Surgery controls set by UAW, auto firms

By JANE WINEBRENNER

DETROIT—In an effort to control health care costs, the major automakers, the United Auto Workers, and Michigan Blue Cross-Blue Shield are setting up a voluntary pilot program offering second doctors' opinions in elective surgery cases.

The experimental project is scheduled to go into effect this September in the tri-county area around Detroit with 1.2 million salaried and hourly workers eligible for the consultative program, according to Dr. Louis F. Hayes, group vp for professional affairs of the Michigan Blue Cross-Blue Shield. Dr. Hayes and his staff are responsible for setting up the program.

He said a planning committee has been studying the surgery program with representatives from General Motors Corp., Ford Motor Corp., Chrysler Corp. and the United Auto Workers' (UAW) Social Security division.

According to Ford and GM spokesmen, the project is not related to the contract negotiations coming up July 19 between the UAW and GM, the target producer for this year's talks. But skyrocketing health care costs still could be the focus of a major confrontation between the two sides, with GM saying it will oppose any rise in health care benefit costs and the union issuing pre-negotiation demands for increased health care benefits. (*Business Insurance*, May 3).

While both the union and the Ford and GM spokesmen say plans for the project have not yet been finalized, the Blue Cross representative, Dr. Hayes, said preimplementation of the project is already under way.

According to Dr. Hayes, the first phase of the study will last two years. A worker having elective surgery recommended to him by his first doctor can use a Blues referral center where a panel of 100 doctors will recommend a second doctor for him. Blue Cross can then make the doctor appointments for the workers, coordinate the program, and collect the data.

The second phase of the program will last three years and will follow-up those persons who went to a second doctor. Because workers are not required to follow the second doctor's opinion, the project program hopes to determine in those cases if any other medical care, possibly more expensive than surgery, was done.

Dr. Hayes said that the automakers have agreed to pay for the consultative and diagnostic costs while the Blues will pay for the research and administrative costs.

"We don't have any estimate of how much savings there will be—we don't even know if there will be a savings," a GM spokesman said.

Blue Cross-Blue Shield said its costs will depend on how many persons elect to use the second doctor's opinion. It is estimating that 5% of those persons requiring elective surgery (which was about 40,000 persons in the tri-county area in 1975) will do so in the first year of the program, and 10% will do so in the second year.

Blue Cross-Blue Shield defines elective surgery as that "done at the option of patient and which is deferrable," which would exclude operations for trauma, broken limbs, cancer and ulcers.

Paul Ryder, manager of benefits and labor for Ford Motor Co., said it is a "good program," and should control costs.

Dr. Hayes, said he is not anticipating any problems in getting final approval from the Michigan Blue Cross-Blue Shield Board of Directors which will meet June 9.

He said a similar study done in 1974 in New York, the McCarthy study, showed 25% fewer elective surgical operations were performed when mandatory second consultation was required using two union groups as subjects. He pointed out, however, that no follow-up was done on those patients who declined surgery on a second doctor's advice.

All three automakers have recently have expressed concern over the high cost of health care benefits and increasing Blue Cross-Blue Shield costs. GM has said its 1976 medical, hospital and dental coverage would increase 21% over 1975 to $825 million.

According to Dr. Hayes, Blue Cross-Blue Shield has five plans under development nationally similar to the UAW-automakers plan. One is already in progress in Greater New York but its follow-up procedure is less complex. ■





Employes of Big Three auto firms will help control benefit costs.

Week of May 31, 1976

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GE's pregnancy-as-disability case to be re-argued: Court

By PAUL R. MERRION

WASHINGTON—The Supreme Court last week put off until fall of this year the ticklish question of whether excluding pregnant women from disability pay violates sex discrimination laws.

The court ordered the case, which involves former and current employes of General Electric Co., to be re-argued after the court's summer recess.

The delay of the decision, which was expected by this June, indicates the complexity of the issue at stake.

"The case has already been well argued," said assistant professor Charles F. Abernathy, Georgetown University Law Center. "I think they just want more time to mull over the case."

The order for re-arguments, a rare but not unheard of action by the Court, seems to indicate that the eight Justices are fairly evenly split on the decision, "if not literally at a four-four tie," Dr. Abernathy said.

Whatever the eventual outcome, the decision will have far-ranging effects not only on employers offering disability pay benefits, but presumably also on medical benefit plans that exclude pregnancy related claims to hold down costs.

It is estimated that 40% of all U.S. employers offer disability benefits, and that 40% of those exclude pregnancy.

Originally, the suit against GE was paired with a similar suit against Liberty Mutual Insurance Co. Both companies were charged with violating Title VII of the 1964 Civil Rights Act, which forbids discrimination on the basis of sex when providing pay or benefits to employes.

But the High Court recently dismissed the appeal by Liberty Mutual after hearing arguments on the case in January. Although the U.S. District Court in Pennsylvania ruled that Liberty Mutual had violated the sex discrimination law, a ruling affirmed by the U.S. Court of Appeals, the lower court did not award damages to the plaintiffs, and the High Court ruled unanimously that the trial decision was not final, and therefore not subject to appeal.

In the January arguments before the Supreme Court, General Electric's attorney, Theophil C.

Continued on page 7

United found markets 'highly competitive'

CHICAGO—United Airlines not only obtained all the aircraft hull and liability insurance it wanted when it ended policy renewal negotiations this year, but it also achieved "a significant reduction in total premiums" in the process, according to Waller B. Smith, director of insurance.

This is despite the fact that United has "significantly reduced" its self-insured retention levels for this area of exposure, as a direct result of new accounting standards (FASB-5). These rules forced United to wipe out its accrued reserves accumulated on the company's books over a period of years for the purpose of spreading self-insured losses over a number of accounting periods.

World markets for aviation hull and liability insurance are still in a period of serious overcapacity, Mr. Smith said, which is forcing London and U.S. markets to be highly competitive on premium rates for the major airlines.

According to studies Mr. Smith compiled for the purpose of making a report to his superiors on United's renewals and on overall insurance programs, the five or six major U.S. airlines have all decreased within the past year or so the scope of their self-insured retentions by as much as an estimated 40%, on the average. Mr. Smith doesn't know whether these cuts in deductibles and retention levels by the other airlines are directly attributable to the accounting standards which set stringent new rules for accruing self-insured loss reserves. But he believes the lower retentions certainly would be one of the "indirect results" of FASB-5.

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Conrail gets cover page 17

THIRD EDITORIAL ADVISORY PANEL REPORT

Reveal liability covers and costs

THE MEDIAN INSURED limit for general liability among the 58 respondents to the third *Business Insurance* Editorial Advisory Panel was $20 million.

Limits ranged from a low of $100,000 to a high of $150 million. Three questionnaires did not provide any figures, however.

The most frequently mentioned liability insurance limits purchased were $110 million.

The median deductible for this same general liability coverage was $100,000 and the median annual self-insured cost of losses was $250,000, according to the survey of large and small companies.

The first installment of the survey results appeared in the May 17 issue, covering property insurance programs.

General liability premiums ran the gamut, from a low of $5,769 per year to a high of $2.1 million. The median premium was $250,000 a year. Seven questionnaires did not indicate the amount of CGL insurance premiums.

Respondents indicated a high median self-insured cost of $1 million per year for workers' compensation, although only 22 companies provided figures. These annual retained losses ranged from $10,000 to $3.5 million, according to an analysis of the questionnaires.

Deductibles under workers' compensation started at a low of $25,000 and ranged up to $3 million. The median and the most often indicated deductible was $100,000.

Twenty-four insurance managers stated that they follow statutory limits for their workers' compensation. Of those who indicated specific numbers, the median insured limit for the coverage was $5 million.

The median workers' compensation insurance premium for the 43 companies that provided figures was $300,000.

A surprisingly low median deductible of $10,000 was indicated by responding companies (12) for fidelity coverage, especially when compared with the median in-

Continued on page 2

Panel . . .

Continued from page 1

sured limit, $5 million. Insured limits for this fidelity coverage ranged from $100,000 to $100 million among the 55 companies that supplied figures. Some 15 companies said they buy $5 million of fidelity insurance.

Annual self-insured costs were indicated by one-fourth of the respondents: The median self-insured fidelity loss was $30,000.

Annual premiums for fidelity coverage varied from $1,000 to $75,000 but the median was $15,000 for respondents to the survey. The average premium was $22,900 a year.

Slightly more than half the companies who responded indicated they purchase insurance for cargo risks. Insured limits ranged from $20,000 to $100 million with a median policy limit of $1.5 million.

Deductibles under cargo policies ranged from $200 to $1 million, with the median cargo deductible indicated to be $10,000.

Self-insured costs for cargo exposures was indicated by only seven respondents, and the median retained losses worked out to be $75,000 a year.

Annual premiums for cargo coverage were noted by 32 survey respondents. The median amount was $98,000 but the most frequently indicated premium amount was $10,000. Premiums ranged from $1,000 to $770,000.

Motor vehicle liability results show a fairly clear ratio of the deductible levels to insured limits by survey respondents. The median deductible for companies that responded was $100,000 while the median insured limit for 53 companies was $1 million. Most frequently cited deductible was $50,000 with a corresponding insured limit of $500,000 cited most often.

Twenty companies gave annual retained loss figures for motor vehicle liabiliy. The median was $200,000, although the range was from $1,500 a year up to $1.3 million a year. The median premium for motor vehicle liability insurance as indicated by 44 companies responding was $163,000. The premium most frequently indicated was $200,000 a year.

Miscellaneous liability coverage turned up some interesting findings in umbrella liability, directors' and officers' liability, and fiduciary liability areas.

Umbrella coverage limits ranged from $3 million to $90 million; the most frequent amount was $10 million, with a median deductible of $25,000. Premiums ranged from $5,200 a year to $301,000 a year, with the median premium at $35,000.

The overwhelming insured limit indicated by responding companies was $10 million, but deductibles varied. The lowest deductible indicated was $10,000; the highest was $100,000. Premiums ranged from $14,000 to $162,000 a year.

Fiduciary liability coverage limits ranged between $10 million and $50 million, while deductibles ranged from $1,000 to $100,000, the survey showed. Annual premiums ranged from $5,000 a year to $18,000 a year. ■

Tanker explosion off Spanish coast could cause losses of $60 million

By JOHN H. MILLER

CORUNNA (Spain)—A major shipping catastrophe hit Spain May 12 when the tanker Urquiola blew up and laid an oil spill outside Corunna harbor that may cost marine insurers $60 million to settle before all claims are met.

Clean-up experts are now trying to prevent massive pollution off the Spanish coast which can harm the fishing industry and shellfish beds, while underwriters are preparing to meet heavy losses on the hull and cargo cover on the ship.

Taken as the sequel to three other tanker losses—the Olympic Bravery, Berge Istra and Kriti Sun—in recent months, it will be a further blow to the marine insurance market, already reeling under heavy settlements.

Insurance companies in Spain are involved in the disaster, but there will also be substantial calls on Lloyd's, either direct or through reinsurance treaties, before the various claims are settled.

The hull value of the Urquiola (59,723 tons), which is Spanish-owned and was built only three years ago, is $19.4 million, while its cargo may be worth as much as $12.6 million. Contamination and clean-up costs may add another $30 million to these figures, but this rests on the amount of environmental damage which will need to be proved.

The Urquiola, owned by Naviera Artola of Bilbao, was on its way from Ras Tamura in the Persian Gulf, to Corunna with 25 million gallons of crude oil for Spanish-owned refineries when it went aground at the mouth of the harbor.

Then it was swept by a series of explosions which left it blazing fiercely, so that some of the oil was burned. It is feared that more than 20 million gallons of oil may have poured into the sea, making the disaster one of the biggest pollution occurrences since the $7 million Torrey Canyon spill in the U.K. in 1967 and the $4 million Golden Gate oil spill at San Francisco in 1971. The Torrey Canyon, for example, was carrying 30 million gallons of oil.

The stricken ship is reported to have been entered in TOVALOP, the tanker owners' mutual compensation pool established after the Torrey Canyon mishap to allay public protests about pollution spills. TOVALOP provides up to a limit of $6 million compensation for clean-up costs based on the ship's gross tonnage.

Directors of TOVALOP were meeting in Bermuda for their regular half-yearly conference soon after the incident, but John Wardley-Smith, one of TOVALOP's technical experts, flew to Corunna to make an on-the-spot check.

Even if clean-up costs are met under the TOVALOP agreement, there may be other damage claims for pollution liability to the fishing or tourist industry if these can be proved.

The Urquiola is covered by the Britannia P & I (Protection and Indemnity) Club in the U.K. for this purpose, as well as for any salvage wreck clearance that may be necessary, and for its pollution insurance cover under TOVALOP.

Sources in Madrid suggest that there will be a ceiling of $30 million placed on clean-up and pollution costs by the Spanish authorities, but there are demands for the Corunna area to be declared a disaster zone with bills for as much as $50 million to $60 million threatened by local hoteliers and fishermen.

They say harm has been done to rich beds of oysters, mussels, and other shellfish.

The Urquiola was to some extent covered in a Spanish "pool" of 20 insurance companies, but its hull value of $19.4 million will probably find its way to London, either through direct cover or by reinsurance.

Estimates of its cargo value run as high as $12.6 million, but it is thought that the Lloyd's interest in this may be only about $3 million, with the rest placed elsewhere. The Dutch salvage group Smit International is trying to recover a small amount of the unspilled oil, possibly no more than two million gallons, from the shipwrecked vessel. ■

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United . . .

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"I can only speak for United, and in our case the lower retention is a direct result of the rules, and this was a conscious decision on our part," Mr. Smith said.

For a number of years, most major airlines have had very substantial retention levels. The one major exception has been American Airlines, which continued with lower retentions based on world insurance market predictions of loss frequency for passenger jets. Experience has proved to be much better, however, than the initial predictions would have indicated.

The airlines which Mr. Smith studied for his report on United's renewals have retentions ranging from about $6 million to $7 million at the low end, up to $12 million or $13 million at the high end. These retentions represent the aggregate self-insured exposures over a policy period. ■

IMPORTANT

Enlarged Responsibilities and Duties under the Pension Reform Act

Trusts and Trustees have been exposed to significant legal liabilities at common law to beneficiaries of the Trust. The recently signed Pension Reform Act of 1974 which is effective January 1, 1975, for the first time by statute enlarges upon the liabilities of Trustees, and most importantly places new responsibilities on "Fiduciaries" of Pension Trust and Employee Benefit Plans.

While the duties of the Fiduciary are enumerated in the Act inclusive of breach by Co-Fiduciaries, it is abundantly clear that the only appropriate safeguard to shield against these onerous liabilities is through the purchase of effective insurance.

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Trusts for malpractice risks may be ideal solution; Florida provides test

By MARGARET LeROUX

JACKSONVILLE, FL.—The bellwether in the search for a solution to the malpractice insurance crisis may be found in the Sunshine State as physicians and hospitals here have formed self-insurance trusts to cover professional liability risks.

Ten trusts, seven for physicians and three for hospitals, all to insure malpractice risks, have been approved by the Florida Insurance Commissioner since passage of the Medical Malpractice Reform Act by the state legislature late last year.

Two of the largest trusts are the Florida Medical Assn. Professional Liability Insurance Trust (FMA-PLI) which covers some 4,000 doctors and has premiums in excess of $12 million, and Physicians Protective Trust Fund which insures 1,000 doctors and has premiums in excess of $3 million.

Florida was the first state in the union to allow physicians and hospitals to form self-insurance trusts for professional liability risks. Currently the only other state allowing self-insurance trusts for malpractice is California.

Legislation in Florida enabling the establishment of trusts was part of a package of laws which dealt with the malpractice crisis in the state precipitated when Argonaut Insurance Co. discontinued writing malpractice insurance late last year.

The legislature is now debating malpractice legislation that includes risk management programs for hospitals.

The FMA-PLI trust offers physicians liability limits of $500,000 per claim, (there is no aggregate limit) and the average annual premium is $2,960.

Of the total premium paid by each member of the trust, 30% is placed in a security deposit account, in the individual physician's name, as a separate loss fund.

"We hope we won't have to dip into the security deposit fund to pay claims," Dr. James Walker, president, Professional Insurance Management Co. (PIMCO), managers of FMA-PLI said in an interview, "but the money is there if we need it."

After five years, the statute of limitations for malpractice claims in Florida, whatever remains in the loss fund, plus interest, is returned to the individual members of the trust.

The remainder of the premiums paid by members of FMA-PLI is allocated as follows: operations, 31.7% which includes reinsurance deposit (22%), administration (9.2%) and trustee administration account (.5%). The loss account which comprises 68.3% of the premiums includes anticipated loss cost (28.3%) and possible reinsurance penalty (10%) as well as the 30% for security deposit.

A similar set of guidelines is followed by the Physicians Protective Trust Fund which offers liability limits of $250,000 per incident with the average premium at $3,300. A trustees fund comprises 15% of the $3 million in premiums and pays the expenses of operating the fund. A loss fund, to pay claims and defense makes up the other 85% of the fund.

The Medical Trust Fund Group manages the Physicians Protective Trust.

The loss funds of both FMA-PLI and Physicians Protective Trust are invested in government insured or guaranteed stocks.

"The (insurance) law is very specific as to what trust funds can invest in," Dr. Walker said, "we have a very conservative investment program."

Barnett Investment Services handles the investments for FMA-PLI and an executive committee of the Physicians Protective Trust makes investment decisions for that trust.

A spokesman for the Florida Insurance Department noted that the malpractice trusts had complied with the law, but expressed the hope "that their actuarial pencils are sharp enough."

The malpractice trusts were "an emergency reaction to an effect" (the lack of an insurance market) the spokesman said, "whether or not we've attacked the cause of the problem remains to be seen." ■

Form special task force on product risks

WASHINGTON—The interagency task force on product liability has been formed, as recommended in a special Commerce Department study for the White House's Economic Policy Board (*Business Insurance*, May 3.)

The creation of the task force thus marks approval of the report which had been withheld pending a more precise definition of how the task force would be formed, and how it would conduct the study.

Scheduled for completion by July 1977, the study will gather data on product liability experience from selected insurers, companies unable to get coverage and the courts.

In announcing the task force formation, Commerce Secretary Elliot Richardson said product liability "is a problem that goes beyond the manufacturer, affecting the consumer, the insurance industry, and the legal system. The task force will be charged with defining the problems and evaluating remedies upon which recommendations will be based."

The Commerce Department's general counsel, J. T. Smith, will be the interim chairman of the study group.

The task force will include the Departments of Treasury, Justice, Labor, Commerce, Health Education and Welfare, Housing and Urban Development, and Transportation. Also represented will be the Council of Economic Advisers, the Office of Management and Budget, the Office of the Assistant to the President for Economic Affairs, and the Small Business Administration.

An industry advisory committee for the task force was also proposed in the Commerce report. It will be made up of representatives of manufacturers, wholesalers, retailers, insurers, labor, consumers and the legal community.

Among the issues that the task force will consider are: impact of product liability problems on the economy, determination of a means of making product liability insurance available at a cost that is not burdensome to producers and distributors, remedies to alleviate product liability problems without hampering safety incentives and user protection, and defining the federal government's role in the solution of product liability problems. ■



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OSHA to make coping easier with revised rules

By PAUL R. MERRION

WASHINGTON—Trivial safety standards and mumbo-jumbo regulations may one day cease to vex those who must cope with the Occupational Safety and Health Administration.

A new procedure to revise three of the more troublesome sets of OSHA rules will be instituted this summer with pleas for written and oral comments from those who wish to change the standards.

The Department of Labor is seeking "the widest possible public participation" early in the decision-making process, said Dr. Morton Corn, Assistant Secretary of Labor for OSHA.

The three standards to be revised cover walking-working surfaces—ladders, stairs, scaffolds, etc.; fire protection—fire suppression and protections equipment systems; and anhydrous ammonia —storage and handling.

Nine information-gathering meetings have been scheduled for June, from California to New York. "We hope that all those interested in safety and health standards—employers and employes, academic and professional experts, federal and state safety specialists, and others will let us know where they think changes should be made", Dr. Corn said.

Previous rule-making procedures allowed only for written comments after the proposed regulations were published.

"We hope that with this expanded participation at the preposal stage, subsequent standards will be more effective," Dr. Corn said.

He added that experience in trying to enforce the regulations, petitions for change or revocation of certain standards, and decisions of the OSHA Review Commission and the courts have indicated a problem with both the scope and specific nature of the regulations.

"This current situation came about," Dr. Corn said, "because Congress, wanting workers to be guaranteed a minimum level of occupational safety immediately, also recognized the enormous complexity of developing highly technical standards from scratch. Consequently, the department was authorized to adopt without following rulemaking procedures, national concensus and established federal standards as OSHA regulations."

OSHA is seeking not only technical expertise, but practical experience of a widespread nature, the department said. "Besides experts, there are many individuals in management and labor including individual employes exposed to hazards and small business with special difficulties in applying standards with the practical experience OSHA needs to develop adequate data bases for standards formulation," said Dr. Corn.

"We recognize the national concensus standards were, in many cases, based on an amalgam of informed opinion and industry practice, rather than on supportive or statistical data," Dr. Corn said.

The use of information-gathering meetings, however, will not apply to every future revision of safety standards, and is not to be considered a firm precedent, the department said.

In addition to seeking comments on the three groups of standards, OSHA is also asking participants to comment on six major issues:

"Should standards be clarified and simplified, especially for some employers who have small numbers of employes, operate in nonfixed places, or use highly transient workforces?

"Do some standards have marginal value in terms of employe safety? Are they directed primarily at property protection or public safety?

"Are there gaps in standards, both as to hazards and kinds of workplaces?

"Should standards be specification or performance oriented?

"Should American National Standards Institute and certain building, fire and other specification type codes be incorporated by reference in OSHA standards or published full text in the body of the regulations?

"How should OSHA develop ways of revising standards to keep up with technological change?"

Written comments and notice of any person wishing to present his views at the information-gathering sessions should be sent to the Director, Office of Standards Development, OSHA, U.S. Department of Labor, Room N-3718, 200 Constitution Ave., N.W., Washington, D.C. 20210.

Comments on walking-working surfaces should be directed to Docket D; fire protection, L; and anhydrous ammonia, Docket AA.

Single free copies of the proposed revisions can be obtained from the OSHA Publications Office, N-3644, U.S. Department of Labor, 200 Constitution Ave., N.W., Washington, D.C. 20210. ■

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Maine signs contract for MMIS help

BURLINGAME, CA.—Health Application Systems Inc. announced the signing of a $112,000 contract with the State of Maine to design a Medicaid Management Information System (MMIS).

Administration of the Medical Assistance Program (Medicaid) is the responsibility of the Maine Department of Health and Welfare. Maine is presently utilizing a computerized processing system but the department decided to design and implement a new system with the goal of providing even more rapid and accurate claims processing with greater management control.

The firm was chosen by the state for the design phase of this longterm project by competitive bid. Health Application Systems plans to improve and update the existing Maine system, providing shortened payment cycles, reduced clerical costs, improved payment accuracy and more comprehensive management reporting.

The new processing system is expected to meet all requirements of the Medicaid Management Information System developed by the U.S. Department of Health, Education and Welfare. The federal government offers matching-fund incentives to states for implementation and operation of certified MMIS systems.

The firm developed currently functioning MMIS programs in Arkansas and North Carolina where it administers significant portions of the Medicaid Title XIX program. ■

Why a firm in a low risk industry needs to keep safety in focus.



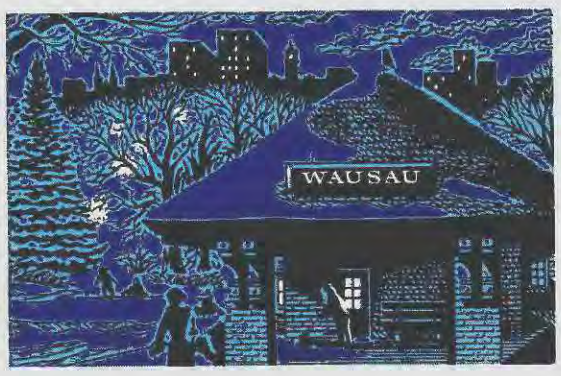
Benson Optical, Inc., one of our workmen's compensation policyholders, processes and distributes eyeglasses and optical instruments and equipment nationwide. Their business is not particularly hazardous, and their file reveals a highly favorable loss record . . . which are exactly the factors that can lull a firm into complacency. However, that's never been a danger at Benson's, where management has consistently kept safety objectives clearly in focus. That's why it's especially pleasing to have this foresighted policyholder compliment the thoroughness of our safety consultants.

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JUAs castigated for product liability risks

NEW YORK—The development of real product safety, a "cap" on general and punitive damages and broad legislative and education programs are among possible solutions to product liability insurance problems, a paper by the Independent Insurance Agents of America Inc. (IIAA) reports.

The paper charges that stop-gap measures such as joint underwriting associations (JUA) would not restore market availability and price stability to troubled product liability markets.

While the IIAA endorsed JUAs as a remedy for problems related to medical malpractice, the group stressed that "parallel stop-gaps are not appropriate as remedial measures for the products liability situation."

"For most products liability insurance there is no potential to produce a short-term premium reduction by changing policy forms," the IIAA stated. "JUA's are implying another form of mandatory assigned risk plan. Their creation can do nothing to affect increasing premiums and losses. Products liability represents too large a proportion of the casualty insurance business to be consigned to residual market status."

The IIAA suggested full cooperation between companies and agents and their customers in the development of real product safety mechanisms. "We visualize full documentation of safety precautions and full disclosure to consumers as the second line of defense with the insurance provided by agents and companies making up the third element of the product safety package."

Citing changes in rules under which manufacturer and insurer operate, the IIAA suggested that consideration be given to the codification of the doctrine of negligence under which manufacturers of products are to be judged.

Other legislative reforms cited by the IIAA include maintaining workers' compensation as the sole remedy for occupational injuries.

"Such legislation would place the burden for providing insurance upon the employer who purchased unsafe equipment or who made safe equipment less so through alteration," the IIAA noted. "In this same vein, consideration should be given to legislative reform which assures that product safety be judged on the basis of standards common at the time a product was manufactured and initially sold by by manufacturer."

Other areas of consideration include limiting general and punitive damages and limitation of fees under the contingency fee system.

A final broad suggestion made in the IIAA paper is that the entire insurance industry attempt to demonstrate to consumers that an increasingly litigious climate benefits only a very few. ■

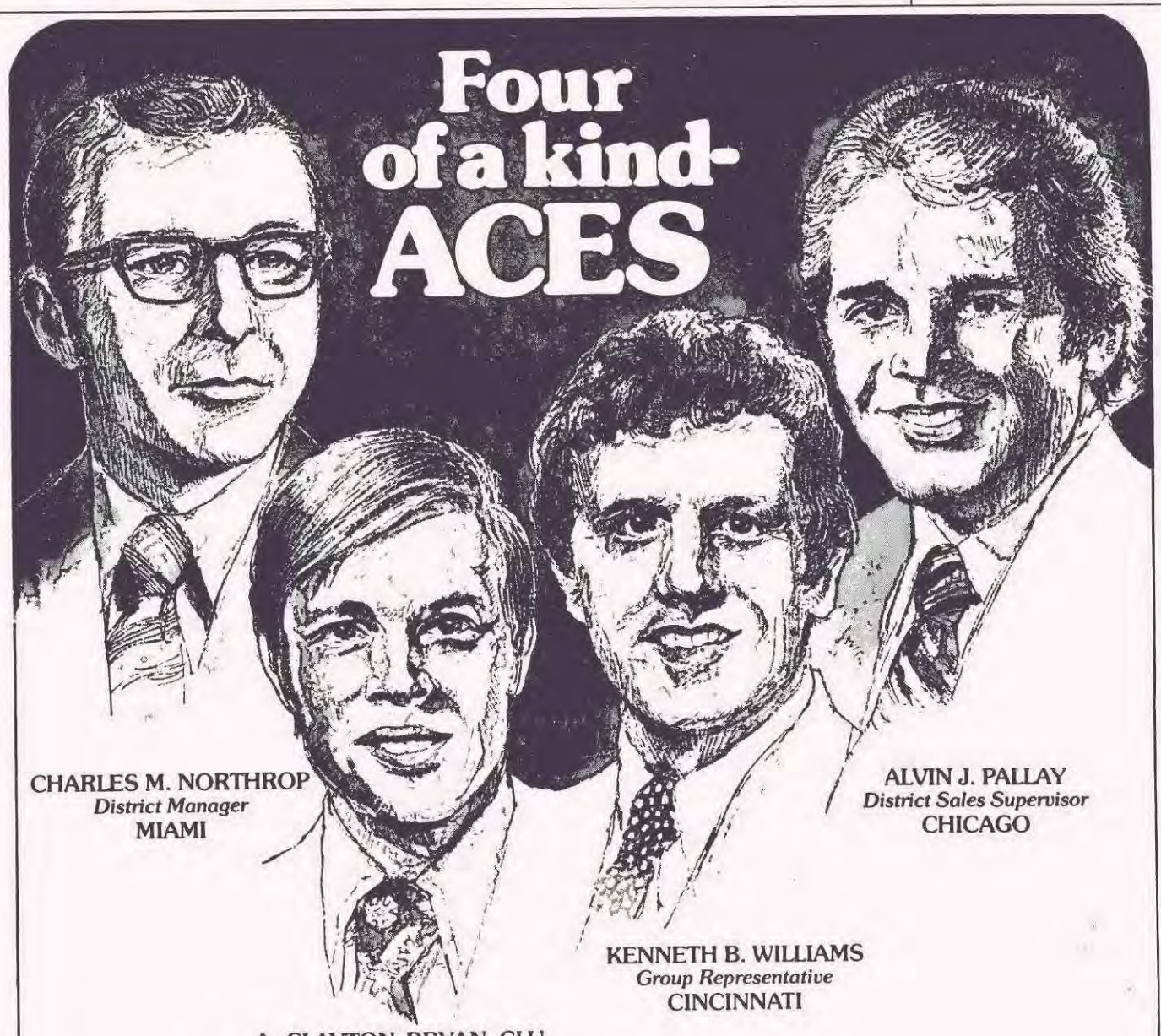
Corroon is offering loss control show

CHICAGO—Corroon & Black of Illinois Inc. has developed a slide presentation on product liability loss control which it is offering to all clients and qualified prospective clients, according to Richard S. Schmidt, senior vp.

The product liability problem "is extremely serious right now," Mr. Schmidt said in explaining why the insurance brokerage firm has prepared the program. "We're offering it to our clients essentially to get their top management to formulate a product liability loss control committee." He said that the slide presentation gets very specific on what to do, and that the audience response has been good.

More than 100 Chicago area manufacturers viewed one presentation last month, which also included a speech by an attorney specializing in product litigation.

For more information concerning future presentations, contact Richard A. Riley, Corroon & Black vp, here. The slide program is available free of charge. ■



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GE pregnancy case . . .

Continued from page 1

Kommholz said that the cost of providing disability pay benefits for women is already 70% higher than it is for men at GE.

The company has estimated that its costs would triple if it is required to compensate pregnancy-related absences, Mr. Kommholz told the court. "For sound and solid business reasons, this exclusion was written into the plan," he said.

The class-action suit against General Electric was brought by the International Union of Electrical, Radio and Machine Workers (IUE) on behalf of over 100,000 females who have worked at GE since the beginning of 1971. Monetary damages are being asked for female employes who became pregnant during that time. Over 5,000 female GE employes were pregnant during 1971 and 1972 alone.

A U.S. District Court in Richmond, Va., found for IUE on April 24, 1974, slightly more than two years after the suit was filed. Judge Robert R. Mehrige enjoined GE from refusing to pay benefits, while postponing monetary judgment.

On June 27, 1975, the Fourth Circuit Court of Appeals affirmed the Mehrige decision, and plaintiffs and defendant jointly petitioned the Supreme Court for review.

The case has brought a flood of friend-of-the-court briefs. In support of GE, briefs have come from Westinghouse Electric, American Telephone & Telegraph, Celanese Corp., the U.S. Chamber of Commerce, National Assn. of Manufacturers and several insurance industry trade groups.

For the union, briefs have been filed by the AFL-CIO, the United Auto Workers, Communications Workers, Women's Law Project, the American Civil Liberties Union, and the New York State Division of Human Rights.

The issue involved in the GE suit is based on a statutory definition of the Civil Rights Act. In a previous case over the exclusion of pregnancy from a state disability pay insurance program, commonly known as the "Aiello" case, the Supreme Court ruled that the exclusion was proper so that employe contributions to the program would remain law. Three justices, however, dissented in that case.

But the law involved in Aiello was the equal protection clause of the Fourteenth Amendment, and Dr. Abernathy noted that it is not unusual for the Supreme Court to apply a specific statute more strictly than Constitutional provisions.

The basis of the case on statutory grounds also leaves open the possibility that Congress may move to make its intention in the civil rights law more clear. The current interpretation by the Equal Employment Opportunity Commission holds that pregnancy-related disabilities should be included "under any health or temporary disability insurance or sick leave plan available in connection with employment."

However, the EECC held the opposite position for seven years before changing to the current interpretation.

"It's possible that Congress may step in, but unlikely," Dr. Abernathy said. ■

errors & omissions

- In Gary Bausom's article on annual risk management accounting in the May 3 issue, a chart entitled XYZ Corp. experience by line had an incorrect figure. Total losses for the year as shown should have been $1,337,875.

- Marine Office Appleton & Cox Corp. (MOAC) was inaccurately referred to in a story in the May 3 issue.

- A story in the April 19 issue referred to the successful workers' compensation self-insurance program for the city of Baton Rouge, La. The article incorrectly stated the amount of annual premiums paid to Employers Reinsurance Co. for excess of loss coverage during 1974. The premium should have been $19,292.68.

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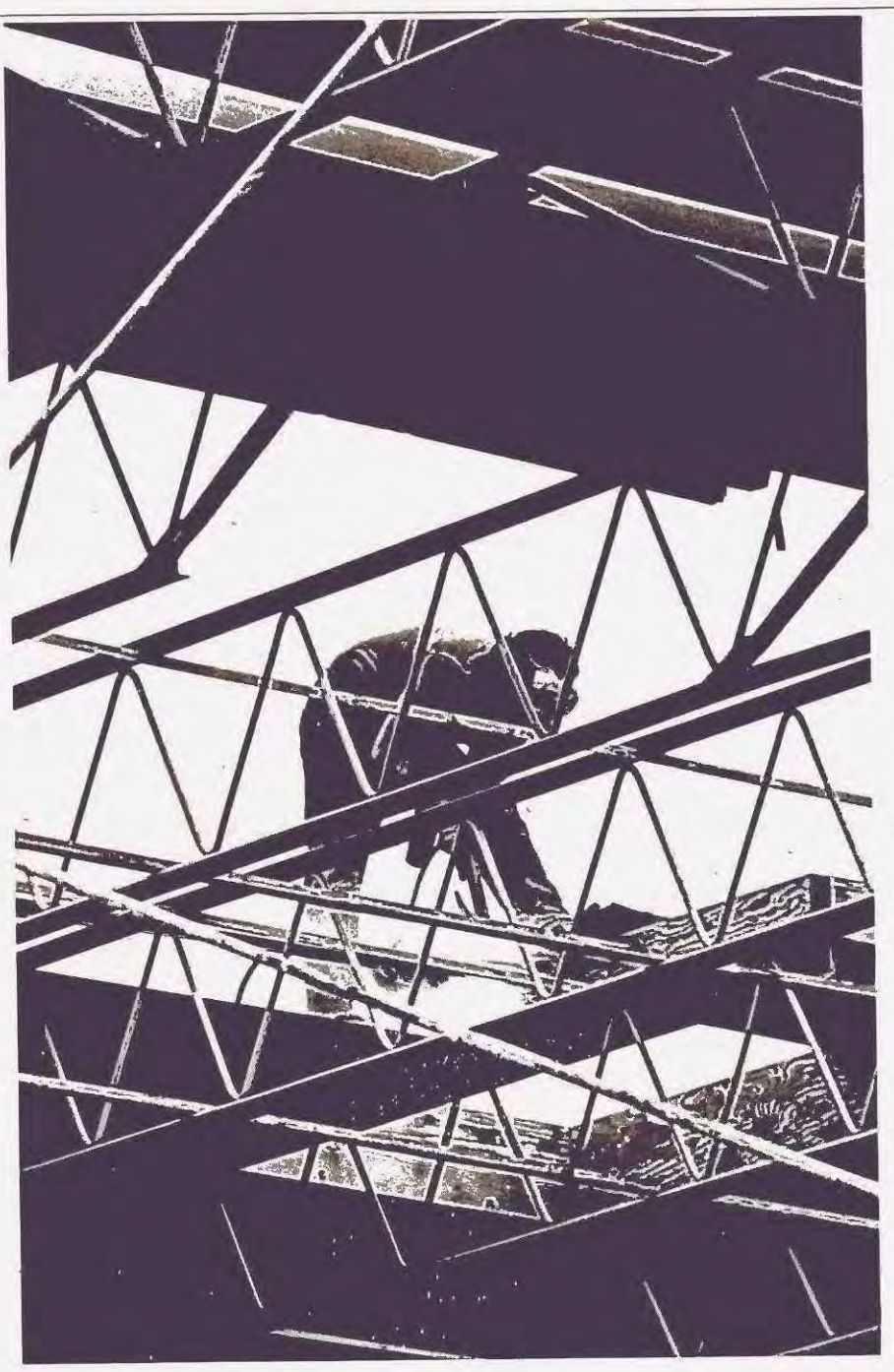
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• A handbook telling how to draw up specifications when soliciting proposals and bids from suppliers of risk management consulting services is being offered free. **Specifications for Risk Management Consulting Services** is available from William S. McIntyre, Rimco, Suite 180, 10300 North Central Expressway, Dallas, Tx. 75231. Noncorporate insurance buyers are charged $5.

• Nuclear Energy Liability-Property Insurance Association information is available in a brochure, **NEL-PIA: Insurance for the Nuclear Industry,** and the first of a background paper series, **Nuclear Insurance: Facts and Figures.** Its operations, purpose and management are in the brochure, while the paper contains statistical information from nuclear insurance pools. Copies of either publication are available free from NEL-PIA, The Exchange, Building 3, Farmington Ave., Farmington, Cn., 06032.

• A free brochure on **Stewart Smith Mid America, Inc.** and its coverages such as patent infringement, school board, and Security Exchange Commission Liability, is now available by writing Stewart Smith Mid America, Inc., 125 S. Wacker Drive, Chicago, Il. 60606.

• Statistics and information on **Inland Marine Insurance-1975** is now available in booklet form from the Inland Marine Underwriters Assn. Growth, premiums, loss prevention and legislation are some of the 1975 topics covered. Copies of the book are available from the Inland Marine Underwriters Association, 99 John St., New York, N.Y. 10038.

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• **Individual Retirement Plans** describes the three types of plans available, taking into account the IRS's proposed regulations already issued and including various IRS forms such as those illustrating model individual retirement trust and custodial account agreements. Copies are available for $1.50 each. Write to: James F. Golden, Public Relations Dept., Commerce Clearing House, 4025 W. Peterson Ave., Chicago, Il. 60646.

• **Reducing Plant Operations Cost** through more efficient fuel management heating and ventilation is the subject of a pamphlet prepared by the planned air management research department of Tepco Inc. For a free copy write to the company, 2785 Industrial Lane, Garland, Tx. 75041.

• Kemper Insurance Cos. has compiled a **Guide for the Family of the Alcoholic** which provides families with information to help them understand the disease and act to speed on alcoholics recovery. It stresses the encompassing nature of alcoholism and shows how the illness can affect the family as well as the alcoholic. For a free copy write to: Communications & Public Affairs Department, Kemper Insurance Cos., Long Grove, Il. 60049.

• A special report on **Working With the New, Tougher Funding Requirements of the Pension Reform Law** is available from Kwasha Lipton Inc. The analysis focuses on exempt plans, normal costs and past service liabilities, and funding alternatives. For a free copy, write to Kwasha Lipton Inc., Dept. M, 429 Sylvan Ave., Englewood Cliffs, N. J. 07632.

• **Safety and Security for Supervisors** is a 40-page daily calendar booklet, pocket size. It provides an ongoing supervisory training program from Man & Manager Inc. including questions and answers on OSHA, a safety checklist form and case histories and articles on all phases of industrial safety and security. For a free sample, write to Man & Manager Inc., 87 Terminal Dr., Plainview, N. Y. 11803.

• **Stored Plastics,** the new high challenge risk, is a brochure offered by Factory Mutual Engineering. The special problems of fighting a plastics fire are discussed. Copies are 25 cents each; write to the company at 1151 Boston-Providence Turnpike, Norwood, Ma. 02060.

• **Insurance for Contractors,** a revised and expanded 143-page book by Walter T. Derk, is now available. Entirely new material includes sections devoted to: understanding risk management, workers' compensation reforms, building insurance overhead into contract cost and instructions on charging retro rating plans. Cost is $5; discounts are available for orders of five or more. Write to Walter T. Kerk; Fred. S. James & Co., 230 W. Monroe St., Chicago, Il. 60606.

• **An Open Letter About Severance Pay Plans is offered by** George B. Buck Consulting Actuaries. It contains comments and suggested changes in the definition of severance pay plan, in the Labor Department regulation published in the August, 1975 Federal Register. Copies are free to readers by writing to: David Gravitz, George B. Buck Consulting Actuaries Inc., 2 Pennsylvania Plaza, New York, N. Y. 10001.

• A **Trans-Vue** folder describes a transparent safety curtain material for welding curtains offering see-through ability and safety protection in filtering out most of the harmful ultraviolet and infrared rays emitted by welding arcs. A sample of the material is included. Write to R. W. Holub, Singer Safety Products, 444 N. Lake Shore Drive, Chicago, Il. 60611.

Hunter warns insurers 'correct own faults' or face federal intrusion

MILWAUKEE—The acting Federal Insurance Administrator warned that the insurance industry's "unsatisfactory or snail-like response" could lead to federal and Congressional intrusion.

J. Robert Hunter told the Independent Insurance Agents of Wisconsin earlier this month that while the insurance industry's financial situation is improving rapidly, it may be overreaching itself.

"It is to be hoped that the industry will stop short of pushing rate increases to excess," Mr. Hunter said, "lest it not only impair its credibility but itself feed the very inflation which has been its nemesis. . . . No one has a greater stake than the industry in avoiding the stoking of the fires of inflation, but the use of exponential curves in trend projections, thus assuming that inflation will never end and indeed increase, is not only unjustified by the current facts but may amount to a self-fulfilling prophecy."

The acting administrator told the independent agents that the industry must correct its own faults before the federal government intervenes. Among the faults mentioned were the many data inadequacies at the state level.

"How can legislators choose among reparation system reform alternatives for, for instance, malpractice or product liability insurance with data that doesn't even answer the most basic questions about how other systems might work or even much about how the current system works," Mr. Hunter asked.

Mr. Hunter said he correctly predicted in January 1975 the developing insurance crisis in terms of surplus erosion and market constriction in the medical malpractice, automobile and homeowners insurance lines.

Though the picture is improving, Mr. Hunter warned that it would "not be in the industry's best interest from a political viewpoint if unconscionable profits were to be reached next year."

Mr. Hunter pointed out that Congress has already been active in several insurance areas, among them flood insurance, malpractice medical, national health insurance and no-fault auto insurance.

"What one action could address much of the real problems of no-fault, medical malpractice, product and the rest?" he asked.

"Why, a universal, tax-funded, New Zealand sort of national health and disability coverage, leaving loss prevention to OSHA-type arrangements and peer review," he said in answer to his own question. "Some day, maybe not so far off, the advocates for reform of antiquated reparations systems and meaningful loss prevention will join forces to push for an overall approach, and these short-sighted 'victories' of 1976 will come home to roost."

He also said that state-by-state regulation may be the best means available but it must have definitive means of action and data in regulating the insurance business. "As I've said so often before, there is nothing that politicians in Washington react to faster than a vacuum, and, if ever one existed in terms of vital public interest, meaningful insurance data is the closest thing to a perfect vacuum that man has ever created," he told the Wisconsin agents.

Mr. Hunter also said that underwriting abuses may cause federal intervention if not corrected. He used the example of Missouri, an open competition rating state without guaranteed access and availability from the voluntary market. He said that in Missouri, using the FAIR plan, insureds who paid their premiums were denied benefits.

"If we can overcome the natural tendency to preserve the status quo at the private sector level, we shall have taken a giant step toward overcoming the natural tendency for Federal takeover at the national level," Mr. Hunter said. ■

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editorial opinions

Standing by no-fault

AMID THE SWIRL of adulation and criticism of no-fault auto insurance laws for various parties who either benefit or suffer from those laws, we are striving to wade through the double-talk and misconceptions created about no-fault in order to see what the laws (and the concept) can and cannot achieve.

And our conclusion is that once again, folks, the lawyers of this country have skillfully twisted the purpose of no-fault, so that their criticisms of both the concept and the laws suddenly have consumers, regulators and legislators questioning its value.

The problem stems mainly from the lawyers' adept misconstruing of no-fault's objectives. The laws were never meant to lower the costs of accidents, because in a time of high inflation, health and medical as well as property damage costs are going to rise. Nothing can stop that.

No-fault auto insurance laws are simply meant to provide a more efficient way to take insurance premiums and pay out reparations—that is, benefits—to the policyholders and the parties involved in accidents.

The laws have, indeed, accomplished this end. Insurers and insureds alike say the laws have worked and will work. Some commercial insureds have pointed to dramatically improved claims experience in a few states where the strongest laws have been passed. In these cases, the laws have worked better than anyone had hoped for, say insurance managers for companies paying huge premiums covering large fleets of vehicles.

No-fault auto laws were designed to solve bodily injury and pain and suffering claims payment problems, with the idea being to circumvent endless court haggling and attorneys' fees by keeping cases out of court and paying for economic loss in the fastest way possible. No-fault wasn't intended to solve sheet metal or property damage problems.

We believe no-fault, even considering some technical problems within the system, provides a better compensation mechanism. Legislatures should not be badgered into undoing the progress they've made by enacting no-fault laws. We would like to see more state no-fault laws as well as a federal no-fault law setting minimum standards for the states.

There's a particular need for a federal law right now because some state laws have established the so-called threshold limits for bodily injury and medical costs at levels low enough that some *wily* claimants are procuring from their doctors and health care institutions artificially inflated bills. Thus, bills in hand showing that costs exeeeded the threshold limit established by law, an injured party can go to court and sue in tort for damages. Such is the case in New York where investigations of such "puffing" practices have been launched.

It hardly needs to be said that insurers and insureds alike charge *wily* lawyers with pushing clients into using these inflated costs to gain the right to launch a tort liability action.

Abuse of these varying threshold limits in the states have prompted legislators in Florida to suggest going to a $3,500 threshold limit. Massachusetts has only a $500 threshold, which some people say works well enough for physical injuries, but is open to much abuse.

Michigan's law is often cited as being best. Its threshold limit is not stated in dollar terms at all. It is based on death, dismemberment, and serious disfigurement, and has served to hold tort liability actions in court to a bare minimum.

A standard of days-of-disablement threshold is often suggested as the best remedy, and this is what the federal bills have proposed. A threshold of 60 to 90 days of total disablement would probably be accepted by insurers and insureds alike, although the lawyers of the country will certainly argue that this is too stiff.

A threshold limit of 30 to 90 days of total disability should be considered, along with possibly applying a schedule of medical payments to determine "reasonable" costs in order to prevent abuses of dollar thresholds in those states which continue to have these provisions.

Utmost good faith

(Guest editorial by David Warren of Warren. McVeigh, Griffin & Huntington)

MUCH HAS BEEN WRITTEN about the need for an insured to show good faith to his insurer by prompt reporting of exposures, providing complete loss information and other data to enable an insurer accurately to underwrite the account.

On the other hand, little has been said about duties owed by an insurer to an insured other than to pay the claim promptly and equitably. However, we believe the insurer has other ethical obligations which have often been widely breached. When an insurer writes a contract, it has an inception and an expiration date. Both parties have entered into the contract in good faith and with full knowledge of the facts. Presumably the contract should continue without change (except where the risk itself changes) until expiration, at which time negotiations can be conducted for a new contract.

Instead of observing the spirit of their contract, insurers have, on a large scale, canceled midterm or raised rates or restricted coverage before the end of the policy term. They can do this because the cancellation clause gives them the right to cancel for any reason they choose, solid or whimsical. Furthermore, although the insured pays a short rate penalty when he cancels a policy, the insurer pays no comparable penalty when he cancels. Hardly a fair state of afinsured, and often causes serious dislocations or hurried fairs because a midterm cancellation is a hardship to the attempts at renewal under unfavorable conditions.

When an insurance policy is written, both parties should know what they are doing. Risks should be fully disclosed and the underwriter should take care to see that he understands the risk and that it is property rated. Unfortunately, it is in the matter of rating that underwriters fall so short. In the middle of a policy term they suddenly wake up to the fact that they probably were mistaken about their original underwriting or rating. It is then the insured who suffers though it is the underwriter who made the "mistake."

We believe that when an insurer enters a contract with an insured, he should honor it until expiration as long as there is no material change in the risk or misleading representations of the insured.

letters

Letters are welcome. Address letters to the Editor of Business Insurance, 740 N. Rush St., Chicago, Il. 60611.

Political boondoggle?

To the Editor: Assuming Mr. Merrion correctly reported the box car figures in his April 5, 1976 article, entitled "National health tab may hit $125 billion in 1980," Senator Kennedy's stated *basic* reason for a "comprehensive" national health insurance plan sounds like another political boondoggle.

He is quoted, "... his version of a national health insurance bill would have the effect through cost control measures of 'possibly' cutting the nation's 1980 health insurance costs by $21 million in 1980." $21 million is 1/100 of 1% of the projected total cost of $125 billion! In the same paragraph, the Congressional Budget office estimates that Kennedy's approach would *add* $35 billion to the national bill or 28%! The logic escapes me.

Does anyone ask Senator Kennedy the hard questions? Does everyone agree to the correctness of these immense estimates?

A. W. Greenfield, Jr.

Clarification

To the Editor: I read with interest the article concerning federal employes enrollment in the Washington University's Medical Care Group of St. Louis, which appeared in the January 26, 1976, issue of your publication. I feel that this article requires some comment and clarification.

The Civil Service Commission, which administers the federal employes health benefits program, currently has 54 health benefits contracts. These include the government-wide service benefit plan (administered by Blue Cross and Blue Shield) and the government-wide indemnity benefit plan (administered by Aetna Life & Casualty). They also include 12 employe organization-sponsored plans including, among others, the American Federation of Government Employes and the American Postal Workers Union. The remaining 40 contracts are for comprehensive medical services provided by group practice and individual practice prepaid health plans (HMOs).

For participation in the federal program beginning in January, 1976, the Civil Service Commission approved applications from nine health plans to participate in the program for the first time. One of these nine newly-approved health plans was the Medical Care Group which is offered to federal employes and annuitants in the St. Louis area through a contract between the U.S. Civil Service Commission and the Metropolitan Life Insurance Co. Your statement that

Continued on page 16

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letters

Continued from page 12

nine HMOs were approved by the government to enroll federal employes may be misleading because it seems to say that there are only nine contracts with HMOs available to federal employes who may wish to select one. Many of the 40 comprehensive contracts not only were available to federal employes and annuitants during 1976, but have been offered to eligible persons since 1960, when the federal program was begun.

Marie B. Henderson
Chief, Comprehensive Health Plans Office, U.S. Civil Service Commission, Washington, D.C.

Hennepin County

To the Editor: The March 22 article by Margaret LeRoux regarding a self-insurance malpractice fund for Hennepin County erroneously stated that "the underwriter reported it did not have that capacity to retain the risk for 1976." That is not true. The problem was not lack of capacity on our part, but the amount of premium necessary to cover the risk was not acceptable to the insured. Thus, the self-insurance plan.

David G. McDonell
Manager of Public Relations, The St. Paul Cos. Inc., St. Paul, Mn.

Good work

To the Editor: This is just a note to tell you how much I appreciate your excellent publications. The articles are extremely well written, timely, and of utmost interest to those of us involved in corporate finance.

Keep up the good work.

W. E. Kossian
vp-finance, Kingsbury Machine Tool Corp., Keene, N. H.

dates for buyers

June 8-9: Nuclear Insurance Consultants—Insurance and risk management from mining to disposal of nuclear waste will be the topics of a nuclear insurance and indemnity workshop held in New York City. Construction, fire protection, inspections, nuclear liability problems, and the international aspects of nuclear insurance are some of the planned discussions. For further information write Nuclear Insurance Consultants, 1221 Avenue of the Americas, New York, N. Y. 10020.

June 14-16: American Society of Safety Engineers—The professional development program features talks on OSHA by Morton Corn, assistant secretary of labor, safety communication, safety audits, and fire prevention for the safety professional. The conference will be held at the Hyatt Regency hotel in Atlanta. Hotel Reservations must be made through the Society Headquarters. Registration fees are $150 for members and $200 for non-members. Contact ASSE, 850 Busse Hwy., Park Ridge, Il. 60068.

June 16-17: Cleveland Chapter of the American Scciety for Industrial Security —A regional seminar held in Independence, Oh. will discuss security procedures in handling terrorism, bombings, executive protection, and labor disturbances. Security products and services also will be displayed. The seminar is aimed towards security personnel in industry, international corporations, and educational facilities. Cost is $50 for ASIS members and $65 for non-members. For more information contact the chairman, James Reid, President, Tri-County Police Inc., 11220 Snowville Rd., Cleveland, Oh. 44141.

June 16-18: Minnesota Counties Assn. and Hennepin County Cooperative Purchasing Participants—Risk management for governmental organizations will be examined at this seminar limited to 60 registrants. Nestor Roos, insurance professor, and Joseph Gerber, assoc. professor of insurance, both from University of Arizona, will discuss first and third party coverages, risk identification and evaluation and legal aspects among other topics. The June 16 conference will be held in Mankato, Mn., costing $123 and a June 21-23 seminar will be held at Island View Lodge, Gull Lake, Brainerd, Mn. costing $105. Contact Sheldon Weinberg, Hennepin County Risk Management, A2309 Government Center, Minneapolis, Mn. 55487, (612) 348-3147.

June 17-19: BUSINESS INSURANCE and Computerworld magazines—Protection and insurance of computer risks is the subject of a seminar held in Chicago at the Drake Hotel. Speakers will include computer operations planners, risk management consultants and insurance specialists. Business interruption insurance, disaster recovery and security management are some of the topics covered. Registration is $275 before June 1; after, $325. Contact Computer Protection/Insurance Seminar, Crain Educational Division, 740 Rush St., Chicago, Il. 60611.

June 22-23: Baton Rouge Safety Council—A course for supervisors or foremen is offered at the Prince Murat Inn in Baton Rouge, La. The program schedule includes talks on development of safety attitudes; safety communications, OSHA and the supervisor; and personality factors in safety. Among the speakers are a safety consultant and advisor for Exxon. The registration fee is $60 for Safety Council of Greater Baton Rouge members and $75 for non-members. Contact the Safety Council of Greater Baton Rouge, 1536 N. Foster Drive, Baton Rouge, La. 70806.

July 18-21: American Bankers Assn.—Risk management, coverages and markets for bank executives will be the topic of a seminar in Boulder, Co. conducted by bank insurance and risk management officials. Banker's blanket bond insurance, trust department errors and omissions and safe deposit liability are among some of the subjects covered. Contact Edgar Armstrong, assistant director, Insurance and Protection Division, American Bankers Assn., 1120 Connecticut Ave., N.W., Washington, D.C. 20036, (202) 467-4048.

July 19: International Foundation of Employee Benefit Plans—A one-day program to define and interpret the requirements of all ERISA regulations will be held at the Plaza Hotel in New York; at the O'Hare Hilton in Chicago on July 20; and at the St. Francis Hotel in San Francisco on July 21. Administrative procedures and recordkeeping methods are some of the topics covered. The cost is $60; $80 at the door. Contact the International Foundation of Employee Benefit Plans, P. O. Box 69, Brookfield, Wi. 53005.

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Need stricter laws to curb arson cases

CHICAGO—Increased law enforcement and mandatory jail sentences for arsonists must be instituted to reduce the rising number of arson cases, one insurance company loss prevention manager said.

Ralph Jackson of Allstate Insurance Cos. quoted National Academy of Science figures showing that arson now accounts for 50% of all fires.

According to Mr. Jackson, arson is now classified as a Class II crime which means the offender can, and often does, receive probation from judges. If arson was reclassified as Class I, jail sentences would be mandatory and no probation possible he said.

Also needed is increased law enforcement and training of present fire departments to detect arson at the scene of the fire. Included in this, according to Mr. Jackson, would be joint police-fire department squads where police could collect evidence for the conviction of arson after firemen indicate that there is the possibility of arson.

Mr. Jackson, who addressed the Chicago chapter of the Society of Chartered Property & Casualty Underwriters this month, said that the Federal Bureau of Investigation and the National Fire Protection Assn. have found in recent years that the economic loss from arson exceeds the combined losses from all other types of criminal activity.

That economic loss currently is estimated at $5 to $6 billion a year according to the Mr. Jackson who also addressed the Fire Marshals Assn. of North America last year.

He also suggested that a computerized and centralized system for tracking down arsonists be instituted, similar in scope to the National Theft Bureau. ■

agent/broker topics

In-house vs. out-of-house computer?

Automation seen as administrative imperative

By JANE WINEBRENNER

CHICAGO—Computers—once the gleam in mathematicians' and scientists' eyes—have become an essential administrative tool for many small and medium-sized insurance brokers and agents.

If insurance brokers have not contracted already with computer service companies, they are looking into the programs offered.

Small and medium-sized Midwestern brokers interviewed differed widely when asked at what point computers become profitable for an agency. Most estimates ranged from $500,000 to $1.5 million in premiums generated.

Irwin Schuster, president of Schuster Insurance Agency of Chicago, who is purchasing a computer service, said that premiums or gross revenues are not a good indication.

"Agencies need computer service if they are spending an excessive amount of time doing accounting services. I didn't jump into it before, until I felt I had competent personnel to handle it," Mr. Schuster, whose premiums are over $1.35 million, said.

The cost of buying a computer service, which is the route most smaller agencies take, can vary anywhere from $100 to $2,000 a month, depending on how large the agency is, what services are used, and how many items are sent through the computer.

A basic service program consists of a monthly record of accounts receivable; accounts payable; and a record of transactions with the insurance companies, producer, commission, commission splits and expiration date. Some agents also receive monthly profit and loss statements.

All agents interviewed said they do not use computers to handle claims, preferring instead to use insurance company data.

Howard Lesch, treasurer of Harold F. Hinz Co. in Tinley Park, Il., buys a computer service for their $3.5 million in premiums operation, but unlike others interviewed, Hinz Co. pays $100 in services and hires a part-time data processor for $250 a month.

Most agents and brokers felt the computers were more efficient and profitable, but could not supply specific figures. Robert Maldegen, president of Fairlane Assoc. Inc. of Dearborn, Mi., said, "I wouldn't even want to find out" after using a computer service since 1963. His monthly cost is $700-$800 a month.

He said, however, that "data processing is the only way to go." Mr. Maldegen, whose agency had $3.5 million in premiums in 1974, drew the line at purchasing an in-house computer or even leasing one, because it would require hiring full-time persons to type, code and process invoices.

The Insurance Service Agency is purchasing its own computer according to its president Nick Stroguiludis, because the Merrillville, In. agency administers group insurance plans and pension insurance claims. The agency had only $1.6 million in premiums in 1974, but Mr. Stroguiludis said he was paying the service bureau $1500 a month. He bought a IBM-3 computer in January 1976, for $76,000 after leasing it for three years; the president estimates his costs went down 20% over leasing.

The Pettiner Agency Inc. of Camden, In., with 1975 premiums of $1.5 million, is now trying to find the "proper program" that could be adapted to a state bank's computers located in the same building.

Its president, Robert L. Pettiner, expressed the fear of computer theft as one reason he has not converted before.

"At this point it's more expensive than a small agency can afford. There is a lot of surplus information that is not usable. You also lose control of the information too long and it's out of your hands; the information is accessible to theft or misuse by persons running the machine," Mr. Pettiner said.

While the computer efficiency is inexact, Russell Worgess, president of Worgess Agency Inc. in Battle Creek, Mi., said he would have to hire a full-time employe to take its place. His agency, which generated $2,028,000 in premiums in 1975 and $450,254 in gross revenue, has been using computers for ten years and pays $500 a month for the service.

He recommended that operations with over $500,000 in premiums consider using computers. "You're getting into enough customers and enough complications that the bookkeeping gets detailed."

Frank Paris, secretary-treasurer of Paris-O'Day & Reed Inc. of Oak Park, Il., has also been using computers for 10 years, with a monthly cost of $2,000. He said it would take three employes to do the bookkeeping and accounting for the firm, with premium volumes $4.2 million in 1974.

Mr. Paris said he now has one employe handling the computer and bookkeeping work. The added advantages are there are fewer employes to supervise, and the greater reliability and dependability of the computer.

Mr. Paris said he has not considered buying or leasing his own computer because of the supervision and extra persons needed to run it.

"I'd rather devote my time to building up the agency. It requires an additional department almost unrelated to insurance," he said.

Irwin Schuster, who is still investigating various computer service programs and costs, has decided he will utilize one service eventually even though he has only three employes.

He decided to plug into a computer service because his volume has been increasing substantially and he needs to "conserve time." His bookkeeper presently spends two days a month on payable accounts, two days on receipts, and almost one day on sending out statements.

"You have to decipher exactly what you want in computer services, draw up a specification sheet and get price quotes. I have to prove to myself I'm going to save money besides have more efficiency," Mr. Schuster said. ■

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The well-managed agency: Only 1 in 10 qualifies

By SUSAN ALT

CHICAGO—When you've studied the inner workings of the best-and-worst of insurance agencies and brokerages, it's pretty clear that there are certain characteristics common to the most successful insurance middlemen.

Some of these qualities are:

- They offer superior services to clients.
- The firms provide a stimulating work environment for employes and associates.
- They generate healthy profits on a routine basis.
- They have a plan of operations to reach their objectives, or stated another way, they know where they're going and how they're going to get there.
- They have annual attrition rates of less than 5% of commission dollars.
- They generally have a good spread of business, with commissions generated by a range of large and small accounts. (Commercial business dominates.)
- They consistently stress generating new and profitable business for the firm.
- Personal lines business is usually handled in a separate department.
- They generally have a strong life and benefits department accounting for 10% to 15% of gross income.
- They unanimously stress education of employes, encouraging CPCU designations, company courses, insurance industry courses.

These are some of the benchmarks established by Dave Hales, president of Hales & Associates, whose business it is to analyze agencies and brokerages, primarily for mergers and acquisitions.

Since he started in business for himself in the fall of 1972, Mr. Hales has done in-depth evaluations of about 100 privately held agencies and brokerages across the country. In addition to merger scouting, Mr. Hales provides agency management services. He works with about 10 firms on a continuing basis as a management consultant, including public and private firms. Some 60% of his business is merger-acquisition oriented, with the remainder consisting of such projects as internal ownership perpetuation, financing, employe stock ownership plans, long term planning, and compensation studies.

Of the hundred or so firms he's closely inspected, nearly all have had commission income of over $400,000 a year. The majority had commission income of $1 million to $2 million and a few firms had commission income over $2 million.

Virtually all of them have been commercial and industrial account oriented.

"There are two I can think of that stick out like sore thumbs from all the others, because they've done absolutely everything right," Mr. Hales told *Agent/Broker Topics*. "Of the entire group, there are maybe 10 or 15 that I would classify as outstanding."

A key element in the well-managed agency, he believes, is having management farsighted enough to establish an operating plan flexible enough to bend with day to day conditions, but clear enough so that everybody knows where the company is headed and how it's traveling there. "The most important part of the plan is arranging for the internal perpetuation of ownership," Mr. Hales believes, "because it 'turns on' the troops." Even those who don't own any stock in the company now can see their future. For example, Mr. Hales illustrates, a person out selling insurance is highly motivated by the thought that he will be a key player someday.

"The agency has to identify a funding vehicle for this," in order to effectively communicate the plan to employes, says Mr. Hales. ESOPs are increasingly being used as this vehicle, he notes.

Implicit in this plan for perpetuity is the assumed foresight of management to have a good spread of ages in the organization, so that the principals of the firm are not limited to one age group, he adds.

Also implicit in a firm's being designated by Mr. Hales as outstanding is that the organization is managed "for the bottom line," shooting for a 20% to 30% pre-tax profit margin. "I've seen these pre-tax margins as high as 50%," he says, but that's not necessarily a good sign. Mr. Hales' usual reaction to such a high pre-tax margin is "that the firm is probably not delivering the maximum services to clients and poli-

Continued on page 16C

(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.)

PLEASE PRINT CLEARLY OR TYPE

Name of firm: _____

Name of parent company: _____

Home office address: _____

_____ Zip: _____

Phone number (include area code): _____

Branch offices (cities): _____

_____

Subsidiaries (list names): _____

_____

Names and titles of principal officers: _____

_____

_____

Total number of employes: 1974 _____ 1975 _____

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

1974 $ _____ 1975 $ _____

Percentage derived from commercial accts.: 1974 _____ % 1975 _____ %

Reason for substantial increase (decrease): _____

_____

Total premium volume, if available (estimate acceptable): 1974 $ _____

1975 $ _____

What percentage derived from commercial business: 1974 _____ %

1975 _____ %

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

List mergers and acquisitions in 1975 and thus far this year (this year's should be indicatec as such):

_____

_____

_____

Describe special services (e.g. employee benefits, loss control, OSHA consultation, engineering) available directly from your firm. Larger firms may indicate they have a full-range of services available if that is the case:

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If your firm is a specialist in any particular forms of coverage or other insurance-related services (e.g. construction wrap-ups, fidelity bonds, aviation, retail stores, etc.) please indicate:

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AUGUST 9, 1976

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Although your company's profile may have been listed in last year's issue, in order to insure a listing in the 1976 issue the enclosed questionnaire 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 1975.

As in the past, the issue will provide details of premium writings, commission and fee revenues, and personnel available to service commercial clients of the many firms we profile. Over the years our Agent/Broker Profiles Issue has become a primary source of vital information on agents and brokers who serve commercial insurance consumers and provide risk management assistance.

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Return your completed questionnaire as soon as possible. ALL listings for the Agent/Broker Profiles issue MUST REACH US ON OR BEFORE June 16.

Future may bring more agency cancellations

BOSTON—Insurance companies are going to be increasingly selective in coming years about the agents they appoint, predicted an underwriter who should know, based on the fact that his company—Commercial Union—has been cutting off some of its oldest producers.

Lawson L. Swearingen, executive vp and chief executive designate of Commercial Union Assurance Cos., told the 94th annual convention of the New York State Assn. of Insurance Agents that insurers are going to be "less concerned about volume and more about quality of business" produced by agents.

As part of a drive to return to underwriting profit, insurers—presumably including Commercial Union—will "just not . . . accommodate" some lines of business in some jurisdictions, said Mr. Swearingen.

He told the agents that companies must conduct their own operations "in such a way that they will provide their agents a strong, stable and competitive market."

National underwriters must "seriously consider decentralization," he said, giving an indication of the way CU's organization structure will be changed. He advocated placing as much authority and responsibility as possible into the field, "close to the agents and the source of business. At the same time, this decentralized approach must lend itself to the services demanded by multi-state and national accounts," Mr. Swearingen added.

"I am aware," he continued, "that many companies have been in and out of this type of structure over the past years, and some would not agree with the concept. However, I feel that the demands of the insurance environment in the future will only be met with this type of company structure."

Commissions and commission structures may be changed further in the future, he warned. "Agency compensation will become even more dependent upon performance," said the underwriting executive. He advocated "true partnerships" between agents and the companies they represent, in that "each shares in the success and each shares in the failure" of the insurer.

"Companies will be much more interested in growing with agents producing good business than they will be in increasing production by expanding their agency force," he said.

He believes that as part of that process, "some independent agents are simply not going to find markets because they will not accept the underwriting responsibilities companies will demand."

Insurers using agents "will compete among themselves for the business of better agents by increasing the emphasis they put on service to agents in every part of the relationship—underwriting, policy issue, loss prevention and claims," he went on to say. "More and better systems support is a certainty."

Personal lines competition as well as commercial insurance competition between insurers and between agents will heat up in the future, according to Mr. Swearingen. "Competition will become stiffer than ever before as the life insurance subsidiaries and perhaps other retailers expand their market share," he noted.

Commercial accounts, in Mr. Swearingen's view, will be looking for better service, higher deductibles, self-insurance, and risk management assistance "to get more from each premium dollar."

Competition coupled with regulatory pressures will force agency companies to "cut expenses at both the company level and at the agency level," he asserted. ■

Well-managed . . .

Continued from page 16A

cyholders as they should, and it's likely that this is also an indication the firm doesn't have enough people on the staff."

Lower pre-tax margins aren't always bad, either, he continues. "I can think of one really outstanding firm that seeks a 10% pre-tax margin because it has a philosophy of delivering 90% of the commission dollar back to the client in the form of services. And this regional firm's growth has been substantial" as a result of this procedure, according to Mr. Hale.

Well-managed firms don't pay huge salaries to the principals on the way to the bottom line, says Mr. Hales. "It's only after they achieve that pre-tax margin that they split up the pie—not before—after they've generated the profit they determine contributions to profit-sharing, cash bonuses, and other compensation."

Expenses such as rent, phones and overhead generally consume about 25% of the revenue dollar for an agency or brokerage, says Mr. Hales, so that if a firm is aiming for 25% margins, 50% of the commission dollar is left for payroll costs.

"That's about what all the publicly-held brokerage firms seem to shoot for, and these yardsticks are just as appropriate for a privately-held firm," he believes.

Mr. Hales has seen companies that shoot for an absolute dollar amount of profits, instead of using a percentage of pre-tax profit as an objective. The dollar pre-tax profit objective is usually in the $25,000 to $50,000 area "because that's where the IRS surplus comes into play, and the principals in these firms adjust their salaries at the beginning of the year to arrive at that figure; that's wrong," he says unequivocally. "They assume too much about where their business is coming from during the year. The firm might lose a major account during the year, and then find fixed expenses are too high," and more problems ensue, he warns.

In the production area, there are really two functions that the account manager of an agency performs: one is selling-supervising, and the other is servicing the account. "The large jumbo commercial account appears to be handled most effectively with the 'unit system,' such as the kind Marsh & McLennan uses," in which the account executive draws on other people in the unit and on support people, Mr. Hales believes.

The most commonly used servicing method, Mr. Hales notes, is a hybrid of the unit system and the profit center system.

Extremely successful agencies have principals and/or managers who are producers, and who spread the internal management responsibility among themselves, according to Mr. Hales' analysis. The principals at the most successful firms hire a good financial person "who does nothing else," he adds.

Compensation is often a thorny problem in the brokerage business. Mr. Hales believes the "pure production function"—i.e., the account executive—is worth 15% to 20% of commissions. The support system—people who do the rating, underwriting, claims administration, placement, etc.—are likewise worth 15% to 20% of commissions. Clerical help is worth another 15% of the commission dollar, he estimates.

"So if just one person in the profit center system is doing everything, that person will earn between 30% and 40% of the commission dollars he's handling. And we end up, then, with a total payroll of about 50% of commission revenues."

A major weakness in the insurance brokerage industry—Mr. Hales thinks it's the major weakness—is in the area of recruitment and training. "Usually somebody in the organization is responsible for this, but most firms don't have any formal programs for recruitment or training. I think they'd be more successful if they had formal programs," Mr. Hales says.

"I think what they should do is take a few neophytes and train them" by having some formalized procedure for exposing a new recruit to every phase of the business and grooming him for management.

An even more basic problem, as Mr. Hales sees it, is that "there's not enough young blood coming into the brokerage business."

Contrary to his view that firms should recruit some insurance neophytes and train them, Mr. Hales notes that most of the firms which he views as outstanding "don't hire anybody who doesn't already have the qualifications and credentials, and that the principals don't want as a partner." Thus, he would conclude that it's good management to hire only experienced people for the long haul, and only those who can become principals.

Furthermore, "the top firms all have protective covenants and non-piracy agreements with key people providing protection to the firm in case the person leaves," says Mr. Hales. "These are legal and will hold up (in court), and they all provide for injunctive relief and definition of damages" in the event a former employe "solicits or accepts" accounts from the agency or brokerage firm which he left.

Mr. Hales thinks use of non-piracy agreements is proper and is good management. "I think every employe who has personal contact with an account ought to be willing to sign a non-piracy agreement and that every firm should demand them of the employe," he asserts. Such agreements usually state that for a period of two to three years after leaving an agency or brokerage firm, the former employe will not solicit or accept any business of the firm he left.

These non-piracy agreements "will hold up if they're written well," he contends. On the other hand, non-competition agreements are another matter, and whether these will hold up legally generally depends on the community. "In Denver, it's common for stiff non-competition agreements to hold up, while they'd never be upheld in Chicago," Mr. Hales adds. "It all depends on the state courts and their interpretation of the agreements."

When Mr. Hales evaluates a brokerage firm, he eyes the firm's attrition rate—the amount of business flowing out of the firm and to other agents and brokers in the course of a year. "The best firms have a rate of less than 5% of commission dollars lost annually. But the more typical rate is 10% or so."

The theory of not putting all your eggs in one basket holds true in the brokerage business, and Mr. Hales' benchmark is that even the largest account a firm has shouldn't represent any more than 10% of total revenues.

An average brokerage firm will record contingency commissions from the insurance companies it represents of about 2.5% of the prior year's commission income.

Continued on page 16D

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Agent group proposes product injury reforms

NEW YORK—Reform measures that may restore product liability insurance availability and price stability include increased product safety, employer liability for work injuries and judicial reform, according to one insurance agent group.

The Independent Insurance Agents of America (IIAA) said in a paper released this month that the insurance industry can improve the present product liability situation by creating a better data base for ratemaking and cooperating in defending suits rather than shifting liability from one party on to the next.

Lou Daniel, chairman of the IIAA's casualty committee, emphasized that these were only suggested reforms and that a final position would not be taken until September when the IIAA's state national directors meet.

Mr. Daniel said the casualty committee had studied the product liability situation for over a year because insurance markets have been drying up for the independent agents trying to place product liability insurance.

The purpose of the position paper was to keep independent agents and brokers "advised of the situation" and to outline the problem for the insurance companies.

The IIAA paper, submitted to the National Assn. of Insurance Commissioners, said that joint underwriting associations were only "stop-gap measures."

"While the IIAA had endorsed joint underwriting associations as a remedy for problems related to medical malpractice, the IIAA stressed that 'parallel stop-gaps are not appropriate as remedial measures for the product liability situation.' "

One of the specific reforms suggested is product safety rather than "quality control," which would include full documentation of safety precautions and full disclosure to consumers.

IIAA also wants workers' compensation to be the only remedy for occupational diseases. "Such legislation would place the burden for providing insurance upon the employer who purchased unsafe equipment or who made safe equipment less so through alteration," the paper states.

In judicial reform, the IIAA casualty committee suggests that contingency fees, general damage and punitive damage awards all be limited and that the doctrine of negligence be codified.

According to the IIAA, the reasons for the constricted product liability markets are recent severe underwriting losses, increases in the number and size of claims, the inability of insurers to predict future losses, and the public's awareness of product liability suits as a monetary recourse.

For most product liability insurance there is no potential to produce a short term premium reduction by changing policy forms," the IIAA paper states. "Joint underwriting associations are implying another form of mandatory assigned risk plan. Their creation can do nothing to affect increasing premiums and losses. Product liability represents far too large a proportion of the casualty insurance business to be consigned to residual market status. . . ."

Mr. Daniel said the IIAA is trying to work out solutions. ■

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Hales . . .

Continued from page 16C

The top firms in the brokerage business usually have contingency commission revenues in the 6% to 15% area, says Mr. Hales. Admittedly, this is very high, and these firms generally have these common characteristics:

- Strong loss prevention departments;
- strong engineering departments;
- risk placement people have company (underwriting) backgrounds;
- management insists on taking only quality clients;
- firm will generally handle entire commercial accounts, instead of having parts of accounts.

"This final point," says Mr. Hales, "is the secret to Reed Shaw Osler's (now Reed Shaw Stenhouse) success."

As a profit center, the life, health and benefits insurance department of a well-managed brokerage firm "offers very high margins," says Mr. Hales. "Put the business on the books and you get your renewals. There's not much servicing required."

Exceptionally well-managed brokerage firms almost unanimously pay for CPCU educations. An interesting correlation, Mr. Hales says, is that "you find a better level of contingency income in the brokerage firms where most of the top management people or producers are CPCUs."

Nearly all of the 10 or 15 firms Mr. Hales has seen close-up which he thinks are top-flight are automated "to some degree, using an in-house computer." In fact, only one firm in this group, "which happens to be the biggest of the lot, is still on a manual system to service its relatively few large accounts. And this firm has a very high commission contribution per employe," he notes.

The 10 or 15 firms Mr. Hales has worked with that he would classify as highly successful generally have $35,000 to $40,000 in commissions generated per employe, with the best in this group at the $40,000 point. "I've seen as high as $50,000 per employe, but I wouldn't put a great big value on the firm in this event if I'm doing a valuation. Essentially it means the business is a one-man operation—the owner is the producer and the organizer and has a lot of backup people."

Growth rates of the well-managed firms are about 15% to 25% annually, figuring compounded rates, with a median growth rate of about 20%. These rates apply to both top line and bottom line growth, says Mr. Hales.

And the trend for these agencies and brokerage firms is to do more business with fewer insurance companies, he adds. One firm puts risks in only five companies. Another basically uses 10 companies plus specialty markets.

"In the past, it hasn't been uncommon to see as many as 30 to 40 companies represented in an office. But this is changing," says Mr. Hales.

New business is usually generated with a lot of referrals in these exceptional firms. The account executive also will tend to ask the firm's good accounts who their business associates are—such as suppliers and customers—so they can tie in and go after those accounts.

"They also tend to be outstanding in certain industry classifications," such as utilities, contractors or certain other manufacturing areas, says Mr. Hales, who notes that this specialization is often a key to new business for these firms. ■

Southeast, Southwest markets 'barely penetrated'

Brokers gear up planning staffs for Sunbelt growth

By MARGARET LeROUX

NEW YORK—The Southeast and Southwest regions of the U.S. are targets in the long-range expansion plans of major brokerage firms, according to a *Business Insurance* survey of these firms.

"Employers and employes are finding the lifestyle in these regions more attractive," L. Patton Kline, president, Marsh & McLennan (M&M) said in an interview, "and we follow what our clients do."

Brokers say they see a definite increase in interest by their clients in the Sunbelt region of the U.S. and quote demographic and economic studies showing population and business trends heading in that direction. Labor and building costs, even materials for building and land prices are cheaper in these regions, a leading Southeastern broker said.

Another reason the Southeast and Southwest can expect a lot of attention from brokers in the future is the lack of attention paid them in the past.

"These areas represent markets that have barely been penetrated," another broker noted.

BI talked to a number of leading brokerage firms about their plans for expansion, how branch offices are established and how communication between the branches and the home offices is handled.

For M&M at least 50% of the new offices are set up "from scratch," Mr. Kline said. "At our size, we're not after acquisitions just for revenue. There aren't any acquisitions we could make that would have a significant impact on our revenue."

This point of view was echoed by Richard I. Purnell, president and chief executive officer of Johnson & Higgins (J&H) who commented, "We don't make acquisitions just so we can add some more pins on a map." He estimated that half of J&H's branch officers are started from the ground up, the other half are acquired.

When an acquisition is made, "We try to 'J&H the operation' as quickly as we can with a top J&H man heading it," Mr. Purnell noted.

Often the establishment of branch offices reflects clients' needs for service in a certain geographic area, Mr. Purnell said.

"It takes a while for clients to accept a local office if they've been used to doing business with one of the major offices," he continued. "But we feel a local office offers much better contact, communication and interchange between the client and our brokers."

For many brokers, however, acquisitions are the primary means of expansion.

"We may acquire a firm with a service aspect in mind, to provide a service in an area our clients need it," John A. Bogardus Jr., executive vp, Alexander & Alexander (A&A) said, "or to penetrate a new market."

At Bayly, Martin & Fay Inc., Samuel Alcorn, vp of finance and administration, explained the firm's geographic approach.

"We analyze the insurance market by state, then target the states we're interested in, analyze the premium structure for property/casualty insurance, then establish priority cities.

"However, if something interesting pops up," he added, "we'll take advantage of it regardless of the long range plans."

Branch offices operate pretty much on an autonomous basis, most brokers agreed. The most notable exception is J&H.

"Our basic concept is control by the headquarters," Mr. Purnell said. "All our branches answer to the head office." The branch office managers report either directly to Mr. Purnell or to Richard T. Henshaw, executive vp.

The firm stresses the team approach, J&H's chief continued. "The branches can call on the New York office or any other branch office at any time for services and there is no charge back to the branch office."

For example, the firm's directors' and officers' liability insurance expert is located in the New York office, "but he can be in Seattle at the drop of a hat if he's needed," Mr. Purnell said.

J&H has a single operations policy for the entire firm. "We want our clients in all locations to be treated under similar rules."

As for how the corporate headquarters regards the efforts of the branches, Mr. Purnell noted, "We try to have each branch generate at least $1 million in income. If you can't generate that much, you can't afford the personnel to totally staff the office."

M&M's operating alignment chart shows a breakdown of branch offices according to region: Eastern, Central and Western as well as a separate New York region. Each branch in a given region reports to an area head who is responsible to a regional manager, all of whom are senior officers of the company.

M&M and J&H are similar in one aspect of the organizational structure. At M&M, area heads are also directors of the company and at J&H 26 of the 28 members of the board are either branch managers or involved in the business in the day-to-day operations.

M&M's branch offices communicate regularly with the area head, Mr. Kline explained, "although the primary responsibility for client services is with the individual account executive."

Professional communications, those regarding risk management and loss control services are mainly through M&M's corporate/technical services group, while product-related communications, marine, property/casualty services, for example, are handled by the national services group.

"All offices and resources of the company are available to our clients," Mr. Kline said.

When a branch office receives help from the services groups, the offices are reimbursed for their

Continued on page 16F

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Planning future expansion moves . . .

Continued from page 16E

time and services rendered, he explained. The billing goes to the account executive who requested the service.

A&A also operates on a regional basis. "Every region has a director," Mr. Bogardus said, "and he establishes a communication pattern for offices within his region."

Branch offices have pretty much autonomy in operational capacities, he continued, "within the guidelines of the company's general policy."

The policy states how much authority a manager of a branch office has in commitment in funds, for example, Mr. Bogardus said. "If a branch office is planning to enter a long term lease, it would have to get approval from the head office."

R. B. Jones' branch offices are separate corporations, each with its own officers and board of directors, John W. Tucker, president, said, "though some are functional, others are in title only." The firm has recently restructured its functions into areas defined as sales and services, marketing and administration.

Within this structure, branch offices report to division heads who in turn report to various officers of the company, depending on the nature of the communication.

Sales aspects are handled by the president, marketing questions are answered by an executive vp who is director of marketing and administrative functions are the responsibility of the firm's vp of administration.

At Rollins, Burdick, Hunter Co., each of the 14 domestic branch offices has a chief operating officer or operating group, depending on the size of the office, Michael J. Starshak, vp, finance and administration said.

These people report directly to the president of the company, Mr. Starshak explained. The activities of the branch offices are overseen by a management committee headed by the company president and consisting of the managers of all the branch offices.

An account executive with a particularly difficult risk to market, he continued, would report to the national marketing panel which is divided by lines of insurance.

Mr. Starshak handles accounting and administrative responsibilities for the branches, while inter-office activities related to insurance are handled by another corporate vp.

A profit center approach towards branch offices is followed by Fred S. James & Co. Inc. and Bayly, Martin & Fay Inc.

Each of the managers of James's 50 U.S. offices reports to one of six regional directors. "The directors prepare an operating plan for the branches in their region each year," said John C. Crane, vp of finance. "The branches have substantial autonomy unless there is a deviation from the operating plan."

A national sales-services group in the home office provides technical services for all the branches, Mr. Crane said.

"Each of our branch offices has maximum autonomy," Bayly, Martin & Fay's Mr. Alcorn said. He explained that the company views the corporate function as including long range planning, control of acquisitions, broadening of facilities and delivery of services.

"We ask to be advised of all long term commitments by the branches," Mr. Alcorn said, and maintain direct communication with the more than 21 branch offices.

Brokerage firms service clients with offices or subsidiaries in a number of cities in much the same manner.

"It depends on the customer," James"s Mr. Crane noted. "Some have a closer relationship with the home office, others with the local office."

At Bayly, Martin, Mr. Alcorn said that for a client requiring nationwide engineering services, for example, the producing office contacts the main office who assigns the service to various branch offices on a cost reimbursement basis.

Routine services such as issuing a certificate of insurance are done without charge in all branch offices, he added.

Some accounts may want the same person to handle engineering services for all their plants, A&A's Mr. Bogardus said, adding it can handle services out of a single office or in various branches where it's needed. ■

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Executive hits direct writing P/C rate cuts

READING, PA.—An insurance company executive warned that the direct writers and career life companies which have entered the property/casualty field could topple the American agency system within the next decade.

They "threatened our traditional dominance of the property/casualty field," Robert A. Leibold, senior vp-field operations for CNA, told an "I-Day" audience here.

However, he was quick to point out that competition "did not storm our battlements. They strolled right in."

Mr. Leibold emphasized that the best defense and offense is "a revitalized partnership. There must be an awareness that the companies can't do it without the agents and the agents can't do it without the companies."

Among his suggestions for agents to help reinforce the partnership, Mr. Leibold pointed to achieving a significant reduction in the switching of renewal business, reducing the number of companies represented, spending more time selling and re-emphasizing fundamentals.

He also called on agency companies to give tangible assurances of commitment to producers, establish realistic agent-company councils and provide a broad array of saleable products. Mr. Leibold suggested companies offer up-to-date technological back-up services, do more to train, recruit and upgrade the professionalism of agents, and stress insurance marketing. ■

Call for rate review

The 94th annual meeting of the New York State Assn. of Insurance Agents Inc., called on New York Superintendent of Insurance Thomas A. Harnett to "make certain that the rate filings of those life insurance companies entering the property and casualty field of insurance comply with all portions of the insurance law, specifically, that rates be adequate, not unfairly discriminatory, and not excessive." The resolution referred to the announcement by life insurance companies of their willingness to accept an underwriting loss in the writing of personal auto and homeowner's insurance in order to establish a volume of business to enter the market.

Brokers and agents appreciate their lucrative smaller commercial clients

By JOANNE GAMLIN

LOS ANGELES—West Coast brokers tend to think that most of the advantages lie with serving the small and not the large commercial account.

Take Bernard Mizel, president, Albert M. Bender Co. Inc., San Francisco.

"When it comes to serving small commercial accounts, I contend that the multitude of positives far outweigh the scarcer negatives."

He told *Business Insurance* that the major negative in dealing with smaller commercial clients stems "from the fact that insurance companies lack the staff required to handle small accounts with the depth which they must have. While insurance companies need to hire quality people who can process the small account business and handle their risk efficiently, they do suffer from many personnel problems."

He said that he has a solution to his problem.

It is, he explained, for insurance companies to develop a partnership relationship with brokerage firms which are equipped to handle on an in-house basis the heavy paperwork generated by these accounts.

"I might note that we at Albert M. Bender are able to rate risks in-house and relay this information to the insured in a matter of seven days in contrast to 30 to 60 days when the job is done by an underwriter."

Mr. Mizel said that other negatives related to working with smaller commercial risks are less important. He said they include the need to service small accounts intensely and to process more paperwork than larger accounts produce and the necessity of taking on more personal lines which are often not profitable. A lot of claims work also must be done, he said.

"But for me the positives win out over the minus, primarily because I believe that the small to medium sized client brings in a higher profit for the broker than does the business of national accounts. And, at the same time, the broker benefits from a greater sense of security when he services a small to medium sized account.

"The secret behind that feeling lies with the fact that when a broker deals with a smaller client he is almost inevitably negotiating with the top man at the company to be insured," he continued. Mr. Mizel voiced an opinion which was seconded by a spokesman for another brokerage firm: Bayly, Martin & Fay Inc., Los Angeles.

Len Gorecki, account executive for Bayly, Martin & Fay, who agrees with Mr. Mizel that the advantages lie with serving the smaller risk, said that in dealing with the top man at a firm the broker is also talking to the person who calls all the shots as far as important decisions are concerned.

Both Mr. Gorecki and Mr. Mizel said that dealing with risk managers represented their second choice. Mr. Mizel said that one disadvantage of working with risk managers is that they possess far less attachment to their brokers than owner-operators do.

Mr. Gorecki pointed out that risk managers lack the real power to make the hard decisions. He said, in fact, that he would estimate that in only 20% of all cases does a risk manager make the final decision regarding the purchase of insurance.

"Brokers, consequently, are barred from meeting the executives who determine the purchase of insurance at large corporations,'" he said.

By comparison, a broker who deals with a small commercial risk has the opportunity to build up loyalty and hence security in his relationship with the insured, Mr. Mizel said.

"In turn, the close, personal association permits the broker to exercise real control in regard to the risk management of an account—far more control than he would be allowed if he were working with a big client.

"To be sure, to achieve this control, the broker must deliver an impressive performance in the service area. He must see to it, for instance, that claims are met promptly.

"Yet if he does this well, the broker will find that the small insured will not only follow his instructions on risk management matters, but will also accept premium rate boosts without the hassle that usually erupts when the account is large," he elaborated.

Mr. Mizel observed that the close broker-client relationship places a burden on the former. He noted that as president of Albert M. Bender, he is still serving accounts he was handling 15 years ago.

"Yet at Bender, our emphasis is the smaller account and so we underscore service. For example, we see every account every six months. And we offer detailed reports on claims and losses."

Interest in smaller accounts is picking up among underwriters, he said. Mr. Mizel postulated that what the insurance companies like about this kind of business is that it allows them to acquire an entire insurance package, and not just a segment as they would with national accounts.

"I know insurance companies are going after the life/health business along with the property/casualty coverage," he pointed out.

Mr. Gorecki told this magazine that the principal disadvantage of handling smaller accounts lies with the difficulty of placing the business. Since some insurance companies figure that the premium volume produced by smaller accounts is adequate to compensate for the risks they must underwrite, they often decline to accept small accounts, he said.

Far overshadowing this, however, he went on, is the fact that "if you can satisfy a client when it is struggling to launch a business, you can be pretty well assured of that client when it grows large.

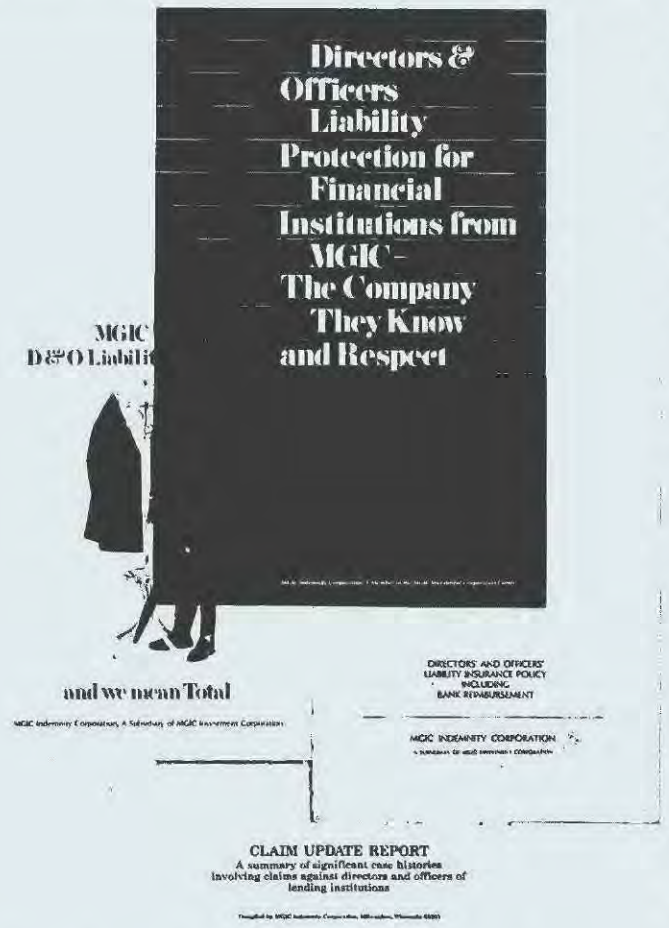
"At Bayly, Martin & Fay, for example, we began servicing Beckman Instruments Inc., almost in the days when it was an infant operation, set up in a back yard."

Mr. Gorecki noted, at the same time, that smaller accounts demand risk analysis which is time-consuming.

Irwin Sylar of the Robert F. Driver brokerage firm in San Diego, asserted that in his experience there are no problems that afflict small clients only. However, he said that product liability coverage can be a particularly thorny problem for small manufacturers, especially those in areas which

Continued on page 16H

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BI 531

Growing demands of smaller clients take agent toll

By LINDA MOSKOWITZ

NEW YORK—Reacting to the property/casualty crunch of the past two years, small business owners are "shopping around more" for insurance coverages, many agents report.

Concerns with underwriter solvency and reliability are much more prevalent within this market than agents have noted in the past. And this new consumerism is putting more demands on agents and brokers in servicing the small business account.

"They like to be reassured more from a personal service standpoint," said Lou Cernava of Cernava & Riegel Agency in Mt. Ephriam, N. J., discussing the needs of his small business owner clients.

To reinforce faith in the underwriters he represents, Mr. Cernava frequently shows his clients Best's ratings of insurance companies.

Explaining the fundamentals of an insurance policy is also a required part of an agent's job when dealing with this market. "They do not understand what insurance is," Mr. Cernava continued, "and what the mechanics are."

Some agents, however, regard this extra attention as a chore, and prefer to deal with the larger corporate clients, who are already familiar with the insurance industry, including the available coverages and the jargon of the trade.

On the other hand, Mr. Cernava thinks large accounts "tend to become independent." He prefers the small client and believes that "over the long haul, if you maintain a posture with a set clientele of Main Street, U.S.A.—and this is the majority of businesses —you can't help but make money."

But another agent thinks the cost of doing business with the small account can be high. "With the present commission scale, you can't afford to make many visits to small customers."

This agent recommends visits to such clients "at least every three or four months." Mr. Cernava also agrees that the needs of the small business "must be evaluated more than once a year."

Another agent maintains that while quarterly visits are sufficient for some clients, others may need more frequent re-evaluations.

Contractors and some types of manufacturers are "constantly being affected by changes," believes Joseph Malloy, of Malloy-Bell Insurance Agency in Clementon, N.J. "This is where the real detail service comes in," he said.

Placing coverages at reasonable premiums can also be difficult for small risks, claims an executive of an upstate New York Agency with an annual premium volume in excess of $4 million.

"For small manufacturers, product liability rates have skyrocketed. Umbrella coverage for small risks are more and more difficult to place. They're taking smaller limits because they can't afford the coverage," the agent reports.

"It's almost impossible with the logging industry. There are a lot of areas where liability coverage is poor. You just can't write many of these coverages," he continued.

Workers' compensation, he pointed out, "is getting more and more expensive." Likewise, "fire rates are zooming."

"There's not much (the small business owner) can do," he concluded somewhat pessimistically.

But, while some agents gripe about serving the small business client, the major insurers are turning to this market as a source of new revenue, as profits from larger accounts begin to level.

Almost all the major carriers have introduced a package for small businesses within the past year. CNA brought out such a package early in the year, and the most recent entry is from the Insurance Services Office (ISO).

The ISO "Business Owners Policy" was delayed for several months because of rating problems, "as a result of financial problems affecting the industry," according to Edwin Mitchell, manager-commercial multiple line division.

After an upward adjustment in the proposed rates, ISO began marketing the package in 27 states as of May 1. June 1 will bring the policy to more states, and "we expect to have it all over the country by July," Mr. Mitchell said.

The ISO package provides property/liability coverage with some options, such as employe dishonesty and boiler/machinery insurance.

The policy stresses simplicity, Mr. Mitchell explained, to meet the needs of the small business owners. CNA similarly designed its small business package with simplicity a top priority.

While the streamlining of policy format and language in these packages is often commended by agents, the packages are no cure-all for the market's problems.

"I personally never liked packages," commented one agent. "With individual policies, you can do a better job."

"The small business package is not going to fit into all accounts," said Clyde Richardson, of the Hartman Insurance Agency in Quakertown, Pa. "You have to choose which clients you're going to make the presentation to."

"It's great for some businesses, but for others it's too expensive, with services they don't need."

These products will have only a minimal impact on the small business market, according to Mr. Malloy. The tailor-made package with standard coverages will continue to be used more widely by agents, he thinks. ■

Z-A services may save pain-and premium

Here's what Dan Muratore, Z-A's Atlanta loss control manager, says:

To do our job, Z-A's loss control people must make our insured's top management believe in safety. That's the most important thing I've learned in 28 years in the business.

With management support, loss control does work. Take the case of the poultry processing plant Z-A began insuring 14 years ago. Only 135 workers then—but they had 80 accidents in one year. Because of accidents, lost work hours totaled four times the industry average.

Fortunately, with the help of our producer, we were able to show management what this was costing. And management did something about it. With our advice, they installed a comprehensive safety program. Better housekeeping. Personal safety gear. Guards for machines. Most important, thorough accident investigation and review. Nothing out of the ordinary. But it worked.

By the end of the first year, accident frequency was down 50 per cent. And it kept dropping.

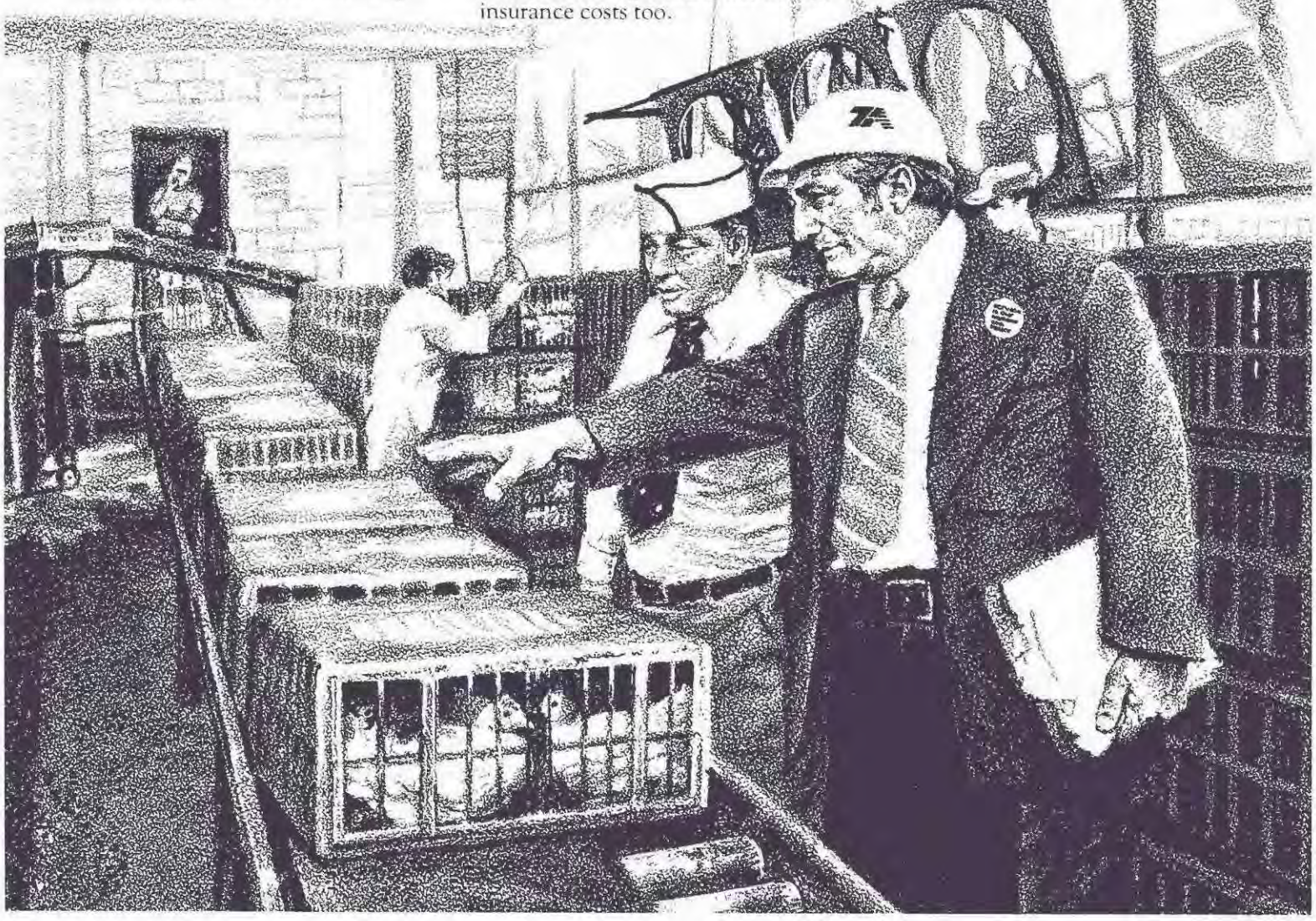
By 1970, the plant had logged a record million hours free of disabling accidents. Since then, the plant has come close to the same mark several times. Right now, with some 350 employees, the rate is 1.28 disabling accidents per million hours worked. That's meant a great reduction in human suffering. And lower overall insurance costs too.

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Client size . . .

Continued from page 16G

can suffer heavy losses.

He said that some of these areas are the manufacture of small pumps, compressors and medical products.

"The question of how to persuade an underwriter to accept such a small client seems to swing on luck, on how the activity of the small manufacturer strikes the insurance carrier.

"Take the matter of a small company in the rental truck transportation business," he suggested. "Some underwriters will immediately visualize trailers coming loose and setting off terrible collisions when they contemplate this kind of risk. Others will say 'OK, we have insured other you-haul companies before with no adverse consequences and we don't anticipate any now.' "

Mr. Sylar noted that a small entrepreneur doesn't necessarily have to be a manufacturer to be socked with a breathtaking increase.

"Recently, we had to tell a client that the best premium we could find for him cost $6,400. And we had to hang our heads. The same exposure last year ran $2,100." ■

Managing general agents cash in as tight market problems multiply

By MARIE KRAKOWIECKI

NEW YORK—Joe Morford's business card announces "used cars, land, whiskey, manure, nails, flyswatters, racing forms, bongos, wars fought, revolutions started, assassinations plotted, governments run, uprisings quelled, tigers tamed, bars emptied, computers verified, and orgies organized." Services offered by the managing general agent?

It is, of course, a gag. Joseph R. Morford's real card for Indianapolis-based surplus lines broker and managing general agency Donaldson, Morford & Co. (of which he is president) is as staid as any other.

But the parody of the free-wheeling range of services offered by a managing general agent in a way captures the real reason why brokers and regular insurance agents turn to these specialists to help place their clients' insurance: Managing general agents, with their increasing emphasis on excess and surplus markets and special risks, are able to get insurance coverages arranged which the average broker just doesn't have the means to put together.

Even large national brokers have occasion to use managing general agents to help place business for commercial clients. Even though they have their own in-house capabilities, in many cases insurance companies that underwrite special risks insist on dealing through only one market—the managing general agent.

Thomas D. West, vp of marketing and client services for Alexander & Alexander, explained it this way:

"We use whatever marketplaces are necessary. If the risk bearers (insurance companies) choose to use managing general agents to disperse their products, we obviously have to use them."

For a big broker like Alexander & Alexander, which has approximately 50 branch offices of its own around the country, business arranged through managing general agents represents only a small percentage of total premiums.

But for the smaller agent or broker, particularly in the West and Southwest regions of the country, up to 5% of total business may be placed through a managing general agent, according to a rough estimate by William A. Stringfellow.

Mr. Stringfellow is executive vp of the American Assn. of Managing General Agents, a 150-member trade group in Washington. But he has a strong background in the dealings of general and independent agents, having been the former executive vp of the National Assn. of Mutual Insurance Agents before he became the AAMGA's chief officer last year.

More and more agents and brokers haved turned to managing general agents to help them place coverages for their clients because of tightening insurance market conditions, Mr. Stringfellow told *Business Insurance.*

"One of our members said he enjoyed a 64% increase in business last year, and many of them say their volumes have become so big that their most pressing problem is administration.

"A good number of our people write in excess of $10 million in annual premiums in malpractice, product and professional liability," Mr. Stringefellow added.

According to the 1976 membership directory of the AAMGA, managing general agents who belong to the association now process and supervise more than half a billion dollars of premium each year, and represent some 340 insurance companies.

As Robert Howey, president of Insgroup, a Denver organization which services agents and brokers, pointed out, there are so many companies in the excess/surplus specialty field today that it is impossible to know who is writing what.

"As with standard companies, these markets also can tend to open and contract. It seems a good bet to locate firms that are operating effectively in the excess surplus and specialty areas and go with them," Mr. Howey advised those considering using managing general agents.

Most agents and brokers that *Business Insurance* spoke to said they wouldn't bother to inform their clients if they decided to work through a managing general agent, because the insurance coverage produced would not cost the client any more than insurance placed directly by the broker.

"We represent the client, and the managing general agent represents the insurance company and is often involved in a certain amount of direct underwriting itself," one broker said.

"If the price would be more for the client, we wouldn't buy it through a managing general agent. It's up to the insurance company to have certain acquisition expenses for acquiring new business. That's part of the rate for services of the agent or person producing the business."

Agents working through managing general agents are typically paid the same amount of commission from the insurance companies that they would receive if no managing general agent were involved.

Although commissions vary widely depending on the type of business produced, a 15% fixed rate was commonly mentioned by agents and brokers as a standard fee.

Managing general agents are compensated by the insurance companies on a fixed percentage or override above the amount to be given to the independent agent or broker.

For instance, one managing general agent said the insurance companies he most frequently deals with might pay a flat rate of 20%, out of which the independent agent is given a standard 15% commission, and the managing general agent keeps 5%.

"We'd like to see 20% be the usual compensation, but it doesn't always work out that way. Sometimes we just break even when we set up a deal, but we'll do it anyway for public relations reasons."

Managing general agents seem evenly split on the frequency of their dealings with large national brokers as compared to smaller, independent agents.

Joseph Blades, chairman of J. H. Blades & Co. Inc. of Houston, which does about $20 million in annual premium volume in the United States alone, said about 70% of his firm's business comes from big national brokers.

Continued on page 16K

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SPEAKING BRIEFLY ABOUT BROKERS

ROLLINS BURDICK HUNTER CO. INC. . . . Offices in Alaska and the Pacific Northwest manifested particular strength (in the first quarter), the former a beneficiary of that state's petroleum boom and the latter helped by the cyclical recovery in the forest products industry . . . Reinsurance brokerage recorded a sizeable gain (from) rate increases and greater activity in facultative placements . . . Rollins consummated late in March the acquisition of Tittle & Jones, a San Francisco based broker generating about $1 million in revenues. While 122,000 shares were issued in the acquisition, a rich price, we do not believe that the acquisition will be materially dilutive.

—Drexel Burnham & Co., analysis, May 5

WHILE THE MERGER (of Corroon & Black and Synercon) necessitates some significant dilution to Corroon's earnings, it does, in management's view, achieve four important goals for the survivor: It adds considerable management talent; adds 19 new southeastern offices where Corroon was not heretofore represented; doubles the stockholder family from CBL's 1,324 at yearend to close to 2,800 now; and brings sophisticated EDP hardware and software capabilities. It furthermore creates a combination with projected 1976 revenues of between $55 million and $60 million, 1,300 employes (versus 700 for CBL alone), 49 offices (versus 30 for CBL), and two new foreign offices (Hamilton, Bermuda and Milan, Italy).

—From an April 29 analysis by Legg Mason

FRED S. JAMES & CO. . . . Importantly, virtually all offices achieved budgeted goals (in the first quarter) . . . Reinsurance brokerage, while not a major revenue contributor, also experienced very substantial growth . . . Despite the welcome strength of the first quarter, we still anticipate a diminishing rate of gain for subsequent quarters. By the second half, it seems probable that the best of premium rate increases will have been seen, since policies being renewed will have already borne the brunt of rate adjustments. The expanding economy, however, should enhance revenue growth from the existing book of business and new business production will likely remain important . . . We also expect that James's expenses will be kept under tight rein.

—Drexel Burnham & Co., April 28 analysis

IT IS OUR BELIEF that Alexander & Alexander will not approach Marsh & McLennan's profit margin of 13.5% to 14% at any time soon. Alexander's accounts are medium sized and unit cost is higher. Jumbo accounts ($100,000 in annual commission) represent 21% to 22% of Alexander's book of business, while Marsh & McLennan's is closer to 45%. Alexander is content with expansion of its territory in recent years, but is seeking to establish itself in North Carolina, Ohio and Phoenix, Arizona territories. Management anticipates that future acquisitions will be on the basis of size and composition of business rather than location.

—From a March 2 analysis by Legg Mason

WE DO EXPECT market share for all the major insurance brokers to increase. As we have commented in previous reports this will take place at the expense of regional and local brokers. The result should be the continuation of the consolidation of the insurance brokerage industry.

—From a March 2 analysis by Legg Mason

FRANK B. HALL & CO. INC. . . . Marine revenues apparently increased (in the first quarter) at a rate close to total revenues owing to strenuous new business efforts which have been abetted by the continuing shift to U.S. marine markets . . . The internal growth of headcount (staff) has been quite modest for some time and it would not surprise us if in 1976 there were to be an acceleration in staff additions. Hall also has embarked on a program to build its producer staff and this will have the effect of inflating expenses.

—Drexel Burnham & Co., analysis, April 28

ALEXANDER & ALEXANDER . . . New business again proved an important contributor to the gain (in revenues and profits for the first quarter) probably generating revenues greater than 10% of total revenues . . . Actuarial services continue to be a beneficiary of ERISA imperatives, while Benefacts lags despite the prospect of ERISA-mandated expanded benefit reporting.

—Drexel Burnham & Co., report of April 21

PREMIUM FINANCING (services for Alexander & Alexander) was below budget in both revenue and net income. There are two operations involved here: BUFCO and TIFCO. BUFCO finances premiums for Alexander's own customers while TIFCO finances premiums for independent brokers who come to Alexander for that specific function. Approximately 50% of financed premiums are through BUFCO and that business is profitable. Two years ago TIFCO was defrauded of $2.5 million which is a reflection on the control Alexander & Alexander is able to have on the company. Insurance has paid for the losses due to the fraud. As a result, Alexander will discontinue TIFCO's operation and serious consideration has been given to cashing in BUFCO. We would agree on both counts. Alexander's capital can be used elsewhere with fewer headaches.

—From a March 2, 1976 analysis by Legg Mason

PROSPECTS FOR GROWTH in commercial premium volume is well assured and conditions are once again right for making acquisitions. Thus the stage is set for both internal and external expansion. Some of the negatives such as the impact on float of sharply declining interest rates, the decline in contingent commissions, and the rise in local taxes, are already reflected in 1975 results and will not therefore have the same year-to-year impact on 1976 earnings. For 1975, commissions and fees for the group (of publicly held insurance brokers) advanced 16.8% while earnings were up 13.5%. Fourth quarter profits alone jumped a thumping 18.5%.

—Yearend review and outlook for 1976, Legg Mason

INSURANCE BROKERS . . . What about the possible slowdown in insurance brokerage earnings growth later this year and in 1977 as the upward march of premium rates attenuates? We doubt that very many observers of this industry expected the exceptional strength in commissions to be sustained beyond a year or two. The slowdown, then, was implicit in investor expectations even during the headiest quarters of 20% revenue growth. We . . . anticipate a more competitive premium rate environment for many liability lines by next year, but unlikely, we think, is a recurrence of pervasive and ruinous price competition in commercial lines. Rather, we expect realistic underwriting competition for profitable risks. Such an environment of intelligent competition would produce rate increases on some policies due to adverse experience, cuts on others, selective upward rate adjustment to reflect moderate inflation, and continuing pressure from the carriers for insurance to value on property lines.

—Drexel Burnham & Co., March 24 report and outlook

MARSH & McLENNAN COS. . . Actuarial consulting should be strong again in 1976, but the type of work performed for clients may change. In 1975, much effort was devoted to collecting information and arranging for compliance with ERISA regulations. In 1976, the focus is likely to be on stabilization of cost, plan design funding and investment strategy.

—Drexel Burnham & Co., analysis of March 17

IN 1975, (Frank B.) Hall issued approximately 395,000 shares for two acquisitions—Morris H. Kaliff & Sons of San Antonio, and Scalabrino, Sauer & Hronek of Cleveland. While their revenue and earnings contributions are not immediately available to analysts, a review of pro-forma 1974 numbers indicated 2 cents per share dilution, but an improvement in margins of about 0.3%. Generally speaking, management admits to paying seven to eight times earnings for companies acquired for stock, and eight to nine times for cash purchases. We are uncertain as to how this compares to Marsh & McLennan's philosophy of paying one-and-half times annual revenues.

—From a February 11 report by Legg Mason

SURPRISE: MOST AGENCIES AREN'T 'MANAGED'

By ROBERT S. HOWEY
President, Insqroup Inc.

AT A RECENT profit strategy meeting, of approximately 60 larger agents and brokers from across the country, we were asked to discuss our management methods. We were split into smaller groups, with the results reported to the group at large. While some firms were obviously well managed (Don Martin, Cal-Surance, Torrance, Ca.; the Alexander & Alexander office that was present; Day, Webb, Taylor, of Denver; *et al*) the majority were noticeably lacking in any effective management programs.

Among some, there was even a reluctance to commit to a formal management program because it might be confining or restrictive and inhibit the free movement and effectiveness that might otherwise be present.

It does not seem necessary here to discuss the importance of professional management techniques employed in a business. Few would argue that they were not valuable. However, it seems that many do not realize just how important the results can be for their business. There are several old examples of the importance of management in the analogy of the orchestra without music or the leader to get them started and stopped. There is also the example of the football team without a game plan or a play book but possessing a listing of the top players.

Management disciplines are amazingly uncomplicated. They are easy to learn, to understand and to install. There is greater freedom in a well managed company. Individuals are given freedom to to operate within their areas of responsibility. They know exactly what is expected of them, how it's expected to be done, the timetables and the financial framework within which they work. It is ideal especially when compared to the conditions that exist when there is no formal program.

There are several popular methods involved for establishing a basic management system for your business, but the components seem to be essentially the same. With apologies to the management educator, and the scant few management buffs in our industry, the following is an outline of some important parts of a management program.

Management is getting things done through other people. The components of management are in two levels, it seems to me. The first level is planning, organization and control.

The second level, though quite important, is climate, decision making, leadership, and motivation. The latter disciplines will not be discussed in this article. The larger and more successful producer comes to realize that while he is good at selling, servicing customers, developing good insurance programs, counseling loss services, and in certain technical and agency matters, it is quite another story to know anything about planning, organization and control. They are often unfamiliar disciplines.

There is a pre-planning process which is helpful. It is important, for example, to understand the business you are in. The reasons are best illustrated by the old example of the railroads failing to define their business as transportation. What kind of business do you want? Questions here deal with trade area opportunities, opportunities created by existing personnel, markets, specialties, and so on. Would you be better off in the long range to have more of one type of business than another? What are the environmental factors, i.e. those over which we have no control? What will be the effects of the economy on our business, the government, consumerism, major competitive factors, etc.?

After the pre-planning considerations have been outlined, it is important to develop plans. Long range planning in the agent/broker business could be considered to be five years. The format for planning of both the long range and short range can be the same. However, the five year plan is understandably less specific than the one year plan. The planning form is as follows:

At the end of each year, a new plan for the fifth year should be developed and the annual plan dropped for the year just completed. The second year plan should be updated to the annual plan. A basic planning form follows this pattern:

1. Describe exactly what is to be accomplished.
2. How will these goals be accomplished?
3. Who will accomplish these goals?
4. When will they be accomplished?
5. The budget needed.

In the one year plan, it is essential that each major department develop its own plan (departments are discussed later in the organization section of this article).

Question No. 1 on the planning form is most important. It says that if we realistically stretch, what might we be able to accomplish? It is essential to be specific and also to quantify the objectives. The answer to this question must be measurable, and the objectives must be attainable.

When these forms are received by the manager from the various departments, a composite is developed for an overall company plan.

In answering how will the objectives be accomplished, thorough evaluation is required of the steps necessary to achieve the planned results. This will sometimes alter the objectives when it's realized that methods may be unrealistic.

The questions about who will accomplish the objectives and in what time frame are self-explanatory.

A budget is an essential tool for the planning process, because it puts a price tag on the methods used, as well as on the people involved. It provides a standard measurement throughout the year when budgeted figures can be compared to results.

How do we organize to achieve the planned results? Is any kind of organized effort, there are logical functional groupings. You will want to decide what the groupings might be for your business. We know that in an independent agency or brokerage firm, the major areas are sales, customer services, underwriting and placing, claims and bookkeeping. There are other important activities such as company relations, general management, office management, and financial management.

Continued on page 16K

Robt. Howey . . .

Continued from page 16J

The most logical functional groupings for a given insurance office will depend on the personnel involved and the preferences of the particular office. For example, does the producer place his own business or is this handled by an underwriting or placing department?

When the logical groupings have been established someone should be responsible for each function. Within each of these departments, the planning process should be an essential priority. The most important statement that can be made about planning is: "We don't plan for people, we plan with them."

It is much easier for a person to identify with the company plan and indeed, the organization, when he has something to say about what is to be done and how it is to be accomplished. The manager must create the proper climate for planning, arrange the mechanics and the schedules and be sure they are realistic when completed. But the manager must be careful not to impose his will on the subordinate who is helping to plan.

For most clerical employes, the five questions from the planning form are inappropriate. For this group, it is often sufficient to ask them annually to identify three main areas in which their area of responsibility could be steamlined and improved. These can then be incorporated into the supervisor's plan if appropriate.

Another basic organization point is to not have more people reporting to an individual than that person can effectively handle. This fact also leads us to thoughts of the organizational chart, which has value because everyone knows exactly to whom he or she reports. For obvious reasons, no one in the organization should report to more than one boss. The organization chart is the visual description of the functional units.

In the control area, there are two major subheadings. They are pre-operational controls and post-operational controls.

Pre-operational controls involve things which can be established in advance to keep the business on the right track. The company philosophy consists of a series of statements that need to be understood by employes and customers as well. This statement is a way of saying. "This is the way we do business around here." or "these are the things we believe in."

Other pre-operational controls are policies and procedures. In addition, job description and performance standards all fall into this category. It is important to check the relationship of the job description and the department goals. The reason: to be sure all the things planned can be accomplished within the scope of the various job descriptions of a given department, and collectively, in all departments to the total organizational goals.

Performance standards are written by the subordinates and reviewed by the manager.

These identify the specific duties of each job description. and specify that an employe will have done a good job after accomplishing certain assigned tasks. These provide the manager with a good measurement of subordinates' performance.

Post-operational controls are such things as statistical indicators and weekly or monthly operation meetings of department managers. At these meetings, each department head should answer four questions: Where are we? Where did we say we would be? What is the reason for the difference? What can be done to get back on the track?

The role of the manager is to help subordinates achieve their plans and to operate as a facilitator. ■

Mr. Howey's organization, Insgroup, serves larger independent agents and brokers across the country with collectively developed facilities for improving operating results. Mr. Howey has a BS from the University of Nebraska, was in the independent agency business for 17 years, and founded AIM (American Insurance Marketing Corp.) in Washington, D.C. He also founded Rental Industry Services Group, which provided national insurance services to the rental industry which grew to $12 million in premiums in three years. Mr. Howey will regularly contribute a feature discussing what he sees as the critical issues facing agency/brokerage managers.

MGAs . . .

Continued from page 16I

treasurer of Bloss & Dillard. Inc., a Huntington, West Virginia managing general agent which places "several million dollars" of annual premium volume, said his firm typically works with both large and small agents, particularly in placing coal industry risks.

Mr. Morford of Donaldson, Morford, said that in Indiana alone, his firm, which writes about $3 million in annual premiums, does business with about 700 agents.

Some AAMGA members, particularly in California, he noted, deal with as many as 10,000 independent agents and brokers.

This diversity of agents could be at the heart of the reason some specialty insurers insist on working through managing general agents: It keeps their books neater.

"Most insurance companies that operate in special risks won't work directly with retailers. Tightening markets have helped us largely because we are wholesalers seeking markets," a Midwestern managing general agent explained.

"The specialty insurers will often insist on working only with one managing general agent because it makes it simpler for them to keep records. Instead of dealing with perhaps 400 retailers, they deal with a single wholesaler."

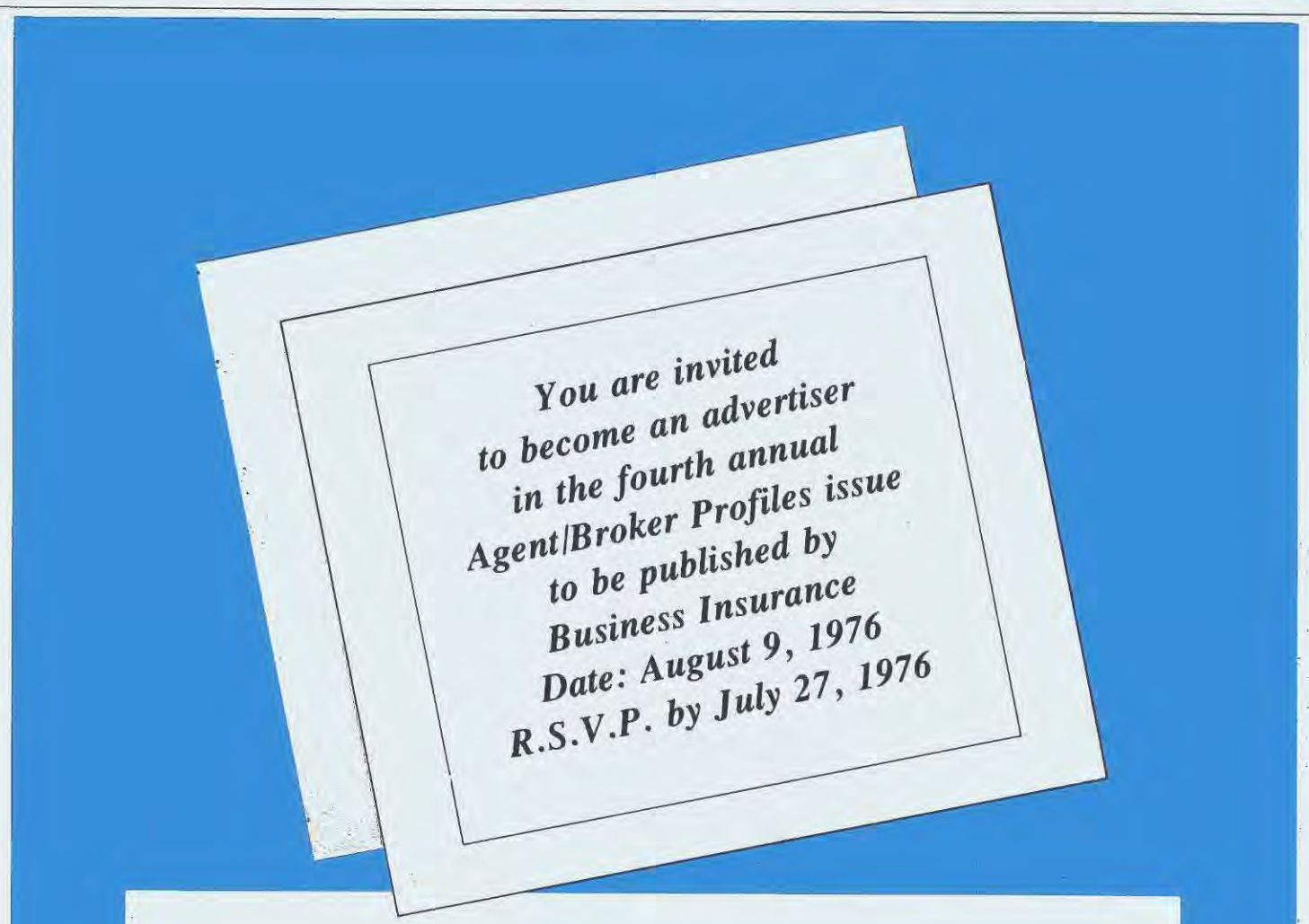
Two or three decades ago, managing general agents typically handled traditional insurable risks, working with major underwriters. But as the insurance companies grew, they began an expansion of branch offices, and virtually wiped out managing general agents.

Those tenacious enough to stick it out did so by turning to specialty lines like oil or trucking, or to pure excess or surplus lines markets, doing both underwriting and placing of coverage.

Their evolution has resulted in what the AAMGA's Mr. Stringfellow calls the "new breed" of managing general agents, who are best suited to help independent agents and brokers.

To establish a good working relationship with a managing general agent, Mr. Stringfellow says an agent or broker should take a good look at the managing general agent to make sure its special capabilities fit the needs of its agency. He also recommends scrutinizing the managing general agent's past performance:

"Take a good look at the managing general agent's record. Our members (AAMGA) can't belong, unless they have been successfully operating for three years, have been approved by an eight-member board, and have been nominated by three members." ■



Once again, on August 9, the editors of BUSINESS INSURANCE will present their exclusive special issue devoted to profiles of this country's leading commercial insurance agents and brokers.

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Mass market expert keeps close tabs on costs

By ELISABETH M. WECHSLER

MINNEAPOLIS—"Instead of selling 10,000 accidental death and dismemberment (AD&D) policies, now we want to sell 25,000 to 50,000 policies to make it profitable," said George L. Glotzbach, president of Paul Burke & Associates Inc. "Or, we try to mail more selectively," he added.

He made the comment as he considered the changes the mass merchandising organization, a wholly-owned subsidiary of Alexander & Alexander Inc., has made due to increased postage costs.

Whereas the typical cost of getting a sales promotion package into the mail was 11 cents in 1965, it is about 20 cents today, Mr. Glotzbach told *Business Insurance*.

"We want to spend no more than $1 on sales promotion expenses to get $4 in premiums," he explained. PBA negotiates cost-sharing arrangements with the underwriter according to prearranged parameters, but it usually works out that each takes about 5% of premium collected to cover promotional costs.

The insurance company usually pays for the printed material used in a mailing, while agent/broker PBA pays for postage, typing and stuffing of envelopes. The mailing list comes from the client organization, he said.

The kinds of products that PBA merchandises in order of the most common are: Group term life insurance, health insurance, long term disability business overhead expense and AD&D.

Occasionally, PBA also merchandises automobile insurance, tenants insurance and boat hull and liability, Mr. Glotzbach said. In most cases, the coverage involves supplemental insurance, or optional "extras" not usually included in benefit packages.

Mr. Glotzbach is looking into the possibility of mass merchandising dental insurance policies, but he noted that there are still several problems to be worked out.

"Dental insurance is a hot ticket in the employer/employe group where the employer pays for the coverage," he said. "But selling dental insurance to associations by mail hasn't been figured out yet."

To test-market the concept, Mr. Glotzbach said he approached one of his client organizations and asked if a portion of that group could be sent the mailing. "They know it's untried and that they're guinea pigs, but it could work," he said.

PBA has two main classes of clients: Associations of individuals and employer/employe relationship groups. The first group is composed of people who have joined an organization as an individual, such as fraternal, professional, avocation, military or alumni association.

The second group, often called multiemployer, includes franchisers, trade associations and open ended trusts which are essentially a "polyglot of small businesses," Mr. Glotzbach explained.

"We're always searching for new markets," Mr. Glotzbach said. "The insurance company may have a prospect and we may serve as a mass merchandising consultant on a fee basis. Other times we have prospects who are direct written and we analyze their program on a one-time fee basis," he said, adding that the fee is based "on what we do and what we know."

As far as PBA's relationship with Alexander & Alexander is concerned, Mr. Glotzbach described it as a "cooperative, optional, negotiable arrangement that functions on a case by case basis."

"We work the same way with other Alexander & Alexander offices as we do with separate agents and brokers—on a joint venture basis," Mr. Glotzbach said. "They might control the market but we know what functions need to be performed."

Alexander & Alexander joined forces with PBA in 1972 because it "wanted to bring in a mass merchandising capability," Mr. Glotzbach said.

The typical compensation schedule is 20% of the premium charged, although Mr. Glotzbach noted it can vary considerably according to what tasks PBA performs for the client. On renewal, another 20% of premium goes to the mass merchandiser, and this is where PBA's profit picture begins to look attractive.

Most association group policyholders stay on PBA's books for seven years. "We amortize our sales expenses over three years usually, Mr. Glotzbach said, pointing to what he describes as a "big front end risk."

"Sometimes we succeed handsomely and sometimes we fail miserably," he said. The bottom line profit is usually between 10% and 20% depending on the class of business, he noted.

Of the 20% that PBA takes off the top of the premium charged, about 10% typically is spent on administrative tasks. These include the billing and collecting of premiums, the underwriting and issuing of policies or certificates (a qualified underwriter on the PBA staff accepts or rejects risks on behalf of the insurance company) and the changing of beneficiaries' names.

Another 5% of the premium charged covers out-of-pocket costs for preparing and disbursing sales promotional materials to members of a client organization.

Claims handling functions eat up another 2.5% of the premium charged, he said. "We investigate the claim and draw the check to pay it," he emphasized.

"We got into claims handling business because often claims problems are better solved on a local level" rather than by a large organization, Mr. Glotzbach believes. PBA limits its claims handling to health insurance claims.

The remaining 2.5% of premium charged is the commission, Mr. Glotzbach said. "In other instances, we are performing a function which has out-of-pocket costs," he said referring to the other 17.5% of premium charged.

On a typical mailing to 25,000 prospects involving a life insurance policy, approximately 1% would respond to each of two separate mailings. Figuring an average premium at $200 per life times the 500 responses, the total premium collected is $100,000.

However, Mr. Glotzbach pointed out that "not everyone will qualify." In addition, not everyone issued the policy and billed for it will pay, so typically 15% of the total premium would be deducted as lost effort. ■



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A NEW WORLD OF INSURANCE DIMENSIONS

london line

Lloyd's syndicate provides lead on excess cover for U.S. Conrail

By JOHN H. MILLER

LONDON—Excess liability coverage for $25 million has been placed in London on behalf of the new U.S. rail system, Conrail, which was established following the bankruptcies of several U.S. railroads.

It is understood that Conrail's excess insurance obtained here forms part of an overall excess cover which already stands at $35 million and will be raised to $50 million shortly.

The lead underwriter is Leslie R. Dew of Lloyd's, whose syndicate cooperated with Sedgwick Forbes insurance brokers in arranging the terms, in conjunction with Alexander & Alexander Inc. and Unionamerica Insurance Group in the U.S.

Alan Parry, chairman of Sedgwick Forbes (North America) told *Business Insurance*: "There have always been close links between the London insurance market and the North American railroad companies.

"But the new risk is one of the most important and biggest of its kind that has ever been placed in London, and exemplifies the growing amount of U.S. business that is coming to Britain."

He stated that annual premiums on the $50 million risk will be $3.8 million.

Representatives of Alexander & Alexander and Unionamerica traveled to London from New York, Baltimore and Los Angeles to discuss with Sedgwick Forbes the marketing techniques to be used in placing the business in London and in other markets around the world.

* * *

Security has been stepped up at Heathrow International Airport where millions of dollars worth of diamonds, platinum and gold have been stolen in transit during the past two years, resulting in heavy claims on cargo insurers.

Detectives working undercover at the airport have traced more than $1 million worth of stolen goods hidden in the garden of a small house 30 miles away.

Three men who were employed in the cargo sheds at the airport as couriers or checkers are now facing trial at Britain's Central Criminal Court, after being taken into custody by police investigators.

* * *

Increased capacity for U.S. business at Lloyd's is being forecast because of a record number of new applicants for membership in its underwriting operations.

Latest reports suggest that this will enable Lloyd's to take another $400 million a year in premiums, with much of this coming from the U.S. market.

More than 2,000 new members may be elected by the end of 1976, including several hundred from the U.S. and other overseas insurance centers.

Havelock Hudson, chairman of Lloyd's, commented: "There has been a colossal increase, reaching 250% more than last year, in applications to join Lloyd's, and if the U.S. is in a position where it needs a bigger market, we have got to find ways of meeting the demand."

The trend is confirmed by John Eldridge, chairman of the Matthews Wrightson insurance and shipping group, who reported that its U.S. turnover last year was $12.5 million, compared with $9 million in 1974. "The contraction of the American insurance market following disastrous losses has presented the London market with great opportunities for growth," he stated.

"Our group offices in North America, which trade as Stewart Smith, have exploited these opportunities to the full and the result has been a substantial increase in dollar earnings."

* * *

Marine insurers in Britain are watching an interesting experiment in the narrow straits of the English Channel where the right-of-way in its crowded shipping lanes is often defied by foreign vessels.

Because of hazards caused by these "traffic infringements" which at times lead to damaging collisions, the U.K. government's trade department is arranging for a special check to be kept on all ships which pass through the channel on their way to various European ports.

Names of any vessels, either British or foreign, found to be sailing in the wrong path will be passed to insurers, who can take the records into account when fixing premiums or imposing any special conditions in their policies for fleet coverage.

Radar surveillance will be supported by air and sea patrols from the coastal areas of both France and Britain bordering on the Dover Straits. The new procedure is to comply with the straits Traffic Separation Scheme.

The traffic separation scheme for the area is already mandatory for seven countries, and will be extended to other nations when new international rules come into force next year. More than 8,000 ships broke the rules last year, with about 60% of them being fishing vessels from France and Belgium.

The straits are regarded as particularly hazardous because of the large number of tankers there. ■



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Veep sees ways to cut health care delivery costs

WASHINGTON—Vice President Nelson Rockefeller has proposed a larger—although limited—federal role in the nation's health care system to control costs and extend health insurance coverage to those who cannot get it now.

In a speech before the National Leadership Conference on America's Health Policy here April 29, Mr. Rockefeller called for the two-phase program as a solution to the country's "serious and deepening problems in relation to the cost, delivery and financing of health care."

He offered an eight-point program to cut health care costs and broaden the delivery of medical help, including a plan to establish a federal reinsurance pool for medical malpractice. "In my opinion, the problem (of medical malpractice insurance) has grown to a point where some form of federal action is needed," the Vice President said.

His plan would provide a financial backstop to insurers within a state when malpractice claims exceed $200,000, provided that the state sets up arbitration panels, "similar to the Workers' Compensation Appeals Board," and adopts regulations to limit contingency fees which attorneys may collect from malpractice suits.

A spokesman for the Vice President said the speech does not represent the administration's position on national health policy, nor did Mr. Rockefeller discuss the speech with President Ford beforehand.

After the cost-cutting measures of phase one of his program are in place, then and only then would the Vice President seek to extend the availability of health insurance through federal programs.

"Let me emphasize that without the first phase of getting quality health care costs under better control, the second phase of expanding coverage would be of little value . . . (for) our health care system will just keep sopping up every dollar that it receives, without significantly improving the quality or delivery of health care," Mr. Rockefeller said.

His plan to extend coverage would begin by replacing the current Medicaid system with a nationwide, federally financed health insurance program for low income families and individuals.

The program would still be administered by the states but a uniform level of benefits and eligibility would be established for the whole nation. Those eligible for the plan would share in its costs according to their means, he said.

Secondly, self-employed, high-risk and other people who cannot obtain health insurance would get coverage through a plan requiring insurers who process Medicaid claims within a state to offer federally-reinsured policies at rates and levels of coverage comparable to group policies, the Vice President said.

"If these two proposals are instituted, I think we will have the most significant coverage problem solved, at a cost that would be manageable both in terms of the federal budget and the private sector," Mr. Rockefeller said.

He added that catastrophic coverage is becoming increasingly available "for most working Americans," thus reducing the need for federal involvement in this area.

He urged, however, that President Ford's proposal be adopted, which would include catastrophic coverage for Medicare recipients, the group most vulnerable to high medical expenses.

"If we continue to delay in getting started on these essential programs, the major health problems of the American people will become more severe, and short-sighted, government-dominated policies will become more attractive," Mr. Rockefeller said. "Unless we move vigorously to structure the delivery and economics of health care, we can only look forward to deteriorating quality at skyrocketing prices."

Mr. Rockefeller's cost-cutting ideas, in addition to the federal malpractice reinsurance pool, are an interesting assortment of fiscal, legislative and enforcement measures that largely build on already-established laws or programs.

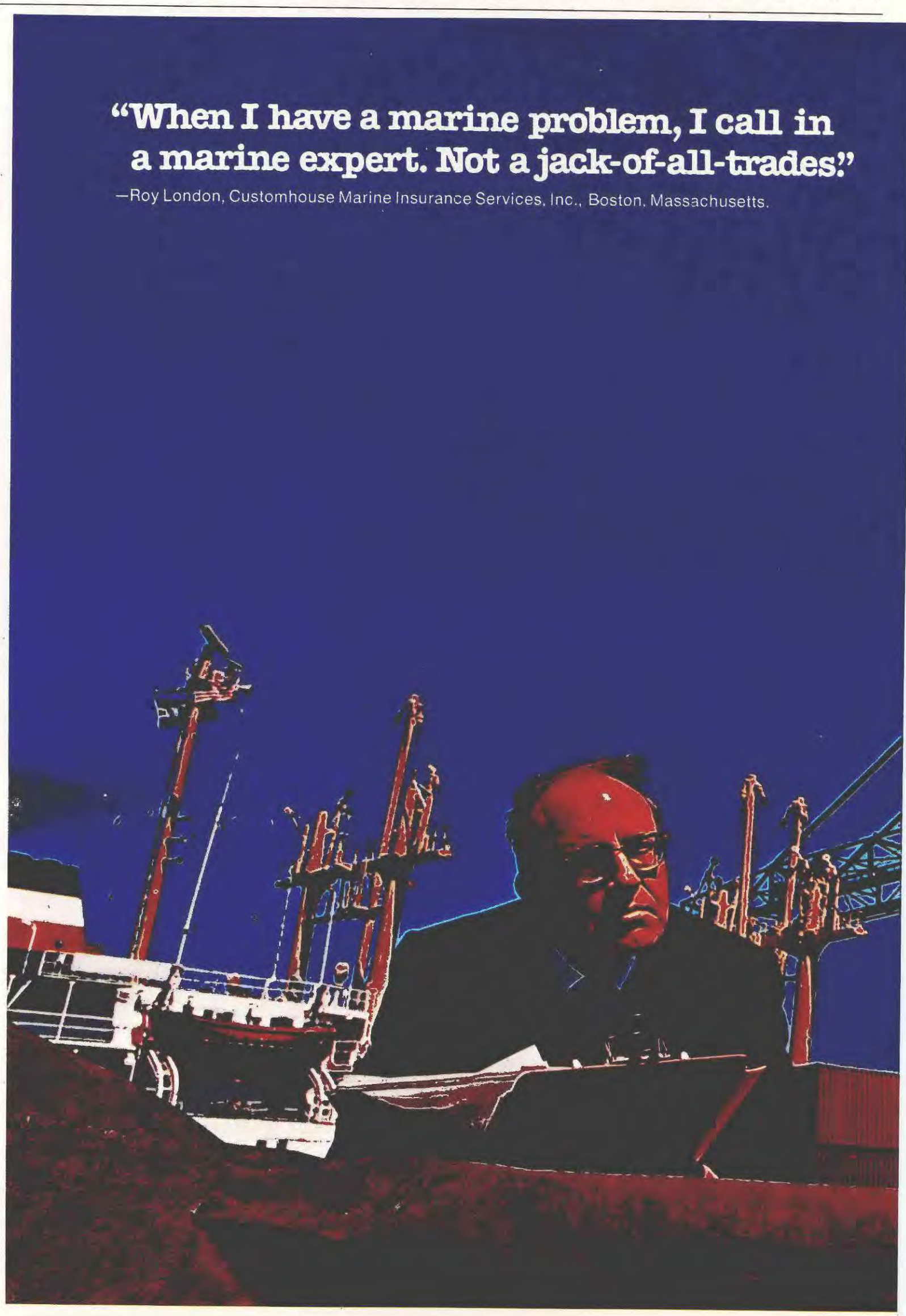
Improvements in health maintenance organizations (HMOs) are high in priority. Mr. Rockefeller suggested faster tax write-offs for starting up HMOs, to bring about the capital formation needed to expand and develop more institutions of preventive care.

He also urged that amendments to the HMO Development Act, now before the Senate, be passed to give HMOs a more competitive position among health care facilities. "This law has created a situation where certain health maintenance organizations cannot be competitive in price, since they are required to include extraneous extra services," the Vice President said.

He said he supports the HMO

"When I have a marine problem, I call in a marine expert. Not a jack-of-all-trades."

—Roy London, Customhouse Marine Insurance Services, Inc., Boston, Massachusetts.



concept because it will lead to greater competition among medical care systems, and because pre-paid HMOs have a built-in incentive to cut costs by preventing rather than treating illnesses.

He also suggested tax incentives to stimulate investment in medical care foundations, another type of pre-paid system which he said has been shown to provide high quality care and lower costs.

In the area of health manpower, the Vice President proposed an experimental federal program to change the licensing procedure for medical personnel to open up opportunities for paraprofessionals.

One approach, he said, would be to license an institution and permit it to establish the qualifications of their employes under general guidelines.

"Understandably, this approach may be unpopular with many doctors, registered nurses, and certain other licensed professionals," he said. "But it is essential if we are serious about trying to hold down costs."

On the subject of specific cost control measures, Mr. Rockefeller said: "Ever since third party insurers, private and public, began to pay for medical bills, there has been little incentive for doctors, hospitals or patients to hold the line on rising health costs. In fact, the incentives are in the opposite direction."

Rejecting federalization of the system as too expensive, and admitting that recent experience with price controls did not relieve the root causes of the problem (i.e., "inefficient use of medical services and duplication of facilities"), he recommended that systems be developed that "respond to competitive forces and thus provide incentives to control costs."

Specifically, he called for an end to the cost-plus reimbursement of hospitals. He said the federal government should establish reimbursement ceilings for different areas of the country and use those rates as the maximum to be paid for services to Medicaid and Medicare patients.

He also cited poor planning in the health industry as a major contributor to increasing costs. "There is no need for the government or third party insurers to pay for building and maintaining maternity units in four hospitals in a city when each of them averages only 25% occupancy during the year—as is the case in some communities," Mr. Rockefeller said.

He recommended strict application of the provisions of the Health Planning Act, which was aimed at reducing the construction of unnecessary health facilities and the duplication of unnecessary equipment.

Lastly, he said that "cost control must not be achieved at the expense of quality medical care." He suggested that current law, which provides that Peer Standard Review Organizations oversee the quality and appropriateness of hospital care for Medicare and Medicaid patients, be extended to require PSRO monitoring of care provided outside the hospital. ■

Canada firms have massive loss tallies

TORONTO—Provincial and federal registered property/casualty insurance companies in Canada reported underwriting losses totaling $142 million.

If the estimated underwriting losses of provincial government insurance companies are included along with the losses of so-called accident and sickness specialty insurers, the aggregate underwriting loss for 1975 exceeds $263 million.

According to Canadian Insurance magazine, this statistic compares with an aggregate underwriting loss of $331 million in 1974.

Property and casualty insurers added more than 26.5% to their net dollar volume of premiums written last year, representing an "unprecedented growth rate." Premiums reached a 1975 high of $4,118,000,000.

Canadian domestic companies other than government insurance corporations, account for 25% of the business. British companies make up another 25%. ■

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PERSPECTIVE

Rural electric association members submit to 'review':

SAFETY PROGRAM ATTACKS RISING CLAIMS

By MARVIN O. NELSON

Safety Coordinator: Retirement, Safety and Insurance Dept., National Rural Electric Cooperative Assn., Washington

THE RURAL ELECTRIC Systems Safety Accreditation Program actually had its beginning in an idea of a former assistant administrator of the Rural Electrification Administration. He became quite concerned over the high accident rate of the REA-financed electric systems when compared to that of other electric utilities.

Almost all discussions concerning accident prevention eventually reverted to "What can be done to increase the interests and efforts of system management in accident prevention?"

He became convinced that universal management interest in safety could be developed and implemented only by outside direction, by an organization with no other objectives than to reduce the number and the seriousness of on the job accidents. He felt that neither REA, NRECA or the statewide associations would be willing to face the political unpleasantness that would almost surely arise from factual and frank evaluations of individual system programs and performance.

He knew that it would be necessary to call a spade a spade when discussing the causes of poor accident prevention records and the action needed to improve those poor records.

His idea finally crystallized into the following components.

- There must be an organization free from other interests to administer and implement the program.
- Such an organization must have authority and a staff to; (a) study the situation as it existed on systems with continuing poor accident records, (b) make on-site inspections and recommendations for improvements, (c) make reports to REA, NRECA, and statewide associations for recognition of systems with good programs and records and action when needed to improve performance, and, (d) advise each system of apparent weaknesses and suggest correctional action.
- This organization should be financed by contributions from every system based on a per meter or per employe basis.
- Somehow REA, NRECA, and the statewide associations should support this organization to such an extent that all systems would contribute to the cost and accept the recommendations of the organization.

As might be expected there were many discussions concerning the details of such a program. The following are only a few asked:

Who could best administer such a program?

What would such a program cost?

What would be the role and responsibility of REA, NRECA, the statewide associations, the systems?

Would or could system management yield its responsibilities and prerogatives to any outside organization?

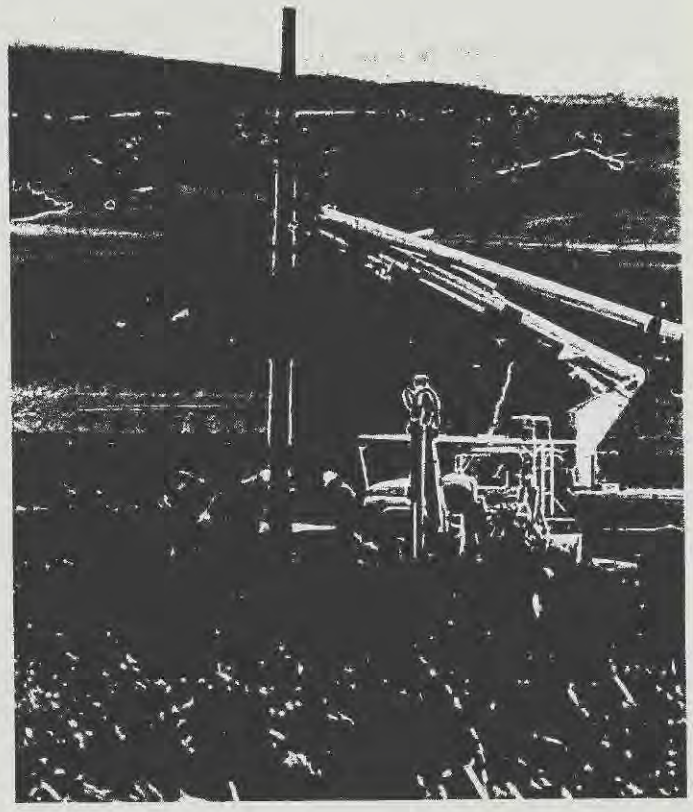
Who would oversee and direct the operation of such an organization?

Nearly everyone who had been closely associated with the job training and safety programs of the systems had serious exceptions or reservations over the development of such a program handled by an outside organization.

We all were most concerned at this point. We all recognized the problems involving outside safety management. We realized the need for whole-hearted cooperation on the part of all concerned if such a program were to succeed. We knew from working with the systems many of the problems that might be expected. We agreed that such a program had little chance of success without more support from all concerned in the welfare of the system employes and of the systems that we could foresee. The record showed that something needed to be done, but no one could agree on even the first step.

After many discussions a meeting was arranged in Atlanta for May of 1966. This meeting was sponsored by the Insurance and Welfare Committee of NRECA. Most of the members of this committee attended the meeting as well as representatives of REA, NRECA, statwide managers, J.T.&S. instructors and Employers Mutual of Wausaw. There were 21 people in attendance on May 23, 1966 and after three days of hard work the Safety Accreditation Program was born.

Planting new poles for power lines



Employes of a typical rural electric cooperative head out into the unpopulated regions of the U.S. to replace old poles and power lines, or install new electric systems, hazardous tasks for which tough safety standards are designed. The modern equipment used for excavating, and for transporting and lifting the necessary timbers and equipment presents its own risks. Some electric co-ops operate in suburban areas which were formerly farming communities.

It was determined at this meeting that the program would not be directed by an independent organization, that it would not be an REA nor an NRECA program, but a self-help program of the rural electric systems of the nation. The program was to include all organizations interested in the systems and the system employes at the local state and national level. Standards were to be set up to allow any systems in any state to qualify for accreditation if that system showed a dedication to accident prevention supported by a demonstrated ability to carry on a good employe training and accident prevention program. The responsibility for reviewing the performance of an applicant system was given to the system staff and to the state or local representative of each participating organization.

A national accreditation committee was established which presently is composed of a representative of each of the following:

National Utility Training & Safety Edu-

Continued on following page

Incentives for small and medium sized rural power companies

BE SAFE AND SAVE 20%, CO-OPS ARE TOLD

By SUSAN ALT

DENVER—This may well be another good indication that the insurance industry doesn't want to penalize companies which have good loss records.

In the case of some electric cooperatives belonging to the National Rural Electric Cooperatives Assn. all it took was for R. Christopher Nathan, vp of National Farmers Union Property & Casualty Co. here to say: "Something has to be done." Add to his conviction a competitive spirit, and the result is a new approach to selling insurance.

Mr. Nathan felt plaques and awards weren't enough recognition for companies doing a good job at preventing losses, especially in the high-risk utility field. "There was a feeling that those people who did a good job (at safety) were still paying for the losses incurred by the poorest risks—those companies with no programs of loss control. Rates were continuing to soar for those who didn't have any losses at all," he said.

What Mr. Nathan did was get to work about a year ago on a program which would provide incentives for rural power companies to prevent losses. The result is the Green Shield Safety Program, which dovetails with the safety accrediation program established by the NRECA itself. National Farmers Union has just completed making the necessary filings in the 20 states in which it operates, seeking regulatory approval for insurance programs under which National Farmers Union will offer up to 20% premium discounts for fulfilling certain safety prerequisites. The insurer envisions that the program will go into effect January 1 on all renewal business.

Three insurance companies underwrite the property and liability risks for about 95% of the 946 rural electric cooperatives around the nation. National Farmers Union's competitors in the field are Nationwide Mutual Insurance Co. in Columbus, Oh. and Federated Rural Electric Insurance Corp. of Madison, Wi. Until about a year ago, Employers of Wausau was also in the business of underwriting electric utility risks, but it withdrew completely from rural co-op business.

Clearly, National Farmers Union hopes to get a leg up on its competition with the Green Shield Program, by applying risk management principles to small and medium sized organizations the way they've been applied in larger organizations for some years now. As Mr. Nathan sees it, "for large organizations, premiums are retrospectively rated anyway, so the charges reflect losses. But these rural cooperative people have been too small to qualify for retro plans."

National Farmers Union presently insures 155 rural electric cooperatives in the Midwest and Pacific Northwest. The insurer writes most of its electric cooperative business in 14 states.

One reason National Farmers Union is particularly interested in gaining a competitive edge on the other insurers in the field is because a year ago, the NRECA contracted with Nationwide as carrier for the association's package insurance plan for member cooperatives. Employers of Wausau had been the carrier on the group plan, and had about 450 to 500 cooperatives participating in the program, generating an estimated annual premium of about $9 million when it decided to pull back from the business if it couldn't get premium rate increases ranging up to 150%.

NRECA at the same time decided these hikes were too much to live with, and worked out the Nationwide plan through Frank B. Hall & Co. in New York. A recent count showed 264 cooperatives participating in the Nationwide Frank B. Hall association program. At the end of 1974 when some 200 systems were participating in the plan, about $3 million in annual premiums was involved.

Nationwide's package insurance for the property and casualty risks of NRECA members doesn't include any discount for those cooperatives who earn the association safety accrediation, but the insurer does offer some retro adjustments and dividends for good experience based on group losses.

A seminar is planned for August, to which National Farmers Union representatives will invite a board member from each of the electric cooperatives presently insured with National Farmers Union ("plus anyone else who wants to come," says Mr. Nathan). Insurance and legal experts from universities and other fields will conduct the two-day meeting, with the objective being to lay out the risk and loss problem which the utilities face. "We will talk about where we're going, and will discuss the plain fact that if something isn't done to prevent losses, this industry will run out of insurance markets. Prices will eventually make insurance prohibi-

Continued on following page

PERSPECTIVE

Green shield program . . .

Continued from preceding page
tive for casualty risks generally," contends Mr. Nathan.

Property, casualty and auto policies are included in the Green Shield Safety Program, with the potential of saving up to 20% by establishing safer operations. "There's no way you can discount work comp in this field because all of our underwriting has to be based on published rates. But we do offer dividends on workers' compensation," which should provide incentives to cut accidents, says Mr. Nathan.

Green Shield goes beyond the basic safety accreditation plan set up by the NRECA. "Of the 155 co-ops we now insure, only about 25% of them have the safety accrediation awarded by NRECA. But we think that with our program, the number of companies seeking safety accreditation will increase immensely," Mr. Nathan adds.

One reason the co-ops are likely to jump at this chance: They can qualify for a 10% premium discount "For a year, at least, by just getting an application filed" with the NRECA for the accreditation.

Procedurally, the electrical cooperatives will qualify for the program's discounts this way: If they send a representative from their boards to the August seminar, and adopt as a board policy a resolution on safety and loss prevention, as specified by National Farmers Union, they get an automatic 10% credit on property and casualty premiums.

Earning the additional 10% credit requires the cooperative to:

- receive safety accreditation certification under the NRECA program;
- have a member relations program such as the one established called REACT (Responsible Electric Accident Control Today) by the NRECA;
- adopt additional safety programs as developed by the Green Shield Safety Program board of governors. (On the board are safety consultants, an electrical engineer, a member of the American Society of Safety Engineers, representatives of National Farmers Union, and a representative from the insurance buyers' group);
- submit to an independent safety inspection and evaluation each year separate from the NRECA accrediation program to determine qualification in the above three categories.

Electric utilities have operations which are considered highly hazardous, and are prime prospects for this kind of loss control approach. The typical member of NRECA pays $10,000 to $15,000 a year right now for property and casualty insurance, including coverage for vehicles, inventories, etc., but not including workers' compensation. Premiums for workers' compensation coverage would add another $5,000 to $10,000 depending on the state where the cooperative members operate, and the benefit levels in the state. Premiums for utilities which are members of the NRECA range up to about $65,000 a year at the high end.

What's got utilities and insurers worried, however, is the fact that premiums have been jumping 10% to 50% a year for the last few years.

"These risks would probably be classified in the same category of hazards as distribution of propane and other fuel products," said Mr. Nathan, adding his belief that the risks "can be managed effectively."

Rapid growth for these rural electric cooperatives over the last 10 years, coupled with increased power activities, means that the number of liability claims against the cooperatives has escalated rapidly as well. In many cases, the towns and villages served by the cooperatives are no longer rural in nature; they've become suburban communities. The utilities also suffer from the same inflation of claims, defense costs and settlement costs as any other businesses.

"Generally, workers' compensation experience has been much better than expected simply because the cooperatives have done a good job in employe training and safety management. It's the area of public liability that we're going to strike at," asserted Mr. Nathan. "Loss experience in that area has been bad and getting worse, and if it wasn't for good property (loss) experience, the rate adjustments would have been of even greater magnitude."

Claims most frequently arise from activities involving farm machinery and farm implements, such as electrocutions resulting from farm machinery coming in contact with electrical lines. Usually it's such things as irrigation pipe, grain augurs, harvesting equipment and antennas on tractors cabs that touch the overhead wires. "Claims quite often maintain that electrical code requirements governing the line's mandatory distance above the ground aren't met," Mr. Nathan complained.

In fact, that is one major area where increased activity by NRECA members and the insurer can be expected. Mr. Nathan hinted pretty directly that liability lawsuits just might be filed against makers of farm machinery and equipment for making machinery with cab heights and extensions which don't match with the electrical code that's been in force for the electric utilities 35 years or so.

Part of the REACT program established by the association is to create community awareness of power line safety, with the underlying philosophy that if people understand how dangerous it is to touch live wires, they'll take care to keep pipes and tractors away from electrical wires.



A rural electric co-op member of the National Rural Electric Cooperative Assn.

"But we hope to go even further," says Mr. Nathan. "We think a defect in the product exists, when manufacturers make irrigation equipment or any type of equipment—combines and corn harvesters included—to be used in or near power lines, where the cab sticks up 15 to 18 feet above the ground and carrying a citizen's band radio antenna extending up another eight or 10 feet. These can go as high as 30 feet when the electrical code only requires power lines to be 18 feet off the ground.

"I think what's going to have to happen," Mr. Nathan continued, "since these utility people can't go around raising the height of all these lines, is that there's got to be public recognition of the problem. Manufacturers of irrigation pipe could encase their products in a plastic sleeve, or mount them on steel instead of rubber.

"One of the parts of this program we're undertaking will be to put these people—the suppliers of equipment and machinery—on notice in the case of an electrocution, that if the utility is sued they will be joined in the case by us, or they could be party defendants," he asserted.

Mr. Nathan acknowledged that he is expecting to hear quite an outcry from the farm equipment suppliers and manufactures.

National Farmers Union will use its experience under this Green Shield Safety Program as the basis for expanding the idea of loss control and accompanying discounts to the Rural Telephone Cooperative and Farm Distribution Cooperatives. ■

Safety . . .

Continued from preceding page
cation Assn.; National Assn. of Statewide Managers; Nationwide Insurance; NRECA—R.S.&I. Department; REA; Insurance & Employe Welfare Committee; and, Retirement Safety & Insurance Committee.

This national committee meets twice each year to review all applications for accreditation and to act upon the observation sheets prepared by local and state representatives who have made an on-site inspection of the applying system. Each member has one vote for or against accreditation and a simple majority rules. The committee was given the responsibility for making adjustments and changes in the program as change seemed needed or is requested. Again a simple majority is to rule. It was agreed from the beginning that the program should not be used to "grind axes" for any organization.

The observation sheet was developed by an ad hoc committee and later changes have been made by the National Accreditation Committee. An attempt was made to develop an observation sheet for use in any state on any rural electric system whether that system was large or small, whether or not it participated in a statewide or national program, whether or not it had a good loan record with REA, and whether or not the local J.T.&S. instructors were allowed to participate in the accreditation program. Any insurance company that writes compensation insurance coverage for an applying system is invited to participate in the program and are asked to use the observation sheet. Membership in any national organization or statewide association is not to be a prerequisite for achieving accreditation.

The accreditation program has now reached its ninth anniversary and more than 250 systems have achieved accreditation and many have achieved re-accreditation. There have been a number of minor changes during the short life of the program, but basically it remains the same. Now a system must apply for re-accreditation every three years instead of every two, and must proceed through the complete evaluation process if it wishes to remain on the National Honor Roll. An adjusted disabling injury index may now be used instead of the D.I.I. computed by NRECA safety staff toward meeting one of the eligibility requirements. A number of compromises have been made to make the program more adoptable, but as yet no compromise as to its dedication to the role of accident prevention and a frank evaluation of a systems have been made.

The fact that NRECA has repeatedly been awarded the National Safety Council's Association Award for its part in the development of the program is evidence of the program's soundness and potential.

After each meeting of the National Safety Accreditation Committee the executive secretary is instructed to write to each applicant considered and inform them whether or not they had achieved accreditation. Also in this letter a composite score sheet of all the on-site evaluations is presented so that the applicant may observe weakness, if any. Even when accrediation is granted, recommendations are frequently given for the system's program improvement. If a system is denied accreditation it is told the reason for the denial and suggestions are made for meeting the accreditation standards. The system is then asked to re-submit its application when the standards have in its own opinion been met. ■

NRECA SAFETY ACCREDITATION PROGRAM
injury and accident statistics

	1974	1975
Systems Reporting		
Accredited systems	204	197
Non-accredited	429	488
Injuries per 200,000 man-hours worked		
Accredited systems	2.6	3.0
Non-accredited	4.4	4.6
Man-days lost per 200,000 man-hours worked		
Accredited systems	41.4	43
Non-accredited	55	77
Recordable incidents per 200,000 man-hours worked		
Accredited systems	NA	11*
Non-accredited	NA	13.5*

*Of the recordable incidents, accredited systems reported that 27% resulted in disabling injuries, and non-accredited systems reported that 34% resulted in disabling injuries.

The NRECA reported that accredited systems incurred:

- 53% fewer all-injuries
- 55% fewer man-days lost
- 64% fewer disabling injuries

Mr. Nelson's 33 years in electrical distribution have touched nearly every phase of the operation, from digging holes and climbing poles to his present-day activities of accident prevention. He is a native of South Dakota where he was initially employed by Interstate Power and later by Sioux Valley Empire Electric Assn. His interest in accident prevention led him to the South Dakota Rural Electric Assn. where he served as job training and safety instructor for nine years. For the next 11 years he was stationed in Kansas City where he served all rural electric systems as field safety officer for the Rural Electrification Administration. His present duties assumed in 1973 for NRECA include furthering accident prevention activities of all rural electric systems by providing counselling and guidance on all levels of operation.

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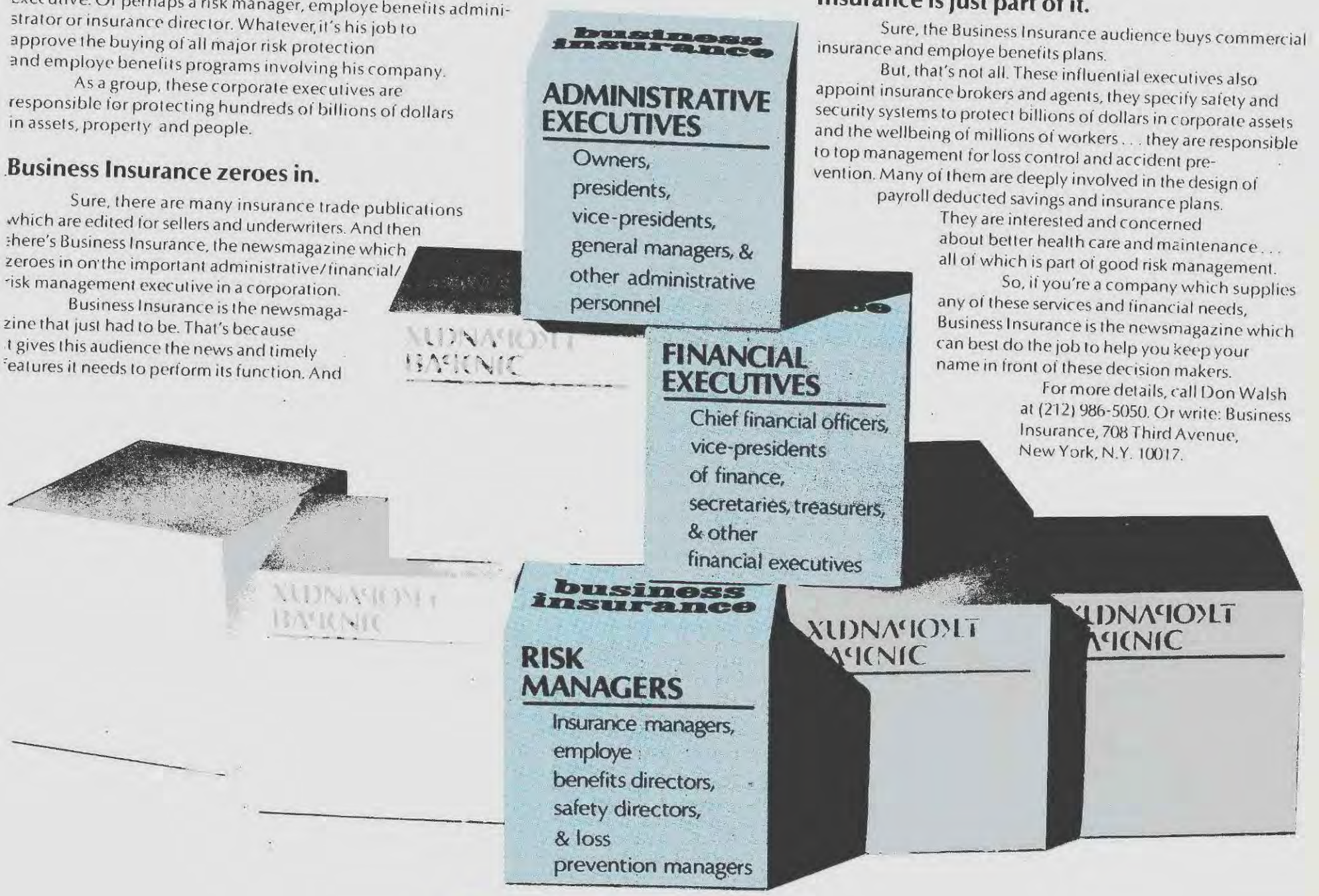
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Pension law found to reverse benefit trend

NEW YORK—The postwar trend among major companies to liberalize pension plans has been arrested or reversed in many cases in the wake of costly new requirements of the pension reform law, according to a survey by Bankers Trust Co.

The company collected data on the pension plans of 100 corporations covering 2.1 million U.S. employes. The survey contains information on policies and procedures only recently adopted by many companies to comply with the Employe Retirement Income Security Act (ERISA), as the deadline for compliance for several key provisions of the law was no earlier than Jan. 1, 1976.

Charles E. Selinske, vp and director of employe benefits research, Dexter D. Earle, first vp in charge of employe benefit investing and A. Tappen Soper, vp in charge of employe benefit equity investment presented the survey findings at a press conference earlier this month.

"On balance, leading corporations are doing what they can to conform their plan provisions to ERISA without increasing the cost burden of retirement benefits any more than necessary," Mr. Selinske said.

"A number of the more liberal plans have actually cut back on certain pension provisions."

Bankers Trust has surveyed pension plans since 1943. Before ERISA, Mr. Selinske noted, 43 of the 100 companies in the survey allowed employes to participate in the pension plan regardless of age or years of service. Now only 39 of the companies have no age or service requirements.

However, 28 companies surveyed had to liberalize their plan provisions to conform to the minimum requirement under ERISA and include in the plan employes who attain age 25 and have one year of service.

Another key area concerns vested retirement benefits. "ERISA allows companies to choose one of three methods to determine whether employes have vested benefits," Mr. Selinske said.

Of the companies surveyed, 94 selected the simplest of these methods, in which employes are fully vested after 10 years of service. More than half of the companies had more restrictive provisions before a change was mandated by ERISA.

Credit service is another factor in determining vested benefits. Nine companies that gave credit for all service for the purpose of determining vested benefits have moved to a more restrictive rule. These companies now credit only service after age 22 in calculating vested benefits, as they are allowed to do under ERISA.

Among the 20 companies surveyed that had to liberalize their plans to conform to the law, 15 moved to the formula of crediting service after age 22. The remaining five now credit all service.

"The current procedure in the private pension system is for the company to make current contributions into the fund to pay for benefits that employes are entitled to receive in the future," Mr. Selinske said. "Contributions are expected to earn an assumed rate of interest. We are encouraging companies to be as realistic as possible in setting an assumed rate for the pension fund, since a low rate is a drain on current earnings and the corporate balance sheet and a high rate may cause a plan to become underfunded."

The survey shows, he added, "that although companies have chosen assumed rates ranging from 4%-8%, by far the most common assumed rate is 6%. ■

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ERISA's cost impact means benefit drain

WASHINGTON — Significant cost increases due to ERISA were reported by a majority of the 76 firms responding to a survey by the Bureau of National Affairs and the American Society of Personnel Administration.

Seventy-nine percent of the companies with pension plans and 52% of the companies with profit sharing plans said their administrative costs have gone up to comply with the pension reform law.

Half of those companies said the cost hikes will mean postponing or rejecting benefit improvements already in the works.

The areas crediting the cost burden are: administration, participation standards, vesting provisions, and plan descriptions.

While the sample of companies that responded is too small for the survey to be statistically valid, there seemed to be a fairly good cross section of manufacturing versus nonmanufacturing firms, both large and small. Interestingly, about 12% of the sample included nonbusiness organizations in areas such as health care, education and government.

One measure of the law's complexity and the extra work it has created for plan administrators is that several survey questionnaires were returned blank with a comment that the plan administrator was unable to respond at the present time.

Of the companies that responded, 71% had more than 1,000 employes. Ninety-one percent of the companies had pension plans, and 28% had profit-sharing plans.

The survey also showed that eligibility requirements will be changed in 64% of the pension plan companies, and in 47% of the firms with profit sharing.

Vesting provisions have changed or will change soon in more than 75% of the companies with pension plans, and in 43% of the profit-sharing companies.

About three-fourths of all companies must rewrite their plan descriptions to comply with the reform law, and 42% of the companies with pension plans have hired consultants to help them with the task.

One of the survey respondents, a "small central drug manufacturer," described in detail the cost increases necessary to comply with the pension law:

"ERISA will cause our annual contribution to nearly double—has placed great stress on our benefit planning and takes us from zero unfunded past service liability to $1.7 million unfunded past service liability. ERISA did our employes no favors as other more creative programs may suffer from fund drain."

The cost of meeting the summary plan description requirement ranged from $250 to $30,000, with per employe costs ranging from 18 cents to $7, the survey showed.

One respondent, however, a "large southern oil company," reported that it expects to spend $2 million on summary plan descriptions, which works out to a whopping $80 per employe. ■

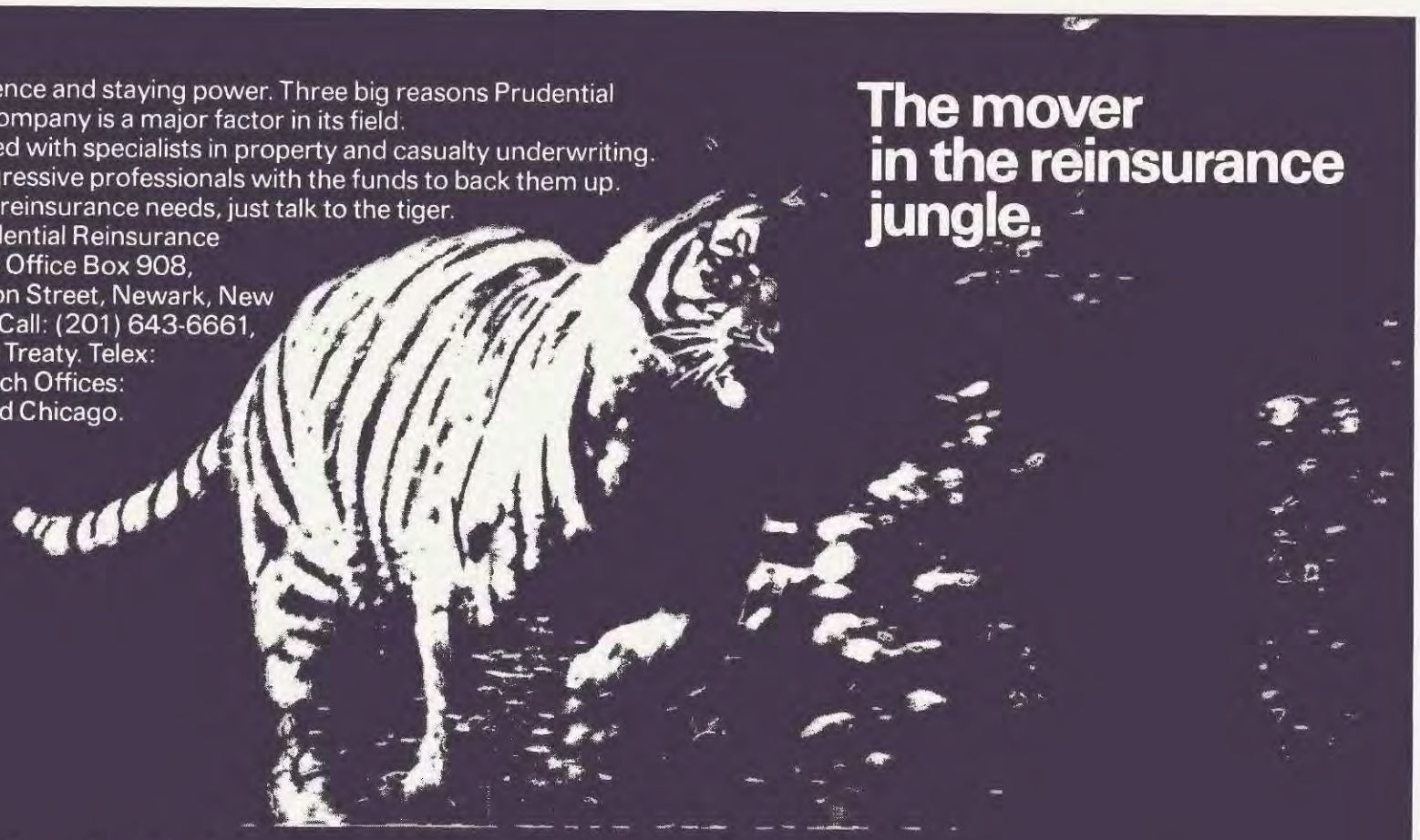
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Korvettes insured for part of damage award

NEW YORK—Korvettes, the discount store division of Arlen Realty & Development Corp., is fully insured for the compensatory damage portion of a $1.1 million award made April 26 to a woman who was falsely arrested and accused of shoplifting.

The problem, of course, is that $600,000 of the court award is for punitive damages, and it's not likely that that portion of Korvette's loss will be covered by insurance. New York is one of the states with laws prohibiting insurance of punitive damages, because such transfer of losses designed to be penalties would be against public policy.

Arlen, the parent company, had insurance with Reserve Insurance Co. during 1972 for liabilities such as those arising out of false arrests, the year in which Laureen Bernstein, a 24-year old former bank teller, was wrongfully detained and charged with shoplifting. Arlen has a different underwriter now for its liability insurance. Officials at the company declined comment on the insurance implications of the liability ruling.

Korvettes immediately following the ruling, filed countersuits of its own, in a move to have the award set aside as excessive.

When Miss Bernstein was stopped in October 1972 she was leaving the Korvettes store carrying a transparent shopping bag. A search of the bag showed no stolen merchandise, but Miss Bernstein was accused of having transferred stolen merchandise to two other women in the ladies room, although these other persons said they did not know Miss Bernstein. A jury acquitted her after only 10 minutes deliberation.

Miss Bernstein told the court that she was forced after the arrest and trial to take a lower-paying job because her arrest record prevented her from applying for another bank position. ■

Spiro, who's pension-poor, pens memoirs

NEWARK, N.J.—Spiro Theodore Agnew, former Vice President during the Nixon Administration, said he is writing his memoirs to make money because he will not get any pension benefits.

In an interview with a reporter from the daily paper *The Star Ledger* here, Mr. Agnew explained he was three months short of being eligible for a federal pension when he left office.

He was forced to resign on Oct. 10, 1973 amid a storm of corruption charges which eventually led to his disbarment from practicing law in Maryland, his home state.

The former Vice President has written a novel, "The Canfield Decision," about a dashing, handsome Vice President of the United States who is attacked by the press.

"I wrote this book to make money. After the disbarment proceedings, I had no money, irrespective of stories about all I had in a shoebox," Mr. Agnew said.

Speaking of his memoirs, which he plans to write at the end of this year, he said:

"I want to market and sell my memoirs. I got no tax deductions for my papers. I have no pension. I can't practice law." ■

Cedes over $100,000

Los Angeles-based Beneficial Standard Corp. stated in its 1975 annual report that the maximum it retains for any one casualty loss or life is $100,000. Policies in excess of these limits are reinsured with other companies. During 1974, a majority-owned subsidiary of Beneficial Standard entered into a reinsurance agreement on a block of business. Under the terms of the agreement, 90% of the business was assumed by the reinsurer. This transaction increased operating earnings by approximately $520,000 in 1974 and $680,000 in 1975, according the report.

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benefit tax slants

Health cover for retirees based on sick-leave credit meets IRS scrutiny

By JOSEPH S. ROBINSON
Attorney-at-Law

ONE OF THE fringe benefits firms provide their employes is medical insurance. Some companies offer medical coverage to retired employes by setting up a plan based on accumulation of sick-leave credits when they're working. The premiums continue to be tax deductible to the company. What's more, the employes' new fringe acts as an incentive to reduce their sick-leave, thus boosting productivity.

The key to setting up a plan that will pass muster is in the accumulation of sick-leave credits. The Internal Revenue Service recently analyzed a post-retirement medical plan in which an employer allowed employes to accumulate up to a maximum of 150 days of sick-leave credits. At retirement, the employer places three-fourths of the value of the employe's sick-leave credits in an escrow account to pay the full premiums of continued participation by the retired employe in the employer's group insurance medical plan. Payments are to be made by the employer until the funds are exhausted. The retired employe could not receive any part of the escrow account in cash. Any funds not expended on premiums were to revert to the employer. The IRS ruled that the amounts placed in the escrow fund are not includable in the retired employe's gross income. (*Rev. Rul. 75-539*).

* * *

If you turn over insurance on your life to family members with no strings attached and live more than three years thereafter, your estate should receive tax clearance. The rules also make it clear that if you die within three years of the transfer, the entire proceeds may be thrown back into your estate. That's because the government presumes such giveaways were made "in contemplation of death"—a ploy to save death taxes. This is particularly true of group term life insurance as indicated by a recent case. Here are the facts in that case:

An employe covered by his employer's group term life insurance policy gave all rights in his policy certificate to his wife. At that time he was 46 years of age, had no history of operations, hospitalizations, or heart disease, participated actively in sports, tennis, golf, swimming and skiing. Fifteen months after transfer of the policy he died from a sudden heart attack. The government treated the transfer as made in contemplation of death under the presumption which the estate couldn't rebut. The Tax Court agreed and now the Sixth Circuit also affirms.

The fact that the employe was relatively young and in good health didn't overcome the presumption of transfer in contemplation of death. The property in question was inherently death oriented; the policies provided no present benefit inthe form of cash, loan or paid-up value; and the evidence was insufficient to establish a dominant, controlling and compelling reason for the assignment of the policies unrelated to the possibility of decendent's death. (*Compton, Ct. of App. 6th Cir., 4/7/76*).

* * *

An employe stock ownership plan basically is a deferred compensation program through which a company bestows its stock on its employes, getting in exchange tax benefits that are in effect a kind of payment for the stock.

Within the past year there has developed a trend toward using ESOPs as a vehicle to facilitate the sale of subsidiaries by large companies to their own employes. In most cases the idea is suggested by the subsidiary's top executives themselves to ward off a possible sale of the division to outsiders—or to insure the subsidiary's survival.

What has really made such sales possible is a clause in the pension reform law that singles out ESOPs as the only type of employe benefit plan that can borrow money for the purchase of the employing company's stock. Typically, the employer (in this case the subsidiary) agrees to make annual contributions to the ESOP to be used to amortize its loan. Since such contributions are tax-deductible, the loan is paid off with pre-tax dollars.

* * *

The law bars sex discrimination and requires equal pay for equal work. This situation puts pension managers and the government in a quandary. If plans call for equal pay-ins, that is viewed as equal pay by the Labor Department. Labor also permits equal benefits to be equal pay. But plans find that costly, and fear that men would then argue that lower pay-ins for them is unequal pay. But if what's paid in yields unequal benefits because of mortality tables, the Equal Employment Opportunity Commission calls that discrimination based on sex. The President is studying the mess and plans to re-

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Deferred compensation arrangements, with all its advantages, contain hidden pitfalls for high priced executives.

The executive should realize that the amounts he elects to defer may result in a significant reduction in the benefits to which he is otherwise entitled under the company's qualified pension and profit-sharing plans. The reason for this is the effect on qualified plans of the position taken by the IRS that the contributions and benefit limitations introduced by ERISA are to be computed on the basis of actual current compensation. Consequently, deferred amounts should not enter into the computation. The obvious result is to cause a direct reduction of the executive's qualified plan benefits to the extent that he elects to defer a portion of his compensation.

- There is substantial concern as to whether the deferral of a portion of an executive's salary will have an adverse effect on his Social Security benefits. If the ultimate position of the Social Security Administration is that the deferred amounts constitute "earnings" when paid, the permitted annual earnings limitation could be exceeded with the result that retirement benefits might be reduced or largely eliminated for the period during which the deferred amounts are being paid out. What's more, the deferred compensation will be subject to the annual Social Security tax.
- The executive should be made aware that his agreement to defer could transform 50% bracket income into 70% bracket income. This could occur if, at the time payments begin, the executive is in the 70% bracket. Why? Because Treasury has taken the position that deferred compensation does not qualify for the maximum ceiling on earned income. ■

Catastrophe coverage has reinsurers worried

SAN ANTONIO, TX.—Modifications in the property reinsurance market to remedy the industry's poor performance in 1975 were suggested by a General Reinsurance Corp. executive at the 22nd annual workshop of the National Assn. of Independent Insurers (NAII) here late last month.

In catastrophe coverage underwriting reinsurers "are concerned more with the aggregation of risk as opposed to individual risk size," Blakely W. Bush, vp, General Reinsurance Corp. said.

"In the case of an excess cover where the retention remains unchanged, an increase in total applicable exposure has a dramatic adverse leverage effect upon the reinsurer," he explained.

As an example he said that catastrophic reinsurance coverage written in 1972 for loss in excess of $250,000 may have doubled in reinsurance loss probability by 1975, but gross premiums would have increased by only 33%.

"Probably the most practical solution for correction of the problem is to provide that the company retention be variable in relation to underlying premiums," Mr. Bush said.

"The cover then becomes automatically responsive to changes in exposure", he added. "Otherwise it would be necessary to adjust the reinsurance premium periodically as the relationship between retention and gross exposure changed."

More bad news for the property insurance buyer came from another insurance executive who said potentially disastrous liabilities have been created by catastrophe pooling mechanisms.

Donald D. Hansen, assistant vp., United Services Automobile Assn. predicted dire consequences for the property/casualty industry should a major hurricane strike Texas or Florida this year.

Texas and Florida catastrophe underwriting pools have a combined in-force liability of nearly $2 billion with much of the exposure limited to relatively small areas in coastal counties, Mr. Hansen said.

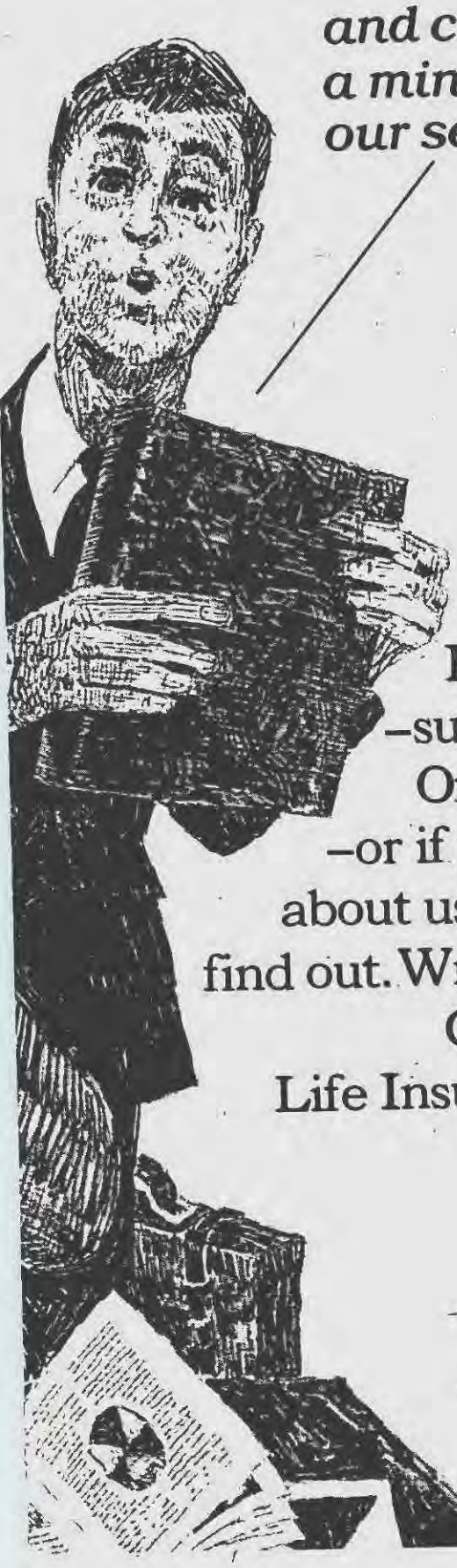
The International Science Foundation computed the probability of a hurricane to be as great as 13%-15% in any one year along the Texas and Florida coastlines.

In the case of Florida, Mr. Hansen observed, "the odds are only six to one that a hurricane won't hit this area in a given year, . . . not too good to gamble millions on."

There are a number of companies with ownership of true liabilities in either catastrophe pool that are far in excess of their surplus capabilities according to Mr. Hansen.

"If the hypothesis is sound that many companies are already overextended insofar as cash and reserves are concerned, then it is logical to conclude that a hurricane of any consequence could tip the scales and cause them to fail," the underwriter said.

"The surviving companies would be handed the resulting insolvency assessments at a time when they could least afford it and we would witness a classic demonstration of the domino theory," he concluded. ■



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United's Waller Smith is retiring this month

United Airline's **Waller B. Smith,** 65, officially retired from his position as director of insurance on May 28. His responsibilities in the benefit and corporate insurance divisions have been divided among five replacements. Mr. Smith, a past president and active member of the Chicago RIMS chapter, had not finalized his plans when *Business Insurance* contacted him, but he said he wants to work about two days a week as a consultant in some capacity. Personnel groomed over the last several months for Mr. Smith's replacement include: **Ralph Robertson,** vp-insurance and administrator of the insurance department; **Don H. Hansen,** director of corporate insurance (promoted from manager, effective May 10); **Gerard P. Howland,** manager of group insurance plans. Mr. Smith's motto has been "either give one broker the whole business—the lazy way—or get different brokerage firms to take different parts of the business based on their specialty." He also became a well-known proponent of risk management for "the long haul."

* * *

Clifford J. Manning, another active Chicago RIMS Chapter member, plans to retire on July 30 (after turning 65) from his position as employe benefits manager at Danly Machine Corp. Mr. Manning also hopes to work as a consultant both to Chicago-based Danly and to other companies after his official retirement. Danly hasn't named a replacement. It is possible that with some consulting assistance, the company may divide his other functions among existing personnel. Mr. Manning started working at Danly in 1941 and has been in his present position since 1952. His responsibilities included administering the pension plan as well as group life and health programs.

* * *

The Cadillac Fairview Corp. Ltd., Toronto, a real estate development and management company, named **George A. Willis** manager-risk and insurance, effective June 1. He replaces **Roy Roberts,** who is leaving Cadillac Fairview to become a private inssurance consultant. Mr. Willis, who is in his early forties, formerly was secretary of the Insurance Bureau of Canada, a general industry trade association based in Toronto.

* * *

Managing an insurance program at CNA Insurance is **Richard A. Hundza,** 37, who assumed the newly-created position of corporate insurance manager in early May. Formerly, the function had been more decentralized. Mr. Hundza reports to the director of risk management and is responsible for internal property and casualty programs for the underwriter, but not insured benefits. He previously was an insurance analyst for Middle South Services Inc., New Orleans, a subsidiary of Middle South Utilities Systems.

* * *

Effective May 3, Western Publishing Co. Inc., Racine, Wi., appointed **James E. Sherman,** 31, manager of corporate benefits service. Formerly trust administrator with S. C. Johnson & Co., Racine, since 1971, Mr. Sherman also served as trust coordinator and assistant to the vp-treasurer at Abbott Laboratories, North Chicago. He now reports to the vp-human resources and is responsible for developing and administering all corporate benefit programs including group life, comprehensive medical, disability, as well as pension, profit sharing and savings plans. Mr. Sherman replaces **Ronald Meissner,** who left the company in January to join Peat Marwick & Mitchell, a public accounting firm, in Chicago. Western Publishing produces games, toys, activity products, craft items, books and magazines and has sales of more than $200 million.

* * *

Thomas H. McGrane, 47, joined the consumer services group of W. R. Grace & Co. as director of compensation and benefits. He reports to the vp of administration. Mr. McGrane, formerly manager of compensation and benefits at Memorial Sloan-Kettering Cancer Center, replaces **Hal Sebastian** at the consumer services group. Mr. Sebastian assumed the position of corporate director of employe benefits for the entire W. R. Grace operation. The former director of employe benefits at W. R. Grace was **P. J. Canfield,** who left the company some time ago.

* * *

Hired as president of Medical Trust Fund Group is **Rick J. Morrissey,** 36. He formerly was the professional insurance coordinator at the University of Florida. No successor has been named yet at the University. Medical Trust Fund Group is a consulting firm specializing in malpractice coverage.

* * *

Pennsylvania State University named **Michael G. Klein,** 36, risk manager. He replaces **Wilson Carr,** insurance manager, who retired. Mr. Klein formerly was assistant to the insurance manager at Penn State.

* * *

American Hospital Supply Corp., Evanston, Il., appointed **Philip Justin Smith,** 30, to the newly-created position of supervisor-employe communication on May 17. He reports to the manager of employe communication and is responsible for a variety of internal employe communications. His first big project will be writing materials to finish off ERISA disclosure requirements for the medical products manufacturer. About 20% of the work needs to be completed for the nine-division company. Other duties for Mr. Smith include implementing upward communication programs, which help filter employes' views toward management rather than the other way around, and developing a slide/tape presentation on the company's history. Mr. Smith formerly was communications director at Amerco, Phoenix, a transportation concern. Its biggest division is U-Haul.

* * *

Promoted to general manager, employe relations at American Petrofina Inc., Dallas, is **Glenn E. Selvidge,** 39. He formerly was manager of employe relations and has been with American Petrofina Co. of Texas since 1967. The promotion became effective on May 4. Mr. Selvidge reports to the president of the company and is responsible for group insurance, pension and profit sharing plans as well as safety, personnel administration and labor relations. He does not replace anyone in his new position; rather his promotion represents an upgrading of his role in the company. ■

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Open liaison office

Fuji Fire & Marine Insurance Co. opened a liasion office in Chicago to study the U.S. insurance industry and develop relationships between the U.S. and Japanese business communities. The liasion office will be under the direction of Mr. Shinjiro M. Go., formerly foreign operations chief in Fuji's home office in Osaka. The Fuji insurance company is one of Japan's leading property and casualty insurers with 1975 gross premiums of $518 million.

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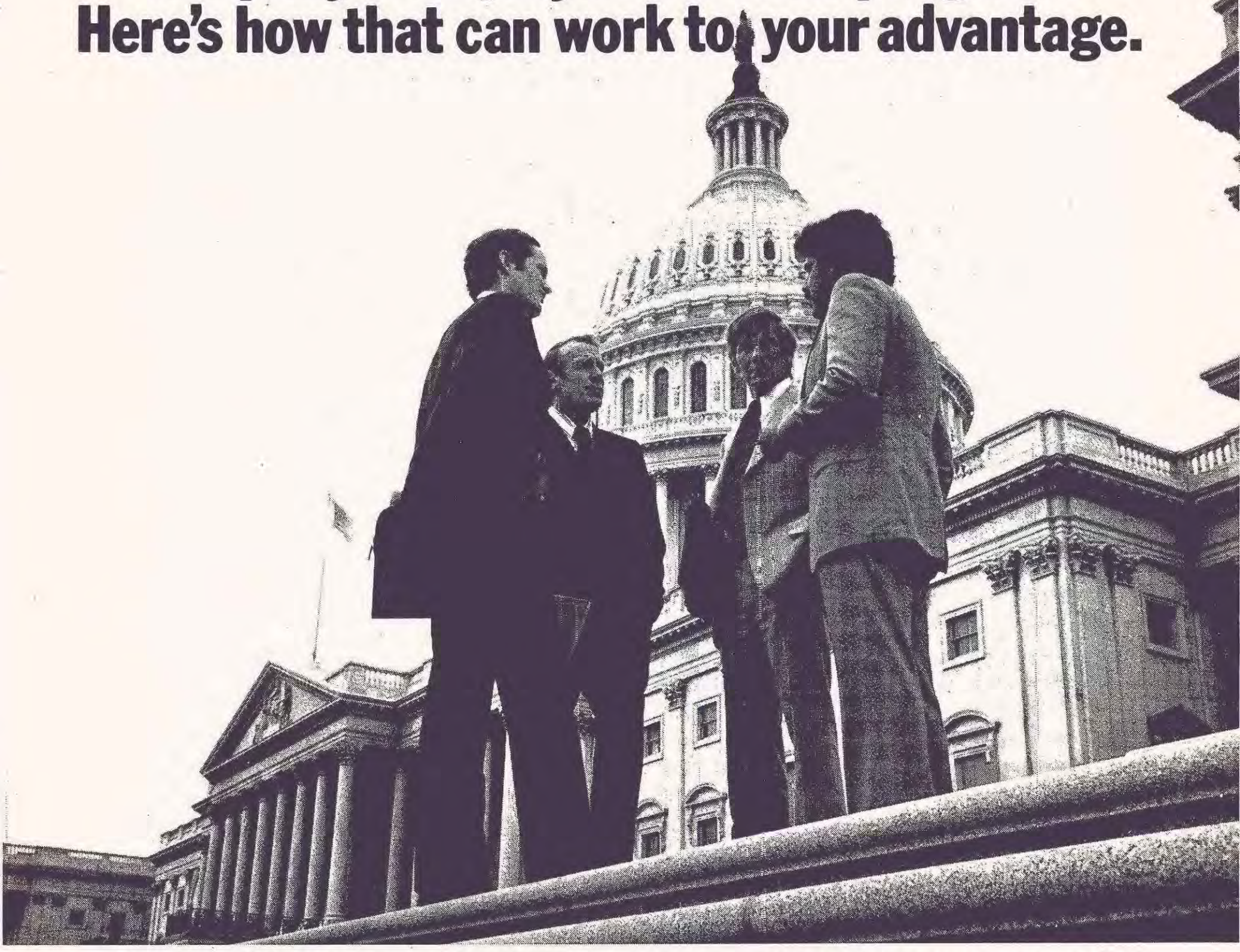
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