Week of May 5, 1975

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Claims filed for plant loss may be void in arson case

SHELTON, CT.—A $62.6 million insurance claim was filed with Protection Mutual Insurance Co., one of the Factory Mutual companies, in connection with the explosion and fire which destroyed a sponge rubber products company here March 1 (*Business Insurance*, March 10 and 24).

The claim was signed by D. M. Myers, vp-Grand Sheet Metal Products Co., and includes more than $37 million in business loss, more than $14 million for contents of the building and $10 million for the building itself.

A spokesman for Protection Mutual said the company had no comment to make on the claim.

Factory Insurance Assn. is also involved in coverage for the building, which was in the process of being sold to Ohio Decorative Products Co., parent company of Grand Sheet Metal. B. F. Goodrich Co. was selling the property, but was still the owner at the time of the explosion.

Goodrich is also in the process of filing a claim with FIA, a company spokesman disclosed, but the amount of the claim has not been finalized as yet, he added.

Two days before the Protection Mutual claim was filed the president of Ohio Decorative Products and nine other men were indicted on charges including arson, conspiracy to commit arson and transporting explosives across state lines.

Ten charges were listed in the indictment, the result of a grand jury investigation of the fire.

Spokesmen for both Protection Mutual and FIA refused to comment on the potential effect of the indictments on the payment of insurance claims resulting from the bombing. The plant, being used by Grand Sheet Metal for its operations, was reduced to rubble.

"It's such a delicate subject at this juncture, we don't want to make any comment," the Protection Mutual spokesman said.

"Let's just say the interests of B. F. Goodrich are protected," an FIA spokesman noted. ■



Aftermath of the bombing and fire at the sponge rubber plant.

Premium hike seen with law on health cover for unemployed; action is urged

By RICHARD L. GORDON

WASHINGTON—House Speaker Carl Albert (D-Ok.) called on two competing House committees to settle their differences and produce legislation which would extend health insurance coverage to unemployed workers sometime this month.

After briefly considering a permanent 8% tax on group health insurance premiums to finance the coverage, the House Ways and Means Committee last month reverted back to its original proposal—a temporary 1% tax on group health insurance premiums combined with a requirement that employers extend health insurance benefits to laid-off workers at least 90 days.

The tax would be assessed on insurance underwriters but would be passed on to employers in higher premium costs.

That bill (H.R. 5970) was reported out of the House Ways and Means Committee April 22. Speaker Albert referred the Ways and Means bill to the House Commerce and Health Committee and ordered that committee to report by May 7.

The two committees are involved in a jurisdictional tug of war over health insurance legislation. The House Rules Committee gave Ways and Means jurisdiction over health care and facilities programs supported by payroll deductions. The Commerce and Health Committee has jurisidiction on such programs supported from general tax revenues.

Commerce and Health was considering legislation of its own to extend health insurance to the unemployed—a bill that would be financed from general revenues rather than a premium tax.

The final Ways and Means bill would establish a trust fund that would borrow money from the federal government to begin to immediately pay health insurance claims from unemployed workers.

The trust fund's debt would be paid off over about five years from revenues produced by the premium tax. Only those workers eligible for unemployment compensation, and laid off from jobs where they had health insurance coverage, would be eligible for the program.

The trust fund and tax are temporary. The committee viewed the required extension of employer financed benefits for 90 days after an employe is laid off as the "permanent solution" to the problem.

Once the trust fund's debt was paid, the fund and the premium tax would be abandoned.

The Commerce and Health committee approach is similar to a bill reported out last month by the Senate Labor and Public Welfare Committee (S. 625)

It would pay from general revenues insurance claims of laid off workers who had health insurance coverage while employed. Workers without such on the job coverage would be eligible to join state Medicaid programs.

The Commerce and Health Committee bill would apply only to the one year period ending June 30, 1976.

The Ways and Means bill was priced at $2.5 billion for its first year of operation with the cost to be borne primarily be employers through the premium tax and the 90-day extension of health insurance benefits to laid off workers.

The Commerce and Health Committee bill was priced at $1.6 billion from general revenues, and $550 million from state Medicaid programs.

Health, Education and Welfare (HEW) department Secretary Caspar Weinberger characterized both bills as inequitable and too expensive.

No action in the Senate is expected until the House finalizes its own bill. ■

Members of Hopewell to form another captive

By ELISABETH M. WECHSLER

DALLAS—Ten of the 17 corporations with captives participating in Hopewell Co., a Bermuda reinsurance captive, are planning to form another wholly-owned insurance subsidiary to underwrite commercial insurance in London, according to George D. Kahlert, insurance manager at Mead Corp.

It would be the first mutual insurance subsidiary composed of U.S. and foreign concerns to underwrite commercial risks in London, he said.

All lines of insurance eventually will be underwritten, according to the plan, although only reinsurance will be offered to start.

Each corporation will be assessed five million pounds sterling ($12 million) in order to capitalize the venture, he said.

An underwriting manager has been chosen, Mr. Kahlert said, though he would not identify him because "he may be currently at another British carrier." Hopewell and its members are managed by American Risk Management Inc.

Subscription offers for the venture were taken at a November meeting of the Hopewell captive members, Mr. Kahlert disclosed. At least one of the ten corporations has indicated it will join the venture but will not disclose its identity until the actual meeting for incorporation which will be "hopefully by year end," Mr. Kahlert said. He would not disclose the other nine names or confirm if Mead was one of them.

"We wanted to keep the money (earned by the captive) working for us," he told participants of a seminar at the 13th annual Risk and Insurance Management Society conference here. "To do this, we need to expand."

Several companies in Hopewell have chosen not to participate because "they didn't want to write public risk," Mr. Kahlert said.

The London-based Hopewell subsidiary will be not be able to participate directly in Lloyd's underwriting. However, the new company plans to assume "a minority position on worldwide underwriting risks led by Lloyd's."

Continued on page 2

See tax issue behind reaction to FASB rule

By SUSAN ALT

DALLAS—The furor over tough new accounting rules which govern reserving practices for future uninsured losses may be fueled as much by the red flag raised on an income tax issue as by other detrimental effects risk managers foresee will grow out of the rules, *Business Insurance* learned.

No one wanted to talk about the possible tax implications of Financial Accounting Standards Board Standard No. 5 at the 13th annual conference of the Risk and Insurance Management Society here. Risk and insurance managers repeatedly referred to the prohibition of most reserving practices by corporations as "severely limiting the risk manager's options."

The RIMS board of directors unanimously adopted a resolution vehemently opposing the rules and calling for their recission. The society also appointed a special task force to look into ways of obtaining revision of the rules (see story page 42.)

But several leading accounting experts, who asked to remain anonymous, told this magazine there is a potentially serious tax implication in the rules, which were issued April 11. (*Business Insurance*, Jan. 13 and April 21.) These accountants said some companies apparently fear that the tax question will arise out of the rule providing for consolidation of captive insurance company statements in parent company accounts. The rules treat reserves for future losses on a captive insurer's books exactly the same as reserves for self-insured future losses of companies without captives, prohibiting them in most cases.

Companies with captive insurance subsidiaries are fearful that the Internal Revenue Service may decide, in the wake of these rules, to disallow past and future deductions for premiums paid into captives, auditing experts said.

RIMS/Report

13th annual conference coverage from Dallas appears throughout this issue.

Technically, the FASB rules do not affect tax reporting matters. Instead, they govern the procedures which publicly-owned companies use in reporting to shareholders.

"These rules are certainly going to have a substantial impact on a lot of companies," said one risk manager candidly. "It's going to change all of our bookkeeping procedures, and it will certainly affect everybody with a captive because we won't be allowed to accumulate funds in the captive. That changes everything.

"Furthermore, we're going to be fighting the tax battle at the same time. At least, before, the IRS challenge of deductions was open to appeal. But now it's pretty much a closed issue, it appears to me," this risk manager thinks.

An audience of several hundred persons attending the RIMS conference heard a seven-man panel discuss the impact of the FASB rules. The working session was the largest of the week-long conference, and drew heated remarks and questions from panelists and the audience, many of them directed at Michael A. Pinto, director of administration for the FASB, who offered some perspective on the purpose of the new rules.

A. Hunter Long, national services division of Frank B. Hall & Co., declared his belief at the outset that these rules "will probably not have that much of an effect on risk financing of most corporations because most companies are not involved in risk financing to such an extent that this will change their methods." There are "no more than 200 to 300 companies" which will be affected by these rules, Mr. Long believes. They are generally firms with sales above $250 million, because firms smaller than this usually do not retain and finance risks internally, he said.

Continued on page 42

Six Western hospitals form mutual insurer

DALLAS—Six non-profit hospitals which are members of the California Hospital Assn. (CHA) have received approval from the Bermuda government to set up a mutual captive insurance company to cover malpractice risks, *Business Insurance* learned here.

Activation of the captive is delayed by the problem of obtaining reinsurance "at the right prices," sources said at the 13th annual Risk and Insurance Management conference here.

The reason the captive is being formed is to solve "the basic problem of level rating by the CHA," said Richard Huntington, of Warren McVeigh, Griffin & Huntington, West Coast-based risk management consultants, who confirmed the action by phone from Newport Beach, Ca.

The six hospitals had better loss experience but were "forced to pay the average rate and thus subsidize other hospitals," said informed sources here.

No assessment will be made to capitalize the captive, which will cover the hospital itself and contract doctors for medical malpractice insurance. Coverage is similar to that proposed by the American Hospital Assn. (AHA), which is also looking into a captive for its members. (*Business Insurance*, Feb. 14.)

The capitalization for the mutual company will consist of prepaid premiums. No front money will be required.

The six hospitals involved are among the ten members of Multihospital Shared Services Inc., which was formed "two or three years ago to provide a range of services to its members, including employe benefits, drug purchasing arrangements and discounts on television sets for hospital rooms."

The Bermuda captive is one of 12 projects undertaken by the association since its inception.

The four hospitals that chose not to participate in the mutual company captive did so for various resaons. "Two hospitals thought they were too small. One has adequate, reasonably-priced malpractice coverage from sources outside the CHA. The other hospital has a director who is with CHA and did not want the hospital to compete with CHA's ability to keep its malpractice coverage, said observers close to the plan."

Each hospital in the mutual company had to get approval from its board of directors.

The mutual will not "go out of its way to seek new members," but it would take on the other four members of Multihospital Shared Services, pending the reinsurers' approval, this magazine learned.

Other interested CHA hospital members would have to first become members of Multihospital Shared Services and then obtain reinsurer's approval before receiving coverage through the captive.

Reinsurance is currently being sought through a combination of London and American markets, it was said.

Even if the AHA captive is activated (*Business Insurance*, April 21), the mutual company will keep its own separate captive because the basic problem of level rating will still exist.

Discussion began on the captive idea in May, 1974, and a formal study was made in August. ■

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Captive . . .

Continued from page 1

Some disagreement existed here as to whether this type of venture would succeed in the London market.

"There is already adequate capacity in London," said G.N. Crockwell, assistant director of Keith Shipton Development Ltd., London. "I think it will have an uphill fight for business.

"It'll take 100 years to earn enough credibility with British companies to underwrite their risks," he added.

"They'll probably end up underwriting risks that no one else wants," said John Parinson, group insurance manager for Albright & Wilson Ltd., London. But he added that these types of risks can often be "quite profitable."

"They may want an arrangement to take on reciprocal reinsurance risks with other captives," Mr. Parkinson pointed out. He explained that this company might reinsure another captive's risks in order to obtain reinsurance for Hopewell.

Dave Warren of Warren, McVeigh, Griffin & Huntington, West Coast-based risk management consultants, said he disagreed that London has adequate capacity and that the new venture would have trouble getting business.

"They can always use another underwriter in London," he said. ■

Hospital assn. may not need captive after all

CHICAGO—The American Hospital Assn. (AHA) may not activate its proposed captive to provide medical malpractice insurance for hospitals after all, according to James L. Groves, risk manager.

"There's the distinct possibiltiy that there may not be the necessity of a national captive with the (currently proposed) state laws," he told *Business Insurance*. He denied that recent inquiries by regional hospital associations into forming their own captives in several states had anything to do with the change of attitude.

Members of the AHA voted in February (*Business Insurance*, Feb. 10 and 24) to form the captive and support it by contributing up to $4 a bed, but Mr. Groves said it may not be activated until some future need arises. A decision will be made by the association at a meeting to be held on May 16.

The AHA decided in February to seek a national casualty underwriter not presently offering medical malpractice insurance, to provide the first layer of coverage. Reinsurance was being sought through Lloyd's of London and some domestic carriers. A domicile for the captive has not been selected yet, Mr. Groves said.

Regional hospital associations may be seeking their own coverage through a captive in an effort to cover doctors as well as member hospitals. Only hospitals and salaried staff physicians would be covered for malpractice insurance under the proposed AHA captive —and only for their work at the hospital.

"It's conceivable they're looking for a better rate (than $4 a bed) but I doubt it," Mr. Groves said. "The cost to renew a malpractice premium through a private carrier for a hospital might be $800,000. Our assessment would be $1,200 for the same hospital."

Mr. Groves admitted that if several regional hospital associations did set up their own captives, it could lead to adverse selection for those hospitals using the AHA captive.

Hospital associations in Kansas, Michigan, Nebraska and New Jersey were mentioned as investigating the option of their own captives.

"What they should realize is that a hospital in a rural area is not going to have to pay as much for its malpractice coverage as a big city hospital," Mr. Groves explained. "The fact that a New York City hospital is in the AHA plan would not hurt the plan in Kansas," he said.

"There seems to be available coverage for hospitals now," he said, adding that "there's so much legislation being enacted." He emphasized thought that a final decision will be made at the AHA meeting in May and that the captive in any case would be incorporated and be ready for a future coverage crisis. ■

IMPORTANT

Enlarged Responsibilities and Duties under the Pension Reform Act

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

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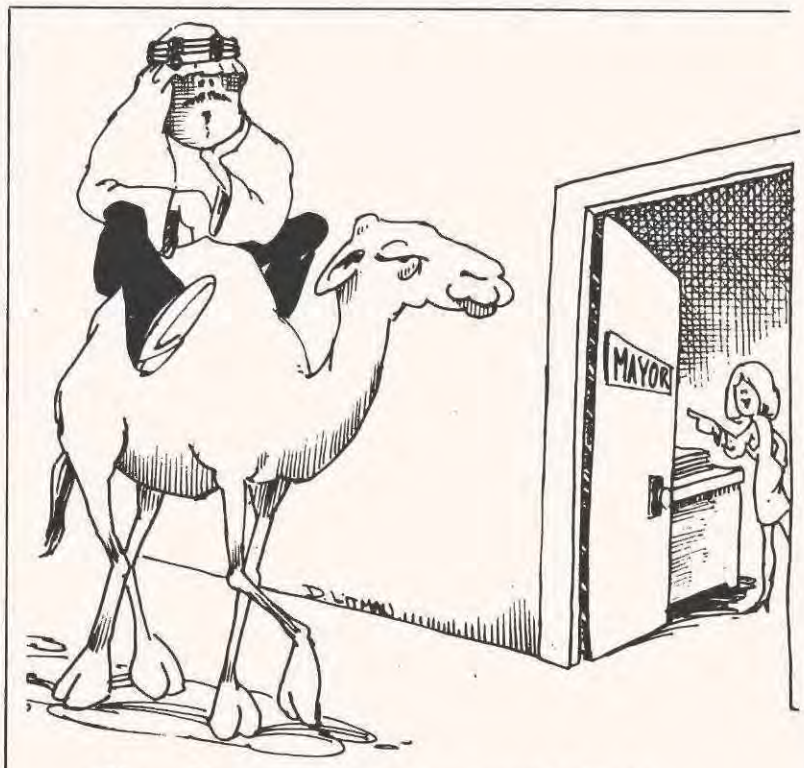
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Best booklets as benefits communications devices were submitted by, from left to right, Richard D. Brown, Sun Oil International, Philadelphia; Wayne Bergstrom, Twentieth Century Fox Film Corp., Los Angeles; Gary Kemper of Kemper Communications division of Olanie, Hurst & Henrich of Los Angeles, consultant for Twentieth Century Fox Film Corp.; Donald Spies, Towers Perrin Forster & Crosby in Dallas, consultant for Sun Oil International Corp.; Teresa Norton, Hewitt Associates of Deerfield, Il., consultant for S. C. Johnson & Son Inc.; Joseph Hilmer of S. C. Johnson in Racine, Wi; Jayne Sherman of Marsh & McLennan Inc, New York City; and Phil Bamboth of the communications services division of Marsh & McLennan.



Award-winning audio visual communications programs were submitted by, from left to right, Teresa Norton of Hewitt Associates in Deerfield, Il., consultant for Ciba-Geigy Corp.; Roy Lawrence, Ciba-Geigy Corp. based in Ardsley, N.Y.; John Lamantia of Lever Bros. in New York City; Steve Ramsey Hewitt Associates, consultant on the Lever Bros. program, and also accepting the award for third-place winner Green Giant Co., Chaska, Mn., for whom Hewitt was also consultant.

BI names benefits communication award winners

DALLAS — Dow Chemical U.S.A., Ciba-Geigy Corp. Marsh & McLennan and the Maremont Corp. received top honors in *Business Insurance's* third annual Employe Benefits Communication competition.

The awards were presented by *BI* publisher Alfred Malecki at the employe benefits luncheon April 22 during the Risk and Insurance Managers Society (RIMS) conference here.

Dow Chemical and its consultant Scott-Miller Inc. won awards for excellence in the total communications category.

Dow's "Living Assurance Plan" for its 31,000 employes and their spouses is a combination of printed materials, 16 mm films and video cassettes.

A home filing system, with the different benefits color-coded, is the keystone of the system, the company noted in its presentation.

Second place in the total communications category was won by Morton-Norwich Products Inc.; Kimberly-Clark Corp. took third place. Hewitt Associates was the consultant for both programs.

In the audio-visual presentation category, Ciba-Geigy Corp. was presented the award for excellence. Lever Brothers Corp. received second place and the Green Giant Co. won third place. Hewitt Associates was the consulting firm for all three winning entries in the audio-visual category.

Marsh & McLennan insurance brokers and Marsh & McLennan Communication Service won first place in the booklets category. Twentieth Century Fox Film Corp. and consultant Olanie, Hurst & Hemrich took second place and third place was awarded to S. C. Johnson & Son Inc. and consultant Hewitt Associates.

A special award in the booklets category was presented to Sun Oil International and its consultant Towers, Perrin, Forster & Crosby for a booklet dealing with special problems encountered by employes transferred overseas.

In the personalized correspondence category, Maremont Corp. and its consultant A. S. Hansen Inc. took top honors; second place went to Container Corp. of America and its consultant Hewitt Associates and third place was awarded to Cherry-Burrell, a division of Paxall Inc. and its consultant Benefacts Inc.

Winners were selected from a field of 105 entries by a panel of judges from the communications industry. Judging the entries were: Jo Foxworth, head of the Jo Foxworth public relations firm; Rita Epstein, editor of Risk Management magazine; William Scherman, vp-promotion, Newsweek magazine; Douglas Alligood, corporate advertising director of RCA Corp.; John Ganfield, partner in the Clement & Ganfield public relations firm and Tony Cappiello, partner and creative director of Reis, Cappiello, Colwell advertising agency.

A spokesman for Hewitt Associates, which received seven awards and whose programs won entries in all four categories of the benefits communication competition, noted a trend away from the use of insurance policy language to 'copy that makes sense to the employe" in benefits communications.

George Heiring of Hewitt said that employers will spend more money on benefits communications in 1975—spurred on by the disclosure requirements of the pension reform law, "but rather than just a knee-jerk response, companies are giving more thought to packaging."

"The conceptual side—how it all fits together; that's where employe benefits communication has really blossomed," he said.

Mr. Heiring also noted an increased interest in audio-visual presentations, "an important tool, especially when you're dealing with the young worker who is so TV and movie-oriented."

Another important audience is the family of the employe, Mr. Heiring said, stressing the importance of printed material.

Information on benefits and claim filing procedure should be available both at home and at the office, he said. ■



Winners in the total communications category, from left to right, were Harold Scott of Scott-Miller Inc., Saginaw, Mi., consultant for Dow Chemical Co. USA; Teresa Norton, with Hewitt Associates of Deerfield, Il., consultant for Morton-Norwich Products; Mel Hooker, Dow Chemical Co. USA, Midland, Mi.; Steve Ramsey of Hewitt Associates, who accepted the awards for consulting and for the employer winner, Kimberly-Clark Corp. of Neenah, Wi.; and H. J. Wendt of Morton-Norwich Products in Chicago.

Reinsurance shortage stymies doctor insurer

By JOANNE GAMLIN

SAN FRANCISCO—Bruce Woolery, former president of Argonaut Insurance Co., is attempting to establish a medical malpractice reciprocal insurer that will offer coverage to the 4,000 physicians in Northern California who are currently insured with Argonaut.

A May 1 deadline for signing up the doctors has been set, he told *Business Insurance* in a telephone interview. The principal obstacle in reaching the target date lies in the difficulty of obtaining reinsurance, he added.

"The London market for medical malpractice reinsurance has dried up," Mr. Woolery asserted. "The reciprocal cannot get off the ground without a license from the state insurance department. And until we get reinsurance, we cannot get a license."

He said that if he fails to obtain reinsurance by May 1 he will postpone the venture.

Mr. Woolery's role in the new venture will be as president of the attorney-in-fact, the entity which, under California's law, must be formed to manage a reciprocal. He has named the firm the Medical Insurance Exchange of California.

"Hundreds" of Northern California doctors have already signed up with the exchange, he continued, noting thast he anticipates signing up most of the 3,500 to 4,000 physicians in the area who are presently insured by Argonaut and who are currently protesting the insurers efforts to abandon the coverage once its contract with the doctors' group expires May 1.

Doctors have filed a multimillion dollar suit against Argonaut to prevent the cancellation of coverage, and are threatening to halt their practice of medicine.

Despite the fact he says he may set up the reciprocal as a statewide vehicle in the future, he believes that reciprocals are not the final answer to the national medical malpractice crisis. "They are simply a way to get insurance," he said. ■



Accepting the awards for best personalized correspondence programs were, from left to right, Warren Chindblom, Maremont Corp., Chicago; Leonard Zimmerman, A. S. Hansen of Lake Bluff, Il., consultant for Maremont on the benefits plan; Teresa Norton of Hewitt Associates in Deerfield, Il. consultant for Container Corp. of America; Robert Eilertson, Benefacts Inc., a division of Alexander & Alexander, Baltimore, consultant for Cherry-Burrell division of Paxall Inc.; and David Cummings, Container Corp. of America, Chicago.

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Risk control should be the primary responsibility of insurance manager

By MARGARET LeROUX

NEW YORK—As if a risk manager didn't have enough to worry about, just handling his company's insurance policies, he should be a psychologist, political scientist and above all, a good communicator, according to Peter Downes, manager of insurance, American Trading & Production Corp.

Writing in the current Risk Management Report ("Communications and Risk Control" see coupon at left) Mr. Downes notes that insurance management and administration should actually occupy but a small portion of a risk manager's time; risk control, broadly defined as any risk which impinges on the corporate environment, should be his prime responsibility.

Hence the need for psychology, political science and communication.

To quote one of Mr. Downes' "old American industrial proverbs:" 'Staff tells line what to do; line tells staff where to go.'

In other words, it's how he communicates with the people at the plant level that determines the effectiveness of a risk manager's risk control program.

Mr. Downes offers a triple view of reality in plant operations: the way things really are, the way they are reported to staff (or risk) managers and the way the managers report them to company officials.

Mr. Downes' interpretation of reality is one that risk managers would do well to keep in mind the next time those plant inspection reports come through.

The risk manager, being the middle man, must communicate the true view of reality in terms that get through to his superiors as well as those under him.

Since the goal of every corporation is to make a profit or in a nonprofit institution to avoid unneccessary losses, Mr. Downes says, a risk manager must determine the extent to which he can effectively intervene in the control of risk.

Risk management as an integral part of the entire socio-economic function of the corporation is where the profession is headed, according to Mr. Downes.

His thesis: "A true risk manager is one who acts to forestall or minimize the effects of a risk which does not yet exist" may send the more conservative members of the profession scurrying for their ulcer medicine, but should offer a real challenge to those planning a future in risk management.

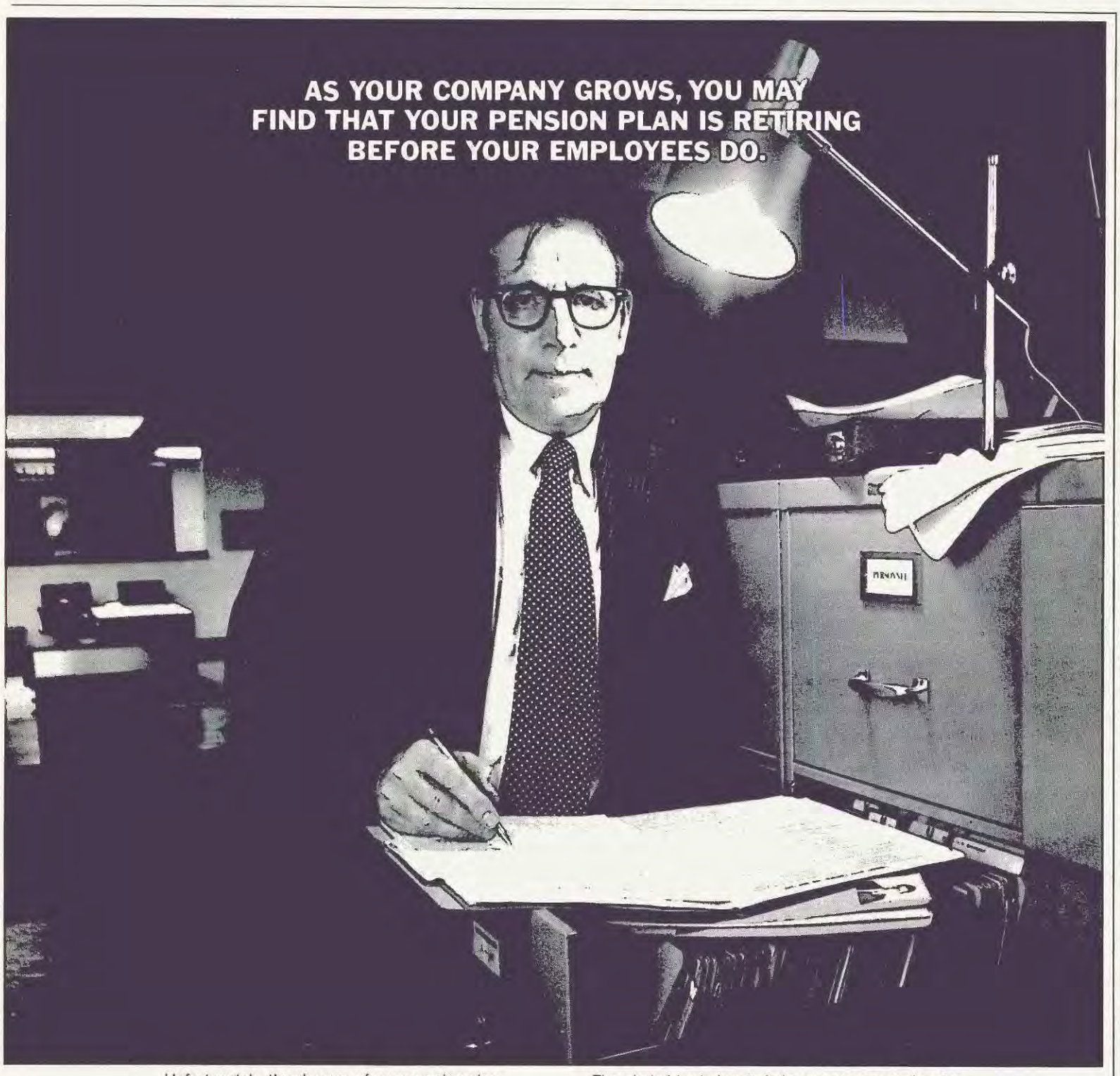
What risk manager envisioned the effects of polyvinyl chloride 10 years ago? In the future risk managers will have to confront safety and environmental risks as often as today's risk managers juggle their corporation's cash flow problems.

The diversity of corporations and the growth of multinationals provides another new dimension to risk management in the future, Mr. Downes says.

He quotes a United Nations survey stating that the added value of each of the top multinational corporations in 1971 was in excess of $3 billion, or more than the gross national product of 80 countries.

Seen in this light, a multinational's expansion or cutback creates an effect that goes far beyond the asset-debit statement in the annual report. The economic and political future of a country is serious business for a risk manager to consider.

There are those who will argue that such problems are not the domain of the risk manager. Mr. Downes would reply that because such risks are outside the specialized area of interest of other management fields, there is "a vacuum which needs to be filled." ■



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Furloughed but covered

OLD TOWN, MN.—Hospitalization and other insurance benefits will remain in effect for 93 Diamond International Corp. workers who are furloughed until May 15. as a result of the sulphite pulp operation being shut down.

The workers were furloughed rather than laid-off so that they will have a chance to make other arrangements, said Michael Cherneski, director of personnel, who also handles employe benefits. Most medical plans have a 30-day waiting period, he added.

"This is not unusual," Mr. Cherneski said. "As long as people remain on the payroll, they receive benefits."

Some of the workers could be reinstated after May 15, Mr. Cherneski said, but he added that he "doubts" that will happen. ■

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



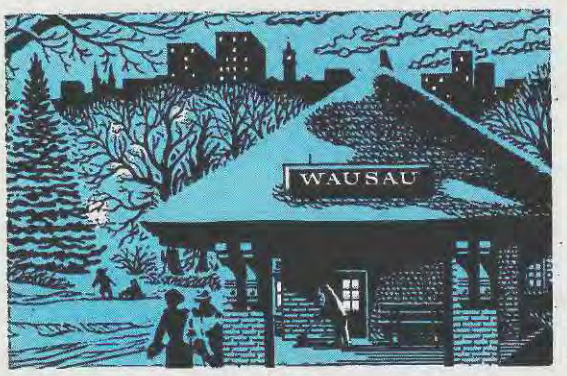
Benson Optical, Inc., one of our workmen's compensation policyholders, processes and distributes eyeglasses and optical instruments and equipment nationwide. Their business is not particularly hazardous, and their file reveals a highly favorable loss record . . . which are exactly the factors that can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

"It's obvious that your people take their jobs very seriously," a top Benson executive told us. *"I go over their reports carefully and personally follow up on their suggestions."*

He went on to cite some recent cases where hazards had been identified and corrected before they could turn into accidents. What might have happened had these dangers been overlooked is anybody's guess . . . but everybody is glad it didn't. This kind of keen-eyed safety consultation from an insurer, combined with conscientious response by the policyholder, makes it possible for insurance to accomplish its most vital function—protecting human capabilities. *We like to call it the insurance partnership.* That's the viewpoint you'll find when you come to the source.

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Liability and malpractice biggest headaches for LA's first risk man

By JOANNE GAMLIN

LOS ANGELES—Gerald Surfus, the first professional risk manager ever to be employed by the huge county of Los Angeles, hopes to apply futuristic principles of insurance risk management to the most ornery of urban predicaments.

At the moment, finding medical malpractice coverage for physicians who work for the county is the number one headache for Mr. Surfus. A possibly more troubling question is where to obtain liability insurance for the county, although this is a problem which is shared by almost every municipality in the state.

Mr. Surfus came to his post last April after serving as the first professional risk manager for the city of Madison, Wi., where he created waves by forming a $1 million insurance fund from which to pay policy claims. (*Business Insurance*, Feb. 24, 1975).

As the first risk manager for a considerably larger political subdivision, Mr. Surfus voiced the hope, during an interview with *Business Insurance*, that he will create a risk management program that can be adopted by municipalities everywhere.

He intends, first of all, to embark on a wide-ranging loss prevention effort that will use as its starting point an existing program which is tied to workers' compensation coverage. Mr. Surfus explained that he wants to broaden the loss prevention approach, philosophically at first, to encompass property, employe operations and most other county-based activities.

Further, he said he foresees the formation of a new blanket property/liability policy that embraces layer upon layer of excess coverage. The limit on the property portion, he said, would be based upon the value (excluding contents) of the property owned by the county of about $1.2 billion.

He suggested the excess layers would work something like this: Self-insurance will prevail for the first $1 to $5 million layer; up to the point of $10 to $15 million, insurance will take over; then there will be a third layer extending up to about $25 million which will be uninsured. Finally, there will be a catastrophic top layer of $25 million to $200 million which will be insured.

The county has a $1 million retention program for its medical malpractice, auto liability and unlimited, comprehensive general liability policies. But Mr. Surfus said that the only county property that has been insured is that which, because it is indentured, must be insured.

"This requirement translates into about $400 million of insured property," he said, "leaving up to $700 million of property which is not protected."

The proposed, pyramiding property/liability policy goes by the name of Mr. Surfus's "master plan." It is still in the developmental stage.

If it becomes effective will it mean a rise in county taxes? Mr. Surfus is candid enough to acknowledge that it might, in the short run at least. However, he maintains that improved internal management will, in the long term, bring costs—and taxes down.

"I plan to present the plan to the county board of supervisors soon," he pointed out, referring to the five elected members who are known as some of the most powerful men in the county.

Mr. Surfus, whose job involves only property and casualty coverage, reports to Harry Hufford, the new chief administrative officer.

The insurance policies that protect county property and its liability exposures, which include aircraft and airport liability, are too numerous to be profiled in detail, according to the risk manager. He did disclose, however, that Los Angeles County has been affiliated with five brokerage firms for some time. They are: Albert G. Ruben & Co. Inc., Johnson & Higgins, Bayly, Martin & Ray Inc., Marsh & McLennan, and Fred. S. James.

Premiums paid by Mr. Surfus's department amount to aproximately $4 million annually a sum which the risk manager is quick to label "small" in relation to what they do. His department is also budgeted for the county's cost of employe fringe benefits costing about $12 million.

Although Mr. Surfus said he has not voluntarily switched underwriters since he took his job a year ago, he pointed out that he has been compelled to make some changes due to the fact that "underwriters are cancelling political subdivisions.

"Insurance companies don't have to write us," he continued, indicating that in the liability area the refusal to maintain coverage is becoming a super headache.

"Los Angeles County has been called several times," he observed, "in actions which I view as discriminatory."

The problem, he elaborated, is that insurance carriers fail to grant government units the lead time they need to evaluate an insurance program.

"They give us 10 to 30 days." he pointed out. "In reality, we need much more time."

Moreover, he said that underwriters cite as the reasons for refusing to continue coverage such factors as erroding immunities and unsuspected exposures. He indicated that he regards such reasons for withdrawal with skepticism.

"In California, they are simply not valid excuses," he stated.

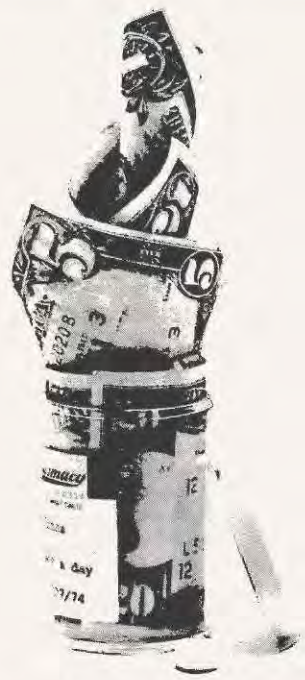
Mr. Surfus said he is optimistic that in the future the current insurance and risk management problems of municipalities will cool off. Evolving risk management concepts will eventually elimate many of today's problems, he believes.

"If I were the vp for new marketing for a brokerage firm I'd actively solicit municipalities in California," he added.

Mr. Surfus's risk management degree may be a help in resolving what he currently regards as his biggest problem: securing medical malpractice insurance for county doctors whose coverage is slated to expire on May 22. Without coverage, he said there will be no recourse but to resort to 100% self-insurance.

To generate new ideas on how to attack the question, he said he has asked four persons representing different areas of the insurance and safety professions to form a risk management advisory committee. Ralph E. Gentry, insurance manager for the Times Mirror Co., is the sole risk manager in the group, which also includes a UCLA professor, an insurance broker and a safety executive from McDonnell Douglas Corp. ■

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AMA reconsiders use of malpractice captive

DALLAS—The American Medical Assn. (AMA) is reconsidering the idea of a captive to insure malpractice risks for its members, *Business Insurance* learned.

A decision was made about 18 months ago by the AMA not to form a captive, but a few months ago an AMA representative lamented that the associatoin had not gone ahead with plans for an insurance captive, according to an insurance industry expert.

A year and a half ago, the AMA knew that "malpractice costs were up and losses were on the increase, but they thought insurers were stupid enough to provide coverage in spite of the losses—more economically," the source said. "They overlooked what happened to the stock market," he said.

Over $1 billion in premiums would be generated over a five-year period in an AMA captive, it is estimated, making it "a full fledged insurance company," the source said.

It was recommended to the AMA that the captive be domiciled in Illinois, national headquarters of the AMA. "The company should operate as an admitted insurer," the expert said. "It will have to abide by U.S. laws."

The captive would be undertaken as an "interim solution" to the medical malpractice coverage problem. Meanwhile, the AMA would continue to press for legislation to change the tort system, which it blames for the large settlements in malpractice cases, industry observers expect.

If the AMA decided to form a captive, it would first set up a task force to call upon local AMA groups to determine the level of interest in participating in a national captive project, it was learned at the 13th annual Risk and Insurance Management Society conference here.

Some local AMA organizations, such as the New York state AMA, are also reportedly considering the idea of setting up their own captives to underwrite doctors' medical malpractice risks.

The insurance industry expert said it would be important for these captives to be domiciled in the states where the primary portion of their risks were underwritten.

The AMA could not be reached for confirmation. ■

RIMS/Report

Loss ratios must be good for captives

DALLAS—"Adverse loss ratios have no place in a captive insurance company," said George D. Kahlert, insurance manager for Mead Corp., Dayton.

"For a wholly owned venture, I'd not feel safe with anything less than $750,000 for property coverage and $1.2 million for liability lines in a captive," Mr. Kahlert told the members of the 13th annual Risk and Insurance Management Society (RIMS) conference here.

"The loss rate must be extremely favorable," Mr. Kahlert emphasized. "Without a feasibility study, you can't gauge the profitability of your participation in a captive," he told corporate insurance buyers.

"You must be paying a reasonable rate for reasonable coverage," he said, "and have competent management in the parent company."

A 28% or 30% combined profit for the first year on underwriting premiums and investment income is considered average for a captive, Mr. Kahlert said. "By the fourth or fifth year, you should be able to substantially improve the profit level."

He believes the key to improving profits year after year is "to keep your captive's money working effectively." To accomplish that, he recommends using the captive's funds to promote expansion. ■

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$2.3 million award against Sears for tire blowout may be Michelin's worry

CHICAGO—Sears, Roebuck & Co. may not be paying the $2.3 million product liability award handed down last month by a federal jury to a suburban Miami family because of a fatal auto accident following the blow-out of a Sears-label radial tire.

Michelin Tire Co. of France manufactured the tire, according to the plaintiff's attorney, Chester E. Whittle Jr., of Miami. He said the attorney that represented Sears at the trial, David K. Tharp, also of Miami, told him that the tire had been manufactured by Michelin in Italy.

A Michelin Tire Corp. spokesman at Lake Success, N.Y., said the U.S. subsidiary has "no commercial involvement" with Sears. "Any dealings with Sears must have been arranged directly with the factory," he said. "We handle only Michelin-label tires in this country."

Mr. Whittle said he was told that Sears had a hold-harmless contract with Michelin which promised to indemnify Sears for any loss or injury resulting from a Michelin tire distributed by Sears under the latter's label.

An insurance industry executive in the product liability field, who insisted on anonymity, said that "large vendors like Sears—especially a company as sophisticated as Sears on insurance buying—would insist that the manufacturer include Sears under a vendor's liability contract."

He estimated that Sears "would be covered on this type of contract for $25 million per occurrence (or annual aggregate) up to possibly $50 million." But he added that the hinging factor was whether the tire was proven to be defective. "If it was mounted wrong, implicating Sears' servicing, then the hold-harmless would not be valid."

Another possibility, the expert said, is that Sears may have an arrangement with Michelin that Michelin pay the settlement directly. "There's no set rule on how these contracts might be handled," he said.

"Maybe Sears wanted a better price and decided to forego the hold-harmless agreement entirely in which case Michelin has no direct responsibility," he said.

Sears would neither confirm nor deny the allegation, but said it plans to appeal the verdict.

"In our opinion, the verdict of the jury that the tire was defective and the amount of damages awarded were not supported by the evidence. Our attorneys do intend to move to have them set aside," a Sears spokesman told *Business Insurance.*

The ultimate responsibility will be Michelin's to pay off the judgment," Mr. Whittle believes. He said that Sears "could have brought Michelin into this trial as a third party defendant."

If the decision stands, Mr. Whittle said," Sears will surely turn to Michelin (because otherwise) Sears is responsible for paying the award since it sold and serviced the tire."

"Perhaps the basis for Sears' appeal will be that the real responsibility lies with Michelin," Mr. Whittle said. "I don't even know if the attorney supposedly representing Sears was really representing Sears, or in fact, Michelin."

Mr. Whittle commented that he had difficulty "getting any information from Sears' attorney such as whether there was insurance to cover possible damages. This information is admissable evidence in a Florida court, he explained, though the amount of the coverage cannot be given.

"We have a good case on Sears being liable" Mr. Whittle said, referring to an "expressed warranty" in several Sear's television commercials set in Baja California where road conditions are difficult and often hazardous.

All servicing was done on the tire as required, Mr. Whittle said. There were 31,000 miles on the car when the accident occurred, although the warranty covered the tire to 40,000 miles.

The first jury deliberation established Sears' liability, Mr. Whittle said. A few days later, the award was determined in a second jury deliberation.

Mr. Whittle commented that the judge thought part of the award, a $560,000 personal injury claim to Mrs. Joan Westerman, the wife, was "too high," and may be another basis for Sears' appeal. The judge commented that Mrs. Westerman's portion "reflected that the jury didn't understand its instructions."

"We may remit that award somewhat just because the judge has expressed displeasure with the amount," Mr. Whittle said.

"Sears is so concerned about their public image," Mr. Whittle said. "They could really capitalize on the fact that this case is an exception. Instead they're sticking their heads in the sand."

"We didn't try to present an emotional case," Mr. Whittle emphasized. ■

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Insurer alters key fiduciary exclusion

DALLAS—National Union Fire Insurance Co., a division of American Home Assurance Co. and part of American International Group, reportedly has agreed to remove a few controversial words in one of the principal exclusions in its fiduciary liability insurance policy, *Business Insurance* learned.

Exclusion number six in the National Union policy presently provides that coverage is excluded under the policy if there was prior knowledge by any fiduciary of a dishonest act.

Elton Diehlmann, vp of Johnson & Higgins, said during a liability insurance seminar here that several National Union policyholders had a complained of this exclusion, because it was interpreted by a number of experts as excluding coverage for any fiduciaries on the basis of the prior knowledge of only one fiduciary.

"It looked as though there was no coverage for anyone unless it could be shown that none of the insured fiduciaries had any prior knowledge," of ask dishonest act, Mr. Wiehlmann told this magazine.

The words which National Union apparently has agreed to remove from the exclusion are "with respect to any insured" so that all fiduciaries are not denied coverage for prior knowledge one fiduciary may have had of a dishonest act. The exclusion now would be "severally applicable," Mr. Diehlmann said. ■

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Suggest 'reasonable' contingent fee system for malpractice cases

CHICAGO—Fifty percent of the contingent fees in malpractice cases are "patently unreasonable and excessive," charged Fred W. Beck, vp and general counsel of American Mutual Insurance Alliance.

"Such high fees simply escalate judgments to levels which are completely absurd," he said. "Today's sophisticated jurors know how much a plaintiff's attorney receives in (that) community, and so the jurors award high judgments to provide a specific net amount to the plaintiff."

Mr. Beck suggested that the following contingent fee system for lawyers as "reasonable": 50% of the first $1,000 recovered; 40% of the next $2,000; 33⅓% of the next $47,000, and 10% of any amount recovered over $100,000.

"We do not maintain that contingent fees should be abolished and replaced with hourly billings," he said. "Rather we submit that contingent fees should be regulated by the courts to assure that such fees are reasonable.

"For a fee of one-third or one-half of $1 million, a lawyer can afford to gamble his time on the result," Mr. Beck said. "The claimant gambles too. His lawsuit costs him nothing. But there is a relative disadvantage for the defense. In every dispute the doctor or hospital must be defended at great expense."

"This week we have written to the chief justices of the supreme courts in nearly all of the states and we have asked them to consider moving promptly to regulate plaintiff attorney contingent fees and to reduce excessively exorbitant jury awards not justified by the facts in a case," he said.

"Under the state constitutions, the power to define and regulate the practice of law has been regarded as a judicial rather than a legislative function. Pursuant to this power, in January 1972, the New Jersey Supreme Court adopted a rule limiting attorney's contingent fees. It is our position that the courts in every state should promulgate rules to regulate contingent fees," Mr. Beck said.

In a separate speech, Lon Hocker, past president of the American College of Trial Lawyers, recommended that "attorney's fees be awarded to the winning party as part of his court costs," noting that this practice is followed in Canada and England.

"This is merely simple justice (because it) does no more than put the defendant back where he was when the suit was filed," Mr. Hocker said. "On the other hand, it makes a claimant think twice before filing a long-shot case with a view to getting a nuisance settlement."

The New York City Bar Assn. recommended, in another independent action, interim legislation that would provide for "joint underwriting by all personal liability insurers" operating in New York state.

"The companies would be required by law to provide medical malpractice insurance with participation proportionate to each company's volume of personal liability business. The committee would not favor giving such a group exclusive rights because this would force the termination of self-insurance plans of hospitals," the bar association stated through a report entitled "The Medical Malpractice Insurance Crisis."

Among the major proposals designed to encourage carriers to re-enter the malpractice field, the bar association recommended that:

- "Juries be required to itemize each of the parts which make up their verdict to provide for better policing by the courts of excessive awards;
- "Penalties against parties and lawyers for bringing ill-founded lawsuits;
- "Interest added to judgments running from the commencement of the action;
- "Lawsuits by infants be treated the same as suits by adults (three-year limitation for bringing suits) after the infant's 10th birthday; and
- "Lawyers contingency fees be reduced on awards of over $100,000 (the maximum presently allowed is usually one-third of the award)." ■



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Mine deaths and injuries lowest ever

WASHINGTON—The Interior Department this month said there were across the board reductions in fatalities and disabling injuries in the coal mining industry in 1974, with the totals representing the lowest level in history.

The Department's Mining Enforcement and Safety Administration (MESA) said there were 130 coal mine deaths in 1974, down from the 132 in 1973, but only half the 1970 death toll of 260.

The 1974 fatalities occurred at a frequency rate of 0.42 per million man hours of exposure, the lowest frequency rate ever recorded for the U.S. coal industry, according to MESA.

Disabling injuries, which include fatalities, totalled 8,611 in 1974, down from 11,199 in 1973.

The frequency rate for disabling injuries was 29.22 per million man hours of exposure, which MESA said was the lowest rate since statistics were compiled in 1930.

The 1974 disabling injury rate represented a 29% decrease from the 40.42 rate recorded in 1973.

Ninety-one of the 1974 deaths were in underground mines, and 39 in surface mines. ■



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Multinationals told to wait on foreign pensions

ENGLEWOOD CLIFFS, N.J.—American companies shouldn't jump the gun to set up or change overseas pension plans before they're legislated, an actuarial consultant advised.

"Where pensions are part of the local custom, the American company must offer them," said Vincent Simone, vp and director of Kwasha Lipton Inc.'s international division. "But where it's only been proposed, then it's not worth the short term competitive edge to offer it ahead of the law," he said.

"Americans have the reputation of being the nice guys," Mr. Simone continued, but they really should offer a pension based on local custom and local need rather than purely humanitarian or political reasons—or worse yet, based on insufficient information about the true requirements of the situation.

Mr. Simone cited a 1972 Swiss referendum after which "hunderds of American companies" passed pension plans. "But this wasn't even law, Mr. Simone said. "A referendum is not a law," he emphasized. He added that even if it did become law it probably would not become one for a few years and after several changes were made which would be expensive to change once the American company had implemented a plan.

Another example are the British White Papers on pensions. "Every time one came out, American companies in the U.K. changed their plans automatically before it became law," Mr. Simone said. "Then the governments would change and nothing would be done about the White Paper."

"This is no reason to neglect benefits overseas," Mr. Simone said. "American companies expect their overseas managers to know what they're talking about."

He gave another example about the so-called trend toward pension plans in Mexico during the 1960s. "Basically, a lot of brokers got together and sold the idea to foreign companies and were able to establish a trend," he said. "Now only gringos have pension plans in Mexico."

He mentioned special situations such as in developing countries where there might be political reasons for establishing liberal pension benefits, or in one case of many oil companies overseas trying to provide for orderly retirement of workers due to hard working conditions.

In Belgium, Mr. Simone said, an American company would want a "good negotiator" as local manager. The reason: Workers there aren't fired without a negotiated settlement concerning severance compensation.

Mr. Simone offered several case histories on overseas benefits which illustrate how problems can occur without adequate planning.

Case #1: A medium-sized multinational company with several hundred employes in Spain allowed the local manager (Spanish) to set up a pension plan for local employes. The plan provisions called for what appeared to be a reasonable retirement benefit. Unfortunately, the plan was not integrated with Spanish Social Security. At the time the plan was adopted the Spanish Social Security benefits were modest, but with the passage of time such benefits were increased dramatically. The result is that many employes will retire with total pension income—company plus Social Security—which is far in excess of final salary. The company now has the unpleasant problem of "taking away" promised benefits in order to properly integrate the plan.

Case #2: A medium sized international company established a Swiss franc plan for all its European operations. The benefit formula, for simplicity, was based on the assumption that Social Security payments would be modest in all countries. However, in Italy, Social Security provides a pension of 80% of final three years' average salary, plus a termination indemnity of one month's pay per year of service. This is another case where a universal benefit formula has proved to be inappropriate and unnecessarily costly. Also, while Swiss francs may be quite appealing to an Italian employe today, twenty years from now the opposite could be the case.

Case #3: A U. S. multinational company with a staff of more than 3500 employes in Germany requested its U. S. insurance carrier's assistance in designing a local pension plan. They recommended an insured plan, with a large German insurance company. The U. S. employer was at the time in the midst of a capital improvement project in Germany, for which it was borrowing funds locally—as it happened, from the same German carrier that insured the pension plan. The U. S. company was never advised of the fact that, among the four funding arrangements allowed in Germany, one is a book reserve method, which would have permitted the company to retain the pension funds internally for the capital improvement, rather than having to borrow from the outside.

Case #4: A U. S. company decided to decentralize its overseas operations. As a result, it permitted each subsidiary to design and implement a pension plan, without head office approval. The local financial manager in the U. K. had a friend at a U. K. insurance company and requested that his friend design a pension scheme for the local employes. The friend suggested deferred group annuities, without profit participation, for a plan that covered approximately 1000 employes. The plan was based on final salary, which included bonuses, and was not integrated with Social Security. The cost of this program is well out of line with other programs in the United Kingdom. ■

Small group package

SAFECO Life Insurance Co. announced a new small group insurance package designed to provide comprehensive benefits for small business with group life, disability and featuring $250,000 maximum benefit for medical expenses. The plan guarantees that no participant will be required to pay more than $1,000 out-of-pocket for medical expenses. It emphasizes preventive care with coverage provision for physical exams, immunizations and well-baby care. The plan also provides that benefits will be extended for one year to the family of a deceased participant.



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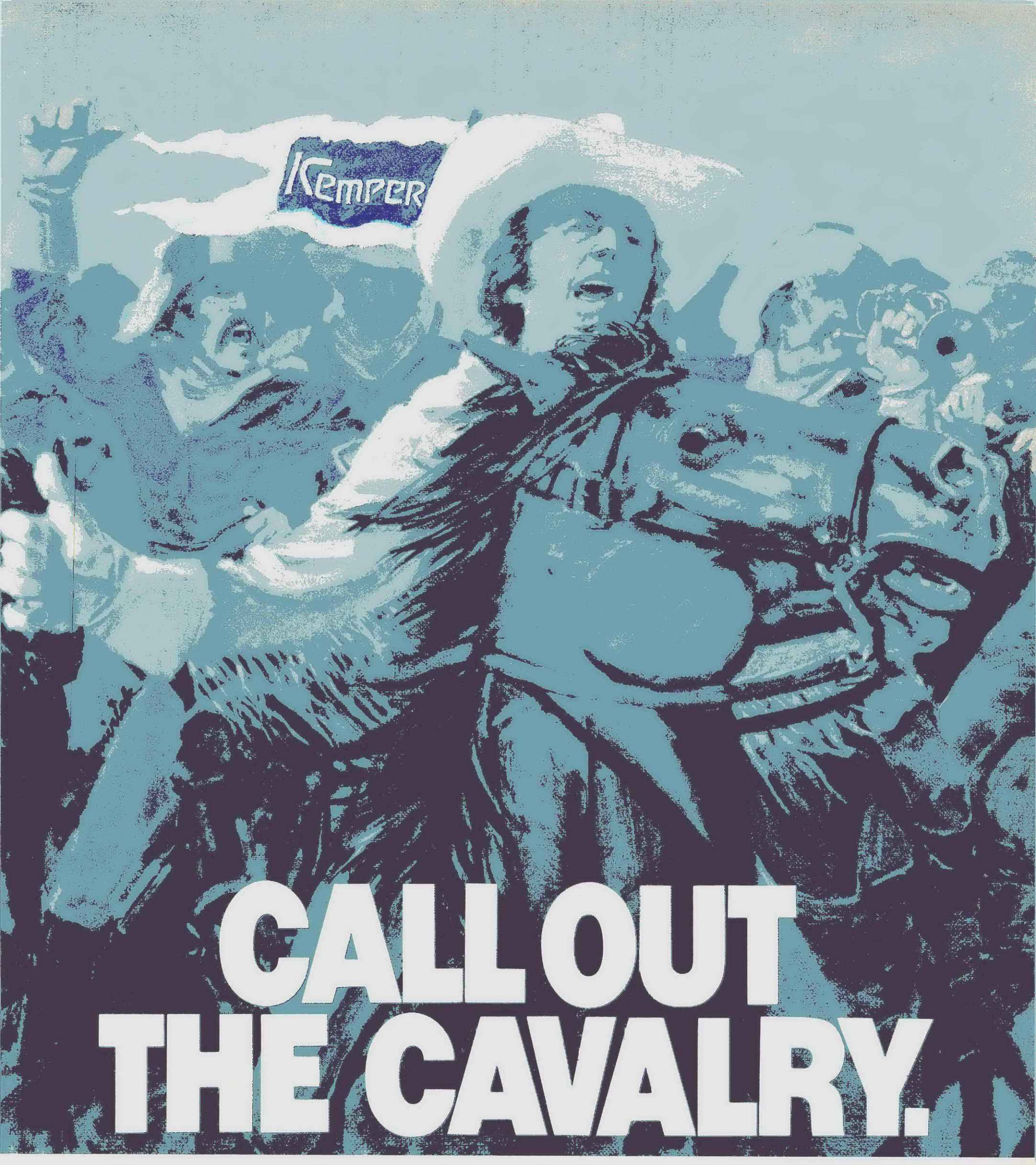
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Insurers watching Middle East with eye toward change in marine rates

LONDON—Marine insurers are keeping a day-to-day watch on the Middle East situation in the event of further hostilities.

War risk rates were brought down last July, when there were indications of a more settled attitude in the area, and were kept pegged at the rate of 0.125% since then.

This compares with the normal protective rate world wide of 0.0375% which applies on most trading routes.

But recommended rates from the Institute of London Underwriters' war risks committee can change rapidly in the event of disturbances. Even if there is a serious threat of conflict, rates can go substantially higher than existing figures, just as they have in the past when wars broke out.

Lloyd's and other marine underwriters are naturally very concerned if it looks like trouble may break out in the Middle East. Cargoes are covered from port to port throughout their journey in the war-risk section at premiums accepted before their voyage opens, so that the market could lose heavily in the event of sudden conflict.

But this hazard is fully appreciated by the marine market, which operates on this risk basis for the benefit of shippers of all kinds.

It is events like the failure of Dr Kissinger's peace mission and the death of King Faisal of Saudi Arabia that have created this sudden anxiety.

There is also concern over growing insurance interests in the Middle East generally, where industrial developments in many countries have attracted the commercial interest of leading U.K. insurance companies seeking business in this tremendous oil-rich area.

Chance of greater income from this area for many companies, both in the U.K., and elsewhere, will be affected if there is a sudden hold-up in expansion.

The recent events in Portugal, however where the left-wing government has nationalized banking and insurance companies, has had little impact in London.

It was only domestic institutions which were taken over by the government, so that both Lloyd's and the big U.K. insurance companies are unaffected.

Inquiries in London show that the whole yearly premium turnover of the Portuguese insurance market is only about $170 million, of which less than $17 million reaches Britain.

And, this figure is so tiny compared with Britain's annual premium flow of between $50 and $60 billion that it is regarded as being of very little significance.

* * *

LLOYD'S INSURERS hold cover on a $600,000 loss at Christie's, the fine art auctioneers, who were tricked by a three-man crime gang into parting with valuable jewelry they had sold on behalf of a wealthy U.K. client.

The client will suffer no loss, because the stolen items were protected by the insurance. But warnings against the confidence trick are circulating in the art world because of the daring tactics which the criminals used.

The jewelry was part of a big auction which realised $1.5 million. Bidders were given documents which authorised them to call for their purchases as long as they had provided certified checks or other suitable deposits for their purchases.

Security checks were defeated when the tricksters managed to forge the types of documents needed to obtain the release of the goods without having paid any money for them.

An international alert has now gone out in case the same trick is tried in the U.S. or other countries, as the three men involved vanished after their swindle and have not been traced.

They were obviously expert thieves, as they knew exactly the kind of goods to bid for, including a five-piece ruby and diamond set by Cartier worth over $400,000.

* * *

AVIATION underwriters have been warned by Walter C. Corbett, of Excess Insurance Co., that they must not be deceived into thinking good results are in store just because there have been no major losses for some time.

As retiring chairman of the Aviation Insurance Offices' Assn., he commented when his term of office ended recently: "It has been a frustrating year for many of us who are vitally interested in the fortunes of the London market.

"We know the firm steps which we should take to guard against inflation, but the market seems to lack the resolution to act upon its convictions. We are experiencing the effect of over-capacity and we have a very heavy duty to maintain individual discipline."

Mr. Corbett, who remarked last December that an upward trend in ratings was likely (*Business Insurance* Dec. 23), is succeeded by John C. F. Peters, of Phoenix Assurance Co., as the new chairman of the aviation insurer's association.

* * *

PROGRESS toward "equal opportunity" pension rights in Europe was described by Annette E. Bosscher, of Brussels, at a conference organized by the London Financial Times on future entitlements.

Ms. Bosscher, a principal administrator with the European Ecomic Community, said draft directives which would be legally binding on all the nations in the European Common Market were now being prepared.

The directives would ensure equal treatment of men and women under Social Security and would eliminate the concept that only the man is considered the breadwinner and head of the household.

But how this is to be achieved will be left to individual countries, as there are considerable variations so far in their treatment of the situation.

Many countries still impose lower retirement ages for women than men, although in Germany moves are now being made to achieve a flexible retirement age.

All insured persons in that country who have been at work for 35 years or more can now decide from 63 onwards when they want to retire, regardless of sex. ■

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Government extends crime insurance despite less than spectacular sales

WASHINGTON—The federal government last month approved a two year extension, until April 30, 1977, of its subsidized crime insurance program operated by the Federal Insurance Administration of the Housing and Urban Development (HUD) Department.

The crime insurance program, along with a federal riot reinsurance program, had been due to expire this April 30.

Sales of crime insurance, which covers robberies and or burglaries to a $15,000 limit, has not enjoyed widespread success among many of the small businessmen for whom it was designed, however.

After four years of operation, the program reported only about 5,000 commercial insureds in fourteen states and the District of Columbia. Another 15,000 policies had been written for residential customers.

This is not particularly disturbing to the program's supervisor, Acting Federal Insurance Administrator J. Robert Hunter.

Because the government's program is designed to fill gaps in insurance availability, losing a client to the competition—a private underwriter—is viewed as something of a small victory.

Another reason for less than awesome sales figures is the government dependence on private agents and brokers to market its product.

Agents and brokers aren't plentiful in the high crime urban areas where robbery and burglary covers are most needed. A recent publicity campaign in Chicago resulted in about a 70% increase in sales, but "you still need a local contact," acording to Mr. Hunter. "The problem is there are no agents."

There is also the problem of the potential insured themselves—primarily small businessmen who are not familiar with rudimentary risk management, and are sometimes penny wise and pound foolish.

Mr. Hunter said a recent survey by Howard University of small businessmen in the District of Columbia showed that 26% of them had suffered a burglary in the last year, 18% had suffered a robbery, and 73% were uninsured.

While 85% of the respondents said they thought the federal crime insurance program was a good idea, only 35% said they would buy the coverage, Mr. Hunter said.

And for many of those questioned, the federal program might have been the only way to get coverage. The survey revealed that 19% of the respondents had had their private insurance cancelled and another 24% had been denied coverage when they sought it in the private market.

And the insurance probably is one of the few remaining bargains around for the small businessman. Congress directed HUD to make premiums affordable and, as a result, Mr. Hunter estimates the government is losing one dollar for every dollar of coverage it writes.

Premium rates are based on the gross revenues of the business insured and the policies are not cancellable regardless of the insured robbery or burglary experience.

Buying a government crime insurance package also brings with it a dose of risk management practices—the Federal Insurance Administration prescribes security measures, such as locks or bars, as part of the policy.

"When they upgrade their property to meet our protective device requirements, they often can get placed in a package policy privately," Mr. Hunter said. "That is always better than individual policies for robbery or burglary."

It is private package policies that HUD would like to see made available to all who need them. In a report on Full Insurance Availability, issued last September, HUD said, "no matter how affordable federal crime insurance rates might be, the fact remains that foreclosure of access to package coverages will deny to a vast number of insureds the economics inherent in package policies, deprive them of the savings implicit in the broader spread of risk so as to overcome adverse selection, and will, additionally impose upon them the dangers of coverage gaps and duplications."

The federal crime insurance is available through licensed private agents or brokers in any of the fourteen states and the District of Columbia. It will become available in Georgia effective June 1.

The other states where the program is operating are Connecticut, Delaware, Florida, Illinois, Kansas, Maryland, Massachusetts, Missouri, New Jersey, New York, Ohio, Pensylvania, Rhode Island, and Tennessee. ■

McGill will head pension committee

WASHINGTON—The chairman of the insurance department of the University of Pennsylvania has been named to head the seven-member advisory committee to the Pension Benefit Guaranty Corp. (PBGC).

PBGC is the new government corporation established by the pension reform law to reinsure private pension plan benefits.

The new committee chairman, Prof. Dan M. McGill, has also been chairman of the Pension Research Council since 1964.

The other members of the advisory committee are:

- Representing employers—Kenneth L. Houck, retired assistant general counsel and pension coordinator for Bethlehem Steel Corp., and Earl S. Willis, former manager of employee benefits for General Electric Co. and now consultant on legislative liaison for GE.
- Representing employes—Eugene B. Burroughs, manager of the investment department of the International Brotherhood of Teamsters in Washington, and John F. Tomayko, director of the insurance, pension and unemployment benefits department of the United Steelworkers of America.
- Representing the public—Carol W. Trencher, an attorney in the employe benefits area and member of the special subcommittee on unification of employe benefits of the American Bar Association committee on employe benefits, and Roger F. Murray, S. Sloan Colt professor of banking and finance at Columbia University's graduate school of business. ■

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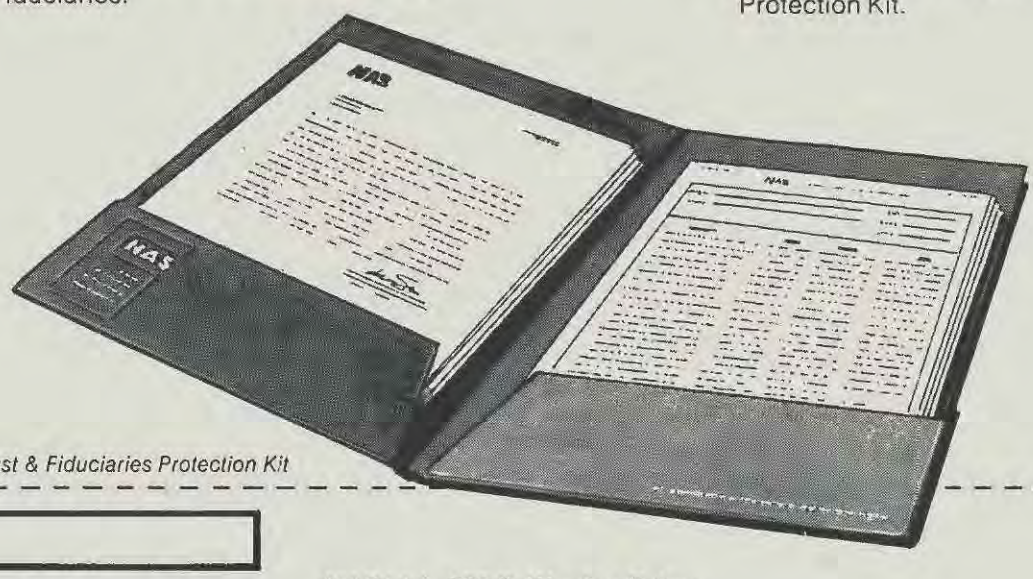
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editorial opinions

Well, it was nice while it lasted, friends!

IT IS OUR OPINION that some risk managers, including the Risk and Insurance Management Society Board of Directors, have overreacted to the Financial Accounting Standard Boards' final rules governing corporate accounting for self-insured and uninsured losses.

The FASB has determined that corporations will no longer be able to expense "accrued reserves" for future self-insured losses, which many companies have routinely been recording in their periodic financial statements. The FASB rules now say that two conditions must be met before such expenses can appear on the profit and loss statements (1) "it must be probable ('probable' being defined as a future event which is likely to occur') that an asset had been impaired or a liability incurred at the date of the statement" and (2) the amount of the loss must be reasonably estimable.

The rulings have led some risk managers to conclude that the FASB has launched an insidious attack on the risk management function in business and industry. Risk managers, they say, will no longer be able to use many of the sophisticated tools they've developed in recent years, self-insurance and captive insurance companies among them.

■ We just don't believe this to be true, for the simple logic of the matter is that the accounting standards board does not outlaw self-insurance and captive insurance schemes, nor does it have the mandate to. Rather, the board opines how such schemes should be accounted for on corporate financial statements in the future.

We are not privy to the board's precise reasoning for even addressing the subject, but we suspect its ultimate goal may be to provoke more truth in the packaging of corporate financial statements. If so, such a goal is laudable.

It was inevitable that the sophistication of risk management should lead to wider use of self-insurance as a financial management tool. That abuses of such tools should occur through expensing manipulations of corporate P&L statements from year to year was also inevitable.

It seems to us that the FASB wants to call a halt to such abuses even if they are, as risk managers with substantial self-insurance programs insist, few in number.

The backbone of the nation's economic past and its future, we trust, has been the broad ownership of American business and industry by its citizenry (and even if you don't own one share of stock but are a member of a pension or profit sharing plan with investments you do have a stake in American business and industry).

■ The FASB's decision affecting self-insurance and like plans or rather the accounting for same, as well as other subjects the board has been looking into of late, addresses this loss of confidence directly by making the manipulation of earnings less likely.

It is reported in this issue too, that the new rules may reinforce the IRS's tendency to take away many if not all of the tax advantages for self-insurers and captive insurance subsidiaries of major U.S. corporations (200 or 300 companies, let's say, that have enjoyed major tax savings by using sophisticated funding techniques, fronting arrangements, self-insurance and/or captive insurance companies).

Technically, of course, the FASB has no franchise in the area of taxation, but its rulings are bound to impact with the Internal Revenue Service interpretation of what's taxable and what's not. IRS has been fence-sitting on the issue of premiums paid into captive subsidiaries, and its position with regard to the deductibility (or lack thereof) of these funds is sure to be affected by the rulings. And many familiar with the FASB rulings believe the position will be adverse.

■ It has been our opinion for years that captives should not be set up solely to avoid the payment of taxes. And we've repeatedly reported like positions of those who promote captive insurance companies. Do not set up a captive solely to escape taxes, they've warned, for the advantage may be lost overnight.

Still, it seems that many risk managers have gone ahead and set up captives whose primary purpose was to escape taxation. They've denied this all along, and they'll probably deny it today, but their defensiveness on the FASB issue seems to confirm this.

Ultimately we feel the rulings will not destroy the self-insurance tool or the use of captive insurers for the risk manager. True, it may take away some of the attractiveness of such programs for some. In the end, however, it will only make risk managers better risk managers. They'll have to work a lot harder to determine more precisely what a potential self-insured loss might mean to the P&L statement. And, they'll have to work harder at risk control. This is how it should be.

In fact, hard though it may be for some risk managers to accept now, the FASB ruling could be one of the more significant developments in the field in years.

Business borrowing

FEW SUBJECTS we've looked at lately have evoked as much reticence on the part of readers we queried as that of insurance premium financing.

In the last issue of this magazine (April 21) we reported that a survey revealed that the corporate cash squeeze had sent more companies than ever to the doors of premium financing firms. Many corporations, however, were embarrassed to admit the fact.

It seems to us, and others as well, that there's an old-fashioned stigma attached to financing insurance premiums and, frankly, we don't know why there should be. The financing of premiums should be yet another tool in the risk manager's portfolio. And given a decent financing climate we don't see any reason at all why the financing of corporate insurance premiums shouldn't be the norm, rather than an embarrassment.

After all, the name of the game these days is cash flow, and the risk manager who can get the operation in tune with financial management is the one who will do the best job of risk management.

letters

This column is a readers' forum. Letters are welcome. Address letters to the Editor of Business Insurance, 708 Third Ave., New York, N.Y. 10017.

Colorado captives

To the Editor: The article entitled "AHA seeking non-medical malpractice carrier" appearing February 24, involving an interview with Mr. James Groves, AHA's Risk Manager, stated that Colorado was eliminated as a possibility "in spite of its captive law, because a captive must be owned by its membership and much of our income is paid by Social Security and Blue Cross, and the hospitals couldn't afford the non-reimbursable expense." Mr. Groves also was quoted in your magazine as saying that Colorado's captive law would exclude participation by state- and municipal-owned hospitals.

In reply to these statements, which I have verified with Commissioner J. Richard Barnes, it should be known that a Colorado association captive may be owned by the association itself or by groups of associations. Section 72-36-4(4) sets forth this definition. An association captive may insure a member organization of the association. Reference to this statement is in Section 72-36-3 (1) (b) (iii). The member organization is defined in Section 72-36-4 (8) as meaning any corporation, partnership, or association which belongs and has belonged for a period not less than one year to an association. Section 72-36-13 (2) prohibits a certificate of authority from being issued or renewed to any captive insurance company which is owned or financially controlled in whole or in part by another state of the United States, a foreign government, or any political subdivision, instrumentality, or agency of the United States or any state. As a member of an association, the state- or municipal-owned hospital may be insured by the Colorado association captive.

The comments that follow pertain to the article in your February 10, 1975, publication entitled "Bermuda preferred site for captive, 'no advantage' in Colorado: Report."

First of all, the statement was made that a Colorado captive is subject to the investment regulations of Colorado. This is correct, but the title of the article would lead one to believe that this is a negative factor. The investment statutes of Colorado, however, are as liberal as those of any other state in the U.S.A. As a matter of practice, there are few, if any, investment advantages in any offshore jurisdiction that are not also available in Colorado on a com-

Continued on page 21

business insurance

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Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Pensions & Investments, Industrial Marketing. M. A. HARTENFIELD, *executive vice president;* D. J. CLEARY JR., *senior vice president;* ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, *vice presidents;* MERRILEE P. CRAIN, *assistant secretary;* JAMES M. FRANKLIN, *director of finance and administration.* Cable address: *CRAINCOM*

Published biweekly at 740 Rush St., Chicago, Il. 60611 (312-649-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 50 cents a copy. $12 a year in U.S. Elsewhere $4 a year additional. WILLIAM STRONG, circulation director. ROGER DEGREGORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush St., Chicago, Il. 60611

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• The Wyatt Co. is offering a descriptive brochure—**Earthquake—a Manageable Risk**—on a technique for determining earthquake probability. In addition to describing the company's data bank and computer program, the brochure explains various magnitude and intensity ratings. A comprehensive bibliography on earthquakes is also included. For a free copy write to Michael W. Cetera, The Wyatt Co., One First National Plaza, Chicago, Il. 60603.

• A **Comprehensive Bibliography on Health Maintenance Organizations, 1970—1973** is available from the Medical Group Management Assn. It is designed to assist the study of HMO management, and to present a summary of the development of the HMO movement prior to the HMO Organization Act of 1973. In addition to subject and author bibliographies, the 104-page publication lists major serials, abstracts and indexes as well as the addresses of publishers and authors. Price: $6 prepaid. To order, write: Medical Group Management Assn., 4101 E. Louisiana Ave., Denver, Co. 80222.

• **Occupational Health & Safety Products** is an eight-page illustrated brochure from the 3M Co. It describes masks and respirators, air systems, earplugs, sweatbands and a skin cleansing aid. For a free copy write to the company at Dept. OH5-3, P.O. Box 33686, St. Paul, Mn. 55101.

• The Risk and Insurance Management Society has published a monograph—**Self Assumption, Self Insurance, and the Captive Insurance Company Concept**—from the forthcoming book on risk management by Edward P. Lalley. It lists the pros and cons arising from various risk financing methods. Price: $3.50. To order, write: RIMS, Dept. MG, 205 E. 42nd St., New York, N.Y. 10017.

• An information packet on a concealed automatic sprinkler called **The Unspoiler** is being offered by the Star Sprinkler Corp. The sprinkler is designed in 16 color styles to match ceiling tiles. The packet includes engineering specifications and installation instructions. For a free copy, write Bob Worthington, vp of sales, Star Sprinkler Corp., 4545 Tacony St., Philadelphia, Pa. 19004.

• **Dependent Life** is a brochure published by Teledyne Life Insurance Co. which explains how employes can participate in this program on an employe-pay-all voluntary basis via payroll deduction, paying $3.50 monthly for $10,000 decreasing term insurance for a spouse with $2,000 level term on eligible children, with a no-cost conversion plan if the employe leaves the job. For a copy write Arthur Severe, Teledyne Life Insurance Co., 1901 Avenue of the Stars, Los Angeles, Ca. 90067.

• **Reducing Plant Operations Cost** through more efficient fuel management heating and ventilation is the subject of a pamphlet prepared by the planned air management research department of Tepco Inc. For a free copy write to the company, 2705 Industrial Lane, Garland, Tx. 75041.

• **Total Remuneration in the European Economic Community, Japan and the United States** is a Towers, Perrin, Forster & Crosby report which includes statistical profiles of eleven countries, as well as information on many aspects of remuneration such as new programs designed for expatriates. For a copy write Miriam Goldfine, Towers, Perrin, Forster & Crosby, 3 Penn Center, Philadelphia, Pa. 19102.

• The uses of **Visible Index Key Control Systems** are described in this brochure from Telkee Inc., which gives particular attention to selecting the correct key control system. For a free copy, write P.M. Lindley, Talkee Inc., Rt. 452, Glen Riddle, Pa. 19037.

• **Who's Responsible** is a new ten minute color sound/slide presentation that investigates a serious construction accident. A feature of this safety measure is that it allows a place to show your own problem areas. Write for a free brochure: United Safety Services, P.O. Box 27276, San Francisco, Ca. 94127.

• The Underwriters Adjusting Co. is offering a **Directory of Service Locations** that can be used by risk managers to find adjusters in case of fire, accident or other loss. Claims assignment instructions for Quality Adjustment Inc., a division of UAC, are also included. For a free copy write Robert L. Tatro, manager, marketing, Underwriters Adjusting Co., 224 S. Wacker Drive, Chicago, Il. 60606.

• **Virginia Rate-A-Data** is a monthly publication which provides subscribers with a synopsis of Rate-A-Data is $200 per year. Bureau of Insurance under the competitive pricing statue. It is the only source from which this information can be obtained. The cost of Rate-A-Data is $200 per year. To obtain sample copies write Virginia Financial Services Corp., Suite 402, 6620 W. Broad St., Richmond, Va. 23230.

• **Permanent Value Group Life—as a Supplement to Group Term,** published in September by Washington National Insurance Co., describes an option for employes insured under the carrier's group term contract. Basically, the alternative allows all or part of the group term life insurance to be supplemented with permanent life insurance having cash and loan values. For a free copy of the brochure, write Robert A. Hermann, CLU, Director of Group Marketing, Washington National Insurance Co., Evanston, Il. 60201.

• Western Drinking Fountain has a 40-page catalog describing **Western Safety Equipment.** The catalog describes more than 150 eyewashes, deluge showers, and eye/face wash units. There is a complete section on excessories and dimensional drawings are included. For a free copy write Western Drinking Fountain, P.M. Lindley, Director of Advertising, Box 47, Glen Riddle, Pa. 19037.

• **Werbel's General Insurance Guide** is a 2,400 page, loose-leaf insurance encyclopedia covering virtually all forms of property and casualty insurance. It contains interpretations of contracts, court citations and loss procedures. It is revised quarterly and the first two revisions are free. Cost is $36 but *Business Insurance* subscribers will receive a 33⅓ discount if they submit a copy of this listing. Write to V. Merkel, manager, circulation Dept., Werbel Publishing Co. Inc., 595 Old Willers Path, Smithtown, New York 11787.

• **Basic Planning for Pilferage Control** is a brochure from Wells Fargo Guard Services which describes methods and procedures essential for a successful basic theft and pilferage control program. It includes information on physical security plans and employe indoctrination methods. For a free copy, write Robert L. Arko, vp, Wells Fargo Guard Services, Randolph Park West, Route 10, Randolph, N. J. 07801.

• A fold-out sheet featuring the Kidde MA-2400 fire alarm system modular control panel is being offered by Walter Kidde & Co. Five different models are described and pictured. For a free copy of **Kidde MA-2400 Fire Alarm Systems,** write: Advertising Mgr., Walter Kidde & Co., Inc., 675 Main Street, Belleville, N. J. 07109.

• **The Stuyvesant Approach to Group Insurance for Legal Services** describes the need for this type of service and a solution. Also outlined are the four alpha WD series which are Stuyvesant's lower spectrum plans and which might affect a large segment of Americans. For a free copy write to The Stuyvesant Insurance Co., G. A. Dziallas, 1105 Hamilton St., Allentown, Pa. 18101.

• The Walter Kidde & Co. Inc. has a new brochure titled **Fire Extinguishing Systems and Equipment.** The 12-page publication covers carbon dioxide, Halon 1301, dry chemical, Hi-Ex foam and Sentinel pre-engineered dry chemical extinguishing systems. Advantages, applications and system components are described in detail. For a free copy write: Advertising Mgr., Walter Kidde & Co., Inc., 675 Main Street, Belleville, N. J. 07109.

• Singer Safety Products Inc. is offering its **Safety Products Catalog #502.** It lists more than 100 products for personnel, equipment and area protection. A companion checklist identifies those products which meet OSHA standards. To obtain a free catalog write R. J. Steiner, vp, Singer Safety Products Inc., 444 N. Lake Shore Dr., Chicago, Il. 60611.

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letters

Continued from page 18

parable basis. Perhaps you are not aware of the actual facts that traditionally govern the investment considerations of captive insurance companies. Most investments of either onshore or offshore captives are focused in the areas of time deposits. There are no restrictions in Colorado for such investments. The Colorado law deals with limitations on common or preferred stock, which historically are not a prudent investment for insurance companies.

Secondly, the statement made that a Colorado captive is treated less favorably with respect to taxes on reserves is not comprehensible. If this statement means that there is a deferral of taxes on profits, then an advantage may exist for an offshore captive, but even then, this advantage is subject to qualification. Such deferrals by an offshore captive may be made if the profits were produced from the insuring of non-U.S. risks. If practically all risks to be insured are U.S. risks, however, then there is no advantage. Even though the offshore captive may be entirely used for the insuring of non-U.S. risks, such profits are still taxed when they are repatriated.

The author of the article should also be reminded of other factual advantages accruing to the benefit of a Colorado captive:

- With respect to taxation of premiums, the Colorado captive pays a 1% premium tax for direct business and no premium tax on reinsurance assumed by the captive. The offshore captive, on the other hand, pays a 4% excise tax on premiums written directly by the offshore captive, and a 1% federal excise tax on reinsurance premiums assumed by the offshore captive. It is understood, however, that the offshore captive does not pay an excise tax involving premiums written by the captive for ocean marine coverages.

- It is frequently mentioned that a Bermuda captive is not subject to income taxes in Bermuda applied to commercial operations. It should also be noted that the Colorado captive is not subject to the Colorado corporation income tax either, but I am sure you understand that there is a federal income tax provided risks are located within the U.S. or repatriated.

- We know of no parents of Colorado captives who preferred the Colorado situs because of any feeling that IRS may continue to allow premium deductibility after having disallowed premium deductibility for a foreign-based captive, but why shouldn't such a distinction be made by IRS if such a situation takes place? Colorado captives or any other domestic insurance companies were not formed for the purpose of avoiding the payment or deferral of federal income taxes.

- If it is determined that a domestic insurance company is recommended as the first alternative, a Colorado captive is more advantageous than an insurance company subsidiary formed in any other state to insure the risks, hazards, and liabilities of its parent. The Colorado Captive Act offers the advantages of an irrevocable letter of credit for its capitalization and the freedom from participation in boards, bureaus, second injury funds, assigned risk pools, fair plans, post insolvency funds, statistical organizations, county and municipal license and premium taxes, fire marshal taxes, etc. What other state offers these advantages?

James A. Jaeger
President and Chief Executive Officer, Frank B. Hall Management Co., Denver, Co.

Self-insuring comp

To the Editor: I read your editorial on Self-Insuring Compensation-Pros, Cons (*Business Insurance*, March 24), and I have finished writing comment to the Liner Letter. While you presented several pro-con items, you missed most of the positive observations.

However, I submit here the comments I made to the Liner Letter that should be in the third part of the pro-con format.

Comment: The "overlooked costs" are not overlooked when an experienced broker and/or service company is involved in the planning.

Comment: The service company is the buffer. At the same time, the Pro is valid.

Comment: Obviously, losses incurred must be paid whether insured or self-insured. The self-insurer pays those claims not covered by any excess policy. However, he will use the reserves until these cases are closed. I see no con here. The very nature of the claims payment spread indicated and the use of these reserves by the self-insurer or insurer is a decided advantage to the retainer of the reserves.

Comment: Most umbrella policies permit the inclusion of excess compensation when there is an excess limit of $1 million.

While the Liner Letter discusses service companies, a substantial portion of the negative becomes inoperative when a competent service company is involved in the planning and administration of the self-insured program.

Alvin J. Sims
President, Self-Insurers' Management Corp., Boston, Ma.

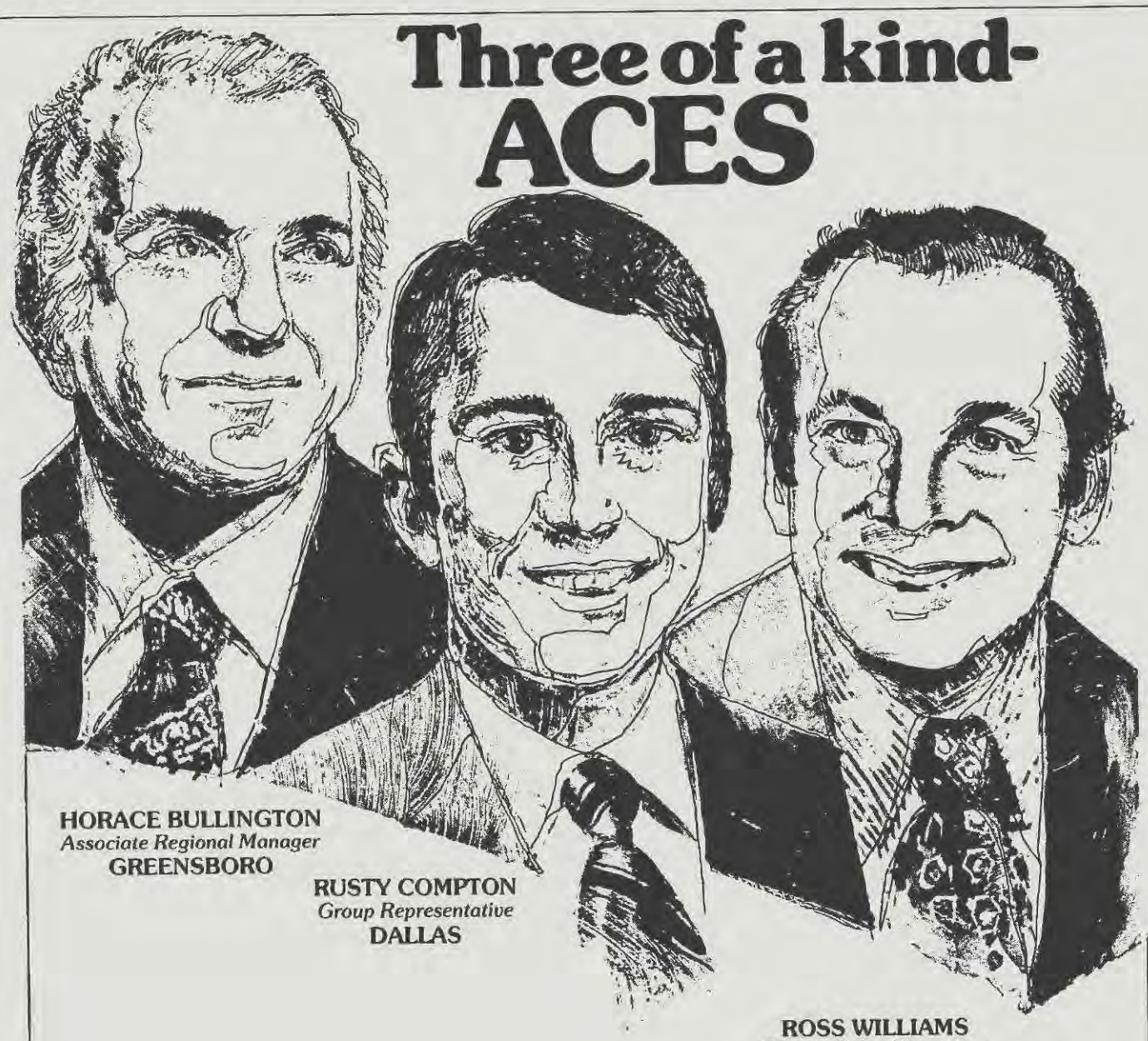
To the Editor: Reference to the Liner Letter in your Opinions column, "Self-Insuring Compensation" is nothing new. We have been self-insuring workmen's compensation for almost a quarter of a century in as many states as it was worth while to get qualified in. So we experience some of the "foibles" of both sides of the Liner pros and cons.

If you have an inside man who is worth his salt, and we happen to think we have, self-insurance has a lot going for it. If you want to be insulated from your employes' problems, buy a policy and crawl into your little hole and pull the cover in on top. But if you want to make a safety program that works, self-insure and save. If you don't get involved in your cases up to your ears, you are missing the best safety production factor available. You let the insurance company play give away with your money on too many cases. This is not an indictment of compensation carriers exactly, but in that quarter century referred to and even before it, trying to get to the bottom of a case under insurance is like trying to pull your own eye teeth with a pair of tiny tweezers.

When a company representative or an insurance agent representing a company says "Give your compensation to us and you can spend more time running your business" he has just turned us off—completely off—because he has bid you to stick your head in the sand. And at the end of the policy period your hind side is going to be red and raw—black and blue—because you get booted there so many times in that policy year.

Just wanted to throw a good many years of experience into both sides of the Liner presentation. All we are saying is "ain't necessarily so."

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washington watch

Federal no-fault bill may force group health plans to cover auto injury cost

WASHINGTON—What insurance policy, auto or group health, should cover bodily injury claims under a federal no-fault auto insurance system?

In simplfied terms, that is the "primacy" issue that will be featured in Congessional discussions this spring and summer on no-fault auto insurance.

It may eventually be answered in a national health insurance plan that pushes bodily injury coverage off auto insurance policies altogether and into a comprehensive health care package, warned Sen. Frank Moss (D-Ut.) this month.

Such a move would transfer the cost of that coverage from the auto driver's pocket book to the employe benefit manager's health insurance budget.

Sen. Moss's National Standards No-Fault Motor Vehicle Act (S. 354) already goes a long way in that direction.

He warned the National Assn. of Insurance Agents (NAIA) at Senate Commerce Committee hearings last month that failure to pass S. 354 could actually lead to a national health insurance take over of that coverage.

The Moss bill was passed by the Senate a year ago, but died in the House for lack of action. As originally proposed, it left auto insurers as the primary underwriter for auto accident injury benefits.

That was changed in floor amendments during Senate debate last May, and the bill introduced this year specifically allows health insurers to cover auto injury claims unless state insurance authorities find that transfer not to be in the interest of the insured.

The health insurance underwriters must meet the minimum coverage standards in S. 354—unlimited medical, hospital and rehabilitation benefits—before the coverage can be transferred to a group health plan from an auto insurance policy.

Edward J. Kremer, federal affairs committee chairman for the NAIA, told the committee that S. 354 "forces the states to recognize qualified group accident and health insurance policies as primary if the group health insurer wants them to be primary and meets the stipulated (benefits) requirement.

"With the problems our economy is facing today, and the thousands of employes who have lost their group health insurance coverage by becoming unemployed, has anyone considered what havoc this provision could raise?" Mr. Kremer asked.

"How many workers who become unemployed would be astute enough to notify their no-fault auto insurers and affluent enough to pay the additional premium which would be required to again make the auto insurance company primary?"

Sen. Moss countered that unless a uniform approach was taken nationwide on no-fault bodily injury benefits public pressure could be sufficient to force the inclusion of these benefits into the national health insurance plan.

Mr. Kremer replied that his association was still "not willing to give up state experimentation with no-fault now in order not to be threatened later by national health insurance."

Still another group of insurance agents, the National Association of Mutual Insurance Agents (NAMIA), told the committee that the question of which insurance carrier will pay bodily injury claims, auto or health companies, remained for them the major stumbling block for no-fault insurance.

In a White paper submitted on the "primacy" issue, NAMIA told the committee it is their contention "that those who drive should assume the cost of insurance.

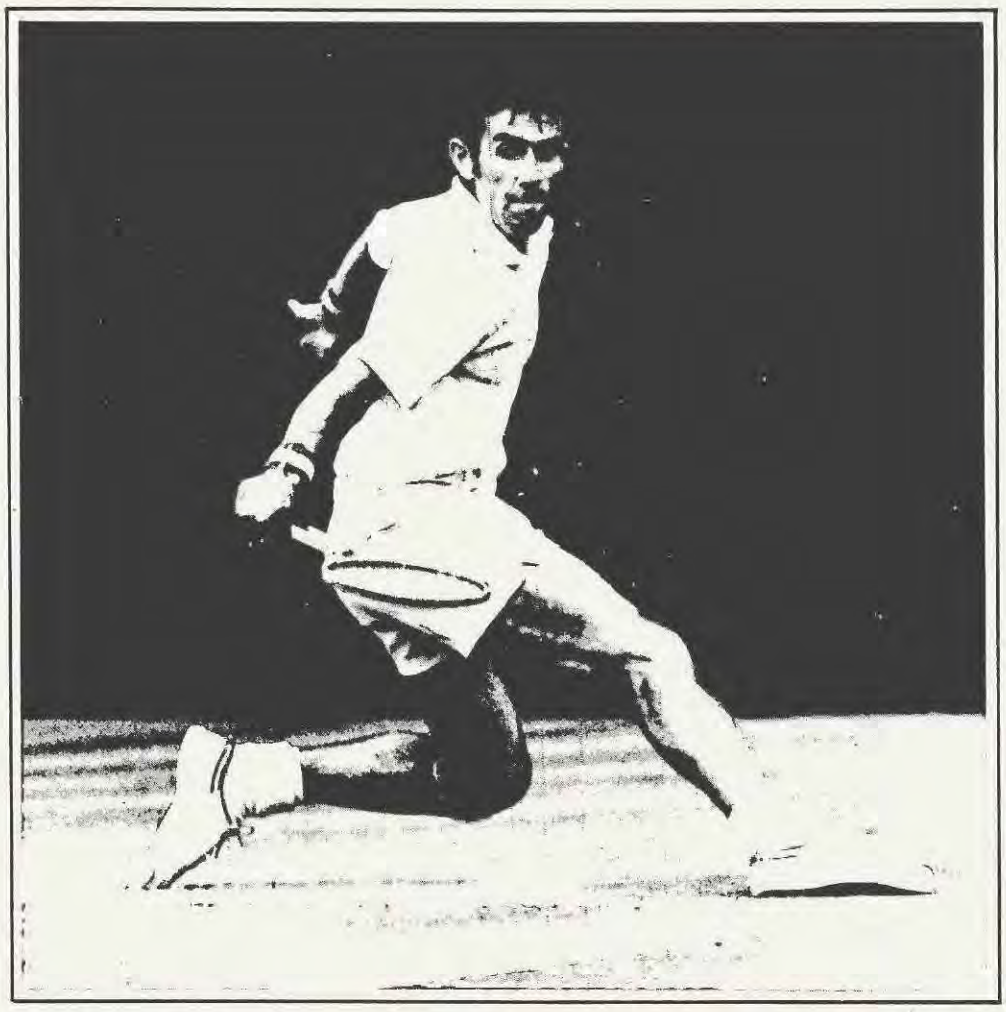
"Currently, health insurance is part of the fringe benefit package made available by many employers. If, as a result of no-fault," NAMIA continued, "automobile injuries were added to a program's loss experience, an employer could suffer an increase in cost corresponding to the adverse loss ratio.

"In order to keep his cost within reason, the employer might be forced to reduce the coverage available to his employes," NAMIA warned. "In effect, those who do not drive would suffer for those who do."

NAMIA's white paper also predicted that "if health insurance were primary, there is no question that this cost would be passed on to the non-driving public.

"It is important now as never before in our nation's economic history that those who engage in a particular activity should pay for that activity. The non-driving public includes millions of Americans on fixed-incomes, such as those living on social security and annuities. Now is not the time to penalize those who are straining under the burden of double digit inflation," NAMIA said.

How successful these attempts will be to keep bodily injury coverage on auto, and not health, insurance policies is unclear. ■



Ken Rosewall

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Wimbledon Doubles Champion, 1953, 1956.
French Singles Champion, 1953, 1958.
French Doubles Champion, 1953.
London Professional Champion, 1957, 1960, 1961, 1962, 1963.
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Study group is starting up

NEW YORK—The College of Insurance announced the opening of a research institute to be headed by H. Clay Johnson, retired chairman of the executive committee of the Royal-Globe Insurance Cos.

Financial backing is provided through establishment of a Director's Fund by Johnson & Higgins to be supported by personal contributions of the brokerage firm's directors and a matching fund from the corporation.

Annual contributions will be made to the institute and specific projects will be chosen to receive the grant.

While no formal research projects or studies have been decided upon, the institute plans to accept proposals from members of the insurance community. Accepted projects will be undertaken for "a modest fee." ■

Governmental risk managers to form splinter group called GRIM

By MARIE KRAKOWIECKI

DALLAS—Governmental risk managers are planning to form their own branch of the Risk and Insurance Management Society, *Business Insurance* learned.

One of the first objectives of the new splinter group will be to conduct feasibility studies on the concept of municipal pooling of workers' compensation risks according to Dennis Tweedale, risk manager of Madison, Wi.

Federal funding is currently available to conduct such studies, he noted. Mr. Tweedale was co-chairman with Leonard Berekson of the University of Nebraska in the public body industry session at the Risk and Insurance Management Society's annual conference here.

University risk managers already have their own special arm of RIMS. The university insurance managers and Mr. Tweedale said a group for governmental risk managers would probably be set up along the same lines.

Top RIMS officials were enthusiastic about the possibility of a stronger coalition of government risk managers and said they would cooperate in the formation of such a group, according to the Wisconsin risk manager and two of his associates.

Robert Bieber and Robert Tieman, respectively the risk managers of Westchester County, N.Y. and Dane County, Wi., joined Mr. Tweedale in describing some common objectives of government risk managers.

"We're considering a semi-annual or quarterly newsletter this year to go out before the next RIMS conference is held in Los Angeles. Basically, we're looking to find out who is considered an expert in different areas that affect the governmental risk manager," Mr. Tweedale said.

The biggest study project governmental risk managers might explore in their own group would be the concept of pooling for municipalities, the three men said.

The idea generated at the industry session when an Employers of Texas Insurance Co. representative outlined one such program which pools institutional workers' compensation risks.

RIMS/Report

The program outlined took 75% of the premiums from three different governmental areas and pooled them. Looked at on a per-dollar basis, from this 75 cents out of every dollar, 60 cents were appropriated to cover losses, 5 cents went for excess and aggregate coverage and 10 cents went to employers of Texas for administrative fees. Outside attorneys were used in the program.

One of the key reasons the governmental risk managers are interested in doing feasibility studies on this pooling concept is that federal funds are presently available to conduct such studies. The governmental risk managers feel that by using the federal funds they could get a good idea of the mechanisms needed to make the pooling concepts work for them.

Some common problems faced by governmental risk managers will also be the subject of study by the new group once it is founded. High among these are the difficulties involved in dealing with local agent associations which try to keep all insurance bids localized, and the risk manager's struggle to review contracts.

"Independent agencies in towns are your biggest stopper," Mr. Tieman complained in explaining the difficulties of placing insurance coverage for a governmental group. "You have 25 towns or so in a district, each with its own local agent, and they each fight to keep the business local, selling first dollar coverage all the way. It gets political. When I went to Milwaukee for a bid (from a broker) the roof really went off," he recalled.

Other problems the three men brought out included the governmental risk manager's sometimes ambiguous role in being able to review all contracts, state limits of indemnifying clauses and writing specifications. Part of the problem is due to a general lack of knowledge on a local level about just what a risk manager is. Out of the about 23 governmental officials at the industry session only seven had "risk manager" somewhere in their titles, Mr. Bieber noted.

Another problem is that big insurance companies and brokers frequently are not as interested in their municipal accounts, the men charged. They blamed the situation on regulations which force them to give municipal business to the lowest dollar bidder, which preclude guarantees of long relationships with the same firms.

Mr. Tweedale raised the possibility that the new group might also extend its membership to utilities which are part of governmental areas.

He said the name proposed for the group thus far was Government Risk and Insurance Managers, which carries the acronym GRIM. "That name would certainly reflect a lot of our common problems," he said wryly. ■

Continental's profits down, cite tornados

NEW YORK—Heavy damage from the 1974 rash of tornados helped to drive down Continental Corp.'s profits for the year, for the first time in 14 quarters, the company said in its annual report.

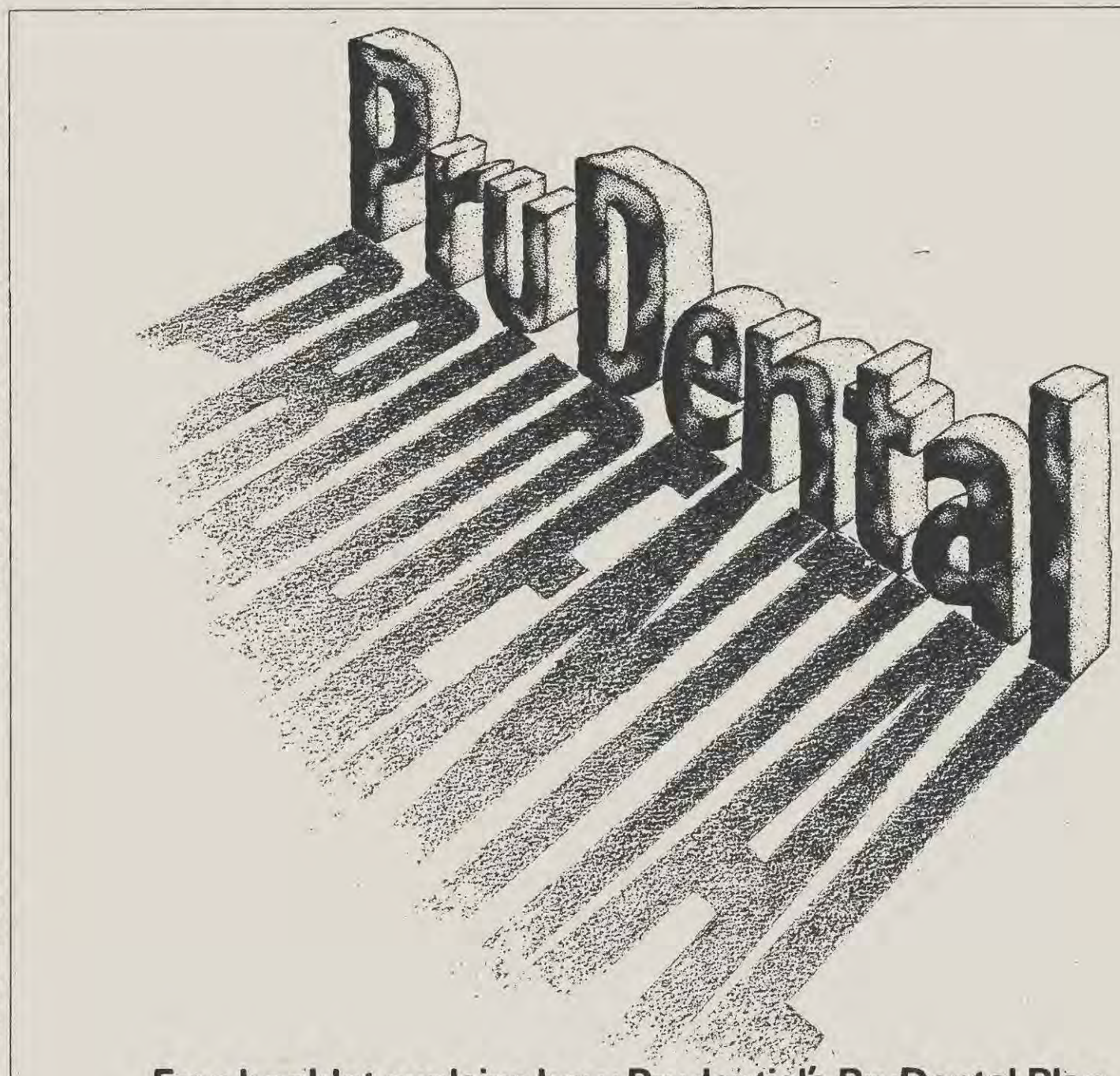
Continental disclosed that its wholly-owned subsidiary Buckeye Union Insurance Co. suffered a whopping $22 million loss from the Xenia, Oh. disaster alone, when an April 3, 1974 tornado ripped through the suburb of Dayton and caused damages near $500 million.

Buckeye Union was the primary insurer of the Xenia school system and suffered losses on all seven schools in the town.

Continental's share in the total Xenia disaster amounted to $40 million, making this a major factor in the profit decline. Other factors included "an abnormal number of aviation mishaps and deteriorating marine experience," Continental said.

General liability insurance lines were a trouble spot for Continental last year, the insurer said. Fidelity bonds, workers' compensation and professional and products liability experience combined to depress earnings.

Continental's profits dropped 30% to $91.9 million from $131.2 million the year earlier. ■



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Swede manager group gains insurers' favor . . .

DALLAS—After two-and-a-half years of preparation, a group of Swedish risk managers succeeded last month in winning formal approval for a risk and insurance management group within the 50,000-member Swedish Federation of Industries.

Bengt Samuelsson, risk manager of the Axel Johnson Group's Stockholm office, heads the new group. He was attending the 13th annual conference of the Risk and Insurance Management Society here when he disclosed final plans for the Swedish group.

Mr. Samuelsson said insurance companies in Sweden fought the formation of the risk management group vigorously until recently, when it seemed apparent the group would have its constitution approved by the federation. No insurance companies belong to the federation since they are not considered industries in Sweden.

"We had to sell the idea very hard," Mr. Samuelsson said of the group he now heads. "We saw a government committee being arranged to rewrite some of the insurance laws in Sweden. We wanted to have a guy in on this group, and through our affiliation with the federation, they said we could."

The Axel Johnson risk manager said that in order to become a recognized body, the new group had to get a coordinator from the legal department of the federation.

It then established a "leading committee" comprised of six corporate members including Scandinavian Airlines and Volvo. The leading committee headed a reference group which provided study background for the group's needs.

Mr. Samuelsson said Swedish insurers are now making the effort to cooperate with risk managers and insurance buyers who are members of the group. He pointed to the relationship which Scandia, a large Swedish insurer, has with AGA, an international acetylene gas manufacturer in Sweden.

When AGA's director of insurance, Neil Skaar, reviewed the corporate insurance program and found some loopholes, Scandia offered to do a free risk management study for the firm, according to Mr. Samuelsson. He said Scandia even approached its arch-rival, American International Underwriters, and asked AIU to assist in studying the technical side of AGA's property/casualty exposures. AIU agreed, he said.

. . . but insurer incurs wrath of consultant here

By MARIE KRAKOWIECKI

DALLAS—Scandia, one of Sweden's largest insurers, offered to do a "free" technical risk management study for Swedish-based AGA, a multinational acetylene gas supplier. However, Scandia hired an outside risk management firm to do at least part of the study without telling the consultant about the arrangement with AGA, *Business Insurance* learned.

The hitherto undisclosed triangle was revealed at a chance meeting here between Edgar S. Clark, vp and director of the Risk Planning Group Inc., and Bengt Samuelsson, risk manager of the Stockholm office of the Axel Johnson Group. Both were attending the 13th annual conference of the Risk and Insurance Management Society.

Mr. Samuelsson is also the head of a newly-approved group of risk and insurance managers of the Swedish Federation of Industries. He was explaining how Swedish insurance companies had done an about-face in their attitude toward the group, switching from opposing it to cooperating with its objectives.

As an illustration, he described Scandia's offer to group member Neil Skaar, director of insurance for AGA, to do a free study of the technical risk management needs in the gas manufacturer's worldwide operations.

Mr. Clark said at that point that Scandia hired Darien. Ct.-based Risk Planning Group three months ago to do a comprehensive study of the property/casualty exposures for AGA in Latin America. Risk Planning's Paris associate, Jean Paul DeCottingnies of Risk Factoring Co. is in charge of the study, he said.

Mr. Clark said he understood Scandia had also asked for a number of proposals from other risk management consulting firms to run the study in other AGA locations.

He was visibly upset by the news that Scandia was offering the risk study to AGA for free in an apparent move to pass off the risk management study as its own handiwork rather than that of the outside consultant.

"I'm really mad, and you can quote me on that," Mr. Clark remarked to this magazine. He said Scandia made no mention of its relationship with AGA when it hired Risk Planning Group to study the manufacturer's Latin America exposures. "They're trying to win the company's business and learn about risk management —through us," he complained.

Scandia is apparently working hard to establish a reputation for good risk management control in Sweden, to coincide with the formation of the group of risk and insurance managers headed by Mr. Samuelsson in the Swedish Federation, observers believe. For example, Scandia recently funded half of a Swedish language film on risk management, made in cooperation with the federation, which paid the rest of the approximately $12,000 production costs.

The federation is in the process of selling the film to a group in Mexico so the broker can set up a Mexican group. ■



How good is Michigan Mutual Service? (Some clients send bouquets our way!)

Angela Massa, a Michigan Mutual Service Representative, did, indeed, receive flowers from a lady for whom she handled an automobile claim. Of course, the bouquets don't happen every day. We really don't expect or encourage them. As a leading insurance writer for over 60 years, we've always been committed to providing day-in, day-out, prompt, personal service. We try to put ourselves in your shoes when you need assistance. Our special policy has always been to provide the best in property and casualty insurance. ***NOW LIFE, TOO!***

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Rules mean insurers will burn treaties

DALLAS—"Insurance companies which built up their reserves for 15 years will burn treaties so they can protect their surpluses" as a result of Financial Accounting Standards Board rule #5, said George D. Kahlert, insurance manager for Mead Corp., Dayton.

"Furthermore, it will increase the end product price," he said.

Mr. Kahlert explained that burning treaties means that insurance companies will now "have to transfer all those liabilities (or contingency reserves) and show them as earned surpluses and profits.

"The burning arrangement for reinsurance is basically a cost-plus arrangement," he said. ■

Top officer dishonesty can cause more losses

DALLAS—The major cause of losses under bankers' blanket bonds is now "employe dishonesty —or more accurately—officer dishonesty, often involving the highest eschelons of the banking management," said a leading bond underwriter here.

C. Daniel Drake, vp of Insurance Co. of North America (INA), called on bank risk managers to cooperate with insurers to work out new and tougher internal safeguards to prevent the kind of large bond losses which are becoming commonplace. Mr. Drake noted that large losses under the banker's blanket bond have developed such a "frightening frequency" that INA's blanket bond loss ratio "has doubled since 1971, not as a result of small loss accumulation, but as a result of growing frequency of large losses."

The character of these losses needs to be examined, he declared. "Some years back we worried a lot about bank robberies and forgeries, and with the current recession there are signs we may have to again," said Mr. Drake. But the risk picture has radically changed to one where bank officer dishonesty is now the major threat, Mr. Drake said at the 13th annual conference of the Risk and Insurance Management Society.

"The element of conflict of interest looms large. A senior officer, perhaps even the president, makes bank loans to a business in which he has a personal financial interest, sends good money after bad when the borrower begins to fail, and winds up falsifying and concealing and improperly releasing collateral until everything bursts," related Mr. Drake.

At times, he added, it is unclear whether there really has been dishonesty. "One move to clarify this situation has been made by the Federal Insurance Co., which intends to define dishonest or fraudulent acts as those which result in improper personal financial gain to the officer or employe involved."

There are also a growing number of outright embezzlements, Mr. Drake warned, "with control procedures thwarted by the very people responsible for enforcing them."

"Trading in foreign currencies and commodities have opened up new opportunities, especially at high levels where major commitments can be made and where it is difficult to separate bad judgment from dishonesty," he went on to note.

Bank internal safeguards and bonding company underwriting requirements have hitherto been geared to control losses caused by outsiders or by employes from the middle management level on down, said Mr. Drake. "None of us has as yet devised a way to keep top management on the straight and narrow.

"What we do need," he declared "are ideas on how to get better disclosure of outside interests, better review by directors, better ground rules as to what is and is not proper conduct and some more effective control by the banks themselves."

Mr. Drake also revealed that insurers are taking a much closer look at the financial condition of bank clients. "Though we don't cover bank failures per se," he said, "the unhealthy bank can breed losses and the sight of a receiver sifting through the debris makes any underwriter's blood run cold. We do not pretend to be bank financial analysts, but as underwriters I think we will have to take a greater interest than we have in the past in the financial condition of our insureds."

Mr. Drake indicated that the outcome of the cases now pending which concern bank safe deposit box liability may substantially change insurance policies covering banks. He said the area of safe depository liability is one "which we are watching very closely.

"Consumerism, cases such as Laguna Niguel, the development of strict liability in other areas of the law may well combine to make banks in effect guarantors of the safety of the contents of safe deposit boxes. If so, the present low rate structure for this coverage will become unsupportable," he stated. ■

New form drawn for extortion property loss

The Surety Assn. of America will soon finalize an insurance policy form designed to provide extended coverage for damage to property as a result of extortion, a leading casualty underwriter disclosed here. The endorsement will be written as an extension of the kidnap/ransom insurance policy, said C. Daniel Drake, vp of Insurance Co. of North America INA. "This is now in the final stages of preparation by the Surety Assn. of America as a coverage option," said Mr. Drake, in a speech at the 13th annual conference of the Risk and Insurance Management Society. Lloyd's of London already offers such coverage as an endorsement to the kidnap/ransom policy, London insurers said. Rates for the new coverage were not known.

Lloyd's refuses to disclose D&O claims experience

DALLAS—A group of about 75 bank risk and insurance managers called on Leslie R. Dew, deputy chairman of Lloyd's of London, to disclose his underwriting syndicate's claims and loss experience with directors' and officers' liability insurance.

Business Insurance learned that in a banking industry session which was closed to the press the bank managers took an informal vote at the start of the session which indicated that only two of those present in the room had ever had a paid claim under D&O insurance coverage. The industry session was held during the 13th annual conference of the Risk and Insurance Management Society.

Mr. Dew, however, staunchly maintained his previous position by firmly declining to disclose to the bank managers any dollars and cents loss information under D&O policies written by Lloyd's. Members of the audience expressed some dismay that policyholders presently have inadequate information on losses to use in evaluating rates and premiums when purchasing D&O coverage.

One bank risk manager said after the meeting he has resolved to continue pressing Lloyd's to disclose its loss experience. He said there is major doubt in his mind whether banks really face any substantial risks in this area, based on his conversations with other bank risk managers. "I have yet to talk with anyone who has ever had any paid claims under the policy," he declared. ■

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Evaluating your insurance carrier's financial strength involves knowing avenues of inquiry

"The financial stability of a firm's insurance carrier may be even more important to the continued success of the insured. . . . than the solvency of his customers."

By WILLIAM H. RODDA, President, Marine Handbook, Inc. Chicago, Illinois



The best guarantee of prompt payment of claims, indeed, even survival of the insured, is to pick a strong insurance company.

WHAT MAKES A STRONG insurance company? It is surprising how many businessmen do not even know the name of their insurance company, to say nothing of the company's strength. Insurance is placed with the "Joe Doakes Agency" and the insured is likely to let Good Old Joe decide which company is to write the policy. The insured who does know the name of his insurer may decide on the company because of an extensive advertising campaign rather than on the basis of strength.

A merchant or manufacturer cannot be criticised too severely for accepting an insurance company without examining its finances. The accounting practices of insurance companies are different from mercantile accounting. Insurers must follow procedures that are set up under state laws or according to rules prescribed by regutory officials. The results may be difficult for a businessman to decipher. However, there are certain facts and indications that can be determined from an examination of an insurance company's financial statement. These facts can show how a company is doing in comparison with other companies.

A STANDARD recommendation is that an insured find out how his insurance company is rated by an organization that makes a business of rating insurance companies. Is the company rated "A-plus" or some lesser rating? One problem with this recommendation is that the ratings take time to develop—it usually is several months after the annual statements are published before the ratings are available. Many things can happen to an insurance company over a period of months, and this is especially true during a period of stock market depression. Even so, it is desirable to find out what the experts think about a particular company.

Most insurance agents have the rating books and they can also be found in most large libraries.

Another frequently made suggestion is that inquiry be made of the state insurance department. About the only thing that an insurance department can tell an inquirer is whether the company is licensed to operate in the state and whether any pro-

Continued on following page

Tight market incentive for better loss control

By GEORGE A. PETERS
Director, Consultants Division
American Society of Safety Engineers

"It is common practice for a company to play musical chairs with the post of safety manager, so that there is no assurance to the insurer or the insured of any special competence to perform the job."

MANY INSURANCE COMPANIES are now experiencing the unfortunate consequences of skyrocketing malpractice and product liability claims, compounded by inadequate premium schedules. There had been forewarnings of this problem and some affirmative acts were undertaken, but competitive marketplace pressures and some good faith assumptions served to mislead the experts whose very livelihood depends upon predicting and insuring against real world uncertainties.

There are lessons to be learned and some adaptation is necessary to meet the reality of a transitional society. A decade ago, significant changes were becoming manifest in the common law, statute law, and government agency regulations pertaining to personal injury. Warnings were heard regarding threatened escalations in the number and verdict magnitude of product liability and malpractice lawsuits. The growth of the relative power and possible effect of the consumer movement did not go unnoticed.

Insurance carriers knew or should have known that they were undertaking legal obligations in the face of a predicted future of uncertainty that was obviously biased against traditional loss control efforts.

Acting in good faith, some insurance companies published or provided various leaflets, brochures, and booklets concerning the threat of product liability and malpractice lawsuits. This advance notice was later accompanied by suggestions, checklists, and examples of effective loss control programs, safety engineering and management efforts, product liability loss prevention efforts, quality control and product assurance programs, and even tips on how to get ready to help defend against future lawsuits.

In some cases, where premium dollar values permitted, direct personal consultation and assistance was given to the insured. This was an awareness and motivational effort of mutual self-interest, but it was limited by the available resources that could be economically allocated to such objectives.

In a few insured companies, the results were encouraging in terms of increased attention to internal loss control efforts. In the vast majority of insured enterprises, the threat was duly noted by a few individuals within the enterprise and business-as-usual persisted. Immediate financial returns were a greater incentive to industrial managers than some possible future lawsuits which the insurer was already obligated to defend and to pay the consequences.

TO A GREAT EXTENT the good faith of the insurer was not met by good faith responses on the part of those insured. Overall loss control became dangerously uncontrolled, while premiums were assessed on subjective marketplace considerations and past loss experiences which could not adequately predict specific future risks. Thus, the stage was, and is, set for casualty loss headaches of serious magnitude.

If such notice and general persuasion has not had the desired effect, what can be done to create a higher degree of loss control? It would be uneconomical and beyond the talent of insurers to perform detailed examinations, reviews, and continuous audits of all products and key personnel of their insured. It is ineffective to require "a quality control program" or "a safety engineer" because such requirements are unambiguous and unenforceable.

For example, it is common practice for a company to play musical chairs with the post of safety manager, so that there is no assurance to the insurer or insured of any special competence to perform the job. If almost anyone can do the job with little or no training, mistakes must occur as they relearn the wheel and fail to benefit from past experience, expert knowledge, and specialized techniques.

There is one simple solution to much of what is wrong with today's "indirect control" of loss potential, but it is a difficult pill to administer in a highly competitive buyer's insurance market. The solution would be to require proof of

Continued on following page

business insurance

PERSPECTIVE

Look at state files, financial facts to analyze carrier . . .

Continued from preceding page
ceedings are underway against the company. Regulatory officials seldom venture any opinion regarding a company's solvency or strength as long as no insolvency proceedings have been started. It is, of course, important to know that a company is licensed to operate in the state. It usually is difficult to press a disputed claim against a company that is not licensed.

EACH INSURANCE company is required to present an annual statement of financial condition to all states in which it operates. Many companies also make interim statements to their stockholders and to other interested parties. Several of the ratios between portions of these financial statements provide a tip-off on the relative strength of companies.

Size alone is not always an indication of strength. Potential disasters in today's society and economy can be so great that they may absorb millions of dollars from assets. The question to be determined is the size of the company's exposures to loss in relation to the company's surplus—or, in ordinary accounting terms, the relationship of potential liabilities to liquid assets.

Here are five important factors or ratios that can be found by an examination of an insurance company's financial statement. For purposes of comparison we have set up two hypothetical insurance companies of different sizes. These are hypothetical examples, but both sets of figures are comparable to actual companies.

Ratio of Surplus to Liabilities. Company A has a total assets and liabilities of $180 million. Of this, today, $40 million is policyholders' surplus. (Policyholders' surplus, we explain, in insurance company accounting is the amount of assets above all liabilities and reserves. The capital is part of the policyholders surplus in a stock company).

One year ago the company's annual statement showed a surplus of $68 million, with total assets and liabilities of $170 million. Today, Company A's surplus is 22% of its assets, whereas a year ago the surplus was 40% of its assets. This decrease in strength is due primarily to the reduction in market value of common stocks in which the company has a substantial portion of its assets.

Let us look at Company B. Its assets are only $15 million, but its surplus is $11 million, which is 73.3% of its assets. This is obviously a strong position. In addition, the ratio of surplus to total assets has remained approximately constant during the past year. This is due to a conservative investment policy under which the company's investments are primarily in securities such as government bonds which do not fluctuate in value to any appreciable extent.

Ratio of Premiums to Surplus. This gives an indication of how far a company is extending itself. Company A in our example is now writing premiums at a rate of $180 million a year. This in relation to its $40 million surplus means that its annual premiums are 4.5 times the surplus. A year ago the company was writing insurance at the rate of $170 annual premiums but it had $68 million surplus. This ratio a year ago was a premium volume of 2.5 times the surplus, which is a more conservative financial position.

A high ratio of premiums to surplus may indicate that a company is expanding rapidly, in which case it is assuming large amounts of liability, or it may mean that its surplus has been reduced. A conservative action when a company's surplus is reduced would be to cut back on premiums. Some companies have lowered the amount of insurance that they are willing to accept in the face of the situation resulting from the current stock market situation.

A collateral effect of this cut back by insurance companies on the business to be accepted may be a tight insurance market. This is especially likely in the specialty lines where relatively few companies write a particular kind of coverage.

Company A in our example has not yet cut back its premium writings but it has leveled off to a modest increase in premiums.

How has Company B been doing during



this time? Its premiums a year ago were at the annual rate of $15 million, and these have now increased to $17 million. Its $11 million surplus thus results in a current ratio of premiums to surplus of 1.54 as contrasted to 1.36 a year ago, but this is still a very conservative figure.

Underwriting Profit or Loss. Some insurance company managements feel that it is satisfactory to break even with their insurance operations (premiums in relation to losses plus expenses). Investment income plus realized capital gains on stock market transactions enable such companies to make an overall profit during favorable years. Currently any realizations from capital gains are few and far between, and the loss experience has deteriorated seriously. Company A has maintained a relatively free underwriting policy. The present increase to losses has caused the combined loss and expense figure to go well over 100%. This has been a factor in the reduction in the company's surplus.

Company B, on the contrary, had maintained a conservative underwriting policy and had accepted only the business which they felt was certain to produce a good loss ratio. Increased losses have not missed them entirely, but they still have a profit on their insurance operations.

Investment Portfolio. Reference has already been made to the fact that Company A's surplus had been reduced partly by a decline in the market values of stocks in their investment portfolio. There is a considerable variation in the investment policies of insurance companies. The higher the proportion of common stocks in the portfolio, the greater is the effect of stock market fluctuations. An evaluation of an insurance company's stability would include a consideration of their investment policy.

Ratio of Written Premiums to Earned Premiums. The premiums written figure in the financial statement shows the total of the premiums from policies actually written during the period. The premiums earned are from the portions of policies in effect during the period. A company that is expanding rapidly usually will show a substantially higher figure for written premiums than for earned premiums. A sudden spurt in written premiums may indicate that the company has embarked on an aggressive selling campaign. This may be all right if the company has the surplus to support additional business. It may be a signal for caution if the company is trying to build up premiums without due regard for the potential losses from questionable business.

A drop in written premiums below the earned premiums may indicate a cutback in operations to meet some adverse development. This probably would be a conservative action. Other factors being equal, it probably would tend to strengthen the company financially.

Insolvency Funds. An insured may ask why it is necessary to pay attention to a company's solvency where a state insolvency fund had been set up to pay the losses of insolvent insurance companies. First, there are many states in which such funds are not in operation. Second, there are certain to be delays prior to payment by such a fund. It may take months or years before all of the procedures can be carried out and funds actually made available to the policyholders of the insolvent company.

The best guarantee of prompt payment is for the insured to pick a strong insurance company.

This discussion does not suggest that a businessman set himself up as an instant expert in the solvency of insurance company as he does to the solvency of his customers. A careful merchant would not sell on credit to an organization that he knew was in trouble financially. The financial stability of his insurance company may be even more important to the continued success of the insured. ■

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Stress need for loss control competence . . .

Continued from preceding page
"professional competence" from those assigned key specialized roles germaine to an insured's loss control efforts. That is, the man identified must be minimally qualified to undertake the specialized tasks upon which the insurance company relies in assessing the risks to be insured.

However, it is economical, therapeutic, and easy to prescribe whenever and wherever the insurer desires to become more selective regarding the risks he assumes. In the prevalent casualty environment, it would be a highly advantageous approach to loss control.

LET US TAKE the case where mass produced products are manufactured and proper inspection is necessary to exclude or control those manufacturing discrepancies that are likely to cause injury to consumers, users, or bystanders. A quality control program would be necessary to assure sufficient quality control to minimize or control the risks of personal injury. But quality control efforts can be ineffective, expensive, and a farce when placed in the hands of a well meaning unknowledgeable engineer.

The insurer may not have the money, opportunity, or talent it takes to perform a valid quality audit of the quality control system. However, the probability of a successful quality control effort is substantially increased if the key man or technically responsible engineer has been certified by a peer group or licensed by a state agency as having some professional competence in that specialty. There are two such "signs" of competence; state registration as a professional engineer (P.E.) in the quality engineering specialty and the certified quality engineer (CQE) designation issued by the education and training institute of the American Society for Quality Control.

If a safety consultant desires malpractice, errors and omissions, or professional liability insurance coverage, why shouldn't he be required to submit proof of a valid current state license (that is, a P.E. in safety engineering) or, in states where such specialty engineering is not yet registered, peer certification (that is, a C.S.P.)?

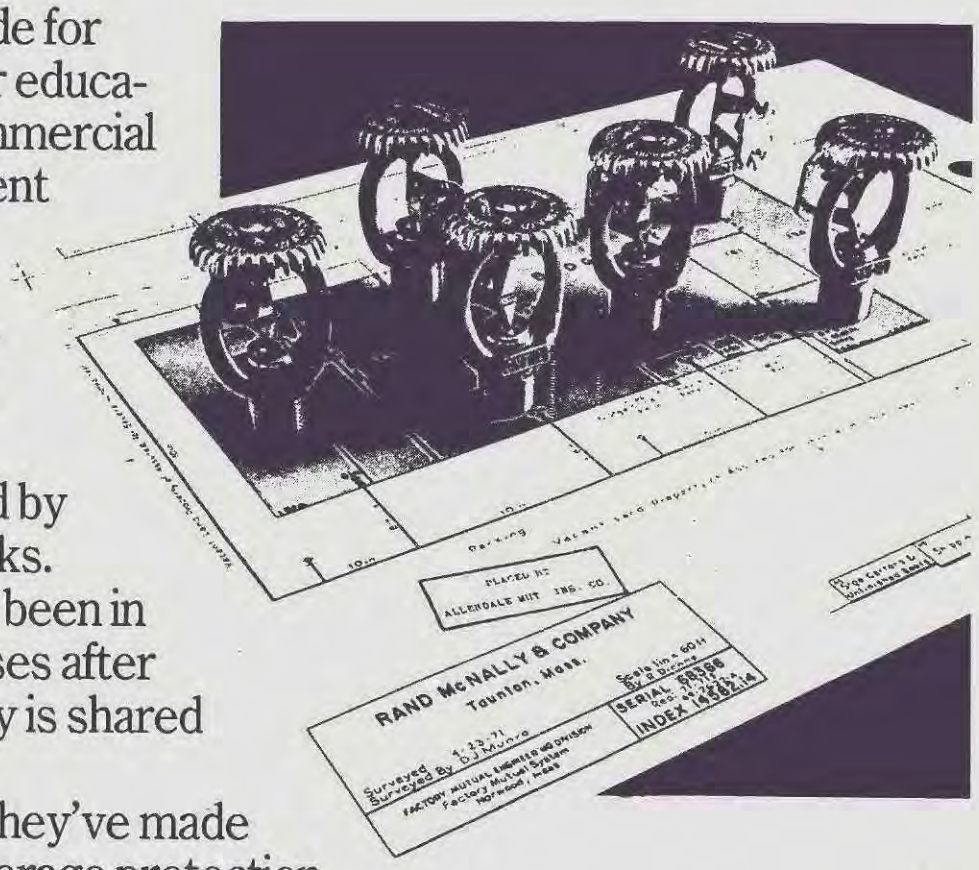
If some 4,000 safety engineers have met the education, experience, and test requirments for the Certified Safety Professional designation. Doesn't this suggest that, as a group, those who do not have this "badge" of professional qualification may be a high risk population? It is a fact that many so-called safety engineers are not licensed, not certified, not a member of any professional safety society or association, and have no knowledge of the applicable safety literature, standards, and codes.

The same type of unqualified safety engineer may be assigned as the safety program manager in an industrial enterprise and, in final analysis, the insurer's hopes for risk control, through an effective implementation of a risk control safety program, may rest upon the feeble efforts of such an unqualified individual.

OBVIOUSLY, not every unlicensed or uncertified specialty engineer is incapable of doing a good job. But, statistically, the group which is licensed would seem to present better odds. Every engineer is not automatically a safety engineer or quality engineer, and, for this reason alone, risk control would be improved merely by requiring some proof that the specialty engineers, employed by the insured, are qualified by an external independent agency to practice such engineering. ■

George A. Peters is an engineer-attorney who is Director of the Consultants Division of the American Society of Safety Engineers. He is author of the book Product Liability and Safety, a member of the editorial board of the Journal of Safety Research, a senior member of the American Society for Quality Control, an honorary member of the System Safety Society, and has served on various advisory committees for government agencies.

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Oil industry group hears more on Burmah's record-setting risk plan

DALLAS—Timeliness was the key to arranging the $342 million coverage for Burmah Oil Co.'s North Sea oil platform operations through worldwide insurance markets announced last month, according to the broker involved.

Starting a year before the coverage was needed was one important factor, said J. William Sherar, president of Armistead Miller Wallace Inc., New Orleans branch, who served as Burmah's broker in the negotiations and for the eight other companies involved in the joint venture *(Business Insurance,* April 21).

"First we had to decide what the position of self-insurance, commercial markets, captives and Oil Insurance Ltd. (OIL) should be "as sources of coverage for the Thistle Field project," Mr. Sherar told members of a Risk and Insurance Management Society (RIMS) conference here.

OIL, the captive insurance company for petroleum producing companies, was considered a "very real possibility in the beginning," Mr. Sherar said, "but the joint venture clause of OIL eventually pushed it out of the realm of possibility."

To date, OIL has not been used "because there is so much risk involved and because coverage was available from the commercial insurance market at reasonable prices," Mr. Sherar said.

Allon J. Greene property and casualty risk manager for Burmah, worked in tandem with Mr. Sherar on the entire marketing process and was present at the working session.

"No expense was spared to reduce the risk of the North Sea project," Mr. Sherar said. The underwriters' manual which Armistead Miller Wallace prepared contained engineering specifications, annual reports and a summary of the risks involved, he said.

"We got good feedback from underwriters who were well qualified to comment on the engineering aspects," Mr. Sherar said. "The negotiations were done with an open book and we think this helped a lot," he said.

"These ideas, started early enough, were responsible for keeping down insurance costs," he said, emphasizing that it was not "just a question of insurance itself."

The key is to get the physical damage insured first, he said. "Maybe we'll get other financial areas covered later."

Another important aspect to the negotiation process was "keeping control of the reinsurance," he said. "We always knew who was reinsuring where it wasn't net and it was always with our permission."

It's tight getting permanent insurance up there," Mr. Sherar said of the North Sea projects. "There are a limited number of years for royalty payouts and a two-year delay to get the oil flowing. Then ownership reverts to the local government in a finite number of years."

Other ways that timeliness can affect a project, Mr. Sherar said is for "contract commitments where there is a construction delay that can cause substantial payouts." For example, a one-year delay could cost $100 million," he said. A delay of three weeks could delay the project one year because of the short summer season during which the platform must be moved into place, he explained.

"Interest payments on loans can be substantial and you'll get minimal help from banks if there are delays," he added. ■

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Buyers angry over Sequoia exclusion in D&O policies

DALLAS—The Sequoia Insurance Co. made a surprise move to exclude pension reform act liability risks from its existing directors and officers liability policies, *Business Insurance* learned.

The exclusion is being announced to insureds on a take-it-or-leave-it basis. It has been introduced midstream in at least one major policy, effective immediately.

According to one irate insured who has already put out feelers for new coverafge, Sequoia takes the position that the Employe Retirement Income Security Act (ERISA) poses a risk that was not contmeplated when the D&O policy was written 18 months ago.

Sequoia writes D&O coverage through Excess Underwriters of Chicago, its managing agent on surplus lines. It also has more recently arranged a line of fiduciary liability insurance through broker Kemper Insurance *(Business Insurance,* April 21).

Although Sequoia worked out an entire schedule of rates for new policies covering fiduciary liability, its premium charges on D&O coverage, written before the pension reform law was passed, were considerably lower.

For instance, a $5 million blanket limit D&O policy written before ERISA's passage carried a premium of $44,000, or about half what other insurers were charging.

"My broker called me last week and just announced this exclusion on my policy to me. I never heard of anything like this. They're doing it midstream, right in the middle of my policy. I told him where he could stick his exclusion," said an insurance buyer attending the Risk and Insurance Management Society's annual conference in Dallas.

"I called him the next day to give him a chance to change his mind about the whole thing. He didn't, and I sent another broker a record letter on the business right away. The whole thing really makes me mad," he said. ■

GM extends benefits

Certain groups of laid off General Motors Corp. employes will continue to receive GM-paid hospital, medical, prescription drug, extra accident and life insurance coverage, the company said last month. GM said it appears that the supplemental unemployment benefit (SUB) fund will be reduced to a level where no benefits will be paid to laid off employes for weeks of layoff beginning the first week in May. Eligible employes represented by the United Auto Workers who were already on layoff by the end of this month will continue to receive company paid insurance benefits.

Size of OIL members affects insurance needs

DALLAS—The gap in size between the largest and the smallest members of Oil Insurance Ltd. (OIL) has caused some problems because "the insurance needs of the smaller members do not always coincide with (those)of the larger members," Dr. Thomas C. Allen told the oil industry session at the 13th annual conference of the Risk and Insurance Management Society here.

Dr. Allen, who is in the national accounts division of Nashville-based Armistead Miller Wallace, the brokerage firm, indicated that although many of the well known petrochemical firms have subscribed to OIL since its formation in 1971, for all-risk oil drilling property and liability insurance coverage, there are also enough problems in joining OIL that some very large firms have chosen not to join.

"One should also note that while the membership roster of OIL is impressive, many giants such as Exxon, Mobil and Shell, and a multitude of other oil companies have seen fit not to join as of this date. This fact alone," said Dr. Allen, "stands as mute evidence that while compelling reasons may exist for entry for some, just as strong reasons remain for staying out on the part of others."

In his lengthy talk on the organization of OIL, its procedures and the advantages and disadvantages of joining the petroleum industry capative. Dr. Allen said he believes the biggest hazard to OIL "is the possibility of a . . . member sustainting a large loss and cancelling his policies" so that other OIL members are left holding the bag. Even though the phaseout by a member would take a full five years under OIL bylaws, such a cancellation "would be financially advantageous" to the company which had the large loss, Dr. Allen noted.

OIL's rules provide that in the loss, other members would be assessed extra premiums to cover the loss, Dr. Allen said.

Despite this hazard of belonging to OIL, there are two ways a company would be "discouraged from pulling out of OIL after such a large loss," he believes. "A company phasing out of OIL and purchasing commercial insurance would have its loss experience follow it, and thus, would not escape the impact of a large loss on future insurance premiums," he said. Also, Dr. Allen believes such a move by a member of OIL would damage his reputation in the industry and among the other members of OIL.

Dr. Allen said although the long-term cost of petrochemical insurance coverage with OIL "should be more favorable if the experience of the insured is good," the initial cost of the plan for most companies is higher than for conventional insurance.

One advantage of OIL, Dr. Allen pointed out, is that coverage for onshore and offshore property and liability is "in general broader than insurance available in conventional markets, particularly for joint ventures, pollution coverage and cost of well control."

On the other hand, Dr. Allen noted, "OIL does not provide business interruption coverage, and thus, in a sense, forces those who wish this coverage to re-enter the conventional market without the bargaining power that the premium for the physical damage portion of their coverage might bring."

Because premiums paid into OIL are based on losses of all members for five years and then are prorated on the basis of each member's gross assets, they do not account for the difference between the risks of individual members, Dr. Allen noted. "One (oil company member) may have huge risks which are situated offshore (and) are much more perilous than other members whose main activities are located onshore. Thus, the principle of adverse selection may eventually apply to OIL," he warned. "Oil companies with heavy and precarious exposures may seek membership while those with normal or better than normal risks may seek other means of coverage," he added.

There are presently 27 members of OIL, Dr. Allen noted, with assets exceeding $27 billion. Members range in size from $125 million in assets to $12 billion, with Gulf, Standard Oil of California, Atlantic Richfield and Tenneco being the largest, he pointed out.

In 1974, OIL's premium income was $37.8 million, up 18.5% from 1973, with surplus at the end of the year of $74.2 million.

"OIL officials have projected that by the end of 1975, the surplus of OIL should approximate $115 million," he said.

Last year, the maximum premium that any member of OIL oould pay, according to the rules, for $75 million worth of protection was slightly over $12.5 million, Dr. Allen pointed out. This is based on the premium ceiling of either 5% of the insured limit or, for the larger company members, a percentage of gross assets. About $2 billion in gross assets is the separation point," said Dr. Allen. ■

NFPA urges sprinklers in all highrises

BOSTON—Highrise fires could be greatly reduced if sprinkler systems received the same high priority as decorating considerations such as carpeting, the National Fire Protection Assn. (NFPA) charged.

"Sprinkler systems cost about the same as carpeting," said Charles S. Morgan, president of the NFPA. "But the former is a necessity, the latter a luxury. Unfortunately, designers seem to look upon sprinkler systems and carpeting the other way around."

Mr. Morgan cited fires in Chicago, Peoria, Il. and New York City that could have been averted if sprinkler systems had been installed. He recommended that legislation be enacted in every state to require sprinklers in highrise buildings.

"Fatalities in fully sprinklered buildings are few and are isolated cases. Multi-fatalities, except where the sprinkler systems have been damaged by an initial explosion or shut off are almost unheard of," Mr. Morgan said.

"The problem of fighting fire in a highrise is compounded when there is no sprinkler system to keep a small fire from becoming a large one," he said.

Although only one death occurred in the three fires mentioned, Mr. Morgan pointed out that the potential hazard for a high death rate was there in any of them. ■



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Benefit manager 'belongs on bargaining team'

DALLAS—Twenty percent to 35% of total employe compensation goes into benefits and has become a major business cost, making it more important than ever for the employe benefit manager to be a part of the direct negotiating team with labor.

J. Al Friday, director of national accounts for Armistead, Miller Wallace Inc., made this point in a workshop on the benefit manager and labor negotiations at the annual conference of the Risk and Insurance Management Society here.

Although a number of the managers attending the workshop admitted they had no direct contact with negotiations, Mr. Friday emphasized his conviction that managers should be involved in all hourly rate employe benefits negotiations. He offered a number of suggestions to the group to help prepare them for the task.

The most important single objective he stressed was an evaluation of the strengths and weaknesses of the management prenegotiation position. In addition to research, Mr. Friday proposed a system for noting any administrative, legislative, statutory or judicial ruling which might concern benefit plans.

He told the workshop to build a file of current employe booklets, collective bargaining agreements and notes from competitor companies for comparison purposes.

One approach he felt was valuable in comparing the performance of benefit plans to their intent was to select a small group of people from various departments and get their written suggestions on proposals being offered to unions.

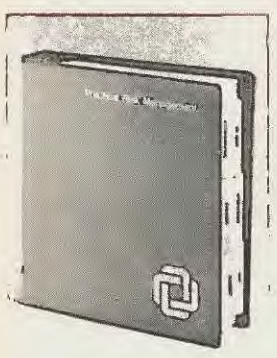
Mr. Friday stressed that when dealing with unions, management should always keep in mind the non-union employes. Because they invariably want whatever improvements or changes in benefit levels that are given to the unions. Cost data should be gathered ahead of time whether a company negotiates on levels of benefits or on cost. What happens once costs are developed depends on the company. Some offer package deals to unions prior to negotiations, while others wait to receive demands before making any offers. In any event, cost information should be prepared ahead of time.

For managers not directly involved in negotiations, Mr. Friday warned that outside labor negotiators are frequently more interested in settling the contract without labor strikes than they are in holding the costs to a managable level. He told his audience to be sure such a negotiator doesn't take over and "give away his shirt to obtain a settlement."

In a discussion period following the formal presentation, the managers swapped stories of their experiences with labor negotiations. One prevailing sentiment was that company managers grant certain benefits "either out of equity or out of fear."

One manager from a major industries firm said the union wanted to make certain changes in a package benefit deal offered by the company without consideration of cost.

Instead of making the changes the company told the union it would give them the same amount of money plus an additional stipend if it thought it could negotiate a better coverage. When the union tried to work its own program on this basis, it failed to get as good a deal and decided to take the company's original plan. ■



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London insurers push political risk covers

DALLAS—London underwriters are continuing to aggressively promote their capability to provide more and better kinds of confiscation risk insurance for multinational companies.

Julian Radcliffe, director of London-based Investment Insurance International (managers) Ltd., told a session of the 13th annual Risk and Insurance Management Society conference here that he considers "on-demand bonds" to be "probably the most catastrophic of the political risks associated with" overseas business contracts at the present time. These on-demand bonds are often required by middle eastern and other governments of any company doing business in their countries.

At a separate seminar meeting at the same conference, Francis X. Boylan, vp of Alexander and Alexander, concurred with Mr. Radcliffe that risk managers for "some very large international corporations" are paying very close attention to what risks their companies have at stake by having these on-demand bonds in foreign countries. He also noted that another large risk for firms doing business abroad results from the fact that there are sizeable cancellation penalties to be paid to subcontractors in the event a big contract is cancelled by the foreign government before a job is completed.

"I think ultimately we will have to have some captives in Bermuda for political and confiscation risks," Mr. Boylan said, adding that there is inadequate market capacity for the wide range of these risks. No U.S. underwriters cover these kinds of political contingency risks, although some governments (including the U.S. government) and London do offer such insurance.

The on-demand bonds which Mr. Radcliffe and Mr. Boylan discussed are arrangements under which contractors are required to furnish a bond which is callable by the government even if the firm providing the bond performs adequately under the contract.

"This is clearly an extremely onerous requirement, and in Libya, when Colonel Gaddafi came to power, a number of Italian contractors were made bankrupt by the calling of many bonds," Mr. Radcliffe said.

"Relatively few" U.S. companies are insured for confiscation of overseas investments which are not covered by the Overseas Private Investment Corp., Mr. Radcliffe believes. He also contended that many companies "are carrying a risk far in excess of what they retain on their fire or liability policies."

Mr. Radcliffe, whose firm is a subsidiary of a major London-based insurance brokerage group, said that "since October 1972 we have quoted for at least 10 companies" which did not buy the insurance and subsequently had claims ranging from about $500,000 in Tanzania, $500,000 in Morocco, about $1 million in Uganda, about $1.5 million in Malta, to about $5 million in Uganda. A large claim in Zaire is not yet known, he added.

Mr. Radcliffe claimed that his company is presently quoting on coverage and, he predicted that confiscation insurance will someday "be considered as essential a part of risk management as fire or export credit coverage." ■

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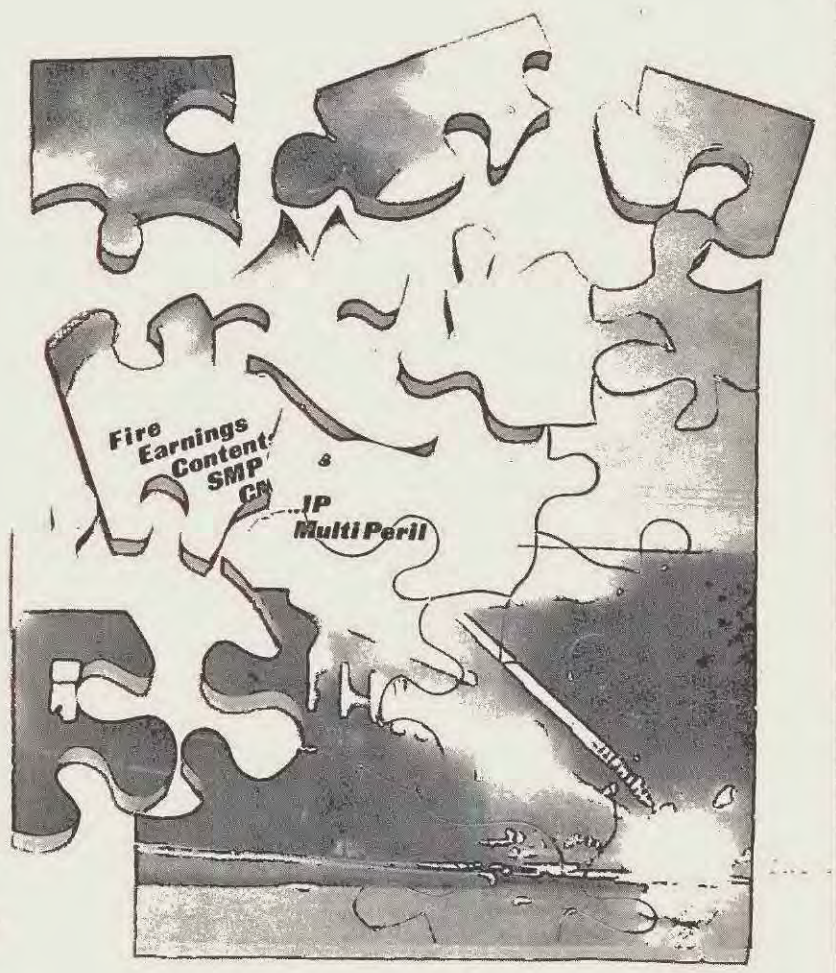
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Basically you're looking at an insurance carrier'

Urge benefits managers to make critical review of HMO practices

DALLAS—"The fact that an HMO is qualified by the Department of Health, Education and Welfare definitely does not mean that it is necessarily financially sound," warned Joseph Holtzer, senior vp of Marsh and McLennan Inc.

He advised employe benefits managers to make a critical review of four broad areas of health maintenance organizations before deciding to use an HMO to fulfill the dual option requirement mandated by the HMO Act of 1973. The four areas included, capacity, financial aspects including cost effectiveness, organization and scope of service, and quality.

Because of the scandals presently occurring on the West Coast and elsewhere, because of HMO insolvencies and unstable new HMOs being activated, he advised close scrutiny of HMO organization, practices, and records when an employer is approached by an HMO wanting to provide group prepaid health care.

"Basically, you're looking at an insurance carrier," Mr. Holtzer said. "You don't want to end up with an insolvent carrier," he added, noting that the financial stability should be determined before getting into an HMO because "You can't change HMOs as easily as you can change carriers."

In a session on HMOs at the 13th annual risk management conference here, he noted that many employers are moving to offer the HMO option to employes before they are required to "in order to have some control over the kind of HMO used," and to avoid being forced into using an HMO that may be less desirable to the employer at a time when the employer is "approached" by a qualified HMO. However, employers which are subscribing to HMOs now, in most cases are using HMOs which are not in fact "qualified" by HEW, Mr. Holtzer noted.

These employers may be required under the law to sign on with another, qualified HMO if approached, he added. "Some employers may want to have a two-tier HMO option, one plan without all the specialized services, and the second with all of the HEW-required benefits. I think

RIMS/Report

you'll find a lot of employers will eventually be working with three or more HMOs plus an indemnification (health benefit) plan," Mr. Holtzer stated.

In reviewing how the HMO is constructed to protect against insolvency, employe benefit managers should examine the financial statement, and look at the size of the employer group relative to the size of the HMO, he advised. "Some brand new HMO may be coming to you first, and that's a hell of a situation," he said.

Find out if the HMO complies with minimum capitalization and reserve requirements of the state, if the state has such requirements, he said.

Mr. Holtzer suggested that a crucial question when considering an HMO is whether it assumes its full risks or is adequately reinsured. "Get help from your company insurance managers and outside counsel to find out whether the HMO has adequate stop-loss coverage or reinsurance, he said. An Albuquerque prepaid health plan pay $75,000 a year for such insurance, he added.

HEW can qualify health maintenance organizations which are "brand new," Mr. Holtzer noted. This means that a plan provides all the required services, but may not be as financially sound as an employer would like. He cited the example of Puget Sound Health Plan in Tacoma, Wa. which recently required an infusion of $1 million by HEW to "beef it up" and prevent bankruptcy.

Benefits managers should know whether an HMO has medical malpractice and general liability insurance coverage to cover its exposures. Managers should also find out if the limits and provisions of liability insurance and reinsurance coverage are adequate for the risks involved, Mr. Holtzer said.

He considers it important for the HMO management group to have proven financial ability, based on past performance and business track record.

"Most of the HMOs operating today, although they are non-profit organizations, have management companies operating them which are profit-making companies," he said.

"I think it is very important for an HMO to have an orderly procedure" for rate-setting, said Mr. Holtzer, noting that benefits managers should question whether the HMO uses actuarial services and/or analysis techniques to set rates, or is just guessing at costs plus a cushion.

Managers should also ask if the HMO has any provisions for insuring financial security, such as performance bonds, surety bonds, or trust agreements, he told the audience. ■

Employer held liable for staff doctor's acts

CHICAGO—The New York Court of Appeals recently ruled that an employe's claim for a physician's alleged malpractice came within the scope of workmen's compensation laws, the Defense Research Institute reported recently in its publication, For the Defense.

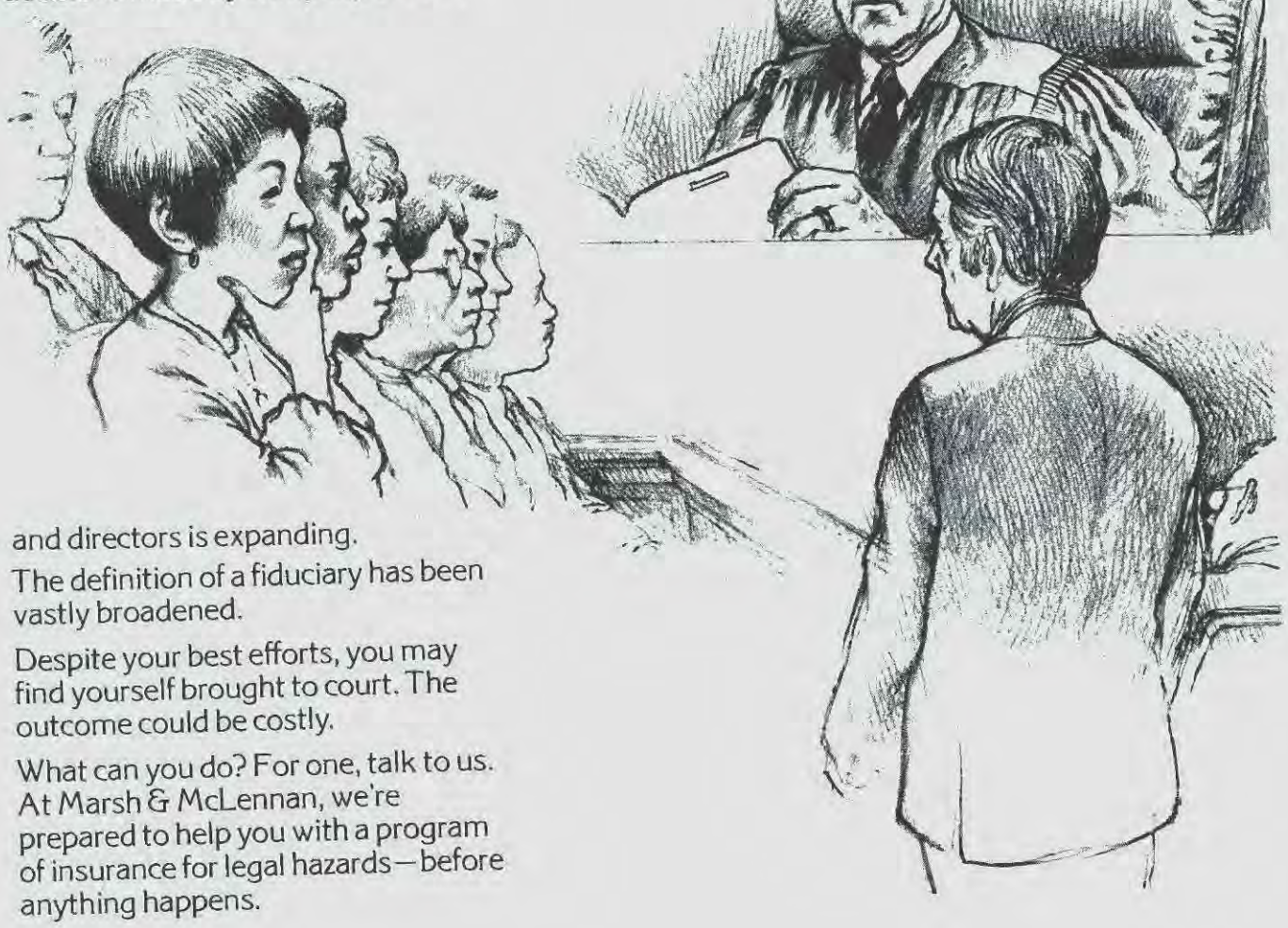
In this case, Garcia versus Iserson (309 NE2d 420 NY 1974), the physician's professional services were made available at the employer's expense and on his premises.

The court ruled that the physician's services were not available to members of the general public and were obtained only as a consequence of the worker's employment, the publication said. Since the physician was employed by the firm, was on a weekly salary and and standard payroll deductions were made from his check, he was held by the court to be a fellow employe. ■

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Insurer with retirement funds may be fiduciary, ex-labor chief states

DALLAS—The Labor Department and the Internal Revenue Service are still debating the fiduciary relationships between insurance carriers and companies which deposit pension plan assets in the insurers' general accounts. Both departments are questioning possible conflict of interest implications under the new pension reform law.

Peter J. Brennan, former U.S. Secretary of Labor, told risk managers here that it was only after the Employe Retirement Income Security Act was passed that the two government agencies became aware of the problem.

"Not long after the passage of the law, it was brought to our attention that pension funds deposited in the general asset account of an insurance company might still be considered 'plan assets' rather than simply the purchase of a policy," Mr. Brennan remarked at a luncheon at the Risk and Insurance Management Society's annual conference.

"If that were true then, the insurance company would have established a fiduciary relationship with the plan, say, a pension plan of a supermarket chain.

"If then, the insurance company were building a shopping center and the chain were thinking of renting space for a store, the co-fiduciaries would have entered a conflict of interest situation and a prohibited transaction would be involved," he said.

At a press conference following the luncheon, Mr. Brennan revealed that discussions are now underway between the IRS and the Labor Department to reach a final decision on whether or not a carrier could be considered a fiduciary to an insured plan.

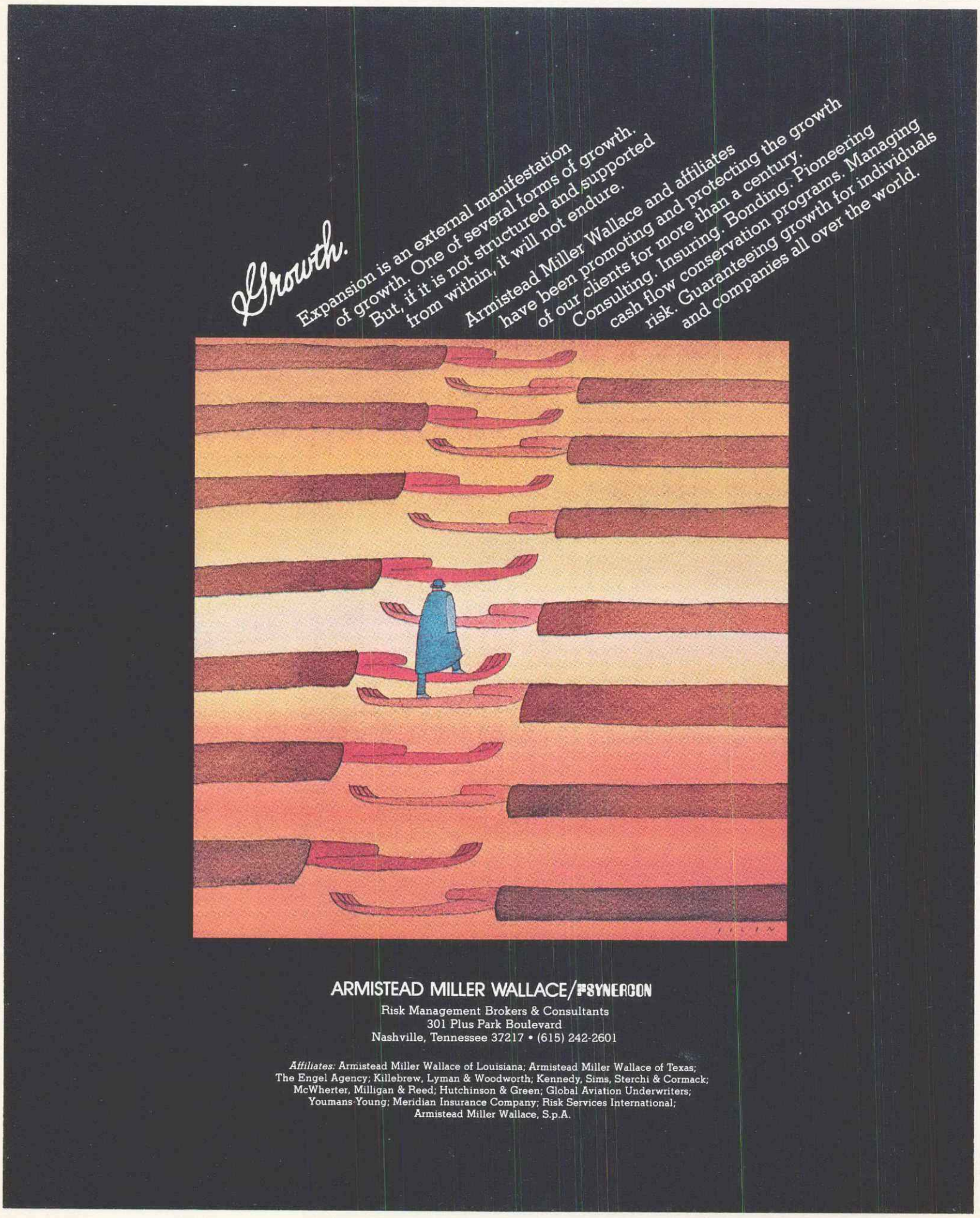
He also commented on some of the problems the department faces in getting filings on the EBS-1 form. The department extended the deadline for filings from April 30 to August 31, 1975 for the more than 700,000 forms it requires.

National and area offices of Labor-Management Services Administration will answer questions either by telephone or mail about the EBS-1 form filings. Mr. Brennan said the department has been flooded by queries about the expense of the new filings and whether they would be so costly that money would have to be deducted from plan assets to make up for paperwork involved.

Mr. Brennan said he was proud that the department and the IRS were able to concur in consolidating forms ("in Washington, that's a miracle"). He also said the EBS-1 forms were designed with efficiency and economy in mind.

Although risk managers at the luncheon accepted his "efficiency and economy" remarks politely, there was a small undercurrent of laughter on the point, apparently because the cost factor is still an unknown to most companies.

"We have 150 plans. Each one has to have a separate filing we're working on it, but we don't have any ideas how much it's going to cost us yet," one insurance director explained. ■



Actuary lists liability woes from ERISA

DALLAS—Selecting a money manager for a company's pension and/or profit-sharing plan "is like making love to a porcupine. You will do it very carefully—or not at all."

This was the word from William N. Bret Jr., vp-manager Western region for A. S. Hansen Inc., consulting actuaries. Mr. Bret made the remark to the opening session of the Risk and Insurance Management Society's employe benefit session here.

Underscoring new fiduciary liability exposures many believe have been created by the passage of the Employe Retirement Income Security Act (ERISA), the actuary rhetorically asked if ERISA permits a company to lose 30% to 40% of the plans assets," as some major banks did last year.

"In a pig's eye it does . . . you're going to get sued." Mr. Bret said this is particularly true of profit-sharing plans. "You will no longer be able to speculate with your profit-sharing plans," he said.

The new law, Mr. Bret added, is sure to benefit large bank trust departments in the money manager selection process—"those with large assets to go after" in potential fiduciary liability actions.

Mr. Bret noted too, that the law also benefits—and lays greater responsibility at the door of—actuarial firms, such as his. "In Dallas we have 1,200 (clients') plans to amend by the end of the year. In the Midwest, we have twice as many."

He foresees that A. S. Hansen would have 50 lawsuits filed against it within the next two years. He expects, however Hansen's revenues to double over the next five years. ■

Gas storage can affect insured risks

MILWAUKEE—Gasoline storage can be considered an increase of risk or hazard affecting insurance coverage, according to the locally-based Defense Research Institute Inc., but only if the risk increase is "something of duration as opposed to a casual or temporary change in the use of premises."

No increase of hazard exists if gasoline is stored on the insured premises with the insurer's knowledge at the time the policy is issued, said Donald J. Hirsch, associate research director and author of "Energy Crisis: Legal and Insurance Problems."

"The policy in question must contain a provision which excludes coverage where the insured knowingly increased the risk of loss," Mr. Hirsch explained.

He cited various cases which agree that the "storage of gasoline or other flammable substances can materially increase the risk so as to invoke the exclusion, but such a storage must be more than casual or temporary."

In an example Mr. Hirsch pointed out "to the extent that a person's negligent conduct in placing a gasoline can in his automobile can be shown to be a cause of his injuries, he should be denied recovery." ■

Cite 'broad scope' in Texas comp program

DALLAS—Sanitation and garbage collection departments are the primary source of workers' compensation claims for municipal employes in Texas, said H. Wayne Dortch, regional sales manager of Employers Group of Texas.

RIMS/Report

For school systems, maintenance employes and food service personnel file the most workers' compensation claims in the state, he said.

Speaking at a working seminar of risk managers at the 13th annual Risk & Insurance Management Society (RIMS) conference here, Mr. Dortch said that "in terms of its broad scope, no other state has a workers' compensation joint fund program like Texas does."

Employers Group of Texas is the contractor for a city and a school system joint workers' compensation fund which covers about 100,000 employes in 175 cities and 300 school districts.

Joint funds for public employes' workers' compensation won't work unless the public agency is "fully behind the policies of the fund," Mr. Dortch said. For employers' joint funds' members can be expelled "if there is a consistent pattern of non-cooperation," he added.

Employers Group provides claims handling, loss control and general administration for the Texas Municipal League Workers' Compensation Joint Insurance Fund and for the Texas Assn. of School Boards Workers' Compensation Self-Insurance Fund.

Another joint fund, the Texas Assn. of Counties, has a contract with Aetna Insurance Co., a subsidiary of Connecticut General Life Insurance Co.

So far, $13 million in premiums has come to employers for the city and school funds since July 1, 1974. Both primary, from first dollar, and excess coverage are provided by employers.

Each city or school system contributes 60% toward the loss fund (to pay actual workers' compensation claims), 10% for administrative costs (including claims handling costs), 5% for aggregate, specific excess and loss and ¼ of 1% to the industrial accident board in the form of a tax, Mr. Dortch said.

Coverage limits are $50,000 per occurrence and $5 million for catastrophe limits (with $50,000 as the deductible), Mr. Dortch said.

"Political subdivisions lobbied heavily at the state legislature for joint funds to save tax dollars" for public employes' workers' compensation claims, he said. ■

RIMS elects new officers

DALLAS—Daniel E. Sullivan was elected president of the Risk and Insurance Management Society (RIMS), succeeding E. W. Altstaetter, outgoing president. Mr. Sullivan is manager of risk, insurance and property taxes for Northern Electric Co., Montreal. He was first vp of RIMS last year.

Berry L. Griffin was elected first vp, moving up from his post as vp-conference last year. He is manager of insurance for Los Angeles-based Hughes Aircraft Co.

Other RIMS officers are Paul Kipp, vp-public affairs; Ralph E. Gentry, vp-communications; Robert S. Spencer, vp-conference; Paul H. Ozan, vp-member affairs; J. Robert James, vp and treasurer; and Wiliam P. Stouffer, vp-technical services.

Mr. Kipp is manager of insurance for Chicago-based U.S. Gypsum Corp. Mr. Gentry is insurance manager for Los Angeles-based Fuqua Industries Inc. Mr. Ozan is assistant corporate counsel-assistant secretary for American Greetings Corp. Mr. James is a vp with Chemical Bank in New York, and Mr. Stouffer is operating vp and director of corporate insurance for Federated Department Stores, Cincinnati. ■

Payne joins insurer

Gleeson L. Payne, who resigned as California insurance commissioner, was named president of Los Angeles-based National American Life Insurance Co. of California. National American Life is owned by the Ahmanson Bank & Trust Co.

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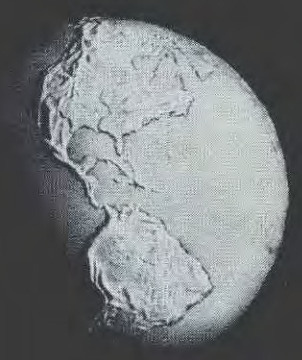
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Insurance largest business cost for gas companies; captive helps some

DALLAS—"Given the energy crisis and the regulatory environment, the fact becomes highly visible that the largest cost—by 30%—of doing business for the gas industry is insurance coverage," said A. Gordon Hanau, risk manager for Consolidated Natural Gas Service Co. Inc., Pittsburgh.

Reflecting on the industry's need for "premium leverage and sufficient capacity," Mr. Hanau described its new captive to members of an industry workshop at the Risk and Insurance Managers Society (RIMS) 13th annual conference here.

Since March, Gas Ltd., the Bermuda-based captive insurance company, has provided $1 million in liability coverage (including directors' and officers liability and eventually fiduciary liability) to its six gas company members. There is no reinsurance on the coverage, "excess of a minimum retention of $100,000" which Mr. Hanau said may be insured or uninsured.

Beyond the $1 million coverage, Gas Ltd., has an arrangement with Ebasco, risk management consultants, to place through a broker anything up to $50 million of excess placement.

An additional 11 to 12 other companies which sell gas to the public have made "very firm commitments" to become members shortly, Mr. Hanau said.

"We decided in mid-April to write fiduciary liability coverage as part of the policy," Mr. Hanau said, adding that he dissented in that vote.

"It used to be, on the basis of capacity, the gas industry, was the last on the list to get coverage," Mr. Hanau said. "A few, less well-managed companies had large losses which were borne by everyone," he added.

"If we can survive the facts of life in the market place with brokers and so on, we'll have a meaningful instrument," he said, adding that all-risk property and pollution liability are two of the major insurance needs of the gas industry.

"In putting this together, we thought we needed the larger (over $1 billion in assets) companies' commitment," Mr. Hanau said. "But they didn't need us as much as the small companies."

"If we want to get more of the larger companies' business, we'll have to do more," Mr. Hanau said. "We want to help the small businesses with risk management—like telling them why they're not able to get the coverage they need. Maybe the need for a safety program."

The values for gas industry projects are on a steady increase Mr. Hanau said, pointing to the supertankers with values of $250 million or a planned coal gasification plant in Pennsylvania with an estimated value of $700 million. "It's new for us," he told the audience of mostly oil industry risk managers.

"We tried to get the conservative executives in our business to see the problem before the capacity problem became worse," Mr. Hanau explained. "When the situation hurts enough, things like sustained capitalization might be attractive to do on a mutual approach or as an industry cooperative," he said.

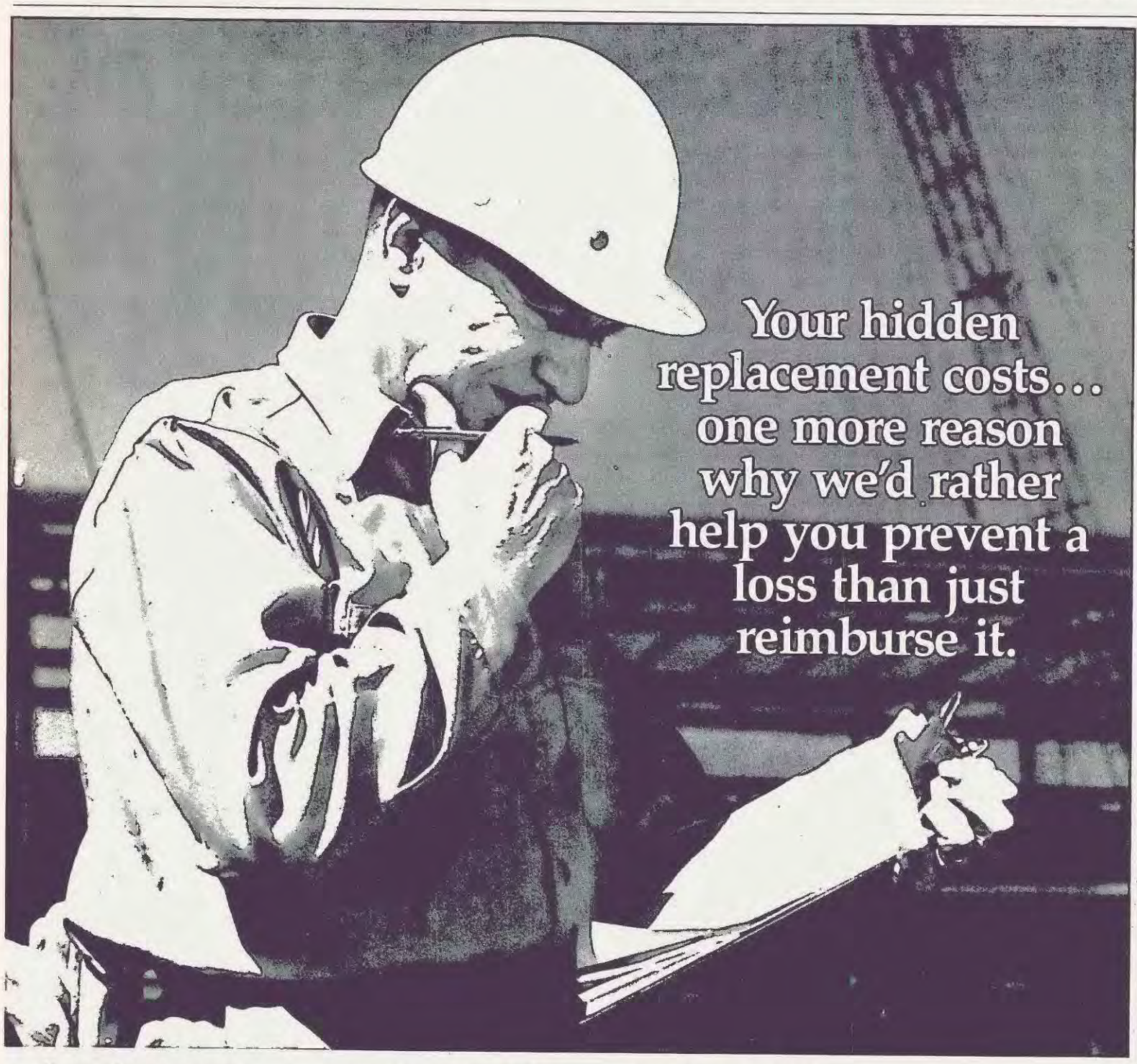
Mr. Hanau said that the American Gas Assn. was the "initial organizational group from which the idea (of a captive) sprung, even though we had no previous connection with the gas association."

The main reason the captive is domiciled in Bermuda, Mr. Hanau explained, is not for tax shelter purposes but to find a more stable source of coverage.

We feel we're very much limited to two or three year cycles where some of our companies can't find $2 million to $3 million excess liability for any price," Mr. Hanau said.

He gave an example of the problem, citing a company which in 1967 had a "net line of $10 million coverage but in 1970 was offered only $300,000 in coverage."

"We're a regulated business," Mr. Hanau emphasized. "There wasn't a tax reason for going offshore. Our posture is that because we're highly regulated if we have to pay taxes, then we're going to pay taxes." ■



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Undertake a joint fire safety study

WASHINGTON—A five year investigation of fire safety standards will be undertaken through a joint agreement of the Health, Education and Welfare (HEW) Department and the National Bureau of Standards, it was announced this month.

The study will focus on fire and smoke detection, alarm and communication devices, smoke control, human behavior in fire emergencies, low cost automatic extingishment, and decision analysis technique, according to the government.

Dr. Theodore Cooper, HEW's acting assistant secretary for health, said, "In view of HEW's concern for life safety in fire situations, particularly in nursing homes and other health care facilities, it is important that HEW supports this effort.

The five year HEW-Bureau of Standards agreement will also encourage joint participation by other federal departments.

The project continues a working relationship between HEW and the Bureau of Standards that goes back to the summer of 1971.

Then, the two federal agencies started an investigation of the problem of flammability and smoke generation produced by carpets in a full scale test corridor similar to a typical carpeted nursing home corridor.

Existing fire standards tests were compared to the real life situation and found to be only marginally related. Plans are now being made to bring this data to the attention of model building code groups for their consideration.

Project chief for the Bureau of Standards will be Harold Nelson, formerly director of the General Services Administration building service accident and fire prevention division.

Gerrit D. Fremouw, director HEW's facilities engineering and property management section will manage the development work and application of the Bureau of Standards results to HEW facilities programs. ■

Expect 50 million to have group dental by 1980s

DALLAS—Dental insurance benefits now cover some 23 million people, and by the early 1980s the number is expected to swell to 50 million, a group dental benefits plans supplier said in a workshop here.

And if he is right, the more women who are covered by dental benefits, the more costly the plan design will be.

Phillip Briggs, senior vp of the Metropolitan Life Insurance Co., made his comments before an employe benefits session of the Risk and Insurance Management Society's annual conference.

Mr. Briggs cited statistics for insured dental plans which show males received an average of slightly over three services yearly while the comparable female frequency rate was about three and a half services.

Excluding children under 19, whose frequency rate for services is 4.1 annually, the Metropolitan vp said women utilize dental services about 16% more than males. He concluded that plan cost will be directly related to the number of females covered.

He suggested women are more concerned with their appearance and have more time for trips to the dentist than do men, rather than having greater requirements in terms of oral health.

Outlining basic approaches to dental coverage, Mr. Briggs explained that benefits can be determined either on the basis of a schedule, or reasonable and customary fees, or a combination.

RIMS/Report

For a plan that is just starting up, preventive and basis restorations (fillings) appear to comprise almost 80% of services recommended and received, he told the audience. The average charge for dental services, excluding orthodontic treatment, is more than $200 annually.

Mr. Briggs stated his preference for the use of an in-house consulting force where dentists are in constant communication with the lay claims staff on a daily basis. Helping him present his views was Dr. Frank Miele, DDS, Metropolitan's director of dental relations.

Predetermination and alternate treatment were two concepts promoted by the Metropolitan team as key ways to build cost control and quality control into a contract with an insured.

"The typical predetermination clause of the insurance agreement states that for treatment to be rendered where the charges are expected to exceed a prescribed dollar amount— usually $100—it is suggested that the dentist submit his recommended course of treatment along with his fee for each of the procedures involved," Mr. Briggs explained.

He said that system establishes what is covered or excluded and what the benefit amount is before treatment is begun. It has been Metropolitan's experience that about 20% of claims submitted involve predetermination.

"The provision for alternate treatment is a bit more complicated and requires professional judgment to be administered properly. In this situation, where a course of treatment in terms of sound dental care has available to it two or even three choices, then the carrier has the right to invoke this provision and base the benefit payment on the alternate treatment," Mr. Briggs said.

He said under this arrangement, the dentist and patient could still elect a more expensive procedure, but the dollar difference between the alternate and the actual care rendered must be made up by the patient.

While making it clear the carrier, under alternate treatment arrangements. would not be quick to fill a patient's mouth with gold, Mr. Briggs reminded the audience of risk management professionals that one of the attractions of establishing a dental benefit plan was the favorable tax treatment it affords an employer.

Employer contributions for group dental coverage premiums are currently deductible business expenses, he pointed out. ■

Urge agents be included in national health plan

WASHINGTON—Any national health insurance system should include a specified marketing system which uses the existing force of private insurance agents, the president of the National Assn. of Mutual Insurance Agents (NAMIA) has written Rep. Daniel Rostenkowski (D.-Il.), chairman of the Health subcommittee of the House Ways and Means committee.

John G. Cook, NAMIA president, also said this month that the agents "should be compensated at historic commission rates" for their services.

Mr. Cook also urged that an active, duly licensed agent should be included on any state cost commissions whose function would be to review all health care services rendered by health personnel as well as institutions.

He repeated NAMIA's support of the primacy of automobile insurance over duplicating benefits available under any national health insurance program.

A no-fault auto insurance bill passed by the Senate last year would have allowed regular health insurance to cover medical claims arising from auto accidents, opening the auto insurance field to competition from health insurers.

Mr. Cook said it would be a mistake for "non-driving Americans" to have to share the burden of providing medical benefits for auto accident victims, and he suggested that the same principle be applied to proposals that workers' compensation benefits also be shifted to national health insurance.

He urged that all employers with more than one employe should be encouraged to provide the minimum coverage afforded by any national health insurance program, but called for "some form of financial assistance" for small businessmen with fewer than 10 employes to offset what he said were inequities between small and large employers. ■

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Warn of government intervention in underwriting risks for oil industry

DALLAS—Government intervention in underwriting some liability risks for the petroleum industry could lead to higher insurance costs in other areas of coverage, said Thomas A. Doyle, assistant risk manager for Clark Oil & Refining Co., Milwaukee.

"As private insurance companies begin to lose revenues in this area, they'll increase the costs of other liability insurance," Mr. Doyle told an audience of risk managers at the 13th annual Risk & Insurance Management Society (RIMS) conference here.

"We're on the dangerous edge of government control of risk management," Mr. Doyle charged.

He advised oil companies "to make sure there is legislation for funding by the private sector. Only when a vacuum exists does the government come in," he said.

Marsh & McLennan Inc.'s vp and treasurer in Houston, Russell F. Sammis, recommended that risk managers "get together to draw up model legislation" affecting government-proposed insurance pools for the petroleum industry.

"The oil companies themselves can't do this or they might be charged with anti-trust, but the problems to be solved by legislation affect risk managers in several industries," Mr. Sammis said.

David Warren, principal consultant with Warren, McVeigh, Griffin & Huntington of San Francisco, another panelist, described the petroleum industry as a "natural monolopy" because it is a limited resource. He said this factor could result in "government expropriation (though he said this was not likely), government competition in oil production, regulation of the oil industry as a utility, establishment of standards and goals (as with Occupational Safety and Health Administration), creation of risk funding devices (such as Senate Bill 521) and changes in laws (such as for captive insurance company taxes.")

Not all government participation is viewed as bad, however. "Since you can't get over $100 million coverage (for oil exploration risks) in commercial markets or through captives, it might be a good idea to use governmental protection for the $100 million to $500 million level," Mr. Warren said.

Another positive side effect of government involvement, according to Mr. Doyle, is the visibility of the risk manager in his or her own company. OSHA standards and regulations have "helped many risk managers," he said. "It's let us in on some executive decisions we might not have been involved in if it weren't for the severe OSHA penalties involved."

But he said he though continued government intervention in the petroleum industry would "diminish the benefit of Oil Insurance Ltd. (OIL) and its effectiveness" for the present member companies.

Mr. Doyle said he deplored Senate Bill 521, currently pending, because "there's no election as to participation, pricing or anything else. As a risk manager these are totally unacceptable because there is no basis for price competition."

The legislation proposes a 2.5 cents per barrel charge for oil produced on offshore leases to establish a fund of $100 million, according to Mr. Warren. It would provide payment of pollution claims on a no-fault basis with a $7 million deductible.

Mr. Warren agreed that, if passed, the legislation would "take this part of the risk management program from the corporate risk manager," which he acknowledged "some would not welcome."

"When funding and administration are handled by the government, the ultimate end is an increase in cost," Mr. Sammis said. Most panelists and members of the audience seemed to concur with this remark.

Mr. Warren recommended that risk managers take affirmative action to create a risk funding source for all risks such as tanker hull liability, business interruption, government penalties for strikes or expropriation as well as pollution coverage.

He also suggested that risk managers "communicate to financial, accounting and political people the need for proper accounting (but made more risk management-oriented than those released in April by the Financial Accounting Standards Board), proper loss funding and worldwide insurance needs."

There will be more emphasis on loss prevention engineering because "it's the only way to prevent workers' compensation claim," said Marsh & McLennan's Mr. Sammis. ■

Report acquisition

Reliance Financial Services Corp., a subsidiary of Reliance Group, New York, completed the acquisition of Commonwealth Land Title Insurance Co. from Provident National Corp. Commonwealth is "one of the nation's oldest land title insurance companies in the U.S., Puerto Rico, Bahamas and Virgin Islands," a spokesman said, adding "there is a logical compatibility" between the two company types.

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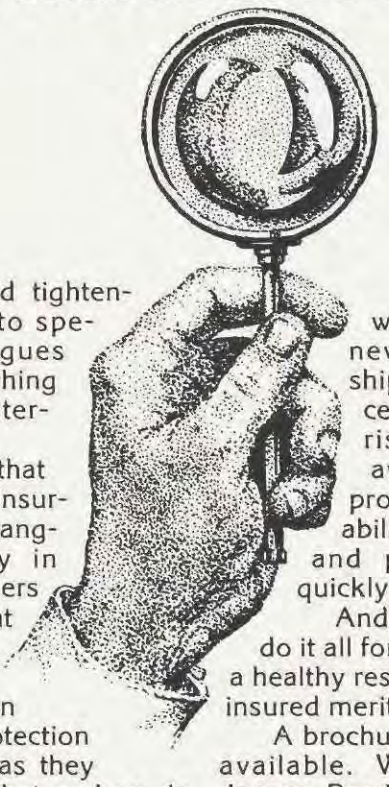
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Accounting rules . . .

Continued from page 1

Among the rules' effects which Mr. Long predicted were:

• reduction in overall insurance market capacity because of the prohibition on catastrophic loss reserving practices by insurance companies;

• companies will now be forced to disclose and reserve for losses heretofore called insured-but-not-reported (IBNRs), to establish a clear liability;

• a major advantage is removed for the operation of a "pure" captive insurance subsidiary, because captives cannot be used to build up long term reserves for contingencies.

"It is clear that pure captives will no longer be viable vehicles to build up long term reserves for contingencies," said Mr. Long. "The effect of the FASB rules is to strongly encourage the use of insurance," he added.

Indeed, "people with 100%-owned offshore captives are in exactly the same position now as companies with self-insurance reserves, and this statement prohibits those accruals," said John L. McDonough Jr., partner, Price Waterhouse & Co., a panel member.

Mr. Long told this magazine following the conference session that one major advantage of the captive as an insurance underwriting subsidiary is that it had the capability to accumulate long term reserves. "The captive will no longer provide a funding vehicle," he said, noting, however, that it "can still be used as a risk management tool for loss control, loss prevention, as a way of budgeting funds, and for access to the reinsurance markets."

The FASB rules "may actually have reinforced the use of captives," Mr. Long added, although they will utilize more spread-loss insurance to fund losses beyond a current accounting period.

Mr. Long envisions that as a result of the FASB rules, captives will retain only a "working layer" of risk, then reinsure the next layer, with an excess layer of insurance over that. "There are alternative ways of using a captive if management wants to," he noted. "It might not be as desirable, but it does achieve the same objective. Instead of an internally-controlled fund, the captive now will be more of an external vehicle, because it will transfer more of the risk."

The captive can, and will, still be used as a "coordination center" to manage the costs of losses, with a substantial annual budget, Mr. Long concluded in his discussion of captives.

He predicted further that more companies will turn to chronological stabilization insurance programs in order to stabilize their earnings and prevent peaks and valleys in net income due to self-insured losses, now that accruals cannot be used for this purpose. "Several insurance companies told me that they believe it is possible to set up long term insurance contracts of five years or so," in order to accomplish this earnings stabilization, Mr. Long said.

The disclosure and/or accrual of liabilities which companies have incurred but not yet paid fully is likely to be as big an issue under the new FASB rules as the effect on past accruing practices, panelists noted.

As Mr. Long said, "we've gotten a clarification of when to set up reserves for incurred losses. It's no longer a question of whether to reserve. . .the rules say we must reserve for some liabilities."

Mr. McDonough said as he understands the FASB rules, IBNR losses must be accrued from now on. "Firms which self-insure but don't have reserves are going to have to report and accrue for their IBNR losses, so I can foresee that these rules could have a very substantial impact" in even the companies which haven't made a practice of accruing in the past, he told this magazine following the conference.

He advised self-insuring corporations in this situation that "if any part of a self-insurance reserve is for IBNR-type losses, I think it would be well to segregate that from your reserve for self-insurance and record it as a casualty loss." ■

Society resolves it will fight the FASB's rulings

DALLAS—Directors of the Risk and Insurance Management Society called on the Financial Accounting Standards Board to reconsider and amend its newly-issued rules on accounting for future losses.

The society also named Robert D. McGowan, assistant treasurer of Rand McNally & Co., to be chairman of a special task force which will seek formal reconsideration of the FASB rules.

In a statement delivered at the final luncheon of the annual RIMS conference here, E. William Altstaetter, outgoing president of the society, said: "In the event we are again rebuffed by the gentlemen of the (FASB), this task force is to determine what other appropriate remedies may be available to us and to present recommendations concerning a course of action to achieve equity in this issue."

Mr. Altstaetter described the "unappealable decision" by the FASB "an abridgement of due process."

He urged risk managers as well as "the entire insurance world" to vigorously oppose the FASB rules. The basis for Mr. Altstaetter's call to action is his contention that risk management and self-insurance decisions should "rest on principles and techniques associated with the handling of risks, rather than principles of accounting and financial reporting."

The RIMS resolution adopted unanimously by the board of directors at its meeting Sunday, April 20, before the start of the conference, states:

• that the FASB rules "impinge upon and may well interfere with the prerogatives of management acting through its risk manager" to effectively carry out the functions of risk management;

• that the rules "may well have" a significant adverse impact on the property and casualty insurance and reinsurance business;

• that the FASB went beyond its stated purpose of setting accounting standards, in an "unwarranted infringement" on the discipline of general management.

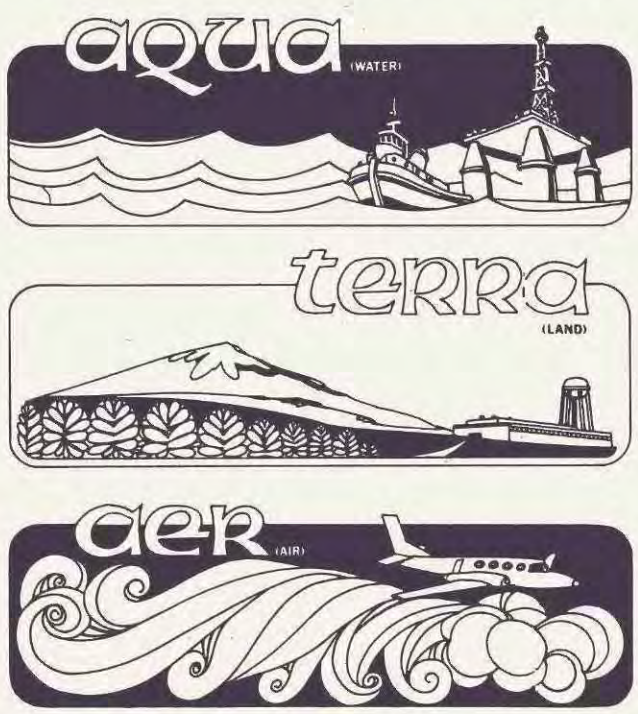
RIMS has taken the position that the FASB rules as they were set out restrict the risk managers' right to "avail themselves of all alternatives including insurance obtained from any financially viable source, noninsurance, self-insurance, of the use of legally constituted captive insurance companies to protect corporate assets."

Mr. Altstaetter criticized the FASB for not having risk managers "represented on the board in developing the rules." ■

Extends group covers

Illinois Blue Cross/Blue Shield said it will extend group health care coverage to workers temporarily laid-off their jobs. Persons with single coverage under group programs can convert to family coverage if the spouse is laid-off. "Though Congress is considering legislation to meet the problem, implementation could be many months away," said Robert M. Redinger, president. Groups need only inform Blue Cross of their desire to extend coverage to laid-off workers. All payments must be made through the group.

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Litigation threats don't worry FASB official

DALLAS—"We've heard the sabres rattle before," retorted Michael A. Pinto, director of administration for the Financial Accounting Standards Board, when hit with talk of litigation over the newly-issued rules prohibiting many of the traditional insurance and self-insurance accounting practices used by corporations.

While the FASB rules do not have the force of law, the independent accounting standards setting body, comprised of seven board members and an advisory council of 28 people, has only been sued once, by a utility, said Mr. Pinto. "The courts ruled that the standards should hold," he stated.

When asked about revocation or revision of the rules, Mr. Pinto told his large audience at the 13th annual conference of the Risk and Insurance Management Society seminar that he believes "the board will keep an open mind" if enough people can present new and compelling arguments, along with data which indicate the rules should be changed. "The board would be courageous enough" to reopen the issue in that event, and review its decision, he said.

Mr. Pinto told *Business Insurance* that there is no formal appeal procedure established by the FASB in order to obtain a review of standards already promulgated. He said that the board would decide whether or not to reopen the matter only on the basis of "very convincing letters" sent individually to the FASB.

He said that although the FASB has never reversed a position since it was set up in 1972, there "is a precedent for reversing an opinion" because the predecessor body, the Accounting Principles Board, did reverse an opinion during its existence.

Mr. Pinto noted that every organization is affected whose statements are governed by generally accepted accounting principles (GAAP).

He also pointed out that the code of professional ethics of the American Institute of Certified Public Accountants (AICPA) requires auditors to comply with these standards.

In fact, John L. McDonough, partner in Price Waterhouse & Co., told the audience the disclosure provisions of the rules will be as important to auditors as the accrual provisions, and that the rules will probably be narrowly interpreted by accountants before certifying corporate financial statements.

"I think it's fair to say that even if an account (of an incurred liability) is not considered material in the present period, the auditor might feel compelled to put a statement (footnote) in the report because of the potential impact on future earnings of the company," he asserted. "We are the ones who have to live with this certification statement," he added.

"The auditor has a heavy responsibility to make certain that the matter being discussed will have no future impact on a company before assigning a clean certification," he went on to say. ■

FASB rule won't hurt company stock prices

DALLAS—The Financial Accounting Standards Board rules will result in "a further understatement of the liquidity requirements of corporations," said columnist Eliot Janeway at the 13th annual Risk and Insurance Management conference here.

Although the noted author and economist said he "deplored" the new FASB rules, he told *Business Insurance* that he doesn't believe they add any extra pressure to corporate risk managers from the standpoint of investments.

Mr. Janeway said he doesn't think the prohibition of accrued reserves for future self-insured losses will cause more volatility in corporate stock prices. "Companies have learned the hard way that there's no correlation between reported earnings and the price of their stock," he said.

For this reason, Mr. Janeway said, "corporations won't have an incentive to maximize their earnings this year. If earnings go down, corporations can get back taxes paid for higher expected earnings." But he added that "government may regulate slumped industries such as housing."

"Corporations are needing money at the same time government is needing money," he said. "Cash is a company's best friend."

Mr. Janeway had few encouraging words for economic recovery until the "U.S. applies some economic muscle" to the oil producing countries. ■

Reinsurance will increase with FASB

DALLAS—The impact of the FASB rules will be to force more American insurers to seek reinsurance in order to stabilize their losses, which will increase the cost of insurance to the public, according the Edward P. Lalley, president of Ideal Mutual Insurance Co., a division of Kraftco Inc.

Mr. Lalley challenged the statement of the FASB that there is no actual "financial protection" afforded by accrued contingency reserves, which are now prohibited under the new FASB accounting rules.

"If you have two property insurance companies with the same financial facts, and one of them has $100 million in catastrophe reserves and the other does not, would you not, as an investor, buy the stock of the company with the reserves?" Mr. Lalley asked. "I think you would," he stated. "Why then, should that vehicle (for funding) be denied to us?" he wondered aloud in a seminar on the impact of the FASB rules, held at the 13th annual conference of the Risk and Insurance Management Society.

He argued that the degree of predictability of future losses is greatly enhanced by the application of probability statistics to experience data so that the margin for error is very small. These highly predictable losses should be spread over multiple periods of time the same way as depreciation and amortization charges are used to write off asset values over many periods, Mr. Lalley contended.

Michael A. Pinto of the Financial Accounting Standards Board responded to Mr. Lalley's contention that depreciation and amortization involve charges made after a known event has occurred for instance, after an asset has been purchased and put into use. ■



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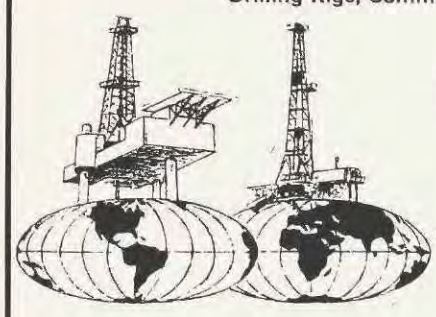
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Lloyd's sees preventing kidnaps as top priority

DALLAS—A leading Lloyd's underwriter of political risks and kidnap-ransom insurance defended the practice of insuring against risk of kidnap and extortion losses, but also disclosed that London is putting much more emphasis on prevention of kidnappings, and minimizing ransom losses.

"Underwriters have not concerned themselves with whether the ransom money should be paid and they feel that this is a decision entirely for the company or family together with local government officials," said Julian Radcliffe, Director of Investment Insurance International (managers) Ltd., a division of Hogg-Robinson Group, a large Lloyd's brokerage firm.

"However we are beginning to take a rether more active interest in the protection which companies are taking and we have recently established the service which we feel will lead to a reduction in kidnap attempts," he added. In a session on political risks at the 13th annual risk and Insurance Management Society conference.

Mr. Radcliffe told *Business Insurance* in an interview that "the market is moving quite swiftly" in the direction of requiring any insured client to use kidnap loss reduction and prevention services as a condition of underwriting kidnap insurance for that client.

He attributed the absence of kidnap attempts in Ulster during very turbulent times because government emergency powers there made it illegal for any organization to give money to a terrorist group, under pain of imprisonment.

Acknowledging that this is an "ideal" situation which is not typical of other areas of the world where governments do not have such tight control, Mr. Radcliffe defended the practice of offering kidnap insurance "but under very strict conditions."

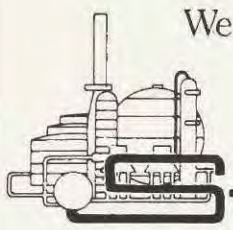
He said he is convinced that the existence of insurance "has in no way led to the encouragement of paying ransoms in response to a threat."

Markets for both political risk (confiscation) insurance and kidnap/ransom have tightened, Mr. Radcliffe said in an interview following his talk. Confiscation insurance rates are "considerably higher" than a year ago, he said, because political situations in a number of countries have "seriously deteriorated" in recent months.

Insurance against kidnap/ransom is still available in all countries, however, Mr. Radcliffe said. No countries are being excluded, though rates are higher for countries such as Argentina where kidnappings are well publicized. ■

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Insurer of kidnap risks declines risky publicity

DALLAS—"They would like nothing more than to kidnap the kidnap underwriter," remarked Joseph P. DeAllesandro, Sr., vp of the American International Group at a workshop on special liability coverages here.

Mr. DeAlessandro was explaining why he might have to decline a television interview with CBS that the Risk and Insurance Management Society arranged for him during their annual conference. His company was concerned over his own kidnap potential.

Switching to the general concerns of buying this highly controversal form of coverage, the AIG official told the audience that limits of liability remain large depending on where the coverage is written. Generally available limits are $3 million per incident and $6 million in the aggregate, he said. Some companies are buying per incident coverages of $5 million, with $10 million aggregates, while other coverages go even higher.

While limits may be fairly standard, pricing is all over the lot, the kidnap insurance expert noted. The area and situation largely govern the cost. For example, Italy and South America are considered volatile and hostile by underwriters, and would probably demand commensurately high premiums.

Mr. DeAlessandro also told the RIMS audience about another coverage that is largely affecting overseas exposures: political risk insurance.

While the two major sources of political risk insurance remain the Overseas Private Investment Corp. and Lloyd's of London, Mr. DeAllesandro said AIG is now offering others participation in the market.

"There is a tremendous interest in political risk insurance, I have corporate insurance buyers in my office or on the phone almost daily asking about this," he said, noting the three biggest worries are expropriation, nationalization and confiscation.

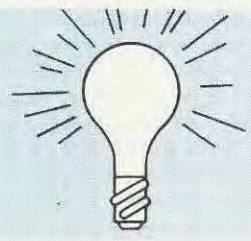
The biggest problem right now with political risk insurance is a lack of capacity to properly protect risks, he explained.

Buyers attending the session questioned whether the high premium costs of political risk insurance wouldn't create a situation where it would be wiser for the corporate insurance buyers to let the company assume the risk itself and have the use of cash for say a period of ten years, rather than giving it to an insurer.

One buyer noted that the Financial Accounting Standards Board prohibition against reserving for self-insurance might create a major problem for a company faced with a major political loss during a year.

The buyers at the session agreed that buying of political risk insurance was often not a function of the corporate risk manager at all, but more a concern of the corporate treasurer. ■

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Reinsurance will be first area hit

Lloyd's deputy chairman sees shortage of capacity this year

DALLAS—Lloyd's of London is facing a shortage of capacity this year, and the first area to be hit will be reinsurance, its senior deputy chairman said.

At a press conference at the Risk and Insurance Management Society's annual conference here, Leslie Robert Dew predicted the 7,800 member Lloyd's marketplace would be up against a crisis in which the "first and most difficult problem" would be a capacity crunch.

He said 1974 was a year of catastrophes which would, at least in the short term, affect professional writers of reinsurance more than direct writers.

When asked by this magazine how specific losses like the spate of fires in New York Telephone Co. facilities earlier this year might impact London reinsurers and subsequently their U.S. customers, Mr. Dew said the London market was "very, very substantially and heavily hit "by that particular loss.

He said that the assessment by one risk manager last month that all U.S. insurance buyers would eventually be adversely affected by the N.Y. Telephone fires because their London reinsurance suppliers' rates would go up was probably accurate.

"I truly haven't the remotest of an idea of the exact amount in the particular loss. But it was heavy. Our old estimates of maximum loss must be reevaluated," Mr. Dew commented.

Later, in a speech on the insurance "crisis," Mr. Dew told risk managers to expect a rebuilding of the existing property/liability rate structure plus a dramatic revision of investment policy by insurers.

RIMS/Report

He warned insurers might be tempted to make a quick scramble to get out of the more hazardous classes of underwriting and bring up rating levels for the remainder. But his strong feeling is that insurance must be available for the unpopular as well as the popular classes at realistic terms and in sufficient capacity.

The general thrust of his comments was that things will be, and should be, more expensive for insurance buyers this year if they expect to participate in a healthy business. He deplored comments to the effect that risk managers use brokers or insurance companies to evaluate foreign risks because they do it for free. He told the audience not to expect to get service free unless that was its actual worth.

Why should costs go up so much? Mr. Dew contends the general pattern of property/liability rates are simply inadequate to support today's conditions. He called it "dangerously low" if inflation continues at 10% and under-reserving is probable.

"Underwriting ratios of surplus to premium writings are in many instances running at unacceptable levels," he said in his speech.

Separately, he told this magazine that while there is no "absolute" ratio that works best for every company, he personally feels anything than three-to-one is unacceptable. (Three dollars of written premiums for every one dollar of surplus backup).

"Three to one is as much as one should countemplate; but I think you'll find many nearer four-to-one or five-to- one today," Mr. Dew remarked.

The senior deputy chairman told the RIMS luncheon that Lloyd's get more than 60% of its business from the United States although it is licensed to do business in only two states here.

"It's true that the unauthorized insurer doesn't tread an easy road, but as I said earlier, in direct insurance we maintain generally a surplus line image, and in most states the insurance laws exempt transportation and also insurance contracts issued to industrial assureds," he said.

" 'Industrial assured' is a term variously defined, generally as having at least 25 employes, annual premium aggregating at least $25,000 and a full-time insurance manager or buyer or a regularly and continuously retained qualified consultant.

"This kind of provision complements normal surplus line laws and enables the sophisticated risk manager to use Lloyd's if price and coverage are right," Mr. Dew said. ■

Hanau is 1974 Bland award winner

DALLAS—Gordon Hanau, manager of insurance for Consolidated Natural Gas Service Co., Pittsburgh, was given the Richard W. Bland Memorial Award at the 13th annual Risk & Insurance Management Society (RIMS) conference here.

The Bland Memorial Award was created by the Kansas City (RIMS chapter) in 1973 to recognize outstanding performance or effort by a deputy member of RIMS in the field of legislation and regulation.

As a member of the RIMS legislative committee for 16 years, Mr. Hanau has formulated and testified on behalf of RIMS on legislative matters involving unauthorized insurance legislation, the development of the industrial insurance exemption and RIMS' stand on no-fault insurance.

Mr. Hanau also testified before the Pennsylvania House of Representatives where he presented RIMS' stand on surplus lines legislation and other matters of interest to insurance buyers.

In 1961, he was an active force in influencing the National Assn. of Insurance Commissioners (NAIC) to table its model surplus lines bill. Later, he became involved in fighting unauthorized insurer's bills which failed to contain the industrial insured exemption, including the NAIC's model bill.

Mr. Hanau is a graduate of Notre Dame and John Carroll Universities. He was chairman of the American Gas Assn.'s Insurance Committee and has served on the Board of Directors of RIMS.

Donald M. Stuart of Canada Packers Ltd. was the 1973 award recipient. No award was made in 1974. ■

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The editor of **Risk Management Reports** is **H. Felix Kloman,** president of his own consulting firm *Risk Planning Group,* assisted by his staff, and an editorial advisory board including the following experts: **Stanley R. Tarr,** Director of Risk Management, *Rutgers University,* New Jersey / **Jean-Paul de Cottignies,** Partner, *Risk Factoring, S.a.r.l.,* Paris, France / **Edgar S. Clark,** Vice President, *Risk Planning Group,* San Francisco / **Peter Downes,** Insurance Manager, *American Trading & Production Corporation,* Baltimore / **Peter Law,** Vice President, Insurance, *U. S. Industries,* New York / **Stefan J. Valovic,** Director of Fire Protection & Insurance, *Kaiser Aluminum & Chemical Corporation,* Oakland, Ca. / Other experts from insurance companies, brokers and safety consultants will, from time to time, participate in the preparation of specific reports.

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- **Corporate Risk Insurance Management Manual:** Every company should have a corporate policy on risk management and insurance that has the approval of the board of directors. A risk management manual is also a valuable tool. Should it be one or 100 pages? Examples will be included in the report.
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- **International Risk Management:** A guide to the problems and their solutions in Asia, Africa, the Middle East and South America.
- **Natural Hazards—Earthquakes, Floods and Windstorms:** How you are fixed geographically and, if there's an exposure, how should you cover it? How are such hazards and disasters measured? The report will also delve into the various government disaster insurance programs available or on the drawing boards.
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dates for buyers

May 11-14: The International Foundation of Employe Benefit Plans will hold an institute for new trustees, advanced trustees and administrators of Taft-Hartley plans, in Palm Springs, Ca. For more information, write the foundation at P.O. Box 69, Brookfield, Wi. 53005.

May 11-14: The 9th annual International Security Conference, sponsored by Security World magazine, will be held at the Conrad Hilton Hotel, Chicago. Exhibits and a wide variety of seminars are featured. For further information, write to International Security Conference Registration, 2639 S. La Cienega Blvd., Los Angeles, Ca. 90034.

May 14-16: An American Management Assn. seminar on modernizing the pension plan will be held in New York. Limited to 15 people, the seminar will allow an exchange of ideas and methods of coping with pension reform. Write to the AMA, 135 W. 50th St., New York, N.Y. 10020, for more information.

May 19-20: The Pension Skills Institute will hold a seminar at the Statler-Hilton Hotel in Washington, D.C., on "How to Function in the Post-Pension Reform Environment." For further information, write the institute at 205 W. Wacker Dr., Suite 905, Chicago, Il. 60606.

May 20-22: Computer-based information retrieval systems will be the subject of the first in a series of symposia on data processing to be held at George Washington University, Washington, D.C. Co-sponsored by the university and Informatics Inc., Woodland Hills, Ca., the symposium will examine the characteristics of present systems, their costs and performance measurements, and the outlook for these systems. For more information, contact Robert B. Steel, Informatics, 21031 Ventura Blvd., Woodland Hills, Ca. 91364.

May 19-20: "Self-insuring employe benefits through a 501 (c) (9) trust: impact of ERISA" is the subject of an American Management Assn. seminar to be held in New York. For more information, write to the AMA, 135 W. 50th St., New York, N.Y. 10020.

May 27-29: The American Insurance Assn.'s annual Administrative Engineers Conference at the O'Hare Hilton in Chicago will cover a wide range of loss control and risk management subjects, such as legal liability in safety engineering, environmental health, fire problems and product liability. For more information, contact William Gordon at the association. Address: 85 John St., New York, N.Y. 10038.

May 28: The International Foundation of Employe Benefit Plans will hold a seminar on rules and regulations of ERISA affecting joint trusts in New York (also Chicago—May 29, and San Francisco—May 30). Trustees, administrators and others will have an opportunity to express their opinions and concerns about the upcoming regulations directly to the government officials responsible for administering the pension law. Information may be obtained from the foundation at P.O. Box 69, Brookfield, Wi. 53005.

June 1-4: The International Foundation of Employe Benefit Plans is holding a meeting in San Francisco on benefit plans for workers in the graphic arts trades. For more information write the foundation at P.O. Box 69, Brookfield, Wi. 53005.

June 2-4: The American Management Assn. is holding a meeting on "Managing the Corporate Employes Benefit Function" in New York (also Chicago, June 16-18). For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

June 5-6: The Society of Actuaries will hold a meeting at the Omaha Hilton hotel in Omaha, Nb. For more information, contact James Harrison, North Carolina Mutual Life Insurance Co., Durham, N.C. 27701.

June 5-6: Managing Political Risk is the subject of an American Management Assn. course to be held in New York. For more information write to the AMA, 135 W. 50th St., New York, N.Y. 10020.

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Luther leaves paper giant to join Lipton

Richard R. Luther starts May 19 as manager of corporate insurance and loss control at Thomas J. Lipton Co. in Englewood Cliffs, N.J. Mr. Luther, 33, has been the manager of corporate insurance at Crown-Zellerbach Corp. since December of 1973. Benjamin Womeldorf, his predecessor at the tea company retired last November after 30 years of service. Mr. Luther will manage the corporate risk and insurance functions, including safety and loss prevention. In addition, he will have some responsibility for Lipton's Bermuda captive insurance company, Mr. Luther said. He will report to Jack McPeak, treasurer.

* * *

Following a one-year stint as an account executive at the San Francisco office of Marsh & McLennan, **Richard C. Feddersohn** returned to the insurance management profession where he has spent the bulk of his career. Appointed director of insurance at Boise, Id.-based Morriss on Knudsen Co. Inc., he assumed responsibility for the property/casualty and group insurance programs of the worldwide construction company. He reports to Larry King, director of administration. Mr. Feddersohn replaces **C.A. Williams,** who left the insurance profession to take charge of the accounting department of Houston's Brown & Root Inc., a construction firm, at the company's office in Iran.

* * *

No one replaced **Ted Klahre** when he left his job as director of insurance, safety and loss prevention at Conso Products Co. in Yonkers, N.Y., to become the insurance administrator at Colgate-Palmolive Co. Mr. Klahre, 40, was at the division of Consolidated Foods Corp. for 16 years, and when he left, his duties were split up among the accounting office and the personnel offices in Conso's three plants, according to a company official. At Colgate, he replaced **Luke Halley,** who is now the insurance manager at Crawford & Russell Inc., Stamford, Ct. Mr. Klahre will assist **Harlan Christensen,** insurance manager.

* * *

After leaving Colgate-Palmolive Co. where he worked for six years as an insurance analyst and finally as the insurance administrator, **Luke Halley** was appointed insurance manager at Crawford & Russell Inc., Stamford, Ct. Mr. Halley, 36, is responsible for the entire insurance program of the chemical and processing plant contractor, including property/casualty and employe benefits. He said he reports informally to several top executives, including the president while they were together on a two-week junket to South America early last month. Usually though, he reports to Robert Zbell, vp-controller. Mr. Halley replaced **Michael F. McCarthy,** now the director of insurance at ITT Rayonier Inc. in New York.

* * *

Arthur Bostwick, past president of the Chicago RIMS chapter, is taking over the insurance reins at Chicago's Liquid Carbonic Corp. from **Karl W. Goetter,** who is retiring soon. Previously the director of corporate insurance at McGraw-Edison Co., Elgin, Ill., Mr. Bostwick became manager-corporate insurance April 1, responsible for the compressed gas company's property and casualty program. He reports to R.A. Runge, senior vp of finance.

* * *

Gene A. Bulgrim was named to the newly created position of corporate insurance administrator for Midland-Ross Corp., Cleveland. He was formerly with Kemper Insurance Co. at its headquarters in Long Grove, Il. Mr. Bulgrim reports to Gary A. Thesling, treasury financial manager of Midland-Ross. In his new position, Mr. Bulgrim is responsible for all property and casualty programs. ■

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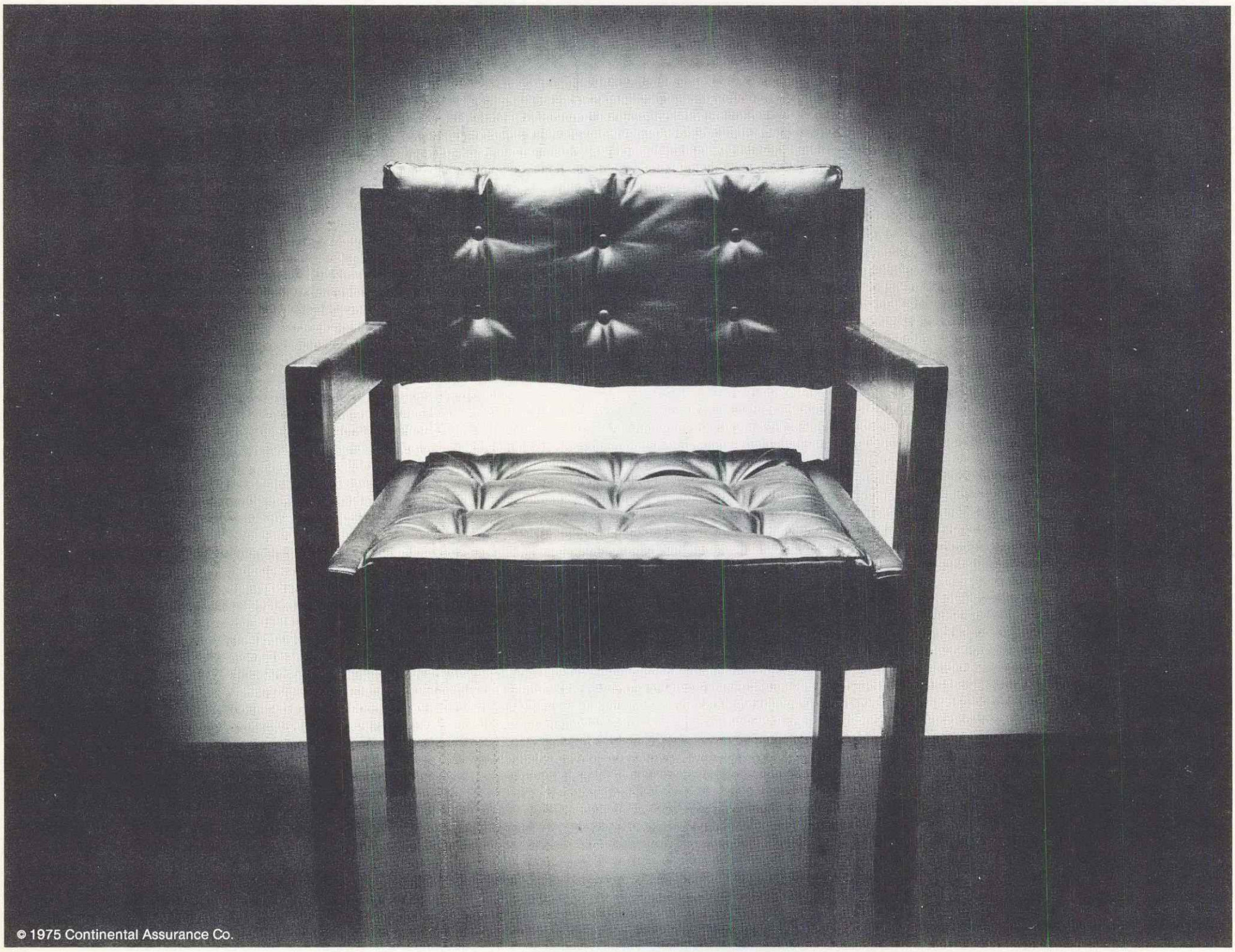
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