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The sinking of a \$25 million oil drilling rig like the one pictured is expected to result in multi-million dollar liability claims. The rig, which is owned by Odeco Drilling Co., sank in the Gulf of Mexico late last month. Thirteen crew members drowned when their survival capsule turned over as it was launched into the water from the rig, moments before the rig itself toppled into the Gulf. The incident occurred during a severe storm with 50 mph winds and 20-foot waves. Liability for the replacement costs of the Ocean Express is covered by Odeco's captive insurance company, Mentor Insurance Co. Ltd., and through the company's membership in Oil Insurance Ltd. (OIL). Odeco also insures part of its liability program with Highland Insurance Co. The rig was manufactured by Bethlehem Steel Co., and the survival capsules were made by Whittaker Corp. It is not known at this time whether these two corporations will share in the liability for the accident, a spokesman for Odeco said. A Coast Guard Court of Inquiry is conducting hearings to determine liability.

DuPont squelches plan to liberalize its pension at shareholders meeting

By MARIE KRAKOWIECKI

WILMINGTON, DE.—E. I. duPont de Nemours & Co.'s annual meeting here in April was dominated by a shareholder proposal to liberalize retirement benefits for employes.

The proposal, which duPont said would increase costs by \$65 million, was roundly defeated as pickets marched outside the meeting carrying placards demanding pension reform.

DuPont President Edward R. Kane said the proposal was too costly, that it would completely ignore integration with Social Security benefits, and that it would force the company to provide better benefits for its employes than competitors in the industry do.

The measure was sponsored by George W. Cobb, a shareholder and former duPont employe in Richmond, Va. It would have amended the company's pension plan to provide annual benefits of 1.5% of the average annual salary for the five years of a worker's highest pay, times the number of years of employment.

Speakers who said they represented independent unions at duPont plants supported the proposal at the meeting.

Mr. Kane said duPont's 1975 parent company benefit costs climbed to \$575 million or 41% of pay for time worked, up from \$385 million (33%) from just two years ago.

Noting that 1976 benefit costs would probably climb to about

\$650 million, equivalent to 43% of pay for time worked, Mr. Kane said the company had liberalized its pension benefits two years ago and the plan was working as it was designed to.

In addition to employing the 1.5% of salary formula to compute pension benefits, the Cobb proposal would have permitted retirement with full benefits after

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Swine flu vaccine liabilities may exterminate suppliers

By MARGARET LeROUX

NEW YORK—The potential claims arising from unforeseen side effects from the swine flu vaccine could "wipe out" the pharmaceutical manufacturers of the vaccine, according to the underwriter for one of those companies.

Swine flu vaccine, it is feared, may create more health problems than it is supposed to prevent.

Not only the product liability exposure, but the administrative tangles expected with a program of vaccinating upwards of 200 million people in the space of a few months, makes the risk uninsurable according to some underwriters.

Federal Insurance Co., a member of the Chubb Group and the primary underwriter for Merck & Co. Inc., one of the four drug companies manufacturing the swine flu vaccine, informed Merck it would not be covered for any suits or problems caused by the vaccine. Federal also underwrites excess

layers of liability coverage for the other three companies manufacturing the vaccine. It is taking the same stance of not covering the other drug producers for claims arising from adverse side effects of the vaccine.

Besides Merck, the other companies involved in producing the swine flu vaccine are: Warner-Lambert (through its subsidiary, Parke, Davis & Co.); American Home Products Corp. (through its subsidiary, Wyeth Laboratories) and Richardson-Merrell Inc.

Though Merck has done business with Federal for some 30 years and carries a deductible of an estimated \$10 million on its liability policy, the underwriter felt it was "not convinced Merck has had time to test the vaccine for side effects."

It's not just the potential for adverse side effects that is the problem. One scientist has gone so far as to predict that the vaccine can actually cause serious illness in a large proportion of the children and elderly who are inoculated.

The swine strain of influenza virus can be lethal. It was the death of one soldier and the serious illness of 11 others who contracted swine flu at Fort Dix, N.J., last year that triggered fears of a pending epidemic. A \$135 million program of research and inoculation to prevent the virus was recently approved by Congress.

"The whole program is being pushed too fast," a spokesman for Federal told *Business Insurance*.

The underwriter noted that it should be the federal government's responsibility to bear the risk of liability for possible side effects from the vaccine.

Attorneys for the four drug manufacturers are currently negotiating with the Department of Health, Education and Welfare (HEW), which contracted to develop the swine vaccine, "to devise contract language to insulate the drug manufacturers from liability," Joseph Stetler, president of the Pharmaceutical Manufacturers

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UAW, automakers collide on benefits

By JANE WINEBRENNER

CHICAGO—Increased health care benefits are shaping up as the major stumbling block in this July's contract talks between the United Auto Workers (UAW) and the major automakers.

As one observer said, "If you've been following health care costs you know this a very sensitive issue, right now."

The United Auto Workers has issued pre-negotiation demands for increased health care benefits while General Motors Corp., the target producer this year for negotiations, has already said it will oppose any more benefit expenditures.

GM, the nation's largest industrial employer with about 400,000 workers, estimates it will spend \$825 million for its 1976 medical, hospital and dental coverage

through Blue Cross and Blue Shield—a 21% increase over 1975.

At the same time, the UAW announced at a March pre-1976 negotiations convention tentative health care demands that include: Prepaid vision care; coverage of physicians' services in office and home; improved dental coverage and program administration; and the extension of prepaid dental benefits to retirees.

Victor Zink, GM's employe benefits manager, said it is much too early to estimate how much the UAW demands will cost because they are still unspecified, but he said GM opposes any cost increase.

"We really can't do much to control health care costs once health care has been delivered. What we need to do is find ways to control utilization and costs at the point they are given," Mr. Zink said.

GM issued figures showing its health care costs increasing \$123 million over 1975 figures, the largest single dollar increase in its history.

"Only about \$15 million of that total represented improved benefits," a GM vice president said, "the lion's share of the increase, \$108 million, resulted from increased utilization and higher prices."

Ford Motor Co.'s Manager of Benefits and Labor Paul Ryder said its health care benefit cost increase was 40% for hourly employes since 1973, excluding dental benefits instituted in October, 1974.

A Chrysler Motor Co. spokesman said its costs for hospital, surgical, medical and drug coverages will increase 34% over 1975; in 1975 Chrysler paid \$99 per employe per month; in 1976 that figure will rise to \$134. If dental benefits are included, the figure is \$154 per hourly and salaried employe.

Teamsters win big benefit settlement—page 15

Mr. Ryder said GM's vow to hold down costs was the "feeling on the part of all of us." He said the cost to consumers was \$119 on each vehicle Ford produced last year.

George B. Morris Jr., GM's vp for industrial relations, said in a speech last month in Atlanta: "During our negotiations with the UAW this summer we intend to try very, very hard to restructure our health care coverage without increasing health care costs.

"We would like to encourage

outpatient care. We'd like to utilize a reimbursement mechanism which more effectively impacts on both the patient and the provider directly at the point of service."

Mr. Zink said GM is still working on specific proposals to keep the health care costs down and emphasized none has been decided upon.

"Some types of care that can be done out of the hospital—such as ambulatory surgery clinics—have possibilities," Mr. Zink said.

He also said that some of the methods under consideration to decrease utilization on the part of employes are reinstating deductibles or co-insurance as well as "cost-awareness" education programs.

Also under consideration by GM is pre-screening for elective surgical operations which might mean requiring a second doctor's opinion. "If you can get at some kind of screening process before the operation is done rather than after it would help keep costs down," Mr. Zink said.

He said that while it is "difficult to know what will be the most important issue this far ahead" of the negotiations, health care benefits definitely will be one of them.

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Private sector
shuns OPIC—page 4

Computers needed to monitor change abroad

SAN FRANCISCO—International corporations need to develop a worldwide computerized information system to assist in the management of various corporate activities, including risk management.

So says Norman A. Baglini, CPCU, and director of underwriting education for the American Institute for Property & Liability Underwriters/Insurance Institute of America, Malvern, Pa. He was speaking at a meeting of the Northern California chapter of the Risk & Insurance Management Society. He believes that the computerized system should include the following:

- changes in government regulations of each county including changes in taxation;
- loss experience of each local affiliate by classes of loss, size of loss, and other factors to assist in developing retention programs and evaluating loss control activities;
- changes in the rate of inflation in each county and its quantitative effect on asset values;
- a flow chart of activities between the parent corporation and foreign operating units and between the operating units themselves. This would focus on the interdependency between plants and would greatly improve the effectiveness of risk management activities;
- risk management models incorporating new techniques of decision making under uncertainty and constrained cost minimization;
- monitoring of local insurance contracts to include expiration

dates, values, costs, losses, and to assure compliance with contract provisions;

- availability of local government insurance coverages such as riot insurance and changes in Social Security programs.

Mr. Baglini also said there is a strong need for a central source of information on environmental factors abroad that affect risk management.

"At present, this information is fragmented and consists of attempts by insurance companies and brokers to inform the international risk manager on various insurance regulations applying throughout the world.

"Perhaps an academic institution might be selected to serve as a central information source where international risk managers and students of risk management may

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find answers to their questions," he said.

Mr. Baglini went on to suggest that a university might be approached with the idea that it develop educational programs dealing with the development of international risk management skills.

He said that risk managers could contribute some of their own experiences to the 'bank.'

UAW . . .

Continued from page 1

In answer to Mr. Morris' comments, the UAW's chief labor negotiator with GM, Irving Bluestone, issued statements saying GM "is rapidly moving toward confrontation bargaining."

"General Motors' hard line stance may prove most unfortunate in arriving at a settlement in the forthcoming negotiations," he added.

Mr. Bluestone said Mr. Morris' suggestions for cost-awareness did not solve the problem of health care inflation because "the consumer has minimal control over decisions about the use of hospitals and most other services."

Mr. Zink of GM said that health care has always been a topic of the labor negotiations; in 1970, and 1973, one of the key issues in the negotiations with the automakers was health care coverage.

"Our general concern with health benefits has received a lot more attention this year. There is greater concern now because the numbers are getting terribly high. The percentages have not changed that much but the money involved has."

He added that for the 1977 model year (which starts in October), a 28% increase in Michigan's Blue Cross and Blue Shield costs is expected.

Health care benefits, which average about \$1,700 per active employee at both Ford and GM, and about \$1,600 per employee at Chrysler, are the highest single expenditure for GM and Chrysler.

Jack Shelton, manager of Ford's employee insurance department, said in testimony before the U.S. Senate Subcommittee on Health on April 19, that if current cost trends continue, Ford's 1979 automotive health care costs will rise to \$2,700 per hourly employee. ■



Dr. Harry Meyer, Director of the Bureau of Biologics, Food and Drug Administration, receives the first shot of swine flu vaccine.

Vaccine . . .

Continued from page 1

Assn. (PMA) said.

"We asked Congress to include limited immunity for the drug manufacturers in the area of product liability," Mr. Stetler said, "but HEW said the matter could be taken care of by contract."

Mr. Stetler and other representatives of PMA testified before Congress as it drafted legislation putting the \$135 million flu vaccination program into effect.

However, PMA's legal counsel holds the opinion that such liability can't be fully transferred by contract.

There is a precedent case where the manufacturer of a vaccine used in community inoculation programs was held liable for inflicting every person who was vaccinated of all possible side effects from the vaccine, Mr. Stetler said.

In a letter to HEW Merck stated, "Our own insurance carrier is willing to insure us only against negligence or fault on our part."

"Moreover, because of the massive number of people involved the insurance carrier considers it not feasible to place any broader coverage in the existing world market at virtually any price."

A reinsurance company approached by Federal refused to cover Merck even for negligence

in developing the vaccine, the underwriter said, "and I assume the other drug companies involved in the vaccine program would have similar problems."

Merck has insurance coverage against claims arising from its own negligence or failure to manufacture in accordance with government specifications the underwriter emphasized.

"What worries me," the spokesman for Federal said, "is the claims that could arise in the year 2000 as a result of side effects we have no way of knowing about in 1976."

"I wonder if there's any institution other than the federal government that could absorb such a risk," the underwriter said.

A spokesman for another underwriter of products liability insurance for pharmaceutical manufacturers noted that "unless it's specifically excluded, insurance contracts will pick up" coverage for claims arising out of adverse side effects from the swine flu vaccine.

"There's nothing in our policy excluding vaccine," the underwriter said.

"It's a very individual thing," another underwriter stated. "It depends on the language of each insurance contract."

Such comments are not reassuring for Mr. Stetler "Unless we can get some sort of addition to the law granting us limited immunity I can see the whole vaccination program being held up," he said. ■

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Urge federal study of product liability problem

By PAUL R. MERRION

WASHINGTON—The federal government should embark on a 15-month comprehensive study of the product liability insurance crisis and its possible solutions, including no-fault insurance and arbitration.

That is the major recommendation offered by the Commerce Department in its as-yet-unpublished report to the Economic Policy Board on the department's 30-day crash study of the product liability problem.

While Commerce said the data it gathered "clearly indicates that there is a product liability insurance problem which is extensive and increasing," lack of comprehensive data on the causes and effects and severity of the problem prevented proper analysis of any possible remedies.

The study, if approved by the Economic Policy Board, would encompass:

- General and specific data from selected insurance companies on premium rates, coverages offered, and claims experience, including information on each claim opened or closed within a specified six-month period.
- Data on companies, industries and product lines not covered by insurance due to restrictions in coverage, high deductible limits, and cancellations or non-renewal of insurance.
- Data on the state of product liability litigation, including the magnitude of existing product liability cases, alternative approaches to resolving product liability claims, and the feasibility of setting up a reporting system in the courts to pinpoint the course of product liability claims over a specified period of time.
- Other detailed studies on possible remedies, including no-fault insurance and arbitration.

The Bureau of Domestic Commerce, a unit of the Commerce Department, would analyze the data and prepare a final report by July of next year, if the project is approved.

The Economic Policy Board has temporarily withheld approval of the Commerce report pending a "more refined" definition of the proposed study, according to a White House source.

The Economic Policy Board is to economic matters what the National Security Council is to security matters. Its chairman is William Simon, Secretary of the Treasury, and G. William Seidman, presidential assistant for economic affairs, is the executive director. Other members include the Secretaries of Commerce, State and Labor; Alan Greenspan, the chairman of the Council of Economic Advisors; James T. Lynn, director of the Office of Management and Budget; and Michael Dunn, director of the Council on International Economic Policy.

As one White House observer said, "Whatever the Economic Policy Board sees goes straight to the President."

The Commerce study was commissioned by the Economic Policy Board in January, after Mr. Seidman received a letter outlining the problem from Dr. Ralph Baldwin, president of Oliver Machinery Co. in Grand Rapids, Mi. (*Business Insurance*, Feb. 23, 1976).

One of the uncertainties holding back approval is a decision on exactly who will conduct the study, this magazine learned. According to the recommendation in the Commerce report, the study should be run by an "Interagency Industry Advisory Committee,"

composed of representatives from the insurance industry, manufacturing industries, private law practice, and "concerned" government agencies, including Commerce, Federal Insurance Administration, Justice, Consumer Product Safety Commission, Labor and OSHA, Council on Wage and Price Stability, and Small Business Administration.

The report said manufacturer representatives should include machine tools, industrial chemicals and general aviation manufacturers.

The Commerce report projected that the 15-month study would cost between \$465,000 and \$715,000, would involve seven to 13 man-years of work, and would be completed in July 1976.

Much of the study's work, in-

cluding data processing, would be done by an outside contractor, the report said.

There is a possibility that the study could be coordinated with one planned by the National Assn. of Insurance Commissioners, the report said. The NAIC is holding hearings in Nashville on May 3, in conjunction with the first meeting of its newly-formed product liability committee, to determine the nature of its study of the problem, according to an NAIC official.

The Commerce study generally recognizes the severity of the product liability problem, even though the only action it recommends is further study. "Problems associated with product liability are potentially more formidable than in medical malpractice insurance," the report said.

The study noted that product liability is a national problem, with claims cutting across state lines, while medical malpractice is confined to single jurisdictions. It also noted that product liability premium volume is double that of medical malpractice—\$1.5 billion compared to \$750 million, according to one source.

At the same time, the study said that the Commerce Department and the Small Business Administration take no position on remedies that have been proposed by "manufacturers, insurers, the trade press and others."

"It seems clear that no known remedy will solve the problem as the causes are quite varied and complex. The study group is convinced that any successful solution would involve a mixture of

state and private sector remedies with an open question of the future role of the federal sector," the report said.

"Comprehensive data is required to assess the impact of proposed remedies," the report continued. "Some remedies proposed could have negative impacts, and in some cases involve complicated issues involving states' rights, individual rights, state and federal statutes and the common law."

Some of the proposed remedies listed in the report are no-fault product liability insurance, statute of limitations on product claims, statutory comparative negligence, limitation of liability to original purchaser, limitation of third party recovery, limitation of employee subrogation on product-related work injuries, and limitations on attorney contingency fees. ■

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Doubtful that private insurers will choose to take over OPIC by 1981

WASHINGTON—The future of the Overseas Private Investment Corp. (OPIC) appears threatened by the probability that private insurers will not take over the insurance program by the 1981 deadline set by Congress nearly two years ago.

"There's no question that the requirement of Congress that this coverage be accepted by the private sector can't be met in the foreseeable future," said Stephen R. Merrett, the leading underwriter for political risk insurance for Lloyd's of London.

The feasibility of meeting the 1981 deadline was the subject of a panel discussion held here last month, sponsored by the Committee on Insuring Overseas Invest-

ments of the American Bar Assn. Other panelists included top OPIC officials, insurance industry representatives, and other experts on OPIC.

The problem facing OPIC and the reason for the panel discussion was summed up by the OPIC official who gave the opening remarks: "Several senators made it clear in 1974 that if OPIC doesn't meet its 1981 goals it should be abolished."

For Dow Chemical Co., the prospect that OPIC might fold means looking at other risk management alternatives. Wilson A. Gay, Dow's treasurer, told his fellow panelists that political risk insurance is "not irrelevant now,

but it will be in the future."

He said that higher premiums and a reduction in the length of the contract from 20 years to 10 years has meant that "my company is willing to accept a high level of exposure not considered two to three years ago. We're willing to self-insure more, and we're willing to spread risks more."

Until 1973 it was Dow policy to buy maximum OPIC coverage, he said. The chemical giant now pays OPIC premiums of about \$2 million for insurance in nine countries, Mr. Gay added.

But "enormous" overseas investments are changing Dow's attitude. He said Dow is planning to build, over the next few years, projects totaling \$250 million in

Korea, \$700 million in Yugoslavia, and a "potential" \$1 billion in Brazil, \$800 million in Saudi Arabia, and \$1.2 billion in Indonesia.

"Dow doesn't intend to put all the money in these projects," Mr. Gay said. "There's a need for investment by the foreign countries." Local investment would presumably lower the risk.

Critics in Congress have said that OPIC amounts to a governmental welfare program for America's richest corporations, because in effect, the government is subsidizing coverages war, expropriation and currency inconvertibility at a price that private industry is not willing to offer. Therefore, the 1974 amendments to the Foreign Assistance Act were designed to phase out the government's participation by yearend 1980.

OPIC has set up a program to turn two of its coverages, expropriation and inconvertibility, over

to private insurers, but it has not been as successful as planned. Known as the Overseas Investment Insurance Group (OIIG), it now has private participation amounting to \$7.8 million, somewhat short of the \$10 million goal OPIC had set.

Although five insurance companies joined the pool in 1975, while one dropped out, OPIC felt its success was hampered by the financial beating many insurers took over the last few years, and the collapse of the South Vietnam government last year.

Although OIIG covers only expropriation and inconvertibility risks, the Vietnam losses were not chalked up as war damage and many insured investors filed claims for expropriation.

However, the OIIG program did meet a congressional deadline that 25% of the coverage be written by private sources by Jan. 1, 1975, when a reinsurance agreement with Lloyd's is included.

The next deadline is Jan. 1, 1978, when at least 50% of the liabilities must be covered by private sources.

But the question facing the panel was whether OPIC would be able to turn over its entire insurance portfolio by yearend 1980.

The majority of the participants expressed some optimism about meeting the goals on expropriation and inconvertibility coverages, but there will be "no future substantial private participation on war risk," Mr. Merrett said.

General experience with war risks is that there have been few claims, Mr. Merrett said. "Given that experience, no client is going to pay a high premium for coverage of risk," he said.

OPIC is in the process of setting up an alternative to participation by private insurers on war risk coverage, called the War Risk Insurance Reciprocal (WRIR).

Basically, it would involve pooling from insured investors, plus funds from OPIC, under a retrospective arrangement that would allow premiums to be adjusted up or down depending on the claims that are paid.

The WRIR would cover 40% of the war risk losses, with OPIC covering the rest. OPIC will reinsure the WRIR's liabilities, and the WRIR will reinsure part of OPIC's liabilities, with a first-loss pool with stop-loss limits of \$12.5 million per country and \$25 million worldwide.

The reciprocal's stop-loss limit would be \$5 million in any one country and \$10 million total.

The program is waiting for the go-ahead from the District of Columbia Insurance Department, which is expected to have sole jurisdiction.

Marshall T. Mays, president of OPIC, said he was confident the WRIR will succeed "provided there are no abnormal catastrophic losses—which are always possible."

Optimism about OPIC's other insurance programs is founded on a good record of settled claims. While OPIC has made cash payments of \$99 million in claims settlements, the government insurer has received \$23 million back from foreign governments, with promises to pay back an additional \$72 million, plus interest. Thus, OPIC's total claims payments could be as low as \$4 million.

But at the same time, OPIC's experience in settling claims is seen as an important factor in getting private participation. "As far as the mechanical operations go, such as settling claims, private industry is working up to it. But we need OPIC resources," said James P. White, reinsurance officer for the St. Paul Cos. and chairman of the board of governors of OIIG. ■

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Charlotte Claims Office receives call from a nursery. A policyholder's truck has overturned, damaging greenhouse. Initial damage estimate: \$4000. But loss of exotic plants now exposed to elements could drive potential claim as high as \$20,000. Claims Office suggests moving plants to another greenhouse. None available. Thermometer begins to fall as night comes on. Claimsman Jim Mathison studies problem, drives to Greenville and buys rolls of heavy plastic sheeting and plenty of tape. Returns to nursery, covers and completely seals damaged

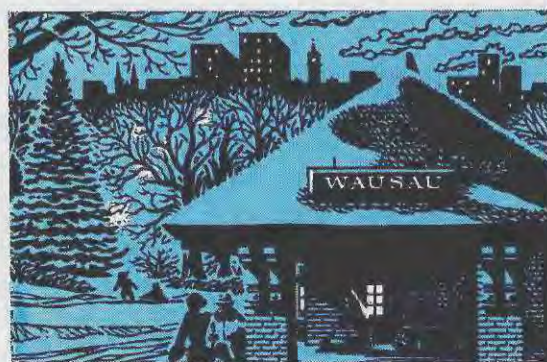
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Comprehensive health plan gets 50% premium boost in California

By JOANNE GAMLIN

LOS ANGELES—People cannot afford to get sick in California any more. And employers can hardly afford the cost of their group insurance if they do.

That's the view of several health care observers including John Brewer, executive vp of the Hospital Council of Southern California.

"Our own organization was hit with a 50% boost in premium costs for our comprehensive group health program this year," he told *Business Insurance*.

Yet he asserted: "We view the increase as completely justified."

He said the hike came from his group's health insurer, Blue Cross

of Southern California.

Insurance and employe benefit managers in the Golden State who are fretting about forthcoming increases in group health plan costs will not be soothed, either, by the words of Bill Cunningham, vp, group actuary for Pacific Mutual Life Insurance Co., Newport Beach, Ca.

"In our pricing, structure, we have had group health premium hikes of 40% of 70%," he related.

Mr. Cunningham went on to point out, however, that for plans with no benefit increases and no schedule of benefits, a more acceptable 25% premium cost rise is more likely. And for plans with scheduled benefits, he said the

probable cost boost could be as low as 10% to 15%.

A spokesman for Blue Cross of Southern California said there may be no increase at all for some groups of 25 employes or more who are individually experience rated.

"But for others, there could be boosts of 25% to 30%," he said.

Employe groups smaller than 25 persons are in a pool, he went on. "We expect an increase for these groups, but the amount has not yet been determined."

"It will probably be 20%, but we do not know for certain," he added.

Such plain talk can only confirm the more pessimistic expectations of risk and employe bene-

fit managers here, virtually all of whom told this magazine that they project group health premiums will climb 20% to 25% in 1976.

The sobering experience of a San Francisco Bay area corporation will not be welcome news to corporate insurance people who have not yet negotiated the renewal on their group health plans.

"We are just entering our renewal negotiations and we have been handed a nearly 40% premium cost boost," she said. She explained that 10% of that hike stems from the fact that her company's group health plan was redesigned this year.

"However, our insurer is calculating a 27.5% increase to cover everything else," she went on, noting that the insurance company in question has provided her company's group health coverage for 33 years.

While she said she was not shocked with the steep hike—in-

deed, she was candid enough to note that her staff's own calculations led them to predict a premium increase in that neighborhood—she asserted that there is no way she will accept such a premium jump.

"We are telling our insurer that we will be willing to take a short-term contract and put the account out for bids," she said. "We aim to end up with a 20% to 25% increase over-all, including the 10% raise covering the redesign of the plan."

The medical malpractice crisis which saw doctors strike for 38 days in greater Los Angeles is only one reason for the upward swing in group health premiums here, sources agree.

"The medical inflation index has been about double the Consumer Price Index for nearly 20 years," remarked Bill Cunningham of Pacific Mutual Life Insurance Co. He also noted that the per person rate for a double hospital room in California has risen from about \$35 a day in 1966 to about \$135 a day in 1976.

Mr. Brewer of the Hospital Council said he figures that this year there will be a 25% increase in the rating factor used by insurance companies, which combine projected cost boosts at hospitals and by doctors.

"Turning to the hospital portion, I see an approximate 7% hike traced to general inflation, a 4% boost due to new medical technology and a 6% to 7% rise caused by a big increase in the practice of defensive medicine," he said, adding:

"Several thousand doctors are going naked—no medical malpractice insurance coverage.

"Furthermore, major medical costs above the fixed area should skyrocket," he observed, "because surgeons who specialize—neurosurgeons, for example—have been socked with the highest malpractice premiums, premiums in the \$35,000 to \$40,000 a year range."

Risk and employe benefit managers, as noted, tended to be more optimistic.

The group insurance manager for a large aerospace corporation said that he thinks a 15% hike is minimum while 20% is tops.

He attributed the rise to the reputed surplus of surgeons in the state and to the fact that an employe is virtually locked into the health care prescribed by his doctor.

"If, then, the insurance carrier comes along and says that what the doctor orders exceeds what the insurance company will pay, the worker will rebel with anger," he said.

Insurance managers for two other companies in heavy manufacturing said they project 20% boosts in group health premiums. Interestingly, one of these firms is on a retrospective rating system, meaning, said the spokesman, "that our premiums are our claims."

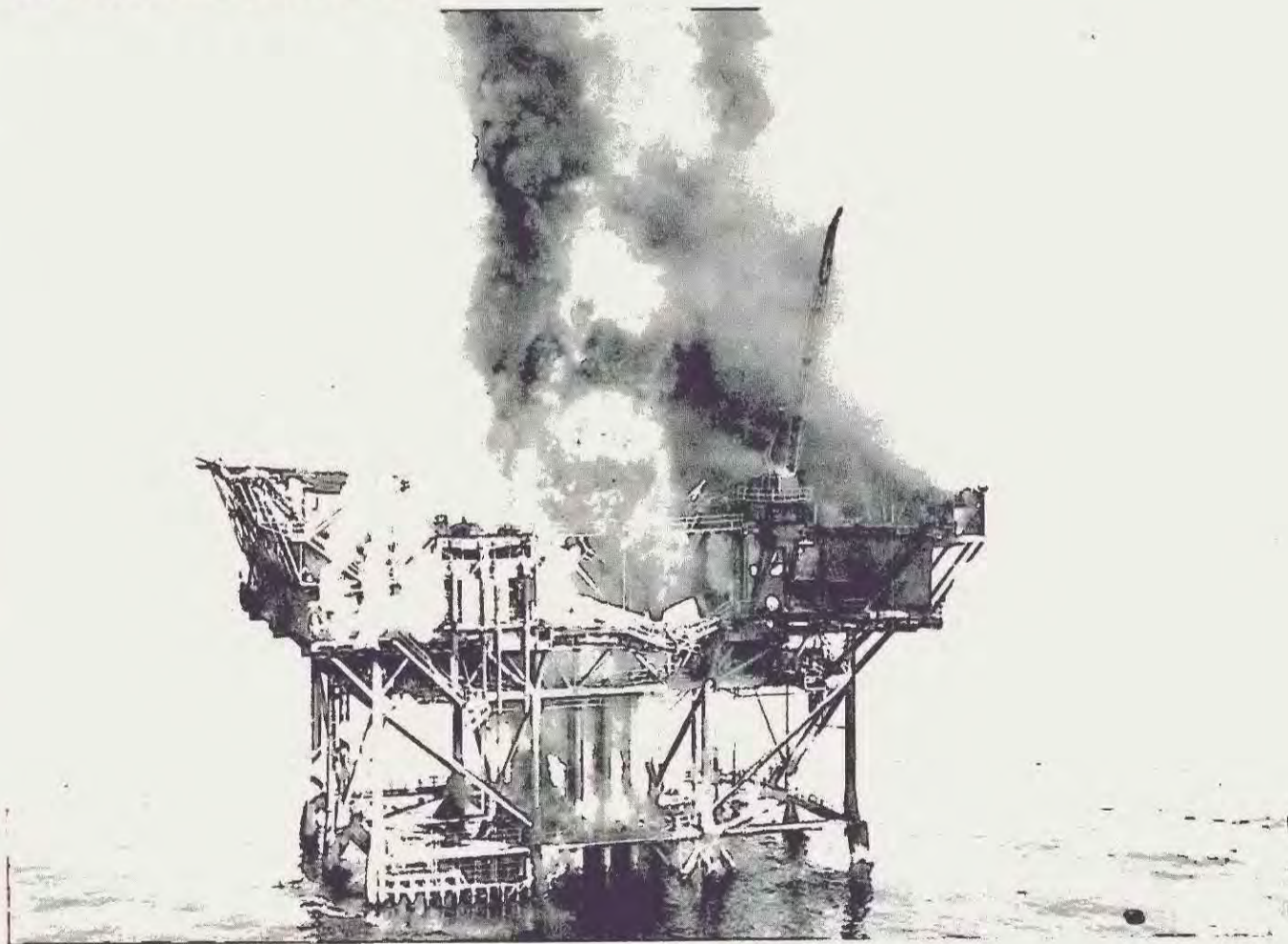
Nevertheless, he said that in negotiations with the Equitable Life Assurance Co. increases in the 15% to 20% range "were kicked around."

The employe benefits administrator for a Santa Monica-based company, noting that every component of the medical cost matrix is up, said that she is anticipating a 20% hike for her group health plan.

She also noted that being situated in the more prosperous West Side of Los Angeles County, where she said physicians are wont to charge more, is an element in her company's rising group health bill.

"The only answer is national health insurance," she concluded.

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editorial opinions

Focus on prevention

THE HEALTH CARE establishment in the United States stands in need of a shakeup, according to Walter J. McNerney, president of the Blue Cross Assn., New York, and a person who lays down general rules for Blue Cross groups across the country.

In remarks made on a CBS-affiliated radio station in Los Angeles, Mr. McNerney said the U.S. may be wasting billions of dollars each year by failing to focus medical and health research in the places where health problems actually arise.

The environment, lifestyle and culture more and more appear to be at the root of problems, he believes. And yet the "often uncoordinated efforts of the health care industry seem to focus on research areas that offer relatively minor possibilities of improvement and on the development of exotic equipment and hospitals," he continued.

He estimated that if the country doubled its present health care expenditures of \$128 billion a year, it would not make any major impact on some key health issues. Occupational hazards alone have been estimated by the National Safety Council to have cost some \$15 billion in 1974, which even the council said may have been a gross understatement.

Lifestyle research, he suggested, would concentrate on the amount of exercise an individual obtains, along with diet, amount of sleep, consumption of liquor and smoking habits.

An individual's income also appears to play a significant role in his overall health, said Mr. McNerney, pointing to a "persistent relationship between income and illness. More and more we have come to the conclusion that low income is a cause of poor health."

To illustrate what he termed a "disjunction between the problem and the resources," the Blue Cross executive noted that the Department of Health, Education and Welfare annually spends \$220 million for biochemical cancer research and less than \$10 million on possible environmental causes of illness, where closer study is likely to provide greater results.

"We are all to blame," said Mr. McNerney. "It is only recently that we began to notice the problem."

We agree that health care priorities have been haphazardly set. But we would go back a step further than even the research area and suggest that a faster shift to preventive medicine for the nation as a whole is in order, so that we start controlling costs by keeping people healthy instead of continuing to focus on paying the fast-inflating hospital and doctor bills.

Won't eat its cake . . .

THE INTERNAL REVENUE Service has no qualms about forcing private companies under penalty of perjury to answer open-ended questions about all possible payments to secure influence overseas, no matter how insignificant. Some accountants and corporate officials complain that this order is costly and time-consuming. In addition, the information may involve actions of foreign affiliates which are outside the jurisdiction of U.S. tax enforcement. Corporations that do not comply with the order face the threat of an IRS summons.

How ironic that this same federal agency, which can burden the private sector with an ominous requirement at whim, refuses to accept responsibility for the advice its employees dole out to the public regarding tax preparation procedures. Shouldn't the IRS accept the liability for its own negligence like every other segment of our society?

Another glaring example of IRS inequity, we believe, is the way federal tax law is applied. (Hint: not uniformly.) A ruling in one regional tax court doesn't automatically apply in other IRS jurisdictions. As a result, inconsistencies abound from one part of the country to another. It's commonly known that a taxpayer in New York has a greater chance of being audited than a similar taxpayer in New Mexico. Yet the IRS reportedly is confused about whether or not the disparate statistics "show patterns of uneven enforcement."

It seems to us the IRS should be held to the same standards of professional conduct that it imposes on regulated parties.

Step up and be listed

ON AUGUST 9 *Business Insurance* will publish its fifth annual Agent/Broker Profiles Issue.

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.

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

Letters and questionnaires were mailed to all agents and brokers who appeared in last year's issue. Please watch for these notices and return them, with complete information, by the June 16 deadline. Please send new information to us in order to be listed. Last year's profile listing cannot be used as the basis for this year's entry.

Agents and brokers who were not listed in last year's issue may receive a copy of this year's questionnaire by contacting Ms. Linda Moskowitz, *Business Insurance*, 708 Third Ave., New York, 10017. The phone number is 212-986-5050.

Invitation to join panel

THE THIRD *Business Insurance* Editorial Advisory Panel Report covering insured versus self-insured risks is in the mail to the risk and insurance managers who've agreed to provide details of their insurance programs and experiences to us on a confidential basis.

We invite other readers of *BI* to join our panel, and participate in answering our questionnaires. Answers are never associated with the names of contributors or their employer in any way. To submit your name as a regular panelist, write to Susan Alt, Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

letters

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

Duplicate coverage

To the Editor: I have read, to the point of near exhaustion, all the arguments for claims made product liability insurance. I thoroughly agree with the industry's concern over liabilities imposed ten to twenty years after cancellation of a policy. However, I fail to see any advantage afforded the buyer. Is not the buyer, when purchasing a claims made policy, in actuality, purchasing duplicate coverage? That is, if the buyer had purchased an occurrence policy in 1960 and a claim was made during the policy period covered by a claims made policy for an occurrence happening in 1960 does the buyer not have duplicate coverage?

Further, as we all know, most insurance contracts have a clause entitled—Other Insurance—which states simply, "If there is any other valid and collectable insurance . . . the insurance under this policy shall apply only as excess insurance over such insurance. . . ." In the example stated above is there not valid and collectable insurance under both policies? I feel the claims made basis policy will only add to the confusion in that now, with occurrence policies the question is—who, whereas with the claims made the question is not only—who, but also—how much.

In closing, I would like to express one more argument against—What if, for some unknown reason, a buyer, who has purchased for the past five years a claims made policy is suddenly confronted with a closed market and cannot renew on a claims made basis? Is he not forever without insurance for claims arising out of an occurrence which took place during those five years?

I am afraid this buyer will require a few more exhausting hours before relying on a claims made policy.

P. K. McCahill, III,

Manager, Insurance and Safety, Norton Simon Inc., New York, N.Y.

Surgery figures

To the Editor: Reference the article "Health insurance cost control is possible by elective surgery curbs" by Margaret LeRoux, which appeared in the February 9, 1976 issue, may I raise a question about the figures reported?

The article recites that the "sub-committee estimated that 2.4 million of them were unnecessary. The cost of the unnecessary surgery, the subcommittee said, was \$3.9 million." These two figures don't seem to track. Either one is

Continued on page 12

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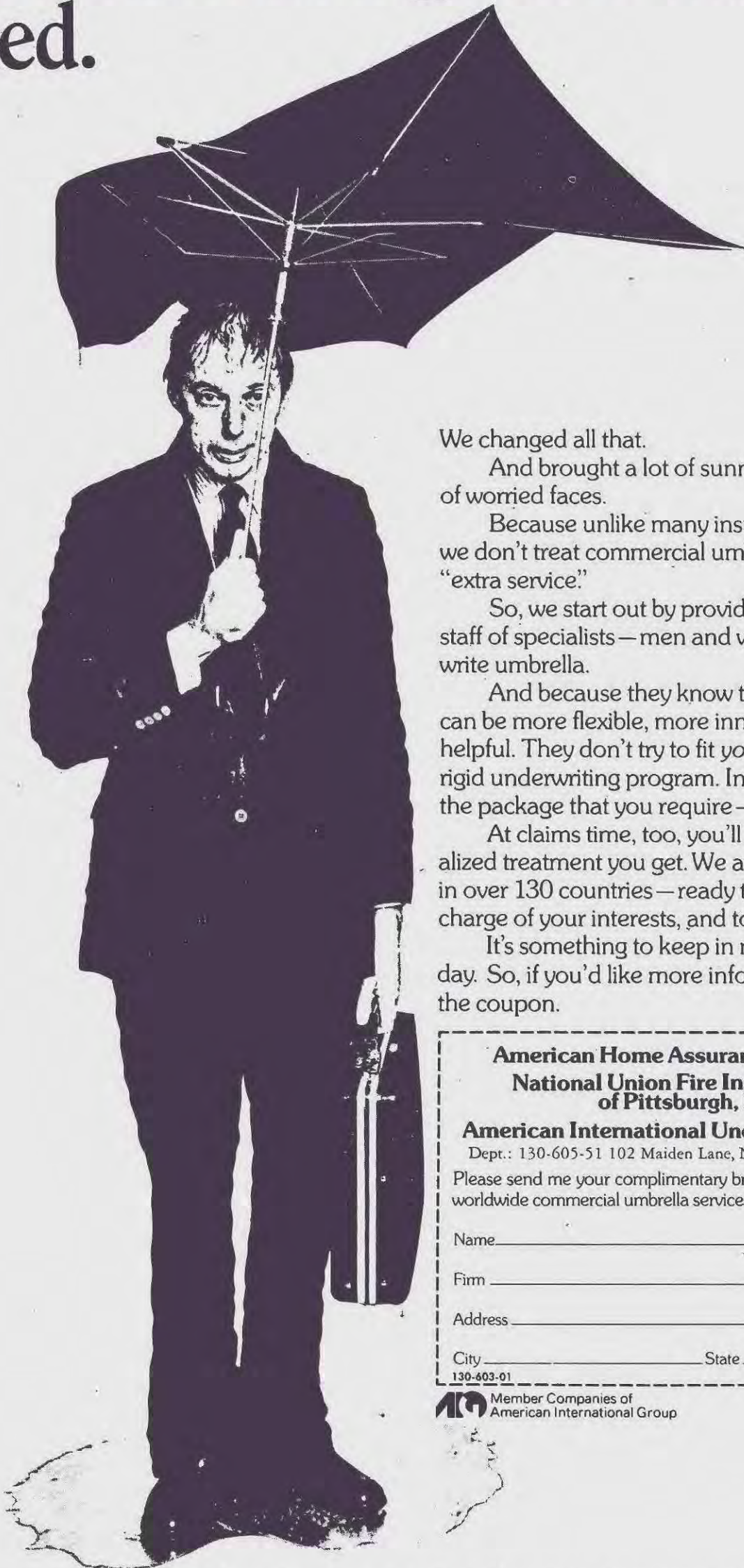


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letters

Continued from page 10
incorrect or the costs per unnecessary incident ($\$3.9 \div 2.4 = \1.625) are mighty inexpensive.

Can you shed any light?

John H. Fabretti
Product Manager, Commercial

Health, Health Application Systems, Burlingame, Ca.

Editor's note: The House of Representatives subcommittee took the lowest surgical nonconfirmation rate of 17.6% from the study done by Dr. Eugene G. McCarthy and the Cornell Medical College on 1,356 members of two New York labor unions. They applied the rate nationally to the approximately 14

million elective operations done in acute-care hospitals in 1974. The subcommittee then estimated that 2.4 million of these operations were unnecessary. The cost of the unnecessary surgery was estimated at \$3.9 million, using a conservative 0.5% mortality rate associated with elective surgery.

Editorial of value

To the Editor: I am the director of purchasing for the city of Kalamazoo, Michigan, an organizer of and a member of the board of directors of the Michigan Public Purchasing Officer's Assn. Risk management is an important section within the spectrum of responsibilities assigned to my department. One staff member expends approximately 50% of his time in this area and has twice attended the national risk management school.

He recently brought to my attention, the editorial appearing in your March 8th issue entitled "A Need For Competitive Bid Rules", which I believe is worthy of wider circulation.

I, therefore, request permission to re-print, subject to the approval of our board of directors, your editorial in its entirety in our publication which is called "The MPPOA Spanner." The Spanner is circulated six times a year to 150 Michigan members, other Michigan municipal associations of various types and other purchasing associations nationwide. Membership in our organization is open to any individual having direct responsibility for procurement, if employed by any tax supported governmental agency. We are a professional organization serving professionals at the state level, counties, cities, villages, townships, county road commissions, colleges,

universities, school districts and various authorities.

The major thrust of the editorial is of value to all who are concerned with risk management in government applications, and it is evident that its writer does have a feel for the field of professional purchasing management.

We are, however, strong in our belief that organizations such as ours, the National Assn. of Purchasing Management, the National Institute of Governmental Purchasing and the National Purchasing Institute have made tremendous inroads toward the elimination of "corrupt purchasing agents." There may be some who cannot or will not adhere to statutory requirements or professional standards and ethics, but we believe that proportionately their numbers are few.

Willard G. Kane

Director of Purchasing, City of Kalamazoo, Mi.

Competitive bid rules

To the Editor: Your editorial in the March 8, 1976 issue, A Need for Competitive Bid Rules, will generate a substantial response from many of my fellow governmental risk managers.

In this one editorial you have probably set our particular part of the industry back at least 30 years.

You incorrectly stated that in recent months we, and often our consultants, argue that we should be exempt from the bidding process when in fact, we have been arguing this for many years. I still shudder when I think that our astronauts went to the moon in a low bid vehicle.

Our reasons are not based on current market conditions but to allow us to more easily accomplish

the risk management function.

I know of no one in our particular industry who is against periodically testing the marketplace to guarantee the best product at reasonable cost to the taxpayer. After all, we are some of those taxpayers and consider all our taxpayers our stockholders. Conversely, I know of no one that enjoys either dealing with a political hack or, agrees with a mandated bidding system.

Abuses that you speak of normally occurred in areas where there was no professional risk manager and in at least two cases that I'm aware of these have been corrected by the forming of a risk management department and the hiring of professional risk managers.

I also refer you to Susan Alt's article in the February 23, 1976, issue, "Outlaws Local Restrictions on Ability to Vie for City Insurance." In that article she states six governmental risk managers out of thirty or 17% have a non-competitive system. What she does not say is that 83% do have a competitive system and that percentage is growing every year as governmental risk management emerges out of the dark ages. You, it seems, want us to return.

Nowhere in your editorial do I see mention of those of us who are free to use direct writers, more than one broker or self-insure when we so desire.

Free selection of agents and insurers by a professional risk manager should be allowed to continue in those areas which now allow it and be expanded upon in those areas which don't allow us to do the job that we are paid to do.

Douglas E. MacLeod

Assistant to Director, Bureau of Real Estate and Insurance, County of Nassau, Mineola, N.Y.

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Teamsters score with benefit contribution rate

WASHINGTON—In the first major settlement of the 1976 collective bargaining season, the International Brotherhood of Teamsters won large increases in the contribution rates for pensions and health and welfare benefits, as well as a substantial wage hike.

The agreement followed three days of strikes, giving the Teamsters substantially what the union asked for in the areas of health benefits and pensions. Contributions to union health and welfare funds, now at \$21.50 per week per employe, will go up \$3 retroactive to April 1, 1976, with another \$3 increase next year and a \$2 increase in the third and final year of the new contract.

Not all the details of the new contract have been disclosed, pending the current ratification process, but some benefit increases are expected along with the larger contribution rates. "I'm sure there'll be some kind of benefits included," said a source at the Central States division of the International Teamsters.

But much of the increased contributions is expected to be eaten up by inflation in health care costs. "We now figure we need (an increase of) 10% per year to maintain benefits," said a worker in the research department at International headquarters here. "We know hospital costs are going up."

Pensions contributions will increase \$9 over the life of the contract, but most of that is expected to go for compliance with ERISA, the researcher said. With this year's \$3 hike in pension contributions, employers will be contributing \$25 per week per employe for pensions, he added.

At the Central States health and welfare fund, benefit improvements are further complicated by the union's shift to a self-funding mechanism as of February 1. "We're in the process of completely analyzing health and welfare benefits as a matter of expense in an effort to revise and extend and improve benefits within the contribution rate," said Ron Venet, senior consultant with the Central States fund.

In a year laden with expiring contracts in many important industries, the Teamsters agreement is generally expected to have major impact on bargaining sessions to come.

General Motors, for example, has already served notice to the United Auto Workers that it wants to alter the health benefits system without increasing costs, according to George B. Morris Jr., vp-industrial relations, in a speech to hospital administrators in Atlanta.

Victor Zink, GM's director of benefits and services, said the restructuring could include changes in limits, co-insurance, deductibles or standard-setting. "We're not sure what will be persuasive with the union," he said.

The impact of the Teamsters agreement is unknown, Mr. Zink said, but he said it didn't contain "too much of significance in the benefits area."

The uncapping of the cost-of-living allowance, a major victory for the Teamsters, is more significant for upcoming negotiations, Mr. Zink said, as well as the wage increases.

The union is expected to ask for a vision care plan, home and office doctor visits, unspecified improvements in the dental program, and extension of the dental plan

to retirees, according to Mr. Zink.

At the United Rubber Workers, a contract deadline of April 20 makes it the next major collective bargaining session on the calendar, and improvements in pension and health benefits are a major item in the talks, according to a union spokesman.

Although a news blackout prevented him from commenting on specifics, the spokesman said other important items include the cost-of-living allowance, catch-up in wages "to parity with the UAW," and other wage increases.

The United Rubber Workers spokesman had no comment on the impact of the Teamsters settlement on the ongoing talks. ■

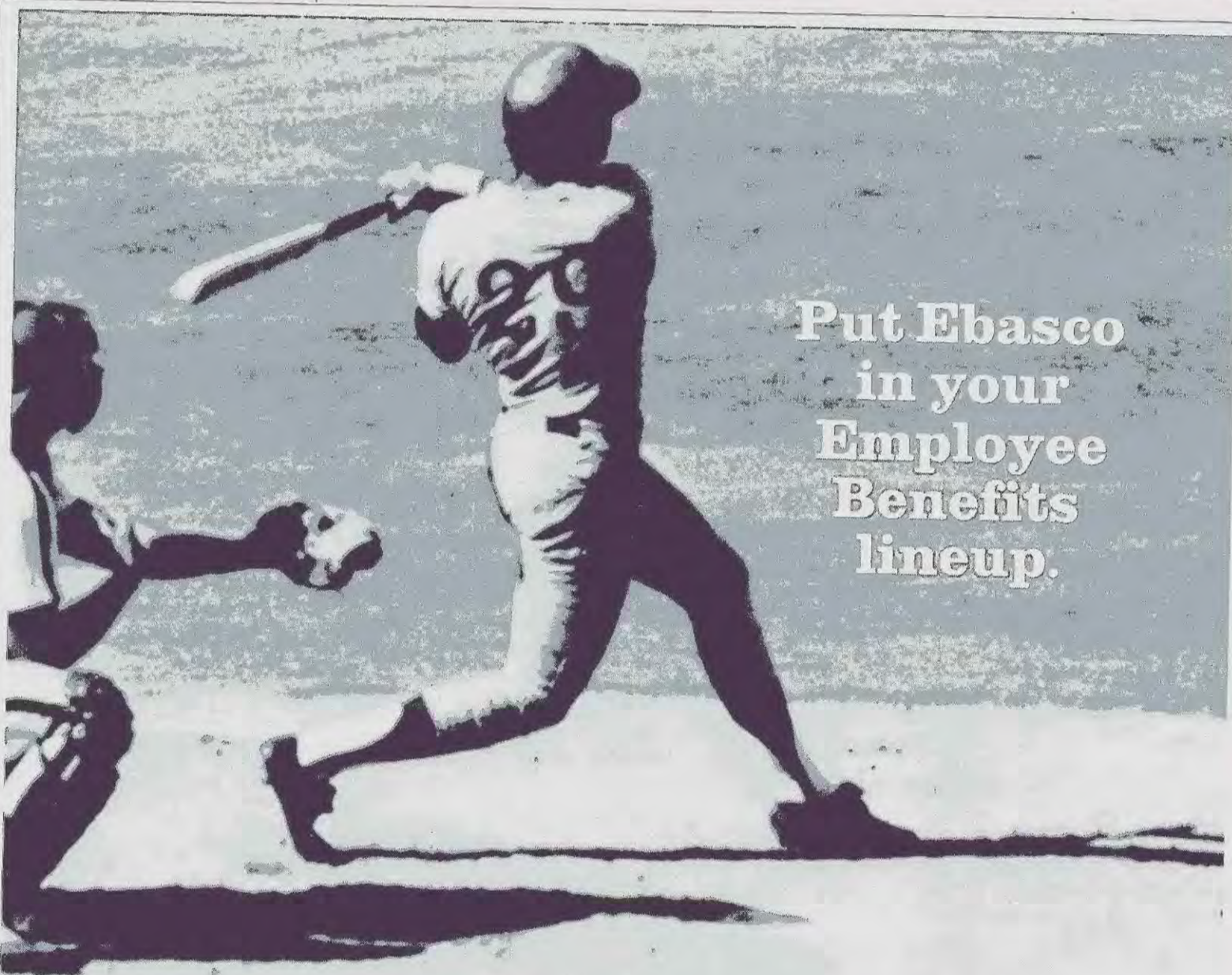


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• A guide and checklist for the review and purchase of **Investment Contracts for Pension & Profit-Sharing Funds** is available free of charge from Reed Shaw Stenhouse Inc. The advantages, disadvantages and questions that should be asked in evaluating alternative proposals are covered. Write Robert Pawelko, vp-actuary, Reed

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• **The Essential Role of Marine Cargo Insurance in Foreign Trade** is examined in a 13-page booklet aimed at shippers, ship operators, and cargo underwriters. Single copies of the International Union of Marine Insurance booklet are

available free upon request; write the American Institute of Marine Underwriters, 99 John Street, New York, N.Y. 10038.

• **Group 10** is the title of a booklet describing a computer applications engineering service of Albert C. Martin and Associates. Among their services described are earthquake risk, building systems and energy conservation analysis. For a free copy write Albert C. Martin and Associates, 445 S. Figueroa St., Los Angeles, Ca. 90071.

• A report, **Earthquake Prediction—Opportunity to Avert Disaster**, summarizes the results of a conference held in San Francisco last November. The free Department of the Interior report includes papers on quake prediction, a proposed Federal plan for issuing predictions and public policies. For copies of the 35-page report write the U.S. Geological Survey's

Distribution Branch, 1200 South Eads St., Arlington, Va. 22202.

• To help business keep up with employe information requirements, personnel department data requirements, and communication of employe benefit programs, Benefacts Inc. has described some alternative systems. For its free brochure, **A Total Approach to Employee Communication and Information Systems**, write Benefacts, Inc., Dept. CM, Hampton Plaza, 300 East Joppa Road, Baltimore, Md. 21204.

• How to achieve logical, cost-effective firesafety design systems is the subject of the National Fire Protection Assn.'s **The Systems Approach to Fire Protection**. The soft-bound book contains 14 articles on the systems analysis approach to firesafety design. The price is \$5, with discounts available over 25 copies. Write the NFPA Publication Sales Depart-

ment, 470 Atlantic Ave., Boston, Ma. 02210.

• **Four Dimensions of Safety**, a promotional brochure from Willson Products, shows items for the protection of the eyes, respiratory, head and hearing of the worker in industry. For a free copy, write to Stephen A. Neimiller III, advertising manager, Willson Products Div., ESB Inc., P. O. Box 622, Reading, Pa. 19603.

• Norris Industries is offering **Catalog of Fire Protection Equipment** for industry, commerce and institutions. For a free copy, write to Paul R. Warren, Norris Industries, Fire & Safety Div., P. O. Box 2750, Newark, N.J. 07114.

• **Assurex International** offers a color brochure describing its network of 45 independent agents and brokers in North America and 16 foreign offices, serving commercial and industrial insureds. For a free copy write to: D. S. Butler, Executive vp, Assurex International, P. O. Box 1270, Wheeling, W. Va. 26003.

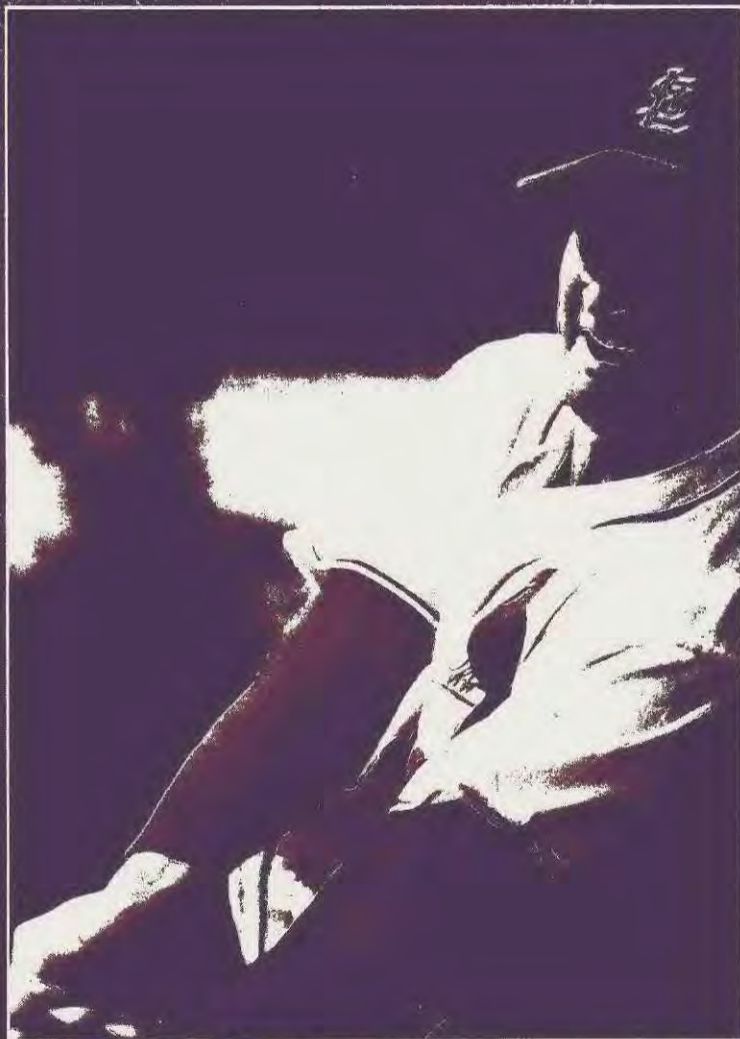
• Health Application Systems published **Medical Benefit Administration Systems** last year which describes the key features of the firm's medical benefit administration systems and the advantages they offer to sponsors of medical benefit programs—primarily corporations, union trust funds, Health Maintenance Organizations and government agencies. For a free copy of the descriptive brochure, write Lynden N. Kendrick, Health Application Systems, 1633 Bayshore Highway, Burlingame, Ca. 94010.

• AFIA Worldwide Insurance un-complicates **boiler and machinery insurance overseas** in its booklet containing a description of basic conditions necessary in coverage abroad; the coverages available; a comparison of policies admitted, non-admitted and DIC, along with special factors relating to overseas insurance. The booklet also gives information required of the agent or broker. For a copy write Joseph B. Weimert, Vice President, AFIA Worldwide Insurance, 1700 Valley Rd., Wayne, N. J. 07470.

• Crime protection for small businesses is the topic of **Crime Is Everybody's Business**, a brochure available from Zurich-American Insurance Cos. Included are 14 tips for protection of business property plus guidelines for keeping homes and apartments safe. For free copies write Communications Dept., Zurich-American Insurance Cos., 111 W. Jackson Blvd., Chicago, Il. 60604.

• **Product Liability Re-Underwriting** is discussed in a reprint article by Bernard J. Daenzer, president of Wohlreich & Anderson Ltd. It considers the new demands for this coverage, influences of the Consumer Product Safety Act, and the lack of underwriting experience in this area. It also urges utilizing the broader underwriting experience of reinsurers regarding product liability and provides a detailed check-list of underwriting factors. Free copies are available by writing Anthony Bova, Wohlreich & Anderson Ltd., 55 John St., New York, N. Y. 10038.

• **Insurance Claims Investigations** is a brochure reviewing steps that can be taken to keep justified insurance claims within bounds, and/or to arrive at equitable settlements or present justified defense, published by Pinkerton's Inc. For a free copy, write S. V. Marino, Pinkerton's Inc., 100 Church St., New York, N. Y. 10007.



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Major league records:
Most seasons 100 or more games played, 21.
Most seasons with one club, 22 (tied).
Most years leading in doubles, 8.
Most years leading in triples, 5.
Most All Star Games played, 24.
National League records:
Most base hits, 3,630.
Most doubles, 725.

Other achievements:
Lifetime batting average, .331.
Lifetime R.B.I.s, 1,951.
N.L. M.V.P., 3 times.
Led N.L. in total bases, 6 years.
Led N.L. in slugging percentage, 6 years.
Led outfielders in double plays, 1949.
Led first basemen in double plays, 1957.

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General Reinsurance

Official calls for 'cooperation' on rates

London insurers can't stand heat of heavy premium rate competition

By JOHN H. MILLER

LONDON—Commercial insurers in the U.K. are facing troubled times for the two main classes of business, namely sea and air, which bring them more than \$2 billion a year in premiums and make them one of the world's largest markets in this field.

The all-out "split" right across the U.K. marine insurance market which has led to top-level talks in secret meetings of London's Joint Hull Committee is still far from settled.

Efforts by the committee's chairman, Ted Rainbow, to "patch up" the quarrel over rate-cutting, in the hope of getting better premiums, are still facing strong reaction both within Lloyd's and leading U.K. marine companies.

Mr. Rainbow, the leading marine underwriter for Commercial Union, is firmly opposed to any more rate competition occurring among insurers who hope to get back some business which the U.K. may have lost to foreign markets in recent years.

Also opposed to this competition is A. Henry Chester of Lloyd's who quit as deputy chairman of the Joint Hull Committee in protest against further rate cuts, and believes rates ought to go 20% higher instead.

But there are known to be other underwriters, both at Lloyd's and with the companies, who want to capture new business, or at least get old business back, such as the \$5 million a year premium taken from the U. K. Pao shipping group of Hong Kong, which has been won back for London, after being in the Norway, Germany and the Far East markets for a year.

After a special meeting of the Joint Hull Committee Mr. Rainbow told *Business Insurance* that all marine underwriters in the London market had been "asked to have regard" for the committee's views on premium rates.

Market leaders will meet to find a solution in cases where there may be problems, so that an early settlement of the dispute can be achieved before the fight for business gets "out of hand."

But there is little doubt that these views are not shared in 1976 by all competing underwriters, some of whom believe that the London market must fight to preserve its long-standing position of dominance in the marine insur-

ance field, even if this means cutting rates for some shipping interests.

Then, say these underwriters, it might be possible to stabilize rates on the foundation of substantial business for their operations.

This "do or die" attitude could well affect markets like the U.S. hull syndicates.

Henry Chester in London said, "Hull underwriters don't own gold mines. If something isn't done soon, there will be many who stop underwriting. Rates are low enough now after going steadily down since 1973. But we're still getting this intense competition from Japan, the U.S. and Europe."

In the aviation market, too,

there is growing concern over whether currently competitive markets will generate future loss-making business.

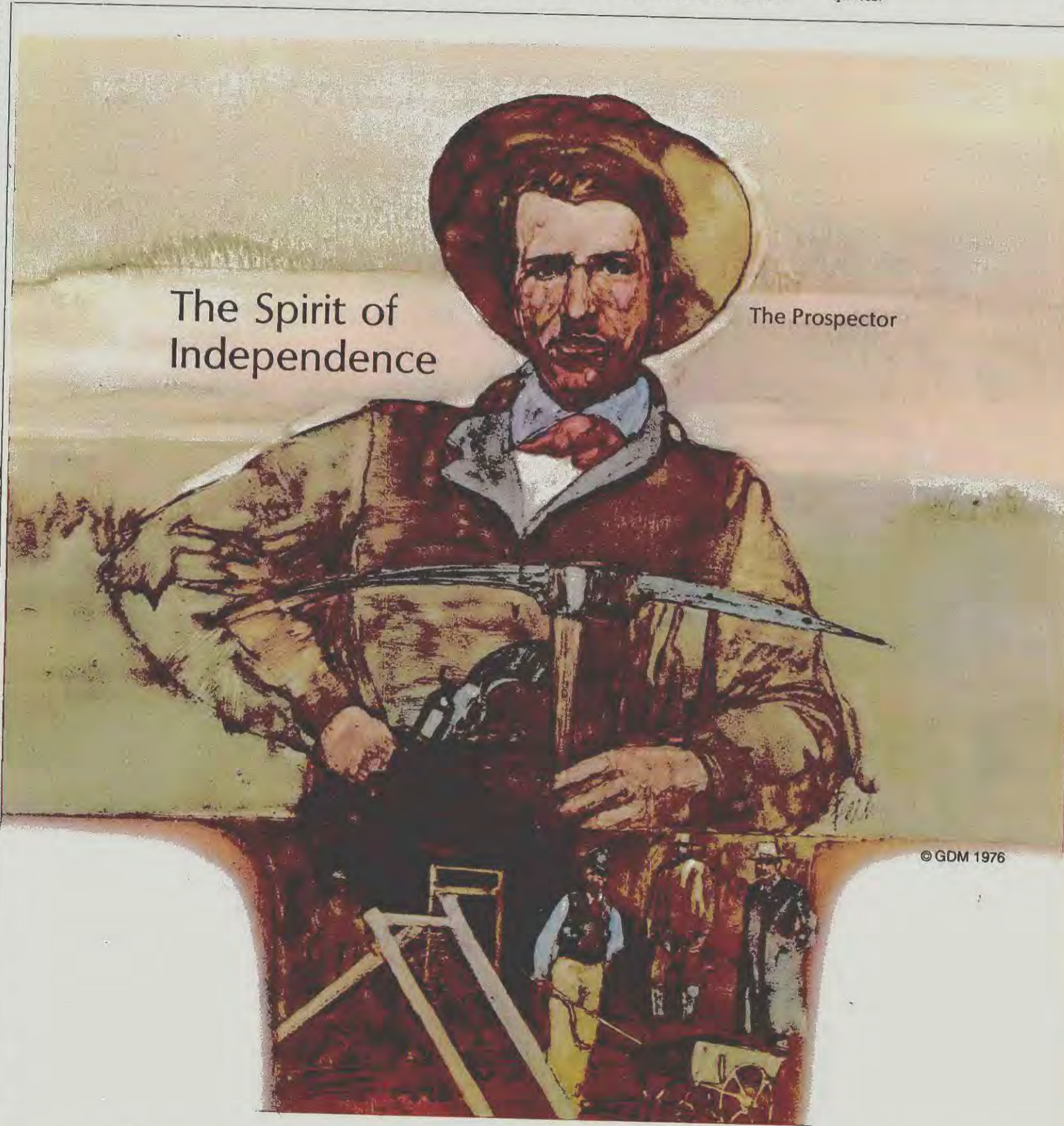
John C. Peters of Phoenix Assurance, chairman of the Aviation Insurance Offices Assn., declared: "The profit and loss cycles that have occurred at regular intervals in the past have been too readily accepted as being almost inevitable."

"They have coincided with the introduction into world airlines of new and more expensive equipment, and so there is the need for higher sums to be covered. But I don't see that there's any such need likely in the near future."

Rates are declining on nearly all classes of aviation business, with some premiums being as low as 30% of those levied in 1969, yet liability awards keep going upwards, he told the association's annual meeting.

Meanwhile, the aggregate value of aviation casualties is rising, as figures show that last year losses of aircraft from the world's Western nations reached \$145 million.

Like the marine insurers, Mr. Peters called for aviation insurers to "put their house" in order. But there is still every sign in London that many underwriters feel compelled to attract a substantial flow of business with attractive rate quotes.



The Spirit of Independence

The Prospector

© GDM 1976

Keep records a longer time

WASHINGTON—The Labor Department has extended from three to 20 years the time period employers are required to retain monitoring records of employee exposure to asbestos.

The decision reflects the minimum latency period for many asbestos-related diseases and conforms to the retention period now required for employee medical records, the agency said. OSHA believes the data obtained over the longer retention period will be useful in detecting patterns of health hazards associated with exposure to asbestos.

The OSHA decision followed a ruling by the U.S. Court of Appeals for the District of Columbia that the agency undergo a review of the OSHA asbestos standard. ■

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London line

Merrett syndicate wants to restore its family independence after 14 years

By JOHN H. MILLER

LONDON—Changes are being made in the control of the well-known Merrett underwriting syndicate at Lloyd's so as to restore its family independence.

The syndicate came under the control of corporate institutions 14

years ago, but these have grown so big that a \$6,000,000 deal is now being arranged to bring it back to its former status.

Merrett is one of the biggest syndicates at Lloyd's, with 1,400 members, and handles substantial lines of U.S. business in both marine and non-marine fields.

The deal is being planned by Stephen Merrett, 36-year-old son of its founder, who believes that syndicates at Lloyd's should be as free from outside influences as possible.

This is in contrast with recent developments among major insurance brokerage firms, some of

which are becoming multinational and turning into divisions of vast financial corporations, both in the U.K. and abroad.

Explaining his plans, Stephen Merrett told *Business Insurance*: "Loans are being arranged so that I can repurchase direct control and enable my underwriting interests to respond much more flexibly to the current difficult conditions in the market."

The business was started by his father, Roy J. M. Merrett, now 75, who had six names in his syndicate when he began underwriting fishing vessels in 1935. He sold his interests for £500,000 sterling in 1962 to a financial group as he felt it would provide greater support for the business. But mergers over the past 14 years have led to an Italian-controlled consortium owning it through a subsidiary U.K. company.

Now it will revert to its former status by acquiring Paul Dixey (Underwriting Agencies) Ltd., another Lloyd's syndicate run by former Lloyd's of London chairman Paul Dixey, which in turn will aid moves to complete the deal, and form a new joint Merrett-Dixey syndicate.

Principals of the new syndicate will include Roy Merrett, who is still very active at Lloyd's and last year helped in negotiations with Egypt to release vessels that had been trapped in the Suez Canal; Leslie Dew, another prominent Lloyd's underwriter well-known in the U.S. for D&O insurance; and Paul Dixey, who has also been in the market for many years.

Additional principals will be Stephen Merrett, and two other Lloyd's experts, Arthur Castle and Keith Hulme.

Marine insurers in London have completed settlements for the \$50 million tanker *Olympic Bravery* which ran aground off Ushant (France) Jan. 24. It is owned by the Onassis group, and had coverage in the U.S. and other countries.

U.K. pay-outs total \$23 million and were shared between Lloyd's and marine insurance companies. It is expected that other insurers will be settling the remaining part of the loss, which is the costliest disaster in record in the shipping industry.

Several European salvage firms showed interest in the vessel, which was on its way to Norway when it ran aground. It was impossible to refloat the tanker, however and it broke up in heavy weather on March 12.

Problems of handling employee benefit programs in times of inflation were reviewed by Thomas V. Hirschberg, staff insurance vp Sperry Rand Corp. of New York, at a pensions conference in London organized by the Financial Times.

He said: "Our management strategy in this inflationary environment is to control costs and assets so as to offset outside pressures on profitability."

"It is fiscally irresponsible to accept open-ended, long term commitments like automatic indexing of pensions in relation to the cost of living."

"We have a dual responsibility, both to stockholders and to employees, to remain a profitable business, and it is precisely that which guarantees our continued existence and enables us to meet our commitments."

"From time to time such profitability enables us to improve plans for active employees, or increase pensions for retired employees, but no one benefits when a company promises something beyond its ability to deliver."

Benefit programs have been instituted by Sperry Rand, which

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employs 90,000 people in its U.S. and overseas divisions, in all countries relevant to its operations.

Liability limits for passenger injuries involving U.K. air carriers have been raised to \$50,000, or nearly treble the Warsaw Convention limits, by the British government in order to keep pace with rising trends, according to a statement in Parliament by Trade Secretary Clinton Davis.

He said other countries had been asked to take similar steps as far as their own domestic airlines were concerned.

A further conference is to be called as soon as possible to examine the various conditions relating to the liability of air carriers, Mr. Davis added. Higher limits than \$50,000 can be fixed by special contracts between carriers and travelers.

Ten months ago a 21-year-old Englishman, Peter Oddie, was awarded \$170,000 damages in a U.K. lawsuit for hospital malpractice which had left his "permanently epileptic" in the opinion of medical experts.

He had received brain injury during a drug mix-up in his treatment in the hospital at Accrington, Lancashire County, and was thought incurable.

But his father and mother sent

him to New York for three months' treatment at the Carbon Dioxide Therapy Clinic, run by Dr. Albert Laverne.

Now he has returned to the U.K. with a higher intelligence rating than he had before the accident, and telling friends that he has been cured by brain cell treat in the New York clinic.

Reinsurers have been advised to study new communication techniques which are being brought into use in the U.S. so as speed up business contacts.

Julius Neave, president of the Reinsurance Offices Assn. in London, believes this is necessary because of the planned program for a \$4.5 million computer system which will help the placement of facultative reinsurance.

He told a London conference

organized by the Financial Times: "Ten major U.S. insurers are developing this system, which will become available to virtually all insurers and will involve all property and casualty lines.

"If this enterprise succeeds, as with such backing it assuredly must, then it will bring in an era of new concepts in reinsurance.

"Handling facultative business which we in London must heed, through this system is only a short step from handling treaty and contract business. This U.S. initiative will be a considerable stimulus to thinking along similar lines in Britain."

He urged the London international insurance market to develop its own schemes for controlling business operations with the aid of new technological devices.

Gathers solutions on liability reform ideas

HARRISBURG, PA.—The Pennsylvania Chamber of Commerce is seeking a solution to the product liability insurance problems of businesses in the state.

It has started to gather information on how other states are dealing with product liability insurance shortages and rising premiums, particularly from a legislative standpoint.

It hopes to present a package of reform suggestions to the Pennsylvania legislature after studying the situation.

It is not expected, however, that Pennsylvania will suggest liber-

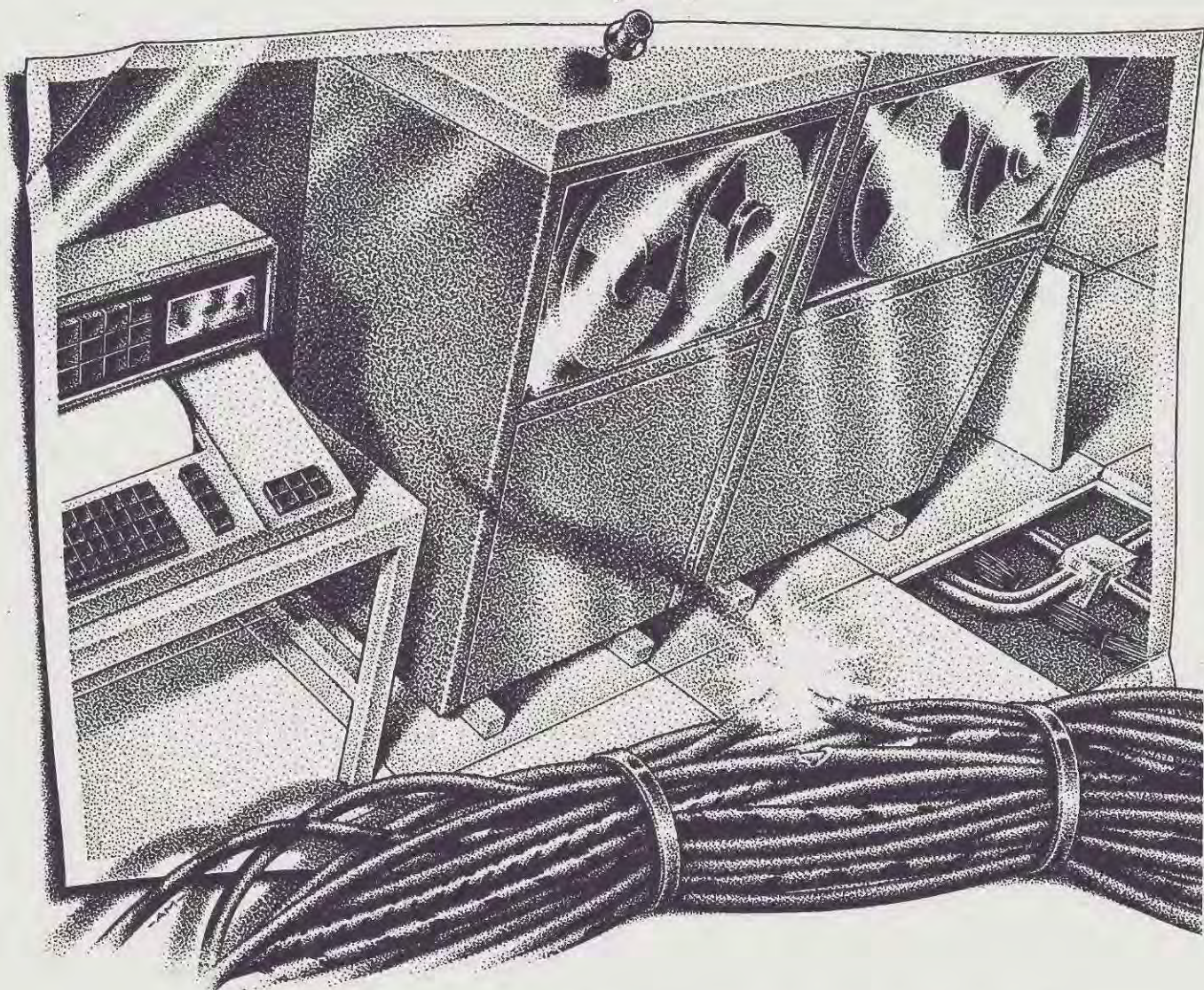
alizing workers' compensation benefits as a means of cutting back on third party liability suits, which is one proposed reform circulating in New England now.

Nor is it likely that it would support a product liability reform in which an employer's negligence could be used as a defense by a manufacturer being sued in a third party product liability case, according to a state spokesman.

"That would present quite a problem to employers. We're looking for a solution that will benefit everyone in the state," he commented.

THE CASE OF THE COSTLY COMPUTER

At first glance, the possibility of fire breaking out in their multi-million-dollar EDP center was totally out of the question. Then they took a second look. Potential fire hazards were everywhere. Electrical equipment can short circuit. What if a cable in the sub-flooring malfunctioned? How would they detect a fire or even get to it? Within minutes, it could all go up in smoke—computers, stored tapes, support equipment, everything. Instead, they had us install a fire suppression system using Halon 1301, a colorless, odorless gas that is safe for people and delicate electronic equipment. Now Ansul's Halon 1301 System is ready to react automatically, in seconds, to snuff out fire and avoid potential disaster.



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Self-In

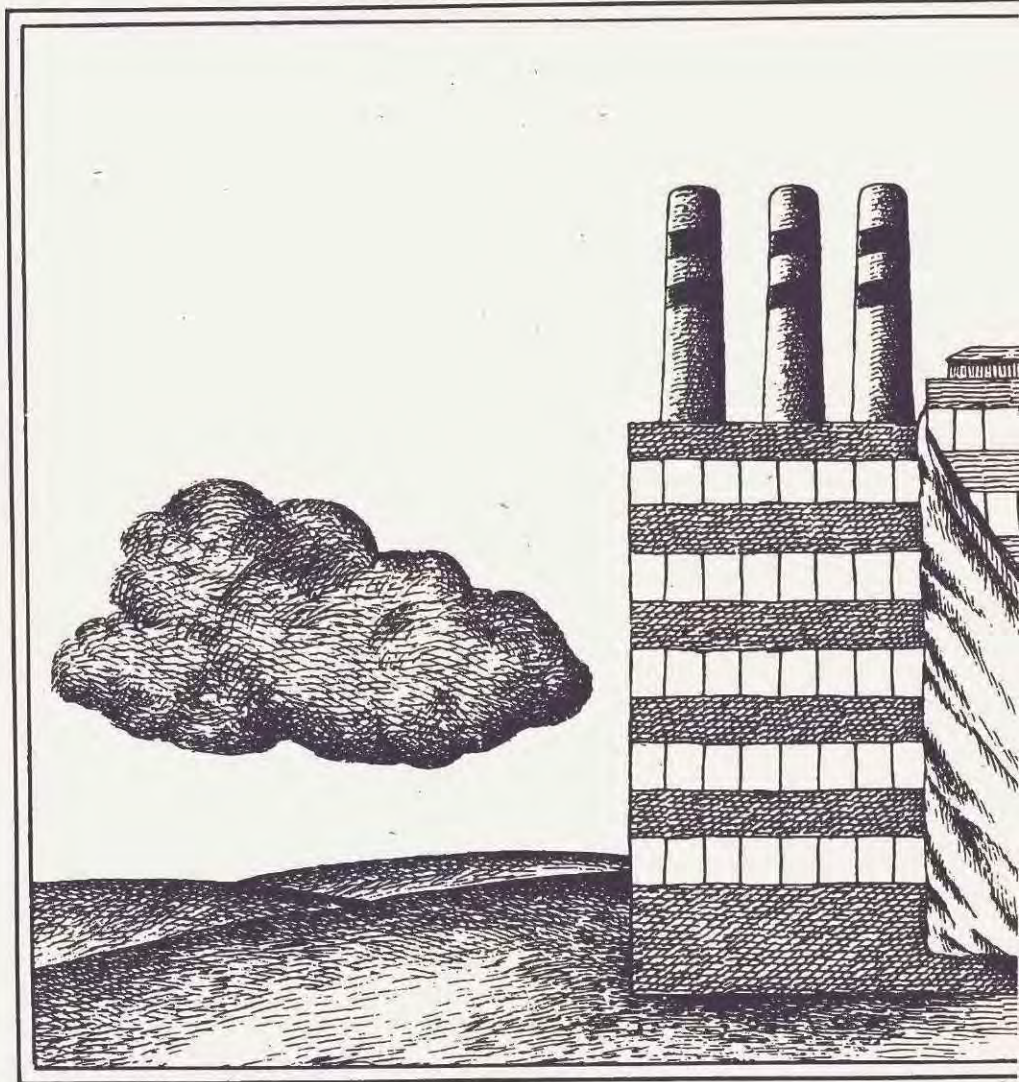
When a company chooses to assume the risk of paying all or part of losses with its own funds as an alternative to the purchase of insurance, what might be the advantages and disadvantages?

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

If a company knows that it can expect fairly predictable losses of certain kinds year after year, it can choose to pay all or part of those losses itself, rather than cover them with commercial insurance. This is the essence of "self-insurance" or risk retention, a procedure being employed by a variety of organizations today.

What are the conditions which make self-insurance a valid option? Probably the most important are that the losses involved be recurring and that they be similar in nature—both of which contribute to predictability.

For example, an organization with a large fleet of trucks might find that each year the fleet incurs a number of losses with roughly the same total amount of loss. Such predictable losses might be handled through self-insurance, with the firm retaining all or part of the risk.

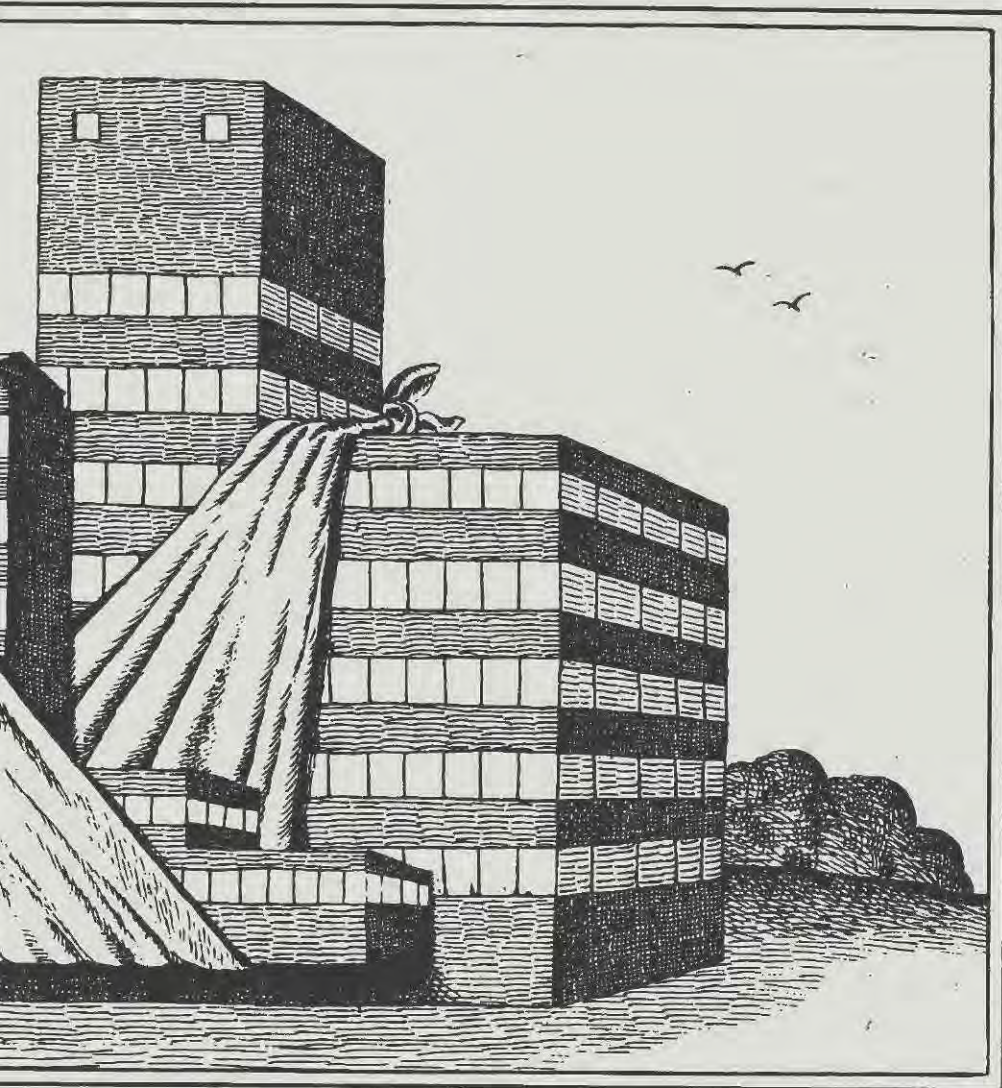


Reduced premium payments

Self-insurance has several possible advantages. The reduction or elimination of premium payments can mean an obvious cost savings to the degree that retained losses plus expenses are lower than the premiums would have been. But most important, self-insurance will permit a firm to retain cash over a longer period, improving cash flow and profitability to a marked degree.

A further benefit may be greater motivation for preventing losses or minimizing them, since the organization itself must pay such losses with funds which it can otherwise retain. And the firm may have more flexibility in dealing with the claims of its customers, employees and others.

Insurance



Among the drawbacks to self-insurance, the possibility that unexpectedly large or frequent losses can cut into profits is the most serious. Even if such losses do not materialize, the uncertainty involved can be a psychological burden on management. And it may be difficult to find personnel able to administer self-insurance with its sometimes demanding program and claims requirements.

Most of the disadvantages can be minimized, however. For instance, the impact of unexpectedly large or frequent losses can be reduced by determining the firm's capacity to absorb such losses. Once this aggregate limit has been established, insurance for losses exceeding it can be purchased—as can such self-insurance services

as administration, loss prevention and claims handling.

Financing the retained risk

A company can finance its retained risks in a variety of ways, including the use of working capital, cash reserves and lines of credit, or the establishment of a subsidiary or "captive" insurance company. In general, the method and effect of self-insurance should be carefully analyzed legally and financially in terms of each firm's particular situation.

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

* * *

The Insurance Company of North America was founded in Independence Hall, Philadelphia, in 1792. Today INA and its affiliated companies operate around the world with major interests in property and casualty insurance, marine insurance, life and group insurance, reinsurance and risk management services.

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PERSPECTIVE

AN ANNUAL ACCOUNTING:

One manager's method keys risk management data to financial tools



By GARY BAUSOM

Risk Manager, Transamerica Corp., San Francisco, Ca.

IN A YEAR'S TIME, many dollars flow in and out of a risk management department. Many organizations have personnel devoting some or all their efforts to the risk management function. These people have a time-consuming but important job, and it is difficult to keep abreast of current activities, future trends and developments, as well as specific projects or unexpected large losses that arise. As a result, one important risk management function, often neglected, is communication of its activities to management. Management will definitely want to know about cash flow within the risk management department and they should also be informed of other developments which could have an effect on the organization.

Without effective communication to management, even the best risk manager will have a difficult time succeeding. It follows that there should be an effective means to determine what is happening in a risk management department and a concise method

of communicating it to management.

Management, in general, is being held to a higher degree of accountability.¹ As a result, management is examining risk management more closely. In most cases, financial management people have the responsibility for the risk management function.² When these individuals come in contact with a new problem, they attempt to use "tools" they already possess to understand, control and manage this new problem. There are two necessary factors they look for in a management control system: (1) a means to understanding the economics of a function, and (2) the identification and reporting of the critical success factors.³ One of the most common and familiar "tools" financial managers use to determine these two factors is the financial statement. When they seek information regarding the risk management function, they will be interested in information which is financially based. Therefore, when a risk manager wants to effectively communicate with financial management, he should consider their interests and concerns which deal with money problems and, in the risk management area, the impact of the risk management function on the overall organization.

Some things which are important in risk management may not always be as important to financial management. Most important to financial management is what effect each of the operations reviewed has on the "bottom line". To better keep management's interests and concerns sorted out, an oversimplified organization chart may be helpful:

Risk management is compatible with both general management and financial management because by mitigating the effects of

General Management
"run an organization"

Financial Management
"money problems"

Risk Management
"manage static risks"

static risks in the most economic manner, the firm as a whole operates more profitable or efficiently.⁴ The risk management objective is to prevent losses and financially protect an organization from static risk to assure continuation of its operations and the earning power of its human financial, and physical resources.

Some risk management departments make a formal written report to management by listing insurance policies and their associated costs. This type of report provides a limited view of the scope of the risk management function; i.e. a limited view of managing static risks. This type of report takes a negative approach since it indicates that the risk management department is strictly a cost center.

If the risk management department did not exist, the operating units would continue to incur costs for financing static risks and, in most cases, the organization as a whole would be spending more money. By centralizing the risk management function, money that was paid out by operating units in the past now flows into the risk management department where it can be more efficiently utilized. This also gives the risk management department a source of income.

A risk management financial statement takes a more positive approach to reporting on the risk management function. The objective of the risk management financial statement should be to clearly and concisely communicate with management and not necessarily show a profit or loss.

Management, especially financial management, will understand and respond to a financial statement better than they would to a list of insurance policies. In the communication process, part of the risk manager's job is to dispel any misconceptions management has concerning insurance contracts, hold harmless agreements, economic stabilization programs, etc. All are loss leveling devices utilized to finance large losses.⁵

Management should understand that all these terms and complex documents are simply "tools" for financing and managing static risk. The main financial reason for transferring static risk is to diminish the effect an adverse event could have on the firm's bottom line in a given year. When risks are transferred, it should be recognized that this is only a temporary transfer since losses that are incurred plus related expenses have to be paid back over the long run. Insurance companies or banks (economic stabilization programs) do not pay losses out of kindness; they too are in business to make a profit.

Before looking at the content of a risk management financial statement, some of the objectives of the communication "tool" should be reviewed. Some achievements that can be obtained are:

- Clear and concise communication with management regarding the risk management function.

XYZ CORPORATION Risk Management Financial Statement

REVENUES

Risk Management Fee	
Liability	\$1,062,025
Property	1,553,100
Work Comp	1,976,000
Crime	90,220
Subrogations—Property	41,500
Recoveries from Insurance Companies	3,165
Total Revenues	\$4,726,010

EXPENSES

Losses: Paid & Incurred

Liability	\$ 741,200
Property	28,460
Work Comp	563,000
Crime	5,215
	\$1,337,875

Insurance Premiums

Liability	\$ 175,000
Property	390,000
Work Comp	380,000
Crime	20,000
	\$ 965,000

Administrative

Broker A	\$ 75,000
Broker B	30,000
Fire Protection Eng.	35,000
Loss Control Consultant	10,125
Self-Insurance Work Comp Administrative Fee	35,000
Risk Management Consultant Fee	3,650
Risk management Salaries & Benefits	80,000
	\$ 268,775

NET GAIN \$2,154,360

- A better overview for the risk management department to exercise internal control.

- A basis to compare one year's performance with that of other years.

- A means of identifying loss control problems.

- To point out opportunities to effect financial savings.

- To help set priorities consistent with management's goals.

The risk management financial statement is not too difficult to establish. Most inputs needed for a financial statement are contained within the risk management department. The major task is to compile this data so it can be reviewed in one document. The components of the risk management financial statement can be shown as follows:

Continued on following page

XYZ CORPORATION Experience by Line As of Dec. 31, 197X

	Liability	Property	Work Comp	Crime	Total
REVENUES	\$1,065,190	\$1,594,600	\$1,976,000	\$90,220	\$4,726,010
LESS EXPENSES					
Losses:					
Paid	\$ 250,000	\$ 25,100	\$ 112,000	\$ 5,215	
Reserved	491,200	3,360	451,000	—0—	
Total	\$ 741,200	\$ 28,460	\$ 563,000	\$ 5,215	\$1,227,875
Insurance					
Premiums:					
Paid	175,000	390,000	380,000	20,000	965,000
Administrative					
Expenses:					
Broker A	75,000				
Broker B		30,000			
Fire Protection		35,000			
Loss Control			5,125		
Self Insurance					
Workers' Comp.	5,000				
Risk Management					
Consultant	3,650		35,000		
Risk Management					
Salaries	20,000	20,000	20,000	20,000	268,775
TOTALS	\$ 45,340	\$1,091,140	\$ 972,875	\$45,005	\$2,154,360

XYZ CORPORATION Notes to Risk Management Financial Statement As of December 31, 197X

Accomplishments of Risk Management Department in 197X

- Established financial reporting system for risk management.
- Completed an extensive fire protection survey of major locations which identified potential loss exposures.
- Retained broker A for a more effective approach to loss control.
- Etc.

Future Opportunities for Risk Management in 197X + 1

- Introduce a loss control program with a goal of reducing the \$1,337,000 of losses by 25% over the next 3 years, which has the potential of producing a savings of approximately \$330,000.
- Implement fire protection recommendation at major locations to avoid possible losses of human, financial and physical resources estimated at:
Location Breakout of Dollars
- Explore modifications to present risk management financial "tools" to produce further savings:
"Tool" \$ Savings

Note: This section can be more extensive than this example. However, the main points should be highlighted in some manner.

XYZ CORPORATION—Risk Management Cash Flow Statement for the Year 197X

	January	February	March	April	May	June	July	August	September	October	November	December
Risk Management Fees	\$	\$2,726,010	\$1,000,000	\$1,000,000	\$	\$	\$	\$	\$	\$	\$	\$
Losses Paid	\$ 220,000	\$ 120,000	\$ 120,000	\$ 130,000	\$ 150,000	\$ 100,000	\$ 40,000	\$ 25,000	\$ 140,000	\$ 200,000	\$ 41,000	\$ 51,875
Insurance Premiums	207,000	422,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	52,000	32,000	28,000
Administrative Costs	16,000	30,000	31,000			31,000			31,000	35,000		30,775
Cash Flow	(443,000)	2,154,010	817,000	838,000	(182,000)	(163,000)	(72,000)	(57,000)	(203,000)	(287,000)	(73,000)	(110,650)
Cumulative Cash Flow	\$(443,000)	\$1,711,010	\$2,528,010	\$3,366,010	\$3,184,010	\$3,021,010	\$2,049,010	\$2,892,010	\$2,689,010	\$2,402,010	\$2,329,010	\$2,218,360

Accounting . . .

Continued from preceding page

REVENUES

RISK MANAGEMENT FEE

The revenues would consist mainly of the money paid to the risk management department by operating units for the purpose of financing static risk. (i.e. The operating units wish to transfer their risks above \$1,000. However, the risk management department chooses to transfer this same risk above \$500,000 or \$1,000,000 etc. Therefore, the risk management department revenue is the difference in the cost of transferring the risk between \$500,000 or \$1 million etc. and \$1,000.) The risk management department buys excess insurance wholesale and sells it retail to its operating units, but the risk management department is accepting a good deal more risk for the financial consideration received.

Source: These figures should be available in the risk management department based upon charges made to the operating units.

EXPENSES

LOSSES

These would be losses paid out by the risk management department which have been retained. (For example, losses which occur within the deductible of the risk management department, but in excess of the operating unit's deductible.)

Source: These losses should be identified on a loss ledger kept by the risk management department for loss control purposes.

INSURANCE PREMIUMS

These would be the premium dollars spent by the risk management department for excess insurance over its retention limit.

Source: These figures are normally kept by the risk management department on an insurance register.

ADMINISTRATION COSTS

This would be the costs of brokers, agents, fire protection, engineers, workers' compensation administrators, risk management salaries, and other remunerations.

NET INCOME OR (LOSS)

NARRATIVE

Accomplishments of risk management department in 19XX: The risk management department should have goals of protecting the organization from catastrophic losses as well as saving money. In addition, the risk management function should also provide a consulting service. Admittedly, the true value of these services cannot be communicated with numbers alone. A meaningful narrative should explain any unusual variance in the numbers and should also explain the significant accomplishments of the risk management department.

The department is usually assisted by the broker(s), agent(s) and other professional consultant(s). These people should submit a written report to the risk management department which can be edited for the purpose of including the important factors in the risk management financial statement. Basically, what service was received for the dollars expended as indicated in the administration cost section of the financial statement.

This narrative should be concise and limit the information to the significant facts.

Future opportunities for the risk management department in 19XX+1: Besides reporting what has taken place during the past year, the narrative portion of the statement should address itself to future opportunities. The risk management department should communicate the most important projects that it will be working on,

especially in the coming year. Management should be aware of these projects so that the risk management department is able to enlist its support.

It is necessary for the risk management department to gain visibility with management, identify the magnitude of problems in financial terms, and have a reasonable plan to solve these problems. The opportunities which management is likely to support are activities which will produce the most financial benefit. Possibly the opportunity is loss control or fire protection engineering, but these things in themselves are not enough to gain management's full support.

The purpose of these things needs to be identified, hopefully in financial terms, so they are clearly understandable to management. What is the cost of the project if undertaken? If not undertaken, what are the consequences? Most important, what is the expected return or benefit of this project and over what period of time? The answers to these questions will clearly communicate and improve management's understanding. It is quite possible that a loss control project may have a higher return on investment than other projects within a particular firm.

It is obvious that the headings in the financial statement are broad and general and will probably need to be broken down. The classification of accounts will vary with each different situation. They could be broken down by property, liability, workers' compensation, and crime with slightly different classifications in the administrative cost section, possibly according to the various services provided. Remember that the primary goal of the risk management financial statement is to communicate with management and not necessarily to show a profit or loss. If a profit is indicated, this is a bonus.

It is possible to lend credibility to the risk management financial statement to have an

audit done by an outside risk management consultant. It would be helpful if the consultant is already familiar with the program. A letter from the risk management consultant, attesting to the fact that the program is in good order, can be attached to the annual report. The financial figures themselves will come under the review of the firm's auditors.

The risk management statement can be computerized for a reasonable cost on most computer systems, which will reduce the work involved in producing the statement. With a computer terminal system, the risk management department will have ready access to financial information for the purpose of imputing data as well as obtaining statements as frequently as they are needed.

Footnotes

¹ *Financial Executive*, Booz, Allen & Hamilton, Inc., Financial Executive Institute, Vol. XLI#9, 1973, p. 92-113.

² *Risk Management and Insurance*, Williams, Arthur C.; Heins, Richard M.; McGraw Hill 2nd ed., p. 41-46.

³ *Management Control Systems*, Anthony, Robert N.; Dearden, John; Vancil, Richard F., 1972, Richard D. Irwin, Inc., p. 147-158.

⁴ This statement assumes that other variable factors do not significantly change. Also, this recognizes that some organizations do not operate to make a profit but rather to provide a service in the most efficient manner; i.e., government, universities, hospitals.

⁵ It is recognized that the term "large" is relative and is dependent upon the financial size of each organization.

Mr. Bausom, currently the risk manager of Transamerica Corp., had prior risk management experience at Allis Chalmers Corp. and the University of Wisconsin. He received his undergraduate degree in risk management and insurance from the University of Wisconsin and his MBA from Golden Gate University, San Francisco.

RISK MANAGEMENT NOTES

Knowing norms helps spot insurer difficulty

By WARREN, McVEIGH, GRIFFIN & HUNTINGTON

risk management consultants
San Francisco—Newport Beach

What is the Early Warning System? No, it's not the DEW Line on the Arctic Circle. It is a series of twelve "tests" used by the National Assn. of Insurance Commissioners (NAIC), to identify insurers experiencing financial or operating difficulties—and, ideally, to help prevent insurer insolvency. The norms were derived by observation of all insolvent insurers in the five years prior to 1972.

Each year, all insurers must file an annual statement on forms which are standardized by the NAIC for use by all insurance companies. In addition to the standard financial statement information, the NAIC statement includes an operating statement, changes in surplus, and a number of special schedules which identify the character of business written by the insurer, and changes in all significant areas—particularly premiums written and earned, loss reserves established to pay claims (whether the claims have been reported or not), investments, etc. The data goes into a computer which then produces a single page for each "priority" insurer summarizing the calculation of each of the audit-ratio tests, as well as a summary of financial statement information (assets,

surplus, reserves, and other liabilities, etc.).

Any insurer exceeding the established norms for four or more of the tests automatically becomes a candidate for close surveillance by insurance regulators and will probably be placed on a priority list of insurers who will be monitored more closely than normal. In any given year, 15% of property and liability insurers tested may be designated priority.

The tests and norms for property/liability insurers include the following:

1) Is the ratio of written premium to adjust surplus greater than three-to-one? (Adjusted surplus includes loss reserve deficiencies or redundancies.)

2) Have premium writings increased or decreased by more than 33% compared to the previous year?

3) Is the increase in surplus due to treaty reinsurance greater than 25%?

4) Is the combined operating ratio for one year and five years greater than 100%?

5) Did the insurer earn at least 3.5% on investments?

6) Was there greater than a 50% gain or 10% loss in the surplus account?

7) Is the ratio of liabilities to liquid assets less than 100%?

8) Is the ratio of agents' premium due balances to surplus greater than 40%? (Indicating poor collection procedures.)

9) Did 1- and 2-year loss reserves increase more than 25% when compared to surplus? (This test measures the adequacy



From left: Warren, McVeigh, Griffin & Huntington

of past reserves rather than current loss reserves.)

10) Are estimated current reserves (based in part on the adequacy of prior reserves as calculated in test 9) deficient by more than 25% of surplus?

11) Are more than 25% of the officers and directors new (within the past year)?

These tests show much more about a company than the Best's Rating can. Unfortunately, much of the detail needed to do these computations is only available from the NAIC annual statement. This must be obtained from the insurer, Best's, or examined in the offices of the insurance commissioner.

The NAIC prefers to refer to the "norm" for each ratio, rather than have each called a "test." An insurer does not "pass" or

"fail" these tests in order to be placed on the priority list. Indeed, Equity Funding was within the norm for all tests the year before the discovery of its scandal, because of management manipulation. Well-managed companies may appear to be outside the norms for several of the tests, and yet be exercising responsible corrective action.

"Using the Early Warning System" is a booklet available from the NAIC, 633 West Wisconsin Ave., Milwaukee, Wisconsin 53202, for \$5. It describes the calculations and interpretations of test results, and contains worksheets for use in performing the calculations.

Risk managers may not be interested in all of the details of calculating these ratios, but knowledge of the norms tells you what to look for.

Call Blue Cross HMOs the most 'self-sufficient'

NEW YORK—Three Blue Cross-affiliated health maintenance organizations (HMOs) show the most promise for becoming self-sufficient without continued federal assistance, a government survey said.

The General Accounting Office ranked the Genesee Valley Group Health Assn. of Rochester, N. Y., the Harvard Community Health Plan of Cambridge, Ma., and the Community Health Program of Queens-Nassau, Inc. of Hyde Park, N. Y. as the three leaders in a survey of 38 HMOs.

The Genesee Valley program also recently became one of 10 HMOs in the nation to be federally qualified to provide care under the HMO Act of 1973. It was cited by the GAO "primarily because of the financial investment and commitment" made by the Rochester Blue Cross Plan, the program's developer.

Comprehensive benefits packages were among the factors the GAO says it considered in ranking the three HMOs as appearing to be closest to self-sufficiency.

The Blue Cross Assn. announced that of the 10 HMOs now federally qualified to provide care under the HMO Act of 1973, five are affiliated with Blue Cross.

And approximately 20 more Blue Cross Plan-involved HMOs should be fully qualified under the act by the end of this year or early 1977, according to the association, which coordinates the nation's 70 Blue Cross Plans.

Thirty of the 70 Blue Cross Plans are involved in 107 operational HMOs, 57 of which are delivery points for five network programs.

Enrollment in Blue Cross-affiliated HMOs increased 21% in the past year to 1.35 million, compared with an estimated 6% increase nationally for all HMOs.

Blue Cross estimates that it will have invested \$57 million in developing HMOs by 1980. In addition to its 107 operational facilities, it now has another 30 in the planning stage.

The five Blue Cross Plan-involved HMOs qualified under the 1973 law are: Northcare, a prepaid group practice in Evanston,

Ill., with a current enrollment of 6,000 members; Community Health Care Plan, New Haven, Ct., with 16,400 members; Rhode Island Group Health Assn., Providence, R. I., with 15,100 members; Penn Group Health, Pittsburgh, Pa., with 1,400 members; and the Genesee Valley Group Health Assn., with 22,000 members.

According to Blue Cross, under the 1973 law, the HMOs which are qualified have a competitive marketing advantage through the act's "dual option" provision. This provision requires all companies with 25 or more employees to offer the choice of a qualified HMO (if one exists in the firm's area) as an alternative to conventional employee health care benefits. ■

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Ex-PBGCer is consultant

WASHINGTON—Steven E. Schanes, who resigned two months ago as the executive director of the Pension Benefit Guaranty Corp., has entered the consulting business.

The new firm, Steven E. Schanes Ltd., in conjunction with Administration/Systems/Communication Inc., will offer consulting services on employe benefits, primarily ERISA-related, and health care issues.

Mr. Schanes quit the PBGC post because of his wife's health, who had to remain at their home in San Diego during the 14 months that he headed the termination insurance agency. A spokesman for the new firm said offices are planned for San Diego, Washington, Chicago, Dallas and Los Angeles.

Clients are expected to include policymakers, their advisers, the administrators, plan managers and all those who service employe benefit plans," according to the Schanes Memo, the firm's newsletter. ■

California doctors to activate malpractice captive

SAN DIEGO, CA.—Physicians Corp. of America and an insurance operating subsidiary, Phycoa, have been organized here, under a permit issued by California Insurance Commissioner Wesley J. Kinder.

The state Department of Corporations also authorized an offering of securities, at \$10 a share, to be sold only to California physicians who will hold 100% of the voting control of the new corporation.

Planned capitalization is for a

minimum of \$16.5 million of non-assessable common stock, up to a maximum of \$33 million. Funds derived from the stock issuance will be held in escrow until the minimum number of shares have been sold. Mr. Kinder has issued a certificate of authorization for the company to sell malpractice insurance.

"Initial medical malpractice insurance premiums for doctors in San Diego County," explained Dr. Thomas R. Shook, president of the new company, "will be substantially lower than the Jan. 1, 1976 rates quoted for coverage by the San Diego County," explained Dr. Insurance Co."

Using comparable CNA classes, the Phycoa annual rates in the San Diego area, according to Dr. Shook, will range from a \$2,200 annual premium for \$1 million coverage. For Class 8 doctors, the premiums will be \$9,700 and \$14,500 for the same coverages.

While the coverage initially issued by Phycoa will be on a claims made basis, as compared with the occurrence policies of CNA, Dr. Shook said the new mutual insurer contemplates providing extended coverage to take care of claims reported after termination. "The company's proposed program," he said, "includes establishment of a reserve fund from which Phycoa would cover its policyholders for the continuing contingent risk known as the 'tail'."

Dr. Shook described the type of coverage as "claims made, with extended benefits." Upon retirement, insured physicians would not be required to pay additional

premiums for the 'tail' coverage.

The Phycoa program, Dr. Shook emphasized, is "completely independent of government assistance."

"A key element," he said, "is timely and effective group peer control through the writing of insurance in closely knit local units. We contend that only doctors having a close professional relationship with their colleagues are capable of accurately assessing, controlling and preventing malpractice insurance risks."

Each group will elect from their members a management committee which will pass on all questions relating to settlement of claims, insuring of new doctor members and termination of insurance coverage for those doctor members whose quality or method of practice results in "extraordinary risks" to the group.

"Furthermore," Dr. Shook said, "the local group insurance approach provides substantial economic incentives to doctors within the group to be self-policing and creates an objective standard to determine the effect by members within the group on the premiums charged."

"Each group, at the end of each year of insurance coverage, will be entitled to receive up to a 40% credit against the group's aggregate premiums for the following year. The credit will be reduced

by group claims made or paid during the prior year."

Physicians Corp. of America initially was formed last September, with funding by a group of San Diego County physicians.

"After more than a year of diligent study of alternative medical malpractice insurance plans either in operation or proposed," Dr. Shook explained, "the organizing group concluded that the now popular reciprocal and mutual approaches do not solve the basic underwriting problems and leave each participating physician with a continuing open-ended liability."

The organizing group retained Maurice M. Shaw, an experienced insurance executive and board chairman of Pacific American Corp. and of Commercial Bankers Life Insurance Co. He also was vp of Reserve Life Insurance Co. from 1959 to 1965. As the Mutual's chief operating officer, Mr. Shaw will be paid \$72,000 a year on a three year contract ending Aug. 31, 1978.

A. C. Olshen, San Francisco actuarial consultant, will be Phycoa's actuary and executive offices will be established at 210 S. Juniper St., Escondido. Insurance Technology Corp. will provide staff training and claims prevention systems and integrated control of claims data. ITC is an affiliate of Teknekron Inc., located

in Berkeley.

The company will purchase reinsurance from other carriers in order to limit or reduce losses from risks underwritten, but the company will remain responsible for up to \$100,000 of each insured's liability. If reinsurance cannot be obtained, the company will not commence business.

"The new company," Mr. Shaw explained, "has incorporated in its policies two of the beneficial provisions of recent California legislation: a limitation of the period within which claims must be reported; and use of arbitration procedures."

"Typical methods of claims prevention, management, servicing and control," he added, "have been archaic and inefficient. We intend to provide loss control at the underwriting source, using methods similar to those used in the past by insurers of factory mutuals, long-haul trucking and the lumbering industry and now by some workers' compensation insurance carriers."

This method, Mr. Shaw and Dr. Shook said, "puts the burden and premium cost on the hospital, clinic, doctor, etc., to prevent loss and control claims by policing its members and the company will require peer review in addition to normal hospital review procedures."

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Pooling may provide best ongoing stability for aircraft manufacturers

LONDON—Rates on aviation hull and liability insurance have not stabilized as they were expected to do some time ago, says a leading London insurance broker.

Turning to the subject of aviation product liability insurance, the broker, who asked to remain unidentified, affirmed the well known fact that "rates to all intents and purposes have been abolished." (*Business Insurance*, April 19).

"There are many reasons for this approach by underwriters, but I think that the most significant is that very few people now believe that a rate charged on the production revenue in the year of manufacture of an aircraft part is a very realistic way of establishing a premium basis," said the broker, who is one of the foremost Lloyd's brokers and services many top aviation accounts.

"For example, one can see a situation in the not too distant future, if there is no substantial growth in the world's airline business, where large manufacturers will have relatively small 'current' production but will have a very substantial continuing liability from prior years."

"The London market, when the first wide-bodied aircraft were manufactured," he continued, "established base rates for various manufacturers but charged a pre-

mium on the basis of 60% of the base rate in the year of manufacture and 10% of that rate for the succeeding four years.

"With commercial and private aircraft having anticipated lives of up to 15 to 20 years, London underwriters, at least, feel that they must build up the pool to pay for the losses that will take place in many years time and that to solely base premium requirements on the estimated sales for each individual year of manufacture is not the most satisfactory way of achieving this object."

The broker said that he does not believe manufacturers disagree with this underwriting approach, "although I am certain that some of them believe that the premiums charged are too high."

The pool concept, he indicated, will in time produce the greatest stability for the individual manufacturer.

The spokesman went on to observe that aviation product liability claims usually have a very long tail.

"One can only guess at the length of time it will take to settle all the claims on the McDonnell Douglas-Turkish Airlines accident currently being tried in California," he commented, observing:

"Potential product liabilities have certainly increased since the introduction of wide-bodied air-

craft and as a result of the McDonnell Douglas-Turkish airline accident."

He noted that in the general aviation area it can take as long as eight years for the full extent of losses to be known by insurers. With current inflation rates, some allowance of that long tail must be reflected in today's premiums, he maintained.

Principal aviation product liability underwriters on both sides of the Atlantic "embark on extensive educational and review meetings with manufacturers in the hope of being able to control the frightened escalation of loss costs over the past few years and to find methods of management of risks in the future," he said.

The Lloyd's broker pointed out that the aviation insurance business is "almost impossible to approach on an actuarial basis as the loss incidence is inconsistent from year to year as far as material damage is concerned." The liability side is even more unpredictable, he said, due to varying levels of awards in the United States and most other countries.

"There have been various attempts to standardize these amounts but they have so far proved unsuccessful and the annual loss cost of accidents in the aviation industry remain very unpredictable."

DuPont pension . . .

Continued from page 1

30 years of service regardless of age.

DuPont's current plan provides for full pension benefits at age 58 with 27 years of service, and for reduced benefits at age 50 with 15 years of employment.

June Doble, an employee of a duPont operation scheduled to be shut down in Virginia, complained that if and when she is laid off, she will not be entitled to collect a pension immediately despite her 31 years of service with the company, because she is only 47 years old.

Mr. Kane defended the company's position. DuPont currently uses three formulas including a 1.5% times salary formula (integrated with Social Security) he said, to compute benefits for employees at varying pay levels.

Each employee's pension is based on the formula which yields the largest amount. Wage-roll employees who retired last year at age 65, after 35 or more years of service typically receive net retirement income equal to more than 85% of their net working yearly pay, he said.

And about 11% of wage-roll employees who retired as of the end of last year benefited from the improved formula using the 1.5% factor. Supporters of the Cobb proposal said duPont pensioners don't get enough money to keep up with the cost of living.

During the first year after duPont made its 1974 pension amendments, voluntary early retirements doubled, and are now still running 50% ahead of prior experience for both wage and salaried employees.

"I think this is pretty convincing evidence that employees found our amended pension provisions attractive for earlier retirement," Mr. Kane said.

"The suggested (Cobb) formula would have us ignore completely the substantial monthly income from Social Security, which the company has helped finance for the past 40 years, and which last year cost \$74 million. We believe that it is entirely reasonable to retain a partial Social Security

offset in the 1.5% formula."

Another supporter of the Cobb proposal, Theodore Keller, argued that the duPont plan discriminates against lower income employees who can't afford to take advantage of an option involving subtraction of 50% of Social Security benefits.

He suggested that the company subtract fringe benefits available to its executives in calculating their pensions.

Of the Cobb proposal, Mr. Kane told shareholders:

"This pension proposal would increase costs by \$65 million at 1975 pay levels, and would provide pensions considerably in excess of those offered by our competitors. Placing such an unjustifiable burden on duPont just doesn't make sense."

The proposal was defeated by a 99.2% to 0.8% vote. ■

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Government approval for Maxi-Care

HAWTHORNE, CA.—Maxi-Care, a three-year-old health maintenance organization (HMO), is the first such company in California to win the federal government's stamp of approval.

Fred Wasserman, executive director of Maxi-Care, told *Business Insurance* that his organization has 6,000 enrollees and expects to have close to 20,000 by the end of 1977.

He noted that Maxi-Care first applied for federal approval in February 1975, and then was asked to resubmit its application in September 1975.

He said Maxi-Care offers all the programs required by the government including a dental care program for all children up to age 11, a health education program, medical social services, home health services, alcohol and drug abuse treatment.

Maxi-Care's service area embraces about 1 million persons, according to Mr. Wasserman.

There are only two other federally approved HMO's on the West Coast. They are: the Sound Health Assn., Tacoma, Wa. and Portland Metro Health Inc., Portland, Or. ■

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Seaman's work risks are more serious now

NEW YORK—The average U.S. seaman is 50 years old, and is suffering illnesses of a more serious nature than he did in the past. At the same time, there are more and more "superships" which carry valuable and often hazardous cargoes.

This situation is growing increasingly dangerous, according to one of the marine insurance industry's primary outside sources of statistical data on maritime personnel safety.

The Marine Index Bureau, a commercial depository for data concerning personnel illnesses and injuries for the American merchant marine and related industries, has been releasing annual analyses of illnesses and injuries

for deep sea seamen, longshoremen, passengers and others since 1947.

In its report for 1975, MIB chairman of the board Bruno J. Augenti said the statistics "confirm the validity of frequently expressed concern with the rising average age of U.S. seamen."

He warned that the age and medical fitness of the men who operate technologically complex vessels has become a concern of paramount importance.

"It is worth repeating the universal claim that 85% of marine casualties are attributable to human error," Mr. Augenti said.

"Both at home and abroad, remedy is directed toward upgrading standards in design and construction of vessels, refinement of hardware, operational rules and regulations, and great stress is placed on training of personnel by management, labor and government."

The analysis made by the MIB showed that although the number of minor illnesses of seamen was lower in 1975, those of a more serious nature such as heart disease, hypertension, stroke and other circulatory disorders, rose from 832 in 1974 to 959 in 1975.

It also showed that the number of jobs available aboard U.S. flag seagoing vessels dropped in 1975 to the lowest level in 51 years, reaching an average of 21,500.

This drop in jobs resulted in a rise in the incident rate of illnesses and injuries from 68.1% in 1974 to 70.7% last year.

"All segments of our industry have an obligation to concentrate just as intensely on protecting the well-being of our seafarers by making equal efforts to upgrade the suitability and 'trainability' of each seafarer on his job," Mr. Augenti said. ■

Foundation funds study of MPLs

NEW YORK—The Risk Studies Foundation Inc., a tax-exempt organization set up in 1973 under the auspices of the Risk & Insurance Management Society, commissioned a research study on maximum probable loss estimators from the University of Pennsylvania's Wharton School.

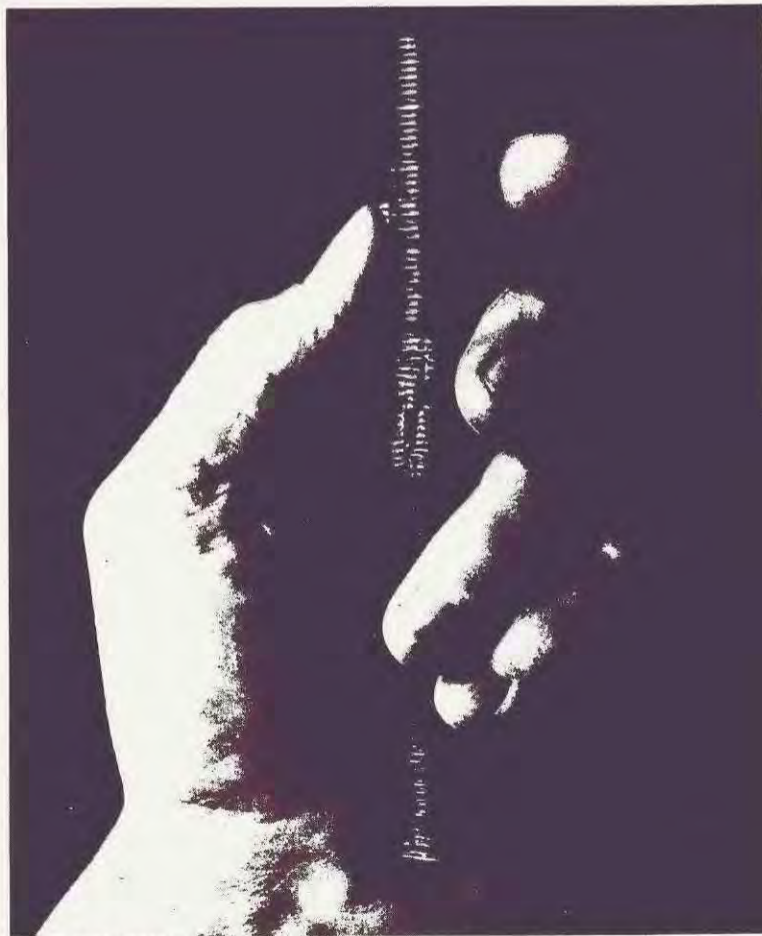
Dr. J. David Cummins and Dr. Leonard R. Freidfelder of the Wharton School's insurance department are conducting the research entitled, "A Comparative Analysis of Alternative Maximum Probable Loss Estimators."

The foundation, whose main purpose is to commission research projects which will contribute to the development of risk management, is also considering a study of risk avoidance and loss reduction for hospital malpractice.

At its annual meeting March 29, the Foundation elected E. W. Altstaetter as president, replacing Raymond Severin, who will continue as a director. Mr. Altstaetter is Rockwell International Corp.'s former director of insurance and risk management, now ass't treasurer.

Daniel E. Sullivan of Northern Telecom Ltd. and Rollyn Storey of SCM Corp. were elected vps. Stanley Tarr of Rutgers University was elected treasurer, and George Betterley of George Betterley Consulting Group was elected director and secretary. ■

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Use paychecks to save pensions

NEW YORK—New York City should contribute \$208 million more a year to its five retirement systems mostly by deducting the amount from paychecks of municipal employes, a controversial new pension study proposes.

It created an almost instant outcry from the city's public employe union labor committee representing some 260,000 workers. The unions claim the proposal violates an agreement negotiated last year under which they agreed to invest \$3 billion in city securities and to forego half of an increased take home pay pension in order to help the city remain solvent.

The pension study was done by a dozen prominent businessmen headed by Richard R. Shinn, president of Metropolitan Life Insur-

ance Co. at the personal request of New York City Mayor Abraham Beame.

It updated some actuarial experience on the city pension funds which had not been examined since 1908.

One of its main conclusions was that the city should scrap the increased take home pay plan which it has used as a means of making some employe pension fund contributions. This would help wipe out an unfunded liability of \$8.5 billion over the next 40 years, the report claims.

But the city unions argue that the agreement negotiated last year stipulated the remaining half of their take-home-pay pensions

would be preserved.

The Shinn report, released in April, was similar to a report submitted to New York governor Hugh Carey in March by the state's permanent commission on public employe pension and retirement systems headed by Otto Kinzel in that it emphasized how much more liberal New York City pension benefits are than those available from private industry.

However, it was more optimistic than the Kinzel report in that it found the city pension system is in basically good shape. It emphasized that the existence of an unfunded accrued liability does not necessarily mean the plan is underfunded. The Kinzel report had concluded the city systems

are underfunded by at least \$6 billion (*Business Insurance*, April 5).

In addition to its proposal that city employes start taking payroll deductions to be phased in over a five-year period beginning next year, the Shinn report also recommended dropping disability benefits for heart disease among police and firemen, which are automatically assumed to be job-related.

It would put an end to including overtime in final year's salary, which is used as the basis for figuring out pension benefits, and would stop automatic cost-of-living increases extended to retired employes already living on city pensions.

In a covering letter to the report, Mr. Shinn estimated that by dropping the increase take-home-pay plan, the city could save \$187 million, and by eliminating the police and firemen's heart disability bill, which grants them three-

quarter pay, an additional \$17 million annually would be saved.

The two economies would cover \$204 million of the \$208 million needed to be pumped into the retirement systems each year.

The city's five retirement systems have assets of \$7.7 billion for about 340,000 active employes and 90,000 retirees. The plans include a public employes system, and teachers', board of education, police, and fire department pension plans. The city currently makes annual contributions of \$1.2 billion to fund them.

Mayor Beame made no immediate comment on the Shinn report proposals to whittle down city employe take home pay.

Based on the mayor's own career as a civil servant, and his option to broaden his pension base by including maintenance costs for Gracie Mansion, he could expect an annual pension benefit of more than \$70,000 when he retires, including Social Security benefits. ■

Workshop told that inland marine is tight

Professional malpractice is not the only coverage area that is tight at the moment, says Walter T. Wells, vp and manager of the marine office for Appleton & Cox Corp. Contractors are having trouble insuring bonds, general liability and longshoremen and harborworkers' coverage, he said. Casualty coverage for truck cargo is another problem, he told an inland marine insurance workshop in San Francisco, April 1. Without collateral coverages many insureds will either "be legally restrained from working or forced to shut down because they cannot afford a possible claim if they are self-insured," Mr. Wells predicted.

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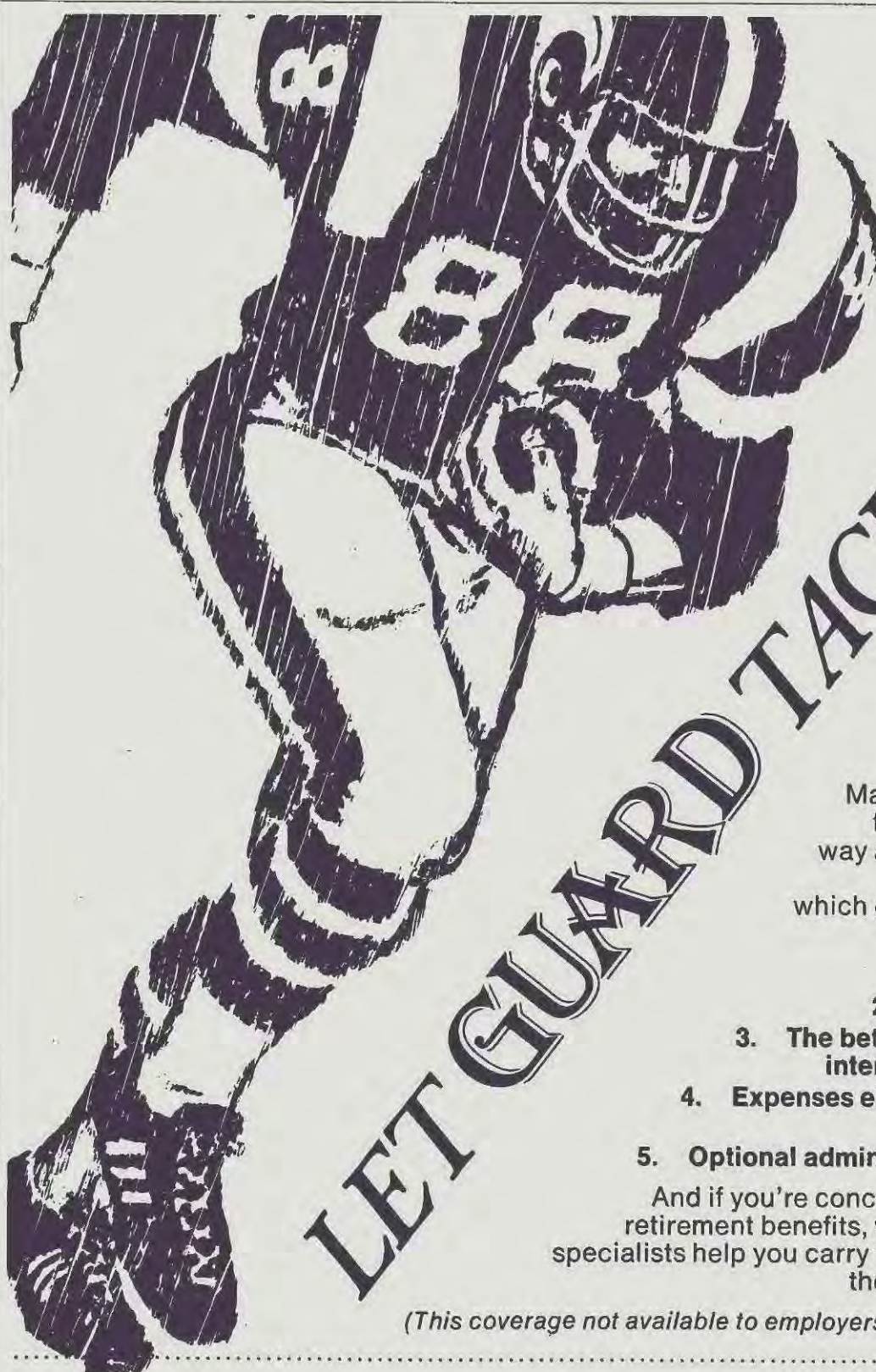
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Big tremors predicted for LA area this year

LOS ANGELES—A formal prediction that a moderate to large earthquake with a magnitude of 5.5 to 6.5 on the Richter scale will strike Southern California within the next 12 months has been made by a Caltech scientist.

Dr. James H. Whitcomb, a geophysicist and senior research fellow at Caltech's Seismological Laboratory, said that the quake could occur at any of 20 active faults within an irregularly shaped circle about 87 miles in diameter. The circle encompasses a broad area of Los Angeles County, including north of the San Fernando Valley, east to Landerter-Palmdale area and south to downtown Los Angeles.

Dr. Whitcomb cited the stress

building up in sub-surface rock layers within this area. He said there are variations in the velocity of sound waves that travel these stressed layers.

Jim Lord, head of Seismic Engineering, Westwood, Ca., a firm that specializes in earthquake risk analysis, told *Business Insurance* that he sees no reason to question Dr. Whitcomb's prediction.

The prediction was seen by Mr. Lord as a forecast of a quake very similar to the 1971 San Fernando Valley tumbler that killed 65 people and caused between one half billion and one billion dollars of property damage.

Mr. Lord was formerly principal systems engineer for A. C. Martin

& Associates, a privately-held architectural and engineering firm.

Forecasts that a far more devastating earthquake—7.5 to 8 on the Richter scale—will occur in Southern California within the next decade have also been made this year.

The predictions revolve around the "Palmdale Bubble," a huge crustal bulge along the western edge of the Mojave Desert.

An ad hoc committee of the Seismic Safety Commission, a body of state government, has gone on record stating that such a quake will kill between 3,000 and 12,000 persons in Los Angeles and Orange counties and will injure 48,000 individuals.

Property damage from such an earthquake will range around \$25 billion, the committee said.

In the event of the failure of one or more dams, the damage would soar, it said, with tens of thousands killed and 100,000 people made homeless. ■

Majority of stevedore comp payments phony

NEW YORK—As much as half of the \$20 million which is paid annually under the federal workers' compensation program for longshoremen in the Port of New York and New Jersey goes to phony and exaggerated injury claims.

According to an investigation done by the New York Daily News the insurance impact on stevedores and shipping concerns is driving some of them out of business.

One stevedoring firm paid more than \$6 million in compensation insurance premiums, and another was forced into an assigned risk pool in New Jersey because it was hit with so many claims, the paper reported.

Employers are now paying premiums for workers' compensation insurance of \$45 to \$50 for every \$100 of payroll, according to the International Longshoremen's Assn.

However, the ILA's safety director, Joseph Leonard, told *Business Insurance* that these are the premium figures that the companies report to the union, and that the ILA has no way of checking them out.

He complained that the companies are unwilling to sponsor any overall safety program for longshoremen, and said that despite the companies' gripes about high insurance premiums, there are many legitimate accidents and deaths among longshoremen that the shipping companies overlook.

Part of the expense involved comes not from phony injury claims, but from actual deaths of longshoremen, Mr. Leonard said.

Whenever a longshoreman dies a natural death, a benefit of \$10,000 is paid, according to the safety director. But when a longshoreman dies an accidental death, the benefit is doubled to \$20,000.

Since 1972, there have been 22 such deaths in the Port of New York, with the most recent occurring in mid-April this year, Mr. Leonard said. He receives daily reports of accidents and injuries involving union members from most companies employing longshoremen, although several shipping firms refuse to cooperate.

"To give you an example," Mr. Leonard said, "for the day of April 5, we got reports of 44 accidents, and from February 10 to March 12, there were 75 accidents."

According to the injury-fraud investigation by the Daily News exaggerated injury claims are not being detected or barred—and are bilking the shipping companies of millions of dollars—because the office of the U.S. Department of Labor which handles them is understaffed and overutilized, and because a "select group" of doctors and lawyers are cooperating in fraud by inflating claims. ■

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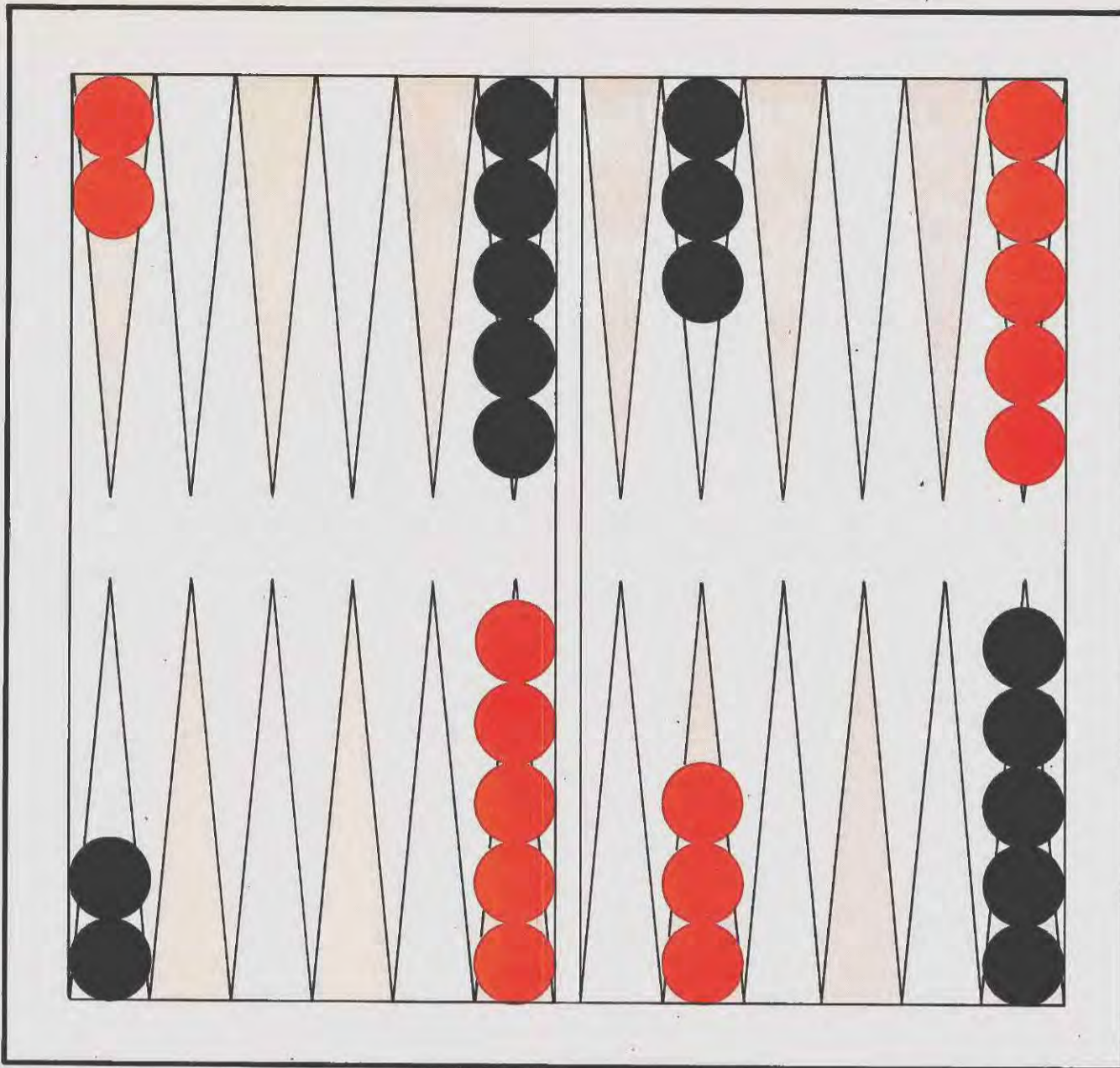
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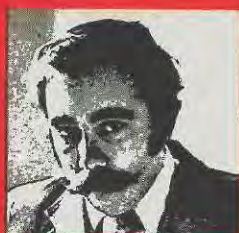
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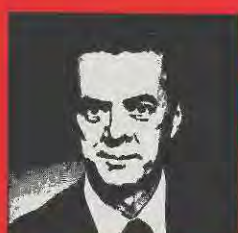
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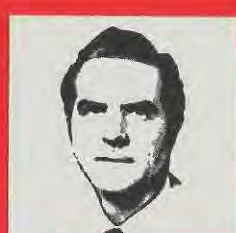
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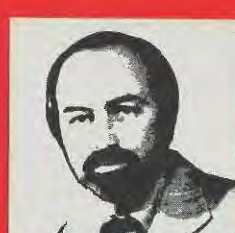
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THURSDAY, JUNE 17

8:30 am—9:50 am: REGISTRATION. Pick up your seminar materials and get ready for two days of information-packed sessions.

9:50 am: WELCOME. Susan Alt, Editor, *Business Insurance*; Edward J. Bride, Vice President, Editorial Services, *Computer World*.

10:00 am: FACILITIES PLANNING: WHAT TOP MANAGEMENT NEEDS TO KNOW. You learn what steps you can take in the planning stages to minimize computer operations risks from Robert H. Courtney, Director of Data Security and Privacy, IBM Corp.

11:15 am: EMERGING RISKS—CLOUDS ON THE HORIZONS. Robert V. Jacobson, Assistant Vice President, Chemical Bank, reviews areas of increasing risk which threaten to become major management concerns, such as theft, sabotage, physical loss, and illegal access.

12:15 pm: LUNCHEON. Take this opportunity to get acquainted with your fellow registrants. Exchange ideas and information.

1:30 pm: RISK ROUNDTABLES. Three concurrent sessions—attend the one of your choice. The sessions repeat at 3:30 pm so you can attend a total of two.

EMPLOYE DISHONESTY. William A. Mahoney, Vice President, Marsh & McLennan Inc., tells you how to handle a fidelity loss when the computer is involved.

AUDITING THE COMPUTER. How to make sure the computer program does ONLY what it is supposed to do . . . discussed by Joseph J. Wasserman, President, Computer Audit Systems Inc.

ERRORS & OMISSIONS RISKS. An examination of the many problems inherent in providing data processing services for customers, including quantifying the possible errors and omissions exposure, types of insurance available and user problems that have been experienced.

3:30 pm: RISK ROUNDTABLES. Repeat of above sessions. Attend the one of your choice.

5:30 pm: RECEPTION. Join your fellow registrants for cocktails and stimulating conversation.

6:15 pm: DINNER.

7:30 pm: NEGOTIATING THE COMPUTER CONTRACT. Roy N. Freed of the greater Boston law firm of Pollock, O'Connor & Jacobs tells you how a properly negotiated lease contract is one of the most effective means

of obtaining relief from a problem with a computer equipment supplier.

FRIDAY, JUNE 18

9:00 am: HOW TO PREPARE FOR BUSINESS INTERRUPTION. Paul W. Miles, Executive Vice President, I. Berman Co., discusses the risks involved in a computer stoppage interrupting your company's operations and how you can effectively plan for recovery.

David Warren, CPCU, Partner, Warren, McVeigh, Griffin & Huntington, tells you how to fund business interruption losses through insurance and self-insurance so you get the money you need to get back in business.

10:30 am: LOSS PREVENTION ROUNDTABLES. Two concurrent sessions. Each repeats at 1:30 pm so you can attend both.

RISK MANAGEMENT: DATA TRANSPORTATION & NETWORK COMMUNICATION. Rees S. Himes, Assistant Vice President, Marsh & McLennan Inc., identifies and discusses various kinds and causes of losses through transporting and telecommunicating data and tells of ways to minimize and control losses.

CASE STUDIES OF COMPUTER RIPOFFS. Donn B. Parker, Senior Information Processing Analyst, Information Systems Group, Stanford Research Institute, takes an in-depth, eye-opening look at two examples of the computer as a tool of the corporate criminal.

12:30 pm: LUNCHEON. No speaker, so take advantage of this opportunity to discuss areas of mutual interest with your fellow registrants.

1:30 pm: LOSS PREVENTION ROUNDTABLES. Repeat of 10:30 am sessions. Attend the one of your choice.

3:30 pm: HOW TO IMPLEMENT A GOOD RISK MANAGEMENT PROGRAM. Panel members William D. Hahn, Principal Consultant, George Betterley Consulting Group, Donald P. Fitzgerald, Manager of the Management Consultant Services Division of Ernst & Ernst, and a corporate client discuss the nuts and bolts of establishing an effective and workable risk management program for data processing exposures.

4:30 pm: ADJOURNMENT.

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benefit tax slants

Low cost permanent life insurance becomes attractive benefit, tax-wise

By JOSEPH S. ROBINSON
Attorney-at-Law

EMPLOYEE BENEFIT programs are being reshaped as a consequence of economic and tax law changes. Over the past several years, company pay plans have had to adjust to wage controls, sky-high inflation, a new pension law and the possibility of major tax reforms.

Among the new mixes being brewed is a "Section 79" fringe benefit . . . a low cost permanent insurance package that offers the build-up of cash value along with

tax favors; also, the privilege of conversion to individual insurance at retirement at original issue age premium rather than at attained age premium.

To qualify under Section 79 of the Internal Revenue Code, a plan that includes permanent insurance must meet four requirements. Failure to meet any one of them will disqualify the entire plan, and all of the employer's premium payments will be fully taxable to employees. The requirements are:

(1) The policy must specify the portion of the premium alloc-

able to the group term insurance; (2) Only that part of the premium that is allocable to group term may be paid by the employer;

(3) The term and permanent insurance elements in the policy must be independent of one another so that they can be provided by separate policies; and

(4) The plan must be offered to all employees in the same "class" (*Rev. Rul. 71-360*).

The most common form of a Section 79 plan combines decreasing term insurance and increasing permanent insurance in separate

policies. The employer pays the premium for the term insurance only. Each employee has the option to decline the permanent protection; if he accepts this coverage, he pays the full premium for it. The combination of decreasing term and increasing permanent insurance is designed to provide a level death benefit from year to year.

A Section 79 plan covering only a highly paid class of employees may be superimposed on a conventional group term plan that covers all employees, but all employees in the highly paid class must be eligible for the permanent coverage.

Other pay plans taking shape are incentives which are tied to either earnings of the company, sales, or other measures. They involve such tie-ins as phantom stock, performance shares, or appreciation rights and serve as substitutes for the usual stock options.

Medical reimbursement plans are being expanded to include all medical costs of the top executives and their dependents. Not to be overlooked is supplemental life insurance, especially after the employee retires. The letter is important for highly paid employees who may still require cash to pay estate taxes.

* * *

The tax act clearly fences off proceeds of a qualified pension or profit-sharing plan from the employee's estate when such payouts go to a named beneficiary. It is only when the executor receives the loot that its value is treated as an estate asset for tax purposes. However, if the named beneficiary of an insurance policy (purchased in connection with a qualified plan) is under a binding obligation to pay taxes, debts or other charges of the estate, then such proceeds are also considered part of the taxable estate. (*Treas. Reg. Sec. 20.2042-1*)

For this reason, estate planners make sure that where a trust is named beneficiary of a qualified plan, the trust instrument specifically prohibits the use of insurance proceeds from aiding the deceased employee's estate in any manner whatsoever. But a recent tax court opinion suggests that you can get around this absolute restriction by giving the trustee discretionary authority to purchase assets from the employee's estate in order to provide liquidity. (*Salisbury, T.C. Memo 1975 -333*)

* * *

A qualified benefit plan must be for the exclusive benefit of employees or their beneficiaries. This applies to plan investments as well as other activities. Here's how one plan lost its qualification when it made inadequately secured loans of plan funds which benefitted the employer.

Central Motors, an automobile dealership, adopted a profit-sharing trust which authorized the trustee to invest in bonds, mutual fund shares, etc. The plan was approved by IRS. Contributions were first invested in savings accounts. Later the trustees entered into a verbal agreement to loan all trust funds to Credit Investment, Inc., which was under control of Central's principal shareholder, in exchange for demand promissory notes. Credit used the funds to finance retail credit purchase contracts for cars sold by Central. The loans were continued over a number of years without any real payment of interest or any substantial repayment of principal.

IRS denied the deductions for the contributions and a district court agreed. Reason: The operation of the plan in question was varied to the substantial prejudice of the employees and to the greatly increased benefit to the employer. Once the trust contributions were loaned to Credit, Central was benefitted in that Credit used the borrowed fund to finance Central's auto sales. The inadequately secured loans to Credit prejudiced the employees' interests insofar as their funds were placed at the sole risk of a business which was financially incapable of repaying its notes. (*Central Motor Co., U.S. Dist. Ct. New Mexico 2/10/76*).

Elect new members

The National Assn. of Employers on Health Maintenance Organizations (NAEHMO), Minneapolis, has three new board members: Bynum Tudor, corporate manager of employee benefits, R. J. Reynolds Industries Inc., Winston-Salem, N. C.; Donald A. Kissack, group insurance manager, 3M Co., St. Paul, Mn.; and Don Henyan, second vp and group sales manager, Northwestern National Life Insurance Co., Minneapolis.

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Risk management arm hails its superb growth

NEW YORK—American International Group's AIG Risk Management Inc. division exceeded "its already ambitious growth objectives by 50% and . . . achieved a significant net profit," said Maurice R. Greenberg, in the president's report issued last month.

Launched in January 1975, the risk management and insurance services division, which provides professional services and insurance placement facilities, generated "just under \$15 million in premium volume to other American International companies," said Mr. Greenberg.

Major efforts of the services operations have been directed at the U.S. market, although "the potential for corporate services in Europe and the Pacific is also being investigated," he added. AIGRM provides consulting services, administers self-insurance plans, and develops captive and cash flow programs.

American Home's commercial property division had "outstanding" inland marine insurance results, the report said. Other successful profit makers were builder's risk insurance, difference in conditions insurance, special coverages and special property forms. American Home's package programs, launched in 1973 through the commercial multiple peril division, is now "experiencing dramatic gains," said the report, pointing to growth in group and association business. Group business includes coverages for nursing homes, lumber dealers, franchised food outlets, warehousing associations, restaurants, service stations and taverns.

Commercial casualty lines generated higher premiums in 1975, up 24% from the year earlier, and "met projected goals for (the year) in spite of an adverse first half."

American Home's new professional liability lines division "experienced growth" during 1975

Safety study ready to take second group

TUCSON—Applications are now being accepted for the University of Arizona's graduate program in safety management starting in August.

The program, which is sponsored by a grant of the National Institute of Occupational Safety and Health, leads to a master of science degree in finance at the college of business and public administration.

Sixteen students currently are enrolled and the first group is scheduled to graduate in December.

Required courses include safety management, safety law, risk management, organizational theory and statistical methods among the total of 36 units.

Applicants must meet the entrance requirements for the graduate college of the University of Arizona and must submit a score on the Graduate Management Admissions Test.

Interested persons should contact Dr. Nester R. Roos, director; safety management program; College of Business and Public Administration; University of Arizona; Tucson, Az. 85721; 602-884-1649.

with its policies for accountants, lawyers and student nurses liability."

Directors' and officers' liability insurance was expanded in 1975, said the report, and is now being sold in the U.K., Sweden, Australia, Canada and South Africa "and are being considered in other areas."

Pension trust liability insurance, introduced by the special purpose insurance division during 1975, "surpassed all other (products) in premium volume booked by a new American Home product during its first full year of existence." Directors' and officers' liability (D&O) and SEC liability insurance sales "increased significantly," the report noted.

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Motorola realigns risk function; hires Schieck

Donald R. Schieck was hired by Motorola Corp. as director of insurance and risk management, effective April 19. In his new position, Mr. Schieck will report directly to Motorola's vp-controller, Ed Harty. This represents a realignment of the insurance management function at the Franklin Park, Ill.-based electronics producer. Mr. Schieck will replace Raymond F. Dempsey after his retirement August 1. Mr. Dempsey has reported to the assistant controller for the company. Mr. Schieck was formerly with the Anistics division of Alexander & Alexander for a year, and before that was risk manager for the state of Illinois.

Valmont Industries Inc., Valley, Nb., appointed Edward G. Paull, 31, employe benefits manager on April 19. He reports to the director of personnel and is re-

sponsible for all the irrigation system manufacturer's employe benefit programs, including group health, life, long term disability and pensions. Mr. Paull's position is a newly created one; the function previously was handled by outside brokers. Before joining Valmont, he was employe benefits manager at Norris Industries Inc., Los Angeles, a position which is still open.

The Anaconda Co., New York, appointed William G. Daly, 48, manager of the insurance department on April 1. He succeeds Kenneth F. Beyer, 60, who died on March 20. Mr. Daly had been assistant manager of the insurance department since 1972. His broadened responsibilities include property, casualty and group benefit coverage. He reports to the treasurer of Anaconda.

Robert Stine was named risk manager for Ventura County, Ca., a new position which is part of a new insurance department. Mr. Stine reports to the director of support services. His appointment was effective February 2. He was formerly risk manager for Daylin Corp., Beverly Hills, Ca. A spokesman for Daylin, a financially troubled retailer, told *Business Insurance* that the full-time risk management position has been eliminated. The spokesman said that a representative for the Ralph L. Thorne Co. Inc., Daylin's insurance broker, takes care of the risk management responsibilities on a part-time basis.

Jack Love was named provisional risk manager for San Diego County, replacing Richard J. McElligott, who was hired as risk manager for Orange County, Ca. (BI, January 26). Mr. Love formerly was workers' compensation claims manager for San Diego County and has unofficially executed risk management duties since Mr. McElligott's departure. Stanley Forsythe was named provisional workers' compensation claims manager, replacing Mr. Love. Mr. Forsythe was formerly an adjuster for Al Wisdom, an independent adjuster operating in

San Diego County.

Promoted to insurance manager at Lionel Corp., New York, is Sheila P. Roberts, 29, previously assistant insurance manager. Both Ms. Roberts' present and former positions were newly created. She is responsible for property, casualty and group insurance, as well as the employe pension plan. Ms. Roberts reports to the executive vp

of the company.

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No-fault approach to malpractice excluded from governor's proposal

NEW YORK—The no-fault system for compensating malpractice victims recommended by a malpractice advisory panel (*Business Insurance*, April 19) was excluded by Gov. Hugh Carey in the changes he proposed for the state's malpractice laws.

The panel, appointed by the governor, and headed by William J. McGill, president of Columbia University proposed that a fixed schedule of awards for adverse medical outcomes replace the tort law/liability system.

One panel member, state Sen. John Dunne, disagreed with the recommendation and filed a separate minority report.

The governor's proposals, however, fall far short of solutions

proposed by either the majority of the panel or Sen. Dunne.

The thrust of the governor's proposals is aimed at limiting attorneys' shares of malpractice verdicts and requiring juries to itemize malpractice awards.

Dr. McGill declined to comment on Gov. Carey's proposals, but spokesmen for Sen. Dunne said that though the senator in general supported the governor's actions, he believes that in some areas he would go farther.

While the governor supports a proposal to reimburse patients seeking a second opinion on elective surgery, the senator would require a second opinion before elective surgery is performed, his legislative assistants said.

The governor rejected the pan-

el's recommendation to limit pain and suffering awards to \$100,000, although there has been a bill to that effect proposed in the state legislature.

"That proposal holds the most promise for keeping down malpractice insurance premiums," said an aide to Sen. Dunne. "Unless you're going to drastically change the system, you won't solve the problem."

The aide defended the solutions proposed by both Sen. Dunne and Gov. Cary by noting, "Cumulatively, all of these proposals may nibble away at the malpractice problem."

The panel advised the governor to appoint a task force to further study the compensation system for malpractice claims and in his proposals, Gov. Carey made this the mandate of a newly created Executive Committee on Medical Malpractice.

Sen. Dunne agrees that alternative solutions to malpractice problems should be studied.

Not all solutions require legislative action, said the senator's aide. One of the malpractice advisory panel's recommendations, that cancellation or restriction of a physician's hospital privileges due to malpractice be reported to the health department, has already been implemented. This was done internally, the aide noted, and is a great step forward in flagging incidents of malpractice.

Reported big Fred S. James earnings jump

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