business insurance®

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

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update

Romanian reinsurer says it won't pay POSA claims

BUCHAREST, Romania—Insurers around the world may be stuck paying claims on policies reinsured through intermediary Promotora de Occidente de Panama S.A. now that one of its fronting reinsurers has received a ruling that it does not have to pay claims.

ADAS Reinsurance Co. of Romania recently received a favorable ruling from a Bucharest court that it could

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Coverage keeps hydro projects afloat

By BILL DENSMORE

Developers of alternative energy sources are generating a new market for a special form of property insurance—low-water coverage for small-scale hydroelectric projects.

This "water resource insurance" is being used to comfort institutional lenders that fear lack of rain might cause such highly leveraged hydro projects to lose the revenue they would make generating electricity and then default on construction loans during early years of operation.

"It's essentially drought insurance," says John F. Graham, a property underwriter in the Boston office of INA Special Risks, a CIGNA Corp. affiliate. INA is one of three U.S. insurers that have plunged into the market or are near jumping in.

The others are Birmingham Fire Insurance Co. of Pennsylvania, an affiliate of American International Group Inc. involved in a joint program with General Re Corp., and Chubb & Son Inc.

Chubb and AIG have each written at least one water resource policy and INA is looking at submissions. Dozens of other policies could be written once pending hydro projects obtain investment financing.

Lloyd's of London and London insurers are believed to be involved as reinsurers or as primary writers when the rating on a risk is completed.

General Re, which is the reinsurer and underwriting manager for AIG's Birmingham Fire coverage through General Re Services Corp., specifically cites water resource insurance in its annual report as an example of its "vigorous program in the development and marketing of new products."

The insurers are responding to estimates that as many as 5,000 such small-scale hydroelectric projects could go on stream in the next several decades; 1,500 of them at revitalized sites of earlier-era dams and generators. The surge in hydro development results from generous tax breaks voted by Congress in 1980 for energy projects.

"There are literally thousands of these, from little electric generators in the backyard on a little brook to the big accounts," says Paul J. Berberich, a senior underwriter in Chubb's New York marine department.

As many as 2,000 applicants have started the lengthy process of obtaining federal approval for such generating sites, underwriters and brokers say. Because of the long time needed to obtain federal permits and financing, hundreds of hydro projects may be discussing the coverage, but only a handful are buying it.

"Over the last year there's been a lot of quoting going on but only in the last month or so are any being bound," says Barbara B. Kennedy, a unit manager in the Boston office of Alexander & Alexander Services Inc., one of four brokers and one agent known to be actively marketing the coverage.

Also involved are broker Frank B. Hall & Co. of New York, Johnson & Higgins of New York, Fairfield & Ellis Inc. of Boston and

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Photo: Long Lake Energy Corp.

Old mill sites like this one on the Oswegatchie River in upstate New York's Adirondacks range (picture circa 1928) are being retrofitted as small, state-of-the-art hydroelectric stations with the help of a new type of insurance.

Spotlight '83

Risk and benefit managers discussed current and future trends last week at the Risk & Insurance Management Society's annual conference, headquartered at futuristic Westin Bonaventure Hotel in Los Angeles, at right.

Working sessions focused on new ideas in risk and benefit management, like risk management information systems and the changing legislative climate affecting benefits.

While everyone started discussing their trade early in the morning at working breakfasts and often continued through late-night gatherings in hospitality suites maintained by suppliers, many were able to take a few hours off for a boat cruise off Long Beach, below, or a stroll down Beverly Hills' famed Rodeo Drive.

This week, *Business Insurance* will focus on the employee benefit topics discussed at the conference. The report begins on page 3.

Toxic substances will haunt U.S. companies in the future

By STEPHEN TARNOFF

Asbestos litigation, already a life-threatening reality for some U.S. companies, may be only the first wave of the flood to come.

Attorneys are predicting that litigation over toxic substances will be the coming trend. And while the lawsuits generated by other toxic substances may not be as overwhelming as the number generated by asbestos, they will continue to harass and endanger businesses for many years.

"It's clear that toxic tort litigation will continue to dominate the tort system through the 1980s," says Leslie A. Miller, an attorney with the Philadelphia firm of LaBrum & Doak who has been involved in toxic tort litigation.

"I think asbestos has set a precedent for toxic tort litigation. It's opened up the floodgates."

"This is the new litigation," says Michael Sommerville, manager of the special claims unit of Commercial Union Insurance Co. "This is the litigation that will be very destructive to the insurance industry."

In 1978, the National Institute of Occupational Safety and Health listed 2,400 substances as suspected carcinogens, or cancer-causing agents.

Aside from asbestos, the product causing the most litigation now is Agent Orange.

Used during the Vietman War as a defoliant, the substance contains dioxin, which has been linked to a number of ailments including skin disorders, liver diseases and many forms of cancer.

More than 2.4 million servicemen were believed to be exposed to Agent Orange.

The first suits were filed in the late 1970s, and now there are more than 10,000 plaintiffs in the U.S. District Court in New York.

A class action has been certified in the litigation, but the potential number of class members is unknown because it could include the fathers, mothers, wives and children of servicemen exposed to the substance.

Plaintiffs' attorneys are estimating that about 20,000 claims will be filed in the near future, but they add that more could follow.

"Agent Orange is bigger than asbestos, but nobody can say how big it is," says plaintiffs' attorney Steve Schlegel of the Chicago firm of Schlegel and Trafelet Ltd.

"As a single piece of litigation, it is the most legally complex and the biggest high-stakes litigation ever filed in the history of products liability litigation."

About 14 manufacturers of Agent Orange have so far been named as defendants in the suits. A trial is set for later this year to determine if the companies can escape liability because they manufactured Agent Orange according to government specifications.

Based on research conducted by Commercial Union and Liberty Mutual, other substances and products that either have triggered litigation or could in the future include:

- Formaldehyde. This industrial chemical, the use of which is probably increasing despite its toxicity, could be the next biggest source of lawsuits, according to Mr. Sommerville.

About 700 formaldehyde lawsuits had been filed as of

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update

Reinsurer won't pay claims

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rescind its reinsurance contracts with ceding companies that used POSA as an intermediary.

Also, the court declared null and void the binding authority agreement ADAS had with POSA and POSA affiliates.

POSA, which stopped doing business in 1980, has been the subject of investigations by the New York Insurance Department and the U.S. attorney's office in New York. The company provided reinsurance for a variety of coverages, including long-tail casualty, workers compensation, credit, surety bonds and crop hail insurance (*BI*, Aug. 30, 1982).

Tax-deduction bill reintroduced

WASHINGTON—Rep. Bill Frenzel, R-Minn., is making a new effort to get Congress to pass a law allowing employers to take tax deductions for self-insured loss reserves and premiums paid to captive insurance companies.

Late last month, Mr. Frenzel introduced H.R. 2642, backed by a coalition of risk management and brokerage interests, to overhaul the Internal Revenue Code to allow the deductions. A similar bill died in a House committee last year.

Hawaii comp rates frozen

HONOLULU—Hawaii workers compensation insurance rates, which rose an average of 29% this year, won't rise at all next year because of action taken by the state Legislature last month.

Both the Senate and House have passed legislation, H.B. 1531, that calls for a moratorium on work comp rate increases in 1984.

Bermuda broker to close

HAMILTON, Bermuda—Insurance & Reinsurance Brokers (Bermuda) Ltd. will close its Hamilton office, the company says. A spokesman explained the decision was taken after the firm's "major market," Walton Insurance Co., decided to stop underwriting.

Insurance & Reinsurance was formed in Bermuda in 1978 and is jointly owned by Walton, Petrofina, Alexander & Alexander International and C.E. Heath & Co.

Insurance & Reinsurance Brokers expects to completely withdraw from the Bermuda market within three years.

New benefit tax cap proposed

WASHINGTON—Budget Director David Stockman says the Reagan administration would agree to a $160-a-month ceiling on the amount of tax-free health coverage an employee can receive if Congress wants to extend government-subsidized health insurance to unemployed workers.

Mr. Stockman told a Senate Finance Committee hearing that lowering the administration's earlier tax ceiling proposal of $175 a month for family coverage would generate another $500 million a year in new taxes paid by employees.

The $175-a-month cap on tax-free health insurance premiums is contained in S. 640, introduced by Sen. Robert Dole, R-Kan.

Armco cuts back in Dallas

MILWAUKEE, Wis.—An estimated 30 positions will be lost in the Dallas office of Compass Insurance Co. and Bellefonte Underwriters Insurance Co. as the office becomes the national account and corporate risk marketing headquarters for parent Armco Insurance Group Inc., Armco says.

The new entity will retain the Compass name only, Armco said.

The changes were described by Armco as a "de-emphasis" of Compass' excess-and-surplus and public-entity business underwritten by managing general agencies nationwide.

Armco Insurance Group Inc., itself a unit of Armco Inc., reported a $4.58 million after-tax operating loss for the first quarter of 1983, compared with a gain of $4.65 million for the same period a year earlier.

AIU's Lancaster retiring

NEW YORK—Jack Lancaster, a director and senior vp-foreign general insurance for American International Group Inc., is taking early retirement "to make a change in personal lifestyle," AIG says.

Mr. Lancaster, 54, will be succeeded as president and chief operating officer of AIG's foreign marketing unit, American International Underwriters, by Houghton Freeman, 61, currently vp-foreign general insurance at AIG and also a director.

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Vol. 17, No. 18—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221. Copyright 1983 by Crain Communications Inc.

Photo: Wide World

Peoria-based Caterpillar workers returned to work April 25 after ratifying new contract.

Caterpillar workers to share profits

By BILL DENSMORE

PEORIA, Ill.—Caterpillar Tractor Co. is making two major benefit concessions in its new contract with the United Auto Workers.

The contract, whose ratification April 23 ended a 206-day strike, gives the 35,000 union employees a profit-sharing plan and sweetens health and pension benefits for workers laid off because of plant closings. Currently 15,000 union workers are laid off.

The 37½-month contract also includes a one-year wage freeze.

The union predicts profit-sharing will add about 3% or $558 to a worker's total compensation in 1984. The company is guaranteeing a minimum 31 cents-per-hour-worked contribution to the plan for that year only. These benefits will be paid in early 1985.

There is no profit-sharing for 1983 and no guaranteed amount of profit-sharing in the final two calendar years before the contract's May 31, 1986, expiration. The contributions those years will be based on a complex formula, but the maximum contribution either year will be 50 cents an hour.

This is the first time non-salaried Caterpillar employees have had a profit-sharing plan similar to

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Lloyd's admonishes St. Paul on increasing share in Minet

By STACY SHAPIRO

LONDON—Lloyd's of London has indirectly warned St. Paul Cos. Inc. not to purchase any more stock in Minet Holdings P.L.C.

If St. Paul of Minnesota buys more than the 24.96% it now owns in Minet, Lloyd's may rescind Minet's standing as a Lloyd's broker.

The warning came in a letter from Lloyd's Chairman Peter Green to Minet Chairman Ray Pettitt, which was released by Lloyd's April 22. It makes clear that Lloyd's does not want Lloyd's brokers owned by insurance companies, apparently because they are Lloyd's competitors.

Two weeks ago, St. Paul increased its stake in Minet to 24.96% from 19.9% after Minet announced a 20.6% increase in 1982 pretax profits to $27.6 million (*BI*, April 25).

Mr. Pettitt had asked Sir Peter what Lloyd's stand was on insurance companies owning Lloyd's brokers.

Sir Peter replied that a Committee of Lloyd's had decided in the 1960s that an insurance company should only own 20% of any Lloyd's broker. The issue came up when Excess Insurance Co. was considering a takeover of C.E. Heath, another leading Lloyd's broker.

"I think it likely that the Council of Lloyd's may well wish to review this matter either when it is considering the bylaws applicable to the management and control of Lloyd's brokers or at any earlier date if there is need to do so," said Sir Peter. It is likely the situation will be reviewed at the council's May 16 meeting.

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Self-funding city hits union snag

By BILL DENSMORE

BATAVIA, N.Y.—The city of Batavia in upstate New York is finding out the hard way that a municipality that decides to self-fund its employees' health insurance better have their labor unions' support first.

A state hearing officer in Albany, N.Y., is ordering Batavia to reinstate a traditional health insurance plan offered by Buffalo, N.Y.,-based Blue Cross & Blue Shield of Western New York Inc. because the city's police union objected that the change to self-insurance was made without labor negotiations required by state law.

Batavia officials argued last year that they were being pressured by the Buffalo Blues not to drop the BC/BS insurance coverage. Blue Cross/Blue Shield officials responded that they only provided city workers with the facts on the self-funding alternative (*BI*, Jan. 25, 1982; Jan. 23, 1981).

Batavia attorneys say the city will appeal the hearing officer's decision to the state's three-member Public Employment Relations Board, which appointed the hearing officer. In the meantime, the city apparently can remain self-insured.

The ruling means cities that decide to self-insure over union objections should probably check state labor laws to see what determines when a collective bargaining agreement has been unfairly altered by one side, says a Blue Cross/Blue Shield executive.

"I think that serves notice that municipalities and school districts at large cannot frivolously and without warning just substitute

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Sasse trials winding up

By STACY SHAPIRO

LONDON—What could be the final trial spawned five years ago by the collapse of the Sasse Syndicate at Lloyd's of London is scheduled to begin May 3 in a London courtroom.

In the first of three lawsuits that were consolidated into one proceeding, Lloyd's names belonging to the Sasse Syndicate are suing the syndicate's managing agent, Sasse Turnbull Ltd., run by underwriter Frederick H. Sasse, to recover money they were forced to pay from their own funds when the syndicate was closed in 1978.

Lloyd's forced the syndicate to close after an avalanche of claims, far exceeding premium, poured into the syndicate from substandard New York property risks it underwrote in 1976 (*BI*, Feb. 6, 1978).

In turn, Sasse Turnbull is suing Lloyd's and Lloyd's broker Brentnall Beard Ltd. Sasse Turnbull charged that Lloyd's failed to give it full information about Den-Har Underwriting Agency of Coral Gables, Fla., to which Sasse Turnbull had given binding authority.

Sasse Turnbull alleges that Lloyd's was aware the property risks

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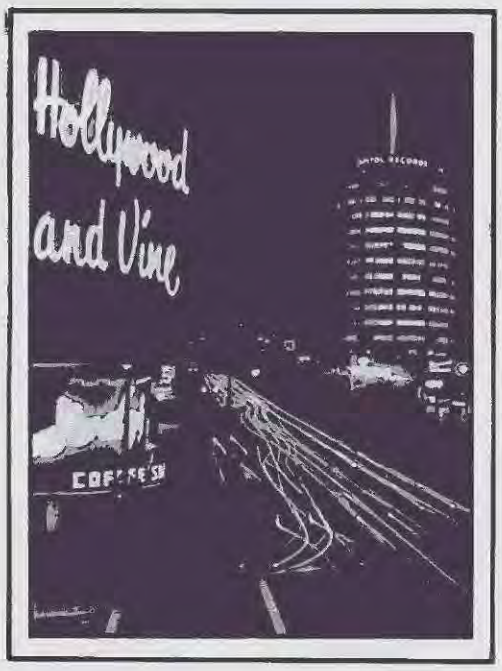
RIMS Benefits Report



Beware of cost containment dangers

By RHONDA L. RUNDLE

LOS ANGELES—In their zeal to cut costs, employers must not build a system that deprives employees of needed quality health care, urges the president of the American Medical Assn.

Business, government and the insurance industry must look closely at health care cost containment programs to make sure they do not discourage people from obtaining needed care, he said.

"Every apparent (cost containment) solution may have danger," warned William Rial, a family doctor in Swarthmore, Pa., who has headed the AMA since June.

Dr. Rial was highly skeptical of many cost containment measures currently used or under consideration by U.S. businesses in his speech at the Risk & Insurance Management Society annual conference last week in Los Angeles.

"There isn't any objective way to be sure what is too much or too little to pay for health care," said Mr. Rial. What more precious asset does any of us have than our health? he asked rhetorically.

Dr. Rial's comments sent a wave of surprise, if not chagrin, through the audience of benefit managers, insurance company representatives and others who have little doubt that their companies are paying too much for health care.

Last year U.S. health care costs totaled nearly $300 billion, more than the gross national products of all but eight nations in the world, noted Mr. Rial.

Eighty-seven percent of all private health care premiums were paid by employers.

The classic dilemma in health care is affordability vs. quality of care, noted Bernard R. Tresnowski, president of the Chicago-based Blue Cross & Blue Shield Assn., who also spoke at the RIMS general session.

The conventional wisdom a decade ago was that quality and access to health care were more important than cost. People were willing to let such costs rise until they hit 9% of gross national product, at which point it was expected it would level off.

But, costs have risen so quickly they are now seen as a fundamental drag on our economy, said Mr. Tresnowski. Health care in the U.S. today costs $1,500 per person each year. This is 10 times more than in 1960 and three times more than six years ago.

The problem arises from three sources, he said:

- An increase in fundamental demand for health care prompted by improvements in medical science.
- The cost of providing health care for the needy, aged and disabled, who cannot absorb the cost themselves.
- Too much investment in health care, which has resulted in an oversupply of hospitals, physicians and other medical care practitioners.

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Ford costs continue to climb

By RHONDA L. RUNDLE

LOS ANGELES—Accelerating health care costs continue to plague Ford Motor Co. despite a 5-year-old cost-containment program that boasts its share of successes as well as disappointments.

"Management wants to see results registered in our premium costs and not just hear about more programs," summed up Paul J. Ryder, director of Ford's hourly benefits planning and labor relations staff.

For this reason, Mr. Ryder believes an increasing number of employers will be giving up on insurance company cost-containment efforts and trying to arrange direct agreements with health care providers.

"Carriers are being told to produce results now or risk losing the business," declared Mr. Ryder in a speech at the Risk & Insurance Management Society annual conference here last week.

Ford's top management is determined to bring health care costs under control, Mr. Ryder stressed. During the past three years, health care costs have continued to increase while other operational costs have been reduced by more than $3 billion.

Continued on next page

As Congress acts, benefit plans will change

By JERRY GEISEL

LOS ANGELES—Recent congressional actions, as well as additional legislation that may be passed soon, could force big changes in many employers' benefit plans, benefit experts suggest.

For example, Congress could pass legislation by the end of the year to make "consumptive" employee benefits, like health insurance, part of a worker's taxable income.

Also, the Social Security reform bill signed by President Reagan earlier this month could encourage workers to demand higher pension benefits from their employers, since retirees may soon be receiving smaller cost-of-living increases in their Social Security benefits.

And, lobbying by interest groups could foster legislation affecting pensions and other benefits, said several speakers during a session at the Risk & Insurance Management Society annual conference.

"Benefit taxation is at the forefront of administration and congressional interest," says Dallas Salisbury, executive director of the Employee Benefit Research Institute, a Washington-based benefits think tank. "It is an issue that won't go away."

Already, legislation has been introduced that calls for taxing employer health care contributions if they exceed $840 a year for individual coverage and $2,100 for family coverage, Mr. Salisbury noted.

Employers have to take a much more active role in the benefits lobbying arena if they want to influence the course of benefit policy, he said, adding, "The degree to which the employer community gets involved in the benefits arena" may well determine national benefit policy.

So far, employers haven't fully mobilized their corporate resources to resist benefit legislation that they oppose, he said, and that failure hasn't gone unnoticed on Capitol Hill, where benefit policy is set.

Rep. Charles Rangel, D-N.Y., for example, says pensions are "fair game" as a legislative target because they lack a constituency, according to Mr. Salisbury.

Some employers say they are trying to let their voices be heard in Washington on benefits issues, but haven't seen much success.

Jim Ott, insurance manager at Moorman Co. in Quincy, Ill., who attended the RIMS conference last week, said he has written both his senator and congressman on the benefits taxation issue, but added that he has not received a response.

Mr. Salisbury said employer-provided benefit plans will be a target for regulators who want companies to offer more benefits to their workers and retirees to compensate for government benefit cutbacks.

For example, according to Mr. Salisbury, policymakers are cur-

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Photos: Courtesy of the Greater Los Angeles Visitors and Convention Center

Costs are rising despite Ford's program

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"I can assure you that we are committed to reversing this cost escalation," said Mr. Ryder. "Both in the (labor) negotiations that are coming up in 1984 and outside negotiations, the company intends to keep the focus on health care costs."

Both Ford and the United Auto Workers will have to make major modifications in benefit programs to turn the situation around, added Mr. Ryder. Such changes could mean the modification of benefit levels, limiting of employee access to certain physicians and other providers or bypassing of insurance companies by Ford to contract directly with providers for selected coverages.

Ford's health care costs for hourly workers have increased dramatically during the past 12 years to $497 million in 1982, up from $104 million in 1970, an average annual increase of 14.1%. Total health care expenditures for hourly and salaried employees topped $710 million last year.

Nearly $400 of the cost of a new Ford vehicle in 1982 was spent on health care for employees.

Perhaps cost escalation can best be measured by monthly premiums, which are not impacted by changes in the size of the population or hours worked, said Mr. Ryder. The average Ford hospital-medical-drug monthly premium per hourly worker has increased to $212 in 1983 from $42 in 1970, an average annual increase of 13.2%.

The UAW has adamantly opposed employee cost-sharing of basic medical coverages, wage offsets tied directly to higher health care costs and lower benefits for short-service workers, said Mr. Ryder.

Spotlight '83

However, the union has agreed to copayments in new programs such as dental and vision care, delayed effective dates of coverage for new hires and limited cost-of-living adjustments in salary as trade-offs for unspecified benefit improvements.

Although Ford and the UAW have been unable to reach agreement on direct employee cost sharing, they have a common interest in improving the efficiency and utilization of health resources, said Mr. Ryder.

That common interest was the basis in 1976 for the first negotiated cost-containment program in the country, he explains. This program was expanded in 1979 and 1982 bargaining agreements.

Much of the Ford-UAW effort has been directed toward reducing hospital costs through hospital utilization review. Inpatient hospital services represent more than half of Ford's basic health insurance costs. If physician services are included, hospital care accounts for more than 70% of Ford's basic plan costs.

Since 1977, hospital day usage has dropped 23 days per 1,000 hourly workers for a savings of more than 13,000 hospital days a year. That's an average annual cost avoidance of $4.2 million, points out Mr. Ryder.

But, Ford's insurers say that hospital days are down in large part because of hospital concurrent review programs.

Indeed, cost-reduction estimates are imprecise, admits Mr. Ryder. "They (cost-containment programs) are not run under laboratory conditions that would allow us to hold 'all other elements' constant."

In addition to hospital utilization review, a Ford-UAW committee has undertaken pilot programs to reduce the use of inpatient hospital services. These pilots include: voluntary second surgical opinion programs, hospital pre-admission testing, review of the necessity for weekend admission, out-of-hospital surgery and hospice services for the terminally ill.

Recently, Ford and the UAW agreed to mandatory second opinion pilots in the Chicago and Detroit metropolitan areas. Only 80% of reasonable and customary charges will be paid for certain surgical procedures rather than 100% if the patient does not receive a second opinion.

Preferred provider organizations are currently under review by both Ford and the UAW. PPOs are contractual arrangements between employers and providers to deliver health care services to employees at a preset discount of fee-for-service charges. Typically, employees receive a higher level of benefit if they opt to use the preferred provider.

Ford is considering such programs to limit full benefits for foot care, outpatient laboratory services and prescription drugs to networks of preferred providers, said Mr. Ryder.

In Michigan, Ford and the UAW are participating in a pilot drug reimbursement program. Benefits for selected drugs are reimbursed based on generic drug costs unless the prescribing physician indicates there is no substitute for a more expensive brand drug.

Health maintenance organizations are a less costly way for Ford to deliver health care to its workers than fee-for-services providers, said Mr. Ryder. However, only about 7% of Ford's eligible employees are enrolled in HMOs even though at least 75% of hourly employees have an HMO option available to them.

Premiums for group dental plans also are substantially less than for traditional fee-for-service plans.

Mr. Ryder estimates that annual savings to Ford Motor Co. through hourly employee enrollments in HMOs and group dental programs are well over $5 million.

Ford also has been working with its insurers to improve coordination of benefits.

Recently, Ford retained a consultant to develop an organized health promotion program for the company. Dr. Jonathan E. Fielding, co-director of the Center for Health Enhancement at the University of California, has recommended emphasis on smoking cessation, hypertension control, counseling for substance abuse and mental problems, nutrition education, exercise and stress management.

"These programs were endorsed in concept and the company is developing an implementation strategy," said Mr. Ryder.

To promote better health care among its employees and to communicate information about its many pilot projects, the automaker makes extensive use of Ford World, its monthly company newspaper. ■

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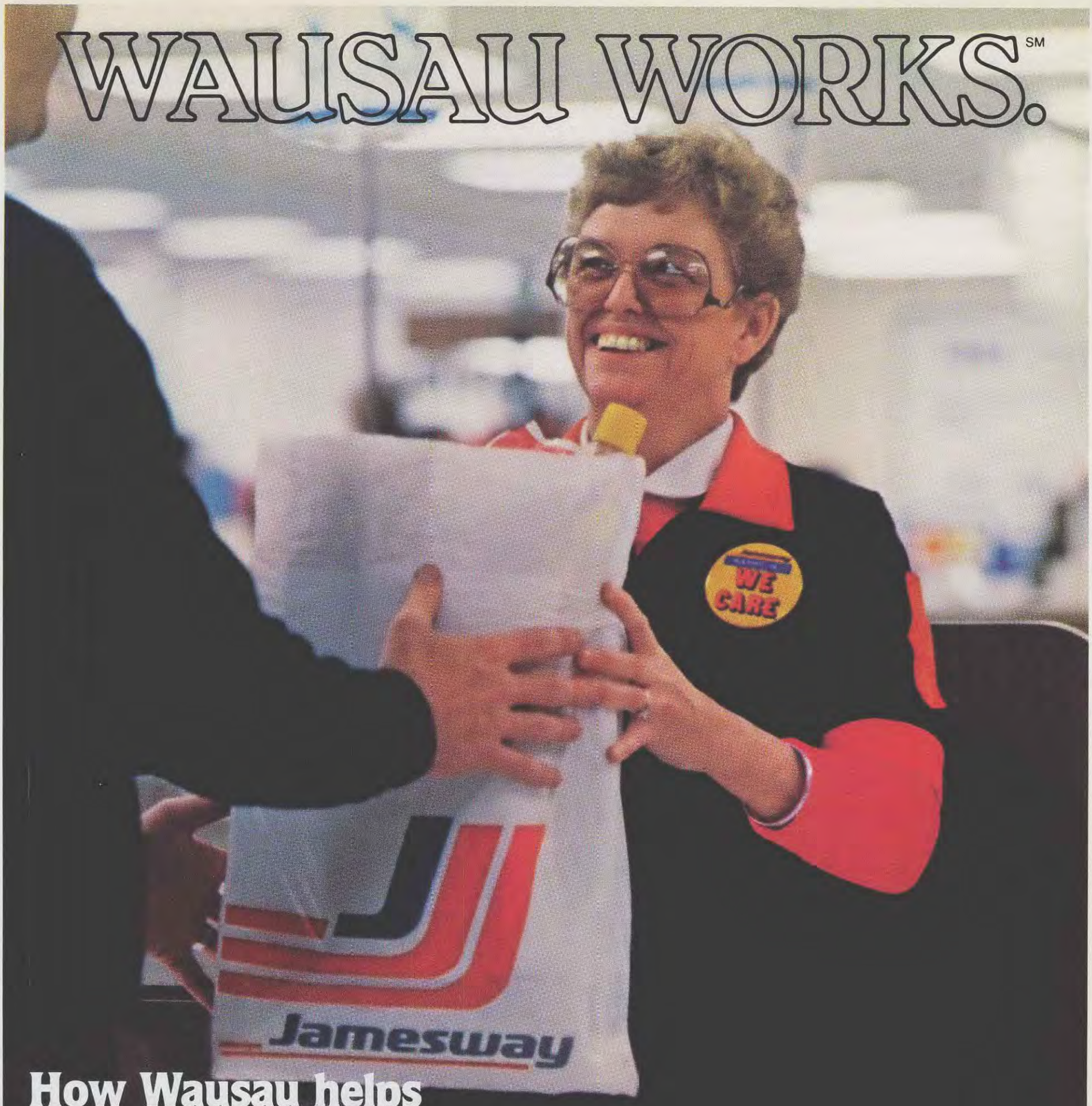


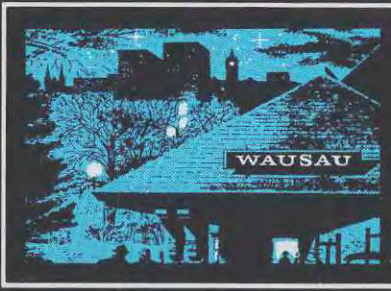
How Wausau helps Jamesway add Life to an employee benefit package.

Jamesway Corporation, an Eastern chain of 70 discount department stores, has known the benefits of Wausau's workers compensation insurance since 1979. Now, many of Jamesway's people know the benefits of Wausau's Payroll Deduction Life Insurance Plan.* More than 1,000 employees signed up for it, voluntarily, within the first year of its availability.

"We needed to become more people conscious," says Kevin Regan, Jamesway V.P. Finance and Treasurer. "With Wausau's Payroll Deduction Life Insurance Plan, we give our employees a chance to do something good for themselves. And Wausau helps us tell our people about our special benefits."

Gerald Fitzgerald, Vice President, Personnel, likes the convenience. "Wausau's Payroll Deduction Life Plan is very easy to handle," he said. "It has value — at the right price."

That's Life — from Wausau. It's working for Jamesway. It can work for *your* company, too.



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Cost-cutting steps can pose problems

Continued from page 3

Solutions to these problems are hard to come by because nobody wants to sacrifice value in medical care for lower cost, explained Mr. Tresnowski.

Innovation and participation of medical professionals are keys to successful cost containment programs, he said.

The Blues' cost containment efforts have concentrated on medical necessity utilization review, incentives to encourage use of ambulatory and other outpatient treatment centers in lieu of in-hospital surgery and a contractual payment system. This includes negotiation with providers to render services at a lower price than would be available to non-Blue Cross/Blue Shield patients.

Another avenue under exploration by many employers interested in health care cost containment is preferred provider organizations.

PPOs are contractual arrangements between employers and providers to deliver health care services to employees at a pre-set discount off fee-for-service charges.

"These could be good if they don't affect quality," said Mr. Rial.

He warned that the hospitals that participate in such arrangements may be those that are in financial trouble, looking for a guaranteed patient list.

And the best qualified and most experienced physicians may not join, he suggested.

Under such circumstances, the U.S. could end up with a two-tier health care system with a lower level of care for people who participate in PPOs.

Mr. Rial also expressed strong reservations about creating greater competition among health care providers.

"It sounds, great, but what is the result?"

The result could be a proliferation of health care service centers within a community. Eventually, hospitals will be forced to charge more for their services if less complicated procedures are performed outside the hospital environment, Mr. Rial pointed out.

Mr. Tresnowski

The average hospital stay in the U.S. today is seven days, he observed. If that average can be reduced to six days, it will mean a 14% reduction in employment for nurses, medical technicians and hospital administrators.

Another approach to health care cost containment that is under serious consideration by many employers is an increase in health benefit plan deductibles, which would force workers to shoulder more of the cost of care.

But will people resist care because of the cost? wonders Mr. Rial. The result could be a delay in treatment, which could in turn lead to compounded costs if the neglect causes an aggravation of the patient's condition.

"We don't want anyone to avoid needed care," concluded Mr. Rial. At the same time, he acknowledged that everyone should try to avoid the attitude of: "Shoot the works and hang the cost."

Remember: "It's a patient we're talking about—not just another case—that's suffering from cardiac or gall bladder disease," he pleaded. ■

"I smelled fumes, but couldn't find the source."

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opinions

Time to open the books

DO YOU WANT a Bermuda-based reinsurance company on your company account?

We hope your answer is, "It depends upon which Bermuda-based insurance or reinsurance company you are asking about."

We fear, however, that the immediate reaction of too many may be "No."

The recent insolvency, liquidation and withdrawal from the reinsurance market of several Bermuda-based reinsurance companies has clearly tarnished the reputation of all Bermuda-based reinsurance companies (*BI*, April 25).

Those who have been skeptical of Bermuda-based reinsurers are now looking at them with a more jaundiced eye. Others, who may have been more receptive to the growing marketplace, are now questioning its stamina in the current competitive worldwide reinsurance market.

Sadly, guilt by association is one of human nature's irrational reactions. Executives of Bermuda reinsurance companies who argue that their companies should be judged on their individual balance sheets are absolutely correct. But, they are going to have to do more than ask for this individual appraisal.

Executives of Bermuda-based reinsurers should move swiftly to make this individual appraisal easier for insurance and reinsurance buyers, and in the process they can help improve the image of the Bermuda market.

The Bermuda Independent Underwriters Assn., which represents almost all the insurance and reinsurance companies with underwriting staff on the island, should immediately consider and, we hope, implement the following three-point plan:

First, the association should establish a central clearinghouse for the annual statements of all Bermuda-based reinsurers engaged in commercial reinsurance and insurance underwriting.

The association could contract with one of the island's accounting firms or law firms or it could employ its own staff in this venture.

All that is required is a central facility, open to the public, that will distribute the annual accounts of insurers and reinsurers to those who request them. The individual insurance and reinsurance companies should provide the accounts as necessary to fill demand.

This facility could be opened immediately to distribute 1982 accounts, which are coming off the presses now.

Second, the association should encourage all its members to report their accounts on a consistent basis for easy comparison with other insurance and reinsurance companies. This is not an easy task because there are not worldwide standards for such reports. The Bermuda reinsurers are going to have to select what they think is the best existing standard.

We recommend that the insurers and reinsurers adopt the annual convention statement used by U.S. insurance companies in their reports to state insurance departments.

It is a form familiar to most insurance professionals and it requires disclosure of investments, loss development and retrocessions—very important areas to be examined in judging the quality of an insurance and reinsurance company.

We can't claim credit for this idea, by the way. Trenwick Reinsurance Co. in Bermuda prepared its 1981 accounts on such a convention statement and distributed them in the marketplace and is preparing its 1982 accounts this way as well.

The third point in the plan will be much more difficult to implement, but the rewards could be far greater. Bermuda-based reinsurers should prepare their annual statements in a uniform format, again for easy understanding and comparison. The statutory return required by the Bermuda government could be a starting point.

These annual statements, which are not as cumbersome as the oversized convention statments, would be adequate for many inquiring buyers and brokers and could be more widely distributed at less cost.

They should not, however, stand alone without making a convention statement available. They lack the important information on loss development and retrocessions.

These uniform accounts should then be available through the central clearinghouse.

If the BIUA would undertake such a task—which should be much easier for the 28 members than for associations with a much larger membership—it could perhaps be the catalyst for a worldwide meeting of the minds of reinsurers on uniform financial reporting.

Already, some insurance regulators around the world are talking about uniform reporting standards. Reinsurers would be wise to start working on the project now so they can provide guidance and suggestions to regulators instead of finding themselves in the age-old position of fighting something developed by regulators.

Bermuda-based insurers and reinsurers may find our suggestions too grandiose for their taste and temperament, but we hope they will at least spark discussion and some action.

Bermuda's community of captive insurers and reinsurers is often on the cutting edge of new products and services to sophisticated insurance and reinsurance buyers. There are many companies with significant capacity to contribute to corporate risk management programs.

Bermuda-based reinsurers have a perfect opportunity to prove this to the world. They should be inspired by current adverse publicity to offer the world markets a better look at their accounts.

letters

Micros take on many jobs

To the editor: It is difficult, if not impossible, to keep track of all of the rapid developments in the ongoing microcomputer revolution. Your feature articles on computers in risk management (*BI* Feb. 21) tackle this formidable task effectively. The article, "Off-the-shelf software," states that advances over the next few years in mass storage devices (hard disk drives) for microcomputers may allow them to satisfy the needs of most large organizations.

Just recently, mass storage devices for many microcomputers have become widely available from such companies as Trantor Systems Inc., Microcomputers of New Orleans and Corvus Systems, with capacities that could accommodate the data storage and analytical needs of most organizations, however large.

While a microcomputer-based system can maintain data on about 7,000 claims per floppy diskette, a risk manager could easily keep track of more than one million claims with a currently available mass storage device. As many as 16 microcomputers can be linked to the same mass storage device, either at a single site or worldwide.

These developments have occurred thanks to the extraordinary strides in hardware design, which continue to shatter conventional views of the limited microcomputer capabilities.

Even where an organization's needs exceed the capacity of a microcomputer system, microcomputers may still supplement a large computer system to provide financial information, loss projections, premium allocation and so on, more economically and efficiently. Inclusion of microcomputers under this approach can avoid the "atom bomb to kill a fly" syndrome so common in computer applications.

Alan B. Cantor
President
Cantor & Co.
Beverly Hills, Calif.

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ADVERTISING: New York: 212-210-0133; Chicago: 312-649-5276; Los Angeles: 213-651-3710
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Move fast if you want to rehabilitate worker

By RHONDA L. RUNDLE

LOS ANGELES—Timeliness of treatment is the single most important consideration in rehabilitating an injured employee.

This is the philosophy of both Dr. Lawrence K. Spitz, medical director of Penn Executive Diagnostic Center in Philadelphia and Robert O'Brien, national accounts executive for International Rehabilitation Associates Inc., a unit of Intracorp Co.

Dr. Spitz and Mr. O'Brien discussed cost containment approaches to medical and vocational rehabilitation at the Risk & Insurance Management Society annual conference here last week.

"The earlier the intervention, the greater the chance of successful rehabilitation," stressed Mr O'Brien.

International Rehabilitation Associates sampled 5,620 workers compensation cases in 1982, and the results plainly show this relationship (see chart). For example, 47% of the claimants returned to work when they were referred to rehabilitation counseling within three months of their injury. About 33% returned to work when the referral took place four to six months following the accidents. And only 18% returned to work when more than a year elapsed between the injury and rehabilitation treatment.

Spotlight '83

How referral time affects rehabilitation

Months between injury and referral	Returned to work	Some cost savings shown
0-3	47%	71%
4-6	33%	61%
7-9	28%	61%
10-12	25%	60%
over 12	18%	51%

Source: International Rehabilitation Associates Inc.

An earlier study conducted in 1980 by International Rehabilitation Associates shows that rehabilitation efforts are about 75% successful when the worker suffers from a burn injury, and only about 55% successful if the employee sustains a spinal cord or back injury. Other injury success rates include crush injuries, 64%; fractures, 66%; amputations, 65%; and skeletal/muscular injury, 60%.

Successful rehabilitation includes getting the injured worker back on the job, but is not limited to this first objective. Rehabilitation also can generate positive results by reducing medical costs and improving the quality of life for the disabled person.

Workers compensation claims offer the greatest potential for cost savings through rehabilitation treatment because the insurer or self-insured employer must pay both medical and wage replacement expenses.

Rehabilitation also can play a role in containing the cost of long- and short-term disability, health and major medical and automobile liability claims

Ninety-five percent of workers compensation claimants are not absent at all or return to work within 60 days following an injury, said Mr. O'Brien. Five percent are disabled for 60 days or more, and roughly 3% are disabled for 90 days or more.

"Though this sounds like a small percentage, I'm sure you can appreciate the impact even a small number of such claims can have on your bottom line," said Mr. O'Brien.

The 3% of claimants off work for more than 90 days should be considered candidates for rehabilitation, he said. The injury is precluding return to work and at the same time will be generating high medical expenses.

At least five states currently require employers to provide vocational rehabilitative counseling to injured workers, including California, Georgia, Michigan, Hawaii and Minnesota. Other states strongly encourage employers to provide such services, although they may stop short of making them mandatory.

The medical and vocational rehabilitation treatment should have two things in common, assessment and goal-directed planning, said Mr. O'Brien.

The rehabilitation specialist, who may be a nurse or other trained professional, brings the claimant in on the recovery process.

The rehabilitation specialist "plants the seeds of the notion to return to normalcy for the claimant and the employer," explains Mr. O'Brien. "He (or she) offers support or guidance to the injured person who is facing what may be the most traumatic event of his life."

IRA specialists manage both medical treatment and vocational counseling, said Mr. O'Brien. If the injured worker's impairment prevents him or her from returning to the pre-injury job, the specialist identifies transferable skills that can be applied to other occupations.

Sometimes a slight modification in the work environment will permit the disabled worker to return to the pre-injury job. If this is unrealistic, the specialist may explore the possibility of different jobs with the same employer.

If neither of these two approaches is feasible, then the specialist's goal will be to place the claimant in another occupation with a different employer. This may require aptitude testing, training and job hunting.

Dr. Spitz has developed a medical model to treat employee disability cases. The model differs from others through its emphasis on tight case management, he says.

The Executives Diagnostic Center employs three rehabilitation coordinators to monitor each case and be certain treatment is moving along as planned. These coordinators are always accessible to the patient, employer, claims administra-

Continued on page 12

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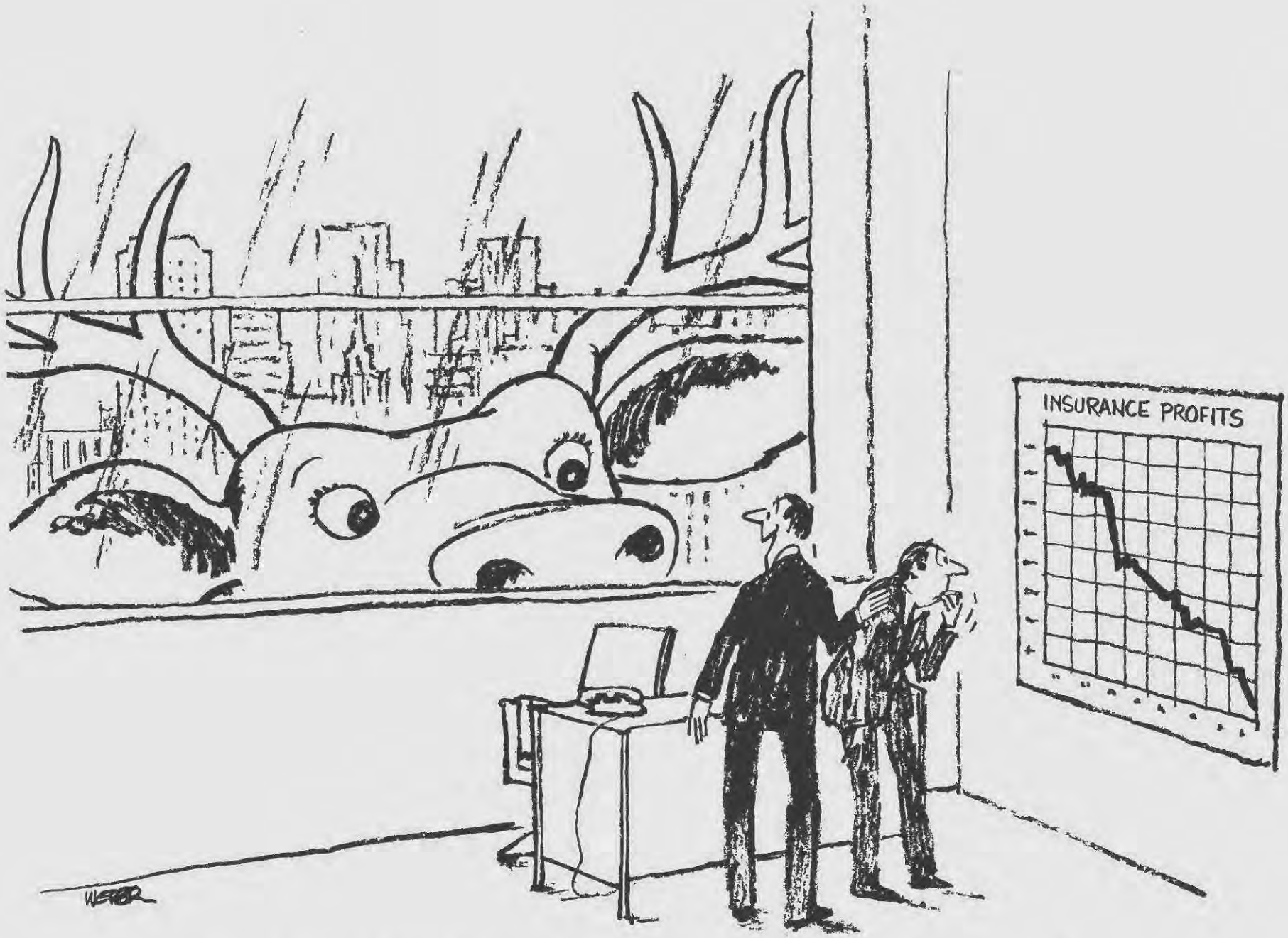

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Timeliness vital to rehabilitation

Continued from page 10

tor, insurance company and other stakeholders in the case.

Dr. Spitz will consult a medical specialist if the patient's case requires it.

This approach insures that different specialists who may be consulted on a single case will coordinate their treatments. Costly X-rays and other necessary diagnostic tests will not be duplicated.

Most patients are referred to the diagnostic center by an insurance company. So, Dr. Spitz's first objective is to overcome the patient's skepticism about the visit and to try to create a bond of trust.

"I will listen to them and find out where they are psychologically and physically," he explained. During the diagnostic examination, he stresses to the patients his desire to see them return to a normal life.

By this time, the disabled patient may be willing to "buy into" wellness, says Dr. Spitz. Even though it may have been fun sitting home and swilling beer at first, after a few months most injured workers begin to miss their co-workers, their self-esteem is dropping and they are beginning to face some financial problems.

"Most patients do hurt—and I take this at face value unless I find something to the contrary during the exam," said Dr. Spitz.

Once the patient finishes the therapeutic part of treatment, the next step is a rehabilitation program. Dr. Spitz has developed exercises using Nautilus equipment to get the worker back in shape.

Dr. Spitz has prepared a cost benefit analysis of this medical management approach to employee disability, which includes 333 cases. Of these, 159 were workers compensation claims, 138 no-fault automobile claims and 36 long-term disability claims.

Of the 159 workers compensation cases, 86 patients voluntarily returned to work, eliminating costly legal fees, adverse decisions by workers compensation appeals court, the possible cost of a structured settlement, and the problem of re-injury that often occurs when the individual returns to work under coercion.

The rate of favorable outcome for patients referred within the first six months of injury is 95%, with some decrease in the success rate as the duration of disability increases. However, at no time does it drop below 50%, even for a duration of disability of greater than three years, said Dr. Spitz. ■

When it comes to treatment, don't forget local health clubs

Send your injured employee to the local YMCA or health club for rehabilitation treatment instead of a hospital, advises says Dr. Lawrence K. Spitz, medical director of Penn Executive Diagnostic Center in Philadelphia who specializes in examining patients with work-related injuries.

Patients in a hospital are surrounded by injured people who trade stories about plaintiff attorneys and disability benefits, Dr. Spitz points out. At a health club, an image of wellness will strengthen the injured worker's desire to return to a normal life—and that includes return to work.

Part of Dr. Spitz's rehabilitation program revolves around this idea.

After patients have had therapeutic treatment and are ready for rehabilitation, "I tell patients they are like injured athletes—healed, but not ready to get back into the lineup," he said.

Dr. Spitz, working with sports medicine experts, has developed a series of exercises using Nautilus equipment. The machines enable him to target certain parts of the body for workout.

"We get the insurance company to buy a three-month membership to a health club and tell the employee we will roll it over into a year membership if they attend regularly."

Work comp, health benefits can be merged

By CAROL CAIN

LOS ANGELES—The day will come when workers compensation and health benefits insurance are combined, but the divisions among the buyers and among the sellers must first be bridged.

And legislative roadblocks also must be cleared, according to panelists who discussed an integration of workers compensation and health benefits last week at the Risk & Insurance Management Society annual conference.

"In the insurance community itself, there's a split responsibility of underwriters," said Jon Livers, executive vp of INA Special Facilities Inc., a CIGNA unit.

One underwriter may deal with group health insurance and another with casualty insurance. To put together a combined health care/workers compensation product, these two insurers have to become very friendly with each other and share information, Mr. Livers said.

This same situation might exist within the company buying the coverage, too. "You may be dealing with two people. You may have a group benefit manager and a risk manager who don't speak to each other. That can be a real issue. How do you get the two sides of the insurance risk operation to work together and look at this as one single issue?" Mr. Livers asked.

But the biggest obstacle probably is legislative regulation because state laws tightly control the work comp system.

"If we removed the regulatory constraints, you could put (health) benefits together with workers compensation," Mr. Livers said.

"Workers compensation was born in a time when it was virtually the worker's entire benefit package, truly his only remedy," said W. Rodney Smith, vp of consultant Risk Planning Group Inc.

Since that time, however, group insurance has expanded and now both areas overlap in coverage and cost, a main reason to try to combine them, Mr. Smith said.

He noted that self-insurers have recognized the costly duplication, but it will take a while to change the practice and the law that affects the many employers that purchase their insurance.

Another problem to deal with is the fact that workers compensation coverage applies only to the hours a worker is on the job while health benefits apply 24 hours a day, seven days a week, Mr. Livers said.

The idea of combining workers

Continued on page 14

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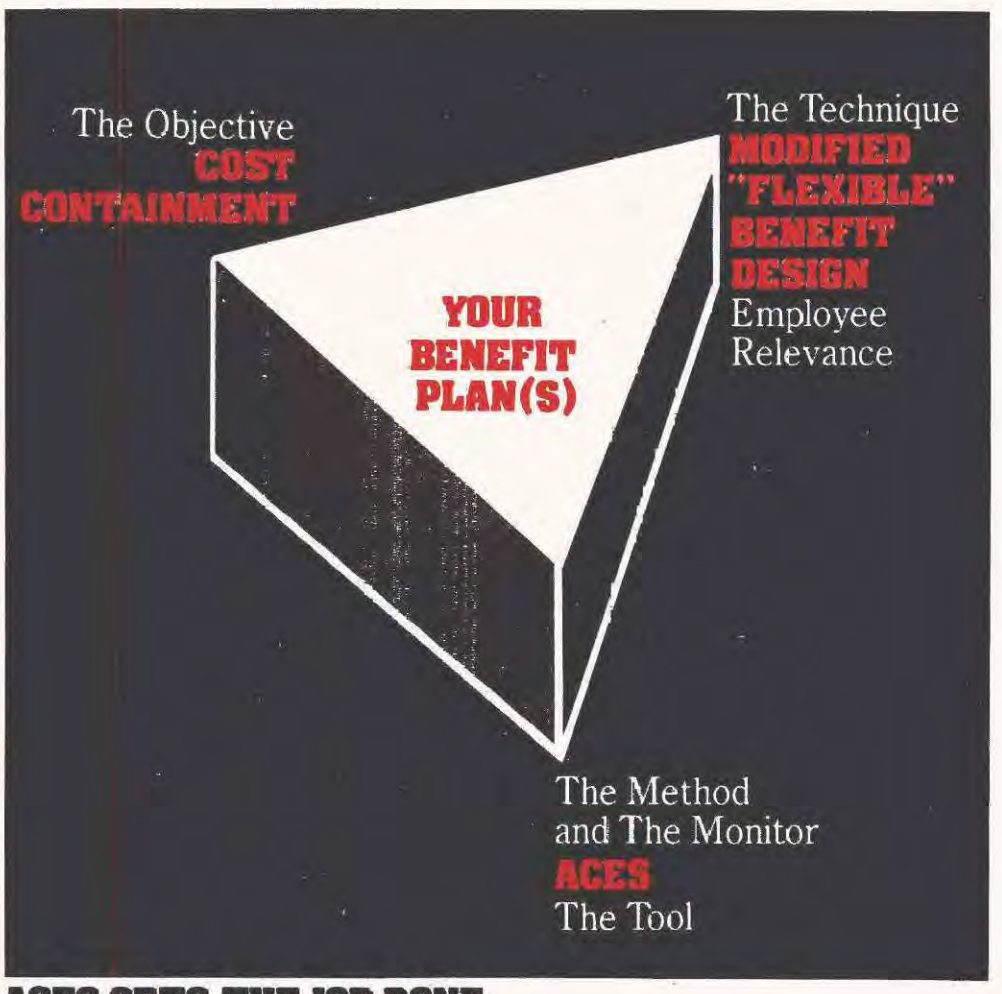

ACES GETS THE JOB DONE.

Changing workforce may not affect benefits

By LEN STRAZEWSKI

LOS ANGELES—Will a changing national workforce make your company change its employee benefit package? Maybe not, says Tom Riddle, manager of employee benefits for Atlantic Richfield Cos.' Energy & Chemical Operations.

A recent survey of employee attitudes toward Arco benefits reveals that most non-union Arco employees are happy with their corporate benefits and see them as better than competitors', Mr. Riddle told the Risk & Insurance Management Society annual conference.

Moreover, the survey of more than 5,000 Arco employees also reveals that Arco's workforce tracks the traditional male-dominated workforce perceptions that shaped employee benefit plans in the 1960s and 1970s.

"We were very surprised to see that our workforce still tracked the employee profile on which our employee benefit program was based some time ago," Mr. Riddle explained. "More than 74% of those surveyed were male with age groups evenly represented. About 80% were married and more than 80% owned homes."

Though many consultants and employee benefit researchers have been reporting that an aging, progressively more female workforce is a national trend, Mr. Riddle emphasizes that this trend has not yet hit Arco and that the motivation for adjusting Arco employee benefits is not yet apparent.

"More than 94% of those surveyed said that they felt the Arco benefit plan was good or excellent and more than 33% believed our program to be better than other employers'," he noted. "More than 92% of the respondents told us that they felt Arco did a good job in communicating benefits too."

Spotlight '83

The Arco survey, designed by a management committee with help from consultants Towers, Perrin, Forster & Crosby, was also designed to test the concept of flexible benefits.

The survey sample indicated that choice of benefits was indeed important to employees, but a majority believed that their present amount of choice and mix of benefits were sufficient.

"Ninety-eight percent of those surveyed said they valued the ability to change benefits, and about 50% believed they had too much coverage in some areas that they would prefer to see applied to some other benefits," Mr. Riddle said.

"But more than 70% said they felt Arco offered a good mix of benefits, and more than 75% said they liked the amount of choice in benefits that they had now."

Though no changes were generated by the Arco survey, Mr. Riddle believes that the survey was useful for the company.

"If you believe that employee benefits are, among other things, an employee relations tool, then a survey is useful to confirm corporate statistics on the workforce and to let you know how well you are doing with your employees," he said.

Regardless of workforce composition, employers should consider modifying their retirement income programs, said another speaker on the "Tomorrow's Benefits" panel.

Most retirement benefit programs now include both defined benefit pension plans and savings programs that will eventually pay retirees more than what is necessary for retirement living, noted Lawrence T. Brennan, partner at Kwasha Lipton, a Fort Lee, N.J., employee benefit consulting firm.

The combination of a defined benefit pension plan, calculated upon a portion of final average pay, some Social Security benefits and the income from a savings plan, will pay retirees more than 100% of their net after taxes preretirement salary, he pointed out, while 80% to 100% is the standard corporate goal.

"The typical corporate retirement program is simply overproviding for career employees who are hired at 35 years old or younger and earn 30 years of service," he said. Moreover, new financial reporting rules proposed by the Financial Accounting Standards Board could force employers to list pension liabilities as a regular balance sheet obligation.

Employers who are overproviding will also be carrying excessive benefit liabilities on their balance sheet if the proposed FASB accounting rules are adopted, he says.

Mr. Brennan recommends that employers reduce defined benefit offerings in one of two ways. Either reduce the formula for pensions, based upon a final average salary, or return to career average salary for pension calculation. Employers should also beef up participation in 401(k) savings plans and increase the amount of fund-matching with employees.

"In this way, we would achieve the very desirable goal of encouraging employees to choose the kind of retirement they want. If a retiree wants to drive a Chevette after retirement, the pension plan and Social Security should take care of him or her nicely. If he or she wants a Chevy or a Cadillac, the retiree will be encouraged to save for it."

Expanded savings programs also increase the portability of a corporation's retirement income package and greatly reduce the benefit liabilities that must be carried on the corporate balance sheet. ■

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Flexible benefits hurdles can be cleared

By CAROL CAIN

LOS ANGELES—Administrative headaches, the high cost of implementation and the lack of sophisticated computer equipment are delaying the introduction of flexible benefit plans.

However, the benefit manager at one major employer says a firm can design a flexible benefits plan if it incorporates built-in safeguards.

TRW Inc.'s Industrial and Energy Sector in Cleveland discovered that many of the problems it anticipated when it began to offer its employees a choice of benefits really do not exist, says Shirley A. Curry, the company's director of compensation and benefits.

Ms. Curry discussed the success of TRW's cafeteria plan last week at the Risk & Insurance Management Society annual conference in Los Angeles.

Many benefit managers are reluctant to offer cafeteria benefit plans to employees because they do not think they can handle added administrative duties, said Joseph I. Siegel, a partner with The Welger/Siegel Financial Group, a New York consulting firm.

Employee communication worries is another roadblock for many companies considering cafetria plans. Ms. Curry, who is part of the benefits design team at TRW, said she anticipated that insurers would try to fight the concept of cafeteria benefits, that the Internal Revenue Service would not approve it and employees would not understand it.

None of those fears were founded, she told the session.

Spotlight '83

And, a company does not need a consultant to set up a cafeteria plan nor a sophisticated computer system and fancy communication vehicle, she said. However, a company—especially a large employer—should have an automated payroll system to ease administration.

Many employers are now interested in forming cafeteria plans because of spiraling health care costs, but cost containment was not one of the reasons the TRW set up its pioneer plan, she said.

The most important reason the company decided on flexible benefits was to make a positive impact on the TRW workforce, Ms. Curry explained.

Although TRW did not introduce its plan because of demographic changes among its workforce, benefit experts say cafeteria plans can better meet the needs of a changing workforce—including more single employees, one-parent families and two-career couples.

Mr. Siegel told the audience that only about 20% of the working population fits the traditional model of a male breadwinner with a wife and kids at home.

When a company considers a flexible plan, Mr. Siegel said it should first examine what benefits it currently offers and what the employees think about them.

TRW sampled all its employees four times to gather that information before it designed its plan.

In its plan, TRW offers 10 different health care options, nine life insurance plans, 18 accidental death and dismemberment plans and two dental plans, as well as cash options.

Workers can choose the standard plan offered by TRW at no cost, Ms. Curry said, or they can choose or delete coverages. If they choose additional options or high-cost benefits, they must pay the difference through payroll deduction. If employees choose fewer options than offered in the standard plan, they can receive credits that can be used to upgrade one of the other options or they can receive cash, she said.

Although TRW's cafeteria plan contains a wealth of choices, it does not include vacation, pension or long-term disability options, Ms. Curry said.

Using benefit credits to buy extra vacation time hasn't been included because of management opposition, Ms. Curry said. And pensions were not included in the plan because of regulations that existed when the plan was created.

Built-in safeguards, such as requiring employees to have evidence of good health, requiring a one-year waiting period before allowing workers to participate in the cafeteria plan and requiring that employees choose some of the benefits, have helped make the TRW plan a success, she said. ■

Combined benefits may have to wait

Continued from page 12

compensation and health care coverages has been tossed about for at least 20 years, but has picked up momentum lately because of rising benefit costs and competitive rating of workers compensation insurance in some states.

The whole system has been in turmoil, according to Kevin Ryan, president of the National Council on Compensation Insurance, the workers compensation insurance rating bureau in more than 30 states. "But we're in a period now where we're not going to see this turmoil.

"To me, we're in a period of stability. Some may agree it's a good time to change the program," Mr. Ryan noted, admitting he could debate either side of the issue.

Among the possible advantages of a combined system, listed by the panelists, were:

- A cost savings because of integrated claims administration.
- Centralized control over a possibly expanded cost containment program.
- A comprehensive group management information system.
- Streamlined coverage.
- Reasonable premium deduction and/or increased dividends.

This is all appealing to risk and benefit managers and insurers, Mr. Livers said.

But, Mr. Ryan said, there are still many questions to be answered before such a product is available:

- How would it deal with occupational diseases?
- What about employee deductibles on the combined insurance?
- What impact would such a change have on the exclusive remedy doctrine of the workers compensation system?

Working with labor unions to accept such a change is another consideration, noted several audience members.

"We don't have any strong answers. We're just asking a lot of questions," said moderator Spencer J. Traver, assistant treasurer at BFGoodrich Co. in Akron, Ohio. ■

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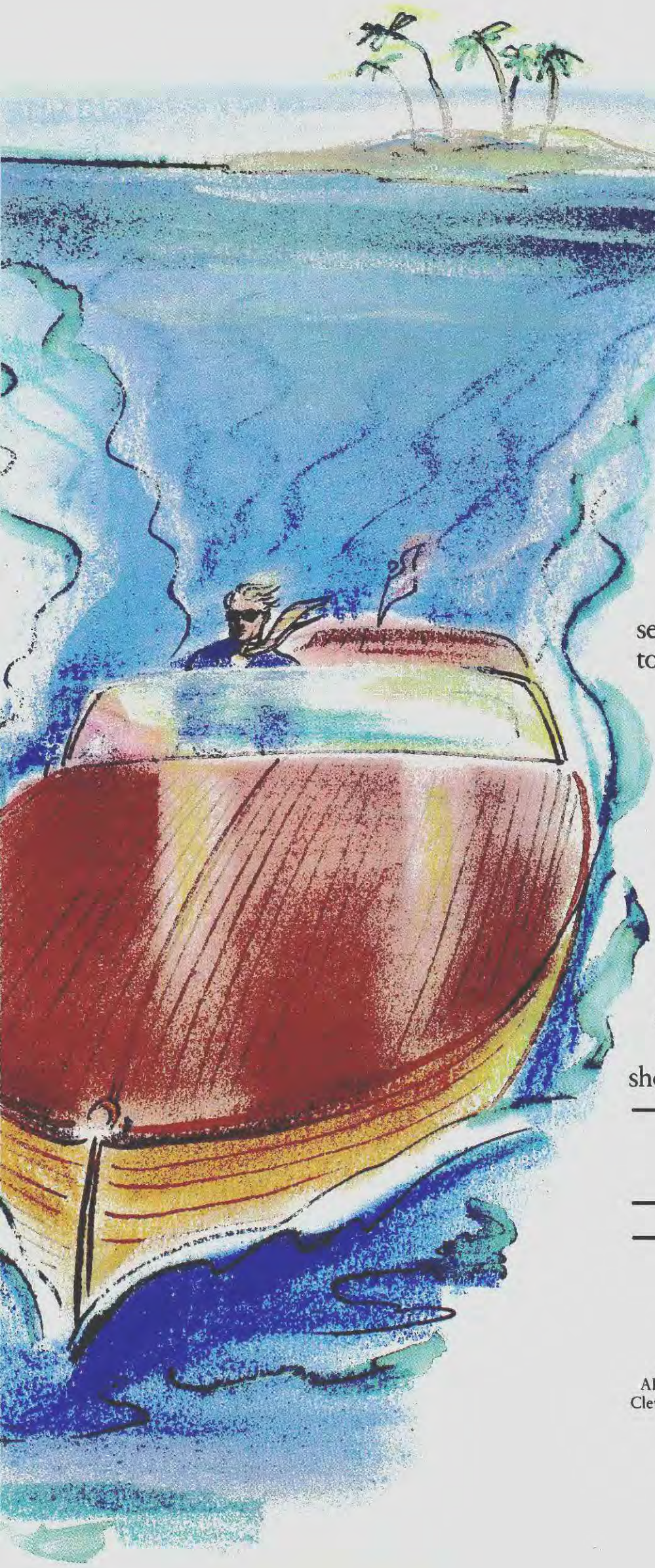

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Avery, Dallas watching flexible plans

By LEN STRAZEWSKI

LOS ANGELES—Avery International and the City of Dallas will be keeping a close watch on their new flexible employee benefit plans that went into effect early this year.

Their employee benefit managers told participants at last week's Risk & Insurance Management Society annual conference in Los Angeles that both plans are designed to give employees what they want in employee benefits without increasing the employers' overall benefit costs.

And the employee benefit managers hope that the new systems will reduce overall costs in the future by shifting employee interest and participation to benefits whose costs don't accelerate as quickly as health care.

"We surveyed the employees of our Soabor Co. subsidiary in Philadelphia in June, 1982, and discovered a very high interest in dental benefits among employees," recalled James Bochinski, Avery director of compensation and benefits. "We wanted to give them the coverage, but we didn't want to pay more for it."

Though most of the subsidiary employees reported that they were satisfied with Avery's medical insurance benefits, more than 70% said they would be willing to participate in a flexible benefit plan that gave them more choice and the option of adding a dental benefit.

That was the go-ahead signal for Avery of Pasadena, Calif., to use the subsidiary as a pilot flexible employee benefit program.

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The Soabor plan, which became effective Jan. 1, follows the trends of other flexible benefit plans by offering a variety of coverage choices that expand upon core coverage. But the plan also allows for optional benefits, such as accidental death and dismemberment coverage, expanded short-term disability coverage and a savings plan for employees who elect reduced health benefits for it.

All this was possible without increasing the employer's weekly contribution to employee benefit costs, according to Mr. Bochinski.

The core medical coverage was a must, he notes. "Our core plan is the same coverage we offered in our previous package," he explains. "We wanted to make sure that our employees would not be seriously hurt by a catastrophe regardless of their choice."

However, employees were given three options to expand or slightly reduce the standard $100 deductible and 20% coinsurance of health costs.

The first option, a more expensive alternative, eliminated health insurance deductibles for an additional charge against the employer's contribution. A second option did the opposite and expanded the health insurance deductible to $500 which increased the maximum amount an employee would pay out of the pocket from $600 under the core plan to $1000.

A third option, however, had the most potential for long-term cost containment, according to Mr. Bochinski.

Dubbed "working spouse coverage," the option allows employees whose spouses have medical insurance with dependent coverage available to opt for 25% of the core coverage at Avery. In effect, Avery offers these employees 25% coverage to fill in the gaps in dependent coverage under another plan.

The cost differential is extraordinary, according to Mr. Bochinski.

Besides removing Avery from 75% of its previous health coverage liability for these employees and all liability for these employees' children, the coverage costs less than half of the core plans.

Working spouse coverage costs the Avery subsidiary about $15 a week, compared with more than $36 a week for the core plan.

Credits generated by choosing reduced coverage or the working spouse plan can be applied toward dental coverage options provided under the same administrative-services-only contract with Aetna Life & Casualty Co., Mr. Bochinski says.

Soabor employees also have three dental options ranging from a traditional preventive and basic services plan, subject to 20% coinsurance, to a high-protection plan, which provides 100% payment for preventive measures and 80% payment for other services. Employees are also offered several choices in short-term disability coverage ranging from a maximum weekly benefit of $125 per week to a maximum benefit of $170 per week.

If an employee has anything left over after choosing benefits, the remainder would be deposited in a savings plan, Mr. Bochinski said. "However, the employee would not be able to withdraw the funds for two years since we consider it an employer contribution. This gets around tax problems."

Though the plan is expected to reduce costs in the long run, Avery will not get its investment back the first year, said Mr. Bochinski. "After all, it cost us nearly $90,000 to get the plan together, but I am sure we'll save in the long run because participation in the working spouse option was much higher than we expected."

Dallas has begun a similar program for its 14,000 employees, relates Norman Murphy, assistant director of personnel and employee services. However, in this case, the self-insured and self-administered municipality was looking to expand dependent coverage.

"Our survey indicated that employees were most dissatisfied with the fact that we have no dental coverage and contributed nothing toward dependent medical coverage," Mr. Murphy explained.

The flexible benefit plan, which also went into effect this January, attempts to correct this problem by offering employees modular combinations of medical, dental and vision coverage in various combinations of reduced and expanded coverage.

An employee anxious to increase benefits for dependents could achieve that goal by choosing reduced coverage in other areas or opting for no dental or vision benefits. An employee looking for maximum benefits in all areas would have to pay the difference in costs

The city also offered two options for expanding the municipality's basic $5,000 life insurance plan.

"After five weeks and 171 meetings, we had met with 9,000 employees," notes Mr. Murphy. "Even after that there were still a few stragglers who wouldn't choose among their options, so I wound up choosing for them." ■

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MAY 16. An Analytical Approach to Risk Management seminar in New York, sponsored by *Business Insurance*; $535; 10% discount for additional registrants from the same company. Also **May 18** in Dallas, **May 23** in Los Angeles, **June 15** in Chicago and **June 20** in San Francisco. Ann Vazquez, *Business Insurance*, Communications Services Department, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

JUNE 1-4. Public Risk and Insurance Management Assn. annual conference in St. Paul, Minn.; $275 for members; $425 for non-members; $375 for subsequent non-member registrants from the same organization. PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

JUNE 2. Motor Fleet Accident Investigation workshop in Chicago, sponsored by the National Safety Council; $100 for members; $125 for non-members. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800, ext. 283.

JUNE 2-3. Principles of Petroleum Insurance workshop in Denver, sponsored by Professional Development Institute; $395. Also **June 9-10** in Oklahoma City. PDI Accounting & Insurance Center, Box 13288, NT Station, Denton, Texas 76203; 817-565-3383.

JUNE 2-3. Applied Spill Prevention, Control and Countermeasures seminar in Philadelphia, sponsored by the International Safety Academy; $150. ISA, 10575 Katy Freeway, P.O. Box 19600, Houston, Texas 77224; 713-932-9400.

JUNE 6-10. Occupational Safety Management course in Chicago, sponsored by the National Safety Council; $495 for members; $620 for non-members. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

JUNE 7. Health Care Cost Containment briefings in Kansas City, Mo., sponsored by the International Foundation of Employee Benefit Plans; $130 for members; $155 for non-members. Also **June 8** in Milwaukee, **June 28** in Pittsburgh and **June 29** in Tarrytown, N.Y. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 7. Risk Financing and Captive Insurance Company workshop in Atlanta, sponsored by Risk Planning Group; $250. Also **June 9** in Seattle; **June 16** in Dallas; **June 21** in Chicago; **June 23** in New York; and **June 28** in Cambridge, Mass. RPG, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

JUNE 7-8. Legal Aspects of Occupational Safety & Health course in Los Angeles, sponsored by the University of Southern California; $250. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

JUNE 7-9. Risk and Insurance Management in Banking seminar in New Orleans, sponsored by the American Bankers Assn.; $395 for members; $595 for non-members. Robin Craighill, ABA, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4047.

JUNE 8-9. Claims Fraud Investigation seminar in Pasadena, Calif., sponsored by the Property Claims Services' Committee on Insurance Fraud Investigation; $100. Richard Ingegneri, PCS, American Insurance Assn., 700 New Brunswick Ave., Rahway, N.J. 07065; 201-388-5700.

JUNE 8-10. Workers Compensation seminar in Orlando, Fla., sponsored by the Florida Assn. of Self-Insurers; $150. Stan Tait, 325 John Knox Road, Suite F-233, Tallahassee, Fla. 32303; 904-386-3796.

JUNE 8-10. An Introduction to Insurance Marketing course in London, sponsored by Risk Research Group Ltd.; 290 pounds plus V.A.T. (approximately $195 plus tax). Elspeth Jones, RRG, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175; telex 8811636.

JUNE 10. Workers Compensation Cost Containment seminar in New York, sponsored by the National Council on Compensation Insurance; $90 for members; $125 for non-members. NCCI, One Penn Plaza, New York, N.Y. 10119; 212-560-1095.

JUNE 12-15. Loss Prevention 16th annual seminar in Atlanta, sponsored by the National Retail Merchants Assn.; $275 for members; $200 for additional member registrants from the same company; $395 for non-members; $310 for additional registrants from the same company; fee for safety and risk managers' June 15 attendance, $75 for members; $110 for non-members. NRMA, Attn.: Operations Division, 100 W. 31st St., New York, N.Y. 10001; 212-244-8780.

JUNE 13-15. Techniques of Risk Management conference in New York City, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 13-17. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; $570. ISA, 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3176.

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JUNE 14-17. Insurance Company Education Directors Society 30th annual conference in Delavan, Wis., sponsored by the society; $150 for members; $180 for non-members. James Dockter, ICEDS General Chairman, c/o Professional Book Distributors Inc., 555 E. Hudson St., Columbus, Ohio 43211; 614-267-3189.

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JUNE 19-22. Collection of Employer Contributions institute in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700. ■

Coalitions continue attack on health costs

By CAROL CAIN

LOS ANGELES—There's only so much an employer can do alone to contain rising health care costs.

That's why some employers are putting their heads together by joining one of the more than 170 health care coalitions nationwide.

"Collective action is not new, but it is the only way business is addressing the (health care cost) problem," said William C. Deans, manager of health care benefits at E.I. du Pont de Nemours & Co. of Wilmington, Del. He was the moderator of a miniseminar on employer coalitions at the Risk & Insurance Management Society annual conference last week in Los Angeles.

"What we're trying to do as an employer is see if we can bring about a cost containment in the community," added Karen Oleck, manager of group insurance and benefits at The Singer Co. in Stamford, Conn., which belongs to the Fairfield-Westchester Business Group on Health.

One of the approaches the coalition uses to attempt to contain health costs is to talk with local hospitals' chief executives, Ms. Oleck said.

Likewise, the Minnesota Coalition on Health Care is working with hospital trustees, but there is also strong involvement from government, labor, insurers and other health care consumers, said James B. Kenney, executive director of the group.

"All the actors that were part of the problem are now part of the solution."

The coalition operates on a $200,000 annual budget with 80% of the money coming from employers and the balance from private contributions.

"In the next three years, we will be starting to 'hit up' the providers," Mr. Kenney said.

Although the coalition has a full-time staff of four, in addition to outside consultants, it still considers itself a voluntary organization.

But to be successful, a coalition must have chief executive officers as members and a leadership that will devote time to the coalition, said G. Robert O'Brien, president of group insurance and services for Connecticut General Life Insurance Co. in Hartford, Conn., a unit of CIGNA Corp.

He reiterated what many others have said—that the problem of health care cost increases cannot be attributed to one factor.

The American public's insistence on quality medical care for all, the technological advances in medicine, the uninformed consumers and a third-party payment system all contribute to today's health care cost spiral, he said.

Putting a lid on further cost increases will require a change in behavior from the government, health care consumers and health care providers, he said.

"We believe business can take a major role. . .that coalitions can become the vehicle for that change," he said.

"When you go to make changes, you should bear in mind one thing: The payment system dictates the configuration of the health system," said Robert D. Beyer, vp and director of the medical facilities division of The Fischer Mangold Group, a Pleasanton, Calif., firm that works with providers of emergency medical services.

Another tool that can be used to cut health care costs is hospital utilization reviews, the panelists said. But to be effective, employers need a data base.

Spotlight '83

Data collection is a big part of what the Fairfield-Westchester Business Group on Health does, Ms. Oleck said. The group has just begun to put together its data base.

CIGNA, which is involved in about 12 coalitions across the country, recently announced a $1 million national grant program that will help existing coalitions start a data base program.

The $5,000 to $50,000 matching grants will be awarded during the next two years.

Coalitions, however, are only one part of a total thrust to lower health care costs.

"But coalitions can and are playing a vital part," Mr. Deans said. ■

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Benefit costs can be cut back: Panel

By JAMES M. BURCKE

LOS ANGELES—Many companies are focusing on containing their employee benefit costs, but it's possible for employers to actually reduce the amount they spend on benefits, one benefits manager says.

"Cost reduction—how to decrease the overall cost of employee benefits, is the issue of tomorrow, while cost containment is the issue of today," says Bruce Taylor, manager of employee insurance at General Telephone & Electronics Corp. in Stamford, Conn.

Many companies, pinched by the poor economy, are realizing that they are spending too much on benefits and that they need to cut back, not just merely reduce the amounts by which they increase their annual benefits budgets, Mr. Taylor said at the Risk & Insurance Management Society annual conference.

Mr. Taylor explained that some companies are still offering benefit plans that were formed during the "benefit boom" just after World War II. They based their benefit plan design on what the competition offered their employees, instead of on what they could afford.

In the 35 years since the "benefit boom" began, "benefits have grown from a non-cost item to 35% of payroll," he added.

A company considering benefit cutbacks must ask itself what types of benefits it wants to offer while, at the same time, deciding how much it wants to spend.

Bernard Schoen, an employee benefit consultant at Johnson & Higgins in New York, said a company wanting to trim its benefits costs must take a close look at its corporate objectives.

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For example, a company that decides its benefits should protect employees from catastrophes would probably want to offer a stop-loss provision in its medical plan rather than provide vision coverage, especially if the two benefits cost about the same.

Mr. Taylor and Mr. Schoen, along with another J&H consultant, Dennis B. McCoy, showed those attending the seminar how a mythical, financially strapped company—RIMS Co.—could cut its overall benefits costs by about 25% by combining drastic measures and well-known benefit cost-containment devices.

For example, the company could shave its group life insurance costs by 50%—or $225,000—by cutting the company-paid benefit for each of its 2,000 workers to an amount equal to annual salary from two times annual salary.

Mr. McCoy pointed out that the company might logically consider such an option because many of its employees were single and did not need a lot of life insurance coverage.

Likewise, Mr. Taylor said the company could cut its medical costs through cost shifting and cost sharing.

For example, he suggested that the company could cut its medical care costs by 23% by replacing its current health plan, which paid all medical costs after a $50 deductible, with a package that required a $150 deductible and 20% coinsurance. The same plan, including a stop-loss feature to cap employees' out-of-pocket expenses, would cut medical costs by 18%, he said.

And, by combining other health care cost-containment devices like utilization review, preferred provider plans, wellness plans and cash incentives for decreased plan usage, the employer could cut its medical budget even more.

Once a company has decided it needs to cut benefits and has decided what it will do, it faces a tougher task: It must tell its employees.

"How do you deliver the bad news?" Mr. McCoy asked rhetorically. "Carefully."

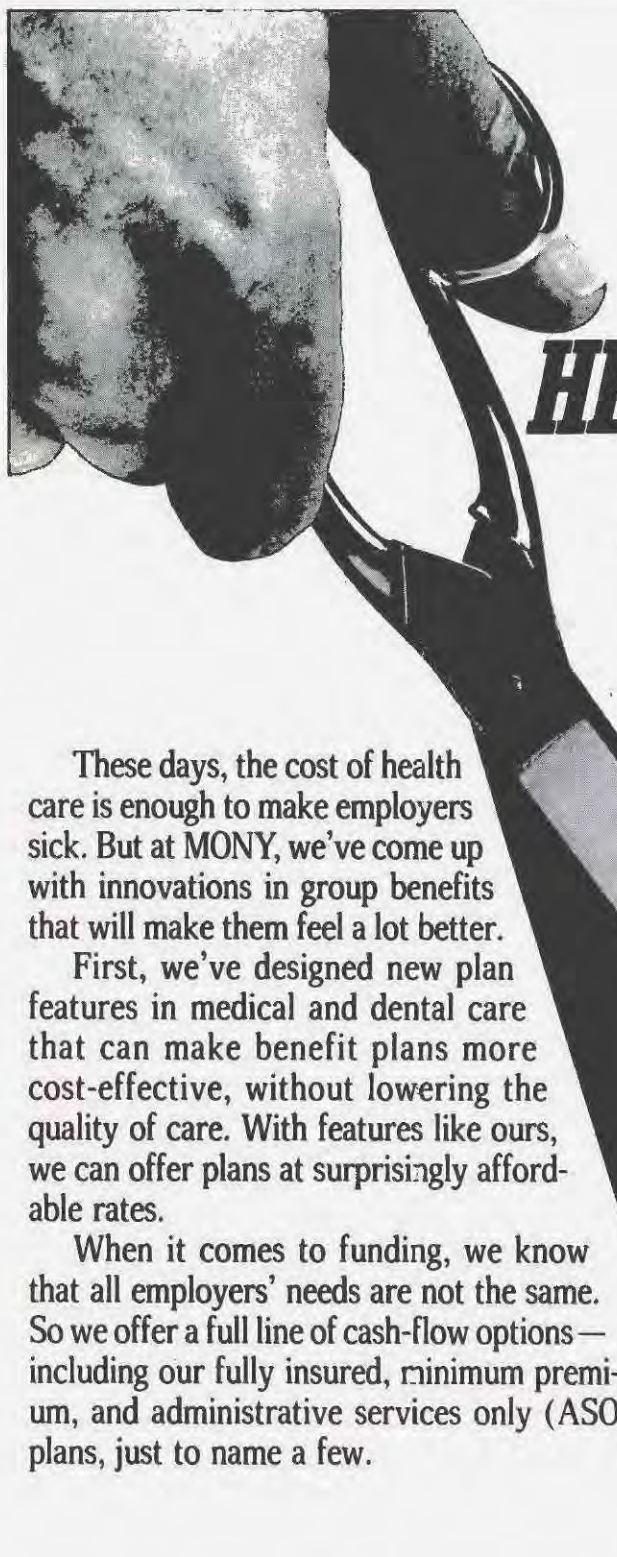
It is important for a company to stress all the advantages an employee would have under the new benefit program, he stressed.

"Offset bad news with good news," he said. "Offset, but still come out with a cost savings."

Mr. McCoy said companies cutting back benefits could use a four-pronged system to communicate the changes:

- Make the employees agree with you that the cuts are needed.
- Word the message so that the employees think that they are helping with the solution to the company's financial troubles.
- Develop "a net effect," by which the advantages of the new benefit plan outweigh the disadvantages.
- Choose your communication media carefully.

Mr. McCoy suggested showing workers a videotaped address from the company's top executive, carefully explaining the advantages to the new plan and why the company was forced to make cuts. ■



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Cost of LTD claims expected to grow

By KATHRYN J. McINTYRE

LOS ANGELES—Corporate long-term disability plans will have to cover more of the cost of workers' disabilities in the years ahead, an insurance company official says.

As Social Security benefits to disabled workers are reduced, employees will demand employer-sponsored LTD plans, said Paul Rego, national sales manager in the central operations department at CNA Insurance Cos. in Chicago.

Already, changes in claims management at the Social Security Administration are increasing the cost of claims that must be paid by LTD plans, Mr. Rego told a mini-seminar on LTD benefits at the Risk & Insurance Management Society annual conference last week.

Currently most LTD plans—which promise to provide a certain percentage of a disabled worker's former pay—offset Social Security and workers compensation benefits received by the claimant before paying the claim.

However, since 1981, the Social Security Administration has stepped up its investigation of persons receiving disability benefits and is removing claimants from eligibility rolls.

Private LTD plans generally define disability more liberally than the Social Security Administration. Thus, most disabled workers are still entitled to benefits under their employers' LTD plans.

Therefore, employers are being forced to pick up the cost formerly paid by the government.

"We're dependent on federal programs and it is not too comfortable of a position to be in now," Mr. Rego said.

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He estimated that 80% or more of disabled workers who are denied further Social Security benefits are entitled to payments under private LTD plans.

In the face of these changing patterns in Social Security payments, the claims department at CNA works one-on-one with disabled workers to discuss their options. Disabled workers can protest losing their Social Security benefits and some have won reversals, he said.

"If they don't meet Social Security, most of them probably will be ours," he explained.

One of the few alternatives then is rehabilitation, but if they have been on disability for a long time it probably won't work, he added.

The economy is another uncontrollable factor increasing LTD claims, Mr. Rego noted. "When the economy takes a dive, more claims are filed and the longer the disability," he said.

Other factors increasing the frequency and severity of LTD claims include:

- Dramatic technological changes in a company. Workers being replaced by machines file LTD claims. Retraining the workers can reduce these claims.
- A drive for improved productivity. Asking an employee to work harder, for example, could drive up his blood pressures and result in an LTD claim. Management should consider this before starting a productivity drive.

Mr. Rego suggested the best way for employers to fund LTD programs is through an insurance company.

CNA offers a paid-loss, retrospectively rated insurance program for employers with 5,000 or more employees. "This puts the use of the money in the hands of the employer and yet produces a strong claims operation," Mr. Rego said.

In addition, most corporate attorneys agree that premiums paid to a paid-loss retro plan are tax deductible as an ordinary business expense, he noted. "You can get your cake and eat it, too."

Employers with 50 to 5,000 employees buying LTD insurance should ask for interest crediting and some experience rating, he advised.

Insurers should openly convey their pricing logic, he added. Basically, it will be that the insurer needs a decent investment return. "Underwriting profit is gone," he said.

Employers with 1,000 employees or more should meet semiannually if not quarterly with the insurer to review the status of claims. "We like a solid partnership with the broker and the client," he said.

This partnership is vital to control the costs of an LTD program, which are subject to wide fluctuations.

LTD insurance buyers should look for "responsible recommendations" from insurers on plan design. "There are people who will sell you what you are willing to buy," he said.

CNA tries to "work out effective solutions" to potential problems created by the plan design. Longer length-of-service requirements for coverage and longer elimination periods before benefits are payable can help reduce LTD claims, for example.

Percent of pay replaced by an LTD plan also affects claims frequency. More claims will be filed against a plan that reimburses two-thirds of salary than against a plan that reimburses only 50% of salary.

Employers also can consider self-funding their LTD benefits, another speaker at the seminar noted.

Employers choosing to self-fund rather than purchase one of several cash-flow options available from insurers should recognize there is only a limited market for stop-loss insurance, said James Becker, a consultant with The Wyatt Co. in San Francisco.

The only markets Mr. Becker has seen for this insurance are underwriters at Lloyd's of London, General Reinsurance Corp., Provident Life Insurance Co. of Chattanooga, Tenn., and Prudential Insurance Co.

Generally, the insurance is written to stop a self-insurer's losses at 125% to 150% of expected claims in any given year.

Both Mr. Becker and Mr. Rego predict that employers in the future will provide higher maximum benefits to workers. Limits will be increased to $5,000, $10,000 and maybe $12,000, Mr. Rego predicted.

Mr. Becker has seen maximums of $15,000.

Rates for LTD plans will hold over the next 12 to 18 months because interest rates are holding, Mr. Rego observed. If interest rates decline, however, underwriters will request increased rates, he said.

Mr. Becker noted that certain groups are winning premium discounts. Lawyers, for example, are getting discounts of 35% to 40% for their good loss experience. ■

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Exhibitors focus on employee wellness

By LEN STRAZEWSKI

LOS ANGELES—Wellness is the watchword and health care cost containment the preoccupation of employee benefit insurers, consultants and service providers exhibiting their wares at the 21st Risk & Insurance Management Society annual conference.

Two exhibitors are actively promoting employee wellness programs designed to reduce health care costs and increase corporate productivity.

"The Mendocino School District plan was our pilot project," remarked Beverly DeVoy, senior account representative with Blue Shield of California in Los Angeles. "Now after three years of evaluation, we are ready with a plan everyone can use."

The Mendocino plan, which provided monetary incentives for employees who controlled their own use of health care providers, was built on the concept of wellness, according to Ms. DeVoy.

The Blues' wellness program is being marketed nationally by the Blue Cross/Blue Shield Assn. on behalf of local Blue Cross/Blue Shield groups as an extension of their health care coverage.

Control Data Corp. is also promoting a wellness program that is based upon its own corporate employee benefit program, says Jonathan Horowitz, West Coast representative of Control Data's Life Extension Institute.

"The program has been under evaluation since 1978 and covers 18,000 Control Data employees," he notes. "We know that wellness is

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one answer to the high cost of health care, and a way of improving the health of workers."

The Control Data plan, administered by the Life Extension Institute, can be packaged in any number of ways. "A wellness program can cost anywhere from $2.50 per employee per year to $250 per employee per year, depending upon what service the employee benefit managers choose," he said.

For $2.50, a corporation can order the beginning of a fitness education program, the "Well Times" quarterly magazine, which offers health tips for employees. For $250, the Life Extension Institute offers employee education seminars, computerized self-teaching nutrition and fitness courses, employee organization training and employee assistance programs. "The corporation can pinpoint its needs and purchase any part of our services, as needed," said Mr. Horowitz. "For example, if a local need requires it, a corporation can purchase a stress education seminar for about $30."

Employee assistance plans, which offer psychological, marriage and parenting counseling as well as alcohol and drug abuse aid, are also popular among employee benefit service vendors at RIMS. In addition to Control Data, which offers employee assistance as part of its wellness package, Intracorp, the parent of rehabilitation pioneer International Rehabilitation Associates Inc., has also expanded employee assistance plan services.

"Our new Acorn subsidiary offers full employee assistance programs to about 25 corporate clients in the Philadelphia area," explains Vp Daniel H. Davis. "Now we are taking the program nationwide.

The Acorn subsidiary offers psychological counseling, drug and alcohol abuse counseling and evaluation and referral for other problems that can increase an employer's health or disability cost.

"The goal of all our services, from the rehabilitation services we began in 1970 to our Acorn subsidiary, is to get employees well and get them working as quickly as we can," Mr. Davis says.

Intracorp, which has grown from nothing to $60 million in annual sales in 13 years, handled 25,000 rehabilitation cases in 1982 providing about a 10-fold return in investment for corporate clients.

The company has also joined the claims and hospital bill auditing firms that dominated RIMS employee benefit exhibitors last year.

The Intracorp MEDEX subsidiary, according to Mr. Davis, audits both general hospital bills and doctor bills in states which regulate medical provider fees.

"It's been our experience that 90% of all bills we've audited have needed adjustment," he notes. The average reduction was 7% and we returned $9 in savings for every dollar the buyer invested."

Other firms offering claims and hospital bill auditing services at RIMS are: American Selfcare Corp.; Crawford & Co.; Eastern Benefit Systems Inc.; Equifax Services Inc.; GAB Services Inc.; James Benefits; Northwest National Life Insurance Co.; PCC/Drug Data Systems Inc.; and Resource Information Management Systems Inc. ■

Legal benefits to grow: Vendor

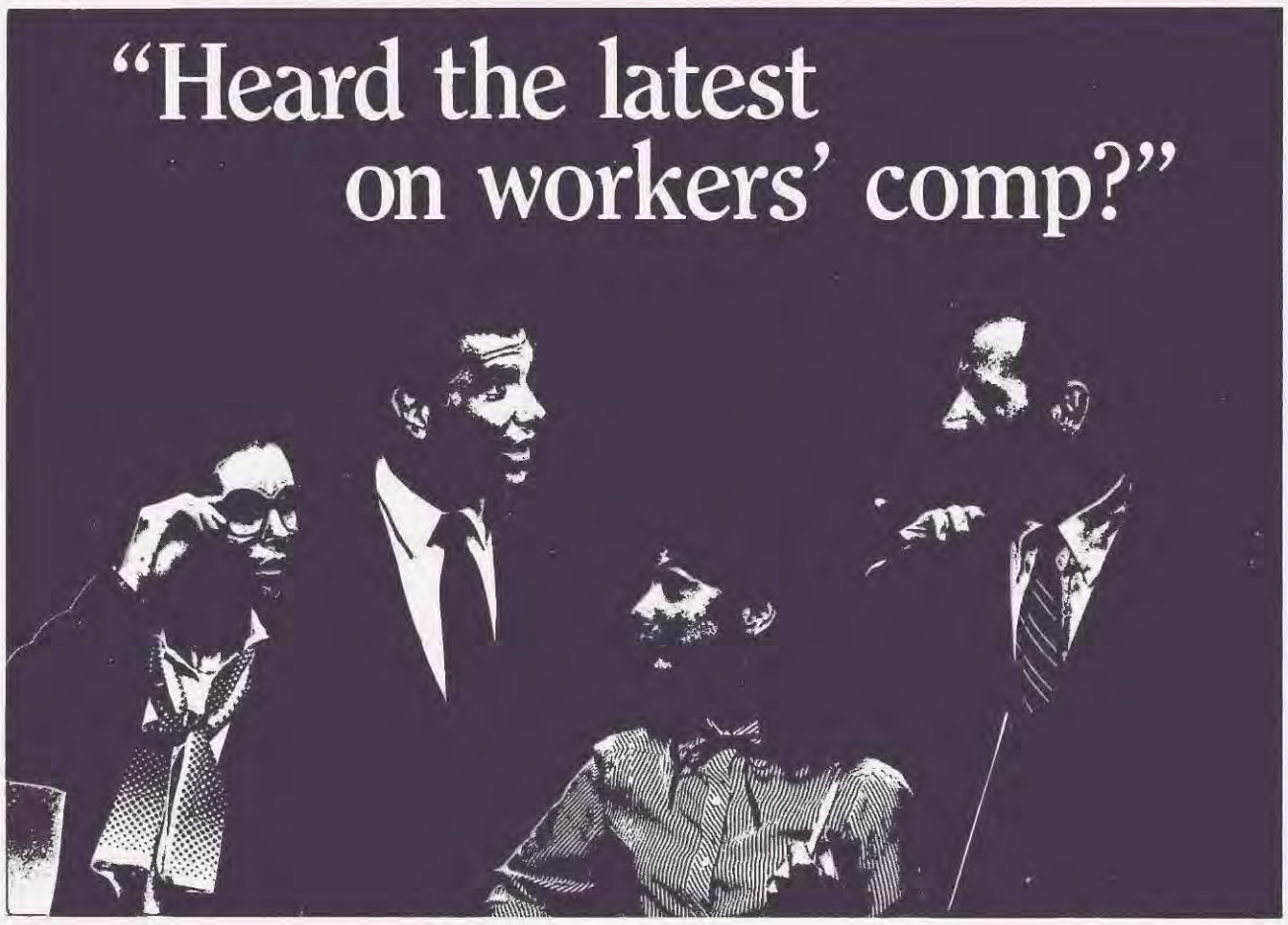
LOS ANGELES—At least more employers know what prepaid legal services are this year, says Alec M. Schwartz, executive director of the American Prepaid Legal Services Institute, the only exhibitor at the Risk and Insurance Management Society annual conference promoting legal services as an employee benefit.

Though many experts claim that the prepaid legal services concept began in California and never really spread beyond its borders, Mr. Schwartz says that the benefit is growing and now covers about 6 million workers nationwide.

"Each year I'm at RIMS I see more interest from employers, brokers and insurers. I'm sure I'll even see faster growth this year as a result of the new General Motors Corp. contract. This contract will provide legal services for some 400,000 GM employees and help spread the word."

The Prepaid Legal Services Institute in Chicago serves as a national clearinghouse for information on this type of benefit and reports that Aetna Life & Casualty Co., Prudential Insurance Co. of America, John Hancock Insurance Co., Travelers Insurance Cos. and Bankers Life & Casualty Co. now underwrite various types of prepaid legal service plans available to corporate buyers.

—By Len Strazewski



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ESOP helps Janco reduce rate of employee turnover

By JERRY GEISEL

LOS ANGELES—In 1975, Janco Corp., a Burbank, Calif.,-based manufacturer of switching equipment for the aerospace industry, had an annual employee turnover rate of 300%.

Today, Janco's turnover rate is less than 10%.

That dramatic decrease is no mystery to Robert Giove, Janco's president and chief executive officer. He says the improvement is a natural byproduct of the firm's decision to set up Employee Stock Ownership Plans.

"Mac Davis says he believes in music; I believe in ESOPs," Mr. Giove said at a special session at the annual Risk & Insurance Management Society conference last week in Los Angeles.

Mr. Giove is not the only corporate executive who has embraced the ESOP concept, in which employees can own their companies through the purchase of corporate stock.

As many as 5,000 companies have set up ESOPs, up from just 100 in 1974, according to James Geld, a consultant with Benefit Systems Inc., a Los Angeles-based benefit consulting firm.

There are several reason why more and more firms are turning to ESOPs, he explained. Those reasons include:

- Employee ownership of a firm can prevent outsiders from taking over the company.
- ESOPs can be used to buy out dissident shareholders.
- ESOPs can give employees a greater stake in working to improve a company's future, an important consideration for financially troubled firms.

The origin of Janco's ESOP goes back to 1964, when Janco's president, who held a majority of the company's stock, died.

That stock was placed in a family trust. Some family members wanted to sell their stock to an outside firm. "The threat of an outside takeover cast a pall over the company," Mr. Giove recalled.

In 1974, Mr. Giove, who had become Janco's president, read about an ESOP set up by West Bend Co., the appliance manufacturer, and thought an Employee Stock Ownership Plan might prevent someone else from taking over the 165-employee firm that has annual sales of about $7.5 million.

But when Mr. Giove took the ESOP idea to Janco's banker, all he received was a blank stare. "Obviously, they didn't understand what an ESOP was," he said.

But Mr. Giove didn't give up. He found another bank that would back the plan.

An Employee Stock Ownership Plan was created, and the bank then gave the plan a loan to purchase Janco stock, including shares held by the family trust. Janco cosigned the loan.

It has been smooth sailing ever since. Each year, Janco contributes 15% of an employee's salary to the ESOP. When an employee leaves or retires, the ESOP pays him for the stock he owns.

Those generous contributions to the plan and a rise in the value of Janco stock to $1.9 million today from $1.5 million in 1975, have meant that employees can retire with comfortable nest eggs.

In fact, a popular employee meeting place is by the company bulletin boards where Janco posts examples of how much recent retirees received in cash when the ESOP purchased their shares.

To boost employee awareness of the ESOP, Janco has purchased advertising spots on local radio stations that describe the ESOP. Mr. Giove believes employees become more interested in the plan when they hear it described on the radio.

"It boosts morale when employees hear about their ESOP on the radio," Mr. Giove said.

Mr. Giove believes that Janco's reputation for quality control in the competitive aerospace industry has been enhanced by the ESOP. Also, he believes companies have more confidence buying products from a company whose employees have a direct financial stake in the company's success.

And, the rapid decline in the employee turnover rate is evidence that employees do care about a company when they own it. "Success builds upon success," Mr. Giove said. ■

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THE CLAIMS OF WORK COMP

How does your third-party administrator measure up?

speaking out

By Jack Love

WORKERS COMPENSATION is usually the single most costly risk confronting labor-intensive employers today, whether corporate, non-profit or governmental. It has evolved into a $22 billion industry.

Yet according to many experts, benefits paid to injured workers fail to adequately compensate many, while others are overcompensated. Abuse is rampant and outright fraud is not uncommon. Though workers compensation laws have been in existence for almost 70 years, the laws and systems today are far different from a few decades ago.

Overseeing and benefiting from the whole complex system is an enormous administration melange. Claims examiners, administrators, investigators, disability-rating specialists, referees/judges, rehabilitation counselors, clerks and, most of all, attorneys make the compensation system a multibillion dollar industry.

What exists in many states today, according to some critics, is a situation where workers compensation costs have escalated beyond reason for a system that fails to deliver humane and equitable benefits at a reasonable price.

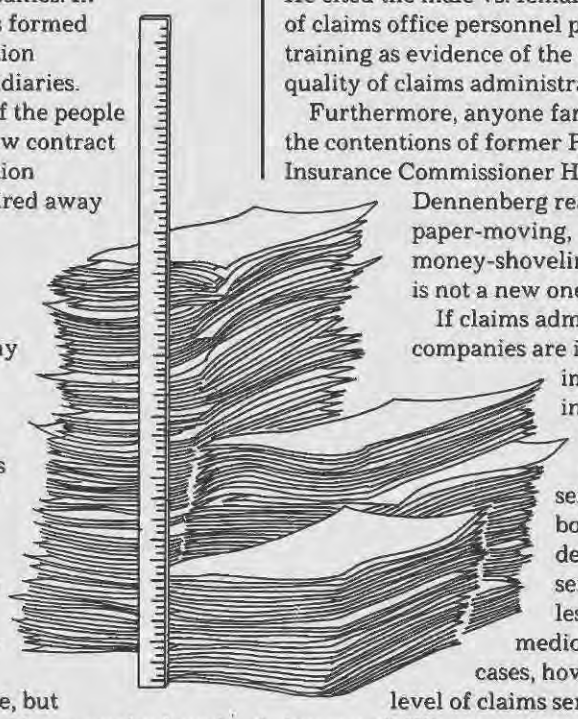
"Social inflation" and liberal trends, found in most socioeconomic systems in this country over the past 20 to 30 years, have been credited with responsibility for a large measure of the escalating costs. And certainly entrenched vested interests such as the attorneys, rehabilitation counselors, clerks and others who run the system and who have effectively blocked reform in California and other states over the years can be held accountable in part. But in my view, poor administration of claims programs is equally responsible for the increasing costs in workers compensation.

As workers compensation became an ever-larger part of the cost of doing business, employers began to look around for methods to reduce their workers compensation expenditures.

Insurance companies sold the progressive employer on the pragmatism of industrial safety measures as a means of reducing costs, but in spite of sound and effective loss-prevention programs, workers compensation costs continued to escalate. Recognizing that casualty insurers were not the most efficient means of dealing with workers compensation risks because of the high ratio of administrative expenses to losses paid, many large employers began to look to self-insurance as a means of reducing their costs.

This was a practical approach for two reasons. First, self-insurance eliminated the excess non-claims administration expenses and second, it allowed the self-insured employer to control dollars allocated for claims costs thus improving the employer's cash-flow posture. Usually there was no recognition or expectation that claims administration quality could be improved or that claims costs could be reduced through improved claims administration.

As employers turned to self-insurance, claims administration companies sprung up which, in large measure, were mirror images of the claims administration service provided by insurance companies. In fact, some insurers formed claims administration companies as subsidiaries. Moreover, many of the people who staffed the new contract claims administration companies were hired away from insurance company claims departments.



What wasn't recognized by many employers who retained contract claims administrators was that the quality of insurance claims administration over the years has deteriorated significantly. This is a difficult contention to prove, but perhaps the best evidence can be found in the personnel composition in claims offices today.

Twenty years ago the majority, or a substantial portion, of claims offices was staffed by males. Insurance companies could hardly be considered in the forefront of top-paying employers, but they did pay salaries sufficient to attract male breadwinners.

I submit that this is hardly the case today. Walking into an insurance company claims office or a claims administrator's office today, one will find a sea of female faces. It is doubtful that this is attributable to women's liberation or any equal employment laws, but may be because employers generally find it easier to hire women than men for lesser-paying positions or positions that have been downgraded in skills required.

This is not to imply that men are better able than women to fill a professional claims adjuster's role, but that women are being exploited and victimized by the insurance industry. The change in gender composition of claims offices, I suggest, is also partially due to the fact that workers compensation claims administration has evolved into a clerical function consisting mostly of a paper-moving, money-shoveling operation. These two ideas, I hasten to add, did not spring from me.

A year or so ago, a California Workers Compensation Appeals Board judge was serving on a panel discussing the reasons for the rising cost of workers compensation. He suggested that the liberal trend in the law was being used as a scapegoat by poor administrators. He cited the male vs. female composition of claims office personnel plus lack of training as evidence of the decline in quality of claims administration.

Furthermore, anyone familiar with the contentions of former Pennsylvania Insurance Commissioner Herbert Dennenberg realizes that the paper-moving, money-shoveling allegation is not a new one.

If claims administration companies are indeed mirror images of insurance company claims service and both are delivering service that is less than mediocre, in most cases, how can the level of claims service be improved? What constitutes superior claims administration service?

To answer these questions, one must recognize the adage that you get what you pay for.

Therefore, if accident and health insurers such as Blue Cross & Blue Shield operate on a ratio of administrative cost to losses paid of 10% of premium, then a casualty insurer's claims office, a workers compensation or a general liability contract claims administrator's cost should exceed this amount. I assume this is true for it is clear that the degree of difficulty and level of service of an A&H claims function are significantly less than that required for general liability or workers compensation claims administration.

Yet I recently solicited proposals for contract workers compensation claims administration and was appalled to discover that out of seven proposals submitted, only one approached 10% of expected incurred losses. That quotation was a little less than 10% of expected incurred losses. The remaining six responses were in the 6% to 8% range. (One of the lowest quotations submitted was from a large casualty insurer.)

The lowest quotation submitted was from a fairly new company which had been in business about three years. The company claimed to be providing quality claims processing and reports gathered seemed to confirm that the level of service was fairly good.

When the low bid was delivered, I challenged the marketing person asserting that, in my view, there was no way the company could provide the service level required by the specifications for the price quoted. The man responded by stating that he used a bottom-line approach in figuring the cost.

When pressed, however, he admitted to "lowballing." I said that most risk managers seeking claims administration services were cognizant of what approximate price was necessary to provide high-quality service and they would not accept lowballing.

The marketing rep responded by saying that in his experience, invariably the lowest bid quoted was the one accepted. In this case, I was wrong! I was outvoted 4-to-1 by a selection committee and the contract was assigned to the firm in question.

However, less than a year later, the two principals of the company were missing and it was reported by newspapers that approximately $300,000 from trust fund accounts administered by the company also were missing, allegedly converted by the two missing principals (*BI*, Sept. 13, 1982).

It has been contended by some that workers compensation claims, like accident and health claims, are fairly cut-and-dried and rather simple to administer, that little judgment is necessary and it is really akin to a clerical function.

I suggest that in those states like California, Oregon, Washington, Arizona, Minnesota, Illinois, Michigan and Colorado where the workers compensation laws have been extended to include all nature and concepts of injury, nothing further from the truth exists.

It was reported a few years ago that Employers of Wausau Insurance Co. performed a statistical study of all its workers compensation cases over a given period and discovered that less than 5% of all cases generated over 75% of all losses. While employed as risk manager for a fairly large California city, I tabulated all cases over a six-year period on which reserves were $5,000 or

Continued on next page

Jack Love is a senior consultant at Risk Management Advisers Inc. in Del Mar, Calif.

perspective

Does your work comp administrator measure up?

Continued from previous page
more and learned that 6% of all cases reported constituted over 75% of total incurred losses.

It can be argued, then, that if concerted effort is made for a few cases that generate the highest percentage of total losses, then claims costs can be reduced. It is usually in these cases that fraud, abuse and compensability disputes are found.

Any effort directed toward reducing losses has to be done by personnel skilled and well-trained in claims administration. And even the most skilled and well-trained adjuster finds it difficult to perform effectively when the workload is excessive.

In California, the state Office of Self-Insured Plans recommends that the ratio of indemnity cases per adjuster not exceed 250. How many workers compensation claims adjusters working in California have a case load this size? In my experience, very few. In one situation, a workers compensation claims audit revealed that the adjuster assigned to an account had a caseload in excess of 1,000, which was not uncommon at that company.

I should point out the company in question was one of the largest claims administration companies in the state at that time. It seems any adjuster burdened with as many as 1,000 cases would find it difficult to even move all those files, let alone make personal contact with injured workers or perform other important duties.

A heavy caseload is not the only tactic of insurance companies and claims administrators to hold down overhead. They also are known for not paying top salaries to career personnel. A review of the want-ads section of any metropolitan newspaper will support this argument.

Ads for certified workers compensation administrators were noted for several weeks in a major metropolitan newspaper. Generally, the requisite experience, in addition to certification, was about five years. The offered starting salaries were in the range of $18,000 to $20,000 per year. These salaries are equivalent to what clerical personnel in southern California are paid. This begs the question of whether personnel can be recruited and retrained by the industry in a competitvive labor market?

If skilled and well-trained personnel who are not overburdened are essential to superior workers compensation claims administration, the next question is, what are the attributes to look for in a skilled and well-trained claims adjuster?

Certainly good oral and writing communication skills are necessary. A workers compensation claims adjuster must communicate with a myriad of people from all types and income levels, from claimant to top medical providers. The adjuster also needs to learn the complex workers compensation statutory and case laws, medical terminology and concepts, elements of psychology and methods and tactics of claims case adjusting and handling.

Assertiveness and intuition also are valuable assets, along with good perception and intelligence. A good adjuster must develop the arts of diplomacy and compassion. He or she must be able to analyze information and inferences and act decisively and promptly. In order to perfect these skills and abilities, a well-rounded education is important, if not essential.

Last but not least, knowledge of medical terminology and concepts is stressed. Equally important is a knowledge of skills, attitudes and idiosyncrasies of medical personnel. A good treating physician may not, for example, be a good surgeon. This is important to know for medical control to hold losses in check.

Litigation is considered by some critics to be the bane of the workers compensation system. With little question, it has an adverse effect on the claims administration process.

In 1973, the California Workers Compensation Institute published a report of its study on the reasons for the increase in the number of litigated cases in California. Their principal finding: Claimants were not being informed adequately as to the benefits to which they were entitled and they rarely saw the adjuster handling their claim.

I learned early in my career the importance of prompt, direct communication with claimants.

A colleague with 33 years' experience suggested one day that we visit a middle-aged school teacher who had injured her knee. After six months she had failed to recover from successful surgery to repair torn cartilage. After a few minutes of polite conversation the claimant revealed that she disliked teaching and wasn't anxious to return to work. We both empathized with her, encouraged her to continue her physical therapy and told her we would look into her problem.

We then contacted the school district that employed her and persuaded them to transfer her to a less-demanding position. This had a miraculous effect on the claimant and she returned to work a month later.

This type of case is not uncommon in workers compensation, as most adjusters know.

In 1963, the Journal of the American Medical Assn. printed two articles by Dr. Robert C. Behan and Dr. Alexander Hirschfield regarding their findings on studies they had conducted on the accident and disability process. The articles contain a wealth of information on conversion reaction problems and how to deal with them.

A well-trained and alert claims adjuster who calls on a claimant shortly after a disabling injury will usually be able to ascertain whether the injured worker has deep-seated problems that might adversely affect the recovery-rehabilitation process long before the adjuster is given any clue by the treating physician. Unfortunately, because of heavy workloads, very few adjusters ever have the opportunity to call on their claimants.

Working directly with injured workers is unquestionably an important aspect of the claims administration process, but in my view it is not the only benchmark of superior claims administration.

The ability of the claims adjuster to collect all relevant information possible, to analyze and synthesize the information and then anticipate and act promptly and effectively, instead of merely reacting, is the most important aspect of claims administration. This means that the adjuster must control events as much as possible and must know what to do and when to do it in order to maximize control.

Complete information collection and analysis is the real heart of the claims administration process. Obviously, an adjuster must possess the skills mentioned in order to do this; the workload must be reasonable.

Finally, equally important to good claims administration is continuity of personnel in the adjusting process, at least on the 5% of cases which generate 75% of total losses. The majority of these cases take up to three years to reach maturity, or final determination of status and degree of disability.

Many productive manhours are lost when adjusters are changed on cases and the new adjusters must review all the document files to become familar with the cases. Even the most gifted of adjusters will fail to note important facts in the review process, thus jeopardizing case control. A change of adjusters on a case results in the risks of losing control and wasting time.

If contract claims administration services are being sought, then the risk manager should incorporate into the bidding specifications contractural provisions which ensure that elements mentioned are performed.

Thoroughly interviewing the adjusting personnel who will be assigned to the account is encouraged, as well as periodic meetings with adjusting personnel after the contract to review problem cases.

An item to look for and incorporate into specifications is a current case log documentation of all relevant actions and information. The log should be maintained and signed by the adjuster assigned to the case and retained in the front of the file for easy review. It can be used to detect the presence or lack of adjusting continuity.

Accepting low bids that do not correspond with prior cost projections and estimations should be rejected. Performance incentives, other than contract renewals, also should be explored. Finally, periodic claims audits are a must for self-insured employers that contract for claims administration. An audit every two or three years is recommended in order to obtain an objective, comprehensive review and examination on the claims program quality.

A word of caution, however, may be in order here. The audit should be performed by professionals with knowledge of the laws and special circumstances that may exist in your state.

It is time that casualty insurance companies and contract claims administrators began to recognize the importance of superior claims administration. A professional claims adjuster with the right skills who performs well will save in reduced claims an amount equal to two to four times his or her annual salary. Compare this to the adjuster routinely found in most insurance companies and claims administration firms today. There is a crying need to upgrade the claims administration function.

The 1950s and '60s saw the development and refinement of safety and loss-prevention programs as a principal risk management tool for reducing workers compensation losses. The 1960s and '70s saw employers move to self-insurance as a measure to hold down costs. Perhaps a concentrated effort on claims loss-control in the 1980s will enable employers to hold down the workers compensation cost spiral. ■

Profit expectations can stand as a base for losses

legal briefs

Losses under a business interruption policy may be based on profit expectations, in absence of profit prior to the loss, where those expected profits are based on real circumstances, not speculation, a Florida appellate court ruled.

Scandi of Hialeah and Furniture Frames Inc. were two corporations housed in the same warehouse. In February 1972, the building and its contents were destroyed by fire. A business interruption policy had been written for the companies by National Union First Insurance Co. The insurer rejected their claims for business interruption losses. The companies sued and won in the trial court with jury verdict of $187,500.

On appeal, National contended that because the two companies could not prove some profit prior to the fire, they were unable to establish a business interruption loss. But the court disagreed stating such losses could be based on profit expectancies.

Also, the court observed, the fact that an insured decides not to resume business and did not pay key personnel during the business interruption did not mean that that item cannot be considered for the purpose of determining the amount of recovery. *National Union Fire Insurance Co. vs. Scandia, etc.*, District Court of Appeal of Florida, April 13, 1982, *rehearing denied* June 18, 1982 (*BI*/01/J.-$5).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for $5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the number for each opinion.

Self-insurance measure fails in Texas

AUSTIN, Texas—Legislation that would have allowed employers in Texas to self-insure their workers compensation risks was knocked out this session, taking a lobby group down with it.

S.B. 344, introduced by Sen. John A. Traeger, D-Seguin, would have made self-insurance of workers compensation risks an option for single employers. The proposed legislation did not address self-insurance for employers in pooling arrangements.

But the bill is stuck in a Senate subcomittee where it is doomed to die, according to a spokeswoman from Sen. Traeger's office. The regular legislative session ends May 31, and sources say the liberal Senate won't give the two-thirds vote needed to get the bill out of the subcomittee and onto the floor for debate.

"It's dead," said Allen Mansfield, president of the 1-year-old Texas Self Insurance Assn., a non-profit lobby group, which is in the process of dissolving. The group was formed as an outgrowth of several self-insurance coalitions dating back to 1979.

This is the third time since 1977 that bills to allow single employers to self-insure workers compensation risks has died in the Legislature. Sources point to the powerful Texas insurance industry and attorneys as key reasons for the defeats.

Deviations allowed

RALEIGH, N.C.—North Carolina employers can expect to see lower workers compensation rates now that a law allowing insurance companies to deviate from manual rates is in effect.

The new law comes on the heels of a mandatory 10.6% average reduction in workers compensation rates, estimated to provide a $15 million annual savings to employers.

H.B. 166, sponsored by Rep. Gerald Anderson, D-New Bern, deleted a sentence from the old law prohibiting deviation on workers compensation rates. It passed both houses unanimously and became law April 11.

He has also introduced a bill to allow work comp insurers the option to pay dividends based on loss experience. That bill unanimously passed the House and is waiting for committee assignment in the Senate.

Rep. Anderson introduced the bills partly in response to the many self-insured workers compensation funds being formed. More than 1,100 employers self-insure their workers compensation funds in North Carolina. About 85% of them belong to a group fund.

No insurer has yet filed for a deviation from rates set by the North Carolina Rate Bureau, though about six insurers have made inquiries, with at least one company indicating it would file a downward deviation of 25%.

No one opposed the legislation, but the insurance industry did not want deviations to apply to employers in the assigned risk pool, Rep. Anderson said. But the bill, as passed, will apply to the pool.

California appointee

SACRAMENTO, Calif.—Ralph Roy Ramirez, a Southern California insurance executive, is the new administrative director of the state Division of Industrial Accidents.

In a break from traditional politics, Mr. Ramirez, a Republican appointed by Gov. George Deukmejian, named outgoing Director Robert Benjamin as a special assistant. Mr. Benjamin, a Democrat, was appointed by former Gov. Jerry Brown and had served in the post for one year.

Mr. Ramirez, 46, received a bachelor's degree from the University of Southern California and a master's degree in business administration from the Wharton School of Finance at the University of Pennsylvania.

For the past 14 years, he's been president of Ramirez Financial Services of Alhambra, Calif., specializing in life and disability insurance and group medical, pension and profit-sharing plans.

IIC appointment

CHICAGO—Norman Brown, 67, has been was appointed acting chairman of the Illinois Industrial Commission.

He replaces Rebecca Schneiderman, former chairman of the commission that settles workers compensation cases.

Mr. Brown has been an arbitrator of the agency for the past 10 years. As a labor economist he was a regional chief of research and statistics for the National War Labor Board. He also was a labor arbitrator with the American Arbitrators Assn. and was a labor markets researcher with the Chicago-based Social Research Inc.

"The major problem that we have right now is reducing the cases for review by the commission," he said.

The commission also is looking at revisions of the rules that apply to self-insurers, he said. ■

around the states

Reinsurance seminar slated

NEW YORK—A reinsurance seminar for professionals with at least three years of experience is offered by The College of Insurance.

This year's three-day seminar will be held May 16-18 in Tarrytown, N.Y.

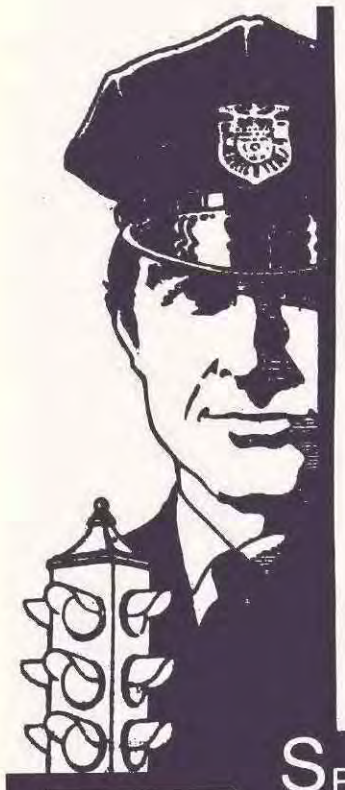
Each participant will receive a copy of the textbook, "Reinsurance," published by the college, to be read before the seminar.

The topics to be covered in this year's seminar will include proportional, catastrophe, facultative and casualty excess reinsurance; avoiding pitfalls in contract wording; regulation; arbitration; and accounting, tax and financial aspects of reinsurance.

Fifteen reinsurance professionals will teach at the seminar, including vps, directors, executives and partners at reinsurance companies, consulting and law firms and other companies involved in reinsurance.

The $895 fee includes all instructional materials, meals and lodging.

For more information or to enroll, contact Dean Robert Strain, The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111. ■



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Claims don't have to become expensive lawsuits: Lawyer

By DOUGLAS McLEOD

WASHINGTON—Claims investigators should watch for the warning signs of liability claims that could turn into expensive lawsuits, one lawyer advises.

Once a claim has become a lawsuit, insurance company claims people and attorneys can still take steps either to head off a trial altogether or to reduce the chances of being hit with a big award, says Neil T. Shayne, a partner in the law firm of Shayne, Dachs, Stanisci & Corker in Mineola, N.Y.

The potential for substantial awards is much higher when a large company—a so-called target defendant—is involved, Mr. Shayne said at the 29th annual workshop of the National Assn. of Independent Insurers last month.

"I think the size of the verdict is in direct proportion to the size of the company," Mr. Shayne said.

The odds of being hit with a big verdict are also increased in jurisdictions, like Pennsylvania, where a comparative negligence rule can be applied, he added. Under this rule, plaintiffs and defendants may be found at fault for varying percentages of a loss.

In cases involving personal injury, claims people and attorneys should look at the type of injury sustained and the chances that a plaintiff could claim to be permanently disabled by it. If a fracture could be shown to have caused a permanent impairment, the company defending itself could be in trouble, Mr. Shayne suggested.

Mr. Shayne added that large verdicts are also more likely to occur in cases where the plaintiff can show heavy damage to property, and where news media have covered the loss or the lawsuit filing.

Settlement is one way out of a potentially expensive jury trial, and Mr. Shayne urged his audience to give more consideration to structured settlements in which the award is paid on a scheduled basis over the plaintiff's lifetime.

"That's a tremendous, tremendous weapon that the insurance companies just don't use," he said.

He also recommended that insurers try harder to negotiate smaller settlements. Rather than negotiate, too many companies just write the claimant a check, he said.

Several ploys might be used in negotiating a smaller settlement, Mr. Shayne said, including:

- Trying to obtain a settlement demand from the plaintiff without making an offer.
- Discussing the liability of co-defendants with the plaintiff and convincing the plaintiff to get settlement offers from them, too.
- Trying to get the plaintiff to concede some percentage of liability for the loss.
- Presenting the plaintiff with evidence that shows that the plaintiff is at fault for some of the loss.

Companies facing lawsuits should keep in mind that the settlement offer it makes doesn't necessarily have anything to do with the merits of the case but only with what a jury may or may not award, Mr. Shayne explained.

If the settlement route isn't followed and the case goes to trial, companies still can take a number of steps to fend off the possibility of a whopping award, Mr. Shayne advised. Most involve investigative work that should be done by insurer claims people and attorneys.

In personal injury cases, the nature of the accident should be looked into for evidence that might shift at least part of the burden of blame onto the plaintiff. For example, if the plaintiff tripped on an uncrowded stairway in broad daylight where no one had tripped before, a jury might conclude that the plaintiff was at least partially responsible for the injury.

Investigators also should look at the plaintiff's behavior after the accident. How soon was the person able to return to work? If a plaintiff claims to be incapacitated, can investigators find evidence of normal activity, like charge receipts for dinner out or for gas purchases?

If it is claimed that the injury has impaired the plaintiff's "quality of life"—a claim that has steadily drawn larger awards against defendants—a check of the plaintiff's activities can be especially important, Mr. Shayne said. If investigators find, for example, that a person claiming a back injury still goes bowling every week, a company has evidence to defend itself against an impaired quality of life claim.

Investigators should also gather information and testimony relating to the plaintiff's character and work record, Mr. Shayne advised. Is the person absent from work often? "Is this the kind of person who would cheat?" he asked.

Attorneys and claims people should also examine a plaintiff's medical history for previous injuries, Mr. Shayne suggested. If a plaintiff claiming permanent disability sued someone else for a permanent disability a few years before, the defendant company is in a much stronger position, he pointed out. The plaintiff may be someone who tends to bring lawsuits.

Damages in a liability lawsuit may also be reduced by an examination of hospital records, Mr. Shayne said. Attorneys and claims people should look for evidence of overtreatment or use of unnecessary tests and procedures, like CAT scans or rotary X-rays, he said.

"Let a lawyer break down the expenses; let him talk to the claims people," he advised. ■

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BI 5/2/83

DOL official urging Longshore Act reform

WASHINGTON—Congress must act to control a rising tide of claims brought under the Longshoremen's and Harbor Workers' Compensation Act, a Department of Labor official says.

Recent court decisions and a 1972 set of amendments to the act have significantly broadened its scope, producing ever-increasing claims costs and a backlog of disputed claims, said Neil Montone, an associate director with DOL's Employment Standards Administration.

"We think it's getting a little out of control and we hope Congress will do something about it," Mr. Montone told an audience at the 29th annual workshop of the National Assn. of Independent Insurers.

A longshore bill that would limit benefits and tighten eligibility rules is pending in Congress.

The maximum weekly benefit provided injured longshoremen under the act has increased more than seven-fold since 1972, Mr. Montone pointed out. Before the 1972 amendments, the maximum benefit was $70; it now is almost $525. The current minimum weekly benefit of $120 is higher than the maximum workers compensation benefit allowed in some states, he said.

At the same time benefits have increased, the number of workers covered by the act has swollen tremendously, he added.

The 1972 amendments changed the so-called situs test that determined which workers were covered under the act. Rather than including only those who work "on navigable waters" as the act originally provided, the amendments expanded eligibility to all people "in maritime employment," Mr. Montone said.

The result has been a number of court decisions allowing shoreside workers—those who work on wharves or in terminal buildings—to demand compensation under the act.

In 1972, DOL handled 72,000 worker-injury claims under the act. By 1981, this had jumped to 250,000. The number declined slightly to 220,000 in 1982, largely reflecting the poor economy, Mr. Montone said.

Total claim payments amounted to $33 million in 1972, but jumped to about $263 million by 1981, he said.

More than half of these injury claims now come from shoreside workers who would not have been eligible for benefits before the 1972 amendments, Mr. Montone said.

The 1972 amendments also changed the procedures for settling disputed claims and the new procedures have bogged down settlements, according to Mr. Montone.

Before 1972, DOL handled adjudication of all disputed claims, and its decisions could be appealed to federal district courts. Since the amendments, all disputes are heard first by an administrative law judge. Appeals can then be made to the Benefits Review Board comprised of an administrative law judge and DOL officials. Further appeals can be made to U.S. Circuit Courts of Appeal and to the Supreme Court, Mr. Montone said.

Last year, 2,750 disputed claims were referred to administrative law judges for settlement, and about 400 were heard on appeal by the Benefits Review Board, Mr. Montone said. There is currently about a one-year backlog of disputed claims to be heard, he said.

The fact that more workers than ever are eligible for benefits

Continued on next page

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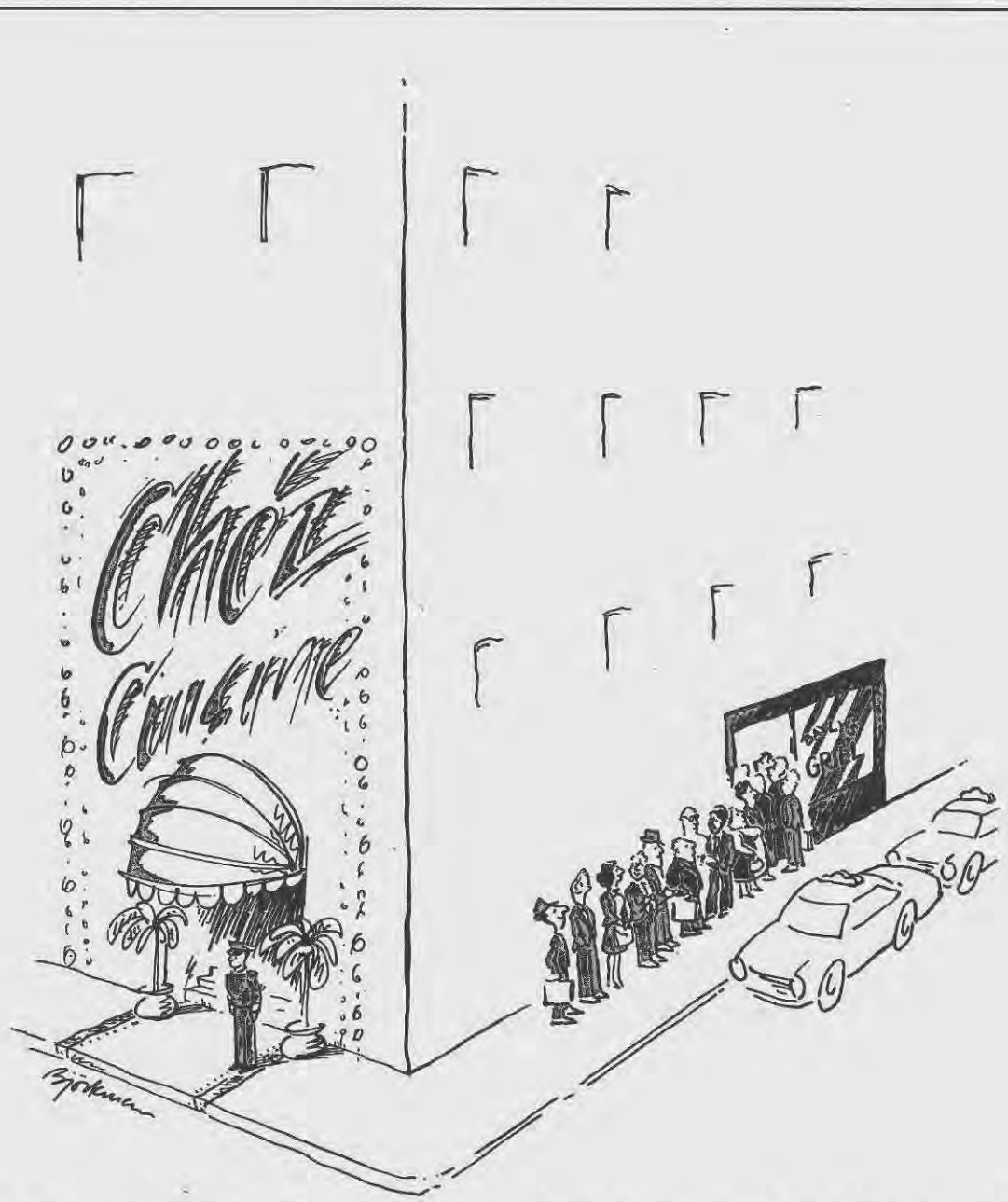

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Second-injury fund changes sought

Continued from previous page

If a worker has a pre-existing disability that is "manifest" to the employer when the worker is hired, the second-injury fund will start paying disability payments to injured workers after 104 weeks.

The fund is maintained by assessments charged to insurance companies that cover longshoremen risks and authorized self-insurers.

But the 1972 amendments didn't spell out what qualifies as a pre-existing injury or how that injury must be made manifest to an employer, Mr. Montone said, and recent court cases have produced increasingly liberal interpretations of the law.

In two recent court decisions, for example, workers with diabetes and hypertension were found to have "pre-existing injuries" and to qualify for benefits from the fund, Mr. Montone said.

"Frankly, we don't think that was the intent of the law, but what can we do?" he asked. "Unless Congress acts, we've opened a Pandora's box."

The drain on the fund has increased steadily in recent years, he added. In 1976, disbursements from the fund totaled $80,000. By 1982, this had increased to $16.1 million and DOL projects that its disbursements this year will total $23.5 million.

DOL also estimates that the fund currently has between $250 million and $500 million in unfunded liabilities—probable future disbursements for which no money has yet been collected.

The reason for the shortfall is that reserves for the fund are created from scratch from one year to the next, based on estimates of the fund's probable expenditures during a given calandar year, Mr. Montone said. Assessments are then charged to insurers to meet that one-year estimate of expenditures, he explained.

Congress could correct several of these problems by passing a bill proposed by Sen. Don Nickles, R-Okla., Mr. Montone suggested. The bill, S. 38, which passed the Senate Labor Standards subcommittee last month, is a reprise of a similar bill proposed by Sen. Nickles last year. That bill, S. 1182, was killed in the House after being passed by the Senate.

Among other things, S. 38 would:

- Place a 5% cap on annual benefit increases. Benefit increases under the act currently match the annual increase in the national average weekly wage.
- Eliminate death benefits paid to the survivors of workers who are injured on the job but who die of unrelated causes.
- Cap death benefits at 200% of the national average wage.
- Base benefits solely on salary, eliminating the value of fringe benefits from the calculations.
- Limit jurisdiction of the act to employers and workers more directly involved in maritime activities.
- Double the period of employer liability under the second-injury fund to 208 weeks from 104 weeks.
- Tighten access to special funds by providing the funds with a full-time conservator to defend them against spurious claims. Mr. Montone said the value of such a measure is limited, since liberal court decisions on worker eligibility for special fund benefits have already been established as case law.

The bill may stand a better chance of passing the House this year since one of its major opponents, Rep. Phillip Burton, D-Calif., died last month (*BI, April 18*).

Mr. Montone added, however, that the bill does not address the questions of how pre-existing injury and manifestation should be defined in determining eligibility for second-injury fund benefits. ■

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Life insurance payouts up

WASHINGTON—Group life insurance growth is shown in the increase in benefit payments over the past four decades.

The payments increased to $6.4 million in 1981 from $104 million in 1949, according to the American Council of Life Insurance.

Group insurance is usually paid for wholly or in part by employers. ■

agent/broker topics

A regular editorial section exclusively for agents and brokers

Agency advertising

Will spending lots of money on marketing pay off? If so, what's the best type of promotional device to use?

By DONNA LEIGH YANISH

So, you've heard you can increase market share by advertising your insurance agency or brokerage?

You're apparently not alone. The five largest national brokers spent almost $2.3 million in 1982 to get their message out.

But whether you're a national broker or a one-producer agency, one question remains the same: "How can I use advertising to convince prospects and clients I can do the best job for their money?"

Most advertising specialists say agents and brokers don't do an effective job of telling their story. Many don't advertise at all, especially those who are more interested in selling commercial rather than personal lines insurance.

Others advertise using the hit-or-miss approach. They have a brochure to give to prospects or sponsor a charity event, but they haven't developed a strategy to determine what they want their advertising to accomplish.

Hit-and-miss advertising without a marketing plan is virtually worthless, says Bob Russo, vp/creative director of IMS Advertising, the West Springfield, Mass.,-based advertising consulting arm of Insurance Marketing Services Inc.

Before beginning to advertise, he says, an agent or broker must answer the question: "What do I want to accomplish through advertising?"

The most obvious answer is to increase sales, Mr. Russo continues, but that's too vague. An agent or broker wishing to develop a good advertising plan must develop specific marketing objectives, such as to increase market share in a particular industry or to announce a major change in the firm.

Image is an integral part of establishing the objectives, explains Mr. Russo. Agents and brokers must decide what image they want to project.

"I always ask, 'What makes you different?' You would think (agents and brokers) would have a pat answer, but they don't. Invariably they always say, 'Our service,' but that just isn't enough," he says.

Mr. Russo works with an agency or brokerage to ferret out the firm's real or perceived difference. "Sometimes I get a fresh idea from the (agency or brokerage) staff, and sometimes we have to create the difference."

A description of the difference is embodied in a slogan, which becomes a theme for the advertising campaign, Mr. Russo explains (see story, page 36K). The slogan serves two major purposes in advertising, he says.

First, it gives people something other than a name to remember. A good slogan can be much more memorable than the name of the agency or brokerage.

Second, the slogan can give an advertising campaign continuity. People see the slogan in several forms of advertising—like billboards, television commercials, newspaper or magazine ads and brochures—and connect all the messages together reinforcing the theme of the advertising campaign.

A hard-hitting slogan and an aggressive campaign can help wipe out an image the agency or brokerage may no longer want to project, or one it never wanted at all, Mr. Russo says, noting that every business has an image that embodies people's impressions of the firm.

That image may work against the agency or brokerage unless the firm controls it, he says.

An agency or brokerage may want a new image when it's planning a major change, like a merger or name change. And, that's perhaps the most crucial time for an agency or brokerage to advertise,

Continued on next page

Advertising is worth the cost, some agents say

Continued from previous page

Mr. Russo says. If the agency's or brokerage's image is going to change as the result of a major change in the firm, an advertising campaign can help create the image the firm wants.

A major change also gives the agency or brokerage something concrete to advertise, Mr. Russo points out. "Take advantage of that. Now you have something tangible to sell. Tell the public why you made the change."

Whether to announce a change or to reinforce a current image, developing an advertising campaign takes time, agents, brokers and advertising consultants agree. But a successful advertising campaign doesn't necessarily require the input of an advertising consultant.

"Some agents and brokers have done a great job (of advertising) without an outside consultant. They're sales- and marketing-oriented," one consultant says. "They know how to sell. The question is, 'Does the agent or broker have the inclination to spend the time on advertising?'"

One agent contends that to successfully advertise without assistance from an outside consultant, an agent or broker must always remain a student of communication.

"You have to gather (advertising) ideas for future use. Everyone in the agency has to be involved,"

Ms. Reinarz

says Betty Reinarz, principal of Comaltex Insurance Agency Inc. in New Braunfels, Texas.

The agency's staff helped develop written goals and objectives for the marketing plan. They also established an image for the agency, concentrating on the strengths that make the agency unique.

Advertising has helped the agency grow more than 15% in each of the last several years, she says, noting that last year Comaltex grew more than 20% to about $2 million in premium volume.

But an agency or brokerage doesn't get advertising for free, she stresses. Available funds, along with the goals and objectives, help dictate the type of advertising the agency uses, Ms. Reinarz says. Comaltex spends about $15,000 a year for advertising.

The agency stretches that budget by tapping insurer advertising cooperative programs (see story, page 36E).

Like many agents and brokers, Comaltex uses direct mail as a principal advertising tool to reach commercial prospects. The key to success with direct mail, she says, is repetition and follow-up.

Several advertising consultants agree. "Direct mail in and of itself isn't effective; you need follow-up, either with a phone call or personal visit," contends John Eklund, owner of Eklund Associates, a Farmington, Conn., advertising consulting firm for insurance agents and brokers.

"And, instead of sending 1,000 pieces of direct mail to different prospects, it's better to send four letters to 250 people. Then the sales people should follow up," he advises.

One agent sends direct-mail literature to prospects as a reminder for the agency's own producers. "We send a brochure with a letter and include our newsletter for larger prospects," says John Graham, president of Fairview Associates, Verona, N.J. "That gives them something to think about. But then our agents know they must follow up in a few days after the prospect receives our letter. It's really a way to discipline our producers."

Producers should always know what direct-mail pieces are sent to potential clients to make sure they can field any questions generated by the literature, one consultant says. Newsletters, for example, shouldn't go to prospects without the producers at least being aware of what the articles are about.

Newsletters are currently a popular form of advertising for agents and brokers, notes the consultant, because they're relatively inexpensive. Agents and brokers sending out newsletters can also control who receives the newsletter, allowing them to target the audience they want to reach.

Targeting the "right" people to see or hear an ad is another key to successful advertising. Reaching hundreds or thousands of people is only advantageous if the agent or broker wants to reach those people. And the broad scope of some advertising vehicles keeps some agents and brokers from tapping those media, says Mr. Russo.

Radio, newspaper and television all fit in this category, he says.

"Many agents are nervous about the 'wrong people' seeing their ads. They're even worried about going on the 6-o'clock news for fear of people whose insurance they don't want to write seeing their ads," he says.

"Redlining is alive and well, although (agents and brokers) don't call it that."

Agents and brokers, however, point to other factors to explain why they don't advertise in newspapers and on radio and television. Ad campaigns using any of the three media are expensive, several agents and brokers note. Newspaper ads must be very large to compete with full-page ads, and the larger the ad, the more expensive it will be. Also, agents and brokers must repeat the ad, and therefore the expense, often enough for it to be effective.

The cost may be prohibitive unless the agent or broker can recognize significant results to justify the expense.

"In the past, television advertising hasn't been practical (for agents and brokers), but that's changing with the advent of cable TV," says James H. Foster, executive vp and general manager for Brouillard Communications, a division of New York advertising agency J. Walter Thompson Co., which handles

Continued on facing page

The challenges of 1983 are being met...right here.

COMMUNICATION:
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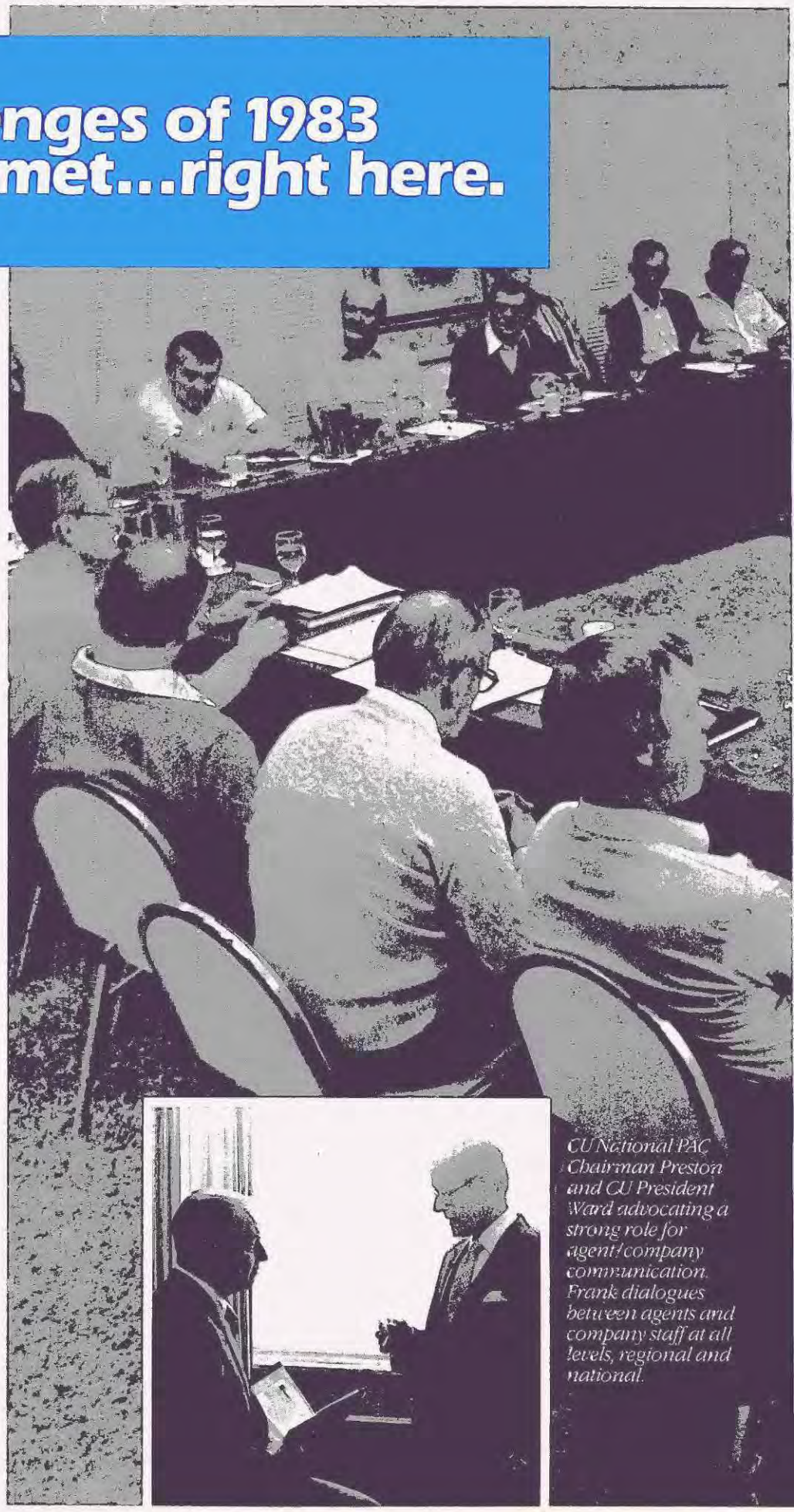

CU National PAC Chairman Preston and CU President Ward advocating a strong role for agent/company communication. Frank dialogues between agents and company staff at all levels, regional and national.

Continued from facing page

Marsh & McLennan Inc.'s account.

Cable television systems are developing programs for small, selective audiences. A program called "New Business Times" on the ESPN cable network, for example, is geared to top executives of major corporations, he says.

Brokers should consider advertising on such programs, Mr. Foster contends, noting that other financial service industries, like investment brokerages, have purchased ad time during the programs.

Despite the increasing uses of TV, radio is not losing it's effectiveness. In fact, with the advent of TV, people thought radio was dead, he says. And radio played dead for a long time. But as people stress the need for immediate news, stations turned to an all-news format.

Radio continues to hold its market share despite television's popularity, Mr. Foster says.

"Radio is also a pretty good (advertising) medium for insurance brokers. Advertising during morning drive times can be effective because executives are beginning to think about their businesses," says Walt Guarino, a Brouillard senior vp and account director.

> 'Some agents and brokers have done a great job (of advertising) without an outside consultant,' one consultant says. 'They know how to sell. The question is, Does the agent or broker have the inclination to spend the time on advertising?'

Attracting the attention of morning (and evening) drivers is also the idea behind billboard advertising. Although billboards, like newspaper advertising, don't allow agents and brokers to carefully target their audiences, its relative low cost may make it a better medium.

Billboards are the most cost-effective form of advertising, one consultant contends. They're especially effective for introducing a major change in the agency, like a merger or a name change.

Positioning is very important, he notes. Agents and brokers using billboard advertising should note traffic patterns. For example, rent space on a billboard along a major highway into the city or near highway exit ramps.

Along with location, timing is also important in advertising via billboards. Observant (and lucky) agents and brokers may get more billboard exposure for their money if they can catch a slow season for buying outdoor advertising space. Since billboard companies generally do not take down an ad until someone else rents the space, no matter how long it has been there, a one-time payout can give a firm daily advertising exposure for a month or more.

The cost of running a daily newspaper ad large enough to be noticed, or a prime-time radio or television spot every day for a month, could bankrupt an advertising budget for an agency or brokerage.

Which of these three media is most cost-efficient for an agent or broker to use varies tremendously according to the service area. Generally speaking, the cost for reaching each 1,000 members of an agent's or broker's audience is highest for daily newspaper, followed by television and then radio, says Mr. Russo.

Newspapers reach a wide audience, he explains, but many of those readers are not part of an agent's or broker's target audience. The cost per 1,000 for newspaper ads is signficantly less for advertisers of toothpaste or laundry detergent, he adds.

Costs, of course, increase for most advertising media depending on the number of ads placed, so an agent or broker must determine how frequently he or she should advertise to get the message across to the right people.

Unfortunately, no one can cite a magic number to assure a successful advertising effort without running up excessive costs, but most successful agent and broker advertisers and consultants agree that success requires repeated efforts.

Discontinuing an advertising campaign before it takes effect is a major cause for advertising failure, consultants say. Agents and bro-

Continued on next page

Giveaways losing favor

One form of agency advertising seems to be on its way out for good, and many agents and brokers are saying "Good riddance!"

Giveaways, including key chains, paperweights, calendars and ashtrays, are expensive and useless as a marketing tool, many agents agree.

"Giveaways aren't a large portion of our advertising budget. It's difficult to get giveaways to your target market. We really resist all the cute gimmicks; that's not what causes people to buy insurance," contends Betty Reinarz, principal at Comaltex Insurance Agency in New Braunfels, Texas. "We only use giveaways if they're insurance-related and then very sparingly."

Insurance-related giveaways may only be worth their cost if they're a valuable item, she continues. Comaltex, which spends about $15,000 a year on advertising, is considering taking advantage of a cooperative advertising offer from Transamerica Corp. involving a road atlas giveaway.

Transamerica charges the agency $1.50 per issue for a Rand McNally & Co. road atlas with the insurer's name and famous pyramid-shaped San Francisco headquarters featured on the cover with the agency's name.

An agent interested in the promotion could save hundreds of dollars by sharing the advertising vehicle with the insurer.

Rand McNally recently directly offered agents and brokers the road atlas imprinted with an agency's name at rates ranging from $4.50 per copy for an order of 25 to $3.50 per copy for 75 copies. Prices for orders above 75 copies are individually negotiated, according to Rand McNally.

Although road atlases are a relatively expensive giveaway, clients are more likely to appreciate and use them than less expensive, more traditional giveaways like pens and calendars.

One agent, however, discovered that some clients do value the calendar he sends.

"This year we cut way back on the number of calendars we sent out. A good number of people called asking about it. We haven't decided what to do next year," says Bill Zanoni, president of Glenview Agency in Glenview, Ill.

Agents can't expect fast results from ad campaigns, experts say

Continued from previous page

kers buy one or two radio spots, or send out one direct mailing to prospects, and then soon give up because they don't see any results.

Their expectations are unrealistic, says Alexander Fisher, president of Amalgamated Programs Corp. in New York. This agency sends the same direct-mail piece to prospects several times, and frequently receives responses to the piece only after the third or fourth mailing (see story page 36J).

"An agent or broker has to be committed to advertising. You might have to do a full year of advertising just to develop credibility and identity. It's only in the second stage you can make ads more pointed (to a particular product or service) and then expect to stimulate response," Mr. Fisher says.

"Some agents and brokers run an ad a few times and get tired of seeing it themselves and change it. The first ad hasn't really begun to make a significant impact yet, and they spend money on a second ad. That's a leading money waster in advertising," says consultant Mr. Eklund.

"Agents and brokers have to think of advertising as an investment rather than an expenditure. They have to make a long-term commitment. But a long-term commitment doesn't mean advertising has to be constant," he says. A successful ad campaign consists of more ads during some periods than others, but the ads are timed so the audience perceives them as constant, he says.

Even with peaks and valleys in advertising frequency, keeping up with an advertising campaign may be difficult, since competition and rate cutting are squeezing agency budgets. It's important to keep advertising budgets realistic.

How much agents and brokers should spend on advertising is as nebulous as how frequently they should advertise. Many agents and brokers who have been successful advertisers spend between 1% and 4% of their annual revenue on advertising, the consultants agree. But there really isn't a magic number. How much an agency or brokerage spends depends on several factors including its advertising objectives and the type of advertising that works for it.

Measuring the success of an advertising campaign is the most difficult part of the effort, most agents, brokers and consultants agree. And measuring the effectiveness of some forms of advertising, like billboards and radio and television ads, is more difficult.

For example, direct-mail ads that include a response card have a built-in measuring devise.

One agent says the agency doesn't measure the effectiveness of its advertising efforts, but does make note when prospects say they have seen the ads or recognize the agency's name.

Mr. Eklund's consulting firm has helped agents measure their advertising effectiveness with a two-part study. Before an advertising campaign, the consultants perform a benchmark survey to determine what image the agency or brokerage projects. A common question for the survey is, when you think of insurance, who do you think of? Mr. Eklund notes.

"Eighteen months later (after the advertising campaign), we do the same survey with different respondents. We can then see if the advertising has made an impact." An important question in the survey that follows a media blitz is, "Have you heard this slogan?" If the answer is yes, another question is asked: "Do you know who it's for?" Sometimes people recognize a slogan but they associate it with another company, Mr. Eklund notes. That tells the agent or broker the campaign needs fine-tuning. Keep in mind the goals and objectives of the advertising campaign while measuring the results, the experts say. An advertising campaign may generate a heavy response, but if it isn't the kind of response you want, you may have to start over. ■

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Insurer ad programs filled with pros, cons

DONNA LEIGH YANISH

If you can't afford to mount your own advertising campaign, try climbing on the back of insurers' campaigns.

Although criticized in recent years as more beneficial to the insurer than to the agent or broker, cooperative or shared advertising programs do have advantages that may be hard to pass up.

Money is the major advantage, agents and brokers note. Pressures to cut expenses are mounting as many agents' and brokers' incomes fall. Yet media experts say advertising is essential in a competitive marketplace.

So many agents and brokers turn to co-op arrangements in which the insurers actually pay some of the agent's or broker's advertising costs or in which the agent or broker adds its name to the insurer's advertisements.

Glenview Agency in Glenview, Ill., stretches its $20,000 advertising budget with about $8,000 from three insurers—Transamerica Corp., Safeco Corp. and Kemper Group, says President Bill Zanoni.

"We went to the insurance companies and said we wanted money for advertising. All of them wanted us to use their advertising. We had professional ads designed and said we wanted to use our own.

"One insurance company wouldn't (allow the agency to use its own ads), but most agreed. You really have to beat the (insurance) companies over the head to get money," he says.

"You've got to ask the marketing representative what he has (for co-op advertising)," says Betty Reinarz, principal in Comaltex Insurance Agency Inc. in New Braunfels, Texas. Most of the time, the marketing rep won't just offer advertising funds.

And after the rep makes his first offer, "Then you have to ask, 'What else do you have?' and really make him dig," Ms. Reinarz advises.

"Be aware of national advertising campaigns insurers do. You may be able to tie in," she adds.

Transamerica Corp., for example, is one of the sponsors of the 1984 Summer Olympics in Los Angeles. Agents and brokers may want to tie in with the advertising campaign, she says.

Comaltex uses as many insurer cooperative advertising programs as it can, keeping its advertising goals and objectives in mind, Ms. Reinarz says. "You should only tie into insurer programs if they further your own goals," she says, adding that if the programs fit, they're great.

Insurer programs, however, don't always fit with agents' advertising goals and objectives.

Some insurers' national campaigns don't apply in certain states because of state regulations, such as campaigns for workers compensation programs, Ms. Reinarz notes.

Other insurer campaigns are generic enough to fit into anyone's plan. But generic ad programs don't have much punch, she warns.

When agents and brokers use insurers' co-op programs, the insurers want their legal departments to review the finished ad, Ms. Reinarz explains.

"But then the immediacy I need is lost.

"Generally speaking, that's a problem with insurer programs. It sometimes takes a lot of time to have the material approved by the legal department, and I've lost the momentum."

When insurer legal departments do approve ads, agents and brokers don't receive exclusive rights to the campaigns. In fact, under the Robinson Patman Act, an insurer offering an advertising program to one agent may have to offer it to all its agents, one consultant notes. Many insurers don't comply, he says, noting some insurers contend they aren't covered under the act.

Other insurers, whether to comply with the act or to get the most mileage for the money spent to develop the ad campaign, do offer it to more than one agent.

Therefore, an agent using a cooperative newspaper ad may discover a competitor using the same ad on another page, notes Kimberly Paterson, president of Creative Insurance Marketing Co. in Red Bank, N.J., an advertising consultant for insurance agents and brokers.

Lack of exclusivity isn't the only disadvantage of cooperative programs, she notes. Insurers' decisions to pull out of a market are also beyond their control.

A successful cooperative advertising campaign can be cut very short if the insurer stops selling the insurance product in the area.

Or, the agent may decide that the advertised insurer's policy isn't the best coverage available for a particular prospect, another consultant notes. The prospect, who may have contacted the agent after seeing or hearing the co-op ad, may question the insurer switch.

Ms. Reinarz says, however, that policyholders don't object to having their coverage placed with another insurer as long as it's the best coverage they can get for their money.

She says it's important that insurance companies don't demand that they receive all of the business generated from a cooperative ad campaign. "For one thing, you can't necessarily isolate why that (client) chose the agency."

Ms. Reinarz is sold on cooperative advertising, like many agents and brokers who don't mind sharing the limelight with the insurers if the advertising furthers the agency's or brokerage's goals. "I'm willing to give (the insurers) all the credit they want," she says. ■

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Large brokers are reassessing ad expenditures and strategies

By DONNA LEIGH YANISH

Most of the national brokers' advertising campaigns have at least one thing in common—they're in a state of flux.

Advertising budgets have been slashed as executives look for expenses to cut in the face of falling revenues.

And apparently some brokers are using the slowdown in advertising to re-evaluate their expenses for both media placement and in-house media staff.

"Cuts are being made. We've cut advertising by 50% and also made cutbacks in staff in the (communications) department," says Richard H. Shahan, vp for corporate communications for Alexander & Alexander Services Inc.

"As part of the cutback, we placed no ads in the first quarter and took the time to develop a new campaign."

A&A, the second-largest broker, spent almost $1 million on advertising last year and more than $1 million the previous year (see chart), is scheduled to complete its marketing research this month, Mr. Shahan notes.

Any new direction for advertising efforts will spring from there, he explains.

Fred S. James & Co. Inc. is also conducting marketing research to identify the best direction for its advertising efforts, according to a spokesperson.

M&M's ad cutbacks are part of a general attempt to reduce overhead expenses, says Mr. Schnitzer.

Along with a possible new direction will be a change in the advertising agency handling the brokerage's account.

Like most of the major brokers, Fred S. James spent less money on advertising last year than in 1981, due to budget cuts.

But the brokerage believes it is important to continue some advertising despite decreases in income, the spokesperson for James indicates.

Apparently Marsh & McLennan Inc. disagrees. The nation's largest brokerage didn't advertise at all in 1982.

In fact, M&M virtually stopped advertising after the first six months of 1981 and has made in-house and outside advertising staff cuts.

The brokerage eliminated the position of senior vp in charge of corporate communications and also reduced the size of the staff below that rank. Cutting back outside as well, Marsh & McLennan canceled its public relations contract with New York advertising agency J. Walter Thompson Co. The agency, however, continues to be agency of record for M&M's advertising efforts.

The communications cutbacks are all part of a general attempt to reduce the brokerage's overhead expenses, according to M&M President and Chief Operating Officer Bruce Schnitzer.

However, communications, advertising and public relations weren't singled out for cuts, he says. M&M has reallocated funds from most overhead departments to profit centers, Mr. Schnitzer says.

Mr. Schnitzer refused to comment on what specific direction in advertising Marsh & McLennan plans to take.

While M&M and others plot new directions, at least one major broker says it's keeping to the course. The advertising budget at Johnson & Higgins has been falling but the brokerage is continuing its advertising efforts, according to a J&H spokesperson.

"We feel the need to get the advertising message across. And, it's less expensive to keep up a steady awareness than to drop way off and then try to come back with a big campaign," the Johnson & Higgins spokesperson explains. ■

Leading brokers' advertising expenditures

Broker	Year total	Expenditure $(000)
Marsh & McLennan Inc.	1980	$908.0
New York	1981	285.5
	1982	—
Alexander & Alexander Inc.	1980	853.5
New York	1981	1,029.6
	1982	998.5
Frank B. Hall & Co.*	1980	448.2
Briarcliff Manor, N.Y.	1981	265.2
	1982	499.6
Johnson & Higgins	1980	633.3
New York	1981	569.0
	1982	425.1
Fred S. James & Co. Inc.*	1980	239.5
New York	1981	405.6
	1982	368.1

Source: Leading National Advertising Reports

* includes print media only

"You came to Manhattan for your *group* quotes. And we *delivered* over $7 billion in group sales in 1982! Now come to Manhattan for ordinary...voluntary... spouse...substandard... universal life...structured settlements...the works! Or, *you'll keep losing those cases to us!*"

Bill Flynn, CLU
Chief Marketing Officer

Photo: Grant-Hatch Insurance

Grant-Hatch ties into the national JAM program by using billboards featuring TV performer Raymond Burr.

Local agencies use ads featuring Raymond Burr

NEW YORK—As the money available for advertising dwindles, many agents are turning to Raymond Burr for help.

However, the jury is still out on just how many members of the Independent Insurance Agents of America have tied their firm's advertising programs to the association's year-old Joint Agency/Company Marketing advertising campaign that features Mr. Burr.

The IIAA is just now compiling utilization statistics, according to a spokesman, but rough estimates indicate that agents and state associations spent about $1 million on advertising tied to JAM, he says.

Agents, state associations and insurers also support the advertising effort with contributions. But, according to the Florida Assn. of Insurance Agents, fewer than 6,000 of the IIAA's 34,200 members donated money to JAM.

Some agents and state associations that have used the IIAA cooperative advertising program say they've seen positive results. One agent says using Raymond Burr in the agency's ad in the Yellow Pages has increased the number of calls by more than 30%.

"We've taken a half-page ad in the Yellow Pages for six years, and are now on the first page for 'insurance.' Last year we used the Raymond Burr ad and the first month it ran, we doubled our number of calls," explains Dick Taylor, president of Grant-Hatch & Associates Inc. in Salt Lake City.

The Yellow Pages generated 142 calls that month, compared with 76 calls for the same month in 1981.

"It hasn't doubled every month (over the previous year) since then, but it's up more than 30%," Mr. Taylor notes.

Measuring other forms of agency advertising tied with the JAM campaign is more difficult, Mr. Taylor says. Many people comment that they've seen the agency's billboards, he explains, but the agency hasn't attempted to measure just how many.

Using a reproduction of the billboard as a backdrop for the agency's booth at an industrial trade show drew more attention than the agency ever received at that show before, Mr. Taylor continues.

"People kept stopping to ask how we got Raymond Burr to do our ads. We got 600 leads from that trade show. We've written 22 accounts from those leads and we're still using them."

Grant-Hatch has spent most of its $30,000 advertising budget on billboards using the JAM program, Mr. Taylor says, noting that the expense of regular ads in print and broadcast media can be prohibitive.

Other agencies, however, say the media exposure is well worth its cost. Stanley Lackman Co. Inc., a Chattanooga, Tenn., agency that writes about $2.2 million premium volume, spent most of its $8,000 advertising budget on television ads using the JAM campaign, according to President Lawrence D. Levine.

"We try to tie in time-wise with the network spots (the national IIAA) buys. I try for the station break immediately after the national's spot."

Mr. Levine hasn't been able to measure the effectiveness of the JAM ads, he says, but he's convinced that people notice them. He also tries to make sure the right people see the television ads, noting that he selects television time when business people are likely to be watching, such as during the news.

Although some agents using the JAM tie-in say they're convinced it is effective, not everyone is sold on the campaign. At least one advertising consultant says some of the ads are ill-conceived. For example, he says, the picture of Raymond Burr in one ad doesn't reinforce the ad's message.

In this ad, a stern Raymond Burr is holding a set of locked handcuffs, the consultant notes, but the caption says, "Is your insurance agent locked into one company?"

The ad then promotes independent agents, the consultant says, explaining that the photograph illustrates a negative image but the copy stresses the opposite. The ad would be more effective if Mr. Burr were smiling and holding unlocked handcuffs. ■

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The RIGHT direction
There's Employee Voluntary Term Life—popular, low-cost, by payroll deduction. Available on a **group** basis or an **individual** basis.

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The RIGHT numbers
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And, the RIGHT people
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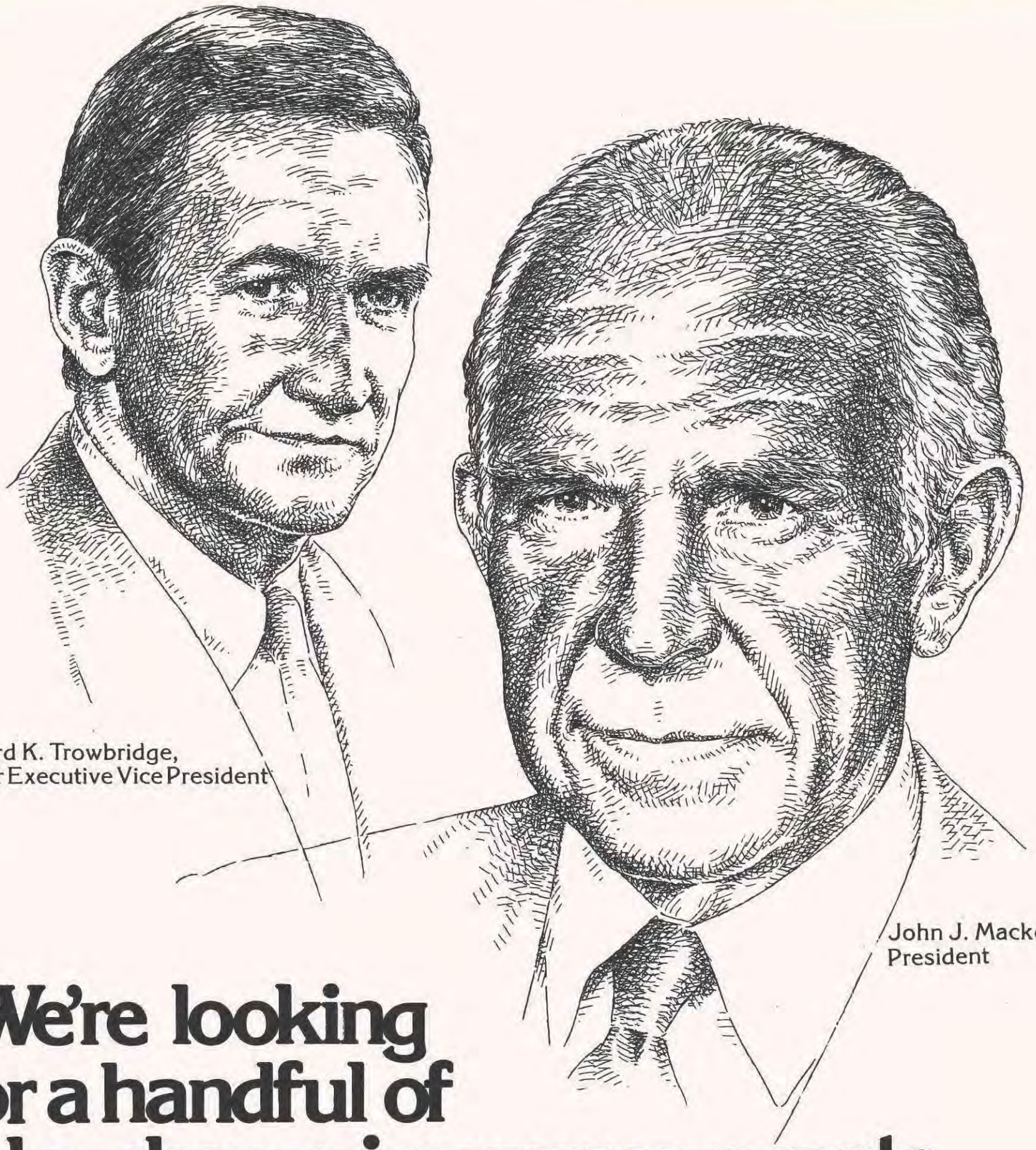

Edward K. Trowbridge,
Senior Executive Vice President

John J. Mackowski,
President

"We're looking for a handful of take-charge insurance agents. Got a moment?"

The Atlantic Companies are looking for new additions to our force of 1,300 rather extraordinary independent insurance agents.

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Even though we are a national company, we are small enough—and the group of agents who work with us is small enough—for every agent to know at least one member of top management personally. Which gives our agents the extraordinary clout of being able to pick up the phone and talk to a senior member of management should the need arise. That includes us. Another way we stay close with our agents is through our Agent Advisory Councils, which have been active for 23 years.

2. Your primary contact will be a person with authority, not a message-passer.

Naturally, it's impractical to call the President or Senior Executive Vice President on each day-to-day matter that comes along. So we've arranged for your primary contact to be an underwriter with substantial authority to get approvals for you.

3. We offer the advantages of dealing with a major underwriter of commercial package policies.

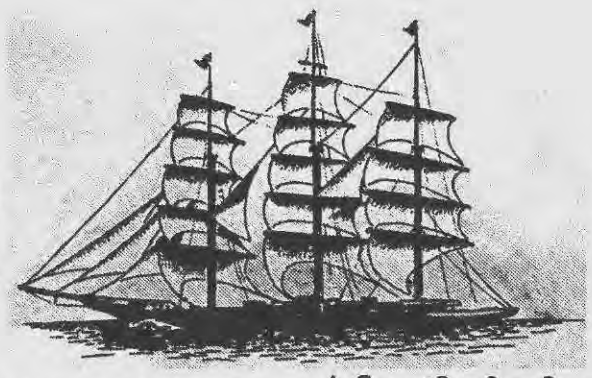
Major enough so that we can keep turn-around time to a minimum, with a computer program that can do the processing, pricing, and policy printing. Yet personal enough so that all the field representatives are underwriters with approval authority. You can count on quick, professional service.

4. We offer a superior personal lines program for our customers.

What makes The Atlantic Companies' personal lines product superior is the fact it's so unique. For example, we can include coverage of home computers and computer software on our homeowners policy. Even coverage for home computers used for incidental business use. Our personal lines insurance is backed by a computer system that assures fast and accurate handling of inquiries and endorsements.

5. We're a leader in Marine insurance.

In fact, that's how we got our start, back in 1842. Obviously, we've expanded quite a bit into other lines since then. But we're still a formidable presence in our original business. We treasure our expertise—and the agents we share it with.



6. We have a long history of prompt, fair, and helpful settlements.

We take painstaking efforts to make certain that this history repeats itself. Our reputation and strength are built on quality, not quantity. Which is why we not only do our part in settling losses in an exemplary fashion, but also demand active and devoted participation from our agents toward the same end. That's one of the reasons we'd rather recruit a few extraordinary agents than an army of the merely average.

7. We are a dividend-paying mutual.

We need hardly belabor the point that this can save quite a few dollars for your customers—most especially your biggest and most important customers. We have paid dividends to policyholders for over one hundred years on various kinds of policies. Being a mutual also means we don't have to answer to stockholders. So we can focus more time and effort on the needs and interests of the independent agents and policyholders.

8. In an age of conglomerate mergers, we remain steadfastly independent.

We are not part of a banker-broker-what-have-you "financial network". We are not owned by some conglomerate that wants to squeeze an insurance company for its cash flow. Since none of our management is distracted by any business other than insurance, we can devote full attention to the needs of our agents and their customers. This professional independence offers you a measure of stability and security less readily found today than it was years ago.

Would you be a good partner for The Atlantic Companies?

Clearly, the kind of agent we're looking for is a hardworking, devoted professional—one who cherishes his or her independence as much as we do, and who maintains high standards of delivering service to customers.

If you're that kind of agent, we should investigate doing business together. Write to us telling us something about your agency and your interest in doing business with The Atlantic Companies.

It's something all of us could benefit from.

Sincerely yours,
John J. Mackowski, President

Edward K. Trowbridge,
Senior Executive Vice President

The Atlantic Companies

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Amalgamated Programs Corp. says direct-mail literature can draw good results from prospective clients.

Different media works for different brokerages

Advertising can work, say two insurance brokers who have tried it.

Amalgamated Programs Corp. in New York claims that a significant portion of its $2 million in revenues results from one of the most difficult forms of advertising—direct mail.

Direct mail is notorious for low response. Most advertising experts agree that an advertiser can expect about a 2% return from a direct mailing. But proponents of direct mail say you have to look at response rates in relation to cost to see the real results. Alexander Fisher, president of Amalgamated, contends the return is great on investment for direct mail.

If an agent or broker, for example, sends leaflets costing 35 cents each to 10,000 prospects, the initial outlay is $3,500. If 2% respond, the agent or broker has 200 prospects who have already shown an active interest in buying the product.

Depending on how much commission the product or service generates, the agent or broker may earn back the cost of the advertising by selling policies or services to only a small portion of those prospects.

Some direct-mail pieces generate a better response than others, Mr. Fisher notes. The agency tests its direct-mail pieces to find the most effective design.

"We attempt to measure by doing a mailing using three different pieces and noting which piece develops the greatest number of replies," he explains.

The most effective piece of direct mail should be used again, he says. Response rate rises with repeated mailings, but so does the expense.

"Responses to direct-mail pieces tend to be from a better prospect. He's calling on us to solve a problem he recognizes exists."

Amalgamated's ability to solve real or perceived problems is also the message in the ads the agency places in trade publications directed to specific industries.

The agency, which spends about 1% of its revenues on advertising, relies on its advertising consultant to choose which trade publications best reach the target audience.

A media consultant also helped O'Malley & McKay, a Des Plaines, Ill., insurance broker, develop an advertising campaign designed to change the broker's image.

"The campaign's objective was to tell clients that O'Malley & McKay was available to individuals. It had always been known as a broker, and it wanted to develop its personal lines," explains Robert Russo, vp/creative director for IMS Advertising in West Springfield, Mass., the advertising consultant for O'Malley & McKay.

O'Malley & McKay, which was founded in 1927, had built a reputation as an insurance broker specializing in real estate companies and financial institutions, he explains. But about nine years ago, the company moved its headquarters from downtown Chicago to suburban Des Plaines.

Despite the relocation, it was still known as a downtown broker, Mr. Russo says. The general public just wasn't aware of what O'Malley & McKay was and what services it had to offer individuals.

Mr. Russo, along with the principals and staff at O'Malley & McKay, set out to create an advertising campaign to educate the public. Developing a slogan was the first step in the campaign.

The slogan tells people what makes the agency or brokerage different, Mr. Russo says. For O'Malley & McKay the message is "We give you more than a promise."

Step two, spreading the message, included buying newspaper ads featuring the broker's salespeople. The brokerage also has purchased radio time and is looking at cable television as a vehicle for its message.

How successful O'Malley & McKay has been in getting its message across is still unknown, according to Mr. Russo. The agency launched its first campaign last fall and saw some results, but doesn't expect significant response until after the spring campaign. An agent or broker should expect some lag between starting an advertising campaign and realizing significant results, he says. ■

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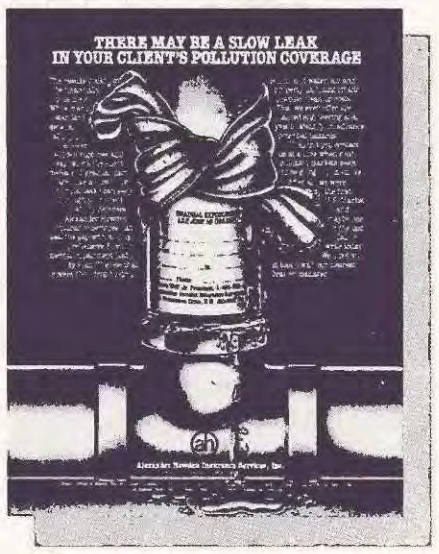

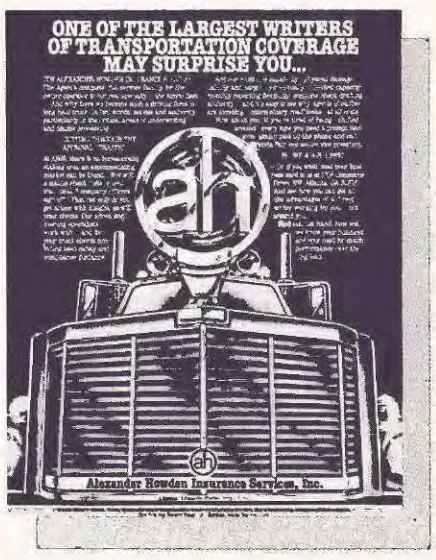

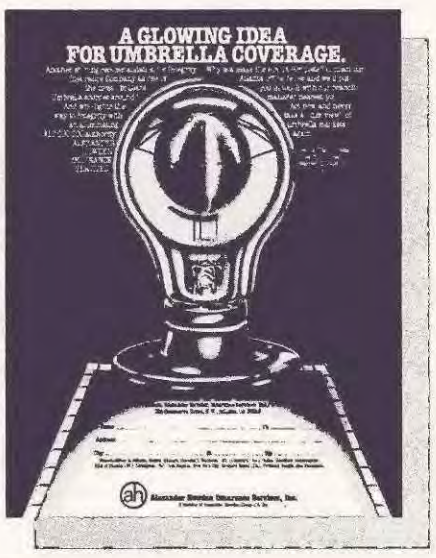

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Jersey agency uses hippo to establish its identity

TENAFLY, N.J.—Building an agency identity is essential even if you're not considering developing a full advertising campaign, says Martin A. Lebson, a partner in Popkin Lebson Bergstein Inc., a Tenafly agency.

Since the mid-1970s, Popkin Lebson has been known as the agency that can insure your home, your business, your life—and even your hippo, because it once provided speciality coverage for a hippopotamus in transit to Philadelphia zoo.

Prospects and clients remember the hippopotamus, Mr. Lebson says, and the agency likes to remind them. It uses the hippo on brochures, newsletters and letterhead —everything but the agency's formal stationery.

The agency also spends about $15,000 on promotional items using the hippopotamus identity, including calendars, diaries and belt buckles.

People always ask about the mascot, Mr. Lebson points out. "When I go to a new prospect, I show them a brochure and it gives me something to talk about," he says, explaining he likes to tell how the agency chose the hippopotamus as a mascot.

An advertising consultant, hired to assist the agency in establishing

Mr. Lebson

an identity, asked about unusual risks the agency had placed. A policy to cover a hippo being transported from India to a Philadelphia zoo provided Popkin Lebson with the symbol.

Tying an agency or brokerage symbol to insurance is essential, says Arthur Hecht, president of Arthur Hecht & Partners, the New York-based advertising agency that helped develop the campaign for Popkin Lebson.

"To sell insurance you have to look at people's needs and play on those needs—security for lives, business and profits. You have to protect the things that people are afraid of losing."

The Philadelphia zoo was protected against losing its hippo with the Popkin Lebson-placed policy, Mr. Lebson says.

Establishing an identity, however, wasn't the basis for a complete marketing campaign, Mr. Lebson says. The agency doesn't advertise beyond giving out promotional items.

Mr. Lebson says he's not convinced that people buy commercial insurance as the result of advertising efforts.

Advertising does, however, definitely have its place in insurance sales, he says.

For example, the agency, which has revenues of about $1.3 million, recently purchased a brokerage subsidiary that sells musical instrument insurance.

The acquisition, Instrument Insurance Agency, will probably advertise in music magazines, Mr. Lebson says. ■

a/bt info

What It Costs," a survey of independent insurance agency income and expenses, is now available from The Rough Notes Co. Inc. The 32-page book, which costs $13.50, lists average figures for six agencies ranging in size fom $100,000 to more than $4 million in annual premium volume. For more information contact The Rough Notes Co. Inc., 1200 N. Meridian St., Box 564, Indianapolis, Ind. 46206.

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Be sure your brochure is effective: Consultant

Does your brochure stand out in the piles of paper on your clients' desk?

Designing effective brochures is becoming increasingly important for insurance agents and brokers, says Charles A. Moldenhauer, a vp at Lefkowith Inc., an advertising consulting firm in New York.

Agents and brokers must stay in contact with an increasing number of prospects as competition continues to mount, he says. They must grab the attention of their target audience and maintain contact throughout the time the prospect is deciding on chosing an agent or broker.

A well-designed brochure, like any other form of advertising can help the agent or broker hold prospects' attention, he says. As something to leave behind after a sales call, for example, the brochure becomes a reminder that reinforces the personal contact established by the visit.

Unlike other advertising vehicles, however, brochures are relatively inexpensive, Mr. Moldenhauer says.

"A one-page ad in a major business publication would probably be read by some target prospects, but a one-page ad in most business publications costs over $10,000. Other mass communications methods are also costly."

Relatively speaking, the brochure is the best advertising vehicle for the money, Mr. Moldenhauer adds.

"Unfortunately, many brochures fail to achieve their objectives because they face intense competition from other media in a competitive world," Mr. Moldenhauer says.

"First, the competition is probably already using a a brochure and a variety of reports, newsletters and announcements," he explains. Since your competition is using the same medium, it makes it more difficult—and all the more important—to make sure your brochure attracts attention and differentiates your services, he says.

"Most top managements also receive quality promotions, such as annual reports or product brochures, on an increasing basis," he adds

"Second, we live in a communications-oriented society. Consumer studies show that visual recall is eight to 10 times greater than verbal recall," Mr. Moldenhauer continues.

"Yet, the cost of communicating is rising. Ten-second ads have replaced 30-second ads. Shorter time because of higher costs puts pressure on creating words and visuals that work together to impress the target audience.

"Most major advertising campaigns are preceded by hundreds of dollars of research and development time."

Agents and brokers generally have little, if any, money to spend on market research. Yet, their brochures must compete in a world of sophisticated communications.

In addition, Mr. Moldenhauer contends, most brochures contain three deficiencies:

- They lack a clear strategy. "In some cases the target audience is not precise, or the appeal and benefits are vague. The reasons for a brochure are usually clear in the minds of people planning it. Yet, the brochure is not always clearly aimed at the specific audience."
- The advantages of coordinating words and pictures to create an impression are usually ignored. People remember more of what they see than what they read. A combination of words and pictures can create a better impression of the intangible service agents and brokers provide.

Case histories, charts and graphs are valuable ways to help create an accurate word-and-picture impression, he notes.

- Brochures don't gain attention by arousing interest. Brochure planners don't use original graphic design, well-written copy and succinct sales points that are meaningful to the target audience.

Mr. Moldenhauer suggests that agents or brokers can make their brochures more successful marketing tools by:

- Planning a strategy. The more exact the preparation of the written strategy, the better start the brochure development will have.

"Consider competitive postioning, evaluation of targets, case history presentations and a clear definition of the kind of services provided before developing copy and design," he says.

The strategy should also consider the competition's creative approach, as well as help define your own potential creative methods, he adds.

- Segmenting the audience. Once agents or brokers are able to break down the audience into segments, they may recognize different starategies for different people. Think about changing portions of the copy for segments of the audience and including targeted inserts and folders in the brochure, he says.

For example, a company designing a brochure developed a personal profile for each executive as an insert in a pocket in the brochure's back cover. The insert created a personalized approach that could be modified depending upon the target audience.

Other approaches to inserts include changing titles, copy or selected pages for target audiences. The extra printing cost for such modified approaches is usually minimal, Mr. Moldenhauer notes.

- Coordinating design and copy development. Most brochures are the result of graphic designs being worked around copy, resulting in an end product that isn't integrated. For a more cohesive piece, review the copy and design together, emphasizing how both can be most effective.

"It is good practice to have the copywriter and designer participate together in gathering background information and in all development meetings. Creativity will be enhanced by such teamwork—especially if they have been a team in the past," Mr. Moldenhauer says.

"One of the best ways to gain a feel for the target audience is to have the designer/writer team go out and meet a representative group of clients or prospects."

- Considering research. A firm's marketing plan usually has some analysis of the size and scope of the audience. But the plan seldom includes figures on the exact target segment or a description of what motivates a potential client.

Marketing research can help. Surveys of prospects, either sent by mail or gathered through telephone interviews, are relatively inexpensive.

While agents or brokers won't find conclusive statistics from a few interviews, they may discover that just one marketing approach is not enough to tell their story or that their selling points are unclear.

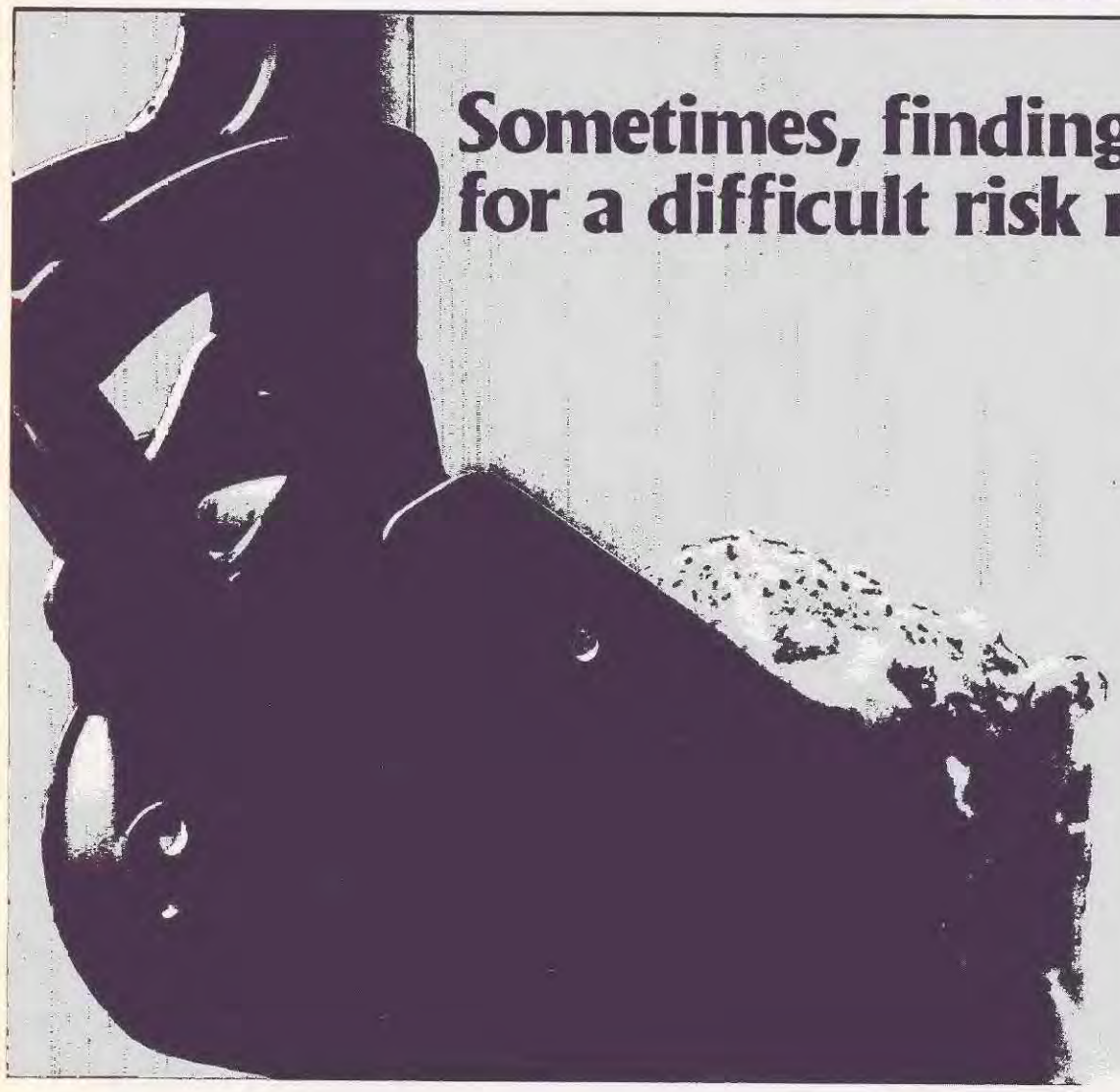
It pays to clear up vague concepts before they become part of a brochure, he says.

- Managing development. Many agents and brokers view creating a brochure as a routine project when it is really an important task, since the completed brochure will represent the agency to present and prospective clients. So, it's important to make sure that every detail at every step of the production process is managed diligently.

A timetable and cost analysis will help move the project from final copy through to the printing stage. An agent or broker can avoid delays and cost overruns by tightly managing the project, Mr. Moldenhauer says.

- Controlling production. Carefully supervise the production of your brochure. Controlling quality and watching detail are time-consuming, but essential. This is your last chance to make last-minute changes in color or even copy. Don't pass it up, he advsies. ■

HULL & COMPANY, INC. 1983: THE 21st YEAR.



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Aetna offering new profit-sharing arrangement

HARTFORD, Conn.—Agents representing Aetna Life & Casualty Co. will have a choice of two methods for calculating their share of the insurer's profits: Aetna's present profit-sharing plan and a recently introduced alternative, the Aetna Commercial Performance Contract.

Agents will receive the largest of the two calculations, an Aetna spokesperson says, because they can wait to decide which calculation to use at the end of the profit-sharing period.

Aetna is the latest of several insurers to revise its profit-sharing plan. During the last few months, both The Atlantic Cos. and CIGNA Corp. announced new profit-sharing agreements.

The latter modified its agency contract in response to objections from the Independent Insurance Agents of America.

The IIAA agency contracts committee's recommendations also helped persuade Aetna's new program, according to the insurer.

In response to a contracts committee report last year recommending that insurers adjust company expense factors for agents who do a better job for the insurer, Aetna's ACPC program doesn't apply an expense factor to the profit-sharing calculation.

It also offers higher participation percentages for agencies placing a larger volume of business with Aetna.

The business an agency places with Aetna won't be judged against predetermined permissible loss ratios, which have been eliminated under ACPC.

Aetna's new plan also reflects an agency's total contribution to the insurer's earnings. ACPC also includes an annual term, limits losses to $200,000 and expands eligible profit-sharing lines to include mass-marketed policies and commercial umbrella coverage.

Computer link

NEW YORK—Agents and brokers with any computer terminal that connects with a telephone will soon be able to dial a local number and get up-to-the-minute product information from American International Group Inc.

AIG recently announced its first effort in the rush to automate insurance producers: an on-line data base that contains descriptions of the products offered by all the AIG companies, plus names and telephone numbers of the AIG offices that market them.

The on-line data base is called the "AIG Product Portfolio."

An agent or broker, pushing a series of buttons on his own terminal, would be able to request a one-paragraph description and contact people for each coverage any AIG affiliate offers. The request can be made by key words (such as "workers compensation") by AIG region or by AIG company.

AIG is initially limiting the service to major brokers and other key producers when it begins in June, said Mitchell E. Cohen, corporate marketing director in AIG's research and development department.

At first, those key users will be able to dial a local telephone number in 12 major cities to obtain product information. Later, the service will be available through the Telenet time-sharing network, which serves hundreds of cities with local telephone access numbers.

Agency specialization

MONTEREY, Calif.—Specialization will be the agent's key to survival in the 1980s, a risk management consultant recently told agency executives.

Felix Kloman, president of the Risk Planning Group Inc. of Darien, Conn., told 60 agents that represent Design Professionals Insurance Co. that "the role of the agent/broker as an intermediary is over; the old-fashioned agent is dead."

The commercial insurance buyer, Mr. Kloman continued, is becoming increasingly competitive with agents and insurers through the formation of captive insurers, and "when insurance rates finally begin to rise, corporate risk managers could place another $5 billion to $6 billion into captives in addition to their $5 billion to $6 billion current investment.

"But of all the competition you face, the banks are the most significant because of their equity purchases in insurance companies, their involvement in getting permissive legislation passed and their aggressive marketing technique," he said.

The solution for agents, according to Mr. Kloman, is to increase specialization and emphasize service. "One way to survival is by emphasizing specialty service to specialty industries and professions," he explained. ■

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Former CU automation system now 'independent'

ATLANTA—Will purchasing one insurer's agency automation system tie an agency too tightly to one insurance company?

That commonly asked question is one reason Commercial Union Insurance Cos. recently sold portions of its wholly owned computer subsidiary to five other insurers.

Six commercial insurers, including Commercial Union, now share the ownership of Atlanta-based Agency Management Systems, explains David Wroe, vp for product research and development at AMS.

The five other new owners in the consortium agreement are CNA Insurance Cos., Crum & Forster Group, Great American Insurance Cos., New Hampshire Insurance Co. (part of the American International Group) and Zurich-American Insurance Cos.

> 'From its inception, Commercial Union and AMS had hoped to make products available to all insurers and agencies. Our position had been that once we were ready, ownership would be made available to others,' AMS' David Wroe explains.

"From its inception, Commercial Union and AMS had hoped to make products available to all insurers and agencies," Mr. Wroe explains. "Our position had been that once we were ready, ownership would be made available to other (insurance) companies. In that way, AMS could be made to share in the free enterprise system which independent agencies embody."

Commercial Union executives also admit that since AMS introduced its agency/insurer computer interface technology last year, potential agent purchasers had been concerned about committing too much of their automation budget.

"The consortium agreement means that independent agents can now purchase an automated system owned by some of the most highly regarded insurance companies in the United States," noted an AMS spokesperson in the CU announcement of the ownership change.

"Since no one company owns AMS, the independent agent can be certain he or she stays just that—independent. The consortium arrangement is the best path for agencies and companies to take in this new era."

Mr. Wroe emphasizes that AMS expects to be a central part of all agent/insurer networks and not limit itself to communication with its owner insurers.

For example, AMS recently completed a computer test with the Insurance Value Added Network, a multi-insurer network developed by the Insurance Institute for Research and operated by International Business Machines Corp. The AMS system stored and forwarded rate and form data communicated by the Reliance Insurance Cos.' central computer system.

"We are very committed to IVANS, the IBM Information Network and the IIR/Accord form standardization, Mr. Wroe says. "Since most insurance companies use IBM computers, the AMS system is especially effective for agency-company interface."

AMS software operates on IBM Series I minicomputers and IBM personal computers. The Series I system, currently used by about 40 independent agents, costs from $30,000 to $200,000 depending upon the size of the purchaser.

The personal computer system, not yet available, will be designed for very small agencies and priced significantly lower than the Series I system, according to Mr. Wroe. ■

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Coldwell Banker says it's leaving agency business

NEWPORT BEACH, Calif.—Coldwell Banker & Co., the real estate arm of the Sears, Roebuck & Co. financial services network, is backing out of the insurance agency business.

About seven West Coast agencies, formerly grouped under the name of Coldwell Banker Insurance Services, are now for sale by the real estate management company as part of a Sears corporate consolidation.

Most of these agencies, however, are now being sold back to the principals from which they were acquired, says a Sears spokesman.

"The company feels that each division of the Sears financial services network should be responsible for services provided in its specialty. Coldwell Banker should specialize in real estate, Allstate Insurance Group in insurance and Dean Witter in securities," the spokesman explains.

He also denied that the divestment was demanded by Allstate, fearing internal competition.

"There's no reason to believe that Allstate had pressured anyone into this decision. It's simply a question of focusing the specialities and resources of appropriate parts of the company."

Although most of the agency business will revert to former owners, Allstate will be the beneficiary of some of the Coldwell insurance renewals, primarily its personal lines, the spokesman admitted.

Although Coldwell had litte presence in the insurance marketplace lately, the real estate company had acquired several insurance agencies generating approximately $7 million in annual gross revenues during the late 1970s. Fewer than three years ago before its acquisition by Sears, it had been planning to build a commercial agency network to rival national insurance brokerages (*BI*, Sept. 29, 1980).

Much of Coldwell's business had originally sprung from personal lines insurance handled as a sideline by local real estate offices, but the agency group had been increasing its small commercial coverages and, at its peak, was deriving about 70% of its premium volume from commercial risks. ■

Investment services create new E&O risks

By WILLIAM S. SCOTT

TORRANCE, Calif.—Selling investment products exposes agents and brokers to an entirely new set of potential errors and omissions actions.

Investment sales made by insurance agents and brokers may very well become a major new cause of suits in an already highly litigious climate.

Therefore, these sales ventures are of particular interest to E&O insurers and brokers like CalSurance, a Torrance, Calif.,-based brokerage that places E&O coverage for more than 50,000 U.S. agents.

Here's how the problem sets up: preferred clients, those with incomes of more than $50,000 a year, are virtually forcing their insurance agents to offer financial planning services as well as insurance policies.

Until two or three years ago, the insured was mainly interested in a death benefit or loss recovery with life insurance products. As long as the premium remained competitive, an annual cash value increase at 4% to 6% was an added attraction.

Today, investment earnings in the double digits, inflation and tax-bracket creep have focused a client's attention on making the best use of its money first, with asset protection second.

While the added revenues and

Mr. Scott

client-loyalty advantages of investment product sales are strong inducements to agents and brokers, the leap into a new field of activity must be well-calculated.

First, agents and brokers may or may not be aware of the licensing requirements needed before they can legally offer financial counseling or sell investments. Anyone selling "securities" as defined by various laws and regulations must be registered with the National Assn. of Securities Dealers in cooperation with the Securities and Exchange Commission.

The courts have interpreted this to encompass a very wide range of investment products, including all those now popularly sold by insurance agents and brokers. Different licenses or regulations are required for different products.

For example, selling mutual funds necessitates a "Series 6" registration. Selling stocks and bonds, and other general investment opportunities, mandates a "Series 7" registration.

These accreditations are achieved by filing certain personal information statements with the NASD, then passing a test.

But a license itself doesn't put an agent or broker in business. This only allows an agent or broker to act for a registered broker/dealer. The supervising broker/dealer must have completed a "due-diligence" report (full research and public disclosure) for every product sold by the insurance agent or broker.

This task must be accomplished in order to sell any stocks, bonds, mutual funds or limited partnerships and all other investments typically offered by insurance agents and brokers. Thus, when agents or brokers offer investment products, their business card, letterhead and advertising should also identify the supervising broker/dealer.

Since this may complicate an agent's relationship with insurance companies the agent represents, separate stationery and office identification (often including a separate telephone number) may be advisable.

An insurance agent's office may become an investment brokerage/dealership in its own right, but this requires meeting an additional set of licensing and registration regulations over and above those already mentioned.

While an agent or broker may pass along opinions about the desirability of a particular investment scheme when working for a commission, an agent or broker who acts as a "financial planner" or "investment adviser" must acquire another form of registration or certification.

This is especially true if a few is charged for the advice.

Becoming a registered financial adviser, however, does not legally require any testing. A detailed form covering the adviser's financial condition and business history must be filed and accompanied by payment of an approximately $150 fee.

The agent then become a registered financial adviser.

Whether an agent or broker is acting only as a salesperson or as a financial adviser is often a gray area. As one experienced investment broker put it, "When in doubt, register!"

The whole E&O consequence of the registration is, of course, how agents and brokers should protect themselves against possible legal actions. A client that loses money or becomes convinced more money could have been made by going some other way is going to look to the agent for redress.

It will not matter if an agent or broker acted in good faith, but was not properly licensed. It is the agent or broker who will lose!

Other traditional E&O actions against investment brokers now become problems for the insurance agents and brokers who enter this new product area.

Most of these complaints turn on the questions of alleged misrepresentation, fraud and/or taking advantage of the buyer's lack of sophistication.

The latter is a unique situation within the investment business. The insurance agent or broker is now required to know more about the client, the client's financial status and its ability to understand and afford the potential risks

Continued on next page

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Investment services create new E&O exposures

Continued from previous page
involved in the investment vehicles recommended.

There are certain technical definitions as to what makes a sophisticated client, including factors of income, assets and past dealings in investments.

Another E&O trap to which insurance agents and brokers could be particularly vulnerable is a function of how the solicitation is made.

First, as a general rule, a mass mailing that insurance agents and brokers use regularly may violate the "know-your-client" requirement. Next, there's a very complex set of regulations as to what constitutes a public offering.

The regulations include what is said, to whom and to how many people. Making a public offering without SEC registration is against the law!

And, finally, there's a subtle point. It is a standard practice in the insurance industry to present to the prospect a complete pro forma type of proposal. A proposal becomes an offering prospectus for investment products and, yes, it can be deemed fully regulated by the SEC.

To complicate matters further, federal and state investment laws may differ, particularly as to "blue-sky" provisions.

That is, the statements made in the proposal as to potential gains and risks must conform to certain legal standards. What's not said can be as damaging as what is said. Again, here's where agents and brokers must rely on the guidance of a reputable broker/dealer and not go off on their own.

> It is a standard practice in the insurance industry to present to the prospect a complete pro forma type of proposal. A proposal becomes an offering prospectus for investment products and, yes, it can be deemed fully regulated by the SEC.

We have yet to experience many claims against agents involving tax shelters and other investment products, but the field is only about 2 or 3 years old as far as the majority of insurance agents is concerned.

In our experience, there haven't been many estates settled with investment-based benefits. There haven't been many clients called onto the carpet by the Internal Revenue Service due to agent advice. The investment climate has been generally bullish during the last couple of years.

However, we anticipate seeing more and more claims against agents and brokers due to their involvement with investment products. The reason is inescapable. All investments involve risk.

Over the long pull, it's a question of when, and not if, a few of the investments some agents and brokers have steered their clients into go sour. The greatest investment advisors of all time have had losses.

The insurance agent and broker have always had a special position of trust. Indeed, it's this special agent/client relationship that readily opens the door to the agent or broker to sell investments. But a client that loses money is going to feel, rightly or wrongly, there is also a reason to seek redress from the trusted agent or broker.

Agents and brokers are not advised to avoid selling investment products. However, be certain your E&O insurance defends your professional endeavors on behalf of your clients. Be aware of the pitfalls.

No known professional liability insurance program covers market fluctuations and potential client losses. Defense costs may be provided for alleged losses as long as the agent or broker has played it strictly by the rules.

There are two basic questions that, if answered negatively, can be used to disqualify agent E&O coverage:

- Was the agent or broker appointed by an associated reputable broker/dealer who has experience working with insurance agents and brokers and who offers investment products especially suitable for insurance agent clients?
- Did the agent or broker demonstrate a thorough knowledge of investment product solicitation and sales by being appropriately licensed and acting entirely within the rules and regulations?

Selling investment products probably is a must today for aggressive, competent career agents and brokers. The entire insurance industry is headed in that direction, as shown by the major insurance companies. Interest-sensitive policies, unbundled plans and similar services are actually investment-oriented products.

Unless there is a radical and unforeseeable change in not only the tax laws but the economic structure of the country, investment and insurance plans will become increasingly interdependent. And as the opportunity for the mixed marketing grows, so will the risks. ■

William S. Scott is a vp for professional liability for Cal-Surance Associates Inc. in Torrance, Calif.

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Insurers investing in software firm

Two insurers acquired 10% each of Redshaw Inc., an agency computer software company, which is a subsidiary of Hartford Insurance Group, late last month.

Following the lead of Commercial Union, which sold portions of its computer subsidiary to five insurers (see story, page 36N), Hartford contracted with St. Paul Fire & Marine Insurance Co. and Crum & Forster Inc. for portions of Redshaw.

The 7-year-old computer software firm, which Hartford bought last year, is one of the leading suppliers of agency's computer system, controlling about 30% of the market.

Pittsburgh-based Redshaw also has contracts with about 20 insurers to develop electronic interface between the agents' office computers and the insurers' mainframe computers. ■

Insurers learn to deal with open rating

By DOUGLAS McLEOD

WASHINGTON—The spread of workers compensation open-rating laws has left insurers facing problems they're just beginning to grapple with, one expert says.

And, they may alter their payment of dividends and use of cash-flow plans in open-rating states to compensate for the new financial pressure.

"(Open rating) is here, we're in the middle of the water and we're still learning how to swim," says David Skurnick, senior vp with Argonaut Insurance Co. of Menlo Park, Calif.

The immediate impact of open competition in several states has been an "absolutely dramatic reduction in rates," Mr. Skurnick told an audience at the 29th annual workshop of the National Assn. of Independent Insurers.

The rate cuts, often granted simply because fierce competition has overwhelmed sound business judgment, may push many companies toward financially troubled waters, he suggested.

The problems caused by rate cutting are compounded when insurers pay their policyholders dividends or offer paid-loss retros or other cash-flow plans that reduce underwriters' incomes, he added.

"You're not only getting a high loss ratio, you're paying dividends and not getting your premium, so you're reducing (your own) cash flow," he told the insurers.

Because of these problems, Mr. Skurnick said he expects to see dividends disappear on workers compensation policies in open-rating states. Insurers may also start charging interest on premiums financed in cash-flow plans, he added.

Argonaut has taken steps to be sure it's getting adequate premium on its risks, Mr. Skurnick said. In calculating rates for large accounts, Argonaut considers projected losses and expenses, and the effects of dividend and retro provisions.

"This form has become very unpopular with agents in states like Michigan," which has an open-rating law, he said.

Another problem arises from insurers' ability in open-competition states to alter the workers compensation classes on which rates have traditionally been based. A single class, based on the worker's occupation, has often included both high-risk and low-risk workers, Mr. Skurnick said.

In open-rating states like Oregon, though, an insurer may split off the low-risk workers from one class and make a separate class of them for rating purposes. The difficulty here is that workers remaining in the original class are relatively high-risk, meaning that the current rate for that class may be inadequate and may lead to a high loss ratio, he explained.

Some states allow rates developed under open competition to be modified with experience-rating plans, Mr. Skurnick noted. But another problem for insurers is created by states whose formulas for calculating experience modification differ.

It's conceivable for a single company with plants in Michigan, California and Oregon—all states with open-rating laws—to have its workers compensation rates modified in three different ways using three different formulas.

Both of these difficulties are addressed in model legislation proposed by the National Assn. of Insurance Commissioners. The NAIC model bill would:

- Require premiums and losses for newly created classes to be reported to rating bureaus under the original classes from which they'd been split.
- Impose a uniform experience-rating plan.

Another problem is simply keeping up with changes in the various state laws and what the changes mean, Mr. Skurnick added.

"We've found it necessary to make phone call after phone call to the National Council on Compensation Insurance and state insurance departments to find out what those laws mean," he said. "We're afraid some state will adopt a law that we won't find out about at all."

Mr. Skurnick noted that there's not much difference between open competition and the scheduled rating allowed by some states, in which manual rates are adjusted with credits or debits based on several factors relating to an individual insured's business.

Insurers have to show state regulators that there's some basis for altering the manual rate but in practice, scheduled rates are easy to get approved, Mr. Skurnick said. Often, scheduled rating is just a "convenient device" to justify the rate cutting insurers may feel they need to maintain business.

The problem here is that insurers often get lower-scheduled rates approved without proving to regulators they can afford them.

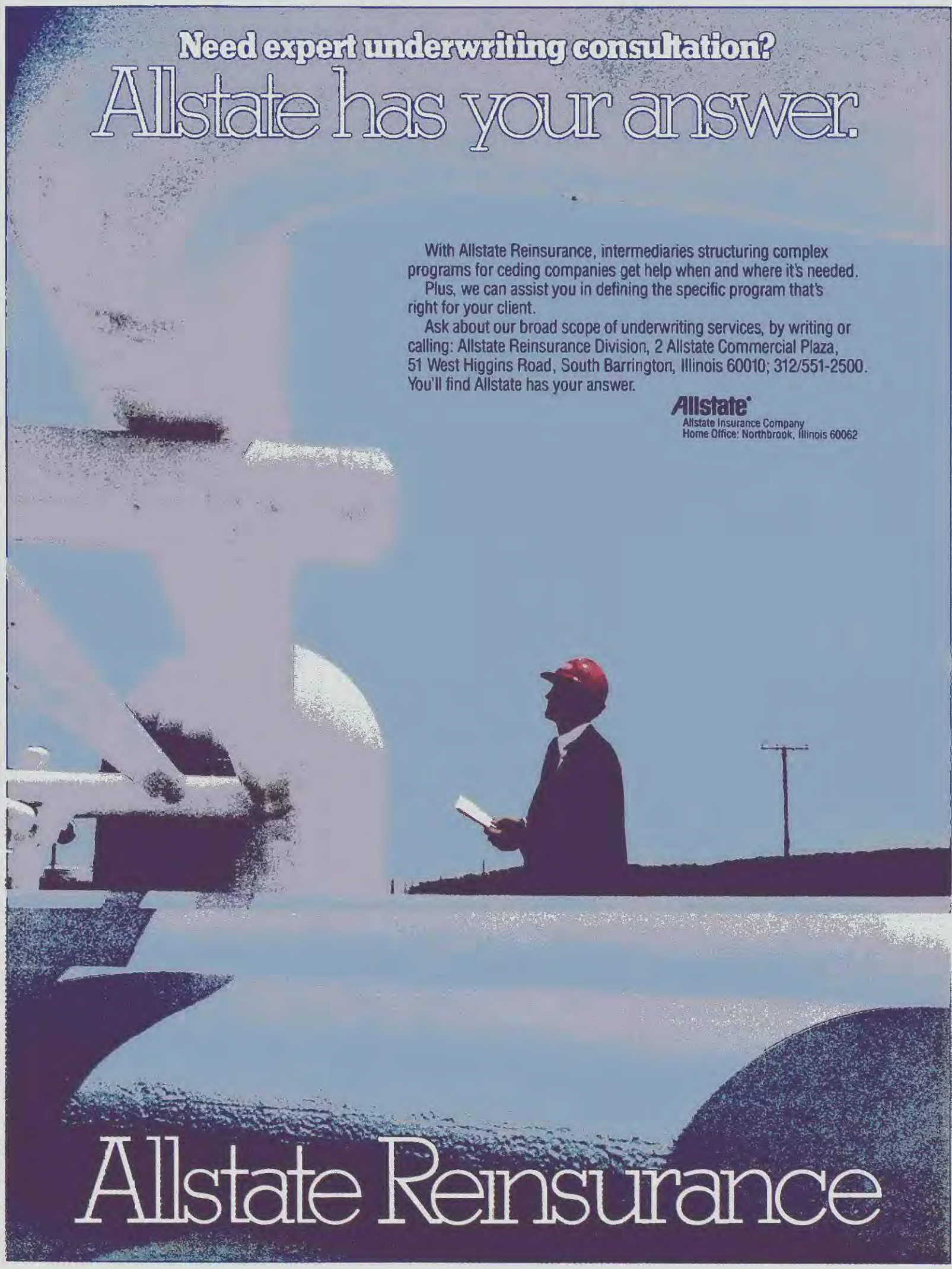
In states that allow scheduled rating and open rating, insurers should base decisions to cut rates on decreasing losses and expense ratios as well as the imperatives of competition, Mr. Skurnick says.

"Decisions on rates should be based on a balance: avoiding the loss of too much business vs. avoiding the loss of money," he said.

Insurers can't afford to count on investment income to offset the losses brought about by rate cutting, he added.

"If you have to assume some huge investment income to justify lower rates, it may not be the smartest business decision to lower rates," he said.

"What we are very likely to see is underwriters not paying attention to this and (finally) getting out of the workers compensation business because they aren't making a profit." ■



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FTC wants repeal of law barring insurance studies

By JERRY GEISEL

washington

WASHINGTON—Congress should repeal a 1980 law that bars the Federal Trade Commission from investigating the insurance industry without prior congressional approval, an FTC commissioner says.

Prior to the 1980 ban, various FTC insurance studies "proved valuable to state legislators and regulators who have the primary responsibility for regulating insurance," said FTC Commissioner Michael Pertschuk.

In a letter to Senate Commerce Committee Chairman Robert Packwood, R-Ore., Mr. Pertschuk said the FTC would like to analyze new life insurance products, like universal life, as well as how insurers could provide better information about automobile insurance.

Under the 1980 law, the FTC's investigatory authority over the insurance industry was eliminated except in cases where a report is requested by a majority of the members of the Senate Commerce Committee or the House Energy and Commerce Committee.

Multiemployer suit

The Pension Benefit Guaranty Corp. has asked a U.S. District Court in Jackson, Miss., to dismiss a multiemployer pension plan as a defendant in a lawsuit filed by the American Trucking Assns. that challenges the constitutionality of the 1980 Multiemployer Amendments Act.

In its motion asking the court to dismiss the Central States, Southeast and Southwest Areas Teamsters Pension Fund as a defendant, the PBGC said the huge Teamsters' multiemployer plan lacks an adversarial relationship with the trucking association because they both favor the elimination of withdrawal liability.

"The Fund is not adverse to the plaintiffs; in fact, the plaintiffs selected the fund with the express intention of constructing a friendly lawsuit against a multiemployer pension plan that opposes employer withdrawal liability, in the hope of obtaining an early victory which could be exploited in other Multiemployer Act litigation around the country," the PBGC said in its motion to dismiss.

Under the Multiemployer Amendments Act, multiemployer pension plans have the power to demand withdrawal liability payments from employers that leave the plans to pay for a share of the plan's unfunded vested benefits.

Social Security hike

Social Security benefits will rise again next year, but the increase won't be as large as in previous years.

On Jan. 1, the average monthly benefit will climb 3.5%, or $14, the Social Security Administration reports.

That 3.5% benefit hike is the smallest increase since Social Security benefit increases were linked to rises in the Consumer Price Index eight years ago.

The latest Social Security benefit hike is based on the difference in the CPI during the first three months of this year and the first three months of 1982.

With a 3.5% increase, the average monthly benefit will rise to $425 from $411. The increase will cost the Social Security trust funds $5.8 billion.

The Jan. 1 increase will be the first benefit improvement for the nation's 36 million Social Security retirees since July 1982. That's because Congress, as part of a broader Social Security financial rescue package, agreed to postpone the scheduled July 1 cost-of-living adjustment to Jan. 1, 1984, and decided as well that all future benefit increases will be in January instead of July (*BI*, April 4).

Pension benefits

Sen. Bill Bradley, D-N.J., and Rep. Richard Gephardt, D-Mo., will introduce legislation that would, once again, slash the maximum pension benefits companies can provide to their retirees.

Under the legislation, the maximum annual contribution an employer could make to a defined-contribution plan, like a profit-sharing plan, would be reduced to $15,000 from $30,000. In addition, a participant in a defined-benefit plan would be allowed to receive a maximum annual pension of $45,000, down from the current $90,000 limit.

In 1982, Congress, as part of the Tax Equity and Fiscal Responsibility Act, lowered maximum benefit levels for defined-contribution and defined-benefit plans to their current levels (*BI*, Aug. 23, 1982).

Reinsurance request

J.C. Penney Co. is asking the Labor Department for permission to allow the retailing firm to use its Vermont-based insurance subsidiary to reinsure life insurance policies issued by Prudential Insurance Co. of America to its employees.

Under the proposed reinsurance contract, Prudential will pay J.C. Penney Life Insurance Co. (Penney Life) 50% of the premiums and payments received in exchange for which Penney Life will reinsure Prudential for 50% of the risk.

Under a 1979 Labor Department class exemption, a domestic insurance subsidiary is allowed to underwrite group insurance programs for its parent company's employees as long as the business doesn't account for more than half of the subsidiary's book of business (*BI*, Aug. 20, 1979).

However, reinsurance arrangements, in which a company's insurance subsidiary reinsures employee benefit plans through a licensed reinsurer, are decided on individually by the Labor Department.

Penney estimates that providing life insurance benefits for its 136,000 participants in several corporate life insurance plans will account for about 2% of Penney life's business this year.

During 1981, Penney Life, which was incorporated in 1900 in Vermont, collected $67.88 million in gross premiums and annuity considerations. ■

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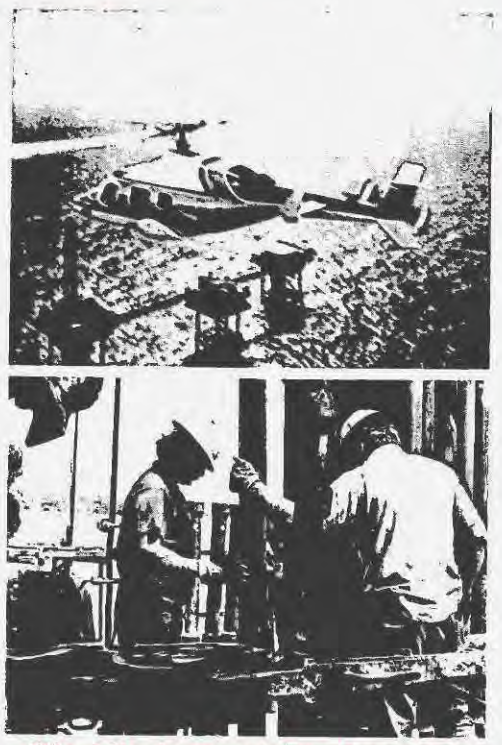

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comings & goings: buyers

Lopez becomes senior vp at Drum Financial Corp.

Peter F. Lopez, 42, was promoted to senior vp of special financial services at Drum Financial Corp. in New York. He is the former risk manager of St. Regis Paper Co.; his promotion is the result of the consolidation of all corporate financial services and risk management activities of St. Regis into Drum, the insurance holding company. Mr. Lopez will assist in marketing programs and oversee risk management services at Drum and will continue as president of St. Regis' Bermuda-based captives, Pinetree General Insurance Co. (Bermuda) Ltd. and Pinetree Universal Insurance Co. (Bermuda) Ltd. Mr. Lopez joined the company in 1979 as director of risk management and insurance. Prior to that he was in corporate insurance management with Celanese Corp. in New York. He received a bachelor of science degree and master of business administration degree from Fordham University in New York. Mr. Lopez reports to Robert E. Milkey, executive vp of Drum Financial Corp.

* * *

Thomas D. Lewison was promoted to corporate risk and insurance manager at Degussa Corp. in Teterboro, N.J. Mr. Lewison joined the company in 1981 and established the risk management insurance department; his promotion reflects an expansion and redefining of the department. Mr. Lewison received a bachelor of business administration degree from New York University and is currently pursuing the associate in risk management designation. He is also a deputy member of the New Jersey Risk & Insurance Management Society chapter; he willl represent the chapter as a speaker at the 1983 RIMS convention. Mr. Lewison reports to Vp and General Counsel Richard Ornitz.

* * *

David Meek, 32, is now vp of risk management for Ralphs Grocery Co. in Los Angeles, a division of Federated Department Stores. Mr. Meek's duties include corporate insurance, security and employee and customer safety for Ralphs, as well as insurance for Bullock's, another division. He joined the company in 1972 as a security agent and held various safety, insurance and risk management positions in the next 11 years. He attended Long Beach City (Calif.) College and California State University at Long Beach, majoring in criminology. He is also a deputy member of the Risk & Insurance Management Society. Mr. Meek reports to Roger W. Borneman, senior vp of administration.

* * *

Roy L. Vickrey, 46, was promoted to vp of risk management at Fleming Cos. Inc. in Oklahoma City, Okla., a newly-created position. Mr. Vickrey has total resonsibility for corporate risk management programs, the company's Bermuda-based captive, Fleming Insurance Co. Ltd., and property/casualty and employee benefit insurance. He joined the company in 1978 as director of risk management after having served as risk and insurance manager for Hallmark Cards Inc. in Kansas City, Mo. Mr. Vickrey received a bachelor of business administration degree from Washburn University in Topeka, Kan., and a master of science degree in industrial safety from Central Missouri State University in Warrensburg. He also received the Chartered Property/Casualty Underwriters and General Principles of Insurance certifications, is director of the central Oklahoma chapter of the Risk & Insurance Management Society and a past president of the greater Kansas City chapter of RIMS. Mr. Vickrey reports to Executive Vp of Finance and Administration R. Randolph Devening.

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Ideal and Cantor start software venture

Ideal Mutual Insurance Co. and Cantor & Co., a Beverly Hills, Calif., risk management consulting firm, have formed a joint venture to develop and distribute data processing software for risk managers.

The joint venture is currently planning to distribute five different products to be called Ideal RISKMAP, an acronym for risk management analysis package.

The five products, which will all be user-friendly and require no prior computer experience, can be purchased as a group or individually (*BI*, Feb. 14).

The first of the five modules, "Basic Risk Financing," allows computation of aftertax, discounted cash flow under a broad variety of financing mechanisms, including guaranteed-cost and paid-loss retro plans and self-insurance.

The package price will be under $600 and will consist of a floppy disk, a user instruction manual and an audio cassette to guide the user in operating the system.

Subsequent modules will help risk managers analyze captive insurance company programs, basic loss forecasting, simulation loss forecasting and data base management.

markets

New York-based Ideal Mutual will be the sole marketer of the Ideal RISKMAP system.

New A&A unit

Alexander & Alexander Services Inc. is forming a new British retail broking company.

Alexander & Alexander International, which until now occupied only a small office in London, will merge with the insurance and benefits services divisions of A&A's London subsidiary Alexander Howden Insurance Brokers to form Alexander & Alexander Ltd.

The new company will have 475 employees in 14 offices throughout Britain.

"We expect to grow into one of the leading retail brokers in the country by providing integrated service to the international clients of A&A and bringing the benefits of A&A's own worldwide expertise to clients in the U.K.," said Malcolm J. Grint, senior vp of A&A International who will be the new chairman and chief executive officer of A&A Ltd.

New intermediary

Rhulen Agency Inc., headquartered in Monticello, N.Y., has formed a new subsidiary, Rhulen Intermediaries Inc., to place and service reinsurance business.

Peter L. Rhulen will serve as president of the new firm, which is located at 59 John St., New York, N.Y., 10038; 212-924-1950.

Flood insurance

The Federal Emergency Management Agency has awarded a $23.5 million contract for servicing the National Flood Insurance Program to Computer Sciences Corp. of Los Angeles.

Under the contract, CSC will process policies, handle claims and train agents for the program, which was created by Congress in 1968 to provide flood insurance for areas that commercial markets do not normally insure.

The program currently has almost 2 million policyholders in more than 17,000 communities. Insurance in force exceeds $100 billion.

CSC will take over servicing of the program on Oct. 1 from Dallas-based Electronic Data Systems Federal, which had been the servicing agent for five years.

E/S lines shifted

Management responsibility for excess/surplus lines business written by Zurich American Insurance Co. of Illinois will be shifted from the company's standard lines division to its special risk division, the company announced.

"The special risk division was set up to tailor-make insurance programs for the large insured. We feel this flexibility is also needed in the surplus lines marketplace," said Richard W. Stilwell, senior vp with Zurich-American, based in Schaumburg, Ill.

Commercial entry?

Metropolitan Property & Liability Insurance Co., a personal lines auto and homeowners insurer, may enter the commercial property/casualty insurance marketplace through an agreement with Marketforce International Inc., of Kansas City, Mo.

Under the five-year agreement, Metropolitan, a unit of Metropolitan Insurance Cos., will provide Marketforce with an unspecified, seven-figure amount of financial assistance. The assistance will take the form of a loan for the first two years of the agreement. At any time after that, Metropolitan has the option of converting the loan amount into Marketforce stock.

Metropolitan would be limited to an 80% interest in the company, but the decision to convert the loan into an equity interest will depend on the franchisor's growth and net operating income, said Edmond Magner, a Metropolitan assistant vp.

Marketforce, an insurance agencies franchise group, was formed in April 1982 and currently has 38 franchise agencies.

Metropolitan is not offering any commercial property/casualty insurance products through Marketforce now but is studying the possibility of offering such products, along with Metropolitan's current lines, through Marketforce agencies in the future, Mr. Magner said.

Acquisitions

SAFECO Corp. has acquired **Wisconsin Pension & Group Services Inc.**, a group insurance agency, and **Employee Benefit Claims of Wisconsin Inc.**, a third-party administrator. Both firms are based in Milwaukee.

Central Reserve Life Corp., an insurance holding company based in Berea, Ohio, has acquired **Western Reserve Administrative Services Inc.**, a third-party administrator also based in Berea.

National Insurance Associates Ltd., a privately held agency based in Paramus, N.J., has acquired **Trans-National Agency,** a transportation insurance agency located in East Hanover, N.J. ■

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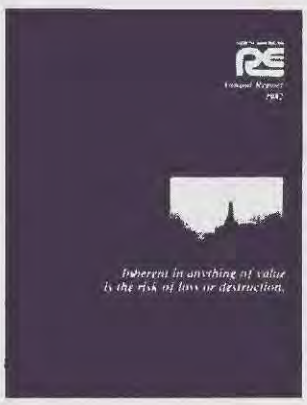


North American Reinsurance Corporation

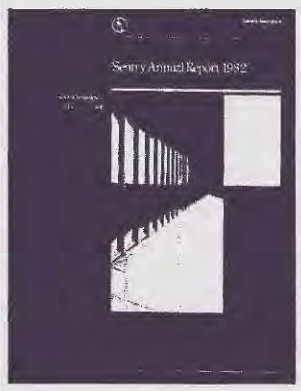
North American Re is part of the Swiss Re Group, one of the world's largest reinsurers. During 1982 net premiums reached $511 million. Total assets at year-end rose to $1.6 billion. Investment income increased to $72.2 million. The ratio of net premiums to surplus was 1.8 to 1. North American Re is a full line property/casualty reinsurer with Treaty, Facultative, Surety, Engineered Risk and Ocean Marine capabilities.

1

Frank B. Hall & Co. Inc.

Frank B. Hall is a leading international insurance services firm with revenues of $364,871,000 and net income of $24,043,000 ($2.07 per share) in 1982. Revenues have more than doubled during the last 6 years. Since 1975 dividends have increased at a compound rate of 19%. Currently the Company pays $1.70 annual dividend. NYSE symbol FBH. The editorial section of the Hall Report contains a highly educational overview of the worldwide insurance marketplace.

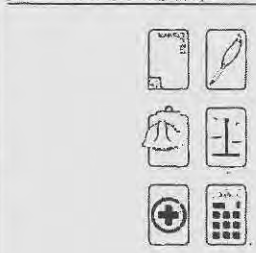
2



Sentry Insurance

Since 1904, Sentry has grown to an international complex with more than 90 diversified interests. In concert with its full line insurance operations, Sentry's National Accounts department provides specialized services for large, commercial clients. Alternatives to traditional insurance are provided through Parker Services, Inc., Sentry's risk management company.

3



Argonaut Insurance Companies

The Argonaut Insurance Companies reported 1982 consolidated written premium of $321.0 million and policyholders' surplus of $282.1 million for a premium to surplus ratio of 1.14 to 1. Total assets increased to nearly $1.3 billion. Argonaut also reported continued growth of market share in its primary line, workers' compensation. The company continued developing improved programs for all lines.

4

Trenwick Group

Trenwick is a professional insurance group with assets of over 47M. The Group is dedicated to providing risk taking & risk reduction services to Captives, Self-Insurers and Insureds. From offices in Bermuda and Connecticut, Trenwick offers reinsurance, insurance, consulting and management products to clients everywhere.

5

American International Group, Inc.

AIG is one of the world's leading global insurance organizations. It does business in over 130 jurisdictions, and consistently derives close to half its revenues from overseas operations. In 1982, when the U.S. insurance industry lost approximately $10.5 billion, AIG was one of the few insurance groups to make an underwriting profit.

6

The PMA Group

PMA's financial results for 1982 have been extremely successful. Two-hundred and four million dollars in written premium. After-tax profit up 11% (20.2 million from 18.2 million). Policyholders' surplus increased by 23.5% (131.2 million from 106.2 million). PMA is one-hundred percent commercial property/casualty-licensed in 40 states—primary market in Pa., Md., Dela., NJ, Va., and the District of Columbia.

7

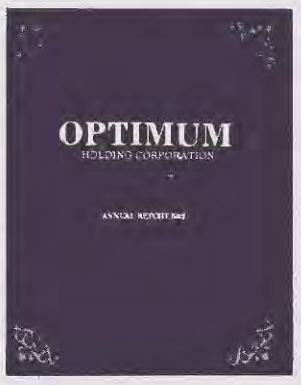
ARTIC
AMERICAN RISK TRANSFER INSURANCE CO. LTD.

ANNUAL REPORT FOR 1982

American Risk Transfer Insurance Co. Ltd. (Artic)

American Risk Transfer Ins. Co. Ltd. is an industry owned reinsurance company based in Bermuda. The annual report contains the results for the 1st full year of operations while providing background information. The company provides reinsurance for W.C., G.L. and Auto exposures as well as specializing in sophisticated cash flow programs. Information concerning the formation of group owned captives is also available.

8



Optimum Holding Corporation

For the year ending December 31, 1982, Optimum Holding Corporation reported total revenues of $33,114,000; net premiums written $33,407,000; net income was $1,188,000 ($0.80 per share on 1,479,726 average shares outstanding). Optimum Insurance Company of Illinois operates through a pooling arrangement with the Ideal Mutual Insurance Company, which owns 51% of Optimum Holding Corporation's stock.

9

Midland Insurance Company

Midland specializes in stevedoring, shipbuilding and drilling rigs. A special program department was organized in 1982. Commercial risks are written on an account basis. Excess and Umbrella liability is offered through Capacity Managers International. 1982 after tax income was $7,026,000 and the combined ratio was 102.9%. Policyholders Surplus increased by 39% from $38,475,000 to $53,312,000. Net premiums written were $64,359,000.

10

Lloyd's adds advisors on self-regulation

By STACY SHAPIRO

LONDON—Lloyd's of London Chief Executive Ian Hay Davison has appointed three advisors on self-regulation who will work part-time for three years.

They are Philip A.R. Brown, deputy secretary for the Department of Trade; David L. Stebbings, recently retired senior partner of Freshfields; and Richard G. Wilkes, senior partner of Price Waterhouse Chartered Accountants.

Meanwhile, the Committee of Lloyd's is calling for a formal investigation by Lloyd's of the alleged alteration of extended warranty insurance policies underwritten by Lloyd's syndicates (*BI*, March 21).

If it is proven that the policies were illegally altered, Lloyd's says it will void the coverage. Lloyd's says the policies, which were to be written to indemnify manufacturers and retailers for warranty claims made by consumers for up to four years after a product's original one-year warranty expires, were instead changed to indemnify individual consumers.

Lloyd's underwriters originally discovered the discrepancies in the policies, marketed and managed by the British company Multi-Guarantee Ltd., late last year. However, a variety of intermediaries also handled the placement of the coverage including Lloyd's broker Robert Morris Bray Ltd., non-Lloyd's broker Campbell Roberts (Insurance Brokers) Ltd. and brokers for individual retailers and manufacturers.

"Any further action under its bylaws by Lloyd's will depend on the course and outcome of the formal investigation," said Lloyd's.

In unrelated matters, the Council of Lloyd's has decided that:

- It will allow the Committee of Lloyd's to handle some of the Council's powers for another six months.
- External names on the Council should sign a waiver saying that they will not hold any personal appointment with a Lloyd's agent or broker or engage in any other underwriting activities or give professional counseling to them if it conflicts with council duties.

london line

Farm safety

Life on the farm may be, as John Denver says, "kinda relaxed," but a few minutes' thinking about safety can save workers' lives, says the Health & Safety Executive here in London.

"With over 50 million tons of produce and another 50 million tons of fertilizers and waste products handled each year, farmers and workers spend a great deal of time moving materials from fields to storage and through to processing," said Jim Whitaker, chief agricultural inspector for the Health & Safety Executive.

"As a result, every year there is an average of 1,000 injuries (in Britain) and in 1981 there were 23 fatalities arising from the mechanical or manual handling of materials."

Farmers should plan for safety, he says.

"Employers in particular have an overriding responsibility to plan a safe system of work, prohibit dangerous practices and ensure that employees are properly trained and supervised," he said.

Queen's Award won

Investment Insurance International (Managers) Ltd., a leader in political risk insurance broking, has won the Queen's Award for Export Achievement.

III, a subsidiary of Hogg Robinson Group P.L.C., arranges insurance against foreign government confiscation of assets, government interference in contracts, the imposition of trade embargos and the incontrovertibility of currency.

The company received the award from Queen Elizabeth II because it brings considerable premium income into the United Kingdom from its many clients in North America, Australia, the Far East and Europe.

"Recent developments worldwide, such as the occasional embargo on sales and service contracts with the Eastern bloc and sudden political change in countries such as Iran and Afghanistan, have demonstrated a need for political risk insurance," said III Managing Director Allan Oscroft.

Fire statistics

For the first time, risk managers can find international fire statistics.

The United Nations Economic Commission for Europe has set up its first World Fire Statistics Center in Geneva, Switzerland, to gather and encourage better world fire cost statistics.

The center is asking 11 countries, including Britain and the United States, to submit 1979 and 1980 statistics in seven "vital" fields of national fire costs.

It wants the countries to share statistics on costs of direct and indirect fire losses, human losses, fire brigades, fire insurance payments, protecting buildings against fire and fire research.

Record profits

International Oil Insurers, the big United Kingdom-based oil risk insurance pool, earned record profits of 10 million pounds ($15.7 million) last year.

Its 1982 results are its best underwriting results since the pool was organized eight years ago to provide coverage for oil plants worldwide.

It made an underwriting profit of 8.3 million pounds ($13 million) last year, compared with a 5.5 million-pound ($8.6 million) loss the previous year.

Investment income and other factors helped to lift its net profit to the 10 million pounds.

In all in 1982, 232 claims, costing 2 million pounds ($3.1 million), were received during the year, compared with 244 for nearly 17 million pounds ($26.7 million) in 1981.

Six of them cost the pool more than 250,000 pounds ($392,500) and one was in excess of 1.25 million pounds ($1.96 million), compared with three in excess of 1 million pounds ($1.57 million) in the previous year.

The pool had premium income last year of 23.5 million pounds ($36.9 million), of which just more than 5 million pounds ($7.85 million) were set aside for reinsurance premiums.

The pool's annual report notes, "The business transacted is hazardous, but the overall underwriting results since our formation have shown a profit of 7.06% on net written premium, though this is still quite modest in terms of return on capital exposed."

International Oil Insurers Chairman Gordon Wood, of Prudential Assurance, says in the pool's annual report: "Although there is no discernible improvement in the state of the world insurance market in 1982, there are indications that the era of wholesale and largely unmerited rate reduction is probably coming to an end. However, experience points to the haul back to adequate rating levels being slow and the result may not be seen in 1983.

"Our capacity has been substantially increased for 1983, but we will be using restraint in its full use until there is a real improvement in the market situation."

International Oil Insurers is moving into the U.S. business market, where it has not previously operated.

It is offering limits of $15 million (about 10 million pounds) for any single plant in the United States compared with limits of about 25 million pounds ($39.5 million) in other countries. ■

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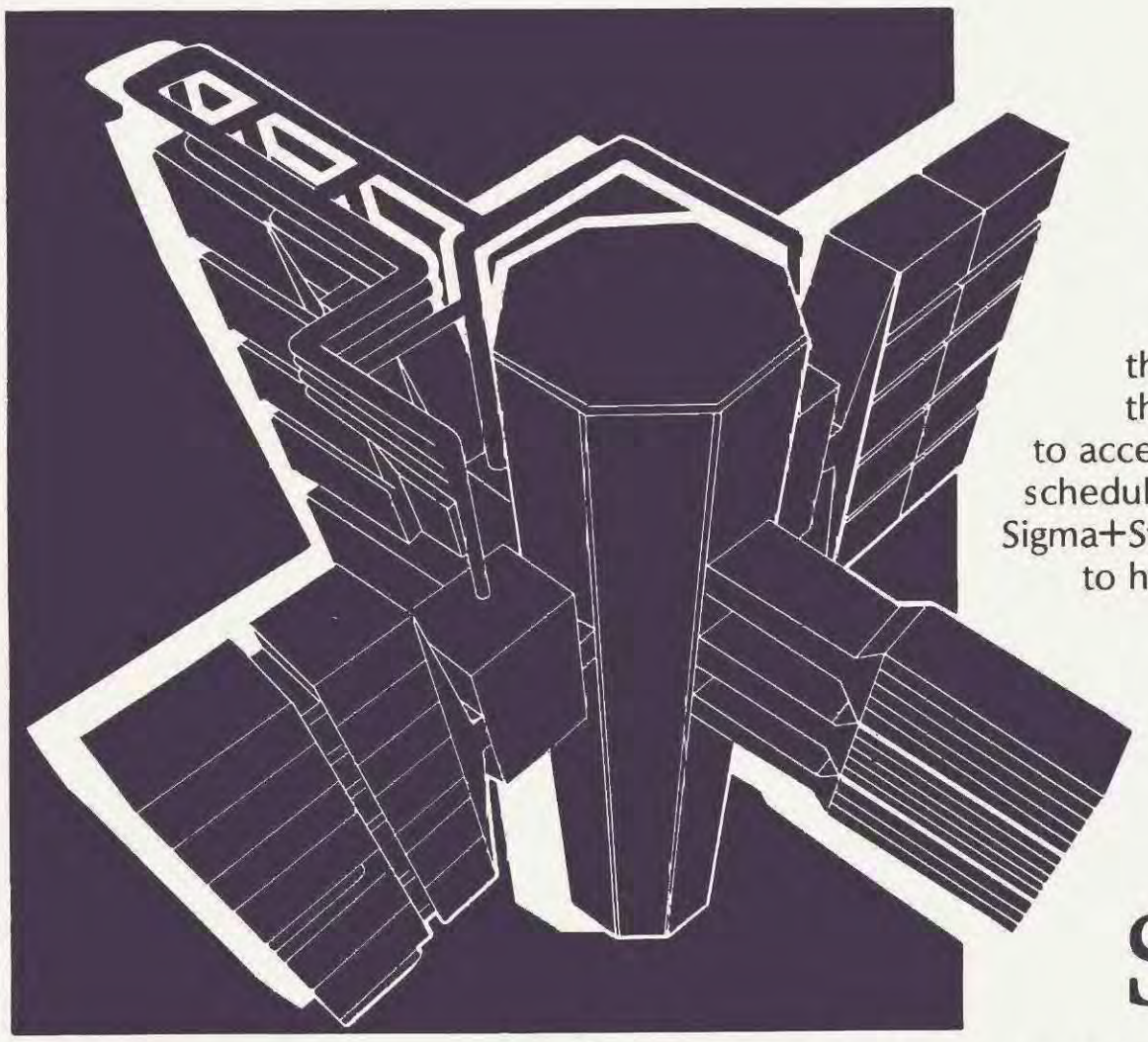

Sigma+System is a sophisticated risk management information service designed for users having little or no training in use of the computer.

This service provides a user with a new generation of data management and analytical capabilities, to complement or replace the voluminous "loss runs" they have received in the past. Much like the terminals utilized by airlines personnel to access vast amounts of data concerning flight schedules, routings, fares, status reports, etc., the Sigma+System allows risk management personnel to have similar access to data concerning the status of claims and loss reserves, claim payments, incident reports, loss control information and exposure data. A user may then perform unit cost allocation, risk analysis, loss forecasting and financial modeling utilizing their own data base.

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• Access control means reducing the risk of unauthorized people entering restricted areas. An eight-page booklet from Schlage Electronics provides **a basic overview of access-control systems.** For a free copy, write Schlage Electronics, 3260 Scott Blvd., Santa Clara, Calif. 95051.

• The Certified Financial Planner is a portfolio designed to **keep insurance documents in order** by consolidating information on all policies—group life/health, disability, umbrella, property/casualty—for quick reference and review. It also has forms for pension and profit-sharing investments and budget preparation. The 20-page planner is available for $7 and may be ordered by writing Sy Wasserman, Certified Financial Planner, 40 Bluebird Lane, Plainview, N.Y. 11803.

• Cash-flow plans (premium payment plans where part of the payments are deferred) are vital risk management tools. What are their pros and cons, tax implications and pitfalls? You can order an **analysis of cash flow plans** for $15 each from: Practical Risk Management, P.O. Box 10093, Oakland, Calif. 94610.

• Employee benefit specialists who were not able to attend the June 1982 **Employee Benefits Symposium,** sponsored by the International Society of Certified Employee Benefit Specialists, can now read the edited texts of 11 symposium presentations. The 113-page paperbound book is available for $8 for ISCEBS members; $12 for non-members. To order, write ISCEBS, 18700 W. Bluemound Road, P.O. Box 209, Brookfield, Wis. 53005.

• A series of quarterly reports concerning all aspects of **periodic payment claims settlements** is available from Settlement Planning Inc. Effects of new legislation, negotiation techniques, risk and claim management uses, annuity taxation and other topics are discussed. These continuous reports are available free by writing to Settlement Planning Inc., 6800 France Ave. S., Minneapolis, Minn. 55435.

• You know that back injuries are costing you hundreds of manhours, but do you know what to do about it? A 16-page, illustrated booklet from Injury Prevention Library called "Back to Backs" describes how **back injuries can be prevented**. A free review copy, in English or Spanish, is available by writing PAS Publishing, 345-G Serramonte Plaza, Daly City, Calif. 94015.

• The services of the Radian Corp., part of the Hartford Steam Boiler Co. involved with **controlling environmental risk**, are detailed in an eight-page brochure. For a free copy, write The Hartford Steam Boiler Inspection & Insurance Co., Customer Services-Marketing Department, One State St., Hartford, Conn. 06102.

• A few seconds in an emergency can mean the difference between life and death, or safety and injury. A 12-step process for a **safe response to work emergencies** is described in "Help!" The booklet is $4 for National Safety Council members; $5 for non-members. Discounts are available for larger orders. Write: Order Department, NSC, 444 N. Michigan Ave., Chicago, Ill. 60611.

• When a company has operations in a country with political tension, the risk manager must evaluate the political risk. A booklet from AFIA describes **types of coverages available in political risk protection.** For a free copy of this booklet, write Steven Schwarzkopf, Marketing Department, AFIA, 110 William St., New York, N.Y. 10038.

• The Upjohn Co. offers packaged programs in stress management, smoking cessation and computerized nutrition/weight management. For free brochures on these **wellness programs**, write Barbara D. Levine, Upjohn Health Programs, 270 Madison Ave., Suite 1203, New York, N.Y. 10016.

• A booklet from the Insurance Information Institute describes **property/casualty insurance industry careers.** For a free copy, send a self-addressed, stamped envelope to Publications Service Center, III, 110 William St., New York, N.Y. 10038.

• A description of the **dental benefits** from Health Corp. of America is available in a free brochure. For a copy, write Bill Camp, Director of Marketing, HCA, 680 E. Swedesford Road, Wayne, Pa. 19087.

• A copy of the proceedings of the **1982 Benefit Plan Professionals Institute**, is available from the International Foundation of Employee Benefit Plans. The 82-page book includes nine speeches given at the institute. The cost is $6 for IFEBP members; $10 for non-members. Quantity discounts are available. To order, send payment to the Publications Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005.

•

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High court rejects stress issue

WASHINGTON—The Nuclear Regulatory Commission will not have to consider the effects of psychological stress on residents in deciding whether to allow the restart of the Three Mile Island nuclear plant, the U.S. Supreme Court has ruled.

General Public Utilities Corp., holding company for the three utilities that own the plant, says it will be ready to restart one of the plant's two reactors in July if it gets permission from NRC.

The unanimous Supreme Court decision reverses a federal appellate court ruling in a suit brought by a group of Harrisburg, Pa., residents.

The residents claimed that under the National Environmental Policy Act of 1969—which requires federal agencies to study the impact of any action "significantly affecting the quality of the human environment"—the NRC should consider the possible effects of psychological stress brought on by renewed operation of the plant.

Several steps still have to be taken before NRC will permit a restart of the undamaged reactor, including the completion of $55 million worth of modifications to the plant, a GPU spokesman pointed out. ■

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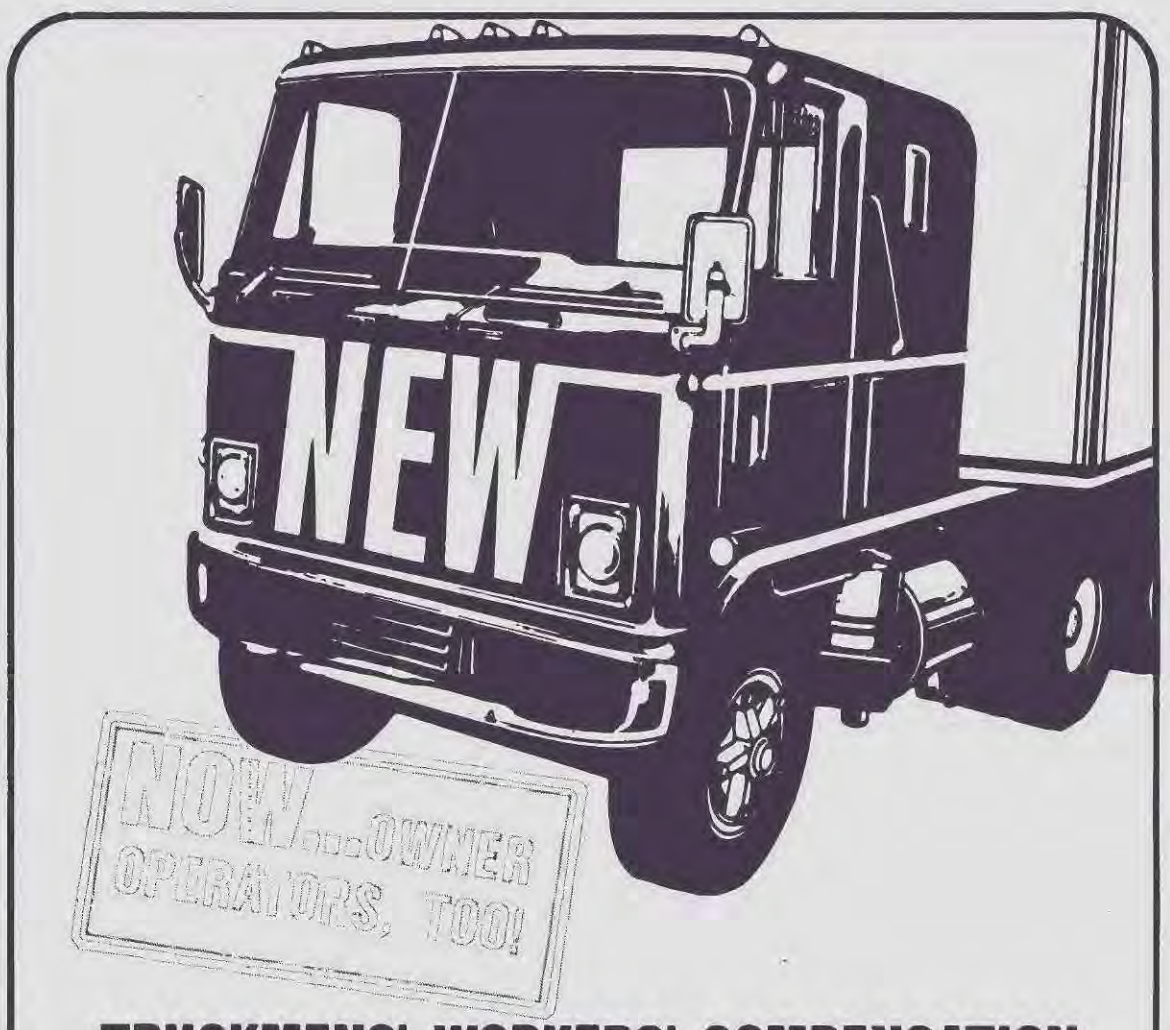

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Bill pushes burden of proof on employers

COLUMBUS, Ohio—A bill that would require employers to assume the burden of proof when workers file occupational disease claims has been introduced in the Ohio House of Representatives.

Under such a plan, employees would stand a better chance of having a claim approved, which would increase employers' legal and worker compensation costs, sources say.

Currently, the employer has the evidence a worker would need to prove his claim, said John Thomas, director of public relations for the Ohio American Federation of Labor and Congress of Industrial Organizations.

But Rep. Cliff Skeen, D-Akron, wants to change that with his "rebuttable presumption" bill that would require employers to prove the disease was not caused in the workplace, instead of employees proving it was.

Employees, however, still would have to have medical documentation that they have a disease caused by their work environment.

Groups like the Ohio Chamber of Commerce and the Ohio Self-Insurers Assn. are preparing to replay the battle they staged last year against a similar bill. That legislation passed in the House but died in the Senate Commerce and Labor Committee.

Many say last year's Senate roadblock was caused by the Republican majority. This session, Democrats control the Senate, improving the bill's chances of passage.

Some are predicting that the bill will have a hard time passing because employers already have been hit with new unemployment compensation costs.

Rep. Skeen admits the bill, which will be heard in the House Commerce and Labor Committee, probably will not pass this year.

"It's probably the worst workers compensation bill that we've seen in a decade," said Joseph A. Krabach, a lobbyist for the Ohio Manufactures' Assn. "It would turn our workers compensation program into a pension. We saw this in years past in the (federal) black lung program," he said.

"We're extremely concerned about it," said Robin Obetz, executive secretary of the Ohio Self-Insurers Assn. Mr. Obetz also is chairman of the Ohio Bar Assn.'s workers compensation committee and chairman of the council of workers compensation for the U.S. Chamber of Commerce.

"It liberalizes occupational disease to an extent that goes far beyond any other state," Mr. Obetz said. If the bill should pass, it would have a serious effect on maintaining business in Ohio and encouraging new business.

Rep. Skeen's legislation is part of an ongoing process to change the way occupational disease is handled in the state, said the AFL-CIO's Mr. Thomas.

Two years ago, the Legislature passed a bill that gives workers a right to see their medical file if they had work-related medical examinations.

Widow wins comp award in suicide

By CAROL CAIN

TUCSON, Ariz.—The widow of a brick company manager who died from a self-inflicted gunshot wound is entitled to workers compensation benefits, a state appeals court says.

This decision is the first suicide case in Arizona to be held compensable as an initial work-related injury, said James Overholt, chief counsel of the Industrial Commission of Arizona.

"It's a progressive opinion. It holds that a suicide is a workers compensation injury if it is shown that the suicide is precipitated by extraordinary job-related stress," he said.

Suicide, however, already has been allowed as a "direct" workers compensation injury in other states, according to J.T. Noblin, executive director of the International Assn. of Industrial Accident Boards & Commissions.

"I think there probably are lines of cases going in both directions," Mr. Noblin said, explaining that many jurisdictions still require some type of work-related accident or injury that can be medically tied to a subsequent suicide.

Previous, Arizona suicide cases that have been found compensable had been causally related to other worker compensation injuries, Mr. Overholt said.

He gave an example of an injured worker who, because of a work-related accident, had both legs cut off. If it was medically proven that the worker developed psychiatric problems, was unable to adjust because of the amputation and ultimately committed suicide, the claim was allowed, he said.

"Recovery from mental stresses is relatively new," said attorney Merton E. Marks of Phoenix, chairman-elect of the American Bar Assn.'s committee on worker compensation and employers' liability litigation.

Last month's decision reversed an August 1981 ruling by an administrative law judge for the state Industrial Commission, which denied benefits to the widow.

In the Court of Appeals decision, the court ruled that Joan Findley is entitled to benefits because job pressures led to the suicide of her spouse, Richard Z. Findley. Mr. Findley was manager and part owner of the Arizona Brick Co. in Tucson at the time of his death on Aug. 21, 1980. The company last year was renamed Stewart Block & Brick Co.

Before the incident, Mr. Findley was working "extremely long days and six to seven days a week," Mr. Overholt said. The court's opinion said that at the time of his death, Mr. Findley was dominated by a mental disturbance "resulting from his work-related stress."

The amount of compensation was not an issue in the case, so the amount the widow will receive is not part of the court record, nor is it available to the public.

But Mr. Overholt said a widow's benefit would be 35% of the injured worker's average monthly salary.

Benefits would be allowed until the widow's death or remarriage. At the time of remarriage, the widow would be paid a lump sum equal to two years of payments, Mr. Overholt said.

Arizona Brick Co.'s workers compensation exposure was insured by the State Compensation Fund. The fund's attorney, Robert K. Park, said that with the facts of the case and the makeup of the state's Supreme Court, a filing for review would be futile. "So the case is final," he said. ■

If you missed the brochure in the March 21 issue of BI, call now for program details 212/210-0137

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About the Speaker

Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

Seminar Dates

May 16	New York	Grand Hyatt
May 18	Dallas	Doubletree Inn
May 23	Los Angeles	The Biltmore
June 13	New York	Grand Hyatt
June 15	Chicago	Ritz Carlton
June 20	San Francisco	The Fairmont

Agenda

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

EBI offers supplemental cover for execs' work comp benefits

EBI Cos., the workers compensation subsidiary of Orion Group Inc., introduces a supplemental workers compensation endorsement for executives and highly paid personnel.

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For more information on EBI Supplemental Compensation, contact Richard J. Plestina, President, EBI Cos., Orion Group Inc., P.O. Box 3725, Portland, Ore. 97208; 503-241-2411.

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Arkwright-Boston Manufacturers Mutual Insurance Co. is now underwriting ocean cargo coverages.

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For more details on the Arkwright ocean cargo coverage, contact Richard Wood, Arkwright-Boston Insurance, 225 Wyman St., Waltham, Mass. 02154; 617-890-9300, extension 3340 or a regional sales manager in Atlanta; Boston; Chicago; Cleveland; Greenwich, Conn.; San Francisco; Waltham, Mass.; Montreal; or Toronto, Canada.

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For more information, contact your insurance broker or agent or Wayne Crawford, Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102; 203-525-2601. ■

NACSA against taxing benefits

WASHINGTON—The National Assn. of Casualty & Surety Agents is joining the ranks of those against taxing workers' health benefits.

Joan Albert Dreux, the NACSA government affairs director, wrote President Reagan, Vice President George Bush, Cabinet members and key members of Congress, explaining the NACSA's opposition to the proposed tax.

Acknowledging spiraling health costs, Ms. Dreux wrote the NACSA believes a tax on health benefits would not be effective against controlling health care inflation because it would cause a reduction in health benefits as employees try to avoid reaching the taxable threshold. The most likely benefits to be dropped would be those already proven to be cost-effective, like outpatient and preventive care services.

Dropping these benefits would cause an increase in hospital use and, ultimately, an increase in the health care inflation. ■

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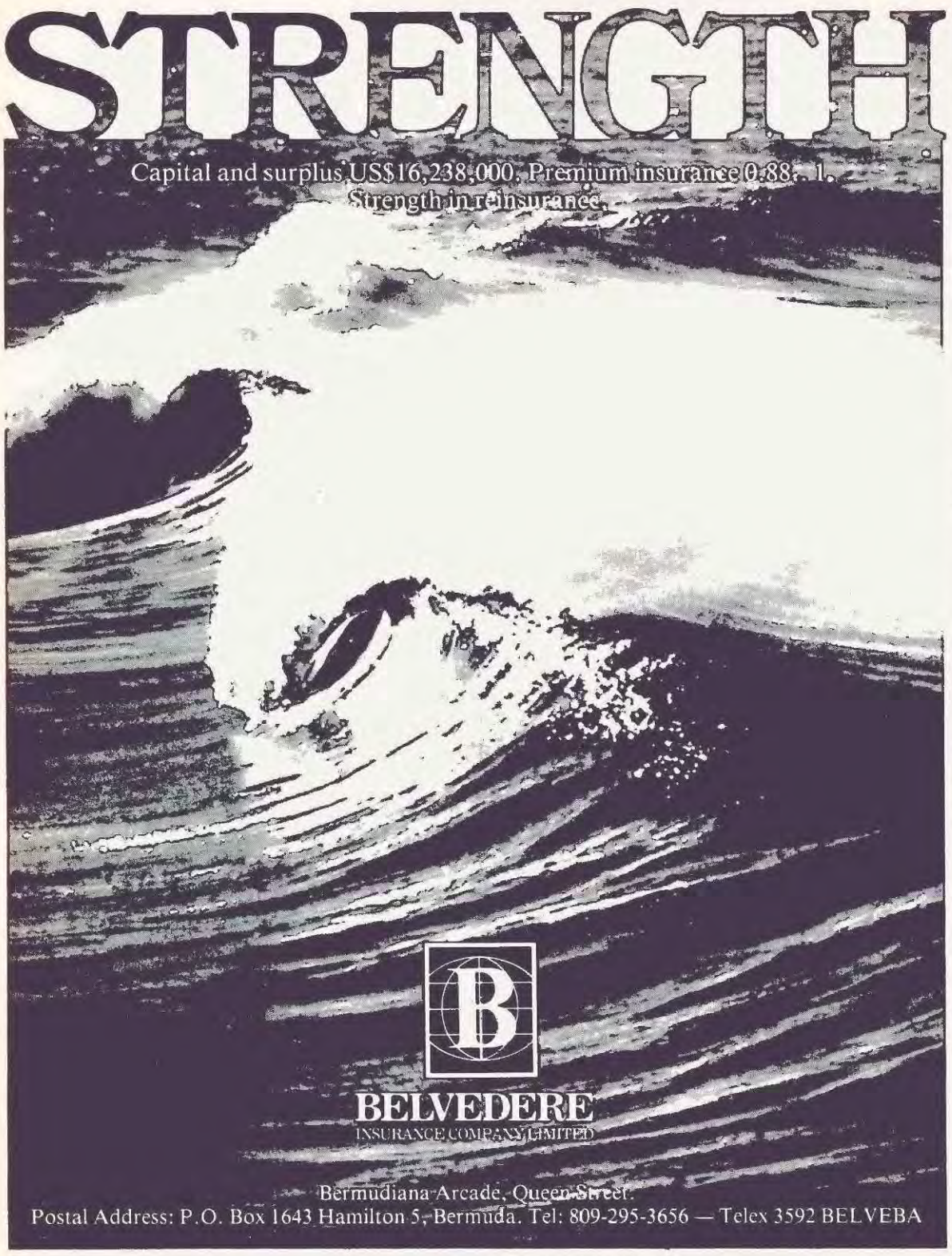

comings & goings: industry

Holloway is elected new GAB president

John P. Holloway has been elected president of GAB Business Services Inc., the New York-based claims handling and insurance services company.

Mr. Holloway, who had been executive vp responsible for GAB's domestic and foreign operations, will retain his title as the company's chief operating officer. He joined GAB in 1951.

Other consultant/service firm changes:

Bruce T. Hibbitt Jr. elected vp and director of Wiedemann & Johnson Inc. in Dallas. He previously was executive vp. Wiedemann & Johnson is an executive benefit plan design and marketing company.

J. Wells Bentley joined GBB Associates Inc. in Toronto as vp and special advisor on regulatory law and practice. He had been superintendent of pensions for the province of Ontario and chief administrative officer of the Pension Commission of Ontario. GBB Associates is a subsidiary of Buck Consultants Inc.

Morton B. Bank named president and chief executive officer of M.F. Bank & Co. Inc. in Minneapolis. He replaces **Marvin F. Bank**, formerly chief executive officer who retains his position as chairman, and **John H. Snyder**, who was president. Mr. Snyder remains executive vp. M.F. Bank is a salvor and appraising company.

Kevin N. Roller was promoted to vp and manager of Frank B. Hall Consulting Co., a Philadelphia-based employee benefits consulting subsidiary of Frank B. Hall & Co. He previously was assistant vp and assistant manager of the office.

Insurers

Oliver L. Patrell named president and chief executive officer of Empire Mutual Insurance Group in New York. He succeeds **Milton Kligler**, who resigned. Empire Mutual is a financial affiliate of Baldwin-United Corp., where Mr. Patrell is also a vp responsible for several of Baldwin's property/casualty subsidiaries. Before joining Baldwin, he was a vp of commercial property/casualty lines for Aetna Casualty & Surety Co.

James M. Romano joined Professional Managers Inc. in Chicago as vp in charge of underwriting and marketing professional liability coverages. He had been affiliated with Shand, Morahan & Co.

Agents/brokers

J. Patrick Gallagher and **Thomas F. O'Connell** named area executive vps for Arthur J. Gallagher & Co.'s Chicago branch. Mr. Gallagher will be responsible for all marketing, sales and claims activities for commercial sales section. Mr. O'Connell will head all marketing and sales activities of risk management sales. Both men had been area vps. Also, **Ronald J. Cowell**, **Peter J. Durkalski**, **James S. Gault**, **James T. Keough**, **Stephen L. Kramer** and **Kent A. Nelson** were named area vps at Gallagher's Chicago branch. All will assist in the production, marketing and product development in the Chicago area.

William R. Schneider has been named president of Rollins Burdick Hunter of New York Inc. He previously was executive vp and chief operating officer of the Combined International Corp. subsidiary.

Charles H. Patterson has been named senior vp of Fred S. James & Co. of Illinois and assistant profit center manager of the Chicago office. He previously was president and profit center manager of Fred S. James & Co. of Nebraska.

Samuel F. Jackson joined the Ralph C. Wilson Agency in Detroit as assistant vp in the employee benefits department. He had been senior account executive with Frank B. Hall of Michigan.

Robert W. Ball joined the marine department of Frank B. Hall & Co. of Washington in Seattle as vp and marine average adjuster. Mr. Ball was vp and director of claims at Reed Stenhouse Inc. before joining Hall.

Mark L. Owens was appointed director of client services in the Los Angeles office of Reed Stenhouse Inc. In the new position, Mr. Owens, who is a vp, will be responsible for marketing, new business and account executive services.

Reinsurers

Philip M. Roels named vp of Dorinco Reinsurance Co. and Dorintal Reinsurance Ltd., subsidiaries of The Dow Chemical Co., in Midland, Mich. He is responsible for the underwriting activities at both firms. Mr. Roels had been assistant vp at Dorinco Reinsurance. He replaces **Richard C. Collins**, former executive vp and board member of Dorinco, who retired.

George A. Edwards joined Intere Intermediaries Inc. in New York as vp and controller. In addition, **Ronald G. Fazio** was elected vp and secretary of the company; **Philip M. Russo** promoted to vp-production and account servicing; and **Thomas J. Williams** elected vp and assistant branch manager. Mr. Edwards had been with G.L. Hodson & Son Inc. Mr. Fazio and Mr. Williams had been with Intere, while Mr. Russo is with the company's special services division. ■

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Congress eyes benefits

Continued from page 3

rently discussing a proposal that would require employers to extend their group health insurance plans to retirees.

That proposal, now being advanced as a way of taking pressure off a financially troubled Medicare program that could go broke by the end of the decade, "would drive benefit costs through the ceiling," Mr. Salisbury said.

There are signs that Congress is moving in that direction, however.

Last year, for example, Congress inserted a provision in the Tax Equity and Fiscal Responsibility Act that makes employers' group health insurance plans, not Medicare, the primary payer of most older workers' hospital and medical bills.

That change, although it affects only several hundred thousand workers between ages 65 and 69, could cost employers more than $350 million annually, experts say.

But health care is just one area where major benefit changes could occur, Mr. Salisbury said.

The recent amendments to the Social Security Act will also mean changes in employer-provided benefits, says James Swenson, a vp and actuary with Prudential Insurance Co. of America in Newark, N.J.

For example, the automatic indexing of Social Security benefits to increases in the Consumer Price Index will be altered within several years, he says (*BI*, April 4).

Under that provision, if the Social Security trust fund reserves sink below a certain level, benefits increases will be based on the increase in the Consumer Price Index or in the national average weekly wage, whichever is less. Current benefit increases are based on the CPI.

If retirees will receive smaller Social Security benefit increases because of this measure, there will be pressure on companies to increase pension benefits to retirees, Mr. Swenson said.

And, the Social Security legislation is already putting other pressures on pension plans.

For example, beginning next year, up to one-half of the Social Security benefits for middle- and upper-income retirees will be taxed, so companies may feel that they have to increase pension benefits, Mr. Swenson suggested.

Mr. Swenson, who was a staff member of President Reagan's National Commission on Social Security Reform, warned that the recent Social Security legislation is not the long-term answer the public retirement financial program needs.

For example, the Medicare trust fund, which also is financed by the FICA payroll tax, could run out of money between 1986 and 1990, he said, again raising the possibility that employers could be forced to foot the bill for their retirees health care costs.

Other speakers at the session also warned that Social Security's problems may have not been solved.

Kenneth Keene, a senior vp at Johnson & Higgins in New York, noted that when Social Security amendments were passed in 1977 to raise FICA taxes, legislators said Social Security would befinanciallly sound for the next 50 years.

Just six years later, the program was about broke, Mr. Keene said.

"There is a movement toward hitting all fringe benefits with a Social Security tax," Ronald Bassey, an attorney with Basset, Selaski & Couzens P.C. in Southfield, Mich., said during another session at the RIMS conference.

"I believe this will not die down....They think they have (Social Security) solved, but the truth will come to light."

Other legislation affecting employee benefits could come from interest group lobbying.

For example, Congress is under increasing pressure from women's groups to pass legislation that would shorten pension vesting requirements, Mr. Salisbury explained.

These interest groups would like to see vesting rules changed so that a plan participant would be entitled to a benefit after five or fewer years of service. Currently, most employers require employees to work 10 years before they are entitled to a pension benefit. Shortening the requirement would allow many women who quit work after a few years to raise a family to receive private pension benefits.

In addition, Mr. Salisbury said, women's groups also are backing legislation that would require employers to give female retirees the same benefits as men.

Currently, many public pension plans provide smaller retirement benefits to women than to men on the grounds that women live longer and thus collect benefits over a longer period of time.

The administration is committed to "pension equality" legislation, Mr. Salisbury said.

The cost of providing equal pension benefits would fall most heavily on state and local governments because private employers usually offer defined benefit pension plans where the benefit is based on an employee's length of service and salary. By contrast, many state and local governments offer retirement plans in which the size of the benefit is partly based on the number of years an employee is expected to live.

But other pension proposals would affect the private sector exclusively.

For example, the administration wants Congress to pass legislation that would make it tougher for companies to dump their underfunded pension plans onto the Pension Benefit Guaranty Corp., the federal agency that guarantees workers' vested pension benefits.

Currently, the PBGC has a right to take up to 30% of a company's net worth if a firm terminates an underfunded pension plan. But companies with low or no net worth and large pension liabilities may find it cheaper to turn their plans over to the PBGC than continue to fund the plan.

The Reagan administration favors legislation to bar a company from terminating an underfunded plan unless it could prove that continued operation of the plan posed a threat to the company's existence. Mr. Salisbury also believes Congress may take another look at whether the high levels of benefits companies can provide their top executives should be cut back.

A reduction in maximum benefits could occur if companies don't fight the proposal. "To the degree that corporations say, 'We'll take it (pension legislation) as it comes,' it will come sooner."

Mr. Salisbury also said the rapid growth in Individual Retirement Accounts could lead to new restrictions on corporate pension plans, noting that Senate Finance Committee Chairman Robert Dole, R-Kan., has asked the Congressional Budget Office to study whether retirement plans should be cut back in favor of IRAs.

So far, employers have taken little interest in what the growth of IRAs has meant to their own pension plans. However, "The day Congress decides that it must choose between IRAs and pension plans and chooses IRAs, you may realize that you should have taken a more active role," he said. ■

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Decision to self-fund needs union support

Continued from page 2

benefits that have been negotiated over the years," says Nicholas T. Caputi Jr., regional director of group sales for the Buffalo-based Blue Cross/Blue Shield. Mr. Caputi testified for the Batavia Police Benevolent Assn. at the administrative hearing.

Hearing officer Louis J. Patack ordered Batavia to reinstate the Buffalo-based Blues program it had for the police officers prior to July 1, 1982. He also ordered the city to reimburse the union members for a "loss or diminution of benefits caused by the implementation of the city (self-insurance) plan."

And he ordered the city to post a notice of his ruling on office bulletin boards.

The city says the decision applies only to police union members and not to all 170 city workers. It says it can't reinstate the old Blue Cross/Blue Shield plan because the plan is no longer offered by the Blues but the city will do what it can to comply with the order if it isn't reversed by the full Public Employment Relations Board.

The April 4 Batavia decision by the hearing officer was the second blow to New York municipal self-insurers in less than a month.

In a March 14 decision, a second PERB hearing officer held that a Corning, N.Y., school district had "materially affected" the terms of its workers' employment when it adopted a self-insurance program.

In the Corning case, the hearing officer found substantial differences between the benefits provided by the self-insurance program and those previously available to employees.

In the Batavia case, on the other hand, Mr. Patack, the hearing officer, decided that the benefits offered police under the Blues program and the city's self-funded alternative were essentially the same.

But he still ruled that the terms and conditions of employment for members of the 55-member Batavia Police Benevolent Assn. had been altered without negotiations required under state law.

He based that finding on two points:

First, he ruled that New York state does not recognize self-funding as "insurance" per se, but rather as a mechanism for paying for health benefits. Thus, he concludes, the police union members were unilaterally losing their health "insurance."

Second, he ruled the change was made July 1, 1982, after a bargaining contract with the police had expired. This means, he says, that police lost their contractual right to claim any breach of the Blue Cross/Blue Shield plan.

The two points raised by the hearing officer "are distinctions without differences," says Jack D. Eisenberg, a partner with the Rochester, N.Y., law firm of Harter, Secrest & Emery, which represented the city.

In his view, "If a change in carriers doesn't carry with it a change in benefits, administration or program, it's OK."

St. Paul gets a warning

Continued from page 2

"If St. Paul purchased the whole or more than 25% of Minet Holdings P.L.C.," continued Sir Peter, "it might very well find that whilst it had purchased an insurance broker, it would be a broker that was not authorized to place business at Lloyd's."

Lloyd's is not opposed to other financial institutions owning Lloyd's brokers, said a Lloyd's spokesman. Banks already own some of them and so do U.S. brokers such as Marsh & McLennan Cos. Inc. and Alexander & Alexander Services Inc.

Corroon & Black Corp., which already owns 20% of Minet, could buy all of Minet without any repercussions from Lloyd's if it so desired, said the spokesman.

"The problem arises when the purchasing company is an insurance company, which is a direct competitor of Lloyd's," he said. "It is divestment the other way around."

It is not likely, however, that St. Paul will buy much more stock in Minet.

"We plan to maintain a minority position in Minet," said James L. Boudreau, treasurer of investor relations for St. Paul. "Buying another 5% of the company was in keeping with what we said all along—that we wanted to be a significant investor."

He had only heard about the Lloyd's letter to Mr. Pettitt last week and had no comment on it.

If St. Paul bought more than 30% of Minet, it would be forced to make a formal takeover bid, under British law, which would be reviewed by the British Monopolies and Mergers Commission, Department of Trade and Stock Exchange.

But London sources believe that St. Paul bought another 5% of Minet for reasons other than to take over the company.

St. Paul may want to improve its bottom line by including its percentage of Minet profits in its annual results instead of just reporting the dividends received on Minet stock, they say.

Mr. Boudreau says that this is an advantage, but will not say if this is the reason the 5% was purchased. "We would like equity accounting, but there are a number of things to consider," he said.

In order for St. Paul to include Minet's profits in its annual report, certain criteria must be satisfied. For example, St. Paul must own more than 20% of another company and have representation on that company's board.

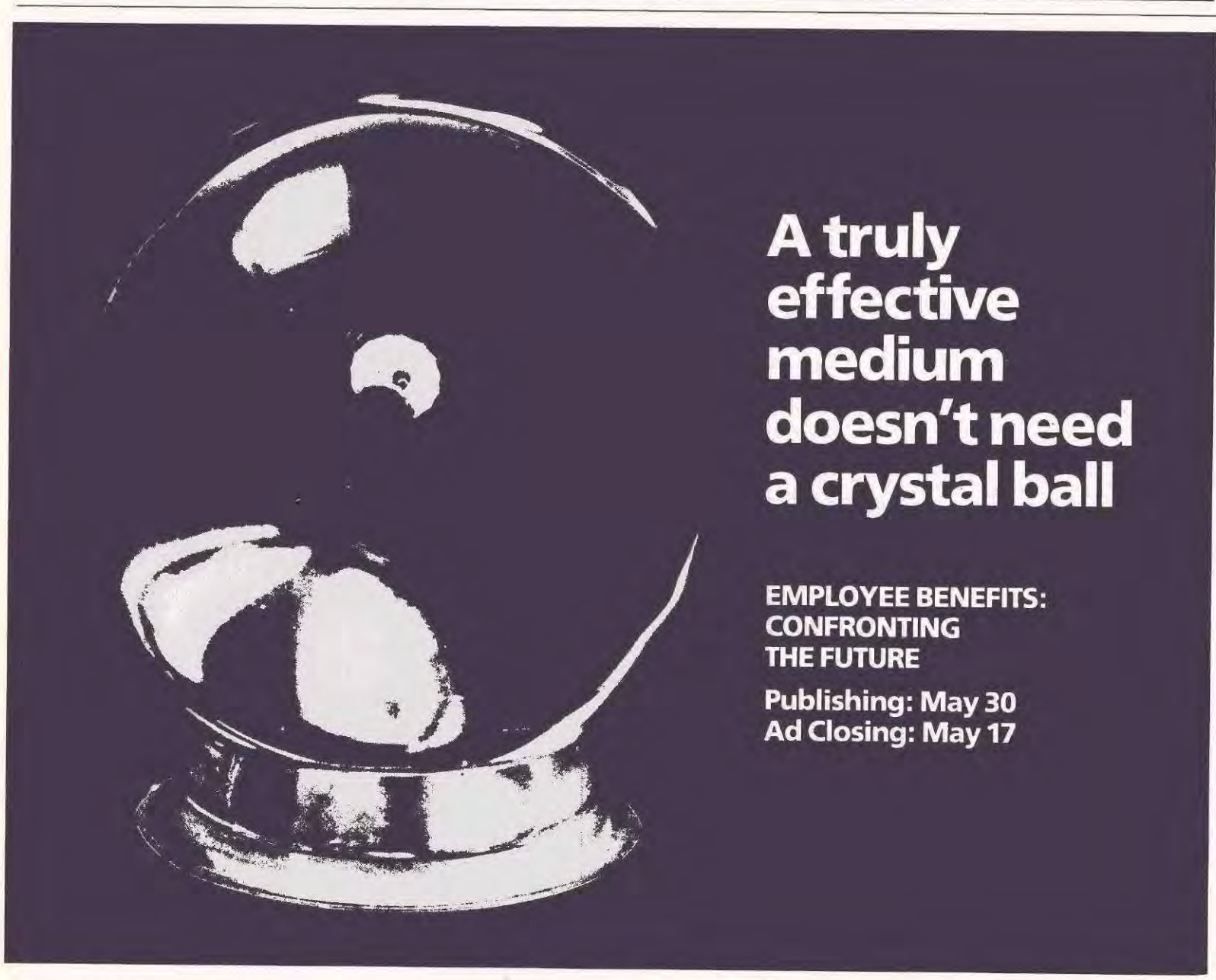
It is not known, however, if Minet will allow St. Paul to sit on the Minet board of directors.

Michael Brown, Minet's general counsel, would not comment on whether St. Paul will get a seat on the board and Mr. Boudreau would not say if St. Paul is looking for board representation.

"When St. Paul first bought the shares of Minet, it said that it wished to let Minet remain independent and we support that view," said Mr. Brown.

Minet did not know in advance that St. Paul was buying the additonal shares. However, Mr. Pettitt said his query to Sir Peter on insurance companies owning Lloyd's brokers was not done to spurn St. Paul but was just normal procedure.

"We knew that there was a long-standing policy at Lloyd's concerning Lloyd's brokers being controlled by any single source, so we wrote to Lloyd's to find out what their attitude was," Mr. Brown said. ■



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*An Audience Profile of the B.I. 'Buyer' Reader, 1982

New cover helps keep hydroelectrics afloat

Continued from page 1

Collier Cobb & Associates of the Carolinas Inc. in Charlotte, N.C.

"In the last two weeks a number of insurers that were saying definitely 'No, we won't write it' are now saying 'Yes,'" Ms. Kennedy said.

The idea for the coverage may have originated in 1981 with a friend of Clyde W. Fritz, an assistant vp with Frank B. Hall.

"This fellow said he was thinking about investing in a hydroelectric project and he asked me if there was any insurance to safeguard his investment," he recalls.

Mr. Fritz says he first told the friend a bank should back the project with a letter of credit.

"But then I got to thinking that the risk could be insured without having to load the balance sheet like a letter of credit would," he recalls. Mr. Fritz says he worked with several underwriters, including AIG and later General Re, and both eventually warmed up to the idea.

The competition is hotter now, apparently.

The insurers are vying not only for the low-water insurance but also for builders risk, boiler and machinery, business interruption and other standard property and liability coverages on these facilities.

In some cases, one broker says, the innovative low-water coverage may be written at a low premium as an entree to the other, more profitable lines.

A typical hydroelectric installation might cost $20 million to construct, including state-of-the-art turbines, generators and piping, and produce electricity worth about $2 million a year once operations begin. The major operating costs are payment of principal and interest on construction loans.

Typically, the low-water policies will pick up debt-service payments on the construction costs if the project encounters a year of lower-than-expected river flow that causes a reduction in power generated and, hence, lower revenues. But the triggers and payment calculations differ among policies, brokers say.

The underwriters are seeking three- or five-year contracts and a good geographical spread among generating sites to minimize losses from a one-season drought in one section of the country.

"You can't write everything in the Adirondacks; you'd be killed in the first year of a drought," notes Mr. Berberich.

Premiums appear to be competitively rated rather than fixed upon any set of underwriting criteria.

One broker estimated that the annual drought and all-risk property insurance premium for a project generating $2 million in annual revenues might be $100,000. Another said annual premiums for a very small hydro project might be as low as $10,000.

A typical figure might be 1% to 2% of projected annual debt service requirement for the low-water portion of the coverage. Such coverage carries both annual and policy aggregate limits.

The policies include a deductible, self-insured retention or, in the case of the AIG/General Re program, an optional clause that requires the hydro company to reinburse Birmingham Fire over three succeeding profitable years for up to half of any claims paid during a drought year.

Retentions can range as high as 50%, according to one underwriter.

A key rating factor is historical records of river flow, which the U.S. Geological Survey has maintained for decades on most of the nation's rivers.

A second key factor is the amount of debt service the project plans in relation to its total expected revenues—since the insurance is principally aimed at preventing a default on debt-service payments.

Broker Johnson & Higgins announced last month it had arranged placement of low-flow coverage for two upstate New York hydro projects being put together by Long Lake Energy Corp., a New York-based start-up company run by a group of former Carter administration aides.

George J. Kadri, a senior vp at J&H, says the Long Lake policy "represents a real breakthrough for projects like small, low-head plants, where the investor wants a degree of comfort before he puts his money on the line."

"Head" describes the difference in hydraulic pressure between the top and bottom of a dam or hydroelectric installation and is proportional to the vertical drop of the river flow.

The Long Lake policy was written by Chubb to guarantee at least $1.5 million in annual revenues for an undisclosed premium, according to Long Lake officials. It is believed to be the largest small-scale hydro project policy written so far.

"The insurance basically guarantees us against the risk of low flow at the sites," says C. William Carter, vp of operations at Long Lake. Each year, the policy insures any shortfall in electric production if caused by reduced stream flow.

However, the Chubb coverage isn't activated unless the annual usable water falls more than 10% below the historic average stream flow at the two sites.

Just a decade ago, converting the energy of falling water into electricity was thought to be a technology reserved for gigantic Western dams and power grids or antiquated Eastern textile mills.

Then came the dramatic rise in fossil fuel prices of the mid-1970s. Then, in 1980, the federal government offered a 10% energy tax credit for hydro investors and an 11% tax credit for retrofitting existing dam sites of 25 megawatts or less.

"The whole reason for this business booming is the substantial tax breaks available to investors," says Alexander Ellis III, a vp at Fairfield & Ellis Inc., a regional insurance brokerage with strong links to the chemical, pulp and paper-product businesses.

Mr. Ellis, a one-time press aide to former Sen. Edward W. Brooke, R-Mass., says Fairfield & Ellis has brokered insurance for five to eight small-scale hydro projects already and has numerous others in the quotation stage.

Most of the sites being developed, he says, are in hilly New England, dotted with rivers and streams; in upstate New York; and in California, which has adopted additional state tax breaks for such projects.

Others say the that the Midwest, Northwest and North Carolina each have potential sites.

Insurance agent Collier Cobb & Associates of the Carolinas Inc., in Charlotte, N.C., is also marketing hydro coverage.

Besides favorable tax laws, one other key public policy shift has enabled the formation of hydroelectric investment groups.

A law enacted in the 1978 by Congress forces public electric utilities to purchase power from small suppliers and pay those suppliers what it would have cost the utility to generate that power by other means—the so-called "avoided cost."

Prior to the law, utilities generally denied small generators the right to hook up to their power grids.

For example, Long Lake has a 40-year contract with Niagara Mohawk Power Corp. of Syracuse, N.Y., under which Niagara agrees to pay Long Lake 7 cents per kilowatt hour for the electricity it shunts into Niagara's grid. The contract provides a 7% inflation adjustment for the first 15 years of the contract.

Long Lake projects its two sites will develop 28 megawatts of power annually, or enough to serve the average electric needs of 8,000 homes.

Since one megawatt is equal to 1,000 kilowatts, that's worth $1.96 million per year to Niagara Mohawk in "avoided costs" at the 7-cent rate, says Mr. Carter. ■

Some tax 401(k) donations

NEW YORK—At least four states and three major cities now tax employee contributions to 401(k) salary reduction plans, a consulting firm reports.

States that tax the popular savings plans include Pennsylvania, New Jersey, Alabama and Oklahoma. Philadelphia, Denver and Cleveland also tax plan contributions, according to Towers, Perrin, Forster & Crosby.

"Employer-sponsored salary reduction plans, along with Individual Retirement Accounts, afford millions of workers the incentive to save for their retirement years," said Philip M. Alden Jr., a vp in TPF&C's New York office.

"It is most unfortunate that state and local governments are undermining programs that help savings-minded employees to help themselves," Mr. Alden added.

More states and cities also are expected to include wages deferred under 401(k) plans, TPF&C predicts. The 401(k) are named after an Internal Revenue Service code section permitting them. ■

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Group seeking solution

The Committee For Equitable Compensation, a group of 12 companies seeking a solution to the costly litigation of asbestos claims, is also seeking name recognition and more members.

Some of the 12 companies on the committee were members of the now defunct Asbestos Compensation Coalition, but the group does not include the three asbestos defendants—Manville Corp., UNR Industries Inc. and Amatex Corp.—that have filed Chapter 11 petitions under the Federal Bankruptcy Act.

The new group, incorporated last December, wants to develop a system to compensate disabled asbestos victims that avoids litigation, said Albert Bourland, the newly appointed executive of the Rosslyn, Va.,-based group.

"We're not looking for a bailout. We're looking for a solution, a legislative solution," he added.

Only $1 out of every $4 or $5 in asbestos awards goes to the victim, the remainder is used for administrative and defense costs, Mr. Bourland said.

The membership companies are not denying their responsibilities, but they want exactly what their committee name implies—equitable compensation, Mr. Bourland said.

"More than half of the victims now suffering from these diseases go back to World War II. . .in the shipyards. . .for the federal government," he said. "More than a million people were exposed to asbestos in shipyards. . .don't forget, we were building a two-ocean fleets."

Having the federal government face up to its role in compensation is just one of the challenges facing the group.

Other questions to be answered include who would administer a trust fund for victims and how a nationwide delivery system would develop that would not disrupt state workers compensation systems.

John Baldwin, president and chief operating officer of Pittsburgh Corning Corp. is president of the committee. He already has testified for the group before the U.S. Committee on Education and Labor, chaired by U.S. Rep. George Miller, D-Calif.

Legislation proposed by Rep. Miller would federalize workers compensation for asbestos diseases, making workers compensation the exclusive remedy by abolishing third-party product liability actions and establishing medically indefensible presumptions of causality.

"Right now we're looking at Miller's draft legislation. . .looking at how to best resolve (compensation) among insurers, ourselves and the federal government," Mr. Bourland said.

Legislation, however, is not the only way to settle the problem of billowing legislation. It also could be done through arbitration or through bankruptcy court. Mr. Bourland said.

The committee estimates that about 20,000 victims of an asbestos-related disease have filed 17,000 lawsuits against 260 companies and insurers.

Besides Pittsburgh Corning, committee members include Raymark Corp., Trumbull, Conn.; Celotex Corp., Tampa, Fla.; Eagle-Picher Industries Inc., Cincinnati; Fibreboard Corp., Portland, Ore.; The Flint Kote Co., San Francisco; Keene Corp., New York; Lac d'Amiante du Quebec, New York; Owens-Corning Fiberglas Corp., Toledo, Ohio; Owens Illinois Inc., Toledo, Ohio; Roch Wool Manufacturing Co. Inc., Leeds, Ala.; and Southern Textile Corp., Pittsburgh.

Information about CEC is available at 1901 N. Ft. Myer Drive, 12th Floor, Rosslyn, Va. 22209.

Suits over other products won't match asbestos crisis

Will future toxic tort litigation reach the magnitude of asbestos litigation?

Most defense and plaintiffs' attorneys answer that question with a qualified "No."

Probably no one substance will create as much litigation as asbestos, they say, but medical and legal uncertainties make it impossible to be sure.

Even if litigation over one chemical or substance doesn't produce the volume of lawsuits generated by asbestos injuries, some say that cumulative toxic tort litigation will keep companies and insurers in court for years.

"I don't anticipate another asbestos on the horizon," says defense attorney O.J. Weber, with the Beaumont, Texas, firm of Mehaffy, Weber, Keith & Gonsoulin. "But the cumulative effect of it (toxic tort litigation) poses a very real and serious danger to manufacturers and suppliers of products."

"My personal feeling is that asbestos is probably the worst of the toxic torts we are going to see," adds Leslie A. Miller, a defense attorney with the Philadelphia firm of LaBrum & Doak. "I don't foresee other substances that will equal it," with the exception perhaps of toxic chemicals, she says.

"The evidence so far suggests that toxic tort litigation will not be as extensive or expensive," as asbestos litigation, adds Leslie Cheek III, vp for Crum & Forster.

Attorneys cite several reasons that future toxic tort litigation may not match asbestos litigation.

They include that many of the chemicals and substances in question are not as widely used as asbestos; the medical evidence linking them with various diseases is not as strong; and current safety standards on the use of the products have improved considerably, resulting in workplaces that are generally safer than they were decades ago.

Some say petrochemicals could be a great source of future lawsuits, but the litigation they prompt won't be anywhere as large as that prompted by asbestos, says a counsel for Exxon Co.

"I don't think it will be anything like asbestos," said Edward Lowenberg. "There is less of a pool of potentially exposed people."

Another reason there should be fewer suits with other substances than with asbestos is that asbestos was used for so long before it was realized that it was causing disease.

"We had a long period of time when many people used it without being aware of the potential problem," Mr. Weber says.

However, some people dispute that the companies that manufactured or used asbestos did not know that it was dangerous.

But the long-latency period that exists between exposure to asbestos and manifestation of the disease does not exist for many of the diseases triggered by other toxic substances. Therefore, the danger of using them is realized sooner, decreasing the number of suits.

Another reason asbestos has prompted so many lawsuits is that a direct link has been made between exposure to it and certain diseases. This is not the case with the other substances.

Asbestos is different because no one doubts it causes such diseases as asbestosis or mesothelioma, adds plaintiffs' attorney Stanley J. Levy of the New York firm of Kreindler & Kreindler. "Those really aren't questions anymore." Mesothelioma is cancer of the lining of the lung.

But with other substances there may not be the causal link to certain diseases.

"I don't think there will be the same type of volume (of future lawsuits)," Mr. Levy says. 'I doubt we will get 20,000 cases from a particular substance."

Safer workplaces also will decrease the number of lawsuits. "If you look at the strides in workplace safety and knowledge of the chemical industry, there is in place in most industries very significant preventive programs," says Les Cheek, vp-federal affairs for Crum & Forster.

Mr. Cheek also points to studies that indicate occupational cancer has been on the decline since the 1930s.

But, one thing that could lead to more litigation, according to Mr. Cheek, is if federal legislation shifts to defendants the burden of proving that their product does not hurt plaintiffs rather than making plaintiffs prove they were hurt.

"A set of unlikely circumstances occurred with asbestos," adds Tom Brown, a policy analyst for the U.S. Labor Department. "It's not likely to happen again."

Mr. Brown points to research by Dr. Irving Selikoff of the Mount Sinai School of Medicine linking asbestos with particular diseases and the culpability of particular defendants in asbestos litigation.

According to Dr. Selikoff, a number of criteria must be present for the asbestos litigation crisis to be repeated, substituting another substance.

The criteria include widespread exposure to the public of the product or substance. Also, the substance or product must have been in existence for many years. There must be a long-latency period for the disease. It must be demonstrated that it causes cancer in humans. And it must be shown that there is more than a minimal incidence of cancer.

If these criteria are fulfilled, then insurers and manufacturers have cause for concern, Dr. Selikoff concerns. ■

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,948
Government, Associations, Unions, Educational Institutions	1,004
Commercial Consumers Sub-total	**23,083**
Insurance Agents & Brokers	9,629
Insurance Cos.	4,944
Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,408
Others allied to the field	854
TOTAL	**41,232**

*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

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Toxic tort litigation expected to increase

Continued from page 1

January. Commercial Union reported that it was on the risk for about 233 cases, about the same as the number of asbestos suits the insurer faced in 1978.

The suits are being filed at an increasing rate, Mr. Sommerville says, with settlements ranging from $400 to $50,000. The average case is settled for about $5,000.

As of January, eight cases had been tried with four defense victories and four plaintiffs' verdicts. Three of the judgments exceeded $500,000, he said.

Hazards associated with formaldehyde include irritation of the respiratory tract, eyes and skin. Acute irritation to the respiratory tract has caused death.

Typical defendants include chemical companies, manufacturers of urea formaldehyde foam insulations, resin and adhesive manufacturers and morticians' supply companies.

● Benzene. According to one estimate, more than 7 million workers have been exposed to this substance. "For this reason, this could be the next big one," Mr. Sommerville says.

In high doses, benzene exposure can lead to blood disorders including aplastic anemia and leukemia. Chromosomal damage is also alleged.

Potential defendants include large petroleum companies, chemical companies, shipyards and tire manufacturers.

● Vinyl chloride. A sweet-smelling, colorless gas, vinyl chloride is easily ignited and found in a variety of plastic materials. It is a suspected carcinogen as well as a cause of many other disorders.

In 1974, NIOSH concluded that a new occupational cancer, angiosarcoma, had been discovered and linked it to vinyl chloride. Vinyl chloride may also cause headaches, dizziness, anemia and skin problems. Its use is strictly regulated.

As of January, there were approximately 1,000 vinyl chloride lawsuits pending, including 10 to 15 occupational exposure cases. Typical defendants include plastic manufacturers, often subsidiaries of rubber companies.

● Polychlorinated Biphenyls (PCBs). A toxic environmental contaminant that is linked to cancer, PCBs are prohibited from use by law except under limited circumstances. Defendants in such cases include manufacturers of industrial electrical transformers and businesses involved in basic metal prodution like steel mills and die-casting, electric utilities, electrical equipment repair firms, food and feed processing companies, metal salvage and mining companies and railroads.

Several large property damage judgments have been awarded in PCB spills.

● Kepone. A suspected carcinogen, Kepone is a pesticide that has severely restricted applications in the workplace.

It is also alleged to cause complications in the central nervous system with symptoms like visual disturbances, weight loss, nervousness and insomnia.

Probably fewer than 50 companies process or formulate pesticides using Kepone and perhaps 600 workers were exposed to it, according to NIOSH. No U.S. companies are believed to presently manufacture it; the last known U.S. plant was closed in 1975.

Few Kepone lawsuits are pending, according to Mr. Sommerville. Defendants include one small and several large chemical manufacturing companies.

● Lead. A widely used material, lead can be found in piping, paint, battery cells, cosmetics, construction, glass manufacturing, printing and fuel blending.

Most of the health hazards posed by lead poisoning have been eliminated, controlled or monitored, but use of the mineral will continue to be a problem for "small shops" and in the construction trades, according to Christopher Mansfield, assistant vp and counsel at Liberty Mutual Insurance Co.

There was a million-dollar verdict in a lead suit last year in Massachusetts, but widespread litigation is not anticipated.

● Radiation. No one disputes that a high level of radiation is dangerous and much of the litigation, already some 300 suits, pivots on defining an acceptable level. "But what about low-level, long-term effects?" Mr. Mansfield asks.

There are hundreds of thousands of people who are potential targets for radiation exposure, including dental technicians and pathologists.

"Because of the numbers, we view this as a major problem of the insurance industry," Mr. Mansfield adds.

● Coffee. This popular substance is linked to pancreatic cancer, which kills more than 20,000 persons annually and is the fourth leading cause of cancer deaths.

It is uncertain whether coffee or a decaffeinating chemical is the dangerous agent. But as researchers watch the effects more closely, they are finding an increasing association between coffee and cancer of the pancreas.

"But association does not mean cause and effect," Mr. Mansfield emphasizes.

Currently, no suits are pending over injuries from coffee, but some insurers are concerned, he says. "The universe of exposed people is larger than (that of) asbestos. It's a very frightening thing to look at."

● Cadmium. Used as a protective coating in the electroplating, wire and battery industries, and as pigment in the glass and paint industry, cadmium has been related to systemic poisoning and lung disease.

Litigation is currently confined to workers compensation claims, but there is concern that product liability cases will follow.

"Insurance companies are getting ready for this as a possibility," Mr. Mansfield says, although no one is sure if and when exposure will result in widespread litigation.

● Trichloroethylene (TCE). Widely used as an industrial solvent, TCE can be encountered by humans through inhalation of vapors and possibly contaminated drinking water. Exposure can result in central nervous system depression, visual disturbances, mental confusion and fatigue. It is also a suspected carcinogen, though it has spurred little personal injury litigation so far.

● Toluene Di-Isocynate (TDI). This substance is used in the manufacture of polyurethane foam rubber, plastic coating for wire, adhesives, leather processing, paints, varnishes and lacquers. The heat of a fire causes its release from building materials. It is a suspected carcinogen.

There are currently pending several hundred personal injury cases relating to exposure primarily from occupations involved in the manufacture of polyurethane foam.

● Diethylstilbestrol (DES). A synthetic estrogen that came on the market in 1947 for use in troubled pregnancies, a possible association between its administration to pregnant women and medical problems in female and male offspring was found in 1971.

Some predict DES will cause thousands of lawsuits; there are now more than 400 cases filed representing thousands of plaintiffs.

● Tampons. These products are alleged to cause toxic shock syndrome, an acute illness whose symptoms include fever, rash and hypertension. More than 1,000 cases have been filed, and six cased have already been decided. Both defendants and plaintiffs have won victories.

● Intrauterine devices (IUDs). These products are made of plastic and designed to fit in the uterine cavity to prevent conception. Most of the litigation has centered on the Dalkon Shield made by A.H. Robins Co., which is no longer on the market. There are currently more than 2,500 cases pending, and defendants have won more often than plaintiffs.

Plaintiffs allege the devices cause infections of the uterus. Also, a spontaneous abortion can result if a woman becomes pregnant while an IUD is in place.

● Benedictin. A product designed to ameliorate the nausea of pregnancy, it has been taken by hundreds of thousands of pregnant woman for many years. It has been alleged to cause birth defects in children whose mothers took it. There are approximately 220 cases pending.

Other substances that have brought large numbers of suits, or could in the future, include silicosis, chemicals known as PBNAs, BNAs, petroleum coke, welding rods, nitrous oxide, chromium, Agent White and various printers' inks. ■

Medical advances, changes in law prompt litigation

What's behind the dramatic increase in toxic tort litigation?

Mainly, the advances made in medical science over the last few decades and changes in product liability law.

Now, science can link exposure to various substances with the diseases they cause. And, if the plaintiff can point a finger at a particular group of manufacturers and has scientific proof to back his case, a lawsuit is almost inevitable.

According to Christopher Mansfield, assistant vp and counsel at Liberty Mutual Insurance Co. in Boston, it is neither greedy plaintiffs nor their attorneys that are causing the wave of toxic litigation.

"The fact is, science has caught up with technology," he says.

For example, epidemiological studies that link exposure with diseases have lagged behind technological applications of the substances and their entrance into commerce and the workplace, Mr. Mansfield explains.

"Now it (science) is catching up with the technology."

While much of the future litigation hinges on this link between exposure and the disease, others point to changes in product liability law and growing consumer awareness as reasons for the increase in lawsuits.

Attorneys say changes in statutes of limitations, the broadening of discovery proceedings and the shifting of burden of proof to defendants are the culprits.

Defense attorney Leslie A. Miller of the firm of LaBrum & Doak in Philadelphia says plaintiffs' attorneys are developing new theories to get around traditional product liability theories. In some cases, plaintiffs are able to shift the burden of proof to manufacturers in various situations even where the responsible manufacturer can't be identified, she says.

A spokesman for another company cites the doctrine of collateral estoppel as another example of how the balance is tipping in favor of the plaintiffs. Under collateral estoppel, a plaintiff can ask that a prior court ruling be applied to his case without having to litigate the issue again.

"If you try a case as a manufacturer and win, you can't use it (in future litigation)," said Paul J. Gallo, insurance administrator for ACF Industries in New York, about the law in some states.

"If you try it and lose it, however, it will automatically be used against you. We share the fear (about toxic torts) that everyone is expressing."

Ms. Miller predicts there also will be more toxic tort suits for emotional distress to relatives and others not directly injured by exposure to a toxic substance.

Other factors contributing to the increase in litigation, according to Ms. Miller, are increased awareness on the part of the public, lawyer advertising, exchanges of evidence among lawyers and plaintiffs' lawyers investing more time in a case because of a greater potential for recovery.

"As far as I'm concerned, the disease is the contingent fee," says James Hanes, counsel for Dow Chemical Co. in Midland, Mich., of the system which allows attorneys to collect one-third to one-half of the plaintiffs' award. "It's a get-rich-quick scheme for plaintiffs' attorneys."

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Caterpillar workers will share profits

Continued from page 2
those adopted under the UAW's contracts with the Big Three automakers. Salaried employees at Caterpillar have a stock-option program.

In 1985 and 1986, the total sum available for distribution to Caterpillar hourly workers will be a percentage of the company's pretax profits, as stated in its annual report.

The percentage is derived by taking the pretax profit figure and dividing it by the sum of total sales and beginning-year net worth divided by two.

An increase in profits without an increase in sales would yield a larger percentage share of those profits for hourly workers. Similarly, if Caterpillar's net worth declines because of increased borrowing or a shrinking of company size, the workers' profit share will rise.

Thus, if Caterpillar becomes more efficient at producing profits as a smaller company, its hourly workers will reap an increasing percentage of gross profits.

The conversion from the profit percentage to cents per hour worked is accomplished with a chart accompanying the agreement, the union says.

The conversion ranges from an extra 1 cent per hour at a "profit percentage" of 4.5% to a maximum of 50 cents per hour at a profit percent of 22.1%. Workers get an extra penny an hour for roughly every 0.33% rise in their profit percentage.

In 1981, the last profitable year for Caterpillar, the union estimates that the profit percentage figure would have been 12.5%, based on pretax profits of $786 million, total sales of $9.154 billion and net worth of $3.432 billion.

The union says that would have meant an extra $324 per worker for 1981. In 1978, the best year for Caterpillar since 1977, it would have meant 44 cents an hour or $792 per worker, the union adds.

"It's a reasonable compromise," said Stephen E. Newhouse, a Caterpillar spokesman, of the entire contract. However, he declined to discuss details of the pact, explaining: "We want to get this strike stuff behind us."

However, based on data from the union, the contract also includes improved benefits for laid-off workers. Under the pact, medical coverage for employees laid off because of plant closings is extended to two years from one year. However, during the second year, vision, dental and hearing-aid benefits are dropped.

Caterpillar basically self-insures its health benefits but purchased stop-loss coverage from Metropolitan Life Insurance Co.

The contract also sweetens pension benefits for long-time workers who retire because of a plant closing.

The contract also adds a voluntary second surgical opinion benefit.

Caterpillar, however, did win a few benefit concessions in the new contract. They include:

- An increase in the deductible on the prescription drug plan to $3 from $2. However, the deductible remains at $2 if the employee chooses a generic drug or if a doctor requires purchase of a brand name.
- The end of an historical 3% annual pay raise for hourly workers and similar benefit hike for pensioners in favor of a freeze on current wages averaging $12.50 an hour and current pensions for retirees with 30 or more years of service of about $950 a month.

However, the contract still contains a cost-of-living escalator for both groups triggered by inflation.

- The end of a program under which a long-time worker nearing age 65 could take several weeks off at reduced pay to "test" retirement. Instead, this so-called "pre-retirement bonus" will now be paid as a cash lump-sum at retirement.

Union officials say few workers had taken advantage of the leave provision in recent years. ■

Sasse Syndicate final trial expected to last six months

Continued from page 2
underwritten by Den-Har through its binding authority were "of a dubious nature," but did not tell Sasse (*BI*, Feb. 18, 1980).

The underwriting agency also claims that Brentnall Beard, the Lloyd's broker through which the property coverage was placed, misled Sasse Syndicate about the size of the business being produced, knowing that it would cause the syndicate to exceed its premium limits.

In addition, Mr. Sasse and Thomas Turnbull, another official of the managing agency, are pressing their own litigation against Lloyd's of London and Brentnall Beard to recover about 1 million pounds each.

The trial is expected to last approximately six months, but sources at Lloyd's expect that it will be the final trial stemming from the Sasse affair.

Civil and criminal action in both the United States and Great Britain began in 1979 after the Sasse Syndicate was suspended from underwriting by Lloyd's during the previous year because it could not pay more than $51 million in claims from the New York property insurance policies.

For example, four men—John V. Goepfert, Allen Assael, Richard Mamarella and Dennis Harrison—pleaded guilty to charges filed in U.S. District Court in New York that they diverted millions of dollars of premiums owed to Sasse from Den-Har into secret Curacao bank accounts through a brokerage called U.S. Excess (*BI*, Oct. 4, 1982; Oct. 11, 1982).

Across the Atlantic, Lloyd's names who were members of the Sasse Syndicate sued Lloyd's to recover some of the money they had to pay out of their own pockets for the Sasse losses. Lloyd's settled out of court and paid some compensation to the members.

Also, Lloyd's took one of Sasse's reinsurers, Instituto de Reaseguros de Brazil, to court to force it to pay its portion of the Sasse losses. That litigation was also settled out of court when the Instituto de Reaseguros agreed to pay $7.5 million to Lloyd's (*BI*, Sept. 20, 1982).

"In fact," says one lawyer in London, "everybody sued everybody: the agents, Lloyd's, even the members' agencies. And a good part of that was settled out of court." ■

Non-U.S. insurers allowed to reinsure

BISMARCK, N.D.—The North Dakota state legislature has amended state insurance law to allow insurers not domiciled in the United States to reinsure North Dakota risks.

Under the new law passed April 11, reinsurance through alien companies is permitted if the reinsurer is on a list of non-U.S. insurers prepared by the National Assn. of Insurance Commissioners. Also, if a North Dakota risk is being insured by a non-admitted primary insurer, North Dakota will defer to the law in the primary insurer's state as to whether or not an alien reinsurer can be used.

Emergency passage of the new law came at the request of the state's insurance department, after the department issued an interpretation of the previous insurance law that said reinsurance of North Dakota risks can be placed only with reinsurers licensed in at least one state.

Complaints about that interpretation poured in from insurers that had read the law differently and already had treaties with alien reinsurers, says Gregory Morris, North Dakota assistant attorney general. ■

Alcoholism bill being weighed

ALBANY, N.Y.—The state assembly is considering a bill that would require group health insurers to provide coverage for diagnosis and treatment of alcoholism.

Under the bill, submitted by Gov. Mario M. Cuomo, commercial and non-profit health insurers and health maintenance organizations would have to cover the costs of at least 14 days per year of inpatient detoxification treatments for anyone insured under a group policy.

Insurers would also have to cover the costs of at least 60 days per year of inpatient rehabilitation services and at least 60 outpatient visits per year, of which 20 may be for the patient's immediate family.

Deductibles and coinsurance provisions applied in individual group health policies could also be applied to the alcoholism benefits with approval from the state insurance superintendent, according to the bill.

Under current New York law, insurers are required to provide alcoholism coverage, and only at the insured's request. Blue Cross is exempt from the law, according to Bill Tyrrell, assistant director of the New York State Division of Alcoholism and Alcohol Abuse.

Gov. Cuomo's bill is expected to be introduced in the state Senate this week. It must be passed by both houses and signed by the governor before becoming law. ■

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The *Business Insurance* stock index again hit a new high of 271.8 on April 26 up 5.1 points. The previous record of 266.7 was set on April 19. Stocks were steadily climbing as 38 issues closed up, 11 were unchanged and 15 were down. The largest gains were reported by Washington National Corp., 22.0%; Statesman Group Inc., 20.0%; Crown Life Insurance Co., 11.1%; Preferred Risk Life Insurance Co., 10.2%; and Equifax Inc., 8.8%. The largest losses were reported by Integrated Resources Inc., 22.6%; Fremont General Corp., 7.9%; US-Life Corp., 3.7%; Orion Capital Corp., 3.5%; and American Bankers Insurance Group, 2.6%. The *BI* index gained 1.9% for the period ending April 26, more than the New York Stock Exchange Composite but less than the Dow Jones 30 industrials.

British Issues

26 Apr Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	150	45.5	16.86	11.2	150—	146
Eagle Star	402	16.0	24.29	6.0	410—	402
Genl Accident	430	13.7	24.29	5.6	430—	423
Gdn Royal Exch	455	12.1	27.86	6.1	458—	453
Phoenix	326	17.8	25.00	7.7	330—	322
Royal	530	13.7	37.86	7.1	530—	520
Sun Alliance	1200	16.4	68.57	5.7	1212—	1175
Brokers						
CE Heath	343	9.8	18.71	5.5	353—	343
Hogg Robinson	105	8.1	8.57	8.2	106—	105
JH Minet	132	12.0	6.50	4.9	138—	132
Sedg Grp	233	13.3	10.00	4.3	240—	233
Stenhouse Hldg	119	11.1	7.86	6.6	119—	117
Stew Wrightson	280	10.2	20.43	7.3	283—	275
Willis Faber	563	14.9	25.00	4.4	580—	563

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

A potent partnership? James and Transamerica will find out

By LEN STRAZEWSKI

Transamerica Corp.'s acquisition of Fred S. James & Co. Inc. may dilute Transmerica's earnings slightly, but the parent and its adopted offspring are informally spreading the word to the financial community that the new mixture of commercial underwriting and brokerage interests will soon be potent and profitable.

Although Transamerica and James had stressed that the brokerage would operate independently, the attitude picked up by insurance industry observers now seems to indicate a relationship of mutual aid and support, with Transamerica attempting to take advantage of James' employee benefits and property/casualty expertise as James boosts its income by providing services to Transamerica's agents.

Neither Transamerica nor James would yet discuss the details of their strategy, but the impression they are giving is getting a mixed review from the analysts—not unlike the acquisition itself.

The $300 million acquisition, announced last fall and completed late last year, was one of the more controversial deals in a turbulent year for the brokerage industry (*BI*, Nov. 15, 1982).

Some observers, including San Francisco insurance industry consultant Russell R. Miller, pointed to the deal as another milestone in a rapidly developing financial services industry. The acquisition, he remarked, clearly added another important service to Transamerica's list of holdings (*BI*, Nov. 15, 1982).

Before the James acquisition, Transamerica's wide range of subsidiaries included life, health and property/casualty insurers as well as companies in the diverse fields of consumer lending, equipment leasing, manufacturing, travel service, real estate development, tax services and photofinishing.

Despite Mr. Miller's opinion, other industry observers, including securities analysts and other insurance brokers, took a wait-and-see attitude, looking for some sign of how the acquisition would be handled by the two companies and how well James would weather the property/casualty insurance rate cutting of 1982.

The results from 1982, however, indicate that James wouldn't have done much for Transamerica's already-troubled balance sheet had the brokerage's full 1982 results been combined with the parent's.

Transamerica's 1982 net income—including James' results for December, the month the acquisition was made final—dropped 17%, to $186.2 million from $223.3 million in 1981. The company's per-share earnings fell 14%, to $2.95 from $3.45.

According to the Transamerica annual report, James produced $22.8 million in gross revenues in December, generating a net income of $1.9 million after an amortization of $700,000 in acquisition costs by Transamerica.

Transamerica also has released approximate year-end profit results for the brokerage to some of the analysts that watch the insurance industry. They were not good.

Transamerica told the analysts that the brokerage earned net income of $14.8 million in 1982, down 23.4% from $19.3 million 1981. Had James' results been reported separately, its earnings decline would have been the worst of the top publicly held brokers, even worse than Frank B. Hall & Co. Inc., whose net income dropped 21.1% in 1982 (*BI*, March 7).

Analysts that watch Transamerica note that if the opportunity cost of the acquisition is subtracted from James's earnings, the acquisition will penalize corporate earnings by about 15 cents per share in 1983.

"James' recent results have been affected by premium rate reductions throughout the property/casualty industry and the company anticipates little improvement," Transamerica noted in its annual report for 1982.

"However, it expects new business to offset reductions in brokerage commissions. James also sees particular opportunities in innovative domestic property/casualty products, employee benefits and in the claims administration area. New business production and internal cost controls have positioned James for increased profitability as an improved rate environment develops within the industry."

Jeffrey Cohen, a financial analyst at Paine Webber Mitchell Hutchins Inc. in New York, agrees with Transamerica's assessment and predicts that the overall value of the James acquisition will develop with internal cooperation.

"Management expects James' people and expertise to help Transamerica improve the products and support it provides for their medium-sized property/casualty accounts," Mr. Cohen said in a recent report on Transamerica. "If so, the acquisition will be a major plus since the (Transamerica) property/casualty company has been hampered by its relatively small size and lack of sophisticated products."

Not all analysts share Mr. Cohen's optimism. Alice L. Cornish, an insurance industry analyst for Lehman Bros. Kuhn Loeb Inc. in Chicago, thinks Transamerica may be overestimating the synergistic value of James.

"Transamerica has rather grand plans for Fred S. James that we question. It seems to be counting on a level of performance from James that the brokerage has not necessarily met in the past," she says.

Ms. Cornish also says she believes that James has unresolved management problems that could make a superior performance unlikely in 1983.

"The results from 1982 aren't very good," she notes, "and it's tough to predict James' results for 1983."

Leonard M. Wilson, an insurance industry specialist at L.F. Rothschild, Unterberg, Towbin in New York, says he doubts that the James acquisition will have a significant impact on Transamerica's corporate operations or finances.

"The talk of synergy is mostly rhetoric," he says. "James' poor earnings generally reflect a tough environment for commercial brokers. The earnings will probably improve when the insurance markets harden, but it is unlikely that any James' gains or losses will seriously impact Transamerica."

Mr. Wilson notes that Transamerica seems to be amortizing James' good will, a major intangible asset, faster than other companies might. This tactic could produce a slight dilutive effect on Transamerica earnings that other analysts have noted, but the impact is probably unimportant.

"Transamerica is so big that James' results just won't matter much. It think it's still a good deal for Transamerica because it seems to be meeting Transamerica's own internal objectives. But a little dilution (of earnings) this year just doesn't matter much to such a big parent." ■

BI Industry Stock Report

APR. 26, 1983 4/20/83 THRU 4/26/83

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	40.88	-2.1	7.0	2.64	6.5	41.75	39.75	774.8
American Bankers Ins Group	OTC	13.88	-2.6	10.8	0.50	3.6	14.50	13.88	102.0
American Gen Ins Co	NYSE	69.25	-0.7	9.4	2.40	3.5	72.50*	69.25	972.7
American Indty Finl Corp	OTC	20.13	6.6	14.9	1.12	5.6	20.13	18.75*	26.0
American Intl Group Inc	OTC	74.25	1.2	13.2	0.44	0.6	75.40*	73.60	310.9
American Natl Ins Co	OTC	18.00	-2.0	7.6	0.84	4.7	18.25	18.00	59.6
American Sts Life Ins Co	OTC	27.50	0.0	7.7	0.88	3.2	27.50	27.50	1.4
Aneco Reins Ltd	OTC	3.38	3.8	84.4	0.00	0.0	3.38	3.25	26.3
Avemco Corp	AMEX	16.13	-1.5	9.7	0.58	3.6	16.38	15.75	31.7
Banks Iowa Inc	OTC	42.50	1.2	11.2	1.52	3.6	42.50	42.00	4.6
Bitco Corp	OTC	39.00	0.0	6.8	2.00	5.1	39.00	39.00	0.9
Carolina Cas Ins Co	OTC	7.75	0.0	11.4	0.32	4.1	7.75	7.75	0.2
Chubb Corp	OTC	59.75	0.4	9.3	2.92	4.9	59.75	59.38	196.5
Combined Intl Corp	NYSE	35.00	4.5	11.8	2.00	5.7	35.25*	34.25	270.6
Continental Corp	NYSE	35.13	4.1	17.2	2.60	7.4	36.13	35.00	2,639.5
Crawford & Co	OTC	21.50	4.9	15.6	0.60	2.8	21.50*	21.25	89.5
Crown Life Ins Co	OTC	110.00	11.1	7.2	3.10	2.8	110.00*	96.00	3.3
Employers Cas Co	OTC	38.75	0.0	8.1	1.20	3.1	38.75	38.75	2.0
Equifax Inc	NYSE	34.00	8.8	15.5	1.40	4.1	34.00*	32.00	28.3
Excelsior Ins Co	OTC	11.00	0.0	0.0	0.70	6.4	11.00	11.00	0.0
Farmers Group Inc	OTC	45.50	7.4	12.4	1.36	3.0	45.50*	43.13	682.2
Foremost Corp Amer	OTC	52.50	1.0	16.1	1.24	2.4	52.50*	52.00	4.2
Fremont Gen Corp	OTC	24.88	-7.9	46.1	0.48	1.9	27.25	24.88	535.9
Great West Life Assurn Co	OTC	194.00	0.0	10.5	10.00	5.2	194.00	194.00	4.5
Hanover Ins Co	OTC	49.25	0.0	7.4	0.88	1.8	49.25	46.25	47.7
Hartford Steam Boiler Insptn	OTC	52.50	1.0	11.6	3.00	5.7	52.50	52.00	8.5
Jefferson Natl Life Ins Co	OTC	47.50	-2.1	12.3	0.76	1.6	48.50	47.50	2.2
Kemper Corp	OTC	49.25	3.1	9.3	1.80	3.7	49.25*	48.13	168.1
Lincoln Natl Corp Ind	NYSE	51.25	-1.9	9.2	3.00	5.9	53.50*	51.25	83.2
Mission Ins Group Inc	NYSE	39.25	3.3	9.8	1.00	2.5	39.25	37.50	65.8
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	41.75	41.75	0.0
Northwestern Natl Life Ins	OTC	34.63	1.1	24.2	1.50	4.3	34.75	34.25	18.9
Ohio Cas Corp	OTC	52.00	3.7	10.6	2.52	4.8	52.00*	51.00	57.5
Old Rep Intl Corp	OTC	33.00	0.4	8.4	0.92	2.8	33.00	32.88	120.8
Orion Cap Corp	NYSE	24.00	-3.5	12.8	0.66	2.8	24.13	23.63	110.8
Preferred Risk Life Ins Co	OTC	32.50	10.2	8.8	1.00	3.1	32.50*	30.00	13.1
Provident Life & Acc Ins Co	OTC	65.00	0.8	9.1	2.60	4.0	66.00*	65.00	25.4
St Paul Cos Inc	OTC	70.00	1.3	7.2	2.80	4.0	70.50*	69.25	295.3
Safeco Corp	OTC	54.50	3.8	11.4	2.40	4.4	54.50	52.63	92.6
Sri Corp	OTC	47.50	6.1	9.6	1.12	2.4	47.50	44.75	132.0
Seibels Bruce Group Inc	OTC	27.63	2.8	13.6	0.80	2.9	28.25*	27.00	120.9
Statesman Group Inc	OTC	10.50	20.0	7.7	0.15	1.4	10.50*	9.00	188.9
Tokio Marine & Fire Ins Co	OTC	107.13	-0.6	17.2	0.92	0.9	107.75	107.00	3.8
Travelers Corp	NYSE	33.00	-0.4	9.0	1.80	5.5	33.88*	32.88	1,683.7
United Fire & Cas Co	OTC	31.00	-1.6	10.2	0.88	2.8	31.50	31.00	1.7
United States Fid & Gty Co	NYSE	51.25	4.6	12.9	3.84	7.5	51.50	49.75	281.6
United Svcs Life Ins Co	OTC	23.13	7.6	6.9	1.00	4.3	23.13*	23.00	40.5
Uslife Corp	NYSE	25.88	-3.7	7.0	0.88	3.4	26.88	25.50	185.6
Washington Natl Corp	NYSE	33.25	22.0	16.1	1.08	3.2	33.25*	27.38	512.3
Zenith Natl Ins Corp	OTC	22.00	3.5	10.7	0.80	3.6	22.00*	21.25	23.1
INSURANCE COMPANIES	AVERAGE			10.4		3.7			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	21.75	4.2	0.0	1.00	4.6	23.00	21.50	903.0
Baldwin & Lyons Inc	OTC	41.50	0.0	7.5	0.80	1.9	41.50	41.50	1.9
Corroon & Black Corp	NYSE	26.00	2.0	12.4	1.80	6.9	26.25	25.88	62.6
Crump E H Cos Inc	OTC	11.00	6.0	15.9	0.40	3.6	11.00*	10.25	59.2
Emett & Chandler Cos Inc	OTC	10.88	0.0	0.0	0.00	0.0	10.88	10.88	7.6
Hall Frank B & Co Inc	NYSE	31.50	3.3	15.2	1.70	5.4	31.75	31.00	369.5
Integrated Res Inc	AMEX	36.38	-27.1	15.1	0.00	0.0	36.38	34.13	234.6
Marsh & Mclennan Cos Inc	NYSE	44.13	0.6	12.8	2.20	5.0	44.75*	44.13	609.6
Poe & Assoc Inc	OTC	6.75	0.0	135.0	0.40	5.9	6.75	6.75	4.2
Reed Stenhouse Cos Ltd	OTC	15.50	3.3	14.8	0.60	3.9	15.50	15.00	30.5
AGENTS/BROKERS	AVERAGE			15.0		3.6			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	68.25	2.8	14.2	1.80	2.6	68.88*	67.00	1,560.7
Anderson Clayton(Ranger/PanAm)	NYSE	33.13	7.3	13.7	1.32	4.0	33.25*	31.88	157.1
Armco Inc	NYSE	17.38	-6.7	0.0	0.40	2.3	18.50	16.75	876.0
City Investing Co. (Home Ins.)	NYSE	30.75	-4.7	7.3	1.80	5.9	32.25	30.75	518.8
CNA Finl Corp (CNA)	NYSE	19.00	3.4	7.8	0.00	0.0	19.13	18.50	108.9
Control Data (Comml. Credit)	NYSE	48.50	-4.2	12.2	0.60	1.2	50.38	46.25	1,036.4
General Re Corp	NYSE	67.25	-1.1	14.4	1.28	1.9	68.63	66.50	249.5
Gulf Utd Corp	NYSE	27.13	1.9	8.7	1.32	4.9	27.13	26.88	1,417.2
Cigna Corp	NYSE	50.50	2.0	7.5	2.48	4.9	50.75*	49.13	529.5
ITT (Hartford Group)	NYSE	37.75	-1.0	7.9	2.76	7.3	38.63*	37.38	1,492.7
Optimum Hldg Corp	OTC	8.13	3.2	7.8	0.00	0.0	8.13	7.88	3.1
Sears Roebuck & Co. (Allstate)	NYSE	41.00	9.7	15.0	1.52	3.7	41.00*	38.00	4,576.1
Baldwin Utd Corp	NYSE	8.13	-19.8	3.9	0.88	10.8	9.50	8.13*	2,527.9
Teledyne Inc (Argonaut)	NYSE	141.00	0.5	12.2	0.00	0.0	144.50	138.50	714.0
Transamerica Corp (Occidental & Fred S. James)	NYSE	28.00	-3.9	9.2	1.50	5.4	29.13	28.00	394.1
CONGLOMERATES/HOLDING COS.	AVERAGE			12.6		2.8			

*Record high/low since Jan. 1, 1983

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Financial briefs

Chubb Corp.

The Chubb Corp. reports operating income of $24.6 million, or $2 per share, for the first quarter of 1983. This compares with $19.7, or $1.60 per share, for the first quarter of 1982.

Net income including investment gains and losses this year was $30.2 million, or $2.45 per share, compared with $22 million, or $1.79 per share, in the first quarter of 1982.

Property and casualty post-tax underwriting loss totaled $7.9 million compared with the 1982 first-quarter loss of $11.9 million.

Travelers

The Travelers Corp. has declared a dividend of 45 cents per share of common stock, payable June 10 to shareholders of record April 29.

Union Mutual

Union Mutual Life Insurance Co. of Portland, Maine, increased its asset base 22% in 1982 to a total $3.3 billion.

At the company's April 8 annual meeting, President Colin C. Hampton announced financial milestones for 1982 including a 28% increase in net investment income to $286 million; a net investment yield of 10.4%; a consolidated gain of $42.7 million; and a 20% increase in surplus to $165 million.

American Indemnity

American Indemnity Financial Corp. has declared a quarterly dividend of 28 cents per share of common stock payable May 15 to shareholders of record May 6.

If you were reconditioning this 1932 Auburn, you'd go to an expert.

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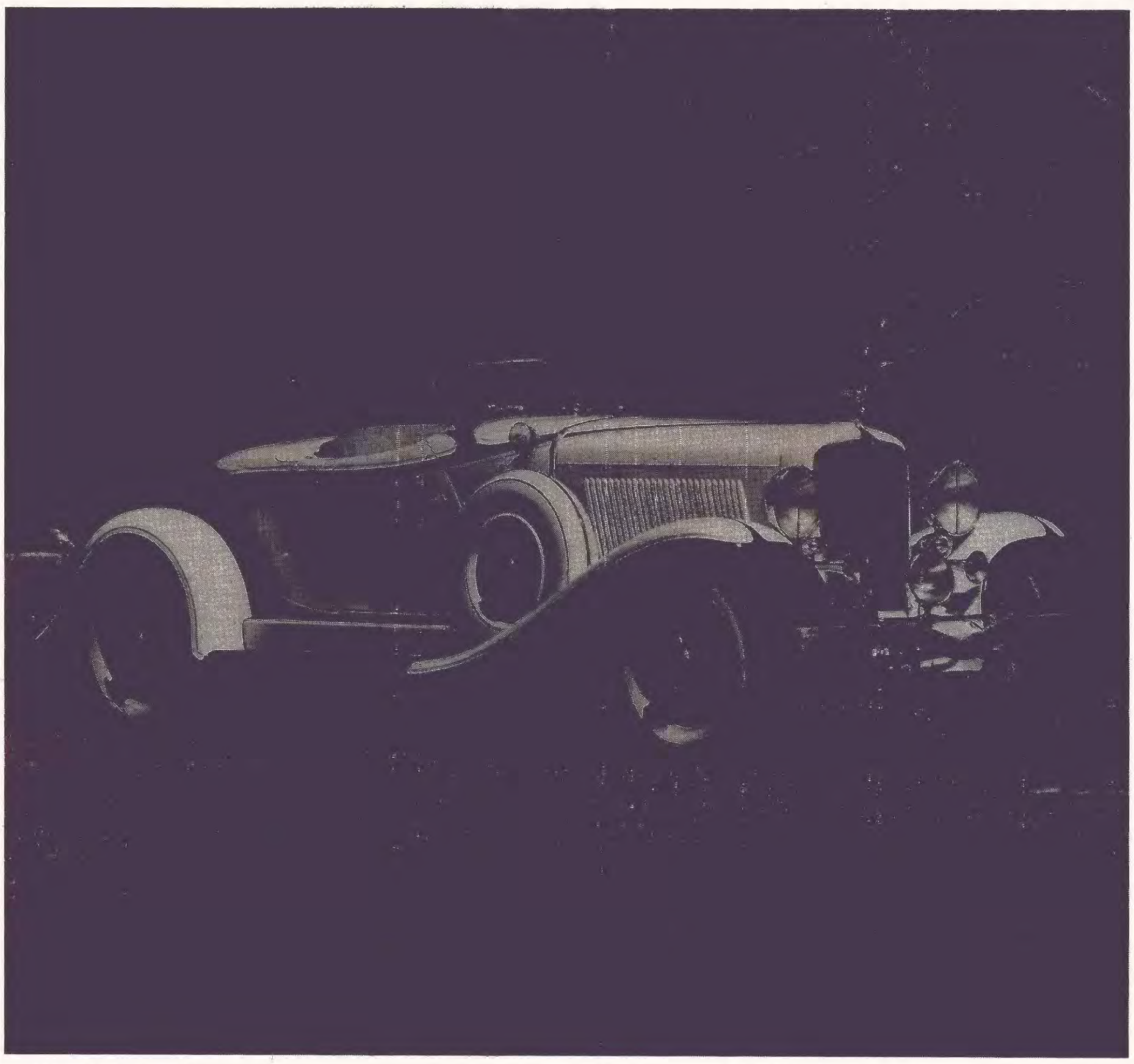

Location courtesy of Heritage Plantation, Sandwich, Massachusetts.

You don't have to go far to find a Workers' Compensation program for your business. But finding the expertise to make it work for you is another matter.

At American Mutual, nearly 70% of our business is in Workers' Comp. So we know more about it than almost anybody. And we apply what we know to what you need. With programs as individual as you are.

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