Retailer foregoes gadgets, uses people for security

By MARGARET LeROUX

NEW YORK—The problem is shoplifting, and it's costing retailers to the tune of $1.5 billion per year, according to the National Retail Merchants Assn.

How one retailing giant, Allied Stores Corp., with 142 department and 16 discount stores stretched country wide, handles this serious loss problem reflects an uncommon attitude in the market.

Rather than rely on sophisticated gadgetry such as sensorized alarm-triggering tags hidden on merchandise, Allied maintains that "a knowledgeable, well-screened security staff is the most practical approach" to deterring shoplifters, Fred Van Lieu, corporate risk manager, said in an interview.

There are just too many bugs still in merchanized anti-shoplifting devices, Mr. Van Lieu maintains. "We've tried several types, but sales people would forget to remove them . . . sometimes alarms would short circuit," he pointed out.

"Our security people do a very creditable job," handling the shoplifting problem, Mr. Van Lieu commented. "The fact that our merchandise shrinkage has remained steady, instead of increasing, is a sign they're doing their job."

In handling the shoplifting hazards as well as other department store risks, Allied's program of risk management includes heavy doses of cost control added to loss control.

"Every loss control measure we've proposed has had to be sold to hard-nosed management personnel," Mr. Van Lieu explained, "and they want to know the probable return on their investment. Only this way do you get the most efficient use out of loss preventive efforts."

Allied's efficient program of loss control divides the merchandising corporation's risk exposures into four basic

Continued on page 114

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Insurer has already covered $4.3 million Purolator heist

By ELISABETH M. WECHSLER

CHICAGO—Purolator Security Inc. has already reimbursed its customers who suffered losses in the $4.3 million robbery of its Armored Express Co. division facility here late last month. Purolator filed an immediate claim with Commercial Union Assurance Co., which was honored, for the record-breaking U.S. heist.

"It's back to business as usual," according to Joseph I. Woods, senior vp of Purolator's central region. "If anyone is worried about recovering the money, it's the insurance company," he said. The money has been traced to an unidentified Swiss bank, one of 178 on Grand Cayman Island in the British West Indies. But FBI investigators say it may take years for the money to be recovered because of stringent and secret banking procedures there.

PUROLATOR IS insured for broad liability losses "up to $50 million for any one shipment or incident," Mr. Woods explained. He declined to disclose the policy's "modest" deductible.

Part of the risk is believed to be reinsured by Commercial Union with Lloyd's of London, according to Mr. Woods. Frank B. Hall & Co. Inc. is Purolator's insurance broker.

PUROLATOR'S policy expires in January. Mr. Woods said he thought the premium "probably would go up," when the policy is renewed, but he thought any increases would be applied "equally, on an industry-wide basis. This is a high risk business," Mr. Woods said, "and everyone has had their share of problems."

Robert A. Perham, vp of insurance for Purolator Services Inc., based in Long Island, N.Y., said he wasn't sure "what, if any, increases might be forthcoming in January" and questioned whether they would be applied to other security firms.

"Until this is settled, it's premature to speculate on what will be done," Mr. Perham said.

And that could take years. The island has a worldwide reputation in financial circles as a tax shelter. No income taxes are imposed on any deposits and banking procedures are conducted in secrecy. Thus, it is virtually impossible for authorities to find out the names of depositors and amounts on deposit.

Mr. Woods identified the following customers and the amount of losses which Purolator has reimbursed:

- Hawthorne race track in Stickney, Il.—$1.5 million;
- Merchandise National Bank, Chicago—$1,165,000;
- Central National Bank—$548,000;
- Ford City Bank—$300,000;
- Exchange National Bank—$66,000.

ANOTHER INSTITUTION, Standard Federal Savings & Loan Assn., lost over $400,000 in cancelled checks, according to Mr. Woods. He said Purolator would pay part of the $3,500 cost to reconstruct the checks "if they are not too badly damaged" so that the one loss would be minimized. The checks were destroyed by a fire set in the vault apparently to divert attention from the robbery.

Most customers had deposited cash with the Armored Express facility over the weekend of Oct. 19-20 for eventual deposit in the Federal Reserve Bank. The rob-

Continued on page 2

Luigi DiFonzo is shown in custody of officers after he was arrested in Grand Cayman Island in connection with the $4.3 million Purolator theft.

National health plan

Voter upsets virtually assure bill's backing

By RICHARD L. GORDON

WASHINGTON—Election upsets in Virginia and Colorado ousted from the House and its ways and means committee two important opponents of liberal-backed national health insurance proposals.

Absent next year will be Reps Joel T. Broyhill (R-Va.) and Donald G. Brotsman (R-Co.). Both men supported positions backed by the American Medical Assn. in crucial national health insurance votes in the committee last September.

Two other Republicans, Reps. Harold R. Collier (R-Il.) and Charles E. Chamberlain (R-Mi.) will not return in 1975 because of retirement.

RETIREMENT ALSO will remove Rep. Martha W. Griffiths (D-Mi.), sponsor of the labor-backed Health Security Bill, from the committee. Another Democrat, Rep. Hugh L. Carey (D-N.Y.), will not return next year because he was elected governor of New York.

Replacements for these committee members will not be named until Congress reorganizes in January.

A national health insurance program is considered likely to pass Congress next year, but no one is speculating yet what form it will take.

In other areas, Sens. Russell B. Long (D-La.) and Abraham Ribicoff (D-Cn) were both reelected. They are sponsors of the popular Long-Ribicoff catastrophic health insurance bill introduced in the Senate.

SEN. RIBICOFF will also be in Congress next year to pursue his efforts to make utilities liable for damage caused by the theft of nuclear materials from generating plant facilities. His attempt to attach that liability to current nuclear insurance law failed this year.

Sen. Long is also expected to continue his efforts on behalf of employe stock ownership plans (ESOPs), a new type of employe benefit designed to widen corporate ownership among employes.

Sen. Peter Dominick (R-Co.), a frequent critic of the Occupational Safety and Health Administration (OSHA), was defeated by Democrat Gary Hart, campaign manager for Sen. George McGovern's presidential campaign in 1972.

Sen. Richard Schweiker (R-Pa.), who has urged that James Day be dumped as head of the Mining Enforcement and Safety Administration (MESA) (*Business Insurance*, Sept. 2, 1974), has been returned for another term. ■

Risk Management Insurance Services

AN INDUSTRY WHICH ten years ago essentially provided insurance as its primary product—indeed, its sole product—is now reorienting itself to the demands of a service economy.

The insurance industry, along with the many insurance-related businesses which have sprung up around it, now sees service as its key tool in the marketplace. The needs of more sophisticated risk managers and increasingly complex corporations dictate that those suppliers of products bought by risk and insurance managers merchandise their skills as specialists, advisers, claims handlers just as hard as they promote their hardware and policies.

To some, this change is only a response to the trend toward corporate self-insurance and non-insurance, producing a long term forecast of a diminishing market for insurance, per se. To others, the shift toward insurance-related services is clearly a move to broaden the base of customers and unbundle prices while moving to a fee system.

We are focusing on this evolution of the commercial insurance industry into a wide variety of service suppliers in our first annual risk and insurance services issue. Our spotlight section now will evolve into a full special issue in 1975. We've profiled the markets for services on pages 65 through 82.

Work safety regulation moved employers to improve their safety programs, often requiring them to contract for safety consulting services and OSHA compliance inspection services. Corporations turning to self-insurance or noninsurance as cost saving devices are using automated recordkeeping services. Risk management consultants find their services in demand for insurance audits and special risk management projects.

Instead of establishing large internal property engineering staffs, insureds are looking to property protection specialists for their services.

The trend toward self-insured workers' compensation programs is boosting the market for administrative services.

Employe benefits managers are looking to outside consultants and even brokers and underwriters for benefits services ranging from administrative help to benefits planning assistance and production of communications programs.

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CNA slashes commercial book by

business in the national account division as well as in other areas," CNA said, adding that the com-

in this issue

Steven E. Schanes named to head Pension Benefit Guarantee Corp.

WASHINGTON — Steven E. Schanes, a former vp with Martin E. Segal Co., now a Commerce department employe, has emerged as the final choice to be executive director of the Pension Benefit Guarantee Corp. (PBGC).

Mr. Schanes, 50, is to replace Charles Skopic, who has served as acting executive director since PBGC was created by the pension reform law on Sept. 2. Mr. Skopic will continue "in a responsible position," PBGC officials said.

PBGC is the new federal corporation formed to reinsure private pension benefits in the event of plan terminations where there are insufficient assets to pay off vested liabilities.

Waiting for Mr. Schanes when he takes over are PBGC's already bulging files of more than 270 pension termination notices, including 207 of the pre-enactment date terminations that were made possible by retroactive coverage of some pension plans under the pension reform law.

ALSO HOVERING over PBGC is the imminent termination of the Anthracite (Coal) Health and Welfare Fund, the first multi-employer pension plan to express interest in coverage under the pension reform bill (*Business Insurance*, Oct. 28.)

Coverage of benefits for multi-employer plans is at the discretion of PBGC until Jan. 1, 1978, at which point they are automatically covered.

It's unclear just how influential a policy maker Mr. Schanes will be at PBGC, although it's widely known that much of PBGC's workload has been held up pending his appointment.

He will work with PBGC's board of directors, a troika consisting of the Secretaries of Labor, Treasury, and Commerce. Policy making is also to be influenced by a seven member advisory board, not yet appointed, that will consist of two members each from business and labor and three public representatives.

Mr. Schanes is not unfamiliar with the pension law. From 1969 to 1971, he represented the Commerce department in development of the draft bills as special assistant to the Commerce secretary for policy development.

For the past two and one-half years, however, Mr. Schanes has been assigned to the National Oceanic and Atmospheric Administration as U.S. Commissioner to the Inter-American Tuna Commission. He has a PhD. in international relations from Cornell University.

MR. SCHANES became director of the New Jersey state division of pensions in 1952, and served in that role until 1958. During that time he consolidated numerous local pension funds into a single administrative structure, covering 120,000 employes.

He also drafted legislation which resulted in funding previously unfunded liabilities for pensions for 30,000 public employe war veterans and in Social Security coverage for state and local government employes.

In 1958, Mr. Schanes joined Martin E. Segal Co. as a specialist on matters concerning public employe pension funds.

Prior to joining Segal, he had already served as president of the National Association of State Social Security Administrators and vp of the National Association of State Retirement Administrators.

At Segal, "He was heavily involved in handling our public employe systems," Robert Tilove, Segal senior vp, told this magazine.

HE PARTICIPATED in a two and one-half year study of the New York City public retirement systems that led to an eight volume report, Mr. Tilove said.

Mr. Schanes was also involved in studies for the state of Conneticut and did work for the state of Kansas. "He was our first account executive for the state of Hawaii," Mr. Tilove said.

He also has spent some time in academic areas, holding the post of Academic Dean, Professor of Political Science, and chairman of the Division of Economics and Business Administration at the University of San Diego.

Some labor officials expressed cautious surprise that a labor department staff man didn't get the job, but other sources indicated there were few qualified, interested labor department employes who considered the post.

In fact, said one source, Mr. Schanes' name tumbled out of the federal government's computerized manpower files during a routine search for individuals with the qualifications PBGC needed. ■

Vets lament lack of care in retirement

NEWPORT, R.I.—Military medical benefits promised as a career incentive have shrunk markedly with Navy cutbacks in Rhode Island and adjoining Massachusetts, Navy retirees complained at the fourth annual Retired Navy Personnel Seminar at the Naval Education and Training Center.

Some 1,800 residents of the two states attended.

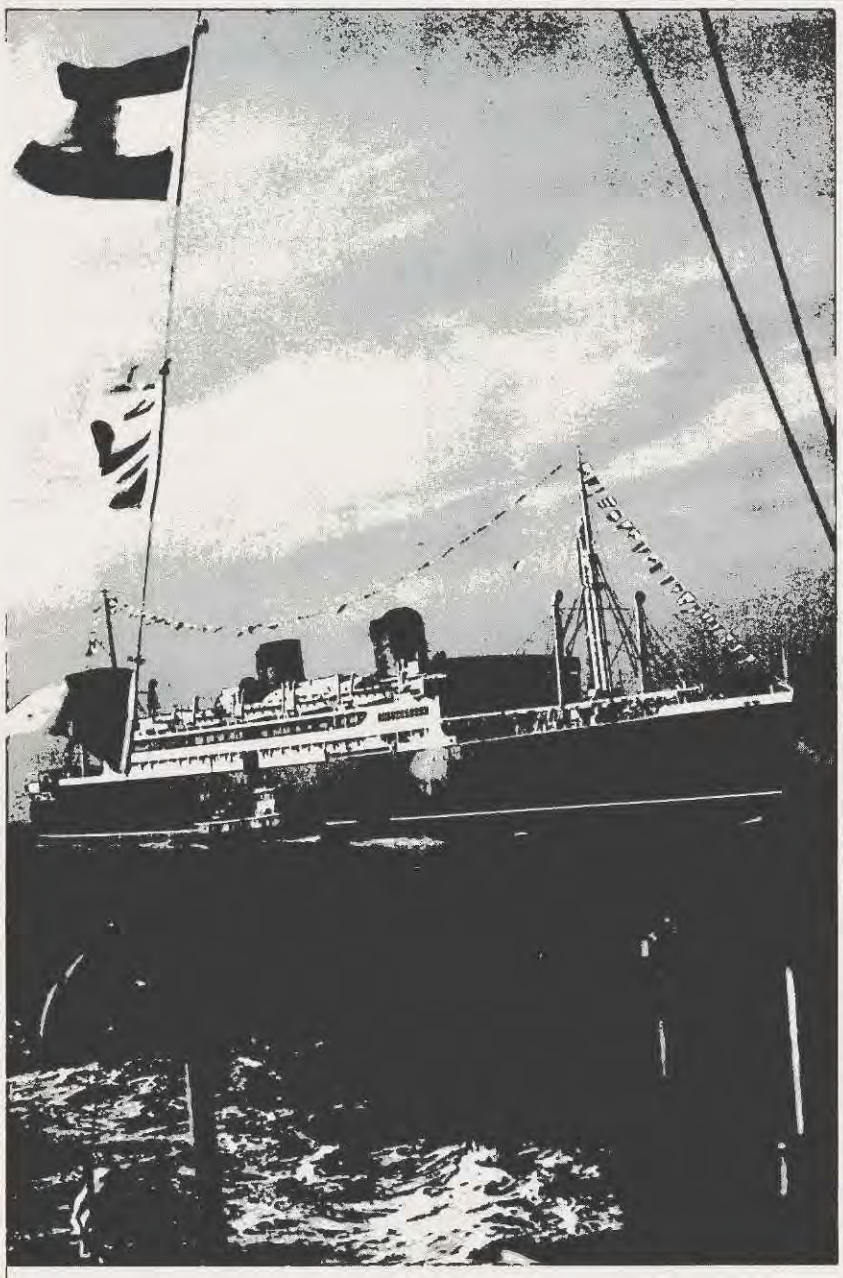
One man asked, "What good is CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) if you can't find a doctor who participates in the program?"

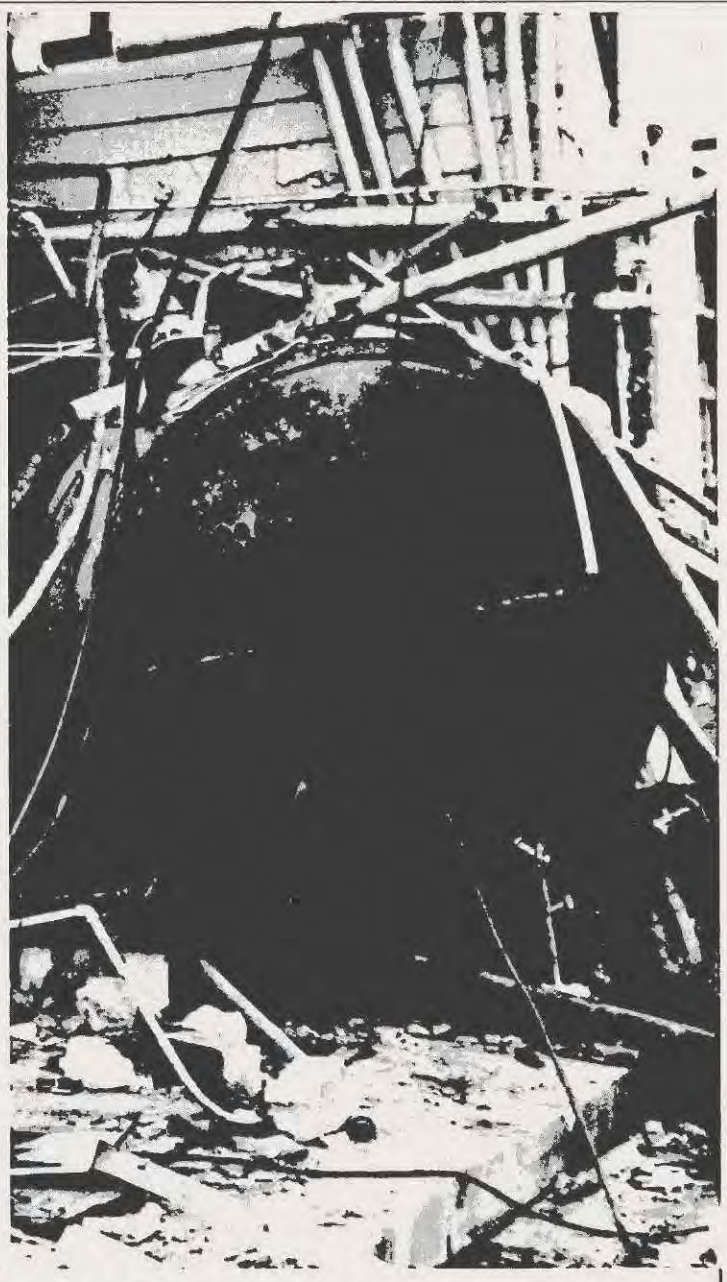
"I have no answer," Lt. Jud H. Knox, health benefits-outpatient services officer at the Newport naval regional medical center, responded. The officer conceded that Navy cutbacks—i.e., closings of the Chelsea Naval Hospital, Boston, and Quonset Point (R.I.) Naval Hospital, among other facilities—have made area military health care less accessible.

MEDICAL CARE at military facilities is either provided on a free basis or carries minimal charges, the situation dependent on type of treatment and patient's status as a retiree or dependent.

Robert W. Nolan, national executive secretary of the Fleet Reserve Assn. opined that some problems developed from unforeseen circumstances.

The Navy's retirement promises of 40 years ago, he remarked, "were made in good, honest faith. No one at that time could have envisioned that retired persons would outnumber active duty personnel in the 1970's, or that the economy would push the cost of benefits so high." ■





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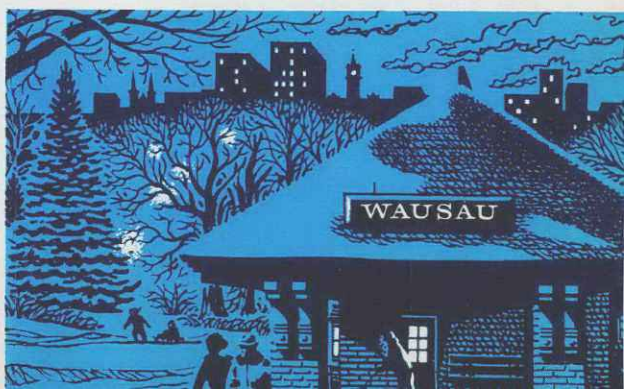

washington watch

Government health insurance bill to jump to $1.92 billion in 1975

By RICHARD L. GORDON

WASHINGTON—The federal government will swallow a 15% increase in health insurance costs in 1975 for its 2.8 million civilian employes and their dependents, a total of about nine million persons.

That translates to a 1975 health insurance premium of $1.92 billion for the government, probably the largest single purchaser of health insurance in the country. The 1974 premium bill was $1.67 billion.

The cost is shared by the government and its employes, however, but the government's share of that cost split is going up also.

The government next year will pay for 60%, up from 50%, of the average high option premium for the six largest plans in the federal employe program. These are Aetna, Blue Cross-Blue Shield, The National Association of Letter Carriers, the American Postal Workers Union, and the Kaiser Northern California and Southern California Plans.

OFFICIALS OF the U.S. Civil Service Commission, which negotiates the health insurance policies for the government, said they were satisfied with the 1975 pact despite the increase.

"Only 10% of the overall cost increase is due to an actual increase in premium rates," said Tom Tinsley, director of the Civil Service Bureau of Retirement, Insurance, and Occupational Health. "The remaining five percent is due to increased enrollment.

"And the 10% rate increase really reflects the increase in actual medical costs," he said. This is because the government has stiff requirements on just how much can be spent on administrative costs.

"Blue Cross-Blue Shield, for example, is limited to no more than 4.5% of premium for administrative costs," Mr. Tinsley said. Aetna, the largest commercial carrier used, is limited to 4% of premium for administrative expenses, "and they are probably somewhat under that figure now," according to Mr. Tinsley.

"We represent about 7% of the Blues total nationwide business," he said. "We're their largest group contract."

Despite the higher overall costs, the government's higher share of the premium bill will reduce employe paid premiums next year for most federal workers.

FOR EXAMPLE, an employe with familiy coverage under the Aetna high option will have his take home pay increased by nearly $71 a year as the result of the reduction in premium withheld from his pay, the Civil Service Commission said.

Similarly, those with family coverage under the Blue Cross-Blue Shield high option will realize an increase in take home pay of nearly $63 next year.

One question that has been answered with the finalization of the 1975 health insurance package is this: the "rich" mental health benefits package provided federal employes is being reduced, although not as much as some had feared.

Blue Cross-Blue Shield officials had protested the soaring costs of this package during closed door bargaining sessions with federal officials last month. (*Business Insurance*, Sept. 30, 1974)

Under its high option program, Blue Cross-Blue Shield covered 80% of all doctor's fees, after a $100 deductible, and 100% of any inpatient hospitalization fees, a mental health program considerably more comprehensive than most offered by private employers.

Costs of the program, however, had soared to 10% of total claims from five percent when it was initiated in 1967. That means $100 million a year for mental health claims out of approximately $1 billion in claims.

ABOUT 91% of Blue Cross-Blue Shield subscribers took the high option policy. The Blues covered about 60% of the federal workforce. About 10% of those covered created claims; about 1% of the claims were for mental health care.

Blue Cross-Blue Shield reportedly had proposed slashing the program to cover only 50% of all doctor's fees and a 45-day annual limit on hospital care.

That potential cut was trimmed considerably in the final agreement to include only a $50,000 lifetime limit, beginning in 1975, on supplemental benefits payable for covered care of mental illness.

Aetna, which covers about 20% of the federal workforce, however, did some more severe trimming. In 1975, only 20 outpatient therapist visits will be covered per person, or twice that number if treatment is in a community health center.

Aetna inpatient hospital benefits were unchanged.

One possible reason for the mildness of the mental health benefits cuts apparently is an approaching agreement between the health insurance underwriters and the psychiatric profession on peer review and other cost controls to cut down on abuses.

"We have formed a task force on claims adjudication in this area," a Blue Cross-Blue Shield spokesman said. "and we're encouraging more relationships with local psychiatric groups.

"So far, it's mostly been talk. The psychiatrists have said they were agreeable to the idea, however," the spokesman said.

ANOTHER IMPORTANT benefits change is that beginning in 1975 Blue Cross-Blue shield will no longer cover private duty nursing care for hospitalized patients. Aetna will continue to provide these benefits.

Six new health plans were added to the approved list for federal employes in 1975, bringing the total number of approved plans to 46.

The new plans are all group practice or health maintenance type plans. They are Arizona Health Plan, Phoenix; De Paulb Health Plan, Santa Monica, Ca.; Michael Reese Health Plan, Chi-

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cago; Union Health Service Plan, Chicago; Lovelace-Bataan Health Program, Albuquerque, N.M.; and University Affiliated Health Plans Inc. of Washington, D.C.

Some individual premium rate increases for the federal plans include the following (high option, family coverage figures used):

- Blue Cross-Blue Shield—$31.81 biweekly, up 9.7% from $28.97 in 1974. The government pays $18.93; the employe, $12.88, down $2.42 from the 1974 employe share.
- Aetna Life Insurance Co.—$28.70 biweekly, up 9.6% from $26.17 in 1974. The government's share is $18.93; the employe's is $9.77, down $2.73 from the employe's share in 1974.
- National Association of Letter Carriers (self-insured)—$28, up 17.8% from $23.75 in 1974; the government's share is $18.93; the employe's is $9.07, down $1.01 from the employe share in 1974.
- American Postal Workers Union Plan AFL-CIO (self-insured)—$36.40, up 36.7% from $26.61 in 1974. The government's share is $18.93; the employe's share is $17.47, up $4.53 from the employe's share in 1974.

The two self-insured plans had above average increases because "with their reserves, you have to be a little more careful" the Civil Service Commission's Mr. Tinsley said. "They can't dig themselves in a hole, so you can't cushion cost increases like the Blues or Aetna's."

For all of its plans, the federal government retains 12% of the money collected for its own health insurance reserve fund.

Generally speaking, the increases for the approved HMO-type plans were about the same, or less, than the increases for Blue Cross-Blue Shield and Aetna.

This is partly due to the fact the HMOs are community rated, rather than on the experience of the federal group alone. ■

Pension reform poses spectre of future demands on employers

CHICAGO—Not only do employers have to worry about compliance with the pension reform act, they have to take into account what effects the new law will have on their employes' future pension demands, says Stanley M. Rosow, a Hewitt Assoc. partner.

"Unless we move beyond technical compliance with the law, we will be faced with the unmet expectations of employes," he said.

Speaking at the 40th annual midwest Conference on Industrial Relations here, Mr. Rosow predicted that one effect of the pension law will be a widespread adoption of individual retirement accounts (IRAs) by employes to avoid the potential forfeiture of vested benefits when they change jobs, if they die before they collect their benefits.

And when employes get used to taking control of their own pension money, it will be "quite likely" that the next amendment to the pension law will bring "full portability of benefits," he said.

WHAT THIS MEANS for employers now is that immediate vesting may be necessary to satisfy the expectations of employes, he explained. "The pressure will be on for immediate vesting, mainly for emotional reasons," he said.

Because it is assumed that interest will accrue during the years left before retirement, the sum that an employe takes with him may be perceived as much smaller than he expected, Mr. Rosow explained. If benefits are not immediately vested, this transferable amount will be even less, he said.

Immediate vesting may be preferred for another reason. A company that has a high turnover rate for employes with one to three years of service might benefit from immediate vesting because participation can then be postponed for three years, he said. Thus, the company would save administrative costs, such as recordkeeping and plan termination insurance payments, that are incurred when participation begins after one year, Mr. Rosow explained.

"If the bulk of the turnover occurs between one to three years, immediate vesting doesn't add any costs because the employes who stay are the type that would stay until retirement," he asserted.

EMPLOYES WHO LEAVE after they accrue some benefits will cause another headache for employers, Mr. Rosow said, because of the pension law's funding requirements.

When an employe returns to work, he picks up previously accrued benefits unless the break in service is longer than the amount of time worked before the break. The result is an actuarial loss for the plan if those previously accrued benefits were written off, and counted as an actuarial gain, when the employe left.

Under the new law, an actuarial loss must be amortized over 15 year, rather than the 30 years allowed for normal unfunded liabilities. What this means for employers, according to Mr. Rosow, is that they may prefer to continue funding benefits when an employe leaves. If a significant number of employes are involved, having to fund their benefits over a shorter period may make an important difference, he said.

The conference was sponsored by the Industrial Relations Assn. of Chicago and the graduate school of business, University of Chicago. ■

Foreign safety winner on tour

WASHINGTON—The winner of a Swedish industrial safety award met with businesss and federal government safety officials this month as part of a U.S. tour.

Roger Christofferson won the prize for initiating industrial safety education programs in Swedish schools. He is senior safety officer at Sunds AB, Sundsvall, Sweden, which manufactures machinery for paper mills.

The award and tour were sponsored by a leading Swedish safety publication, Arbetsmiljo, and Bilsom International, manufacturer of hearing protection devices. ■

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Annual benefits communications awards contest to kick off Jan. 1

NEW YORK—The third annual *Business Insurance* Employe Benefits Communications Awards Competition will be opened Jan. 1 when entries will be accepted. Awards will be presented at a luncheon during the American Society of Insurance Management's annual risk management and employe benefits conference next spring in Dallas.

Top winners in last year's competition were DeSoto Inc., Hunt-Wesson Foods Inc. and Pfizer Inc.

The competition is open to employers and others involved in the communications process, including employe benefits communications consultants. Consultants will receive recognition of their work on behalf of clients.

Entries may be in one or more of four categories: booklets, personal communications such as letters and computerized benefits statements, audio-visual materials, and total communications program. The latter may be a combination of any or all of the other categories, as well as other elements in an effective employe benefits communications program.

ALL MATERIAL submitted will be judged by a panel of experts in communications, though not specifically involved in the communication of employe benefits. Judges will be chosen by the editors of *Business Insurance*.

Awards will be made on the basis of graphic appeal, effectiveness of copy, the amount of information provided, continuity of communications, and use of novel techniques in communicating the benefits.

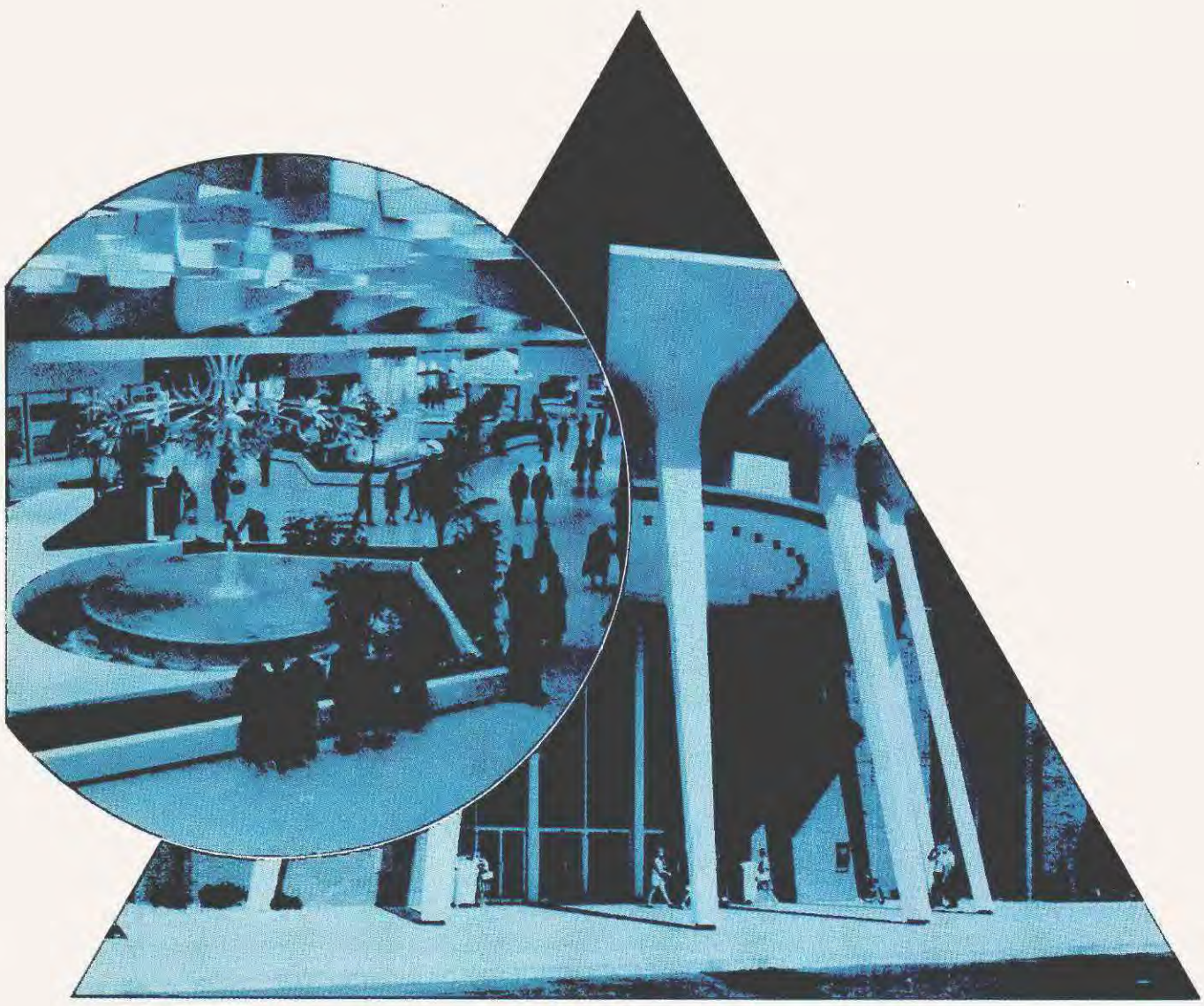
Entries may be submitted anytime after Jan. 1. No entries will be accepted after Feb. 24. The presentation of awards is set for April 22, a Tuesday, at ASIM's annual conference in Dallas.

Entry blanks, rules and other material relating to the competition may be obtained by filling out the coupon on this page.

DeSoto Inc. won first place awards in two categories last year, booklets and audio-visual presentation. Pfizer won top honors for its total communications package. Hunt-Wesson took highest honors for personalized correspondence.

Also recognized were consultants A. S. Hansen Inc., for work with DeSoto, and Hewitt Associates, another consulting firm, for its work with Hunt-Wesson.

Names of judges for the 1975 competition will be announced at a later date. ■



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New disease of hand seen in toll takers

NEW YORK—The Triborough Brige and Tunnel Officers Benevolent Assn. has long worried about the dangers of carbon monoxide and other pollutants on its members. Now, some union members working the Verazzano Narrows Bridge have turned up with a strange new ailment.

"As a cop's occupational hazard, you've heard of flat feet. Now you can add to the list horrible hands," union president Anthony Mauro said.

"It seem that three of our officers all came up with the same type of hand disease all in the left hand which they use to collect tolls when they're assigned to toll duty," he said.

The symptoms include some swelling, scaling of the skin and roughage of the hand.

MR. MAURO SAID it's not just from having the hand out in bad weather. "All of these cases have popped up in the last three months or so, and that was summer."

The ailment could be coincidental. Medical reports aren't in yet. But, the union president thinks the officers may be coming in contact with a Staten Island version of Typhoid Mary.

"One of the patrons coming through has a disease of some sort, or might be passing along some coins or dollar bills dipped in something that is causing the problem."

As a precautionary measure, it has been suggested that toll takers wash their hands with an antiseptic between toll duties. ■

The jackpot hit her

RENO, NV.—Lilian Rosener of Los Angeles, Ca. filed suit in federal court recently against Harrah's Casino of Reno demanding $500,000 damages for injuries suffered when an employe emptying a slot machine slung a bag of silver dollars over his shoulder, hitting her on the head.

A recent survey says many big firms have hard-nosed questions about what insurance carriers should do for them.

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DC10 crash liabilities soar beyond $100 million

By JUDI TALIT

NEW YORK—Enormous liabilities arising out of a DC10 plane crash last March are producing complicated product liability suits and countersuits against the aircraft's manufacturer, the airline whose plane went down in Paris, and suppliers of equipment in the DC10.

Earlier predictions that damage suits could go as high as $30 million (*Business Insurance*, April 1) are now known to be low.

More suits have been filed since that time, asking more than $100 million, according to McDonnell-Douglas Corp.'s lawyer.

Survivors of passengers killed are suing McDonnell-Douglas and Turkish Airlines. Turkish Airlines is suing McDonnell-Douglas. Passengers and McDonnell-Douglas are suing General Dynamics Corp. General Dynamics is countersuing McDonnell-Douglas.

THE CASE BETWEEN General Dynamics Corp., subcontractor for DC10 parts, and McDonnell-Douglas Corp., manufacturer of the DC10, is presently before the California courts. The suit charges negligence and fraud.

General Dynamics contends that its concerns about the DC10 design were brought to the manufacturer's attention. However, McDonnell-Douglas, in its countersuit against General Dynamics, shifts the liability to the subcontractor.

"We're saying that they're the experts and had the obligation to call our attention to any discrepancy in design," McDonnell-Douglas' lawyer, James FitzSimons, said.

An extensive failure analysis was reportedly given to the manufacturer by the subcontractor, naming possible dangers. A major finding was that a sudden loss of a cargo door would lead to collapse of the passenger cabin floor, the cause of the Turkish Airlines crash last March.

General Dynamics is also being sued by the passengers.

Turkish Airlines, which bought the DC10 from McDonnell-Douglas, is suing the manufacturer for $35 million. The suit charges the manufacturer with producing an "aircraft defective in design and manufacturing."

McDonnell-Douglas has a cross-claim against the airline charging "misuse of the aircraft and modifications unauthorized and improperly carried out," a Turkish Airlines attorney said.

The limit of the countersuit is still vague, according to the lawyer. The claim is "for indemnity for any amounts McDonnell-Douglas has to pay passengers' representatives," it was said.

McDonnell-Douglas' liability is unlimited in this case, the lawyer said. "There is no limit on what the damages could be," he said.

HOWEVER, THE airline's liability is limited, he added. "In virtually all of the cases, the limit is $20,000 per passenger unless the court decides the limit shall not apply," the attorney noted.

Presently there are 346 passenger suits against McDonnell-Douglas. Los Angeles federal district court Judge Hall ruled that this litigation can proceed as a class action. However, this issue is on appeal. If the passenger representatives cannot file a class action, then each individual will bring actions.

The judge ordered a liability trial for April 7, 1975.

Another suit is being filed by the crew members' families, on behalf of the crew members who died in the crash.

McDonnell-Douglas is also suing the government, Mr. FitzSimons said. "The plaintiff claims negligence with respect to duties of the Federal Aviation Administration."

It is difficult to assess the actual number of suits now in the courts. Further, "it is difficult to assess the total number of suits against McDonnell-Douglas. Some suits are filed with multiple claims. One has 42 claims," an attorney said.

At the time of the crash, the manufacturer had product liability coverage of $150 million (*Business Insurance*, March 18).

SINCE THEN, the company has upped its limits. A source insisted that limits were not raised because of the disaster but as a sign of present insurance trends.

The hull of the aircraft was insured for $20 million. At least 80% of the coverage on the hull was with the London market.

The crash caused the death of all 346 passengers aboard the Turkish Airlines jet. The plane had taken off from Paris just moments before, headed for London. It dove from about 12,000 feet, plunging into a thick forest. Suspicions of sabotage were rejected when the rear cargo door was found nine miles from the wreckage.

The manufacturer of the DC10 claims changes were made prior to the crash to avoid such a disaster. After a near crash in Detroit of another DC10 in June, 1972, several changes were made in the cargo door that were intended to avoid any further accidents.

However, evidence points out that the critical brace or support plate, which would have avoided the March disaster, was not installed. McDonnell-Douglas acknowledged this. The company contends that a companion device, involving a rerigging of wires and tubes that would close the cargo door, was installed.

In court, McDonnell-Douglas charged that Turkish Airlines altered the rigging device after it received the airplane.

McDONNELL-DOUGLAS has decided to make further changes in the DC10 to avoid another disaster, with an elaborate system of pressure relief vents and a stronger passenger cabin floor. Introduction of this new system will not affect older DC10s. The system will be built into the jets coming off the line about a year from now.

The decision to implement such a system is not an admission that the DC10s now being flown are "faulty or marginal" in design, McDonnell-Douglas said. The company still contends that the aircraft cargo door has always been safe, when properly maintained and operated.

"There are other, more possible causes of rapid decompression in any pressurized aircraft, such as explosions collision and machinery disintegration. It is against these potential occurrences, however remotely possible, that our changes are designed to increase protection," a company spokesman explained.

The decision to improve the DC10s added new fuel to the heated debate within the industry over the need to revise federal engineering rules and standards for modern aircraft. The FAA will hold a conference in December to discuss the issues. ■

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HMO study reveals most groups looking forward to federal funding

MINNEAPOLIS—Federal help for health maintenance organizations (HMOs) is seen as an advantage by more HMOs in the formational or planning stage than by those that are now operational, a recent survey shows.

Of the 90 HMOs in the process of becoming operational, 52% see federal grants, loans, contracts and loan guarantees as a significant advantage, while only 36% of the operational HMOs said they would gain these advantages if certified under the federal HMO Act, the survey showed.

Preemption of restrictive state laws and practices was deemed important by 31% of the formational or planned HMOs but only 12% of the operational HMOs felt the same way, the survey indicated

Responses to the survey came from 90 out of the 292 HMOs that are in the formational or planning stage according to the files of InterStudy, a Minneapolis-based, non-profit independent research facility that specializes in HMO policy analysis. The survey was conducted in July by InterStudy as part of its quarterly census of HMOs in the United States.

Certain disadvantages of federal certification also received a varied response. Providing a minimum benefits package was deemed a significant disadvantage by 28% of the non-established HMOs, while only 12% of the HMOs in operation indicated the same opinion.

THE SUPPLEMENTAL services requirement for HMO certification drew a negative response from 19% of the pre-operational HMOs and only 9% of the existent ones, but a greater number of operational HMOs expressed concern with the difficulty of meeting open enrollment and community rating requirements. These requirements were seen as a significant disadvantage by 40% of the HMOs in operation but only 32% of the ones in the formational or planning stage felt the same way.

A greater percentage of operational HMOs than formational and planned HMOs felt that the HMO Act is more restrictive than the state laws now regulating their organizations (62%, as opposed to 52% of the pre-operational HMOs), the survey showed.

ALSO, FEDERAL certification will be sought by more operational HMOs than the other group. Of the existing HMOs, 51% said they would apply for a certification, versus 42% of the formational or planned HMOs that said they would. Perhaps more significantly, 4% of the operational HMOs said they would not apply for certification, while 17% of the other group indicated the same negative attitude.

Another survey conducted by InterStudy checked enrollment trends of 148 HMOs in operation as of July 1974 (the number has since increased to 177). Surveys were returned by 112 organizations, for a response rate of 76%.

Total enrollment for the 112 HMOs rose 12%, going from 3,658,631 in July 1973 to 4,099,462 in July 1974, the survey indicated.

HMOs formed in 1972 and 1973 reported the highest rates of growth. Enrollment in the 22 responding HMOs that were formed in 1972 rose from 136,582 in July 1973 to 182,183 one year later, an increase of 33.4%. But a 164.6% increase was reported by the 35 responents among the HMOs that were formed in 1973. Enrollment for that group went from 43,541 in July 1973 to 115,196 a year later. HMOs formed before 1972 showed enrollment increases of less than 10%, according to the survey.

THE INTERSTUDY report showed also that non-governmental employe groups make up the bulk of HMO enrollment (58%), with federal employes (10.1%) and individual enrollees (10.6%) comprising the next largest groups.

The plans that HMOs have for future enrollment follow the lines of their successes in the past, the survey reported. Eighty-six percent of the responding HMOs said they are planning future enrollments in the non-governmental employed group, and 90% of the HMOs with federal employes are planning to increase their enrollment during the next year.

ANOTHER GROUP that HMOs plan to tap is Medicare recipients; 73% of the responding HMOs said they would add enrollees from this category by July 1975.

The size distribution of HMOs was another part of the InterStudy survey. HMOs with fewer than 5,000 enrollees comprise the largest group (46%), with the next largest group (23%) having enrollments between 5,000 and 9,999.

A comparison of the July 1974 results with a December 1973 InterStudy survey shows that many of the HMOs with less than 5,000 enrollees in December moved into the next larger category by July. Enrollment in the smaller category went from 61% in December to 46% in July, while the larger category went from 11% to 23% in the same time period. Percentage figures for the larger enrollment size categories did not change significantly during this time, the InterStudy survey reported. ■

Jury awards $2.5m for malpractice; state high

By PAUL R. MERRION

CHICAGO—The record for the largest malpractice award in Illinois has been broken for the second time in two months with a whopping $2.5 million judgment against three doctors here.

The award exceeds the doctors' primary malpractice coverage, which is insured by Medical Protective Co., Fort Wayne, according to Bernard Harold, a company attorney for one of the doctors.

Only one doctor has any excess coverage, underwritten by INA Corp., the lawyer said.

The damages were awarded to Mr. and Mrs. Norbert Burrow, Chicago, and their daughter Deborah, who has been in a comatose state called akinetic mutism since she underwent an appendicitis operation more than five years ago. The jury awarded $1.5 million to Deborah and $1 million to her parents November 1.

THE DEFENDANTS were Dr. Edith Widder, the anesthetist, who carries a $200,000 primary policy and a $1 million excess umbrella; Dr. John B. O'Donoghue Jr., the surgeon who performed the operation and who has $200,000 in primary malpractice insurance; and Dr. Edward J. Winter, the consulting internist, who has a $100,000 malpractice policy.

Little Company of Mary Hospital, Evergreen Park, was named in the suit but was dropped after a directed verdict found the hospital to be free of negligence, a hospital spokesman said.

The suit said that Ms. Burrow was operated on July 9, 1969, at Little Company of Mary Hospital, and alleged that brain damage was suffered because the patient was not vented adequately. The allegedly insufficient provisions for her breathing resulted in an inadequate supply of oxygen to the brain. The suit also said that modern anesthesiology techniques were not used.

According to John Hayes, attorney for the Burrow family, the suit also said that insufficient notice was taken of the lack of potassium in Ms. Burrow's body, caused by the dehydration and subsequent rehydration of her body due to her diabetic condition. "Low potassium in the body renders the heart more susceptible to serious consequences, such as arrhythmia or even arrest, from inadequate oxygen in the blood."

The reason given by Mr. Hayes for the record-setting award was that "this child's life was devastated. 'High' is a relative term: I don't think $1.5 million is necessarily a high compensation—it will just about cover the costs of her medical care over the next 20 to 30 years. And her parents have been deprived of a daughter."

Mr. Harold, one of the company attorneys, said, "I'm sure we will make an appeal, based on lack of evidence and the excessiveness of the award." ■

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Employes around the world want increased pensions, better benefits

CHICAGO—Pension reform and Social Security increases are taking place all around the world, according to two international employe benefits experts.

Labor parties and unions are behind the push for better, more secure pensions and benefits, the experts said.

The 37th annual insurance conference, sponsored by the American Management Assn., was the site of a seminar on international employe benefits. Jan Hottinga, administrator of international employe benefits at Westinghouse Electric Corp., reported on developments in Europe. Larry Flowers, manager of international employe benefits at the Container Corp. of America, told the seminar what was happening to benefits in Latin Amercia.

Mr. Hottinga reported that England will have a new Social Security system by June 1978. At that time, the government will assume the costs of the escalation of benefits, but until then, employer contributions to the system will continue to rise, he said.

IN BELGIUM, increases in Social Security have recently been passed and pension reform legislation is being considered which would go into effect in 1978, according to Mr. Hottinga.

Pension reform will be legislated soon in West Germany, he said. Among the new provisions will be mandatory vesting after 10 years of service and 30 years of age. This is an unusual step in a country which has not had vesting requirements before, Mr. Hottinga said.

Other provisions include transfer of vested benefits, early retirement at 63 (with penalties), and non-reduction of pension payments when Social Security payments are increased, the international benefits expert said.

Switzerland also is legislating pension reform which will go into effect in January 1976. The new law will provide for 40% of the average of the last three years' salary after 20 years of service, Mr. Hottinga told the seminar.

Because of the continuous increases France is making in Social Security benefits and a costly shift in the eligibility age from 65 to 60, the Social Security system there "is running out of business," according to Mr. Hottinga. A rise in employer contributions is inevitable, he said.

SPAIN HAS APPROVED a pension law that will institute guaranteed pensions for the first time, Mr. Hottinga reported. Previously, Spain's underdeveloped condition meant that such things as pensions could not be considered, he explained, but now that economic conditions are improving there, attention can be focused on working for more than a subsistence level. The new law will provide for 100% of the average of the last two years of service, to a maximum of 392,000 pesetas ($6,664).

Mr. Flowers said the situation in Latin America is similar to that in Spain. The countries are emerging from a long period of underdevelopment, and with that emergence comes demands for increased benefits and deferred compensation.

In Venezuela there is a definite trend for pension reform, mostly because of labor union pressure, Mr. Flowers said. However, he said most workers "are more concerned with what's up front than what's deferred."

There is a "bad tax atmosphere" in Venezuela, Mr. Flowers reported. The country places a tax on pension fund earnings and deductions are not allowed for fund contributions, he said.

The most important trend in Mexico is an increased demand for group life insurance, Mr. Flowers told the seminar. This demand is caused mainly by a lack of Social Security death benefits, he said.

GENERAL ADVICE for employers with international operations was given by Cecil C. Gamwell, vp of the American International Life Assurance Co. of New York, who said business people should not panic when they have to deal with a foreign country.

"Assume that your employer has started a business in Iowa rather than Paris or Moscow," he said. "Your approach to international business shouldn't be any different than what you do in this country."

The next step is to gather information. Good sources of international employe benefit information include the 1974 edition of Social Security Abroad, the Employee Benefit Plan Review, the International Insurance Review and *Business Insurance*, according to Mr. Gamwell.

Finally, a broker must be found who operates in the foreign country and who uses the same terminology as the employer, he said. ■

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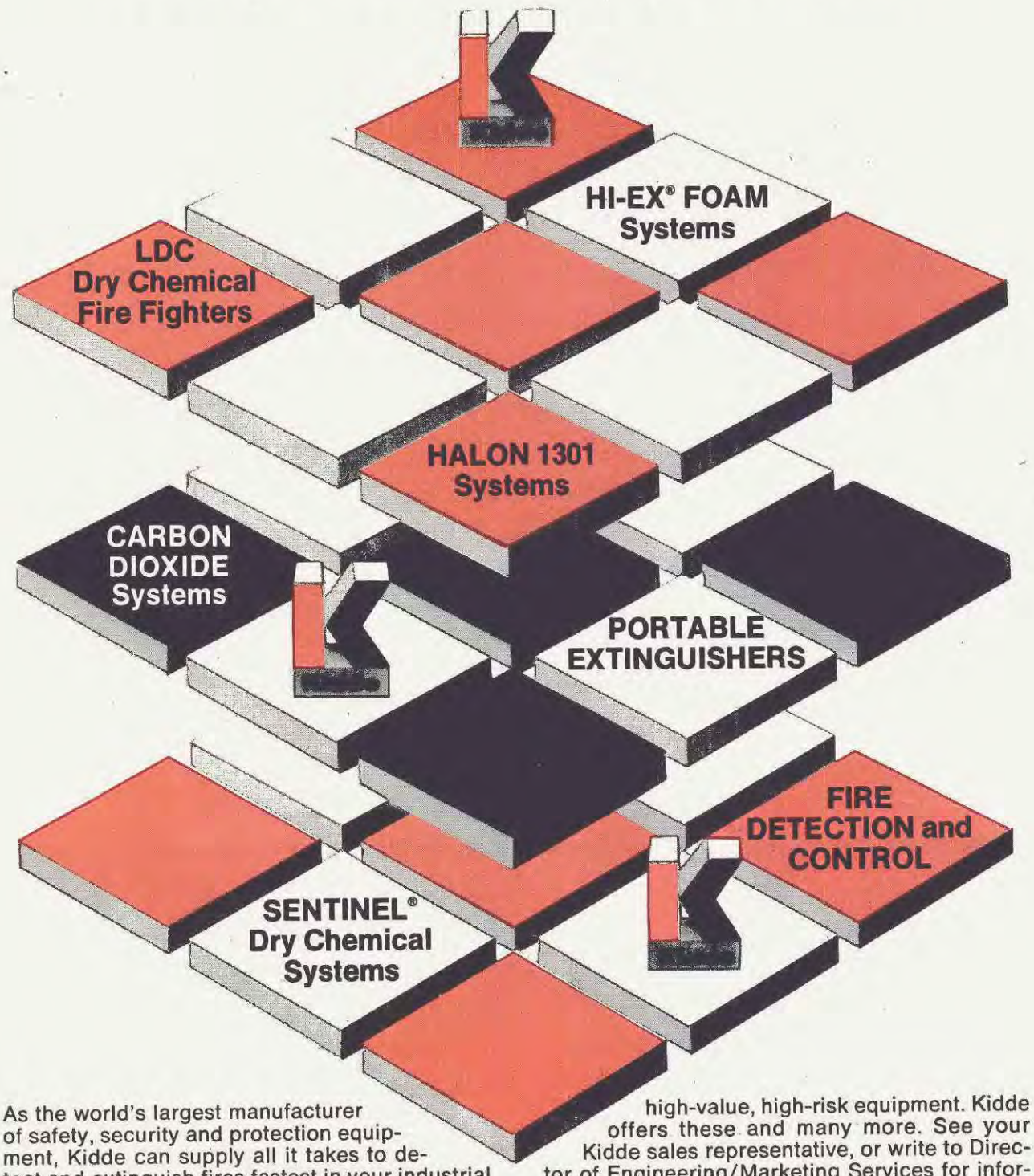

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BART to file suit against contractors

OAKLAND, CA.—The Bay Area Rapid Transit District board of directors has voted, unanimously, to file lawsuits against Rohr Industries Inc., Westinghouse Electric Co., Parsons Brinckerhoff Tudor Bechtel and Bulova Watch Co., on charges of failure to fulfill completely their BART contracts.

The companies, all involved in construction of the $1.6 billion, 71 mile rapid transit system linking Alameda, Contra Costa and San Francisco counties, are blamed by the BART board for the system being five years late in completion.

Rohr supplied the fleet of trains used by BART on a $150 million contract. BART executives claim the trains are "subject to breakdown."

WESTINGHOUSE, on a $60 million contract, designed and installed an automatic train detection-control system. Bart claims the system "did not detect trains under all conditions and continuously."

Westinghouse, for an additional $1.3 million, developed a back-up train detection system. However, BART trains are required to remain one station apart.

The PBTB combine prepared all engineering specifications under a $143 million engineering contract.

A notice of waiver of the statute of limitations has been served on the four companies, along with 30 days notice of BART's intent to file the lawsuits. ■

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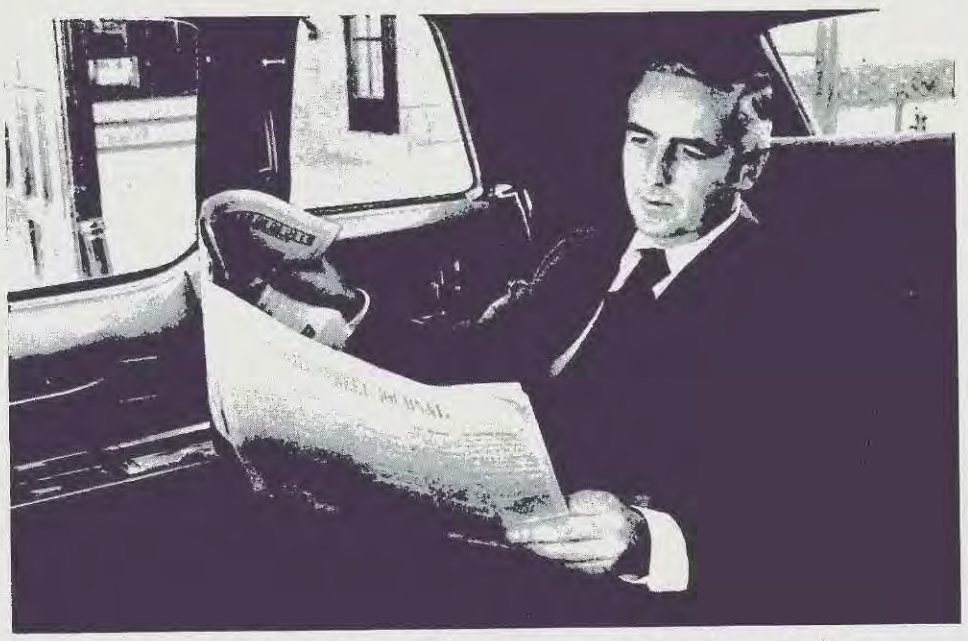

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Senator Moss stumps for passage of federal no-fault auto law soon

CHICAGO—Sen. Frank E. Moss (D-Ut.) told the 37th annual American Management Assn. insurance conference here that the time has come for federal no-fault auto insurance.

"Since the 50 state legislatures have been unable or unwilling to shift to a real no-fault motor vehicle insurance plan within a reasonable time, then it is the duty of Congress to see that such a shift is made," he told the conference.

Sen. Moss said state efforts to reform auto insurance laws are "anything but uniform." Each of the 19 states that have no-fault plans differs from the other 18 in at least one significant respect, he said.

Terming both automobiles and insurance as "instrumentalities of interstate commerce," the senator said Congress has the constitutional responsibility to find an alternative to the "confusing hodgepodge of differing systems."

Sen. Moss, who is chairman of the consumer subcommittee of the Senate commerce committee, told the delegates that he has "an obligation to pursue legislation which protects the pocketbooks of American consumers."

THE SENATOR cited cost information statistics, prepared for the commerce committee by the actuarial firm of Milliman & Robertson Inc., which indicate that "any state enacting a no-fault plan in compliance with Title II of S. 354 can provide for its citizens substantial savings in automobile bodily injury insurance premium costs."

Based on a study of five representative states, the study shows premium cost savings for a no-fault plan that provides unlimited medical expense protection, up to $25,000 of wage loss protection, loss of services protection of $12 per day for a maximum of one year, survivors loss benefits up to $1,000, as well as residual bodily injury tort liability protection up to $30,000. The savings would be:

- In California, premium costs would go down 35%.
- Kentucky—33%;
- New Hampshire—25%;
- Pennsylvania—33%;
- Texas—39%.

The senator admitted that cost comparisons between no-fault plans and the present insurance system are potentially misleading. But he said, "The value of a no-fault plan should be measured by the number of people compensated (over twice as many) and the number of dollars paid (again more than twice as many), which is far in excess of the present negligence-based insurance system."

SEN. MOSS asked the delegates, "Why shouldn't the Congress of the United States pass a law which would make available to American consumers a service, presently not available, which returns to people more dollars to compensate for their loss while saving them as much as $2 billion a year in premium costs?"

Addressing himself to other insurance-related issues before the Congress, the senator turned to the Consumer Product Safety Act. He referred to Section 15 (b) of the act which requires manufacturers to notify the Consumer Product Safety Commission of safety related failures, and said, "we are becoming concerned that the relevant federal agencies are not being notified when such hazards are ascertained.

"As a result, I can assure you that during the 94th Congress we will expand the Section 5 (b) requirements to insure that independent testing laboratories and even insurance underwriters who have information regarding substantial product safety hazards notify the Commission of the existence of such hazards if the manufacturer itself fails to do so."

He predicted that the requirement would impose only a 'minimal burden upon insurers" and that the public benefits should outweigh any adverse effects.

Sen. Moss concluded by saying, "Each step which Congress takes to insure protection of the public and greater health safety in the marketplace results in decreased costs of insurance or increased safety and coverage. In either case, I believe we are on the right track. ■

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Cost still not certain on WQIS cover

NEW YORK—After more than six months of constant negotiations, the Water Quality Insurance Syndicate (WQIS) still has not ironed out cost details on its new third party property damage liability insurance.

Until negotiations are concluded, no applications for this insurance are being accepted.

The third party property damage coverage only applies to losses attributable to polluting discharges of oil and hazardous substances.

The coverage is designed "to protect those people who have been hurt by negligent oil spills," chairman of the syndicate, Francis Lewis, told *Business Insurance*. It will also "complement the basic clean-up insurance already being provided vessel owners for polluting incidents," he added.

The move to offer this coverage grew out of increased concern for cleaner waters.

"It was available in P&I insurance. Now we're taking it out of P&I and wrapping it up with clean-up insurance," Mr. Lewis said.

THE MAXIMUM limit for the new insurance will be $5 million. Basic limits can be no less than the value of the hull being insured, it was noted.

The WQIS expressed hope that "through its making this third party property damage liability coverage readily available, many states may feel under less compulsion to enact their own unique legislation to protect their resources—legislation which could create obligations for which insurance indemnity is not readily, if at all available."

The coverage excludes death, bodily and personal injury. WQIS contends that these exposures are best dealt with by conventional P&I underwriters. In addition, this separation of property and personal liability should help avoid an overlapping in coverage, the chairman contended.

The insurance will be handled on a worldwide basis rather than restricted to the U.S. and its adjacent navigable waters, Mr. Lewis added. ■

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editorial opinions

Broadened exposures for manufacturers

LATE LAST MONTH, the U. S. Supreme Court made final a decision that substantially extends manufacturers' liability in industrial health cases. It is a decision that every risk manager should bring to the attention of top management, for it will broaden many companies' risk exposures.

The High Court left standing a jury award of $79,000 to the widow of an asbestos insulation worker, who died of a type of lung cancer caused by exposure to asbestos dust. The Court's refusal to review the decision of the U. S. court of appeals in New Orleans may have an immediate impact on 29 similar cases now pending. Further, the more than 20,000 industrial workers who have been exposed to asbestos dust could now be encouraged to seek legal redress.

The plaintiff, Clarence Borel (now deceased), an insulation installer from 1936 to 1969, effectively bypassed provisions found in most state workmen's compensation laws that ban suits against employers by suing the suppliers of the company he worked for. These were the 10 big companies that supplied the asbestos insulation he worked with during his 33-year working career. The decision has an immediate effect for such asbestos producing companies as Armstrong Cork, GAF, Johns-Manville and Jim Walter, and it will undoubtedly influence courts in seven other jurisdictions where similar litigation is being heard.

Even further, the decision may affect other industries as well. The big chemical manufacturers (vinyl chloride, benzene) may be the next targets.

The decision also extends manufacturers' liability in several other ways. For one thing, the statue of limitation was defined as from the time the doctor discovered the disease, not from the time of the injury, which could be as much as 20 years earlier in many cases. For another, the jury was free to find all the companies supplying the insulation liable for the injury without regard to how much each company contributed to the disease. And the fact that the dust concentrations where the plaintiff worked were within generally accepted safe limits did not lessen the liability because the link between asbestos and lung disease had been known at least 10 years before he began work.

How should the risk manager protect his compny from future exposures of this sort? Perhaps Judge John Minor Wisdom of the New Orleans court of appeals, who wrote the opinion the Supreme Court refused to review, gives a clue.

"The product," he wrote, "could still be unreasonably dangerous, however, if unaccompanied by adequate warnings. An insulation worker, no less than any other product user, has a right to decide whether to expose himself to the risk." The judge also said the warning must be explicit enough for the workers to really understand it.

Another gap in D&O liability

THERE MAY BE yet another gap in your directors' and officers' liability insurance policy, according to a report in the last issue of this magazine.

With the passage of the Employe Retirement Income Security Act of 1974, underwriters have discovered that there are vastly broadened statutory liabilities for anyone who is an employe benefit or pension plan fiduciary. Fiduciaries, moreover, are often officers and directors of the corporate sponsor of such plans.

We can't really blame underwriters for hedging their bets at this particular time. In our last issue we quoted some of them: "The potential (for losses) under the new pension reform act as simply tremendous"; "we're into a different area that's brand new . . . Many of the pension trusts are not part of the straight corporate structure. Normally, as such, under the D&O cover, I would suggest there might be a gap"; "it's not fair" to expect carriers to accept broad new risks under present policies, with no specific wording and no additional premium.

Warren Brockmeier, director of risk management services for the Wyatt Co., believes there's a good chance a fiduciary who was also a director or officer could claim coverage under most D&O policies on the books today. However, he advises risk managers to see that the D&O policy is broadened with an endorsement that any actions taken as trustee of a pension or benefit plan "shall be construed to be actions as a director or officer."

Good work if you can get it without paying the price, we think, for it looks like the D&O markets are already scrambling to protect their flanks.

An irony

THE IRONY OF former President Richard Nixon finding himself in the hospital facing surgery without health insurance ("someone dropped the ball somewhere," said a spokesman, referring to the fact Mr. Nixon's health insurance lapsed when he left the White House) . . . the irony is that Mr. Nixon spent the past several years stalling on the issue of national health insurance legislation.

It wasn't until earlier this year that the former President sent to Congress a new health insurance bill considerably liberalized from the one he first introduced in 1971 and one that showed promise of working its way into a compromise, The action came a little too late, however, for the former President.

President Ford has indicated support for a national health measure, but it doesn't seem to be one of his top priorities. It should be. Perhaps his predecessor, when the bills come in, will send photocopies to the White House. Of course, they would be of little solace to the nation's ill and infirmed who don't have the money to buy medical care.

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.

Time saved

To the Editor: I would like to compliment you and your people responsible for not only the interesting and informative articles in *Business Insurance* but on your layout of continuing articles such as I have noticed in the later issues of the paper. I refer particularly to the article on pages 26 and 27 regarding Gillette's risk improvement practices, the article on pages 32 and 33 concerning Mr. Gleeson Payne's comments at the recent Risk Management Consultants Meeting and the article on pages 34 and 35 relating to the Pension Benefit Guaranty Corporation.

The time saved by busy people reading these articles is tremendous.

Lane E. Kohan
Insurance Manager, Roper Corp., Kankakee, Il.

Sufficient interest

To the Editor: I feel the Safety/Security Report which appears on page 47 of the September 30th issue is of sufficient interest to submit it for publication in the Dewitt, New York Fire Department's monthly house organ, The Monitor.

may we have your permission to reprint this article, with an appropriate credit, of course, given to *Business Insurance*?

Geoge G. Heine
vp, Gagnon, Morrison & Heine, Inc., Syracuse, N.Y.

Editor's note: Permission granted.

Deposit box liability

To the Editor: A client of our firm has drawn our attention to an article recently published by you concerning the liability of lessors for safety deposit boxes and their contents, published in your February 18, 1974 issue.

We are interested in any subsequent developments in this area and would appreciate your forwarding us any information that you might receive.

James W. Keeling
Thomas, Thomas & Maggio, Rockford, In.

Editor's note: We are continuing to follow the case involving United California Bank in Los Angeles. No decision has been handed down as yet in that case.

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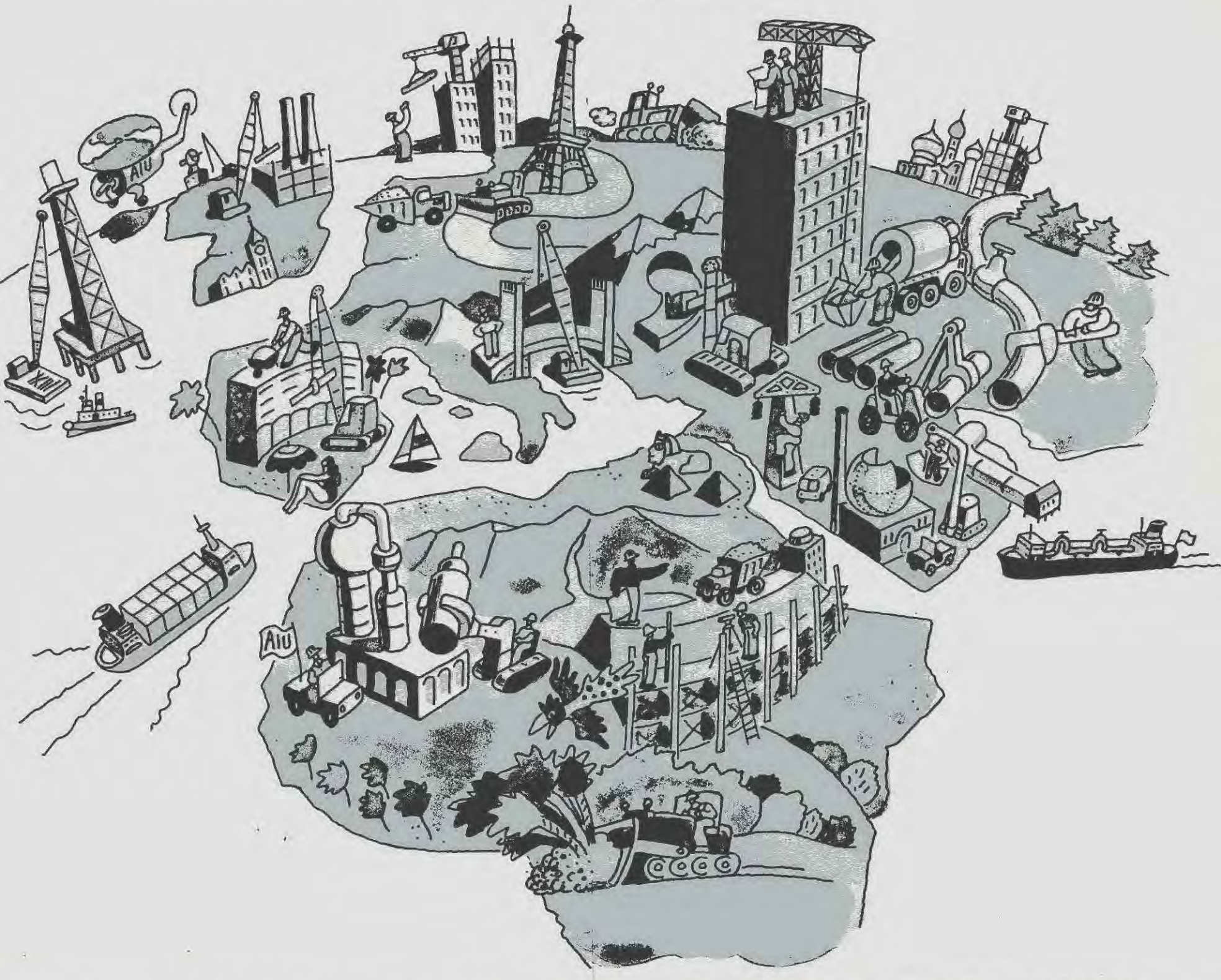

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the legal brief

Location of property and details of schedule determine floater limits

LOCATION OF THE property is an essential part of the description of property insured under a garment contractors floater, according to a district court in New York. The court ruled that the unscheduled liability limit of $10,000 applied to a loss sustained on the premises of a scheduled contractor but at a location not shown on the schedule.

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Il.

Tally Togs, Inc. (Tally), a New Jersey corporation, had a garment contractors floater policy issued by Insurance Co. of North America (INA) in 1969 and in force on the date of loss. The property in question here, children's clothes in various states of manufacture, was lost as a result of flooding from Hurricane Agnes, and damaged Tally in the conceded amount of more than $37,000. Liability was conceded and this action was concerned only with the insurance coverage limits under the policy.

At the time of the loss the property was on the premises of Crown Royale, Inc. (Crown) in Cloverdale, Va., a subsidiary of Shenandoah Textiles, Inc., (Shenandoah) a garment contractor used by Tally and listed in the schedule. Tally contended it was unaware that upon delivery to Shenandoah the property would be further delivered to Crown which was not listed in the schedule. The limits of liability in the schedule for Shenandoah was $35,000. However, the limit for unscheduled contractors was $10,000. At issue was whether the loss fell under the scheduled or unscheduled contractors coverage of the policy.

Tally contended that the property lost or damaged need not be at the particular location or address specified in the schedule as long as the property was under control of the particular contractor named in the schedule and that addresses given were merely for purposes of identification of the contractors. But the district court did not find Tally's argument compelling. The court reviewed the policy and schedules and noted that the listing of Shenandoah "twice rather than once, indicates that location was important in relation to the amount of coverage." The court noted that the "general view is . . . that 'place and locality are essential elements in describing the property insured . . .' " Consequently, the court concluded that the loss here was limited to $10,000 pursuant to the policy coverage of unscheduled contractors. *Tally Togs Inc.* v. *Insurance Company of North America*, United States District Court for the Southern District of New York, May 7, 1974, Gurfein, J. 376 F.Supp. 465 (BI/01/D.-$2)

* * *

IN HOLDING THAT there was coverage under a comprehensive general liability insurance policy, a Florida appellate court stated that "the terms in an insurance policy should be given their everyday meaning as understood by the 'man on the street'." Also the court ruled that where ambiguity exists the policy is to be construed liberally in favor of the insured and strictly against the insurer who wrote the policy.

Here Ben Novack, (Novack) contracted with Ritchie Concrete Corp. (Ritchie) to do the concrete work on a hotel addition. Ritchie was insured by Royal Indemnity Co. (Royal) for $200,000 under a comprehensive general liability insurance policy. In December 1969, following a premature removal of shoring by Ritchie's employes, the west wing of the project collapsed. Mr. Novack sued Ritchie and Royal and he was awarded damages of nearly $500,000 against Ritchie alone. Mr. Novack appealed contending there was coverage under the Royal policy since there was ambiguity among the policy's four exclusions.

The appellate court in reviewing the language of the four exclusions determined that ambiguity, indeed, did exist and pointed out that in "My Fair Lady," Professor Higgins lamented, "Why can't the English learn how to speak?" On behalf of the insured and their attorneys the court believed that this plea could be paraphrased to, "Why can't the companies learn how to write?" As an example of some of the ambiguities, the court pointed out that in the Collapse Hazard Endorsement the language referred to "moving, shoring, underpinning, raising or demolition."

However nothing was said about the *removal* of shoring, as was the case here. Also the code exclusions, the court noted, concern *demolition*, repair work or remodeling rather than erecting a building. "If the company had wished to include this," the court stated, "it should have said so, in plain English." Noting that coverage granted in one exclusion was taken away in another exclusion the court emphasized that a policy "may not give a right in one paragraph and retract it in another unless the limitation is clearly expressed." Therefore the court concluded Royal was responsible to the limit of the coverage under the indemnity policy. *Fontainebleau Hotel Corp.* v. *United Filigree Corp.*, District Court of Appeal of Florida Third District June 18, 1974, *rehearing denied* August 27, 1974, Gobbie, J. 298 So. 2d 455 (BI/02/D.-$2)

* * *

THE REPRESENTATIVE of a deceased employe brought an action against the public liability insurer of the employer which was working under contract with the state highway commission, for injuries sustained at the hands of a fellow employe. The court of appeals of New Mexico held that an employer's public liability policy did not cover the deceased's fellow employe as an insured. The court also ruled that a fellow employe could not be considered a third-party beneficiary and that no direct action lay against the insurer.

Mrs. Rafael Chavez had brought

Some straight talk about The Maryland's Direct Bill System.

suit for the wrongful death of her husband during the course of his employment with Wylie Brothers Contracting Co. (Wylie) on a highway commission construction contract. Also named as a defendant was a fellow employe at Wylie, Delfino Pino. Mountain States Mutual Casualty Co. (Mountain) carried the contractor's protective public liability insurance for the job. The trial court had released Mountain from liability.

On appeal Mrs. Chavez contended that Mr. Pino was an insured under the Mountain policy arguing that the policy inures to the benefit of the public and since Mr. Pino was a member of the public the policy inured to his benefit. But the court disagreed, concluding that Mr. Pino was not covered under the public liability policy. The court pointed out that the policy language referred to "beneficiaries under the policy, not insureds." In addition the court ruled that Mrs. Chavez could not proceed directly against Mountain because it was not the insurer of Mr. Pino. *Chavez* v. *Pino*, Court of Appeals of New Mexico, July 17, 1974, Hendley, J. 525 P.2d 391 (BI/03/D.-$2)

* * *

A UNITED STATES district court in Missouri has held that where a bank sustained a loss for failure to give statutory notice of an intent not to pay certain checks and where the failure and loss resulted directly from fraudulent misrepresentations and actions of the bank's former president, the loss was within the coverage of a banker's blanket bond.

In this case the First National Bank of Sikeston (First) held a banker's blanket bond issued by Transamerica Insurance Co. (Transamerica). The bond protected the bank from dishonest or fraudulent acts of any employe which the policy defined as "officers, clerks and other employes" and limited to "salaried, pensioned or elected official or...employe." During the period in question, Donald R. Bohannon served either as president of First or as a paid consultant. Mr. Bohannon also was a one-third owner of a livestock company which maintained accounts in both First and Providence State Bank (Providence). Under an arrangement made by Mr. Bohannon, the livestock company paid for cattle purchased out of uncollected funds created by the deposit of drafts drawn on the purchasers of the cattle. He also arranged for immediate credit on checks drawn on the livestock company account with First and deposited in Providence.

Mr. Bohannon falsely misrepresented to First his credit balance in a third bank and First determined not to honor 23 checks amounting to over $120,000. But First failed to notify Providence of this decision. Providence sued First and recovered judgment for these checks. Transamerica declined to represent First under the bankers' blanket bond, claiming the loss was not covered under the blanket bond.

First then brought this suit against Transamerica contending that the bankers' blanket bond was applicable to this loss. The court concluded that Mr. Bohannon was an employe of First at all pertinent times, that First's loss was a result of fraudulent misrepresentation and actions of Bohannon and consequently that the loss was within the coverage of the bond.

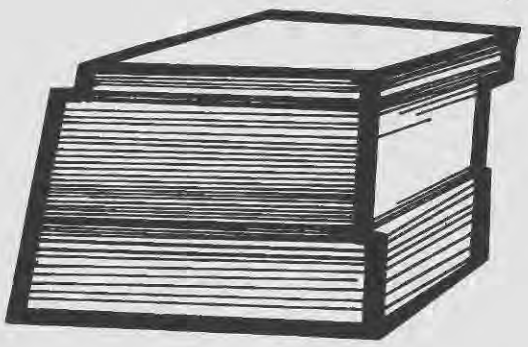
The court also ruled that even though First knew of Mr. Bohannon's relationship to the livestock company, it did not bar recovery under the bond "since 'the true nature' of the events that gave rise to the plaintiff's (First) loss were not known." *First National Bank of Sikeston* v. *Transamerica Insurance Company*, United States District Court for the Eastern District of Missouri, May 30, 1974, Meredith, C. J. 377 F.Supp. 1041 (BI/04/D.-$2)

* * *

THE SUPREME judicial court of Maine has ruled that within the context of the state's workmen's compensation act, neurological, orthopedic and x-ray examinations are not intended to be compensable by the employer or his insurance carrier as part of "reasonable chiropractic treatment." The only issue before the court in this case was whether or not diagnostic examinations conducted by a chiropractor were properly chargeable against the employer and/or his insurance carrier under the provisions of the act. The thrust of the employe's argument was that treatment of the lumbar spine could not reasonably be undertaken until there was a diagnosis, including x-ray, to determine the condition sought to be treated. His argument that diagnostic evaluation, including x-rays, were compensable items, was implied from the provision of the statute authorizing reimbursement to the employe by the employer or his carrier for "reasonable chiropractic treatment for the relief thereof."

The court did not agree. It could find nothing in the act to compel the conclusion that the neurological, orthopedic and x-ray examinations were proper charges against the employer or his carrier. "Legislative history demonstrates a legislative reservation," the court stated, "clearly limiting the scope of activities for which chiropractors must be paid by the employer or his carrier under [the Act]." The court pointed out that the first paragraph of the act speaks of compensation for medical and surgical services, a term which would encompass diagnosis. Had the legislature intended, it could, according to the court, have employed the same word "services" to apply to compensation in regard to chiropractors. Instead, it selected the word "treatment." Treatment was further limited to injuries consisting of lumbar, sacral, or cervical strain. The legislature also described exactly of what the particular treatment might consist, i.e., "palpating and adjusting the segments and articulations of the human spinal column by hand." "We are not," the court concluded, "interpreting an ambiguous statute." *Berry* v. *Girard*, Supreme Judicial Court of Maine, August 2, 1974, Pomeroy J. 324 A.2d 305 (BI/05/D.-$2) ■

(Copies of the entire decisions described in this column may be obtained by writing to Business Insurance, *attn. Managing Editor, 740 N. Rush St., Chicago, Il. 60611. Please enclose a check for $2.00 to cover the cost of each case you order, and specify the code number of the opinion, which is at the end of each brief.)*



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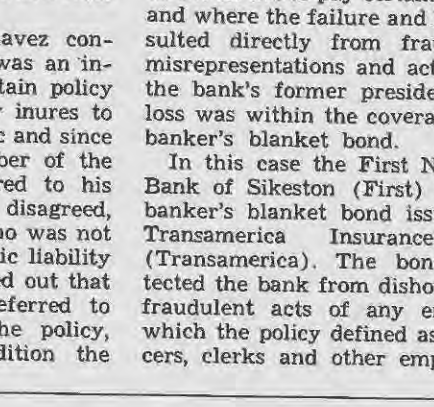

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Banks sign with FCIA

PHILADELPHIA, PA.—Two Philadelphia banks recently signed short-term comprehensive policies with the Foreign Credit Insurance Assn. (FCIA) to aid exporting clients.

The Philadelphia National Bank, the 25th largest bank in the U.S., signed a $10 million short-term policy and the Provident National Bank signed a $2.5 million policy.

Both banks will be insured up to 90% when they purchase an exporter's receivables if the buyer fails to pay because of commercial risks and up to 95% if default is caused by political risks. ■

'Marine market will expand to meet growing risks': AIMU officer

NEW YORK—Despite the increased pressure on the marine insurance markets by the growing steamship industry, there is no doubt that the marine underwriter will meet this need, said the president of the American Institute of Marine Underwriters.

"Let me remove any doubt as to our approach to these demands. It is not a conditional approach, not a question of if or whether. To us it is a matter of course that these needs must, and therefore will, be met," Carl E. McDowell told those attending the annual Propeller Club Convention and American Merchant Marine Conference here recently.

"The increased demands which are being made on the insurance markets are requiring a whole new ball game. To generate the capacity that can relate an insured risk of half-a-billion dollars, let alone $1.2 billion, is requiring new thinking and new approaches to the needs of the maritime industry," he said.

THE MARINE insurance market consists of more than 125 companies writing marine risks. Over 95% of their capacity is represented in the AIMU. But, the institute transacts no insurance business, the speaker stressed. It is merely a trade association and voice "of the market, liaison with the government and with related maritime industries," the speaker pointed out.

Despite a bad year, the American marine insurance market will survive, he believes.

He pointed out some of the domestic disasters that affected the market over the past year.

"The current crunch in the capital markets has had a serious impact on insurance industry reserves. The 1973 tornado season spawned a record 1109 tornados and insurance payments of $336 million. These and other spectacular domestic disasters have recently struck the insurance business."

There are tangible problems that the marine underwriter must deal with concerning hull cargo and liability risks.

The biggest challenge to cargo underwriters is the growth of containerization and the changing role of the insurer, he asserted.

The biggest challenge is "undoubtedly the concentration of risk represented by the container, let alone a giant shipload of containers. Here he (the underwriter) finds the spread of risk principle upon which insurance was found seriously distorted. if not inverted, and himself cast increasingly in the role of catastrophe insurer."

THE AMERICAN cargo insurer is also encountering difficulties in persuading the American exporter/importer to use local facilities and not delegate his interest in cargo security and services to someone whose interests lie outside, the speaker said.

There is another problem facing the cargo underwriter. That is diverse insurance practices abroad.

"There is a strong need to combat restrictive insurance practices in some other countries with which we trade," he said.

"We must convince our clients that cargo insurance is better for both shipper and carrier than any form of high-level carrier liability, no less under the intermodal than under the breakbulk system," Mr. McDowell said.

"A spread of risk becomes perilously difficult to achieve—especially where owners resort to the dubious economy of extensive self-insurance. This putting of more eggs in fewer baskets is forcing us to rethink our approach," Mr. McDowell said.

Repair costs are skyrocketing due to inflation, he contended. That poses another challenge to the hull insurer.

"The vast increase in ship size and sophistication, and the alarming rise in human effort losses would have raised these costs even without inflation," but inflation costs are spiraling, too, he said.

LIABILITY INSURANCE has not presented a serious problem to the insurer yet. But there are potential problems that could put a big strain on the underwriter.

"In so far as they concern capacity, they have not yet been serious; but they have potential public policy aspects which depending upon the course taken by legislation, could put the market's financial resources under abruptly inncreased strain."

In addition, there are some legislative trends that are pushing to impose unlimited liability without fault, coupled with "ruinous penalties for involuntary offenses," Mr. McDowell said.

These trends have "caused some underwriters to warn that these could raise calls for coverage of a sort which it has never been thought proper, or even legal to write," he surmised.

What is the solution? For government to maintain "fairness and proportion in coping with this undeniably grave threat to our oceans. I am confident that capacity will be forthcoming to cover the liabilities involved," Mr. McDowell concluded. ■

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HARTFORD STEAM BOILER INSPECTION AND INSURANCE

Spinal cord injuries most expensive

WASHINGTON—Spinal cord injuries, among the most expensive in terms of compensation, are most frequently caused by motor vehicle crashes, according to a research report commissioned by the Insurance Institute for Highway Safety.

They inevitably result in paraplegia or quadraplegia, and about half the time result in premature death, the Institute said.

Of 619 cases studied in northern California; 346, or 56% were caused in motor vehicle crashes.

The other most prevalent cause of spinal cord injuries were falls, 19% and firearm wounds, 12% the study said.

The Institute said, "any organized program to reduce the incidence of this tragic problem must focus on the reduction of motor vehicle crashes and the severity of injuries sustained in them." ■

European expansion

Travelers Insurance Co. has expanded into the European market with an agreement with L'Union des Assurance Paris (UAP), insurer of large industrial enterprises in France. UAP provides all classes of life and nonlife insurance and had premium income of $1.3 billion and assets of $3.7 billion in 1973.

D&O expensive luxury for many savings banks

MILWAUKEE—Although directors' and officers' (D&O) liability insurance is carried by 35% of the banks and 44% of the savings and loan associations in the United States, many financial institutions still consider the coverage an expensive luxury, a recent national survey indicates.

MGIC Indemnity Corp. mailed surveys to all the banks and savings and loan associations in the United States and received responses from 6,063 of the 14,533 banks, a return of 42%, and 2,282 of the 5,244 savings and loans, a return of 44%.

A spokesman for MGIC said the professional research organization which evaluated the survey gave the results a "95% confidence factor" because of the high rate of return for a mailed survey.

Financial institutions with assets in excess of $100 million are more likely to carry D&O insurance than institutions with less than $25 million in assets, according to the survey.

FIFTY PERCENT of the banks in the $100 million plus category have D&O protection, while only 29% of the banks with less than $25 million in assets are covered, the survey showed.

The ratio is somewhat higher for savings and loans, the survey reported, with 62% of the largest associations and 34% of the smallest carring the liability insurance.

Although D&O coverage has been available for 10 years, the survey reported that four out of five of those presently insured have purchased the insurance just since 1970.

Survey results showed that 45% of the savings and loans and 34% of the banks consider D&O protection too expensive, while 14% of the institutions said the insurance is not necessary.

Of the insured respondents, 6% of the savings and loans and 4% of the banks said they would increase their D&O insurance coverage in 1974.

The higher proportion of savings and loans that have D&O insurance is in line with the general tendency of larger institutions to carry this kind of protection. Not only is the average savings and loan larger than the average bank, but attention was focused on D&O insurance when the Federal Home Loan Bank Board approved the coverage for savings and loans five years ago, the MGIC spokesman said.

MGIC is one of 20 insurers in the D&O field, and also one of the largest, having insured about 1,000 savings and loans and 300 banks for D&O protection. The company has insured 20,000 board members and officers since 1970.

MGIC has paid out $325,000 in D&O insurance claims as of Sept. 30, 1974, up from $100,000 over the same period last year, the spokesman said. Although most lawsuits involve large metropolitan institutions, a tendency noted toward more legal action against rural banks and savings and loans.

The MGIC spokesman cited the case of a midwestern bank in a town with a population of 3,000. Loans that the bank made in excess of its authority have resulted in lawsuits seeking $1.9 million in damages.

ALSO, A SOUTHERN bank in a town of less than 5,000 people has had a suit brought against its directors because the bank refused to make government-subsidized mortgage loans, the spokesman said.

"The costliest lawsuits and biggest settlements will continue to involve the multi-million dollar institution in a large metropolitan area, but the risk exposure for the director and officer of a rural-oriented, small lending institution has become just as real and much more significant," said Arthur Barnard, MGIC's marketing director. ■

Inflation puts strain on all benefit areas

HOUSTON—"Consistently high inflation will put a strain on all benefits," Edward H. Beekman, manager of employe benefits for General Electric Co., told participants at the 28th annual conference on employe benefits here.

"We should have a financially sound Social Security system and let it remain the basic retirement income for people. Private plans should only attempt to supplement it," he advised the audience.

"Indexing may be needed to alleviate the problem of a retiree's fixed income, but high inflation makes this prospect extremely difficult for companies," Mr. Beekman said.

"In fact, if high inflation keeps up, advance funding methods now used will prove inadequate," he said. "Perhaps this is a time for unconventional thinking. Maybe we should be shifting from pension plans to profit-sharing," he concluded. ■

Agents oppose having insurers renew covers

WASHINGTON—A resolution calling for the end to the practice of contacting insureds directly to obtain renewal information for rating purposes was passed by the National Assn. of Mutual Insurance Agents (NAMIA) at the 43rd annual convention here recently.

The NAMIA board labelled the practice "an encroachment" on the legitimate activities of agents and criticized it as "diminishing the importance of the agent."

Retiring NAMIA president Charles M. Boteler Jr. and the new president John G. Cook both called on insurance companies to seek "joint solutions" with agents rather than engage in "discriminatory restrictions such as withdrawals, cancellations and commission cuts."

A panel discussion on the government's involvement in the insurance industry renewed the clash of viewpoints between Federal Insurance Administrator George K. Bernstein and Victor T. Ehre, board chairman of the Utica Mutual Insurance Group.

Mr. Bernstein, who is leaving his government post Nov. 30, urged the industry to embrace the concept of "full insurance availability" as an alternative to "inevitable" federal takeover of the business.

Mr. Ehre countered, saying that federal programs are subsidizing and thereby perpuating the conditions that create problems for the insurance industry. ■

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info for buyers

To receive literature listed in Info for Buyers write directly to the name and address accompanying each item, mentioning that you saw the offering in *Business Insurance*. Readers are welcome to submit items for possible inclusion in the column. A sample of your literature should be sent to Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Il. 60611.

• Herman Hospital, Houston, offers direct assistance to companies that wish to develop or evaluate programs for troubled employes. For more information write to Troubled Employes Service System, 631 Hermann Professional Buliding, Houston, Tx. 77025, or call John Schaeffer at (713) 527-4023.

• Keith Shipton Developments Ltd., a London-based risk management consultant firm, has released **Aspects of Pollution associated with the Process Industries,** the first in a series of timely studies. The booklet surveys the environmental, disposal and control problems of chemicals in the process industries. Written by D. H. Napier, an expert in the field of industrial chemical safety, the study provides a general analysis and details the effects of specific chemicals. Copies are available from the publishers, Woodhead-Faulkner Ltd., 7 Rose Crescent, Cambridge, England. cost is 1.50 British pounds sterling (about $3.50) plus 25 pence for postage and handling.

• **A full spectrum of services for business, insurers, agents and brokers** is a brochure that describes the many aspects of the Insurance Service Division of the INA Corp. INA companies that provide services in management, marketing, financing, and risk management are listed, along with a brief description of each and the address. For a free copy write to the Insurance Service Division, INA Corp., 1600 Arch St., Philadelphia, Pa. 19101.

• Recognizing that many Japanese nationals are now working in the United States, Bayly, Martin & Fay Inc. has prepared a Japanese translation of the OSHA poster, **Safety and Health protection on the Job.** The English version is printed alongside. Firms desiring a copy can write Samuel Alcorn, national vp, Bayly, Martin & Fay, 3200 Wilshire Blvd., Los Angeles, Ca. 90010.

• The captive insurance company situation in Colorado is the subject of a brochure by Richard N. Marchand, CPCU. Starting with a history of the legislation that allowed captives in Colorado, the booklet explains the reasons for the relatively slow establishment of captives there. The booklet's conclusion is a generally affirmative answer to the question of its title, **Will Captive Insurers Take to the High Ground?** For free copies, write to Richard N. Marchand, assistant vp, Cameron and Colby Co., 60 Batterymarch st., Boston, Ma. 02110.

• The 1974 edition of the *Business Insurance* **Directory of Commercial Insurance Agents and Brokers** is available. The directory contains information—including financial data—on leading insurance agents and brokers serving corporate consumers of insurance and employe benefit plans. In addition, editorial features analyze the agency and brokerage business. The single copy price is $4.95; quantity orders (10 or more) are $3.95 per copy. Write to Business Insurance Directory, 740 N. Rush St., Chicago, Il. 60611. Make checks payable to *Business Insurance*.

• **Risk Management Reports,** a series of objective, well-researched discussions of risk management topics, is published by *Business Insurance*, a Crain Communications publication, yet the reports are editorially independent of the magazine. There are six issues a year, and each concentrates on a special topic, such as risk management in Europe, product liability control and the risk management function in management. Subscription is $60 per year. Write *Business Insurance*, 740 N. Rush St., Chicago, Il. 60611. Checks should be made payable to Risk Management Reports.

• **OSHA Consultation Services** explains NATLSCO's services: compliance program verification, special technical services, precompliance analyses and compliance status surveys. The brochure describes the types of problems each service can resolve and details on how their consultants work with client's personnel. For your free copy write National Loss Control Service Corp., Long Grove, Il. 60049.

• Medical Administration Programs Overview, released by Health Application Systems, describes the program's design of providing health care administrators with effect cost and quality controls. The program's capabilities and features are listed along with how the program can help a particular client's needs. For a free copy of the program write Richard Wolpert, 875 Mahler Rd., Burlingame, Ca. 94010.

• Risk Treatment Services Co. Inc. has made available to *Business Insurance* readers **OSHA What to do? Total Loss Control the Answer.** It describes OSHA's recordkeeping service, inspections, SBA loans, and a total loss control program. Write Risk Treatment Services, 3200 Wilshire Blvd., South Tower, Suite 1208, Los Angeles, Ca. 90010.

• Risk Management Consultants Inc. (RIMCO) answers in its new brochure, the question, "Isn't there someone around to give professional advice about insurance matters, but doesn't sell insurance?" RIMCO's booklet describes how the firm identifies, evaluates and determines the most feasible way to handle the risks faced by your company. For a free copy write Bill McIntyre, RIMCO Inc., 10300 North Central Expressway, Suite 150, Dallas, Tx. 75231.

• **Property and Casualty Risk Consulting,** by Towers, Perrin, Forster & Crosby, is an outline of procedures followed in a typical risk, consulting project—from risk identification to result analysis and yearly review. For a free copy write Miriam Goldfine, Towers, Perrin, Froster & Crosby, Three Penn Center, Philadelphia, Pa. 19102.

• American Appraisal Associates Inc. offers a brochure describing its personnel advisory services, including computerized personnel systems, employe benefits, fair employment practices, in-service training programs, and manager compensation and salary administration. For a copy write E. J. Francione, American Appraisal Associates Inc., 525 E. Michigan St., Milwaukee, Wi. 53201.

• The National Headquarters of the American Society of Safety Engineers has made available a **National Directory of Safety Consultants** to *Business Insurance* readers. The price is $5.00 and is available from the National Headquarters of the American Society of Safety Engineers, 850 Busse Highway, Park Ridge, Il. 60068.

• A brochure on the Burns International Security Services, titled **Complete Scope of International Investigations** is now available. Special attention is given to investigative services for multinational companies for incidents of arson, fraud, sabotage, and other losses. For a free copy write Ashley W. Burner, Burns International Security Services, Briarcliff Manor, N.Y. 10510.

• Benefacts Inc. has published a **Total Approach to Communication** brochure which explains how the *employer* benefits from the employe benefits program when employes fully recognize and appreciate the investment made for them. The brochure provides basic information on individualized intra-corporate benefits communication programs set up by Benefacts on comprehesive multi-media levels. For a copy write Robert Eilerson, vp marketing, Benefacts Inc., Hampton Plaza, 300 E. Joppa Rd., Baltimore, Md. 21204.

• The **Little Red Book** is a revised and updated listing of all General Adjustment Bureau office locations, domestic and foreign. It lists all district, regional and branch offices, with complete addresses as well as day and night telephone numbers. The guide also lists and describes various GAB services. For a free copy write Management Services, GAB, 123 William St., New York, N.Y. 10038.

• **A Comparative Analysis of Automobile No-Fault Statutes** has been released by General Adjustment Bureau in a newly expanded and updated version. The 24-page booklet presents comparative data on no-fault regulations in two formats. Added to the booklet's contents for the first time is a section presenting all the pertinent statutory elements for each state on a single, two-page format. Copies of the booklet may be obtained by writing to the GAB, management services, 123 William St., New York, N.Y. 10038.

• Equitable Life Assurance Society of the U.S. has published an extensive survey called **1973 Hospital Room & Board Charges.** The survey is based on data from 1557 short-term general hospitals, providing weighted average charges for private, semi-private and intensive care accommodations in 581 cities. State and national averages are also included. For a free copy write John Goddard, Equitable Life Assurance Society of the U.S., 1285 Ave. of the Americas, New York, N.Y. 10019.

• Coats & Burchard Co. publishes **Fast "Facts"**, a brochure describing the property data bank, a computerized property asset control systems utilizing techniques of appraisal research, property economics and financial data to use in developing reports for accounting, insurance, proof of loss and other administrative services. For a copy of the brochure write Coats & Burchard Co., 4413 N. Ravenswood Ave., Chicago, Ill. 60640.

• **Business as Usual? Not Necessarily. Profits as Usual? Yes.** This new brochure, available from Commerce & Industry Insurance Co., outlines the advantages of three special forms of business interruption insurance that have been developed especially for retailers, wholesalers and manufacturers. For a free copy write Commerce & Industry Insurance Co., Dept. 12, 102 Marden Lane, New York, N.Y. 10038.

Info for Buyers issue

This magazine's annual Info for Buyers Issue will be published Jan. 13, 1975. Each year this special issue carries items about safety, security, services, benefits, institutional insurance and insurance-related products of interest to corporate managers responsible for risk and insurance management, banks and other financial advisors, underwriting managers, agents and brokers.

Last year, *Business Insurance's* Info issue included over 200 listings of available literature and drew over 30,000 requests for the pammphlets, brochures and kits.

We are anxious to receive material for the annual Info issue. Please fill out the coupon on this page and mail to Info for Buyers, Attn. Paul Merrion, *Business Insurance*, 740 N. Rush St., Chicago, Il. 60611.

Info for Buyers issue

If you have not yet submitted data or literature for publication in Jan. 13, 1975 Info for Buyers Issue, please return the coupon below for forms and instructions. All material for publication must be in the hands of the editors no later than Dec. 1, 1974.

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Funding, fiduciaries: Areas to study in light of new law

CHICAGO—Methods of funding and the duties of fiduciaries are two areas that corporate trustees should study as soon as possible as a result of the federal pension reform law.

This advice was offered by two speakers at the recent American Management Assn. insurance conference here.

"Find out what method of funding your actuary is using now," Vincent Tobin, vp and director of George B. Buck Consulting Actuaries, New York, said. "If he's using either terminal funding or pay-as-you-go funding, he'll have to make a change," adding that these two methods are disallowed under the new federal pension regulations.

"Funding in advance is the key to whether or not you have an IRS approved plan," Alan J. Davidson, vp, Mellon Bank N.A., Pittsburgh, said. "Any plan designed to provide for the deferred compensation of employes comes under the new law. Therefore, a company-sponsored life insurance plan could come under the law."

IF YOU WANT to pay top executives more than a $75,000-a-year-pension, it's legal provided the retiree is paid out of your company's current operating budget," Mr. Davidson said.

Another area of the law to examine carefully is fiduciary duties, according to Mr. Davidson. "One of your first responses should be to identify who in your company are fiduciaries as defined by the new law. This means anyone who exercises any discretion or control over the plan, its assets or administration," he said.

"An important factor to keep in mind," Mr. Davidson explained, "is that the plan must be administered for the sole benefit of the participants. This could be troublesome because not everyone will agree what's best for all the participants."

Someone asked the speakers whether any company would now instigate a defined pension plan.

"The law may be fairly tough to live with for awhile," Mr. Tobin observed; "but I don't think the law will dry up the instigation of defined, funded benefit plans. Unions will continue to want them, so salaried employes will keep up the pressure to have them also." ■

Social Security funding not adequate for future

HOUSTON—Unless Social Security funding methods are changed, people retiring 40 years from now may not be covered by adequate funds, said James A. Attwood, executive vp for Equitable Life Assurance Society of the U.S., said recently.

"The World War II baby boom is going to cause trouble with the demographics in the future if the birthrate continues to decline," he told those attending the 28th annual conference sponsored by the Council on Employe Benefits.

"The pay-as-you-go method of funding does not allow for reserve building," Mr. Attwood said, adding that in 40 years there won't be enough money from either reserves or current funding to cover benefits needed.

"I think this country's capital formation will be adversely affected by the fact that Social Security does not build up its reserves," he said. In 1950, both the Social Security and private pension systems had reserves of about $12 billion. Now, he said, the private system has over $200 billion in reserve assets while the Social Security system has only $50 billion.

HE ACKNOWLEDGED the government's broad taxing power, but he warned against the recent precedent being set by the railroad retirement reform legislation, which would, in effect, subsidize a private plan.

"The government subsidy of a private (pension) system may set a precedent," Mr. Attwood said. "Congress could use this precedent to arbitrarily finance Social Security whenever the pressure is great," adding that he thought this would be a mistake.

Mr. Attwood proposed three alternatives for "taking the pressure off" the Social Security system on a consistent basis:

- Increase Social Security taxes.
- Decrease Social Security benefits.
- Institute a regular form of general revenue financing for the system.

The third solution is probably most palatable solution, he said. "This way it's easy to bury past mistakes with Social Security and to let the tax burden fall more heavily on middle and higher income people."

Mr. Attwood said a new approach to funding is necessary to provide real security for future retirees. Also, it makes it more probable that Social Security will continue to provide the primary retirement income, with private pensions serving only to "cap it off." ■

Auto rates next in line for boost

DAVENPORT, IA.—Despite a decline in auto insurance rates of 3.4%, this market is experiencing the same problems as other lines, which may push rates upward due to inflation and mounting losses, president of the National Assn. of Independent insurers told the Iowa Mutual Insurance Co. of Davenport at an annual meeting here last month.

"Continuing, unabated inflation, a plummeting stock market and ever rising losses appear to be taking a heavy toll once again on our business," Vestal Lemmon told the group.

Property/casualty underwriters experienced an underwriting loss of close to $600 million in the first half of this year, compared to a $195 million gain during the same period last year, he said. The falling stock market has reduced policyholder surplus by more than $3 billion since the year began, he added.

"In the face of figures such as these, the need for more adequate rates would appear inescapable. But with the nation caught up as it is in one of the tightest inflationary squeezes of modern history, you can expect renewed public pressure to hold the line," he concluded. ■

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Lloyd's broker censures U.S. firms for offering political risk insurance

CHICAGO—"Some private U.S. firms are offering political risk insurance which they can't possibly handle—such as major war coverage," Julian G. Y. Radcliffe, director of the London-based Investment Insurance International, Ltd., a major Lloyd's broker, said. "They claim to cover losses by a major holocaust, but they may not be around themselves to pay for damages. We think this practice is deceptive," he added.

Lloyd's of London, which has offered expropriation, confiscation and insurrection coverage since the early 19th century, is very careful to assume only risks that they're certain they can pay claims on, Mr. Radcliffe explained. He delivered his remarks at the recent American Management Assn. insurance conference at the Palmer House.

Mr. Radcliffe cautioned U.S. domestic firms to enter the field of political risk coverage with integrity and a realistic awareness of their limitations. For example, he said Lloyd's insures against limited war losses but not against major war losses. Also, Lloyd's provides kidnap insurance because it feels an obligation to do so, even though it's considered more risky than some other forms of political risk insurance.

CLEARLY, the comments made by an official from the Overseas Private Insurance Corp. (OPIC), a U.S. government agency, were more optimistic about the future role of U.S. domestic firms in this field than those made by Mr. Radcliffe.

Political risk insurance is becoming more closely identified with the private insurance industry in the U.S., according to Arvin M. Kramish, senior director of insurance for the Near East and Asia, OPIC.

"Domestic private carriers might see this as a profitable new area," he added. "By 1980, OPIC is expected to be a reinsurer only, with the basic coverage provided by a joint government-business pooling association."

If approved, the Overseas Investment Insurance Assn. (OIIA) would be phased in during a three-year extension of OPIC, beginning Jan. 1, 1975. During that time, OPIC would be the manager of the trial program and would participate as both a direct insurer and reinsurer.

OIIA would cover two areas of political risk only, Mr. Kramish explained: Inconvertibility, or the inability to change foreign currency into dollars, and expropriation.

POOL PARTICIPANTS would share in an estimated $10 million in premium income for next year, he said.

Coverage limits would be $40 million in any one country for any one year or $80 million aggregate for any one year, Mr. Kramish continued.

OPIC and its predecessor, the Agency for International Development, have provided more than $13 billion in political risk insurance coverage over the years, Mr. Kramish said.

Eligible U.S. investors can obtain protection against risk of war, revolution and insurrection as well as against expropriation and inconvertibility in 90 countries, he said. However, it must be for a new investment or expansion of an existing investment. It also must be in countries which have diplomatic relations with the U.S. but which are not yet industrialized, or "developed" countries.

"While this insurance was conceived as a means for promoting capital flows to less developed countries, it has also served the U.S. investment community and its availability has been a major—and sometimes decisive—factor in the management's decision to invest in any given country," Mr. Kramish said. ■

Work expert tells trends in jobs, fringes

CHICAGO—Increased fringe benefits are only a temporary solution to job dissatisfaction—the ultimate answer must lie in job restructuring, according to Harold L. Sheppard, a researcher on the sociology of work for the W. E. Upjohn Institute for Employment Research.

Although older workers still see increased fringe benefits as a reason for greater job satisfaction, Mr. Sheppard said research indicates that younger workers base their satisfaction on the challenge in their jobs and the chance to make their own decisions.

Speaking at the luncheon session of the 40th annual midwest conference on industrial relations, sponsored by the Industrial Relations Assn. of Chicago and the graduate school of business at the University of Chicago, Mr. Sheppard said there is no research to indicate whether this attitude of younger workers will remain constant or change toward increased appreciation of fringe benefits as they grow older.

YOUNGER WORKERS generally are better educated than workers have been in the past, which leads to the desire for challenge in a job, Mr. Sheppard said. There is also a difference between those who have lived through the Depression and those who were born after it, he said.

Mr. Sheppard, who has coauthored a book on worker alienation, said, "Today's young workers are not peasants, they're anti-authority oriented."

Fifty six percent of a group of young workers studied by Mr. Sheppard said they want social rights to determine the quality of worklife. When wages are held constant "enriched" tasks produce more job satisfaction, he said.

Mr. Sheppard also predicted that fewer older workers will take advantage of early retirement. "Because of inflation, even in spite of cost of living increases, they can never catch up if they retire early." ■

New consulting firm

A new employe benefit plan administration and consulting firm serving the Southeast was formed in Miami. It will be called S.L. Greenfeder & Assoc. Inc., headquartered at 3900 N.W. 79th Ave., Miami. The firm will offer a data processing program, as well as claims and administration services. Greenfeder established an affiliation with Carday Assoc. Inc. an employe benefits consulting firm based in Washington, D.C.

Mo. department to view ISO rating practices

JEFFERSON CITY, MO.—The Missouri division of insurance is undertaking the first known market conduct investigation of the Insurance Services Office rating and classification procedures.

"What is unusual about this examination is that the market conduct approach is being applied for the first time to a rating organization," said William B. Connor, statistical analyst in the rate and claims examination section of the insurance department.

Edward G. Farmer, director of the state division of insurance, said the market conduct surveillance will involve looking at the ISO's statistical support data, ratemaking procedures, manual rules and a review of all property and casualty policy and endorsement forms.

The department's primary concern in the ISO exam was a review of compliance with state regulations, "to assure that practices are equitable and consisent with the public interest," Mr. Farmer said. Department personnel said there have been numerous complaints about the ISO concerning the politics of ratemaking procedures and the use of outdated information in setting rate classifications, but that these did not provide the impetus for the examination.

The Missouri examination of ISO is being watched closely by other states which may undertake similar projects. New York is reportedly considering an examination of ISO practices. ■

STATE STATUTES require periodic examinations of ratemaking institutions, department officials said, noting that ISO has previously been considered "an untouchable."

The ISO exam is scheduled for completion in late December, the department said.

FIA says it'll be 'more aggressive'

HARTFORD, CT—Attacking the "intense pressure" in recent months to minimize premiums for accounts eligible for superior risk markets and "a substantial lessening concern on the part of some insurance buyers as to the demonstrated quality and stability of the service offered by the insurer," Factory Insurance Assn. (FIA) general manager F.J. Goodfellow announced an aggressive, new marketing policy for the company.

FIA lost "a substantial amount of liability" business to Kemper and Factory Mutual System companies, to various layer arrangements, and to captive insurance companies, Mr. Goodfellow told *Business Insurance*, because of FIA's policy of "resisting rate reductions lacked proper support for the long run."

"**IT NOW** seems evident that market conditions should be responding to adverse underwriting experience," Mr. Goodfellow said, "with a return to recognized engineering standards and premium levels responsive to the ever-increasing exposures of the manufacturing and service industries."

As a result, FIA will assume an aggressive position, "to regain the experience of the past year or two," Mr. Goodfellow said. He refused to elaborate on FIA's marketing plans. ■

Seattle Blue Shield up

King County (Seattle) Blue Shield said medical insurance rates will be raised an average of 13.8% to 17% on Jan. 1, 1975 for its 48,000 subscribers. A spokesman said the increases are designed to offset projected losses of $649,000 for the upcoming year and to provide increased benefits. The increase will affect holders of only the BS 35/100 and 25/50 policies for individuals and subscribers to plans that supplement Medicare coverage for those over 65. No BS group plans are affected.

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Pa. commissioner pushes no-fault, consumer laws

HARRISBURG—Six busy months have passed since William J. Sheppard replaced Herbert S. Denenberg as Pennsylvania's insurance commissioner.

In that time Mr. Sheppard has set priorities for working for legal reforms such as no-fault auto insurance, promoting cost and quality reforms within the industry and searching for ways to control runaway health care costs.

In July, Mr. Sheppard, working with the state's general assembly, helped assure the passage of the no-fault auto insurance in this state.

"Pennsylvania's no-fault law is not perfect, but it will guarantee substantially improved benefits for auto insurance policyholders," the department observed recently in a release.

Although the state's no-fault law isn't effective until July, 1975, the department has already issued the first regulation interpreting the new law. A step-by-step explanation is being prepared, as well, to inform the public of the law's provisions.

Commissioner Sheppard also helped pass a new Unfair Insurance Practices Act in July.

"The new law is one of the toughest consumer protection acts in the country," it was said.

It prohibits abusive practices in insurance sales and advertising, availability of insurance, claims settlements, cancellation and non-renewal. It also gives the consumer the right to appeal to the commissioner upon cancellation of non-renewal on the policy.

"THE UNFAIR Practices Act serves as a powerful incentive for all companies and agents to compete for business on the basis of customer service and satisfaction," the department said.

Commissioner Sheppard has not outlawed rate increases by insurance companies. Many insurers are finding rate increases necessary to avoid bankruptcy and maintain customer service.

However, "through public hearings and detailed back-up information, companies are re-

Rate hikes, shorter terms for Canada

TORONTO—Increased premium rates and shorter term insurance are ahead for Canadian manufacturers, as seen in recent recommendations by the Insurance Advisory Organization of Canada (IAO) which represents 48 property and casualty groups.

Premium rate increases ranging from 10% to 30% on commercial property insurance for mercantile, manufacturing and industrial sectors will be effected by IAO member groups, according to E. F. Belton, president of the association.

IAO members write approximately 50% of all Canadian commercial insurance.

Because of the accelerating rate of inflation, IAC also recommended that member companies write commercial insurance for one-year terms only and to strive for full insurance to value.

Although IAO is primarily an advisory body on rate making, Mr. Belton said member companies have indicated they will follow the rate increase recommendation because of poor claims and loss experience.

Property insurance in Canada showed a loss ratio of 67.2% in 1973, between claims and adjusting expenses of $502.9 million and earned premiums of $748 million.

Mr. Belton said Canadian property and casualty insurance industry had an overall underwriting loss of $141 million in 1973 and he estimated losses of $200 million for the current year.

The record underwriting losses combined with the shrinkage of reserves, deposits and surplus because of the declining value of securities means some companies "may have to curtail the writing of new business or in extreme cases, drop business presently on the books," Mr. Belton said. ■

Consumer group officer

Judy A. Gorman, director of Consumer and Community Services for the Institute of Life Insurance was elected to the board of directors of the Society of Consumer Affairs Professionals Business (SOCAP). One of her major responsibilities at the institute is working with the industry-wide Committee on Consumer Affairs, a group of 16 life insurance company executives, analyzing consumer misunderstandings and making recommendations for solutions. The purpose of SOCAP is to foster business integrity, promote harmony between business, government and the consumer, and advance the consumer affairs profession.

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quired to justify every dime of requested increases, and to develop procedures for controlling inflationary costs rather than simply passing them on to the public," the department said.

The state's insurance department has also implemented a tougher law governing policy language during the last six months.

The commissioner has taken up the issue of sex discrimination in insurance practices. He has publicized and implemented recommendations of the department's Task Force on Women's Insurance Problems. Numerous legal actions against companies discriminating by sex have been filed. More than 300 insurance policy forms were disapproved because of discriminatory provisions.

IN ADDITION, the commissioner has ordered an intensive crackdown on insurance companies and agents violating the law and ignoring consumer rights.

The insurance department's law division has completed formal action against more than three dozen agents and brokers violating the law. Numerous investigations of other agents and companies are underway. More than $30,000 in fines have been levied over the last six months and over $25,000 returned to insurance consumers.

Pennyslvania's insurance department has been concerned with rising health care costs as well.

During the last six months, the department held public hearings forcing several Blue Cross and Blue Shield plans to disclose their progress thus far, as well as what future improvements are underway.

TOUGH STANDARDS for the approval of HMOs have also been studied by the department. It has already approved the licensing of a new HMO in Pittsburgh and is evaluating other applications.

Commissioner Sheppard has also shown a concern about dental plans. He has issued quality standards, which must be met by all prepaid dental plans.

Citing a need for an update of the old state insurance law, the commissioner has coordinated more than 20 legislative proposals to that effect. He has extended the department's full cooperation to the house committee studying the state's insurance law.

He has also called for the creation of a "blueribbon committee to review and recommend improvements to the state insurance code, which has not been substantially changed since 1929," a department spokesman said. ■

See unions bargaining for more group insurance

HOUSTON—Unions will bargain for an increased portion of their contract settlements in group insurance benefits such as group legal, dental, auto, life and homeowners coverage.

That's because non-wage benefits are both inflation-proof and tax-free, according to William W. Winpisinger, residential vp, Grand Lodge, International Assn. of Machinists, who recently addressed the 28th annual Conference on Employe Benefits here.

This is not to say that unions aren't interested in wage increases, he hastened to add. "The primary target of unions still is more money in the pay envelope," Mr. Winpisinger said.

"But for every dollar bargained for, the average union member only has 75 cents left to spend after federal and state taxes are withheld," he said. "The average member is in a higher tax bracket now because more spouses are working," he continued.

For the same cost to the employer in a normally negotiated agreement, group insurance benefits would give union members more mileage out of the settlement, he said.

"I THINK MY union will buy the idea of taking part of a $400-a-year wage increase, for example, in group auto coverage," he said. "Since $100 probably goes to taxes anyway, the $300 left comes very close to what an individual must pay for his own auto coverage. With inflation the way it is, it won't go even that far in a few years. But if auto insurance is arranged on a group basis, the cost of the coverage won't go up as rapidly as it would for an individual," Mr. Winpisinger added.

Group legal services will gain in popularity among unions, he said. "The average blue collar worker doesn't need a lawyer often, but he'll need one just as bad as anyone under certain circumstances," he said. These areas are domestic counseling, real estate (title search) and some insurance coverage, he explained.

Thrift plans probably will not be popular with unions in the future, he said, because of recent poor stock market performance.

The 30-and-out-retirement programs will be more popular as the provision is adopted widely.

Before non-wage settlements increase in popularity, he said, wages must catch up to the 16% current annual inflation rate and cost-of-living escalator clauses must be included. Non-wage benefits are a way of achieving and maintaining benefit levels in the future, Mr. Winpisinger said. ■

Federal rules will further expand Longshore Act

Longshoremen injured dockside to get better work comp coverage

HOUSTON—The federal government plans to extend workers' compensation benefits to all maritime workers dockside. Benefits were previously extended by law only to longshoremen engaged aboard ships at sea.

The extended benefits rules are presently being developed as part of the first comprehensive safety standard covering marine terminal operations, said Bernard E. Delury, assistant secretary of Labor for employment standards, speaking at the ninth annual Marine Insurance Seminar here.

"This proposed standard will be ready for public hearings in the near future, so that coverage will be extended to longshoremen in dock areas as well as aboard ships in port," Mr. Delury said.

He noted that as amended in 1972, The Longshore Act substantially expanded coverage beyond the navigable waters of the U.S. to shoreside facilities. Prior to that, coverage stopped at the water's edge.

UNDER THE AMENDED act, guidelines now being proposed call for an injured employe to have been engaged in maritime employment, at the time of injury, by a maritime employer, and also to have been performing work in adjoining areas customarily used by an employer in loading, unloading, repairing, building or breaking a vessel in order to recover work comp benefits for the injury, Mr. Delury noted.

"The proposed rules explain that the new coverage also may include certain terminal activities which are incidental to the unloading and loading of a vessel's cargo," he stated. "Employes who may be covered include those engaged in the stuffing and stripping of containers, those working in and about marine railways, and others engaged in processing waterborne cargo, such as checkers."

Also, the act will extend workmen's compensation coverage to all shipyard work performed in adjoining areas customarily used by an employer in the physical construction or repair of a vessel, Mr. Delury asserted.

DESPITE THE expansion of the Longshoremen's and Harbor Workers' Compensation Act as amended in 1972, Mr. Delury called on the maritime industry to be mindful of "the need to insure workers against the dangers that still exist."

The 1972 amendments more than doubled the amount of maximum payable benefits to injured workers from $70 a week, and the law now applies to some one million employes, he noted.

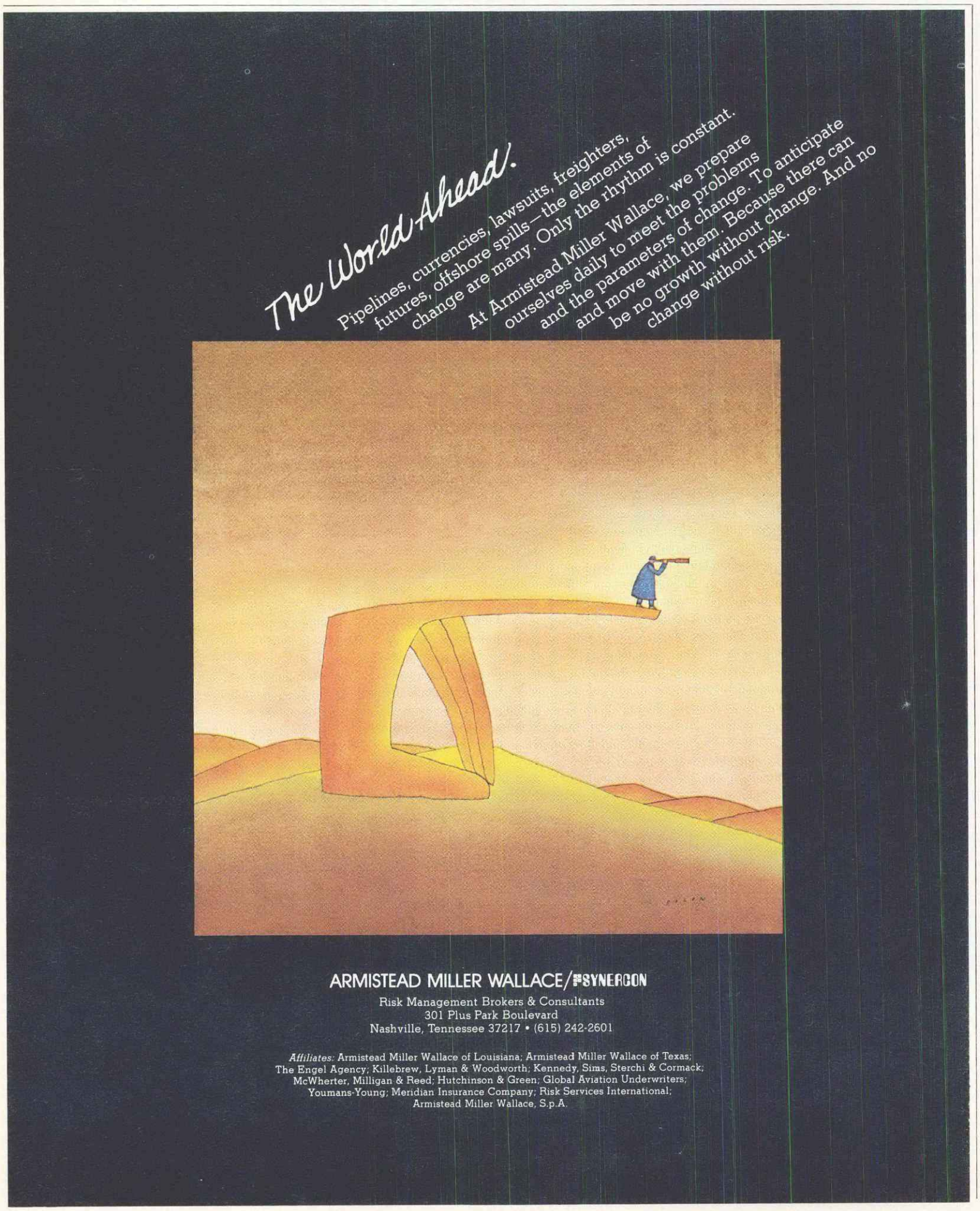
Just last month, on Oct. 1, maximum benefits were again raised under the act to $261 a week.

Mr. Delury reassured maritime industry participants in the conference, however, that "where the work or facility has no direct relationship to the actual construction, repair or breaking of vessels, the coverage of the act does not apply. Examples cited are bookkeeping, and accounting, secretarial, canteen and dispensary personnel, or industrial and public relations staff," he added.

But any covered employes are protected while they are in adjoining areas, as well, such as while getting food or drink, or while using restroom facilities, Mr. Delury explained.

"Coverage may extend to supervisors, a major portion of whose duties requires them to be in the locale of covered activities," he said.

The importance of the 1972 amendments to workers is borne out, Mr. Delury told his audience, by statistics from the first full year the amendments were in effect, from July 1, 1973 through June, 1974. "During this year, almost half of all injuries reported resulted from extension of coverage to shoreside areas." In fiscal 1974, some 135,086 injuries were reported, he explained. Extension of coverage accounted for 64,489 of these. ■



Set federal rules on unemployment cover

HOUSTON—The Ford administration wants to set federal minimum standards for state unemployment insurance to provide workers with at least two-thirds of their state's average weekly wage in covered employment.

This disclosure came from Bernard E. Delury, assistant secretary of Labor for employment standards, speaking at the ninth annual Houston Marine Insurance Seminar.

"The administration wants to make this change, and also to provide for extended benefits to workers in areas with high unemployment rates," Mr. Delury asserted. "Under study is means to extend coverage to household workers and local government employes," he also disclosed.

Must take inflation into account

NEW ORLEANS, LA.—The actuarial profession must tackle the problems of real investment returns and of risk shifting under conditions of inflation, the president of the Society of Actuaries noted at the opening of the society's 25th annual meeting here.

"The trend toward a higher proportion of term insurance and the attempts to develop variable life insurance," Edward Abow said, "indicate a decline in the utility of permanent fixed dollar life insurance as a means of shifting the risk of premature death."

The development of variable annuities and growing recourse to other supposedly inflation-proof investments, such as real estate, suggest similarly that the utility of fixed dollar pensions as a means of shifting the risk of reduced income upon retirement may also be in doubt, the president added.

In an "age of discontinuity," actuaries can no longer realistically expect to accurately estimate future costs on the base of previous experience, Mr. Abow warned. ■

labor beat

White collar workers still behind blue collar laborers in benefit areas

NEW YORK—Despite an obvious difference in education and specialization, the white collar professional is becoming more like his blue collar brother in the face of spiraling inflation and growing unemployment.

The professional is getting back to basics. He is fast allowing esoteric issues to take the back seat to bread-and-butter compensation and benefits issues.

Professionals are turning to unions to gain the same benefits as the blue collar worker. They see the blue collar worker getting cost-of-living increases and compensation for overtime, and they grow discontented.

Professionals are finding there is "no place to turn if they are unhappy about working conditions on job assignments," a spokesman for the Professional Employe Council said.

THE PROFESSIONAL Employe Council is the arm of the AFL-CIO that speaks for the "intellectual labor community," the spokesman said. The council is made up of 19 professional AFL-CIO unions running the full gamut of fields—arts, education, sciences and health services.

It was formed in 1967 to "bring members of affiliated unions into relations of mutual assistance, to promote specific professional interests and also to promote greater interest and participation on the part of the general public in scientific, educational and cultural activities."

THE GROUP of more than one million people includes unions such as: Actors Equity; the American Federation of Musicians, Insurance Workers International Union; professional division of the Oil, Chemical Workers; Retail Clerks; Teachers, Professional and Technical Engineers and the American Federation of Television and Radio Artists.

All the member unions are autonomous and most negotiate locally as well as nationally or internationally.

"There are no clear-cut benefit issues among professionals.

"There are a lot of myths around that because people get a college degree they don't have to eat. Many of their problems are the same as the blue collar worker. That's why they are joining unions," executive secretary of the council, Jack Golodner said.

What is a professional, anyway? This is a gray area. However, the council defines him as "an employe who is required to have advanced knowledge and must use adequate independent judgment and discretion."

One big issue among the professional unions is leave time.

"With changing technology, these people want time off to go back to school to keep abreast of the trends," the council said.

Not only do they insist that companies provide this leave time for them, but that they foot the bill for it as well.

The professional also wants to be protected against company discipline when they "pursue what they think are professional judgments," Mr. Golodner said. Although no solution for this has been found yet, there are talks of using a grievance procedure for this purpose.

WHAT ELSE do professionals want? They want to be judged by their peers in addition to being judged by management when they come up for a promotion or layoff.

The concept of peer review has already been instituted in some symphony union contracts. The contracts say that members of the orchestra have the right to do the auditioning and even have the right to veto conductors.

The question of sabbaticals is also on the list of requests by professionals. The only white collar union offering such a leave is the teachers' union.

Other professionals are looking for legal counsel. One Office and Professional Employes local in Minneapolis opted for this benefit in a recent negotiation.

Some union member doctors are asking for protection against the "incredible interference of the doctor-patient relationship by third parties, like insurance companies."

Musicians, tv and radio broadcasters are asking for increased communication. They say they are "given little attention by the institutions that employ them and when they're faced with a problem, there's no mechanism for resolution unless they bargain collectively."

"Engineers and scientists see blue collar workers getting cost-of-living increases and they're not," the council spokesman said. They are asking for an equal cost-of-living clause plus merit increases.

Pension benefits are a big issue with professionals. They are seeking earlier vesting rights, according to the council.

"WITH THE current economic picture of expansion and lay-off many of these professionals are losing their pension rights because they are constantly moving on," Mr. Golodner pointed out.

Professionals are also looking for job security. Part of their demands include relocation rights, severance pay and the whole concept of work sharing.

Since the law does not protect the professional in terms of work hours, he is often overworked without any compensation. ■

Pact to aid victims

The Federal Disaster Assistance Administration (FDAA) and the American Insurance Assn. signed an agreement offering victims of floods, hurricanes, tornadoes and other disasters instant access to crucial insurance information. The accord provides for the installation of an Insurance Assistance Unit in service centers established by the FOAA to help disaster victims in parts of the country declared major disaster areas by the President of the U.S. The units will work closely with the state insurance departments. Its role is strictly informational.

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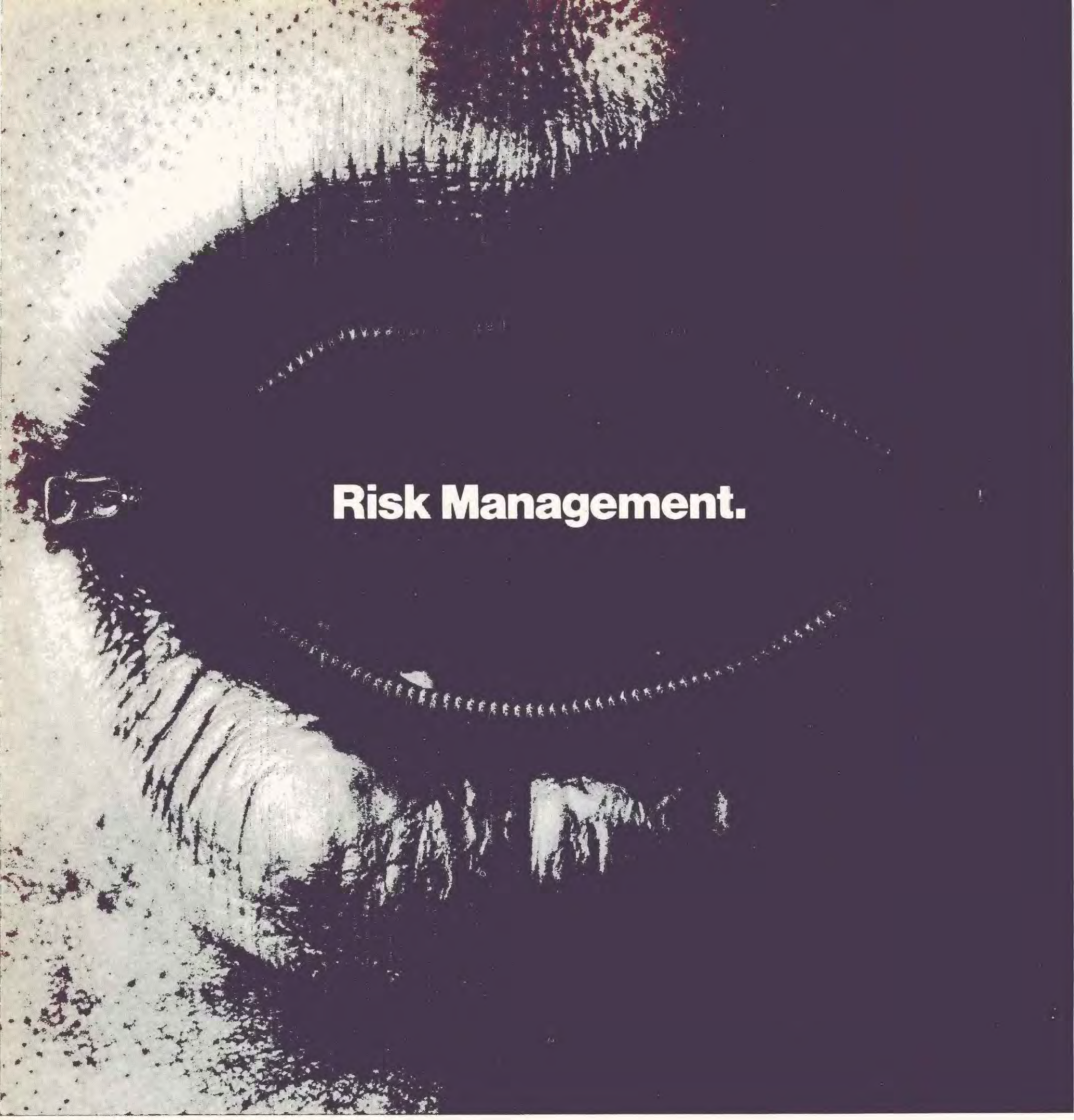

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Compliance race sends employers to seek safety help

New laws focus attention on safety issues

By PAUL B. MERRION

CHICAGO—Just as the fig leaf market started booming when Adam and Eve decided to include apples in their diet, the demand for safety consulting services has increased ever since OSHA and other safety legislation furthered the loss of corporate innocence of safety programs.

And in the same way that clothing became a necessity, a good safety progam has come to mean more than the fig leaf of OSHA compliance.

Safety consulting firms have been around for fifty years or so, but business was always slow until the passage of OSHA in 1970.

"When OSHA first came out, everyone was alarmed, assuming that someone would be around soon to check on the place," says Dick Lapham, manager of safety services at National Loss Control Service Corp. (NATLSCO).

OSHA STANDARDS have been complex from the beginning, and companies needed experts who understood the requirements and knew which ones applied to specific businesses, Mr. Lapham says.

Until 1970, most consultants who are active now were working only part time, according to George A. Peters, director of the consultants division of the American Society of Safety Engineers (ASSE). Many were retired safety directors who were paid a retainer to give their previous employers advice on safety problems.

After passage of OSHA, many "overnight safety consultants" popped up, says Mr. Peters. Some had little or no experience in safety. "We heard of a quality control man that became a toxicologist, and we even heard of a musician that became a safety design specialist," says Mr. Peters.

About the same time, large corporations started to go into safety consulting. For some, it was a matter of necessity.

"Our concern is instruments, and you can't sell instruments without showing how to use them," says Jim Armstrong, director of corporate safety, health and security at Bendix Corp., a major manufacturer of devices used to monitor the work environment. Bendix safety consultants also do specific environmental health studies and OSHA-type inspections.

Other large corporations went into consulting because they had a large pool of expert talent at hand. Dow Chemical Co. started its environmental health services division about three years ago when its customers started asking for help in dealing with OSHA, according to Arnold Schaffer, operations manager for the division.

"There's very little we (Dow) haven't done in the environmental health area. We don't have to use jacks-of-all-trades—if a customer wants a health physicist, we don't give him an industrial hygienist who knows something about health physics, we give him a health physicist," he says.

DOW DOES mock-OSHA inspections, air and water Environmental Protection Agency-type analyses and product safety checks. The flat rate for such services, including preparation time, is $45 per hour, Mr. Schaffer says.

Insurance companies and brokerages provide safety consulting services also, not only for their clients but on a fee basis as well.

In at least one state, Texas, insurance companies that write workmen's compensation insurance are required by law to provide consulting services to their clients.

Many insurance-related consulting firms cover every area of safety and health, but some restrict their services to reduction of identified losses, says Robert E Moore, formerly the insurance manager of a large construction firm and now head of his own consulting firm, Safety Professionals Services Inc.

"Insurance companies will review their experience—where injuries are occuring, they make recommendations to eliminate these hazards. But if they are not having trouble with a piece of equipment, they stay away from it even if it doesn't comply" with state and federal safety requirements, says Mr. Moore.

"Insurance companies just don't have the dollars and cents in their premium structure to provide an in-depth safety program," Mr. Moore says.

For companies that choose to self-insure, there are firms that provide basically the same type of safety consultation as an insurance company. These firms differ from small consulting firms in that they are usually used on a continuing basis, while small firms are called in on special problems in which they have expertise, according to Arthur Bostwick, director of insurance at McGraw-Edison Co.

CONSULTANTS PROVIDING services for self-insured companies provide a higher level of safety engineering than insurance companies, Mr. Bostwick says. Although some insurance companies are strong in the safety field, he says, safety engineers for

Continued on page 66

Checklist of risk management, insurance services

THE NUMBER OF services being offered by brokers, agents, insurance underwriters, independent risk management consultants and other independent suppliers is growing daily. The following is as complete a checklist of services as could be compiled, using information from many sources.

Accounting services
Actuarial services
Asset appraisals
Auto claims handling

Behavioral studies re: risk control

Captive insurance company management
Claims adjusting
Claims administration
Claims audits
Claims recovery (salvage)
Claims reserves analysis
Computer loss runs
Computer security

Data processing services

Employe benefit analysis
Employe benefit claims handling
Employe benefit funding analysis
Employe benefit insurance handling: specs, bids, review
Employe benefit planning
Employe safety programs
Excess, surplus & special risk placement

Feasibility studies for self-insurance, captives
Fire protecting engineering

Identification/evaluation of risks
Insurance audit/review
Insurance handling: specs, bids, review

Key manager life insurance analysis

Loss adjusting
Loss control analysis
Loss control engineering

Manuals for risk managers
Mergers & acquisitions re: impact on risk management

OSHA-compliance services

Property conservation programs
Property conservation services
Property recovery (salvage)
Public liability analysis
Publications on risk management for financial officers

Rehabilitation programs
Rehabilitation services
Reinsurance services
Risk funding analysis
Risk management audits
Risk management organization studies

Security programs
Statistical services

Tax consulting

Workers' compensation administration

Compensation study analyzes benefit areas

DEERFIELD, IL.—Hewitt Assoc. is offering a program, entitled "preferences in compensation" (PIC), which utilizes computer analyses to predict the most appropriate employe benefit package for a company, on the basis of data collected from employe surveys.

Five basic steps are involved in the process, according to a Hewitt spokesman. Initially, a management study group is set up to determine what employe benefit related issues the firm wishes to explore.

A SERIES of matrices, which will be administered to an employe group, is then designed and tested. Each matrix "compares two benefit areas." When the matrix series is administered to the employes, "the respondent is asked how much of one benefit area he is willing to trade off in order to get more of another benefit," the spokesman explained.

For example, an employe might be asked to choose how much extra vacation he is willing to give up in order to get more pay. These surveys are usually given to a random group sample of employes or can be done by mail.

After completion of the matrices by the employes, the results are coded for the computer, "using a mathematical model called conjoint measurement," which, according to a Hewitt spokesman will "find the relative value that an employe has for different benefit areas."

This feature of relative value, which "ranks and tells how much more important each benefit area is in relation to the other," makes the Hewitt PIC system unique, the spokesman said, in comparison with other methods for analyzing employe benefet preferences among company employes.

Management will later design packages of benefit and compensation plans based on the information obtained from the computer. These plans are then coded and put back into the computer, which is programmed to predict employe reaction to each of the packages, based on the initial rankings of benefit options from the group study.

Based on corporate objectives, financial feasibility, and other considerations, management is then able to determine which plan will be most acceptable for their firm.

TWO STUDIES have been completed by Hewitt so far, with much success, according to the spokesman. Prices for this service reportedly run upwards of $8,000 depending on the extent of consultation and guidance a company needs in setting up a program of this nature.

Hewitt now has exclusive rights to the computer model used in the PIC program, when it is used in the compensation benefits field. The model has been used extensively for marketing purposes. ■

Safety services . . .

Continued from page 65
self-insurance services generally are more experienced and higher paid than their counterparts in the insurance companies. Self-insurance services and small consulting firms are similar in their ability to produce good feedback on the safety situation. These firms provide better and more specific reports than insurance companies do, Mr. Bostwick says. Insurance company reports are usually standardized and hence less specific than reports tailored to one company.

Self-insurance services provide the whole range of safety engineering, although a client can arrange for whatever service he wants. The contract stipulates the objectives of the service and the total cost based on an hourly rate that ranges from $20 to $45 per man, according to Jon Carothers, vp of ESIS Inc. (Employers Self Insurance Services). ESIS, like most firms of this type, provides total loss control, environmental health monitoring and facility inspections for both OSHA compliance and hazards not covered by OSHA.

WHAT IS THE value of a mock OSHA inspection? What do safety consultants do when they inspect a firm?

A comprehensive mock OSHA inspection is as complete and as realistic as possible. The head of one consulting firm says, "If I have an appointment with a client at 11:00, I'll go in with the regular shift at 7:30 and look around until I'm caught."

Mock inspections usually include a discussion of the client's responsibilities, a physical inspection of the plant and a written report telling what must be done to comply with the law. Consultants do not guarantee that OSHA will not be able to find any violations. They give only their opinion of what is needed to comply, says the vp of a consultant firm who asked to remain anonymous.

But a pre-compliance OSHA inspection may be more rigorous than the real thing.

NATLSCO typically sends in three men on an OSHA-type inspection: a fire protection expert, a safety expert and an industrial hygienist. Most real OSHA inspections are conducted by one man who may request certain follow-up tests, Mr. Lapham said, but can't possibly understand all the requirements in every field that OSHA covers.

Safety consultants are usually paid an hourly rate, so the fee depends largely on the size and type of the place being inspected. One consulting firm says it has charged $1,200 for an inspection of a 100-employe, 30,000 sq. ft. workplace, which required only one inspector, and $42,000 for inspection of a firm that covered several million square feet and employed about 2,500 people. That job required four inspectors.

BUT THE demand for mock OSHA inspections is now diminishing. Companies are seeing how OSHA inspections are being conducted so they're not as worried now, Mr. Lapham says.

The vast majority of companies take their chance on an OSHA inspection and think they're okay if they pass," says Mr. Moore, president of Safety Professionals Services Inc.

Many small companies cannot afford pre-compliance inspections. "It's easier to pay the $100 fine than to do everything that needs to be done," says Mr. Moore.

Most safety consultants agreed that the shortage of well-trained OSHA inspectors means that most companies don't have as much to worry about as they once thought.

But the safety consulting field continues to grow. Even the possibility that OSHA may be amended to allow free consultation before an actual inspection does not alarm Mr. Peters.

Cal/OSHA has such a provision, and it has not had much effect on the consulting business, Mr. Peters says, because consultants will show only what needs to be done for minimal compliance with OSHA, and that is "a far cry from a total safety program."

"OSHA STANDARDS are the lowest common denominator" of safety measures, Mr. Peters says, and companies today are more concerned about lawsuits that arise from unsafe work conditions.

Both large and small consulting firms are getting more demands for their total safety service than their mock OSHA inspections alone.

Total safety service means a shift of emphasis from the physical conditions of the plant to the actions of individual employes.

Any expert in the field will agree with Mr. Lapham when he says, "Complying with OSHA doesn't mean you're not going to have any accidents."

"Motivating the employe who operates the machine, drives the vehicle, moves the stock or guards the premises is the key" to the entire safety program, says S.H. Flink, director of sales and research at Atwell, Vogel & Sterling Inc., a safety consulting firm.

A typical total safety program includes training employes how to do their jobs safely, safety motivation meetings, production of safety manuals tailored to a company's needs and training key personnel in first aid and other emergency procedures.

ANOTHER TREND in the safety consulting business is toward providing environmental monitoring services.

Only recently, vinyl chloride, asbestos and silica have been identified as serious health hazards. Yet only the biggest companies have the laboratory facilities to measure and analyze the contaminants in the workplace and the surrounding environment.

Safety consultants come in and take air and water samples and then send them to a laboratory for analysis. Large consulting firms sometimes have their own labs, and small firms often go to the big ones for their lab work.

Many consulting firms limit themselves to a few aspects of safety or industrial hygiene. OSHA and the ASSE have published a list of safety consultants, which indicate their special expertise, such as ventilation engineering, noise control, audiometric examination, vibration control, ergonomics, product safety and training.

Another specialty is "forensic safety engineering"—providing expert testimony in various kinds of liability suits. Federal legislation, such as the Consumer Product Safety Act, and the increasingly consumer-oriented position of the courts are creating a need for qualified experts who can back up the claims of either the plaintiff or the defendant. One well-qualified expert in this field says he charges $250 for each court appearance.

Much of this work is done by retired safety directors who "hang out their shingle to supplement their retirement income," according to Gilbert Rhodes, assistant director of the consultants division of the ASSE. ■

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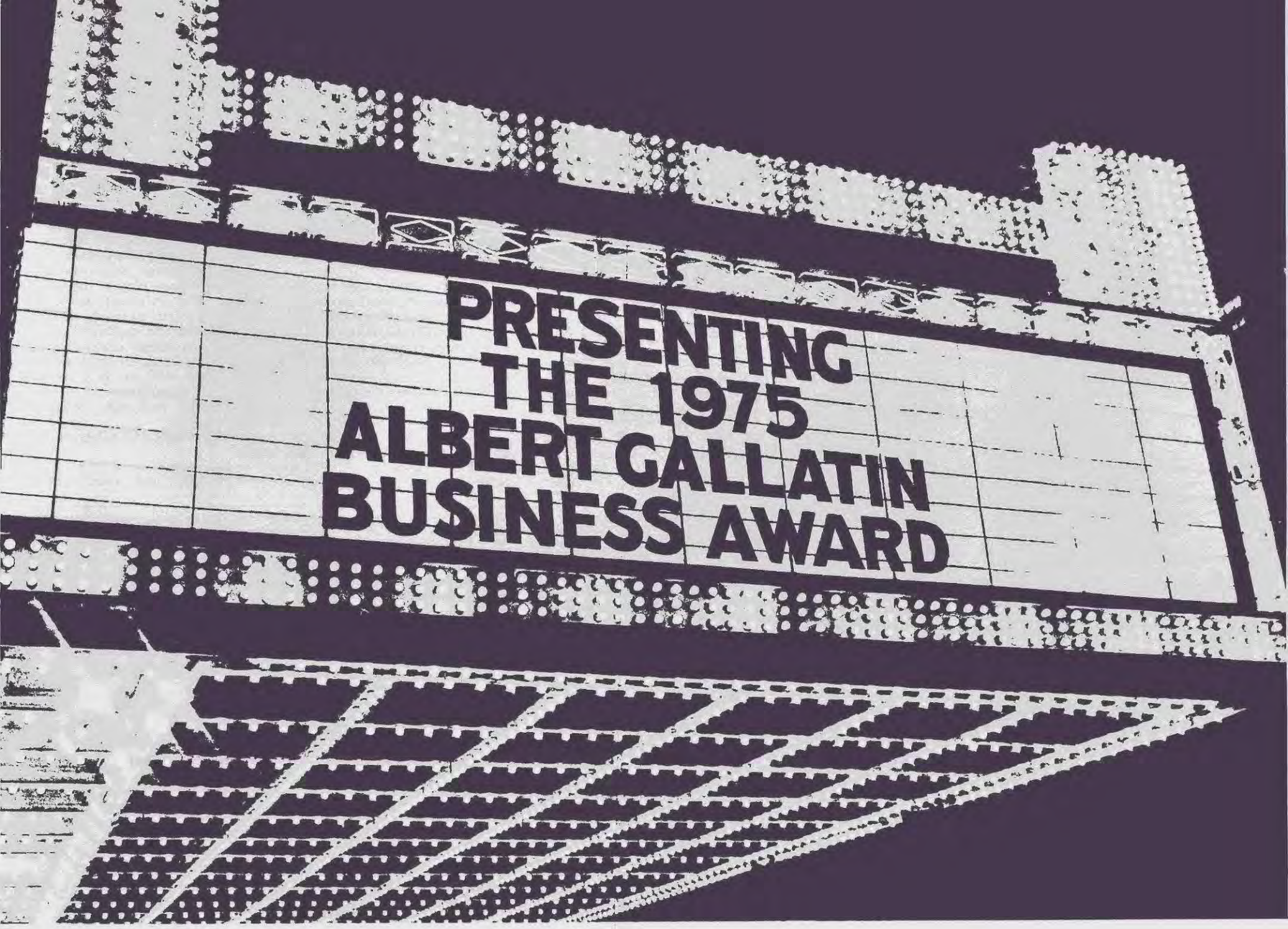

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Self-insured trend boosts recordkeeping services

By LINDA MOSKOWITZ

NEW YORK—Computerized recordkeeping of claim and loss statistics has long been a common practice among insurance companies. But the contracting of such services on a fee basis to suit a client's individual risk management needs appears to be a relatively new service offered by a few companies.

This is the conclusion drawn from a survey of insurance companies, self-insurers associations, risk managers and computer service firms by *Business Insurance*.

With a heightened concern over cash flow, many executives are now seeking better methods of loss prevention and control. Detailed claims and loss reports are essential tools for this task.

And many risk managers seem to be looking beyond their insurance companies for this service.

"MOST INSURANCE companies don't do a very good job in general unless they're pushed," said Donald Dalbeck, a risk management consultant with Betterley Assoc. of Boston, of recordkeeping and loss analyses services. He believes a supplementary service is often required, especially in large firms with a high volume of claims.

Insurance companies, Mr. Dalbeck believes, are primarily interested in selling insurance and not providing customer service exclusive of policy sales. "They're resisting as long as they can," he said.

However, the growing number of corporate self-insurance programs is forcing the insurance industry to adapt.

Insurance Co. of North America (INA) is one insurance company with a division geared to servicing the self-insured firm, Employers Self-Insurance Services (ESIS). ESIS will provide extensive computerized recordkeeping and loss analyses in conjunction with other services, such as appraisal, investigation and consultation.

"Self-insurance is a thing of the future," claims John Jolly, director of the management services division at ESIS. He agrees that the insurance industry will have to respond to the new needs of the self-insurer. "Large corporations can better control their losses through self-insurance," believes Mr. Jolly.

The statistical reporting service offered by ESIS includes a monthly detailed report of claims and losses, a summary report of claims listed by location and department, and quarterly reports recording cause and contributing factors of losses.

Mr. Jolly said he "would rather not quote prices" for the services ESIS provides.

ESIS HAS ITS home office in Los Angeles, Ca.

The self-insurer can obtain similar assistance from the General Adjustment Bureau (GAB). Computerized recordkeeping services are sold as part of a package including loss and claims administration, safety consulting service, investigation and adjustment services for all types of insurance lines.

The electronic data processing of this information is the tool to be used in conjunction with these consultation services, according to D. W. Carroll, sales manager for GAB.

GAB offers five basic report formats:

- claim activity log;
- workers' compensation log;
- log of occupational injuries and illnesses;
- summary of claim causes;
- property and marine activity.

"Any of the formats can be used, depending on appropriateness for analyses by time of injury, day of week, location of accident, years of service or age range, sex, frequency and cost of claims, or any other data in the system, explains a GAB brochure.

REPORTS CAN be obtained on a monthly, or quarterly basis, or if needed, on demand. Costs for GAB service are calculated from predetermined fixed statistics, such as a monetary value for the company business, the number of employes, or the amount of equipment.

GAB's executive offices are located in New York City.

For companies not wishing to purchase the consultation services of firms such as GAB or ESIS, other alternatives are available.

Corporate Systems Corp. of Amarillo, Tx., has developed a method of programming insurance data which it will sell to private or public firms and operations without the additional sale of extra services or insurance policies.

Formerly called Computer Claims Control and directly affiliated with the Orway-Saunders Agency, Corporate Systems became an independently operated firm in 1968. Currently, over 700 major corporations, trade associations, institutions and government organizations utilize the service. These customers range from an annual premium volume of $50,000 to over $10 million.

"An independent system can 'short circuit' the insurance company claim processing channel," maintains Marvin Gwinn, communications director at Corporate Systems. This is done as "cause and cost information is collected at the accident location, as well as from the insurance company," he said.

"The information goes into the independent information system where loss data is combined with premium information as well as with other expense data," continued Mr. Gwinn. "Reports are prepared, not for the insurance company, but to show the insured his total cost of risk."

"THE NORMAL flow of accident information," without the use of an independent data processing firm, explained Mr. Gwinn, "is from accident location to claim office to regional office to data processing, back to regional office to agent and risk manager.

"The information comes out on a loss listing prepared primarily for the insurance company and only incidentally for the insured. Usually it contains so many insurance company codes and so much insurance jargon," he continued, "that it cannot be used to communicate losses to corporate divisions and locations."

Several computer systems may be purchased either singly or in combination with one or more of the others. They are:

- casualty and risk management systems;
- loss control and safety analysis;
- retro-trend;
- property and special risk

management systems;
- claim and expense management systems;
- OSHA recordkeeping.

Cost for the service is about one-half of 1% of the premium, charged monthly, plus an installation charge for the "software" computer equipment if this is done. Very often the equipment is installed in the broker's office which acts as a central data collection point for many customers.

R. B. Jones is one such broker using Corporate Systems, and all of their national accounts are handled by this firm, according to Bill Gunn, president of R.B. Jones of Texas Inc., Dallas.

"They are in a league by themselves," Mr. Gunn said of Corporate Systems, discussing the absence of competition for this independent recordkeeping service.

MR. GUNN DESCRIBED the computer system as "absolutely brilliant," citing the fact that 400 of the Fortune 500 companies have purchased the services of Corporate Systems.

Such a service "must exist outside the insurance company," believes Mr. Gunn, so the statistical data can be developed from all the underwriters without breaching the confidence of records between carriers.

As far as new competition for Corporate Systems, Mr. Gunn thinks it's too late. "The market left is too scanty," he said. Anyone trying to compete now would only "dig a hole and waste a lot of money," he continued.

Mr. Gunn also feels the prices charged by Corporate Systems are "most fair and reasonable."

He further doubts that a company could successfully run its own internal recordkeeping operation, due to the tendency of management to cover up losses and errors for "self-preservation." Mr. Gunn maintains an independent service such as Corporate Systems is the only practical way to obtain accurate and meaningful loss and claims records.

Alexander & Alexander of New York also uses Corporate Systems for its recordkeeping needs. Peggy Hermanson, vp at A&A in Texas is responsible for input of information to the Corporate Systems computer, and she feels Corporate Systems offers "the best program of this type of system."

"We receive a very complete analysis on any level the insurer wants us to," she continued. She does point out that the system "is only as good as what you put in it," and while it must be "utilized correctly," she highly recommends it.

A&A is now conducting a study to determine the feasibility of operating this type of system internally without the need for an outside service. No conclusions have yet been reached, according to Ms. Hermanson.

Despite the doubts of some people, such as Mr. Gunn, that an internally-run computerized recordkeeping service would be almost impossible to use, one company has succeeded.

Burmah Oil & Gas of Houston, which is largely self-insured, began investigating the options available for this service and found dissatisfaction with all these methods.

BURMAH'S AIM was to design a system geared specifically to the company's needs, which could be operated as simply as possible, according to Al Greene, risk manager for Burmah.

Mr. Greene found Corporate Systems Corp. "too complex" and said that their "printout was not effective for Burmah's needs." But he conceded that the main objection to Corporate Systems was that it was too expensive.

Other services reviewed by Burmah included ESIS, which was found not thorough enough for Burmah's needs and CNA, which was found to be geared to the underwriter, he said.

Burmah uses an outside computer service company for rental of data processing equipment and assistance with initial programming. Mr. Greene claims that Burmah can operate this much more inexpensively than could be done by hiring a service. For example, he explains that while Corporate Systems Corp. would charge approximately $600 to $650 a month for servicing Burmah, it only costs his company approximately $100 a month to operate its internal system.

Burmah handles a fairly high number of claims and has programmed its computer to give printouts of claims and loss information by date of loss, type of loss, claim number, location where loss occurred, cause, and other categories.

This information can aid in pinpointing where losses occur most frequently and in formulating probability projections for future loss rates. Cash flow analysis is also made easier when loss reserve payments and rate of payment figures are examined.

REPORTS AT BURMAH are issued on an annual basis, but any information can be pulled and made available within 48 hours. There are no storage problems, said Mr. Greene, as all information is recorded on microfiche, a form of microfilm, which can store 250-300 pages of hand copy on one three by five card.

A single sheet of paper is used initially to record as many as 20 claims by hand, which, Mr. Greene explained, saves time and money. The Corporate Systems method requires a separate form for each claim, he said.

When asked why other companies haven't attempted to duplicate Burmah's successful internal recordkeeping system, Mr. Greene replied, "Most people seem to feel it will cost too much money."

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Tight money prompts firms to seek risk funding advice

Demand grows for risk consultants' counsel

By SUSAN ALT

CHICAGO—The market for risk management consulting services has grown fast enough in the last ten years to spawn two associations of independent firms offering such counsel, as well as a trend to broker-consultants and underwriter-consultants.

The independent consultants, however, precisely because of their arm's length relationship with brokers and insurers, are garnering the lion's share of the special-project and special-audit business generated by corporate risk management departments.

George Betterley, president of Betterley Assoc. in suburban Boston, estimates that there are about 50 independent risk management firms, approximately half of them having two or more professionals and the other half of the firms operated by individual professionals.

The market for risk management consulting services is estimated to have doubled in the last three to five years, based on growth figures recorded by a number of consultants who recently attended a convention of the Institute of Risk Management Consultants.

DOLLARS SPENT on risk consulting in 1973 were estimated to be $6 million to $7 million, with a predicted rise of 25% to 30% this year (based on growth recorded so far by many consultants) to $8 million-plus.

The corporate drive to conserve cash, and high interest rates forcing up the cost of borrowing have combined to boost demand for consulting services.

"Tight money has had a direct effect on risk management, by putting the focus on alternate risk funding plans, and encouraging risk managers to look at the options which are more cash sensitive. People are bragging about having cash flow plans," says Mr. Betterley.

Mr. Betterley predicted that in the next 10 years, many, if not all, of the largest industrial corporations in the U.S. will use consultants' services.

The most frequent use of consultants is for corporate risk management audits, followed by special projects. Corporations spend upward of about $1,000 per consulting project, with consulting costs sometimes hitting $50,000 or more for a special study.

SOME CONSULTANTS work primarily with larger corporations having sales over $25 million, although the one-person firms often specialize in helping small companies which can't afford or don't want internal risk management or insurance departments.

Only a minority of independent risk management consulting firms are represented in the two associations. The Institute of Risk Management Consultants, (IRMC) just one year old, has 35 individual members representing 14 firms. The Insurance Consultants Society (ICS) is over seven years old, and has 15 member firms.

William S. McIntyre, president of Dallas-based RIMCO Inc. and also president of Insurance Consultants Society, points out that there is a substantial difference in the membership rules of the two groups. ICS bylaws allow a consultant to work on an assigned project for a broker or insurance company on a fee basis, as long as the project does not involve the sale of insurance and as long as it's not represented to the client as an independent review but as a report prepared for the underwriter or broker.

IRMC bylaws forbid consultants to work on projects for brokers or underwriters.

IRMC rules also say members must charge straight fees, and will not charge fees contingent on a reduction in costs, increases in profits or any other specific result.

ICS rules say nothing about this practice. Mr. McIntyre said that his own firm, in fact, has three methods of computing fees: Straight per hour, percent of savings based on loss recovery and overcharge recovery, and a combination of these two.

He noted that much of RIMCO's new business comes through referrals by previous clients, insurance companies and brokers or agents. Mr. McIntyre charges a minimum fee of $1,200.

SEVERAL OTHER consultants noted that a growing number of referrals are coming from public accounting firms.

Mr. Betterley, past president of IRMC, whose firm deals mostly with larger companies, said fees generally fall in the $5,000 to $50,000 range. Some medium-sized corporations are retaining consultants for continuous counseling on risk management problems, he noted, much like companies use outside legal counsel.

One of the oldest risk management consulting firms in the country is Chicago-based Corporate Policyholders Counsel Inc., founded over 75 years ago. The firm's president, Harry C. Anderson, is also president of the Institute of Risk Management Consultants.

Of the total estimated 25 independent risk management consulting firms having two or more professionals, it's thought that only one—Ebasco—records risk management consulting revenues of over $1 million per year. Six more are thought to be in the next smaller size group, including Warren, McVeigh, Griffin & Huntington in San Francisco; Risk Planning Group in Darien, Ct.; Wyatt Co. in New York; Betterley Assoc. in Wellesley, Ma.; RIMCO in Dallas; and Corporate Policyholders Counsel.

The market for risk management advice has gathered enough momentum in the last few years that various certified public accounting firms and general management consulting houses have moved into the field, usually dropping out after a short time. Booz, Allen & Hamilton offered risk management consulting services for about three years, and had risk management specialists on its staff. But the specialists have recently departed, one to Fred. S. James and the other to the newly-created risk manage-

Continued on page 71

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Fireman's Fund Co.

Insurer plans for shift to service industry

CARMEL, CA.—Fireman's Fund Insurance Co. is formulating plans to "market the skills and capabilities we now have" to corporate risk managers and risk management consultants, recognizing the evolution of the insurance underwriter into a supplier of services.

Justin Tierney, vp of planning and development for Fireman's Fund, told risk management consultants at a recent meeting that his firm checked advertising in several publications, weeded out ads promoting insurance only, and found 31 companies claiming to offer risk management services.

Three of the 31 were also listed in a guide to independent risk management firms (Cameron & Colby, CPC and Ebasco), and nine others appeared to also be "true" consultants (Corporate

Risk Management Insurance Services

Systems Corp., ESIS, UAC, GAB, NATLSCO, Gates MacDonald, Gay & Taylor, Hewitt Coleman, and Ebasco).

Mr. Tierney said he found nine brokerage firms that advertised risk management services: Dinner Levison Co.; Fred. S. James; Rollins, Burdick, Hunter; Alexander & Alexander; Johnson & Higgins; McDonagh & Boland; Tomenson & Saunders; Marsh & McLennan; and Fairfield & Ellis.

INDICATIVE OF "a strong trend in the (insurance) industry" toward services, Mr. Tierney went on to note, is the long list of insurers offering risk management services, either directly or through separte corporate subsidiaries. Those advertising such direct services included, he said, Factory Mutual System through Arkwright Boston Insurance Co., Protection Mutual Insurance Co. and Allendale Insurance Co.; Hartford Steam Boiler Inspection & Insurance Co.; Liberty Mutual Insurance Co.; Royal Globe Insurance Co.; Zurich-American Insurance Co.; Argonaut Insurance Co.; Allstate Insurance Co.; and Aetna Life & Casualty Co.

"Looking at the market in a different dimension, we find risk management services often are provided through a separate corporate subsidiary. The reason most often given for the formation of a separate company is that this strategy reduces the influence of the premium-minded parent corporation on the more service-fee minded subsidiary," Mr. Tierney said. "Some insurance companies (producers and other insurance service companies) which to date have formed or are associated with risk management subsidiaries are INA (ESIS); Haliburton (Ebasco); Kemper (NATLSCO); CNA (CNA Actuarial Consultants); Continental (Underwriters Adjusting Co.); Nationwide Mutual (Gates MacDonald-Consulting Firm); IT&T/Hartford (Cameron & Colby); Homestead Insurance Co. (Euclid Services, Inc.); Pinehurst Corp—Presidio Insurance Co. (Kautz & Co. and Risk Management, Inc.); Barton Reinsurance Co. (Risk Treatment Services Co.); Frank B. Hall & Co. (Boit Dalton Hall); Union Mutual Life Insurance (Claims Service International); Reserve Insurance Co. (Market Facilities Management Services, Inc.); Lumberman's Mutual Casualty Co. (National Compensation Co.); Home Insurance-City Investment Corp. (Scott Wetzell)," he cited.

MR. TIERNEY predicted a continuation of this trend over the next five years, reflecting growth of the corporate risk management concept. He estimated that only 5% to 10% of the total commercial insurance market in terms of dollars of premium is now "meaningfully interpreting" risk management concepts. As this concept of risk management filters down to the medium and smaller corporations, five and even ten years from now, Mr. Tierney said, there will be even more emphasis on financial services. ■

Consultants...

Continued from page 71

ment services division of American International Group. And Booz, Allen's New York headquarters told *Business Insurance* the firm no longer offers any risk management consulting services.

Cresap, McCormick & Paget apparently underwent the same kind of change.

H. Felix Kloman, president of Risk Planning Group, attributes this lack of interest by CPA firms and general management consultants to the fact that the market just isn't big enough yet.

MCKINSEY & CO. performs risk management audits and studies, but only as part of broader corporate consulting projects. "We are not offering risk management consulting as a separate product," said a spokesman for the firm.

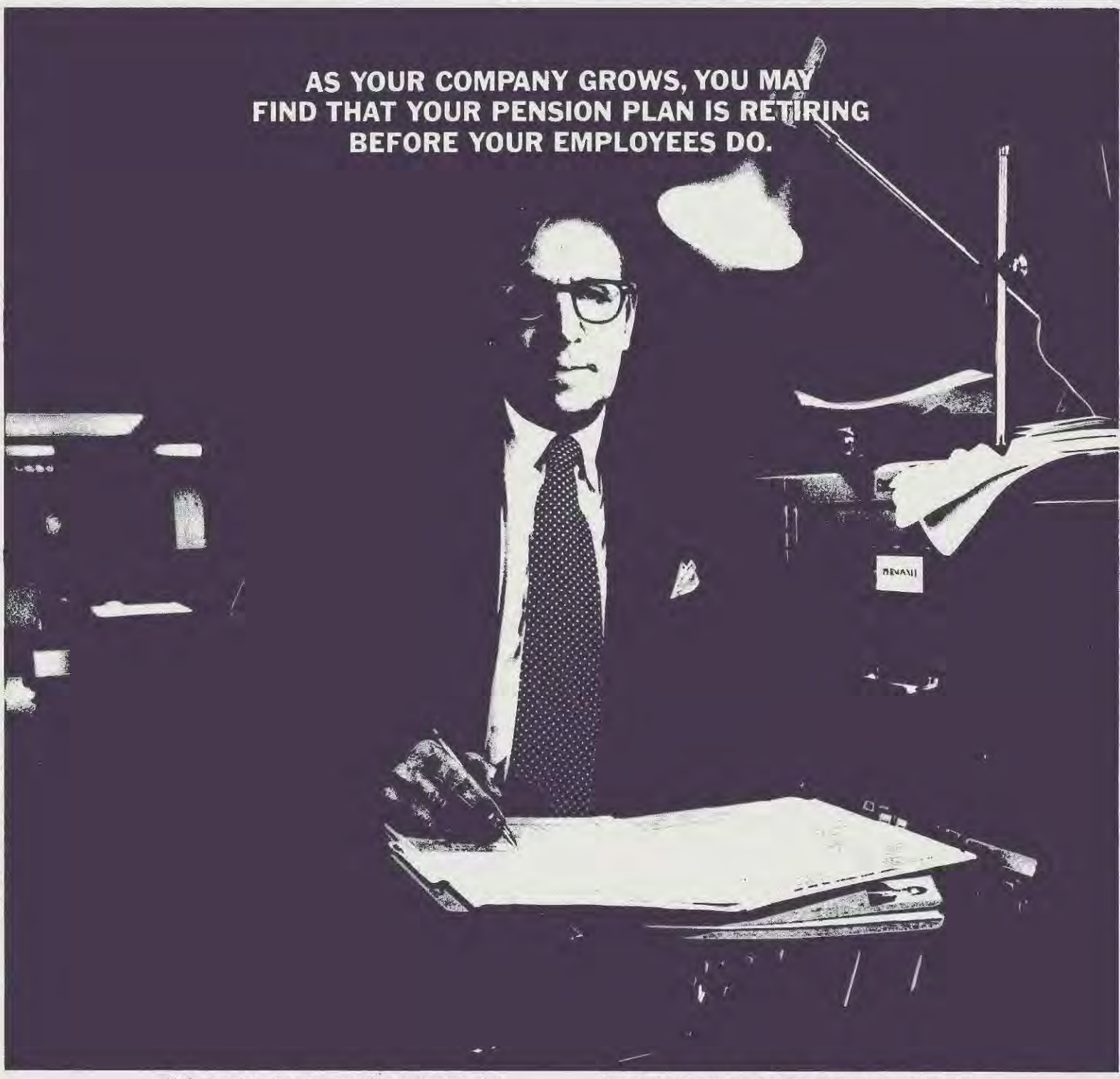
Similarly, accounting firms don't appear to be putting their energies into risk management consulting. They reportedly are eyeing the market for corporate risk management audits and other services, but haven't moved yet to any substantial degree.

Price Waterhouse & Co. is doing some experimenting with risk analysis computer models, but has not done any work in the area of alternate methods of risk funding, said a spokesman working in the data processing services division. "We're in the business of building and developing the logic used in the computer models to evaluate the risks of certain business conditions. We are measuring the potential impact of conditions that may come about for companies, using such factors as revenues, interest rates, price of stock, and construction costs. In the hospital field, for instance, we look at occupancy rates, inflation relative to health care. We think there is an increasing demand for this type of work," said the service specialist.

Price Waterhouse will probably expand its risk analysis capability to such things as the energy crisis, international finance relating to monetary rates, and also more model building in the health care field.

Bernie Salwen, of S.B. Ackerman Assoc., New York, believes that "five years from now, the picture will change. Partly because the word is going to spread about using consultants for special projects. More people will be aware of consulting services.

"It's a possibility that CPA firms will move into risk management consulting," said Mr. Salwen. ■



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Management seeks 'independents' to analyze programs

Corporations use risk consultants for audits, bids, policy-making

CHICAGO—Risk managers who've used consultants for advice on special situations and to help with insurance bidding appear convinced that calling in another specialist can't hurt.

And corporate executives are increasingly using consultants to audit the insurance purchased and premiums paid by their risk managers, as well as to audit the effectiveness of the risk and insurance departments themselves.

Bob Day, an independent risk management consultant with his own firm—B.C. Day Co.— in Seattle, says that he's most frequently called in after insurance programs have been put out to bid, to review submitted proposals.

AT YET ANOTHER level of consulting is Peter Norman, president of P.D. Norman & Assoc. in Toronto, who most frequently works with top management of corporations to develop the risk management philosophy for those companies. This step often precedes or even goes along with a full-scale risk management audit of the company.

Risk managers presently using consultants for periodic audits, special projects and studies often view the consultant as an extension of the risk management department, usually budget for consultants, and expect to use consultants more in the future.

"I would think about half of the risk managers in ASIM (American Society of Insurance Management) don't have the direct authority to spend money for consultants' services, but the number who do have the authority is growing because of the budgeting function in the corporation," suggested Herb Cunningham, assistant controller and risk manager for Transamerica Corp., San Francisco.

Consultant helps plan loss control, insurance on new building project

His firm, a holding company which claims several large insurance company subsidiaries, has made "rather extensive use of consultants" to get the risk management work done, Mr. Cunningham said. This is partially attributable to Transamerica's small headquarters staff of only about 60 employes.

"I ORIGINALLY got the risk management department started after a consultant's survey of our company," Mr. Cunningham said. The major recommendation of that consultant—Warren, McVeigh, Griffin & Huntington—was that the company establish a risk management department.

Mr. Cunningham used consultants for policy analysis, risk management program analysis, a safety study, and protection services.

Martin Seaney, manager of risk control for Crown Zellerbach, has used "and will continue to use" independent risk management consultants for overall audits of risk management programs, and special projects. "I look to consultant for fresh views," he said, noting that since the first overall study Betterley Assoc. did for Crown Zellerbach, the risk management department has grown substantially

JOE BRIDGES, risk manager of Amfac Inc., Honolulu, used consultants for audits of risk management programs, and has also used consultants for computer center fire protection surveys, and for security problems on an "as needed" basis. He has a six-person risk management department.

Irv Nicholas, risk manager of the University of California, has a smaller staff and uses consultants "a great deal. They are part of our team," he said. The U. of C. just completed a performance audit of the entire risk management staff with consultants.

"When it comes to loss control activity, we will send the consultant in (to a subsidiary) to teach, but if the subsidiary wants to keep that $100 deductible, we don't argue," said Mr. Cunningham of the way he and consultants work with Transamerica's belief in autonomy for operating subsidiaries. "We will use a consulting report to try to convince the subsidiary what should be done, but if they decide no, we don't argue," he said.

Mr. Seaney believes evaluation of staff is the most important use of a consultant for an audit.

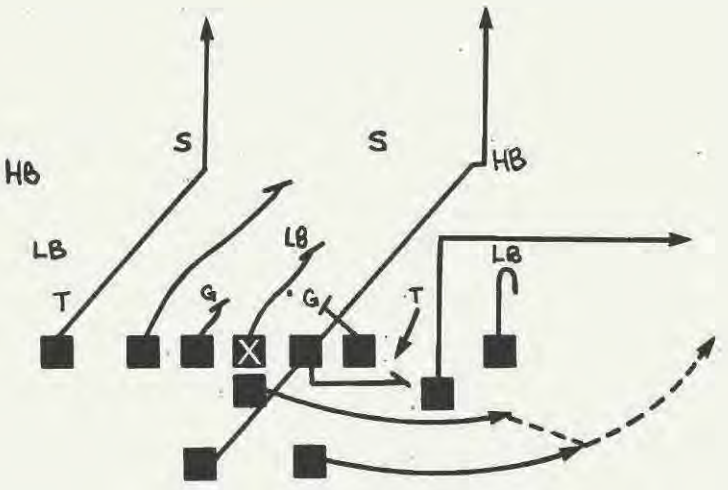
Mr. Nicholas of U. of C. said he intends to use consultants in the future for self-insurance studies, program audit, and cost-of-insurance studies, areas "where the university will need help."

Many risk managers said they budget for use of consultants. Mr. Nicholas said the university does not have money allocated for consultants; the operating budget includes only risk management administration and premium.

Risk managers were asked if there are disadvantages to using consultants. There were few

Continued on page 73

OPTION PLAY



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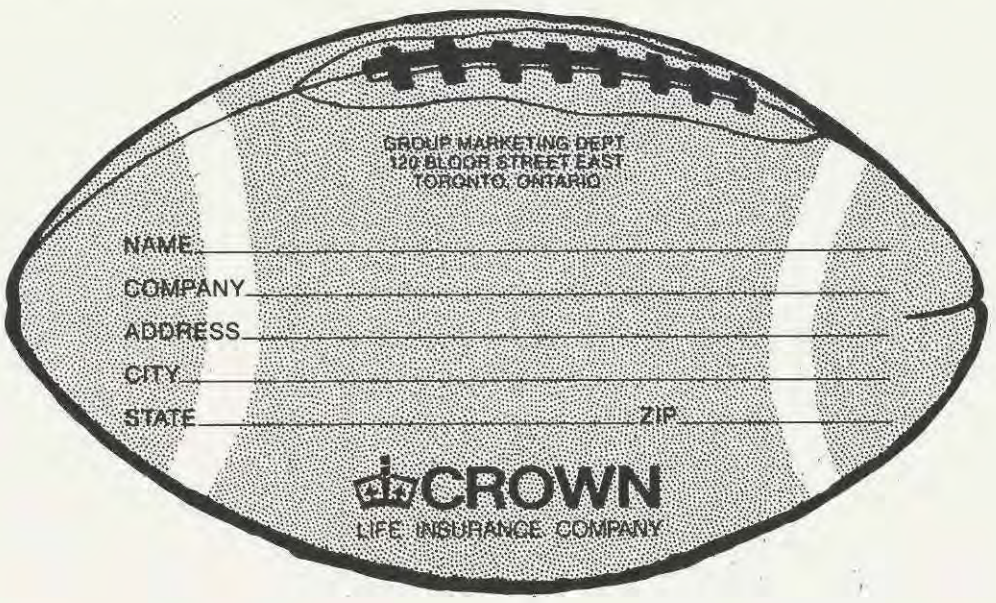

Continued from page 72

replies, except a comment by Mr. Seaney that risk managers and consultants have to remember that if they have the same objective, there's room for discussion about the ways to get there. And Mr. Cunningham added that, in his view, "if a risk manager goes to ASIM meetings and only understands half of what's going on, he'd better be afraid to bring in a consultant."

Asked if there are any particular problems in risk management departments generally that might be resolved in the future by outside consultants, Mr. Seaney noted "I haven't felt I've had enough time to devote to long-range planning. I think risk managers might use consultants for such things as products liability surveys, captive subsidiary studies, foreign operations audits, and recommendations of alternatives to present methods of funding risks."

Mr. Bridges said he selects consultants on the basis of independence, reviews programs in light of the particular company's risk management concepts, reviews the quality of previous reports, and checks the consultant's reputation among people for whom the consultant has done work. He looks to the consultant to review the company's relationship to brokers, get independent feedback on risk management programs from throughout the corporation, and to review the competency of the risk management staff.

Risk Management Insurance Services

Mr. Cunningham said he would evaluate a consultant on the basis of past working relationship, survey techniques and submitted proposals coupled with negotiations and interviews, and also on the basis of the person he would be working with.

"You get consultants because they are experts, superstars, in a certain field. If you work with a consultant who doesn't have the right knowledge, you should hire a different one," Mr. Cunningham advised.

Having a consultant come in "could have a negative short-term effect on the relationship with a broker, but it usually has a good positive long-term effect because if a broker knows he has a critic in the background, he will do a better job," Mr. Seaney offered.

One corporate risk manager questioned whether an associate consultant, or "subcontractor" in a sense, should be hired by consultants without a risk manager's knowledge or permission. An associate consultant is often hired in a certain geographic area or to work on a specific problem where a consultant needs help. "I think the decision-making on hiring a subcontractor in any line of risk management should be made by the risk manager. It could have substantial implications for the corporation," stated Peter Mullen, now vp for Fred. S. James in Los Angeles and until recently risk manager for City Investing Co.

MR. BRIDGES disagreed. "We're using the consultant as the outside coordinator. It is the same situation as with outside attorneys. There's a cascading effect. We expect consultants to use the subcontractors they need to get the specified results."

Mr. Cunningham felt strongly that the decision should be left up to the risk manager. "I think you have to go outside for somebody else if there's a need. But you have to go to the client first," he said, "to let him know, give him a choice of other sub-consultants, ask how he thinks the problem should be handled. But the worst thing would be to not let the risk manager know what is going on."

Risk managers apparently have not established any quantitative yardsticks for measuring the cost effectiveness of consultants versus adding internal staff. "In our particular case," said Mr. Nicholas of the U. of C., "we don't pay any commissions, because we're a public body. So all our insurance work is really considered on a fee basis. We spend about $250,000 a year on risk management consulting, including the marketing of our insurance for a fee."

Mr. Cunningham added, "anybody who measures the cost of hiring a consultant merely in terms of comparing it to the cost of putting someone on the internal staff is making a mistake." ■

Wyatt offers automated earthquake risk analysis

CHICAGO—The Wyatt Co. is providing clients with a new computerized analysis of the probability of earthquakes near the clients' plants and offices.

Warren G. Brockmeier, director of risk management services for the firm, said Wyatt compiled earthquake data from several U.S. government sources from 1872 through 1971 and computerized it. He claims the combined data provide an analysis which is over 95% accurate, compared with much less accurate information previously available. Mr. Brockmeier attributed the greater accuracy of Wyatt's information to the combined earthquake statistics, which the government had never furnished in combined form.

Using information on the location of a client's facilities, Wyatt determines the longitude and latitude of each and uses the computerized information to print out a list of all earthquakes of a certain intensity occuring within the last 100 years within a 100 mile radius. This list includes the date of the earthquake, the location of its epicenter, the distance from the epicenter to the facility, and the intensity of the quake on two different scales —Richter and Mercalli—Mr. Brockmeier said.

THEN, A COMPUTATION is made of the probability of an earthquake of high intensity within the next 100 years, which is converted to an annual probability.

Mr. Brockmeier said the cost of this analysis is $50 per location, with a minimum charge of $200 per client. He said Wyatt does not claim these calculations are completely accurate characterizing them instead as "rough approximations."

"We feel that this assists our clients in two ways," said Mr. Brockmeier. "It gives them some idea of which locations have a high degree of seismic activity, and therefore encourages them to have a structural analysis made of those particular locations. This might result in some relatively inexpensive structual changes, such as additional bracing or removal of hazardous cornices, which will improve the safety and property protection of the facility."

The second benefit which may come out of this earthquake analysis, he went on to note, is a review of the relative value of earthquake insurance or a difference in conditions policy. ■

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Consultants providing property protection help

By JUDI TALIT

NEW YORK—Factory Mutual System (FM) and Factory Insurance Assn. (FIA) have long offered loss control engineering services in conjunction with their insurance policies for highly protected risk markets.

Now a group of independent property engineering consultants are emerging to tend to the needs of the company that is not an HPR.

There are only about a half dozen of these consultant groups around, but they are picking up business quickly with the advent of OSHA, fast-changing building codes and cash flow programs.

Consultants are often hired as buffers to insurance company recommendations. Clients turn to consultants to reaffirm the insurer's recommendations that are often costly and sometimes unnecessary.

Although consultants agreed that they are not insurance oriented, their services tend to be insurance related.

Schirmer Engineering Co., a Chicago-based firm, is finding that a number of its 80 to 85 Fortune 500 clients are coming to them for just this reason.

"SERVICES ARE used in relation to the insurance arrangement of the client. In using this service, he might lower insurance rates and eliminate a lot of losses, especially if he's experience-rated. We're not that insurance-oriented, but, obviously the insurance would be lowered," said Schirmer's vp, Ray Weigand.

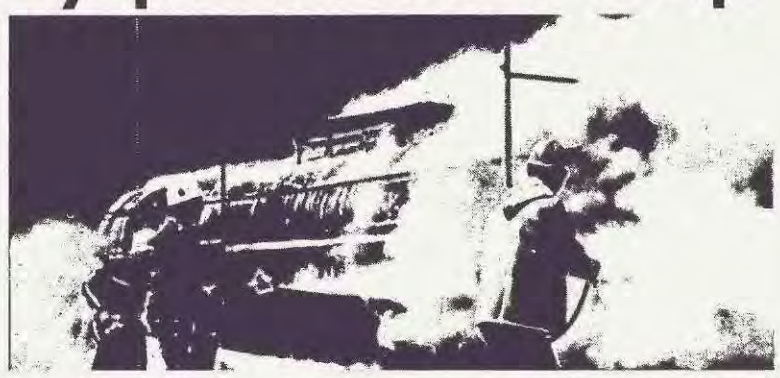
Schirmer's clients are primarily "loss control-oriented, and protection-minded," he added.

Although consultants agreed that the initial cost of hiring a consultant may seem high, it would probably save more money in the long run by protecting against a fire disaster.

At Schirmer, clients can pay on a per day basis, an annual contractual agreement or on a retainer basis. The cost for the service "depends on the size of the risk, how much time it would take our engineer to make an inspection. It's all related to time," the firm assessed.

CLIENTS OF Schirmer, an Allstate Insurance Co. subsidiary, include Sears, Roebuck, parent company of both, J.C. Penney, Republic Steel, Motorola, Genesco, Greyhound, Gold Kist and SCM.

The firm works hard to justify its costs to clients. "We might be able to come up with a less expensive alternate and still provide adequate protection. This is one way we justify our service to our client, in checking out the insurance company's recommendations," it was noted.



Property protection consultants are zeroing in on the services-for-fees market in helping corporations manage risks.

The need for this service "is tied to the insurance market, cash flow problems. Companies are looking for ways to save money or make better use of money," the vp reasoned.

Services at Schirmer are not confined to inspections. "We have a sprinkler design and consulting department and an alarm and security design and consultation department, as well as a very active building code department," the firm said. About 40 field engineers do the leg work.

MR. WEIGAND mentioned a growing trend towards more consultant firms. "There has been an accelerated growth in the number of consultants available. Certainly with the demand, this is a healthy situation. OSHA has had quite an influence."

Another consulting firm, with no insurance affiliation, has been around since 1952. Gage-Babcock & Associates Inc. is a Chicago-based firm with a total of 16 professional engineers.

Services include routine inspections, but the thrust of this service is "a comprehensive service of large industrial plants, complete design service, protection systems, investigation of losses and municipal codes," professional engineer, Bert Cohn, said.

The company usually has about "50 to 60 jobs going at one time. Right now some clients include Hartford Insurance Group, J.H. Baxter Co., Mobil Oil, Atlantic Richfield and Shell Oil," Mr. Cohn said.

Clients tend to be medium-sized companies because the large companies have their own staffs and the small company can't afford it, or think they can't afford it," he added.

THE COST OF Gage-Babcock's services varies, as do costs of other consultants. "A job could run from $100 to $50,000," the engineer estimated.

An annual fire protection review is available from the firm at a cost of $500. If the engineer is needed for additional days, at the plant however, each additional day costs $250. Out-of-pocket expenses, such as travel, lodging, and meals are billed in addition," the firm noted.

The annual fire protection review consists of a one-day plant visit by "an expert staff member, registered as a professional engineer and having not less than 15 years fire protection engineering experience. In addition to discussing his findings with plant management at the end of the day, he submits a written summary report on his findings and recommendations," it was observed.

Another group offering fire protection services is Marsh & McLennan Protection Consultants, operating separately from Marsh & McLennan brokers for the past

Continued on page 77

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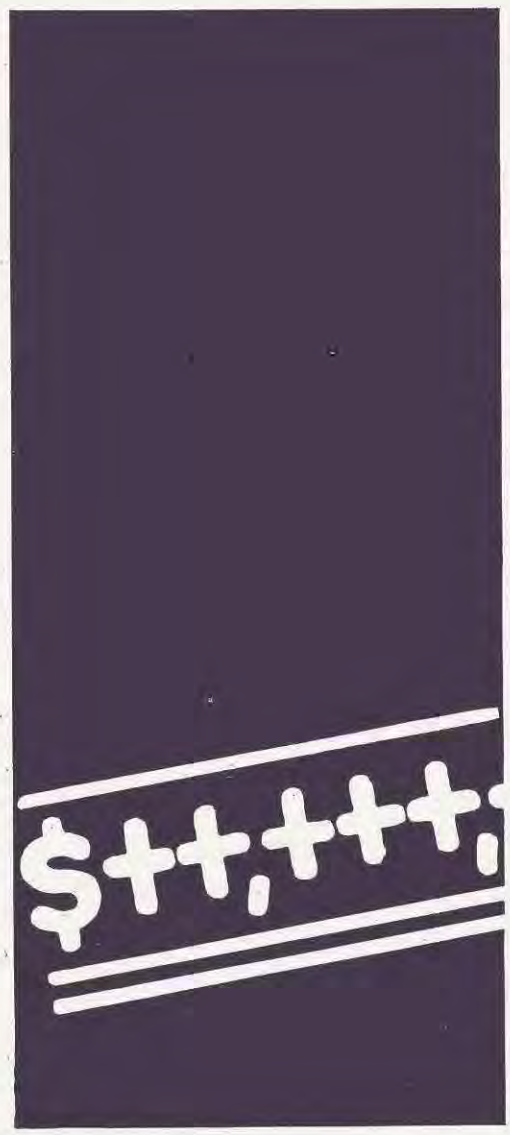

There is no pat answer, no canned solution. Each situation is different, and we analyze it as such. We might advise one company to assume more risk and transfer less. This might raise the cost of self-insured losses while cutting insurance premiums more. In another case, our technical services may be used to lower the incidence of accidents. This could raise loss control costs but more sharply reduce self-insured losses. The driving idea of this balanced approach is to progressively minimize total risk management cost. Which is another way of saying effective risk management.

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Continued from page 76

three years. It has over 100 engineers providing these services.

This consulting firm operates on a total loss control basis, taking in any phase of loss prevention including fire security and business interruption, "any area that might preclude a loss to our client," manager Al Rand told *Business Insurance.*

Marsh & McLennan Protection Consultants sees its competitors as being of various groups. "Many of the brokers have their own loss protection people. Certainly many provide this service free. In some cases, the competition comes from the carrier, in some companies, the client has a large operation of his own. Some organizations are very active on a consulting fee basis," he added.

ALTHOUGH Mr. Rand would not disclose the cost of M&M's service, he said "as a rule of thumb, consultants run on the order of $250 a day plus expenses."

Most clients are "seeking this kind of help as it relates to property insurance and the rates charged for it. It's a reasonable sized market," he said. The firm does all the loss prevention services for Marsh & McLennan.

The approach used by Marsh & McLennan Protection Consultants is a total one. "The objective is the protection of lives, conservation of property and continuity of business. Basically, we start with the consultation about the problem or the potential problem. It often gets us involved in looking at the actual plant. We prefer starting on the drawing board. Then get into plants, make recommendations and follow up to see if it's done."

The firm has some trouble in getting clients to comply with recommendations. "Almost all of our clients go through an economic evaluation before reaching a decision," Mr. Rand said.

Another group, National Loss Control Services Co. (NATLSCO), a wholly-owned subsidiary of Kemper, provides similar services.

The engineering approach used at NATLSCO is finding "solutions to problems. We might go into a plant, check capabilities of fire prevention, establish cost if a fire occurred, taking a large view at what could happen if there was a fire," said senior vp. technical services, Robert Satterfield.

He admitted that the cost for this service is "relatively expensive. Anytime you go to a consultant, you're going to pay a consultant —four to five times the salary of a full-time employe. But, you just use the consultant for the time he's there. Daily rates probably seem to be expensive. If you're looking at the overall, it's not."

The actual cost depends on the level of the engineer. A principle consultant used for court testimony in the case of an arson attempt could run about $400 to $500 a day, he said.

Other consultants providing similar services include Rolf Jensen & Assoc. Inc., a Chicago-based independent and the Sahara Group, working out of California.

The granddaddy of these fire protection loss control services is Factory Mutual System. President of one of the member companies, Philadelphia Manufacturers Mutual Insurance Co. cited a growing need for these services.

"With all the change in technology and new building materials, the need for services has grown. There are new challenges to our old protection devices. We try to come up with the answers.

Risk Management Insurance Services

Our program here is to get back to fundamentals. The most important is making sure the sprinkler valve is open," Donald Moore of FM said.

There is a definite change in the corporate structure which makes the insurer's job tougher. "The single plant situation is gone. Now there's a professional manager, divisional set-up with a profit-center management approach. It's a tougher educational job for us to get to the divisional line. Top management has to commit themselves to this. They've got to make it clear its corporate policy. They've got to name someone with authority because 73% of losses are from human failures," he stressed.

The cost of FM's loss prevention services is included in the policyholder's premium. The actual percentage depends on the nature of the risk and the kind of occupancy on the property. Generally, "13% of earned premiums for this loss prevention service" were noted, "this doesn't include the company engineer's time. It's close to 16% with the engineer's time," FM said.

UNFORTUNATELY, for some companies, FM's clientele is limited to HPR status. "We want to insure people involved in this concept of loss prevention," Mr. Moore said.

Although a number of consultants agreed that clients come to them after a recommendation was made by FM, Mr. Moore insisted that his firm's clients are "not going to consultants."

FM engineers are trained to approach the client with this question in mind. "If this were your plant, would you spend the money?"

Despite the growth of independent consultant groups, FM was not concerned about a possible loss in the market. "These consultant groups are cropping up. Think we'll have dozens. But, we don't anticipate they'll bring problems to us. We'll still serve a role," Mr. Moore said.

Factory Insurance Assn. is the other insurer with a big piece of the HPR market. It has 500 engineers and offers this service in conjunction with its insurance policies. "We're required to do it as part of the insurance filing in our description of HPR filing with all the state insurance departments," said Jim Lambert, assistant chief engineer.

ALTHOUGH MORE people are concerned with this service, FIA's market is not growing "because it has to come with the insurance," Mr. Lambert explained.

Unfortunately, FIA is losing a number of its engineers to industry. "Graduates fit very nicely into a corporate pattern," it was said.

FIA's problem lies in its relationship to its clients. "We have a very unusual relationship. You're constantly coercing people to do things. Selling recommendations is the biggest part of our job and one of the toughest," he said.

It is evident that there is a growing need for fire protection services. Some universities are offering a degree in it. Some include: University of Maryland, Illinois Institute of Technology, and Oklahoma State University at Stillwater. ■

OSHA inspections

The Occupational Safety and Health Administration (OSHA) conducted 7,354 inspections in August, about 1,000 more than for the same month in 1973. OSHA inspectors in August issued 4,979 citations alleging 25,500 violations of job safety and health standards. The penalties proposed for these citations totaled $684,000.

The Chicago fire in 1871 destroyed about $196 million of property, killed 300 persons and left 90,000 homeless.

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Self-insurance of work comp heats up market for administrative services

By MARGARET LeROUX

NEW YORK—Market competition for workmen's compensation administrative services is increasing as independent companies vie with insurance company subsidiaries for an approximate $1.1 billion in premiums self-insured by U.S. businesses and government bodies.

Self-insurance for workmen's compensation "looks attractive to companies with a cash flow problem," Ron Klein, vp-product management for Employer's of Wausau Insurance Co. said.

"For the immediate future you'll see more companies getting into self-insurance for workmen's compensation," Mr. Klein predicted.

However, many companies don't have the in-house expertise for claims handling, investigations and inspections, said a spokesman for ESIS, the largest administrative services supplier.

For such companies, contracting for services is the solution. And the choice of companies as well as services, "grows wider every day," one service representative said.

INSURANCE COMPANIES which formerly gave a cold shoulder to the administrative-services-only concept are doing a fast turnaround, as evidenced by the growing number of subsidiaries geared to services for self-insureds.

A spokesman for a risk management consulting firm observed "After a few insurance companies lost big workmen's compensation accounts to self-insurance they're suddenly taking another look at selling services to protect their claims departments."

ESIS Inc., (Employers Self Insurance Service), a division of INA, is the largest in the market with 160 claims offices located throughout the country. The home office is in Los Angeles, Ca. Founded in 1956, ESIS offers claims handling by its own staff and loss recovery services in the form of both salvage or subrogation and rehabilitation of seriously injured workers. ESIS furnishes its clients with monthly reports which include accident data, dollar costs of reserve, the amount paid and the amount outstanding broken down by compensation, medical, bodily injury property damage and allocated expense.

Loss control services are also offered by ESIS and include safety inspection and supervisor's training program and environmental surveys of noise, dust counts, radiation hazards, atmosphere and air velocity.

THE COST FOR claims handling alone is determined on a frequency of claims basis, an ESIS spokesman said. Loss control services are figured on a per diem basis.

Hewitt, Coleman & Associates is the largest independent safety and claims handling organization in the U.S., operating for more than 50 years. The national headquarters is in Greenville, S.C. with nationwide branch offices. The company's premium retention plan administers all phases of a client's workers' compensation program. Besides claims handling, Hewitt, Coleman will provide safety engineering and loss control services.

Included in claims administration are monthly accident reports, reserve estimates and field claims investigation.

Under the Hewitt, Coleman program, the fixed minimum cost to the client is 25% of the annual workmen's compensation premium.

Included among Hewitt, Coleman's clients are Georgia Pacific Corp., Sunbeam Corp., Duke Power Co. and the Florida Nursing Homes Assn.

Scott Wetzel Services Inc. a division of Home Insurance Co., has been in the workmen's compensation claims handling market since 1934. The company's main offices are in Bremerton, Wa., though "we handle claims country-wide through our affiliation with Home," a company spokesman told *Business Insurance*.

Besides the basic claims handling service, which features "a very sophisticated loss report, one of our strong suits," the company spokesman noted, Scott Wetzel offers loss control surveys and inspections.

The cost of the services is generally related to a normal annual premium, the spokesman said, "but it can be related to any variable, depending on the services required," he added.

NATLSCO (National Loss Control Service Corp.), a division of Kemper Insurance Co., since 1968 has provided a wide range of claims services from its main office in Long Grove, Il., and divisional offices throughout the U.S. Workmen's compensation claims services include an initial visit from a claim representative to explain the administrative process, a company spokesman said. The representative will provide the client with a roster of qualified physicians in the area "to allow proper medical control." Another feature of the NATLSCO program is legal assistance to the client or his insurer's attorneys in the preparation of litigative cases and negotiations of compromise settlements. Monthly loss statements as described above are also provided.

In addition to claims administration, NATLSCO offers "a basketful of services," the company spokesman said. Included among them are safety and loss control inspections, surveys and evaluation, training material and educational aids.

In the cost figuration, "we're flexible," the NATLSCO spokesman said. The fee can be determined on a percentage of annual workmen's compensation premium, percentage of incurred losses, on a payroll basis or a set fee for a block of services.

GAB (General Adjustment Bureau) is yet another broad-based source of workmen's compensation administrative services. With offices in 650 locations in the U.S. and Bermuda (GAB Bermuda Ltd.), it services not only the U.S., but overseas; Canada, Bermuda, the Bahamas, the Caribbean, London, Brussels and the Near East.

GAB will assist a client in establishing a self-insured workmen's compensation program and represent the client in communications with the state industrial commission. Besides the actual claims administration GAB provides monthly status reports to control program costs and to permit proper reserves, a company spokesman said.

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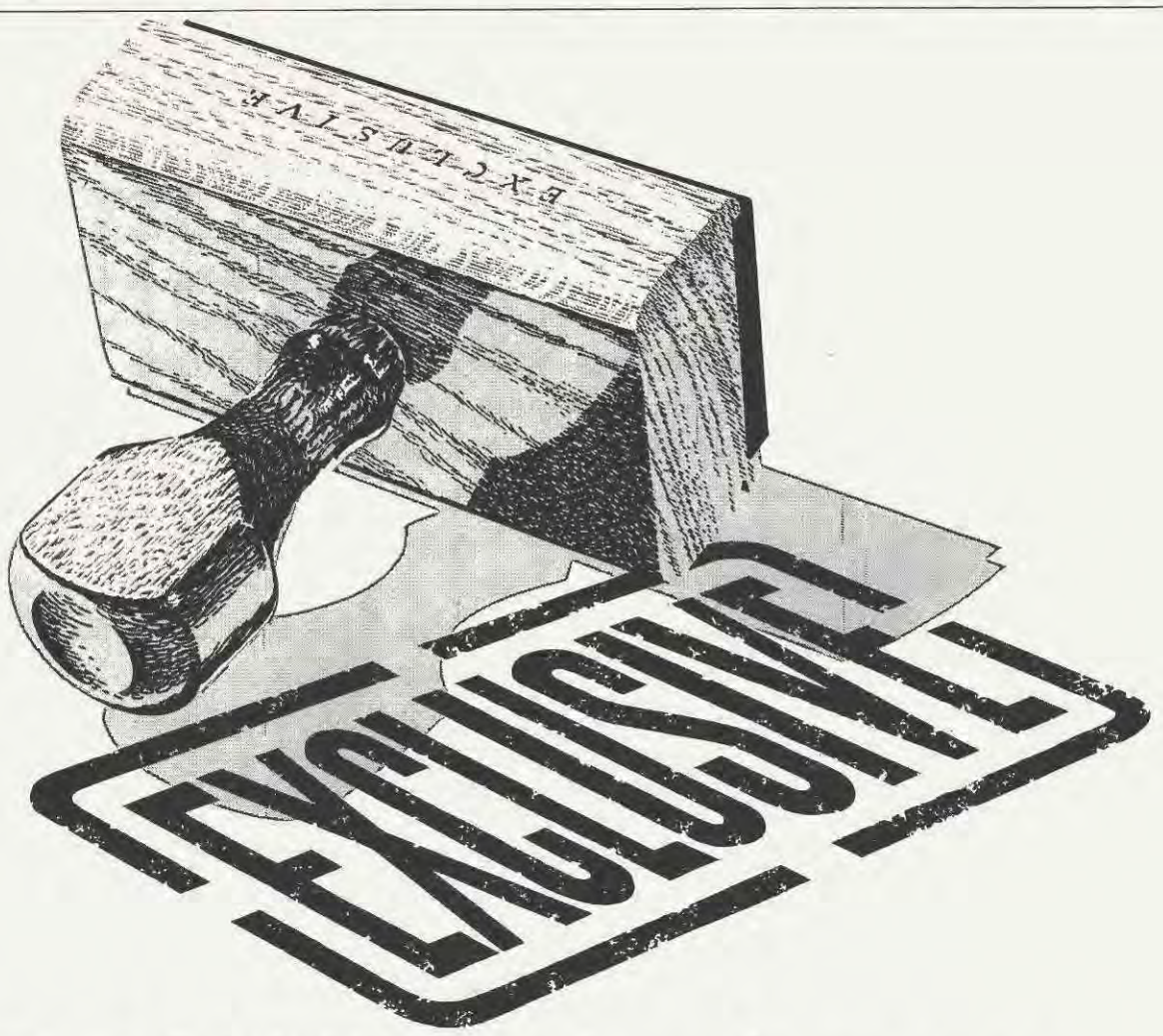

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Workmen's comp . . .

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A full range of GAB safety inspections, loss control programs, supervisor's safety training and other safety services are available to self-insureds, the spokesman said.

GATES MACDONALD, a division of Nationwide Insurance Co., headquartered in Columbus, Oh., handles 90% of the workmen's compensation for the state of Ohio, a company spokesman said. The company also services clients in California and other states in the U.S.

"We assist in administering both the state insurance fund and self-insureds in Ohio," the spokesman said. "By working with the state insuring fund we're able to utilize our consulting services," he added.

With a complete range of services available—"everything from writing the checks ourselves and deciding on claims to monitoring or auditing a company's program" —a spokesman noted that cost is figured on the amount of services required.

Employers of Wausau Insurance Co. also offers administrative services only for companies which self-insure workmen's compensation.

"We're in a position to provide these services where our clients need them," a company spokesman said, but one requirement is made: a client must be a qualified self-insured.

Risk Management Insurance Services

In cost configuration, too, Employers of Wausau differs from other workmen's compensation administrative service programs. "We don't use a percentage of annual premium—it's too elusive a figure," a company spokesman said. Instead, cost is figured on a percentage of incurred claims.

The company also services group self-insureds and for them, cost is determined on a percentage of claims paid basis.

UAC, a division of Continental Insurance Co. since 1968, can structure workmen's compensation administration "any way the client wants it," a company spokesman said. Based in Chicago, Il., the company has 300 claims offices in the U.S. A company can have either total claims handling by UAC or screen losses before assigning them to the company. Continental's computer service, INSCO, is available to handle claims for cumulative loss reports. Cost to the client is figured on a percentage of annual premium or on an incurred loss basis.

In addition to basic claims handling services, UAC can provide clients with safety and engineering services and an extensive rehabilitation program is available. ■

American Can buys comp services outside

GREENWICH, CT.—Professional involvement on the accident scene, in claims investigation and claims handling is the main reason one corporate giant went from a totally self-insured workmen's compensation plan to contracting for administration of the plan outside the company.

American Can Corp., whose 1973 sales topped $2.1 billion, self-insures workmen's compensation in 25 states, Ed Alheit, corporate risk manager, said in an interview. There are approximately 35,000 employes involved in the workmen's compensation progam, Mr. Alheit said, he estimated the annual premium at $5 million.

"We found it became difficult to administer the program from our main office in Greenwich," Mr. Alheit explained. So in 1972 a decision was made to contract with Employers of Wausau, the company's insurer for comprehensive general liability, claims administration.

"It's a barebones contract," Mr. Alheit said, "strictly claims handling, no peripheral services."

The fee is based on a percentage of total incurred cost, similar to retrospective rating, Mr. Alheit said.

He emphasized that contracting for administrative services didn't result in any substantial difference in cost; instead, it resulted in more efficiency in the field handling of the program. ■

Metropolitan offers staff flexible hours

NEW YORK—Metropolitan Life Insurance Co. has just opted for flexible work hours, effective immediately.

"Having a certain amount of self-determination in selecting working hours each day will, we believe, result in employes taking more responsibility for their own work and should result in increased productivity and service to our policyholders," initiater of the plan, Willard Peck, vp-personnel, said.

Metropolitan Life is the city's largest employer to offer this option so far, it was noted.

The firm's 15,000 home office employes can now begin work between the hours of 7:30 a.m. and 10 a.m. They will work the customary seven hours and 45 minutes, including time for lunch.

THE DECISION to institute such a system followed a three-month experiment conducted by the company's personnel research division earlier this year.

During this experimental period, about 400 employes were allowed to vary their hours in order to "better coordinate their work schedules with their personal schedules and to avoid rush-hour subway crowds and traffic."

The new work schedule proved advantageous to both employes and supervisors.

"Flexible hours eliminated employe tardiness, improved morale, gave management additional opportunities to realize increased efficiences and reduced the needs of employes for personal time off from work," Dr. Virginia Schein, executive asst., personnel said.

Where it is not essential for employes to be present at specific times on a regular basis, they will be allowed to vary their starting hours on a daily basis.

It was found that employes on flexible hours generally selected hours corresponding to the hours when they were needed most.

Other Metropolitan Life offices with flexible hours include an office in Ottawa, Canada; San Francisco, Ca.; and Tampa, Florida. ■

ALABAMA, MOBILE; THAMES & BATRE ARIZONA, PHOENIX; NATIONAL-HEARD INSURANCE ARKANSAS, LITTLE ROCK; RECTOR-MEANS AND ROWLAND, INC. CALIFORNIA, LOS ANGELES-PASADENA; KINDLER & LAUCCI / SAN FRANCISCO; CLIFTON & COMPANY CANADA, WINNIPEG, MANITOBA; RYAN AGENCY LIMITED CALGARY, ALBERTA; MONTREAL, QUEBEC; TORONTO, ONTARIO; VANCOUVER, BRITISH COLUMBIA; WHITEHORSE, NORTHWEST TERRITORIES; TOMENSON SAUNDERS WHITEHEAD LIMITED COLORADO, DENVER; WARREN & SOMMER, INC. CONNECTICUT, HARTFORD; ALLEN, RUSSELL & ALLEN, INC. DISTRICT OF COLUMBIA, WASHINGTON; HOWARD & HOFFMAN INC. FLORIDA, MIAMI; D. R. MEAD & COMPANY GEORGIA, SAVANNAH; PALMER & CAY, INC. HAWAII, HONOLULU; AMERICAN MUTUAL UNDERWRITERS, LIMITED ILLINOIS, CHICAGO; MACK AND PARKER, INC. INDIANA, INDIANAPOLIS; ROBERT N. BOWEN & ASSOCIATES, INC. IOWA, DES MOINES; LaMAIR-MULOCK-CONDON CO. KENTUCKY, LOUISVILLE; NAHM, TURNER, VAUGHAN & LANDRUM, INC. LOUISIANA, NEW ORLEANS; GILLIS, HULSE & COLCOCK, INC. MAINE, PORTLAND; MORSE, PAYSON & NOYES MARYLAND, BALTIMORE; RIGGS, COUNSELMAN, MICHAELS & DOWNES, INC. MASSACHUSETTS, LOWELL; FRED C. CHURCH, INC. MEXICO, MEXICO; KENNEDY & HIJO, A.P. MICHIGAN, DETROIT; GENERAL UNDERWRITERS, INC. MINNESOTA, MINNEAPOLIS; BRANDOW HOWARD KOHLER & ROSENBLOOM, INC. MISSISSIPPI, JACKSON; FOX-EVERETT, INC. MISSOURI, ST. LOUIS; LAWTON-BYRNE-BRUNER NEBRASKA, OMAHA; GREENBERG INSURANCE AGENCY, INC. NEW HAMPSHIRE, ROCHESTER; KENDALL INSURANCE INC. NEW JERSEY, MILLBURN; DONNELLY BROTHERS NEW YORK, BUFFALO; LAVERACK & HAINES, INC. NEW YORK; JOHN F. CURRY AGENCY, INC. NORTH CAROLINA, CHARLOTTE; JAMES J. HARRIS & COMPANY OHIO, CINCINNATI; A. W. SHELL & COMPANY / CLEVELAND; THE W. F. RYAN CORPORATION / COLUMBUS; THE McELROY-MINISTER COMPANY OKLAHOMA, OKLAHOMA CITY; ANCEL EARP, McELDOWNEY & ASSOCIATES, INC. OREGON, PORTLAND; JEWETT, BARTON, LEAVY & KERN PENNSYLVANIA, PHILADELPHIA; H. C. KNIGHT & COMPANY SOUTH CAROLINA, COLUMBIA-GREENVILLE; THE FURMAN CO. TENNESSEE, MEMPHIS; E. H. CRUMP & COMPANY TEXAS, HOUSTON; LANGHAM, LANGSTON & DYER / DALLAS; ROACH-HOWARD-SMITH & HUNTER, INC. UTAH, SALT LAKE CITY; ED. D. SMITH & SONS VIRGINIA, RICHMOND; DeJARNETTE & PAUL, INC. WASHINGTON, SEATTLE; LaBOW, HAYNES COMPANY, INC. WEST VIRGINIA, CHARLESTON; McDONOUGH-CAPERTON-SHEPHERD-GOLDSMITH WISCONSIN, MILWAUKEE; THE LAUB GROUP INC. ARGENTINA, AUSTRALIA, BELGIUM, ECUADOR, ENGLAND, FRANCE, GERMANY, IRELAND, ITALY, NETHERLANDS, NEW ZEALAND, PHILIPPINES, SWITZERLAND, VENEZUELA

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Communications tops list of services in demand

Benefit managers turn to outside service suppliers for assistance

By ELISABETH M. WECHSLER

CHICAGO—Employe benefit services are growing at an estimated 10% a year, not counting for inflation, a survey of consultants, insurance brokers and underwriters disclosed. And it's expected to expand 15% to 20% this year alone.

Services suppliers figure corporations spend over $1 billion a year, and possibly as much as $5 billion, for employe benefits services including expenditures for independent actuaries, lawyers and accountants who offer their services in the benefits area.

Benefit communication heads the list of services most in demand, although some benefits experts believe this is only a temporary surge, heightened by the need to comply with the new federal pension law.

Other benefit services offered in approximate order of client demand are: Claims services, administrative services, financial and actuarial advice, benefits planning, insurance negotiation counseling and international benefits consulting.

BENEFIT COMMUNICATION services are a "substantially growing area now," said Henry J. L. Fortuin, senior vp and manager, benefit service department in the New York office of Marsh & McLennan Inc. "And it will remain a rapidly growing area."

"Communication services are probably the most valuable tool employers can use," Richard J. Burns, group insurance consultant with Corporate Policyholders Counsel Inc., said.

Others called the growth in benefit communications "a temporary wave."

"At the moment, the greatest demand is for mechanical services to achieve compliance with the (federal) pension law," Guy L. Fairbanks Jr., a director of the group division at Aetna Life & Casualty Co., said.

"I don't see any great new demand for esoteric (communication) materials," said Erwin A. Rode, vp and associate actuary, group insurance division of the Prudential Insurance Co. of America.

MR. BURNS explained that many employers may step up their employe communications as a result of the new pension law. "It's an area of the pension law which few people understand yet. We won't know the full ramifications of it for awhile," he said. He claims, however, that there will be "substantial changes in the information an employe receives in the future" about company benefits.

"The legalese in the pamphlet (used by insurance companies) doesn't adequately communicate under the new pension law," Tom Wood, a partner with Hewitt Assoc., commented.

Benefit communication can take many forms, though it generally means the process of informing employes about company-provided benefits. Independent consultants and insurance brokers offering communication consulting services appear to dominate the field.

Benefacts, Inc., a wholly-owned subsidiary of Alexander & Alexander, Inc., has seen heavy demand for personalized employe benefit statements. "We like to think of Benefacts as the Hertz of the benefit communications fields," Dino A. Talamona, vp, said. Benefacts prepares personalized statements for the employes of 300 clients.

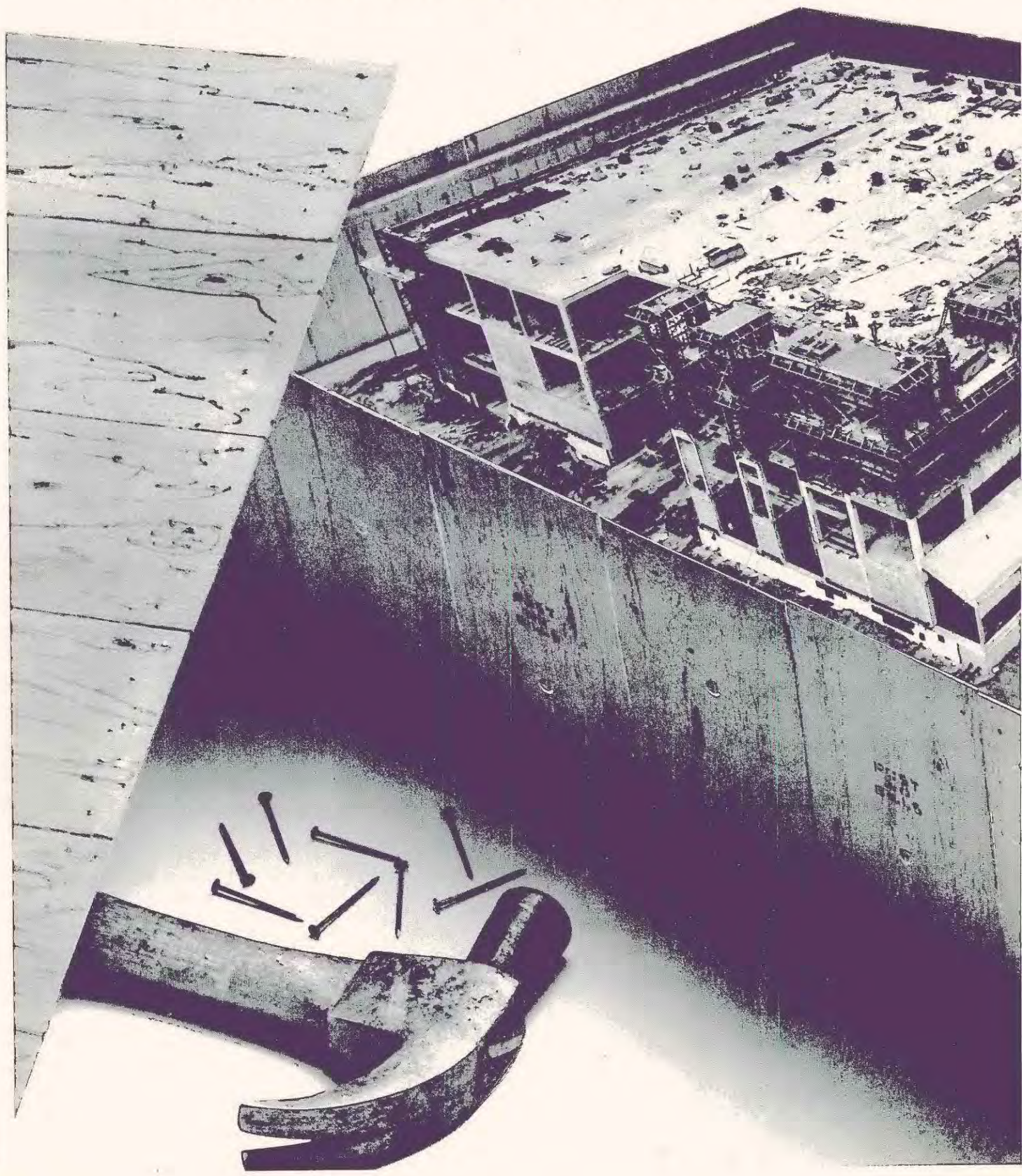
BENEFACTS OFFERS both standard and custom designed statements. The standard design, priced between $4,000 and $6,000, is offered to clients with fewer employes. The custom design, which costs from $10,000 to $20,000, allows the client to present benefit information in almost any way desired, according to Mr. Talamona. The major part of the cost is for setting up the computer program for the client.

Kwasha Lipton Inc., an actuarial consulting firm, provides total benefit communication packages most often. "We recommend the proper use of the proper media at the proper time," Henry F. Magnusen, director of client services, said.

His firm recommends the use of audio/visual presentations to acquaint employes with the basic concepts of the company's benefit program. A good audio/visual presentation costs from $15,000 to $22,000, Mr. Magnusen said.

Other media which Kwasha Lipton employs include written material focusing on benefits that relate to an "event," rather than to a particular plan. For example, Mr. Magnusen explained, all pertinent information about hospitalization is arranged together because often a group life program

Continental Insurance can combine 8 major



offers benefits in this area along with group medical insurance. A looseleaf notebook is given to each employe with all the information separated by tabs on each event. Writing the employe handbooks costs a client $4,000 to $8,000 and does not include production costs, he said.

KWASHA LIPTON also advocates the use of annual personalized benefit statements, which can range between $10,000 and $20,000 depending on the plan's complexity and the number of employes, he said.

Towers, Perrin, Forster & Crosby (TPF&C) also offers a full range of services in benefit communications, according to James E. Kielley, executive vp. "We conduct audit services to analyze employe perception and attitudes toward the benefit program. We prepare written or visual materials to communicate specific elements of a plan, and we provide a benefit summary statement each year for each employe of our clients. It's important for an employe to know the total value of a job," he explained.

"There is a clear need by smaller companies to have communication services at a cost they can afford," Mr. Kielley explained. "As experience is developed

Risk Management Insurance Services

in the area of compliance, standardization of descriptive material will occur. This will help reduce the cost of employe benefit communications."

TPF&C's fees are based on the time needed for a particular project for a particular company and can vary according to how much work is provided within the company, Mr. Kielley said. "It can range from a turn key kind of project, where the company doesn't really know where to start, to a project where we act as an advisor to an in-house initiated (communication) program." He declined to be more specific about TPF&C's fees.

Another area of benefit services that enjoys continued growth is claims administration. Insurance companies and small service organizations have a definite edge on this corner of the market.

"The claims area has become very profitable," Mr. Burns of Corporate Policyholders said. "The fee usually is $5 to $6 per employe per year. Sometimes small service organizations can do it even more cheaply and still make money."

"I would attribute a lot of the growth in the claims service area to group dental plans," said Christian T. Paul, vp, group department at Travelers Insurance Co. "Specialists are needed to process these claims because they must make judgments on the appropriateness and quality of treatment given. Also, good communications must exist between the dentist, employer and individual patient." He added that fees for claims services are "an integral part of the total (insurance) plan and are not broken out."

"Claims administration for plans might account for a third of Aetna's income," Mr. Fairbanks speculated.

WE'RE SEEING less employer involvement in claims administration now," Mr. Rode of Prudential, said. Insurance companies have "more expertise making judgment on what is a reasonable and customary fee," he said. "Plus, we have the statistics to back them up."

Commenting on claims fee structure, Mr. Rode said that Prudential attempts to devise a system for charging the client as fairly as possible without spending a tremendous amount of time determining the exact cost of the services. That would automatically make the fee more expensive, he pointed out. Some insurance companies offer services on a continuing basis as part of the premium charge and others charge the client on an hourly basis.

Administrative Services Only (ASO) contracts may temporarily fall from favor, Mr. Burns of Corporate Policyholders Counsel, Inc., asserted, because the new pension law regulates any benefit self-insurance reserve as a trust. If anything happened to those funds, an employe could theoretically sue his employer for failing to act according to the prudent man rule. "Some companies will panic in the short run when they realize their liability, but I don't think it will last once the ramifications of the law are understood," he said. He said he doesn't think the status of existing ASO contracts will change, but there might be a dearth of new contracts for awhile.

ASOS ARE used in combination with self-insurance when the insurance carrier is contracted to provide certain services only, with the client company taking much of the responsibility for maintaining loss reserves and paying claims.

"Companies who self-insure do so at least as much because they have a distaste for insurance companies as to save dollars," Mr. Burns commented. "But 98% of the companies are still with insurance companies," he said.

Services related to ASOs include ways of financing group insurance in days of tight money, Mr. Burns explained. The delayed premium approach is the simplest device whereby the employer gets the use of his premium by delaying payment for 60 to 90 days and paying an interest charge of .5% a month. "Since the company can easily invest the money at more than 6%, it's worth the interest charge."

Another administrative service available to the employe benefits area is recordkeeping for thrift and profit-sharing plans. "This can be very complicated especially if there are several different funds and elaborate rules about employe participation in the plan," Mr. Magnusen of Kwasha Lipton, said. "It's becoming an important field in itself, worth easily several million dollars."

SEVERAL FIRMS mentioned that counseling corporate clients on group insurance negotiations is an important service in the benefit area. Companies should have an advisor on negotiations for any union plan where the employer pays all, benefits experts advise. A broker or consultant helps the employer evaluate what is in his best interests and also provides another opinion on the cost of the plan as quoted by the carrier, Mr. Burns explained.

Services in benefits planning are also important, according to several sources. Others see the trend more toward self-help.

"We are frequently asked to help our clients identify objectives for their benefit program," Mr. Wood of Hewitt, said. His firm developed an index, similar to the Dow Jones Industrial Average, which allows companies to compare their benefit programs. Hewitt has researched projected benefits according to future manpower estimates.

Specific areas of advice on benefit planning might be in upgrading group life plans to keep them level with inflation, Mr. Paul suggested. "The formula should be keyed to the employe's earnings

Continued on page 82

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Court rules the most recent employer liable for chronic disease payments

WASHINGTON—The Supreme Court upheld a lower court decision making coal mine operators liable for compensation benefits claimed by miners with pneumoconiosis, or black lung.

Labor department attorneys told *Business Insurance* that such a ruling helps set a precedent which could be used against other employers should federal legislation covering more occupational disease be approved (*Business Insurance*, June 10.)

The suit decided by the Supreme Court was filed by the National Independent Coal Operators Assn. and 48 small coal operators and challenged the Coal Mine Health and Safety Act of 1969.

The Coal Mine Act placed the original burden of compensation for black lung victims on the Social Security System. Claims from about 350,000 miners or their widows have been approved under the Social Security program.

THE LAW, HOWEVER, transferred the compensation liability for any future claims to the last employer of the ill miner. That transfer was to have been effective last year and it is that issue that brought the mine operators into court.

The Supreme Court decision did not include a written opinion on the case, but the lower court in Washington wrote in its ruling that "Congress intended to provide full protection to older, retired miners who have only recently discovered the disease or in whom the disease is still latent."

There will not be any immediate surge in workers' compensation insurance costs for the coal mine operators, however.

The National Council on Compensation Insurance, the industry's rate making organization, said rates were raised in July, 1973, in anticipation that the Labor department's stance would be upheld in the court case.

Those increases varied from state to state, a council official said, but average about $17 per hundred employes. The council meets on a regular basis with the Labor department to review their rate structure for the black lung cases.

There have been no decisions made on any rate increases or reductions, but it is known that the Labor department is keenly interested in keeping the black lung compensation insurance costs in line with actual experienced.

THE 1973 COVERAGE increases were for both prospective and restrospective claims by ill miners.

The legal question over who will pay the black lung benefits may still not be laid to rest, however, because there is yet another court case on the matter still pending in the federal district court in eastern Kentucky.

That suit was filed by 22 coal operators, including such major firms as Turner Elkhorn, Peabody Coal, and North American Coal.

The attorneys on the case are from the Chicago firm of Lord, Bissell & Brook and they told this magazine they believe their suit to be stronger than the one recently decided in Washington.

A decision is expected sometime this month (November) from the three judge panel and the coal operators' attorneys believe that, despite the Supreme Court ruling, the case could go in their favor.

Whatever the decision in Kentucky, an attorney said, this new suit will automatically be appealed to the Supreme Court.

Earlier this year, the Labor department elected not to appeal a lower court decision that said mine construction contractors would not be liable for black lung benefits as long as the firms were not directly involved in the extraction of coal. ■

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Benefits . . .

Continued from page 81

and companies need advice on this," he said.

Supplementary plans for top executives is another area where advice is needed, Mr. Fortuin of Marsh & McLennan said. "There will be a problem with this for awhile until the new pension law is sorted out. An alternative for supplementary benefits is needed," he said.

He emphasized that brokers who offer consulting services charge according to the time spent, the same as consultants' fees. "Less than 10% of our consulting income is paid through commissions," he said. He claims that 20% to 25% of Marsh & McLennan's income is derived from benefit services.

MR. FAIRBANKS of Aetna disagreed somewhat with the supposed trend toward outside consulting work. "I think there's a backlash of people who think they can do (benefit planning) themselves. Once they've taken advantage of outside assistance, large companies or small companies with well-trained staffs often stop going outside their companies for benefit services." He said about one-third of Aetna's income is related to benefit services, however.

International benefits counseling also is in demand, according to sources at both Kwasha Lipton and TPF&C. "As firms are becoming multi-national, there's much activity to understand what other countries' benefit plans are like," Mr. Kielly of TPF&C, said.

Suppliers of benefit services can be separated into four categories: independent consultants and consulting actuarial firms, insurance brokers, insurance carriers and small, locally-based service organizations which don't fit into one of these categories.

Leading consulting firms in the benefits service area are: Hewitt, TPF&C, Kwasha Lipton, Corporate Policyholders Counsel, George Buck & Assoc., A.S. Hansen and Wyatt Co.

INSURANCE brokers leading the list were: Alexander & Alexander (including Benefacts), Marsh & McLennan and Johnson & Higgins. Nearly all the big brokers offer benefit services but capability varies from individual to individual within the firms.

Carriers acclaimed as being most innovative in the area of benefit services are: Prudential, Equitable Life Assurance Society of the U.S., Travelers and Aetna Life & Casualty Co. Again, one source warned that the quality of services provided may vary depending on what part of the country the office is located in.

Small, independent service organizations are mushrooming and many offer quality services, our source indicated. But they are almost all locally-based and many are one-man operations. ■

Fred. S. James acquires three agencies, group claims agency

CHICAGO—Three general insurance agencies and a group insurance claims administration agency with combined revenues of more than $1.2 million were acquired by Fred. S. James & Co. Inc.

Altman-Singleton & Co., Kansas City, Mo., is the largest firm acquired, with gross revenues of $1 million at yearend 1973. The other firms are Cronin, Gartland & Co., of Boston, Ma.; Stein Insurance Agency, Phoenix, Az.; and Employee Benefit Consultants Inc., Mansfield, Oh.

Altman-Singleton, with 42 employes, is the first office for James in Missouri. Sixty percent of the acquired firm's accounts are in commercial insurance, including Forum Restaurants Inc. and Black & Veatch Co., an engineering consultation firm, according to H. S. Bump, executive vp at Altman-Singleton.

A THIRD of Altman-Singleton's accounts are in group life and health insurance, including the Missouri Medical Assn., the Missouri Society of Certified Public Accountants and the H. D. Lee Co., Mr. Bump said. The rest of the firm's business is in insurance of poultry farms.

Cronin, Gartland & Co., with six employes, integrated its accounts with the James office in Boston at the beginning of 1974, but the merger transaction was not completed until Sept. 5, according to Arthur Gartland, now vp of James in New England. The firm handles both commercial and personal life insurance, with 60% to 65% of its business with commercial clients. Mr. Gartland said his firm handles local, regional and national commercial accounts, including P & C Food Markets Inc. of New York.

THE STEIN Insurance Agency, with three employes, has about 40% of its accounts in commercial insurance. The acquired firm's gross revenues were about $100,000 in 1973.

Employee Benefit Consultants Inc. had gross revenues in excess of $100,000 in 1973, and according to Ralph Long, founder and president of the firm, "we anticipate in 1975 to be four times the size we are now if we get 10% of the business we're trying to get today."

The company limits its business to handling the employe benefit claims administration for two firms: Bache & Co. of New York and seven divisions of Cyclops Corp. of Pittsburgh, Pa. Employe Benefit Consultants has 12 employes and has been in existence for 11 years.

A Fred. S. James spokesman said the acquisitions are a part of James' "accelerated merger program." James "prefers to merge rather than compete with a strong firm in an area," he said, and the company is "constantly looking for mergers." ■

Health group publishing toxic material regulations

PITTSBURGH—Labor undersecretary Richard F. Schubert told the Industrial Health Foundation last month that 11 new standards for exposure to such substances as lead, arsenic and beryllium should be ready for initial publication before the end of the year.

He also defended the "procedures of the Occupational Safety and Health Administration (OSHA) in developing these standards. OSHA has been criticized for moving too slowly in areas of occupational health.

"We are not setting up a safety and health police state," he said. "We are bringing safety and health within the protection of our institutions. As a practical matter, this means that all standards formulated by OSHA go through a formal process.

"That process of formulation involves some 22 separate steps or milestones, ranging from initial proposal as milestone one, to initial publication in the Federal Register for comment as milestone 15, to final publication as milestone 22," he said.

"DUE PROCESS, safeguarded in the formulation procedure, is also very much involved in enforcement as well," he said. "It is a common misunderstanding that we are prosecutor, judge, jury, and executioner when it comes to enforcing standards. The fact is that we do not even determine violations and set penalties and abatement times. We allege violations and propose penalties and abatement times.

"If an employer disagrees with our findings—and the rate of disagreement is only about 5%—he may appeal to the wholly independent Occupational safety and Health Review Commission, and if he does not agree with the finding of the Commission, he may further appeal to a U.S. Circuit Court of Appeals."

Mr. Schubert admitted, however, that in occupational health areas, OSHA was plagued by troublesome ambiguities of the law.

Specifically, he said, these areas were determining what is technologically "feasible" what is the "best available evidence on which to base a health standard; and the necessity of following "due process" procedures in establishing and enforcing these standards. ■

Guess who just ordered sprinklers installed in all his new high rise buildings?

The GSA, the federal agency responsible for letting most government construction contracts, has just ordered that all new buildings 5 stories or more in height be equipped with automatic fire sprinklers.

And Uncle Sam isn't the only one who's sold on automatic sprinklers as a way to insure life safety. To date, Connecticut, Maryland, Massachusetts, Ohio and scores of cities, towns and municipalities have passed tough new building codes banning new construction of unsprinklered high rise buildings.

The implications are clear: whether you're a building owner or developer, an architect or specifying engineer, you should be aware of this growing trend toward life safety. Facing the future *now* and learning all you can about sprinklering properly could save you money in the future when you come face to face with one of these tough new codes.

A question of ethics. Occupants of high rises have the right to expect protection from a fire which could leave them stranded hundreds of feet above the reach of fire department ladders and hoses. Many fire experts agree that a modern sprinkler system is the best way to insure that kind of safety.

Rental appeal. Many firms are insisting that their buildings be sprinkler protected for the safety of their employees. As this trend continues, non-sprinklered buildings will be at a decided rental disadvantage. In addition, sprinklers give building owners the maximum in usable rental space and provide more rental income.

Cost savings. Sprinklering your next high rise will make it safer and could save you money in many or all of the following ways: *Flame spread ratings of surface finishing materials can be increased. Fire ratings of walls, doors, roofs, floors, beams, trusses and columns can be reduced. The distance between fire exits can be increased, leading to fewer stairways. Larger non-compartmented areas are permissible, and fire barrier requirements can be eliminated. Smokeproof entrance closures to exit stairs can be eliminated if stairways are pressurized. The requirement for "areas of refuge" can be waived. Manual fire alarm systems may be eliminated. Fire hoses and cabinets can be eliminated. Riser piping is permitted to serve as combined sprinkler riser and fire department standpipe.*

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Survey shows pensions average $158 for multiemployer plans

WASHINGTON—A Bureau of Labor Statistics (BLS) survey of multiemployer pension plans has revealed monthly pension benefits ranging from $15 to $400.

These benefits were computed assuming a worker retiring at age 65 in 1973 with 30 years of service and an average annual salary of $4,800, according to the October issue of Monthly Labor Review, a government publication.

Nearly 30% of the plans, covering more than 45% of the workers, would have provided benefits of less than $100 a month, however, according to the BLS.

The average benefit for these pension plans, as computed by BLS, was $158. This was chiefly the result of large numbers of workers in plans paying monthly benefits of $200 or more, the agency said.

THE 7.5 MILLION workers covered by multiemployer pension plans were concentrated in a relatively few large groups in 1973. Of 1,889 multiemployer plans surveyed, more than half of the workers were in 44 plans covering 25,000 participants or more, BLS said.

The 10 largest plans each had more than 100,000 participants and covered one-third of all multiemployer plan participants.

The smaller plans, with less than 1,000 members, accounted for 58% of the plans, but only 6% of the participants.

Sixty-seven unions participated in these plans, with the largest unions involved being the Teamsters, Laborers, and Clothing Workers, each with more than 500,000 members covered.

The BLS survey revealed that "virtually all" multiemployer plans provide immediate participation to new employes as soon as they are hired by a contributing employer. Where service requirements were present, they ranged from one to five years.

Unlike single employer plans, BLS said, multiemployer plans normally disregard earnings in benefit computations and base the benefit solely on credited service.

BLS explained this was "because the range of earnings is usually narrower and partly to avoid the necessity of keeping records of earnings."

Nearly three-fourths of the multiemployer plan participants were in plans that set normal retirement age at 65; nearly a fifth of the other plans provided for earlier normal retirement, mostly in the 60 to 62 year age range.

BLS SAID THE basic benefit formulas prevalent in multiemployer plans were computed either solely on service, or used a uniform benefit for all participants regardless of service.

About three quarters of the plans used a service related formula. They covered about 65% of the participating workers in multiemployer plans.

Flat benefits were used by one of out six of the plans, but these were normally larger plans and therefore covered about one third of workers in by multiemployer plans. This type of formula is found most commonly in the apparel, mining, and transportation industries. Nearly nine out of 10 of these plans were self-insured.

Some multiemployer plans used in Social Security offset method in computing their benefits, similar to that used by the United Auto Workers.

BLS said the Teamsters, for example, had some plans with a normal retirement age of 57 in which higher benefits were provided until age 62 when Social Security payments became available.

Three out of five multiemployer plans provided vesting in 1973, with deferred full vesting after 10 or 15 years of service provided by 58% of the plans covering 74% of all multiemployer plan participants. Other plans used deferred graded vesting.

(Some multiemployer plans, such as the United Mine Workers Health and Welfare Fund, did not provide any vesting, however.)

BLS said one of the advantages of the multiemployer plans was the portability of credits within the contributing employer group. However, very few multiemployer plans (only 7%, covering about one fourth of the workers) had made reciprocity arrangements providing transfer of credits from one multiemployer plan to another.

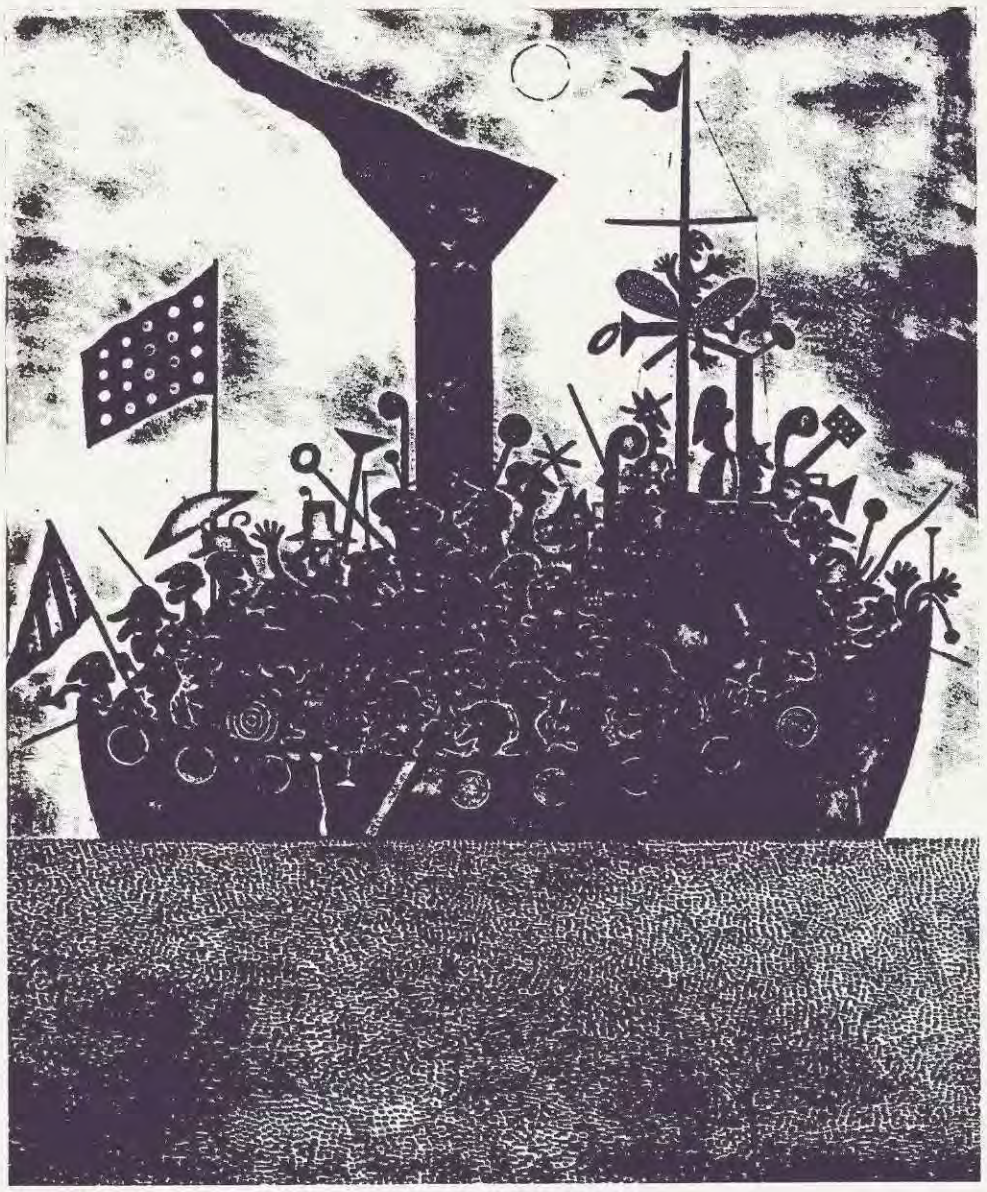
One drawback of the multiemployer plans is that, unlike single employer plans, they place fairly stringent restrictions on employment after retirement.

MOST SINGLE employer plans, said BLS, specify that a retiree can work and receive his pension as long as he does not take a job "clearly injurious" to his former employer.

"On the other hand," said BLS economist Barry E. Davis, "multiemployer plans frequently do not allow the worker to remain in his trade or industry and still receive his pension.

"The employers as a group assume the role of single employers who, typically, do not provide both employment and pension benefit to the worker at the same time. Moreover," he said, "the interest of national unions would not be protected if retired members were to compete with active members for jobs or were to take their skills into the nonunion sectors of the industry." ■

RBH Will Shape Up Your Marine Insurance Program



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State studies sex bias of underwriters

TRENTON, N.J.—An advisory committee on sex discrimination in insurance was appointed by New Jersey insurance commissioner Thomas J. Sheeran, who is also conducting a survey of all life and health insurance companies doing business in the state to identify areas of differing treatment of the sexes in the marketing of insurance.

The 12 member committee includes seven legislators and five representatives of women's groups in the state.

The survey questionnaire seeks specific information on sales practices, rates, dividends, underwriting, insurance availability, claims procedures and administration, the commissioner said.

The department's investigation will also include a review of insurance company documents, including underwriting manuals, application for insurance and for claims, personal investigation forms and sales materials. ■

FIA moves to assure availability of insurance

WASHINGTON—The Federal Insurance Administration outlined a three point program last month to insure the availability of property and casualty insurance at a "reasonable cost" to the public.

The proposal is aimed at solving the problems of small businessmen and millions of automobile owners "who are currently uninsured, or who have been forced into the substandard and unlicensed markets, or into FAIR plans or automobile assigned risk plans, to enable them to purchase essential insurance at an appropriate rate from the insurer of their choice," Secretary of Housing and Urban Development James T. Lynn said.

The proposal is the product of a lengthy study of the residual insurance markets by the Federal Insurance Administration and initially concerned itself with the difficulties individuals and business encountered in obtaining fire and related insurance coverages.

UNDER ITS Full Insurance Availability program, arbitrary and subjective determinations by insurance companies that insurance consumers are "poor risks" would be prohibited.

Federal Insurance Administrator George K. Bernstein said, "Under Full Insurance Availability, no insurance company could refuse to sell property or casualty coverage to any insurable risk.

"No longer," he said, "would good risks be forced to subsidize the drunk and reckless driver with whom they are arbitrarily grouped in assigned risk pools or the arsonist in FAIR plans."

The 114-page report includes no federal role, no federal or other public subsidy, and would require all risks to pay a premium appropriate to the exposure they represent.

Mr. Bernstein warned, however, that now is the time for state insurance authorities and the insurance industry to make progress on solving the problem.

"We're concerned that the federal government will do it in the next few years if the states won't," he told a press conference.

THE THREE essential elements of the program are:

- A mandate in the state law requiring each insurance company to write all insurable risks at the same rate that the particular company would charge all similarly situated risks. Different companies would continue to charge different rates, but no company could unfairly discriminate among similar risks.
- A requirement that risk classification systems used by insurance companies be objective and uniformly applied, including a requirement that classes be broadly constituted and based on credible statistics so that premium rates are equitable, understandable, and valid measures of risk.
- A reinsurance exchange or pool in which a reinsurer could reinsure that portion of the business which it is forced to accept under full insurance availability but which it would prefer not to retain.

The major problem that Mr. Bernstein stressed was that businessmen and auto owners seeking insurance were too often arbitrarily shunted to FAIR plans or assigned risk pools when their records and situation did not warrant it.

He said that, for auto owners, fully 80% of the insureds in assigned risk pools had records that were "clean" by the insurance companies' own definition.

Small businessmen, particularly in ghetto or fringe areas of cities, were arbitrarily dropped from their business coverage and forced to go into FAIR plans although many of them were not bad risks, he said.

"INSURANCE IS basically the only industry where the company has the right to refuse to sell the product," he told the press conference.

The amount of unnecessary premium charges for small businessmen and auto owners could mount into the millions of dollars.

For some insurance buyers, the program could be more expensive since there would be no subsidized premiums. "Whatever experience warrants, that is what should be charged," Mr. Bernstein said.

But the problem calls for firm action on the part of the states, which Mr. Bernstein pointed out as the cause of some of the problems in the auto field.

"We don't have a legislature in the country that has the guts to get the bad drivers off the road," he said.

"Those people who are bad drivers should pay a higher rate," Mr. Bernstein said.

Although the proposal has been approved by the Office of Management and Budget and the White House, Secretary Lynn of HUD stressed that it was not developed or proposed with the ide that action be taken on the federal level. ■

Elect new officers for benefit group

KANSAS CITY—Roger H. Cushman, executive director of the profit-sharing trust fund at Signode Corporation, Glenview, Il., was elected chairman of the Profit Sharing Council of America at its recent meeting. He succeeds Weir C. Swanson, vp personnel, Jewel Companies Inc., Chicago.

William D. Meyer, corporate secretary and profit sharing administrator, Carter-Hawley-Hale Stores Inc., Los Angeles, was elected first vice chairman; Park R. Davidson, assistant vp, Burlington Industries Inc., Greensboro, N.C., was elected second vice chairman; and Richard A. Andersen, vp, First National Bank of Chicago, was re-elected treasurer.

New directors elected for three-year terms were Jerry Kenefake, director of compensation and benefits, Hallmark Cards Inc., Kansas City; and R. T. Messinger, manager, benefit administration, J.C. Penney Co. Inc., New York.

Theodore D. Bower, tax attorney for Sears, Roebuck & Co., Chicago, and Albon P. Man, vp Prentice-Hall Inc., Englewood Cliffs, N.J., were elected directors to fill the unexpired terms of Messrs. Davidson and Meyer.

Howard M. Koster, first vp, Bankers Trust Co., New York; John H. Maynard, vp, Carnation Co., Los Angeles; and Bob McCormack Jr., president, Bobs Candies Inc., Albany, Ga., were re-elected directors. ■

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So when you're ready to specify fire protection, don't stay in the dark. Give us a call. Anytime. Wherever you are.

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CPSC solicits help from manufacturers

ARLINGTON, Va.—More cooperation and interaction between the Consumer Produdct Safety Commission (CPSC) and manufacturers in the coming year was predicted by Commissioner Constance B. Newman, in a speech before a conference on consumer product safety and liability here recently.

In development of product safety standards, the CPSC will be soliciting cooperation from "groups that have not historically been involved in standards development," Ms. Newman said.

"Having a variety of groups as offerers (Section 7 of the Consumer Product Safety Act provides for the commission to solicit outside groups to develop product safety rules), representing a variety of interests and points of view will help to insure that the aggregate level of risk associated with consumer products will not reflect a bias," she added.

THE CPSC will assist groups new to the offerer system with seminars on the standards development process, Ms. Newman said.

"By 1975, the commission must have developed a means of assisting potential offerers and be able to demonstrate by the variety offers received and accepted that the intent of the law is being carried out," she stated.

In implementing the enforcement policy of the CPSC, "It is highly important that the commission hold fast to its 'goldfish bowl' policy," the commissioner continued.

Admitting that operating in the open is "administratively cumbersome," Ms. Newman went on to answer arguments against such a policy.

The argument of compromising the public interest is most difficult to deal with, she said, "For it most often surfaces in those situation where. . . a dominant interest group appears as likely to prevail over the interest of a larger segment of the population."

If the CPSC were to meet in closed session, particularly where enforcement of standards is concerned, "We would shut ourselves off not only from the 'feared' dominant interest group, but also from the larger public," Commissioner Newman said.

"The result is a rather paternalistic imposition of our views of what's best for them without benefit of theirs . . . and lends credence to speculation of deals being struck between the regulator and the regulated," she added.

THE COMMISSION must retain its open policy despite criticism, the commissioner maintained, "If we fail . . . the public has right to know we've failed as well as a right to know how we've failed, even a right to observe us failing, and certainly a right to call us to account for these failures."

The greatest danger to the CPSE, Commissioner Newman forsees is inadequate data.

The commission must continue to determine more accurate ways to assess the economic impact of proposed standards, Mr. Newman warned, "to measure the cost to both the manfacturer as well as to the ultimate consumer against the additional protection that the standard will provide.

"Because our current data collection system is geared toward the mythical average American," Ms. Newman said, "we must, in the coming year, continue to adjust it and make it flexible enough to answer questions about needs particular to the low-income, the elderly, small business and other sub-groups."

Commissioner Newman quoted a survey which showed a majority of Americans (71% of those polled by Opinion Research Corp.) feel they want greater protection by the government with regard to their health and safety. ■

The retirement surprise party:
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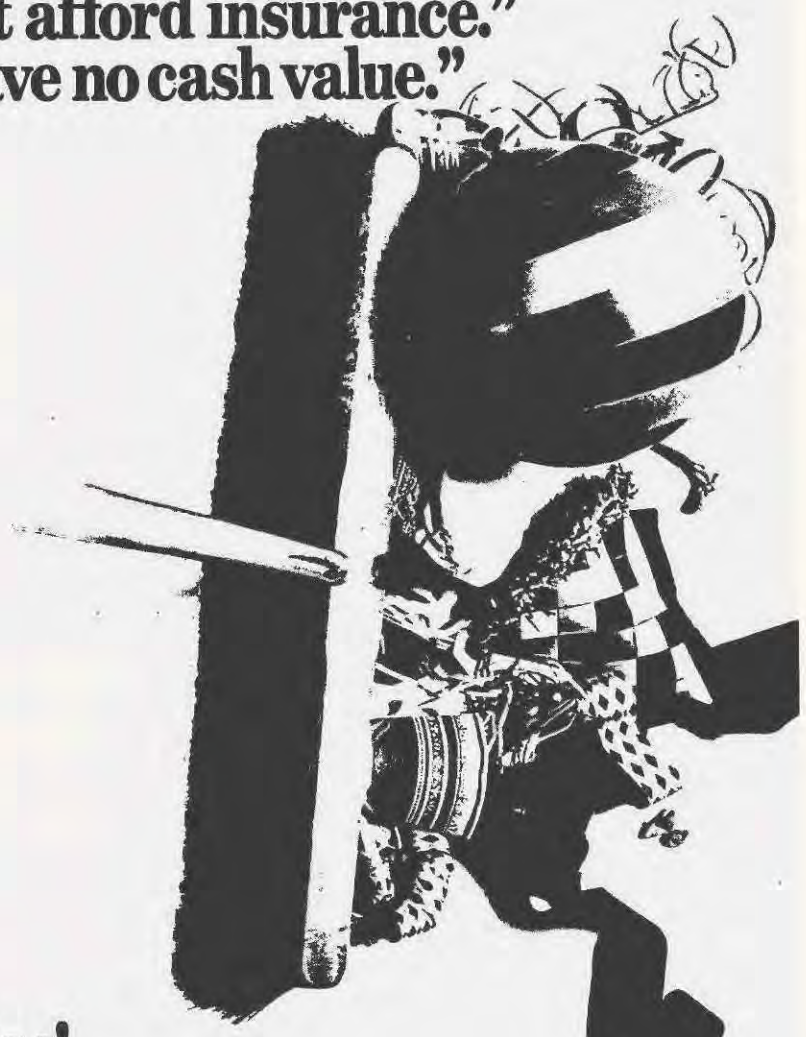
"You can't afford insurance."
"You have no cash value."



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The employee pays for the added benefit in most cases, and the employer continues to get favorable tax treatment on his contributions.

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Offer course on pension legislation

WASHINGTON—Labor department staffers from the 24 regional offices have been coming here for a course on the new pension legislation to prepare them to administer their department's responsibilities under the act.

The eight-day class devotes three days to an overview of the pension field and the last five cover the specifics of the new legislation, according to Manuel Eber. Mr. Eber, now of the New York office of the labor management service administration, was a member of the pension task force here and designed the course.

"We want to train our people to a high level of professionalism," Mr. Eber said. Four sessions, each with about 40 participants, have been held so far and the entire course is being put on video tape so all Labor department staffers involved with administration of the pension law can be exposed to the class.

RESPONSE TO the course has been favorable and members of the staff are enthusiatic, Mr. Eber said. "We feel that we will be able to do a very good job of administering this act," he added.

The course is the first of a series of courses which will be prepared for Labor department staffers.

The first three days of the course are taught by outsiders. The sessions cover the different types of pensions and the field in general.

Claude Kordus and David Yanis of Hewitt & Assoc. spend a day on the entire field. Carlton Sickles, president of the International Foundation for Employe Benefit Plans, lectures on administration of plans, and multi-employer plans. Fiduciary aspects are covered by Arnold Levin.

KENNETH HOLMES of Holmes Clark Morong Inc. talks on investments. Bill Muir of Connecticut General Insurance Co., and Verne Arends of Northwestern Mutual Life Insurance talks about the types of plans insurance companies sell and what they do for the pension industry.

Also on the program is Jim Curtis of the actuarial firm of Milliman & Robertson, Seattle.

Sessions in the last five days, devoted to the new law itself, are taught by members of the Labor department staff. The five day session includes illustrated lectures, workships, participation, and "lots of handouts."

He added that while many areas of the law remain to be defined by regulation, it appears that the fiduciary aspects will be the most difficult for labor staffers to understand and administrate. ■

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london line

British underwriters face same tough reserve problems as U.S. insurers

LONDON—Comparisons are being made with the U.S. insurance industry as the British stock market slump hits life insurance companies so heavily that some of them are facing cash and solvency problems.

Trade Secretary Peter Shore said: "The right of policyholders to deserve special treatment when an insurance company goes into liquidation has been recognized by many legislatures, notably by New York and other states in the U.S.

"I am now discussing with representatives of British insurance companies whether arrangements can be made in Britain for better treatment of policyholders in the event of liquidations."

HE ALSO CITED the action of the Indiana insurance department in setting a reorganization plan for the Underwriters National Insurance Co. of Indianapolis.

Strong pressures are mounting for the creation of an insurance commissioner's office in Britain to protect people whose savings are put into insurance companies.

But so far the government is still leaving it to the insurance industry to provide solutions to the problem of cash-poor companies. It is mainly companies dealing with life risks who are affected as the value of their reserve investments drop alongside stock market declines.

The latest is Jessel Securities, one of the U.K.'s biggest financial conglomerates, whose chairman Oliver Jessel was so highly regarded two years ago that he was insured for $2.5 million in the event his death could affect the $2.3 billion empire he built up over 20 years.

Liabilities of his London Indemnity and General Insurance group have led to a halt in its operations until another $15 million funds can be found. The position of its 80,000 policyholders, with $200 million invested, is in doubt. Big British insurance companies are being asked to come to its aid, but are hesitant about the best course of action.

The London Indemnity firm got caught up in its own problems because investors tried to draw out savings placed in its "guaranteed income" bonds two or three years ago and re-invest them in offer higher returns. The sudden rush to withdraw looked likely to drain its funds so badly that they have now been frozen.

Using a different approach, the big Commercial Union group has decided to raise another $200 million by a "rights issue" in the London stock market so as to maintain its solvency margins before any problems arise.

The British government imposes strict rules governing cash reserves, and if the nominal value of investments drops, then steps have to be taken to stop the ratio from slipping.

The safety of Commercial Union or the other big British insurance groups with worldwide operations is not in doubt. But the financial issues have to be examined regularly so as to keep the right reserves, which in the case of C.U. have been cut in half since 1968 as stock market values of investments have dropped.

The Indianapolis company, Underwriters National Insurance, attracted British attention when the government's department of trade ordered it to stop taking on new business in London where it has sold 1,300 accident and health insurance policies.

Commenting on the Indiana decision to ensure all policyholders will be paid, the London Daily Telegraph said: "It seems that British policyholders will safely be protected by the U.S. action a few thousand miles away."

The U.K. department of trade later stated: "According to a representative of the company, an order of rehabilitation has been made in respect of the Underwriters' National Assurance Company in the U.S. by the superior court of Marion County, Indiana, under which the state insurance department has been appointed to rehabilitate the company."

* * *

RISKS OF MAKING polyvinyl chloride (PVC) are being studied in Norway where the big industrial group Norsk Hydro has stopped its production completely until a medical research team can report extensively on safety factors.

This step is more extensive than in the U.S. or Britain, where occupational health experts have agreed on potential exposure levels until the whole problem is resolved. But Norway will continue to permit imports of PVC plastic duty free, as it is the basic process involving vinyl chloride-monomer which is suspected of cancer dangers. Britain is still investigating the risks.

Experts in the U.K. are also probing plant workers' exposure to asbestos dust on construction sites, where demolition processes often entail large-scale removal of asbestos lagging. This research could be of importance to the U.S., where cancer risks from asbestos have also been examined.

* * *

TIGHTER SAFETY rules for submersibles may be sought in Britain after two U.S. oil rig operators were trapped for more than five hours below the North Sea. The two men, Gilbert Blevins and Leslie Lynch, both from Louisiana, were rescued when divers cut a rope that had fouled their propeller two hundred feet down. Regulations to provide oil rig workers with proper injury benefits are going through Parliament, and there has been a call for a marine authority which will coordinate all safety measures in the expanding North Sea oilfield where international firms, including several U.S. corporates, are working.

* * *

PROSPECTS FOR underwriting profits in the British company market have been studied by a leading

Continued on page 89

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Continued from page 88

U.K. stockbroking firm which rules that they are "not encouraging."

The survey was carried out by Wood, Mackenzie & Co. of Edinburgh, which examined likely forecasts for seven major insurance companies in the London market.

Their conclusion is that rate competition in the marine market has become intensive in the past two years, and this has combined with rising cost of claims to erode profitability from previous satisfactory levels.

Profitability has also gone from aviation accounts, where returns on U.S. business were particularly poor last year. And marine premium income is likely to rise very slowly because of the number of ships now being laid up, the firm concluded.

* * *

RISK MANAGEMENT has now come of age in Britain, where it has at long last been officially recognized in the title of the U.K. equivalent of ASIM.

The change will affect the members of the Assn. of Insurance Managers in Industry and Commerce, formed 11 years ago, with more than 400 individual members engaged as professional insurance or risk managers. Its aim is 2,000 members.

The group will now be known as the Assn. of Insurance and Risk Managers in Industry and Commerce, or AIRMIC, according to its chairman John R. Parkinson, who told *Business Insurance*: "Any good insurance manager has to be involved in risk management, and so we have brought our title up to date."

Ronald Muckleston, risk manager in the U.K. for International Nickel, has been appointed publicity officer in a bid to hike personal memberships, as opposed to corporate membership.

Several U.S. corporations have U.K. risk executives as members of AIRMIC.

* * *

THE U.K. insurance industry is once more under attack by Labor politicians who want to control some of its activities. They are pressing for government action to ensure that insurance and banking make what is termed "a better contribution to the national economy."

But no one knows exactly what this means, as the demand was contained in an election manifesto.

Speculation is that Labor supporters would like to control domestic auto and life business, as well as pension funds. Drastic action on the wide field of insurance which covers overseas risks, however, would be deferred as this could have unpredictable reactions from foreign countries, and might have adverse effect on the national economy. No politician has suggested tampering with Lloyd's of London, which has its own uniquely historic set-up.

* * *

EFFECTS OF Hurricane Fifi central America are likely to be small in the Lloyd's and U.K. company markets, according to a statement issued by the British Insurance Assn.

The statement explains that the direct interests of British insurance companies were limited to comparatively small agencies in Belize, and there are believed to be no agencies in Honduras.

It is too early to say what claims will arise through international reinsurance contracts, but it is not anticipated that the overall effect on British markets will be great. ■

$14 million in storm loss

NEW YORK—Recent storms in Texas and Louisiana resulted in insured property damage totalling more than $14 million, according to a spokesman for the American Insurance Assn. property claims services.

Severe thunderstorms accompanied by high winds and hail during the afternoon of Oct. 22 in El Paso, Tx. and vicinity caused an estimated $6 million loss to insured fixed property.

More than $8 million insured damage resulted from tornadoes in Louisiana and Texas Oct. 28 and 29, the association reported.

The heaviest damage, estimated at $7.5 million is at Crowley, La., where a tornado levelled the northern part of the town.

Other damage occurred in Kenner, La. and Beaumont, Baytown and High Island, Tx., where residential and commercial property and automobiles were damaged. ■

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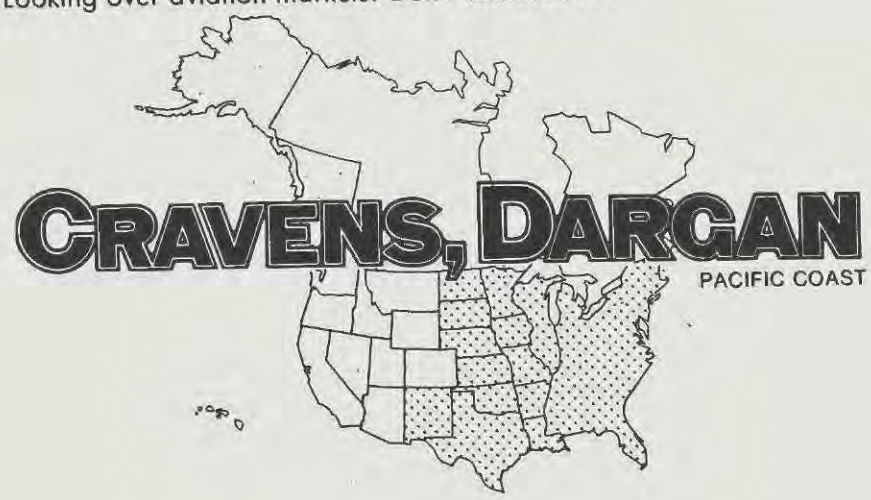

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Safety council links loss of productivity to nation's injury rate

CHICAGO—Lost productivity due to injured or killed workers is "a national loss which contributes to inflation," the National Safety Council said. "The nation's 12% rate of inflation could be reduced about one-sixth by eliminating accidents," the council pointed out.

The total amount of wages lost because of accidents is one indicator of lost productivity since a worker's contribution to the nation's economy can be measured in terms of wages, the council pointed out.

Approximately one million productive man-years were lost in 1973 due to work accidents, according to council figures. "These man-years could have been used to produce more goods and services," the council, a non-governmental, non-profit organization based here, said.

THE COST OF work accidents in 1973 amounted to $14 billion in direct injury cost, lost wages, administrative costs, property losses caused by hazards such as fire and other related costs according to the council.

With the $10.4 billion in lost wages due to home, public and motor vehicle accidental injuries for 1973, the figure increases to $24.4 billion for the total productivity loss of the U.S. last year, a spokesman for the council said.

"When you compare $24.4 billion against our over $1 trillion gross national product," said Vincent Tofany, president of the council, "it represents about 2% of our nation's total measure of productivity. Since the most recent annual inflation rate is 12%, elimination of this 2% figure would cut our overall inflation rate by about one-sixth," he explained.

"Elimination of these accidents would increase productivity significantly while reducing operating costs for business and industry," Mr. Tofany claimed. "Increased productivity and decreased operating costs are two essential ingredients in any fight against inflation, especially since the consumer ultimately pays for such costs," he said.

The total cost of the nation's accidents, including those not directly related to work or productivity, has been estimated by the safety council at $41.5 billion for 1973.

MR. TOFANY suggested that the WIN (Whip Inflation Now) badges currently being worn in the battle against inflation also stand for "Wipe out Injuries Now" as an integral step in dealing with the problem.

The council has long maintained that "a small investment in the development and implementation of effective accident prevention programs can pay sizable dividends in lower costs and higher productivity."

According to Mr. Tofany, the implementation of cost-effective safety programs is "necessary in all areas to help meet the goals of labor, management and consumers in the battle against inflation." ■

ASIM notes loss in its fiscal year

NEW YORK—The American Society of Insurance Management (ASIM) published its first annual report, noting a loss of $10,891 for fiscal year ended June 30, 1974.

The society had total assets of $205,599 in 1974, compared with a total $237,166 in 1973 and total income of $590,819, an 18% increase over the prior year's $499,822.

Net operating costs before extraordinary expenses of moving to new offices and a $10,000 contribution to the Risk Studies Foundation left $30,613 in the general fund. The addition of these extraordinary items resulted in the $10,891 deficit.

ASIM reported $601,710 in total expenses for 1974, an increase over 1973 expenses of $450,-982. General and administrative costs reflected the biggest difference in expenses for the two years recorded. Including depreciation and amortization of furniture, equipment and improvements of $2,406 in 1974 and $871 in 1973, there was a $63,609 difference between general and administrative costs for the two years.

THE SOCIETY'S 48 chapters in the U.S. and Canada represent 2,200 corporations, the report notes.

ASIM's legislative policy committee in 1974 took formal stands on national health care legislation, federal regulation of pension plans and flexibility in the risk management funciton. Opposition to the National Workers' Compensation Standards Act was voiced by representatives of the Northern and Southern California chapters who testified against the bill before a public hearing of the Senate subcommittee on Labor. The Chicago and New Jersey chapters forwarded formal position papers in opposition to the bill.

A technical services division was established to upgrade educational activities on a continuing basis and an audit committee of the board of directors was created to oversee the society. ■

TV firm still wins in court

SALEM—The Oregon supreme court Oct. 24 affirmed a lower court ruling that each of the eight insurance companies covering Mount Hood Radio & Television Broadcasting Corp. should share the loss resulting from the 1971 collapse of the firm's broadcast towers.

The loss was put at $746,408.90 for the tower, which fell on February 27, 1971. The high court ruled that the insurance firms should bear the loss in the same proportion as their share of the insurance coverage.

Justice William McAllister wrote the opinion on the ruling from Multnomah County circuit court by circuit judge William C. Perry. The case was appealed to the high court by Hartford Fire Insurance Co.

In other action, the high court ordered further proceedings in the case of United Pacific Insurance Co. versus Mazama Timber Products, reversing a dismissal of the case by Lane County circuit court judge Edwin E. Allen. The case involves the extent to which the insurance company is liable for injuries suffered by a young boy on Mazama Timber's premises. ■

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'Moment of truth' has arrived for comp reform

CHICAGO—"Time has run out for industry on workmen's compensation reform," Waller Smith, director of insurance for United Airlines, warned. "Like it or not, the moment of truth has arrived: either comply with the national commission's report immediately or you'll have S-2008" (the Williams/Javits bill).

The matter isn't settled yet, he acknowledged, but a "decisive battle is coming." He offered two suggestions to those attending the American Management Assn. insurance conference here:

- As a corporate citizen, work to get your state in compliance.
- Budget for at least a 100% increase in cost by 1980.

With the national commission's recommendations, the cost to industry would approximately double, whereas S-2008 would triple costs for industry, he estimated.

"Plus you'll have a federal czar telling you what your (workmen's compensation) rates are," Mr. Smith claimed.

HE BLAMED the "slowness and inadequacy of coverage" for the onset of federal involvement. "I hate to admit that a national program is necessary, but I don't think the states have shown they are sufficiently equipped to handle the problem," Mr. Smith said.

"Industry has not kept pace with its obligations in the workmen's compensation area. It hasn't modernized or kept benefits even with inflation," he said.

Mr. Smith advised industry "to rally itself around implementation of the national commission's report at each state level, reconsidering its responsibility to upgrade obligations to employes to recommended levels and continue to formally upgrade them thereafter. If the alternative (S-2008) comes about, it will be because of industry default."

"States have moved with varying speed so far," Mr. Smith observed. "None of them have shown full compliance; some have only token compliance."

Mr. Smith urged members of the audience to "contact your state legislators and make sure that the right kind of bill gets introduced." He added he knows it is a tough job but he had no more specific suggestions to offer. "We're not very good at it (legislative lobbying on workmen's compensation) here in Illinois so I sympathize with you in the time ahead," Mr. Smith said.

HE POINTED out five areas of improvement in the workmen's compensation area and indicated they all would be included in new legislation:

- broader coverage to ensure that people are not denied benefits;
- adequate indemnity to keep benefits level with inflation;
- unlimited medical expenses for necessary treatment;
- fewer restrictions and elimination of technicalities;
- better delivery of benefits to employes, without delays. ■

Government risk manual ready soon

NEWARK, DE.—Government risk managers will have a manual written exclusively for their field with the publication in early 1975 of the "Governmental Risk Manual," said Nestor Roos, professor of insurance at the University of Arizona and co-author of the manual, at a seminar here.

The manual will be a comprehensive analysis of governmental risk management at all levels—city, county, state and school districts, Prof. Roos said.

The manual, published by the Merritt Co., Santa Monica, Ca., will be offered on a subscription basis, updated with periodic supplements and newsletters. Cost is $60 for the first year's subscription.

Joseph S. Gerber, associate professor of insurance at the University of Arizona co-authored the manual with Prof. Roos. ■

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Pension law presents problems, but shouldn't create panic, says lawyer

HOUSTON—A Washington, D.C. attorney urged corporate representatives here "not to panic about the federal pension reform law."

"If you take time to understand it, the pension system will survive," John A. Cardon, a lawyer with the firm of Lee, Toomey & Kent, said. He arrived at that conclusion while reviewing major implications of the law with corporate benefits directors who were meeting at the 28th Annual Conference on Employe Benefits.

"I DON'T SEE this law breaking the private retirement system," Mr. Cardon said.

He did acknowledge that the law, in prescribing a federal fiduciary standard, does present a "disturbing feature" for some trustees. "Fiduciary is defined by the law as the person in charge of pension assets, the person who invests them or the person who renders advice for a fee," Mr. Cardon explained. "A discretionary role now included means that many involved in the administration of the plan who never thought they were fiduciaries could be de facto fiduciaries depending how far their advice goes."

At the same time, the prudent man rule has been modified to give fiduciaries more latitude in their decisions, Mr. Cardon said. He recommended that companies examine carefully what duties need to be performed regarding the pension fund and then delegate these functions to responsible persons.

"Companies should consider insurance for fiduciaries since exculpatory provisions are now void," Mr. Cardon added. "Fiduciary insurance does exempt the employer and pension trustees from liability regarding the pension plan," he said.

One way fiduciary insurance would be used, he explained, is to compensate the plan for losses incurred as a result of a fiduciary's poor judgment. "Fiduciaries must correct any losses to the plan as a result of their actions," Mr. Cardon added.

Mr. Cardon also reviewed some of the 28 items his office compiled as a list for corporate clients to consider concerning the new pension reform law.

THE CEILING-on-benefits rule which affects top executives only applies to Internal Revenue Service (IRS) approved plans, he pointed out. "If the $75,000 a year pension ceiling is exceeded, the plan is disqualified. But an excess plan or plan to pay top executives could be set up to allow top executive retirees more than that amount. It would not 'qualify' under the IRS rules for corporate tax advantages, but it would be legal," Mr. Cardon continued.

Another implication of the new law is that the time limit for amending plans within two and a half months after the fiscal year is being interpreted much more strictly, Mr. Cardon said. "The law is the same but now plans actually are disqualified if they miss the deadline for amendment," he added.

"Be careful to read the law's definition of eligibility," he said. One year of service according to the law is 1,000 hours of service to the company, he pointed out. "All service must be taken into consideration, including breaks in service of less than 500 hours a year."

VESTING FORFEITURE provisions are voided by the law," Mr. Cardon explained. "If an employe quits or goes to work for a competitor, he cannot be divested," adding that the law permits one of three vesting methods.

The impact of the pension law on government includes an ongoing review of aspects such as vesting provisions and the question of a system to effect portability, a provision not presently included. This is being accomplished by a joint task force set up for representatives of Congress and those of the labor and treasury departments, Mr. Cardon went on to explain.

"The task force also will study how the act preempts state law and how it will be integrated with the Social Security system," Mr. Cardon added. ■

International credit covers now available

SINGAPORE—Singapore exporters can obtain international credit insurance and customer collection services from the first Singapore-based factoring company, Credit Factoring International, a joint venture of Credit Factoring International, member of the National Westminster Bank Group; the Chartered Bank; and the local Pacific International Lines shipping company.

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Wall St. woes push profit-sharing plan changes

KANSAS CITY—Profit-sharing companies are turning to guaranteed options to protect retiring employes from the ravages of the declining stock market, according to Bert Metzger.

Mr. Metzger, head of the Profit Sharing Research Foundation, an educational foundation devoted to the study of profit-sharing spoke at the 27th annual conference of the Profit Sharing Council of America. The council is a trade association with 1,450 members.

Some companies have even dropped profit-sharing in favor of defined benefit pension plans to be able to guarantee the retirement income of their employes, Mr. Metzger said.

HE ADDED, HOWEVER, that most profit-sharing companies don't want to do this.

He named the accumulation of a capital estate, motivation of workers, flexibility of funding, and the ability to talk to workers about the profit-picture as overriding benefits of staying with profit-sharing.

The possibility that future pension costs may skyrocket is making profit-sharing and money purchase plans more attractive also, Mr. Metzger said.

He cited four factors which give pensions a distinct disadvantage. They include the cost of premiums which will have to be paid to the Pension Benefit Guarantee Corp., the flexibility of profit-sharing plans to buy employer stock and participate in real estate leaseback arrangements, the absence in profit-sharing plans of the 30% contingent liability that the reform law imposes on a terminating underfunded plan.

"A number of people question the future of pension costs. Charles Ellis of Greenwich Research Assoc. asked 1,150 non-financial companies—Fortune's largest—the size of their pension contributions compared to after tax profits," Mr. Metzger said.

THE RESULTS from the 545 respondents showed that funding pension plans cost an average of 20% of after tax profits for all the companies, and for 20% of the companies, funding pensions cost a whopping 50% of after tax profits.

"We are past the point where pensions are a fringe benefit or cost. We must sit down with a sharp pencil and make a liability analysis for pensions," Mr. Metzger said.

"See where you'll be down the road in 30 or 40 years," Mr. Metzger warned.

Instead of abandoning profit-sharing, Mr. Metzger said that firms should, "imaginatively link pensions and profit-sharing together. We see companies strengthening the pension commitment and moving profit-sharing closer to the current needs of their employes."

He said that while some companies have set up pension plans recently to complement their profit-sharing plans, there is one firm which had instituted a "wrap around" pension plan to complement its profit-sharing.

The profit-sharing plan was instituted in 1952. The new pension covers service before 1952 and service after 1972 is covered by both the pension and profit-sharing plans.

Mr. Metzger also cited the stable income provisions that several firms have instituted to allow workers to transfer all or part of their assets into a guaranteed return investment several years before they are due to retire. He named the guarantees that other firms are placing on employe contributions, and in some cases, on company contributions. These guarantees insure a minimum investment return, despite the performance of the fund in the market.

HE ALSO NAMED the minimum contribution feature—despite profit levels—that some firms have built into their profit-sharing funds to make the plans more attractive.

Mr. Metzger's study of the 38 largest profit-sharing companies spans a total of 1,097 years of profit-sharing experience, starting with Procter & Gamble, begun in 1887, and ending with American Brands which initiated profit-sharing in 1960.

The report lists companies sales, net income, number of employes, and return on equity. It also breaks down the growth rate by employes for the period since the firms have had profit-sharing.

Company contributions as a percentage of total pay are also listed for both 1971 and 1972. De-Luxe Check Printers Inc. and Xerox Corp. led the 1972 list with 15% each, while Polaroid, which instituted a pension plan in 1972, made no profit-sharing contributions for that year.

The full study is expected to be the subject of papers and monographs which will be published throughout the coming year. ■

Hallmark has package plan for retirees

KANSAS CITY—Hallmark Cards has combined pensions, profit-sharing, and a thrift plan to insure the futures of its employes.

The three plans operate in harmony—with several options—to allow flexibility and to encourage employes, Wayne English, senior vp for finance at Hallmark told the Profit Sharing Council of America's annual conference here.

"The largest part of our package is a profit-sharing plan. It gives a retirement benefit two and one-half to three times that of the pension," Mr. English said.

THE THRIFT plan, to which employes can contribute up to 10% of earnings, offers two options. Employes can choose a growth type of mutual fund or a guaranteed income fund offered through an insurance company.

Mr. English said that both the pension plan and the profit-sharing plan take fairly aggressive investment stances. In the pension plan, the aggressive stance is possible because payouts are only about one-fifth of current contributions, he said.

The profit-sharing plan has options which allow employes to transfer into a fixed income plan, which is part of the thrift plan at age 55 with 15 years service.

The fixed income fund guarantees a 7% return on investments and Mr. English predicted that it will rise to 8% in 1975. ■

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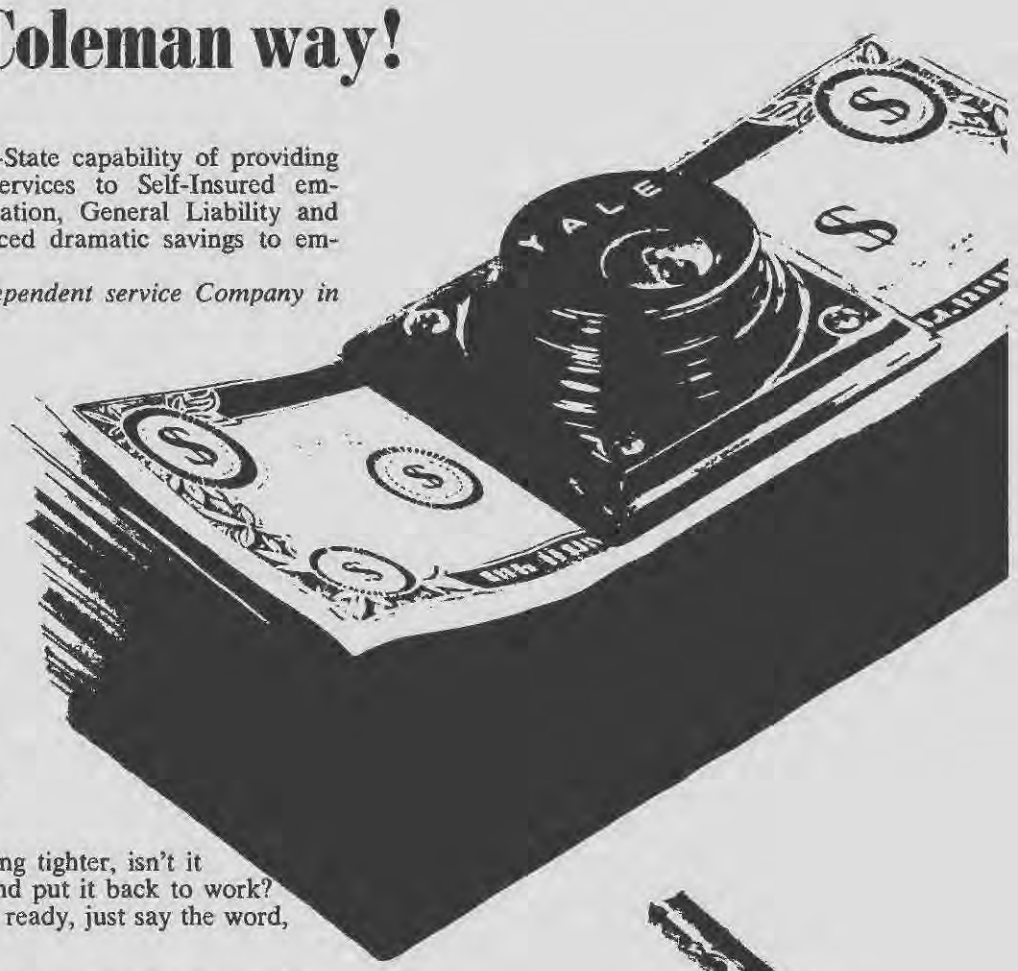

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Certain benefits to gain from pension law: Banker

KANSAS CITY—Profit-sharing faces a bright future with certain qualifications, according to Richard L. Taylor.

Mr. Taylor, senior analyst for governmental activities at the investment banking firm of Invemed Assoc., made his prediction at the Profit Sharing Council of America's 27th annual conference here late last month.

"The outlook is bright. Defined benefit pension plans are saddled with a lot of extra problems and expenses: The cost of reinsurance, actuarial computation and certification. The law poses more problems for some people than it does for others," Mr. Taylor said.

"IT'S INEVITABLE that the new law will attract more people to profit-sharing and money purchase plans," he added.

This newfound popularity calls for vigilance on the part of profit-sharing companies and trade associations like the council, which has about 1,450 members, Mr. Taylor said.

"You must make sure that the new companies that set up profit-sharing plans are not just interested in finding a way to beat the tax collectors," he said.

The major reasons that profit-sharing survived the pension reform law without being restricted is because the major impetus behind the reform movement was the horror stories connected to defined benefit plans, according to Mr. Taylor.

"Profit-sharing plans are a far better approach to the problem. The participants understand that there must be a profit before there can be sharing," he said.

Mr. Taylor stressed the importance of profit-sharing employers continuing to communicate their plans and making sure that all of their employes know how the plan works and what he can expect from participation in it.

"THE NEW ACT isn't all wormwood and gall for defined benefit plans, either," Mr. Taylor said. "They are paying a price and they will get a return. The ability to offer a guarantee may make the defined benefit plan overwhelmingly popular," Mr. Taylor added.

While Mr. Taylor is predicting a bright future for profit-sharing, he also sees mandatory pensions on the horizon. Perhaps they won't arrive until about 1984, or later, but Mr. Taylor forecasts that they are a certainty.

"Only half of our workforce is covered by retirement plans. So any arguments you make about how many people are covered turn into ammunition for opponents who say that just as many aren't covered.

"Then you will have to again determine if profit-sharing is a good alternative or if it should just be a supplement to other retirement benefits," Mr. Taylor said. ■

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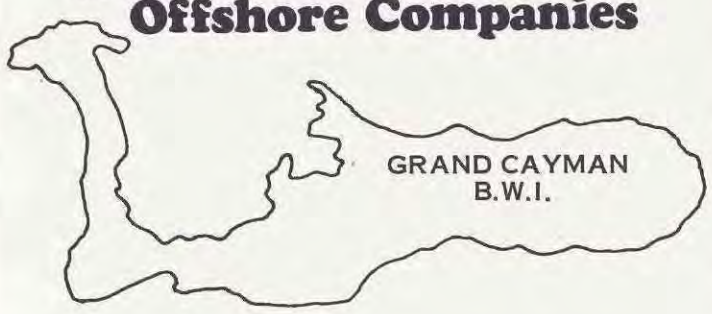

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Pol praises Profit Sharing Council for help on 'hallmark' pension law

KANSAS CITY—The Profit Sharing Council of America received high praise for its input and lobbying efforts on the 1974 pension reform law from Illinois Rep. Dan Rostenkowski, a member of the conference committee which worked out the final version of the law.

"I am grateful to the Profit Sharing Council and its staff for cooperating during the debate on the pension reform bill. It's vital for us to hear from the people directly affected by our legislation. That is the only way we can see the flaws," the congressman said.

Rep. Rostenkowski, a Chicago Democrat, is up for reelection this November, He is a member of the House ways and means committee.

CALLING THE reform bill "the hallmark of this Congress," Mr. Rostenkowski said that he got a "deluge of mail—some 3,000 letters, mostly handwritten," on the issue of pension reform.

"I fought to prevent an overkill bill that would have been too restrictive," he told council members during a luncheon address.

"Restrictive provisions would only encourage employers to cut down on benefits," Rep. Rostenkowski said.

He said that any pension reforms should offer management incentives to install benefits for employes and to cultivate them.

He said that the goal of the ways and means committee was to strengthen employes rights, but encourage new plans and give employers incentives to start them.

REP. ROSTENKOWSKI cited the discretionary contributions formula, the three alternatives for vesting, and a simplified formula for taxation of distributions as examples of the changes his committee made in the Senate version of the legislation which he said strengthened the legislation which was eventually passed.

"This legislation gave us (the ways and means committee) the opportunity to be glamor boys," he said. ■

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Life, health forms called discriminatory

HARRISBURG, PA.—About 300 life and accident health insurers have been charged with sex discrimination under policy forms used in the state. The companies will soon be receiving notices of disapproval to this effect.

"This is the most massive disapproval of forms in the department's history," William J. Sheppard, insurance commissioner, said.

"This action follows a detailed examination of policy forms sold in Pennsylvania. Companies were told to file reports last January, and were given the opportunity to voluntarily withdraw discriminatory forms. Only companies which still use discriminatory forms are affected by this disapproval notice," he explained.

Disapproval is based on the Insurance Unfair Practices Act, other insurance laws and the Pennsylvania constitution's equal rights amendment. The Insurance Unfair Practices Act, signed by the state's governor this summer, specifically prohibits unfair discrimination on the basis of sex in company underwriting and eligibility requirements. ■

Blues start program to slow down health costs

NEW YORK—The 74 Blue Cross plans across the country are launching a seven-point program in an attempt to slow down rising health care costs, Blue Cross Assn. president, Walter McNerney said.

The program has been endorsed by the Blue Cross Assn. board of governors. "All members' plans should adopt and implement, by July 1975, either this program adapted to the circumstances of each plan's local environment or similar programs designed to increase the efficiency and effectiveness of the health delivery system," the board urged.

The measures in the seven-point program will provide more stringent utilization of review of hospital admissions and stays to make sure every patient gets no more care than needed, McNerney explained.

In addition, greater stress will be placed on new methods of paying hospitals, including what the association president calls "financial incentives and possible penalties" correlated to hospital performance.

More cooperative projects with hospitals to improve their efficiency and the stepped-up support of areawide planning agencies and mandatory measures to prevent the "wasteful and costly duplication of facilities and services," will be part of the program as well, the president said.

THERE WILL BE continued development of alternate health delivery systems such as HMOs to "control not only the cost but the quality of health care," Mr. McNerney said. It will also attempt to expand the benefits covering less costly out-of-hospital services. The program will advocate greater public accountability through public disclosure of hospital performance and increase the representation of members of the public on both hospital and Blue Cross plan boards.

The cost containment strategy was prompted by findings that during the three-year period from 1968 to 1971, hospital costs rose about 58%. The strategy developed after two years of study reportedly will:

- shift the demand for the most expensive methods of delivering health care—acute hospital services—to more economical ways of providing comparable health services;
- increase the supply of these cost-efficient services;
- increase the efficiency of all forms of service.

"The Blue Cross system feels strongly that it must be more than a conduit for subscribers money, more than a payer of bills. In fact, it has long recognized and accepted its responsibility to promote the efficient and effective delivery of health care services, and to help contain the cost of services," Mr. McNerney contended. ■

BI survey results

CHICAGO—Very few of the nation's largest industrial and financial corporations have consolidated their insurance management, benefits management and safety management functions into corporte risk management departments.

This is just one of the findings of the first annual Risk Management Survey conducted by *Business Insurance* magazine.

Salary levels of corporate risk and insurance managers are moving upwards, though, apparently reflecting the broadened responsibilities and participation of these managers within the companies they serve, the survey also disclosed.

Full details of the survey will apper in the Nov. 25 issue of this magazine. *Business Insurance* mailed detailed two-page questionnaires to the top financial officers of over 600 of the nation's largest corporations, and received complete (but anonymous) risk management information, including the finances of corporate insurance premium and departmental budgets, from 15% of the firms which received mailings.

Comp future uncertain if federalized

HOUSTON—A consultant recently warned a group here that "if workmen's compensation is federalized, its future will be uncertain."

J. Eldred Hill Jr., executive director of UBA Inc., a Washington, D.C.-based non-profit corporation specializing in workmen's compensation, addressed a generally receptive audience of corporate benefits directors at the 28th annual conference on employe benefits.

Mr. Hill said he believes cost and efficiency will suffer greatly if a federal workmen's compensation law is passed.

He also predicted that unemployment compensation will be federalized by Congress next year, noting that the remaining session of Congress this year is too short, in his opinion, to enact it.

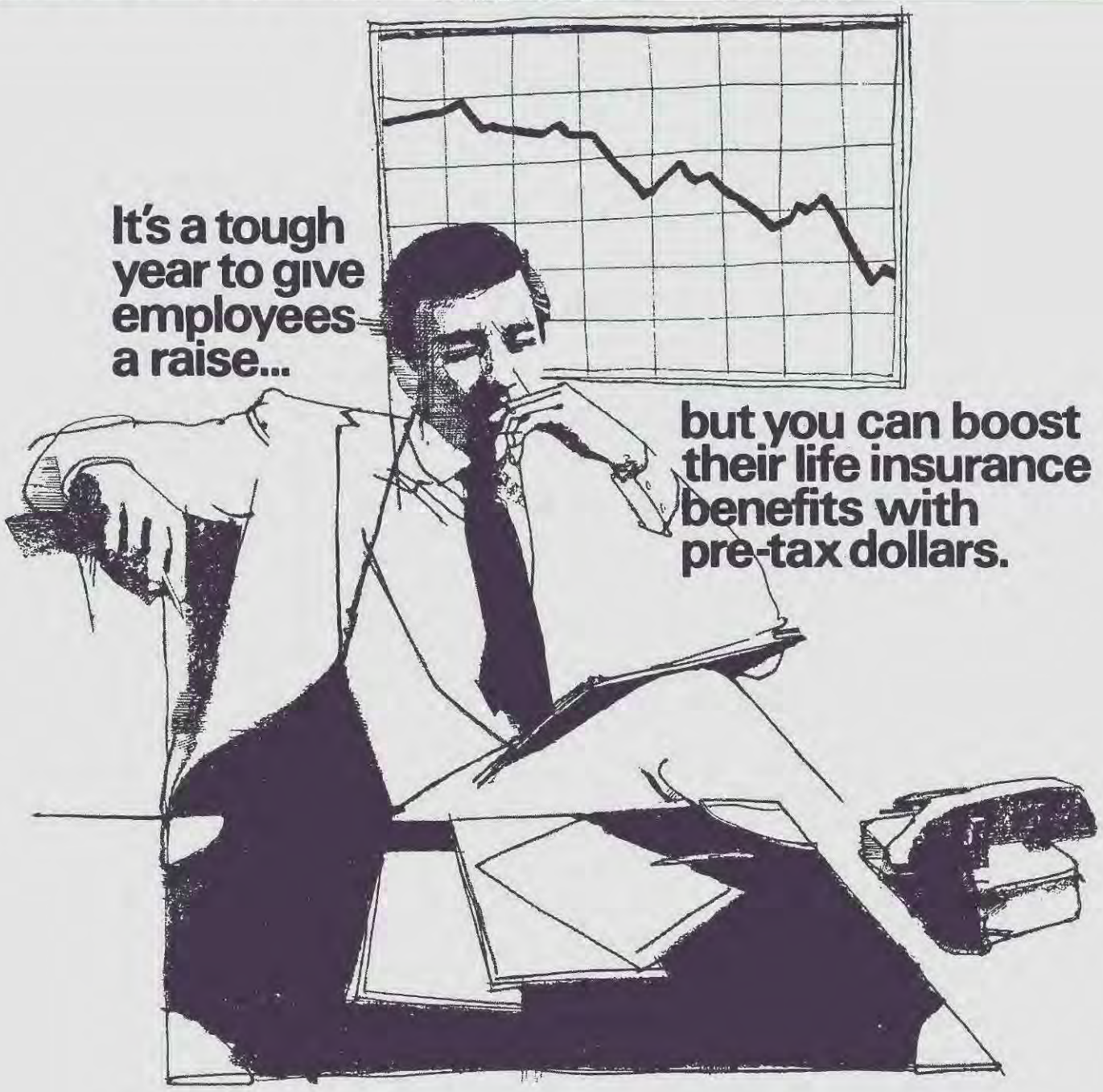
"It's almost a foregone conclusion that unemployment compensation will be federalized by Congress next year," Mr. Hill emphasized.

BECAUSE HE thinks this action is imminent and not likely to be reversed, he urged the audience to pay more attention to attempts to federalize workmen's compensation.

States and private companies can do a better job if they work together rather than allow federaliation, he said. "Workmen's compensation isn't the most expensive benefit by any means for most companies' packages," he said, adding that this probably is the reason so little concern is being expressed about possible federalization.

States should adopt the standards list of the Occupational Safety and Health Administration (OSHA as soon as possible, he advised. "The quicker states make their reforms, the better able we'll be to ward off federalization," said Mr. Hill.

Mr. Hill noted that "workmen's compensation is the oldest form of insurance—63 years. It costs $6 billion a year now and covers 85% of all workers." ■



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Union charges of unsafe working conditions fuel heated argument

Hollywood in real-life feud with state OSHA

By CHARLES WINGIS

LOS ANGELES—The opening skirmish in what could be a protracted conflict between CAL-OSHA and the Hollywood movie studios is currently underway, fired by union charges of unsafe working conditions for employes at Universal Pictures.

An inspection of the alleged safety violations on the set of "The Hindenburg" attracted even greater attention Oct. 10 when a mock-up of the ill-fated zeppelin collapsed while two inspectors from the California Division of Industrial Safety were in the process of examining it. Because the DIS officials had ordered workers to leave the set, which had been declared unsafe and in violation of the California Occupational Safety and Health Act of 1973 (CAL-OSHA), no one was injured in the mishap.

The DIS inspection of the set was prompted by a complaint filed by officials of the International Alliance of Theatrical Stage Employes (IATSE), Sound Technicians Local 695. The union charged the mock-up had been built in a way that violated "general safety regulations of the state" as spelled out by CAL-OSHA.

According to local 695's business manager, Jack Coffey, "Most of our complaints stemmed from the fact that the interior construction of the 'zeppelin' endangered soundmen, grips, cameramen and other production people required to work inside. The interior was laced with crosswires and bracings that could have sliced our soundman in half if he'd fallen from his little platform about 60 feet up in the air."

MR. COFFEY TOLD *Business Insurance* that on an earlier visit to the set he had asked the movie's production manager for some type of safety rigging or harness to prevent the soundman from falling along with his sound pickup apparatus which dangled from the end of a fishpole he is supposed to hold. When he persisted in making the request, to no avail, Mr. Coffey said he was asked to leave the set and subsequently complied.

The union's next move was to file its complaint alleging unsafe working conditions with the Los Angeles office of DIS. The complaint was acted upon by Robert Sands, district manager of DIS, and safety examiner Wallace Zavattaro, both of whom paid an unannounced visit to the set to inspect it for the alleged safety violations.

The two safety inspectors were also asked to leave the set, "not too politely, by the film's producer-director," recalls Mr. Sands. "But we know our responsibilities and we didn't budge," he said.

Following a preliminary inspection of the zeppelin mock-up, Mr. Sands declared it unsafe and ordered production personnel to evacuate the set. Shortly thereafter, the failure of an airtugger winch caused the set to collapse.

Studio spokesmen report damage was slight and the set was quickly repaired. However, film production on this set was halted until all of the noted safety violations had been corrected.

A WEEK AFTER the incident the DIS inspectors and studio officials were still engaged in a series of meetings discussing the violations and the best means of remedying them. An investigation is currently in progress, with about seven or eight separate safety violations expected to be lodged against Universal. Most of the corrections, in the opinion of the inspectors, are not that extensive and should be made with comparative ease.

Said Mr. Sands, "We're getting very good cooperation from both the union and the studio in making the corrections. But it's important that we get the point across that a lot of the trouble stems from the fact that there is no supervision on the job size itself. The producer seems to be god on the set, telling everybody what to do, how to do it and when to do it. Nobody pays any attention to safety."

REFERRING TO the producer-director who asked the DIS inspectors to leave the set, Mr. Sands said, "He has no right or authority to demand a person to place himself where he can cause himself physical harm, he said he's been making movies for 35 years and hasn't had too many accidents. Well, I think one accident is one too many."

Hollywood film studios are going to have to start thinking more seriously about meeting the requirements of CAL-OSHA, said Mr. Sands. "We're looking forward to getting good cooperation from the film industry and we think we can show the movie makers it costs very little more to do the job safely than not. In the construction industry we've proven that it's possible to build bridges, dams and buildings more economically safely than unsafely and it's up to us to show the film industry where their economics really lie."

MR. SANDS cited Walt Disney Productions as an outstanding example of a film producer's effort to comply with CAL-OSHA. "Disney is not shooting now, but whenever they do we're invited in to make our inspections. I think we can get similar cooperation from the rest of the industry."

According to W. C. Vanden Bossche, director of insurance at MCA Inc., of which Universal Pictures is a subsidiary, "We're presently engaged in talks with DIS and we've been cooperating with the department for over two years in an effort to improve our safety program."

However, Mr. Vanden Bossche points out, the film industry has tremendously different safety problems than does a fixed operation, such as found in a typical factory production situation.

"The whole film industry has problems of compliance with CAL-OSHA," he said, "because we're not in a fixed situation, like a factory with rows of machines that have been there for 10 years and which will be standing in the same place for another 10 years. It's easy to control the safe operation of those machines because all you have to do is put guards on them.

"BUT HERE at Universal we have 34 sound stages that are constantly in use, either in construction of new sets, actual shooting or the striking of old sets. This represents a very different safety problem," he said.

Like studio carpenters and other workmen at Universal, an actor working for Universal is an employe covered by workmen's compensation, Mr. Vanden Bossche explained. "Certainly, there are hazards in making a motion picture, and that's why we pay people such as stuntmen tremendously large sums of money to perform." Sometimes they get injured in performing the stunt, but "that's the nature of our business," he said.

Regarding the every day risks faced by the Hollywood stuntman, Mr. Sands stated the CAL-OSHA position emphasizing, "Stuntmen are going to have to be projected and their stunts are going to have to be calculated and engineered with such forethought that their chances for injury are minimized. A lot of film producers haven't really thought much about this and now they're going to look carefully into each new stunt situation as it comes up."

With film industry profits now at all-time record highs, Jack Coffey of Local 695 points out, "It's not hard times any more. The studios can afford to provide their employes with safe working

Continued on page 99

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Federal work comp rules may result from 'laggard' attitude of many states

CHICAGO—A federal workers' compensation law may be a reality before long unless the states act quickly to improve their own programs, says John F. Burton, Jr., PhD, former chairman of the National Commission on State Workmen's Compensation Laws.

"Unless the states have a rapid acceleration of progress in the next year, the recommendation of the national commission would suggest that there should be federal workmen's compensation standards," Mr. Burton told a seminar at the 40th annual Midwest Conference on Industrial Relations.

The commission formulated 19 essential recommendations for state workmen's compensation laws in July 1972 after 13 months of hearings and meetings. After concluding that "state workmen's compensation laws in general are inadequate and inequitable," the commission advised that if the states are not in compliance with the essential recommendations within three years, then Congress should guarantee their adoption with no further delay.

MR. BURTON predicted that at the present rate of progress, most states will be in compliance with only 12 of the 19 recommendations by July 1975. Moreover, some states are especially laggard, he said.

The former commission chairman said he gives six states his "Uncle Sam award—recognition of the states that have done the most to make federal standards a reality."

These states are: Louisiana, which is in compliance with only one of the commission's recommendations; Tennessee—three; Arkansas—four; Georgia—four; Alabama—five; and Illinois—five, according to Mr. Burton.

Although there are wide state-to-state differences, he said benefit payments are too low in almost every state. The maximum weekly disability benefits is below the poverty level for a family of four in most states, according to Mr. Burton.

The commission's recommendations state that maximum weekly benefits for either temporary or permanent total disability should be the lesser of 66-2/3 percent of the worker's weekly wage or 66-2/3 percent of the state's average weekly wage. As of July 1, 1975, this latter figure will move up to 100% of the state's average weekly wage.

THE MAXIMUM weekly death benefit should be subject to the same formula, the commission recommended.

Another major inequity in state worker's compensation programs is the lack of provision in many states that makes the law compulsory for all employers said Mr. Burton. As of September 1973, department of Labor figures show that only 37 states had compulsory laws.

The third area in which states are lacking is full coverage of occupational diseases, Mr. Burton said. Department of Labor figures show that 45 states provide for full medical care for accidental injuries but only 39 states provide the same kind of care for occupational diseases, as of September 1973.

What happens in July 1975 will depend to a great extent on what the states do to improve their programs, Mr. Burton said. "If the states really move, there is a good chance to avoid legislation," he said. But much depends also on what happens this month in the voting booth." ■

AIIA president

Bruce Mackey, vp-Greenburg Insurance Agency of Omaha, Neb. was named president of the Assn. of International Insurance Agents (AIIA) at the annual meeting in Nashua, N.H. AIIA is an association of 27 independent insurance agency in the U.S., Canada and Europe.

OSHA . . .

Continued from page 98

conditions. They're going to have to do some serious thinking about compliance with CAL-OSHA."

While the soundmen's union has the full support of CAL-OSHA in making the necessary corrections on "The Hindenburg" set, Mr. Coffey questions whether the same effective action will always be available in the future. "You see, there's this business of a three-day waiting period before a CAL-OSHA inspector has to report to the scene of the alleged violation."

AS SPELLED out in CAL-OSHA, "When the division (DIS) receives a complaint from an employe that a place of employment is unsafe, it will investigate as soon as possible but no longer than three working days, with or without notice or hearing. Complaints of serious hazards will take priority."

Said Mr. Coffey, "If one of my people calls in today and reports a bad situation in a particular shop, it's up to me to go out and view the situation and then make a formal complaint to the DIS. The inspectors may take up to three days before they arrive on the scene and by that time the guy who was standing on the unsafe ladder has completed his work. If he survived the job he could be on another set or in another state by the time the inspector appears."

Another stumbling block which makes inspections difficult, said Mr. Coffey, is the possibility that his presence on the set of a film in production may result in a work stoppage that might be charged to the union.

He explained, "If I visit the set to inspect and see what the complaint is all about, it's quite possible I'll run into a lot of union members I'll have to talk with. If they stop to talk to me the studio can then charge me with creating a work stoppage.

THEY SAY "these productions cost us $200,000 per day to shoot, and we'll take that portion of time you were on the set and charge that time to your union for a work stoppage. We haven't got the money to defend our position in the courts so we can only back off. They kind of have us over a barrel in this respect," he said.

It may be early November before the DIS investigation is completed and the specific violations charged against Universal are made known. Penalties involve fines which may run as high as $1,000 per violation, depending upon its severity and whether it is considered "an imminent hazard to the lives or safety of employes." ■

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Foreign credit insurance expanded to cover export risks abroad

NEW YORK—If a buyer of services in about 150 countries cannot meet his financial obligations due to commercial or political risks, the U.S. services exporter can be reimbursed for as much as 90% of the services performed under a recently developed policy underwritten by the Foreign Credit Insurance Assn. (FCIA).

The comprehensive services policies cover both commercial and political risks through a cooperative arrangement with the Export-Import Bank of the U.S. FCIA writes the commercial credit risks and Eximbank covers the political risks. The bank also reinsures a portion of the commercial risks.

COMMERCIAL RISKS covered under the policy include insolvency of the foreign customer or the customer's failure to pay the insured within six months after the due date of an obligation under an insured contract.

Political risks covered include transfer or currency inconvertibility risk, cancellation or restriction of import or export licenses, or any governmental action which prevents the import of performance of the insured services in the customer's country.

Other political risks are those arising from war; revolution, expropriation or confiscation of the foreign customer's business and some other political hazards.

IN ORDER TO qualify for the coverage, a service contract:

- must be performed for U.S. dollars;
- must be an agreement to perform services for customers in countries approved by FCIA and Eximbank;
- must involve services performed by U.S.-based personnel or such personnel temporarily assigned to the customer's country to perform the services.

Countries not approved by FCIA include Russia, Cuba, North Vietnam, North Korea, Yeman, Egypt, and Communist China.

There are no recognizable limits on the insurance, according to FCIA's financial analyst, Bill Bergtold. "We haven't seen under $500,000," he told *Business Insurance.*

The cost of the coverage "is an average of one-half of 1% per year" on a total job, the financial analyst said. The manager of the services export program, Joseph D. Sarria, said premiums amount to about 50 cents for every $100 of contract value.

Variables involved in cost computation include the country, terms of credit and the instrument of credit.

There is no deductible on the services export policy, although FCIA can compute one if the customer so desires. But, exporters of services "usually don't take it. Service people don't like deductibles," Mr. Bergtold said.

THE SERVICES exporter benefits in the following ways, according to FCIA. The insurance protects the exporter against the failure of the foreign customer to pay his dollar obligation for commercial or political reasons. It also encourages the exporter to offer foreign customers competitive terms of payment; and supports the exporter's prudent penetration of higher risk foreign markets.

By assigning FCIA policy proceeds as collateral for bank loans, the exporter develops greater financial liquidity and flexibility in administering his foreign receivable portfolios.

The insurance is available in two forms, short term and medium term. Under the short term, service payment is made within 180 days from the date the invoice is issued. Coverage is issued for periods of one year, renewable for additional 12-month periods.

Credit covers on exports to 150 countries available now.

Short term coverage normally covers up to 90% of the commercial risk and 95% of the political risk.

Medium credit covers a period of 181 days to five years to meet progress payments under a service contract. Under this coverage the foreign customer must make a cash payment of at least 10% of the contract amount either at the signing of the contract or during performance as each invoice is submitted. The remaining 90% or less (the financed portion) must be evidenced by promissory notes submitted during performance as invoices are presented for payment.

FCIA SAYS the services export program not only protects against overseas risks, but is also a useful financing tool at home. Because obligations insured by FCIA are exempt from the Foreign Credit Restraint Guidelines, which restrict U.S. bank foreign lending operations, banks can finance service exporters' obligations using U.S. funds, instead of offshore deposits, at more favorable rates, according to the insurance association.

"The new FCIA services policy will be an excellent program for the engineering and construction industry in that it will no longer have to bear the full brunt of offering credit facilities for engineering and special services overseas. With the new FCIA Services Policy, these companies can now obtain financing from their local banks at favorable rates," said William M. Miller, vp, The First National Bank of Birmingham. The bank was the first in Alabama to be issued an FCIA short-term policy, according to FCIA.

This past summer, the insurer stepped up its marketing campaign. During that time, nine companies across the country signed comprehensive services policies.

The companies were said to be:

The Louis Berger Group of Companies; Colorado International Corp.; Morgan Construction Co.; Palmer and Baker Engineers Inc.; Stanley Consultants Inc.; Systems Consultants Inc.; Telecom; Westenhoff and Novick Inc., and Haight & Welch Inc. ■

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Risk managers advised to set better contacts

CHICAGO—"An underwriter can't write your insurance just looking at papers. The more communication there is, the better job he can do and the more you'll get your money's worth."

So spoke Edward R. Lloyd, director-insurance at Dan River Inc. at a seminar on the corporate risk manager's role in financial and policy decisions at the American Management Assn.'s 37th annual insurance conference here.

After the basic principles of risk management were outlined by Peter Mullen, formerly director of risk management at City Investing Co., Beverly Hills, Ca., and now a broker with Fred. S. James & Co. Inc. in California, the seminar became a freewheeling discussion of the problems faced by risk managers, the major one being communication with management and brokers.

"I DON'T write memos," Mr. Lloyd said. "I get more satisfaction out of calling a section manager, arranging a time, and meeting him on his own ground. It's bad business to write memos."

Mr. Lloyd told the seminar how he convinced the president of a carpet company that severe penalties were needed to cut down on truck accidents. He put the losses in terms of how much carpet would have to be produced to make up the losses, and his plan was approved to dismiss drivers after three chargeable accidents in five years. There have been no accidents caused by driver error since then, he said.

Mr. Mullen said brokers should be asked to explain their reports, which should be submitted to the risk manager in the same form as the way they will be presented to management.

"You're dealing with these people, you're paying the bills, you have the right to ask all kinds of questions," Mr. Lloyd told the seminar participants.

Mr. Mullen emphasized that "insurance is not a general administration expense, it's a controllable expense." The best way to control costs is through an insurance manual, he said, which consolidates information needed to make comprehensive insurance decisions.

THERE SHOULD be five pages in an insurance manual, according to Mr. Mullen. On the first page, all the basic insurance information should be listed—names of companies, brokers, premium payments, and so forth.

The second page should list all the coverages, and the third page should list everything that is excluded from coverage.

The fourth and fifth pages should contain reporting procedures, he said.

The other members of the seminar panel were Arthur Bostwick, director of insurance at McGraw-Edison, and Daniel D. Gaitley, manager of the insurance department at Chrysler Corp. ■

Tougher federal rules on safety now effective

WASHINGTON—The federal government's latest push to tighten up its own job safety and health programs become effective this month.

New rules require that all federal departments and agencies maintain logs of occupational injuries, illnesses and deaths. Serious accidents resulting in fatalaties, hospitalization of five or more workers, or property damage of $100,000 or more.

The other areas covered by the new rules include these:

- Each agency head must appoint an official of the rank of assistant secretary or the equivalent to head the agency job safety and health program.
- Workplace inspections must be conducted by "personnel with sufficient technical competence to recognize unsafe or unhealthful working conditions."
- Employes may report unsafe or unhealthful conditions or may request an inspection of the workplace.
- Imminent danger provisions call for immediate abatement of the danger or withdrawal of the affected workers from exposure to the hazard.
- Reinspections, where practicable, will be conducted.
- Job safety and health standards for federal agencies must provide protection for federal employes "at least as effective as" that offered by OSHA standards for the private sector. ■

OSHA seeks man posing as inspector

WASHINGTON—A salesman is being sought by the Occupational Safety and Health Administration (OSHA) for allegedly posing as an OSHA inspector with at least two small businessmen in Washington, Pa.

The salesman allegedly found "violations" and warned of possible fines of up to $1,000 a day if they were not corrected. He would then suggest that the businessmen purchase certain products he sold in order to come into compliance.

The Pennsylvania incidents occurred last month (October) and were the first such apparent con games to be reported to OSHA in the last several months.

The situation has prompted OSHA to warn employers that all OSHA inspectors carry special Labor department credentials which should be checked. Any questions about the authenticity of the credentials can be cleared up by contacting the nearest OSHA office.

OSHA SAID bogus inspectors use several "con" games.

"Some will demand on the spot payment of penalties for conditions they claim violate OSHA rules," the department said.

"Others will point out so-called violations and suggest they can be corrected by a particular tool, machine or piece of equipment. These usually are followed a day or so later by an accomplice who offers to sell the employer the recommended items."

Both procedures violate federal law, OSHA said.

OSHA also reminded employers that advertisements which claim any particular product is "OSHA approved" are misleading. OSHA does not approve any safety equipment.

Past instances of improper advertising, when brought to OSHA's attention, have been turned over to the Federal Trade Commission for action. ■

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business insurance

PERSPECTIVE

Project sizes, economic conditions dictate a new look at contractors' bonds

By ROBERT E. MILLER
President,
Robert E. Miller Insurance Agency
Kansas City, Mo.

VIRTUALLY EVERY CORPORATION is involved in a construction program at various phases of its corporate growth. Hopefully the call goes out to the risk manager when the project is in its most embryonic state, so that he can coordinate his department's knowledge with all other departments being utilized.

The normal process involves the internal decision as to need. Next comes the architect, who produces plans and specs. In most instances, a competitive letting is held and a number of contractors bid to construct the project according to the plans and specs provided by the architect. The low bidder is awarded the job, work begins, and hopefully all is complete within the time parameter desired.

A decision frequently facing the risk manager is whether or not to bond the contractor. Does the exposure warrant the premium cost? The issue has been thrust into the spotlight in the past few years because of studies conducted by the GAO (Government Accounting Office) and several states. The results which might at first glance seem to weigh heavily in favor of non-bonding actually point up the effectiveness of the bonding element in the overall construction process.

TO BEGIN WITH, the bond is not insurance in the normal sense we view our property, casualty, life, etc. It is instead a form of financial guarantee. In fact, in most of the rest of the world, it is handled more by banks and other financial institutions than it is by insurance companies.

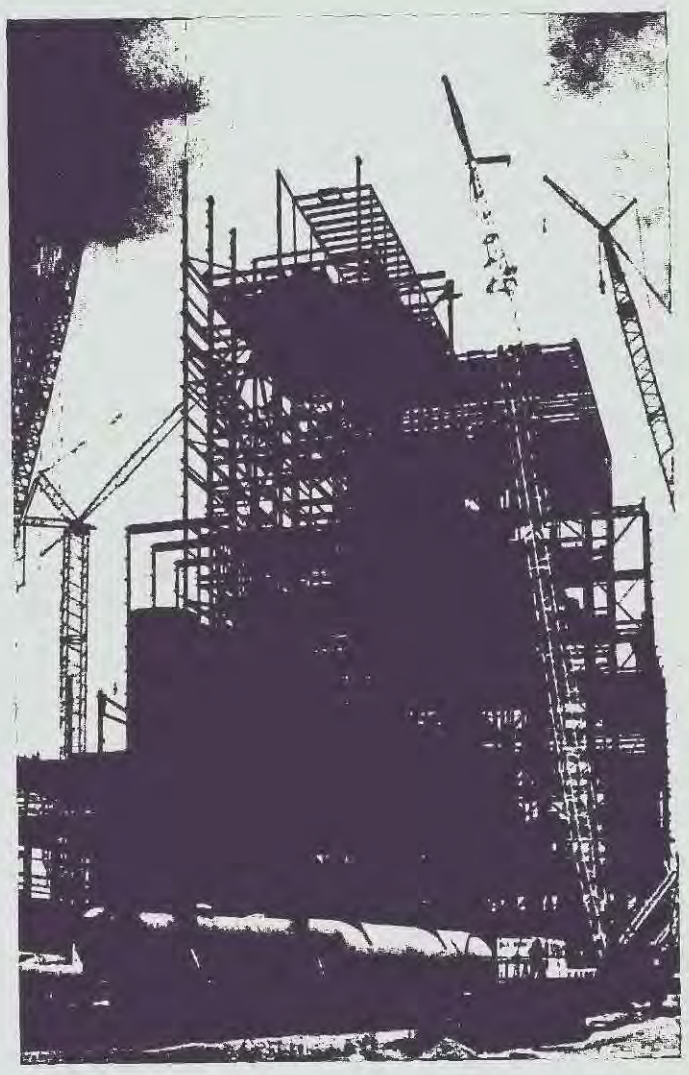
The premium paid is also somewhat of a misnomer. It more properly is a service charge for the professional services rendered. The extent to which bonding is treated as a specialty within the insurance industry itself is indicated to some extent by the fact that there are some 35,000 members of the N.A.I.I.A. (National Assn. of Independent Insurance Agents), yet less than 300 members of the NASBP, (National Assn. of Surety Bond Producers). The NASBP members probably account for 1% of the N.A.I.I.A. membership, but 90% of the contract surety bonds.

THE PRIME PURPOSE is prequalification of the contractor—not the payment of losses. If the investigation of the contractor and the job are thorough, there should be no loss.

The monies (premium or service charge) paid are not geared to a loss ratio but are instead established as a fee much as a bar association and other groups indicate fees for their members. The fact that losses must be paid out of this charge leads many to mistakenly view the charge as simply another premium.

Since this is a cost (less than 1% on a job of any size) and the losses seem to be relatively few, wherein do the savings lie? The key is prequalification. The guarantee of the bonding company that each individual contractor submitting a bid with bid bond, can and will perform and pay all bills, gives the owner a guaranteed cost.

Without this, the architect would be reluctant to permit contractors unknown to him to bid, as he would not want to be responsible for their failure to perform. In addition, he could be stung by one he thought capable and financially able, who fails because of other jobs that have gone sour. In short, neither the architect nor the owner has the mechanism for properly checking the construction industry to see who can handle their project. It's particularly true when the construction is to be at a location removed from the home base of both architect and owner.



CONTRACTORS
'Today there's a very strong feeling that the larger contractors face more problems than the medium and smaller size contractors. The reason lies in the size of the contracts and the time of performance, with $10 million jobs taking as long as four or more years to complete. Recent skyrocketing materials costs were forced on contractors with disastrous results, says the author.

MANY FEEL THAT size and financial strength would be the only criteria applied in testing the contractor. Those are but a few of the check points. Today there's very strong feeling that the larger contractors face more problems than the medium and small size. The reason lies in the size of the contracts and the time of performance. The $10 million and up size job can take two, three, four years or even more. The average duration of the $250,000 to $1 million contract is generally less than a year. The shorter the time factor, the easier to get accurate pricing on your materials and labor. Who could have foreseen the tremendous increase in material costs over the past 18 months? In many many instances, on the long term contracts, these increases were forced on the contractor with disastrous results.

Continued on following page

Disability insurance in the buy-out agreement

"Disability is far more likely than death during the life of the average business . . . seven out of eight disabilities are caused by sickness. . . . We added the disability waiver of premium provision to our life insurance policies."

By WILLIAM HARMELIN
consultant
Business and Estate Planning Co.

READERS, I WISH YOU WOULD all help me with a little experiment. Let us assume that you are about to organize a partnership or a close corporation with me and three other people as equal partners or stockholders. Let us also assume that we five are the very young age of 35. Give very careful consideration to the four you would select to be associated in business with you.

In the following paragraphs, reference will be made to the corporate form of business. The same facts can be applied to the partnership. Therefore it is suggested that you recognize that the word "partnership" can be substituted for the word "corporation" throughout this article.

The five of us are equal stockholders in a life insurance marketing company, each owning 20% of the stock. We shall call our firm A.B.C. Marketing Corp. Like a great many other close corporations, A.B.C. Marketing Corp. requires the continued and personal services of each of us five principals in order to keep business perking and on a profitable basis.

STATISTICS TELL US that out of five people aged 35, one and one-half will die before reaching age 65. Your good friend and life insurance advisor, Will Guide, has advised us to buy business life insurance. He has been recommending this for a number of years. He calls on you periodically to discuss your personal life insurance problems, as well as those of the rest of us stockholders.

During these periodic visits, we are cautioned about the necessity for life insurance to provide funds immediately in case one of the stockholders dies. However, we are young men. We know we won't die. Over and over again Will Guide has told us that business life insurance is essential so that we have the money to pay off the interest of any deceased stockholder in our corporation. This will enable the survivors to remain in the corporation without being forced to do business with a widow and other heirs or their lawyers, and without the huge burden of paying off a business interest out of 100-cent dollars taken from reduced current earnings.

The annual convention of the Life Insurance Trade Assn., to which A.B.C. Marketing Corp. belongs, is held in Puerto Rico during the first week of December, and all of our associates attend, as do our competitors. The very first day you and I participate in the golf tournament. We are in a foursome which is made up of you, one of our stockholders named Bill Harmelin, and two of our most successful competitors. On the fairway approaching the third hole, one of our competitors in the foursome, age 38, gets a severe pain in the chest, and before medical aid can be summoned he drops over dead.

Suddenly we begin to realize that, but for the grace of God, this might have been you or Bill Harmelin, and that Will Guide was right. It can happen to us. We are really shaken.

THE NEXT WEEK when we all get back home, we call Will Guide to come over to see us immediately and to be prepared to discuss his business insurance idea. After a serious discussion, at which all of the stockholders, our accountant, our attorney and, our life insurance advisor are present, we buy $100,000 of ordinary life insurance on each of the five of us. Of course, our accountant helped us arrive at this figure. Everyone agrees that $100,000 is the minimum each of our families should receive in return for the blood, the sweat, and the tears we have given to build A.B.C. Corp. A factor in our decision was the after-tax premium for the $500,000 of life insurance needed.

Will Guide then suggested that we have a buy-and-sell agreement prepared by our attorney, because the buy-out funds have now been made available from the insurance policies just purchased. Will Guide

Continued on following page

business insurance

PERSPECTIVE

Buy-out . . .

Continued from preceding page

offers to be present during the preliminary meetings with our attorney and we accept his offer because of the ideas he may be able to present.

Arrangements are made for drafting and execution of this extremely important agreement. Will Guide recommends, and everyone present agrees, that we should include the disability waiver of premium provision in our life insurance policies so that the burden of paying premiums will cease should one or more of us become totally and premanently disabled. Will Guide's explanation is that it is easier to pay approximately $67 a year for each of us now while everyone is contributing his full share to the success of A.B.C. Marketing Corp., so that a premium payment of approximately $24000 a year will be eliminated for whichever one or more of us gets seriously sick or hurt.

HE POINTS OUT that according to statistics, three and a fraction of us will become disabled for some period of time. This compares with only one and one-half people age 35 who will die before age 65. Let me repeat, that only one and one-half of your clients who are age 35 will die before age 65, whereas three and a fraction will be disabled during the same period of time. Is it not true that life insurance companies presently pay out far more money in living benefits than in death benefits?

As further proof of this, why not consider the number of death claims which have been paid by insurance companies for which you sell, compared to the volume of insurance you have sold. If you have sold dead death policies equal in number to the number of living death policies, you will learn that the ratio of health claims to the death claims is much greater than two to one.

We now have the usual type of buy-and-sell agreement which is funded by life insurance to cover the hazard of death. We have added the disability waiver of premium provision to eliminate premium payments when any one of us become seriously sick or hurt.

As we have just seen, disability is far more likely than death during the life of the average business. You, Bill Harmelin, our other business associates, Will Guide, our insurance advisor, our accountant and our attorney had foresight. We added the disability waiver of premium provision to our life insurance policies.

Two years elapse. You become seriously hurt as a result of a freak accident. (The only reason for using an example of an accident in this illustration is that accidents make headlines, but seven out of eight disabilities are caused by sickness, and not by accident. (The odds are that a massive coronary will cause the disability instead of an accident.) What peace of mind you now have!

> "He points out that according to statistics, three and a fraction of us will become disabled for some period of time. This compares with only one and one-half people age 35 who will die before age 65."

After six months, no further premiums will be due on your life insurance policy. Since the doctor feels that you will be laid up for at least three years, you are completely relieved to know that your premium of approximately $2400 will not have to be paid by A.B.C. Marketing Corp. after only six months.

We good friends and business associates with whom you have been in business for many years agree to continue to share earnings with you and your family as long as we possibly can. We do share our income with you. However, after five months there is a decided drop in business. You were the chief outside source of new business. Your prospecting techniques were superb. The loss of your services is keenly felt and we are forced to hire two people to replace you. We pay you for four more weeks—that is six months now. We begin to realize that we cannot continue to pay you an income indefinitely as a non-producing stockholder because the added salaries to the two men we had to hire to take your place have become a huge burden. We see the handwriting on the wall.

We don't want to cut you out, but unless we do, all of us will be forced to take a salary cut ourselves. We have had to start doing night work again, in spite of the fact that we knew we would never have to do that distasteful kind of work any more. We are putting in much longer hours now, because the new men (who are employes, and not owners) won't do any of the paper work you used to do in addition to your selling. Further, business has fallen off badly. An old fashioned slump is here. We stockholders are being forced to find a way to get you out of the business.

When we tell you we cannot afford to continue your income, you become embittered. You begin to think that your former friends are rats and backstabbers. We healthy stockholders are as unhappy about the turn of events as you are. Unless we get rid of you, now that you are disabled, we are going to be in serious financial trouble. We all used to be such good friends, and now you wonder how you could possibly have been associated in business with us for the last ten years. You turn the matter over to your attorney, who sues A.B.C. Marketing Corp. The only people who gain from this unfortunate turn of events are the two law firms.

Pictured in your mind's eye what would have happened if Will Guide had gone one little step further when he added the disability waiver of premium provision to our life insurance policies. He might have pointed out to us the importance of providing some precious money to take the place of the loss of income to our business in case of serious disability of one or more of us. He might have enlightened us that only one out of 150 of his policyowners will die, but that one out of four of his his policyowners will become disabled.

YOUR OWN SAD experience is living proof of this statistic. Had Will Guide persuaded us to add a disability buy-out provision to our present buy-and-sell agreement and fund it with non-cancellable disability income insurance to pay you an income of $1,000 a month to age 65 in case of sickness and for life in case of a disability, what a difference—you would be getting $1,000 a month with no strain on the corporation. This means $12,000 a year without any sweat to A.B.C. Marketing Corp. A little advance planning can mean that the business would continue to function without too much financial difficulty and with no personal rancor.

Your business associate, Bill Harmelin, might become disabled instead of you. Suppose he is disabled for what will be ten or more years. Even though he is not as big a producer or as valuable to our business as you, wouldn't you like to be able to be a gentleman and do the right thing for Harmelin and his family? Wouldn't you like to avoid being sued? Wouldn't it help to make some advance provision so that you have the money, which, like the proceeds of life insurance, is produced when a disability occurs, to pay off the interest of a disabled stockholder? ■

William Harmelin, C.L.U., is president of Estate Planning Consultants Inc. and and 18 year member of MORT. He is the author of manual on Disability Insurance in the Buy-Out Agreement.

Contractors ...

Continued from preceding page

Some prices have soared so astronomically that they literally defy belief. The table below illustrates a random solicitation of different categories:

Contractor failures are up and the trend seems to be worsening. Even with the expertise of the bonding specialists losses occur. General Insurance Company of Seattle, in analyzing their reduced income for the first six months of 1974, cited as one of the reasons their 3 bond losses where reserved in excess of $7,000,000 had been established.

By requiring bonds on all construction contracts, the risk manager assures his firm of many plus factors including:

- a guaranteed price;
- competent completion per plans and specs;
- a better bidding list of qualified contractors.

With bond in hand for the low bidder, the owner can take advantage of the savings between his figure and the next—even though he does not know the qualifications of the bidding contractor. That's the job of the surety. With a bond premium of far less than 1%, the bid difference between the first and second bidders more often than not exceeds the cost of the bond. ■

Robert E. Miller is president of the Robert E. Miller Insurance Agency, specialists in handling construction accounts. He is currently chairman of the educational committee for the National Assn. of Surety Bond Producers, an organization of those agencies specializing in surety bonds for contractors.

OVER SEVEN MONTH PERIOD INCREASE IN MATERIAL COSTS

Item	Price, 1-1-74	Price, 8-1-74
4" Cast Iron Pipe	92¢/lineal ft.	$1.47/lineal ft.
¾" bronze gate valve	$11.00	$25.00
3" ABS-PVC Pipe	44¢/ft.	86¢/ft.
Resilient Floor Tile	$4.00/carton	$6.30/carton
3⅝" Metal Studs	$110.00/M Lin. ft.	$172.00 M Lin. Ft.
Asphalt	$7.00/ton	$12.00/ton
Form Lumber	5¢/each	17¢/each
Manhole Covers	$22.58/each	$40.27/each
D8 Dozer	$77,000.00	$116,000.00
955 Loader	$35,000	$52,000

RISK MANAGEMENT NOTES

May be more liability risk in creating those big noises

By WARREN, McVEIGH, GRIFFIN & HUNTINGTON
risk management consultants
San Francisco—Newport Beach

A MOST SIGNIFICANT and precendent setting case is reported by Art Smart in his August, 1974 "Confidential Insurance Bulletin." The California district court of appeals affirmed the ruling of a trial court on behalf of 520 property owners in a suit against the City of Los Angeles for diminution of their property values because of noise created by planes using the Los Angeles International Airport (*Aaron vs. City of Los Angeles*, 40 CA 3d471). The city was held liable in inverse condemnation.

Damages were assessed by real estate appraisers who placed a value on the properties and compared them with values of comparable properties in areas away from the airport. The court held: "The municipal operator of an airport is liable for a taking or damaging of property when the owner of property in the vicinity of the airport can show measurable reduction in market value resulting from the operation of the airport . . . The owner need not prove there were direct overflights of the property. The fact that the federal government controls flight of aircraft does not relieve the airport's owner operator of liability."

WHILE THIS DECISION is of utmost significance to airport operators it should be recognized by others as indicating a trend of the courts to an increased-sensitivity to noise as a source of damages. Workmen's compensation awards for diminished hearing of workers subjected to continuous loud noises has forcibly alerted management to this loss potential, but the area of public liability for noise pollution is only beginning to be recognized. Those whose operations create a significant amount of noise in public areas should take note. ■

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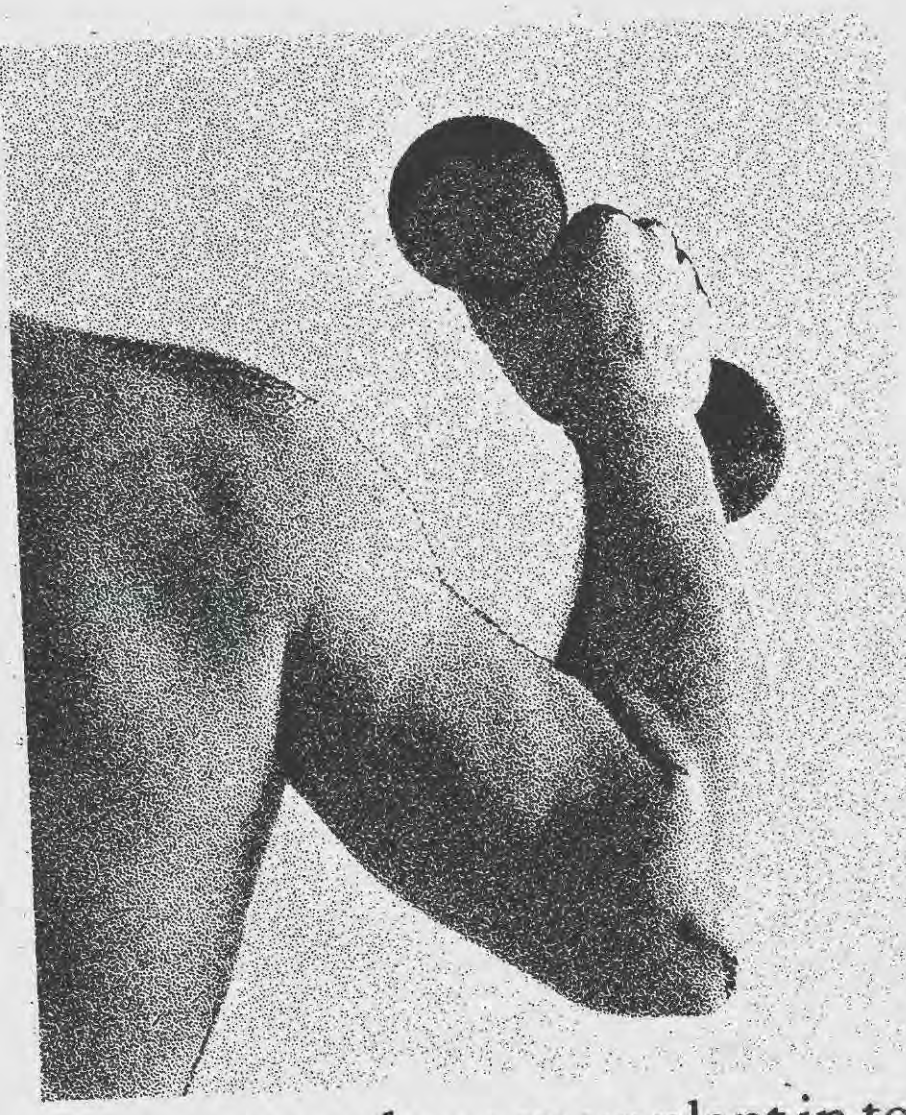

Our main objective at Allendale is to keep your plant in one piece. To keep it from being destroyed.

That's why, before we insure you, we ask you to agree to make it as safe from disaster as possible.

You'll get plenty of help from us protecting it.

But what if disaster does hit?

No one can get assistance to you quicker. Our experienced, engineering-oriented adjusters will help get your business back in business without delay.

At Allendale we think it's as important to have your plant in top physical shape as it is to insure it!

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Factory Mutual System

Allendale Insurance

business insurance

PERSPECTIVE

Marine underwriter sees changing risks forcing tight markets

By JOHN B. RICKER, JR.
Chairman, Marine Office
Appleton & Cox Corp.

THE ABILITY OF THE MARINE insurance market to provide adequate capacity limits for today's inflated values, is, of course, being affected by the current economic uncertainties. In my opinion, this is creating a situation where we could well be on the threshold of shifting from a buyer's to a seller's market. Naturally, this will affect risk managers who through their agents or brokers will be looking for suitable coverage.

I base this opinion on impressions formed at the annual meeting of the International Union of Marine Insurers in Berlin during September, when meeting with representatives from 37 countries provided an excellent opportunity to analyze the attitudes of international marine underwriters.

The general consensus was that the size of ships and the values concerned, including cargos, have increased rapidly. And that no market can suffer the loss of its top value and hope to make an underwriting profit in the year in question.

This has a direct relationship to the ability to provide capacity. Let's consider capacity for a moment. How is it developed? When does it disappear?

FIRST, THE CHANCE of easy profits or a "quick buck" attracts capacity. The year end results of marine underwriters are published internationally and if they are good, new insurers and reinsurers commence to write marine business which builds up capacity. But in other countries, year end figures can be misleading and create a false sense of security.

To illustrate: For over 300 years, the London market has kept books on a three year run-off basis. This means that underwriters don't really know until 1974 what happened to their figures in 1971. When the effect of two or three poor years comes together, the inexperienced newcomer feels frustrated and withdraws from the market. This reduces capacity and creates an undependable image for our industry which we "long timers" feel very keenly.

Secondly, managers watch the ratio of premium writing to their companies surplus or free reserves. In a bullish economy where surplus is increasing steadily as well as investment income, they look for cash flow and stretch this ratio to the limit. Under these circumstances, underwriters look for "gold" classes of business, which marine insurance is sometimes considered. Thus capacity is enhanced.

Conversely, when the surplus account or free reserves contract during a bear market such as we have today, or a recession or depression, written premiums must be brought back to a reasonable ratio in order to stay solvent and have enough money to pay losses.

As underwriters restrict their writing, this reduces capacity, not only on new risks, but on risks that have been around for some time. In addition, if underwriters have to accept less business because of unfavorable conditions, they logically will ask for higher rates in order to make a profit and maintain their enthusiasm for staying in marine insurance.

What does this mean for risk managers? Simply, that because of these conditions, the time is coming when agents and brokers may have trouble finding the capacity needed to keep up with today's huge concentrations of values.

The marine insurance market cannot afford any reduced capacity if we are to meet buyer demands. Larger and larger single units are coming into existence, such as LNG vessels, VLCC's (very large crude carriers), oil drilling and storage facilities in the North Sea, and nuclear power plants on barges.

THE ENORMOUS values of each of these units is contributing to an unbalanced book of marine insurance on a worldwide basis. The total annual marine premium is estimated at $3 billion. Nuclear power components loaded on a single barge can be valued at $400 million—well in excess of ten percent of the worldwide annual marine premium.

The theory of large numbers is obviously being violated. We need the capacity to cover these risks, but we also need a premium base to support the acceptance of these exposures.

Today, a premium which was correct under stable conditions at the time of coverage is frequently unrealistic at the time of loss, or repairs, which are going up as much as 25% in some countries. Anyone who renews on expiring terms without any adjustment, in spite of a favorable record, is giving in effect, at least a 15% reduction in terms of the purchasing power of premiums relative to repair bills.

Unfortunately, human error is contributing heavily to losses, and these are occuring on the very large as well as the smaller vessels. Human error needs to be corrected and this is largely a management problem. Here is where sophisticated risk managers for the operations can exert their influence by checking carefully on the personnel practices and packaging practices of their company.

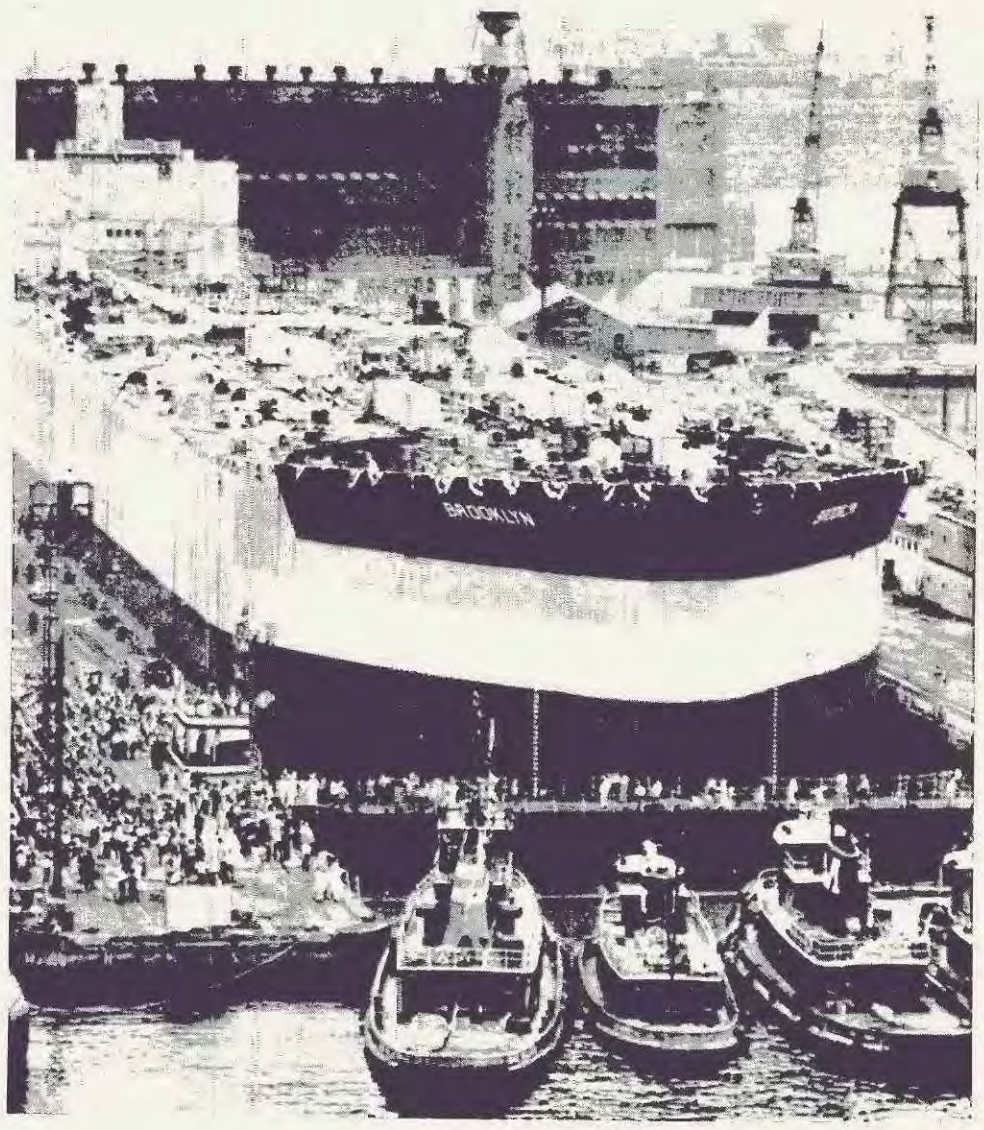
I'd like to digress for a moment and mention that the problem of losses caused by error is so acute, that agencies of the United Nations and other international bodies are studying its impact on marine experience with the hope of highlighting the causes and recommending minimum practices throughout the world.

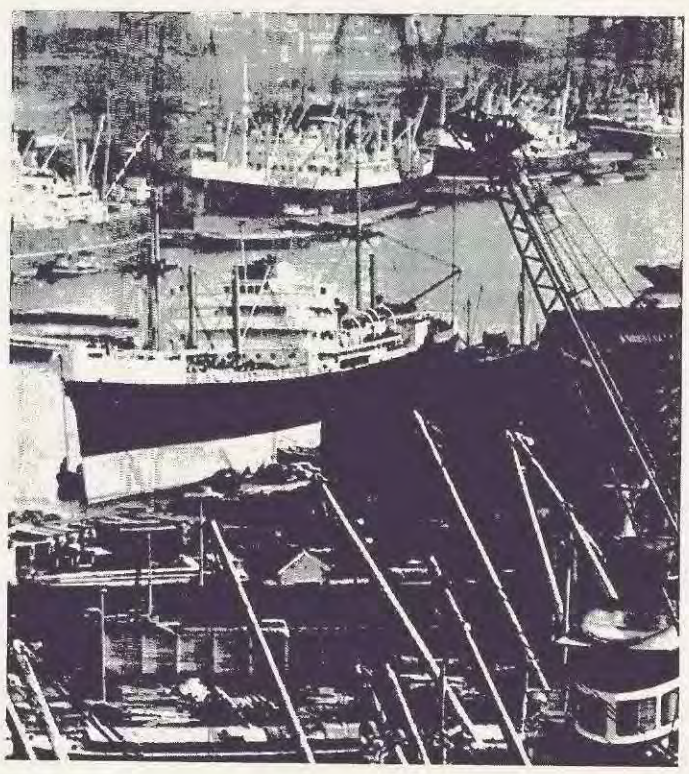
My own feeling is that better training programs, more selectivity of personnel and a better appreciation of the responsibilities of a seagoing career are necessary. The old tradition of "save the ship in spite of everything" seems to be out of fashion these days.

Certainly, in my opinion, the Coast Guard should be more stringent in its licensing requirements, especially by requiring a special license for the larger, more complicated vessels. A relicensing procedure every two or three years that tests practical applications of shiphandling, etc.—a lesson that could be learned from the aviation industry.

I MENTION THESE matters in an attempt to explain to risk managers some of the things which I consider are creating a situation where marine insurance may become a seller's market.

There is no great mystery about the underwriting business. We have a simple objective which is to stay in business and provide all the services needed. But there is an obvious need for better communication between the insured and the underwriter. From personal experience, there has always been an improvement in understanding of one another's situation when this has taken place.





UNBALANCED
'The marine market cannot afford any reduced capacity if we are to meet buyer demands Larger and larger single units are coming into existence, such as LNG vessels, and VLCC's (very large crude carriers).' The enormous values of each of these units is contributing to an unbalanced book of marine insurance on a worldwide basis, according to Mr. Ricker.

THE MARKETING OF our business in recent years has changed, primarily because we had a buyer's market There is evidence that price alone has controlled or motivated the placing of business, regardless of the marine underwriters stability, service, security and loss handling. This in itself is a quick method of drying up capacity.

Underwriters have an important function as does the broker and each needs to be properly compensated. In my opinion, marine underwriters should not entertain a "broker's quote." The underwriter should arrive at his own independent quote based on the best records, accurate experience, evaluation of management and the physical conditions of the ships. We must learn to turn away unprofitable accounts and work to put our profit margins in order.

This may sound harsh, but in the long run, buyers will benefit. We all stand to gain from a stable market. The risk manager and the insurer have basically the same goal . . . to provide proper protection for a risk, and to make sure that the operations are such that the possibility of loss is minimal. If we are to continue to provide adequate capacity, we must ask the risk managers to think about how they are using the present capacity. Are they jeopardizing future capacity?

The risk manager must look for more than just a low bid in placing his business. And he must realize that he may have to meet more stringent requirements in order to have his risk covered. In this way he will be aiding in expanding and attracting *dependable* capacity, ultimately providing a greater freedom of choice about where to place his business. ■

Mr. Ricker is a leading authority on marine insurance. He recently attended the annual meeting of the International Union of Marine Insurers in Berlin, obtaining current information on markets. Mr. Ricker recently became president of Continental Corp., and he continues to serve as chairman of MOAC.

Attitude important for communicating benefits

CHICAGO—"It's not the benefit program your company offers that counts, it's how your employes perceive it," James R. Robinson, manager of pensions and benefits, E. I. Du Pont de Nemours & Co. told participants at the American Management Assn. insurance conference here.

"Managing employe benefits isn't just a burdensome cost," he pointed out. "It's an investment. You'll get a return on your investment by going into (a benefit program) with a good attitude," Mr. Robinson said.

"Scrub the word 'fringe' from your vocabularies," he said in regard to the role of benefits. "You should view benefits as part of the employe's total compensation—not just financial but psychic compensation as well."

Mr. Robinson, who once was a production manager himself, emphasized the need to get company foremen and supervisors involved. "You must make them feel right about the program before they'll pass on the goodwill of the company to other employes," he said. Du Pont recently invited all production foremen in small groups to discuss proposed changes in the benefit program and the reaction was quite favorable, he said. "They all appreciated being involved in the plan's design."

HE ALSO advised "responding" to union pressure rather than trying to "satisfy" union demands. "You'll never achieve satisfaction," he said. "There's no end to benefit wants."

Another suggestion Mr. Robinson made was to send each employe a personalized benefit statement every year which includes both the employer's and employe's contribution to the program and the dollar value of each benefit. "It has an impressive impact," he said, "because the employer's share is always a much greater part of the value." He said du Pont spends 38% of its payroll on employe benefits, but he emphasized that a company can't stop at a financial contribution.

He recounted a story involving du Pont several years ago. Although the company had a good benefits program at the time, management was criticized at Thanksgiving time for not giving each employe a turkey like a company down the road had done. "It surprised us," he said, "because that company offered so few other benefits. But employes perceived more goodwill over there because of the frozen turkey. This is why communication with employes is so important," he emphasized.

The rule-of-thumb amount to invest in a benefit program, Mr. Robinson suggested, is "the smallest amount to achieve your objectives." It depends on the type of industry, the structure of the individual company, the geographic location and the particular trends in your industry and community, he said.

MR. ROBINSON pointed out what the return on a company's investment in benefits might include:

- appreciation on the part of employes which affects whether employes feel they are "being treated right";
- loyalty to the company is inspired;
- productivity is improved;
- labor "peace" rather than "truce," and
- community approval which reinforces employe loyalty outside the workplace. ■

More cities buying bond issue guarantees

NEW YORK—Municipal bond guarantees continue to generate interest savings for cities, according to the Municipal Bond Insurance Assn. (MBIA) which reports seven municipal financings since it began operations.

The most recent financing was a $7 million airport revenue bond issue for Orlando, Fl., which resulted in a net interest saving of more than $1 million, according to the municipality's consultant, Stone & Youngberg Municipal Financing Consultants Inc.

Municipal bond insurance guarantees the holder full payment of principal and interest from MBIA if the municipality fails to pay.

Insuring payment of their municipal bonds saved the city of Carbondale, Il. approximately $577,000 (after payment of the insurance premium). Previous issues of the city's bonds were rated Baa by Standard & Poor's Corp., corporate credit rating agency. With the bond guarantee, Carbondale's bonds were rated triple-A.

The seven municipalities which have issued municipal bonds backed by the MBIA guarantee are Carbondale, Il.; Belen, NM; Seaside, Ca.; Orlando, Fl.; Clark County, Nv.; Lake County Il; and Orange County, Fl.

MBIA is comprised of the Aetna Casualty & Surety Co., Aetna Insurance Co.; St. Paul Fire & Marine Insurance Co. and U.S. Fire Insurance Co. ■

$1.3 million settlement to rail workers

BOSTON—A $1.3 million settlement awarded four Metropolitan Boston Transit Authority (MBTA) and a Boston & Maine Railroad (B & M) engineer for injuries suffered in an explosion.

The accident, over three years ago, in an MBTA field office trailer, was covered under a self-inusured $500,000 liability policy, with excess coverage from Lloyd's of London, according to a spokesman for the Boston Gas Co., one of the defendants named in the lawsuit.

The B&M Railroad was the other defendant named; damages are to be split between the two, the Boston Gas spokesman said.

DAMAGES WERE awarded by a Suffolk County superior court jury after a five-week trial.

Lawyers for the five injured men, who received extensive burns to their faces and hands contended that the explosion was caused by gas line leaks under B&M property near an MBTA construction site on Jan. 14, 1971. The leaking gas, it was charged, caused the field trailer to explode.

In a companion suit, the jury found the MBTA and Perini Construction Co., Framingham, Ma. were not liable for damages.

The Boston Gas Co. said no decision on an appeal had been made. ■

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Contributory plans could be hard hit by 100% provision

Pension law limits employers' vesting options

Editor's note: This is the second in a series of articles on the impact of the Employe Retirement Income Security Act of 1974. Other articles will look specifically at funding, fiduciary standards and termination insurance provisions in terms of their impact on pension funds, their administrators and trustees. Because of its value to financial and benefits managers, the series is being run in Business Insurance *and its sister publication,* Pensions & Investments.

By WILLIAM E. HEMBREE
General consultant, Hewitt Assoc.

Vesting is probably one of the most talked about but least analyzed parts of the Employe Retirement Income Security Act of 1974. Consequently, every employer should carefully examine the many implications in the new vesting provisions in relation to his plan's particular situation.

Briefly, the act provides three optional minimum standards for vesting:

- Full vesting (100%) after 10 years of service.
- Graded five to 15 years of service vesting.
- The Rule of 45. Under this provision, after five years of service, the employe is 50% vested when the summation of his age and service equal 45; then benefits are vested 10% a year thereafter to 100%.

The effective dates for mandated compliance are:

- Existing plans (in effect on Jan. 1, 1974); plan year beginning after Dec. 31, 1975.
- New plans (established after Jan. 1, 1974); plan year beginning after Sept. 2, 1974.

Because the implications are many and complicated, the following aspects of vesting should receive early attention by employers.

Employe turnover, age, and average length of service

The employer should consider all three in determining his choice. For example, when does turnover occur? As the illustration shows, if turnover is heavy among employes with less than five years of service, but light for longer service employes, the cost of the three vesting schedules will probably be about equal.

But, of course, that's not always the case. Turnover may be heavy among employes with up to 10 years of service and light thereafter, which would call for full vesting after 10 years rather than partial vesting after five years or Rule of 45.

And, if turnover is moderate for all lengths of employment, the employer should consider whether the amount saved by not providing fully-vested benefits until participants have at least 15 years of service outweighs the cost (and administrative workload) of providing partial benefits to employes terminating with five to 10 years of employment.

Age is a consideration in the Rule of 45 alternative. If an employer has a very young work force, the Rule of 45 may be the least costly of the three schedules. However, as a rule of thumb, if the entry age is 35 or older, the Rule of 45 is the most liberal and, therefore, the most costly schedule.

Lastly, the employer must consider his choices in terms of his employment situation. For example, because of the new age 25 and one-year service participation requirements, his thinking may well lean toward 100% vesting at three years in order to use the alternative three-year service participation rule if many seasonal and part-time workers are employed. Needless to say, the employer should make these considerations in light of a well-prepared analysis of turnover and other personnel characteristics.

Effect of vesting choice on costs

The following example illustrates the magnitude of the percentages of employes to be covered by the three vesting alternatives in an "average" company.

Consider a company with a fairly normal distribution of employes. The average age among employes is 40 and the average length of service is 10 years. If the current vesting requirement is age 55 and 15 years service, which is very conservative, only 15% of the work force is vested. However, if the employer were to change its vesting requirements to 10 years service, over 67% of the employes would have 100% vested benefits.

Similarly, the adoption of the Rule of 45 would result in at least partial vesting for 80%, and a switch to the graded 15-year vesting standard would result in at least partial vesting for 90% of the work force. Obviously, the existence of vested benefits to such a large portion of the work force will result in increased costs and there can be sizeable cost differences. Therefore, employers should select the schedule that is most suitable after careful study.

100% vesting of employe contributions

To say that the administrative work load as well as costs are going to go up as a result of the new law is an understatement. The act states that the portion of an employe's benefit that is attributable to his personal contribution must be 100% vested. Simple enough—right? Read on . . .

The effect of this provision could be to increase greatly the vested, accrued benefit for contributory plans. As the chart illustrates, an employe might terminate with an accrued benefit of $1,000 a year and accumulated employe contributions with interest of $2,000. If the plan specifies 50% vesting under the old rules, his vested benefit would simply be 50% of $1,000, or $500.

Under the new rules, the portion of the $1,000 accrued benefit attributable to his contributions would first have to be determined. For an employe who terminated at a relatively young age, this would be a substantial amount because of the large number of years remaining until age 65 during which interest could accumulate. This portion of the accrued benefit could amount to $852, which would have to be 100% vested under the laws. The balance of his accrued pension is $158 and is 50% vested, totaling $926 or an 85% increase over the amount vested under the old rules.

The increase in plan costs for this provision would obviously be sizeable. Administrators of contributory plans, therefore, may want to consider offering lower benefits on a non-contributory basis. If there is a need for additional benefits to meet a target retirement income level, perhaps a combination of a reduced pension plus a money purchase plan would be the best solution.

Years of service

Another administrative consideration involves the new "years of service" provisions. The old IRS rule of 20 hours per week and five months is being replaced by the "1,000 hours in a 12-month period" definition of a year of creditable service. Although there are several exceptions, like non-credit for unmade required employe contributions, years prior to age 22, and some periods of non-continuous service, the net effect is that a greater number of employes will qualify for participation and vesting under the new definition—and greater amounts of recordkeeping will be involved.

VESTING | **Effect of Requirements**

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VESTING | **Effect of Vesting Requirements on Contributory Pensions**

Assumes: Accrued Benefit of $1,000/year
Total Employee Contributions — $2,000
Vesting at Termination — 50%

	OLD			NEW		
	Accrued Benefit	% Vested	Vested Benefit	Accrued Benefit	% Vested	Vested Benefit
Employee Paid Pension	—		—	$ 852	100.0%	$852
Employer Paid Pension	—		—	148	50.0%	74
Total Pension	$1,000		$500	$1,000	92.6%	$926

For example, if an employe works less than 1,000 hours but more than 500, the year must be counted so no break in service occurs but no accrued benefits or vesting credits are credited. Also, if an employe does have a one-year break in service (less than 500 hours), the pension plan may require one year of re-employment before counting his pre-break service.

And, if the returning employe has *any* percentage of vesting before the break, all of his pre- and post-break service must be counted for participation, vesting, and benefit accrual. Furthermore, the returning non-vested employe's pre-break service will be counted unless the period of break exceeds the pre-break service.

Mobility of the Work Force

Mobility is one possible outgrowth of the vesting regulations that should be considered by employers. An obvious reason for the high level of interest in vesting is the changing attitudes and practices of the American work force. Much of our labor force is no longer inclined to remain on one job for an entire career.

In 1972, for example, about 8% of the employes in the country left their jobs for one reason or another. This turnover is not solely among hourly workers. Hourly workers are concerned about seniority; they have limited skills, and they face the threat of technical obsolescence.

The desire for mobility is more prevalent among skilled technical and professional people, and managers. These people have mobile skills, and they are the ones who will benefit most from the vesting provisions. Unfortunately, these probably are the people who employers would most like to keep with their company.

But vesting, although it may not have been Congress' intention, may well have the effect of accelerating the trend toward increased mobility. This is the other side of the coin that employers must anticipate and consider in their planning.

Permitted forfeitures

The four permitted forfeitures are understandable. But what will require plan alteration is the absence of two common forfeiture provisions—forfeiture for accepting employment with a competitor and forfeiture for dishonesty. These two clauses, which are quite commonly found in pension plans, are not included in the list of permitted forfeitures and will probably be specifically ruled out in future regulations.

An interesting side issue to permitted forfeitures is that of lump sum settlements of less than $1,750. While designed for administrative ease, employers may encounter complications. For example, employes with more than $1,750 benefit may want lump sum distributions also, and that is permitted if it is allowed for all employes and so written into the plan.

According to the legislation, if an employe has taken a lump sum distribution, either more or less than $1,750, returns to work, and want to rejoin the plan, he may do so by repaying the benefit he received plus 5% interest, and his benefit will be fully restored. The recordkeeping to sustain the new system may cost more than the benefits.

In conclusion, the intent of this article is to show that these issues are not simple and must be dealt with in a broad and insight manner, and that within the specific dates for compliance, the employer does have time to make the correct decisions through thoughtful analysis. ■

William E. Hembree is a general consultant in all aspects of employe benefits, total compensation and personnel administration in Hewitt Assoc. Deerfield, Il. office. Before joining Hewitt Assoc., Mr. Hembree served as community relations director for a large West Coast health maintenance organization, and as an account executive for The Travelers Insurance Cos. group and pension department.

Mr. Hembee holds a Bachelor of Arts and Masters in Business Administration from California State University. He belongs to numerous professional groups and has authored many articles on management and personnel-related subjects, and has appeared as a speaker before various management and professional groups.

Risks can be evaluated by computer

ATLANTA—Corporate risk managers can now evaluate their company's insurance programs using a newly developed computer system.

"RISKM was designed to be flexible enough that most enterprises can adapt it to their own system and observe the effects of many factors on their insurance requirements," Dr. Brian Schott of Georgia State University said. (RISKM is an abbreviation for risk management, Dr. Schott explained.)

The computer system developed by the university professor incorporates the effects of many factors including premiums, loss frequency, loss severity, safety and loss reduction programs, reserve levels, aggregate loss coverage.

It also takes into account the relationship between insurable risks and the firm's commercial risks.

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University risk managers ambivalent about D&O

MIAMI—Directors' and officers' liability coverage was a hot topic at the University Insurance Managers Assn. (UIMA) annual conference held here recently.

"A lot of university risk managers have mixed feelings about D&O coverage," one conference participant told *Business Insurance*. "They have D&O coverage because they were told to buy it."

Since persons who serve on university boards of directors are usually there on a voluntary basis, adequate coverage for their actions is a matter of concern for university administrators.

Errors and omissions coverage is a more appropriate coverage for universities, a UIMA spokesman noted.

"UNIVERSITIES NEED a broader range of coverage than a D&O policy provides," the spokesman said, "something that encompasses not only board members but professional people too."

Insurance companies are reluctant to market such a broad line of coverage, the UIMA spokesman continued, and it's not commonly found in university insurance files. Of the 70 universities represented by UIMA, "not more than 5 have E&O coverage," the UIMA spokesman estimated.

The non-availability of medical malpractice insurance for universities was another subject discussed at the conference.

"Getting this type of insurance is difficult," the UIMA spokesman said. "A number of private schools self-insure for this but state schools can't afford to."

He told of one Midwestern university which operates a hospital, pharmacy and medical school and pays an annual $500,000 medical malpractice premium.

Another midwestern university that operates an infirmary and employs nine doctors and 13 nurses can't get malpractice insurance, the risk manager said. "I have professional liability coverage with a high deductible," he added.

Though a number of universities have been hit with lawsuits charging sex discrimination in hiring and promotion policies, the discrimination clause (by which the insurance company provides defense mechanisms) in the general liability policy held by most universities is not often used in answering these suits, the UIMA spokesman noted.

"WE'RE RELUCTANT to have our insurance company defend us," a university risk manager said, "because they aren't as familiar with the background of the case as our own counsel might be."

"It would be better to word the discrimination clause so that the insurance company would reimburse the university for the cost of the defense," the spokesman added.

UIMA officers for the coming year were named at the conference. The new president of the eight year old organization is Irwin Nicholas, risk manager, University of California at Berkeley; George Reese, insurance manager, Temple University, was named vp, and Dale Anderson, insurance manager, University of Iowa, was named secretary-treasurer. ■

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Property, casualty insurer on tightrope

MILWAUKEE—The property/casualty insurer is walking a tightrope between achieving rate relief and actions that may create future problems in this time of inflation, J. Carroll Bateman, president of the Insurance Information Institute said.

He warned the group attending the annual conference of Insurance Information Service Directors of further government-sponsored underwriting operations and further substitution of medical and hospital coverages for auto injuries, if excesses are not curtailed.

"While seeking needed rate increases to prevent market restrictions, the property/casualty business must at the same time avoid excesses that may encourage further government-sponsored underwriting operations (such as in Maryland), or further substitution of medical and hospital coverages for automobile bodily injury, or the absorption of the care of the accident victim into some kind of national health insurance system."

NO MATTER how local the argument may be, "the public will not blindly accept higher costs as an excuse for higher prices," according to Mr. Bateman.

What does inflation mean to the property/casualty insurer? "increasing claims costs, inadequate rates, and—as the result of the stock market decline and the resultant reduction in policyholders' surpluses—restricted market capacity," he warned.

THE PUBLIC relations man (the audience) cannot deal with the fundamentals of the issues involved in inflation but he can deal with the impact of it.

"We can help to create understanding of the impacts of inflation on our business among the media people and the public; among regulators and legislators, and among interested groups," Mr. Bateman surmized.

"I think it also needs to be pointed out that an important part of our task is to keep our managements informed about public reactions to the actions that our companies take to deal with the inflation issue," Mr. Bateman added.

The public relations executive must be able to see the issues from the point of view of the public, he concluded. ■

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Supreme Court will rule on lawyers' fees for prepaid legal plans

WASHINGTON—The U.S. Supreme Court, in a move of possibly great significance for prepaid group legal plans, has agreed to decide whether lawyers violate price-fixing laws when they establish minimum fee schedules.

By implication, the eventual decision could eventually include other professional groups, such as doctors, and that could have an effect on the costs of future care through health maintenance organizations.

The actual case in question, however, does not involve a group legal plan, but rather a Washington lawyer for the Federal Trade Commission who sued when lawyers in Virginia refused to handle his house purchase for less than minimum fees.

The American Bar Assn. no longer supports fee minimums, but state and local bar groups do.

"THE COURT IS not prone to be wide ranging in its decisions, but they could discuss the whole profession of law and its status as a business," Sandy DeMent, executive director of the National Consumers Center for Legal Services, told *Business Insurance*.

"That would be extremely important," she said. "It would open lawyers and the profession to antitrust consideration.

"The other major area where the court might make some decisions is in the whole advertising and soliciting area. They might not have the right to restrict advertising and soliciting by lawyers."

The Justice department has already warned the California Bar Association that it risks possible antitrust action if it restricts the rights of closed panel prepaid group legal plans to advertise.

Closed panel plans require participants to take legal services from a defined group of lawyers. Open panel plans allow participants to seek a lawyer of their choice.

The California Bar had included the restriction in a plan to set up its own state wide open panel plan. The bylaws they had proposed would have made it very difficult for closed panel plans or other open plans to be established, the Justice department said.

"SIMPLY GETTING rid of fee schedules would be important," said Ms. DeMent. "What this case is really about is whether things like fee schedules and solicitations can be regulated by the bar associations."

The attorney for plaintiffs in the case, Alan Morrison, is on the board of directors for the National Consumers Center for Legal Services and is a top lawyer associated with Ralph Nader.

A decision by the Supreme Court on the case is not expected until next spring. ■

Together in Georgia

Atlanta-based Speir Insurance Agency, one of the state's largest, recently announced the purchase of the James G. Wilcox Insurance Agency. This marks the sixth acquisition of planned expansion for Speir begun earlier this year. The Wilcox agency, founded in 1931, sells life and general insurance. Speir, founded in 1955, is expected to move its offices to Smyrna (Ga.) this month.

Dennis G. Tweedale, risk manager, city of Madison, W., received the ASIM Christy award, that goes to the graduate who receives the highest grade in exams leading to the Assoicate in Risk Management diploma and who is an employe of a corporation, institution or governmental unit. Mr. Tweedale was presented the award at the Insurance Institute of America national awards luncheon in Houston, Texas.

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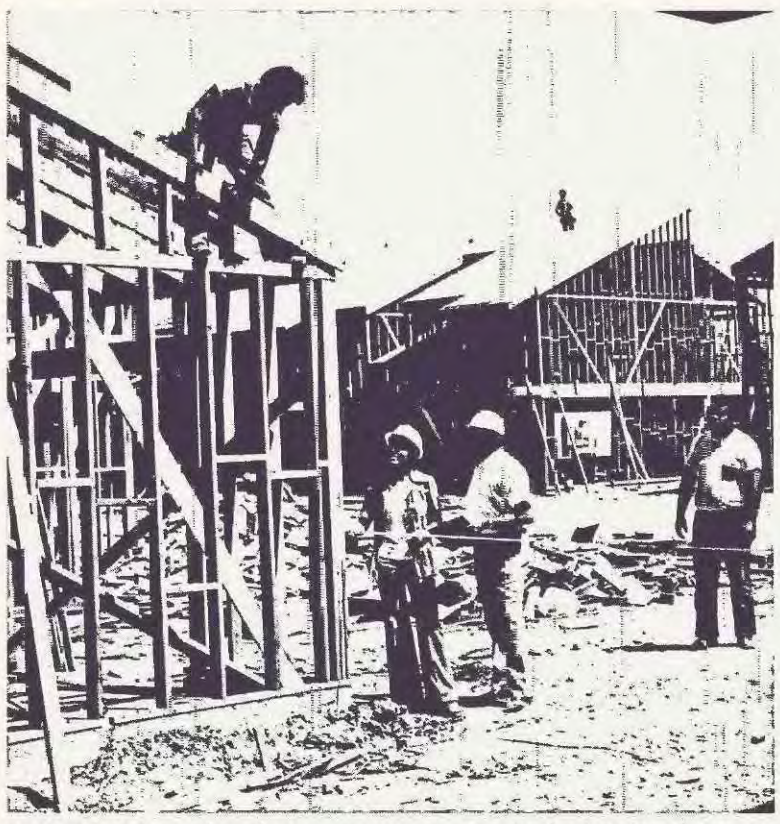

Jean Uidenich on the job at a construction site in the Los Angeles area. Preventing fires before they start is her specialty.

Regional technicians analyze client risks

Hartford inspection teams touring work sites to prevent fire loss

LOS ANGELES—Jean Uidenich is a specialist in trying to stop fires before they start.

She is a technical representative with The Hartford Group's regional office here.

Ms. Uidenich (pronounced Youden-itch) has a job that takes her to construction sites in Watts and warehouses for drugs and sporting goods at the other end of the city. She evaluates how well the property of a business customer is protected against fire.

Property insurance is a major part of the premiums written by Hartford in the L.A. regional office.

Ms. Uidenich's inspection services provide the customer and the insurer with information on what to expect in the way of losses, as well as the base on which to take corrective steps to better protect the property.

SHE LOOKS FOR signs of susceptibility to fire: Type of construction, sprinkler systems, other fire prevention or detection systems.

One of the most important evaluations, in Hartford's view, is one made of the client's management. "The attitude of management toward the prevention of losses is a key element in our decision to provide insurance," says Ms. Uidenich. "We can tell a lot about someone's business by how carefully he tries to keep it safe."

A SITUATION about two years ago provides a case in point on the value of inspections, the company recalls. There was a rush request for insurance on two buildings. Ms. Uidenich looked at the buildings and found several fire hazards. The Hartford did not provide the insurance, as a result. Less than two months later, a fire on the property caused $150,000 damage to the buildings.

Recommendations following the inspections can also help a policyholder avoid serious losses which could put him out of business. An aerosol products company had installed a special sprinkler system operated by water pressure, designed to protect inventories stacked higher than normal. After checking the system, Ms. Uidenich concluded there wasn't enough water pressure to operate it, thus rendering the protection ineffective. Local fire officials confirmed her report. The client lowered the height of inventory stacking, qualified for a lower premium rate, and fire officials worked to have extra water lines made available.

Ms. Uidenich, 26, is one of Hartford's 450-person strong loss control specialists staff. There are 70 technical representatives like her, each one a specialist in an area of safety engineering. ■

1974 sees fire loss up

NEW YORK—Fires caused an estimated $2.1 billion in losses in the U.S. for the first eight months of 1974, a 19% increase over the same time period last year, according to the Insurance Information Institute.

The biggest monthly losses in March—$278 million this year, an increase over 1973 March losses of $218 million, and January where 1974 losses were estimated at $263 million, compared to $218 million in fire losses sustained in January of 1973.

In August, fire loss comparisons between 1973 and 1974 showed an increase from $221 million in 1973 to $264 million in 1974. ■

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Foreign risk management challenges business

CHICAGO—The challenges of international risk management far outweigh the frustrations: "It can be most gratifying to know your foreign risks are protected as securely as your domestic risks," said Paul B. Harvey, insurance manager at Litton Industries Inc.

Speaking at a seminar on the fundamentals of international risk management at the 37th annual insurance conference here, Mr. Harvey told participants that risk managers must identify risks by sight evaluation, confront local management with the conclusions, and then construct an insurance program in light of local rules.

"Local custom is usually not the path to follow. Recognizing local rules and then constructing your program is the challenge, and the means of protecting your risk," he said.

First of all, international risk managers must "become cosmopolitan in mind and heart," and they must be able to converse with knowledgeable people in a common language, he said.

"KNOWLEDGEABLE people" includes both the local management and a qualified broker. Involvement of foreign plant managers, especially in the realm of loss control, is very important, the insurance manager said.

A qualified broker is also a paramount need. Mr. Harvey said, "I believe an international risk manager requires a broker who is not only knowledgable of local laws and practices, but also one who is imaginative and practical. He must represent a strong firm with excellent insurance company contacts. He must be market-oriented and persuasive in his presentation for the risk protection. He must be acceptable in the country wherein the coverage is desired. Fluency in the local language may be beneficial and certainly he must not be antagonistic with the local representatives."

However, Mr. Harvey stressed that a risk manager must remain the innovator and evaluator, and the broker should be the marketer with the international carrier. "Your program and plan should be the one that the broker has implemented with the insurance company," he said.

Innovative insurance programs may improve protection and reduce premium cost. "In some instances, deductibles, self assumption and even retrospective programs have never been utilized," he said.

Loss control is another practice often overlooked. "Cheap labor and low capital cost of facilities frequently cause a rejection of safety factors. The results are not only inhumanitarian, but also produce serious property loss. Reliance on local practices for loss prevention has frequently resulted in major catastrophic loss to corporations. Installation costs may seem expensive, but the end results will justify such expenditures," Mr. Harvey said.

BESIDES THE DIFFICULTIES posed by differences in political and diplomatic climates, compliance with local insurance regulations is one of the major headaches that international risk managers must face.

Jonathan M. Chettle, vp-international at Fred. S. James, told the seminar how to meet foreign regulatory requirements without losing control in the United States.

Countries that have regulatory requirements can be grouped into four main categories, he said. These are:

. • Countries which require that certain specific exposures must be insured and that such insurance must be written by an insurer licensed to do business in that country; for example, employer's liability in the United Kingdom and workmen's compensation in Belgium.

• Countries which prohibit non-admitted insurance; for example, France, Italy, Spain, Mexico and Venezuela.

• Countries which do not actually prohibit the purchase of non-admitted insurance but may have legal restrictions on the local servicing of non-admitted insurance by insurers, brokers or independent claims experts; for example, West Germany.

• Counrties which do not prohibit the purchase of non-admitted insurance but may have regulations that affect the taxation of loss proceeds under a non-admitted contract or the tax deductibility of the premium if billed by the parent to the subsidiary; for example, Belgium and Germany.

MR. CHETTLE SAID compliance with the local rules is not the problem, but rather meeting those requirements without losing control in the United States. When insurance is bought locally, the risk manager in the United States will have "little or no control or possibly even knowledge of what is purchased," he said.

The result of leaving insurance purchases up to local management is that there will "almost certainly be a total lack of uniformity between the programs of each subsidiary—a complete insurance program generally means something very different to a German than an Italian. There will be gaps or duplication in cover, and probably unnecessary dissipation of premium dollars," Mr. Chettle explained.

According to Mr. Chettle, "The soundest method by which the regulatory requirements in foreign countries can be met without losing control in the U.S. is a combination of admitted and non-admitted insurance, with the non-admitted having features involving both primary and DIC (difference in conditions) coverages."

The next step is to select one insurer who will write both the admitted and the non-admitted coverages, he said. The local admitted insurance should be written by the local office of the insurer or consortium selected, Mr. Chettle stressed. "It is a rare international underwriter who will consider writing the difference in perils and difference in conditions here unless he has the local insurance, for the simple reason that he has to know exactly what he is covering in his non-admitted contract."

Mr. Chettle said there are only five U.S. underwriters that he feels are capable of implementing such a program for a multinational company: American Foreign Insurance Assn., American International Group, Chubb and Son, Continental (New York) Group and Insuarnce Co. of North

Continued on page 115

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Allied Stores uses guards and sonic systems to outsmart tricky thieves

Continued from page 1

areas: workmen's compensation, liability, property/casualty and crime.

In workmen's compensation, "We reply on field people to be our eyes and ears . . . they've got to be prepared to handle an accident from the occurrence through the entire claim process," Mr. Van Lieu said.

Allied has a self-insurance program "of sorts," for workmen's compensation for approximately 50,000 employes, Mr. Van Lieu explained. "We have a retrospectively rated policy with Liberty Mutual."

Though a loss prevention inspection service is helpful, "our biggest tool is creating an aura of safety throughout the organization," Mr. Van Lieu commented. Training films and use of safety bulletins also come into play.

"EACH STORE IS responsible for its own losses," in the workmen's compensation area, Mr. Van Lieu added, "We're giving them the best tools to minimize these losses."

The problem of public liability is "a different cat, but we handle it much the same way," the risk manager continued. Inspections, training and "lively dialogue between display personnel and store managers" are all part of loss control in this area. A simple measure such as having rounded corners on a display can prevent customers from tripping over it, Mr. Van Lieu noted.

Escalators are the cause of numerous department store accidents, Mr. Van Lieu said. "We've put undertread green lighting on many of our escalators so that people, especially the elderly, can delineate the step when getting on and off escalators."

Allied's department store risks run a full gamut, as the stores themselves range from ultra modern to old establishments. Among Allied's stores are Bon Marche, Joske's, Donaldson's, Jordan Marsh, Stern Brothers, Pomeroy, Gretz and Almart-J.B. Hunter.

ALLIED REPORTED net sales of $1.6 billion for the year ended Feb. 2, 1974, representing a new high and and increase of 7.8% over the previous year's sales. Net earnings also set a record high of $33.8 million, or $3.98 per share of common stock after provision for preferred stock dividends.

"We work with the management team for each store," Mr. Van Lieu said, "the feedback we get is as important as the information we give them."

Either Mr. Van Lieu, or Allied's national safety director, "or someone on our staff" visits every store once a year for a safety an inspection.

IN ONE SUCH inspection, of a 100 year old store "that never had suffered a loss due to fire," Mr. Van Lieu recounted, "I found violations such as no exit signs, no fire escapes and a hose line that was completely cut off from a water main due to a plumber's error."

"If I hadn't gone there I would never have known; the store had never had a loss but the potential was beyond description," he noted. All violations in that store have since been corrected, he hastened to add.

In the area of fire and casualty, frustrations of loss prevention often outweigh the challenge, Mr Van Lieu noted. "It's frustrating not to be able to learn from your losses," he said.

He referred to heavy damages Allied suffered in the Pennsylvania floods of 1972, stores and warehouses in Harrisburg and Wilkes Barre received an estimated $1.5 million in damages. "You don't learn anything related to future loss prevention from disasters such as that one," he said.

The day-to-day losses, however, can be prevented and Allied has a continuing program of upgrading fire prevention equipment in old buildings and new structures have an HRP status, Mr. Van Lieu explained.

The company insures most of its fire coverage with Kemper Insurance Co. through Schiff-Terhune as brokers.

In the past three years sprinkler systems have been installed in several locations that did not have them previously, Mr. Van Lieu added.

Allied leases approximately half of its stores. "And where we lease, we place insurance exactly as if we owned the store," the corporate risk manager said, "The only difference is there might be difficulty in getting fire protection devices installed." Allied installs sprinkler systems on a cost-sharing basis for leased stores.

A NUMBER OF Allied's network of stores include restaurants, "and we've just about completed a dry chemical system installed in hoods over stoves and flues to extinguish flames immediately.

"A lot of what we stress in physical damage prevention," Mr. Van Lieu stated, "doesn't cost that much; it's a matter of housekeeping—day to day maintenance."

Loss control in Allied's warehouses offers a contrast from department store procedure: here the emphasis is on sophisticated alarm devices. "For day to day warehouse protection, we lean to capacitance alarm systems, a type of ultra-sonic alarm," Mr. Van Lieu explained. "These alarms are difficult to circumvent—if anything moves, it sets off an alarm."

Again, the unforeseen dramatic loss can play havoc with a risk manager's program. Mr. Van Lieu told of one well-planned theft where a bulldozer was driven through the cement walls of one of Allied's warehouses. The thievies, apparently familiar with the layout of the warehouse, then drove a truck up to the opening in the wall, loaded it with color tvs and washing machines and

escaped into the night before police reached the scene.

Allied's auditing division works with the risk management department in monitoring internal losses.

Though a lot of losses are from pilferage, prevention is a matter of foreseeing where you could lose merchandise and cash, then taking appropriate steps to prevent it Mr. Van Lieu said.

THE INCREASE in violent crime, especially related to burglaries, concerns Allied's risk manager. "In our cash offices and in the transfer of cash from stores to banks, our main concern is for the safety of our personnel," Mr. Van Lieu said. An armed guard service is used to transfer cash from stores to banks "to avoid putting our employes in jeopardy."

A veteran of 16 years in risk management with Allied, "I took over the department when it was a two-man operation; we shared one secretary," Mr. Van Lieu recalled, "he's seen the company "double in size and sales" and his own department grow to a staff of eight, including a casualty manager, national safety director and a property manager.

"Prevention of loss is basically what we're dedicated to," Mr. Van Lieu said. "When you're dealing with a large corporation, it's basically paying its own losses—sooner or later every dollar of loss is paid for by the corporation, so we operate on the theory that we're self-insured."

Mr. Van Lieu acknowledged drawbacks to the risk management function. "The frustrations of loss prevention sometimes go beyond the enjoyment of a challenge," he commented, "You find you can't be all things to all men and circumstances." ■

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Dental care still gets low priority, says Aetna dental plan consultant

CHICAGO—"Despite a new awareness of dental health as a result of the growth of group dental plans, many people still assign a rather low level of priority to this care," William G. Downes III, DDS, said recently. Dr. Downes is the director of dental consultant services for Aetna Life & Casualty Co.

"A total of $6 billion was spent on dental treatment last year," Dr. Downes continued, addressing the American Management Assn. conference on group dental benefit plans. "Of that, only $500 million to $600 million represents insurance assistance with the cost."

"Organized dentistry believes that a total medical care program is not possible without dental care," he said. "But only 25% of the people in the U.S. see a dentist on a regular basis. Only 10% to 12% see a dentist once a year," Dr. Downes added.

"OUT OF 200 million people, 24 million have never been to a dentist, yet 98% of the population have some form of dental disease. Half our population have only been to the dentist for emergency care," he explained.

Dr. Downes emphasized in his remarks the need for attention to be focused on dental care. "Absenteism due to dental problems can be avoided because all ages are affected. The ages of highest affectation are late teens to early 20's and late 50's to early 60's," Dr. Downes said. "You can make up the cost of a dental care program by controlling absenteism alone," he told the audience of corporate as well as insurance company representatives.

"BECAUSE DENTAL disease can be prevented, it's considered elective," he explained, "because a person decides whether or not he will go to a dentist. Also it's elective because he chooses the dental services he wants or can pay for. Finally, it's elective in the sense of how the dentist offers his services."

"There is almost always increasing cost when dental care is postponed," Dr. Downes emphasized to the audience.

"A good program is expensive but a bad program is even more expensive in the long run," explained another panel member, Herbert C. Lassiter, executive vp for Delta Plans Assn. here.

"The compensation system has caused some concern to dentists under insured dental programs, Dr. Downes said. "The quality will go down if there are national fee schedules for dentists," he believes. "If one dentist spends an hour doing a quality teeth cleaning job with a check-up and gets $15 for this, how can the quality stay up? Another dentist might clean a patient's teeth in 10 minutes and see five patients in an hour. That would give him $75 for that hour's work," he added.

"There's a wide range of ability of services which dentists can offer. The less skilled professionals are worried," Dr. Downes said. "The organized dental profession is working hard to see that the types of services a dentist can give are increased. A re-education process is used."

"Dental work can truly, objectively be measured through study programs, operative reports and X-rays," Dr. Downes continued. "After the treatment is completed, you can look at them again and see how well the treatment was carried out."

DR. DOWNES had some advice to offer on the way a group dental plan is structured. "Have specific accomplishments in mind when you set up the dental plan. If exclusions are made, make sure the employes understand what they are."

"Is your program set up to understand the range of limits on bridge work from $200 to $2,000, depending on what is done?" Dr. Downes asked. "Periodontal services should be included with perhaps a lifetime limit. Otherwise a bridge that's put in won't stay if the necessary periodontal work isn't done," he added.

On the subject of fee approaches, Dr. Downes said he prefers the reasonable-and-customary charges approach rather than the fee limit plan.

"Low or reasonable cost dental care is needed in the U.S.," Dr. Downes concluded. "People want quality service rendered with respect." He recommended "appropriate treatment following a thorough check-up with a correct diagnosis" and emphasized that "adequate care is that which meets the needs of the patient." ■

Foreign risk mgmt . . .

Continued from page 113

America. He said there are many other companies in the international field but they cannot provide the communication and control that are possible when a company has offices overseas in most countries of the world.

THE CORPORATE RISK manager should next determine overall limits and conditions, deciding what perils are to be insured locally and what limits should be purchased under the admitted contracts, said Mr. Chettle.

Finally, admitted insurance is purchased through the local branch of the selected underwriter where insuarnce is compulsory or non-admitted insurance is prohibited, he said. "The rating should be the lowest permissible under the local tariff and perils and limits should not exceed the predetermined levels."

At the same time non-admitted insurance is bought in the U.S. on a broad named peril or all risk basis for property damage and business interruption insurance and on a broad comprehensive general and auto liability form for the liability coverages, he said. The cost will depend on the extent and the limits of the locally purchased coverage, he explained.

"Technically, this supplementary non-admitted coverage is as illegal in those countries which prohibit non-admitted insurance as would be primary non-admitted insurance," Mr. Chettle said.

"However, as long as basic admitted primary insurance is carried, I do not feel the local authorities would get too upset at the existence of supplemental non-admitted coverage," he explained. ■

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Benefit tax slants

Pension law may change several IRS positions on pension plans

By JOSEPH S. ROBINSON

In order to receive I.R.S. blessing, a pension plan must meet one of two tests: (a) The plan covers at least 70% of all employes who have staisfied the minimum requirements of age and service, or (b) At least 70% are eligible for coverage and at least 80% of the eligible are actually covered.

Should the plan fail to meet either of the above percentage tests, it may still qualify if it covers a *classification* of employes, provided it does not discriminate in favor of stockholders, officers or highly paid employes.

Here's a setup that's typical with many small firms. The company employs 25 full-time hourly workers who belong to a union. In addition there are five full time salaried employes, three of whom are principals. The other two are clerks. The corporation wanted to establish a qualified pension plan for salaried employes only and ran into roadblocks set up by I.R.S. The goverment said the plan did not meet the 70-80% test since it only included five of the 30 employes. Nor did it meet the non-discrimination test because three of the five covered employes were stockholder officers.

However, it now appears that the new pension law would knock down the government's position in similar future situations. *Reason*: The current rule is that for purposes of meeting the 70-80% requirement, a company can fence off workers already covered by a collective bargaining agreement if there is evidence that retirement benefits were the subject of good faith bargaining between the union and the company. But in order to comply with the new law, an employer must bargain with the union about pensions even if the result is that the union members are not covered. Absent an attempt at bargaining about this point, the old rule will still prevail. (*I.R.C. Sec.* 410 (b) (2).

* * *

WHILE QUALIFIED pension plans now must include one of three minimum vesting standards provided by the new pension reform act, I.R.S. may nevertheless require an employer to use an even stricter vesting rule if the statutory choice proves discriminatory in operation. If there is a pattern of abuse under the plan, such as dismissing rank and file employes before their accrued benefits become non-forfeitable or "there have been, or there is reason to believe there will be, an accrual of benefits or forfeitures tending to discriminate in favor of employes who are officers, shareholders, or highly compensated," I.R.S. can impose a more stringent vesting requirement. (*I.R.C. Sec.* 411(d) (2)

* * *

THE REVEALED practice of Nelson Rockefeller in handing out sizable cash gifts to selected former employes raises the question once again of payments to the widow of a deceased executive. If the company payout is looked upon as a gift, it is tax exempt to her; if viewed as compensation for services rendered by the deceased, it is taxable to the widow. The crucial question to be resolved is the company's *intent* in making the payment. If done out of affection, respect, admiration, charity or like impulses, it will be treated as a gift. On the other hand, if the payment did not proceed from a detached and disinterested generosity, but strictly as a post-death bonus, it will be viewed as taxable income. The U.S. Supreme Court established this point years ago. (*Duberstein*, 363 U.S. 278).

While the tax court seldom finds a payment to a widow to be a tax-free gift, other courts have arrived at opposite conclusions in many cases. Here are the factors that sway a court in determining the dominent intent of the corporation in making the payment:

- *Enforceable legal obligation.* Payments made pursuant to a legally enforceable obligation are deemed compensation.
- *Corporate policy.* Payments made pursuant to a well-established and recognized corporate policy usually will constitute compensation.
- *Payments to the estate.* If the payment is made to the deceased employe's estate, it is likely to be considered compensation. (The decisions, however, are not uniform).
- *Economic benefits.* In making the payment, did the corporation hope or expect to derive a future economic benefits of any kind? If it did, then the payments will be deemed compensation. An example of expected economic benefits of the corporation is the making of the payment for the purpose of improving employee morale.
- *Additional Compensation.* Was the decedent adequately compensated for the services he rendered? If not, and the payment was intended to compensate for past services, then it will be treated as compensation and not as a gift. This factor is especially troublesome since in almost all cases the payments are to some extent related to past services of the decedent husband.
- *Financial conditions of widow.* Payments motivated by the financial needs of the widow are likely to be considered gifts.
- *Stockholding of widow or family.* This is most important in determining whether or not payments to a widow constitute dividends. If the widow or her family has stock holding substantial enough to affect corporate action, the court is like to conclude that the payments constitute dividends.
- *Amount of payment.* If the amount of the payment is based on the financial needs of the widow, this is indicative of a gift. On the other hand, if the amount of the payment is based on the decedent's prior salary or the amount of bonus which he would have received, this is evidence of compensation.
- *Treatment by corporation.* The treatment of the payments by the corporation in its minutes, resolutions and tax returns is, of course, relevant.

* * *

WE KNOW THAT in order for a pension to qualify for tax favors, it must be established for the exclusive benefit of employes. This does not mean that stockholders cannot be included so long as they meet the eligibility requirements and are legitimate employes. Likewise, it does not mean that outsiders who happen to perform services for the company should be covered.

Take this situation: A firm was engaged in the business of cleaning and washing windows of homes and commercial buildings. A small office was maintained which the workers were not required to visit. Job assignments were made for the following day by the principal shareholder-employee by telephone the night before. The corporation was responsible for billing customers and gave the window washers 70 percent of the accounts billed for work actually performed.

Internal Revenue contended that the eight individuals who washed windows were employees and should have been in the pension plan. The tax court viewed the situation differently, observing that the firm dealt with the window washers as independent contractors. The facts which supported the Court's decision showed that the individuals paid their own transportation, provided their own tools, determined the number of days and hours they worked, reserved the right to reject assignments, received no vacation pay and were paid strictly on a commission basis. Furthermore, there was no withholding for Social Security or income tax. (*Jim's Window Service*, T.C. MEMO 1974). ■

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Consultant to testify on Bell System pensions

WASHINGTON—New York actuarial consultant William A. Dreher is to testify Dec. 9 when the Federal Communications Commission (FCC) goes to court with its controversial study of American Telephone & Telegraph Co. pension plans.

Mr. Dreher, president of Dreher, Rogers & Assoc., is author of the report, which found Bell System pension benefits "more than adequately meet income replacement standards." (*Business Insurance*, Aug. 5.)

The report went on to say, however, that because of conservative actuarial assumptions, AT&T had overfunded its pension plans by $335.6 million in 1972 alone. That was 31.5% of total pension contribution that year, or 19.8 cents per hour per union employe.

The FCC is interested in AT&T pension benefits and funding procedures as part of massive study of AT&T operations to determine the necessity for a $560 million interstate rate increase.

Mr. Dreher is expected to be the only witness on the pension matter at the December hearing. Much of his testimony was expected to be agreed to by stipulation before the actual hearings began.

AT&T attorneys said that if parts of the testimony could not be cleared in advance, they probably had about three days worth of examination in store for Mr. Dreher, according to Peter Anderson, chief of the FCC's AT&T task force. ■

Patient-dentist-insurer stress found

Quality of group dental plans needs upgrading

CHICAGO—"There's a new element of stress as a result of heightened interest in group dental plans," said Robert B. Hughlett, chairman of the Council on Dental Care Programs of the Illinois Dental Service.

Speaking to the recent American Management Assn. conference on group dental benefit plans, Dr. Hughlett—a dentist—explained that the increased availability of group dental care represents a force of improvement for the nation, but it also adds stress to the relationship between patient, dentist and insurer in the short run.

He recounted how one dentist in Anderson, In. was affected by the United Auto Workers' plan. Before the effective date only 2% to 3% of his patients were covered by prepaid dental plans, he said. "Then, virtually overnight, 90% of his patients were covered by the same insurer." The tensions of learning claims procedures were strongly felt at first, he said.

"METHODS OF improving the quality of the dental benefits programs are needed," Dr. Hughlett pointed out. "The stress will diminish noticeably if this is done." There will continue to be a larger and larger number of employes under dental plans as a result of the auto industry settlement, he predicted.

"What's easy for the company is deciding what constitutes an optimum dental program for patients. But it's also expensive to accomplish this," Dr. Hughlett said. "Any corporation which adopts a dental plan should buy the best program it can afford," he emphasized.

The first consideration is the scope of benefits to be covered, Dr. Hughlett said. "It's better to adopt a higher-than-usual annual rate than to exclude a particular service from the plan," he said.

Higher deductibles are preferable to exclusions, Dr. Hughlett added. "If a patient helps in the cost of his dental care, he appreciates it more and tends to carry out a proper dental health maintenance program."

Diagnostic, preventive and emergency services should never be excluded from a plan, he advised. Prepayment of diagnostic and preventive services provides an incentive for the patient to seek regular treatment and employe self care, he said. From the purchaser's viewpoint, Dr. Hughlett conjectured, the advantage is that it can reduce the need for further restorative or surgical procedures.

THE DENTAL profession believes that the patient should have the freedom to select his own dentist for treatment under the plan, he continued. Patients should also understand the eligibility requirements, procedures and costs of the plan, he said. "When patients are confused about what portion they are required to pay, they become dissatisfied with the dentist, the employer and the insurer," Dr. Hughlett said. "It's up to the employer to explain everything about it."

The plan should be administratively set up to provide for professional decisions to be made by dentists on the appropriateness of treatment and the reasonableness of costs, he continued. "Dental consultants are best able to help all parties come to a mutually agreeable decision in a dispute."

If a question arises as to whether or not a treatment is standard in a particular area, it should be adjudicated by a peer group of dentists, he said. "Sometimes a particular procedure is common and good for one area but not well-known in another area."

Another speaker at the conference, Melvin N. Raskin, DDS, explained that there are two approaches to group dental plans: A standard list of treatments which includes only those services to be covered (called a closed schedule) and a plan which pays a fixed percentage of the reasonable and customary charges for treatment (called an open schedule).

"WE THINK it's important to remember that group dental plans do not pay for experimental research," said Dr. Raskin, who is director of dental care programs for Blue Cross and Blue Shield of greater New York. "For example, 'splinting' is one treatment that's used by some dentists and not used by others. It's a question of what's included in the particular contract in force," he said.

"Of course, anything which is not up to the good standards of the dental profession is excluded from coverage. So when in doubt, I'd suggest going to the American Dental Assn.," Dr. Raskin said.

"Some dentists use hypnosis and use if well," he said. "I haven't seen any claims for hypnosis yet and I don't know how we'll handle it."

"We don't have much experience with self-insured programs," Dr. Hughlett said. "We haven't been able to get self-insured companies to use standard claim forms and coding procedures. It gums up the works in dental offices the way it is, so we hope they'll conform in the future."

"A COMPANY should have communication and dialogue with all employes to ensure that the program works," said Lawrence Carrington, personnel manager, planning and development for American Telephone & Telegraph Co. in New York. "Prudential (Insurance Co.) favors the co-paid approach. But the employer must work at informing and reminding workers about their role in the dental care process," he added.

Many plans include employes only, he said. "This doesn't make sense. Basically, a dental program's cost should include the family as well because dependents bring a majority of the expense to the family budget," Mr. Carrington added.

"We have one fee for a procedure," he said, commenting on the policy regarding specialists' fees. "We have a problem with fees for any specalist. Sometimes we allow 25% more for a specialist. But if you set a fee to include those for specialists—which charge more—then you'd find the general practitioner raising his rates automatically," Mr. Carrington believes.

Dr. Raskin pointed out the advantages in coinsurance provisions, that is, plans in which an employe has a financial incentive to seek regular dental treatment. "This way more expensive treatment can be avoided," Dr. Raskin said. But stress is sometimes a by-product, he added. ■

Proposed HMO rules are near completion

CHICAGO—Completion and publication of proposed regulations for the implementation of the federal Health Maintenance Organization (HMO) Act is expected by the end of this year, according to William J. McLeod, assistant to the administrator—Health Services Administration—for HMO certification.

In his luncheon address before the 37th annual insurance conference here, Mr. McLeod said these proposed regulations will control qualification and application procedures, will specify employers' obligations if they choose to offer HMOs, and will provide for ongoing control of HMOs, including reporting and appeals procedures.

Following publication of the proposed regulations, there will be a public comment period lasting approximately 30-45 days, according to Mr. McLeod. His staff will then incorporate comments which are consistent with the act and clarify the regulations, a process that will last about three to four months, he said. The final regulations will then be published and "the law will be active," said Mr. McLeod.

PUBLICATION OF final regulations that permit the funding of grants for the planning and development of HMOs was announced recently by Caspar W. Weinberger, secretary of the department of health, education and welfare. Mr. McLeod said his office has received approximately 50 grant applications for funding of feasibility studies, planning and developing of HMOs. He said most grants will be lower than the statutory limits on grants in each category, which are $50,000 for feasibility studies, $125,000 for planning and $1 million for development.

The insurance conference was sponsored by the American-Management Assn. ■

Insurers get confidential info: Survey

BOSTON—A survey of Massachusetts psychiatrists revealed that 78% believe insurance companies breach confidential information about patients that is provided to them by doctors.

The survey, conducted by Benjamin Lipson, a local broker, was based on 883 responses nationwide from 2,286 psychiatrists. Some of the results are:

- 75% find the forms supplied to them by insurance companies inappropriate for relating psychiatric data to an insurance risk;
- 22% do not even respond to requests for data; of those that do respond, 50% state that insurance companies do not preserve the confidentiality of the data and 17% do not know whether or not confidentiality is respected;
- 96% agree that psychiatric information on their patients in the wrong hands might unnecessarily prejudice the patient's employment; and
- 93% indicate that patients under psychiatric care are sometime better risks than those who are not.

Mr. Lipson explained that life insurance companies require prospective policyholders to authorize investigations of their health records, including data on any mental illness. "Such sensitive information is confidential and must be treated as such," Mr. Lipson said.

MANY AMERICANS who have had psychiatric care are afraid to apply for life insurance because they fear their privacy may be violated, he said. They also believe that the cost of any insurance, if available, would be unduly burdensome, he explained.

"This discrimination against individuals who have had contact with a psychiatrist must end," Mr. Lipson said.

Meaningful dialogue between the life insurance industry and the psychiatric community is needed to effect reforms, Mr. Lipson suggested. "Discretion and proper judgment are absolutely vital when drawing that line of confidentiality between the public's need to know and an individual's right to privacy," he said.

Mr. Lipson, whose agency specializes in the placement of difficult life insurance cases, is a member of the public policy committee of the Massachusetts Assoc. of Mental Health and has spoken at life insurance conventions in Mexico, California and Florida. ■

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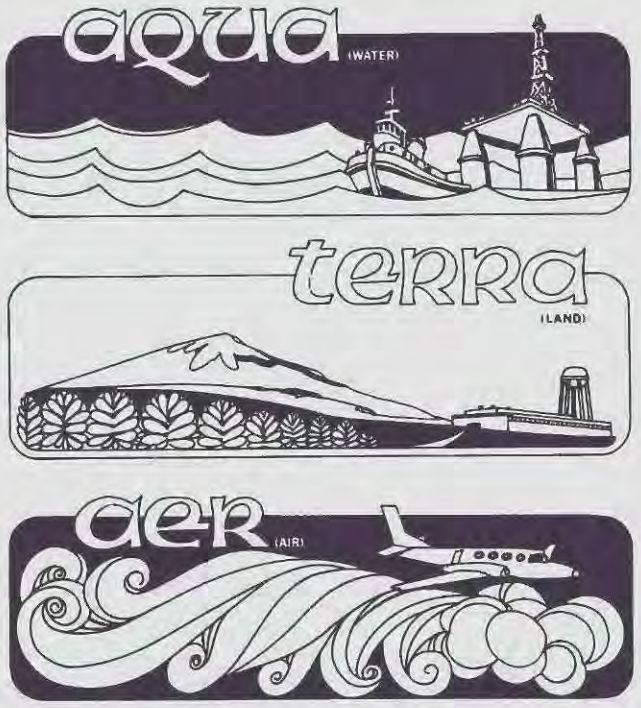

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Government prevention agency launched to extinguish fire losses

WASHINGTON—The Commerce Department this month announced formation of the National Fire Prevention and Control Administration, the key element in a new federal plan to cut down the nation's $11 billion annual loss from fires.

New officials of the administration said that there may well be a role in the new agency for corporate risk men and for the leading fire insurance underwriters in the country, probably on an advisory council.

In any event, company officials will probably be asked to cooperate with federal efforts to gather more information about fires when they occur.

THE NEW AGENCY was created by the Federal Fire Prevention and Control Act of 1974, signed into law last month by President Ford.

Federal officials blame fires for $3 billion in property damage, 12,000 deaths, and tens of thousands of injuries every year. The total annual economic loss is put at $11 billion.

Congress has appropriated $6 million for planning and start-up costs for the new agency.

Commerce Secretary Frederick B. Dent named Dr. Joseph Clark, a chemist from the department's National Bureau of Standards, as acting administrator of the new agency.

Dr. Clark said the federal government's immediate concern was to cut down the fatality and injury rate, but hoped to reduce by half the total fire damage cost in the next 20 years.

The law, and the new federal agency, will not, however, have any mandatory powers for fire control. The law stops well short of giving the federal government authority to establish a federal fire code, for example.

The new agency will be able to design model codes for consideration of state and local authorities and has the authority to grant certificates affirming that a given structure has met recommended federal standards.

THE MAJOR FEATURES of the bill:

- authorize the establishment of a National Academy for Fire Prevention and Control to advance professional development of fire service personnel;
- require the administrator of the new agency to develop a National Fire Data Center as a "nerve center" for an envisoned nationwide, computerized system to collect, analyze and disseminate information on prevention occurrence, control, and results of all types of fires;
- establishes within the Commerce Department a fire research center to perform and support research on all aspects of fire;
- authorizes the new agency to undertake programs to educate the public—and to overcome public indifference—concerning fire and fire prevention.

A special target of these education efforts will be those fires, such as building fires, in which human action or carelessness is a prime factor.

"WE NEED A national system for the collection, analysis and dissemination of fire data to help local fire services establish research and action priorities and we have to focus on fire safety for buildings and products, fire and building codes, and on improved education to prevent the many careless acts that ignite into tragedy," Secretary Dent said.

The new law is largely an outgrowth of a 1973 study report—America Burning—by the National Commission on Fire Prevention and Control.

Roger M. Freeman, president of Allendale Mutual Insurance Co., was a member of the commission. Allendale is part of the Factory Mutual System, one of the most active private organization in fire research.

"We are very pleased with the new agency," a spokesman for Allendale said.

Secretary Dent, at a press conference to announce the new agengy, complimented Factory Mutual and other private concerns for their "in-depth" research on business and industrial fires.

Congress has already committed itself to a $15 million appropriation for the agency in fiscal year 1976, beginning next July. Specific research appropriations also have been made: $3.5 million for the current fiscal year and $4 million for fiscal 1976.

THE LAW WILL now have the federal government "review, evaluate, and suggest improvements" in state and local fire prevention building codes on an annual basis.

This review was to consider the "human impact" of all code requirements, standards and provisions in terms of comfort and habitability for residents or employes as well as the fire prevention and control value of potential of each such equipment, standard and provision."

To further emphasize its interest in fire control, the government will also now sponsor an annual fire prevention and control conference. ■

Dan Sullivan, Northern Electric Co., Ltd, First vp, ASIM, Southern California chapter, congratulates five recipients of the diploma in risk management which Mr. Sullivan presented at the chapter's 19 annual risk management conference. The recipients were: (l to r) Michael Moody, Van Schaack Agency, Ray Larson, Van Schaack Agency, Darryl Hill, Southern California Gas Co., Lee Redding Mission Equities and Bob Clune, Clifton & Co. Risk management and professionalism, high interest rates, CAL/OSHA, and the Consumer Product Safety Act were among the subjects discussed at the conference.

dates for buyers

Meetings and seminars of interest to corporate risk managers, employe benefit administrators, safety and loss control engineers and others involved in managing commercial insurance programs will be considered for listing in this column. Please send dates and programs to Business Insurance, *740 Rush St., Chicago 60611.*

Nov. 18-19: The Second National Consumer Conference on Legal Services will be held at the Mayflower Hotel in Washington, D.C. For further information and reservations, call (202) 833-9165.

Nov. 18-20: The American Management Assoc. will hold an advance course on employe benefits in Chicago. Discussion topics include the benefits function within the corporation, considerations in controlling group insurance costs and EDP utilization for benefit administration. Write the AMA, 135 50th St., New York, N.Y. 10020.

Nov. 19: An arson seminar for company loss personnel will be held at the 57 Restaurant in Boston, sponsored by the American Insurance Assn. and the American Mutual Insurance Alliance. The seminar will focus on the value of cooperation with public authorities, insurance adjusters, investigators and attorneys. Attendance is limited to 150. Write to the Insurance Information Institute, 50 Beacon St., Boston, Ma. 02108.

Nov. 19-20: The fall meeting of the National Fire Protection Assn. will be held at the Olympic Hotel in Seattle, Wa. Various fire safety topics will be presented and discussed. For more information write the NFPA, 470 Atlantic Ave., Boston, Ma. 02210.

Nov. 20-23: International Foundation of Employee Benefit Plans is sponsoring a public employes fringe benefit conference at the Fairmont Roosevelt Hotel in New Orleans. The purpose of the conference is to provide a forum for meaningful information and dialogue on all issues affecting public employes fringe benefits. Write the foundation, P.O. Box 69, Brookfield, Wi. 53005 (414-786-6700).

Nov. 21: The 60th annual meeting of the Self-Insurers Assoc. will be held in New York. Richard Schubert, undersecretary of the department of labor, will speak on the interagency task force. For reservations write the association, Rm. 2910, Graybar Building, 420 Lexington Ave., New York, N.Y. 10017.

Nov. 25-27: Health Maintenance Organizations will be the subject of an American Management Assn. session in New York. Write the AMA, 135 W. 50th St., New York, N.Y. 10020.

Wards adds fixed payout profit-sharing

CHICAGO—Montgomery Ward & Co. here instituted a stable income feature for its $100 million-plus profit-sharing plan to help employes plan for their retirement futures, according to Lawrence A. Ward, assistant treasurer for the retailer.

Effective January 1, the pension and profit-sharing combination will go to a fixed payout, replacing the variable payout presently in effect.

"The net effect of the entire change is to create a benefit available to employes to allow them to make financial plans relative to their retirement," Mr. Ward said.

"The change was an upgrading in terms of the total money to be paid out. It increased from the point of view in which pension benefits are calculated, in addition to the guaranteed return for the profit-sharing plan."

The profit-sharing plan will pay a guaranteed return of 6% to employes, Mr. Ward said. He said that pension benefits are calculated by a formula using the five highest income years out of the last 10 years of service, times the number of years of service. ■

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