amount of wages lost due to injury rather than on only the degree of disability. Proponents of the legislation say fraud would be cut down since benefits would be based on lost earning capacity rather than exclusively on the severity of injury, which is so difficult to accurately measure.

For the long term, perhaps a new national blue ribbon commission offers the best hope of measuring the progress states have made in their workers compensation programs, as well as probing the growing problem of occupational disease injuries.

Two more suits against Ford cite faulty gas tank design

CHICAGO—The Ford Motor Co. finds itself facing two more product liability lawsuits alleging injury causing defects in its Pinto and Mercury Bobcat automobiles.

In the latest action filed earlier this month in federal court here, attorneys for Dawn Hadfield, 17, of Hampshire, Ill., are seeking $250 million from the automaker claiming the company knew about gasoline tank defects in the 1975 Bobcat. The company did not issue a recall notice for the car until February of this year, almost a full year after the girl suffered extensive burns in an April 30, 1978, traffic accident in McHenry County, Ill., the suit says.

The fiery crash left the girl with third-degree burns over most of her body and she faces a series of cosmetic operations over the next five years, according to the suit. In the crash, the girl's car traveling at about 25 miles an hour was struck from behind by another auto. The gas tank exploded upon impact.

Tests conducted by the National Highway Traffic Safety Administration have shown the fuel tanks rupture on the Pinto and Bobcat when struck in the rear at speeds of more than 38.5 miles an hour.

Another recently filed suit seeks $5.1 million. Filed on March 30 in Cleveland, a man and woman claim that faulty gas tank design on the Pinto contributed to their injuries in an Aug. 14, 1973, rear-end collision with another car.

The couple, Mark and Deborah Wisniewski, said the rear-end impact caused their car to burst into flames, severely injuring them both.

Ford has been named in a string of product liability lawsuits in the last few years involving its cars. In addition, the company faces criminal charges in Indiana for allegedly knowing the tank design of the 1972 Pinto was so dangerous as to explode upon light impact.

Last year the company agreed to pay $600,000 to a 7-year-old boy who was orphaned and severely burned in the crash of a 1972 Pinto which was struck by another car and caught fire. A similar case last year in California resulted in a record $125 million judgment against Ford. The award was later reduced by the judge to $3.5 million. Ford is appealing the case.

Also, a $12 million liability suit is currently pending against the company, filed by a Detroit-area woman after her husband was killed in 1977 when a fragment from the fan of a 1972 Ford Torino struck him in the neck. The man was a mechanic servicing the car (*BI*, April 2).

The company declines to comment on the cases, but admits it has large self-insured retentions on its product liability insurance. ▪

Scor Re opens branch

Scor Reinsurance Co. of Dallas, Tex., opened its first branch office in Hartford, Conn. on May 23. Hartford was chosen as the first branch office location because it is the major insurance center in the United States, said senior vp Ken Boyd.

around the states

N.Y. stalls on monoply fund proposal

ALBANY—A bill to abolish the commercial insurance market for workers compensation in New York isn't expected to be acted upon by the state legislature during its current session.

The bill (A. 7) is in the Assembly Labor Committee at this time and the legislature is expected to adjourn by the end of the month.

The bill is supported by the state AFL-CIO. But, insurance groups sharply criticized the proposal at hearings held in New York. The proposed monopolistic fund would "create a new and unnecessary level of state bureaucracy and increase insurance costs at a time when the state's economy can ill afford it," said Frank O'Brien of the Alliance of American Insurers.

The state fund would be more likely to "lapse into a slovenly claims handling process than is the case in a competitive atmosphere," added Robert W. Flockhart, counsel for the American Insurance Assn.

Another hearing may be held.

Mo. director quits

JEFFERSON CITY—Missouri insurance director Jerry B. Buxton has resigned effective May 31 in a difference of opinion with the Director of the Department of Consumer Affairs.

As director of the division of insurance which reports to the consumer affairs director, Mr. Buxton found he was subject to more control from the department than he had anticipated, he said. In addition, the consumer affairs director objected to Mr. Buxton's activities in the National Assn. of Insurance Commissioners, Mr. Buxton said.

Mr. Buxton expects to take a job in the insurance industry. The governor will appoint a new insurance division director.

Va. mandates benefits

RICHMOND—Under legislation passed this year, accident and sickness insurance in Virginia must add coverage for the outpatient services of a clinical social worker treating mental disorders.

Also under the new law, effective July 1, health policies must extend the required health insurance coverage for inpatient care in an alcohol rehabilitation facility to include benefits for drug and alcohol rehabilitation and treatment provided in a mental or general hospital or other licensed facility.

The level of care may differ from coverage for other mental disorders if the benefit covers the reasonable cost of the necessary services, or provides $80 per day indemnity benefit, the law says. The benefits also may be limited to 90 days of active inpatient treatment over the person's lifetime.

Pa. denies rate hike

TRENTON—New Jersey insurance commissioner James J. Sheeran has disapproved a 30% medical malpractice rate hike request from the Insurance Co. of North America.

INA wanted the rate hike on malpractice insurance for 100 doctors who are members of the College of Obstetricians and Gynecologists.

Mr. Sheeran noted that the same coverage is available through either the N.J. Medical Inter-Insurance Exchange or the N.J. Medical Malpractice Reinsurance Assn. at rates 44.3% below the rates proposed by INA.

The 100 doctors had been insured for the last 10 years by Federal Insurance Co., but the company did not renew the insurance and INA proposed to pick it up at a 30% rate hike. Federal had charged $7,144 for coverage of $100,000/$300,000; INA wanted $9,287.

Psychological stress

CONCORD—The New Hampshire supreme court has ruled that psychological stress should be considered as a possible cause of compensable injury in a case here.

The widow of a worker who died of a heart attack had claimed that stress had caused his heart attack. A lower court blocked benefits, saying that the evidence connected with the effect of psychological stress was, at best, "speculative."

The case now returns to a lower court for a decision on the particular claim.

Black lung costs up

HARRISBURG—The Pennsylvania Coal Mine Compensation Rating Bureau won 13.7% rate increases for black lung coverage of 15 cents per $100 of payroll for surface mine coverage and $3.05 per $100 of payroll for deep mine coverage.

The revised rates, effective May 1, are much lower than the 50.5% or total increase of $43 million originally requested. The rating bureau suspended its request for that rate hike after the insurance department had challenged the "judgmental nature" of the rate filing, insurance commissioner Harvey Bartle III said.

The rate request had been based "in large measure. . .on an anticipated liberalization of the eligibility requirements," Mr. Bartle said. "If, when and to what extent the federal government decides to liberalize its eligibility standards remains to be determined."

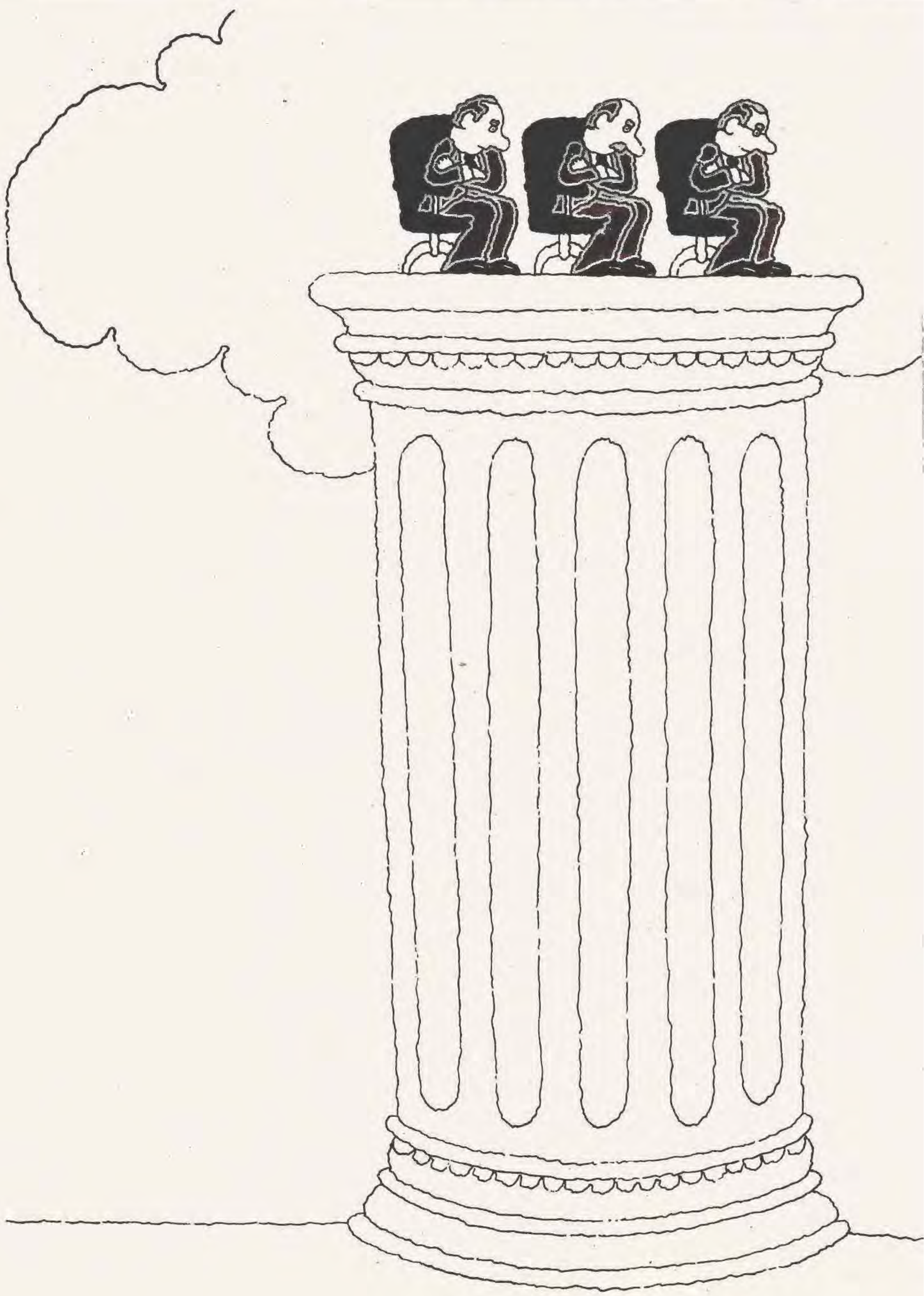
The rating bureau then came back with a 22.2% rate increase, which Mr. Bartle approved to 13.7%. The cutback was based on the department's judgment that the projection of company expense levels contained in the filing "was unconscionably high," Mr. Bartle said.

Ga. passes HMO law

ATLANTA—Georgia's insurance code now governs the operation of health maintenance organizations in the state.

The first HMO to open in the state has also been approved to operate under the new law: Metro Atlanta Health Plan Inc.

Under the law, HMOs are required to obtain a certificate of authority from the state insurance commissioner before opening. Among the requirements for obtaining the certificate are: arrangements for an ongoing quality assurance program and for coverage of out-of-area emergency services; a security deposit of $100,000. ■



Controls pay off for some Blues subscribers

By STUART EMMRICH

NEW YORK—Blue Cross and Blue Shield subscribers in two states will soon receive refunds totaling more than $52 million, the payoff on cost-cutting programs.

Maryland Blues subscribers will get $15.6 million in refunds July 1. Most of that total—$14.8 million—will be shared by the 1.7 million members of the plans' large employer groups. The remaining $800,000 will go to approximately 250,000 non-group members as a one-time credit on their bills, a spokesman said.

In Michigan, refunds adding up to $36.7 million will go to 388 experienced-rated group plans with more than 150 members, about 55% of such groups.

In both states, cost containment programs organized by the Blues and the groups cut health care costs and contributed to the savings.

Among the most successful methods tried in Michigan was a statewide hospital reimbursement review system. A committee met four times a year to set ceilings on cost increases for patient care for the 224 hospitals participating in the plan.

The Michigan plans also cut costs by severely restricting payments for services performed in emergency rooms, allowing only those reimbursements for "actual medical emergencies and legitimate first aid," the spokesman said.

A spokesman for the Maryland Blues said that control efforts there kept the increase in health costs to only 8.8% last year, compared to the national average of 12.7%. For the first time in years the number of claims reported showed a slight decline, he added.

The performance of the Health Services Cost Review Commission, a prototype of sorts for the Michigan review board was effective, he said. A popular network of five health maintenance organizations that contracts with Blue Cross and covers almost all of Maryland also cut costs, he added.

Officials in neither state, however, could determine how much was saved under specific controls.

Besides statewide efforts to control costs, officials said programs by individual groups helped produce the refunds.

The city of Pontiac, Mich., for instance, was so successful in controlling costs that the $449,000 it recently received as a refund will go to hire 13 police officers, according to a state spokesman for the Blues.

And the savings will continue next year, said Pontiac risk manager D. Ernie Bedford, because the Blues are charging the city $21 less for each of the plan's estimated 3,500 members.

He attributed the savings to a tough risk management policy in controlling health costs which was "laughed at" four years ago, but is now paying off dividends.

Among the methods the city used to cut losses in sick time was to expand educational and medical programs to employes' families. It had discovered that much of the lost time at work was caused not by the employe's illness, but of immediate family member's.

The city also stressed communication between the industrial physician and the employe's personal doctor. If an employe complained of an ailment or problem while at work, the personal physician would be notified and kept up to date on possible problems.

Besides increasing training programs on occupational health and safety, the city also required its heavy-labor employes to have an annual physical to pinpoint any potential problems in advance so they could be corrected. And it adopted tougher medical exams for screening potential employes.

The city also found it could save on health care payments over the long term by providing employes who complained of inspecific ailments at work with mental health counseling.

This often got to the root of the problems of employes who were habitually missing work or going home sick, Mr. Bedford said, adding that the success rate in getting people back on the job full time has been good.

"People say that the way you decrease costs is to decrease benefits. I say just the opposite. If you increase the needed benefits, you decrease the cost in the long run," Mr. Bedford said. ▪

Storm losses push down Kemper stock

CHICAGO—Kemper Corp. stock slipped on winter 1979 storms.

A high number of claims resulting from heavy snows throughout the Midwest last winter caused a drop of 30 cents per share in the stock in property/casualty insurance business of Kemper Corp. in the first quarter of 1979 compared with the same period in 1978.

Donald R. Clark, secretary/treasurer for the firm, said at the annual meeting here that the drop was directly attributable to the huge losses suffered on roof cave-ins. Roofs collapsed under heavy snows which especially hit the Chicago area.

Commercial insurers sustained multimillion dollar losses from cave-ins at warehouses, stores, factories and other large facilities last winter.

Property/casualty insurance continued to be profitable in 1978 for Kemper, however, accounting for 68.4% of the corporation's operating income and 75.5% of sales, according to Kemper's annual report. Property/casualty net premiums totaled $678 million last year as compared with $619 million in 1977. ▪

info for buyers

• **A Look at Communicating Social Security** is the name of a booklet now available from Meidinger & Associates Inc. The booklet explains how an employer can effectively communicate the benefits from Social Security to its employes. For a free copy write Debbie Schepers, Meidinger & Associates Inc., 2440 Grinstead Drive, Louisville, Ky. 40204.

• The second edition of a law monograph on **excess liability** and another on excess liability and first-party insurance is now available from the Defense Research Institute. Cost is $5 for members and $7.50 for non-members with quantity discounts available upon request. Write Defense Research Institute, 1100 N. Wells St., Milwaukee, Wis., 53233.

• Do you need more information about the **coordination of benefits and HMOs?** If so, Personnel Research Associates is offering an employers HMO service newsletter that should keep you up-to-date about the subject. For a free copy write Richard D. Quinn, Personnel Research Associates, 49 Oakridge Rd., Verona, N.J. 07044.

• **The Schedule of Bank Insurance** provides descriptions of various insurance policies and bonds used by banks. It refers to the Digest of Bank Insurance for each type of coverage and serves as an excellent reference source on bank insurance coverage for trustees, directors, managers and examiners. The 1978 revision of the schedule ranges in cost from $5 for one copy for members, $6.25 for non-members, to $3.50 each for 11 or more copies for members, $4.40 for non-members. For a free copy request 21-800, Order Processing Dept., 1120 Connecticut Ave., N.W., Washington, D.C. 20036.

• Have you considered **self-funding** your employes' health benefits? If so, Leader Administrators Inc. is offering a pamphlet which explains the self-funding concept and outlines limited self-funding. For a free copy write William A. Leader, 1009 W. Ninth Ave., King of Prussia, Pa. 19406.

• **RSVP—Restore Shut Valves Promptly** is a promotional brochure describing the updated impairment handling program offered by Industrial Risk Insurers. For a free copy write the Communications Dept., Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06101.

• With the increase in lawsuits against **corporate officers and directors,** INA is offering a brief review of this topic of interest to business executives. The 12-page booklet examines the question of responsibility, specific lawsuits against directors, the best defense, audit committees on operations and financial protection. For a free copy write INA Corp., 1600 Arch St., Philadelphia, Pa. 19101.

• Though the potential hazards associated with occupational environments have been recognized before, it hasn't been until recently that **industrial hygiene** has come into being. At Clayton Environmental Consultants, industrial hygiene services are provided ranging from very specific, limited investigations to the broader, more comprehensive services. For a free copy write Richard J. Powals, coordinator of business development, Clayton Environmental Consultants Inc., 25711 Southfield Rd., Southfield, Mich. 48075.

dates

JUNE 4-6. Fundamentals of Fire Protection is a course offered by the National Loss Control Service Corp. to teach fire protection. Cost is $250. Contact G. N. Crawford, NATLSCO, D-5, Long Grove, Ill. 60049.

JUNE 5-6. The Manufacturing Chemists Assn. is sponsoring a workshop in Houston dealing with steps to take at the scene of a transportation emergency in the shipment of hazardous materials. The seminar will be repeated **June 19-20** in Houston. Cost is $110. Contact John C. Zercher, Manufacturing Chemists Assn., 1825 Connecticut Ave., N.W., Washington, D.C. 20009; phone 202-328-4282.

JUNE 5-7. The Greater Los Angeles chapter of the National Safety Council will hold its 26th annual safety congress in the Anaheim Convention Center in Anaheim, Calif. The seminar will discuss **occupational safety and health** problems facing the public and private sector in the upcoming decade. Cost is $30. Contact Greater Los Angeles Chapter National Safety Council, 616 S. Westmoreland Ave., Los Angeles, Calif. 90005; phone 213-385-6461.

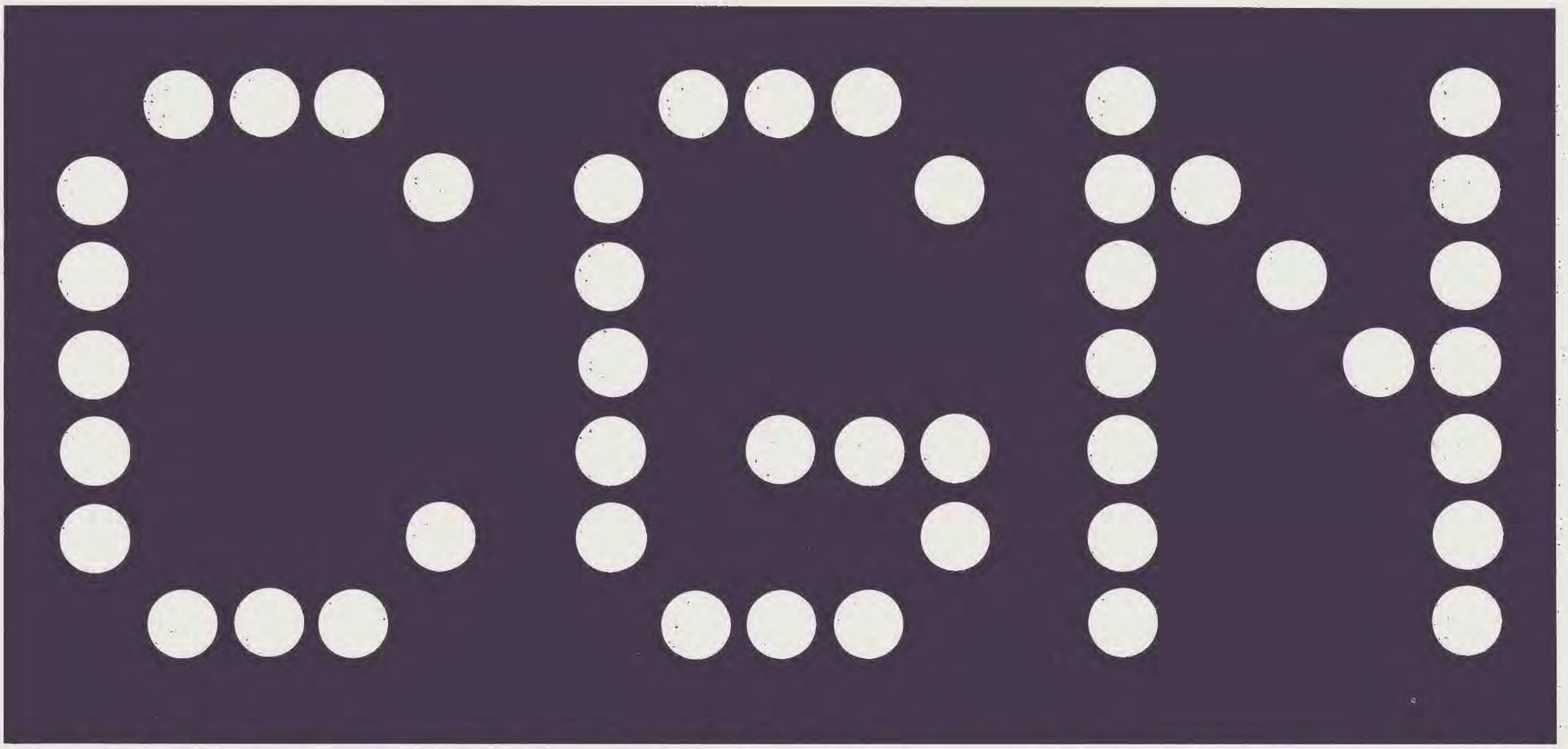
JUNE 7-8. Corporate Insurance Management is the name of a seminar to be held in San Francisco by New York University. The seminar will be repeated in Chicago **August 9-10.** Cost is $495. Contact Registrar, 14th Floor, NYU Conference Center, 360 Lexington Ave., New York, N.Y. 10017.

JUNE 8-9. Reducing **product liability** losses is the topic of a seminar to be held in Kansas City, Mo., by Oklahoma State University. Cost is $285. Contact OSU Engineering Extension, 301 ENG. North, Stillwater, Okla. 74074; phone 405-624-5146.

JUNE 10-13. *Business Insurance* is sponsoring a **workers compensation** conference in Chicago offering strategies to minimize the impact of workers compensation risks on a company. Federal regulation, the risk manager's role in regulation matters, claims fraud, pre-placement screening, Florida's wage-loss experiment, use of a captive for workers compensation, safety and loss prevention and auditing and monitoring the self-insured workers compensation program are some of the topics to be discussed. Cost is $385 with a 10% discount for additional registrants from the same company who register at the same time. Contact Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5242.

JUNE 11-12. The Wharton School of the University of Pennsylvania is sponsoring a seminar on the analytical approaches to managing a **political risk** in foreign investments, the acquisition of political risk intelligence and the corporate strategies in the management of a political risk. The seminar will be repeated **Sept. 24-25** in Washington. Cost is $495. Contact Registrar, 14th Floor, Wharton RMFI Seminar, 360 Lexington Ave., New York, N.Y. 10017.

JUNE 13-14. How to reduce your **insurance costs** by 10% for the next three years is the name and theme of a seminar sponsored by RCI Communications Inc. and Corporate Systems in Dallas. The seminar will be repeated elsewhere. Cost is $295 per person. Contact RCI Communications Inc., 10300 N. Central Expressway, Suite 350, Dallas, Tex. 75231; 214-363-9656.



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Connecticut General takes its place on the New York Stock Exchange. The symbol to look for is CGN. Quotations will appear in NYSE-Composite Transaction Tables in newspapers under the designation "ConnGn".

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- Connecticut General is one of the largest and most profitable insurance enterprises in the nation. Our earnings have increased at a compound rate of about 15% over the past five years. Dividends have more than doubled since 1974. For the last 25 years, the compound dividend growth rate has been nearly 15% annually.
- Our "Living Planning[SM]" concept is an added dimension to our financial planning services. It helps business owners and upper-income individuals to plan realistically for their living needs as well as estate needs.
- Pension fund managers find our group pension products especially attractive. Last year, Connecticut General's pooled separate accounts reported the best equity results and were among the best fixed income results of our major insurance competitors.
- CG offers a wide range of group insurance products and has pioneered the development of group dental insurance — one of America's fastest growing employee benefits. Today, CG ranks fourth among all major insurance carriers as a provider of this benefit.
- Our property and casualty division, Aetna Insurance Company, observes its 160th birthday this year while ranking among the top 25 of approximately 3,000 property and casualty insurance companies nationally.

For a copy of CG's latest annual report write to: Corporate Secretary, Connecticut General Insurance Corporation, Hartford, Connecticut 06152.

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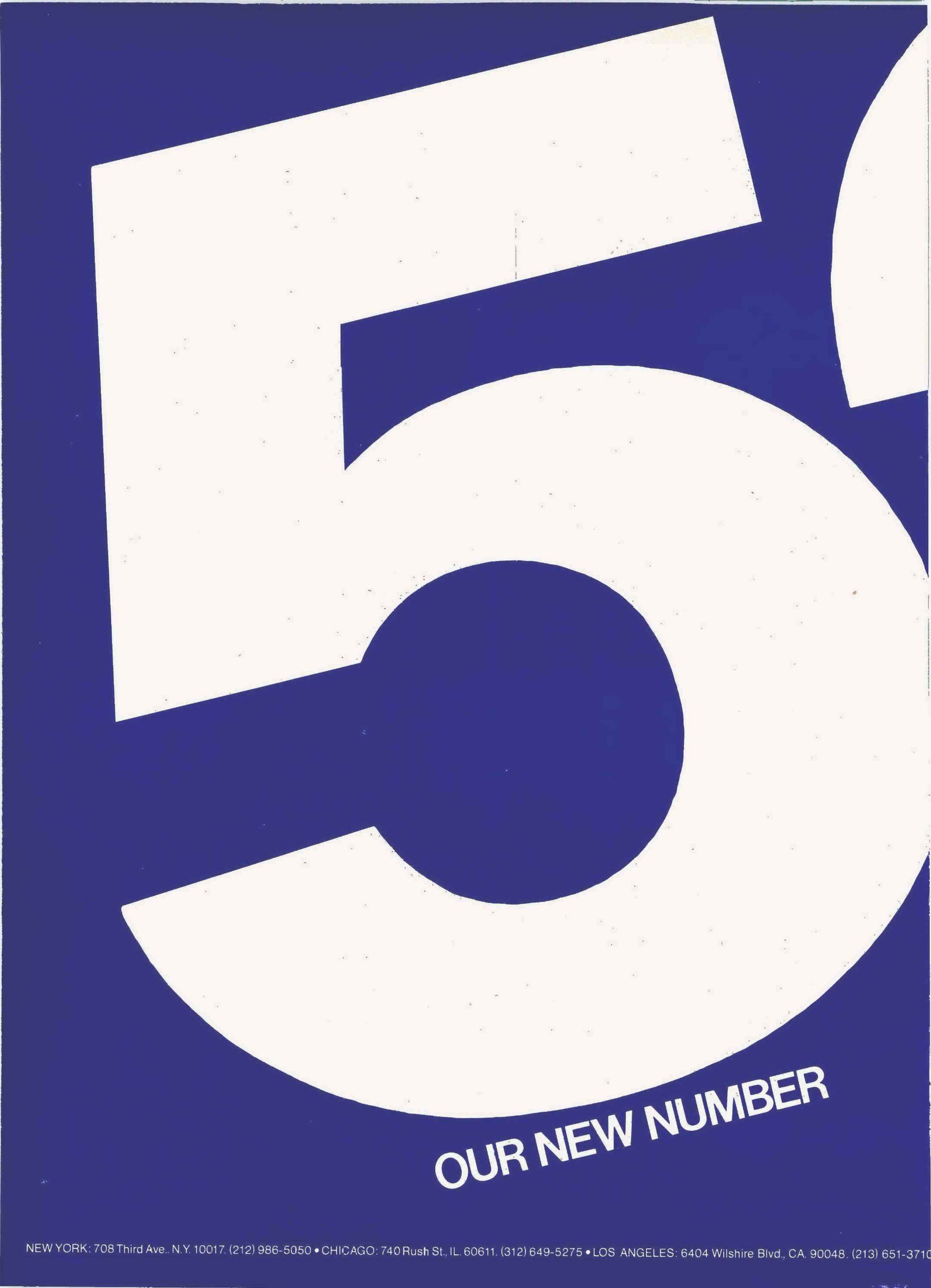
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U.S. exports risk managemen to Europe, Third World: Repor

NEW YORK—When it comes to ranking the most popular American exports of the 1970s, risk management will surely earn a place near the top.

Though its definition and application might vary from country to country, the idea of risk management—a now widespread practice in the U.S.—is increasingly becoming an important insurance tool across Europe and in the Third World countries.

"Academics, managers and insurance industry personnel elsewhere in the world are examining and adapting risk management to their own needs and, in the process, providing new leadership and new directions," says Felix Kloman, president, Risk Planning Group, in the recently released edition of Risk Management Reports; "Risk Management: New Perspectives."

The report looks at risk management practices in Great Britain, France, the Netherlands, Switzerland, Scandinavia, South Africa and Asia and concludes that risk management practice might still be in its infancy in many of these countries, but is rapidly growing in popularity and importance.

American risk managers, the report says, should provide leadership in paving the way for acceptance overseas of the practice and also realize that there are often lessons to be learned from foreign counterparts.

Among those overseas countries exploring risk management, Great Britain appears to be the one most closely following the lead of the U.S., the report says. Although many of the professionals using it consider it merely another term for insurance buying, several leading individuals in the insurance field are pushing to expand its application.

In France, however, the idea of risk management seems more popular than its practice.

The report quotes Jean-Paul Decottignies, who says: "Most French companies are conceptually interested in risk management, but few actually intend to do anything about it at this stage."

Because few educational institutions offer risk management courses, focusing instead on purely insurance-oriented materials, Mr. Decottignies said that most risk managers are self-made and very few even hold that title.

In the Netherlands, the future seems bright for risk management, but the present shows little sign of activity. Risk management is "hardly practiced" in Holland and few universities offer courses in it, says a consultant.

But Godert van Lawick, consultant at Safeguard Risk Services of the Netherlands, added that he sees a changing attitude in the industry, encouraging the development and practice of risk management.

Switzerland is singled out in the report as the country where "perhaps the most significant events are taking place for the future development of risk management."

Responsible for this in large part is the International Assn. for the Study of Insurance Economics, created by 11 insurance companies to convince economists and insurance company executives of the importance of risk management. The report calls the association "the most important research organization for risk management in the world."

In Scandinavia, Sweden appears to be taking the lead in risk management practices, encouraged by insurance companies. Other countries in the region are also showing an increased awareness of the practice, particularly with reference to captive insurers.

Self-made risk managers appear to be the rule in South Africa, where the practice is growing in popularity but has not as yet been introduced into college classrooms on a widespread basis.

In Asia and Australia, the concept of risk management is growing steadily, but shakily, with insurance companies taking some blame for being behind other industries in recognizing its importance and uses.

Risk Management Reports are prepared by Risk Planning Group Consultants of Darien, Conn., and are published six times a year by *Business Insurance*. ■

Aetna expands

Aetna Life & Casualty and Generali of Trieste, Italy, expanded their international employe benefits facilities with the signing of a cooperation agreement with a British insurer, Medical & General Life Assurance Society to represent the companies in the United Kingdom.

Nuclear accident fuels liability limit fight

By STUART EMMRICH

WASHINGTON—The drive to repeal limits on liability for nuclear accidents is gaining new power in the aftermath of the country's worst nuclear accident.

Opponents and critics of nuclear energy have introduced bills in Congress for years to remove the $560 million limit on the amount of liability losses caused by a catastrophic accident at one of the nation's 73 nuclear plants.

Each year the bills usually were assigned to some minor subcommittee, attracting little notice and rarely being heard of again.

But this is the year of Three Mile Island and one of the legacies of the country's worst commercial nuclear accident has been to give new life to efforts to repeal the limits of the 22-year-old Price-Anderson Act.

The latest to take up the cause is Rep. Ted Weiss (D-N.Y.), who introduced a bill in the House earlier this year that would not only allow unlimited liability but would also place a greater burden for paying losses on the nuclear power plants.

The bill (HR 789) calls for insurers to pay the first $160 million of liability losses—the same provision as in the present Price-Anderson Act. But that is where the similarity between the two bills end.

Instead of current law that requires each of the nation's nuclear plants to contribute $5 million toward any excess liability payments above the $160 million—with the government adding an extra $35 million to reach the $560 million total—Rep. Weiss's bill would require the plants to share the total costs of the losses. Individual shares would be based on a plant's previous safety record, operating capacity, assets and other factors.

The bill also states that the plant at which the accident occurred would be liable for losses up to its total assets.

The government would have no financial responsibility under Rep. Weiss's bill, except to guarantee long term federal loans for plants that could not meet their proportional share of the liability losses.

Rep. Weiss, in introducing his bill, said it would "introduce a measure of economic realism to the nuclear industry."

The bill has been assigned to the Interior Committee of Rep. Morris Udall (D-Ariz.) who has publicly promised a review of the Price-Anderson Act sometime in the next few months. Rep. Udall has promised that the bill, which has 30 co-sponsors, will get a hearing before the summer is out, said Jim Gottlieb, an aide to Rep. Weiss.

As opponents to repeal of the law gear up to defend it, they concede that their case has not been helped by Pennsylvania's Three Mile Island accident.

"Obviously this bill has a better chance of passing than ever before," said Harvey Price, vp and general counsel of the Atomic Industrial Forum (AIF). "At the very least it will get a good look this year."

But, the AIF, a trade association for the nuclear industry, still contends that the present Price-Anderson Act should not be amended or abolished by Congress, said Mr. Price. "We don't think it is necessarily a great statute, but it is a reasonable one when you consider the alternatives," he argued.

The present act is being compared to "system of law which does not exist—that everyone gets compensated for every injury," he continued.

Arguing that the present act would be better than a tort system that may or may not properly compensate people injured or displaced by a nuclear accident, he pointed to the quick payments given to the thousands of people who fled the Three Mile Island area to find shelter elsewhere during the most potentially dangerous time of the accident.

"Under a different law, those people would have had to wait. That was one example where the Price-Anderson was a distinct benefit," Mr. Price said.

Approximately $1.2 million was paid out to more than 10,000 people who left their homes for up to two weeks because of fears of possible radiation from the plant. The on-the-spot payments for temporary shelter by the American Nuclear Insurers has been cited by several of the insurance companies in the 140-member pool as a potentially important factor in deflecting potential suits against the owners of the plant, Metropolitan Edison.

"Could you imagine how angry those people would have been if they had not only been forced to leave their homes, but were given a hard time about collecting these payments as well?" one insurance company official speculated.

The prompt payments apparently had no effect on some people though. At last count six class action suits, each asking for the maximum $560 million, have been filed against Metropolitan Edison and its parent company, General Public Utilities; the plant's designer, Babcock & Wilcox Co. and its parent company, J. Ray McDermott & Co., and an Air Products & Chemicals Inc. subsidiary that did some maintenance on the plant's technical system.

Some insurance company members of the American Nuclear Insurers pool have publicly stated what their maximum losses could be in the incident: Travelers placing it at $11.5 million and Crum & Forster estimating its maximum liability at $1.5 million. But spokesmen for ANI doubt that losses will go that high because no lives appear to have been lost and little radiation has been found in the surrounding area, they say.

In addition, all but $58 million of the $160 million covered by the pool is reinsured: 46% with foreign markets, such as Lloyd's, and another 12% with Mutual Atomic Energy Liability Underwriters, according to an ANI spokesman.

Even the $58 million would be paid out of a built-up reserve of $75 million accumulated by the ANI, meaning that no members of the pool may have to pay the liability losses, the spokesman said. ■

New benefits company

Corroon & Black Corp. has formed Corroon & Black Benefits Inc., a new division with nationwide responsibility for the firm's employe benefit services. Included in the new division will be the corporation's life, accident, health and self-insurance operations, pension, profit sharing, actuarial and consulting services. The new division will be headquartered in Nashville, Tenn.

ERISA overhaul . . .

Continued from page 1

Benefit Guaranty Corp.

Tax credits, stretching out over a five-year period, would be given to businesses with less than 100 employes and whose annual profits are less than $50,000 as a reward for starting new qualified pension plans. The credit would equal 5% of the deduction allowed for the first year, 3% for each of the next two years and 1% for the fourth and fifth years.

The Williams-Javits bill also would permit employes to deduct 10% of annual income, or $1,000, whichever is less, from their taxes for pension plan contributions. Several other bills pending in Congress also call for employe tax deductions for their contributions to their pension plans.

The legislation calls for mandatory joint and survivor's benefits. Under this provision, a surviving spouse would be entitled to the deceased's vested pension.

Reporting cut back

In an effort to reduce employers' paperwork burdens, the bill proposes to eliminate mandatory dissemination of summary annual reports to all employes. However, employes still could request a copy.

The committee's move to eliminate the summary annual report came under sharp attack from the Pension Rights Center, a group that lobbies on behalf of plan participants. "We find the idea of eliminating the summary annual report to be disgraceful," said Jay Tower, a staff attorney at the center. "Participants need all the information they can get."

But Mr. Tower welcomed the provision calling for a single agency to administer ERISA. "If you bring everything under one house . . . you have the means of ensuring that there will be a single retirement policy for the nation as a whole," he said.

But the Chamber of Commerce warned that creating a new federal pension agency could further slow the issuing of final ERISA regulations. "All the cooperation (between the Labor Department and IRS) that has taken five years to develop would go out the window," said Mike Romig, director of employe benefits at the Chamber of Commerce.

Mr. Romig also voiced concern about mandatory joint and survivor's benefits, noting that this provision could boost employers' pension costs by 10% and that such benefits already are already provided by group life insurance.

Providing tax credits for small employers who establish new pension plans would not be fair to employers who already maintain plans, observed George Pantos, counsel for ERIC, a benefits lobbying group representing large corporations.

"Onerous" provision

He also criticized the Kennedy-Cranston amendment freeing the states to pass comprehensive health care benefits laws. It's an "onerous" provision that will have a detrimental effect on employers with multistate operations who want to provide a uniform system of benefits, he charged.

Jerry Oppenheimer, who also represents ERIC, testified at a congressional hearing last year that employers who eliminate benefits to pay for a state-required benefit may find themselves out of compliance in another state that requires the dropped benefit.

But Mr. Tower of the Pension Rights Center said the states shouldn't be prevented from passing legislation if they want to protect their citizens by requiring certain benefits.

The Williams-Javits bill now moves to the Senate Finance Committee, which also has jurisdiction over pension legislation. Hearings have not been set yet. ■

DOL quiets 'lost' reports controversy

WASHINGTON—A controversy that pitted an enraged pension community against the Labor Department is resolved—but not forgotten.

The controversy was touched off when the Labor Department sent out delinquency notices to thousands of pension plan sponsors and administrators around the country contending that the plans never filed annual reports in 1975, 1976 or in both years.

The Labor Department asked the plan sponsors to explain why the reports were not filed, submit the missing reports, or submit a duplicate, with an original signature, if the forms had been filed.

Pension plan sponsors were furious at the request. They contended that they had filed all the reports and if the reports were missing it was because the Labor Department had lost them.

Pension plan administrators were especially outraged at the Labor Department's insistence that the duplicates of the annual reports be submitted with an original signature.

"I wouldn't have minded so much if they only wanted photocopies, but the request for an original signature really burned me," said John Reid, vp of Connecticut Pension Services Inc. in Waterbury, Conn. "That meant you had to write a cover letter, follow it up and make sure you got it back. . .the request was utterly asinine. . .as if the Labor Department had time to verify whether the signatures were valid," Mr. Reid said.

After being bombarded with thousands of letters from plan sponsors and service providers, the Labor Department backed off from its original request. Under revised procedures, service providers now only have to return the delinquency notices in a group to the Labor Department explaining that all the requested documents were filed properly. Service providers will not have to enclose copies of annual reports that were filed, nor will individual plan sponsors have to sign the delinquency notices.

A Labor Department spokeswoman said there is probably blame on all sides for the snafu, but the crux of the problem is that many errors were made in recording the identification number of the pension plans. The spokeswoman denied that any forms were lost by the Labor Department.

The revised filing procedures "makes life easier" but it doesn't dissolve the fact "that these people (Labor Department staffers) don't know what they are doing," said Mr. Reid. ■

Consultant acquired

Herget & Co. Inc., a national actuarial and consulting firm, has acquired the Denver actuarial firm of Eric P. Larson, ASA, Inc. The Herget organization offers a full range of employe benefit services on retirement plans, health and welfare plans, executive compensation and employe communication services.

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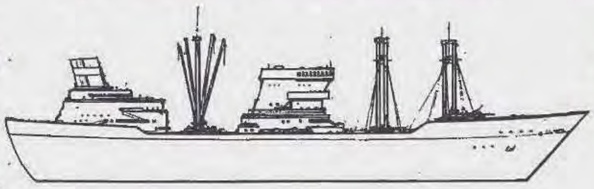

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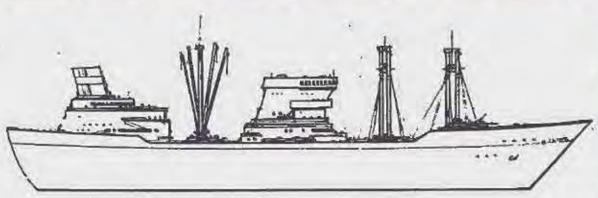

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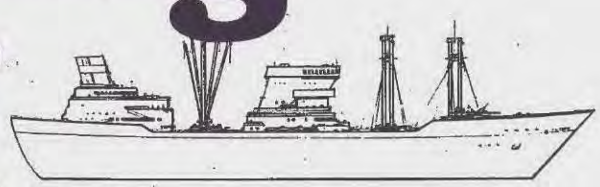

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Insurers, FAA pool . . .

Continued from page 1

laws that govern indemnification by the federal government, the source said. "It can be different with the government involved than it is when there are only private litigants."

Establishing a fund to pay claims is one of the more commonly used methods of handling a disaster, he said. Other methods used include establishing shares for each defendant to pay when each claim is settled. Under another method, one defendant settles all claims and then collects from the other defendants.

This isn't the first time the FAA has been involved in such arrangements, nor is it an acknowledgement of liability in the case, Mr. Onstad said. He added, however, "this is the first time the federal government has been a party to settlements this early in the game."

FAA traffic control procedures came under fire after the crash, but the National Transportation Safety Board recently concluded that pilot error resulted in the mid-air collision of the 727 jetliner and a light Cessna 172 aircraft. The PSA flight was making its final approach to San Diego's Lindbergh Airport at the time.

Claims settled

Most of those killed were young businessmen commuting between various California cities, which has led to speculation that the total claims payouts could surpass the Tenerife disaster, where most of the victims were elderly. Tenerife claims totaled $60 million to $70 million with some still unsettled.

There have been conflicting reports as to the number of claims settled so far in the PSA crash. Robert Kern, attorney for the airline, said more than 100 claims have been settled, but plaintiff's attorney Mr. Sterns, among others close to the case, said the number is probably only half that.

Mr. Kern said the claims settlement process is moving along swiftly, although he refused to say how much the airline has paid out so far. He added it was too premature to speculate how much the disaster will ultimately cost the airline in settlements, but mentioned he does not think the amount will surpass the total from the Tenerife incident.

Mr. Sterns said none of the clients represented by his firm have settled with the air carrier, although several have been involved in negotiations "that have proved unsuccessful."

Trial dates have been set for November and next January in state and federal courts in California on the liability question.

PSA has approximately $150 million in liability insurance coverage, 95% of which was placed in the London market with the balance underwritten by American Home Assurance Co., a member of AIG. The coverage was brokered by Marsh & McLennan and Alexander Howden in London.

Hull loss paid

About a day after the crash, the airline collected a $7.5 million claim on the hull of the aircraft from South East Aviation Underwriters, the underwriting manager of the account.

Hull and liability coverage for the Gibbs Flying Service, owner of the light aircraft, was brokered by Omar A. Walker Co., a San Diego subsidiary of Johnson & Higgins. Southern Marine & Aviation Underwriters were underwriting managers for the Gibbs Flying Service account. ■

Crashes tip airline into bankruptcy

By ELLIS SIMON

NEW YORK—The fatal crash of a New York Airways helicopter last month at Newark Airport, the airline's second such incident in less than two years, has forced the company to file for bankruptcy.

Three persons were killed in the Newark crash and five were killed in an accident in May 1977 atop the Pan Am building in midtown Manhattan. Identical craft, Sikorsky S-61s, were involved in both disasters and metal fatigue of the rotor blades caused both crashes.

New York Airways filed a $30 million product liability suit against Sikorsky following the Pan Am incident and a $35 million action after the Newark crash.

The airline has suspended operations following the Newark crash until it gets four new French-built Puma helicopters to replace the remaining Sikorsky's, a spokesman said. Delivery of the Pumas is not expected until the fall and the airline does not have sufficient cash reserves to carry its 180-person staff until then, he explained.

Although service could have been resumed after the Newark crash with the two remaining Sikorsky craft, the Federal Aviation Administration issued a ruling calling upon S-61 owners to perform ultrasonic testing for metal fatigue after every six hours flying time on all rotor blades with more than 1,200 hours use. New York Airways would not have been able to provide service and still allow time for the testing, the spokesman said.

Although New York Airways has a history of financial hard times, traffic dropped off following the incident atop the Pan Am building. Traffic had picked up, however, just prior to the Newark crash because of increased air travel and the number of passengers seeking rapid transfers between New York's three airports.

The two suits against Sikorsky are among New York Airway's main potential assets to be considered in its reorganization under Chapter XI of the Federal Bankruptcy Act since the airline's creditors would get first crack at any recovery. The airline's suits against Sikorsky primarily seek recovery for business lost as a result of the crashes, the spokesman said.

The airline's liability for deaths and injuries resulting from the incidents was covered by its insurance, written in the London market. ■

Calif. company buys export cover

PALO ALTO, Calif.—Varian Associates Inc. here has signed a master comprehensive policy with the Foreign Credit Insurance Assn. (FCIA) to protect some $10 million in export sales of radiation therapy and scanning equipment.

The policy will be used primarily by the company to assist in marketing its lines of medical equipment in Latin America to private buyers and government institutions.

In cooperation with the Export-Import Bank of the United States, FCIA provides export credit insurance against payment default by foreign buyers for commercial or political reasons. Currently, FCIA's member companies include some 50 of the nation's leading marine, property and casualty insurance companies. ■

Computer lease risk . . .

Continued from page 1

leases, but is equally tight-lipped about telling for whom and for how much.

IMG's Russ McClennan would say only that his New York-based company is "not really offering the policy on a broad basis. The capacity isn't available to do that."

The market's tightness reflects the bad experience of Lloyd's, which has a reputation of taking risks no one else wants. Lloyd's was severely burned after it began offering these policies in 1973.

The policies were offered to computer leasing companies to protect them against losses in revenues caused by dramatic changes in technology that could have rendered their systems obsolete in a few years. They were designed to protect the leasing companies against customers deciding to break seven-year leases before the term expired. Leasees could break the contract mid-term, leaving the leasing company with an out-of-date computer and up to three years of lost revenues.

Policy terms

In a policy first designed by specialist broker Peter Nottage, Lloyd's guaranteed repayment of the original loan used to buy a computer, taking as security a claim on the residual value of the computer itself, which originally cost about $5 million.

The policies were understandably popular, bringing in an estimated $75 million in premium income from about 20 U.S. leasing firms, among them Itel Corp., Bank of America and Federal Leasing Inc.

But as Lloyd's Murray Lawrence says, "We made a lot of mistakes." Lloyd's failed to accurately gauge the speed with which new technology could develop new computer systems that would do more work for less money than the old ones. It also overestimated the residual value it could hope to recoup from computer systems it got stuck with.

Mr. Lawrence, who said Lloyd's total exposure on the computer leasing policies was about $1 billion, heads a committee of underwriters supervising the leasing claims. His committee has engaged First National Bank of Boston to "mitigate the losses" by trying to remarket the computers as they come off the lease.

Officials at the bank have refused to talk about their involvement with Lloyd's or the possible success of this tactic.

Although the estimated loss on the computer leasing blunder is almost twice that suffered because of Hurricane Betsy, the previous record for Lloyd's, Mr. Lawrence said he didn't expect any of the participating syndicates to suffer such serious losses they might be threatened with bankruptcy.

Other Lloyd's officials have pointed out that claims will be paid out over several years, because of the variations in contracts, whereas losses from Betsy hit the markets within the same year.

In addition, one official said, Lloyd's total premium income runs about $4 billion a year, which will help offset any losses caused by the leasing claims.

700 systems

Actually, most Lloyd's officials believe it might be years before the full impact of the leasing claims is known, because the first of the claims are just now coming in.

"Whatever the outcome, we know that this will produce a large loss. The actual extent of the loss we won't know for some time," says a Lloyd's spokesman. In all, Lloyd's insured lease contracts on about 700 multimillion dollar computer systems, any number of which could end up canceled before the seven-year term is up.

What happens with those contracts, and how Lloyd's finally settles the claims, is bound to have a long term impact on the increasingly important computer field.

Surprisingly, Mr. Lawrence says that Lloyd's might some day get back into the insuring of these leases, albeit with a bit more caution.

"I hope we will learn something from what went wrong and then maybe get back into it in some fashion. We will have to be a little more prudent in the way we assume risks and what premiums we charge. I imagine this will change the way we do business to some extent, even outside the area of computers," he said.

Whatever the lessons learned by Lloyd's, the underwriting mistakes are bound to be analyzed by U.S. underwriters considering entering the market.

Bermuda interested

Among the major underwriters, AIG and INA have been mentioned most often by people in the industry as firms that are considering or have considered offering policies similar to those written by Lloyd's. Neither apparently is actively offering them right now, however, and one AIG official scoffed at the policy as being "white elephant insurance."

The policy's premium potential has attracted some interest in Bermuda, according to several knowledgeable underwriters, although nothing concrete has been decided or underwritten there yet.

One smaller U.S. firm, Cover All Underwriters of Miami, was for a time offering a computer leasing policy similar to that of Lloyd's, but "we never had a call on it," said an official there. Since then, the company has seen Lloyd's experience and has pulled out.

"We just don't think it is that wise a thing to get into. The most you can expect is that these systems would be up-to-date for about five years. So of course people would be pulling out of contracts before their time was up. Lloyd's should have realized that," the official said. ■

Record losses drive county to new plans

MINEOLA, N.Y.—Nassau County plans to initiate a medical malpractice loss control program after suffering a record $1 million in malpractice award losses during 1978, says insurance manager Douglas MacLeod.

Specifications for the program are still being developed by Mr. MacLeod, who said that much of the problem centers around record keeping. The county medical center at East Meadow already has an active safety committee.

Bids for the program will probably be sought in about a month from various brokers and consultants, Mr. MacLeod said. It's hoped the program can be implemented by next January.

Nassau County, which is self-insured for malpractice, was named in 68 suits during 1978, compared with 45 begun in 1977 and 32 started in 1976. Nine suits went to trial last year and three of these were settled before completion of the trial. Of the other six cases, five were won by the county.

The largest settlement last year was for $650,000. ■

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Fla. adopts

Continued from page 1

Rep. Bill Sadowski, chairman o the house insurance committee.

Even though insurers lobbied for adoption of the wage-loss con cept as a solution to the inordina tely high cost of permanent partia disabilities in the state, only one insurer of five contacted by *Busi ness Insurance* says it now plans to expand its underwriting here.

Aetna Life & Casualty, the third largest writer of workers compen sation insurance in Florida in 1977 plans to write more business here because of the new law. "But we can't say how much yet," said a spokeswoman at the company.

Otherwise, four other major in surers of workers compensation in Florida praised the reform effort but wouldn't commit themselves to expanding their underwriting here. Nor would they concede the 15% rate reduction from curren levels is warranted.

"For the short term, the new law will have no effect on our under writing stance there," said Car Hertting, assistant vp for workers compensation at Employers of Wassau. "Its ramifications aren't fully known yet," he said.

"It's a good compensation mea sure," said a spokesman at The Travelers Insurance Cos., "but some of the measures need further study before we can say what ef fect they will have on our under writing." He declined to identify what measures are under study, but Rep. Sadowski said the cap on profits "is driving insurers up the wall."

Insurers respond

A spokesman at The Hartford In surance Group wouldn't address the impact of the new law, explain ing corporate officials needed more time to study it.

"We don't know what the rate re duction will do," he noted, adding "we oppose legislated rate reduc tions in principle."

Liberty Mutual Insurance Co. the state's leading carrier with an estimated $44 million in workers compensation premiums in Flor ida this year, claims to have never restricted its underwriting there. "But with the growth of the resid ual market there, others must have been," observed vp John W. Purkis.

The changes in the new law "make for a better law," he said, "not only in cost but in getting money to the right people. We're not sure the pricing mechanism is correct. That's difficult to know.

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wage-loss concept . . .

But the law won't change our position in Florida."

The National Council on Compensation Insurance predicted the new law will cut costs by 9.7%. Legislators increased the mandated rate reduction to 15% based on the added impact of "intangibles."

Everyone admits that in some respects the new law will increase costs. The maximum weekly benefit is increased to 100% of the state's average weekly wage ($196) from the current 66 2/3%. Temporary total and temporary partial disability benefits are raised to 66 2/3% of a worker's average weekly wage from the current 60%, as is the maximum for death benefits.

Still, the hoped-for success of the new law's wage-loss concept in handling permanent partial disabilities is supposed to control the cost of a segment of workers compensation that accounted for only 3% of the claims but half of the benefit costs in 1977.

Major departure

The designation of total disability is also abolished under the law except in extreme cases and all injured workers are expected to go back to work and be compensated for wage-loss.

"It's a major departure from the rest of the country," observes Robert B. Collyer, executive assistant at Washington, D.C.-based UBA, a lobbying group.

"This law is landmark legislation not only for Florida but for the rest of the country," said Governor Bob Graham. "With the enactment of this legislation, Florida becomes the first state in the country to attempt a full-fledged wage-loss approach to compensating injured workers."

Michigan bases a portion of its permanent disability system on a wage-loss program and Pennsylvania uses it for an even more significant portion of its system, observes attorney John Lewis of Coconut Grove Fla., who has campaigned for the new system in Florida. "But in scope and purity, Florida is a real front-runner," he says.

Even so, Florida's version is not the ultimate in wage-loss laws, noted Mr. Lewis, because it allows for impairment benefits to be paid to workers with three partial disabilities: amputation, loss of 80% of vision and severe disfigurement of the head or face.

In addition, under a pure wage-loss system the entire difference between a worker's pre-injury and post-injury earnings is paid to the injured worker. Florida will determine if a worker is working at full potential and sets a 15% threshold of wage-loss to provide some incentive for an injured worker to go back to work.

Wage-loss benefits stop being paid 350 weeks (525 weeks for injuries occuring after July 1, 1980), age 65 or after two years without at least three consecutive months in which the employe lost more than 15% of pre-injury earnings, whichever is sooner.

More interested

Already other states are eyeing the wage-loss system. A state senator in Oregon has incorporated the concept into a bill he's pushing in Committee to overhaul that state's system. Reform advocates in troubled Illinois are also talking to people in Florida about how wage-loss could be adopted in their Northern, industrial state.

"It bothers me to see states jumping in before they see how Florida makes it work," says Mr. Collyer of UBA. "We won't know how it works for two or three years," he suggested.

Next to the wage-loss system, Florida is pinning a lot of hope on a new and expanded administration system to cut costs. "The agency has been given all the guns it needs," says Mr. Lewis, including a 50% increase in staff to see that timely benefits at the proper amount are paid.

Not everyone, however, is satisfied with the new law. Senator David McClain, one of four senators who voted against the bill, opposed the bill because he considered it unconstitutional regarding impairment benefits.

If a worker loses a limb, he or she is awarded an impairment benefit, but if the limb is rendered useless by an accident there is no impairment paid. That, says the senator, "is patently unconstitutional."

But "something had to be done," Mr. McClain admits. "If I had been the deciding vote, I probably would have voted for it," he said.

Even the governor asked for changes in the law when he signed it on May 10, including some housekeeping amendments but some substantive, such as restoring more impairment benefits to the law.

Unusual alliance

The elimination of impairment benefits was strongly urged by Associated Industries of Florida, the state's major employer group. By promising to support increases in benefit levels, Associated Industries convinced the state AFL-CIO leaders to agree to give up most impairment benefits.

Because the agreement was hammered out by an unusual alliance between management and labor groups, the legislature is unlikely to tamper with it at least during the current session that ends next month, said Rep. Sadowski. ▪

Reformers predict results

The new workers compensation law in Florida could cut costs by as much as 30% of what they would have been if the current system had continued, says Associated Industries of Florida, the state's major employer group.

The reform measures are also expected to lure insurers into loosening their restrictive underwriting stance in the state.

Workers compensation insurance is so expensive in Florida now that an estimated 30% of the state's $950 million in premium volume is in self-insured funds.

And the market is so restrictive that an estimated 40% of the state's 117,000 employers are stuck in the assigned risk pool where they are slapped with an 8% surcharge. Those employers, 40% of the total, represent for the most part very small firms.

Self-insurers in Florida, however, could find new regulation under the reform measure adding to their costs. The state is to establish a guaranty fund for self-insurers and plans to assess self-insurers for the losses, but not the expenses, of any residual facility as of July 1, 1980.

people

Kramer resigns from Ford; Ozment new risk exec

After 10 years with the Ford Motor Co., the last eight as director of corporate insurance, **William Kramer** is leaving June 8 to practice real estate law in Southwest Florida. He will be replaced by **Robert Ozment**, presently president of Ford's Bermuda captive, Transcon. Mr. Ozment, 38, has also been with Ford for 10 years. Mr. Kramer, 47, said he is quitting his job after spending the last several years attending night law school in preparation for his new career. No other immediate changes in the Detroit-based company's insurance department are planned, according to Mr. Ozment. He has a BS in economics and an MBA from Michigan State University.

* * *

Gail Klein, 29, joined Control Data Corp. in Minneapolis as senior administrator in the corporate risk management department. She reports to Dennis Ness, manager of administration in the department, and is responsible for property and casualty insurance and risk management for domestic risks. Ms. Klein replaces **Carol Polkinghorn**, who left to join Green Giant Co. as insurance manager. She is now with Pillsbury Co. as insurance manager following Pillsbury's takeover of Green Giant. Ms. Klein was with Alexander & Alexander.

* * *

The Carle Foundation Hospital of Urbana, Ill., has hired **James A. White** to fill the newly created position of risk manager. Mr. White, 46, was for the past five years risk manager for the Board of Governors of Illinois State College and Universities. The hospital decided to add the position of risk manager to its administrative staff at the suggestion of its auditors. Mr. White will be in charge of the hospital's self-insured workers compensation and hospitalization programs. He will also be responsible for identifying new and existing risks and securing coverage to handle them. Mr. White is past president of the University Insurance Managers Assn. and has a BS in labor economics from the University of Illinois.

* * *

Jeffrey Pettegrew has joined the city of Sunnyvale, Calif., as its risk and insurance manager. In this newly created position, Mr. Pettegrew, 32, will implement and administer the city's first self-insured workers compensation and liability programs. He most recently held the dual position of assistant to the city manager and risk manager for the city of Walnut Creek, Calif. That vacancy has not yet been filled.

* * *

Lynn Decker has joined Hughes Helicopters of Culver City, Calif., as employe benefits specialist, a newly created position. Ms. Decker, 28, was previously personnel administrator at Tobias Kotzen Co. In her new position, Ms. Decker will be responsible for managing all employe benefits, including pensions, savings plans, group insurance and the company's HMO. She reports to Bill Bradshaw, director of industrial relations. Ms. Decker has a BA in psychology from Loyola Marymount University and is working on an MBA from there.

* * *

Sarah Rincon has been promoted to the newly created position of insurance coordinator from department secretary for Southern Methodist University in Dallas. Mrs. Rincon, 26, will be responsible for the administration of claims and payments for the university's workers compensation, auto, buildings and contents and malpractice insurance. She reports to Ben Hopgood, risk and insurance manager.

* * *

Dennis Tweedale, risk manager of Madison, Wis., for the past five years, has joined the Madison insurance agency of R.J. Devine Co. Inc. to work as an agent in commercial lines. Before going to Madison, Mr. Tweedale was assistant risk manager for the University of Wisconsin. The opportunity for monetary and career advancement prompted him to make the move, he said. Madison has not hired a replacement yet. He is replaced as president of PRIMA (Public Risk & Insurance Management Assn.) by **Robert Bieber**, risk manager for Westchester County, N.Y.

•

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Porrett leaves A&P

Richard Luther assumed the duties of director of insurance at Great Atlantic & Pacific Tea Co. (A&P) May 21, following the resignation of **Richard Porrett**, who had been at A&P for three years. Mr. Luther, 37, was formerly manager of insurance and safety for Lipton Co. Like Mr. Porrett, Mr. Luther will report to Richard Doyle, executive vp of the supermarket chain; but Mr. Luther will not be responsible as Mr. Porrett was for pension management.

Mr. Porrett resigned in March for personal reasons, ostensibly to start an insurance and risk management consulting business. He will continue to act in an advisory capacity to A&P indefinitely on a fee basis, operating as an independent consultant to the firm. The consulting relationship with A&P has been in effect, Mr. Porrett said, since April 1.

Meanwhile, A&P has deferred hiring of an assistant director of insurance because of these changes, although the assistant's spot has been open since early March when Lou Mongeluzzi left A&P for a job at Lionel Corp., as reported.

Also at A&P, **Linda Dunn** was promoted to manager of employe communications, in the corporate personnel department. She had been manager of insurance administration, handling employe benefits. Replacing her is **Pamela DuMouchel**, formerly with William M. Mercer Co.

Mr. Porrett told *Business Insurance* he intends to establish a business relationship with two existing consulting firms, Risks Audits & Controls Inc. in Wilmington, Del., and Consulting Risk Management Inc. with offices in New York City and Encino, Calif. *Business Insurance* was unable to locate either firm. Mr. Porrett said he will analyze broker services and will handle some pension fund management.

He told *Business Insurance* he recently completed his dissertation for a PhD in business administration from Kensington University, which he worked for two years to complete. Upon checking, however, *Business Insurance* learned there is no degree-granting institution with any accreditation by that name in California, where Mr. Porrett said the college is located.