N.Y. copter mishap covered in London, U.S.

By MARIE KRAKOWIECKI

NEW YORK—The London market provides the liability insurance for the freak accident here May 16 when a helicopter idling on its pad on top of the Pan Am building suddenly collapsed and sent its shattered whirling rotor blade through the air like giant knives, slashing five victims to death.

New York Airways Inc., which operated the helicopter on regular shuttle flights to and from Kennedy Airport, used United States Aircraft Insurance Group (USAIG) to write the hull and workers' compensation insurance for the vehicle.

The broker on the account was the aviation division of Frank B. Hall & Co. (Parker & Co.), New York.

About 20 underwriters participated in the hull and work comp coverage, by virtue of their membership in USAIG, which is a large pool of domestic aviation underwriters. A spokesman for one of the firms involved said expected damage claims are small because the entire craft is valued at less than $1 million, and only the landing gear and rotor blade were damaged.

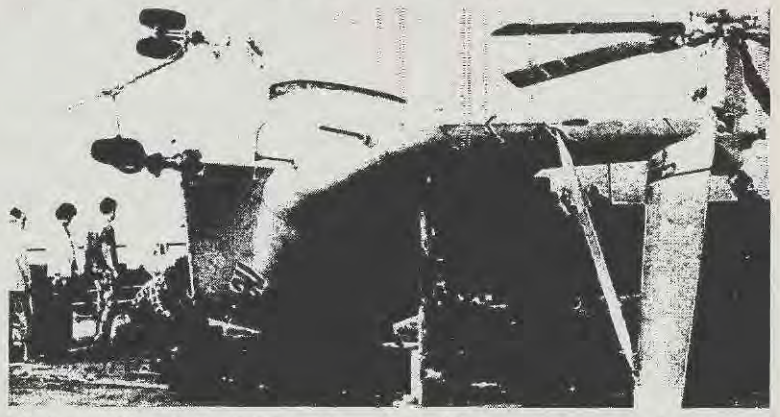
There are likely to be liability and product liability claims which could become substantial in the case, however.

The manufacturer of the helicopter was Sikorsky Aircraft Division of United Technologies Corp., Hartford, Conn., (formerly known as United Aircraft Co.).

Robert Hugel, insurance manager for United Technologies, said he handles all the insurance coverages for Sikorsky, but could not discuss any details.

Federal investigators blamed the accident on metal stress on the Sikorsky S-61's landing gear, and the Federal Aviation Administration ordered inspections of all Sikorsky S-61 helicopters now in

Continued on page 84



Workers attempt to right a New York Airways helicopter that tipped over atop a Manhattan skyscraper, killing five persons.

Services issue

Risk management services are in growing demand, constituting one of the fastest changing areas that risk and employe benefit managers are coping with. This issue examines those services, what they are, who is providing them and what they cost. Also included are stories about safety and security. A special section runs from page 11 through 60.

Consultants

Corporate managers are paying as much as $150 an hour plus expenses for some risk management consultants. Page 11.

NATLSCO

Sniffing out perfume that immobilized a plant is just one of the risk management services Kemper's rapidly expanding NATLSCO division has been involved in. Page 11.

ASO

More and more companies are adopting administrative services only contracts for their health programs. What goes into a good ASO plan? Some answers on page 11.

Our survey

Look for corporate insurance managers to purchase more services in the future, a survey of the *Business Insurance* editorial advisory and employe benefit panels reveals. Page 20.

Elsewhere:

- OSHA'S REORGANIZATION means there'll be fewer "Mickey Mouse rules" and more emphasis on serious occupational hazards. Page 4.
- KING TUT finds that security's come a long way in 3000 years. Page 16.
- SELF-INSURING? You'll find your choice of firms to provide back-up services is greater than ever. Page 16.
- BROKERS continue to expand their risk management services staffs to meet mushrooming demands. Page 25.
- SECURITY FIRMS are finding liability insurance a difficult problem with escalating premiums and a tight market. Page 27.
- CAN A baseball star promote safety? One company is using Johnny Bench. Page 37.
- PRIVATE CONSULTANTS are concerned that the free services provided by OSHA are endangering their business. Page 39.
- SAFETY MANAGERS and risk managers often have only a liaison relationship. Page 43.

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Week of May 30, 1977

business insurance

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

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Drug makers win first round of DES litigation

By KATHRYN McINTYRE ROBERTS

DETROIT—Sixteen drug companies which marketed DES when it was prescribed for pregnant women to prevent miscarriages are gratified with a county court decision here in a massive liability suit against them.

But their satisfaction could be short lived, according to the plaintiffs' attorney who believes he has a strong case for an appeal.

The suit represented 144 daughters of women who had taken the drug DES (diethylstilbestrol). The mature daughters, who have developed cancerous or precancerous genital conditions, charged the drug caused their illnesses and sought a combined $650 million in damages.

Only many of the daughters (perhaps 60%) are unable to identify the specific manufacturer of the drug taken by their mothers. As a result, the suit was brought against 16 of the manufacturers the daughters say were dominant in the field when their mothers took DES.

Wayne County Judge Thomas Roumell, however, rejected the theory of industry-wide liability. He ruled that the specific manufacturer in each case has to be identified in order to be sued for damages.

The quick and positive response from the victorious drug companies indicates how concerned they had been about the suit and how important they view this first DES decision.

Eli Lilly & Co., a major supplier of DES between 1947 and 1971—when the drug was prescribed for pregnant women—armed its public relations department with a prepared statement. It said that Judge Roumell's decision "reaffirms the well-established principle of law that in order to maintain an action against a defendant, the plaintiff must produce evidence that the defendant manufactured or distributed the product allegedly causing the harm."

The plaintiffs' attorney, Thomas H. Bleakley of the Detroit law firm Charfoos & Charfoos, doesn't agree.

He said, "The judge ruled there is nothing in American law to support industry-wide liability.

"We were confounded," the attorney continued, "because there has been another industry-wide liability case." Mr. Bleakley pointed to a 1972 U.S. District Court decision in New York (Chance vs. DuPont) which said the six manufacturers of dynamite blasting caps could be held jointly liable for injuries caused

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Blues veto 30 procedures

CHICAGO—Health insurers and the Health Insurance Assn. of America are studying the move by Blue Shield this month to disallow reimbursements to physicians for 30 different surgical and diagnostic procedures which have been shown to be of doubtful medical value.

"Third party payers have an obligation to alert the public, and the people who pay the premiums, about medical procedures which are questionable," said Thomas O'Hare, associate director of the HIAA's division of consumer and professional relations. He plans to bring up the subject of the Blue Shield action at HIAA's June 8 meeting of the medical relations committee, made up mostly of doctors. But he seemed skeptical about whether the HIAA would follow suit, although several other officials of large health insurance providers said it's only logical that other third party payers will do as Blue Shield is doing.

But there's a possible problem of legal liability, as well as questions of the efficacy of having a third party such as an insurer doubt the judgment of a physician or surgeon, several insurers said. Even Blue Shield is careful to note that it's not issuing a unilateral denial of benefits for these procedures.

Rather, said Blue Shield, it's trying to discourage physicians from using procedures that cost Blue Shield alone some $27.4 million last year and have been designated by three medical societies —the American College of Radiology, American College of Physicians and American College of Surgeons—as being of questionable value. In addition to the 30 procedures listed, there are two new procedures which Blue Shield says it'll not pay for without a doctor's justification in writing.

If Blue Shield receives a claim involving one of these procedures, and refuses it, the claim will au-

Continued on page 2

First association captive in Colorado

WESCAP to hit $5 million premiums

By SUSAN ALT

CHICAGO—The National Welding Supply Assn. expects to have $5 million in premiums flowing into the first association captive insurance company established in Colorado.

By the end of this year, it's thought premium volume in WESCAP Insurance Co. will be about $1 million, only a fraction of the estimated $20 million premium potential representing the total of insurance costs for all the 1,000-plus NWSA members. There are currently premiums of $500,000 in the captive.

WESCAP Insurance Co. is being managed by Glendale Agency in Denver, after being licensed Dec. 30 with capital of $400,000 and contributed surplus of $600,000. The captive is a subsidiary of WESCAP Co., a non-profit Colorado corporation organized by the association.

WESCAP is writing first-dollar coverage for 70 members of the association, insuring primary liability risks up to $100,000 per occurrence and property coverage up to $500,000 per location through an SMP policy. Coverage includes auto liability and product liability under the $100,000 limits, but not workers' compensation.

The captive uses NN Risk Management Services Inc., a division of Milwaukee-based Northwestern National Insurance Co., as underwriting manager. Policies are issued in the name of Northwestern National.

John Haker, president of NN Risk Management, said Northwestern National is sharing WESCAP's risk horizontally on the excess layers (over $100,000 per occurrence). NN Risk Management contracts out claims investigation and loss adjusting for the captive's insureds to General Adjustment Bureau, which is compensated by NN out of reinsurance ceding commissions.

WESCAP is paying a fee to Northwestern National and NN Risk Management based on a percentage of premiums—between 10% and 15%—for writing the policies and claims administration (through GAB), *Business Insurance* learned. Glendale's fee is based on hours worked, with the agency/manager expected to earn a maximum of $25,000 this year. American Insurance Marketing Corp. (AIM) is earning an additional 14% commission for putting NWSA member companies into the captive.

Henry Higginbottom, secretary-treasurer of Glendale Risk Management Inc., the captive manager, said aggregate stop loss coverage was arranged through Glendale Agency Inc. with Mutual Fire & Inland Marine Insurance Co. of Philadelphia.

Mutual Fire also provides excess coverage to the individual NWSA member businesses needing liability limits higher than the $100,000 insured in the captive. Additional limits of $400,000 excess of the $100,000 are available.

Glendale tries to find excess coverage in the general markets for any participants with fire exposures over $500,000. Although these efforts for the 10 welding supply firms that have asked for additional coverage haven't been entirely successful, Mr. Higginbottom said, he's presently searching the U.S. and London markets for an underwriter willing to write more property coverage for some NWSA members.

Although other trade associations have found it nearly impossible to galvanize the commitment of their members and launch group captives, NWSA got its captive organized and operating in only a few months. What made the project easier was the data on premiums, claims, losses and other experience details needed to start a captive.

The NWSA previously had a package mass marketed program for four years, managed by Curt Urbanski of AIM. About 230 NWSA members had participated in the insurance programs.

At first the program had been underwritten by St. Paul Fire & Marine Insurance Co., but had been transferred in 1975 to Providence Washington Insurance Co. when St. Paul no longer wanted to write the plan.

That pattern was repeated in mid-1975 when Providence Washington notified Mr. Urbanski that it wouldn't renew. As Louis F. Valetti, chairman of WESCAP and a moving force behind the captive program, explains it, there were about 55 firms—including his own—unable to buy coverage that were in favor of setting up the captive. Mr. Urbanski "prevailed upon Providence Washington" to continue underwriting the NWSA casualty program until December 1976.

Not all of the companies buying insurance through the WESCAP captive are obtaining lower premium charges than they otherwise paid. The highest premium paid by any company is $120,000 by a company with $1.4 million annual sales, down to a low premium of $5,000, for companies with sales of about $750,000 a year. The average premium rests at about $12,000.

Since some of the companies using WESCAP couldn't get coverage at all, it's not possible to compare all present premiums with old ones.

But WESCAP's premiums are lower for some firms, says Mr. Urbanski. One company based in Washington state paying $100,000 now would pay $72,000 under the WESCAP plan, he said.

"In general, the product liability rate has gone up from about 42 cents to about $1 per $1,000 sales," he added. "But we've seen rates as high as $3, $5 and $10 for liability coverage, so the captive is certainly lower than some underwriters in the standard market right now."

Obtaining the initial capital to form WESCAP wasn't difficult for the association. The group of companies interested in participating contributed more than the necessary $1 million. This was accom-

Continued on page 84

Blue Shield vetoes . . .

Continued from page 1

tomatically go to a physician peer review committee for evaluation. "In essence, we are taking an administrative action defining what we think is 'necessary' under our contracts covering necessary medical care," said a Blue Shield spokesman.

The organization expects that not all of the $27.4 million spent last year for these procedures will be saved, although savings will be significant. Publishing this list, said Blue Shield, is a first step in controlling expenditures for unnecessary care. The list will be expanded in the future, but a time frame for any broadening couldn't be determined.

Blue Shield set out a year ago to find four types of unnecessary medical care it didn't want to pay for: New procedures of unproven value, established procedures of questionable current usefulness, procedures which tend to be redundant when performed in combination with other procedures, and medical procedures which are unlikely to provide a physician with additional information when repeated again and again.

There's also a chance that certain of the procedures which Blue Shield said it doesn't want doctors to use would be entirely justified in certain cases, if a diagnosis is different than the diagnosis for which the treatment's value was questioned. "When these procedures are justified, they will be covered," said William E. Ryan, president of the Blue Shield Assn.

The 20 surgical procedures on the no-payment list include treatments for ailments including hemmorrhoids, asthma, female circumcisions, lower back pain and high blood pressure accompanied by hypertension. The 10 diagnostic tests which Blue Shield will no longer make routine payments for include ones for metabolism, overactive thyroid, jaundice, the heart's blood-pumping capacity, heart sounds, X-rays of the heart and other organs using injections, and photographs of arteries.

Two new procedures identified by the College of Surgeons as of unproven value are "fabric wrapping of abdominal aneurysm" and "extra-intracranial arterials bypass for stroke."

A full list of the 30 procedures for which Blue Shield will require a doctor's written justification is available from the Blue Shield Assn. here. ■

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GUIDE TO FEATURES

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the benefit beat

Publisher institutes an annual $50 deductible

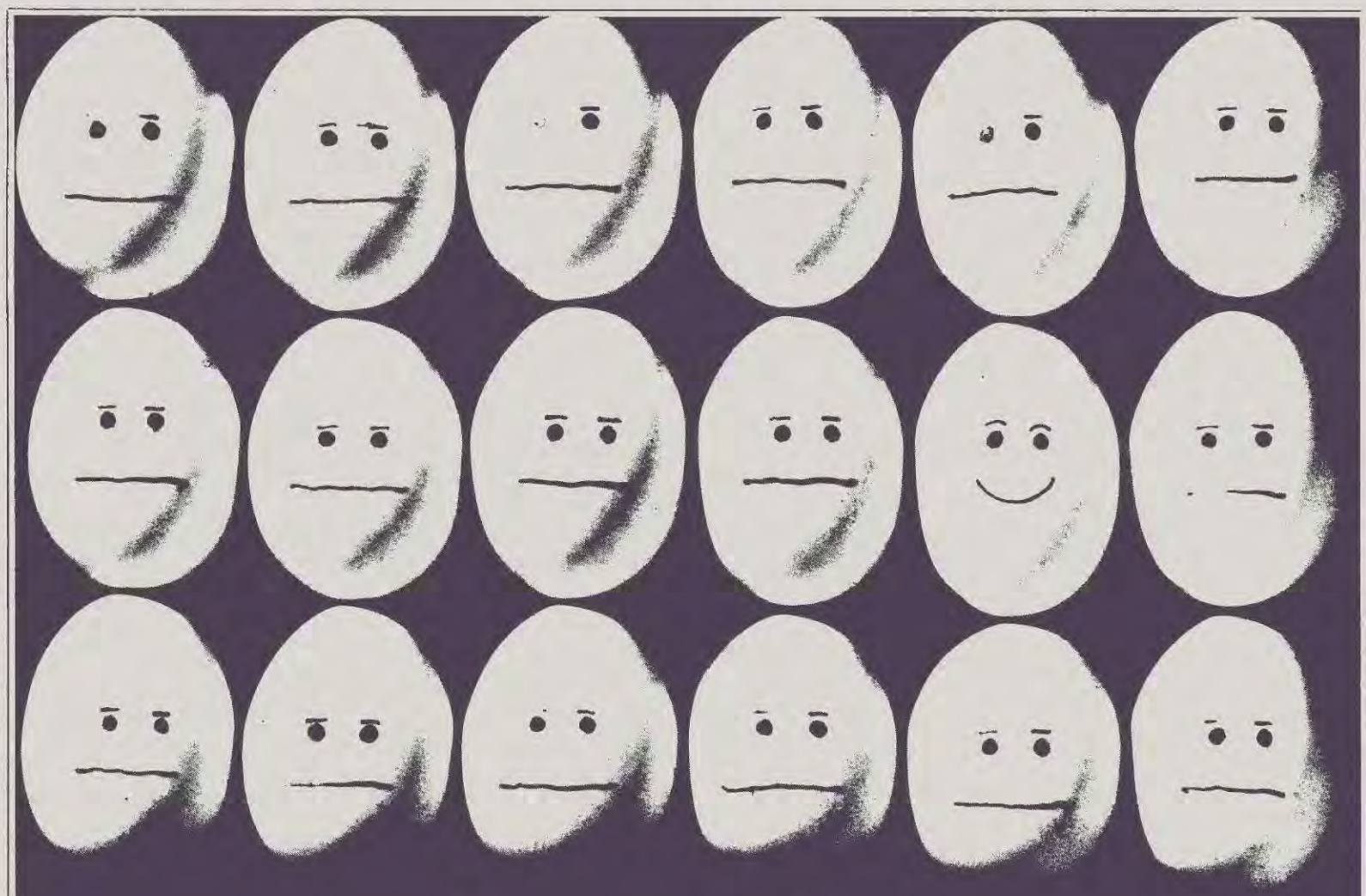
CRAIN COMMUNICATIONS Inc. has amended its comprehensive medical plan to institute an annual $50 deductible rather than a $50 deductible for every cause (illness). An absolute upper limit of $675 on the annual out-of-pocket expenses a participant will have to pay has also been established for the publisher's 400 employes. Formerly, in addition to the $50 deductible for every cause, a participant paid 20% of hospital charges over the fully covered limit of $2,000. The Chicago-based publishing company also now provides its employes with a $1 million maximum lifetime benefit. Previously there was a $1 million limit per cause, however for each cause there was also a benefit period of four years after which a person was no longer covered by the plan. Now a participant suffering a sustained illness will not lose medical coverage after four years but will pay the annual $50 deductible. The changes in the medical plan are at no additional cost to Crain or the underwriter, Connecticut General Life Insurance Co. The company publishes *Business Insurance*, Advertising Age and other magazines.

AN 18% RATE DECREASE for individuals and families of three or more has been requested by Michigan HMO Plans Inc. The Department of Health and the State Insurance Commissioner are expected to rule on the request within a month. The individual practice association (IPA) is also planning a 6% rate decrease for couples. After three years of experience, Michigan's first licensed HMO has found its rates—set originally to be competitive with other health care plans—were bringing in enough funds to either increase benefits or reduce rates. The new monthly rates for individual enrollments are: $43.42 for individuals, down $9.71 from $53.13; $99.87 fr couples, down $6.39 from $106.26; and $108.55 for a family of three or more, down $24.27 from $132.82. A spokesman said these savings will also be reflected in its group plan rates. Currently Michigan HMO Plans has 30,000 enrollees served by 350 physicians, 35 health centers and 25 hospitals in the three-county Detroit metropolitan area. The plan is seeking state-wide licensing and federal qualification. It expects to be federally qualified within the next two months and plans to activate employers recruitment with a target growth of 200,000 enrollees within the next year.

THE HARTFORD INSURANCE GROUP has liberalized its long term disability (LTD) benefit for white collar workers at no additional charge to policyholders. The new LTD benefit for the totally disabled will be based upon the employe's inability to perform in his or her own occupation rather than in other fields. Previously an employe's LTD benefits ended after two years if the person could perform in any type of occupation for which he or she was reasonably suited. The new benefit will affect predominantly administrative, executive and professional groups of 36 or more. The Hartford believes it's the first insurer to extend the LTD benefit like this and claims the move is intended to make its LTD coverage more attractive to potential insureds and to give agents a competitive advantage. Hartford estimates only 10% of American companies provide LTD benefits. Group LTD insurance is marketed through Hartford Life Insurance Co. and Hartford Life & Accident Insurance Co.

THE CITY OF MADISON, WIS., Dane County and the Madison Metropolitan School District chose Blue Cross/Blue Shield to service their pending self-insured health care plans. The three government agencies cooperated in researching and drawing up the self-insured plans because they were dissatisfied with their current supplier, the Wisconsin Physicians Service, an open panel health maintenance organization. Proposals to self-insure health benefits are before the three government boards now and it's expected they will be approved. BC/BS was chosen over WPS and Martin Boyer Co. of Chicago, the other front runners for the administrative services only (ASO) contracts with the three groups. Dane County risk manager Robert Tieman said BC/BS was superior in "just about everything." Specifically, he said, BC/BS offered better claims processing and cost containment, far superior managerial reports on costs, better treatment of policy holders and financial advantages. The contract with the county—similar to the other two—would cost 4.4% of expected claims or roughly $1.4 million. Stop loss coverage at 110% of incurred claims, figured on a quarterly basis, will cost an additional 2.1% of expected claims. Mr. Tieman said WPS was adding roughly 11% to the county's health care costs for administrative services. The projected savings next year, the county's target for self-insuring, are $35,000, Mr. Tieman said. He added he's more concerned with the long term savings he envisions through better plant control. The three government bodies are particularly pleased with the option of designing benefits as self-insureds. Next year, however, Dane County will maintain its current benefit package as self-insureds. In all, 6,000 employes representing $6 million annually in health care costs with WPS will be affected if the three contracts are approved.

IF NEW YORK CITY is to continue to prosper, overly expensive health insurance costs must be brought under control immediately, a public hearing in the city was told. Lewis Rudin, chairman of the Assn. for a Better New York, delivered this opinion to hundreds of business, labor, government and civic leaders at a forum sponsored by Group Health Inc., a nonprofit health insurance and services provider regulated by the state insurance department. Spokesmen for GHI said the forum on the health care delivery system in New York was not a rate increase hearing, but rather a way they hoped to get the expertise of the professionals who buy group insurance to help them find ways to continue to deliver comprehensive coverage while keeping costs as low as possible.



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OSHA cuts nit-picking, targets serious hazards

By JERRY GEISEL

WASHINGTON—Employers no longer have to worry about being cited for not having proper coat hooks in toilet stalls.

That "nit-picking" regulation is abolished. Others of the same ilk will meet a similar fate in the next few weeks as the Occupational Safety and Health Administration begins to shift its resources toward tackling serious health hazards and away from enforcing unnecessary rules.

Speaking at a Labor Department press conference, new OSHA administrator Dr. Eula Bingham said the agency is reviewing more than 5,000 safety standards, many of them "Mickey Mouse rules that burdened employers without really protecting workers."

While dropping dozens of petty rules, OSHA plans to issue more regulations regarding severe health hazards and to restrict use of dangerous substances.

Instead of printing 15 pages of regulations in small type on the safety of ladders, OSHA will step up its inspections of industries with the most serious health problems—construction, manufacturing, transportation and petrochemicals.

"This means that most small businesses in the lower-risk sectors of the economy can expect to see OSHA inspectors much less often," said Dr. Bingham. But small businesses in the more hazardous enterprises, such as auto-repair and building materials, can expect more frequent inspections."

Few agencies have generated more controversy than this six-year-old bureaucracy. A Stop-OSHA movement, spearheaded by Rep. George Hansen (R-Idaho) has fought vigorously in the courts to prevent what it considers unconstitutional searches of workplaces by OSHA inspectors.

And more recently, Rep. Philip Crane (R-Ill.) introduced a measure that would abolish the agency.

Sensitive to the criticism, Dr. Bingham readily acknowledges that massive changes are long overdue and without them Congress will eliminate OSHA.

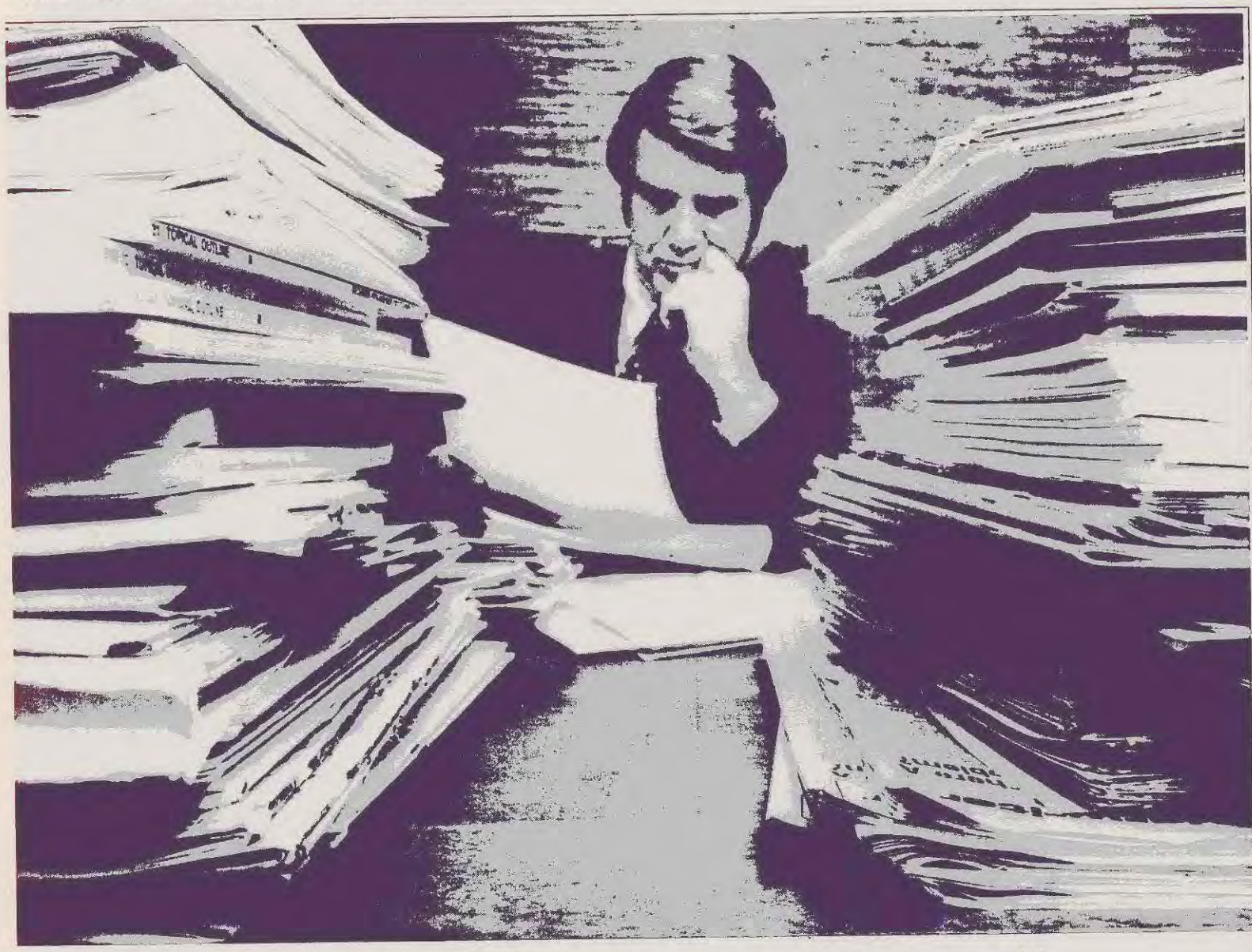
Some of these changes, which will have a profound effect on small and large businesses, include:

- Penalties for violations that have no impact on employe health or safety will be eliminated entirely.
- Significant reductions in inspections at non-hazardous workplaces such as insurance agencies and office buildings.
- Expanded educational programs to assist small businessmen in complying with complex federal law.
- New programs to help explain OSHA's rules to employers and workers.
- More emphasis on combating health hazards that cause irreversible injury—cancer, leukemia and lung disease.
- Development of health regulations for broad categories of potentially deadly dangers, such as cancer causing substances, rather than detailed prescriptions for individual job risks.
- More emphasis on preventative consultations with small business instead of "regulating by fiat."
- Clearer regulations so that small businesses no longer have to hire lawyers to interpret regulations.

Moreover, Dr. Bingham soon will appoint a special assistant for small business. In addition, a new, simply written guide will be distributed to assist small businesses to help them comply with OSHA's more complex regulations.

"The worst thing about wasting time and money on nit-picking regulations is that you short-change the fight against the most serious dangers to human life and limb in the high-risk workplaces," said Labor Secretary Ray Marshall, who also spoke at the briefing.

"From now on OSHA is going to get serious about serious dangers. What we are trying to do is save lives, protect workers' health and prevent injuries, not print regulations."



If Mr. Marshall and Dr. Bingham are successful in changing the purpose and direction of OSHA, the days of printing 35 pages on the design of exit signs or requiring employers to install guard rails exactly 42 inches high appear to be over.

"We are going to stop trying to regulate every detail of life in every office, store and factory," said Mr. Marshall. "There will be no more petty regulations like those dealing with coat-hooks in bathrooms."

The U.S. Chamber of Commerce called the changes "highly welcome" and a "step in the right direction," especially the agency's new emphasis on consultation.

Dr. Bingham said "substantial progress" should be apparent in three months and "even more progress" would be discernable in a year. ■

Bill aims to reduce oil ship mishaps

WASHINGTON—After two months of hearings, the Senate Commerce Committee approved and sent to the Senate floor a comprehensive bill establishing strict guidelines for oil tanker construction and operation.

During the drafting sessions, however, the committee added amendments that give shipbuilders and operators more time to comply with the bill's provisions.

The date for requiring oil tankers to carry a dual radar system, a collision avoidance system, a navigation aid and a gyrocompass was pushed back to June 30, 1979, from the original compliance date of Jan. 1, 1978.

Oil tankers over 20,000 deadweight tons that are contracted for or built after Jan. 1, 1978, must be fitted with a double hull, a six-month delay from the original proposal.

In addition, oil tankers entering U.S. ports after June 30, 1983, will be required to be equipped with a gas inerting system, a transponder or other appropriate position-fixing equipment and a segregated ballast system.

The bill also authorizes the creation of a Marine Safety Information System to identify ships with a history of accidents and pollution incidents and gives the transportation secretary authority to bar those ships from U.S. ports and navigable waters.

Debate has not yet been scheduled on the measure on the Senate floor. ■

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AT&T to establish an employe stock plan

NEW YORK—American Telephone & Telegraph Co. will establish an employe stock ownership plan in September.

The move by the nation's largest utility comes as a major benefit consultant reports that the interest in tax reduction employe stock ownership plans (TRESOPs) is strongest among large capital-intensive companies.

Taking advantage of the Tax Reform Act of 1975, AT&T expects to set aside $87 million in company stock for its 927,000 employes. Under the law, companies may deduct from their federal income taxes 1% of capital investment if the money is used to issue new stock to its employes.

AT&T files its federal tax return in September, a company spokesman said, and the $87 million is expected to be the tax credit for 1976.

An employe must have been with the company for three years and worked 1,000 hours in 1976 to be eligible. One share of stock will be issued for each $10,000 compensation up to a maximum of $100,000 in salary. It is expected that the average AT&T employe will receive 1.6 shares of stock.

The shares will be held by a trustee for seven years. However, an employe who has left or died will receive the shares he has earned.

"The Intent of Congress was to make additional money available for expansion and to allow workers to own part of the company," an AT&T spokesman said. "That's why we are doing it and we would be doing our employes a disservice not to elect the option."

Last year AT&T needed to raise more than $3 billion in capital by issuing bonds. The TRESOPs will provide additional capital, the spokesman said.

In addition, AT&T has had a stock purchase plan for employes since 1969. Under the plan an employe may contribute up to 10% of his salary to the purchase of stock with the company matching 50% of contribution up to 6% of salary.

The price of the stock will be determined by a 20-day trading period in September, the spokesman said. In May, AT&T stock was selling for $65.

Meanwhile, a major survey by Hewitt Associates reveals that most of the interest in TRESOPs is among large, capital-intensive companies. The Deerfield, Ill. consultants surveyed the Fortune 1,000 companies and 50 of the largest financial, banking and insurance companies. Hewitt received 423 responses to the survey.

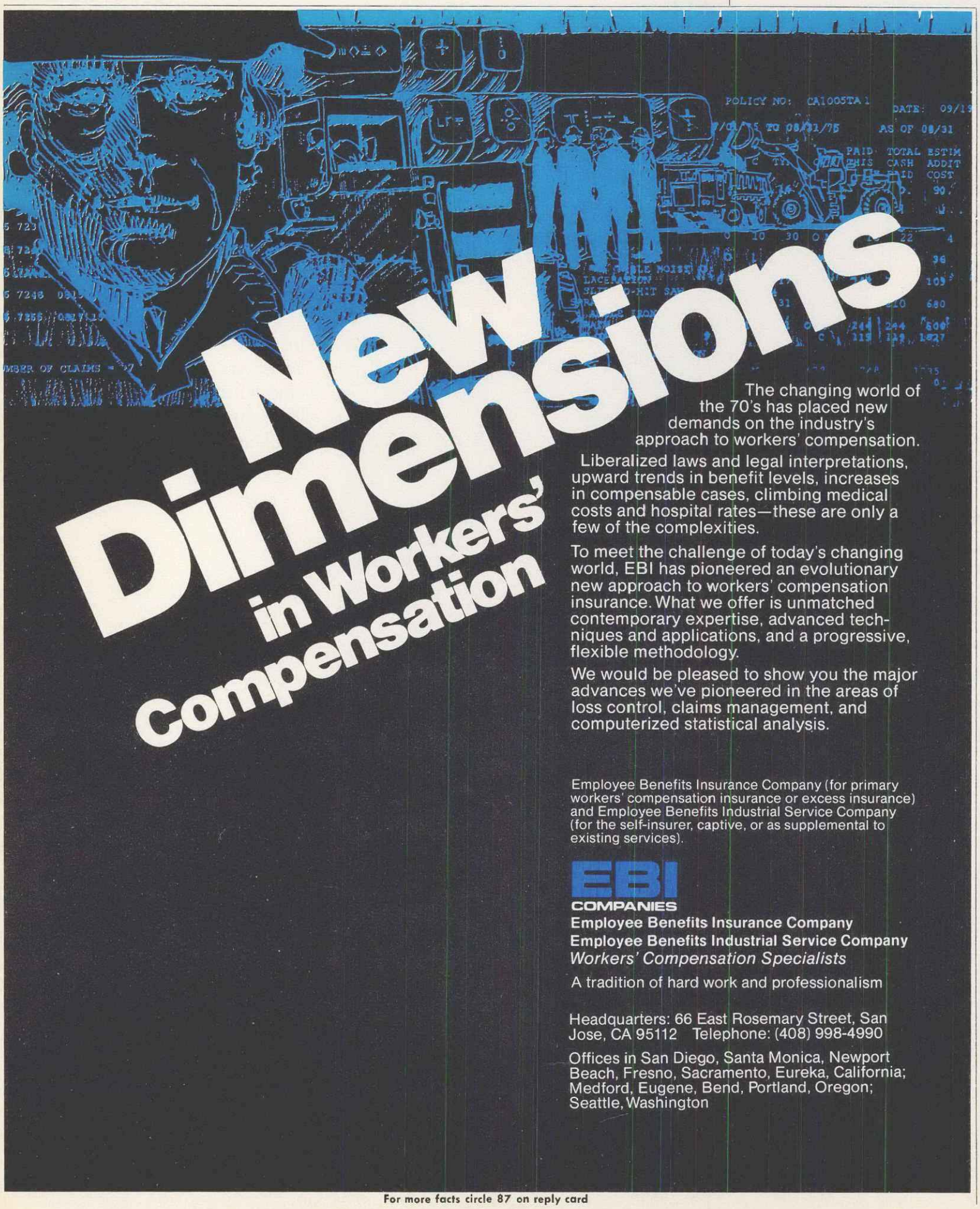
Fifty-four of the companies (13%) have implemented a TRESOP or are in the process of establishing a plan, 60 (14%) are considering a TRESOP, the study showed. However, 309 companies (73%) have no plans to establish an employe stock plan.

Utilities and other capital-intensive companies are responsible for much of the TRESOP activity, Hewitt says. Seventy percent of the 26 utilities and 41% of the 24 coal or oil companies surveyed have established TRESOPs.

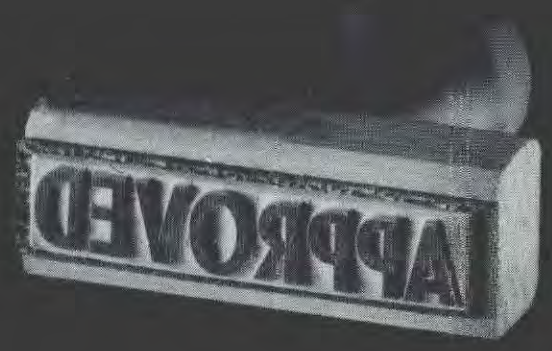
Size also is important, the study showed. Twenty-one percent of the companies with sales of $1 billion have TRESOPs, compared to 16% of the companies with $500 million to $1 billion in sales and only 4% of companies with sales under $500 million.

Other highlights of the survey regarding companies with TRESOPs.

- Over 90% of the plans are qualified under both the 1975 tax law and section 401(a) of the Internal Revenue Code.
- Fifty-five percent are extended to all or most employes while 45% involve mostly salaried employes.
- Eight-five per cent include up to $100,000 in annual salary for allocation purposes.
- Over 50% expect an annual employe benefit of less than 52%. Thirty percent expect a benefit between $200 and $500 and 7% expect benefits above $500. ■



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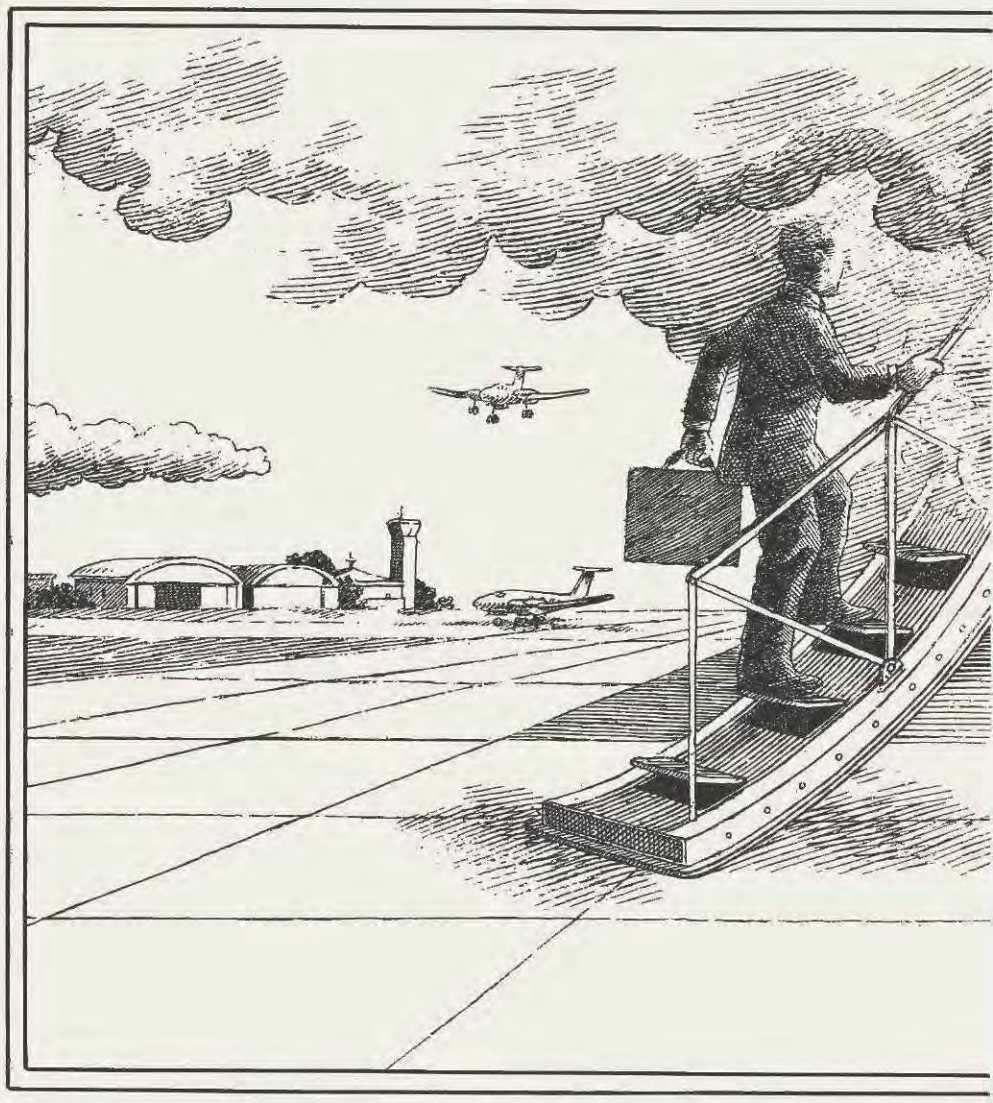
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100 William Street, New York, N.Y. 10038

Business

Whenever an employee steps into a non-commercial aircraft—whether rented, chartered or company owned—his firm is exposed to major liabilities. For some of them, needed insurance coverage may be overlooked.

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



Business flying—flying for business purposes by means other than the scheduled airlines—has become a way of life in corporate circles.

In the past five years alone, business aircraft flight mileage is estimated to have increased by about 33%, with about 1.5 billion miles logged in 1975, according to the National Business Aircraft Association. At the same time, the number of cities served by commercial airlines has continued to decline (the total is down 30% since 1960), making non-commercial business flying a necessity for more and more firms as well as a convenience for all of them.

How safe is flying on business aircraft? The National Transportation Safety Board says that the accident rate for business flying is well below that for general aviation, which takes in all non-airline operations. For the professionally piloted corporate/executive segment, the accident rate is lower still—in fact, it is comparable to that for scheduled airlines in terms of aircraft-hours flown. The long-term trend toward fewer accidents is reflected in aviation insurance rates, which have decreased steadily as a percentage of total operating costs over the past decade.

The conditions that make for safe business flying can be succinctly stated: an alert, well-trained and experienced professional pilot with final authority for aircraft operations decisions, flying a modern and meticulously maintained airplane. Despite sophisticated navigational aids and fail-safe devices the principal safety factors continue to be the pilot's skill, judgment and familiarity with the specific make and model of the aircraft he is flying.

When an accident does occur, however, it can have widespread legal ramifications—many of which come as a surprise to executives who assumed their firm was well protected against all eventualities.

Who pilots the pilot?

Suppose, for example, that a company salesman charters a plane in order to keep an important appointment with a customer. Even though his firm may have rules forbidding charter flights for business purposes, if an accident takes place the firm could be held liable

Flying



for damages—including any suffered by the crew and passengers and any damage to the plane itself. The presumption is that in directing the pilot where to take him, the passenger is exercising control over the pilot and may therefore have to share responsibility for what takes place.

If the salesman is himself a pilot and rents a plane for a business trip, he may not be covered as a pilot under the owner's liability policy, or the coverage may be insufficient for the extensive damages usually involved. The same principle applies if he flies his own plane or that of a friend. An aircraft non-ownership policy can provide large amounts of liability coverage at relatively little cost—coverage seldom furnished by regular business insurance.

Federal regulations do not require insurance for company-owned planes used in the furtherance of business pursuits unless those planes are hired or chartered by others for interstate carriage of passengers or cargo. In practice, of course, liability insurance against bodily injury and property damage, as well as damage to the aircraft itself, is a necessity—particularly in this day of high jury awards.

If a company-owned plane is flown to another country, it is advisable to determine in advance whether the insurance coverage provided by a U.S. carrier is legally recognized in that country. If not, acceptable coverage should be arranged before arrival. Otherwise, in the event of an accident, the plane could be seized and its occupants held to face criminal charges.

Admitted liability

All-purpose corporate aviation insurance, including both owned and non-owned aircraft coverages, can be obtained in a single broad contract with protection adjusted to company needs.

Such insurance may include the feature known as "admitted liability," which pays specified benefits for injury or death of passengers and crew whether or not the company is legally liable. In the aftermath of an accident, this provision can help a firm retain good will and avoid litigation.

As a fuller discussion of business aviation insurance from an objective standpoint, INA has prepared a booklet entitled, "Business Flying: Some Professional Considerations." Copies may be requested by writing INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

* * *

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INA insurance products and services are made available through selected independent agents and brokers—professionals with a comprehensive knowledge of insurance needs and solutions.

INA

Insurance Professionals

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Risk Management Services

You'll pay a risk consultant between $25-$150 an hour

By SUSAN ALT

CHICAGO—Corporate managers are paying as much as $150 an hour plus expenses for risk management consulting services supplied by independent firms, a *Business Insurance* survey revealed.

What's more, the nation's largest insurance brokerage firm, Marsh & McLennan, charges as much as $200 an hour for its most experienced people who provide risk management services.

The average risk management consulting charge was $55 to $65 an hour, the survey of 17 of the nation's leading independent risk management consulting firms found. In addition, because many brokers are also providing such services on a fee basis, the survey included Marsh & McLennan, the Anistics division of Alexander & Alexander and Schiff Terhune International.

Most consultants interviewed were willing to disclose their fee schedules. One firm's principal, Len Silver of First Risk Management Co. outside Philadelphia, immediately offered to mail his printed schedule of charges and fees. In the end, only two firms surveyed requested anonymity.

There were a few consultants, however, who felt hourly fees being charged were nobody's business but their own (and their clients, presumably). Herb Cox of Buffalo-based Aldrich & Cox said his firm has different fees for different clients and he didn't want his clients to find out about this in *Business Insurance*.

Nearly all consultants were concerned that disclosure of rates would serve to drag a "professional" business into the realm of price competition. Consultants' opinions differ, in fact, on just what role price should play in a corporate manager's decision to hire one consultant over another.

Some say price shouldn't be a consideration at all; they argue that quality of service is the only valid yardstick for choosing a consultant. Others maintain that price should indeed be a consideration, but a secondary one to factors such as experience, reputation and the number of qualified personnel to provide the services required.

Generally speaking, fees charged by the estimated 50 to 75 independent risk management consulting firms in North America don't differ much from fees for general management consultants.

The lowest fee for a consultant probably is about $25 an hour, which might be charged by a person who has only recently established a consulting business and a few one-person consulting businesses.

Mini-profiles and explanation of fees for 15 independent risk management consulting firms and three brokers start on page 55.

The top fee charged by an independent risk management consultant is the $150 an hour of principals in the New York City-based S. B. Ackerman Associates, which has been in business over 60 years and is one of the oldest such firms.

Bernie Salwen, a principal of S. B. Ackerman and a founding member of the Institute of Risk Management Consultants, jovially admits that his fee is the highest he's heard for his kind of specialist. Ackerman has well over 100 active clients, all but one of those on a retainer—or continuous service—basis.

Marsh & McLennan's technical services division fees outdo even the highest fee charged by an independent risk management consultant, however. Depending on which department within the division is performing the services, and depending on how competitive service-suppliers are within the subject area, fees at M&M can vary, said Phil Brown, executive vp, technical services division.

M&M's schedule lists fees for managing consultants at $100 to $200 an hour; senior consultants at $75 to $100 an hour; consultants at $50 and $80 an hour; associate consultants at $40 to $60 an hour; technical assistants at $25 to $45 an hour and secretarial help at $20 to $30 an hour.

M&M Protection Consultants work in a very competitive field, though, Mr. Brown explained, so their rates are somewhat lower than general risk management services.

Average consulting fees are probably between $55 and $65 an hour, but it's not at all unusual to find schedules resembling M&M's with lower charges for less experienced consultants.

The consulting fees of brokers are sometimes competitive with new consulting firms. Brokers may bury costs in order to compete for a feasibility study which may lead to insurance sales or a captive management contract.

Fees of $30 to $50 were not difficult to find among national and regional brokerage firms in these situations.

The general procedure for determining an hourly rate, explained Felix Kloman of Risk Planning Group at the recent RIMS conference, is to take the salary of a consultant, multiply by a factor of 2.5 to 3, and divide by the number of billable hours per year. In most cases, there are about 1,200 billable hours in a consultant's year, based on a seven-hour workday and leaving some time for other business management duties.

Yardsticks for charges, he revealed, can be established as $200 to $330 per day for someone with limited experience, designated as a junior consultant; $300 to $400 per day for an associate consultant, someone with a number of years experience but not a principal in the firm; and $400 to $800 a day for a partner or a principal in the firm.

Joe Destein, co-founder and president of the Anistics division

Continued on page 53



A real-time analyzer in the Kemper/NATLSCO noise and vibrations laboratory evaluates tape recordings of noise conditions in plants. Research engineer Donald Caba points to amplitudes depicted on the screen of the analyzer. These amplitudes are compared to OSHA standards and when they are too high, NATLSCO experts will recommend methods for reducing them.

Kemper's NATLSCO cashes in on a world of industrial problems

By KATHRYN McINTYPE ROBERTS

LONG GROVE, ILL.—A frantic manager called the National Loss Control Service Corp. (NATLSCO) for an industrial hygienist to inspect his plant—pronto.

During each of the last two days, three or four of his workers had collapsed and had to be rushed to the hospital. The local Health Department was threatening to shut down the plant unless he found out what was knocking out his employes.

The doctors at the hospital weren't any help. They couldn't find anything out of the ordinary when they examined the afflicted workers.

A NATLSCO industrial hygienist arrived the third day and combed and sampled the plant and surrounding area for clues to the mysterious affliction while the workers collapsed around him. He finally came up with two: The workers were affected the same time each day and they all complained of smelling a sicky, sweet odor before fainting.

Applying the skills of a Sherlock Holmes rather than an industrial hygienist the NATLSCO expert discovered that the sicky, sweet odor was an imported perfume worn by a woman coming into the plant at 3 p.m. for the next shift.

There wasn't anything poisonous about the scent. Rather, the first woman to faint was afflicted with a pre-existing illness. Only she smelled the foreign odor before fainting and told her fellow workers about it. They immediately assumed some poisonous gas was responsible.

On the following four days, those who detected the odor were frightened into a faint.

When the NATLSCO industrial hygienist carried a vial of the perfume around to verify that it was indeed the strickening scent, the workers were embarrassed to find out they'd been knocked out by a perfume.

"If this hadn't been identified, who knows how many claims would have been filed. And the Health Department was threatening to shut them down. That would have been a business interruption claim," observed Gary N. Crawford, the NATLSCO vp and manager of the environmental science division who related the story with a grin.

But two-and-a-half days' successful work by a NATLSCO expert and supporting laboratory work cost the company just $1,000.

Sniffing out knock-out per-

Continued on page 46

1.5%-8% of paid claims not 'overly competitive'

Self-insured benefits spur ASO growth

By DAVID KONIGSBERG

NEW YORK—The use of administrative services only (ASO) contracts continues to increase as more large companies realize the advantages of self-insuring employe benefits, especially in health care.

The opportunity to save money by absorbing predictable and affordable losses combined with the protection from state premium taxes offered by the pension reform law have made ASO arrangements increasingly attractive to employe benefit managers.

Last year less than 10% of the total insurance company group plan business involved ASO and minimum premium plans (ASO's with added features such as stop loss protection). But that percentage is expected to increase in the near future.

While independent group plan consultants and insurance company executives agree that self-insurance can be a good financial decision, they warn the move should follow a careful analysis of the shortcomings of a company's insured arrangements.

"In short," says Jeremiah Kelly, actuarial director of group technical services at Prudential, "a company must decide exactly what it is gaining (by going ASO) and what exactly it is giving up."

Consultants and underwriters concur that, as a rule, only large companies (1,000 or more employes) should consider self-insuring health benefits.

"The number of participants," says one New York City consultant, "must constitute a large enough claims base so that claims can be considered stable and therefore predictable." He adds that a company should also consult with its employes or their union before deciding to self-insure, for "a close look at the fine print of a labor contract may reveal a provision which insists on insured benefits."

Once the decision to self-insure has been made, a company has to determine what services (legal, actuarial, claims handling and control) the company can handle itself and what services it will have to buy. It then enters the process of shopping among various administrative services offered by various firms to assemble a benefit program equal in quality to its insured program.

Along with the major insurance companies, which have reluctantly joined the self-insurance trend and offer what many believe are the best available ASO services, there are a number of independent administrators which have branched out from primarily running benefit trusts to managing commercial group programs.

Prices are not overly competitive. According to W. Michael Linskey, director-office services for Peat Marwick Mitchell & Co., a New York consulting actuarial firm, charges range from 1.5% of paid claims for actuarial services only to 8% for full administrative services.

Charges vary mostly in the way they are exacted—either through a percentage of paid claims, a fee

Continued on page 12



Some different approaches to surplus lines.

ASO plans . . .

Continued from page 11

per participant or a combination of the two. For example, Super-Scope, a southern California firm employing 1,178, contracted last year with Prudential for claims handling, cost control, actuarial services and legal representation in running its self-insured health plan. According to Super-Scope insurance manager Bill Miller, the company pays Prudential $1.01 per participant a month and 3½% of paid claims.

In general, larger health plans pay smaller per-participant fees and lower percentages of claims.

Seconded by other leading independent consultants, Leonard Marinaccio, director of Group Plan Consultants of New York, lists the following as things a client should look for when seeking a self-insured plan administrator:

- Adequate facilities and personnel for quick claims handling. Turnaround (the time it takes to process claims) should take no more than two weeks.
- Expertise in claims review and other methods of cost control.
- Access to at least a regional compilation of typical charges and treatments for comparison.
- Adequate data retrieval system so that "a client can know where his dollars are going."

By virtue of their size and familiarity with the market, the major insurance companies retain a lion's share of the commercial self-insured employe benefits business.

Independent consultants and benefit managers seem to believe that the insurance company is a large employer's best bet. Most cite claims handling and cost control experience, extremely large data bases and widespread claims offices as the reason for preferring the big insurer.

In addition, says Jerry Porter, of Towers Perrin Forster & Crosby in Philadelphia, the insurance company's broad operations base —as opposed to the independent administrator's local or regional one—helps it detect regulatory or legislative changes in distant sections of the country which may affect the client.

Further, Mr. Porter adds, a company may wish to include stop loss coverage in its contract —something the independents cannot supply. "And usually, you can get a better deal on your stop loss from the company that is running your plan," he explained.

Admitting that some independent administrators are not equipped to handle national companies, officials from such firms argue that the services they provide are as good—and in some cases better —than those provided by the insurance companies.

An official from Executive Claims Services Inc. of Old Greenwich, Conn. a firm serving the New York metropolitan area, claims that as long as the independent has the personnel and the computer facilities to perform all functions of group plan administration, it can often handle claims more efficiently than the large insurer.

"Claims handling," she says, "is the basis of the independent ASO form." And she adds that independents are especially well suited to handle plans of firms "which are locally or regionally located."

Dr. J. Friedman, dental director of U.S. administrators, which has offices in New York and Los Angeles and administers several nationwide health plans, claims his firm is usually able to pay claims within three days while providing claims control services. That performance surpasses those of insurance companies, he contends.

Both officials warn that some independent administrators may be either incompetent or financially unstable, and urge managers to shop carefully when choosing an independent to run their companies' self-insured plans. ■

Mortgage increases

The mortgage holdings of U.S. life insurance companies rose to $89.2 billion as 1976 began, reports the American Council of Life Insurance. Some $70 billion of this consisted of nonfarm conventional mortgages which have financed residential construction, business and industrial expansion, hospitals and other health facilities, the Council said.

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

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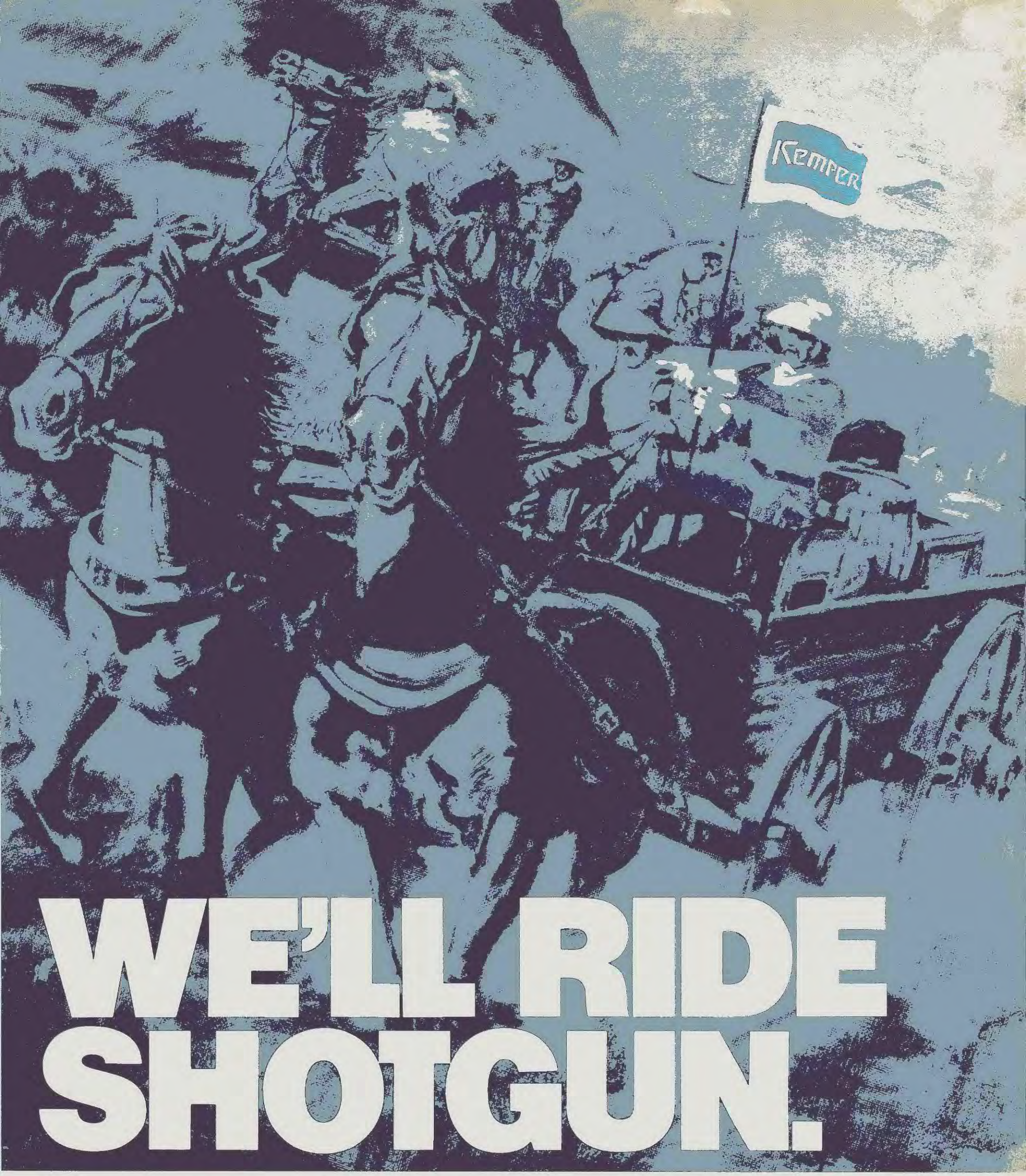


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IRI details problems of severe weather

HARTFORD—Fifty-six manufacturing plants belonging to policyholder-customers of Industrial Risk Insurers found it necessary last winter to drain their sprinkler systems because of the lack of natural gas, said IRI in a recent issue of its policyholder magazine.

In all, 251 fire protection systems were affected by the gas shortage, IRI said, mostly in the Midwest and East where the curtailment of heating fuels and unusual cold weather were most prevalent.

"Besides curtailing production at thousands of industrial plants, (the natural gas shortage) has jeopardized even the physical facilities of these plants," said IRI. "If there is insufficient heat to keep sprinkler systems and water supplies from freezing, if excessive snow loads threaten the structural integrity of buildings, if the response of public fire departments is impeded, the fire defenses of a plant are seriously weakened," the insurer added.

The combination of cold weather and fuel shortages resulted in numerous frozen protection systems—896 sprinkler systems, 15 gravity tanks and 13 fire pump reservoirs, said IRI. Forty-eight of the plants hit were in Ohio.

A few losses resulted from water discharged from thawing systems, but no fire losses occurred in any of the properties where protection was impaired, IRI noted.

IRI cited the experience of a large distribution warehouse as an example of insurer and insured's cooperative effort to control the increased fire hazard, while continuing operations as normally as possible.

The Factory Insurance Assn. division of IRI was notified by a policyholder that its allotment of natural gas, its sole fuel supply, had been exceeded. The quantity of fuel then available to it was less than the amount needed to keep the wet pipe sprinkler systems in service, the policyholder told FIA, which sent engineers to the plant and developed the following emergency measures:

Risk Management SERVICES

1. Sufficient gas was furnished by the utility company to provide the heat essential to shipping operations. However, the over fifty sprinkler systems in the remainder of the warehouse, involving both ceiling and racked storage protection, were shut off and drained. Drainage of these systems was assured by removing all drain plugs and opening drain valves. Attention was given to making sure that the plugs were replaced and the valves closed.

2. Water supplies, consisting of public water connections and fire pumps and suction supplies, remained in service. Gas was allocated to heat the fire pump room and the water for fire pump suction.

3. Operations in the warehouse were continuous with employees working in the various areas at all times.

4. The operators of the 13 lift trucks were assigned to act as fire watchers. Their hours were arranged so that all areas were under supervision at all times. Trucks were equipped with two-way radio communication with a central dispatcher. In the event of fire, the operators were instructed to notify the dispatcher who would broadcast the location over the public address system and also notify the public fire department. Members of the maintenance staff available at all times and familiar with the operation of the sprinkler systems would respond to the public address announcement and open the valves controlling the sprinkler systems in the affected area.

5. The contents of plain-water-type extinguishers were replaced by anti-freeze solutions and additional all-purpose dry chemical extinguishers were provided.

6. Cutting and welding were prohibited in the areas where sprinkler protection was impaired. ■

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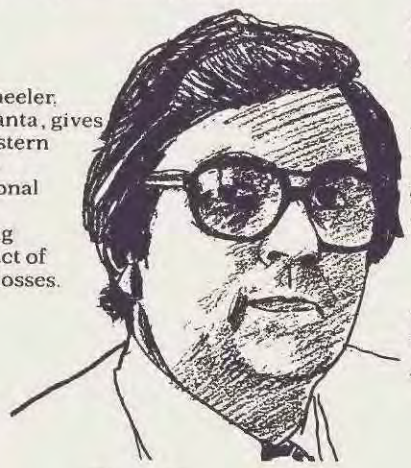
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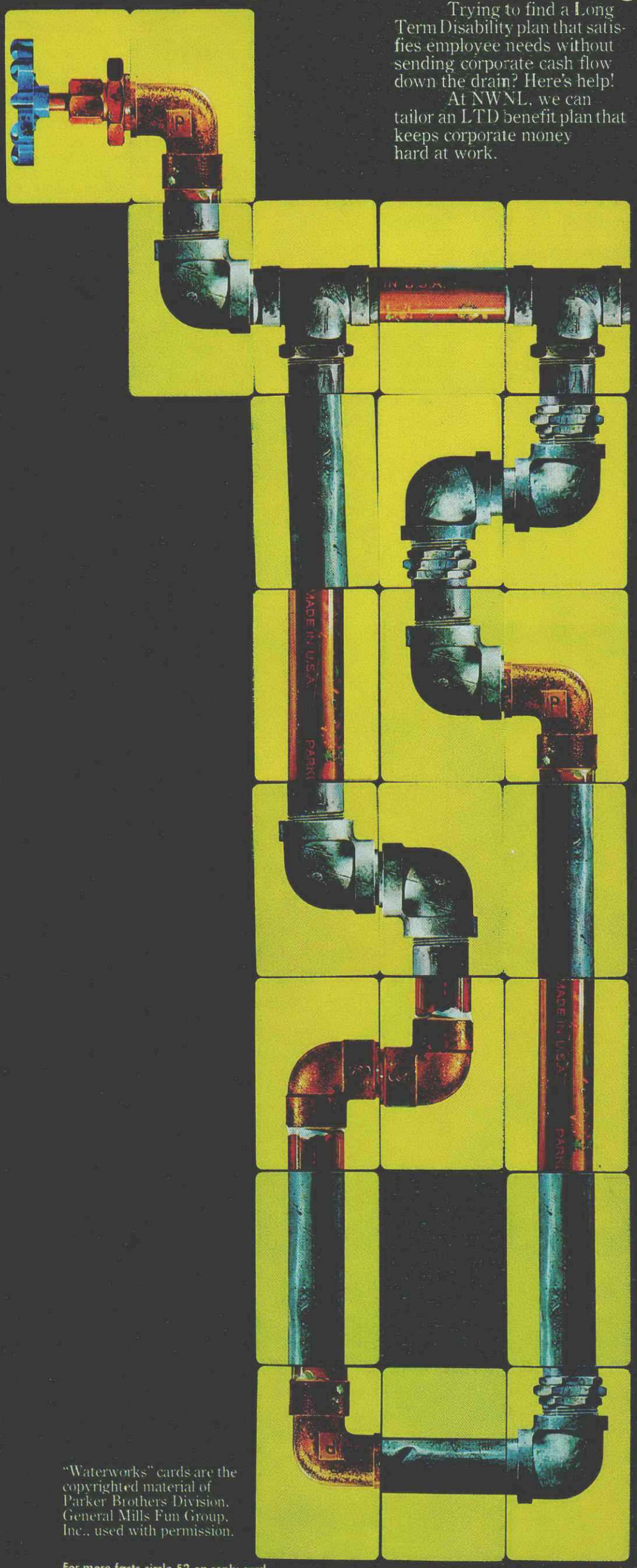
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King Tut's security comes a long way

By JERRY GEISEL

WASHINGTON—The ancient Egyptians deployed trap doors, deep pits and barriers made out of great slabs of stone to keep out intruders from the treasure-filled tombs of the Pharaohs.

These primitive security measures usually failed. Thieves often broke in and plundered the stifling tombs that were cut out of the cliffs in what is called the Valley of the Kings.

Security, fortunately, has come a long way in the last three thousand years. Months before the fabulous treasures from the tomb of King Tut arrived in the U.S. for a tour, the boy-king who ruled Egypt from 1362 to 1351 B.C., senior officials of Washington's National Gallery of Art were putting the finishing touches on a comprehensive security plan.

The origins of the King Tut story go back to October 1975 when former U.S. Secretary of State Henry A. Kissinger signed an agreement with Egyptian officials to bring the treasures to museums in six American cities for a multi-year tour.

Before the ink dried on the agreement, U.S. and Egyptian officials began to tackle the problem of getting the priceless relics from Alexandria to the United States.

At first, discussion centered around a plan to ship the fragile, but priceless, artifacts in chartered jet flights.

But the costs were too high. Egyptian officials vetoed a plan to transport the 55 different exhibits on a commercial ship. The Egyptians were concerned that security could not be guaranteed on such a long voyage.

Dr. Kissinger and other representatives from the State and Defense departments once again entered the scene and arranged for King Tut to be shipped across the Atlantic on two ships belonging to the U.S. Sixth Fleet.

The next hurdle to overcome was insurance. No museum could afford, much less obtain, coverage from a commercial carrier.

That potential problem was licked in December 1975, when Congress passed the little publicized but vital Arts and Indemnity Act.

Under the act, which was drafted by the State Department, the federal government provides insurance on international exhibits coming to the U.S.

The limits of the insurance are $50 million per exhibition, with a $15,000 deductible to be paid by the museum. The law limits the total amount of risks to be insured at any one time to $250 million.

To qualify for the insurance, however, a museum must submit its security plans to the Federal Council on the Arts and the Humanities in Washington for approval.

The council gave its okay to the National Gallery's plans and the exhibit was insured for about $25 million, according to a State Department official.

Museum officials realized no shortcuts could be taken to protect King Tut in these days of skyrocketing art thefts.

During the first six months of 1976, more than 12,000 works of art were stolen in the United States. That's a stunning increase from 1975 when 9,460 artifacts were taken, said Alan Baer, executive director of the International Assn. of Art Security in New York City, an organization that keeps track of art thefts and helps museums improve their security.

To make matters worse, only about 2.5% of the objects are recovered, said Mr. Baer. "It's almost a risk-free crime," he said in explaining the dramatic increase.

When the exhibition opened to the public in November 1976 the National Gallery's security plan was firmly set in place.

"Round-the-clock protection is the only way the security of the King Tut exhibition could be ensured," said Joseph English, administrator of the National Gallery.

Unlike some museums that have been criticized for relying exclusively on one form of protection such as guards, the National deployed a series of security measures.

As the artifacts were carefully uncrated, museum officials made a positive identification of every object to prevent attempts to switch the King Tut relics with fakes.

Uniformed guards, both armed and unarmed, were posted at all museum entrances as well as around the exhibition.

It is widely believed that additional museum security personnel dressed in civilian clothes also monitored the crowds and kept a vigiliant eye on the exhibits.

Security only began with the well-trained security force. Each exhibit, for example, was protected by super-tough plexiglass, which was made by members of the National Gallery staff.

This plexiglass was so strong that it could resist the crashing blows of a sledgehammer, Mr. English, said.

In addition, each of the 55 plexiglass-enclosed exhibits was ringed with a combination of super-sophisticated electronic alarms.

Any attempt at tampering with the exhibits and alarms, some silent, would go off, instantly alerting the walkie-talkie-equipped guards and other security staff.

All visitors entering the National Gallery with attache cases or brief cases were asked to check them with an attendent. Those who declined were requested to open the cases for inspection.

To control the crowds, other U.S. Park Police and the Metropolitan Police of the District of Columbia occasionally were called in for assistance.

Despite an efficient air conditioning system, temperatures in the exhibition area did rise. But the heat generated by the daily throngs of visitors acted as a powerful incentive to keep the crowds moving, Mr. English said.

When the exhibition closed in early March and moved on to Chicag's Field Museum, the second stop in the six-city tour, National Gallery officials could note proudly that not one article was stolen or damaged during the exhibition's run.

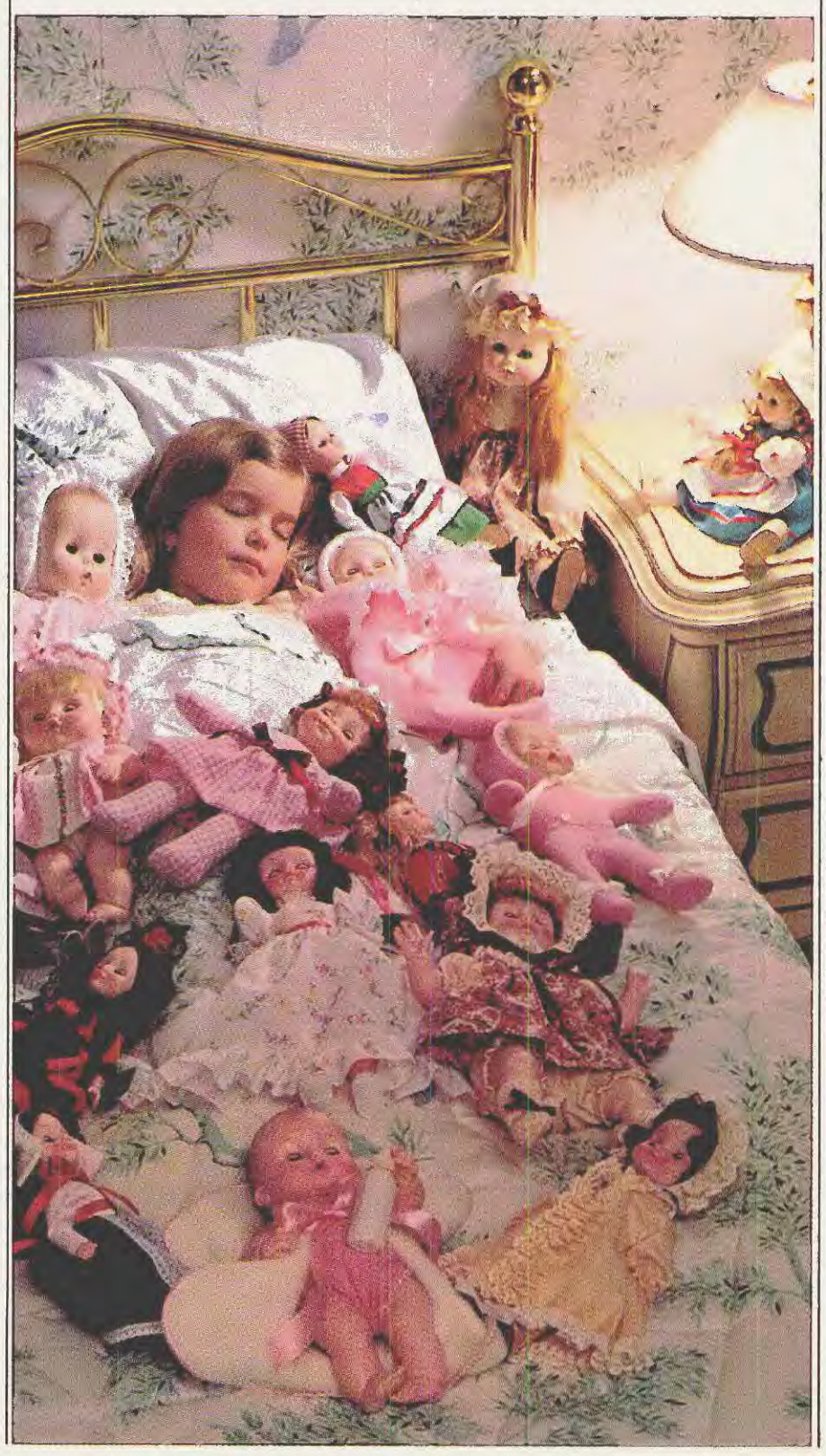
Fast footwork and a rigid eye toward security paid off. ■

Risk Management SERVICES

Storm loss $1.5 million

Wind, hail and tornadoes caused an estimate $1.5 million in damage in parts of Texas May 8-9, the American Insurance Assn. says.

MEMO FROM
MARSH & McLENNAN



Isn't that doll in the middle worth the price of a smoke alarm?

Fire takes 12,000 lives a year in the United States. Even more unsettling is the fact that the vast majority of serious home fires strike during sleeping hours, when all of us are virtually defenseless against fire's early-warning signals.

When you weigh the fact that home fires also ravage over one billion dollars in property, the dimensions of such disasters begin to emerge.

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Early-warning systems: how they work.

One type is based on an ionization chamber that is highly sensitive to the invisible products of combustion. Another contains a photoelectric cell that responds to minute traces of smoke. In

Self-insurance? Choice of experts is largest ever

By MARIE KRAKOWIECKI

NEW YORK — Companies that self-insure some of their property and casualty risks such as workers' compensation now have a larger selection than ever of firms which will provide back-up administrative and claims services.

Last year alone three of the largest insurance brokers in the nation, Marsh & McLennan, Alexander & Alexander and Fred S. James, reorganized and centralized their self-insurance services.

The nation's largest independent insurance service organization, General Adjustment Bureau (GAB) took a program it began for self-insurers in 1971 and last year expanded it considerably, including services such as a computerized claims management reporting system.

The few large insurance companies that started up self-insurance service divisions back in the 1960s or earlier like Insurance Co. of North America and the Kemper Insurance Group, are finding that their foresight paid off.

Kemper's National Loss Control Service Corp. (NATLSCO), which billed $50,000 in fees in 1968, billed $7 million last year and expected to bill $12 million this year.

And INA's Employers' Self-Insurance Service division, ESIS Inc., which was established in 1955 and today says it is the largest provider of self-insurance in the world, is part of seven risk management subsidiaries of INA which together enjoyed a pretax earnings increase last year of 50%.

Corporate Systems Corp., a risk management consulting firm founded in 1968 in Amarillo, Tex., says the boom in self-insurance over the last two years is largely responsible for a 75% increase in business the firm enjoyed last year.

Many insurers and brokers resisted the idea of self-insurance for years, mostly because they feared the trend would reduce their premiums and commissions, Florida insurance consultant Edward W. Siver pointed out at a self-insurance seminar earlier this year.

Risk Management SERVICES

But once they accepted that self-insurance was "an unavoidable fact of their lives," as Mr. Siver put it, a few enterprising ones devised ways to set up programs that would expand their fees, if not their commissions. And once they caught a whiff of the success stories of ESIS, NATLSCO, and CSC, more and more insurers, brokers, consultants and even insurance agents began to expand their existing programs or jumped on the self-insurance services bandwagon for the first time.

The seminar at which Mr. Siver spoke, sponsored by the Chartered Property and Casualty Underwriters Society (CPCU) in Tampa in January, was so popular that the society had to turn more than 100 participants away for lack of space. The majority of those attending were not insurance buyers, but representatives of insurance companies, brokerage firms, consulting firms and insurance agencies. A number of them said they weren't involved in self-insurance services for their clients yet, but planned to be soon.

A cooperative network has developed among some of the consulting firms which feature sophisticated self-insurance services and insurance companies, agents or brokers who may take care of the direct client contact but who don't wish to establish the necessary computer systems themselves.

Marvin Gwinn, director of communications for Corporate Systems Corp., explained that CSC gets most of its accounts through insurance underwriters, local or regional agents and brokers, or self-insured administration organizations such as CU Risk Management, NATLSCO, and Columbus-based Gates, McDonald & Co.

Although direct clients for CSC's self-insured services account for about 25% of the firm's total dollar volume of business, they represent less than 10% of total clients, Mr. Gwinn said.

A more typical arrangement would be like the one involving Fuqua Industries in Atlanta. Fuqua uses CU Risk Management for services related to its self-insurance program. Since CU Risk Management contracts with CSC, Fuqua gets loss runs from CSC's claim performance monitoring system for workers' compensation as part of its fee arrangement with CU Risk Management.

Mr. Gwinn, who also gave a presentation at the CPCU self-insurance seminar, said so much interest was generated among agents after the seminar that he will be going to Louisville, Ky., to talk to more than 100 prospective self-insurers who are clients of the insurance agency Nahm, Turner, Vaughan & Landrum Inc., and that other consultants who spoke at the January session, like Warren Brockmeier of Chicago-based Wyatt Co., will be doing the same.

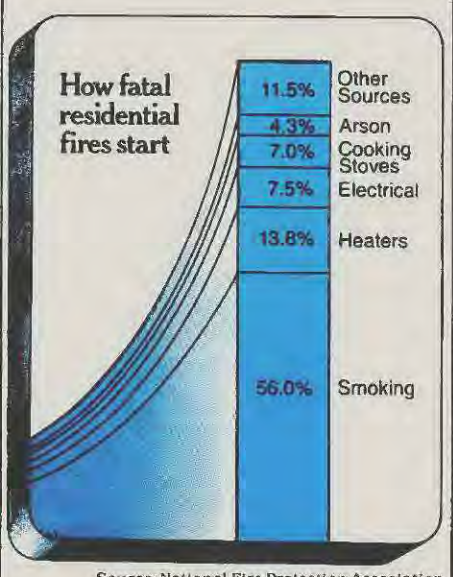
When corporations get self-insurance services from one consulting firm through their contracts with another consultant or through an agent or a broker, they typically pay for them on a straight fee basis to the consultant they contract with.

When they get the services from a consultant directly, however, the fee may be worked out as a percentage of the insurance

Continued on page 18

either case, when the detector is activated, the unit sends out a piercing signal to alert you that danger exists.

Detection at this time can often



Source: National Fire Protection Association

mean the difference between life and death. The sooner your family is warned, the more chance they have to escape. The sooner help arrives, the more likely it is that family possessions, frequently irreplaceable, will be saved.

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Through our association with commercial and industrial properties in the area of loss control and prevention, we have seen what can happen when practical safety procedures are not observed. We have learned how much easier it is to prevent personal injuries and property losses than it is to try to rectify the results of a catastrophe.

Well-managed businesses have long recognized this need on a strictly practical basis: a little planned effort can lead to substantially less time lost through accidents, and far fewer claims. Not surprisingly, good hazard control programs can also lead to lower insurance rates.

Unfortunately, what is so commonplace in business is too often neglected at home. It could be a fatal mistake, which we urge you to correct—today if possible. Your family deserves it. Consider it simply an extension of the security you strive to provide in so many other ways.

Doesn't this seem to make good sense?

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We have seen the tragedy of fire, close-up, too often not to try to do what we can to prevent it in the future. For our part, if this "Memo from Marsh & McLennan" saves a single life, it makes it all worthwhile.

Loss control and prevention is a specialized field that has been recognized as such by Marsh & McLennan for many years, and in our organization functions as a separate division. Our goal—and we think it should be yours—is to take positive action in advance so that losses, and all the consequent complications, are far less likely to occur.

We will be glad to send you, free of charge, a list of manufacturers of smoke detectors that have received Underwriters Laboratories approval, along with a "Steps To Take If Fire Strikes" reference chart for your home. If you also think your business would benefit from our loss control programs, let us know and we will send further information. Write to Dept. 300-BI, Marsh & McLennan, Incorporated, 1221 Avenue of the Americas, New York, N.Y. 10020

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Continued from page 17

premium the client would have paid if it were insured, rather than self-insured.

Among the direct accounts of CSC are Phillips Petroleum Co.; B. F. Goodrich; Brunswick Corp.; Anderson, Clayton & Co.; Del E. Webb Corp.; the Metropolitan Atlanta Rapid Transit Assn. (MARTA); Dade County (Florida) and the state of Florida (which is the only account CSC has which is entirely self-insured).

CSC's charges for these direct accounts are based on an annual fee which is generally between 0.5% to 1% of the annual premium volume the organization would pay if it was insured instead of self-insured for the line or lines on which CSC provides the administrative services.

Workers' compensation is one of the most popular lines for which CSC currently provides self-insurance services. Mr. Gwinn said fees are frequently figured out by estimating the loss ratios and converting them to premium figures by dividing loss ratios into estimated actual losses.

Mr. Gwinn said CSC's 890 separate accounts represent a total premium volume in excess of $1 billion.

It is difficult to determine the precise number of firms which now offer administrative services to self-insurers, particularly in lines beyond workers' compensation. The National Council of Self-Insurers in New York City, said it keeps lists of service organizations for workers' compensation self-insurers, but the office said it would not release the list to anyone who is not a member of the council.

George C. Nemeth, counsel for the organization, could not be reached for comment, but the National Council for Self-Insurers reportedly coordinates local associations in New York, New Jersey, Pennsylvania, Maryland, Michigan, Arizona, California, Utah, Montana, Idaho and Washington which are involved in self-insuring workers' compensation.

Workers' compensation isn't the only line now being self-insured by a large number of corporations. Some firms are also self-insuring automobile coverage and, to a certain extent, general liability, although CSC's Marvin Gwinn says it is rare to find a firm which will go completely self-insured on general liability.

According to CSC, the services most in demand among self-insurers are those which involve techniques for allocating either premium or loss costs to the profit center of a company on an experience-rated basis, and those which involve performance monitoring.

A newer demand has been generated by hospitals, according to CSC, which says there is currently a lot of interest in a system it has developed for analyzing and recording hospital "incidents" such as the administration of medication to the wrong patient.

However, companies decide to self-insure, it appears the services available will be blossoming not only in property/casualty lines but also in health benefits. Right now, most consultants who sell self-insurance services to risk managers emphasize property/casualty accounts and consider services for health benefits to be outside their realm.

But as Marvin Gwinn of CSC pointed out, health benefits could be the potential new frontier for self-insurance services with a risk management orientation. Ninety-eight percent of CSC's current services are currently devoted to property/casualty lines, Mr. Gwinn said.

But whether self-insurance services are provided for property/casualty programs or for health benefits administration their real selling point is this: self-insureds need them, because just one claim improperly handled or improperly serviced can offset all the cost savings a company may realize from going self-insured in the first place.

It would seem that the biggest competitors of providers of self-insurance services are the self-insurers themselves, if they decide to establish the computer capability in-house to handle the kinds of claims administration that is necessary to any sound self-insurance program. Most choose not to. Until that is reversed, it seems like self-insurance services will be with us in increasing numbers in years to come. ■

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Editorial advisory, benefit board survey shows

Purchase services increase predicted

By SUSAN ALT

CHICAGO—Look for corporate insurance managers and employe benefit managers to use more purchased services to carry out their responsibilities in the future.

Indications are they will increasingly want to pay for those services on a fee basis, although a significant number of managers handling insurance related tasks are content with having services included in premium or commission payments.

These are some of the findings of the latest survey of *Business Insurance* advisory panels. In order to assess demand for services and attitudes on methods of compensation for services, the first joint survey of the Editorial Advisory Panel and Employe Benefit Board was conducted. Fifty-eight insurance and risk managers and 22 benefit managers responded to a written questionnaire.

Risk and insurance managers said the most important services purchased at present are loss prevention engineering, fire protection engineering, property inspection, claims administration, actuarial and EDP loss runs, in that order.

The most frequently used services are fire protection engineering, property inspections, claims administration, loss prevention consulting safety/OSHA consulting EDP loss runs/claims reporting and actuarial, respectively.

Charts detailing the survey findings are on Page 21. The argument over fees for service is between individuals who want to know what they're paying for and those who care more for the fairness of the total price. See page 23.

In the future, risk managers predict they will most need captive management, claims administration, self-insurance studies, fire protection engineering/property inspections and loss prevention engineering services.

Risk and insurance managers use an average of 5.6 services while benefit managers use an average of 2.7 services.

Benefit managers noted the most important services being used now are benefit consulting, claims administration and actuarial. They foresee the same services in the same order will be most in demand in two to five years.

The most frequently used services in the benefit area are actuarial consulting, benefit consulting and claims administration, in that order.

Several classes of services purchased by risk and insurance managers now paid for by fees are actuarial and risk management and benefit consulting (usually provided by independent firms). However, fees are paid by only 30% to 50% of the managers contracting for fire protection engineering/property inspection services and claims administration.

Benefit consulting and actuarial services are usually fee based while claims administration services are provided by insurers as part of the premium.

Nearly two out of every three risk/insurance managers on the advisory panel said they'd like to see more services which could be purchased on a fee basis. Benefit managers accustomed to routinely paying fees for services already generally concurred that they don't need more advisory and administrative help for fees.

The key reason risk managers would like to see more fee-based services is because they think fees better reflect the value of services received. Another large group of risk managers said fees facilitate evaluation of services on a quality basis enabling the user to measure costs relative to benefits derived.

Advisory panel participants' use of services ranged from zero-use (five respondents, or 8.6%) all the way up to one risk manager who uses 27 different services in administering his risk management and employe benefit programs. This super-user of services indicated he purchases every service except one on a checklist supplied along with the survey questionnaire, the one exception being risk management consulting.

Risk Management SERVICES

The responses clustered around two to four services used by panel members.

An interesting picture emerges when comparing what services are considered most important right now with the ones to be most needed in the future. For example, 23 managers said loss prevention consulting services rank top now, but only 12 said they'd be using loss prevention services two to five years from now. One risk manager said he plans to build his own in-house capabilities for handling all loss control engineering needs.

The most significant changes in demand seemingly will come in captive management services and the need for outside experts who can perform self-insurance studies. Sixteen managers said they'll be using captive managers in the future although only five ranked captive management services as most important right now. Of the 58 panel respondents, nine presently use an outside captive manager.

Thirteen managers said they'll use experts for self-insurance studies in future years, although only two are presently using such services and rank them as being of utmost importance.

Indications from advisory panel responses are that the use of outside feasibility studies, assistance in applying mathematical techniques to risk management, and industrial hygiene screening/control will about double over the next two to five years.

In the benefit area, the use of consulting services will increase by risk managers and benefit managers alike. At the same time, benefit claims administration and control services will be among the most heavily demanded services, along with benefit EDP loss run services. Benefit communications services, while considered extremely important right now, apparently will taper off over the next few years ■



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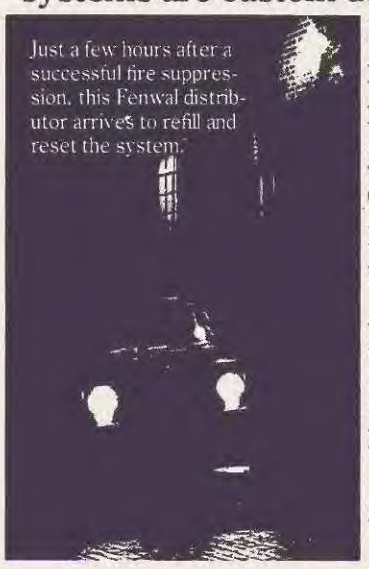
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USE OF RISK MANAGEMENT, INSURANCE AND BENEFIT-RELATED SERVICES: ADVISORY PANEL

		SOURCE*			PAYMENT METHOD*		
Type of service	Responses	Insurer	Indep.	Broker	Premium	Comm.	Fee
Fire protection eng./ property inspections	32	20	5	15	18	13	10
Claims administration	26	3	8	8	11	5	11
Loss prevention eng./ Consulting	22	17	—	9	16	4	3
Safety/OSHA consulting	20	12	4	10	11	5	6
EDP loss runs/claims reporting	19	12	2	7	11	4	5
Actuarial	13	—	9	4	—	—	13
Loss adjusting	12	3	5	5	4	5	2
Risk Mgmt. consulting	12	2	6	7	1	5	6
Benefit consulting	10	—	5	5	—	2	9
Captive mgmt.	9	—	4	5	—	1	7
Special studies	7	1	2	6	1	4	3
Property appraisals	7	1	1	5	1	4	1
Claims investigation/ case preparation	6	3	3	2	2	—	4
Risk mgmt. audits	6	—	3	3	—	3	3
Feasibility studies	5	—	2	3	—	1	4
Industrial hygiene scr.	3	3	—	—	3	—	—
Bid specs/evaluation	1	—	1	—	—	—	1

*Some panelists obtain a single type of service from several different sources, and pay for the same service by a couple of methods.

USE OF BENEFIT-RELATED SERVICES: EMPLOYE BENEFIT BOARD

		SOURCE*			PAYMENT METHOD*		
Type of services	Responses	Insurer	Indep.	Broker	Premium	Comm.	Fee
Benefit actuarial	15	2	12	1	2	—	13
Benefit consulting	11	1	5	6	1	4	6
Claims administration	11	10	1	—	7	—	5
Self-insurance studies	4	1	3	1	1	1	3
EDP reporting services	4	1	3	—	—	—	4
Benefit communications advisory	4	1	3	—	—	—	4
Loss adjusting	2	—	1	1	—	1	1
Health screening	1	1	—	—	1	—	—
HMO mgmt./advisory	1	—	1	—	—	—	1
Estate planning studies	1	—	1	—	—	1	—

*Some panelists obtain a type of service from multiple sources and pay by several different methods.

Watkins elected

Frederick D. Watkins, president of Aetna Insurance Co., was re-elected chairman of the American Insurance Assn. at its annual meeting in Dallas. B. P. Russell, chief executive officer of Crum & Forster Insurance Cos., and Robert H. Tullis Jr., president of the Home Insurance Co., were reelected vice chairmen.

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By Dinner Levison

(Asked in the financial district)

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Survey reveals

Risk, benefit managers split on fee services

The argument over fees for services is between individuals who believe they're entitled to know exactly what their operation costs, paying for "unbundled" services according to their worth, and the managers who don't care how they pay for services as long as they think the total price for a "package" of insurance and related services is competitive.

Not many benefit managers are calling for more fee-based services, because many services related to benefits (actuarial consulting, benefit management consulting, benefit communications assistance, to name a few) are already fee-based.

But in the property and liability end of insurance, corporate managers want more fee charges rather than a continuation of "bundled" costs for packages of insurance and services.

A few insurance managers on the Editorial Advisory Panel still think they receive some services for no cost at all. Others said they don't care about fees as long as they obtain a competitive price for the whole insurance and service package, either from the insurer or the broker or both.

But among the reasons 33 of the advisory panel members said they'd like to see more fees for services were: "Fairer." "Forces the supplier (broker or insurer) to work harder." "Want to see those charges for services separate from premiums." "Provides incentive to improve and change program." "To make brokers truly service-oriented." "Canned programs are inadequate. Fees would put emphasis on tailored programs."

Said the risk manager for a large public institution: "A fee basis allows the broker to work more for the client rather than for the benefit of the brokerage firm. This would eliminate the quasi-conflict of interest."

Another noted fees are logical because they act to negate the automatic increase or decrease in commissions resulting from rising or falling premiums.

An irate insurance manager

Continued on page 24

New services requested

Insurance buyers need some new services.

Three respondents to the latest Editorial Advisory Panel survey told of their interest in several services not now available at all or in sufficient quantity to suit these managers.

One manager asked for written, in-depth periodic reports from brokers—on a fee basis—analyzing insurance market conditions.

Another suggested more direct writers should provide their services to policyholders or self-insureds on a fee basis.

A third manager believes there's still a shortage of insurers willing to provide claims control/administration services and engineering services to self-insured companies or policyholders on a fee basis. ■

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Service fees . . .

Continued from page 23

wrestlng wth soaring loability premiums said this: "I feel that in today's product liability (CGL) market, the brokers are making a killing from the high rates being charged, but they're not working any harder."

A manager conscious of the evolution of risk management and self-insurance concepts believes the "broker should be trainng himself to provide more true risk management services. (I) have been and will continue to apply pressure to bring this about. I don't feel the broker should be entitled to any fee increase (for this) since this is his basic job."

Greater reliance on fees would enable the risk manager for a retail chain to more readily evaluate the savings to be derived from expanding to provide in-house services.

"Although a fee basis should be equal to commissions, the fee identity is instrumental in cost controls," reasons the insurance manager for a large manufacturing firm.

When panelists were asked what they're paying annually for services, answers were scattered and generally inconclusive. For most services, we received only five to eight cost figures representing annual fees.

Although we wanted to be able to give buyers of services guidelines as to what each service costs, the answers didn't enable *Business Insurance* to establish any meaningful guidelines because the samples weren't large enough.

One thing was clear, however. Many risk managers and employe benefit managers don't know what they're paying for services they receive, particularly when those services are part of an insurance package which hides costs in a premium or commission.

One manager even reasoned he didn't want to pay fees for services because he already was getting "good, cheap services as part of premiums." But he wasn't able to estimate the cost of any of the nine different services he was buying on an annual basis.

The most extensive cost answers came from the employe benefit managers using benefit actuarial services. Annual payment for these services ranged from $5,000 to $150,000, with the average being $49,000.

Six benefit managers using benefit consultants for fees pay an average of $13,800 a year, reporting fees ranging from $3,500 up to $35,000.

Eight Editorial Advisory Panel members using fire protection engineering/property inspection services listed annual costs of $2,400 up to $125,000 for these services, with the average at $30,000.

Risk management consulting services, generally purchased on a fee basis, ranged in cost from $5,000 a year to $100,000 for the five risk managers reporting costs. The average was $35,000.

Actuarial services used by risk managers cost between $1,500 a year and $50,000 a year for the eight panelists revealing costs. The average was $15,300.

Captive management fees ranged from $5,000 a year up to $100,000 a year for the six panelists reporting. The average was $29,500.

Safety/OSHA consulting services cost five panelists between $5,000 a year and $210,000 a year, with the average at $52,000.

Benefit consulting services purchased by risk managers on the from $2,500 a year to $33,000 a year, with the average at $15,000. ■

Institute sets 3 courses for adjusters

CHICAGO—The American Security Training Institute, an 18-month-old school here specializing in guard training, is establishing a program of three courses to train claims adjusters and accident investigators.

The new course is directed primarily toward training of insurance company and brokerage firm claims investigators, although director Bill Ostrow said the battery of class work will also be of use to new independent adjusters, investigators working for law firms and claims adjusters/investigators working for self-insured corporations.

The three-course curriculum starts out with a 16-hour overview course costing $60 which includes a sequence of tests designed to indicate whether a student has the basic skills, personality traits and motivation to function effectively as an investigator. The ability to absorb legal concepts, for example, is a factor that will be measured, said Gerald Esposito, designer and supervisor of the courses.

Course two costs $225 and covers five weeks of theory and practice in the areas of claims, defenses, investigations and preparations for trial. Classroom work covers 120 hours, while 80 hours are spent working in the field.

The third course is a five-week, 80-hour sequence in the supervision and management of claims investigations, priced between $175 and $200.

Mr. Esposito, president of his own two-year old claims investigation firm known as Detailed Verifications, said the teaching staff at the institute will consist of lawyers, insurance investigators and law enforcement officials. Mr. Esposito employs three full time and several part-time people in his firm, and was formerly a claim adjuster for U.S. Fidelity & Guaranty Insurance Co.

Topics to be covered within the training program include organization of the insurance industry, obligations and responsibilities of investigators, legally admissible statements, crime and fraudulent claims, settlements, claims, contracts, coverages, warranties, defenses, tort law, damages, liabilities and expert witnesses. ■



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SEE OUR AD ON PAGE 3

Mushrooming demand for services fuels expansion by brokers

By JERRY GEISEL

WASHINGTON—The nation's largest brokerage firms continue to expand their technical services staffs to meet the mushrooming demand for risk management services.

While the expansion of services offered by brokerage firms has been underway for sometime, Marsh & McLennan, Frank B. Hall, Alexander & Alexander and Johnson & Higgins report they have increased their technical staffs 20% to 50% in the last year.

The importance of services to brokers was underscored by Philip J. Brown Jr., executive vp of Marsh & McLennan, who noted recently that services are "definitely one of our fastest growing parts of our business."

It is difficult to measure the income received solely from services since many brokers still only offer risk management services to clients as part of a commission package.

But several senior brokerage executives interviewed emphasized the positive relationship between an expanding and improving technical services staff and increased profits.

"Services will be critical to maintaining profit growth rates," said Hunter Long, the erudite vp of Frank B. Hall in Briarcliff Manor, N.Y.

The boom in the services market has not been limited, of

Risk Management SERVICES

course, only to brokerage firms. INA, the insurance giant out of Philadelphia, has seen the earnings of its risk management services company jump 50% in the last year.

No one is saying that services will become more important to brokers than their traditional role of selling insurance to clients. But in today's world of rising insurance-related expenses and increasing government regulations covering safety, pollution control and employe benefits, services are bound to grow, brokers contend.

Risk managers and brokers alike stress that several factors must be considered in explaining the rapid acceleration of services.

Of primary importance in fueling the services' boom is skyrocketing insurance expenses. Fifteen years ago property/casualty related expenses typically amounted to about one-tenth of 1% of a company's sales, said Mr. Long of Frank B. Hall.

Today, property/casualty expenses can run as high as 2.5% of sales, said Mr. Long. With those kind of dollars involved, corporate management has a powerful incentive to reduce insurance costs and losses through purchasing risk management services.

In reaction to those ever-mounting expenses, as well as the frequent inability to obtain coverage, an increasing number of firms have been turning to captives and self-insurance.

The smooth operation and functioning of a self-insured program takes the skill and the administrative resources that a client's risk or insurance department simply may not possess.

To meet this demand in administering self-insurance programs, brokers offer such services as record keeping, claims processing and loss prevention.

Increased government regulation of business also is cited to explain the need for risk management services. Companies often turn to their brokers for aid in complying with OSHA, ERISA and other government safety and benefit regulations.

The increasing sophistication of

Continued on Page 26

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Brokers . . .

Continued from Page 25

the current generation of computers has meant brokerage firms can offer, as never before, quantitative risk analysis of a precision and accuracy unheard of a decade ago, said Seth Faison of Johnson & Higgins.

Finally, the professionalization of the field of risk management has produced a crop of risk managers and insurance directors who have the savvy and professional skills to demand and make use of brokers' technical services, said Fred Johnson Jr., director of corporate insurance for Kraft Inc. in Glenview, Ill.

Risk management services is a broad umbrella that covers many areas of loss control. At Marsh & McLennan, for example, technical services include claims management, captive feasibility studies, nuclear insurance consulting, analytical studies, international exposures and fire protection engineering.

Other brokerage firms offer similar services. Johnson & Higgins is especially proud of its cargo loss prevention service where assistant vp John Callahan works full time at investigating cargo losses and developing effective counter-procedures.

And Mr. Long of Frank B. Hall notes that his company has teams of experts to assist clients abroad in the arcane but vital area of international loss control where there is "a dearth" of talent.

A philosophical split divides brokers in their approach toward assessing fees for technical services. Arthur J. Gallagher & Co., the fast-growing Rolling Meadows, Ill., firm, offers technical services to clients as part of a premium or commission package, said Louis Metzger Jr., vp of sales and marketing.

"We feel that a client who sets up a self-insurance program through us can run the program most efficiently by obtaining services from one supplier," said Mr. Metzger.

But a different attitude prevails at Marsh & McLennan. There, risk management services are "unbundled." That means, Mr. Brown explains, services can be purchased on an individual basis. A client would not have to underwrite his insurance through M & M in order to obtain a technical service.

To a purist who might see a potential conflict of interest in utilizing the risk management services of brokers, who of course sell insurance, Mr. Brown notes that none of M & M's 500 employes in its technical services group are involved in the sale of insurance.

Some risk managers give their brokers high marks in evaluating their technical services. Jay Vaner, general insurance manager for Clark Equipment Co. of Buchanan, Mich., was "extremely satisfield" with a captive feasibility study performed by Clark's broker.

At B. F. Goodrich Co. in Akron, Ohio, Spencer Traver, director of risk management, notes that Goodrich is able to perform much of its risk management analysis in-house.

But sometimes, Mr. Traver adds, brokers are used as back-up mechanism. "We might say (to a broker), this is what we got. Now tell us what you think of it."

Tom Hugdahl, manager of property insurance at 3M Co. in St. Paul, Minn., said a broker's technical services staff "can offer a fresh, outside view of what we are doing." And he notes that a broker is "indispensible in setting up and administering a captive."

But the insurance and safety director of a Chicago-based fast food chain feels that only he and his staff are in the position to properly evaluate risks and take the appropriate steps to control them.

Spencer Traver of B. F. Goodrich advises risk managers to "shop around" before deciding on a broker's analytic services. Some of the numerical methods used by brokers are rather "naive," he said.

Other risk managers say they continue to rely heavily on such risk management services as fire protection engineering, employe benefits planning and safety control. ■

Agency merger

The Detroit-based insurance agency of Bennett, Graham, Green & Peacock Inc. has merged with Financial Guardian Insurance Agency in Kansas City.

Northwestern sets up division to handle captive fronting plans

MILWAUKEE — Northwestern National Insurance Co. became so busy in 1976 and early 1977 underwriting fronting arrangements for captive insurance companies, that it established NN Risk Management Services Inc. to specialize in fronting programs.

John M. Haker, president of the newly-established NN Corp. division, said his company can hardly keep up with the demand for captive company fronting policies. NN now has "bits and pieces" of 10 such captive programs, two of those accounts taken on since January. NN Risk Management also has 10 to 15 active prospects.

NN Risk Management was formed Jan. 1 of this year to act as underwriting manager for Northwestern National, evaluating the risks being underwritten in captives wanting to work with NN. There are already 16 people in NN Risk Management, counting the surplus lines division, which generates about $10 million a year in premiums.

But that surplus lines and specialty risk business isn't 50% of NN's business any more; captive fronting arrangements have taken over as the leading generator of business. Mr. Haker wouldn't disclose, however, what volume of business is being done in captive fronting programs.

Mr. Haker, who was previously Northwestern National's vp of commercial lines, said NN Risk Management's duties include studying the impact of guaranty funds on captive programs, evaluating assigned risk plans, handling statistical reporting requirements, overseeing claims, assisting in IBNR establishment, issuing policies, studying the financial capabilities of the captive's parent company, determining the premiums to be paid to the captive and charging fees for the rental of Northwestern National's facilities.

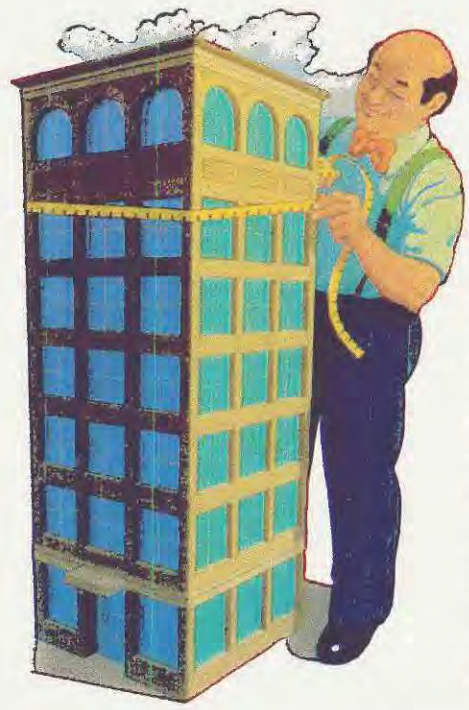
Fees for rental of NN's facilities, Mr. Haker said, generally would be less than 10% of premium flow if quoted without the required premium taxes included. Asked to provide an actual range of fees as a percent of premiums, Mr. Haker would only say that "20% sounds high." ■

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Rates soar in tight market

Insuring guard firms—who guards their goods?

By GREG DAVID

CHICAGO—Private security firms—like taxicab companies and municipal governments—are struggling to cope with escalating premiums for public liability insurance.

At the same time they are confronted with tough new state laws and demands from their clients that they assume broad liability for their actions.

Vince Ruffalo, president of A&R Security in Chicago, said premiums for his public liability coverage would have doubled to $3.50 per $100 of outside payroll from $1.76 if he had not opted for a $5,000 per incident deductible. Even with the deductible, A&R Security faced a 36% increase to $2.40 per $100 of payroll.

Rates have increased at least 150% over the past two years, said Bryan H. Brownyard, a broker with W. H. Brownyard Corp. in Westbury, N.Y. Brownyard Corp. has specialized in insuring private security firms for the past 12 years.

Another broker, Jerry Shaw of Cover Excess in Southfield, Mich., put the increase in recent years at 70% to 100%. But there are major geographical variations, he said, with traditionally underpriced California facing the largest increases.

Mr. Shaw also argued that part of the increase can be traced to the additional coverages, such as errors and omissions and broad form property, which have been added to the basic security guard policy.

A $4 million dollar-a-year business like A&R Security can afford a deductible to reduce the cost of insurance. But many smaller firms with 15 to 20 employes are paying $4 per $100 of payroll, Mr. Ruffalo said, and the cost may force some of them out of business.

Risk Management SERVICES

Larger private security companies can cope with the higher costs through retentions, Mr. Shaw agreed, while smaller companies have to pay the new rates.

The Brownyard firm, however, has placed a $500 limit on the deductible. "When a firm with a $5,000 deductible has two or three losses in a year, we sometimes have trouble getting back the $15,000 deductible," Mr. Brownyard said.

Security firms that provide armed guards for retail establishments such as supermarkets or fast food restaurants face even more difficulties in securing insurance. "A well run guard firm will be able to minimize losses," said Kenneth W. Freeto, a Chicago broker who handles 300 guard firms in the Midwest. "But there is always that great potential for losses."

"Armed guards in retail establishments are a disaster," said Mr. Brownyard, whose firm is very reluctant to insure companies with armed men in fast food restaurants or supermarkets.

Armed guards can be insured, although the costs are high and the market tighter, said Mr. Shaw, whose view of the market was less apocalyptic than the others interviewed. The problem, he said, is more the public contact and its potential for suits than the guns.

"We've always said that we prefer a situation where 100% of the guards are armed with machine guns at an industrial plant than having a man with a peashooter at a fast food restaurant," Mr. Shaw added.

Almost all the incidents involving misuse of weapons examined by a federal task force studying private security firms occurred in fast food restaurants and supermarkets, said Clifford Van Meter, head of the study and director of the police training institute at the University of Illinois.

A&R Security is withdrawing its armed guards from retail establishments because of the insurance problems. It will now only provide unarmed personnel, Mr. Ruffalo said, and will no longer serve stores where it feels it is too dangerous for an unarmed guard.

But while acknowledging the potential for huge suits with armed guards, Mr. Ruffalo isn't sure the actual number of shootings justifies the attitude of the insurance industry.

"I've been in the business for 15 years and I can remember every single incident in the Chicago area where someone was shot," he said.

"We don't know what the actual losses are. The insurers are putting a large amount into reserves to pay claims, but we know those claims are settled for far less.

"I wonder how they decide what they are going to put into reserves," he added. "We really wonder about their losses."

Another major problem facing security firms is their clients' attempt to make them responsible "for any and all losses" under broad hold harmless clauses.

"Large companies want private security firms to sign their lives

Continued on Page 28

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Guards . . .

Continued from page 27

away," said Mr. Freeto. "When a company is paying $4 to $5 an hour for a guard, the guard firm can't be responsible for millions of dollars in damages," added Mr. Brownyard.

Apartment complexes present one of the most difficult hold harmless problems, Mr. Brownyard explained. The victim of a break-in or robbery will often sue the guard firm, even if only one man has been hired for an entire complex.

Mr. Ruffalo said that his contract stipulates that his firm will be liable for only a certain amount of damages, rather than being responsible "for any and all losses."

But some large companies which require purchase orders often print the hold harmless clause in small print on the back of the purchase order, he charged.

A private security firm has to be careful not to accept payment based on a purchase order containing a broad hold harmless clause.

In addition to escalating premiums and hold harmless problems, more states are passing tough laws to regulate private security firms.

The federal task force recommended in April that states pass licensing, registration, and gun training rules, Mr. Van Meter said.

The task force also urged states to require a surety bond and proof of public liability insurance.

The study found that 34 states have some licensing requirements, 29 require surety bonds and several others — including Arizona, Florida, Nevada, Wyoming and Texas — requires public liability insurance.

The task force report may be incomplete, however, since at least two additional states—Illinois and Ohio—also require public liability coverage.

Mr. Brownyard welcomes stiff state requirements. "After a while the premiums are just out of sight. It doesn't help us because the companies just go out of business."

A recent Illinois law requires 30 hours of training for an armed guard at a state-approved school and a five-year background check, Mr. Ruffalo said. A private firm is required to obtain $500,000 in public liability insurance.

Mr. Brownyard said the Illinois law is a step in the right direction. And he singled out as more effective a Pennsylvania law whose provisions cost a firm $300 just to put an armed guard on the street. That $300 eliminates a large number of fly-by-night operations, he said.

State laws can cause problems. Ohio recently required $1 million in public liability coverage for private security firms, Cover Excess's Mr. Shaw said. He told Ohio officials that the limit was unrealistic for smaller firms, and the requirement was eventually reduced to $300,000.

Mr. Ruffalo contends the $500,000 Illinois limit is also unfair to smaller companies and to private detectives, who are also required to obtain that insurance even though they are prohibited from carrying guns. If a detective can't carry a gun, Mr. Ruffalo asks, why should he have to have $500,000 in insurance?

The Illinois law also applies only to private security firms, not to in-house security forces, he added. For fairness, both in-house and private security guards should be subject to the same training and insurance requirements, he contends.

The federal task force agrees with Mr. Ruffalo, according to Mr. Van Meter. "If a company has its own security guards, the citizen wants to know that the same standards apply to that person as to an outside firm."

The three brokers interviewed agree it is important to weed out fly-by-night operations in insuring private security firms.

Mr. Freeto said one of the most difficult problems is that few companies are willing to underwrite guard firms. In the past there were 12 companies in the field, he said; now he works with only Midland Insurance Co. and Drake Insurance Co.

"If the premiums we are now getting will cover claims, hopefully more companies will reenter the field," he said.

That would be welcome news for Mr. Ruffalo. Last year he received only two bids for his insurance. And one did not include errors and omissions coverage. ■

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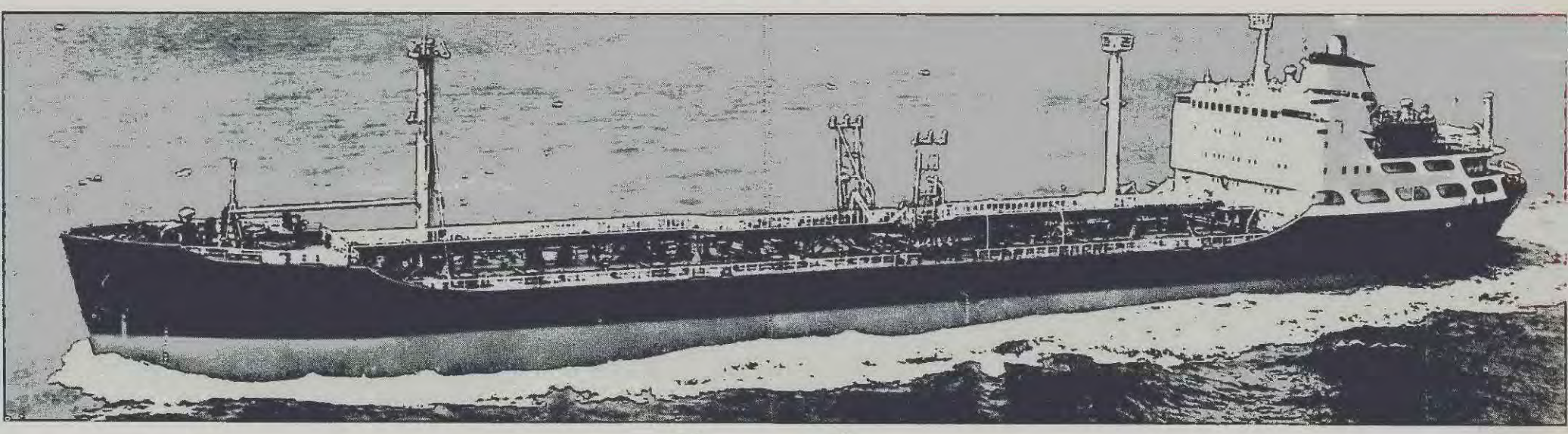
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editorial opinions

A chance to shine

THERE'S A GREAT opportunity right now for the insurance industry to be responsive to its clients' needs, to prove itself innovative. In short, the industry could shine.

Here's the idea: We're at a point in U.S. economic history when organizations are no longer eager, willing or able to run right out and buy cheap, first-dollar insurance coverage for every risk they face. Because of rising claims, rising premium rates and shrinking underwriting capacity, buyers of insurance are thinking in terms of buying only the insurance they really need, in combination with bigger deductibles and formalized self-insurance programs.

But one big barrier to "going self-insured" for many organizations has been—and still is—the fear of being hit with several different kinds of losses in a given year (or a couple of successive years) coming under different insurance policies. These losses of various sorts might require out-of-pocket payments for deductibles (i.e. self-insured retentions) beyond the ability of the individual organization to fund those combined losses out of cash flow.

Thus, for any insurance buyer who's thinking of self-insuring—say, $50,000 of any property loss, and $75,000 of any liability loss, and $15,000 of any workers' comp loss, and so on—there's at least a remote possibility that there may be a loss under each policy in the year.

So what the buyer agonizes over is the "probability" that multiple losses will occur in a given period, to determine an aggregate self-insured exposure.

What the insuring-buying community needs is a kind of "super policy" which would, in a package of sorts, cover different kinds of property and liability exposures, recognizing varying levels of deductibles for different losses, and covering ALL losses occurring beyond a certain aggregate annual self-insured expenditure.

Since it's always been the province of the underwriting community to assess and apply probabilities to risks of loss, we don't see that this would be an insurmountable problem for the industry to solve.

Based on the conversations we've had with all sizes and shapes of insurance buyers—for large and small organizations alike—we think you'd have a ready market for such a plan.

How about it, insurers? Can you do it?

Captive: Tough word

WHEN IS A CAPTIVE not a captive?

Ah, the arguments never cease over the semantics about proper nomenclature for a corporate subsidiary which underwrites coverage and issues insurance policies to its parent company.

Has captive become a dirty word? We don't think so, despite the feeling in some quarters that the very term imputes to the parent and its subsidiary a sort of shady tax-avoidance activity.

In the first place, nobody ever said it's bad to use all legitimate means to avoid taxes. And just because the IRS is testing several companies on their use of captive insurers there's no reason to believe the use of these vehicles as risk management tools is going to be universally construed as devious or somehow questionable.

There's nothing pejorative in the term captive, and we consider the quibbling over its use to be motivated by fears that tax regulators will continue to closely scrutinize corporate activities related to operations established in such offshore tax havens as Bermuda. IRS scrutiny is surely based on reasons other than the mere application of the term 'captive' to a company.

Now, Bermuda might grow to be one of the world's important insurance centers. That remains to be seen. But there's no getting around the fact that the impetus for much of Bermuda's growth as a financial center has resulted from its tax laws, which shelter income for the companies doing business from there.

Changing a name won't change any of the foregoing facts.

Thus, despite numerous requests, we'll continue to call captive insurance companies by that name. Yes, we realize they are also subsidiary insurance underwriters, a term we also use but will not universally substitute for the term captive. We concur with a point made by Bill Yeagan of the Blades Group at the RIMS conference recently that these subsidiaries, in his opinion, can be called insurance companies with captive clientele.

At some point, however, a captive does stop being a captive, and we're willing to concede that this is when a subsidiary writes outside business that comprises more than 50% of the firm's total book of insurance busines.

This will make our job more difficult, because we'll have to keep up with the amounts of outside business being written by up to 400-odd captives. You can assist us in keeping our terms straight by letting us know if your captive's book is more than 50% in third-party risks, so we can change our jargon to something other than 'captive.'



"This is Mr. Claxton, my policyholder interpreter"

letters

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

Insurance for fish

To the Editor: I noted with interest the article in the April 18th issue on insurance for aquaculture. In 1968 working with one of the syndicates in Lloyd's, we were successful in putting together an insurance policy covering commercially raised channel catfish. The policy was written on an all-risk basis, with monthly reports of values going in and different values on the fish according to their age.

I think you can see this was cradle-to-grave type coverage.

Robert E. Rich
Director, Risk Management & Insurance, Gold Kist, Atlanta, Ga.

The coverage included loss from chemical being introduced by accident or wash-off; collapse of dam or rupture in tanks; theft, flood or sudden rising water; earthquake, vandalism and malicious mischief. Listed capacity was 10 million fish per year. The deductible was 10% of the value of fish while in ponds.

The value of the fish estimated at a minimum of 1,000 fish per acre to a maximum of 5,0000 fish per acre was established based on age, ranging from eight cents per fish in the first month (rate per 1,000 fish) up to 35 cents per fish in the tenth month.

More on diabetes

To the Editor: I would like to put Mr. James Bosarge's article on diabetes (May 2) in perspective. Certainly diabetes is a costly disease that we should all work toward eliminating. However, I believe Mr. Borsarge's emphasis toward the end of his article should have been put up front. "A controlled diabetic can be as productive as a non-diabetic." In fact, many may live a far healthier life than non-diabetics.

I am not trying to minimize the potential complications associated with this dreaded disease. But, diabetes is much misunderstood. People like Dr. Burris R. Boshell, (referred to by Mr. Bosarge) and Dr. Donnell Enzweiler, president of the American Diabetes Assn., should perhaps be asked to supplement Mr. Bosarge's article with a professional perspective.

Unfortunately, Mr. Bosarge's

Continued on page 35

business insurance

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For The Innocent, Risk Management Can Be A Risky Adventure.

Before you set off into the thicket in search of new ways of handling your insurance needs, maybe you should take a look at what you're getting into.

Obviously you're calling on a risk management service to save yourself, and your organization, some money. (Actually you're hoping it's going to be a lot of money.) And if you can get the right programs set up, your dreams will be fulfilled.



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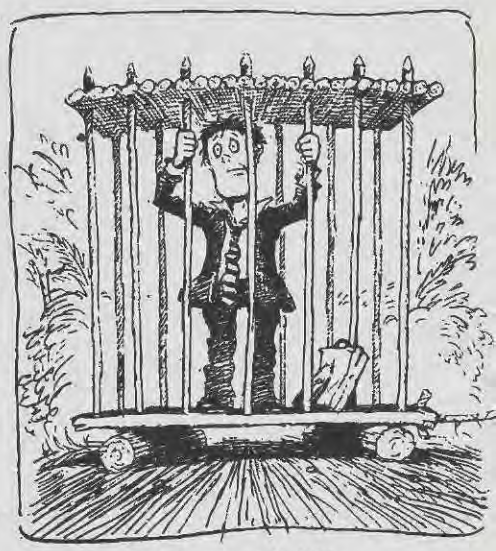
The first thing we do when you come to AIGRM is make an in-depth analysis of your needs. Then we'll come up with a program. All this usually costs you nothing. And these programs are about the most flexible in the business. We know that every risk management situation is different. And that getting trapped in an inflexible program that can't change with your needs is both costly and dangerous.

Once we've created the program, AIG Risk Management can do all the things other companies just talk about.



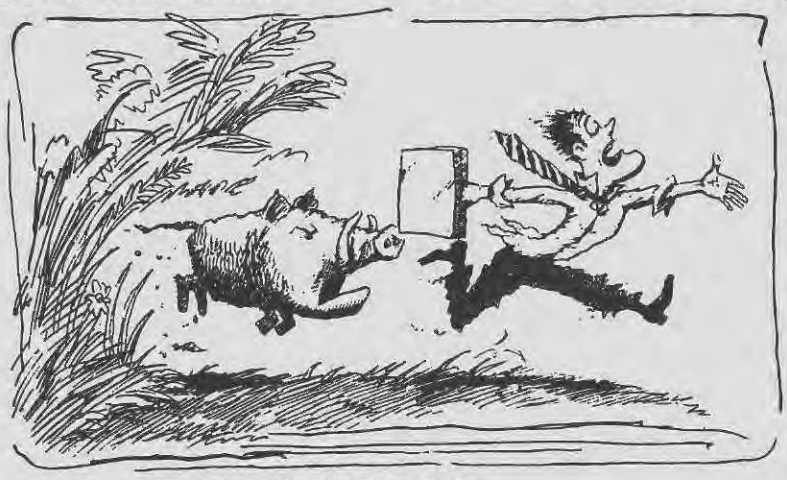
The Pitfall of the Broken Promise.

You're not buying the proverbial pig-in-the-poke. AIGRM can implement any program you need. We can be a lot more imaginative and creative in our approach to risk management because we have the facilities to deliver what we promise. After all we're part of one of the largest international risk and insurance organizations, American International Group.



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If you decide to take advantage of our services and set up your own internal program, there's no need to add even one person to your staff. All the work is handled by us. And a staff of engineers, claim and loss control experts, actuaries, data processors and risk analyzers.



The Charge of the Pig-In-The-Poke.

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Firm digs out employe benefit data

By SUSAN ALT

WASHINGTON—Many of the major benefit studies carrying the name of an insurance broker or benefit consultant aren't produced internally.

It might come as a surprise to corporate insurance managers and employe benefit specialists that a Washington-based research firm is at least providing the data used in the comparative studies at some of the lowest prices available.

Insurance Research Inc. was founded in 1959 by Judy Diamond to compile information on corporate welfare and benefit plans which became available to the insurance community under the 1959 Welfare and Pensions Act.

Using 10 full time and 17 part-time people, including herself, Ms. Diamond provides data to some of the biggest names in the benefit consulting and group insurance business including Marsh & McLennan, Towers, Perrin, Forster & Crosby, Alexander & Alexander, Johnson & Higgins, Frank B. Hall, A. S. Hansen and Hewitt Associates.

The bulk of Insurance Research's 373 subscribers who pay a $35 annual membership fee are insurance companies and insurance agents and brokers. But a growing number of corporate employe benefit managers are also using this service to collect information to evaluate what fringe benefits their competitors are providing and what they're paying for those benefits.

For example, Ms. Diamond recently completed a study for one of the nation's largest retail chains wanting benefit provisions as well as costs for all fringe benefit programs offered by its 18 major retail competitors around the country.

"We do a lot of projects like this. Most clients of this sort only want the raw data with which to do their own study. But some ask us to do the actual comparison study. In this case, we pulled out data on competing retailers which included descriptions of their life insurance, accidental death & disability, weekly accident and sickness program, long term disability, basic health benefit, major medical and a few dental plans," Ms. Diamond explained.

Information on all corporate group benefit programs will be compiled in state-by-state directories to be published in September. Page 33.

Then Insurance Research found in other Labor Department documents all the related cost data—employer contributions, employe contributions, premium rates, claims experience under each of the plans, number of employes in in the plans, and the loss retentions of the insurance companies involved.

"This retail chain was trying to arrive at a cost per employe for fringe benefits compared with competitors' costs. They wanted to upgrade their program, and needed facts to determine just how far to go with benefits and costs to be competitive," she recounted.

Had this client ordered only raw data, the cost would have been $650. As it was, the client wanted Insurance Research to do the comparative study as well, in which case the cost is generally about double the cost of raw data. The retail chain paid $1,400 for the entire study, said Ms. Diamond.

Insurance Research is also involved in publishing directories of benefit programs maintained by tens of thousands of private employers nationwide.

Although the study for the retail chain involved only welfare benefit plans, Insurance Research also provides data on pension and other retirement plans, including qualified and non-qualified pension programs, profit-sharing plans, thrift and savings plans, employe stock option plans and any other type of plan which provides deferred compensation. Insurance Resarch can provide factual data on any specified group with 25 or more participants.

Cost data isn't limited to premiums and claims, either. Ms. Diamond's staff physically located at the Labor Department can supply a one to five-year claims history, history of premiums paid, claims incurred and claims paid, commissions and fees paid to agents and brokers, agent and broker of record, taxes, insurer acquisition costs, total loss retentions, claim reserves, premium rates and name of plan administrator.

Similar detailed data is available on an annual report basis for deferred compensation programs, including actuarial reports and assumptions when applicable, says Ms. Diamond.

Although the research services are available to non-subscribers, subscribers are given top priority on processing of requests. Subscribers are charged $5 per D-1 form (benefit description) for either welfare or pension plans; $5 for a welfare D-2 report and $9 for the pension D-2 report (financial data); $3 for a labor organization's benefit description; and $5 for a labor organization's LM-2 report on welfare and pension financial data.

Minimum fee is $4.50, and all reports are photocopied at a cost of 10 cents per page. Special rush service costs an extra fee of $10. However, all orders are processed within three days of receipt. Rush service is one-day processing.

Data can be transmitted by phone or by mail at the client's option. A charge of $5 is added for telephoning on a collect-call basis to cover added time required to transmit data by phone.

Insurance Research will also locate and research documents from any other federal government agency, at a charge of $25 plus reproduction costs and postage. Rush service on these orders is $15 additional.

The most frequent users of Ms. Diamond's services are insurance carriers that use the D-2 data to verify or obtain both paid and incurred claims experience. A major underwriting client is Metropolitan Life, for which Insurance Research will do a study on six years of premium costs for an account Met plans to seek. Also included in a study of this sort would be aggregate claims costs, dividends on business paid by any other carriers, brokers used, claims reserves, and rates charged by carriers over the years.

Insurance agents and brokers use the benefit data to do their prospecting. Unions use this information in their negotiations and for organizing purposes. ■

Risk Management SERVICES

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Group insurance plan directory underway

WASHINGTON—Insurance Research Inc. will publish in September directories of all corporate group insurance programs, the first time this kind of benefit information taken from federally-filed forms will be available broken down by state.

The cost of the volumes hasn't yet been determined, but prices per volume will be from $25 to $300, depending on how many benefit plans are profiled for each state, said Judy Diamond, founder and president of the firm now cataloging the 80,000 benefit funds to be profiled.

Included in the directories for each benefit plan will be name and address of the plan, name of the person responsible for administration of the plan, title of the person, phone number, title of the benefit plan, original effective date, anniversary date, number of employes covered (excluding dependents) and method of funding (insurance, partially-insured trust, trust fund, self-insured).

The geographical directories will also contain a section listing all plans using 501(c)(9) trusts or any other forms of trust, as well as all self-insured programs.

Types of benefits provided by each plan will be detailed, along with the names of insurance carries, banks or fiduciaries responsible for administration and control of funds in the plans.

This set of directories is the latest in a series of benefit research publications published by Ms. Diamond's Insurance Research Inc.

PBGC Sentinel Service is a monthly publication detailing what pension plans are being terminated, where they are and who is in charge of the termination. "There are currently about 600 terminations taking place each month," said Ms. Diamond, except for December when several thousand occur.

In a recent study of 10,000 pension plan terminations, Insurance Research found that about 70% of terminated plans will purchase annuities, 20% will distribute cash and 10% will switch their assets to a profit-sharing plan, she said.

Ms. Diamond's ERISA Benefit Funds Data Bank, recently completed, is a compilation of data from 470,000 pension EBS-1 form filings and 80,000 group insurance EBS-1 filings. Computerization of this information has enabled Ms. Diamond to initially publish three directories of pension plan details: A directory of pension trust funds, 100 participants and up with total assets of $1.5 million up to $4 billion, a directory of pension trust funds with one to 99 participants and total assets ranging between $25,000 and $1.5 million and a third directory of all insured pension plans.

Data on pension plans from the data bank are also available on an order basis for a fee, without buying the directories which are priced from $29 up to $299 depending on the state required and the number of plans in the state. ■

Risk Management SERVICES

Labor delays SPD regulations

WASHINGTON—Due to a torrent of more than 200 comment letters, the Labor Department is delaying publication of the final regulations on filing and distributing summary plan descriptions. The regulations had been scheduled to be published May 4 in the Federal Register.

At the same time, the Labor Department announced it is extending the deadline for distributing the summary descriptions from July 15, 1977, to Sept. 30, 1977.

"It is essential for the department to consider (all comments) carefully before publishing in final form," said J. Vernon Ballard, the Labor Department's acting ERISA administrator. ■

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OUR 75th ANNIVERSARY

FM shifts emphasis to human factors

By GREG DAVID

NORWOOD, MASS.—A fire breaks out in your plant.

And the sprinkler system fails to work.

What do you do?

That's the problem facing safety managers attending the redesigned Factory Mutual property protection seminar. Teams of students make a series of decisions as they work through the problem in a set of envelopes. If they make the right moves, find the valve that has been accidently closed and fix the problem, the building is saved.

If they make the wrong decisions, the last envelope contains a picture of a burned out building.

Team problem solving is just part of the new emphasis on the human side of fire protection at Factory Mutual, says vp Bruce P. Mattoon.

Two-thirds of all industry losses are caused by human error, he said. "We've been a leader in mechanical research. Now we've decided in the future that one of the areas we must attack is human error."

"We're light years ahead of everybody else" in emphasizing the human factors, Mr. Mattoon added. "There's nobody I know of doing this but us."

The realization at Factory Mutual that there was more to fire protection than the mechanical side coincided with a marketing report that showed Factory Mutual insureds thought the organization was autocratic and inflexible. Too often they were guilty of preaching instead of teaching, said Mr. Mattoon.

So Factory Mutual began to rework their approach to provide more flexibility and to emphasize the human factors in property protection.

The company established its Research Center For Loss Control in Norwood. "The purpose is to take all our knowledge and locate it in an accessible place," said Mr. Mattoon.

Three of the classrooms used for the fire protection seminar were redesigned to allow the use of multi-media presentations.

In addition to the standard five-day fire protection seminar, Factory Mutual will design special courses for companies. General Electric, IBM and Westvaco have taken advantage of this approach, Mr. Mattoon said.

Westvaco asked the Factory Mutual to condense its five-day course to two days, said property conservation manager Ken Timmerman. "Our people just can't be away for their locations for a week," said Mr. Timmerman.

Factory Mutual will also go into the insured's plant and help a company set up its own in-house training program. Finally, it has even prepared a fire protection course for United Technologies of Hartford, which United Technologies purchased and now owns, Mr. Mattoon said.

Factory Mutual is also considering expanding its program to new areas. The company is already holding an international loss control seminar in Europe, according to Mr. Mattoon, and hopes to hold a West Coast seminar, probably in San Francisco, next year. If the regional concept works additional seminars will probably be held in the next few years in Chicago, Atlanta and Canada.

"A good property conservation program depends on the people," said Westvaco's Timmerman, "and the Factory Mutual programs does an excellent job of keeping interest."

Mr. Timmerman singled out the fire and explosion demonstrations where FM personnel demonstrate how to actually deal with a fire and an explosion. "It's the kind of thing that really sticks with a person," he said.

Westvaco recently completed its third seminar at Factory Mutual. "I thought I'd picked up just about all there was," Mr. Timmerman said, "but our vice president suggested it was worthwhile enough to go back next year."

Factory Mutual has prepared a five-year plan to expand its program, Mr. Mattoon sid, but practically that growth will be determined by the demand of its insureds.

The standard five-day property protection conference costs $325 per person including tuition and lunch but not travel and lodging. Customized courses cost $125 per student per day. A visit by a consultant to a company costs $250 per day per consultant plus expenses.

Factory Mutual is also at work developing information on how human factors relate to accidents in specific industries. Such information, Mr. Mattoon said, could be a powerful tool in finding the right steps to reduce losses. ■

Risk Management SERVICES

Cirrhosis deaths are increasing

NEW YORK—Deaths from cirrhosis of the liver appear to be increasing, according to the Metropolitan Life Insurance Co.

Eight years ago cirrhosis ranked 11th as a cause of death; today it ranks seventh.

The disease causes 33,000 deaths a year and there appears to be a marked increase among white Americans.

The death rate for cirrhosis increased 29% from 1963 to 1974, the company reports, to 19.2 deaths per thousand from 14.9 deaths per thousand.

Part of the increase may be attributed to improved diagnosis and more frequent reporting on death certificates, Metropolitan said. ■

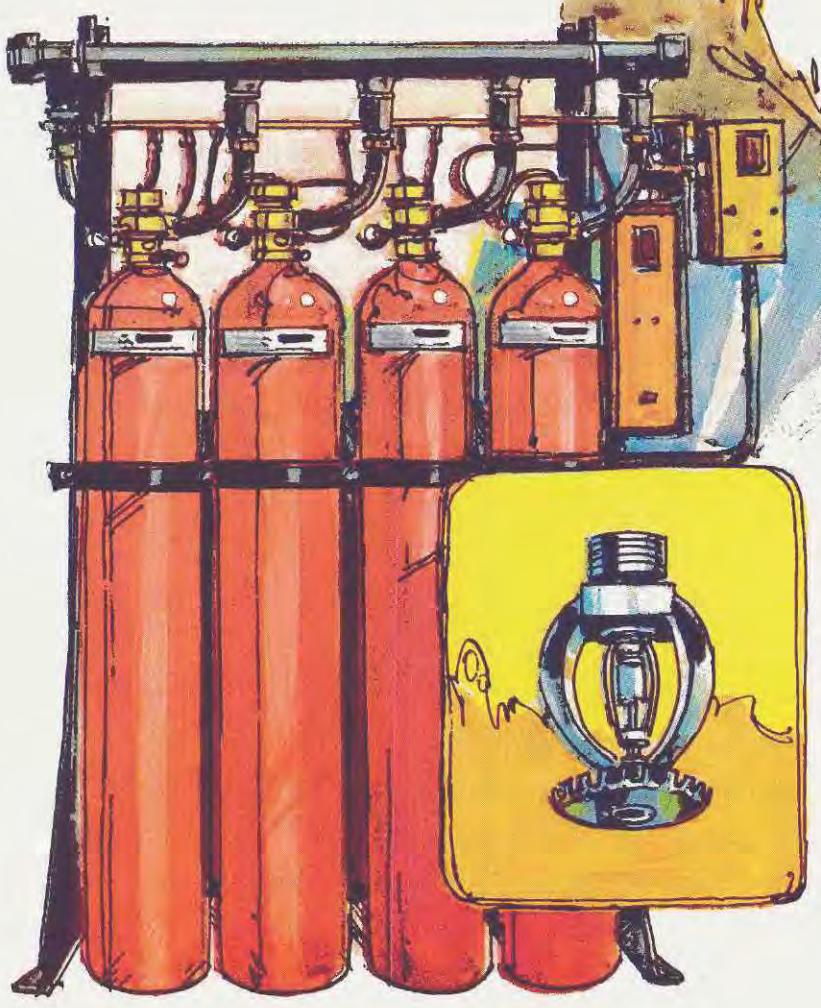
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Contingency plans due soon

New nuclear plant safety rules to raise costs

By MARIE KRAKOWIECKI

NEW YORK—The Nuclear Regulatory Commission's new security regulations to protect nuclear power plants against attacks by terrorists are expected to raise significantly the cost of running those plants.

The commission deliberated more than two years before finally issuing the regulations, which are known as part 73.55 of title 10 of the code of federal regulations in the Federal Register, in February.

In addition, the NRC told *Business Insurance* it will issue "contingency plans" this month to supplement 73.55 and to give detailed instructions about how nuclear facilities can plan for and respond to emergency situations.

Although the tightened security rules are expected to significantly increase the costs of running nuclear plants, industry experts predicted they will have little or no impact on the prices of liability insurance coverage that utilities purchase from nuclear insurance pools like the Nuclear Energy Liability - Property Insurance Assn. (NEL-PIA). An NEL-PIA spokesman said the new NRC rules bring the government standards for security closer to security standards the insurance industry has independently insisted upon before it would assume the risk of insuring a nuclear plant.

By the NRCs own estimates, it could cost $2 million in capital equipment alone to bring a single reactor site into compliance with the agency's new rules. (That would be the cost to a facility which has not already made security improvements in anticipation of what the NRC was planning; many utilities, fearing the worst, tightened their security before the NRC published the rules.

The NRC's $2 million start-up cost estimate for tightened security at a nuclear plant does not take into account such operating or "people costs" such as hiring more and better security guards, one nuclear industry source explained.

He estimated utilities would wind up paying an additional $1.5 million per site every year, in addition to any expenditures for capital equipment, as a result of the new rules to thwart terrorists.

This could represent a tripling of security costs for some utilities with nuclear reactors. According to the Wall Street Journal, many utilities only spend between $500,000 and $750,000 a year for nuclear site security.

Almost any industry ultimately passes along its own increased operating costs to consumers, so there is even a chance that the new security regulations could eventually affect the price of electric power in this country. About 10% of the electricity generated in the U.S. comes from nuclear power plants.

All 63 operating reactors owned by the private sector in 43 locations must comply with the new security rules by August 1976 or face fines or shutdown by the NRC. (The agency only regulates commercial nuclear facilities; it has no jurisdiction over nuclear reactors owned and operated by the government itself.)

The long lead time between publication of the tightened security regulations and the required compliance date partially reflects the NRC's leniency with companies which must make design or construction changes to comply.

But, the agency also had to allow that much time because there is a limited number of suppliers who manufacture products such as bulletproof glass which will be in sudden demand.

Concern that terrorists might

Continued on Page 36

Risk Management SERVICES

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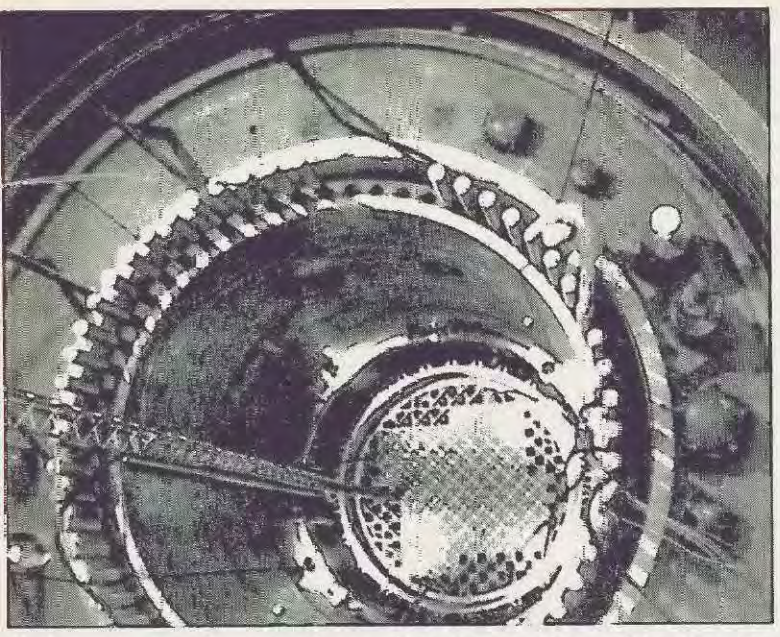
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Workers exam ne the core of a nuclear reactor. New safety rules are designed to prevent terrorist attacks.

Nuclear . . .

Continued from page 35

attack a nuclear plant and thereby endanger many lives has been around for a long time. But the government wasn't sufficiently moved by the fear until 1974, when the NRC first proposed tighter security regulations in the Federal Register. It was still busy debating what it should do last year, when an incident took place which dramatized the potential dangers of nuclear terrorism and may have helped to speed the passage of 73.55.

On Memorial Day weekend in 1976, the NRC apparently received information that an attack would be attempted on some nuclear reactor site. It responded by putting all commercial sites on an "emergency alert." Luckily nothing happened.

The emergency alert drove home a disturbing point: Although the NRC had guidelines nuclear power plants could follow after an attack took place, it didn't have any rules which spelled out what security measures a plant should take in anticipation of an attack. It is to this question that the new regulations largely address themselves.

The two broad objectives are to protect nuclear sites from determined, violent external assaults by a number of people, probably armed, and from an employe or someone inside the facility who may be a threat to security.

James Miller, the NRC's assistant director for reactor safeguards, division of operating reactors, said that within its broad framework, 73.55 now spells out exactly what procedures, personnel and equipment a nuclear power plant must have available to respond to any attack.

Nuclear plants were given 90 days to comply with access and communications security adjustments described in 73.55 and then had to file amended security plans with the NRC. They have up until August 1978 to comply with major adjustments in security requiring design or construction changes. The NRC keeps all its licensees' security plans on file, but there is no public access to the documents.

Mr. Miller, who is administering the rules said so far it looks as if many utilities will need to install detection systems at their fences, alarm stations and increased protection around internal control rooms, probably with bulletproof glass and thicker walls.

There is a requirement for searching all packages entering a plant, and a requirement for tighter controls on locks and combinations. For instance, whenever an employe leaves under adverse circumstances, the plant will be required to change its locks, keys and combinations.

A minimum of 10 security guards will now be required on every site except ones located in special high-security areas (for instance, if they are next door to a Marine base or police unit). Sites with good locations will have a minimum of five security guards on duty at all times.

The guards themselves are carefully screened before being allowed to work at a nuclear power plant. According to the NRC's "reg guide" 5.20, there are very stiff requirements for the training and selection of security guards, one nuclear insurance source said.

In addition to its published regulations, the NRC issues a series of interpretations of the regulations, or "reg guides" like the one which outlines qualifications for security guards. A number of insurance sources in the nuclear industry pointed to the guides as especially helpful in making sure their security programs are sound.

One of the reg guides, number 1.17, is currently being revised, a source said, to introduce more ways a nuclear plant can reduce the risk of industrial sabotage. One provision the NRC is apparently trying to incorporate in the revision is a requirement that all employes working inside a nuclear facility must undergo regular psychological evaluations.

The NRC's Mr. Miller said he hasn't seen any indications that many utilities will need major overhauls of their security plans because of 73.55, despite the stiffer requirements it imposes.

A number of risk managers and security directors for power plants said that was probably true only because the industry waited for the new rules so long, that most utilities began making their improvements in security plans a couple of years ago. Some of the changes were very costly.

For instance, one security director of a utility in a Southern state said his company spent a total of $5 million improving security equipment at two sites before the new rules were even published. The director of a leading nuclear consulting group, however, said he thought the $1.5 million per year estimate for added people costs at nuclear sites was definitely "in the ballpark."

A few other risk managers said the reason they wouldn't have to make big changes in their companies' security plans for nuclear sites was that their insurers had already forced them to install stiffer security precautions than the NRC required before it passed the new rules. ■

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For more facts circle 89 on reply card

Can a baseball star sell safety? Company adds Bench to its lineup

By KATHRYN McINTYRE ROBERTS

LIBERTY CORNER, N.J.—The Ingersoll-Rand Co. is betting on safety consciousness among its customers in marketing a new safety enhanced portable air grinder.

But worried that safety plays second place to productivity, the leading manufacturer of metal-removing air grinders also hired a baseball celebrity to make the safety pitch. Only he's a catcher.

Johnny Bench of the Cincinnati Reds is—for an undisclosed fee—the "pro" behind the new "Pro Series" air grinders. He's the star of promotional brochures on the new tool and an Ingersoll-Rand sponsored safety campaign launched with the tool in May.

Ray Sponsler, industrial tools marketing manager at Ingersoll-Rand, explained the company knew from field tests there would be "resistance and reluctance to this grinder" because of its added safety features.

The new "Pro Series" grinders are equipped with a self-regulating motor which can't overspeed and an integral guard. The guard can't be removed or the motor falls out since the guard serves as the mount for the motor. Both features are new developments in the metal-working tool's design.

But air grinder operators don't like guards and they routinely discard them, Mr. Sponsler said. "They don't want the added weight and clumsiness. They complain that with a guard they can't see, are slowed down and can't work as well. We estimate that half of the people using this type of tool aren't using a guard," he said.

As a result, this safety-designed tool represents a "radical departure" in tool manufacturing, Mr. Sponsler observed. He explained, "In the past, tools were marketed just on cost and performance. So we decided we needed a real dramatic approach."

Johnny Bench provides that. A brochure introducing the air grinder sports the catcher on its cover in his full baseball safety regalia holding the tool. "If I earned my living behind a grinder instead of behind home plate . . . I'd insist on the kind of protection a pro needs to get the job done," he's quoted elsewhere in the brochure.

Ingersoll-Rand knows that's the message it has to get to laborers and management to successfully market the "Pro Series" air grinders.

But why Johnny Bench?

To outrun the air grinder operators' resistance to guards, the company turned to an analogy with a sports figure and his protective equipment. Since the catcher is the most dangerous position in baseball, and since he's loaded down with protective equipment inhibiting his view and movement, "It was a natural," Mr. Sponsler observed.

And naturally, the company wanted "the best guy in the business," he added. But Johnny Bench wasn't leaving the dugout for this one. "He couldn't see how he could relate to the operation of an air grinder. Then we explained he wasn't endorsing a product but rather safety in work habits," Mr. Sponsler said. With that, Johnny Bench joined the lineup.

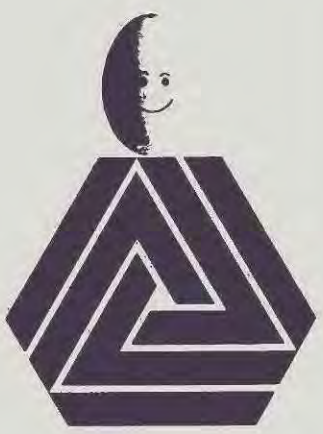
Ingersoll-Rand personnel are as excited about the "Pro Series" as baseballs fans are at an opening season game. The safety features score for both the employer and

Continued on page 38



Johnny Bench promotes safety with a new Ingersoll-Rand product.

Risk Management SERVICES



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Johnny Bench . . .

Continued from page 37

the manufacturer, they say.

It's to the employer's advantage to equip workers with safe to use tools. Guards are required under Occupational Safety and Health Administration regulations. But more importantly, Mr. Sponsler said, safer tools mean fewer injuries and that translates into savings in workers' compensation costs.

For Ingersoll-Rand, safer-to-use tools is a matter of a moral commitment to produce tools which won't hurt people. Mr. Sponsler admitted concern for the company's product liability exposure was also a motivating force.

"We had considered dropping this tool because they are potentially dangerous machines to use. We knew there were injuries because the tool was being used without a guard. We decided we'd either have to make a tool that wouldn't hurt people, or get out of it," said the marketing manager.

The company doesn't expect its product liability premiums to drop, but it does expect fewer claims.

To cover all the bases in marketing the new tool design, Ingersoll-Rand reasoned it needed to do more than promote just one tool's safety features. The operators might not be convinced, so the company decided to also go after management with a safety campaign.

It's offering safety directors an information kit on sponsoring a "Johnny Bench Safety Program." The kit includes pay check stuffers which picture Johnny Bench saying, "Know your plant's safety rules and follow them . . . Safety equipment belongs on you, not in your locker . . . If you think safety equipment slows you down, so does time in the hospital."

Five different Johnny Bench posters with safety messages are also available. In one, he's holding his catcher's garb saying, "I don't wear this equipment because it's comfortable . . . I wear it to protect my beautiful body."

"The pitch is safety in general. We're not being crassly commercial with the posters. The air grinder is pictured in only one poster and it's not even identified. And our name is just printed at the bottom. We wanted to produce something companies would use," Mr. Sponsler explained.

The company's salesmen and distributors are presenting the kits to customers and they are available free to others who request them. Ingersoll-Rand budgeted for 15,000 kits and that's more than their existing number of air grinder customers.

Mr. Sponsler said the company is concerned that it reach the insurance and safety managers with this campaign—especially in shops using air grinders. He observed, "Sometimes the people in a company who purchase our tools aren't aware of the overall cost of business—like workers' compensation. We need to appeal to the high levels of management with the financial consideration of workers' comp and the moral consideration of protecting workers' lives and health."

To be sure they reach those people, the company is running advertisements in the general press as well as the specialized press. The day *Business Insurance* interviewed Mr. Sponsler, The Wall Street Journal's eastern and midwestern editions carried a 9 x 13 advertisement announcing the new new portable grinder and its safety features and offering the safety kit.



Johnny Bench safety campaign poster.

Johnny Bench, however, was not featured because of the terms of his contract restricting where his name can be used. The ad did mention that the safety program features 'a well known sports personality."

Ingersoll-Rand will also exhibit its 'Pro Series" grinders at Safety Expo/77 in Philadelphia in June. "We're doing it with crossed fingers to see if it will help us communicate our message to safety directors and insurance managers," Mr. Sponsler said.

The campaign will run at least through 1977. And Johnny Bench is on a retainer not just for the "Pro Series" but also for all Ingersoll-Rand industrial tools.

"We're working as quickly as we can to extend this concept to the complete grinder line, to make our machines safe," Mr. Sponsler said.

Competitors haven't followed Ingersoll-Rand onto the field yet, Mr. Sponsler said, but he's convinced there will be some imitators. "We have a safer tool. The competition will have follow."

And, of course . . . it's catchy. ■

To request a free Safety Information kit from Ingersoll-Rand, write Ingersoll-Rand Safety Program, 253 East Washington Ave., Washington, N.J. 07882, attn.: Johnny Bench.

Lockheed self-insures work comp

BURBANK, CALIF.—The California division of Lockheed Aircraft Corp. began self-insuring its workers' compensation coverage up to the $500,000 per occurrence level effective April 1, *Business Insurance* has learned.

The division employs 14,500 workers and is one of the company's largest.

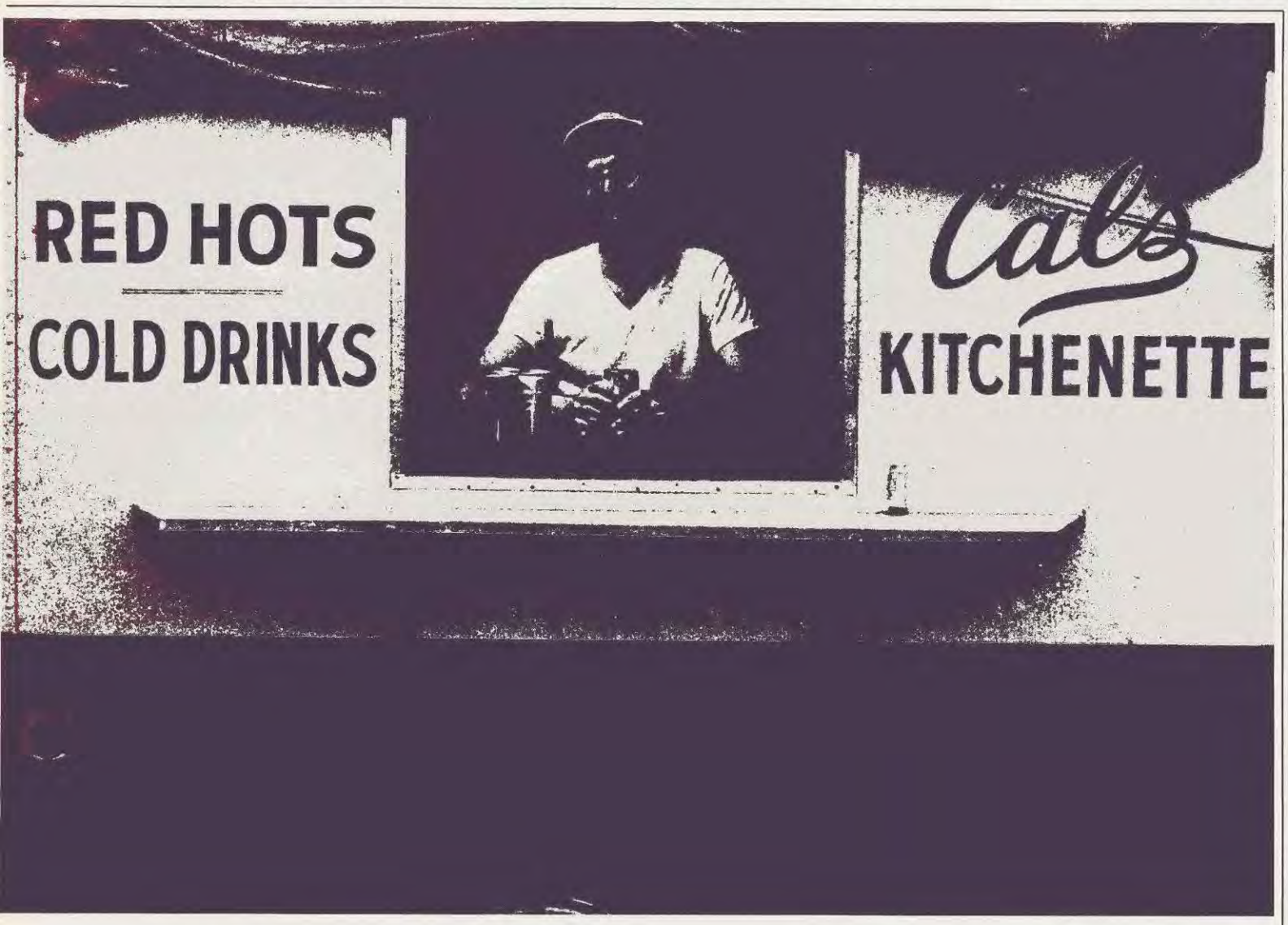
J. L. Bush, manager of the finance staff for the California division, said that the unit has catastrophic coverage above the new, $500,000 per incident self-insured level.

Excess layer carriers have not been selected.

Last year, the California division paid about $2.8 million in workers' compensation premiums to Employers of Wausau, its former workers' compensation carrier.

"We expect great things out of the new program, among them faster payout to employes," Mr. Bush continued.

R. L. Kautz & Co. will handle the administration of the program on an interim basis. George Spatola, formerly of American Mutual Insurance Co., has been hired to train to become the program's in-house administrator. ■



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OSHA 'freebies' worry private consultants

By JOANNE GAMLIN

LOS ANGELES—Some full time, independent health and safety consultants are upset over the "freebie" services offered by state Occupational Safety and Health Administration programs.

"I have lost clients and have been refused new business" because of the OSHA program, says Gerald S. Burko, head of the SAF-CON Co. in Cleveland.

He maintained that OSHA consultants are "real competition" and he said the service had put a colleague of his out of business.

Independent consultants elsewhere in the nation, especially in California, expressed similar, deep-seated alarm about the competition they are encountering.

Heightening their concern, no doubt, is the Labor Department's proposal to increase the money available for the state OSHA agencies. The agencies supply consultants to small businesses to help them comply with federal job and safety rules.

Under the proposal, Labor would increase to 90% from 50% the federal contribution to pay for safety consultants.

Sixteen states do not yet provide OSHA consulting services, but the new proposal is likely to encourage some of those states to begin such programs.

Even the most concerned private consultant is not predicting the demise of his profession. And the impact will fall mostly on medium and smaller companies since most large corporations have in-house safety engineers.

And a number of consultants argue that the state programs are not serious threats since they do not have the high level of expertise.

Privately employed professional engineers who specialize in the safety and health field are a relatively elite group, at least in terms of numbers. There are about 5,000 engineers who are qualified as CSP's or certified safety professionals. But only about 200 are high caliber, highly competent individuals who boast the credentials needed for advising major corporations on health and safety dilemmas, according to George A. Peters, a Brentwood, Calif., forensic engineer and a man well recognized in safety circles. Mr. Peters, who is licensed in law, engineering and phychology, isn't personally worried about OSHA, but he says he knows competent people who are.

Complaints about OSHA consulting services center on the little training OSHA employes receive in safety and health matters. The employes competency is limited to what is printed in state codes, the critics charge.

Glenn Springer, who is both a CSP and a PE or professional engineer and who has a consulting business in North Hollywood, Calif., faults CAL-OSHA consultants for having brief training and for being specialists in state codes only.

He has futilely protested the practices of Cal-OSHA consultants to Sen. Alan Cranston. Mr. Springer would also like to set up safety seminars that would educate millions of workers in a short time.

"They could focus on one industry, from the raw material state to the finished product," he says. But Mr. Springer has not been able to get this idea off the ground.

Nevertheless, Mr. Springer says he is heartened about a new order from the California Division of Industrial Safety requiring employers to document the existence of a definite safety program and safety inspections.

The number one problem with OSHA consultants, according to Ohioan Gerald Burko, is that their brief training enables them to detect only obvious difficulties. A private consultant expects to invest long hours in designing solutions to safety problems.

Mr. Burko said an OSHA compliance officer once told one of his clients to discard boxes in order to make a fire extinguisher more accessible to a production line.

Such an action would translate into the spending of thousands of dollars to revamp the entire production line, Mr. Burko says. Instead he suggested a simpler, less costly but more effective answer: Hanging the fire extinguisher in a different place.

Risk Management SERVICES

When a plant heeds OSHA-style advice and believes it is in good shape, it is headed for trouble, he contends.

"For comparison, it often takes me six to seven months at a given company before I can design a solution to a potentially dangerous situation," he says.

Mr. Burko, who works for companies with between 500 and 600 employes, theorizes that one reason the same accidents seems to occur over and over is that so many firms routinely follow the narrow counsel of OSHA consultants.

As long as OSHA confines itself to dealing with specific interpretations of safety standards everything is OK, asserts Howard Spielman, principal of Health Science Associates in Los Angeles.

But he says he strenuously objects when OSHA consultants attempt longer-term management services. Not only is this a form of unfair competition, but it also boils down to "too much big brotherism," he maintains.

Continued on page 40

One Family's Airport. George J. Priester is a railroad engineer who in 1928 also became a pilot. In 1953, he bought a Chicago-area field with sand and gravel runways which he has since developed into Pal-Waukee Airport, one of the nation's finest. 5 paved and lighted runways. 400 based aircraft. 70 T-hangars, 5 acres of roofed hangar space. Jet charter operation. Tower, ILS, restaurant—you name it, he's got it. A professional business operation resulting from a sophisticated management approach. ☐ Son Charlie joined George at age 14. Holder of both an ATP and a degree in Business Administration, he is currently Pal-Waukee's general manager. Sisters Sheila and Sharon are commercial pilots. Several of Charlie's children now work at the airport part-time. It must be in the blood. ☐ Looking back over the past twenty-odd years, George commented, "It's been a battle all the way. Law suits. Noise complaints. Tornados. And being privately-owned, the most we get from any level of government is crippling tax bills." ☐ "One bright spot," said Charlie, "is we're insured with USAIG. We would have been out of business if USAIG had not had the capacity to provide adequate limits, engineering and claim services." ☐ The Priester family and USAIG . . . sturdy aviation pioneers providing continuity of leadership in a rugged world of change.

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OSHA consultants . . .

Continued from page 39

While the government sets up standards, it appears unwilling to accept the liability for its mistakes in directing how that order should be met, says the consultant. Private consultants at least have had errors & omissions insurance coverage, although Mr. Spielman admits that that protection is currently hard to obtain.

Mr. Spielman acknowledged that private consultants may not be meeting the needs of small businesses. A simple safety audit from such consultants costs about $500, a sum which may appear formidable to tiny concerns.

Other independent safety consultants appear unruffled about the existence and possible expansion of free OSHA consulting services. Typical of this group is Felix Lollar, who spent 31 years at North American Rockwell in El Segundo, Calif., as a safety engineer, and who now teaches at a college in Long Beach.

He regards OSHA services as an asset. He reasons that he benefits from the general distrust of government which causes potential clients to be wary of letting OSHA officials, who often look at compliance as their first duty, into their deepest secrets.

One such company is American Safety Equipment Co. of Pacoima, Calif. Wendy Valdivia, who takes care of personnel and safety at American Safety, said that the less Cal-OSHA knows about her firm, the happier she is.

"When a real difficulty strikes, I like to turn to a private consultant because I know I can confide in him," she explains.

Taking up this theme, Dave Marceau, former safety officer for the city of Inglewood, Calif., points out that "you have to talk about internal politics on many of these safety questions and therefore you need someone you can trust."

He observes that when he has a safety consultant on the premises, he has to close his door to speak bluntly about the situation.

"You need to feel that the safety consultant is on your side," he says, "and when you're paying for someone, you know he is."

Not all companies that hire private safety consultants are raving about their service. Andy Meuwissen, assistant treasurer at the Peavy Co. in Minneapolis, says that five years ago a lot of "pseudo" consultants sprang up and that his firm has done business with some of them.

"We hired a California firm, paid it $10,000, and all it did was to tell us of a problem, of which we were already aware," Mr. Meuwissen says.

Consultants further attempt to play both sides of the fence, charges Mr. Meuwissen, due to the fact that some of them accept work from OSHA.

George Peters, the forensic engineer, agrees that five years ago the safety consultation field was the target of applicants with few qualifications in safety.

Since that time, there has been a shakeup, Mr. Peters contends. He also points out that current efforts to re-certify engineers with CSP designations should bring forth safety engineers with even higher qualifications.

Few high caliber consultants will accept work from OSHA on account of the low pay, continues Mr. Peters.

And even though smaller companies may lack the resources to hire high-ticket safety executives, he maintains that all or most firms can afford to have a safety professional on a retainer. ■

New breed trumpets a broad view

DENVER—Tom Buelter has nothing but scorn for private health and safety consultants who complain about the competition they encounter from state OSHA programs.

The problem is that the consultants fail to view their jobs differently than the OSHA safety consultants, says the vp of the Colorado Hearing & Speech Center.

But Mr. Buelter does view his role differently. He says he is "a new breed of industrial hygenist" who is as interested in developing a company's social conscience as he is in conserving the hearing of the firm's employes.

The non-profit Colorado Hearing & Speech Center has three goals, according to Mr. Buelter. They are to prevent hearing loss in the workplace, to help companies comply with OSHA regulations and to channel funds that would otherwise go for profits to indigent children.

The Colorado center designs its hearing loss prevention programs around the concept that it is the employer's responsibility to protect his workers, not to just mechanically fulfill OSHA regulations in regard to hearing, he explains.

He points out that OSHA regulations permit 90 decibles of noise in plants. Yet in the opinion of the Colorado Hearing & Speech Center, he said, 90 decibles is too loud.

About 50% of all people lose some of their hearing at 90 db's," he asserts.

"The question I want my clients to ask themselves is 'how can I make sure we are creating a safe environment for our workers," the socially-oriented consultant said.

Mr. Buelter says he advises corporate clients to place the same emphasis on safety as they do on products.

The center, in fact, aims to persuade its clients to establish departments of social conscience that would make the welfare of employes its raison d'etre. The head of such a department would report to the chief operations executive, acording to the hearing consultant. ■

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DRI says its insurance stats can help firms

LEXINGTON, MASS. — Data Resources Inc. says it's been approached by only one corporation—"a well known cigarette company"—seeking to use its insurance forecasting models to more effectively predict losses under a self-insurance program.

DRI works with 150 of the 200 largest manufacturing firms in the nation to develop product line forecasts and revenue models.

In addition, DRI already assists 18 of the top 25 insurance companies underwriting property and casualty insurance in forecasting their premiums, expenses and losses relative to the insurance industry and to the economy as a whole.

"I would suspect a corporate risk manager could use our forecasts of loss severity patterns, for example, for future loss development purposes," says Bennett Davies, marketing economist for DRI. "We've found that extrapolation of loss data of a straight-line basis does not accurately reflect actual loss costs in a volatile inflation environment.

"Corporate risk managers could conceivably take our forecasts and integrate them with their own simulation programs, for example, at a cost of about $10,000" and end up with a better model for projecting expected loss values for future years.

DRI has product line models for auto liability, auto physical damage, workers' compensation, commercial multi-peril, fire and allied coverage, general liability, surety and fidelity insurance.

The area of DRI's services which would probably be most applicable to corporate risk management programs, said Mr. Davies, are the inflation forecasts of key claim indices. These indices and models of the cost of claims cover such areas as medical care, physician fee and hospital charges in the employe benefit and/or workers' compensation area; average hourly earnings, wages and salaries, auto repair costs, cost of labor for auto maintenance and repair, building construction cost index and factory construction.

This system could be used, for example, to establish future replacement costs for plants which index and factory construction might be damaged or destroyed.

Other applications used by insurance companies which also could be of interest to corporate insurance managers include:

- Simulation of the insurance models to show the impact of economic and premium rate assumptions on the entity assuming risk.
- Forecasts of frequency and severity of losses which provide an early warning system for managers concerned about underwriting stability.
- Breakdown analysis through the use of software which tests the premium rate level required to insure a combined loss ratio of 100, given various economic scenarios such as higher-than-expected inflation.
- Reserving and pricing (rate analysis) evaluation by linking forecasts to rate levels and loss reserves to anticipated changes in claim/loss experience. ■

Risk Management SERVICES

FASB proposes pension rules

STAMFORD, CONN.—The Financial Accounting Standards Board has proposed new rules for disclosure by corporations of the financial facts surrounding their funding and vested obligations to pay pension benefits to employes.

The new rule if passed would cover defined-benefit pension plans, in which a promise is made to pay a fixed predetermined benefit to a worker upon retirement.

The FASB wants to help benefit plan participants and outside investors assess the funding methods and security backing up the promised benefits. Proposed rules would require companies to report net assets available for benefits, changes in net assets, accumulated benefit obligations and changes in those obligations in the period being reported.

The FASB would require pension plans to report their assets—both debt and equity securities and real estate—at current market value.

The FASB asks that comments and reactions to the proposed standard be submitted by Aug. 15. ■

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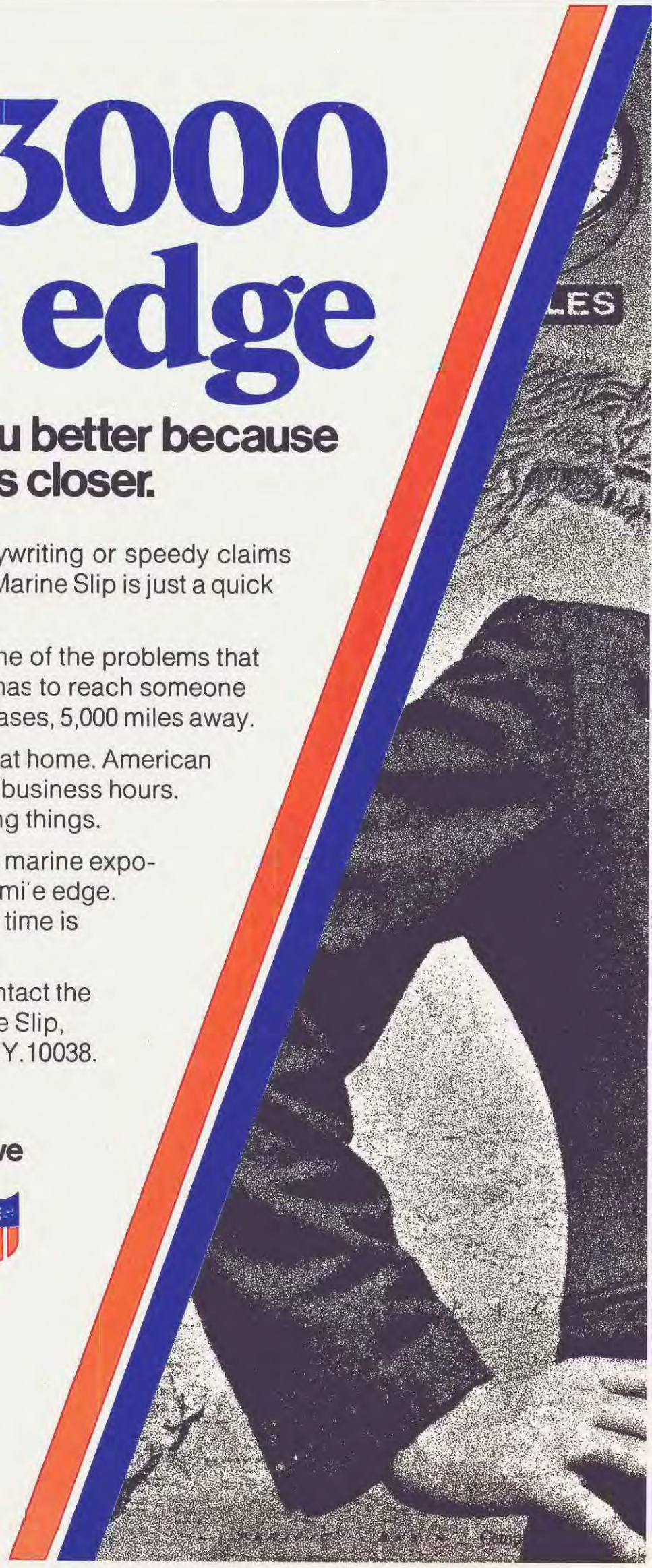
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Liaison is the rule with safety, risk managers

By MARGARET LeROUX

SAN FRANCISCO—Safety is a function many risk managers would like to add to their responsibilities. But safety and loss control have at best "a liaison" with risk management, several risk managers said in recent telephone interviews.

"But this only means I can only suggest a program," one risk manager complained. "I have no authority to see that it's accomplished."

In BI's latest Editorial Advisory Panel, 60 of the 75 responding risk managers said safety and security should be under risk management, though less than half of them actually have responsibility for safety and security.

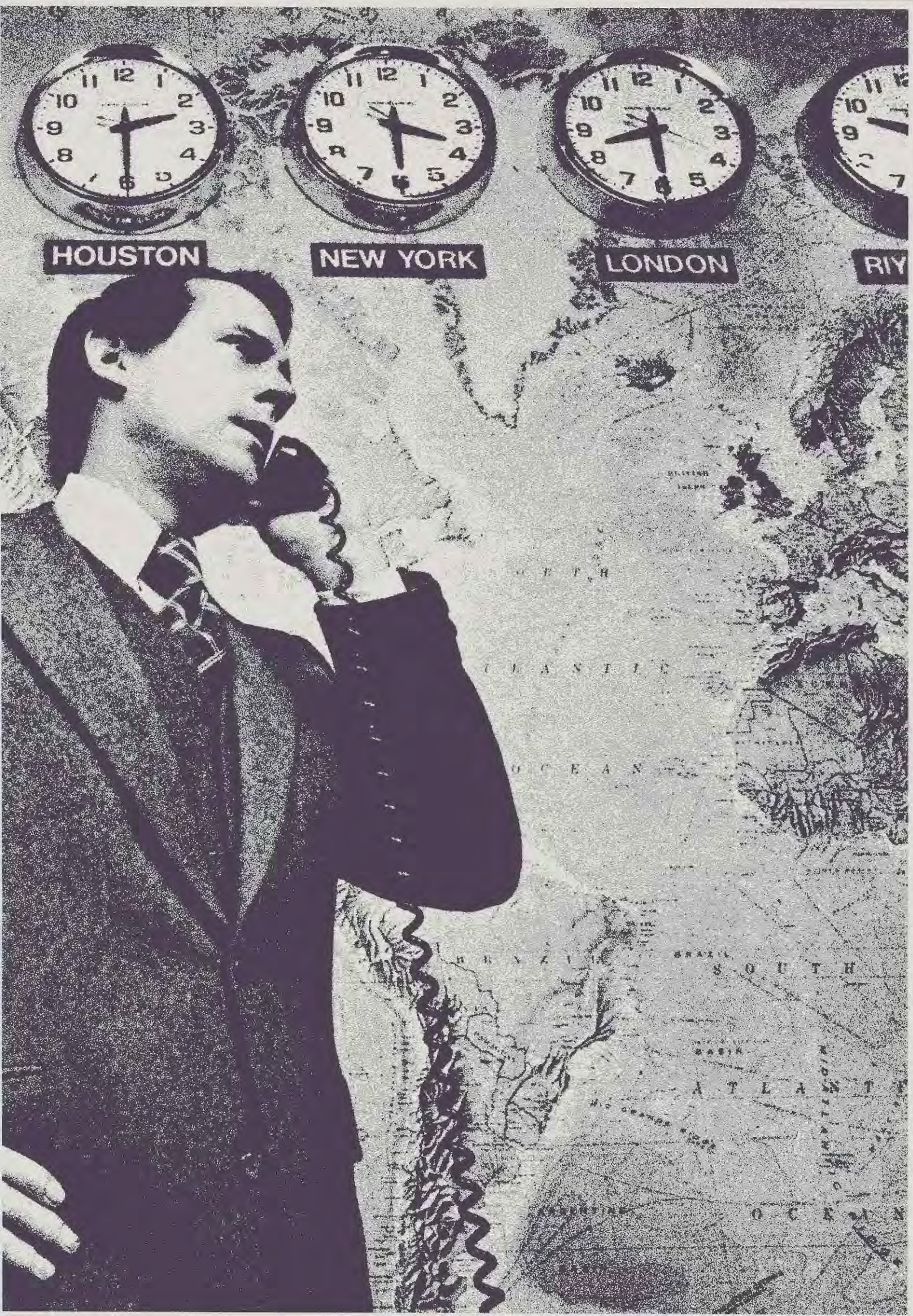
Far more common is for safety to report to industrial relations, personnel or be a part of the line function.

At Foremost-McKesson Inc., R. William apHugh, insurance manager said, "The director of safety and loss control is in the industrial relations department and reports to the assistant director of industrial relations. We maintain a close relationship, providing them with statistics and so on, but have no direct functional responsibility for them."

Gary Calhoun, insurance manager for John Breuner Co., a retail home furnishings chain, conceded that the only involvement he has with safety is when reports from insurance company inspections come through his department.

"Each of our stores is a profit center," he explained. "A safety committee at each store reports to the general manager and all claims are handled by the insurance company and the broker."

At B.P. Alaska Inc., corporate headquarters for the American



Risk Management SERVICES

subsidiary of British Petroleum, there's "strictly a dotted line authority" relationship between insurance and safety, said Gary D. Lindsey, corporate insurance coordinator.

Safety is a function of the engineering department in San Francisco and also in field operations in Alaska. "I rely on the safety people for reports, for investigation of claims and so on," Mr. Lindsey said.

A safety management position, attached to risk management, with responsibility for developing programs and setting loss control goals is being planned at Amfac Inc., according to risk manager Ralph F. Perry Jr.

"At present each of the corporation's six major groups is responsible for running their own safety programs," Mr. Perry said. By putting the safety management program under a supervisor in risk management, "We're all going to be moving to reduce the cost of loss," he added.

The safety supervisor will develop programs but have no responsibility for implementing them, Mr. Perry said. "This has to be the responsibility of each individual group."

As an incentive, the cost of the company's insurance premiums is allocated among the groups and those with a high loss ratio pay a correspondingly higher share of the premium.

"There's something to be said for keeping safety out of risk

Continued on page 44

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Liaison relationship . . .

Continued from page 43

management," the risk manager for a large Bay area food processor said. "Safety is a big problem and an expensive one. Whenever I think of all the complications, such as OSHA (Occupational Safety and Health Administration), I'd just as soon stay out of it."

One risk manager who does have responsibility for safety and loss control programs has developed a safety manual for the company's far-flung divisions.

"If we had 17,000 employes in one factory, safety management would be a snap," said William B. Petree, risk manager for American Building Maintenance Industries. "But we have 17,000 employes spread all over the U.S."

So Mr. Petree wrote a loss control and safety manual. The president of each division and regional managers are responsible for implementing safety and loss control programs and there are required reporting procedures.

"We monitor the program closely," the risk manager continued. "We inform the divisions on a continuing basis of improvements or needs for improvements."

American Building Maintenance Industries uses a cost accounting method of allocating insurance premiums among the divisions, Mr. Petree said. "The divisions with bad losses pay more than the divisions with good loss records."

Though safety and loss control are separate departments with different reporting channels from risk management, "we work very closely," reported R. J. Malone, corporate director of insurance at The Sherwin-Williams Co. in Cleveland, Ohio.

"We've got a strong commitment from management on safety and loss control programs," he continued. "Each year we get a capital appropriation from management for special projects. We meet annually with our insurance company and safety personnel and discuss any program we might implement. If we hammer out a program, the money is there for it."

One risk manager recalled that 15 years ago his department was called insurance and safety. But as the safety function grew, management felt it should become part of the responsibilities of production. As a result safety was spun off into its own department.

"The theory that enforcement of safety and loss control are more effective through a separate department isn't valid today," another risk manager stated. "I've argued long and hard that there would be a much more effective use of these responsibilities if they were part of risk management.

Working with a separate safety department is no different from working with other departments whose responsibilities overlap into risk management, B.P. Alaska's Mr. Lindsey said. "It's no different from working with the legal department. You've got to work harder at communicating between the departments."

"To attain the best results, it's important to tailor placement of safety and loss control functions to the organizational structure and management philosophy of the individual organization," advised Richard Huntington, partner with Warren, McVeigh, Griffin & Huntington, risk management consultants.

A common disadvantage of placement within the personnel or industrial relations department is the influence labor activities may have on the loss control manager, Mr. Huntington continued. "The loss control manager may suggest certain improvements, but the industrial relations manager may opt to delay making these improvements until the next negotiation period with employe representatives."

However, by placing the safety function within personnel, the safety training can be easily integrated with the overall training program for new employes or the retraining of existing employes, he continued.

Placement of the safety effort within risk management "appears to be a natural placement when consideration is given to the broad responsibilities of the risk manager," Mr. Huntington noted. It removes the loss control manager from the politics of labor relations. The person can develop recommendations and improvements without considering any subjective evaluations of how these improvements will tie in with the overall labor relations program.

Where risk management is placed in the corporate structure is a key to the effectiveness of integrating the safety and loss control functions, the consultant concluded. "If the risk manager reports to a financial vp who is not strong within the corporate structure, the activities of the risk and loss prevention manager become less effective . . ."

If, on the other hand, the risk manager reports to a strong financial vp, his activities, including loss prevention and safety carry more clout in the organization, Mr. Huntington added. ■

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For more facts circle 82 on reply card

Corroon reorganizes its R&D department

CHICAGO—In the wake of Dr. Tom Allen's departure last year from Corroon & Black's Synercon division, C&B has realigned its major accounts operation into a research & development division to coordinate servicing of large clients using quantitative techniques and to embark on the development of a new analytical techniques for handling risks.

J. Bransford Wallace, senior vp of the parent company, is the new president of the C&B division. Mr. Wallace was an officer of Synercon when it was acquired in 1976 by Corroon & Black and was a principal of the Nashville-based brokerage firm of Armistead, Miller, Wallace. Assisting Mr. Wallace is James V. Davis, Ph.D., executive vp hired in late 1976 to replace Dr. Allen and refine C&B's analytical risk management services.

Also part of the new division are Ron O'Nan in Chicago, who joined C&B in March as vp; Manny Buzzell, senior vp; Allon Green, vp-regional manager based in Los Angeles; and Kenneth Pinkston, vp.

Offices of the operation will continued to be headquartered in Nashville with a regional location in LA. The division will work to build its own new computer programs and mathematical models used in risk and cash flow analysis, at the same time working with all other C&B subsidiaries to provide support services.

Mr. Davis is a former professor of management in the graduate school at Vanderbilt University, specializing in corporate finance and the application of analytical techniques to a variety of business problems. He served on the financial staff of Ford Motor Co. and with Prudential Insurance Co., subsequently doing consulting work for General Motors Corp., Murphy Oil Co., the departments of Justice and HEW, and several major banks.

Mr. Buzzell has been with C&B since 1973 after serving as national accounts administrator for CNA.

Named as internal C&B consultants to the new division were Larry Sullivan, vp in C&B's Boston office, and Fred Wicks, assistant vp in C&B's Chicago office.

The division also is calling on outside experts for consulting advice, including William W. Damon, associate professor of economics and business administration and James Jewett, associate professor of management, both with Vanderbilt University. Other experts will be consulted. ■

FAIR losses

NEW YORK—Statutory underwriting losses for FAIR plans totaled $44.7 million during the first nine months of 1976. That was a 15% decrease compared to the same loss for 1975, according to the Property Insurance Plans Services Office.

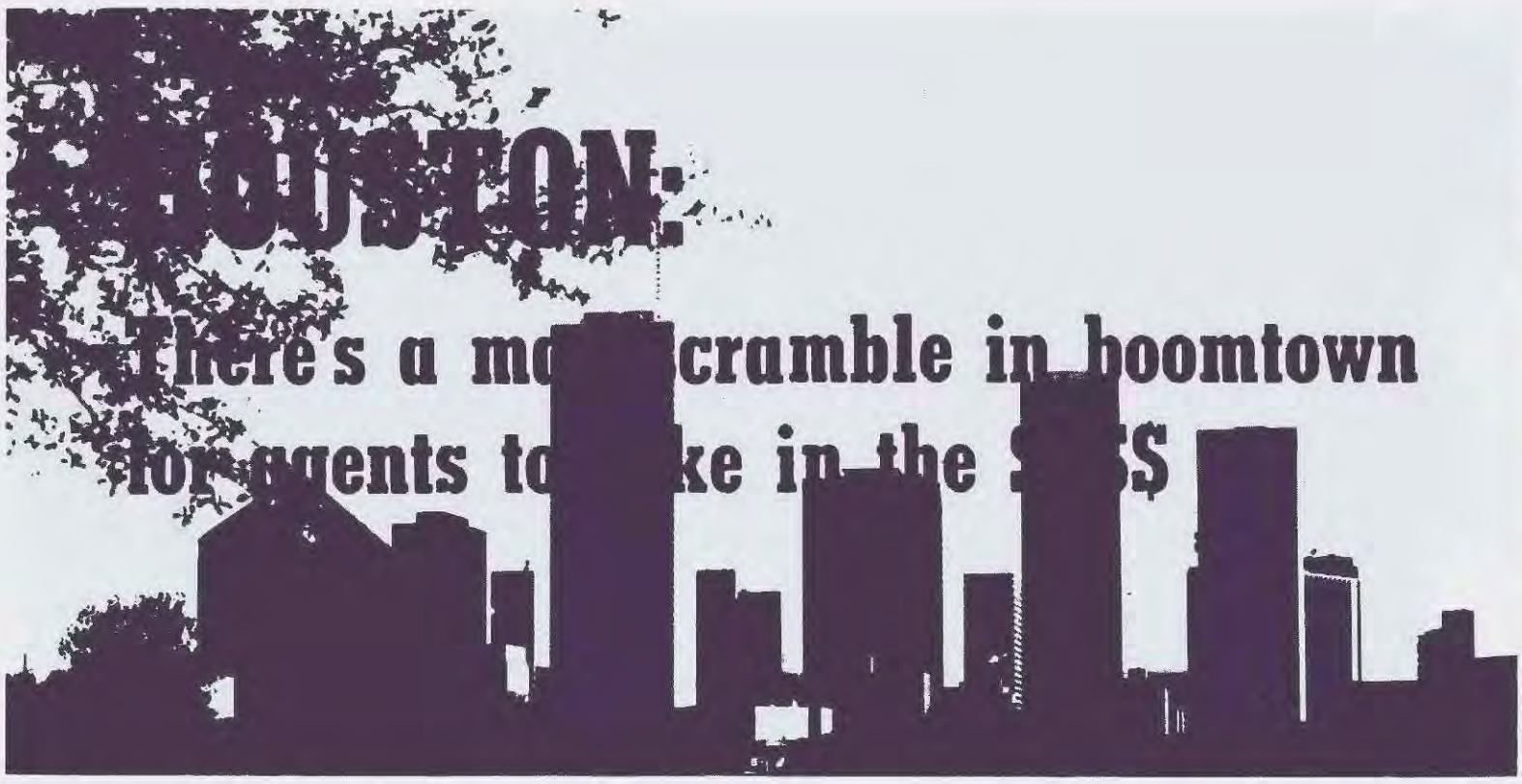
The total underwriting loss of the FAIR plans since their inception now stands at $300 million. New applications for 1976 are up over 80%. ■

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SEE OUR AD ON PAGE 3

agent/broker topics



Who's Who in Houston

1. John L. Wrotham & Sons Agency
2. Marsh & McLennan Inc.
3. Alexander & Alexander of Texas Inc.
4. Adams & Porter Associates Inc.
5. Harlan Inc.
6. Houstoun, Stevenson, Cummings
7. Corroon & Black
8. Frank B. Hall & Co.
9. Anco/The Anderson Co.
10. Johnson & Higgins of Texas Inc.

The ranks are in order of size, based on local options.

This is the first of a series of Agent/Broker stories on rapidly growing insurance markets.

By BARBARA JEAN GRAY

HOUSTON—The scramble is on for commercial insurance agents.

But it's not solely a scramble for commercial accounts. It's a scramble for the personnel needed to handle the insurance needs of the businesses flooding this city as well as the rapid growth of the companies already here.

Million-dollar corporations streamed into Houston at the rate of 22 per year between 1969 and 1975, according to the Chamber of Commerce. And last year, five $100 million-plus corporations moved their headquarters to town, bringing the total of those jumbos to 48.

The potential is bright, to say the least, concurred commercial insurance agents interviewed here. And the competition is fierce.

Agency business appears to be limited only by the ability to handle it fast enough.

"The (economic) growth rate has its own inherent problems," remarks George Dobbin, head of Marsh & McLennan's special risks and technical service operation. "One of these is staffing. We have had to seek a large percentage of new people outside of Houston, including producers and technical people."

Like all of the major national letter houses, M&M has been beefing up its staff, this year adding 20 to bring its total employment to 125, including the William M. Mercer operations.

The same "mixed blessing" report on growth comes from Bob Kish, district manager for Liberty Mutual, a growing competitive force. "In the last year, we've been above average for the company, which is growing at 10%, while we're (Houston) growing at 18%."

For personnel, "we're competing with the oil industry for clerical help. We pay on a scale comparable to our industry, but the oil industry pays from 10% to 20% more."

The Houston unemployment rate, he notes, is "less than 5% at this point. If you knock out the 3.5% hard core unemployed, that doesn't leave much to pick from. Talented typists are practically nonexistent."

Houston also has a housing problem, says Mr. Kish. "Growth is rising at such a fast pace, we have trouble transferring people into Houston. Our inflation is higher than the national average, and housing is the (inflation) leader."

Houston has never lacked strong local insurance agents. Even now, the city's roster of insurance resources contains a cross-section of strong local agents as well as the national brokerage houses.

John L. Wortham & Sons, Adams & Porter Associates Inc. and Harlan Inc. are the top three native sons.

In the past six to seven years, however, the mushrooming economy and the migration of a variety of industries to Houston have lured most of the major national insurance brokers, in some cases on the heels of their existing clients.

Tom Braniff of James J. Braniff & Co., who also serves as president-elect of the Independent Insurance Agents of Houston, characterizes the insurance environment this way: "In Texas I think we have the finest system of coexistence between the companies and the regulators. The companies are making money. In Texas, the state promulgates the rates on most lines. This works most favorably for the customers so they don't have big changes in the rates."

Texas agents (by law) have to be called agents. Whatever the nomenclature, they're gowing not only in aggregate revenues but also in sheer numbers.

Three hundred eighty-five agencies belonged to the Independent Insurance Agents of Houston last year, compared with 244 in 1974. Charles Leffler, executive vp of the organization, noted that of those members, more than 65 have annual premium volumes in excess of $1.5 million.

Houston's status as the nation's fastest growing city (1,000 families per month are pouring in, according to local estimates) and the nation's fifth largest metropolitan area with 2.5 million persons, might prove unsettling to those selling insurance here.

Though Adams & Porter officials don't see themselves being affected by the advent of major brokers onto the local scene, practically every other local agent claims the influx has made the Houston climate more competitive.

But "we're not worried," says Buddy Carruth, managing partner of John J. Wortham & Sons, probably Houston's largest single agency with gross revenues over $10 million. "They've not bothered us yet. We're just working harder and it's more competitive than it has been."

Mr. Carruth, who also raises breeder cattle on his 700-acre spread west of Houston, probably comes closest to a northerner's preconceived notion of a Houstonian. He is the son of B. F. Carruth, one of the three founders of the agency in 1915.

"We started out as an agency—the garden variety—and through the years have continued in the

Continued on page 44J

Inside:

Using the furniture

Amos Rosenblum, a $275,000 Minnesota producer, has created a special 400-foot square working area to increase his efficiency. One of his colleagues refers to Mr. Rosenblum's corner as the "zoo." Page 44C.

Selling your city

A San Diego insurance and real estate agent has begun an advertising campaign to counter the anti-business reputation of California and sell San Diego. Page 44D.

How do you choose?

What should you do, hire an established producer at a top salary or pay less for a younger, less experienced person who must be taught the business? Page 44E.

Our special section

Agent/broker topics is a special section devoted to the concerns of the agent and broker readers of *Business Insurance*. The rationale behind this growing part of the magazine is explained in an editorial on page 44B.

States act to clarify the diverse and ambiguous laws on agent fees

By BARBARA JEAN GRAY

CHICAGO—For several months, a Las Vegas insurance agent has been charging a $25 fee to new clients to process their applications. Robert Feldman of the All Risk Insurance Agency says he needs the fee to cover "substantially increased expenses, especially in high risk auto, and reduced company commissions."

But the Nevada insurance department disagrees. While the state's insurance laws do not directly address the question of fees, the department says its definition of premium ("a consideration for insurance or the procurement thereof") prohibits additional charges.

The department has held a hearing on the matter and a decision is expected in the near future.

A special section
business insurance
Exclusively for agents and brokers

Nevada's ambiguity on the question of fees is far from unique. The insurance codes of 14 other states are also silent on this.

However, four states have recently enacted legislation on the subject, and two other states have bills in the works.

In Maine, a bill sponsored by the Chartered Life Underwriters allowing life agents to accept fees or commissions (whichever is larger) is in committee. The law does not include property/casualty agents and according to at least one opinion, those agents don't seem to want it.

John Robinson of Desmond & Payne in Falmouth and president of the local CPCU chapter said, "I would like to see passage of that bill for c/p, but unfortunately the bulk of agents don't like it. I think they are afraid of it. Their main complaint is that negotiating a fee is not practical.

"My contention is that there are a lot of people out there who could really use a consultant.

"We do primarily commercial work including a lot of municipalities. This is a vast area in supplying specs, bid reviews, etc. It would be great to do it on a fee basis. We get burned up be-

Continued on page 44H

QUESTIONNAIRE FOR
SIXTH ANNUAL AGENT/BROKER PROFILES ISSUE
JULY 25, 1977

business insurance

(To qualify, agents and brokers must deal DIRECTLY with insureds and must have an annual premium volume of $1 million or more, and at least $150,000 in gross revenues.)

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Total number of employes: 1975 _____ 1976 _____

Gross revenue (commissions and fees) from insurance and related operations:

1975 $ _____ 1976 $ _____

Percentage derived from commercial accts.: 1975 _____ % 1976 _____ %

Reason for substantial increase (decrease): _____

_____

Total premium volume (estimate acceptable): 1975 $ _____

1976 $ _____

What percentage derived from commercial business: 1975 _____ %

1976 _____ %

Is your firm's compensation based on (check one): a) commissions ☐ b) fees ☐ c) combination ☐

List mergers and acquisitions in 1976 and thus far this year (this year's should be indicated as such):

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DEADLINE
June 15, 1977

Our agent/broker listing to be published July 25

ON JULY 25, 1977, Business Insurance will publish its sixth annual Agent/Broker Profiles issue, which will become an updated source of valuable information to corporate executives interested in services provided by your firm.

Last year's issue, containing 350 profiles, has become a valuable reference guide in the appraisal and selection of insurance agents and brokers who have the capacity to handle their commercial insurance requirements.

Although your company's profile may have been listed in last year's issue, in order to insure a listing in the 1977 issue the questionnaire at left must be completely filled out and returned to us. Financial information must be provided. Gross revenues must be reported. Premium volume should be reported as well, if this figure is known. Also, don't forget to include the number of employes your company had on staff at yearend 1976.

To be included in our profiles issue, firms must fulfill two criteria: Gross revenues must be $150,000 or more annually, and at least half the firm's revenues must be generated by commercial accounts. There's no charge for the listing..

Return your completed questionnaire as soon as possible. All listings for the Agent/Broker Profiles Issue MUST REACH US ON OR BEFORE June 15.

editorial opinions

We're growing

AGENT/BROKER TOPICS is growing. You've probably noticed our size is increasing, which means we'll be able to provide even more top-quality news of agency/brokerage management than the sections have previously contained. This issue of Agent/Broker Topics is expanded to 12 pages and we hope to have more like it.

When the first section was published in early 1976, our goal was to provide the agents and brokers among *Business Insurance's* readers with news of their own industry which would be useful in operating their businesses and in servicing commercial clients.

To achieve that objective, Agent/Broker Topics has its own editor.

Only the agents and brokers among BI's readers receive Agent/Broker Topics. The section's what we call a demographic publication, inserted in the nearly 8,600 issues mailed to subscribers who are purveyors of insurance.

Buyers of insurance who subscribe to *Business Insurance* don't see the Agent/Broker Topics sections. This special edition is designed to be a news forum for the exchange of ideas and discussion of issues between those directly involved in servicing the buyers.

The regular issue of Business Insurance continues to carry all news relevant to the insurance marketplace, which all of our subscribers require in order to do their jobs well.

A question of fees

AGENTS WHO MAY NOT want to think about charging fees for their services had better take the time. A payment method once distasteful for many vendors of insurance is now becoming de rigeur for those among you who are spending countless hours renewing problem-ridden policies for smaller clients not generating commissions adequate to cover the extra time and expense.

Thus, market conditions may team up with insurance buyers' requests and force more fee billings.

But as a story in this issue points out, it's not always a snap for an agent or broker to begin charging fees. As a case in Nevada shows, state laws and/or regulators' own preferences can cause a bundle of trouble for the unwary agent who ventures into fees where the code does not directly address the subject.

Caveat vendor.

$6,000 furniture makes this agent a stand-up guy

ST. LOUIS PARK, MINN.—Amos Rosenblum does not have a desk as such. He almost never sits to talk on the phone. And only rarely does he consult the central vertical stacks for client information.

How then does he bring $275,000 in revenues into the Brandow, Howard, Kohler & Rosenblum agency?

Mr. Rosenblum's production area is a maze of room divider panels which support storage drawers, writing areas, and bookshelves. The 15-foot extension cord on his red push button phone allows him to maneuver about within arm's length of "control files" or loose-leaf binders containing a capsule of vital statistics on each account extracted from the thick complete files in the vertical stacks.

Since he joined BHK&R seven years ago, Mr. Rosenblum has been adapting a 400 square foot corner in the agency and his own filing system for greater step and time saving efficiencies.

The total area is divided into four sections—one for Mr. Rosenblum, one for a marketing teammate, one for the agency's loss prevention specialist, and one for a conference area. The physical layout provides visual but not audio privacy, Mr. Rosenblum said." If a person equates status (that commodity which employes are paid) with a place where you can close the door, the Herman Miller action furniture will not do it for you."

He estimates that "under a normal set up, I couldn't accomplish 50% of what I do." The control files "don't make a big deal of things that don't need to be made a big deal of."

"We have taken our clients out of the file drawers and put them where we can see them," he said, waving an arm across an open shelf of notebooks.

The agents at BHK&R "asked ourselves how we could best serve our clients and concluded that the way to deal with the client is for each producer to do it his own way, since the client is working with us as individuals."

And, in fact, Mr. Rosenblum's $6,000 investment in the Herman Miller-designed "action furniture" and the control file system has not been uniformly enforced throughout the agency. Bill Brandow uses the shelving fixtures, although he locates it in a traditional office room. John Kohler maintains the more traditional elegant antique decor in his office. And Frank Howard, who refers to Mr. Rosenblum's arrangement as "the zoo" opts for a Spartan decor which Mr. Rosenblum dubs "early Salvation Army."

Others in the 40 person office employ Mr. Rosenblum's control file method to varying degrees.

A control file contains information on the client's present coverage, current information about his risk exposures, and possibly quotes gathered when the coverage was being planned.

The development of the files, their functions and purposes has been documented in a full-color slide presentation made about four years ago. At that time, BHK&R had just joined the international marketing association of Assurex, and it had been asked to prepare a presentation to tell a little about themselves. The program, with a background of player piano and an over-voice relating "how mild-mannered insurance agent Amos Rosenblum can find true happiness" is a chronology in lighthearted, if not downright knee-slapping, humor. In one slide, agent Rosenblum, attired only in brimmed cap, bow tie, and Adidas sneakers, reclines behind a strategically draped newspaper and ponders whether posing as the centerfold for *Business Insurance* is his calling in the insurance field.

Other audiences for this entertainment have included an informal group of CPCUs with whom Mr. Rosenblum meets annually for a producer idea exchange and general brainstorming. The loosely organized group of 10 agents hail from trading areas scattered across the country.

Communication, not only among agents, but also between agent and client is a constant goal of Mr. Rosenblum's. "You must constantly get the clients to talk to you about their business. You have to know a lot about the customer's business, his industry in general and his particular idiosyncrasies. A good businessman today needs an insurance agent as much as he needs a lawyer, a banker and an accountant."



Amos Rosenblum in his "action furniture" office outside Minneapolis.

Keeping current on clients and their changing needs and personnel takes time though, Mr. Rosenblum stated. "Insurance is no static thing either. But that's what makes it creative—analyzing contracts, adding amendments, creating our own endorsements, going out on losses, and teaching at the University of Minnesota," are some of the many related—and rejuvenating—functions he listed.

It would be easier if a producer could specify that all his accounts were to be in the same industry, he noted, but that can't be done in the medium-sized regional agency. Even if it were, he added, internal differences among clients don't always make them comparable. "You must find a person who has confidence in you. It's your ability to get along with that person that makes you able to serve him."

"Each person services his book differently," said the producer for

Continued on page 44D

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San Diego agent sells his city's virtues

CHICAGO—A San Diego insurance and real estate agent is selling his city.

John Burnham Inc. has undertaken a national advertising campaign to promote the city's business leadership and climate.

The print advertising campaign is intended to accentuate the positive aspects of a city the firm believes has borne the brunt of an "anti-business" reputation.

The initiative for the program was taken at a discussion among the firm's three department heads, Roy Erwin, executive vp of the insurance department, said in a recent interview in Chicago. That group consisted of Bob Lichter, vp-commercial real estate, Hal McNee, vp-real estate financing and Mr. Erwin.

Two weeks after that meeting, Malin Burnham, president of the firm, called together 23 business leaders in the city to describe the $20,000 campaign and to encourage them to begin similar programs.

Burnham looks upon the campaign as a "seed" program, Mr. Erwin said, and hopes fellow San Diegans will follow suit.

"We have had excellent response" from inside and outside the city he said, and Travelodge International, Inc., another San Diego firm, has recently begun using the theme in its local radio ads.

The Burnham advertisements began in May in the Pacific and Midwest editions of the Wall Street Journal, the PSA California in-flight magazine, the San Diego Union, the Daily Transcript (of San Diego) and the Escondido Times Advocate.

The format of the ads includes a photograph of several of the San Diego businessmen (those attending the meeting called by Malin Burham), and a headline stating: "Let's set the record straight about the business climate in San Diego County."

The copy goes on to say that there have been "some stories in the news lately about California being 'hostile' toward business and industry. And we'll admit some of our problems haven't been solved. That's likely to happen in a community that has been growing so fast for so many years. However, you can take our word for it—San Diego has strong business leadership. . ."

Between 1970 and 1976 the metropolitan area of San Diego grew 15.7% based on Census Bureau figures. Today, the city has a popualtion of about 760,000 with a county population of about 1.4 million.

The Burnham company is not politically oriented nor are the ads, Mr. Erwin noted. Stated objectives of the program are to erase and "anti-business" reputation, to demonstrate a positive attitude by San Diegans, and "to strengthen the base for the local economy through lower taxes, a better labor market, an improved money market, and better community facilities."

The campaign received enthusiastic response from the Mayor's office, the Chamber of Commerce and the Economic Development Corporation, the agents said. Any inquiries will be handled by the city's Economic Development Corporation.

The Tolle Company, Burnham's public relations counsel, is handling the campaign.

The negativism the campaign is geared to eradicate exists both in and outside the city limits, Mr. Erwin said. "There has been considerable politicking in San Diego and California centering around 'no growth' administrations.

"Now we're tooling up to say 'We want to be positive,' 'indeed there is a tomorrow' and that San Diego is a good place to live and work.

"There is no question that financing projects in California and San Diego is more difficult than in other areas. Attracting capital is becoming increasingly difficult."

John Burnham Inc. generates more than half of its real estate business outside of California, Mr. Erwin estimated.

John Burnham, Inc. was founded in San Diego in 1891 as a local real estate sales office. That was expanded to include real estate finance.

The insurance division was begun in 1927 and today accounts for 35% to 50% of total volume, Mr. Erwin said. That amounts to over $1 million in revenues on premium volume of $10 million. Commercial business is 92% of the total insurance business. ■

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For more facts circle 161 on reply card

Rosenblum...

Continued from page 44C

the 80% commercial agency which generated about $10 million in premiums last year.

Mr. Rosenblum's book is 60% medium-sized ($20,000 to $150,000 annual premiums) commercial accounts, 30% one jumbo account (Fingerhut, the $200 million mail order house here in Minnesota) and the remainder in smaller accounts, which he describes as "the ones you have picked personally which you think will grow so that when they do, you will be there."

According to the BHK&R system, the producer bringing in the account does not always handle it indefinitely. New producers are paid a straight commission at a higher percentage than the more established producers.

"Instead of taking accounts and handling them myself, I maintain them. That means when an account comes in, I give primary responsibility to another account executive. Established producers are further compensated with service fees, which total 30% of Mr. Rosenblum's income.

Relaying accounts from one person to another puts the onus on the agency to provide uniformly well-grounded, well-educated personnel. "We try to offer our clients the best service possible by services (like loss prevention), seminars (on topics like product liability, the market crunch and employe rehabilitation) and a 'complete insurance person'—someone who understands everything from pricing and risk management to adjusting losses. We try to have people who are more educated than normal"

BHK&R lists 10 CPCUs and two risk manager designations among its ranks.

Cross-checking among the nine producers is done continually. Every Monday a complete file is randomly chosen and given to one of the producers to analyze. He reviews the account as a homework exercise and makes suggestions, comments and queries to the executive handling the account.

Marketing is done three teams, each consisting of three producers and four assistants/clerical workers. Although producers do some loss prevention, BHK&R also has a full-time loss prevention specialist. **—BJG** ■

Ideal is someone '24 going on 30'

Kemper picks experience over youth—when it can

CHICAGO—All things being equal, is it better to fill a producer's vacancy by spiriting away a young up-and-comer from the competition or by training your own?

The dollar costs may be the same. So the decision may depend on the labor market, said Richard Winzer, president of James S. Kemper & Co.

A young and untrained individual starting out at a base salary under $10,000 might take about three years before he/she begins "paying his/her own way," the president said. On the other hand, a "journeyman" with three to five years of exposure to basic insurance principles might start out under $20,000 and "come to fruition" after 18 months. There are no hard and fast rules on the break-even date, he stressed. Each individual progresses at his/her own pace.

Kemper has hired both seasoned producers and recent college graduates. "I am willing to use both and have no strong preference, but if we could, we'd hire an experienced person. But you can't always do that." It depends on the available labor market.

He described the present Chicago market as "not easy," but "you'll find them if you have to."

Technical and accounting skills are prerequisite for any applicant "whether we hire him from someone or hire him from scratch."

Inexperienced applicants should have a B.A. with some insurance courses and be prepared for a 12 to 25 month work/study period. "We encourage them to take the basics at the College of Insurance, if not the CPCU." While professional designations do not mean automatic pay increases for the individual, they do carry credibility in calling on clients, the broker believes.

Kemper pays 100% of insurance schooling but has recently stopped reimbursing for masters degrees in other subjects. Should a student fail a course, the question of reimbursement is restudied, according to the individual, he said.

Education in-house consists of video cassettes for on-the-job study hours. Lee DuBois sales programs and Kemper (insurance company suburban Long Grove, not this agency) library materials are used.

The trainee splits his time between study and working in the underwriting department under a "very good" account executive for several months. At mid-point the trainee is assigned to a second account executive tutor, to give exposure to another individual in action.

Recently two new Kemper producers concluded training here at the headquarters. They were paid a base salary of $9,600. One was then moved on to Grand Rapids where he is to work with an established producer for a period of months. He will then be given a book of business of small accounts.

The ideal age for inexperienced personnel is "24 going on 30" Mr. Winzer joked. Seriously speaking, he added, "He must have maturity. A young man can sell personal lines but not necessarily commercial insurance."

The most recently hired experienced producer was 29 years old with a five-years' company and agency track record. He began at $19,000.

A "home-grown" producer may take two to three years to begin making money for the company, Mr. Winzer estimated. "Then he becomes productive. He has the equipment. He is paying his own way." The experienced person, by contrast, may take about 18 months.

Experience has little to do with company loyalty in terms of career tenure and "does not have a bearing" on turnover, the executive believes. "There is always the problem of the younger person leaving his first job, and that has happened on a few occasions. That's one of the bugaboos."

The ideal length of experience for the seasoned recruit is three to five years. Beyond that, company underwriters are often "lifers" he added with a grin.

> James S. Kemper & Company is an independent, privately owned agency. Stock is held by fifteen officers and directors, the lion's share being held by the firm's founder James S. Kemper Sr.
>
> Mr. Kemper is also chairman and founder of the principaled Kemper Insurance Cos., a firm in which he now owns less than 1% of the stock. His son, James S. Kemper Jr., is chairman chief executive officer of the Kemper Corp., the parent for Kemper Insurance.

There is no age or tenure timetable on when an account executive may reach his peak.

"Let's say a producer builds up an account of $200,000 in a good number of accounts. Then he has a service load prohibiting him from opening new accounts. If he has reached this 'saturation point,' we will cut his territories book to enable him to bring in a new man. We will then reduce his load but not his salary."

The salary of a Kemper producer may range between $15,000 and $70,000 Mr. Winzer said, although he didn't know an average. Compensation includes base salary, expenses, auto, a "good" fringe and pension program, and incentives. Bonuses picked up last year ranged between $5,000 and $29,000.

Kemper has 110 producers, including specialists and a few manager/producers.

Although individuals hoping to advance to management should be good account executives first, not all account executives necessarily make good management potential, he said. Upper management must constantly keep an eye out for those producers who display "management potential, desire and preparedness."

Promotion from within is a basic philosophy for Kemper. Mr. Winzer related the advancement course of a man hired ten years ago in Milwaukee with three years

Continued on page 44F

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Calif. producers join lobbying organization

SACRAMENTO — Legislation revising domestic workers' compensation has been the first major effort of the newly-created Insurance Agents and Brokers Legislative Council.

The "clean up" measures were mostly technical, according to the council's chairman, Jerome Aparton. Under the original bill, passed late last year, the insured had the right to reject coverage and the existing coverage didn't apply to tenants.

Legislation enacted with the support of the council in March, made coverage available with an indivisible premium and required coverage for domestic employes working 52 hours in a quarter and earning $100.

The Insurance Agents and Brokers Legislative Council, referred to as ABL, was formed last January to monitor and initiate property/casualty legislation representing the insurance consumer's interests.

ABL has established a full-time lobbyist, John A. Norwood, to represent it here in the state capital. Mr. Norwood is currently monitoring some 200 bills and is assisting in providing comment on others, Mr. Aparton said.

ABL represents five major producers' organizations in the state: The California Insurance Association, the Independent Insurance Agents of California, the Insurance Brokers Society of Southern California, the Society of Insurance Brokers and the Western Association of Insurance Brokers.

It is an outgrowth of the Joint Producers Council, a group of trade association presidents representing the same producers' organizations, plus the California Association of Life Underwriters. The Joint Producers Council and ABL cooperate on issues, Mr. Aparton said.

Mr. Aparton, who is a vp of Johnson & Higgins in San Francisco, said that to his knowledge no other state has a full-time advocate in the state capital representing all major producer organizations.

He estimated that ABL represented over 90% of all licensed agents and brokers in the state.

"We are seeking ways to serve the consumer who has not been represented before. The insurance companies have had a very strong lobby, but the producer had none on behalf of the consumer." ■

Employes purchase their Boston company

Boston—A management group of active employes has purchased Fairfield & Ellis, Inc.

The seven employes formed a holding company, the F & E International Inc., in April, and purchased the stock of Fairfield & Ellis Inc. and Fairfield & Ellis Ltd., a Canadian affiliate.

The all-lines insurance brokerage firm had been owned by individual investors and trusts.

C. Richard Peterson, senior vp-finance and administration, said the stock had been spread among less than a dozen investors. However, among these were various trusts with multiple interests, so that totally, including indirect ownerships, there were "a few dozen" shareholders.

The voting trustee, Richard B. Neuman, is a full time lawyer. His father Leon was a chairman of the board of the firm from the mid 1960s until last November when he retired for reasons of health.

Mr. Neuman Jr., in selling the firm, entertained offers from the management group as well as other firms, Mr. Peterson said.

Fairfield & Ellis Inc., founded 75 years ago, has offices here and in New York. The Canadian affiliate was formed 40 years ago.

Fairfield & Ellis employs 110 people and generates 80% of its revenues in commercial business.

The executive committee now directing the company consists of four of the seven new owners: Alexander Ellis, president and chairman of the board; John D. McVarish, executive vp; Donald Trainor, senior vp-marketing; and Mr. Peterson.

The other three new owners are also vice presidents.

Most of the new owners have been employed by the firm between 20 and 25 years, Mr. Peterson said. ■

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Kemper . . .

Continued from page 44E

underwriting experience at a multi-lines carrier.

"He had excellent sales potential. We trained him, gave him a book of business and moved him into a small office in South Bend. He did well, doubled the volume. Then we had an opportunity to promote him into Chicago to head up one of the outlying offices. He did well here also and, after two years, was named an Eastern division manager."

Should the employe move into management ranks he is compensated on a different incentive program involving a percentage of profit.

Continued concern about an account is fairly well assured in such an arrangement, Mr. Winzer said. "Let's say a producer handles an account, then becomes a manager and hands the account over to the next producer. He will be very concerned about the continuation of the account and his position will be a mixture of administration and sales.

"One of the reasons we have not grown as the big houses have is because our growth is purely internal," rather than acquiring other companies, the privately held broker said.

This also affects the employers' ability to offer a prospective employe an opportunity to "buy into the business."

"Our key officers have some stock but it's nominal," Mr. Winzer said on this point, and added, "I would like to see that changed."

BJG ■

Applications main cause of delay

Incomplete applications were probably the major reason for delays in obtaining commercial umbrella quotes and renewal quotes according to a recent bulletin of the Independent Insurance Agents of Texas.

The bulletin said the association had researched the situation in response to agent queries on the delays being experienced.

Delays occur when the incomplete applications take up correspondence time between the insurance company and the agent, the bulletin said. ■

Notable and quotable

Justice Dept. study opposes commissions

The recent Justice Department study on the antitrust immunity of the insurance industry contains some important items affecting agents, Ken Williams, president of Marketing Management Inc. told the organization's annual meeting in New Orleans.

"The Justice Department report challenges agents' commissions! While it gets mixed up between personal lines and commercial lines, tending to throw them both in the same pot, their study proposes two alternatives to the present fixed percentage commission rates:

"1. A rebate system. Yep, that's right! A rebate system, where agents would compete for business by offering to return part of their commission to clients as an inducement to buy.

2. A "net quote" system under which agents would purchase insurance on a wholesale basis from companies and tack on whatever commission or fees they can negotiate with the prospective buyer.

"I don't believe the rebate system will fly. It smacks too much of kickbacks and payoffs—something the current morality of our government tries not to condone.

"But I believe the 'net quote' system will fly. Fees in lieu of commissions have long been used by the national brokers, and by some aggressive local agents. We made a study of the legality of fees vs. commissions several years ago. Only a handful of states prohibit it either by law or dictate . . . some state laws even encourage the idea!

"The fee system would make agents relate to time . . . just as lawyers, accountants, architects and other professionals have done for years. This is good! It would make you aware of TIME—perhaps stop some waste of time. I know personally that my time is worth $100 an hour in the management of MMI. That's the kind of income I have to generate to make MMI profitable. Consequently, I'm very jealous of anyone wasting my time . . . and very careful about how I spend my time. I believe the fee system is good. It works for many other agents and brokers today. It will work for you. If 10% commission on a group marketing case does not pay for the time you have to spend servicing that particular case, don't be bashful about an add-on service fee if it's permissible in your state. Many MMI agents do this today." ■

Illinois hits firm with licensing fine

CHICAGO—A $25,000 fine for improper agent licensing practices, the largest fine ever of its type, was assessed by the Illinois department of insurance last month.

The fine was levied against the Reliable Life Insurance Co. of Webster Groves, Mo., after an insurance department performance examination revealed that of the 220 agent files reviewed, 24.1% were unlicensed; 31.8% had only temporary licenses; and another 111 sales representatives received illegal commissions during a period in which they were not licensed by the company.

The insurer waived its right to an administrative hearing and agreed to a minimum 12-month suspension of its temporary licensing authority.

The consent order entered with the director of insurance, Richard L. Mathias, further stipulates that all company sales representatives conducting business in Illinois will be properly licensed, operating only within the scope of licensed authority, all non-resident brokers will comply with the Illinois Insurance Code and a procedure to evaluate all claims will be instituted and maintained. ■

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Service Fee Status

Code is silent

Alabama
Arkansas
Iowa
Louisiana
Michigan
Mississippi
Nebraska
Nevada
Oklahoma
Rhode Island
South Carolina
West Virginia
Wyoming
D.C.

May be charged with prior consent of insured

Colorado
Connecticut
Georgia
Illinois
Minnesota
New Jersey
Pennsylvania
Vermont

May not be charged by agents but may be charged by brokers

California
Delaware
Kansas **
Missouri
New Mexico

May be charged if performed by consultant

Delaware
Florida
Idaho
Indiana
Kentucky *
Maine *
Maryland
Massachusetts
Montana
New Mexico
New Hampshire
New York
North Carolina
Ohio
North Dakota
Texas *
Utah
Washington
Wisconsin

Must be identified as part of the premium

South Dakota
Tennessee

Must be charged for unusual services with prior agreement whether or not insurance sale results

Virginia
Oregon

* —property/casualty may not simultaneously hold both licenses
**—does not license brokers

Agent fees . . .

Continued from page 44A

cause people from Massachusetts come up to do consulting work."

Maine's present law provides for the licensing of property/casualty consultants, but an agent may not hold both licenses simultaneously.

In Kansas, a bill to allow agents to be a licensed broker and thus charge a fee or a combination of fee and commission passed the senate and will be considered by the house next year.

Although it's referred to as a broker's bill, the Independent Insurance Agents of Kansas (IIAK), who are co-sponsoring the bill with the insurance department, feel it goes a little farther than the broker bills in other states because it has stiffer requirements. The bill requires that within five years of application, the prospective broker must have 15 hours of college credit in business and/or accounting and at least two parts of the CPCU exam passed. This provision was substituted into the bill by the IIAK in lieu of the examination procedure originally suggested by the insurance department.

Kansas considered a similar bill a few years ago, but it didn't pass. It was not supported by the IIAK for a number of reasons, the main one being it would have required a $25,000 performance bond.

This year's version offered several options on that point.

But the IIAK shift was not only due to this change, pointed out Jim Wallace, executive manger of the IIAK.

"Three years ago a lot of agents said they didn't need brokering authority. But then market problems came up and they needed something more than the agency bill allows.

"The reason that we're behind it is that when our agents have to deal with larger (commercial) risks, product liability, and professional liability, they need brokering authority." He used the example of the increasing use of factory mutuals which pay little, if any, commissions.

Mr. Wallace said the bill is "headed in the direction" of the net quote and rebate systems outlined in the recent Justice Department insurance antitrust study as possible alternatives to the present agent remuneration system.

The legality of an agent/broker charging a service fee when dealing with non-commission paying insurers is directly addressed in the Maryland state code. Last year a bill sponsored by the Independent Agents and the Independent Mutual Agents stipulated that an agent could charge a fee not to exceed 15% of annual premiums when representing such insurers.

Indiana has just adopted the model NAIC agent licensing bill which defines consultants, although it does not address itself to the subject of fees. The four-year-old model bill has been partially adopted in North Dakota and is presently being studied in a number of states, although Indiana is believed to be the first state to adopt it without major changes.

Although a few states identify a dollar maximum fee that may be charged for assigned risk placements, only Connecticut has a fee schedule.

Effective next month, Wisconsin agents wil be able to apply for broker or counselor licenses thanks to new legislation there. The agent will be allowed to charge an adviser's fee or a commission, but not both on the same transaction.

Basically the same statute was enacted in Utah this spring.

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However, in Oregon and Virginia, the state insurance departments say that if an agent performs a service for a prospective client and the sale of insurance does result, then the agent must charge both a fee and commission.

Service fees presently appear to constitute a nominal amount of total gross revenues for agents and brokers around the country, a *Business Insurance* survey of nine firms indicated. However, a considerable number of those interviewed anticipated an increasing amount of fee work in near the future, due to continued tight markets, growing client sophistication and the services required under the Employe Retirement Income Security Act.

At Brokerage Resources Inc., Chicago, for example, fees were probably less than 5%, estimated president Milton Lubin.

"Probably they will grow this year because we've expanded activity in the pension and profit sharing plans and because we will be placing more business at low commission companies," he said.

One of the reasons the $1.75 million gross revenue brokerage house does not do more fee work is "because of the type of accounts we do business with," Mr. Lubin explained. "We don't do business with large, publicity, held companies, but principally with smaller to medium-sized ($20,000 to $50,000) companies where premiums are smaller and less a matter of negotiation."

Even among the giants, however, fees are still in the minority. "In the property/casualty area, there are only extreme situations where we do charge a fee," stated a spokesman for Johnson & Higgins.

But, he added, "in employe benefits—and that's the name of the game—there has been tremendous growth. We have grown at least as fast as ERISA or more so."

Of the total employe benefit work done by the broker, 55% of the income is in fees and 45% is in commissions. Specifically, 90% of the pension work is fee and 10% commission. Group benefits are 25% fee and 75% commission.

The comparative profitably of fees versus commissions has not been the subject of any detailed studies by those interviewed.

"My experience has been that, historically, or at last until last year when there was a great dislocation of the market, we had better profitability on commissions than fees. I don't think that anyone actually sits down and keeps track of time," said Mr. Lubin.

The policy of charging on a hourly basis really doesn't offer that many more opportunities for profits, feels Charles Pachner of the Frenkel & Co. in New York city.

Comparing the hourly system such as that used by lawyers, leads "me to believe that if a broker were to do it part-time, it would be difficult to juxtapose the two systems. A fees-only system would be more difficult because people are not accustomed to it."

Fees are a small percentage of Frenkel revenues, he said, and the firm does not even break out the exact percentage.

"As far going to direct writers, we would go to them under any consideration, whether paid a commission or not." And some of them, like Employers Mutual, he pointed out, do use certain select brokers, like Frenkel.

Increase in fee work is a certainty, said a spokesman for Schiff Terhune. "We feel that it's coming," answered James Christie, administrative vp. "We think more and more clients will use consultative fees more than heretofore because of the complexities of insurance and the customer's own complex covers. The insurance buying public is much more sophisticated today than five years ago."

Schiff Terhune, licensed in all but two states, acknowledged the difficulties of keeping abreast of diverse state regulations on fee regulation.

"If you have a domestic corporate office you know what to do because you're there. If not, you must be very careful to keep in conformity with the local laws. It's not an easy task." ■

Here's how to involve your clerks

How do you get personnel, specifically clerical workers, involved in sales?

At one of the several brainstorming sessions at the CPCU spring seminar conducted by George Nordhaus in Chicago recently, these were some suggestions:

- Identify the personnel to the clients.
- Pay them.
- Involve them in intra-office competitions.
- Pay them per appointment made.
- Explain to them what to do.
- Offer incentives—such as days off. ■

Earnings estimates are raised

In view of strong first quarter results for three major insurance and brokerage firms, Drexel Burnham Lambert, stock brokers, has revised its 1977 earnings per share estimates for them.

Marsh & McLennan Cos. Inc., with a 16.1% jump in net income for the first quarter, is estimated by Drexel Burnham Lambert to earn between $4.00 and $4.05 per share for the year. This contrasts to an earlier DBL estimate of $3.85 to $3.90.

Rollins Burdick Hunter Company posted a 19.8% gain in net income for the first quarter. In view of this, the stock broker is now estimating per share earnings for the year to hit $1.70 to $1.75 or $.10 higher than previous estimates.

Corroon & Black Inc. registered a 67.9% surge in net income for the first quarter and Drexel Burnham Lambert now estimates an annual EPS of $3.45 to $3.55 up from its previous estimate of $3.00 to $3.05. ■

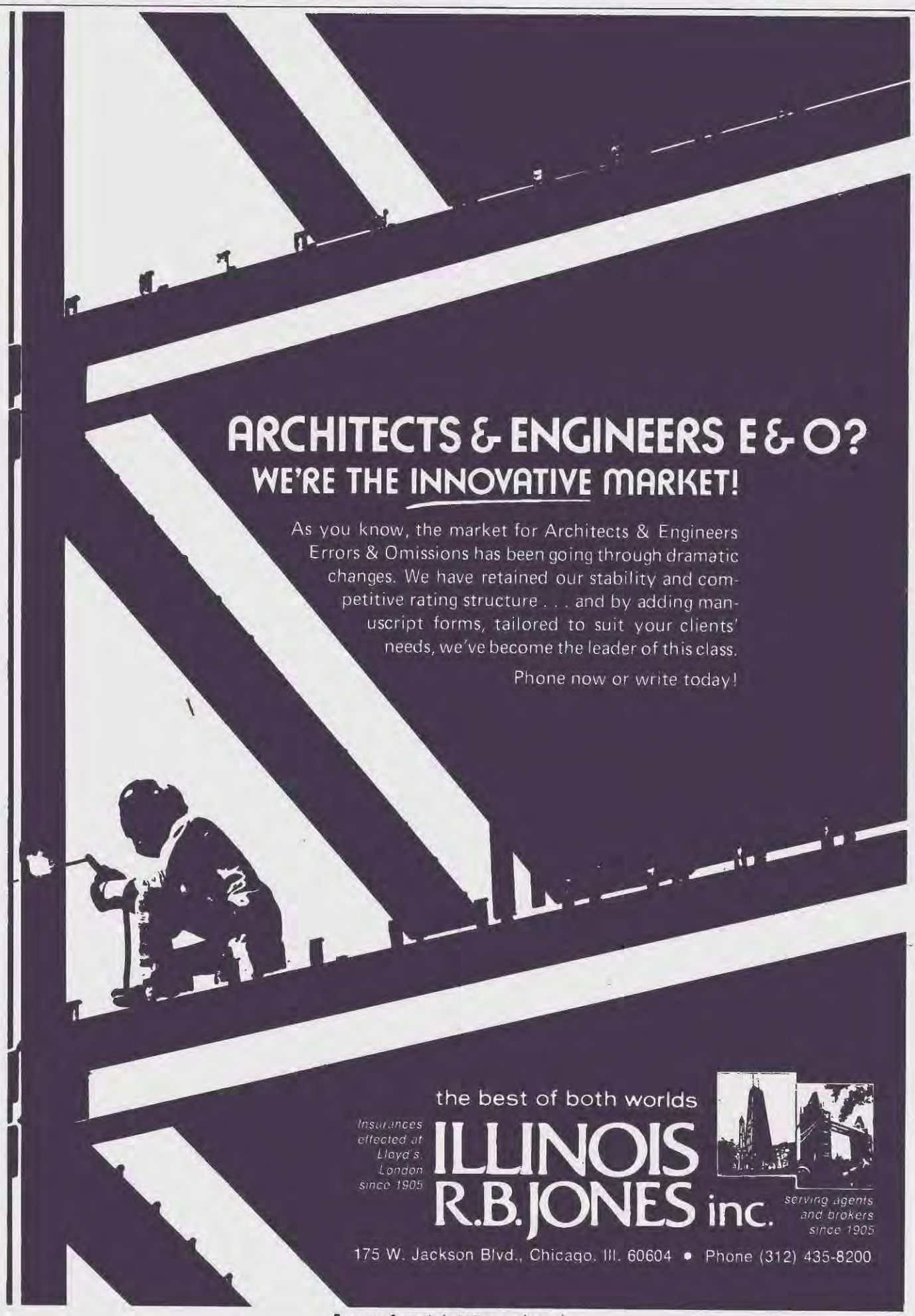
LA broker consolidates Paris office

LOS ANGELES—Bayly, Martin, & Fay, S.A. Europe has consolidated its Paris operation with Nerou & Company.

The BMF office, with 13 employes, generated a premium volume of $8 million last year, and the 6 employes of Nerou generated $3 million.

Claude Moyal, president and managing director for BMF will retain those titles for the consolidated office. Philippe Nerou, formerly managing director of Nerou, has been named director.

Bayly, Martin and Fay also operates offices in London and Oslo. The Oslo office opened in 1976 was recently established as a subsidiary, headed by Finn E. Jerstad. ■



For more facts circle 169 on reply card

The scramble is on in Houston . . .

writing of general insurance," he says.

Along the way, Wortham grew and diversified. In 1926, the agency organized American General Insurance Co. which it managed until 1965, when it was divested. Fourteen of the agency's 25 partners went with the insurance company, while 11 stayed with the agency.

Today, Wortham & Sons has 169 employes, 30 partners and 15 commission life insurance salesmen. The relationship with American General is merely that "we represent them (as well as many other companies) as agents," Mr. Carruth says.

Wortham's gross revenues increased "materially" in the past year. As for 1977, Mr. Carruth says, "I cannot believe that we would be fortunate enough to have an increase of the magnitude we had last year. I don't see the tremendous increase in premiums. The increase last year was occasioned to a large measure by the increase in premiums."

Houston has "a good political climate," says Mr. Carruth. "The growth of the community, which in turn helps the brokerage business, will be helped by the emphasis on energy."

Houston's "community" is, in fact, sprawling. Only 20% of the IIAH agency membership is in downtown Houston. Of the remaining 80%, there is a big concentration on the west side of the city. A demographic overview doesn't indicate any pattern of agency mix between city and outlying areas; independent locals and national firms are in both areas.

At least one firm moved for personnel reasons. ANCO, The Anderson Co., moved from downtown in 1968 "for the convenience of the employes," asserts John L. Van Osdall, senior vp. "We found we can attract more competent people being where we are (on the west side), where there are more families."

ANCO, a 100-year old Houston firm, employs 50 people here and 40 in neighboring Bryant College Station.

Another newcomer to the west side is Corroon & Black, which only last month moved into its new quarters adjacent to the Marriott Motel complex. Chuck Burton, president, pointed to the freeway loops around the city as giving better accessibility to clients.

Houston has plenty of room to grow. In fact, says Mr. Burton, "the growth of the city has no limits, unlike Detroit, San Francisco or other cities which have natural boundaries. Even within the city limits, we still have cattle grazing."

Of the national brokerage houses, C&B probably has had the most diverse pattern of growth. Arriving in 1972 with the acquisition of the Charles Burton Agency—a one-producer, four clerical-worker office—C&B last year acquired Norsworthy, Mohle & Co. When C&B purchased Synercon last spring, the Houston office gained the six-person local office of Armistead Miller Wallace. Most recently, C&B purchased R. B. Bowen & Co. Inc., a group of three producers and two backup people.

Combining acquisitions and internal growth, C&B scored an 80% gain in gross revenues for the Houston office alone last year, and is anticipating another 25% jump in 1977.

At least two other national brokerage firms—Johnson & Higgins and Frank B. Hall & Co.—reportedly have also seen disproportionately large growth as a result of expansion last year, after having had "modest" staffs for a few previous years.

Frank B. Hall now employs 36 people, 28 of whom have been brought in this year, executive vp Lester Eckert says. "We were the last to come into town and we've been here 3½ years. We've had monumental growth," he said. And he's projecting a 100% gain this year for Hall's Houston office.

The pace at which major brokers are staking their Houston claims shows no signs of abating.

In February, Bayly, Martin & Fay, the $24 million gross revenue brokerage frim from Los Angeles, issued a letter of intent to buy Harlan Inc. Harlan has 10 people in its Houston office, which realized a 30% increase in gross revenues last year, according to president Larmon Salmon. The office represents 18% of the total $12 million in revenue produced by the company's 18 national offices.

In April, Fred S. James & Co. began negotiations to acquire John Rathmell & Co., an 18-person agency which generated $1.6 million in gross revenues last year. During 1976, James purchased Houston's Kinney, Jones Agency which included six people and $2 million in premiums.

One of the many things that makes competition among insurance vendors interesting in this boom town is it's clearly not a battle pitting the newcomers against the home team. M&M's regional director Jack Elder was part and parcel of the M&M acquisition in 1969 of the local Wray, Couch & Elder agency. Similarly, Corroon & Black's Chuck Burton and A&A's Bill Dougherty and DeWitt Waltmon are old timers in town. Harlan's Larmon Salmon, on the other hand, was with M&M in New Orleans before he joined Harlan seven years ago.

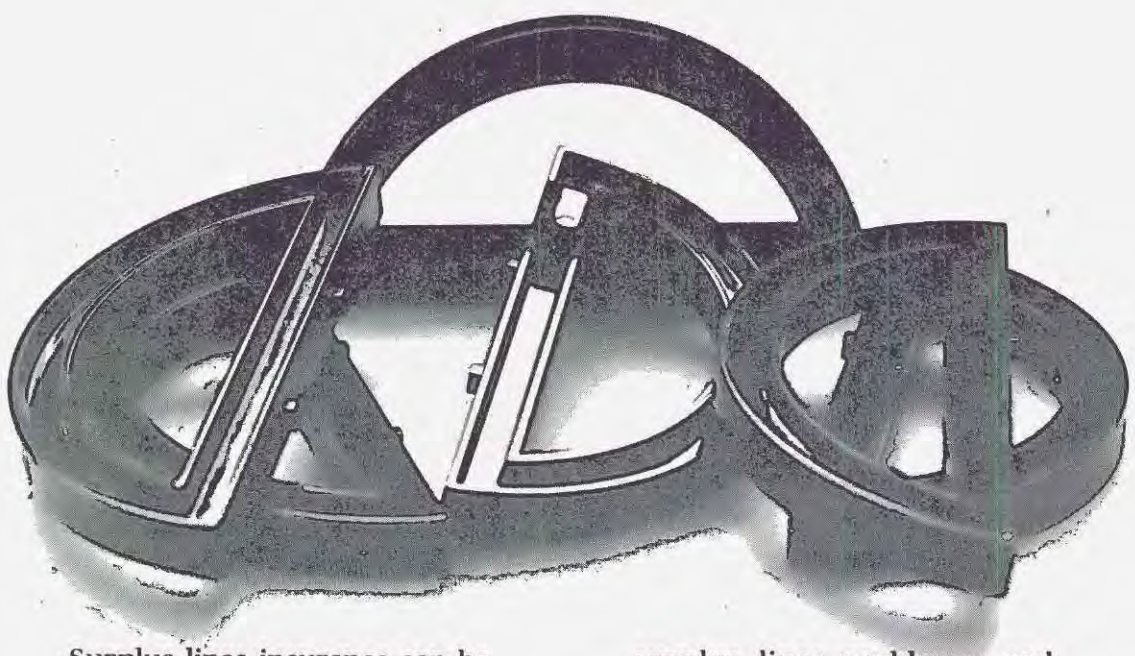
Alexander & Alexander's two Houston leaders were part of the acquisition of the 90-person Ecco Agency in 1975. They are competitively up against A&A's Dallas-Ft. Worth office which is generally acknowledged to be the largest agency in the state. A&A's total volume is estimated at two to three times that of any other agency in Texas, Mr. Dougherty says.

Although A&A's Houston office registered a 25% gross revenue gain in 1976 and is projecting the same for 1977, according to Mr. Dougherty, several Houston competitors view A&A as one of the fastest-growing agencies in the city. This is especially true since A&A's acquisition of Ecco, founded in 1947 by Mr. Dougherty. Ecco had just moved into its new west side offices in 1969 and, after the acquisition, A&A moved its downtown office out there.

A&A's Houston office is now seventh or eighth largest in the company, and employs 158 people.

The fastest-growing client industry for A&A, as well as for virtually every other agency in Houston, is energy. More specifically, says Mr. Dougherty, "When we say energy, it's principally oil. It will soon encompass many forms—coal, nuclear and so forth—but for the foreseeable future, it's oil."

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The outlook for the development of energy is dazzling.

Palmer Sparkman, chairman of the board of Johnson & Higgins of Texas elaborated, "When you think about it, only 2% of the offshore areas of the world have been explored for drilling. And three-fourths of the earth's surface is covered with water.

"We are now getting 17% of our oil and gas from offshore sources. I think it will be 25% within two to three years. There will be substantial drilling. There are over 12 slurry pipelines under consideration already. We'll see ligite coal coming into Texas from Mexico so our national sources can be used for petrochemicals.

"There isn't anything that won't benefit Texas. Maybe we're talking about different forms of energy, but business here looks strong and I cannot help but believe it will become stronger in time.

"Seventy-five percent of the energy requirements in the U.S. are oil and gas. Fifteen percent is coal. It will take time to develop new sources.

"Finding new forms of energy will definitely plan an important role in our continued business vitality in Houston. I also think there will be drilling off the Atlantic coast late this year."

Oil and oil-related insurance commissions represent a considerable chunk of total insurance revenues for major agents here. Wortham and M&M estimate oil-related business generates about two-thirds of their revenues, and A&A, and Corroon & Black put the proportion at one-third and one-fourth, respectively.

While the energy industries are far and away the biggest single customer for commercial insurance agents, they aren't everything. There's been a general slowdown in offshore drilling in recent years, and opinions are mixed as to what extent it has rebounded. Nevertheless, premium dollars remain high due to the rising rates in the past year and the high-risk nature of the oil drilling business.

Even the addition of another major oil company to Houston's ranks (nine of the 10 largest have at least some offices here already) doesn't automatically mean big bucks for commercial insurance agents. That's because many of the large petroleum firms use self-insurance, captives and insure their risks with Bermuda-based OIL (Oil Insurance Ltd.), a pool established by the oil companies in 1971.

Thus, Houston's widely diversified industrial base which is ever-broadening is equally important to the overall outlook.

Besides being the world's petroleum refining capital, according to the Chamber of Commerce, and supplying 23% of the nation's crude oil capacity in 1976, Houston supplied half of the nation's petrochemical production. Other growing industries include synthetic rubber, metals, nonelectric machinery, printing and publishing.

Office space has more than doubled here since 1969.

The Port of Houston, ranking second or third nationally, is also a major factor in Houston's economy. At the close of 1976, there were 1.1 million employed persons in the metro area, earning $15.2 billion a year.

In both 1975 and 1976, Houston ranked second nationally in the value of building permits issued, with non-residential construction contracts awarded in Harris County last year totaling nearly $1.3 billion, up more than 10% from 1975.

For insurance agents, construction firms and general contractors mean good business. In fact, two agents asked to name the most desirable account they didn't already have named Brown & Root, a contracting division of Halliburton, an account now split among several insurance agencies.

"A great deal of the growth has been in the established business here," claims Mr. Braniff. "The established businesses are all spreading—from convenience supermarkets to mini-warehouses. tion to tracking local growth, These companies are growing out to meet new people."

Some Houston agents, in addiare also branching out beyond the Houston sphere. Rathmell, for example, operates 40% of its commercial revenue dollars in mass marketed programs nationwide, John Rathmell notes.

Also operating far beyond the Houston area is Adams & Porter Associates Inc., which specializes in marine coverages and deals directly with clients on practically every continent. "Our business is so worldwide, the fact that we live in Houston is immaterial," says vp John Marshall.

"Being somewhat of a specialty operation, we haven't joined the fray," he adds. About three-fourths of Adams & Porter's revenues came from marine and related oil accounts. Pete Gardere, another Adams & Porter vp, estimated that only half of the firm's clients are Houston-

Continued on page 44L



GEORGE DOBBIN: "The growth rate has its own inherent problems. One of these is staffing problems. We have had to seek a large percentage of new people outside of Houston, including producers and technical people."



BUDDY CARRUTH: "The growth of the community, which in turn helps the brokerage business will be helped by the emphasis on energy."



JOHN VAN OSDALL: "We found we can attract more competent people being where we are (on the west side), where there are more families."

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Houston . . .

Continued from page 44K

based.

Adams & Porter has one other office in Bermuda, and is affiliated with Adams & Porter Inc. of New York and Brazil. Founded in 1907, the firm now employs 75 people.

Houston, Stevenson, Cummings, an independent agency thought to be sixth largest among commercial insurance brokers here, was by far the most publicity-shy.

In a telephone interview, a spokesman for the agency, who asked to remain anonymous, reported that the firm had a profit increase of 11% in the latest fiscal year and has just added four new partners, bringing that total to 17. In all, Houston has 81 employes here.

The national houses contend that their size and resources better enable them to handle jumbo accounts. J&H estimates that it handles half of all the city's top 100 firms and stresses its in-house human resources of lawyers, actuaries and CPAs. Lester Eckert at Frank B. Hall claims that "the influx of people into Houston—from property management firms to big investors—plays into the hands of the major brokers. We have more resources to handle it."

But there is no rigid line of demarcation separating big agents and big clients from smaller agents and smaller clients. M&M's George Dobbin points out that his firm is seeing more and more activity in the small to medium-sized oil industry customers now moving to Houston from across the U.S. and Canada. Some of these are sole proprietorships.

Conversely, there are cases of a local agency watching the local companies grow, such as Rathmell & Co. watching clients Gulf Resources & Chemical (now a $135 million firm) and the Diamond M. Drilling Co. "We started with them when they had three people," remarks John Rathmell. "Now they have 1,200."

For commercial agents contemplating a move to Houston, established insurance agents had plenty of advice.

Pete Gardere at Adams & Porter suggested that firms should "find the people before you come."

Hall's Lester Eckert says in the same vein, "acquire the best talent available. You cannot (achieve success) with mirrors or sleight of hand. Maybe once you could do that in Texas, but not any more. Insurance people—good ones—are expensive."

The second most common piece of counsel revolved around the subject of long hours. Offered Harlan's Larmon Salmon: "Be ready to work your fool head off. It's not an eight-to-five job down here. Last year most of our good people averaged a good 12 hours a day." ■



CHUCK BURTON: "The growth of the city has no limits, unlike Detroit, San Francisco, or other cities which have natural boundaries. Even within the city limits, we still have cattle grazing."



BILL DOUGHERTY: "When we talk about energy (the fastest growing client industry), it's principally oil. It will soon encompass possibly many forms—coal, nuclear, and so forth—but for the foreseeable future, it's oil."



PALMER SPARKMAN: "There isn't anything that won't benefit Texas. Maybe we're talking about different forms of energy, but business here looks strong and I cannot help but believe it will become stronger in time."

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Texas law established roadblocks

HOUSTON—It's not easy for just anybody to start selling insurance in the Lone Star State. In fact, there's a Texas law virtually protecting the agencies already here.

Thus, despite the appeal Texas may hold for those eager to cash in on fast growth in the commercial insurance business here, handicaps exist.

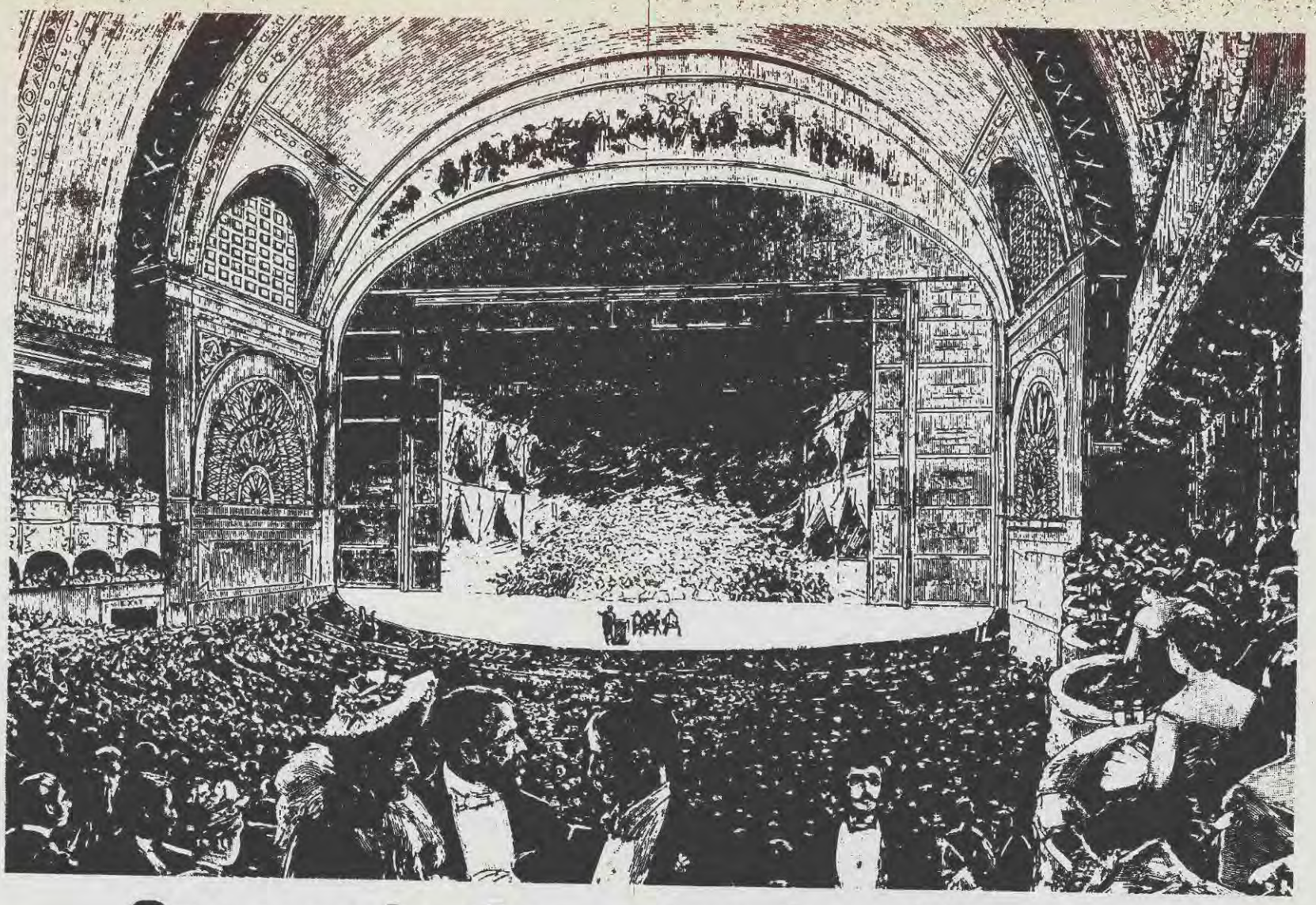
Many large national insurance brokerage firms have been able to enter the state by acquiring existing managing general agencies with charters enabling the national firm to sell all kinds of insurance. But it's not easy to open a branch office from scratch.

Texas law doesn't allow new people to come in, hang up a shingle and become an instant agent. In 1965 the legislature passed a law allowing chartered managing general agents to sell insurance without also having to go through the time-consuming process and expense of being licensed as "recording agents" (those doing business with the public). Otherwise national firms would have had to license every employe (regardless of location) as a Texas agent. In the two years after the law was passed, a number of agencies hurried to obtain managing general agency charters.

Just how many managing general agencies exist in Texas now is not known, although one estimate is 250.

In 1967 the law was repealed, although it contained a grandfather clause providing that all existing general agency charters were still valid. This charter allows a non-Texas firm which owns a managing general agency to appoint a local recording agent who deals with the public.

For an insurance brokerage firm from out-of-state to set up shop (funneling commission dollars out of the state to the headquarters) it first must obtain a managing general agency charter. ■



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On Monday, July 25, the command performance of the sixth annual AGENT/BROKER PROFILES issue of BUSINESS INSURANCE will be viewed by over 59,000 corporate insurance buyers in more than 17,500 leading U.S. corporations as well as nearly 30,000 agent and broker readers of B.I.

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Preparing samples for analysis of heavy metals in the air workers breathe is Kemper/NATLSCO industria hygiene technician Sue Connor

Kemper's NATLSCO . . .

Continued from page 11

fumes is just one of the services NATLSCO offers risk and safety managers. A subsidiary of Kemper Corp., it offers consulting services in such varied areas as safety, noise and vibration, fire protection, industrial hygiene, occupational health and product safety. Its repertoire also includes claim and loss control services for the self-insured.

With headquarters in the Kemper complex in Long Grove, Ill., and a home office staff of 35, the subsidiary also utilizes 120 Kemper senior loss control engineers and other experts stationed around the country to provide a nationwide network of service.

A *Business Insurance* reporter last month interviewed NATLSCO executives about their consulting services and toured the laboratories.

Formed in 1968, NATLSCO has grown from $50,000 in fees its first year to $7 million in 1976 with 1977 business projected at $12 million. James W. Smirles, NATLSCO's marketing vp, attributes the company's success, in part, to the changing risk and safety management climate.

He mentioned specifically the increased sophistication of risk managers, the changing insurance marketplace, the movement to self-insurance and more retention of risks. In addition, federal legislation ranging from the Occupational Safety and Health Administration (OSHA) to consumer product safety has also hightened the risk manager's concern for loss control.

These forces, says Mr. Smirles, worked a fertile environment for the development of NATLSCO which Kemper bills as "the world of problem solving."

The problems NATLSCO tackles range from emergency situations—like the perfume episode—to preventive measurers.

A manufacturer with numerous plants elected to self-insure for workers' compensation and liability. It contracted with NATLSCO for claim and loss control services. While discussing their current loss control program, the risk manager and corporate safety manager mentioned the company lacked in-house expertise in environmental health control. Richard T. Lapham, vp and manager of the safety services division, explained NATLSCO recommended a multi-phase industrial health program.

In phase one, an industrial hygienist walked through the plants assessing the exposures. He laid out the problems and set priorities for action. In phase two, scientific samples were taken and analyzed to document and evaluate the problem areas spotted by the industrial hygienist.

Kemper operates its own environmental science laboratory, accredited by the American Industrial Hygiene Assn., to analyze samples. For example, when there is a question about air quality in the work place, the air is pumped through a sampling medium. Chemists in the laboratory analyze the medium and tell the industrial hygienist what toxic substances are in the air and in what concentration. With that information, corrective measurers can be taken.

One of the problems spotted by the industrial hygienist in this client's plant was workers in a confined area applying a coating containing a chromate pigment—definitely a health exposure. Step-by-step procedures for protecting the employes—including respiratory protection, ventilation and protective clothing—were recommended.

Mr. Crawford noted that each situation requires a unique solution. "There's no canned answer. The cure has to solve the exposure but it still has to be practical to implement," he explained.

Phase three of the multi-phase program focused on monitoring the environment. NATLSCO can train company personnel to monitor exposures or it will continue to provide the service.

Mr. Smirles said monitoring and maintaining a safe environment for workers is dictated not only by OSHA standards, but is also a good business practice considering workers' compensation costs. "It's not the back pain that's the problem now. It's the chronic exposure to toxic materials," he observed.

OSHA regulations are also a concern, such as in this incident Mr. Crawford recalled: A risk manager and safety director realized there was a great deal of noise in the company's manufacturing locations. NATLSCO was called in to survey the noise conditions and while its inspector was there, an OSHA inspector showed up. He'd been called in by a noise-sensitive employe but when the OSHA inspector met with the NATLSCO inspector, he was satisfied the company was taking corrective measures and didn't conduct his own survey.

NATLSCO's noise and vibration survey utilizes a sound-level meter which looks like a large walkie-talkie. The noise in the plant is recorded and later played into an analyzer back at the laboratory. The analyzer separates the frequencies and measures the amplitude. Engineers can then determine if the plant is noiser than OSHA standards allow and recommend how the manufacturer can knock down the troublesome amplitudes.

A handy by-product of the noise survey is a colorful map illustrating the different noise levels in the given area. It looks like a topographic map which depicts altitudes. Mr. Smirles said, "These graphics help the risk manager sell his story to management."

The results of these surveys are the confidential property of the clients and are not sent to OSHA. However, some risk and safety managers have found it helpful to show an OSHA inspector the NATLSCO report as a measure of good faith indicating that the company is aware of its problems and is taking measures to correct them.

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Risk managers have not beaten a path to NATLSCO's door for its product safety consulting services. Daniel F. Benevich, vp and manager of product safety said, "There's been resistance to product safety programs. We've had the capability for a number of years but manufacturers have resisted it. I can't really pinpoint why, but the attitude seems to be, 'My insurance will cover it.'"

In the current tight product liability insurance marketplace, Mr. Benevich finds 90% of the requests for product safety consulting services come from brokers. "The burden of obtaining insurance is on the broker and he's having trouble placing the business," Mr. Benevich said.

NATLSCO's product safety services concentrate on the management aspect of product safety, not the product itself. Mr. Benevich explained, "Manufacturers know their products and their application, but they don't know about possible accidents."

There are three types of product safety assistance offered. Compliance consulting focuses on safety standards and regulations. A control program review covers the company's current product safety efforts with an eye for improvements.

A comprehensive product safety analysis, as the name implies, is the most extensive approach to product safety NATLSCO offers. Its experts will determine the potential hazards of all product lines, analyze corporate procedures and systems relating to product safety and establish a specific product safety control program for the manufacturer.

Product lines are studied with concentration on design, safety devices, labels and warnings, product quality and reliability, design and testing documentation, product traceability, consequences of product misuse, testing programs and service manuals and operating instructions.

Corporate policies and procedures examined include design engineering, manufacturing, purchasing, customer relations, technical services, quality assurance, advertising and sales and legal and insurance functions.

In one case, a broker couldn't place insurance for a space heater manufacturer. NATLSCO was hired and the consultants came up with a list of recommendations including that the company hire one person to coordinate the product safety program. They also suggested the company take a closer look at safety devices for its entire product line. When the state of the art precluded a safety device on a particular product, the consultants recommended the company document it.

The company's advertising was deemed dangerously misleading by the consultants and they found illustrations of product use that could be hazardous.

To get the consumer to read the instruction booklet, the consultants designed a warranty card that asked questions the consumer could answer only after reading the booklet.

The company secured insurance a couple months later. Mr. Smirles concluded, "The underwriter was convinced by the consulting firm's report in front him."

Manufacturers who aren't willing to review their whole program can contract for an objective study of their program and products. No judgments are made, just the facts are outlined.

A broker, said Mr. Benevich, often purchases this service so he can hand the underwriter a report on the company's product lines, their applications, and an outline of the organization to help sell his client.

NATLSCO's clients include both the insured and the self-insured. However, NATLSCO doesn't sell its services to Kemper policy holders, Mr. Smirles said, because they are already entitled to its expertise. And NATLSCO won't take on a contract for a service which the client is entitled to receive from his own insurer.

But sometimes, Mr. Smirles said, the underwriter does not have the level of expertise NATLSCO offers. Also, the premium dollar often doesn't stretch far enough to provide the in-depth consulting work a client wants.

The client, too, may disagree with its insurer and want another opinion. One company was told by its insurer that it had to implement certain fire prevention measurers in order to get a policy on a new garage. The fire prevention improvements were estimated to cost over $20,000 and the company was sure it could be done for less. NATLSCO inspected the garage and made recommendations for achieving the same results at almost half the original estimate. The study, in today's dollars, cost $1000.

NATLSCO's consulting fees range from $25 to $45 an hour depending on the expertise required.

The scope of the Kemper subsidiary's services is wider than a *Business Insurance* reporter could digest in one day with the experts and longer than can be detailed here.

But one service to keep in mind —NATLSCO has a nose for a potent perfume. ■



An X-ray diffractometer which analyzes free silica in the air gets a sample from Kemper/NATLSCO industrial hygiene chemist Ed Denson.

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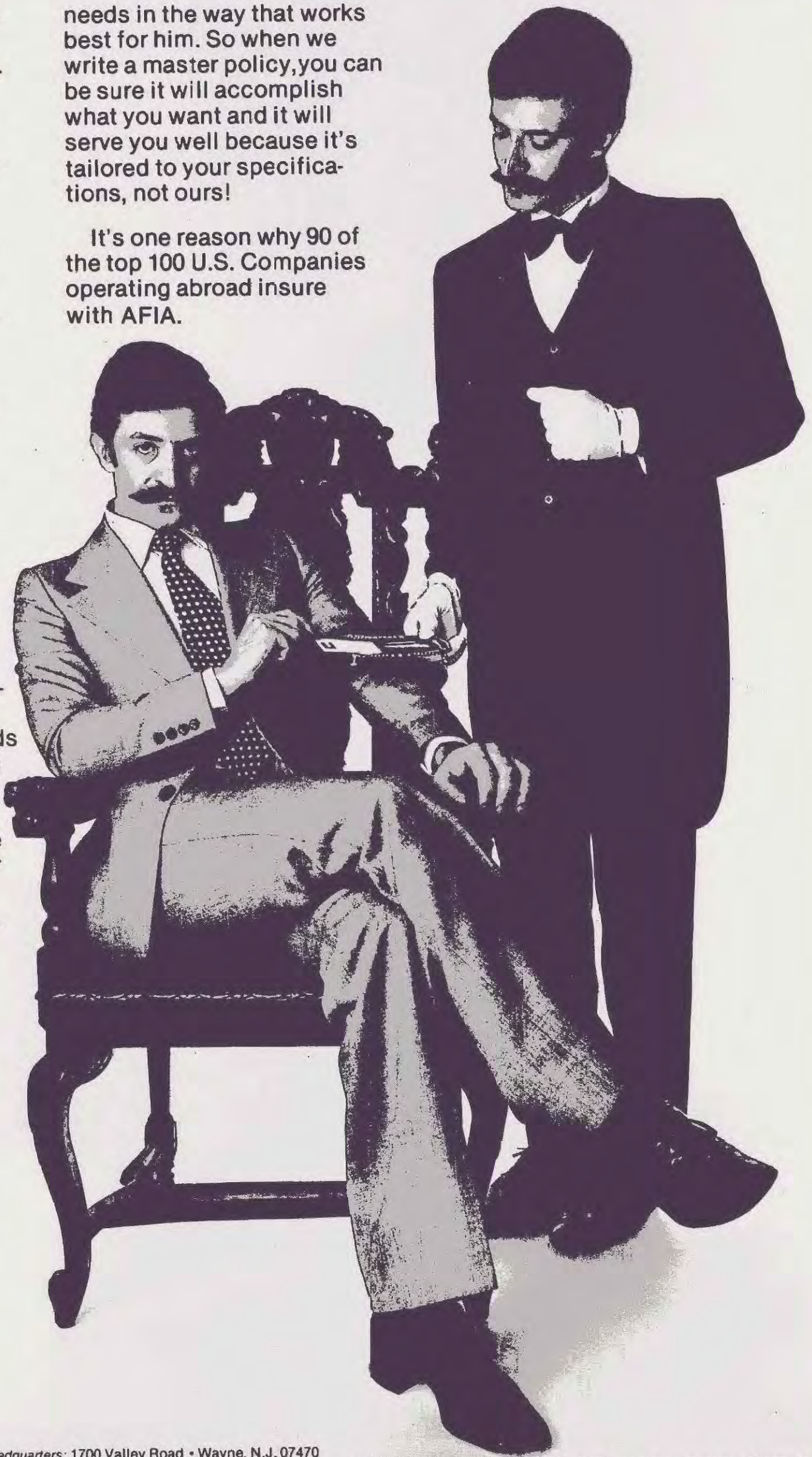
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PERSPECTIVE

Salvage firms can offer ways for your captive to reduce cost of losses

By James C. Boyd
National Marketing Manager
Underwriters Salvage Co.
Risk Management Services
Chicago, Ill.

SALVAGE OPERATIONS involve loss recovery, another dimension in the risk sharing process.

To say that insurance profiles have changed dramatically in the recent past may sound sophomorish. Even the term captive—a relatively new term—is already giving way to a new vogue, the insurance subsidiary.

The very idea of the self-insurance concept is independence. Independence from the ever-changing nature of insurance coverages. Independence from limited underwriting capacity. Independence from the cost ineconomies of traditional risk financing techniques.

Great words and concepts have been developed as declarations of this risk independence which corporations are searching for, including: risk retention, self-assumption and self-insurance. Each gives a greater degree of independence.

The captive was born as the ultimate formalization of the self-insurance concept. And that concept is growing.

More and more, captives are writing risks other than the parents. No doubt they will soon assume full stature as alternative risk shares for the more general insurance markets.

The need of insurance subsidiaries parallel those of conventional insurance companies.

For many years, salvage operations have helped the insurance industry deal with the risks inherent to their service. We all know that insurance companies employ every hedge possible to foster asset conservation and cash flow protection. Actuarial statistics are certainly the most prominent technique.

Salvage operations can help you not only in the area of disposition, but also as consultants in setting up a responsive salvage program.

What about salvage operations under a captive insurance program? If your goal of independence includes internal salvaging capabilities, salvage operations can help you gear up to attain that goal.

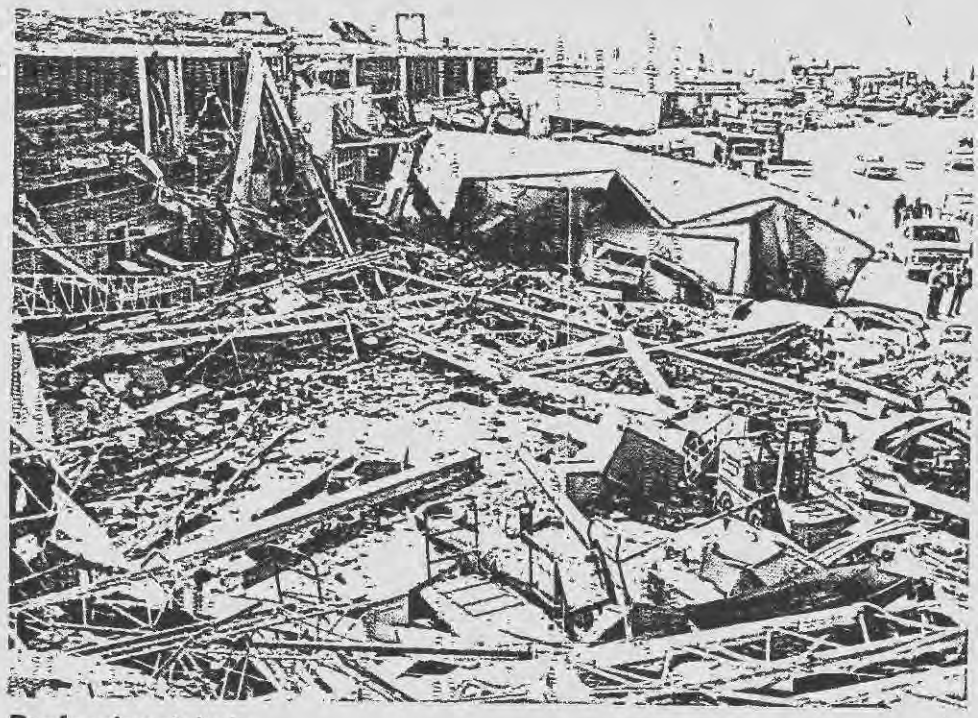
Chances are, right now, that your respective companies are not geared up to get involved in the logistical headaches of the nitty gritty of marketing salvageable merchandise. Indeed, you'll probably find that it would be too costly and time consuming to set up your own salvaging facilities.

Let's look, then, at an example of how professional salvors can assist you. As an insurance subsidiary you have underwritten a $100,000 policy covering the automobiles of your parent corporation. The same afternoon that all of these shiny new executive cars come in, a tornado sweeps the parking lot, stacking the autos one on top of the other up against a very large tree.

Your claims adjuster takes a look at the 15 formerly shiney vehicles and declares each a constructive total loss. As the insurance subsidiary, you pay the $100,000 to replace the automobiles. You now own 15 constructive total losses and your assets have been depleted to the tune of one hundred grand.

What can you do to get some of those dollars back? Well, I suppose you could open a damaged-car lot, get your executives some loud houndstooth suits, cigars and zircon rings.

But, there is a more practical way. You can let a loss recovery expert take over the fleet and sell them on your behalf. Shortly after his inspection, he'll be able to tell you how much you can realistically expect to be returned to your cash flow.



Professional help

Salvage operations can assist your company in evaluating and documenting the extent of the damage. A professional salvor can help to set realistic reserves and provide the documentation to support a fair settlement of a claim.

Salvage operations can also assist your representative to evaluate and document the extent of the damage. The importance of an objective, third-party evaluation by a professional salvor will aid your representative in setting realistic reserves and provide you with documentation to support a fair settlement of the claim.

Because of our day-to-day involvement with merchandise of all sorts, our salvage operation can determine the fair market value of the salvage and pinpoint potential markets to insure a high net dollar recovery.

Immediate involvement by a salvage operation can make all the difference. The first hours of any loss are the most critical. Remember, quick action may be required to prevent any further loss. A smoldering fire can often spark additional losses. Inclement weather can prolong exposure and create additional loss. Theft and pilferage is always a lurking possibility.



Our particular salvage operation has the ability to mobilize on-site action teams of commodity experts, loss recovery special agents and laborers anywhere in the country within hours to help maintain maximum values. Salvage operations may have available to them a commodity expert, for example, who can tell you by the hour how much cotton is selling for, and where the markets are.

We can even produce a net return guarantee. That's cash you can depend on when setting your reserves.

Professional salvors will always work with you to determine the best method of disposing of distressed goods. Our methods of disposition include sealed bid sales, negotiated sales, auctions and retail sales to non-competitive markets.

The type of sale a salvage operation uses is often predicated on the restrictions a client places on the salvor, as in the case of a geographical sales restriction or brand and label considerations.

A sealed bid sale requires preparation and time. It may require removal of a stock to a warehouse to facilitate disposition or it may be performed on-site. Sealed bid sales involve inventory and classification of what is being offered. Notification is made to known buyers who submit their sealed bids for the merchandise. We maintain the right to reject any and all bids that do not meet our appraised value of the merchandise.

In the case of a negotiated sale, the sale is frequently completed at the site. The goods are removed immediately according to the agreement and a recovery check can be issued with the same speed.

Sometimes public auctions are required by law, or they may be found to be the best method of disposition in terms of generating the highest net recovery dollars. We have found in every community in which Underwriters Salvage Co. auctions are held that they create excitement and a momentum that results in additional recovery dollars.

Our company even operates retail outlets to sell distressed merchandise. While these outlets allow consumers to take part in the salvage process by purchasing goods at dis-

Continued on following page

What you and they need to know

ABCs of a claims servicing contract

By Forrest L. Minix
Executive vp and chief operating officer
Crawford & Co., insurance adjusters
Atlanta, Ga.

CLAIM SERVICING organizations are either independently owned (such as Crawford & Co.), or are part of an insurance company, or are in some manner operating separately as wholly owned subsidiaries of an insurance company. Several of the large brokerage firms also offer limited claims service.

Several of the large independent claim servicing companies and many of the insurance companies' claim departments have a sufficient geographical spread to serve any of the clients' needs. Most claim servicing companies are capable of handling all types of casualty claims, including workers' compensation. Some can handle property losses as well as marine lines.

The larger servicing companies can furnish statistical data which can include loss cause analysis and information needed by loss prevention personnel.

The servicing companies are capable of handling claims for the life of the claim, including, of course, litigation, supervision and adequate reserve determination.

Several of the independent companies and some of the insurance companies are capable of furnishing in-house vocational rehabilitation in line with the latest amendment to our workers' compensation laws. My particular company has 23 such branch offices at the present time and we are heavily involved in the expansion of vocational rehabilitation services.

In other words, the independent claims service organization or the insurance company-owned claim departments are very capable of furnishing claim service to the self-insured client and to those fronting companies that do not have nationwide claim service.

A factor we feel is extremely important in the early stages of the formulation of a program is the communication between the client and the claim servicing company. This is vital for the client to receive an accurate bid proposal covering all points. Certain information should be furnished to the servicing company to properly prepare the bid proposal and to properly price the bid, including the following:

- Is the claim servicing company to perform total supervision of the claim function, including authority to supervise litigation, or is this function to be limited?
- The claim servicing company needs to know the projected number of claims by type of coverage and location, along with the projected incurred loss for each line. It would also be helpful if the number of claims were segregated by the dollar amount in each category, such as zero to $500; $500 to $1,000, etc.
- Does client expect the servicing company to furnish a full time exclusive account executive for the account, and if so, where is this person to be located?
- How will drafts and claims be processed? Is the servicing company to use the fronting insurance company's drafts, or will special bank accounts be set up by the servicing company whereby the servicing company will be fully responsible for the processing of drafts and the reconciliation of the bank statements? The methods of reimbursing this bank account by the client should be explored.
- Will the servicing company be responsible for preparing and filing yearly reports direct to regulatory authorities in the various states and this is particularly true in the self-insured workers' compensation area?
- What procedure does a client expect to be followed on subrogation matters and what extent will the servicing company be involved in pursuing subrogation investigation and collection?
- How many meetings are expected each year or each quarter with the risk manager and/or his representative to discuss procedural changes and properly ad-

Continued on following page

PERSPECTIVE

Claims servicing . . .

Continued from preceding page
just reserves?

- What is the product liability exposure, including the type, the number of claims and the total incurred? In order to properly price this area, the products exposure must be fully explained.
- What is the term of the contract to be and are there to be renewable options with stated built-in adjustments?
- Is the claim servicing company to furnish statistical information such as statistical loss runs, loss cause analysis?
- The client should outline the geographical spread of its operations and its major locations.

On the other side of the ledger, the claim servicing company should give the risk manager or the client the following information when the bid is submitted.

- The bid should be in writing, covering the items requested in the specifications.
- The servicing company should give alternate methods of pricing their service.
- Servicing company should define allocated expense.
- There should be clear cut indemnity agreements between the client and the servicing company.
- The servicing company should explain its internal operation and organization, how the claims are to be administered and what controls the claim servicing company has on the handling of the client's deposit money, as well as its claims.
- A financial statement of the servicing company.
- The insurance coverage of the servicing company, including the name of its insurance carrier, limits of liability and types of coverage.
- A reference list of present clients with the risk managers' names and telephone numbers for contact.
- A copy of the servicing company's affirmative action plan, if the servicing company is to be a subcontractor for the client.
- An explanation of the educational facilities and training facilities of the servicing company.
- The format of the statistical information to be furnished and examples of each.

I think if the risk managers and brokers will give some thought to these items, you will see a more accurate range of competitive bidding, as well as a smoother transition to the new program.

Obviously, of primary interest to anyone embarking upon a self-insured program, regardless of the methods being used, will be the pricing methods used by the claim servicing companies.

Traditionally, most independent adjusters or independent claim organizations have worked on a time-and-expense fee arrangement for clients. You may receive bids based upon time and expense in any proposal you receive. The hourly rate today for claim service organizations varies from about $13.50 per hour to as much as $25 per hour, depending upon the type of claim, the experience of the personnel used and the location of the claim function.

As a general rule, most of the independent claim organizations, and mine is no exception to the rule, much prefer to handle product liability claims, or any type of claim where the exposure cannot be averaged or predicted on a time-and-expense method. We feel the claim product is much superior when handled in this method rather than trying to average the claims.

We are all well aware that in putting together self-insured or captive programs, it is necessary that certain figures be pretty well guaranteed and that the cost be comparable with other types of insurance. For this reason, it has become customary for many of the servicing organizations, and we are no exception to the rule, to adopt the retrospective rating plan method of using a percentage of incurred loss to determine the fee. We frankly do not like this method because we are generally in control of the reserving of claims and we feel our fees could best be based on some other criteria. There is always a certain tail on an incurred loss and it is difficult for us to project this figure with any accuracy.

The third method is the flat fee arrangement. In this arrangement a prearranged flat fee per claim is agreed upon between the servicing company and the client and is adjusted some six months after the policy year, up or down depending upon the number of claims handled or reported. Usually you can project the expected number of claims in each category, multiply them by the flat rate factors and come up with an anticipated yearly cost.

The percent-of-earned-premium fee method is not used in many instances in the self-insured area, and we haven't used it on any recent accounts, although it would be merely a computation of a percent of the earned premium to be paid to the servicing company.

The percent-of-gross-sales factor is another way of determining the servicing company's cost, and this is usually determined by the servicing company ascertaining its needs in dollars, per thousand dollars of total sales and dividing this figure by the amount of gross sales.

In some instances it is advisable for the client and the servicing company to reach an agreement on a guaranteed cost for servicing claims for specified period of time or a specified number of claims for a certain amount of money, and here again the servicing company must determine its necessary fees and reach some agreement with the client.

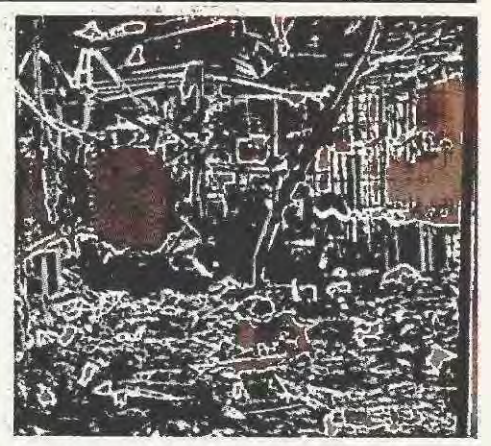
In recent months, it appears to us that many of the insurance carriers are now willing to subcontract their claim departments and this even adds more availability of service.

The decision as to whether or not a self-insured is to associate itself with an insurance company claim department or whether it goes with an independent claim servicing organization is a matter of the client determining which methods best suit its needs. Certainly with the insurance company furnishing some of the excess cover, as well as certain other allied services, there are advantages to using the insurance company's own captive claim department. In the event the client desires a certain flexibility in the program, there will probably be advantages in using an independent service organization so the possible change of adjusting firms or claim firms would not adversely affect the excess cover or other parts of the program.

It is important that the risk managers also keep in mind, as well as the brokers, that the independent adjusters as well as the company claim departments are constantly subject to certain licensing laws, as well as certain unfair claim practice statutes. Therefore, clients cannot expect the servicing company to breach any of these statutes for the clients' specific purposes. This is particularly true in the area of subrogation recovery.

The unfair claim practice statutes of many states now require certain notices to be given timely to third party claimants as to the tolling of the statute of limitations as well as certain records to be kept for the denial of claims. While it is true that many self-insureds may now be exempt from certain portions of these statutes, it is my opinion that as the self-insurance programs become more prevalent in the various states they will come under more and more scrutiny from the insurance departments and other regulatory authorities. ■

Claims departments are constantly subject to certain licensing laws as well as unfair claim practice statutes. Clients cannot expect these laws to be breached.



A salvor can assist the adjuster or surveyor in identifying potentially hazardous merchandise during the initial on-site inspection of the loss.

Salvage firms . . .

Continued from preceding page
counted prices, they are more than merely a place where a shopper can find a bargain. The traffic generated by high turns of discounted merchandise gives our professional salvors a solid sampling to monitor potential recovery values based on consumer shopping trends and demands.

This information has a direct bearing on our ability to provide you and your representative with current market values of salvageable goods which can assist in setting reserves against a loss.

Retail capabilities also give salvors the flexibility to produce a net return guarantee, because we will always have an outlet if other sales avenues do not yield the appraised value of the salvage.

What about the product liability and product integrity aspects of selling distressed merchandise? Professional salvors are well aware of the provisions of the Consumer Product Safety Act of 1972 and current tort law proceedings. We will work with you in total adherence to all provisions of the law regarding safety, warranties and the public interest.

In most cases, a salvor can assist your adjuster or surveyor in identifying potentially hazardous merchandise during the initial on-site inspection of the loss. If there is any question whatsoever about safety, we bring it to the immediate attention of the company's safety engineers or quality control people, and quite often we call on a third-party specialist for additional objective expert opinion, pro or con.

As for production integrity, most salvors have developed channels of distribution that allow them to merchandise inventories through channels that don't compete with the products' normal marketing channels.

The old idea of just writing off a loss because of excessive concern about product liability and product integrity—we suggest—is no longer a good idea. What might look like junk to you can be returned to your cash flow prudently through loss recovery expertise.

What of the future? Can insurance subsidiaries and risk managers project reduced financial requirements through loss recovery? Have salvors captured enough statistical data to allow you to incorporate the positive effect of net recovery dollars in your risk profiles at an acceptable confidence level?

In many cases, we feel the answer is yes. For instance, if you assume fleet risks, salvors can provide historical data through customized computer reports that can tell you by model year and type of vehicle the average recovery values experienced.

In our computer banks we have the ability to isolate data on hundreds of product categories encompassing thousands of products. These may or may not be predictable for the future, but the use of data available through the loss recovery services now can help you accumulate needed data for the future.

An important thing to remember is that salvors do not have to do it all for you. Most salvage operations work on a fee-for-service or commission basis. There may be only consultation, or there may be all the services from consultation through disposition included. But, however you choose to use a professional salvor, it's clear that loss recovery is a necessary dimension in the risk sharing process. ■

Risk Management Notes

Technicalities can create problems

By WARREN, McVEIGH GRIFFIN & HUNTINGTON
Risk Management Consultants
San Francisco—Newport Beach

WHAT HAPPENS WHEN an insured buys a policy for a certain kind of coverage but a technicality in policy language rules against coverage? Each case has a different set of circumstances. In some cases, the insurer honors the intent, but in far too many cases the insurers point to the policy wording to say, "This is the way it is. Sorry."

In some cases, the courts will side with the insurer while in others they will reconstruct the policy language to conform to justice. The latter was the decision in the case of C & J Fertilizer, Inc., vs. Allied Mutual Insurance Co. (227 NW 2d 169) and the difficulty of the decision is noted by the fact that the Iowa Supreme Court split five to four.

We are indebted to Victor Levit in his article "Insurance Law" in the Aug. 12, 1976, of Underwriters Report for a delineation of this interesting case.

The insured had a fertilizer plant which was burglarized. The burglary was evidenced by truck tire tread marks in the driveway and physical damage to an *interior* door. There was, however, no evident damage to the exterior of the building because entry was made by a means which did not leave any marks. The policy definition of burglary, however, required the *exterior* to bear physical marks of force and violence.

There was obviously a burglary. The insured had burglary insurance. However, the technical provision of the policy definition was not met and so the lower court ruled in favor of the insurer. However, on appeal the Iowa Supreme Court said that there were three reasons for the insurer to be made responsible.

- **Reasonable expectations.** The court stated: "The objectively reasonable expectations of applicants and intended beneficiaries regarding the terms of insurance contracts will be honored even though painstaking study of the policy provisions would have negated those expectations."
- **The technicality** was "unconscionable." The court held that the circumstances of this case led to the conclusion that it would be unconscionable to restrict coverage. The definition was obscured and something the insured would not expect.
- **Breach of implied warranty.** Only three of the five majority justices concurred in this theory, but it stated that the plaintiff should prevail because the insurer breached the implied warranty that the policy would be reasonably fit for its intended purpose.

We look on this as a heartening example of common sense over technicalities, but it is certainly not something a risk manager can rely on. First of all, policy language usually prevails even against strong obstacles. Second, a professional risk manager could logically be presumed to have understood the fine print of the policy. Third, the risk manager could be presumed to be as sophisticated in negotiating insurance as the insurer. ■

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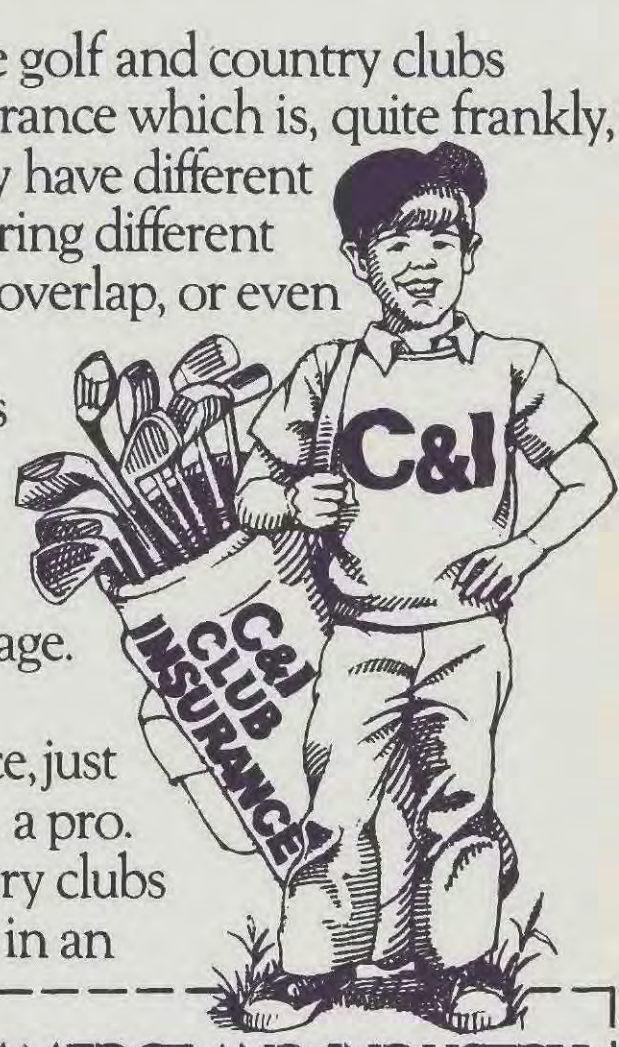
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PERSPECTIVE

Our peripatetic observer looks into the future

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

DOODLING AROUND one day wondering what to have a go at next, I suddenly found myself indulging in another fantasy. There are fantasies and *fantasies*, of course. Some are erotic in nature, others are idealistic. Some fantasies see the begetter as a hero—such as presiding triumphantly over the country, the corporation or the local bowling club.

These are happy fantasies, of course, and not the ones we talk about in case somebody starts thinking we are out of our gourds.

Sometimes the fantasy turns sour. Standing before the company president to receive our commendation and expecting a substantial raise we hear instead: "You're fired!" "Why, what did I do?" "You know very well what you did, now get out of here." Of course, this kind of thing does not happen very often, if at all; we think far too much of ourselves for that.

A favorite pastime since I first read it is to compare George Orwell's 1984 with the life we live today and can expect to live tomorrow. In some respects Orwell was not an exceptionally good prophet. His book was strongly colored by the Soviet Russia of his day with Big Brother and Joe Stalin as fraternal twins. I would love to know what he would have thought of an American President who took on all the trappings of an 18th century monarch.

Much of this ran through my mind while I had a copy of *Business Insurance* opened at a page headed, "Around the States." Thereupon I daydreamed about a column which might appear in 1994. It went like this:

RALEIGH—The North Carolina Insurance Commissioner announced today that his department has begun recruiting 2,000 additional men and women to bring the regulatory insurance police force in that state up to strength. The cost of the increase will be met by an additional tax on insurance companies.

The Commissioner's decision was undoubtedly influenced by the incident last month at Durham when insurance police attempted to arrest an official of the Travelers Insurance Company following a complaint by a policyholder. A spirited return of fire by the besieged insurance clerks slightly wounded two policemen, but the judicious use of a three-inch mortar quickly caused all opposition to subside.

"We need these men and women because we must afford our policyholders every protection," said the commissioner. "And I want to hear no nonsense about passing costs on to the policyholders. Insurance companies are going to get what's coming to them."

•

COLUMBUS—The Workers' Compensation Board of Ohio has announced a 60% across the board rate increase indicating that a combination of inflation, rising medical costs, increased benefits and additional administrative expenses have made this necessary. "We are particularly concerned about the rising cost of medical treatment" said the Chairman of the Board. "Each time a worker reports to a clinic to have a minor cut sutured, the minimum charge is $500 and this is getting to be too much." In response to a question from a reporter the chairman admitted the need to conduct X-rays, EKG's, EEG's, blood tests and the many other tests performed by industrial clinics, but denied that this was because of the excessive liberality of the Industrial Commission in granting Permanent Partial Disability Awards. "The workers get what they are entitled to. If employers think they are being taken, then let them produce the evidence," continued the chairman. "We'll tell them what it should be."

•

DENVER—A special state commission has recommended that State Farm and Allstate be outlawed from Colorado. Both companies, it was said, have criticized laws passed by the state legislature which regulate insurance and are especially critical of the state Insurance Department which has worked long and arduously to produce regulations protecting assureds.

According to Representative J. Kermudge, banning these insurance companies will not harm policyholders. The Mile High Insurance Co. has all the capacity needed for those who will be without coverage. The Mile High is owned by a consortium of prominent businessmen and legislators residing in Colorado.

•

ALBANY—Describing 1993 as a "most significant" year in the development of the FAIR Plan, the retiring chairman of the NYPIUA said that operational results took a decided turn for the better. There were reductions in loss expenses, reductions in underwriting expenses and increases in writings and earned premiums. The plan's statutory underwriting loss in 1993 was $5.625 billion compared with $5.626 billion in 1992 and slightly more than this in 1991.

•

CLEVELAND—A 40% across the board rate increase has been denied Blue Cross and Blue Shield of North East Ohio. When

SPEAKING OUT

refusing the rate application, the Insurance Commissioner contradicted reports that inflation had affected hospital and other costs and said that there is no excuse whatever for increased administrative costs. The Commissioner went on to say that the only solution to the health care insurance problem in Ohio is for the state to take over all medical insurance plans. He cited the success of the Workers' Compensation State Insurance Fund and will recommend that a similar plan be adopted for hospitalization and other medical costs.

•

TRENTON—The New Jersey Insurance Commissioner in a speech to a legislative committee warned that there are still insurers as well as a handful of misguided policyholders who bewail the fact that there is no insurance competition in New Jersey. This pernicious doctrine, said the commissioner, is a vestige from the days when companies could choose whom they would underwrite. We have eliminated any freedom of choice in such matters, boasted the Insurance Commissioner, and no longer is it possible for insurance companies to deny coverage to anybody irrespective of their record. Moreover, such things as rate differentials for sprinklers, construction, and hazardous processes have long since gone by the board. The commissioner admitted that many insurers had withdrawn from the state altogether rather than write fire insurance, but held that this forms part of a "Well-organized war of attrition by the insurance companies that has a devastating effect on consumers." Mr. Polenta, a state assemblyman, has likewise warned that there is a full-scale fire insurance crisis, and that the only solution is for the Insurance Department to take over the insurance business in the state of its entirety.

•

AUSTIN—After a hearing before the Insurance Commissioner, the TT Manufacturing Company incurred fines totalling $600,000. Of this $500,000 was for purchasing insurance outside the State of Texas and then failing to pay the 100% penalty tax. The balance was for failing to obtain signatures from countersigning agents in the 28 states in which TT Manufacturing conducts business. As for comments that TT Manufacturing had only one small building in Texs valued at $10,000, which is in fact insured in Texas, the commissioner's response was "This action was brought for the protection of all Texas policyholders. The law must be obeyed."

•

SACRAMENTO—California workers' compensation authorities have announced that women who become pregnant on the job are entitled to receive temporary disability benefits. Ms. Lesbiani, speaking for the department, said "It's a human right. Workers' Compensation provides benefits as a result of accidents which arise in the course of employment. Nothing could be more accidental than a pregnancy at such a time."

•

ANNAPOLIS—In a surprise raid, Maryland Insurance Police descended on a home in Baltimore County and arrested Peter Downes, a former corporate insurance manager, who has been living in retirement. He was charged with acts contrary to the well being of the state. The Insurance Commissioner said that no matter how long ago the acts occurred, he must pay for his crimes. After arraignment, the trial was set for May 16, 1994, and the execution, which will be televised nationally by NBC, will be carried out at 10:30 a.m. on May 17. On being questioned concerning his arrest, Mr. Downes replied "Ga, Ga, Ga, Ga, Ga, Ga.!?!" ■

letters

Continued from page 30

article could have scared some employers into firing diabetics before they finished reading the article. I hope that Mr. Bosarge will never make the common mistake of withholding sugar from a diabetic when in fact it is needed to avoid or overcome an insulin reaction.

I have a special interest in diabetes. Our 12-year-old son is an insulin-dependent diabetic. We pray that he may lead a relatively normal life. We especially hope that he will one day enter a work force which does not impede the full development of his talents.

I can think of no better forum to assist in the much-needed public education on the subject of diabetes than *Business Insurance*.

D. R. Brown
Coordinator Insurance, Northern Illinois Gas Co., Aurora, Ill.

Facts clarification

To the Editor: The Perspective article on the Bermuda insurance market (March 21) on property and indemnity clubs set out the facts incorrectly. The article should have read:

Another major factor in the Bermuda insurance market is the congregating of P. & I. clubs. The U.K. Club is now domiciled in Bermuda and is reported to have nearly "one third of the world's merchant shipping entered in the U.K. P. & I. Club (Bermuda)." This organization is managed by Thos. R. Miller & Son (Bermuda) Ltd. The Oceanus Mutual Underwriting Assn. (Bermuda) Ltd. provides similar insurance coverage which includes coverage for war and liability to cargo. This association is managed by John Laing Management (Bermuda) Ltd., who also manages The Shipowners Mutual Strike Insurance Assn. (Bermuda) Ltd., which is the largest specialist strike insurance association in the world. The Steamship Mutual Underwriting Assn. (Bermuda) Ltd. managed by Alfred Stocken & Co., is also based in Bermuda. Another P. & I. Club is the Standard. . . . . .

M. V. Parkinson
John Laing (Management) Ltd., London

Mr. Parkinson also noted that Shipowners Mutual Strike Insurance Assn. (Bermuda) Ltd. has 1,660 vessels entered on its books, while The Steamship Mutual Underwriting Assn. (Bermuda) Ltd. has less than 300 vessels on its books.

A&P revamping

To the Editor: Your lead article (May 2) on the revamping of the A&P insurance program, was very interesting. Mr. Porrett appears to be a very cost conscious and innovative risk manager. I am, however, disturbed by some of his philosophy.

It is reported that Mr. Porrett feels one must go to independent loss prevention specialists to obtain competent engineering services. "Baloney!" There are insurance carriers who provide very competent and technical loss prevention engineering services.

If competency of the services provided by carriers is being questioned, I would point out that the vast majority of the independent loss prevention specialists are themselves former insurance company engineers. Are they more competent as indpendents than they were as company representatives? The various loss prevention engineering firms risk losing their clients should they give poor advice or service. The insurance company may suffer a multi-million dollar claim as well as losing a client. Logically, the carrier should be more interested in the application of sound loss prevention engineering techniques.

It is the insurance companies who provide most of the data from which standards are produced through research, testing, statistics, etc. Without these standards, there would be no loss prevention service. Frequently, the loss prevention specialists, who work for large brokerage houses and independents, come to us for clarification and/or advice on a particular engineering problem. If the insurance companies do not give sound loss prevention advice based on the data available, then the various loss prevention specialists are providing services based on erroneous standards.

I am not trying to infer that independent loss prevention engineers are not capable of providing competent services; but, to represent them as the only way to obtain services is poppycock.

G. T. Shamel
Account Executive, Philadelphia Manufacturers, Greensboro, N.C.

OK is not OK

To the Editor: Re: Pan Am crash (April 4):

From what we read, I understand the following could have been the cause of the collision.

In effect the tower said, "OK, I'll let you know when to take off." But the pilot of KLM, hearing broken English on both sides, along with normal static interference, may have heard only "OK" and took off. Possibly he never heard the rest of the sentence.

Few people realize how much the use of "OK" means in Europe. If this slant is correct, the use of a slang word or words must be made "verboten" in airplane parlance, as they can easily be misunderstood.

Any comments on this?

John Singreen
Singreen Agency, New Orleans, La.

It appears that the language used by the pilots of both planes as well as that of the air controllers was, indeed, sloppy, considering these few individuals were responsible for hundreds of lives.

A better title

To the Editor: Re: Marie Krakowiecki's article titled "Hospital Insurer Trains Nurses as Risk Managers" in the May 2 issue: The two registered nurses mentioned in the article are described as "risk managers." With the job functions described in the article, they should more accurately be characterized as risk (or loss) control managers (or directors).

Donn P. McVeigh, CPCU
Consultant, Warren, McVeigh, Griffin & Huntington, San Francisco, Cal.

Consultants' fees . . .

Continued from Page 11

of Alexander & Alexander, outlined a slightly different method of computing hourly fees. Generally speaking, he said, consulting firms of any kind will take salary, multiply by three and divide by the available hours in a consultant's business year, usually about 1,450 hours. The hours figure will be reduced by the consideration that a senior person busy with meetings and client contacts will only have about 30% billable time, while project leaders have about half their time as billable hours. Straight analysts will ideally have about 90% of their time as billable hours.

The reason for using a multiplier of three times salary is that salaries alone represent one-third of the consulting firm's budget. When added to benefits and other employment costs, compensation is about 40% of budget, said Mr. Destein. Overhead and operating expenses should be roughly 40% of budget, leaving the consulting firm with a before-tax profit margin of about 20%.

Captive management services are virtually impossible to compare with consulting fees on an hourly or per diem basis. Most firms managing captives don't say much about how their "management fees" are calculated, and different individuals give conflicting reports about these charges.

Some say the fee is based on a percentage of flow-through premium, usually 7.5%; others argue that there's a flat charge per year based on hourly charges of $45 to $70 plus miscellaneous costs, and generally averaging $20,000 to $30,000 a year if the captive is only writing parent company risks.

Bob Quinn, president of J. H. Blades & Co. in Houston, said that his firm's captive management charges are based on the amount of work involved. Blades charges a quarterly fee of approximately $3,500 to $4,500, he said, plus 4% of premium (if the captive is doing outside business in non-parent risks), plus an underwriting-profit-sharing fee if the captive writing outside business makes money on its operations.

This latter fee is generally about 15% of underwriting profits, Mr. Quinn said.

Many risk management consultants bill their retainer clients on an hourly basis, supplying them at the start of a year with an estimate of hours required to service the account. At the end of the year, the charge is adjusted based on actual billable hours spent working for the client.

There are firms, though, that will quote a fixed annual charge, and not vary from that quote unless there is some substantial change in the nature of the client's operation or the assigned tasks.

Warren Brockmeier, manager of the Wyatt Co.'s Risk Management Services division, said all clients are on an hourly billing system, even if they are continuous-service clients. Wyatt establishes a range for the fee to be charged.

"We then have a guidance schedule based on the size of the company we're doing work for, the number of divisions, the complexity of operations and complexity of insurance programs. There is a correlation between the size of the company and the amount of work that will be required in a review," said Mr. Brockmeier. These factors are calculated into the estimate of hours to be billed.

At the other end of the spectrum is Insurance Audit & Inspection Co., a 75-year old consulting firm based in Indianapolis. Frank Alderson says the firm estimates at the start of a year the number of man-days required to perform each of the assignments, for its four out of five clients on continuous service arrangements. (The firm has roughly 300 active clients).

Insurance Audit then quotes a fixed fee on an annual basis which isn't variable. New service argeements with each client are signed each year. The only time an adjustment would be made in an annual quoted fee, says Mr. Alderson, is when a client's size changes drastically or if substantial new services are added to the agreement.

One firm with an unusual method of calculating estimated fees for client projects is Chicago-based Corporate Policyholders Counsel Inc. CPC uses a single fee per hour—$75—which includes everyone's services, modified by a "complexity factor" ranging from .5 to 1.5 which takes into account the characteristics of the client firm as well as the nature of the work to be done, says Don Pass, a senior consultant at long-established CPC.

Bill McIntyre of Dallas-based RIMCO Inc. makes no secret of the fact he'll bill four different ways: On a single project basis

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Fees . . .

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(for a simple risk management audit, for example), on an hourly basis, on the basis of a contingency fee reflecting a percentage of premiums saved, and on a combination of hourly fee plus contingency.

Contingency fees are dirty words to a number of risk management consultants who view them as unethical, but Mr. McIntyre, energetic and gregarious founder of RIMCO, defends the practice of earning his compensation by this method.

"Our firm does a lot of business auditing premium charges. We go back four years, then we take the current year's premiums or premiums for the coming year. We will charge 100% of the first $10,000 in premium savings, and 50% of the excess over that. We will charge this way only when we do both the cost and the coverage work. If we do strictly cost reductions—strictly cost work —we'll take a straight 50% of the savings," says Mr. McIntyre.

Aggregate fees can run anywhere from a low of about $500 for a one-shot project by John Liner Associates in Boston up to $150,000-plus for an annual retainer paid by S. B. Ackerman's largest retainer client, a company with insurance premiums in the $8 million to $10 million range and with a full-blown risk management department of its own.

"We do some very small jobs, for as low as $500," says Doug Bell of Liner Associates. A project this size would involve perhaps a single review of the current insurance program followed by a verbal report.

"The review and report confirmed in writing would cost something extra," Mr. Bell laughs. He said he doesn't think any other consultant would take a job this small.

He's right. Many firms have minimum fee requirements of $1,000 to $3,000.

There are times, however, when even the minimum fee rule can be bent, as in the case of Warren Brockmeier's mini-consulting job for someone who only wanted to pick his brains.

Wyatt's $2,500 minimum fee was discarded on one recent occasion when "the treasurer and insurance manager of a large corporation called and asked for the opportunity to explore their situation in conference with me. The session took place shortly after that, with the billing being about $200 for the time involved in the think-tank approach," he recounted.

Mr. Brockmeier says he would also consider lowering the minimum fee requirement in instances where a project required only a report on one specific risk area, such as directors and officers liability, costing only $1,000 to $1,500.

Among other fee considerations are:

- Some consultants may require reimbursement of out-of-pocket expenses, while others add a service charge to these reimburseable costs.
- Consultants may charge separately for secretarial and clerical time, while others include backup services such as these in the overall hourly charge for a senior consultant or a quoted annual fee.
- Consultants may have a higher charge for services other than those involved in insurance/risk management auditing, such as job rates for feasibility studies, claim settlements or litigation matters. ■

FM offers short study to chapters

NORWOOD, MASS.—Factory Mutual System is offering a special two-hour short course in property loss control to chapters of the Risk & Insurance Management Society at no charge.

Factory Mutual plans to limit the courses to one per month, said Bruce Mattoon, an official in the FM Resource Center for Loss Control Management.

The course is a truncated version of FM's Practicing Property Conservation (PPC) course given four times a year for key personnel of FM's insured companies at the research and engineering headquarters here.

For the short course program being offered to risk management groups around the country, FM sends two people from headquarters to discuss what constitutes a well-protected plant, technical aspects of industrial loss control, a case study in training to control the human errors that account for two-thirds of industrial losses. ■

Head of HIA

Glendon E. Johnson has been elected chairman of the Health Insurance Assn. of America. Mr. Johnson, chairman of the board and chief executive officer of American National Insurance Co., succeeds Armand C. Stalnaker

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—Celeste H. Shiebler, Celeste H. Shiebler Agency, Shelter Island, New York.



Here's a list of 18 risk consultants and their fees

S. B. ACKERMAN ASSOCIATES
New York City

Hourly charges range from $30 up to $150, depending on the consultant. There are several people in Ackerman who qualify for the top rate, says Bernie Salwen, a principal of the 60-year-old firm. Clients number well over 100, with all but one of those on retainer. Smallest retainer clients pay $1,500 to $2,000 a year; an example would be a one-location retail store with sales under $1 million a year. Largest retainer client pays $150,000 a year; the company pays $8 million to $10 million a year in premiums for insurance and has its own risk management department.

D. A. BETTERLEY RISK CONSULTANTS
Worcester, Mass.

Fees range from a low of $300 per day up to $700 per day, plus expenses. It charges $250 a day for secretarial time. The firm won't take any clients on a fixed annual fee basis, says Delbert Betterley, principal, noting that all charges are per diem. The firm has consulting agreements for continuous service clients, uses contacts for new projects and one-shot deals.

GEORGE BETTERLEY CONSULTING GROUP
Boston, Mass.

Range of hourly fees charged is $65 to $70 for a principal of the firm, $55 to $65 for a senior consultant, $25 to $35 for a junior person, $15 for secretarial, plus expenses, says George Betterley, owner. The firm has a number of clients on a continuous service basis, billed for time and expenses using an annual budgetary control figure established at the start of the year.

Betterley's clients are as small as $1.5 million annual sales (smallest retainer fee is $2,500 a year) up to Fortune 500 firms. Mr. Betterley says he does a good deal of work with medium-sized clients, although about 50% of the firm's clients are Fortune 1,000 companies. "We've probably done work for 35 to 45 of the Fortune 100 companies," Mr. Betterley adds. The largest annual retainer fee paid by a client is about $12,000 to $15,000 a year.

Risk Management SERVICES

CORPORATE POLICYHOLDERS COUNSEL INC.
Chicago

This firm uses a standard $75 an hour fee for all consultants and staff, modified by a "complexity factor" of .5 to 1.5 which reflects the characteristics of the client company and the degree of difficulty of the work required, says Don Pass, principal. The firm changed in late 1976 to a standard fee system from a schedule which billed for clerical personnel at $15 a hour, up through senior consultants at $45 to $70 an hour. The new sytem is designed to better reflect a team approach, since CPC never has less than two people on an account and sometimes as many as four.

CRAIN LANGNER & CO.
Cleveland, Ohio

This company uses a flat charge of $60 per hour for all services of the firm, whether one or two people are required, says Dave Langer. "We generally have a team on an account," he offered.

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"Our agency is located on a secluded spot on the east end of Long Island. The only way to get here is by private boat, private plane—or by ferry. Obviously, marine business is very important to us.

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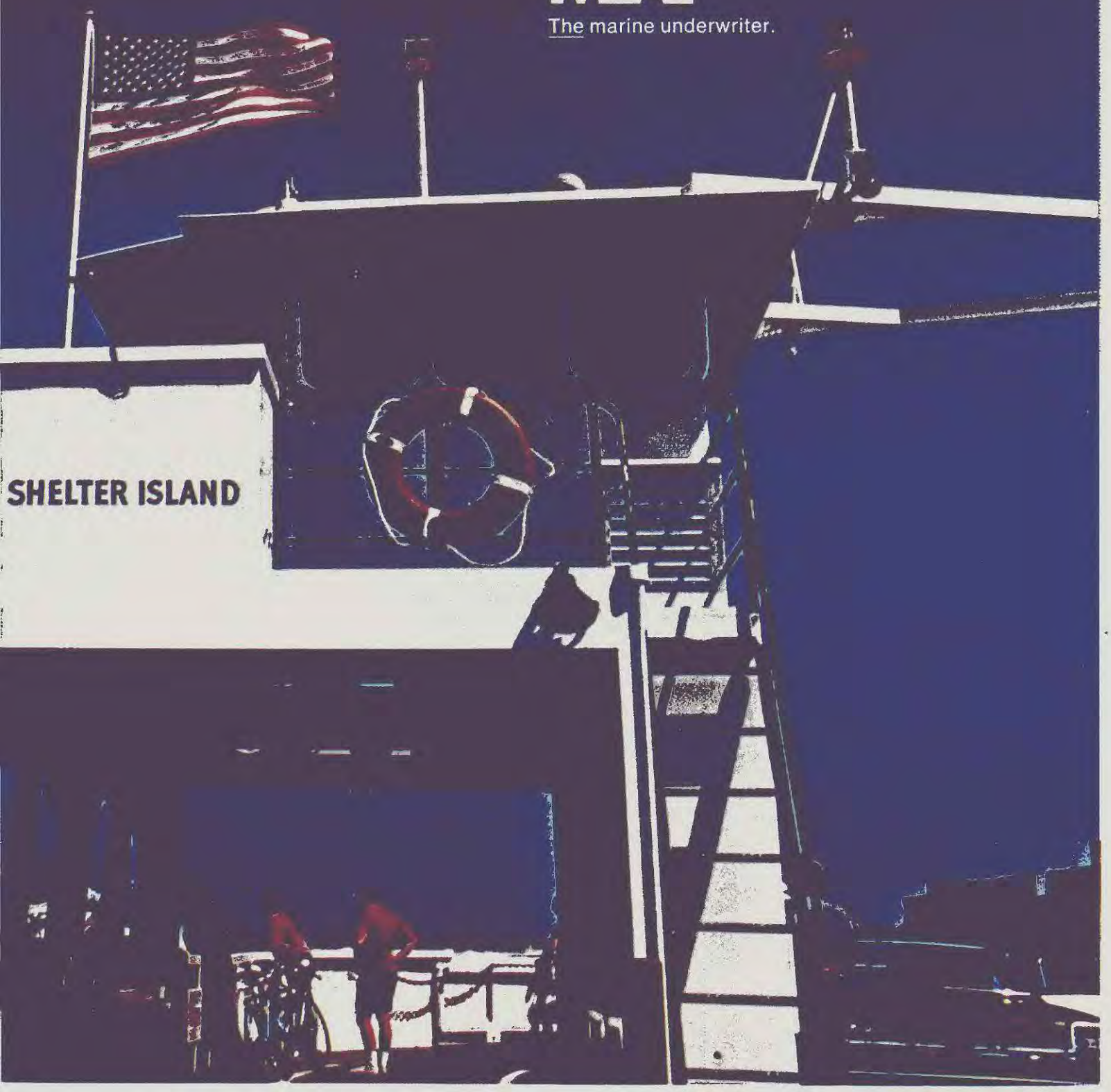
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But at The St. Paul we think people ought to know the score. Because ultimately they pay for high claims costs.

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And if that happens, insurance rates might just stabilize. That would be a nice change.

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It's full of information on the causes, the pro's and the con's of some possible cures for high insurance rates.

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The medical malpractice situation is a mess.

Insurance companies are paying out record settlements in a record number of malpractice cases. The St. Paul's case load, alone, tripled between 1969 and 1975.

Insurance companies, in turn, have had to raise doctors' and hospitals' malpractice insurance rates to record highs.

This cost is added to patients' medical bills which is one of the reasons your medical care costs are rising.

What's more, you may be paying for treatment you don't need and your doctor doesn't want to give. Reason? Doctors and hospitals have been forced into practicing "defensive medicine" to build malpractice defenses in advance. This stacks still more on top of your already high cost of medical care.

On top of that, some doctors and hospitals report cutbacks in high risk treatments for fear of being sued. That means the quality of your medical care could be affected.

About half of all malpractice claims are eventually found to be without merit. Nevertheless, it is costly for the insurance companies to investigate and defend these claims.

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To learn what you can do, send for our "Enough is Enough" consumer booklet. It's full of information on the causes and the pro's and con's of some possible cures for high insurance rates. You'll find out how to register your views where they'll count. Along with some tips on how you can hold down your own insurance costs.

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Write a letter to your legislators. Be heard.

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Write The St. Paul for your Enough is Enough booklet. Or contact an Independent Agent or broker representing The St. Paul. He's in this with you and wants to help. You'll find him in the Yellow Pages.

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For more facts circle 61 on reply card

List . . .

Continued from page 55

The firm includes three consultants, all of "relatively equal qualifications," he said.

There's a $10 per hour discount for non-profit organizations, "because we work for boards of trustees of groups which in turn form the base of all our other business." Highest fee is $8,400, on a monthly basis. The firm uses only letters of intent with clients on retainer. "We'll do anything for our clients that they ask us to do, as long as it's legal," says Mr. Langner.

KEVIN F. DONOGHUE & ASSOCIATES
Boston, Mass.

This two-consultant firm charges $50 an hour plus expenses, says Bob Dorsey. He and his partner Kevin Donoghue have 15 clients on retainer, the smallest retainer fee at $1,500 a year and the highest at $20,000 a year (average fees are about $3,000 to $4,00 a year).

FIRST RISK MANAGEMENT CO.
Wyncote, Pa.

Staff consultants are billed at $85 an hour, while executive consultants are billed at $115 an hour. An executive consultant holds a CPCU designation, LLB or one of the other accredited professional designations, said principal Len Silver. The firm delineates four types of services offered, with minimum fees in each area: Pure advisory services, $4,000 per year (35 hours of professional service beyond which the client will be billed on an hourly basis); specific assignments, $2,000 a year (within a 10-mile radius of Philadelphia) and $3,000 a year for other territories; audits, $2,500 a year within 10 miles of Philadelphia, $3,000 a year in the 48 contiguous states and $6,500 a year for clients elsewhere; comprehensive risk and insurance service, $3,500 a year for clients within a 10-mile radius of Philadelphia, $4,500 a year for clients in the 48 contiguous states, and $7,500 a year for clients elsewhere.

All fees are subject to a 10% discount if paid in full within 20 days. If they aren't paid within 60 days, interest and service charges accrue from 30 days after invoicing.

In the case of pure advisory services or specific assignments, all work is charged at a flat hourly rate of $150. Time records are kept in six-minute units.

Out-of-pocket travel expenses are charged including a 10% service fee, and other charges reimbursable to First Risk Management are postal expense, telegraph and cable costs, and long distance telephone calls made for the client. Beyond a 10-mile radius of Philadelphia, auto travel costs are charged at 30 cents per mile.

The flat hourly rate also rises to $150 for time spent in litigation matters, including trials, depositions or meetings with attorneys preparing for litigation.

When First Risk Management contributes to the recovery of money from insurers on losses incurred before the consultant was hired, or collects money from third parties or third party insurers, the hourly rate is $150 or 25% of the amount of recovery, whichever is greater.

A client which has terminated its relationship with First Risk or ended a retainer arrangement but needs a recap of outstanding or pending matters is billed at a $150 hourly rate.

First Risk has five billing methods. Annual retainers on a flat basis are invoiced in equal monthly or quarterly installments. Annual retainers on a variable basis (using minimum and maximum fee) are invoiced at 50% of the maximum fee at inception or renewal, with subsequent invoicing monthly after fees have have been earned. Annual retainers on a minimum deposit basis include invoicing of the full deposit fee at inception or on renewal, with subsequent invoicing monthly after the full deposit fee has been earned. Audit fees with or without bid specifications are invoiced at 50% of maximum fee when retained, 25% of the maximum fee 60 days, with balance due on completion of the audit. Insurance specification and bid fees are invoiced when specs are drawn and submitted for bid.

INSURANCE AUDIT INSPECTION CO.
Indianapolis, Ind.

This 75-year old firm estimates the number of man-days it will take to do an assignment and quotes a fixed fee. Roughly 80% of the firm's 300 clients are on retainer, with fixed annual fees and service argeements signed each year. The fee quoted isn't variable, says Frank Alderson, unless something about the client or the assignment changes drastically.

Insurance Audit's normal charge is $300 to $500 a day for consulting time, although the senior people are charged at higher rates. The firm has five consultants in the field—in St. Louis, Ann Arbor, Charlotte, Atlanta and Kidron (Ohio)— in addition to eight staff consultants and seven clerical people.

The smallest retainer client pays $1,500 a year—that's a one-location manufacturing company—while the largest retainer client (a large manufacturing company with multiple locations) pays $8,000 a year. The biggest one-shot project Mr. Alderson's firm ever handled was a $35,000 special study for a university identifying all variations from OSHA standards and catastrophe exposures.

ROBERT A. KRAUSE & ASSOCIATES
Southfield, Mich.

This firm charges from $30 an hour for junior consultants up to $60 an hour for senior people, says John Whiteside. The firm also charges $10 an hour for back-up services such as typing.

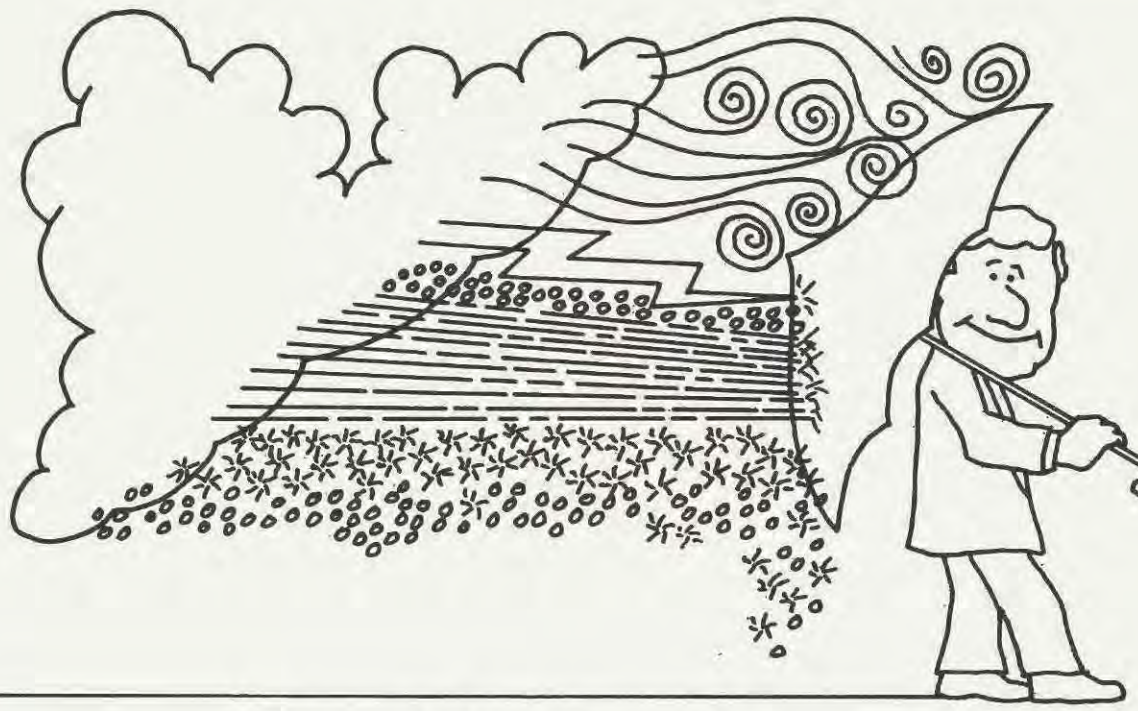
THE LUKES-BROCK CO.
Milwaukee, Wis.

Most of this firm's over-100 clients are on an annual flat retainer fee ranging from as low as $300 a year up to $3,000 a year, says Stanley Brock. At the low end would be the "housekeeping accounts" such as a small store or small school district requiring only review of policies and filed statement of values once a year. At the high end would be accounts requiring regular supervision and/or constant negotiation of insurance, usually for manufacturing firms. Mr. Brock's been in the consulting business since 1954 after serving as insurance buyer for the city of Winnipeg, Manitoba, and insurance manager for a Milwaukee-based company.

MUND, MCLAURIN & CO.
Los Angeles, Calif.

Generally charges $50 an hour for any of the four principal consultants in the firm, although special demands such as "working within a tight time frame" might warrant up to $60 an hour, says Bill Pinckney. Of Mund, McLaurin's 90 to 100 accounts, about half are on retainer with billings on a flat fee system including monthly invoicing and with a yearend adjustment based on hours spent servicing the client.

Minimum fee is $750 to $1,000, although the client paying the



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lowest annual retainer is at only $500. This is a small governmental entity with Mund, McLaurin since 1960. The highest retainer fee is $12,000 to $15,000 a year for a Fortune 100 company with its own internal risk management staff. This fee includes such services as reports on various aspects of self-insurance, review of captive proposals, analysis of risk management methods being used, reports on applications of alternative techniques for risks such as workers' compensation in different states.

RIMCO INC.
Dallas, Tex.

Senior consultants for this firm cost $50 to $75 an hour, while staff consultants cost $25 to $45 an hour. Clerical time is billed at $14 an hour. Staff services include technical services, rate checking and research, says Bill McIntyre, founder and principal. "Our theory is that it's better to charge out time for each level of worker, on the premise that you then push the work down to the lowest level at which it can competently be done," says McIntyre.

But Mr. McIntyre also has another way of billing: On a contingency basis. The contingency fee is based on a percentage of premium savings, taking four years in the past, plus the current year, to establish savings. The fee will then run 100% of the first $10,000 savings and 50% of savings over that. RIMCO also charges a combination fee, hourly fee less 20% plus contingency of 20% of premium savings.

RIMCO has 100 to 120 active clients, about 40 to 50 of whom are on a continuous service basis. His smallest project runs $500 to $750 for a one-time walk-through risk management audit lasting only a day and including a brief report. At the top end, RIMCO accounts pay about $25,000 for a project, since Mr. McIntyre believes projects generating fees much larger than this are unmanageable and should be performed in phases.

"What we try to do is keep the scope of our projects down to a level that will generate $20,000 to $25,000 in fees, because this allows us to get the work out in about 90 days maximum. We have found that this size of project includes the maximum amount of information a client can absorb in one sitting. I'd really rather let out a series of projects to be done in phases. We suggest that larger projects be done this way. If you let out a whole $75,000 contract at one time, a client may spend all his money before he really realizes what he's getting for his money. Also, if the project is bigger, the information gathered becomes unmanageable," says Mr. McIntyre.

RISK PLANNING GROUP
Darien, Conn.

Principals of the firm charge $60 to $90 an hour, senior professionals $45 to $60 an hour, junior professionals $25 to $40 an hour, with no charges for secretarial or clerical help, said Felix Kloman, founder and principal of RPG. Annual fees for retainer clients are based on estimated hours adjusted at the end of the year, he said. The firm's 26 active clients include nine or 10 on retainer, with the retainer clients generating less than 20% of total revenues.

In seven years since RPG's founding, Mr. Kloman has worked with 32 of the Fortune 500 companies, the largest client having $5.5 billion in annual sales.

WARREN, MCVEIGH, GRIFFIN & HUNTINGTON
San Francisco/Newport Beach, Calif.

Partners' time is charged at $70 an hour, with others in the firm charged at $35 to $60 an hour, depending on experience, says Dave Warren. "We don't generally charge for secretarial time, but for lengthy reports required as part of an assignment, we'll charge $15 an hour," he added.

Most of Warren, McVeigh's jobs are risk management/insurance audits. The firm has 30 to 40 active clients, with six or eight of those on a continuous basis. Retainer clients are billed monthly for estimated hours rolled into an annual fee, which is adjusted at yearend.

WYATT CO.
Chicago, Ill.

"I charge $100 for my own time," Wyatt's risk management services director Warren Brockmeier readily admits. Beyond that, Wyatt has hourly fees ranging from $30 to $100 for professional consulting staff. Clerical secretarial time is billed at $18 to $29 an hour. All expenses are reimbursable.

Wyatt has 202 active accounts, probably about 20% of which are on retainer, says Mr. Brockmeier. The lowest annual retainer fee, based on hourly charges, is about $1,800, and the highest is about $400 a month. Annual service arrangements are on a contract basis, with retainer clients entitled to the full range of ordinary services with extra charges for any special studies requiring added work.

BROKERS

ALEXANDER & ALEXANDER ANISTICS
New York City

Anistics charges $90 to $120 an hour for principals or executive consultants, $60 to $90 an hour for project leaders, $40 to $60 an hour for senior consultants (people with a number of years of experience and able to do independent consulting work), $25 to $35 for staff consultants (entry level people), and $15 an hour for administrative staff, says Joe Destein, president.

Anistics' New York office currently has about 64 active accounts, 45 to 50 of which are projects underway. Eighty percent of the project-clients are renewable business, Mr. Destein estimated, including business which Anistics has had for over a year and will continue to handle beyond the current year. The Denver office has about 12 current accounts, plus another six one-shot clients.

"We don't like to do one-shot consulting deals," says Mr. Des-

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Continued from page 59

tein. "We like to work with clients on a continuing basis, going back in each year to do re-evaluations." In the first year, an Anistics client may be charged a very high fee because of the time spent gathering data, getting to know the client's operation, and doing analytical work. The range of first year fees charged by Anistics is generally $20,000 to $30,000 at the low end up to $100,00 at the high end. In the second year, however, Anistics has found that the fee usually drops by about half.

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Technical Services Division
New York City

Hourly charges for consultants are $100 to $200 for managing consultants, $75 to $100 for senior consultants, $50 to $80 for consultants, $40 to $60 for associate consultants, $25 to $45 for technical assistants and $20 to $30 for secretarial help, said Phil Brown, executive vp of M&M's technical services division. Fees charged also sometimes depend upon the competitiveness of the area, he said. M&M Protection Consultants operate in a highly competitive field, so their hourly rates would be lower than general risk management consulting rates.

All charges are on an hourly basis, with no fixed annual retainer fees. M&M doesn't have any minimum fee, although Mr. Brown said his division has turned away work in cases when a study couldn't be completed within the client's requirements or if M&M didn't feel particularly qualified to do the work. "We'll take any project if it makes sense from our and the client's point of view," said Mr. Brown, qualifying that by noting, "We've had to tell some people, however, that they're just not ready to have a certain study done," either for lack of available data or because premiums aren't big enough to warrant it.

SCHIFF TERHUNE
New York City

Consulting fee arrangements are based on flat fees, with a refund due the client for any excess commission earned; minimum fees, with any excess commission retained by the firm; or hourly fees of $100 per hour for senior executives, (i.e. account executives and above), and $50 per hour for other professional employes, says James Christie, administrative vp.

Schiff Terhune doesn't charge for clerical employes, but does charge for all out-of-pocket expenses. Any commission income generated from these per diem clients goes to reduce their fee. All consulting arrangements involve signed contracts. ■

Systems safety plan on docket for Anistics

NEW YORK—Anistics, the analytical statistics division of Alexander & Alexander Inc., will open a consulting office in California to develop a new management science known as "systems safety" which it hopes will have major impact as a risk management service in five years.

Joseph Destein, president and founder of Anistics, said he believes that once the systems safety program goes into effect, it will set the standard for what large insurance brokers must offer to their clients as a base level of service.

Mr. Destein explained that systems safety is a concept that grew out of the aerospace industry, developing from the importance which NASA attached to safety and reliability when it made its budget allocations.

The program requires total cooperation by the top management of the corporation or organization which wants to put it into effect. It would tie management objectives with all the software and hardware needed to make safety work. It would also integrate many of the functions of loss prevention which are now fragmented in many companies, for instance, the functions of an insurance buyer and a safety director who may work independently of each other.

If systems safety works out the way it should, it would upgrade the status of the risk manager and help the risk manager to get a better line to top management, particularly to the chief financial officer of a corporation.

According to Mr. Destein, Alexander & Alexander wants to make Anistics' services the standard that all insurance brokers would have to match. Anistics, he says, wants to be the "think tank" for risk management the way the Rand Corp. is the think tank for the U.S. military.

All the research and development for Anistics will be done in the new Palo Alto office, which will officially open on July 1. This includes not only the systems safety program, Mr. Destein said, but also industrial hygiene and environment planning. The office will be set up on the campus of Stanford University so it will have the back-up of the university's computer center and researchers and students.

All of Anistics' computer science opeations will continue here in New York, where they are currently located. Mr. Destein will be dividing his time between the Anistics location. Helping him in Palo Alto will be Dan Foster, who has been doing captive management from Anistics' Denver office.

With the set-up of the Palo Alto office, all of the consultants from the Denver office will be moving to California except the people who are involved in captive management. The firm is bringing Reginald Hobday into Anistics' Denver office to take responsibility over from Dan Foster. Mr. Hobday has been with A&A's Bermuda-based Alexander International Ltd., which manages captives. By yearend, Anistics should have 10 people in Palo Alto, 32 in New York and four in Denver, Mr. Destein said.

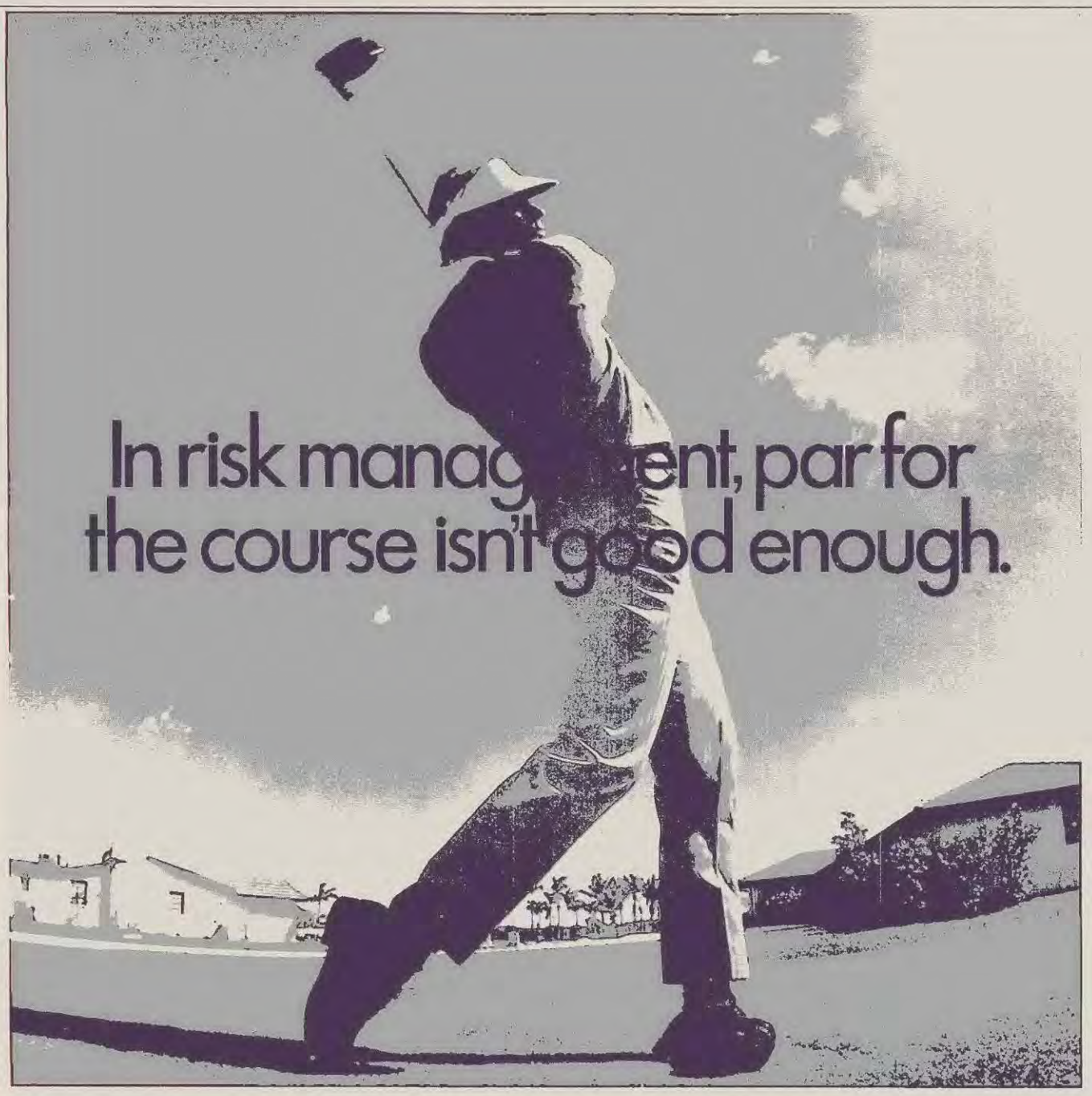
Anistics is part of A&A's Risk Analysis and Management Group, directed by Robert A. Gielow based in Chicago as senior vp and regional director of A&A. ■

Iowa is added to crime insurance

WASHINGTON—Iowa was added this month to the list of states in which federal crime insurance is available.

Residents and small businessmen can purchase the burglary and robbery insurance through licensed property insurance agents or brokers. The federal program has a $15,000 capacity.

Following a review with Iowa state insurance officials, J. Robert Hunter, acting federal insurance administrator, concluded federal coverage should be offered because crime insurance was becoming too expensive in some Iowa cities. ■



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Ruling limits product liability in Nebraska

By KATHRYN McINTYRE ROBERTS

LINCOLN, NEB.—Here's a state manufacturers and distributors should want to do business in.

The Nebraska Supreme Court recently upheld a decision for the manufacturer and retailer in a product liability suit. And its argument for doing so runs counter to the nationwide trend.

The defeated plaintiff's attorney charged the decision was a "damn travesty" and blamed the judges' action on the recent clamor for tort reform in product liability. "I suppose the court didn't want to raise hell," he said.

The executive vp of the American Machine Tool Distributors Assn., James Kelley, observed, "If we had that decision in 50 states, we wouldn't have a product liability problem."

The Nebraska Supreme Court held:

- There is no duty to warn of a known danger.
- Where the existence of a defect in a product is known prior to an accident or injury, no basis for recovery under the doctrine of strict liability in tort exists.

The case was a personal injury suit against Caterpillar Tractor Co., Johnson Manufacturing Co. as manufacturers of the tractor/scraper under the Caterpillar name and Lincoln Equipment Co. as the supplier. (Suits are not brought for a specific amount in Nebraska but rather for out-of-pocket expenses and pain-and-suffering. In this case out-of-pocket expenses were $10,000 to $11,000.)

James F. Waegli, 22 when the accident occurred in 1971, was seriously injured when a Caterpillar tractor rolled back on him from its parked position, crushing his leg against another piece of equipment.

The accident left Mr. Waegli's leg with a permanent 30% disability.

The 27,000-pound tractor was not equipped with an optional parking brake. Mr. Waegli sued the manufacturer and supplier alleging strick liability in tort, breach of warranty and negligence.

The trial court threw out the breach of warranty theory. The case was tried on the remaining two theories and was dismissed at the conclusion of Mr. Waegli's case.

Mr. Waegli appealed the dismissal of his petition to the Supreme Court, but it was upheld in a March 9 decision.

The court ruled that the doctrine of strick liability was not applicable in this case because Mr. Waegli "was conclusively shown to have knowledge of the claimed defect, i.e. absence of a parking brake."

Mr. Waegli's attorney, Herbert Friedman of the Lincoln law firm Friedman & Berry, said, "We presented a strong case to extend product liability law in Nebraska to safety devices. The defendants were even worried. They offered $3,500, but we decided to see it through."

He explained that the tractor was manufactured before but sold one month after industry standards had been amended to make a "parking system" mandatory on these machines.

Caterpillar argued, however, that it had a parking system: Lowering the bowl of the tractor/scraper and turning its wheels to a 90 degree angle to the tractor.

Mr. Friedman countered that inside the cab there is a warning sign telling an operator how to park the tractor. It reads, he said, "Place in neutral, lower raised equipment and apply the brake."

"But there's no brake. Here they tell him to apply a piece of equipment that's not there. It's a Catch-22," said Mr. Friedman.

He presented the court with 10 cases, ranging from a 1967 Oregon decision to two 1976 New Mexico decisions, which said that if a manufacturer offers a safety device as an optional purchase instead of a standard feature, and an accident occurs that could have been prevented by the safety device, the manufacturer can be held liable under strict liability.

Still, said Mr. Friedman, "The judges refused to follow the long and recent line of cases on safety devices. They said if it's open and obvious it doesn't apply."

The judges wrote in the opinion, "Prior to the accident, Waegli had operated the 613 (tractor) an average of nine hours a day, five days a week, for five to six weeks. He knew the 613 was not equipped with a parking brake. Cases cited by Waegli concerning the duty to warn are not applicable.

"There is no duty to warn of a known danger."

Nebraska statutes recognize the rule of comparative negligence in product liability cases, but even that worked to Mr. Waegli's disadvantage and to the advantage of the defendants.

The statute, Mr. Friedman explained, says that if the plaintiff's negligence is slight compared to gross negligence by the defendant, damages should not be barred but merely diminished.

However, in this case, the court found that Mr. Waegli was aware of the correct procedure for parking the tractor not equipped with a parking brake. Mr. Waegli, the court said, "admitted that the accident could have been avoided if he had followed that procedure."

Since Mr. Waegli was "totally and completely familiar with the existence of the claimed defect," and since "he knew the tendency of the machine to roll (it had happened, without causing an accident, before) and failed to take steps known to him to insure the rolling did not take place," Waegli was found to be "contributorilly negligent as a matter of law sufficient to bar his recovery in an action for negligence."

Continued on Page 62

The nation's leading proponents of product liability reform were told to concentrate their efforts at the state level. A report on the second Washington conference of the Multi-Association Action Committee, Page 64.

Colorado enacts a tort reform bill. Meanwhile, product liability legislation clears the Florida House but is setback in the Senate. A state update, Page 65.

Fire losses

Fire in the United States caused an estimated $347 million in losses in March, the Insurance Services Office says. The figure is $15 million less than the February total, one of the highest on record, but $12 million more than March 1976.



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Nebraska case . . .

Continued from page 61

That is, his negligence was deemed more than slight, Mr. Friedman explained.

Caterpillar declined to comment on the case.

About 35 states apply the rule of comparative negligence to product liability cases, but with varying approaches. While Nebraska looks for a plaintiff's slight negligence compared to gross negligence by the defendant, other states, such as Wisconsin, award damges on a percentage-of-negligence basis. And in Wisconsin, a plaintiff can recover damages for an accident to which his actions contributed only if his negligence is deemed to be less than 50% of the total cause.

Meanwhile, Texas has also chosen to assign percentages of negligence when both parties contribute to the cause of an accident (*Business Insurance*, April 4). But in Texas, a plaintiff can recover a percentage of damages equal to the manufacturer's negligence even if it is less than 50%.

Whether applying the rule of comparative negligence to product liability cases is a boon or a hardship for manufacturers is debated. One school of thought holds that manufacturers are best served if any negligence on the part of a plaintiff is a bar to all recovery.

But the other school maintains that a total bar to recovery for a plaintiff who was negligent at all forces sympathetic juries to overlook the plaintiff's action and award him the total damages. Considering that, the proponents of applying comparative negligence to product liability argue that at least the responsibility for the injury is shared by the manufacturer and consumer and the award is reduced accordingly.

The Texas Supreme Court's decision to extend comparative negligence to product liability cases was the result of an appeal by General Motors of a $1.8 million judgment against it in a product liability case. Although the court ruled that in the future the comparative negligence rule should be applied when both parties are at fault, it did not extend the concept to the GM case because it could not find an error in the trial court's judgment.

GM moved for a rehearing but was overruled. A GM spokesman said the company had considered an appeal to the U.S. Supreme Court alleging it was not given an adequate opportunity to state its case. But, GM instead has "dropped it," he said, and has no further comment on the case. ■

U.K. plans safety dossier on chemicals

LONDON—Risk managers in big industrial plants in the U.K. are watching plans by the government to build up a "safety dossier" on every new chemical which may involve large-scale use in the future.

The aim is to monitor several hundred chemicals a year to keep health perils to a minimum. But there will be controversy because of the cost involved.

Hinting that this major protection system will be soon outlined for public discussion, John Locke, chief director of the country's Health and Safety Executive, said, "Industry is coming under increasing pressure to ensure its activities do not endanger the people who work in it, or its product users, or the community.

"I've been told by some people that the risk prevention scheme which we now want to adopt for chemicals means that it will not be economically worthwhile to develop new products in that field. The cost of testing will be too great in relation to likely sales and profits.

"But I feel preventive control in the form of this scheme will impede industrial innovation far less than the major disruption which can follow the introduction of an unsafe chemical into widespread use."

He pointed out that the cost of compensating victims of inadequately tested chemicals, such as thalidomide and cancer-causing products such as VCM (vinyl chloride monomer), ought to be balanced against the cost of the proposed scheme.

"We're well aware already of the large cost involved in ensuring that medicines, food additives and agro-chemicals are safe to use," he added. "But nothing like this new scheme has been incurred before, since the aim is to check all new chemicals that may enter industrial use or even consumer products." ■

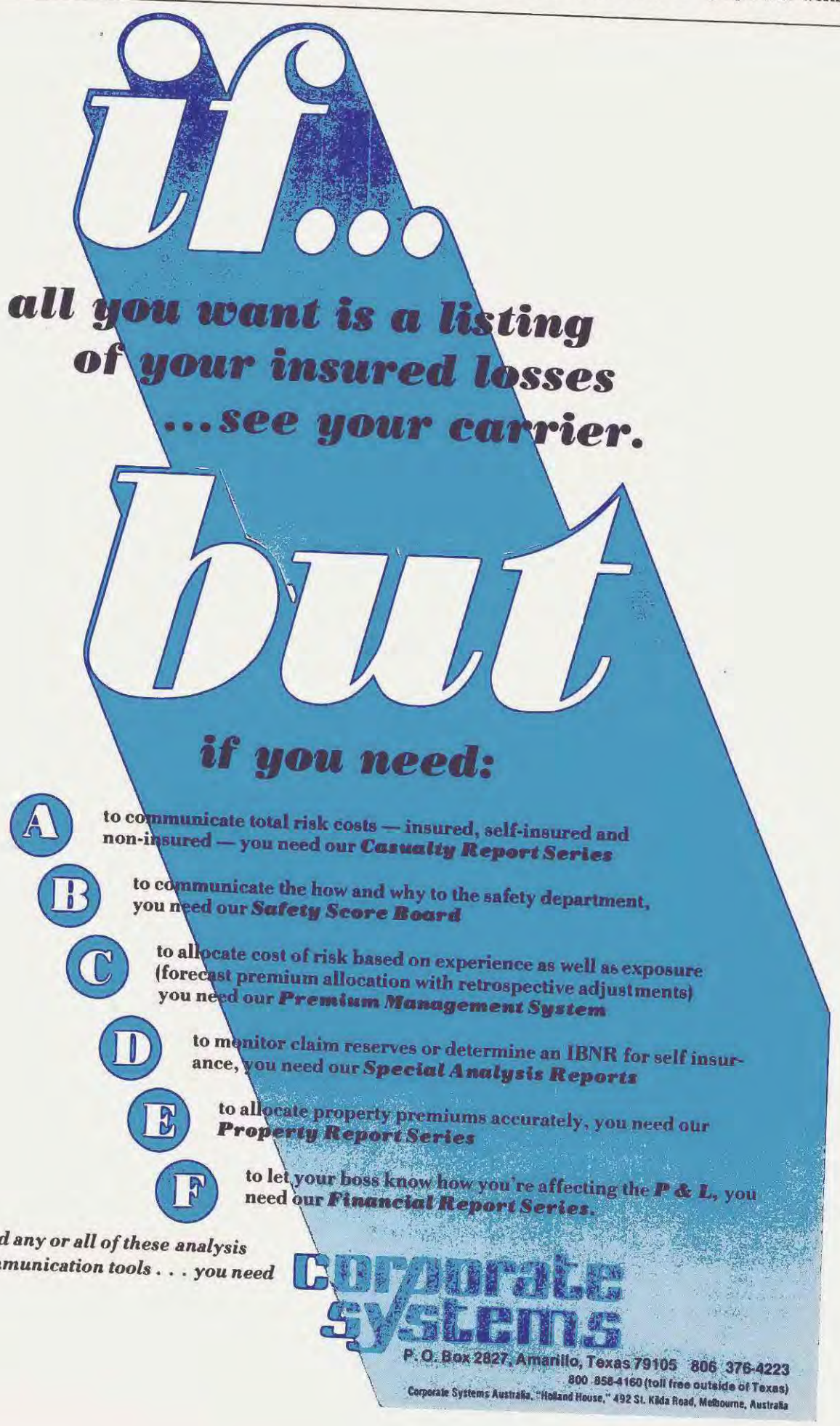
ASIS competition in posters, films

WASHINGTON—The American Society for Industrial Security is sponsoring a security poster and training film competition in conjunction with its annual Seminar and Exhibits to be held this year in Orlando, Fla., Sept. 6-9.

The contest is open to all businesses, industrial firms and governmental organizations and agencies. Entries from any one organization are limited to five posters and one in-house training film used in security education.

Contest rules include that all posters and films must have an educational theme, posters are limited to 30" by 42", and audio/visual entries to 30 minutes.

The deadline for entries is Aug. 1 and the winners will be announced at the annual seminar. Send entries and inquiries to John J. West, security inspector, Pan American World Airways Inc., Aerospace Services Division, P.O. Box 4608, Patrick Air Force Base, Fla. 32925. ■





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State action is the way, MAAC told

By JERRY GEISEL

WASHINGTON—The nation's leading proponents of product liability reform were told to concentrate their efforts at the state level to get legislation passed.

"The likelihood of federal action is so remote that the reform effort must take place at the state level," said Orville Bergren, president of the Illinois Manufacturers Assn. during the second liability reform conference sponsored by the Multi-Association Action Committee (MAAC), an ad-hoc organization that has acted as a clearinghouse for product liability information.

But if the movement is to succeed at the state level, the rivalries and ideological disputes now dividing the movement first must be resolved.

"Let's not try to cut each other up with the result that no one wins," said Jonathan Howe, a member of MAAC's steering committee and an attorney with the Chicago law firm of Jenner and Block.

Mr. Howe warned that enough legislation already has been introduced and that reformers should support "existing legislation rather than create 16 more pieces of legislation."

Only about one-third of the 250 businessmen and women who registered for the two-day conference May 16-17 in Washington, D.C., heard Mr. Howe's plea for unity. The rest already had left and many of those remaining were looking nervously at their watches.

"We're just not getting the input we need," said Howard Bruns, president of the Sporting Goods Manufacturers Assn.

Whether the movement can achieve the unity it called for is a question that no one was prepared to answer at the end of the conference.

But the depth and intensity of the opposition to product liability reform was probably clear to everyone who listened to consumer advocate Ralph Nader's remarks.

Plaintiff attorneys will be joined by consumer groups in every state to fight and defeat legislation that "rolls back the years of judicial collaboration of the common law rights of injured people," Mr. Nader warned.

"This (tort reform in product liability) isn't going to be like malpractice," Mr. Nader said, in referring to the relatively easy battle medical groups waged to make it more difficult to sue doctors.

No quarter, no effort would be spared to oppose tort reform and those who believe otherwise only are kidding themselves, Mr. Nader said.

Trade associations and insurance groups that have backed such reforms as a statute of limitations and state of the art defense also came under sharp attack from Jeffrey O'Connell, a law professor at the University of Illinois.

"They are bad reforms to be identified with," Prof. O'Connell said. "Each one of them takes away the rights of consumers." By saying that tort reform is the only answer to the product liability crisis, trade associations are playing "in the hands of their worst enemy—the trial lawyers."

Rather than adopt an approach that is bound to arouse the wrath of nearly every personal injury lawyer in the country, Mr. O'Connell called for a no-fault system of compensation.

Under Mr. O'Connell's plan, injured employes would receive benefits from sharply higher workers' compensation payments. In addition, injured consumers would be guaranteed compensation—regardless who was at fault—in exchange for dropping the right to sue a manufacturer.

The no-fault plan failed to receive backing. "I doubt if there are too many people in this room who are willing to accept, without further data or consideration, the concept of no-fault being the panacea of product liability," said Mr. Howe of the steering committee.

Conference participants, though, did get on their feet when Sen. John C. Culver (D-Iowa) told them he soon planned to introduce legislation soon to exempt from federal income tax funds set aside by businesses to pay for expected product liability losses.

Mr. Culver also said the Senate Select Committee on Small Business would complete action sometime in the near future on a bill authorizing the Small Business Administration to provide reinsurance to companies unable to obtain or afford product liability coverage.

More sobering news came from Alvin Herrington, a nationally recognized expert in product liability legislation, who described the setback of the Kansas reform bill.

Mr. Herrington said tort reform was unsuccessful in Kansas because of the:

- Failure of the insurance companies to provide up-to-date statistics on why rates have soared dramatically.
- The failure of the business community to obtain labor support for the measure.
- The failure of the Kansas business community to unite behind the bill.
- Opposition from consumer groups.
- The failure to limit the scope of the bill to a few key issues.

By contrast, the tort reform bill that recently cleared the Utah legislature enjoyed the broad support of state's business and trade associations, said Sen. Fred Finlinson, author of the measure.

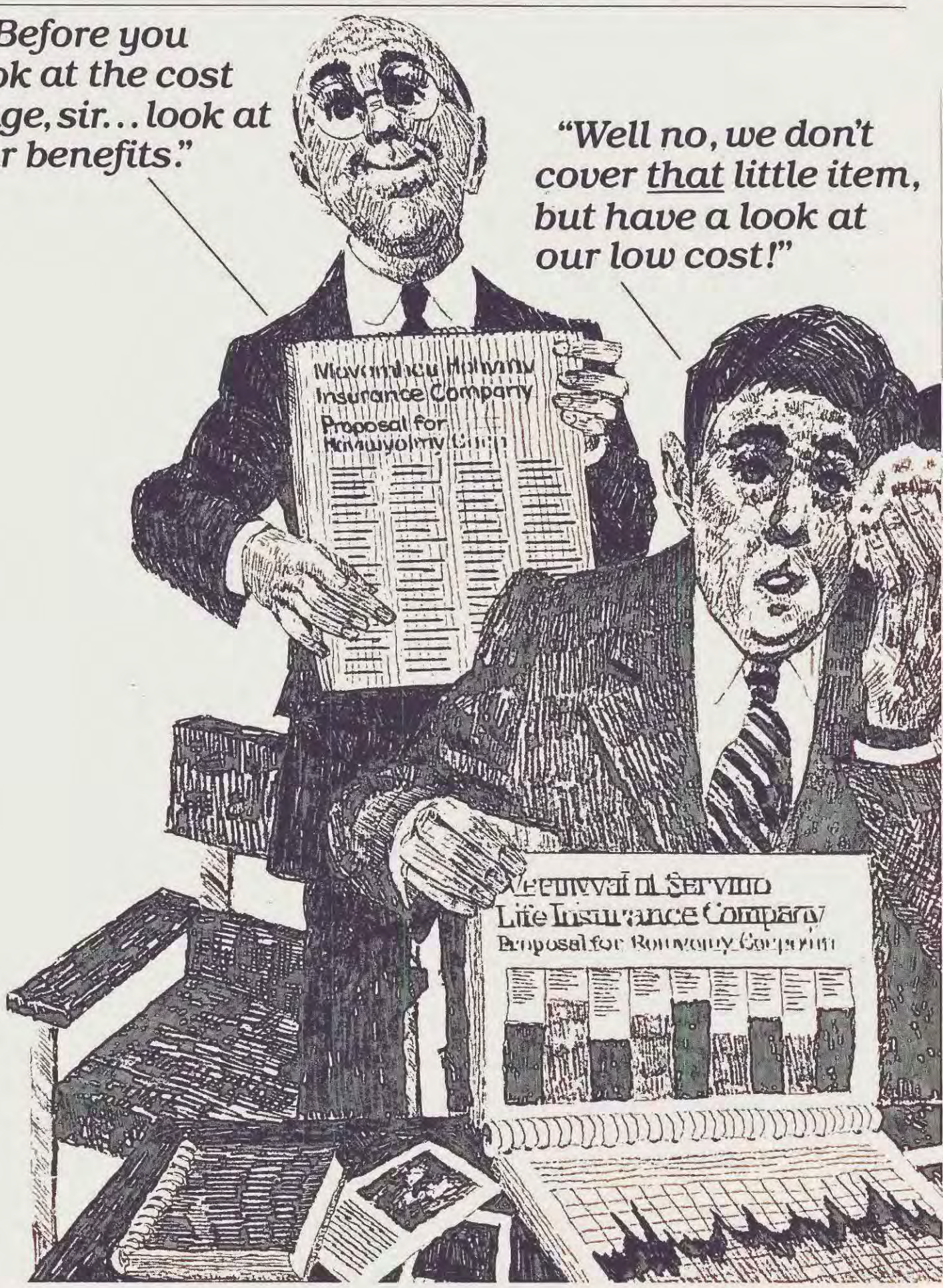
Unlike other states where business and insurance groups sometimes spend more time fighting each other than uniting behind a single piece of legislation, a broad-based coalition of professional associations backed the measure and supported it vigorously, he said.

Moreover, business groups avoided the "horror story approach" and adopted a "low-key' strategy. While business leaders worked individually with key legislators, the debate in hearings was led by sponsors of the measure and not by trade associations.

As the conference drew to a close, there were few backers for the Ralph Nader hypothesis that the insurance industry had deliberately jacked up premiums to create an atmosphere of hysteria in which "repressive legislation" would be passed.

"The insurance companies want only premiums, not risks, Mr. Nader said.

But if Mr. Nader's hypothesis was found to be true, than small businessmen and the insurance industry are on a collision path, William Dennis of the National Federation of Independent Business, said. ■



Colorado OKs compromise product liability bill

DENVER—The Colorado legislature passed and sent to the governor a product liability reform bill sharply reducing the exposure of retailers and wholesalers to lawsuits.

Colorado is the second state to pass reform legislation since personal injury litigation became a serious problem for businesses three years ago. The Utah legislature cleared a tort reform measure in late March.

Although several key defenses against liability were stripped from the bill while it was being considered in the senate, business leaders hailed the passage of the measure as an important first step in reducing insurance premiums.

The bill faced a severe challenge before it cleared the senate May 6 on a 30-4 vote. "We almost lost the bill in the judiciary committee," said Carl N. DeTemple, executive vp of the Colorado Assn. of Commerce and Industry.

Pending the signature of the governor, which is expected, the bill would go into effect July 1.

Under the measure, retailers and wholesalers could not be held liable in personal injury cases unless they also manufactured the product or were aware that a product they sold was defective.

An injured party must file suit within three years of the accident to recover damages.

The bill allows a manufacturer a "rebuttable presumption" if a product was made in conformity with industry and government standards at the time of original sale.

In addition, a plaintiff could not introduce as evidence to a jury technological advances subsequent to the time of sale.

Ten years after the initial sale, the burden of proving that a defective product caused or contributed to an accident rests with the injured party.

Several key provisions, however, failed to survive the legislative battle in the senate. An amendment which would have prevented any lawsuit from being filed 12 years after the sale a product was rejected.

Also, a provision protecting a manufacturer from liability if a product was altered or modified after the original sale to the consumer was killed.

The key group behind the bill was the Colorado Assn. of Commerce and Industry, said Russell Overguard, president of Overguard Machine Tool Co. in Denver. Strong support also was received from hardware, farm implements and machine tool groups.

"It was a grass roots effort by the business community that secured passage of the measure," said Mr. DeTemple.

Meanwhile, in another part of the country, the Florida Senate passed a product liability bill establishing a 12-year statute of limitations.

The measure now goes to the house where considerable opposition is expected, said Joe Stine, chairman of the state's wholesaler and distributor steering committee.

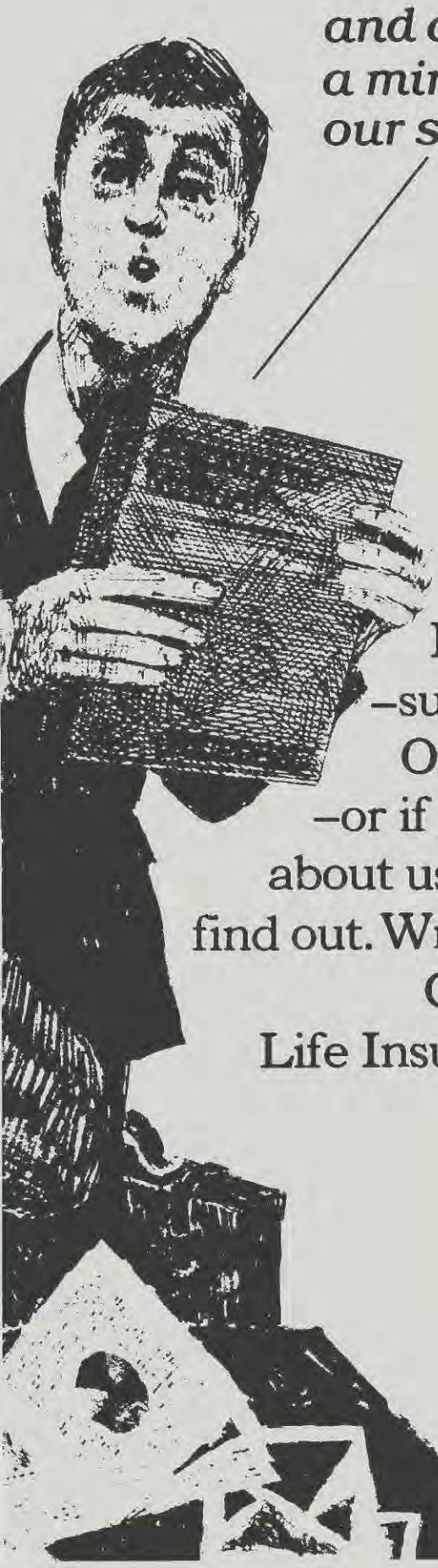
Under the measure, which cleared the senate May 13 in a stormy 25-10 vote, a manufacturer would not be liable if the injury resulted from product modification or if the injured party knew of the defect.

Evidence of subsequent safety improvements developed through technological advances after the product was bought could not be used by a plaintiff.

The size of an award could be reduced to the degree that a court found that a plaintiff's or employers negligence contributed to the accident.

The defense could introduce to a jury evidence of collateral payments to an injured party, such as health and accident benefits from an insurance policy.

A key factor in the bill's passage was the powerful support it received from the president of the senate, a building contractor, as well as "man-to-man" contact with most legislators, said Mr. Stine. ■



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Gear Corp. sets Colorado captive

KING OF PRUSSIA, PA.—Philadelphia Gear Corp. established a captive insurance company named Atlantic Assurance & Guarantee Co. in Denver, Colo. to reinsure its product liability coverage. The captive has paid-in capital of $400,000 and contributed surplus of $1.6 million. Manager is Anistics, a division of Alexander & Alexander.

The company manufactures power transmission machinery. The board of directors reportedly decided to approve formation of the captive because of the increased frequency of lawsuits in the company's field of business, although Philadelphia Gear had not been sued and did not foresee having any trouble itself. Company officials declined to make further comment on the new insurance program. ■

Rate hike for architect E&O

PROVIDENCE—The Rhode Island insurance commissioner has approved a 27% rate increase on architects and engineers professional liability coverage written by Continental Casualty Co.

The company insures 30 architects and engineering firms in the state. The company is instituting a 15% increase nationwide, in line with the increase in construction costs. ■

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legal brief

Termination clause is upheld in Florida

A FLORIDA APPELLATE court has ruled that an insured could not recover under a group health insurance policy for expenses incurred after termination of the policy where the cause for such hospitalization and, indeed, the initial hospital and medical treatments, originated prior to termination.

Suit had been brought by the administrator of the estate of William O. Dysart against Blue Cross/Blue Shield of Florida (BC/BS) to recover benefits under group medical policies. Dysart was covered under BC/BS policies carried by his employer until these policies were terminated by the employer Dec. 31, 1972, and replaced with insurance issued by Fireman's Fund of America. Dysart suffered injuries in a motor vehicle accident on Dec. 26, 1972, and incurred hospital and medical expenses from Dec. 20 to Dec. 27.

On Jan. 3, 1973, Dysart was readmitted to the hospital for complications arising out of the accident. He remained hospitalized until his death on Jan. 20, 1973.

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

Dysart sought to recover from BC/BS hospital and medical expenses incurred during this latter period. BC/BS denied coverage asserting the policy terminated on Dec 31. The trial court awarded recovery to Dysart's administrator.

The appellate court believed that hospitalization and medical expense policies afforded benefits only during the time of coverage. To be effective, coverage, the court stated, "is dependent upon continued payment of premiums by the subscriber. It seems, therefore, axiomatic that upon termination of the contracts and cessation of premium payments, the only coverage available is that stipulated in the contracts." The court could find no post-termination benefits in these contracts.

The "single confinement" provisions of the policies providing that successive hospital confinements occurring within 90 days are considered one single confinement did not, in the court's opinion, extend coverage beyond the expiration of the term of the policies. Thus, the court held BC/BS were not liable for the later hospitalization expenses incurred by Dysart. *Blue Cross of Florida, Inc. v. Dysart,* District Court of Appeal of Florida, Second District, Dec. 22, 1976, *rehearing denied* Jan. 12, 1977, *per curiam,* 340 So.2d 970 (BI/01/My.-$3)

Work comp

The Maine Supreme Court has ruled that the Workmen's Compensation Commissioner had committed an error in law by failing to recognize that an employe could show entitlement to total compensation by demonstrating the lack of a stable market in his community for a person of his capacities.

This appeal was taken from a decision of the commissioner reducing the disability compensation for Otis Bowen from full to partial. Bowen, an employe of Maplewood Packing Company, had fractured his ankle in the course of employment. Bowen drew compensation for total incapacity until a petition for review of his incapacity resulted in a finding by the commissioner that he had recovered 50% of his pre-accident capacity. Partial disabilaity was then awarded.

Bowen had established at the hearing an inability to find employment from 14 different places in the area. The Maine Employment Security Commission was also unable to locate a job for him because of his limited education.

The supreme court reversed the commissioner. The court found that an employe could become totally incapacitated to engage in remunerative employment because of an actual lack of physical ability to perform any substantial work at all or "by reason of the unavailability, in or near the community in which he lives, of the type of work commensurate with his limited capacity, and ability to perform service which are so limited in quality, dependability, or quantity that a reasonable stable market existed in his community for the kind of work which, in consequence of the accident, he was able to perform." Therefore, the court held that Bowen was entitled to compensation for total incapacity. *Bowen v. Maplewood Packing Co.,* Supreme Judicial Court of Maine, November 23, 1976, Delahanty, J., 366 A.2d 1116 (BI/02/My.-$3%)

Product Liability

The only issue in this case was the scope to be attributed to the word "occurrence" in two insurance policies. One policy covered product hazards and the other provided excess coverage. The U.S. Court of Appeals for the Second Circuit concluded that under the excess policy there was no ambiguity in the definition of the term and that the basic policy was not "intended to gauge coverage on the basis of individual accidents giving rise to claims, but rather on the underlying circumstances which resulted in the claim for damages."

This suit arose out of the sale of defective vinyl panels manufactured by Champion International Corporation. The panels were, in turn, sold to various manufacturers of houseboats, house trailers, motor homes and campers. After installation in the various vehicles the panels commenced to split apart causing 1,400 vehicles manufactured by some 26 different customers of Champion to be damaged during the policy period. Champion had two insurance policies: a products hazard policy written by Liberty Mutual Insurance Co. in the amount of $100,000 for each "occurrence," subject to a $5,000 deductible; and the second written by Continental Casualty Co., an "umbrella excess policy" for excess coverage over the underlying insurance of $1 million for "any one occurrence."

None of the separate 1,400 claims exceeded the deductible. Champion engaged Liberty Mutual to investigate and settle the claims. As of September 1974 Champion paid Liberty Mutual $1.5 million for damage settlements. Champion then recovered a judgment of $1 million plus interest against Continental Casualty.

On appeal, Continental Casualty's basic contention was that each damaged vehicle constituted a separate "occurrence" and because no single claim exceeded the $5,000 deductible in the Liberty policy, there was no liability under the excess policy.

The court believed that the delivery of the defective panels constituted the "occurrence." Thus, the court concluded that delivery in the aggregate resulted in losses totalling $1.6 million of which $1.1 million was covered by the two insurance policies. The court emphasized that its conclusion was in accord with the "business purposes" of the policies. *Champion International Corp. v. Continental Casualty Co.,* U.S. Court of Appeals for the Second Circuit, Dec. 9, 1976, Moore, C.J. (BI/03/My.-$3)

Credit Life

According to the Michigan Court of Appeals the credit life insurance language in the agreement at issue could not be construed to cover the life of the plaintiff-corporation, which had no insurable "life" as that term was used in the statute authorizing group life insurance. The corporation here had bought some equipment and signed a note, through its officers, who also signed individually. The credit life policy was intended to cover only "the person whose signature first appears below as buyer," the corporation's president signing individually.

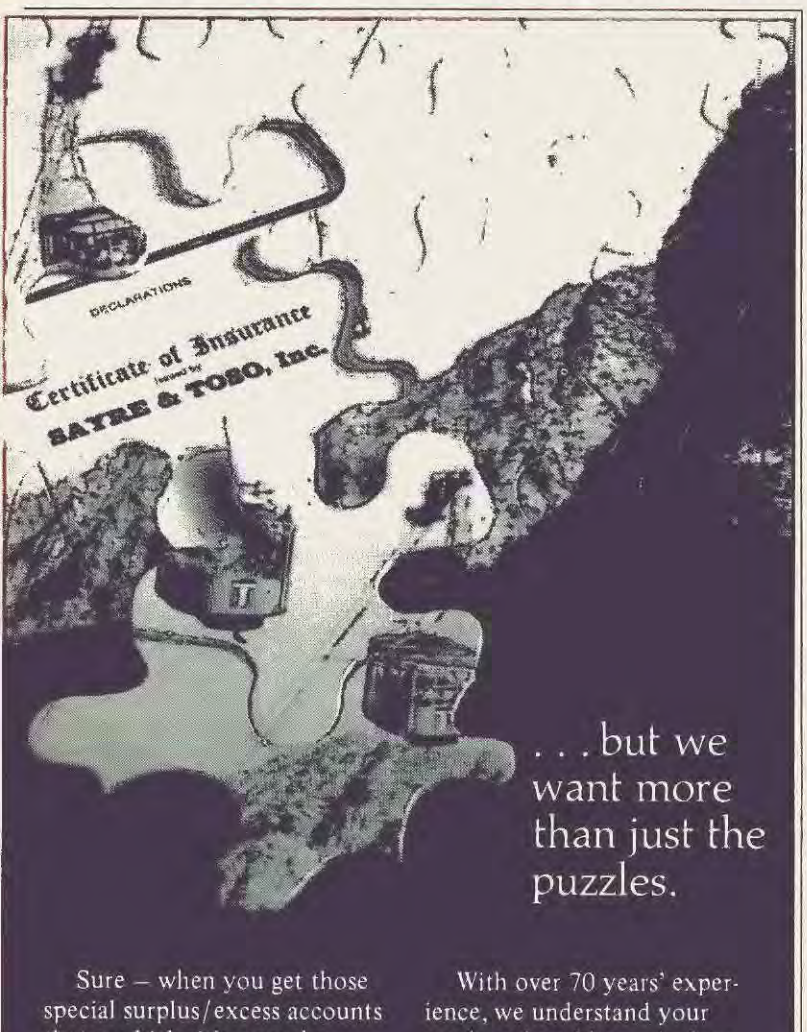
The court ruled that where the corporate president thereafter sold his interest to another person who assumed the presidency and then died, no insurance proceeds were owing because of such death. Nor did the court believe that reformation was available under any recognized doctrine of contract construction. The court refused to make a new contract for the parties under the guise of construing the contract. *Burtone, Inc. v. Equitable Life Assurance Society,* Court of Appeals of Michigan, September 8, 1976, *released for publication* December 14, 1976, Riley, J., 247 N.W.2d 345 (BI/04/My.-$3)

Blanket Bonds

The question presented on this appeal was whether forged Federal Housing Administration Certificates of Mortgage Insurance were covered by a blanket bond issued by Fidelity and Deposit Company of Maryland. Union Investment Co., through a wholly owned subsidiary, relied upon the forged certificates in advancing mortgage money. The U.S. District Court for the Eastern District of Michigan held that the certificates were "securities, documents and other written instruments," as defined in the finance company blanket bond issued by Fidelity, and that Union's losses resulting from the forged certificates were covered by the blanket bond. The U.S. Court of Appeals for the Sixth Circuit agreed.

The court stated that a contract will not be construed so as to reject any words as surplusage if they reasonably can be given meaning. An insurer has a duty to express clearly the limitations of its policy. If Fidelity had intended to include only securities and documents similar to securities, it could have used express language to that effect. *Union Inv. Co. v. Fid. & Dep. Co. of Md.,* United States Court of Appeals for the Sixth Circuit, February 23, 1977, Phillips, C.J. (BI/05/My.-$3)

(Copies of the entire decision of cases described may be obtained by sending a check for $3 made out to Cases Unlimited to Legal Briefs, Business Insurance, *740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion requested, which is at the end of the brief.)*



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riskWatch

By MARIE KRAKOWIECKI

Do you toss people overboard to reduce your risk in rough seas?

The other night I watched a television show called "A Matter of Insurance" which was produced by the BBC as part of a series about slavery. The episode, which unfortunately was true, described how the captain of a British brigantine deliberately drowned 132 slaves so he could collect an insurance claim for jettisoned cargo.

Upon his return to Liverpool in 1781, Captain Collingwood's insurers promptly paid him 30 pounds sterling for every man, woman and child he killed in cold blood on the high seas. They politely never mentioned the word "murder" to the captain, a former surgeon who turned to the slave trade to get rich.



Krakowiecki

Some anti-slavery people eventually found out what he did and forced the matter into court. Recognizing a chance to get their money back, the insurers then argued against Captain Collingwood. But their immediate action was to pay the claim without questioning the motives or morals behind it.

I switched my TV off in disgust, which I guess would have pleased the show's producers. They made their point. I reflected gloomily that if *Business Insurance* had been around in 1781, the whole matter of whether the slaves should have been jettisoned would probably have been treated as a question of practical risk management.

For one thing, the show depicted some problems which might be considered classical risk management dilemmas from a purely businesslike perspective. Capital Collingwood was on his first voyage and hit very rough seas, which he saw as a big risk.

■ Many of his crew sickened and died of the flux. There were only six white men left to oversee hundreds of blacks. Although the slaves were chained tight in an airless hold below decks, the captain feared a revolt. Another risk.

The water supply for everyone, although not depleted, was getting lower. The captain told his first mate that if the water got lower, even more slaves might die than the 132 he proposed to drown as a "preventive" measure. That would mean the ship would lose money.

Finally, under the law, the captain could do the same thing to the slaves as he would choose to do to cattle or inanimate cargo. The slaves' legal status was "Chattel." Chattel may be jettisoned. This legal loophole let Collingwood in effect thumb his nose at the one text book feature of risk management that was lacking in his own heart—the proper conservation of human resources.

There you have it. The captain faced risk, identified his exposures, isolated them, and acted selectively to cut the losses and preserve the assets of his business. Risk management.

Stated this way, Captain Collingwood's case almost sounds reasonable. Almost. That's a little scary. It just goes to show that every risk manager who goes by the books isn't necessarily good. Every insurer who pays a fast claim isn't either.

Most of the people in the insurance business are decent human beings. But some I've met would probably have helped toss the slaves into the sea faster than you can say "Lloyd's of London" if they had been with Collingwood. It would have been simply a matter of insurance to them. These are the people whose real business is maintaining the status quo. You may know them one way. I know them as the sort who usually growl, "We're in business to make money, not to make friends!"

This column is dedicated not to them, but to risk managers and insurance industry people everywhere who have enough class to change with the times and who have enough heart to balance their professionalism with compassion.

* * *

While I'm on the subject of compassion in risk management, I'd like to clear up a blooper that appeared in my last column. Some of you may have inferred, from a spectacular printer's error, that the El Paso Natural Gas Co. heartlessly took 150 Algerians and packed them, ganglandstyle, into some decorative Spanish grillwork outside an apartment complex in Texas. Not so. What I reported, but which was not printed, was that the company put the Algerians into leased rental cars from Avis. My apologies for visions of "the Godfather" or any sinister implications caused by the error.

U.K. brokers feeling the pinch of bankruptcy by U.S. brokers

By JOHN MILLER

LONDON—Effects of the insolvency of Pritchard & Baird last year are now being felt in the U.K. insurance market. Leading brokers Leslie & Godwin report they suffered a $1.5 million loss through the collapse of this U.S. firm.

The U.S. broking firm was a prime operator for Leslie & Godwin in operations in the North American market, which represented about 17.5% of its total business. The insolvency reduced the brokers' operating profits worldwide last year to $7 million (including U.K. life business).

"Efforts are now being made to build up alternative connections to maintain our vital interests in the North American field," Lucien Wigdor, Leslie & Godwin deputy chairman, reported.

But Charles W. Havens, president Reinsurance Assn. of America, warned U.K. reinsurers at an international seminar at Cambridge (Eng.) that the ripples of the Pritchard & Baird insolvency will take a long time to be felt.

He feared that companies which had relied on retrocessional protection from P & B's related entities such as Newark Reinsurance Co. might themselves face insolvency because of the collapse.

Mr. Havens told the seminar, organized by the U.K. Reinsurance Offices Assn. which has links with European interest, "The P & B situation resembles a long-tail casualty loss with the final accounting to reinsurers way off in the future. The first notices coming in are very troublesome.

"A law requiring reinsurance intermediaries doing business in New York to become licensed is a direct result of this insolvency. But sentiment among reinsurers differs as to whether this law can achieve preventive purposes.

"People relying on this statute to prevent another P & B affair are deluding themselves. Reinsurance brokers could tout as one of their qualifications their New York licenses, when all they had really done was to pay the licensing fee and make some affirmations." ■

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• **Vocational and Educational Opportunities for the Disabled** is a 34-page booklet for disabled workers published by the INA MEND Institute, a rehabilitation facility of the Human Resources Center in Alberston, N.Y., and Insurance Company of North America. The booklet, the fourth in a series of publications for the disabled, answers questions frequently asked by the disabled concerning vocational services, eligibility, continuing education and future employment. Single copies are $1.25, 100 for $75 and 1,000 for 600. Write INA MEND Institute, Human Resources Center, Dept. 33, I.U. Willets Road, Albertson, N.Y. 11507.

• Introducing: **Custom Tailored Claims Service** To Suit Your Specific Needs is a promotional brochure from Contracts Inc. outlining the company's services. For a free copy write Contracts Inc., 175 W. Jackson, Chicago, Ill. 60604.

• **New Concepts in International Employe Benefits** is a 12-page booklet from American International Life Assurance Co. of New York describing the company's "attitudes, people, products and their application overseas." For a free copy write Product Information, Corporate Communications, American International Group, 102 Maiden Lane, New York, N.Y. 10005.

• The Gypsum Assn. is offering free its catalog of safety, training, and materials handling manuals. The publications cover Gypsum products, fire resistance manuals, industrial safety manuals and plant training manuals. Single copies of most manuals are free. For a copy write Gypsum Assn., 1603 Orrington Ave., Suite 1210, Evanston, Ill. 60201.

• **RIMCO** describes its operations in the field of identification, evaluation and determination of handling insurable and noninsurable risks faced by many businesses. For a free copy of the booklet write William S. McIntyre, RIMCO Inc., 10300 North Central Expressway, Suite 180, Dallas, Tex. 75231.

• **When Fire Strikes . . . Kidde Halon 1301 Systems** is an eight-page brochure from Walter Kidde & Co. describing the company's system as an answer to the overwhelming need for fast acting fire extinguishing where water damage could exceed the loss from a fire. For a free copy write Advertising Manager, Walter Kidde & Co., 675 Main St., Belleville, N.Y. 07109.

• **The Claims Administration System** of System Development Corporation is detailed in a brochure by that name. For a free copy write System Development Corp., Benefits Administration Services Division, 2500 Colorado Ave., Santa Monica, Calif. 90406.

• **National Union's Excess Worker's Compensation** is promoted in a company brochure subtitled, "It's the difference between self-insurance and self-assurance." For a free copy write Product Information, Corporate Communications, American International Group, 102 Maiden Lane, New York, N.Y. 10005.



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• Walter Kidde & Co. has prepared a two-page promotional brochure on its **Kidde Heavy Duty Wheeled Extinguishers** using dry chemical and carbon dioxide. For a free copy write Advertising Manager, Walter Kidde & Co., 675 Main St., Belleville, N.Y. 07109.

• **Rangeguard Kitchen Fire Extinguishing System** (#937) discusses the mechanical operation and capabilities of the system in a 2-page promotional booklet. For a free copy write Marketing Manager, Automatic Sprinkler Corp. of America, P.O. Box 180, Cleveland, Ohio 44147.

• Propp-o-Plast—**It's Unheard of**—is a new type of ear plug described in a free pamphlet containing six sample disposable plugs. For a free pamphlet and samples write Bilsom International Inc., 11800 Sunrise Valley Dr., Reston, Va., 22091.

• Walter Kidde & Co.'s **Large Dry Chemical Protection for Large Scale Hazards** is a 12-page brochure outlining the company's LDC units which have multiple adaptions, long range, high volume, reliability and low maintenance. For a free copy write Advertising Manager, Walter Kidde & Co., 675 Main St., Belleville, N.Y. 07109.

• **Kidde Pressurized 10 to 30 lb. Dry Chemical Extinguishers** is a two-page fact sheet on the regular and tri-class extinguishers. The regular model is effective against Class B and C fires while the tri-class is effective against Classes A, B and C. For a free copy write Advertising Manager, Walter Kidde & Co., 675 Main St., Belleville, N.Y. 07109.

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• **Management Loss Prevention Techniques** for medium and small risks are discussed in the second publication in the Interface series from the Commercial Union Assurance Cos. For a free copy write Ms. Kathe Donlan, Advertising Dept., Commercial Union Assurance Cos., 1 Beacon St., Boston, Mass. 02108.

• Underwriters Adjusting Company tells **How to Handle Physical Damage Loss** using their specialists in autos, trucks, mobile homes and heavy duty equipment. For a free copy write Underwriters Adjusting Co., Sylvia T. Jurkovich, Director of Communications, 224 S. Wacker Drive, Chicago, Ill. 60606.

• Public officals may be interested in the **Public Official Liability Insurance Kit** offered by Stewart Smith. A brochure answers important questions about this type of insurance and the kit contains a proposal form and specimen policy. For a free copy write Ms. Cay Mann, Stewart Smith, 125 S. Wacker Drive, Chicago, Ill. 60606.

• An outline of the loss control services offered policyholders of Industrial Risk Insurers is titled **Engineering Facilities for Loss Prevention and Control.** A free copy is available by writing F. C. Powers, Director of Publications, Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

• **Sure-Fire Protection for Electronic Data Processing Operations** is the title of a six-page folder

Continued on page 72

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Continued from page 70

from Walter Kidde & Co. The promotional brochure discusses the company's custom designed carbon dioxide fire extinguishing system for electronic data processing and tape storage facilities. EDP installation with major system components is illustrated. For a free copy write Advertising Manager, Walter Kidde & Co., 675 Main St., Belleville, N.Y. 07109.

• Here's a handbook telling how to draw up specifications when soliciting proposals and bids from suppliers of risk management consulting services. A fictional XYZ corporation is used as an example on how to draw up **Specifications for Risk Management Consulting Services** by Rimco Inc. Copies are free to insurance buyers and $5 to nonbuyers. Write William S. McIntyre, RIMCO Inc., 10300 North Central Expressway, Suite 180, Dallas, Tex. 75231.

• Reinsurance Intermediary Corp. has published a **Brochure of Services** describing briefly the services provided to companies using both direct insurance and reinsurance. How the consultant operations of the reinsurance corporation are set up is outlined. For a free copy write Laurence Clootz, president, Reinsurance Intermediary Corp., 9455 Connell Drive, Overland Park, Kan. 66212.

• The **Kiddie Pressurized Water Extinguisher** is discussed in a promotional brochure describing the fire extinguisher which is effective on Class A fires involving food, paper rubbish, textile and other ordinary combustibles. For a free copy write Advertising Manager, Walter Kidde & Co., 675 Main St., Belleville, N.Y. 07109.

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• **Kiddie High Performance Compact Extinguishers** is a 2-page fact sheet on the Kiddie portable Hanlon 1211 fire extinguishers. The company says the models are fast and effective protection against Class B (flammable liquid- and Class C (burning live electrical equipment) fires. For a free copy write Advertising Manager, Walter Kiddie & Co., 675 Main St., Belleville, N.Y. 07109.

• **Arson Epidemic** from Improved Risk Mutuals highlights the threat to property, profits, jobs and lives and discusses ways to combat the threat. For a free copy write W. Scholz, Director of Advertising, Improved Risk Mutuals, 15 N. Broadway, White Plains, N.Y. 10601.

• **Purchasing Agent's Guide #1** is an updated and expanded safety checklist to aid those involved in company safety programs to evaluate the safety status of industrial and officer workplaces. For a free copy write Puchasing Agent's Guide #1, P.O. Box 180, Detroit, Mich. 48232.

• Cook, Treadwell & Harry Inc. offers a free promotional brochure describing how it helps its clients with their risk management problems. The firm, based mainly in the South, outlines their services. For a free copy write John S. Drew, executive vp, Cook, Treadwell & Harry, 855 Ridge Lake Blvd., P.O. Box 17986, Memphis, Tenn. 38117.

• GAB offers **Profiles of Technical Experts** on their staff. Included in the technical services are accounting, safety and loss control and all areas of engineering, including equipment appraisals, repair supervision and business interruption determinations. For a free copy of the 32-page book write J. W. Weatherstone, marketing & products division, GAB, 123 William St., New York, N.Y. 10038.

• **The 3M Spoiler** is a six-page brochure detailing the light water aqueous film-forming foam extinguisher the 3M claims can prevent Class B (flammable liquid) fires. For a free copy write Dave A. Glass, Bldg. 223-6SE, 3M Center, St. Paul, Minn. 55101.

• A guide to help standardize reports on **Damaged Packing** is available in single copies from the American Institute of Marine Underwriters. For a free copy write Robert A. Herbst, American Institute of Marine Underwriters, 14 Wall St., New York, N.Y. 10038.

• A reader's **Digest of Professional Services** of the American Appraisal Co. is a brochure listing its services, appraisals, reports, and type of clients serviced. For a free copy write E. J. Francione, The American Appraisal Co., 525 E. Michigan St., P.O. Box 664, Milwaukee, Wis. 63201.

• An 11-page booklet from the Interface series of the Commercial Union Assurance Cos. discusses **Environmental Health** for small and medium sized risks. For a free copy write Ms. Kathe Donlan, Advertising Dept., Commercial Union Assurance Cos., 1 Beacon St., Boston, Mass. 02108.

• **Employe Rehabilitation,** a 12-page booklet from INA, Corp., discusses rehabilitation as a means of returning injured people to work while helping to control workers' compensation costs. For a free copy write INA Dept. 4, 1600 N. Arch St., Philadelphia, Pa. 19101.

• Pinkerton's **Insurance Claims Investigtion Services** brochure suggests ways that insurance companies and self-insureds can keep claims within reasonable limits and help insurers arrive at equitable settlements or present proper defenses. For a free copy write Robert Hair, Marketing Dept., Pinkerton's Inc., 100 Church St., New York, N.Y. 10007.

• **Freedom of Transport Insurance** is the title of International Chamber of Commerce brochure designed to support the move to end limitations on transport insurance. The 14-page booklet costs 25 cents a copy. Write Robert A. Herbst, American Institute of Marine Underwriters, 14 Wall St., New York, N.Y. 10005.

• **Investigative Services for Management** is a promotional brochure describing Pinkerton's services including an internal survey, job applicant investigation, and insurance claims investigation. For a free copy write Pinkerton's Inc., 100 Church St., New York, N.Y. 10007.

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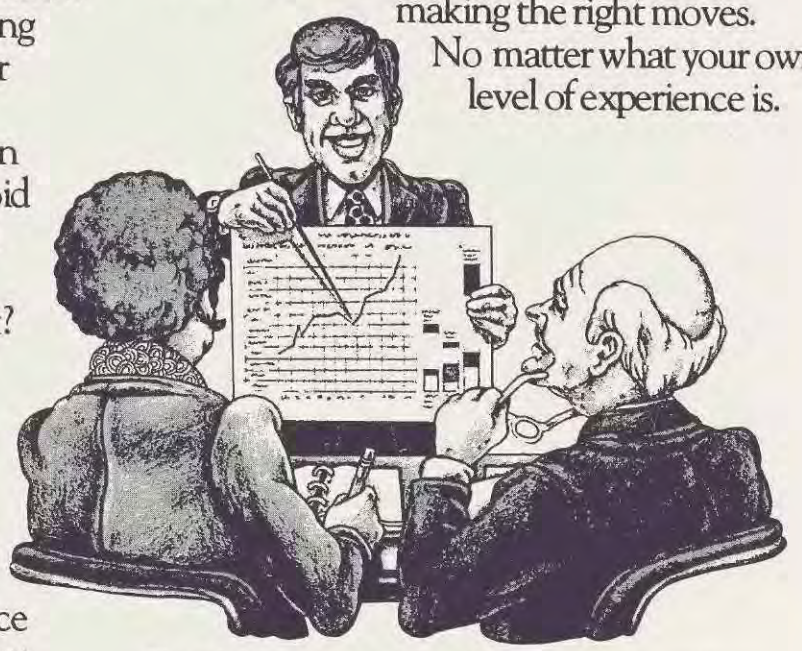
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'The best suited to do it'

Force states into computer age, self-insurers told

By MARGARET LeROUX

MONTEREY, CALIF.—Companies that self-insure workers' compensation should "develop claims management systems that will eliminate unnecessary activity by state agencies and bring them, maybe kicking and screaming, into the computer age," says a member of the National Commission on Workers Compensation.

John H. Lewis, chairman of the Florida workers' compensation advisory council and former counsel for the national commission, urged members at the annual meeting of the National Council of Self-Insurers to "devise computer systems and programs that will do the job now done by hand. Design them so that they interface with your internal computer programs to ease the burden of reporting requirements.

"I have been concerned for five years about what's happening with the administration of compensation laws in this system," Mr. Lewis said. "Somebody's got to turn it around and I know of no group better suited to do it than this group.

"Your companies wouldn't be in a position to self-insure if you couldn't do a better job of data management than is being done by the state agencies right now," he continued.

"It can make your life easier if we take the lead in providing better management of compensation programs, perhaps promulgating some uniform reporting requirements, making it easier for multistate operations to exist."

While doing research for the national commission, Mr. Lewis noted that a recurring request by self-insurers was "do something about the lawyers in the system."

Business Insurance reporter Margaret LeRoux covered the annual meeting of the National Council of Self-Insurers. The stories from that conference continue on Pages 74 and 75.

He advised self-insurers to "give the agency the tools to run the system and then take affirmative action to keep the lawyers out."

"Modify the forms that have to be filed so that either mechanized or even individually typed documents can be used in snap set combinations." Then one operation "can provide you with the information and records for your internal needs, the agency with the information it needs and the injured employe with the information he or she may need without having to go to a lawyer."

Make it so that when a claim or a request for a hearing is filed, it means something, not just that a lawyer has arrived on the scene, he continued. "Insure that it means there is a problem that the agency has not been able to resolve itself. Then send it out for adjudication, but not before."

However, the attorney cautioned self-insurers, "Good administration means enforcement of penalties and similar financial and punitive controls." If actively applied to present levels of performance he said "this could mean embarrassing reports for some self-insureds and many, if not most, insurance companies."

Mr. Lewis noted that in 45% of lost time cases requiring compensation the employer actually breaks the law by not paying the claim on time. Penalties for late payment of claims are seldom levied by state agencies, he added.

More involvement by self-insurers with the basics—"getting the benefit paid on time"—would lead to less litigation, he said.

Mr. Lewis told the self-insurers not to wait for the IAIABC (International Assn. of Industrial Accident Boards and Commissions) or the federal government to develop a model data system. "You may be way past retirement when it happens or at least be very unhappy about the results."

Self-insureds "are in a fantastic position to change the administrative system for the better," he said. "Not only do you operate in a large number of states, but you have considerable influence in those states."

"I've yet to see any employer group approach a state legislature or workers' compensation administrative agency with a program for a better way to administer claims," Mr. Lewis said.

The attorney noted that problems with the administration of workers compensation have resulted in a significant change in how participants in the system perceive the administrative process.

Comments from employers such as "the referees are too liberal," or "it takes too long to get a hearing," are all connected with the adjudication process, Mr. Lewis said. Unfortunately this perception of administration may be accurate and may represent the view that many administrators have.

However there are major improvements in the system that can be made before the necessity of any trial-like procedure, he added.

State agencies don't make use of first reports of injuries, the attorney said. "In one or two

Continued on page 74

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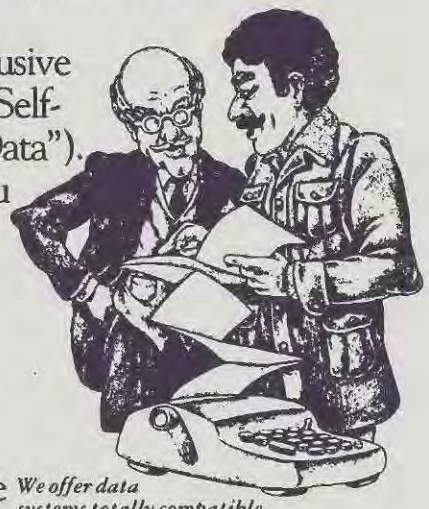
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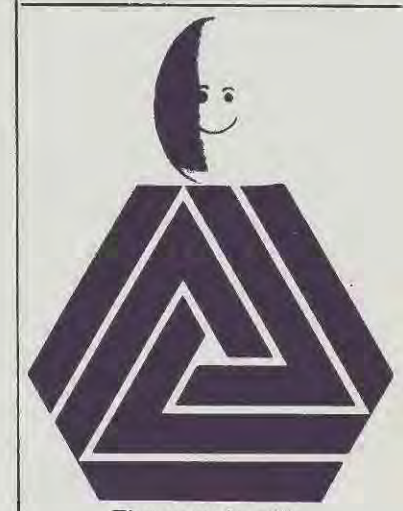
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GM takes major steps to cope with changing work comp system

MONTEREY, CALIF.—An expanded workers' compensation staff, improved training program, upgraded job classification and company-wide awareness effort are the steps giant General Motors has taken to cope with the changing workers' compensation system.

Ralph R. Adams, director of unemployment and workers' compensation at GM, outlined a program he initiated to make top management aware of the changes in the system and the course of action necessary to cope with them.

GM's workers' compensation costs have increased 381% over the past 10 years, Mr. Adams told a meeting of the National Council of Self-Insurers, while reserves against future losses increased 594% during the same period.

"Our administration of claims hadn't kept pace with the volume of claims," Mr. Adams said. Costs were increasing because there wasn't enough administrative staff to do the essential follow-up work, he said. In critical analysis of GM's workers' compensation program presented to upper management, Mr. Adams noted that adding one or two full-time employes to the workers' compensation staff at each plant would be only 2.8% of the total cost of the program.

More staff results in better communication with employes, Mr. Adams said. "Contact with injured employes, prompt investigation and payment of claims . . . are the keys to the effectiveness of the program."

The compensation director's presentation was given to everyone from workers' compensation supervisory staff to GM's executive committee, president and chairman of the board.

It included an explanation of what self-insurance is, why workers' compensation is self-insured and reasons why costs and claims have increased. The workers' compensation director's recommendations for changes were presented on a cost savings basis with a timetable for implementing them.

He found support for his program from GM's top executives, Mr. Adams told the self-insurers. "We were told to take the message to the rest of the corporation, so 45 different group vps have gotten the presentation.

Since the presentation to GM executives some 19 months ago, the corporate workers' compensation staff has been expanded by 50%. "We had a problem determining how much to increase the manpower per plant," Mr. Adams said. "We couldn't come up with a rule of thumb, like one staffer per 1,000 claims . . . we had to analyze each location separately."

The job classification for workers' compensation administrator at the plant level was upgraded. "The position was given more authority to settle claims, to get involved in cases," he continued. Plant administrators were given more freedom to get away from the desk to visit injured employes in the hospital.



Workers' compensation costs have increased 381% over the past 10 years while reserves against future losses have increased 594% for the same period, a GM official said.

The training program for workers' compensation administrators was significantly improved, Mr. Adams said. Now all of the 220 administrators have been through a week-long seminar at the Flint Institute, GM's engineering school. The seminar includes basic of self-insurance and techniques involved in administration of workers compensation.

Classes are limited to 20 students and are set up as workshops with exchange between students and instructors, he said. The instructors include members of GM's legal, medical and workers' compensation staffs and the engineering staff of Flint Institute. The seminar consists of 40 hours of classes, 20 hours of preparation and 20 hours of homework.

The analysis and improvement of the workers' compensation has resulted in greater awareness by top management of the problems of the system, Mr. Adams said. "I'm hearing more corporate executives who speak out on the problems of business include workers' compensation."

Managers in different regions are meeting with legislators to discuss workers' compensation laws, he added. "There's more of a willingness to respond to lobbying efforts and membership in associations such as the Council of Self-Insurers."

Workers' compensation problems are being considered in other areas of GM's corporate structure, another ripple effect of the analysis of the program, the compensation director said.

A member of the department assigned to design safer tools contacted the workers' compensation staff to request a list of employe injuries according to type of injury and what body areas were exposed to injury, he related. "We didn't have such a list at the time, but we're now on the way to putting the entire corporate workers' compensation program into a computer."

"Our goal is to have all claims data fed into a computer, so we have all the data we need," Mr. Adams said later in an interview. "Each plant has its own system now; I'm in the process of trying to consolidate them." ■

Lewis . . .

Continued from page 73

places they are pretty well bundled up and stored somewhere and never even looked at. In one or two places the first report merely provides some grist for the statistics mill, resulting in pages of interesting figures, many of which have no connection whatsoever with the administration of claims."

Few state agencies enforce statutory requirements for instituting benefit payments within a certain period of time, Mr. Lewis said. "We can count on the fingers of one hand the number of states that make any effort to enforce these penalty provisions unless an attorney gets involved.'

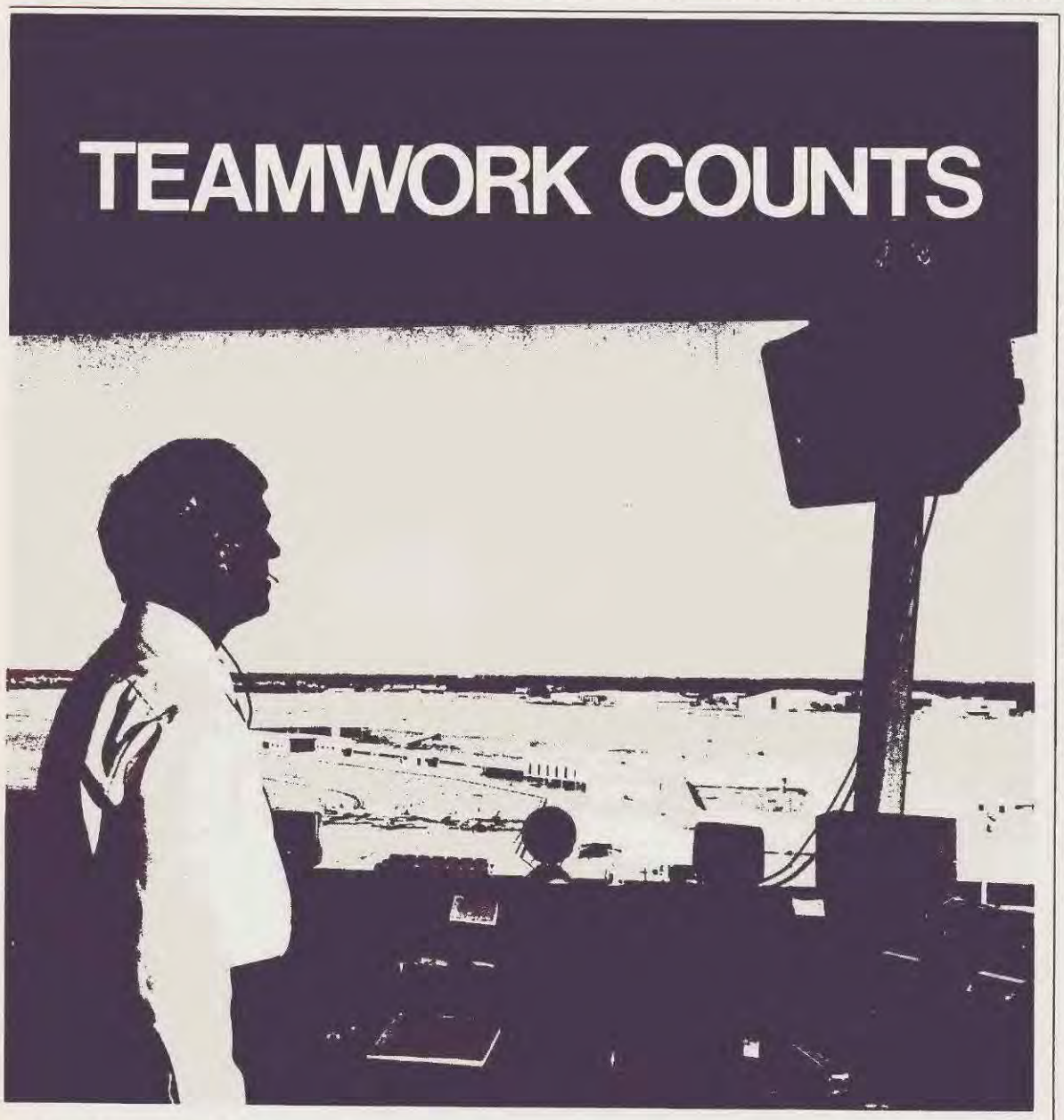
Monitoring payment of medical bills virtually never happens, he continued. "Numerous states admit . . . they have to operate on the squeaky wheel theory, reacting to complaints when a claimant happens to call the agency instead of an attorney.

"At the present time, state agencies are not able to take over enforcement of workers' compensation laws and will not be in that position until you and I—referring to employers more than any single group—do something about it," Mr. Lewis said. ■

Zayre moves property account

BOSTON—Zayre Corp., which operates 250 discount stores in 15 states, transferred its property insurance account to the relatively new office here of Corroon & Black from Fred S. James & Co., with whom Zayre had done business for the last three years.

The property account represents about $1 million a year in premiums. Zayre has three insurers underwriting its various store property risks. They are Sun Insurance Co., National Union Fire Insurance Co. and Nothbrook Insurance Co. The program was previously insured in London. ■



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SEE OUR AD ON PAGE 3

Expert urges return to wage-loss method

MONTEREY, CAL.—The wage-loss approach is one way of getting the workers' compensation system back to its original purpose, J. Howard Bunn Jr., director of the Interdepartmental Task Force on Workers' Compensation told the National Council of Self-Insurers.

The wage-loss approach compensates injured employes only for actual wages lost on a timely basis. It can be adjusted to reflect inflation, recession or other economic factors. Permanent partial disability cases, would, in effect, never be closed under the wage-loss approach.

Major stumbling blocks to the wage-loss approach include organized labor supoport of the impairment approach. Insurance companies, citing the actuarial difficulties of the open-ended cases, also aren't enthusiastic about the approach.

It was the opinion of the task force that the main focus should be a substantial replacement of lost earnings for injured employes, Mr. Bunn said. The group felt that the amount of money paid for an impairment should be entirely separate from the amount paid to compensate for lost wages.

Thus, in addition to recommending the wage-loss approach, the task force also approved a 10-point schedule of payments for injuries.

Arguments supporting the wage-loss approach include the inequities in most current schedules for permanent partial disabilities, Mr. Bunn said. "State legislatures set x number of weeks of payments for certain disabilities; the schedules aren't thoroughly studied."

The task force also stressed the importance of re-employment of injured employes, Mr. Bunn said. "Much attention is given to rehabilitation; while re-employment is frequently ignored."

This is an area where large employers can do a lot to improve the workers' compensation system, the director continued. A disabled worker can often be retained and employed in another area, if he can't return to his former job. Large employers have the resources to do this, he said, while small employers can only help get an employe another job elsewhere. ■

Optimistic excess view challenged

MONTEREY, CAL.—Members of the National Council of Self-Insurers disagreed sharply with the view of the excess insurance market presented by a representative of Rollins, Burdick & Hunter brokerage firm at the Council's annual meeting here.

Don Huff, senior vp, told the audience of approximately 100 council members "there is not a crisis in the excess market in California. . . . there is a viable market."

Reinsurers had a loss-expense ratio of 79% in 1976, Mr. Huff said. "That means a 20% profit."

Companies that are having trouble getting excess coverage might find the source of the problem is improper negotiation with underwriters, Mr. Huff said. This is especially true for West Coast companies, he continued. "Eastern underwriters don't understand the West. California has always been an enigma in the insurance industry."

One of the Council's members (not a Californian) interrupted the broker to ask the audience for a show of hands of those who had trouble getting excess insurance at a reasonable premium. The hands of practically all the members in the room shot up.

"We found the 1977 market to be a whole new ball game," one member commented. "Self-insured retentions are up; so are premiums."

Another member, representing a major oil corporation, said the premium for the corporation's per-occurrence self-insured retention for its all-risk policy was $5 million in 1975,"and I'm fully expecting this year's premium to be $10 million."

Other members cited premium increases of up to 500% where loss experience showed one loss in 15 years.

Mr. Huff acknowledged that individual companies might be having difficulties obtaining "reasonably priced excess coverage" but maintained that "the market is there; it's just a mater of negotiating."

One of the problems in communicating, he later noted "is what do you mean by reasonably priced and how do you define crisis?" ■

Agreememt

C.I.U. has signed an agreement to act as underwriting manager for the Highlands Insurance Co. for international non-treaty business. C.I.U.'s aotivities will supplement the Highlands casualty underwriting department in Houston.

Argonaut transfers work comp, liability

MENLO PARK—Argonaut Insurance has moved its workers' compensation and third party liability coverage from Marsh & McLennan of San Francisco to Emett & Chandler of Los Angeles.

The Insurance Company of North America (INA) remains as the carrier for the coverage.

Total premium volume involved in the package amounts to $200,000 a year, according to an Argonaut spokesman. He said the third party liability coverage, which includes general and automobile liability (but excludes errors and omissions coverage), has a premium cost of $150,000. Workers' compensation comes to $50,000 annually, he said.

Larry Lawrence, president of Emett & Chandler, said the coverage was not easy to place because insurance companies are viewed as poor risks in workers' compensation and auto liability coverage.

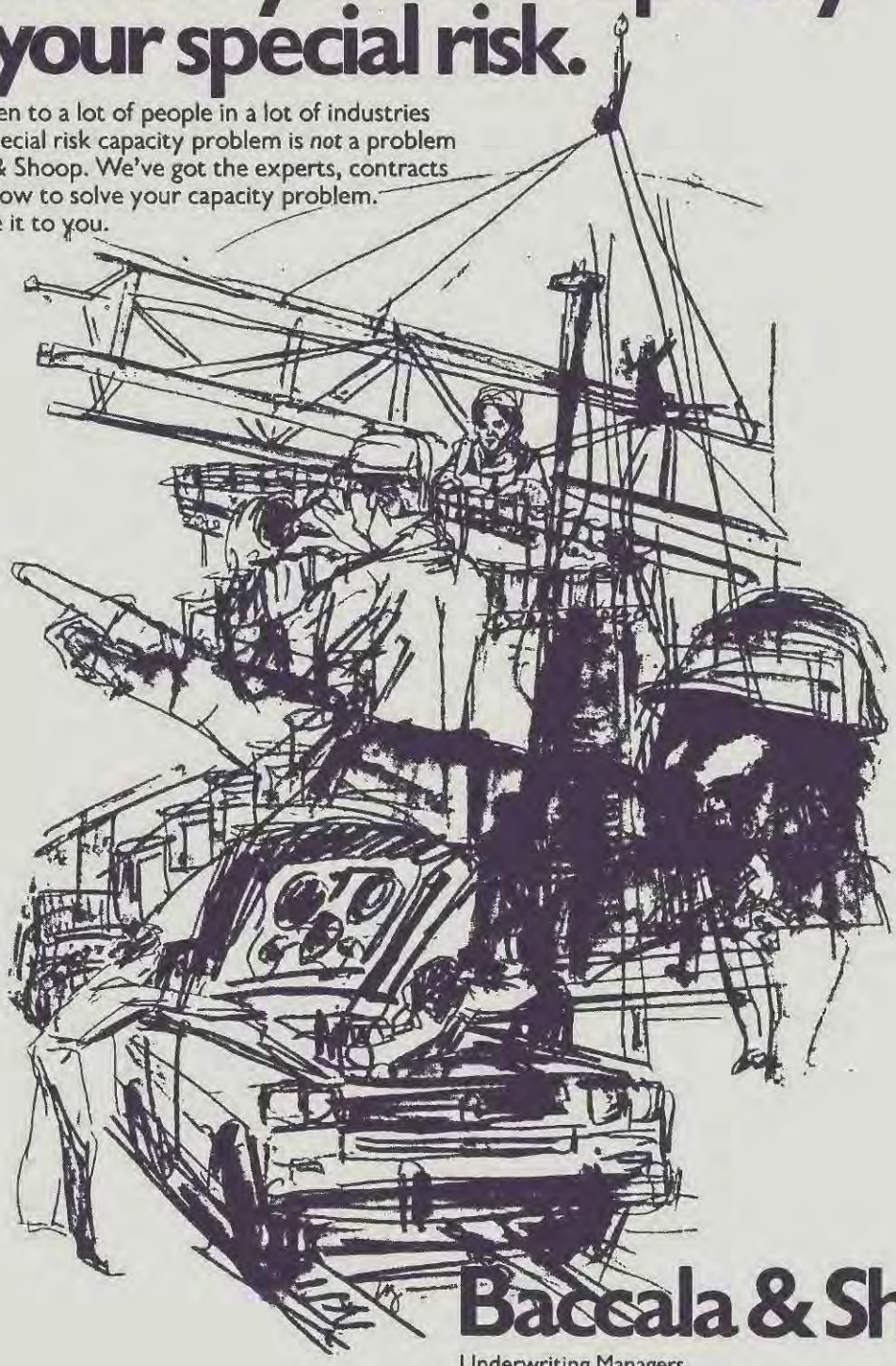
Frank DeNardo, vp of underwriting at Argonaut, said that the reason insurance companies are considered poor risks is that their employers are claims conscious and travel by auto and are more apt to have injuries.

"Argonaut's workers' compensation experience has been excellent, however," asserted Mr. Denardo.

The third party liability coverage for the insurance company has two layers, up to $500,000 combined single limit. ■

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Commercial firms to pay for insurer's debts

DENVER—Former policyholders of the insolvent Manufacturers & Wholesalers Indemnity Exchange may go to court to prevent a state insurance official from going back three policy years in levying assessments to pay the reciprocal company's $5 million debt.

M&W was declared insolvent and placed in receivership in December 1975, according to Robert Benham, deputy receiver and a member of the state's insurance department. The reciprocal exchange was Colorado's last such company, and had been in business since 1919 writing mostly commercial property and liability policies.

Many businesses that once bought coverage through M&W, though, pulled out of the company long before its demise. They had noticed new management reorganizing the underwriting in the late 1960s and early 1970s and going into a lot of substandard, high-risk personal auto lines.

Under Colorado's reciprocal law, all exchanges wrote policies stating that policyholders were obligated for assessments in the current policy year. And that's the problem for companies which haven't been policyholders in M&W since 1973 and 1974, but which still were assessed some of the largest amounts to cover M&W's outstanding debts.

"The policy called for a one-year assessment," said G. W. Stock Jr., chief accountant at Denver Brick & Pipe Co. here, the firm that received notice of the largest assessment of all, $65,126. "We'll be fighting the assessment. We're going to deny it and let the receivers take the next step," he added.

Denver Brick & Pipe is a firm with $8 million to $10 million a year in sales, and which pulled out of M&W in November 1975.

"As near as we can figure, we think the assessment covers about 22 months," said Mr. Stock, adding that the receiver is going back to any policy in effect after Dec. 1, 1973, to levy charges against policyholders.

At least Mr. Stock wasn't surprised about the notice of an assessment, since he knew the policies he had purchased from M&W were assessable. Some of the other 9,500 policy holders being charged didn't even know their policies subjected them to the possibility they'd have to cover the collapsed insurer's outstanding bills.

Many independent agents who hold M&W coverage didn't tell buyers that M&W was a reciprocal company, and an assessable one at that, says J. Richard Barnes, insurance commissioner of Colorado.

"I'm going to start a class action against the receiver, I guess," said Floyd Williams, owner of Denver-based A&W Plastics Co., when asked of his reaction to a $1,760 assessment covering 1973 through 1975. "There were clauses in the policies which said I could only be assessed for one year," he said angrily. His assessment was for $1,600 on various business insurance policies—liability, fire and theft, as well as coverage on two delivery trucks, for which he paid $300, $444, and $609, for three years respectively—and a $160 levy for personal auto insurance purchased from M&W.

"I was informed at the time that the policies were assessable, but I bought the rider to the policy from Lloyd's which provided for 1% additional premium coverage for any assessment. Lloyd's stopped writing the rider coverage in June 1974. My insurance man said in 1975 that we should get out of M&W, so I went with another company.

"My business doesn't have the funds to pay this assessment," Mr. Williams worried. "I've over extended myself just to keep the business going" through the economic downturn and cost inflation of the past couple of years, he said.

Mr. Williams began using M&W in 1973 because the firm saved him about 25% in premiums. At the time it seemed like a good deal from an old, reputable firm with a good track record.

Some lucky policyholders of M&W were assessed only a few dollars, but the majority of the reciprocal's former customers were commercial establishments charged more than just a few dollars. "At first we thought the state guaranty fund would handle all of this, and that we wouldn't be assessed, but that didn't hold up, and we were assessed," grumbled Denver Brick & Pipe's Mr. Stock.

The reason the guaranty fund of Colorado couldn't take care of M&W's $5 million liabilities was because subscribers to a reciprocal exchange are considered both insurers and insureds, and monies fronted by a guaranty association become a claim against the assets of the exchange. So, in effect, the guaranty fund becomes a creditor of the receivership.

Only a bare majority of M&W's former policyholders are in Colorado, most of those personal auto clients. Commercial policyholders by and large are located in 20 states around the country.

About 2,000 of the policyholders for years 1973 and 1974 bought riders to their policies underwritten by Lloyd's which covered any assessments for an added 1% premium. A few years ago the riders were required under Colorado law to be available to any assessable policyholders said Commissioner Barnes.

Mr. Barnes filed a legal action against Lloyd's in April to require it to pay any money owed policyholders into the receivership, so it could be paid directly to policyholders.

Among the other policyholders of M&W were Border Steel Co. in El Paso, Tex.; the Divine Light Mission based in Denver; Evel Kneivel Enterprises, based in Montana; Elcar Fence Co. and Palmer Bedding Co. based in Denver. W. J. Digby Co. in Denver had the second largest assessment at $61,000, followed by the Divine Light Mission with a levy of $54,827. ■

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SEE OUR AD ON PAGE 3

Urges changes in cumulative trauma rules

By MARGARET LeROUX

RENO, NEV.—Cumulative trauma, a problem perhaps more serious than malpractice, should be covered by an entirely separate part of the workers' compensation law, says one expert in the field.

Warren L. Hanna—a partner in Hanna, Brophy, MasLean, McAleer & Jensen, the largest workers' compensation defense law firm in the nation—proposed changes that would:

- Redefine injury in relation to cumulative trauma and occupational disease.
- Include rebuttable presumptions that asserted injuries of a cumulative or wear-and tear type as well as diseases not ordinarily occupational in character shall be deemed non-industrial.
- Eliminate disabilities that are not labor-disabling including subjective complaints that do not actually reduce the earnings of the claimant.
- Tighten up the statute of limitations.
- Contain realistic provisions with respect to apportionment, applicable to death claims as well as disabilities.
- Preclude awards for permanent disability to persons who are out of the labor market for reasons other than the industrial injury and preclude the creation of supplementary retirement benefits.

Mr. Hanna also urged making a provision of California's Labor Code which requires courts to liberally extend benefits for injured employes inapplicable in cases of cumulative trauma.

Cumulative trauma is causing serious problems for the California Appeals Board, Mr. Hanna said, "because this type of claim is causing a substantial increase in litigation."

California has tried to treat cumulative trauma as it has long treated occupational disease, the attorney continued. "If the disease or trauma required a period of 30 years of employment to become disabling and therefore, to constitute an injury for purposes of the compensation law, all employers for whom the employe worked during the 30 years would have to be named as defendants, together with their respective insurance companies to assume whatever liability is found to be industrial."

A tentative solution was enacted in 1973 to limit liability for occupational disease or cumulative injury to the last five years of employment, except when that was with the same employer.

"This hasn't provided adequate relief," Mr. Hanna said, and the insurance companies have been having difficulty from an actuarial standpoint in determining the reserves which they are required to post covering future injuries of this type.

"Cumulative trauma is being used more and more as a vehicle for the enhancement of pension benefits when the employe decides that he has finally had it and is ready to retire," the attorney said.

"Likewise we are finding that the disabilities for which comulative trauma benefits are often being sought are theoretical in character . . . they are disabilities which, while inconvenient, unpleasant or causing some hypothetical handicap in the performance of duties, do not prevent the employe fom carrying on with his regular job or actually reduce his earning power."

Cumulative trauma benefits frequently do not replace a loss in earning power, Mr. Hanna said. "Rather they go to supplement retirement income or regular current income, with an appropriate percentage going, of course, to the legal profession—both directly to the plaintiff's counsel and indirectly to the defense counsel."

Mose serious of all is the potential in the field of heart deaths and disabilities, he continued. He singled out the case of Edward B. Hutchinson who was appointments secretary for Gov. Ronald Reagan from 1967-1974. Three months after leaving the job Mr. Hutchinson suffered a fatal heart attack while playing tennis and his widow filed for compensation death benefits.

Despite the autopsy report showing he suffered from serious arteriosclerosis, the Workers' Compensation Board ruled that his job as appointments secretary had been a "major contributing cause of his death."

In another California Compensation Board decision, a permanent disability rating of nearly $20,000 was awarded to a construction worker, aged 60, for an ununited fracture of the wrist which had occurred at age 14 and had grown worse though the years from the effects of osteoarthritis aggravated to some extent by his job. The Board's own medical examiner indicated that 50% of the disability was of non-industrial origin, but the appeals board assessed the employer with the entire disability rating.

"Simply stated, it's the old story that 'nothing succeeds like success.' Those who initiate such litigation have been discovering that the filing of such a claim is virtually tantamount to a recovery of benefits. Statistics of the California Division of Industrial Accidents show such claims to be 95% successful," he said.

Cumulative trauma, "given sufficient time, will furnish a basis for making practically every heart and emphysema death of an employe fully compensable," Mr. Hanna said, "and this being so, we had better find a way to apportion liability for death claims if we expect to preserve our present compensation system in a viable form, rather than convert it into a massive health and welfare system at the employer's expense." ■

Adjusters expand claim network

CHICAGO—The National Assn. of Independent Insurance Adjusters has voted to expand the Contracts Inc. operation formed two years ago to provide nationwide claims service under contract to self-insured corporations.

Contracts Inc. is a wholly owned subsidiary of the association. It'll now be reorganized, and expanded with the use of capital raised by selling stock to NAIIA members firms which choose to be owners of the corporation.

Contracts Inc. plans to establish its own home office separate from NAIIA headquarters, install toll-free telephone lines and employ its own sales force and account executives to serve its markets. Contracts Inc. also plans to offer nationwide claims adjusting services to insurance companies on a contract basis. ■

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U.K. groups won't cover U.S. malpractice suits

By JOHN H. MILLER

LONDON—Two medical societies which provide their members with insurance will no longer cover malpractice suits brought in the U.S. The high American awards, as compared to British settlements, prompted the societies' actions.

The rule will apply, for example, to ship's surgeons who may be sued for treatment of U.S. patients while at sea, or for any other doctors or surgeons who may find themselves in a dispute in the U.S. courts.

They will still be fully indemnified against actions brought in the British courts if negligence is proved by patients of any nationality.

The two medical bodies are the Medical Defense Union and the Medical Protection Society, which provide a unique form of self-insurance for 140,000 doctors in Britain for a cost as little as $65 a year.

Damage awards in the U.K. courts for malpractice are still rarely over $150,000, so fees for these two societies, which between them have reserve assets of more than $6.5 million, can be kept quite low. U.K. doctors have no need to seek commercial insurance.

Problems of lawsuits which might be brought by U.S. personnel engaged in oilfield work in the North Sea are under review by these two medical groups, although it is accepted that most employes are covered by corporate insurance.

So far only ship's surgeons have been removed from cover for U.S. lawsuits by the 60,000 member Medical Protection Society. But the Medical Defense Union, with 80,000 members, has extended the ban to all litigation brought in U.S. courts.

It accepts that if a U.S. citizen is treated in a foreign country he may, on returning home, try to take action in his own state against the clinician who could be called on to pay malpractice damages if he later took up residence in the U.S.

* * *

All jet aircraft in use by commercial airlines—excluding China and Russia—has a market value of $30 billion, Walter C. Corbett, U.K. aviation insurer, told a London risk management conference.

Speaking to a group assembled by the Keith Shipton group, Mr. Corbett said, "The economic loss occassioned directly by airline accidents in the past five years to 1976 is about $1.5 billion. There is growing evidence that insurers have probably not succeded in assessing the right level of premiums, but these losses come largely in money terms from manufacturers and airline operators.

"The incidence of losses for operators based in Europe is double that of U.S. operators, and for operators elsewhere in the world they were three times in the U.S. scale till recently.

"Airlines whose investment in fleet equipment is over $325 million are half as safe again as those in the $100 million to $325 million range, and more than three times as safe as those with less than a $100 million investment.

"The largest airlines have the most modern and sophisticated aircraft, most of them being in the U.S., and I am convinced that aviation safety has to be bought with money, either public or private, so that you get as much safety as you are prepared to pay for. But I think improvement is possible in the loss ratios."

Peter Martin, of the English law firm Beaumont and Sons, urged airlines to insure each passenger up to $250,000 to meet major disaster claims where normal limitations do not apply.

"The law of the jungle will develop rapidly in the aviation compensation field until effective solutions are found," he added.

* * *

British courts dismissed a medical malpractice suit brought by a 24-year-old woman who claimed her love life was destroyed by using a special ointment six years ago for warts that occurred during her pregnancy.

Mrs. Hazel Webb, a policeman's wife, blamed the ointment for causing a vaginal inflammation and said in her suit, "I can't enjoy sex any longer with my husband as a result."

But High Court Justice O'Connor agreed with the defendant, Dr. Brian Bartley, that no lasting damage was caused by the ointment and any reluctant lovemaking was caused by emotional reasons. He noted, however, that the ointment in question is no longer produced in Britain.

In another UK case, a 21-year-old student, Desiree Llewellyn, won $3,500 in damages because she got a "tingle in her kissing" after her lips were injured in an auto accident.

* * *

The London Financial Times will publish later this year an insurance yearbook which analyzes the performance of more than 600 underwriting and broking groups in the leading markets. ■

Supermarket chain sets up Colo. captive

DETROIT—Chatham Super Markets Inc., operator of 50 stores and employer of 5,000 people, established a Colorado captive insurer to underwrite the previously self-insured portion of its workers' compensation program as well as a formerly self-insured robbery policy.

Regal Insurance Co. was approved to do business with $400,000 capital to underwrite losses of $150,000 per occurrence in workers' comp, with Affiliated FM Insurance Co. as carrier above that amount. The company is now in the process of changing its fiscal year insurance policy to a calendar year basis with Affiliated FM, said Larry Kraus, in Chatham's controller's department.

Regal is also insuring robbery losses up to $100,000 aggregate, and for $25,000 per loss, with a $2,500 deductible.

Premiums being paid into the captive by the parent company are about $800,000 annually for workers' compensation coverage, and about $50,000 a year for robbery coverage.

Frank B. Hall & Co. is the manager of the captive. At the same time that Chatham picked Hall to manage the captive, the company's entire insurance program, representing annual premiums totaling roughly $2.25 million, was switched to Hall from Nolta-Quayle-Sauer & Associates, a local brokerage firm, Mr. Kraus said.

"We felt that we were growing to the point where we needed a national firm that could give us better service and bring us together with better markets," the insurance manager said.

Depending on what happens when other policy renewals come up this summer, said Mr. Kraus, Chatham will consider putting other lines of coverage into the Colorado captive. ■

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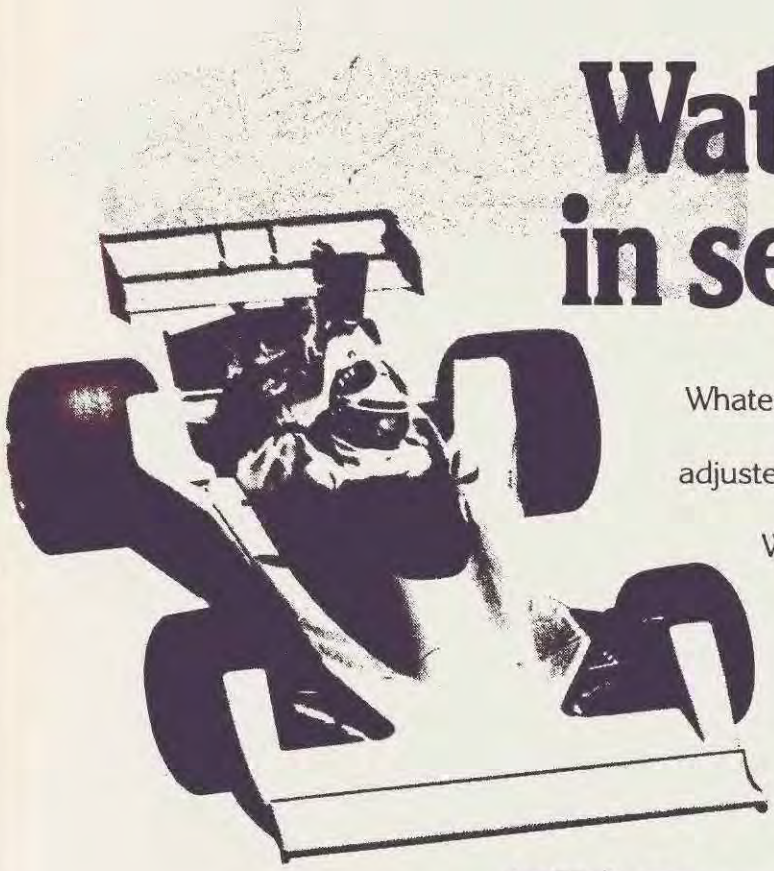
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Cure for Social Security may poison pensions

Crain News Service

NEW YORK — The medicine President Carter and his advisers have prescribed to cure the ills of the Social Security system may be poison for the private pension system.

This is the reaction of corporate pension executives and pension experts surveyed.

Some experts predict that the Carter proposal is only a political move and will never make it into law.

The President has proposed increasing, over time, the payroll tax part of the Social Security contribution up to the point where companies are making contributions on their whole payroll, not just on a part of it as is currently the case.

In addition, the administration recommended that the system be allowed to dip into general tax revenues to meet its needs in times of high unemployment. At such times, Social Security contributions decline because businesses are employing fewer workers.

The President also recommended the end to double indexing of Social Security benefits by tying future benefits only to wage increases. Now the benefits are tied to both wage and price increases.

"The days of the corporate pension plan may be numbered. I think eventually the Social Security system may swallow the private pension system," said W. M. Valiant, treasurer of Borg-Warner Corp., "because the Social Security system is taking a bigger and bigger portion of the retirement cost dollar and providing a bigger and bigger part of retirement income.

"There will eventually be no reason for a private pension system.

"We have a big agency making an inexorable move toward control of the whole industry. We can't afford both a costly Social Security system and the private pension system," he said.

Mr. Valiant ridiculed statements made by administration officials that corporate profits were great enough to absorb the Social Security tax increases instead of passing them on to the customer in the form of price increases.

"That is absolute nonsense," he said.

The added costs under the Carter administration plan will be "fairly significant" for Pfizer Inc., according to Elliot Gartner, director of employe benefit financing.

"We wonder if this will tend to speed up or result in the eventual takeover of pension plans by Social Security," Mr. Gartner said.

"We have a situation where private pension plans are controlling a bigger and bigger portion of the capital of the nation's corporations, and we wonder how long the government can allow that to continue."

Mr. Gartner said Pfizer's plan was not integrated with Social Security, and its workforce was a relatively young one.

"We have a career earnings plan," he said, "and our costs have been relatively controllable since we can update when we want to. But the Carter Social Security proposals knock our retirement costs out of control."

One academic expert asserted, however, that "Social Security will never take over a role as a complete pension program.

"It's not an insurance program —people will still have to make their own arrangements for retirement," said Dr. Carl V. Patton, director of Urban and Regional Planning Research at the University of Illinois. Dr. Patton is the author of a recent essay entitled, "The Politics of Social Security."

He predicted that the proposal to transfer $14.1 billion from general revenues to the Social Security trust funds will be defeated and the proposal to increase the wage base "will have a rough time."

Tapping general revenues will come under attack, he said, although it is "something we'll have to move to." Opposition is likely to come from people covered by state systems not in Social Security, who will, in effect, be paying for benefits they won't receive, he said.

Dr. Patton predicted that Congress will increase the taxable wage base, but not up to the entire amount of wages by 1981, as the President proposed.

The true meaning of the administration's Social Security proposals, according to one midwest bank trust officer who is an expert on Social Security, lies in their capriciousness and political intentions.

"There are two defects in the Carter administration," he said. One is his staff, which he rates as "poor" and inexperienced, and the other defect is that they "approach everything from a political point of view."

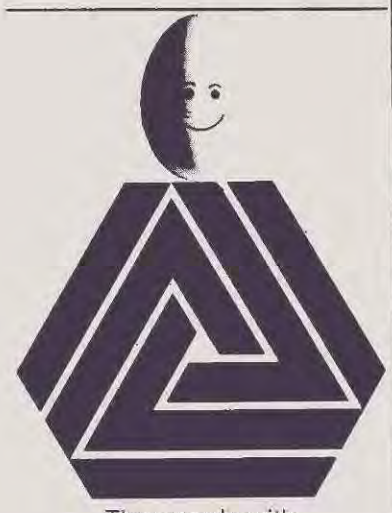
He said the Social Security proposals are a "totally political document.

"They're designed to dump the cost on the part of the electorate that didn't elect Carter and molify the part that did," said the bank officer.

He also pointed out that the higher wage base proposal will be a "substantial disincentive for hiring workers" because Social Security taxes come from the amount of money available to hire workers.

"It looks as if the administration is moving toward charging the employer more and more for

Continued on page 80



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Social Security cure . . .

Continued from page 79

Social Security and the employe less and less," said James Townsend, chairman of the trust investment committee at the Budd Co.

"It seems as if they have been following the pattern in Europe where retirement costs are shared one-third by the employe, one-third by the employer and one-third by the general taxpayers.

"In the end it is the employe who pays it all. It's a kind of a flukey way of hiding increased costs that arose because congress overspent.

"It's this attempt to camouflage the cost increases by hiding them in payroll taxes I dislike most," he said.

William Bret, president of A. S. Hansen Inc., the actuarial and consulting firm, was another who feared the medicine to cure Social Security's ills might be poison for the private pension system.

"I'm afraid the employer tax might be destructive to the private pension system," Mr. Bret said.

"Perhaps large companies will be able to pass it on to the employes or the consumers, but what about small and medium sized firms. They are the ones that will suffer.

"Take my company, for example, who do we pass it on to?"

Mr. Bret said business was being asked to bail Congress out of a mess the politicians had created.

"They were warned by top actuaries before they passed the legislation setting up the double indexing," said Mr. Bret. "But they went ahead and did it.

"And Congress has combined welfare and retirement programs in the Social Security system to everyone's cost.

"It's hard to see why business should go along with a tax to bail out a bunch of politicians who didn't know what was going on.

"The tax will take $30 billion out of capital and pump it into the Social Security system, and if this country needs anything now it's capital."

Norman B. True, president of Norman B. True Inc., an economic consulting firm in Washington, D.C., and author of "The Future of Private Pension Plans," said the higher tax on employers was spurious because the employe would end up paying it.

As long as the employes did not realize that they were the ones paying the tax, it would look like a good deal to them, Mr. True said.

He pointed out that if the Social Security system is perceived by the employes to be more attractive, "it may adversely affect the savings of the employes" which would mean reduced capital formation, and thus lower productivity and declining real income for the workers. ■

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Safety mgr. starts own service firm

LOS ANGELES — Dave Marceau, formerly safety officer of the city of Inglewood, has started his own company to povide risk management services to small to medium-size public agencies in the Golden State.

"They all need it," he said.

The new company, which bears his name, will concentrate on special insurance, tax and revenue problems of public entities in its size category.

Liability insurance will be one area in which the new company will offer services.

"But with the public agencies I know of, 80% to 90% of total insurance costs go to workers' compensation and employe benefits," Mr. Marceau said.

He noted that self insurance will be a prime focus attention from his new company. He pointed out that the state legislature is now considering a bill which will establish regulations for public entities that self insure workers' compensation, public liability or any other coverage. ■

New York county drops insurer of 35 years

WESTCHESTER CY., N.Y.— Westchester County has shifted its entire property insurance program to Improved Risk Mutuals through the Allen B. Stevens & Son agency here, after doing business with Allendale Mutual Insurance Co., part of the Factory Mutual System, for 35 to 40 years.

Robert M. Bieber, director of risk management for the country, said IRM was chosen over two other proposals submitted—by Industrial Risk Insurers through Marsh & McLennan and by Allendale—in order to achieve much broader coverage under an all-HPR program which resulted in substantial premium savings as well.

"We decided to go out and see what the marketplace was like" for innovative property programs, said Mr. Bieber. The results encouraged him to conclude the market's pretty good.

Westchester County wanted all-risk coverage, a change from the previous specified-perils policy with Allendale, and asked for quotes including deductibles of $10,000, $25,000 and $50,000 per occurrence.

The new policy also was to cover all facilities of Westchester Airport, including coverage for loss of rents for the airport's hangars which are leased, a group of risks formerly insured separately from other county properties.

Also incorporated into the new consolidated program, said Mr. Bieber, were Playland, an amusement area previously treated as a separate risk. County parks under the Allendale program had been insured separately as non-HPR risks at higher rates.

The county chose the all-risk HPR program incorporating a $50,000 deductible, with premiums annual of $153,600 under a three-year policy covering county properties for up to $195.3 million and county boilers up to $15 million.

The county previously paid $204,505 for a policy covering specified perils with a $10,000 deductible, on a replacement cost basis.

Bids from the three insurers submitting proposals, for a similar $10,000 deductible program, were $181,800 for Improved Risk Mutuals, $306,379 for Industrial Risk Insurers and $275,293 for Allendale.

Raising deductibles to $25,000 changed the quoted premiums to $168,400 for Improved Risk Mutuals and $285,558 for Industrial Risk Insurers. Allendale declined to quote on this plan.

The other tow bids with a $50,000 deductible were $259,128 for Industrial Risk Insurers and $223,889 for Allendale.

Mr. Bieber started two years ago to plan for this remarketing, initially sending out letters to everybody who might be interested in insuring the Westchester County properties. Frank B. Hall & Co. and Johnson & Higgins were also named along with M&M and Stevens to each approach three assigned markets for proposals, "but Hall and J&H dropped out," said Mr. Bieber. ■

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HIAA says 'maybe' to natl. health, hospital cap

ATLANTA—The Health Insurance Assn. of America came out in favor of national health insurance as long as private business, rather than the government, can insure and administer it.

During the HIAA's annual meeting in Atlanta earlier this month, the group also gave a qualified endorsement to President Carter's hospital cost containment program, which would put a 9% ceiling on increases in hospital bills.

HIAA president Robert F. Froehike said the association, which is made up of insurance companies which provide health care benefits, opposes the federal price control features of the Carter proposal, but feels the program would be relatively easy to administer and would be compatible with the HIAA's own long-range goal of prospective hospital budget review.

Hospital budget review as a means of medical cost containment was one of the hottest topics at the annual meeting Sen. Thomas J. McIntyre (D-N.H.), who has introduced a national health care act "so many times I've lost count," suggested that hospital budget review would be the quickest way hospitals could get out from under the arbitrary 9% revenue increase ceiling proposed by the President.

Louis A. Orsini, vp and director of consumer and professional relations for the HIAA, cited the experience of agencies in Maryland and Connecticut which have the authority to review hospital budgets and approve hospital spending. He said such review is a key to holding down patient dollars.

In only two years of operation Maryland's Health Services Cost Review Commission has saved $55 million for patients and the Connecticut Commission on Hospitals and Health Care saved more than $30 million, Mr. Orsini said.

Each year since the agencies were created, costs in Maryland and Connecticut have gone up more slowly than in the national as a whole. Mr. Orsini believes U.S. hospital patients could save at least $1 billion annually if states across the nation adopted similar agencies.

Another point repeated frequently during the HIAA annual meeting was that there has been a decline in support for an all-government directed and tax-financed approach to national health care, even though the chances for national health insurance administered by the private sector have increased.

HIAA outgoing chairman Armand C. Stalnaker said, "We know that government expansion advocates always develop low price tags for their grandiose schemes and then have cost overruns. Invariably the after-effects are added inflation and a disappointed citizenry because of broken promises with the threat of increased taxes or withdrawal of benefits."

Mr. Stalnaker said insurance premium financing should be a vital characteristic of any health care benefits plan. "If it doesn't have premium financing it isn't insurance. This test must also be applied to every segmented program that is proposed," he said. "Taxes versus premiums is the critical test. Implicit in a premium structure is the concept of a risk that has been calculated in advance and a benefit promise that has been responsibly made. None of the tax approaches for social programs have measured up to this professional and business-like standard."

Although the majority of the speakers at the HIAA meeting were representatives of the insurance industry, some corporate benefits and consulting people were there to give their perspective.

Jack Shelton, manager of employe relations for Ford Motor Co., said that insurance industry leaders could help curb rising health care costs by solving problems related to overcapacity of hospital beds and over-utilization of hospital and medical services.

Bernard F. Rogers, director of benefits consultant William M. Mercer Inc., said that in recent years his firm has spent the greater portion of its time (on its larger accounts) devising cash-flow schemes for health care programs and exploring varying degrees of self-insurance to release reserves and reduce state premium taxes. Over the long range, while this helped reduce corporate costs, it may have diverted attention from the benefit package and structure itself, Mr. Rogers speculated.

He said that building resentment over increased medical costs is reflected in an increased opposition to rate increases and clients' willingness to explore self-insurance and/or reduced benefits through greater use of deductibles and co-insurance.

The resentment also, he said, reflects an attitude that national health insurance is inevitable and "can't be any worse." ■



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SEE OUR AD ON PAGE 3

St. Paul ready to cut some malpractice rates

ST. PAUL, MINN.—St. Paul Fire & Marine proposed reductions in hospital malpractice premiums in 20 states while requesting increases in 14 states.

Rates in four of the 38 states where the company is currently writing hospital malpractice insurance will remain unchanged. The rates are to be effective in June.

The average decrease is 21% while the average increase is 16%, a St. Paul spokesman said.

Claims in the 20 states receiving reductions are running below expectations, the spokesman added. But the company has been unable to determine any pattern to the increases or decreases.

"It would be impossible for me to say that the malpractice problems are over in the states where there are decreases," the spokesman said.

The new rates are for basic $100,000/$300,000 coverage under a claims-made policy, the only type St. Paul is currently writing. Under the claims made policy, rate increases are to be expected every year until premiums reach a plateau in the fifth year.

However, hospitals will be paying less in the third year of coverage than they paid in the second in 18 states where St. Paul has sought decreases. The company said most of the hospitals it currently insures are entering the third year of coverage.

The new rates are based only on St. Paul loss experience. In the past, St. Paul hospital rates were based on a series of factors applied to the standard ISO rates for a state.

The states where rate decreases were requested are Arizona, Arkansas, Colorado, Delaware, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Mississippi, Montana, New Hampshire, North Dakota, Ohio, Vermont, Washington, Wisconsin and Wyoming.

Rates increases are expected for Alabama, Florida, Georgia, Indiana, Minnesota, Missouri, Nebraska, New Jersey, Oklahoma, Pennsylvania, South Dakota, Tennessee, Virginia and West Virginia.

No change in rates are planned for North Carolina, Michigan, Oregon and Rhode Island. ■

Captive Companies Assn. chooses Duffield as president for 1977

ASHLAND, KY.—The Captive Insurance Companies Assn. (CICA) elected officers for 1977-78 at its annual meeting April 6 in Charlotte, N.C. The new president is Thomas A. Duffield (Archer Daniels Midland Co.), who succeeds Robert A. Reeves (Ashland Oil Corp.).

Because of the group's fast growth over the past two years, the vp position was reorganized into three vp posts. The single vp last year was Mr. Duffield. Vp-membership is Dwayne E. Allen (Hanna Mining); vp-program is E. William Altsteatter (Rockwell International Co.); and vp-government relations is Howard T. Weber (3M Co.). Edward P. Lalley was re-elected treasurer, and A. Grant Whitney was re-elected secretary. Assistant secretary is Richard L. Casey (International Harvester), succeeding Mr. Weber.

Most directors were re-elected to their posts. New directors include William J. McClendon (Ingram Corp.) and Mr. Reeves.

CICA now has 68 members and there are 20 more applications for membership now being processed. Mr. Duffield expects membership to rise to 85 or 90 by mid-summer.

CICA has two meetings each year, a closed annual meeting at which officers are elected and an open meeting at which speakers and seminars provide a forum for debate of insurance and risk problems.

At the April closed meeting, speakers were Ross Cowan of Prudential Reinsurance Co.; Jim Billett, of General Reinsurance Co., and Walter Foster of Howden Swann Agency Ltd., discussing problems in the U.S. reinsurance markets. ■

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Shipbuilder's 2nd biggest cost is insurance

Broker allots 'unadulterated' hours

SAN DIEGO—"As a professional broker, I have always been a risk manager," says Taylor Whatley, whose business card names him as the risk manager for Campbell Industries, a troubled shipbuilding concern here.

What he means is that he is a member of the tiny, controversial circle of men who practice the dual functions of brokering and risk management.

In Mr. Whatley's case, he is a risk manager—on a part time, 20-hours-a-week basis—for Campbell Industries, a company he first encountered in 1969 when he was a director of sales for Leatherby Insurance Co. at Fullerton, Calif. Later, he worked for Albert G. Ruben, the large, privately-held brokerage firm in Beverly Hills.

Now, while Mr. Whatley gives a lot of his time to his marine brokerage business, he turns over a strict 20 hours a week to Campbell as its risk manager.

"I have guaranteed Campbell 20 hours a week of pure, unadulterated risk management," he said noting that he's been acting as a risk manager for the company for three years.

Because Campbell, which has reported sales of under $100 million a year, is in the business of constructing tug supply and tuna vessels as well as repairing tuna boats, it comes under the federal Longshoremen's and Harborworkers' (L&H) Act. Not surprising, it is here and products liability where Mr. Whatley concentrates his attention.

Insurance is the second largest overhead expense after labor for the company, Mr. Whatley said, and the L&H problems are more formidable than the product liability ones.

The company has a $250,000 per occurrence self-retention in L&H coverage at present, versus a $100,000 per occurrence self-retention last year. Above that, Campbell has a specific excess policy up to $5 million underwritten by the Midlands Insurance Co.

"We had an aggregate excess policy which insured the total of all incurred losses within $100,000 retention which exceed 110% of our projected standard premium," observed Mr. Whatley, "but that policy is now out of the window.

"Nobody in shipbuilding has an aggregate stop loss policy these days."

All Risk Management Services, San Francisco, is the claims administrator for the self-insured program which was inaugurated April 1, 1975.

Prior to 1972, the year that the federal L&H legislation passed, Campbell was paying the minimum rate for workers' compensation of $4 per $100 of payroll plus 10 cents for loading per $100 of payroll. Under the federal law, the company pays $25.17 per $100 of payroll for workers employed in ship construction and $28.13 for $100 of payroll for employes involved in boat building.

"The way we see it, the federal L&H legislation is a pilot program for a federal national workers' compensation program," he warned.

Moreover, like the Federal Aviation Administration and its air traffic controller employes, Campbell is burdened with the necessity of detecting and eliminating fraudulent L&H claims, he said.

"The problem confronts everyone in shipbuilding," he says. "When a jobholder makes more money by not working than by working, even I would be tempted to take an additional two weeks of vacation, much less try to blow things to $200,000."

Mr. Whatley and his staff do their own investigations.

The other piercing headache for Campbell is product liability.

"When they are injured on board, crew members fall under the Jones Act which means they can sue the boat owner, who in turn can sue the shipbuilder for constructing an unseaworthy vessel," he explains.

"For example, Campbell has an outstanding complaint cross-suing for $300,000 a seaman who slipped and fell on an oily rag on a ship we constructed three years prior to the accident. The insurance carrier is holding $10,000 reserve for defense costs."

In the shipbuilding industry, the only way to obtain product liability coverage, he believes, is to tie product liability property damage for new construction to ship repair legal liability, the policy that protects vessels when they are in the docks for repair. Then a separate products liability bodily injury policy is acquired.

Looking at the costs of products liability bodily injury, Mr. Whatley observes that the protection costs $50,000 a year more today than the entire general liability policy, including auto physical and bodily injury liability, cost three years ago.

General liability insurance costs, too, have exploded in the last four years, he adds. He estimates premiums are up 800%.

Punctuating the blood, sweat and tears that a shipbuilder in need of general liability insurance must endure, Mr. Whatley points out that a portion of Campbell's general liability coverage is drawn from the Communist world, to be precise from The Black Sea & Baltic Insurance Co. of Yugoslavia.

That portion is small, however. "If they had over 3%, I would be concerned," he says.

Turning to his position as a combination broker/risk manager, Mr. Whatley notes that he never purchases insurance for Campbell. The company treasurer performs that job.

Indeed, definite guidelines have been laid down by Mr. Whatley for handling conflicts that can flare up for anyone in his position.

"In any question where there is the slightest gray area," he says, "I always rule against myself." ■

Bill passed which alters Ill. comp law

CHICAGO—The Illinois House of Representatives passed by a wide margin a bill to revamp the state's burdensome workers' compensation law amendments enacted in 1975 which set some of the highest benefit levels in the nation under some of the most liberal rules for claiming them.

The 1975 law increased permanent total benefits to two-thirds of weekly wage with a ceiling of not more than 100% of the state's average weekly wage. It also increased awards for permanent partial disability and eliminated the requirement that an occupational disease have its origin during employment.

The workers' compensation reforms desired by business have sparked a heated debate in the state legislature because labor interests have strongly opposed many of the changes business said were necessary to keep employers from deserting the state.

The bill passed 151 to 7 by the House the week of May 20 was a compromise consisting mostly of labor-supported changes. The bill supported by corporations within the state was defeated.

Under the latest revisions, the law would include a cap on death benefits and would remove an escalator clause permitting average weekly wages on which workers' compensation benefits are based to rise by 66% in two years and 100% in four years.

The business-backed proposal also called for the changes to be made under the labor-supported version. But it would have gone further, reducing by $35 the base on which disability payments are calculated, using the average weekly wage in Illinois as the basis for figuring benefits, instead of the higher average weekly manufacturing wage now in use. ■



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Mr. Cas Scheer, Executive Director
INSURANCE ADVERTISING CONFERENCE
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Drug makers . . .

Continued from page 1

by their products even when the specific manufacturer could not be identified.

That case was brought by the parents of 13 children injured in 12 separate incidents when they found and exploded blasting caps left scattered at construction sites. The parents charged the caps had not been labeled or marked with any warning of danger and were easily detonated by the children causing them serious injury.

They could not identify the specific manufacturer in each case because the explosions destroyed markings on the casings which would have been the only reliable evidence of the manufacturer.

Mr. Bleakley, who has a medical background and whose firm is known for successfully handling difficult medical suits, is convinced his clients will have a "much better chance" as the DES case moves up the appeals ladder.

Not only is he encouraged by the precedent set in Chance vs. DuPont, but he is also bolstered because he believes Judge Roumell's "application of the ground rules was in error.

"He admitted he didn't read all the material submitted," Mr. Bleakley said with a tone of disbelief.

In addition, the judge issued a "partial summary judgment" in the case. That means the women who can't identify the specific manufacturer cannot sue for damages unless at some point they produce evidence against a manufacturer. And the judgment was "partial" for the women who can identify the manufacturer—about 40% of the plaintiffs according to Mr. Bleakley—because they must come back naming the manufacturer in order to sue.

And, said Mr. Bleakley, when a judge issues a summary judgment "what he is saying is there is no legal basis for the suit to continue. When he decides this, he has to take the facts as the plaintiffs present them. But he took the defendants' position that there were 300 companies involved. We knew that, but the other 280 were only little postage stamp houses. It was the big guys promoting this drug to the medical profession," said Mr. Bleakley.

The attorney argues it is unjust to deny the women relief who cannot identify the manufacturer when the women who can point to the specific manufacturer are able to do so only through a "fluke" of finding the generally non-existent records.

Mr. Bleakley hopes the case will bypass the court of appeals in Michigan and go straight to the state's supreme court. The suit was first brought in 1974—on behalf of 16 women and other plaintiffs joined later—and Mr. Bleakley is anxious "to get going."

Regarding the actual merits of the case, Mr. Bleakley claimed: "This is open-and-shut negligence. It's a horror story in what they did and didn't do. They didn't do anything in spite of the fact there were 315 medical journal articles in 1947 on cancer in animals and humans from hormones. About 60 dealt specifically with DES."

The attorney also alleged, "There was no research on DES except some very crude studies on its effectiveness in preventing miscarriage." Mr. Bleakley stressed the research was "crude" because it was rejected by well-controlled scientific studies as early as 1951. In addition, the National Academy of Sciences later said there was nothing to document the effectiveness of DES in preventing miscarriages.

Charfoos & Charfoos is co-counsel in 30 different states representing in all 250 women suing drug companies for their part in supplying DES to their mothers.

An Eli Lilly prospectus issued to stockholders says damages sought in DES suits pending around the country total $3 billion. That includes one suit in New York brought for $2 billion.

It's estimated that as many as two million pregnant women could have taken DES between 1947 and 1971. It was in 1971 that Dr. Arthur Herbst and his colleagues at Massachusetts General Hospital announced they had found an association between DES used by pregnant women and cancer in their daughters.

Dr. Herbst, now head of obstetrics and gynecology at the University of Chicago's Billings Hospital, says, "Nobody in the medical world really disputes the association now."

But, he said recently, not every DES daughter is doomed to develop cancer and in fact, for the 150 cases of cancer tied to DES, there may have been 1,000 who have not developed malignancies. Still, other illnesses in DES daughters include non-malignant lower genital tract problems, benign vaginal adenosis and certain deformities of the cervix, he said.

DES is still marketed by Eli Lilly for the treatment of breast and prostate cancer, an estrogen replacement in postmenopausal women and for suppression of lactation. Drug companies are no longer providing the dosage required for DES use as a "morning after" contraceptive and the FDA is considering a ban on its use as an additive in cattle feed.

In the meantime, the drug companies in the Detroit case are projecting a guarded optimism.

Abbott Laboratories in suburban Chicago prepared a statement saying the company is "highly gratified by the (Detroit) decision," adding, "Abbott has always been confident that there was no merit to the suit against Abbott." The drug company marketed DES between 1947 and 1959 and its sales were less than $1 million, according to a company spokesman.

An E. R. Squibb & Sons Inc. spokesman said, "We think it's a good decision, but I think we should refer you to the decision itself." He explained the company does not want to find itself commenting on every DES court decision, explaining, "This isn't the last word in the DES litigation."

Upjohn Co. was particularly relieved by Judge Roumell's decision in the Detroit case because that was the only DES-related action naming Upjohn. A spokesman said Upjohn manufactured DES for "several years but we never recommended its use during pregnancy and we discontinued the dose size for such use in 1961. We never sold very much of it either."

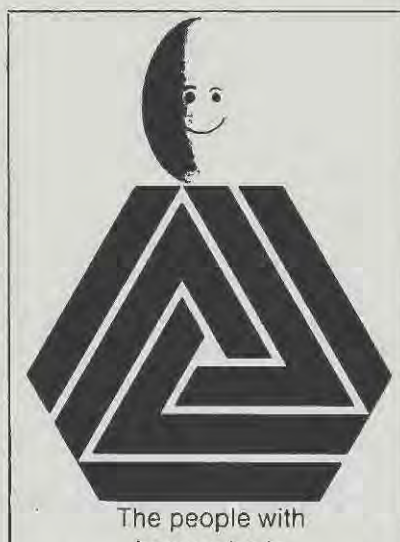
The other pharmaceutical companies named in the Detroit case are H. A. Cole Products Co., Schering-Plough Corp., Merck Sharp & Dome division of Merck & Co., Rexall Drug Co., Burroughs Wellcome Co., Rorer Inc., McNeil Laboratories Inc., Blue Line Chemical Co., Vale Chemical Co., Kremers-Urban Co., Central Pharmacal Co. and S. J. Tutag & Co. ■

Funds increase

Life insurance companies in the past decade have more than tripled the amount of funds they supply to the nation's money and capital markets, according to the American Council of Life Insurance. An estimated $26 billion in net new investment money is expected to be supplied to financial markets by life insurance companies this year, an increase of $2 billion over 1976.

errors & omissions

• The First State Insurance Co. of Boston is insuring most of the taxicab companies in California for public liability, but not for workers' compensation as reported May 2.



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WESCAP . . .

Continued from page 2

plished by providing a carrot to use the captive plan. Three classes of captive membership were established: Participating members, including 87 companies paying $10,000 each; sustaining members, including 45 NWSA companies, paying $5,000 each; and supporting members, including only three firms, paying any amount they desire.

Of the 87 participating members in the association, not all are active in the captive right now. But WESCAP chairman Mr. Valetti, who is also president of Penn Oxygen & Supply Inc., envisions eventually having 20% to 25% of the total association membership in WESCAP.

The incentive is this: The initial fee to get into the captive plan is $10,000, which conceivably could be raised at any time. Presumably, each of the participating members who have already paid their fees will join the captive in the near future. The $5,000 paid by sustaining members holds open a spot for them should they decide to join the captive, in which case they could buy in at the original price, by paying the second installment of $5,000.

Other NWSA members serving on WESCAP's board of directors are Robert V. Thornton, president of Pennsylvania Welding Supply Co. in Cinnaminson, N.J.; James K. Walser, president of Buckeye Welding Supply Inc., Zanesville, Ohio; Donald R. Griffith, president of Gas-Arc Supply Inc., Philadelphia, and James W. Reynolds, president of Reynolds Welding Supply Co. in Mankato, Minn.

The eagerness of Colorado's insurance commissioner, J. Richard Barnes, who wanted to have an association captive formed in his state, sold the association on Colorado as the domicile for WESCAP. "They were very cooperative and easily accessible," said Mr. Urbanski, "making it very attractive for WESCAP." Mr. Urbanski also talked with J. H. Blades & Co. about a Bermuda-based captive.

Not all the NWSA captive-advocates, however, felt Bermuda was a good idea. "I don't think the IRS is looking kindly on captives in Bermuda," said Mr. Valetti. He also reasoned that the captive should have little difficulty if it decides to change to primary underwriting from its present arrangement of using a fronting company which it reinsures.

A practical consideration also resulted in this arrangement as a reinsurer, since establishing the captive as a stock company would have required multiple filings with the Securities & Exchange Commission, taking more time than the group had. ■

N.Y. copter mishap . . .

Continued from page 1

commercial use. There are about 90 of them, including a model used by President Carter. New York Airways said that this was the first such landing gear accident involving a helicopter it operates, but was the third such accident involving a Sikorsky S-61. The same thing reportedly happened in Vietnam and in California in 1968, an airline spokesman said.

United Technologies' Mr. Hugel said it would be premature to try to evaluate what the FAA inspections might mean to Sikorsky's future product liability coverage.

The Sikorsky division was one of four companies that shared payment of more than $3 million in damages resulting from the 1968 helicopter crash in California (*Business Insurance*, Jan. 29, 1973). The insurer in that incident was the Aircraft Builders Council, but United Technologies reportedly no longer belongs to that plan.

Business Insurance obtained some additional background about liability complications of a helicopter crash from trial lawyer F. Lee Bailey while he was in New York to speak to an aviation and space technology group.

Mr. Bailey, who is well known for his defense of people such as Patty Hearst, also is an owner of a firm that makes helicopters, and has had some experience in trying to arrange insurance for that firm.

He said that helicopters are usually "heavily insured" against damage to third parties and to "tangibles" (like buildings) but that it is much more difficult to get protection against liability suits.

Unlike flights which go from the United States into international territories, helicopter flights like the one which ended in the Pan Am helipad disaster are usually strictly domestic, and therefore not protected by conventions which limit the liability of the airlines for the deaths of passengers or persons waiting to be passengers, the lawyer pointed out.

Mr. Bailey, who has said he helped pay for his law education years ago by working as an insurance adjuster, said Lloyd's of London typically is used as a reinsurer for any helicopter coverages which are placed in the domestic insurance market.

He speculated that since New York Airways services other craft in addition to the helicopters it runs on shuttle flights, that it probably carries product liability insurance, too. New York Airways, however, did not confirm this.

The accident raised a furor about the safety of such shuttle flights and the wisdom of permitting helicopters to land and take off from the Pan Am Building, which looms over Manhattan's Grand Central Station in one of the most congested areas of the city. The accident two weeks ago happened at the height of the evening rush hour, and it sent a virtual shower of shattered glass raining down for almost three minutes on commuters in the street who were leaving their offices. One of the five victims was a woman accountant on the sidewalk two blocks from the building who was killed when she was struck by flying debris. The other four deaths were people on top of the Pan Am Building standing near the helicopter before its landing gear collapsed.

New York Airways denied that the practice of keeping the rotor blades revolving while the helicopter is waiting to take on passengers is an additional hazard; it is necessary to control the craft in case of a sudden gust of wind, the airline said.

Shortly after the accident, New York Mayor Abraham Beame revoked New York Airways landing rights on top of the Pan Am Building and suspended the helicopter shuttle service there.

However, the airline continues to run its helicopter shuttle service between Kennedy and La Guardia Airports in New York and Newark International Airport in New Jersey. A spokesman for the airline said the insurance for the continuing helicopter shuttle flights would not be affected because the Pan Am helipad was closed down. ■

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U.K. safety experts tell hazards in Dow blast

By JOHN H. MILLER

LONDON—New hazards in heat-giving products have been revealed by safety experts in Britain who are now studying the hazards in a probe into a fatal blast at the U.S. Dow Chemical Co.'s plant at Kings Lynn, Norfolk County (Eng.).

They claim the Dow management failed to prevent the explosion of a poultry food additive known as Zoalene which was being reprocessed because water had been found in some of its piled-up stocks.

A plant operator was killed in the blast and extensive damage was caused to the buildings.

Explosive energy equal to 200 or 300 pounds of TNT was released in the incident on June 27, 1976 and a review of safety methods has been ordered.

But in exonerating the company, the U.K. Government investigators said, "None of the hazard evaluation techniques available at the plant would have predicted the danger of the drying operation, as there was general lack of knowledge of the product's destructive potential in those conditions."

Managements in many chemical plants and other factories worldwide are warned they should review the explosive risks of substances, particularly nitro-aromatic compounds, which are liable to cause "exothermic reaction" in any processing conditions.

The U.K. Government's Health and Safety Executive report released in London shows that Zoalene, a product blended with wheat middlings to form a poultry feed additive sold as Zoamix, had been manufactured by Dow Chemical Co. at Midland, Mich., since 1959 and in England for a shorter time.

"Investigation of the blast has entailed a review of the Dow management structure and its effectiveness in finding the current state of knowledge of the properties of Zoalene," the report adds.

"It is considered the management of the U.K. plant could not reasonably have been expected to know of the exothermic properties of Zoalene and its detonation characteristics at the temperatures at which the drying vessel in the plant was being used to reprocess it.

"Zoalene is only one of many thousands of reactive chemicals being handled by Dow internationally. Although the company's own newly-developed research technique ARC (accelerating rate calorimetry) could have revealed those characteristics, in the judgment of those responsible in the U.S. for the application of the technique there was no reason to give priority to Zoalene for such treatment.

"An investigation by methods in the U.K. using differential thermal analysis (DTA) suggests that this form of test adopted originally by Dow in 1962 shows that the decision not to submit the product to early ARC investigation was not unreasonable.

"It is clear, with hindsight, that the hazard evaluation of the product by Dow's reactive chemicals committee on the origin basis was inadequate and indeed misleading to a plant superintendent who relied on it for guidance.

"But Zoalene had been manufactured by the company in the U.S. for 15 years without incident, and since redrying operations used at Kings Lynn in the U.K. since 1975 had also been carried out without any untoward incident, it is not clear why the explosion occurred."

The report suggests there were possible impurities in the batch being processed.

It recommends that in all processes where thermal unstable substances are being used, the following risk guidelines should be adopted:

- The value of Dow's newly developed hazard evaluation technique, known as ARC, should be noted when making appraisals.
- The explosive potential of such unstable substances should be reappraised.
- All known and likely effects of the decomposition of these substances should be taken into account at the design stage.
- Implications of variations from normal processing practice should be fully understood by all concerned before any such variations are introduced.

Details of Dow's safety and loss prevention techniques are given in the report, which says site safety audits are carried out annually by U.S. corporate headquarters for the Kings Lynn unit. Reports are also made three or four times a year from its European safety and loss prevention group and by the local works management itself.

The Kings Lynn plant has a qualified safety officer who reports to a European safety manager based in Switzerland, and there is a procedure for training plant operators in the safe operation of processes.

Patents for Zoalene, which was initially developed by Dow in Michigan in 1959, have now expired and it is being produced by firms in various countries throughout the world, including France and Spain. ■

OSHA jolted by court rule on benzene

WASHINGTON—One day after announcing a shift in focus toward tackling serious health hazards, Occupational Health and Safety Administration officials were jolted by a court ruling delaying the agency's emergency restrictions on worker exposure to benzene.

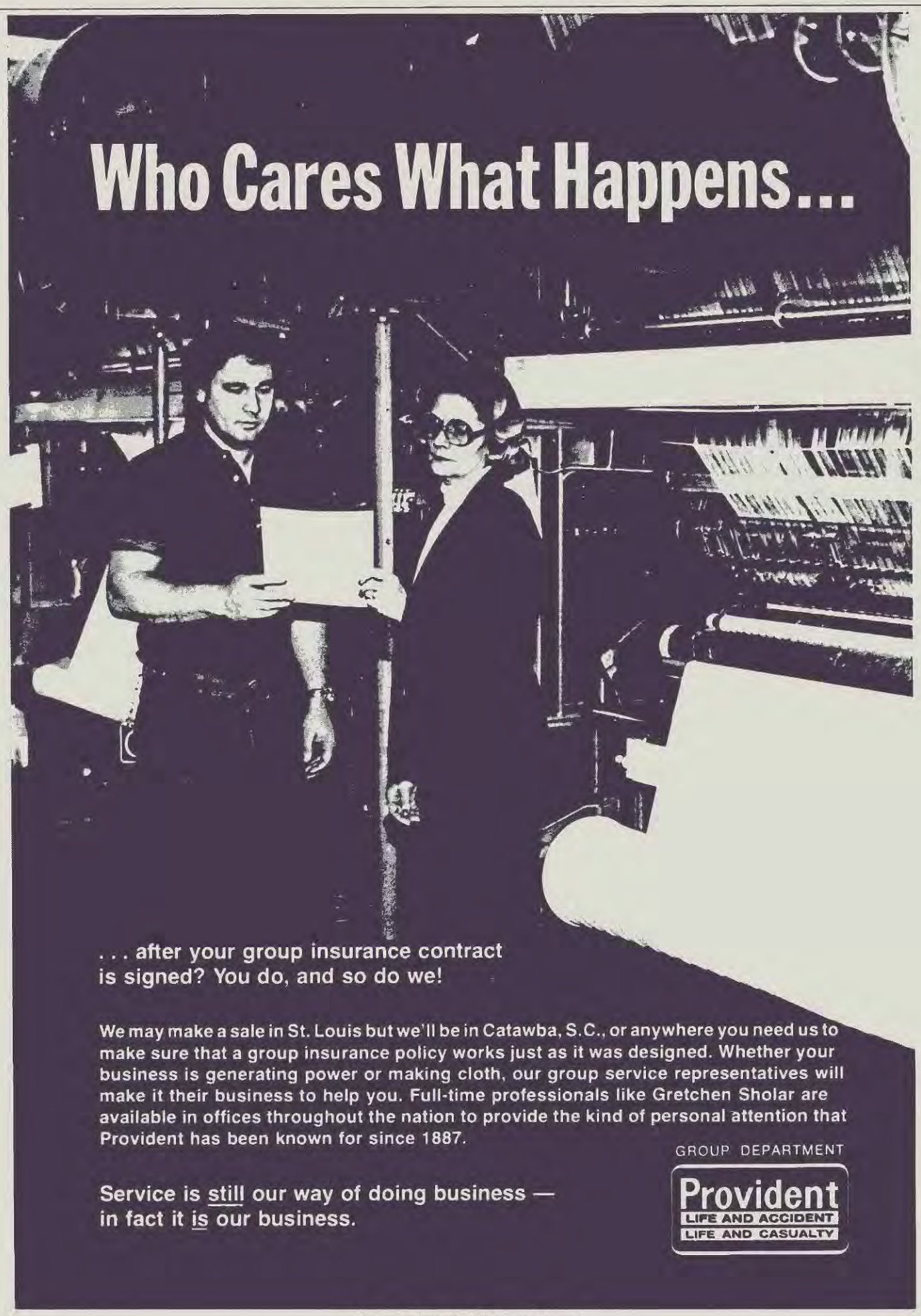
The stay was issued by the U.S. District Court in New Orleans after 10 petroleum companies and two trade associations protested the fact they could not meet the standards.

A hearing will be held next month.

The new emergency standards, which had been scheduled to go into effect May 21, would have reduced by 90% the acceptable level of worker exposure to benzene.

OSHA officials have maintained that exposure to benzene can cause leukemia. Workers in the petroleum and petrochemical industries come in regular daily contact with benzene.

A Labor Department spokesman said the agency was disappointed with the ruling. But he expressed optimism that eventually the benzene standard would receive judicial approval. ■



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people

Hosking to administer work comp for ABMI

Karol L. Hosking, 26, has been named industrial insurance administrator for American Building Maintenance Industries, San Francisco, replacing **Bonnie Scott** who resigned. Ms. Hosking reports to Harry Kahn, legal counsel, administering workers' compensation in Northern California for ABMI. The workers' compensation program for the company in that region is self-insured. In her position as head of an independent department, she will rely on advice from both the legal and insurance departments of ABMI. She is a certified administrator of self-insured workers' compensation plans in California.

* * *

Terry L. Young, 32, has been promoted to corporate insurance manager at MCA Inc. in Los Angeles, Calif. Formerly one of two assistant managers, Mr. Young's new position represents added responsibility in the property/casualty area of MCA's diversified operations, both for the entertainment subsidiaries and the mail order and retailing divisions. He will continue to report to the director of insurance, W. G. Vanden Bossche.

* * *

Richard T. Eddy, 31, was named senior benefits adviser in the industrial relations services division of W. R. Grace & Co., New York. He reports to Hal A. Sebastian, director of benefits. Before joining W. R. Grace, Mr. Eddy was an assistant manager of actuarial services in the group insurance division of Equitable Life Assurance Society, New York. He is replacing Michael J. Corrigan, who was transferred within W. R. Grace to become an assistant to the senior executive of pension and profit-sharing plans.

* * *

William J. O'Sullivan, 30, became the assistant manager of the financial coverages unit, a new position at Merrill Lynch & Co. Inc. His job responsibilities include handling of renewals and claims on bonds, mail insurance, directors' and officers' liability and various errors and omissions contacts. Mr. Sullivan reports to Charles M. Mulle, risk manager. Before joining Merrill Lynch, Mr. Sullivan worked for G. B. Parks & Co. Inc. in Perth Amboy, N.J.

* * *

Al Provost, 48, joined the Bekins Co., Los Angeles, as director of risk management, effective June 6, replacing John Keith Harvey who left the company. Mr. Prevost will report to Alfred Dufebout, president of Adams, Clay Insurance, a wholly-owned division of Bekins which acts as agency for the firm. Mr. Prevost was formerly manager of employe benefits at MCA Inc., which is expected to replace him soon. ■

dates for buyers

June 14-16: Safety Expo/77 n the Philadelphia Civic Center; Occupational Hazards Magazine's fourth annual safety and health conference and exposition. Includes an OSHA update workshop, safety film festival, problem solving clinic and 150 exhibits covering industrial safety, health and plant protection technology and services. Cost for early registration for three days of exhibits is $2, with seminars is $40 and for one day of seminars and exhibits is $25. Regular rate for three days of exhibits is $5, plus seminars is $50 and one day of seminars and exhibits is $35. Write Safety Expo/77, 614 Superior Ave. West, Cleveland, Ohio 44113.

June 15-17: Eighth Annual Meeting of the Ohio Self-Insurers Assn. at Salt Fork State Park Lodge near Cambridge, Ohio. The program will include a rundown of last year's developments and an "optimistic view of what lies ahead in workers' compensation and other related fields." Cost is $65 for members and $95 for non-members excluding lodging which is $28 per night. Contact Ohio Self-Insurers Assn., P.O. Box 1301, Columbus, Ohio 43216; or to register write Inez Weibel, Cleveland Twist Drill Co., P.O. Box 6656, Cleveland, Ohio 44101.

June 16-17: National HMO Conference in Denver, Colo. sponsored by the National Assn. of Employers on Health Maintenance Organizations (NAEHMO). The focus is on "how to implement the HMO option." Cost is $145 for members and $195 for non-members. Contact NAEHMO, Suite 1320 Cargill Building, Minneapolis, Minn. 55402; phone (612) 338-4823.

June 21-23: Symposium on seeking solutions to the product liability problem in Southfield, Mich. sponsored by the Society of Manufacturing Engineers. The focus will be on avoiding product liability lawsuits through design, materials selection and engineering, and approaches to lessen or negate judgment when litigation is instituted will be highlighted. Cost is $210 for members and $250 for non-members and includes session materials, luncheons and coffee breaks. Contact Michael G. Tolzdorf, program administrator, Special Programs Dept., Society of Manufacturing Engineers, 20501 Ford Rd., Dearborn, Mich. 48128; phone (313) 271-1500.

June 21-23: International Risk Management Conference in Brighton, England sponsored by Keith Shipton Developments. A wide range of papers will be delivered by authorities outside the risk management field falling into topic categories of risk & business, risk & environment and development & risk management. Contact Gillian Morley, Keith Shipton Developments Limited, Adelaide House, London Bridge, London, EC4R 9 DS.

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