Week of November 26, 1979

business insurance

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

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Employe benefit costs:

Workers will chip in more . . .

A Business Insurance report on how benefit plans will shape up in the 1980s is coming Dec. 10.

NEW YORK—Inflationary cost increases in employe benefit plans will be passed on to some degree to employes in more than half of the 426 Fortune 2,500 companies responding to a recent survey.

The increasing cost of benefit plans is one of the three most pressing problems 92% of the surveyed executives said they face.

But despite this concern, 59% of the companies said they intend to expand employe benefit plans in the 1980s, compared with 38% that plan to maintain current benefit levels.

To combat these rising costs, 30% of the executives responding to the William M. Mercer Inc. survey said they have instituted cost control or cost containment measures. Twenty-seven percent said they have adopted specific measures in health care programs such as offering to pay for second surgical opinions, preventive care and health maintenance organizations.

Other cost cutting measures cited by the executives included self-insurance coinsurance (18%), benefit restructuring/plan design alternatives (15%) and reexamining/changing funding of benefits and claims control (11%). Scoring 10% or less were administrative review, negotiating with insurers, contributory plans, communications and reduction in workforce.

Forecasting growth in employe benefit plans, 71% of the executives predicted growth in specialized coverages such as dental, legal and vision care. Pension benefits will increase, 62% predicted, and preretirement counseling will become more prevalent, 52% said.

Other benefits to grow in the 1980s, according to the survey respondents, are time off (44%), life insurance (39%), health insurance (34%), disability insurance (23%) and capital accumulation plans (23%).

Different, however, is what the executives would like to see become more popular. Fifty-one percent favor more early retirement incentives, 49% want flex-time or programs under which employes can set their own hours within certain guidelines and 48% want more financial counseling for their employes.

Increased popularity of company-paid dental plans is favored by only 34% of the executives and guidance programs for employes with personal problems were encouraged by 32% of the respondents.

Other benefits executives would like to see become more popular include company or group auto insurance (29%), four-day work week and training employes for second careers (23%), company subsidized legal advice (16%), child care facilities and housing or mortgage loans (15%) and medical service at work (13%). Maternity/paternity leaves and late retirement incentives received only 4% of responses.

Identifying forces affecting em-

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. . . as employers' bills mount

WASHINGTON—Employers paid out an average of $5,138 per worker for benefits in 1978, an increase of 9.3% in one year, says the U.S. Chamber of Commerce.

Benefits amounted to 36.9% of employe compensation in 1978, up from 36.7% in 1977, 35.4% in 1975 and 32.7% in 1973. In dollars and cents, benefit costs averaged about $2.47 per payroll hour, up 9.2% from $2.26 in 1977.

The chamber's latest study is considered authoritative because the 858 surveyed firms represent a broad cross section of American industry and commerce.

Benefit costs varied considerably from industry to industry. They ranged from a weekly average of $53.58 by firms in the textile industry to $148.37 weekly in the petroleum industry.

Benefit costs also varied widely from company to company. Fifty-five firms reported their benefit costs were less than $50 per employe per week, while 70 firms reported their weekly benefit costs exceeded a whopping $150 per employe.

The most expensive benefit was employer payments for federal old-

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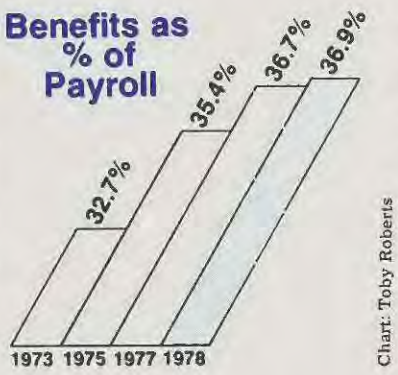

Chart: Toby Roberts

Photo: Wide World

The evacuation of 250,000 near Toronto after a derailment and chemical explosion could cost hundreds of millions of dollars. This traveller decided to take no chances and wore a gas mask.

Question of liability clouds aftermath of derailment, blast

By MARY ANN MATLOCK

MISSISSAUGA, Ontario—The question of who will assume liability for expenses and lost revenues incurred by victims of the recent Canadian Pacific Ltd. train derailment here looms over the city today, much as clouds from toxic chemical explosions did two weeks ago.

Observers say lost business profits and costs from the derailment and subsequent evacuation of nearly 250,000 persons from the Toronto suburbs could reach into hundreds of millions of dollars. However, a spokesman for the railroad said, "I haven't seen any damage estimates I consider to be authentic."

Although Canadian Pacific has opened an office to process "reasonable claims for out-of-pocket expenses," neither the railroad nor anyone else has accepted liability for the accident. Canadian Pacific is self-insured for the first $4 million of liability losses.

The Nov. 11 accident occurred when a bearing on one of two cars leased by Canadian Pacific overheated and caused the derailment, a CP spokesman said.

One of the cars in question was a boxcar owned by Chessie System Inc.'s Chesapeake & Ohio Line and carrying insulation material. The other was a tank car owned by North American Car Corp., a unit of Tiger International in Los Angeles, carrying toluene, a flammable chemical.

Other cars being hauled contained propane, butane, two petroleum gases and chlorine gas. The evacuation, which lasted almost a week for some, was prompted by threatened release of chlorine gas after the derailment and explosion of several tanker cars.

Spokesmen from Chesapeake & Ohio and North American Car said that if Canadian Pacific operated under the rules of interchange, CP would be responsible for the cars after accepting them on their line.

John Robinson, operations supervisor for the American Assn. of Railways in Washington, D.C., said CP had signed the agreement to

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The inside story

Safety first or last?

Will the corporate cost-cutting ax fall on safety programs? Well-entrenched programs will survive, safety managers say. **Page 6.** A safety consultant warns against any trims in safety budgets. **Page 35.**

A weak link?

Obstacles to profit-sharing with Lloyd's brokers may force U.S. brokers to take second best. **Page 58.**

People column page 61

New troubles in Iran threaten underinsured U.S. interests

By JOHN MAES

CHICAGO—In the face of rapidly deteriorating relations between the U.S. and Iran, U.S. corporations still have assets and investments in Iran and many of them are underinsured against expropriation.

It's difficult to assess current total worth, but at the end of last year American firms had holdings in Iran worth $389 million in book value, said a Department of Commerce economist. A few companies, such as Standard Oil of Indiana's Amoco division, have sizable interest, but for the most part, 400 to 500 U.S. firms have only minor assets there.

Most American companies have been steadily decreasing their presence in Iran since early this year when a government upheaval brought the Ayatollah Khomeini to power and touched off anti-American sentiment (*BI*, Feb. 19).

Little expropriation insurance is written on the U.S. investments in Iran. The Overseas Private Investment Corp. says its total Iran expropriation exposure is only $38 million, far short of the $389 million in investments. Amoco alone holds $12 million of that total in coverage on its joint oil production venture.

OPIC officials say that as of Sept. 30, only 15 firms were paying premiums for insurance in Iran and the total has probably decreased even more with the steady exodus of American business interests continuing.

American International Group also underwrites overseas political risk insurance, but "there's not a significant amount in Iran," said Robert Svensk, director of political risk coverage.

"Most companies didn't buy it going into Iran because of the price of the coverage and their percep-

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Calif. bars paid-loss retros for workers compensation risk

By RHONDA L. RUNDLE

LOS ANGELES—Two companies, Fireman's Fund and The Insurance Co. of North America, have voluntarily agreed to suspend underwriting of paid-loss retrospectively rated workers compensation policies in California until the state's insurance commissioner can complete an investigation into their legality.

Plans in force will not be disturbed.

"These are the only two companies we're aware of writing this type of policy," says David S. Patterson, an insurance rate analyst in the regulation section of the California department of insurance. "We are putting both policyholders and insurers on notice that we believe these plans violate minimum rate laws of California's insurance and administrative codes."

California commissioner Wesley J. Kinder, however, has raised no objections to loss-sensitive property/casualty plans similarly written.

Sometimes called cash flow plans, paid-loss retrospectively rated plans require the policyholder to deposit a percentage of the standard premium up front, followed by a promissory note or letter of credit for the difference between the deposit and the standard premium, paid as the losses occur.

"Paid-loss plans leave cash sitting in the policyholder's pocket," Mr. Patterson says. "They don't follow the California manual on workers compensation retrospective rating plans which requires premiums to be paid as earned."

"The commissioner may be cutting off his nose to spite his face," suggests a *Business Insurance* source. "This ruling could force major companies to seek different funding vehicles for their workers compensation insurance—including captives or rent-a-captive type alternatives."

This ruling is a strong indication the California insurance department intends to enforce the regulations against paid-loss retrospective plans.

"I don't think we've written or quoted rates on this kind of policy for over a half dozen companies in California," says Jack Morrison, president of INA Special Risks. Eligibility requirements were set at $500,000 estimated annual premium, so the plan was designed exclusively for very large firms. INA routinely writes similar plans in all other states, Mr. Morrison says.

"We filed our plan, which we believe is in compliance, with the commissioner's office early this year. Last month, they wrote us saying we should 'cease and desist' writing this coverage, that if we agreed they would not take any action." On Oct. 30, INA attorneys requested a hearing for reconsidering its plan, but have not yet heard from the commissioner's office, Mr. Morrison says.

"We have agreed not to make any new offers, but current plans that are in effect will remain in effect," says Creighton White, senior vp at Fireman's Fund Insurance Co. in San Francisco. "We consider our plans perfectly legitimate and we intend to discuss this calmly with the commission."

Fireman's Fund considers the promissory note as premium, Mr. White added. His company only offered the plan to extremely large policyholders with more than $1 million estimated annual premium for workers compensation insurance.

The California insurance department acted after receiving complaints about paid-loss plans from other insurance companies, Mr. Patterson says. The department is asking any insurer or agent who knows of plans similar to those at Fireman's Fund or INA to report them to the commissioner. ▪

Rhonda L. Rundle joined the staff of Business Insurance as associate editor in Los Angeles. Prior to her new assignment, Ms. Rundle, 29, was editor of a monthly business newsmagazine in the restaurant industry and has also worked on a private security publication. She graduated Phi Beta Kappa from the University of California at Berkeley and earned a Master of Arts degree from UCLA in 1974.

errors & omissions

• John Horty is president of the National Council of Community Hospitals based in Washington, D.C. He was misidentified in a Nov. 12 article on the Ullman bill proposing tax penalties on large, employer-paid health benefit plans.

CORRECTION

Due to a transmission error, the line "Watch for it on your local **PBS** station" in the Chubb Group of Insurance Companies advertisement in the October 29, issue of this magazine appeared incorrectly as "Watch for it on your local **TBS** station."

Award entries due Dec. 31

The deadline for submitting nominations for the *Business Insurance* Risk Manager of the Year Award is just one month away.

Nominations must be submitted by Dec. 31.

People eligible for the award, presented annually by *Business Insurance* to recognize an outstanding risk manager, may be full-time or part-time insurance or risk managers or executives handling insurance and risk management as part of their overall duties. These managers may be employed by corporations, institutions or governments. Nominations may be submitted by anyone in the insurance industry or risk management field.

For nomination guidelines and forms, call 312-649-5278 or write Editor, *Business Insurance*, 740 N. Rush, Chicago, Ill. 60611.

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for your information

House kills Carter measure to set ceiling on hospital costs

WASHINGTON—The decision of the House to kill President Carter's measure to control surging hospital costs all but ends the bill's chances of gaining congressional approval this session.

Rep. Henry Waxman (D-Calif.), who led the battle to get the cost control bill passed, said the measure was "most likely" dead in its current form.

The Carter cost control bill would have imposed an 11.6% ceiling on annual hospital cost increases.

The House, however, refused to accept this cap and instead approved, on a 234-166 vote, an amendment by Rep. Richard Gephardt (D-Mo.) that drops the cap but sets up a commission to monitor voluntary efforts to contain hospital costs.

Hall official gives up license

AUSTIN—Mendel S. Kaliff, the Frank B. Hall of Texas Inc. official who allegedly was responsible for more than $3 million in questionable billings between 1972 and 1978, has voluntarily surrendered his Texas agents licenses to state officials.

An internal audit of Hall's San Antonio office by the broker's auditor, Touche Ross & Co., revealed the questionable billings between the year ending Dec. 31, 1972, and the first seven months of 1978 (*BI*, June 11). The funds, listed in company records as "service fee income," were due to policyholders or insurers.

Hall purchased the San Antonio office from Mr. Kaliff in 1975. The company and Mr. Kaliff are proceeding to make restitution in accordance with the Touche Ross findings. Reportedly, Mr. Kaliff has posted a $2 million letter of credit against his own funds to repay the bulk of the overcharges.

Voluntary surrender of Mr. Kaliff's license was the only disciplinary action taken by the Texas insurance department in the matter, said W.O. Sanders, manager of the license division. Surrender of his license prohibits Mr. Kaliff from countersigning policies and soliciting insurance from the public, Mr. Sanders added.

Insurers drop Equifax suit

ATLANTA—Five insurers that earlier this year filed a $32 million lawsuit against Equifax Inc. here have voluntarily withdrawn their suit in exchange for Equifax's withdrawal of its $30 million countersuit.

The original suit, filed in March, charged Equifax furnished an inaccurate inspection report on an egg production facility near Bethune, S.C., in 1975 (*BI*, April 12). The report was for fire insurance purposes. The plant was destroyed by fire in April 1976.

The five insurers are Lexington Insurance Co., Boston; International Surplus Lines Insurance Co., Chicago; California Union Insurance Co., Philadelphia; Mission Insurance Co., Los Angeles, and Stonewall Insurance Co., Birmingham, Ala. Two other insurers withdrew from the suit earlier this year: Great Southwest Fire Insurance Co. of Scottsdale, Ariz., and First State Insurance Co.

Wire firms may be sued in fire

COVINGTON, Ky.—A U.S. district court judge has ruled the entire aluminum wire industry may be sued in connection with the 1977 fire at the Beverly Hills Supper Club in which 165 persons died (*BI*, June 13, 1977).

Federal judge Carl Rubin overruled motions by 26 defendants to have civil suits against them dismissed. Because the names of the actual manufacturers of the materials in the club could not be determined, "liability against the entire industry may be imposed."

Suits filed, won in air crashes

CHICAGO—Multimillion dollar lawsuits are being filed and six figure settlements are being won by the surviving family members of crash victims in three major air disasters of the past 14 months.

The brother of Kenneth Lucoff, an ABC-TV news producer killed in the Halloween crash last month of a Western Air Lines DC10 in Mexico City, has filed an $18 million lawsuit against the airline and McDonnell Douglas, builder of the jet. Another $1 million suit filed the day after the tragedy also names the Mexican government and Benito Juarez Airport Authority as defendants.

A settlement "close to $1 million" has been accepted by one of the families of a victim of the American Airlines DC10 crash near O'Hare Airport last May, says Chicago attorney John J. Kennelly, representing several of those families as well as Mark Lucoff, brother of the ABC newsman. The settlement is believed to be the largest to date stemming from the May 25 crash (*BI*, June 11).

The Federal Aviation Administration has fined American Airlines $500,000 for shortcomings in its maintenance procedures that contributed to the crash, the largest fine ever levied by FAA.

A four-day trial in San Diego resulted in the first jury award arising out of the September 1978 midair collision of a Pacific Southwest Airlines jet and a private plane: PSA was the main defendant in the case in which $200,000 was awarded to the family of Mrs. Rosalia Lococo, a 46-year-old housewife.

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Exchange rally

N.Y. steadies its stride in 'safe but sure' plan

By ELLIS SIMON

NEW YORK—New York Insurance Exchange backers would rather stride than sprint in their organizing efforts, even if it means allowing the Illinois Insurance Exchange the prestige of being the first to write a risk.

Illinois could beat New York to the punch, but "it would be just for show-and-tell," said New York broker member Robert Sanford, president of Smyth, Sanford & Gerard. "I would rather be slow and sure than quick and end up with wooden nickels."

New York's pace slackened after election of the exchange's first board of governors last July. But 13 syndicates capitalized the exchange to more than $48.5 million and 33 broker members give it a wide lead over other comers, says Marsh & McLennan executive vp Robert Clements.

After four months marked by vacation schedule conflicts and the need of some public members to get a crash education in insurance, the New York governors have a chief executive officer—Sentry Insurance Group executive vp Donald E. Reutershan—and a headquarters at 59 John St., in Manhattan's insurance district.

Some exchange members, including A&A senior vp Gerry Curtis, have noted the slower pace could dampen enthusiasm for New York and inspire efforts in Illinois. But those concerns do not faze exchange chairman T. Vincent Learson.

The exchange is not likely to open before late spring 1980, he said. "We're doing things carefully and well. It's painstaking, but people want it that way."

Before underwriting can begin in New York, Mr. Learson, the other governors and Mr. Reutershan, who joins the exchange Jan. 1, must cut through a thicket of regulatory and operational obstacles.

The Securities & Exchange Commission status of syndicates must be clarified. SEC contends syndicates must register, but has made no ruling.

The governors have told syndicates seeking to capitalize through private placements to avoid "advertising" through comments in the press. This, the governors assert, has attracted SEC intervention.

SEC registration places additional cost and disclosure burdens on a syndicate. It is normally not required for private offerings but is mandatory for public offerings. SEC securities can be limited partnerships rather than corporations.

Also, the exchange and certain syndicates are seeking Internal Revenue Service rulings on the applicability of statutory accounting, which would permit loss reserving, to syndicates and the right to capitalize syndicates as partnerships rather than corporations to take advantage of direct flow of income.

Denying the exchange tax deductions on loss reserves would make it virtually impossible for the exchange to underwrite risks with slow loss development. If partnership syndicates are prohibited, the exchange would lose its advantage over established insurance companies in attracting investor capital.

The IRS is expected to rule on the questions in December or January.

A state insurance department regulation affecting the exchange's ability to write direct business is still in the works. New York insurance superintendent Albert B. Lewis is awaiting comments from the exchange's governors before holding hearings on a draft version of the regulation governing interface between the exchange and the state's free trade zone.

Donald E. Reutershan, CEO of the N.Y. exchange, will have to cut through a thicket of regulations.

The insurance exchange can only write direct business rejected by the free trade zone, a market created by a provision in state insurance law permitting specially licensed companies to write high premium and exotic risks without prior approval on rate and form. Brokers and certain insurers are at odds on what should constitute free trade zone rejection. (*BI*, Aug. 20).

The insurance department also holds hearings Nov. 27 on another regulation detailing exemptions from state insurance law applicable to the exchange and those areas where the department will retain control.

Under the draft version of the regulation, the department retains

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Illinois taps computers for high-speed finish

By MARY ELLEN McKEE

CHICAGO—Once viewed as a pipe dream, the forming Illinois Insurance Exchange is closing in on the lead enjoyed by the New York Insurance Exchange, say industry observers here.

Equipped with an interim board of directors and blueprints for massive computerization for the Illinois exchange, James M. Skelton, executive director of the board and an insurance department official, is aiming to have the exchange ready to spring into action by June 1.

The drafting of a constitution and bylaws is expected to move quickly, with the new computer system demanding more time to install and refine. The board's first meeting is this week.

The biggest task the supporters and the interim board must tackle, Mr. Skelton readily admits, is establishing the credibility of the exchange. So far none of the insurance companies or brokerage houses has publicly supported the Illinois exchange movement.

The Illinois insurance department had hoped the announcement of the interim board selections would spark some interest. "My reaction to the interim board selections is simply, who are most of them?" responded an attorney for one of the largest insurers headquartered in Illinois.

Of the 13 people serving on the interim board, four are underwriters, three are brokers, three are attorneys, one is an investment broker and one is an insurance department official. Also serving on the interim board is Donald E. Kramer, president of Kramer Capital Consultants Inc. and a prime mover in the development of the New York Insurance Exchange (*BI*, Nov. 12).

The system is relatively inexpensive in the long run, says attorney Richard Friedman.

Although few have publicly supported development of the Illinois Insurance Exchange since the enabling legislation was first proposed last spring, some are privately encouraging it.

Illinois has a chance to run with it, a Chicago broker noted. "Up to this point, egos haven't gotten in the way of planning as they have done in New York. Instead, Illinois is trying to make its mark with some new ideas."

Rep. Bernard Epton (R-Chicago), who sponsored the enabling legislation for the exchange, is not concerned by the lackluster response to the Illinois Insurance Exchange or the interim board of governors. "We're not out to compete with New York as most people think,"

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the benefit beat

New health plan saves N.Y. state 12.8%

The first remarketing of a 22-year-old statewide group health insurance plan for 447,000 employes of New York state and 1,400 local governments cut costs 12.8% while raising limits and adding a drug benefit.

Starting Jan. 1, the new program combines medical and surgical coverage previously provided by Blue Shield with major medical coverage underwritten by Metropolitan Life into an expanded major medical program with Metropolitan.

The new rates are $9.01 for individuals and $22.72 for families. Adding prescription drug charges of $4.37 for individuals and $9.69 for families and subtracting dividends, the total monthly charge will be $24.32 for individuals and $66.80 for families. These are 12.2% and 13.5% less, respectively, from the current program in which the net cost for individuals is $27.69 and for families $77.23.

Blue Cross will continue to provide hospital coverage at current rates of $15.86 for individuals and $49.90 for a family.

New York state pays 100% of premiums for individual coverage and 75% for dependent coverage for its employes. Participating local governments have different arrangements.

The annual deductible under the new major medical program has been increased to $75 per person from $50 per person, applicable to a maximum of three persons in a family. The plan continues to pay 80% of covered benefits for the first $2,000 coverage and 100% in excess of that.

On medical and surgical coverages the plan pays 80% of reasonable and customary charges. The maximum benefits under the plan have been raised to $50,000 per year and $250,000 lifetime. Previously they were $25,000 per year and $50,000 lifetime.

Prescription drug coverage requires a $1 copayment on each order and provides a 30-day supply for routine conditions and a 105-day supply for chronic conditions.

Bargaining reopened

The Oil, Chemical & Atomic Workers, seeking a uniform health package as well as new company-paid dental and prescription drug plans, is reopening talks on about 400 two-year contracts covering 60,000 workers. Under the uniform plan, workers at all 100 companies would receive the same level of benefits with all costs paid by the companies. Union members' health benefits now vary among companies and states, and workers at some companies pay a part of the health insurance premiums.

The contracts, which took effect last January, provide for reopening talks on wages, health benefits and vacations, and the union may strike if an agreement is not reached by Jan. 8, 1980.

Health cover increased

About 325 members of United Auto Workers Local 376 won increased health, disability, life and pension benefits in a three-year contract ending a 24-week strike against manufacturer Robertshaw Controls Co. in Milford, Conn.

Maximum medical coverage, formerly $100,000 lifetime, will be increased to $100,000 by the third year of the contract. Emergency room payments, formerly $20 per visit, now are raised to $100, and a $50 medical deductible per person per illness has been changed to a $50 deductible per person per year or $100 deductible per family per year. Sickness and accident disability payments, formerly $80 a week for 26 weeks, are raised to $85, $90 and $95 in each year of the contract.

Life insurance has been raised to $12,000 from $10,000, and pension benefits, which were $7.75 per month per year of service, will be $8.50 in the first year of the contract and will rise to $9 by the third year.

Group auto, homeowners

Sen. Harrison Williams (D-N.J.) has introduced legislation that would give a major boost to group auto and homeowners insurance. The measure (S. 1970) would amend the Internal Revenue Service code to permit employers and workers to make tax deductible contributions to a trust fund established for group auto and homeowners insurance.

Currently, the Taft-Hartley Act prohibits employer payments to employe representatives except for life, health and accident insurance as well as prepaid legal services.

Health plan switch

The University of California will move a $37 million group health insurance plan to Prudential Insurance Corp. of America on Jan. 1 from Equitable Life Assurance Society.

Approximately 80,000 employes and dependents are covered under the plan, which also supplements the major medical portion of the Kaiser health maintenance organization. It's one of nine plans offered by the university system.

Claims service, depth of professional staff and cost factors were among considerations that led to the selection of Prudential, said Morley Walker, director of employe benefits. The university also considered bids by Aetna Life Insurance Co., Metropolitan Life Insurance Co. and The Travelers Corp.

Assisting in the selection of the new group health plan underwriter was consultant Towers, Perrin, Forster & Crosby.

The plan includes a $5,000 employer paid life insurance policy, comprehensive health care with a deductible and coinsurance participation by employes. The university contribution is $43 per employe up to a maximum $102 for family coverage. Employes in the Prudential plan pay the balance of the $75 per employe, $200 per family monthly premium.

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Benefit Beat keeps risk managers and employe benefit managers abreast of changes in plans around the country as well as other important developments. We'd like to know if you've made any changes or know of any significant developments. Write Kathryn J. McIntyre, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611 or call (312) 649-5286.

Safety programs survive expense cuts

Photo: Mary Cairns

Safety is "viewed as an important function" at Motorola even in recessionary times, says Marvin Scheunemann.

By JOHN MAES

CHICAGO—The well-entrenched safety and loss prevention program may no longer be the automatic victim when the corporate ax begins to slice into a company's programs and operations during tight money markets.

Many loss control programs have established themselves as not only money-savers, but also profit centers that show in the "bottom line" calculations of many companies, according to a sampling of corporate safety managers and consultants.

But the picture is not entirely bright. While long-running, sophisticated programs at large corporations will survive bad times, the less-established safety director at a smaller firm may well feel the sting of recessionary trends, say several safety experts.

Those interviewed report no evidence of cuts in safety operations within their companies, despite the economic downturn that has resulted in expense cutting throughout business and industry.

Russell DeReamer, safety director for IBM Corp. in Armonk, N.Y., says his firm is headed in the opposite direction, adding safety staff despite the slowdown in the national economy. At IBM, as at other large corporations, safety programs have the full backing of upper-level management, which is convinced loss control holds down insurance costs and enhances employe morale, he said.

"They realize it's good business and safety would be one of the last places you would want to cut down," Mr. DeReamer said.

Consultants, too, say their business has not suffered. Fred Manuel, senior vp of M&M Protection Consultants Inc., said he has been anticipating an economy-linked business decline, but said it hasn't happened yet. He speculates that's because the expected recession hasn't taken hold, but said he fears a recession could at least cause companies to postpone safety program expenditures.

Donald Eckenfelder, manager of corporate loss control at Chesebrough-Ponds Inc., in Greenwich, Conn., says his employer has not cut back on safety measures. But he pointed out that in other industrial sectors, especially among firms smaller than the Fortune 500, safety does suffer with the onset of economic difficulties.

"As much as I would like to think otherwise, the economic downturn will have an adverse effect on loss prevention," he said. The firms that have never had a safety director or never paid much attention to the concept are the most likely to cut out such programs and flirt with the limits of the Occupational Safety & Health Act, he said.

"The survival of a loss prevention program depends on the level of sophistication of the organization and the management perception of what loss prevention can do for them. If they see it as a profit center, it will be one of the last things that they will get rid of. But if it's seen as an overhead with no visible profit, it will be one of the first things to go," Mr. Eckenfelder said.

During a mild recession in 1974, Motorola Corp. in Schaumburg, Ill., laid off some employes, including safety personnel, but the cuts were in direct proportion to layoffs throughout the company, said safety director Marvin Scheunemann. Otherwise, there's no de-emphasis on corporate safety at Motorola in tight times, he said. "It's viewed as an important function here."

"Any staff or support type function that's not ringing up the cash register might go," said Charles Culbertson, safety director for Marriott Corp. in Washington, D.C. "But I wouldn't pick on loss prevention."

Actually, avoiding the recession ax in a way resembles survival of the fittest, some safety directors say. Those directors who can convince top management that cutting fire risks, workers compensation costs and maintaining a high level of employe morale will keep their jobs through bad times as well as good. "Where they can show the chief executive officer and the chief financial officer that for every dollar invested in loss prevention, they can return more than the operating function, there will be no problem," said Mr. Culbertson of Marriott.

But critics of corporate safety programs complain there is widespread footdragging on safety matters throughout industry—recession or not. Jack B. Revelle, formerly a manager of safety with a California metals firm, said he quit his job after only six months because he questioned its commitment to loss control.

With some exceptions, a good number of corporate safety programs are only "window dressing" designed to give appearances that the firm is complying with the OSHA Act, charged Mr. Revelle, now living in Orange, Calif., and writing on safety issues. "Some companies stand a good chance of being fined rather heavily so they go ahead and at least institute superficial compliance," he said. ■

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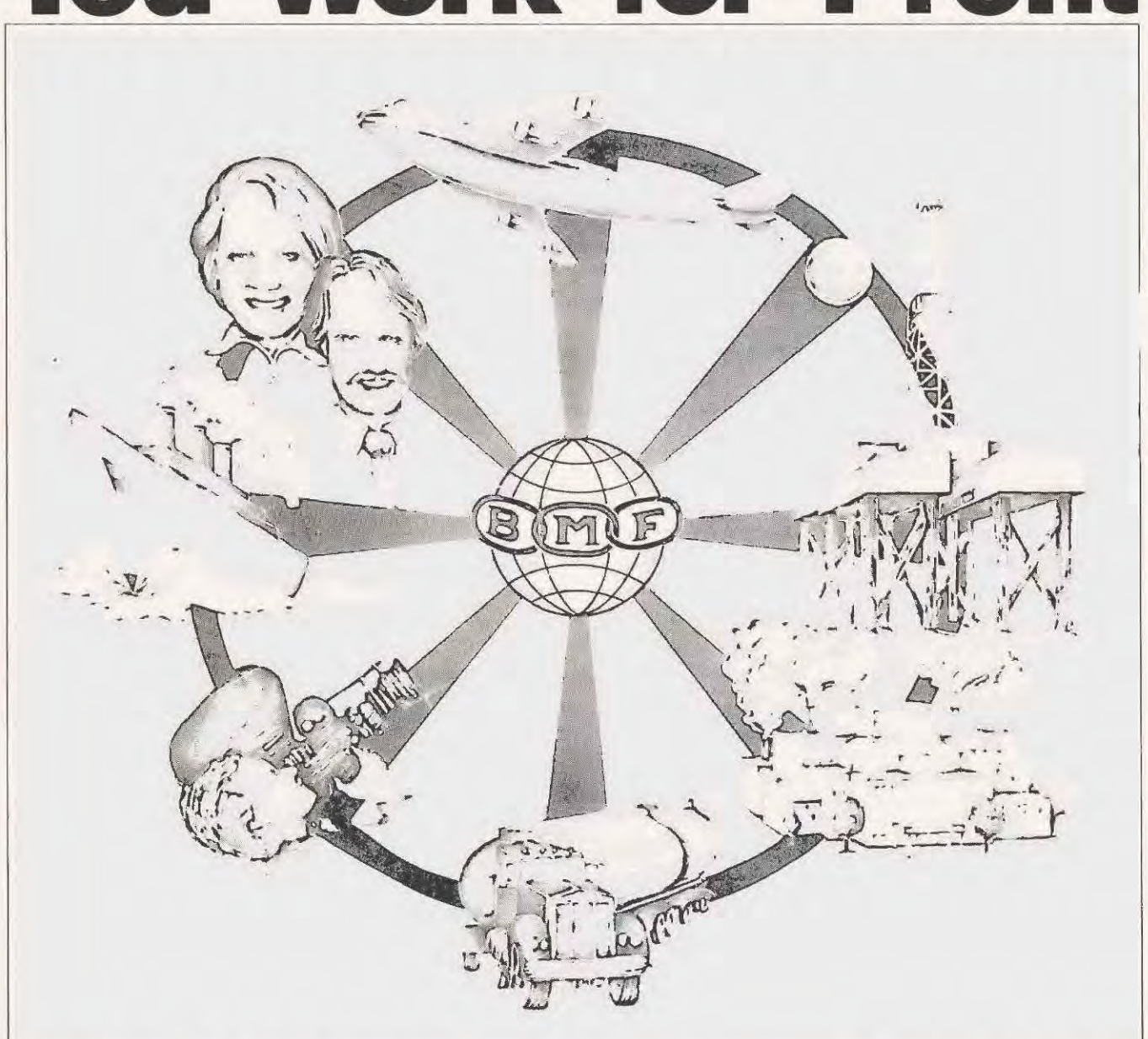

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CHICAGO—Last minute registrations will be accepted for the third annual *Business Insurance* Employe Benefit Communications Conference to be held here Dec. 3-5.

Creativity, the new frontier in benefit communications since corporations have mastered the art of complying with government regulations on benefit reports, is the theme of the conference.

The two-and-a-half day conference at the Ritz-Carlton Hotel, attracting registrants from among the ranks of employe communications specialists and benefit managers, will feature the creative director of a leading advertising agency as the keynote speaker. There will be 12 other faculty members who are experts in communications, graphic design and marketing.

Keith L. Reinhard, executive vp and director of creative services for Needham, Harper & Steers Advertising Inc., will set the pace for the conference with his discussion of emotion in communications, the pulse beneath the message.

The conference will include more opportunities than in past years for participants to glean benefit communications ideas from programs used by other companies.

The opening session offers an audiovisual presentation showing different approaches employers have used to communicate with their workers. There will be two lunchtime screenings of communications programs submitted to *Business Insurance* this year for its annual benefit communications competition. And there will be a half-day of audiovisual screenings and critiques with analysis of communications efforts used by corporations around the country.

Herb Zeltner, a marketing communications expert and group vp of Crain Communications Inc., will lead a discussion again this year of the effectiveness of these audiovisual efforts, with the audience participating in the evaluation and judging.

Two sets of concurrent sessions have been scheduled, with speakers addressing issues including packaging of communications, the legal ramifications of communications and generic communications (discussing issues such as HMOs, retirement planning and inflation).

Tackling these subjects will be Judith Karam of Karam & Versch in New York; Robert Ridley, a lawyer with a Los Angeles law firm, and two consultants specializing in communications: John Kerney Jr. of Emcom Group Inc. in Newtown, Pa., and Robert J. Ellis of William M. Mercer Inc. in Hartford, Conn.

Two communications specialists with the Pension Benefit Guaranty Corp. in Washington—Audrey Cramer and Sarah Casseday—will discuss the importance of daring *not* to communicate all of the technical details often jammed into benefit information brochures and films, sometimes garbling the message.

John Connellan, founder and president of The Executive Technique, will discuss the use of benefit communications as sales tools to convince employes—the "customers"—what a good company they work for. The art of making an effective sales presentation is also the art of communicating such things as employe benefits, he believes.

An afternoon will be spent on graphic design and the vital problem of selecting a graphic approach to communications, adapting the approach to a company's size and needs and carrying out the ideas. Speakers are Peter Iversen, chief executive officer of Iversen Associates, one of the leading graphic designers in the benefit communications business; Philip Murphy and William S. Miller of the Emcom Group in Newport Beach, Calif., and Curtis Snodgrass with Towers, Perrin, Forster & Crosby in Chicago.

The cost of the conference is $310 per person, with a 10% discount for additional registrants from the same company who register at the same time. Contact Sari Lipshultz, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5246. ■

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- ☐ Does your policy limit loss to damages by definition, and exclude non-pecuniary claims?
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- ☐ Does your policy include outside persons as insured fiduciaries?
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Employers may limit extended benefits to 9 months: EEOC

By JERRY GEISEL

WASHINGTON—Employers providing extended benefits to pregnant women still must sharply step up extended benefits for other employes leaving firms despite a recent softening in the government's position.

Clarifying its original position, the Equal Employment Opportunity Commission said this month that employers offering extended pregnancy benefits can limit to nine or 10 months the period in which extended benefits must be offered to other employes.

Previously, insurers feared the EEOC had insisted in guidelines designed to aid employers in complying with the new pregnancy benefits law that extended benefits for non-pregnancy conditions must continue until the condition is terminated (*BI*, Oct. 29).

Such a requirement could be ruinously expensive to corporations, consultants said. Providing extended benefits for a former employe who left the company with a diabetic condition, for example, could leave the firm with medical bills stretching over many years.

But the EEOC said fears that its guidelines required such an open-ended liability for extended benefits for nonpregnancy conditions were unjustified.

"It is our view that the (pregnancy benefits) law would require only that the post-employment period during which these post-employment benefits must be provided for other conditions must be equal in length to the period sufficient to cover a normal pregnancy and delivery," said Issie L. Jenkins, EEOC acting general counsel.

"As a practical matter, then, extended benefits would not have to be paid for a post-employment period longer than approximately nine or 10 months even if expenses were still being incurred thereafter," Ms. Jenkins said in a letter to the Health Insurance Assn. of America.

But even limiting extended benefits to nine or 10 months for nonpregnancy related conditions will sharply raise employers' costs and could force many companies to drop their extended benefit programs, says Steve Bokat, an attorney for the National Chamber Litigation Center, a business advocacy group in Washington.

Currently, many corporate extended benefit programs for nonpregnancy related conditions limit benefit coverage to 30 to 90 days after an employe leaves a company. A nine-month extended benefit requirement would increase by more than nine-fold some companies' extended benefit exposure period.

In addition, many employers now require a former employe to be totally disabled before he or she is eligible for extended benefits.

The EEOC says, however, if total disability is not a prerequisite for pregnant former employes to collect extended benefits, as is the case now in extended pregnancy benefit programs, total disability cannot be required before other employes leaving a company are eligible for extended benefits.

This interpretation opens up extended benefits to a huge new class of workers, and rather than face such an enormous jump in their exposures, companies will fold their extended benefit plans, depriving pregnant employes of a major benefit, Mr. Bokat says. ■

Executive dies

A. Hawthorn Criddle, CPCU, ARM, a veteran of more than 50 years in the insurance industry, died Oct. 25 at the age of 70. He was most recently a partner with Warren, McVeigh & Griffin of the Delaware Valley in West Chester, Pa. He previously was executive vp with Fred S. James & Co. Inc. of Pennsylvania and later vp of education, research and development for James of Delaware.

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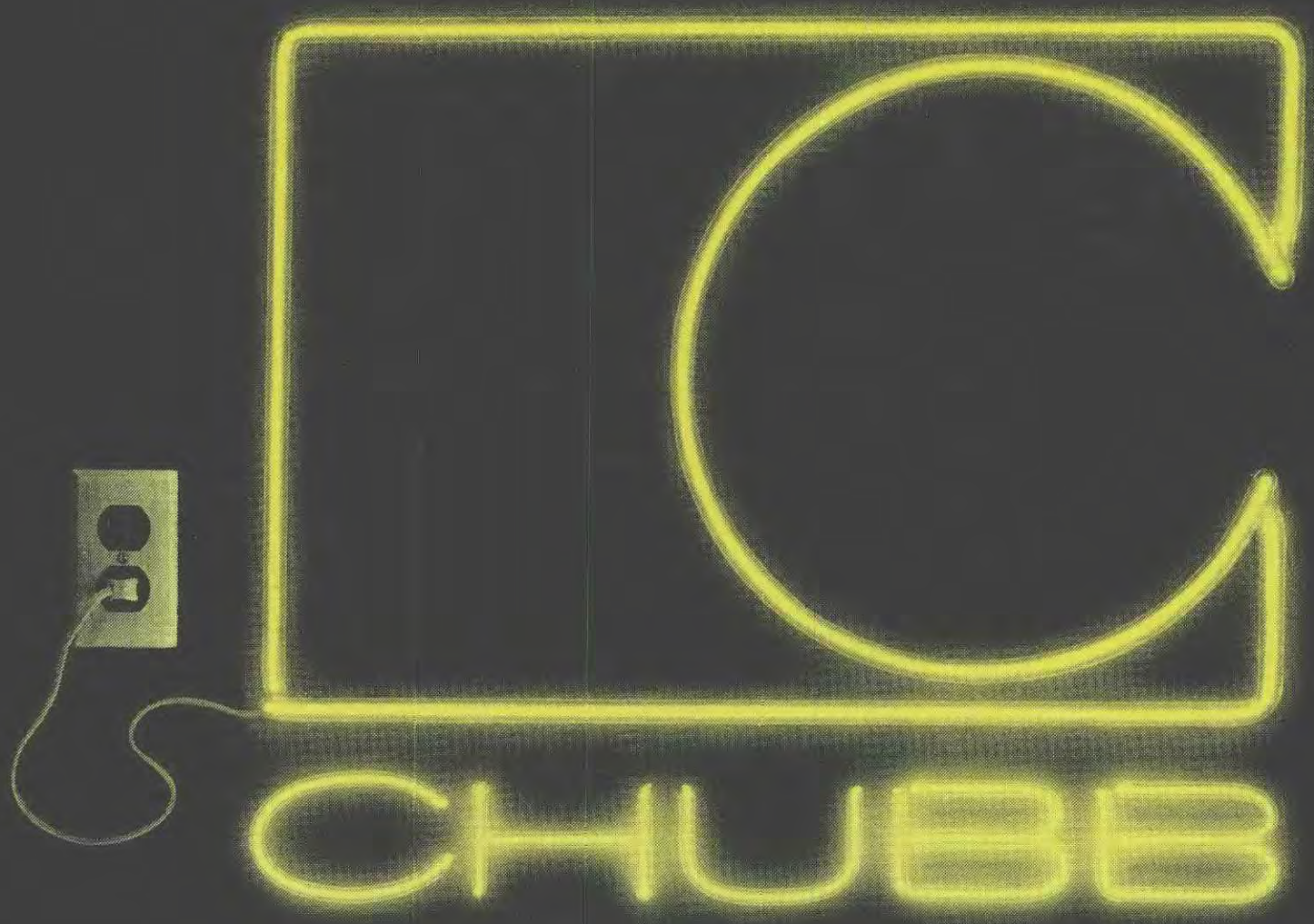

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editorial opinions

Loss control dilemma

THE ECONOMY is shaky, at best, as interest rates soar, borrowing drops off and sales and purchase orders nosedive.

At times like this, companies are faced with difficult decisions about whether to forge ahead with maintenance or improvement of safety, loss prevention and claims control programs, or simply to conserve cash by cutting off funds for these internal programs.

This, of course, poses the classic risk management dilemma—whether to seek a short term advantage by playing the insurance markets, buying coverage broad and cheap and skimping on housekeeping and loss control, or whether to apply the best combination of risk management techniques, making the necessary investment in internal systems to bring about the optimum risk cost over a longer time.

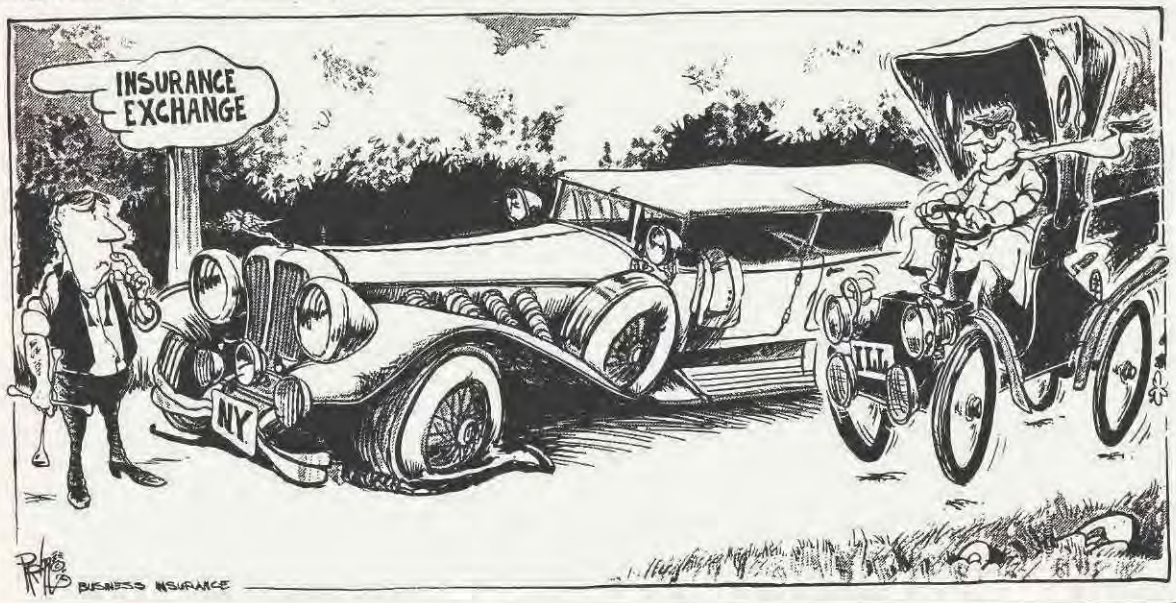
Already there's been talk among some insurance buyers that they're having trouble convincing top management to continue programs that in a stagflationary economy might appear marginal. One company is thinking of cutting its hearing conservation program back or eliminating it. Another company may not keep a safety engineer on staff in the risk management department. A third has considered slashing outlays for machine guards and maintenance in a manufacturing operation.

It has taken years to educate operating managers to several risk management facts of life: Each company will pay for its own losses over time. It's as important to prevent and control losses as it is to finance them with insurance or self-insurance.

It is also during recessions that disabling injuries mysteriously seem to rise, ending up as health benefit or workers compensation claims.

Perhaps the phenomenon shouldn't be baffling at all, given worker concern over possible layoffs and belt-tightening, coupled with increased employer pressure to improve productivity by working harder and faster. The former situation might encourage healthy people to fake injuries or to exaggerate minor aches into major disabilities, while the latter situation legitimately increases stress and interferes with safety-consciousness in high risk operations.

Taken together, all of these factors point to the need for increased vigilance by employers and continued spending for safety and loss prevention programs. Risk management has come too far and accomplished too much to cast its precepts aside now.



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Complex subject

To the editor: No doubt you will receive a number of responses to your Oct. 29 editorial opinion "Resting on their laurels." The issue of recertification is not a subject to be dealt with lightly in an editorial opinion that tends to infer to me that those who oppose the issue of recertification are "resting on their laurels."

Recertification is a complex and emotional issue, not only to the property and casualty professional, but to the life underwriter professional, the accounting professional, the physician, attorney and architect and on down the line. It would be interesting to engage in a dialogue concerning many of the problems and issues involved in the subject of recertification. It is a subject that needs discussing and further evaluation by CPCUs and others.

I don't have the answer, but I suggest that your blanket indictment of the members of the Society of CPCU by saying that they appear willing to rest on their past laurels is possibly an overcondemnation of a group I am certain has given serious individual thought to the subject, both those who voted on it at the annual board meeting in Boston and those of us who did not vote.

At some future date you might give consideration to throwing more light on this issue as opposed to a quick editorial opinion that chastises without acknowledging that it is a rather complex issue where there are not necessarily clear black or clear white solutions or answers.

James S. Burkart, CPCU, ARM
Collier Cobb & Associates of Alabama Inc., Montgomery, Ala.

Creating a stir

To the editor: Your Sept. 17 editorial opinion "Give buyers more facts" has created quite a stir among the major portion of the members of the American Assn. of Managing General Agents whose membership includes some of the leading excess and surplus lines firms.

Certainly, the E/S business is not immune to problems of an occasional crook, but neither is any other facet of the insurance industry, nor any other industry, for that matter. Your opening sentence condemns the entire E/S segment of the business, and tempers it only slightly in the second sentence.

The vast majority of E/S and specialty offices around the country are providing sound, stable markets and underwriting for classes of business and capacity that is unavailable in the standard marketplace. Several of the wrongdoers you named deserve condemning, but Pritchard & Baird, a reinsurance firm, is not an example of an E/S broker.

In this very issue, we estimate that almost 20% of the E/S specialty offices in the country responded to your questionnaire for listing in the issue. A look at your Agent/Broker Profile issue reveals that less than 5% of that segment of the industry is listed. This is a good indication of the openness of the firms in the E/S/specialty field.

You state there is nearly a total lack of regulation in the E/S field, which indicates that you are not at all familiar with the laws governing excess and surplus lines in the various jurisdictions. In most states, monthly reports of type of business written, premiums charged and with whom written must be filed along with affidavits, and taxes paid. Every E/S broker is required to file the above mentioned information if not monthly, then quarterly, or at the most, annually. Further, in many states business can only be written with surplus lines companies approved or "white-listed" by the state insurance departments.

W.C. Duesenberg
President, American Assn. of Managing General Agents

Second opinion

To the editor: I cannot help but respond to the letter regarding second opinions written by a Blue Shield project manager of product development (*BI*, Oct. 29).

This letter is typical of the lack of knowledge, understanding and failure to adequately investigate programs displayed by Blue Shield personnel.

Contrary to the view expressed by the writer, active communication and promotion of a voluntary second opinion program has very little effect, if any, on utilization. Over the last two years, I have conducted such a campaign which has included: letters mailed to employes' homes, special articles in the company paper (including reporting utilization), payroll stuffers, posters, meetings, mailing brochures to the employe's home and most recently, a special second opinion ID card. The net result has been utilization of about 1.2%.

If a voluntary second opinion program is going to work, it will take more than communication and it will certainly take a better understanding of the problem than displayed by Blue Shield.

Richard D. Quinn
Principal benefits administrator, Public Service Electric & Gas Co., Newark, N.J.

Confusing comment

To the editor: Your article on punitive damages in the Sept. 17 issue could have been better written; it has caused confusion.

The second-to-last paragraph of this article states, "In dissent, Justice P. Clark warned the ruling would result in higher premiums as insurers passed on the costs of inflated awards to consumers."

It may be that your article was intended to deal entirely with disability insurance, but may be read in a much wider spectrum. The reader would include liability insurance.

If you will refer to an article published in a previous issue of your magazine (March 19, by Victor Levit), you will observe that you reported that while punitive damages may be imposed by a court in California, they are not insurable under a liability policy in that state. If what you reported in that article is correct, the opinion of Judge Clark that you now report obviously causes confusion as to the insurance status of punitive damages.

Dunc Jones
Toronto

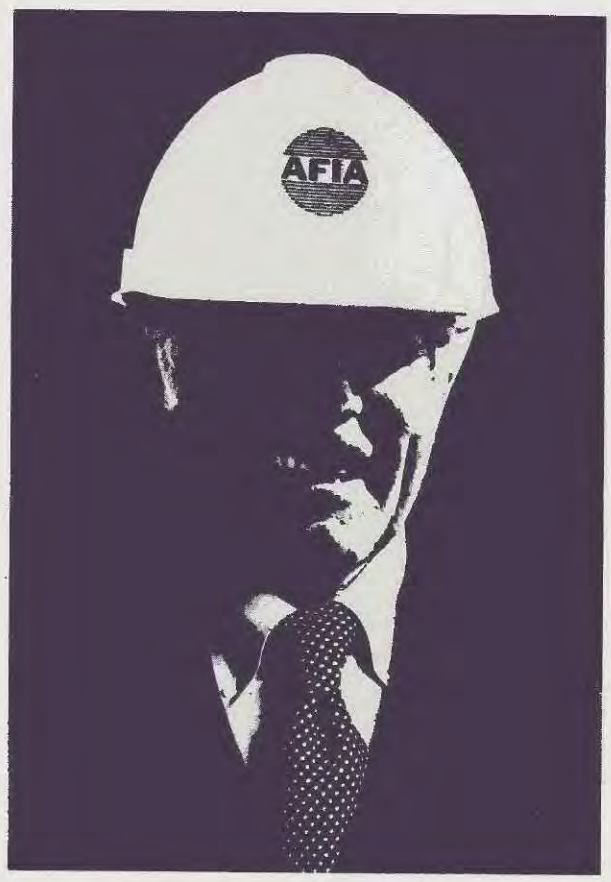
Editor's note: Justice Clark's comment might have been better paraphrased to say the defendants would pass on the cost of inflated awards to consumers; in this case the defendants are insurers.

Accentuate positive

To the editor: I read with great interest the editorial pertaining to redlining in your Oct. 1 issue.

Continued on page 62

Is He Your Loss Prevention Specialist Overseas?



There's more to a loss prevention program than maintenance and a fire extinguisher. But in many plants and warehouses overseas, local managers may not know how to proceed, or with whom, or are too concerned with today to worry about tomorrow.

But the modern risk manager has to worry about tomorrow. And loss prevention is one of his best weapons in protecting his company's assets and controlling insurance costs.

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Farms suffer losses from poisoned feed

Photo: Billings Montana Gazette

Thousands of PCB-contaminated turkeys may have to be destroyed, with growers standing to lose millions of dollars.

By RHONDA L. RUNDLE

DAYTON, Ore.—Poultry growers in several Northwestern states stand to lose millions of dollars in premium holiday sales as the U.S. Department of Agriculture condemns thousands of turkeys, hogs, chickens and eggs contaminated by a cancer-causing chemical that leaked into animal feed.

Poultry destroyed because of contamination is not an insurable risk in today's market, reports Peter Butler, president of Butler Service Co., managing underwriters for Fireman's Fund Insurance Co. A policy was available a few years ago for giant producers, he adds, but Fireman's Fund dropped it for lack of interest.

More than 1,400 farms in Montana, Idaho, Oregon, Washington, Colorado, Utah and the Dakotas may have bought contaminated feed, says L.J. Rafoth, director of meat and poultry inspection in the USDA's San Francisco office. "All the bad feed has been recalled," he says, "but we're still in the process of sampling suspected animals."

The contamination was discovered last fall when the USDA turned up traces of polychlorinated biphenyl (PCB) in routine lab checks of Montana hens. The Food & Drug Administration and USDA audited purchase invoices and followed a trail of contamination back to Pierce Packing Co., a Billings, Mont., meat processor that supplies inedible by-products to animal feed manufacturers.

In an isolated supply room, investigators found the culprit: a damaged electrical transformer leaking coolant through a drainage system into the feed product.

"No lawsuits have been filed against Pierce Packing," says a spokesman for the firm. "There's a lot of talk in the government and private industry about possible legal action, but to our knowledge no decisions have been reached yet."

Ed Esparza, a compliance officer in the FDA's Denver office, confirms the agency may initiate legal action against the meat processor.

The company is reportedly unsure if it is protected against potential lawsuits under an estimated $1.5 million product liability policy. "We are discussing this with our insurers," says the firm's spokesman, who declined to discuss the insurers.

Ironically, a similar chemically contaminated feed disaster in Michigan in 1974 (*BI*, May 19, 1975) sparked demand for contamination insurance, says Mr. Butler. After developing a policy, however, Fireman's Fund was disappointed in the response and withdrew the coverage.

When it was available, Butler Service wrote a policy with a $1 million deductible for a very large producer, recalls Mr. Butler.

Fireman's Fund writes poultry insurance on an all-risk form that excludes disease and contamination, Mr. Butler continues. Contamination is probably the most severe catastrophic risk in the business, he says.

"The current episode may resurrect interest in contamination coverage, Mr. Butler suggests. "We're watching now, just waiting to see if there is sustained interest after this crisis cools off."

A broker in the Kansas City office of Fred S. James & Co. Inc. says she recently talked with the president of the Poultry & Egg Institute in Minneapolis who inquired about contamination coverage. That organization may survey grower interest, she thinks.

Most of the PCB-contaminated feed was distributed in Montana and consumed by chickens there, USDA officials say. In Washington state, the Fors Farm Corp. reportedly destroyed more than 92,000 PCB-contaminated chickens. Two turkey flocks in Oregon, belonging to Dayton growers Gerald and Charles Evers, have been quarantined.

The Oregon Turkey Growers Assn., which uses the label Norbest, was also heavily hit, although plant manager Dale Henderson declined to estimate total losses. Up to 50% of the 1.4 million turkeys produced annually in Oregon are sold in the Thanksgiving-Christmas season, he noted.

"This is the largest loss we've ever sustained and we have no protection whatsoever," says Ann Evers, who raises about 400,000 turkeys a year with her husband Charles and son Gerald. About 26,000 birds, valued at $225,000, are in jeopardy. The USDA has ordered them off the market; they await a second test in a cold-storage warehouse.

"We're not seeking any financial recovery," Mrs. Evers says. The turkey flocks are not insured against contamination and the Evers are not planning legal action. On the advice of their attorney, however, they have officially notified Pierce Packing Co. of their potential losses.

This incident shows how vulnerable the whole food chain can be, Mrs. Evers says. She and many other poultry growers are unhappy with the government's handling of the catastrophe, believing swifter action might have averted much of the subsequent contamination. ■

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Ransom coverage purchases jump: Study

By STUART EMMRICH

NEW YORK—Three-fourths of the 200 largest U.S.-based multinational corporations now buy kidnap ransom insurance, says a researcher.

The companies seem to be responding to the increasing number of terrorist acts directed at business instead of government officials and terrorists' inflated ransom demands.

Terrorist acts around the world are erupting at a rate of 250 to 300 a month, says E. Patrick McGuire, project director for the New York-based Conference Board. Since 1970, business has been the target of 44.3% of the acts, he says, compared with government employes in 38.8% of the incidents.

Of all Americans kidnapped abroad since 1970, 55% were business people, compared with 28% who were diplomats, 8% who were police or military officers and 4% who were newspeople.

The standard terrorist demand is now $5 million to $10 million, Mr. McGuire says, but seven years ago no terrorist group was asking for more than $1 million.

Mr. McGuire has based an exhaustive study on terrorism abroad on interviews with multinational corporations, organizations that monitor terrorist acts, government officials and insurers.

Corporations are finding an expanded market, however, to meet their demands for kindap ransom insurance. In addition to the traditional Lloyd's of London market, Federal Insurance Co., a member of Chubb & Son Group, and American International Group underwrite kidnap ransom insurance, Mr. McGuire said. The Insurance Co. of North America recently announced it's marketing a kidnap insurance program for banks.

Coverage under these policies typically runs about $10 million, but some firms purchase policies of more than $20 million, Mr. McGuire said. The firms usually self-insure the first $500,000 to $1 million of the ransom loss, he said. Most of the policies are written to restrict coverage to company employes in the upper levels of management because they are the most likely targets of attacks.

Although industry officials acknowledge the demand for the insurance has increased sharply in the past three years, little is publicly disclosed about who buys it. One condition of the policy is that "if you say you have it, you don't have it," Mr. McGuire said.

Companies that admit to carrying the coverage have their policies automatically cancelled, he said, because insurers believe that letting potential kidnapers know a firm is covered by an insurance policy increases the chance of it being a target.

But Mr. McGuire disputes this controversial assumption. "According to intelligence sources, there is little evidence to sustain the view that a company's executives may be targeted because it has kidnap insurance.

"Kidnapers are concerned with such issues as company size and political significance. They apparently have little worry about companies having sufficient funds to meet the ransom demands," he argues.

Besides prohibiting a company from disclosing the existence of insurance, the standard policy also requires policyholders to make a determined effort to confirm that there really has been a kidnaping, to notify law enforcement officials and follow their directives, to immediately notify officials of ransom demands, to record the serial numbers of any currency paid, to investigate to ensure there was no collusion or fraud by the employes said to be kidnaped and to agree to prosecute those responsible for the kidnaping.

Companies are also promoting security programs to cut their losses from kidnaps.

Some major firms have sophisticated security systems that rival those developed by governments. Texas Instruments was cited by Mr. McGuire as having an excellent safety program for its international executives to protect them from terrorists.

One standard practice at some major companies is subscribing to a computer information service that keeps its clients up-to-date on terrorists' activities around the world. Subscribers immediately are notified of developments in various countries and can either beef up security there or consider pulling out altogether.

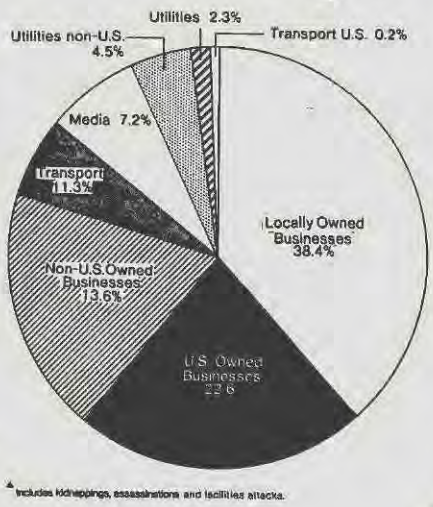
Although closing offices isn't the best alternative for a multinational firm, other methods of security have become popular.

Bizarre as it may sound, employes overseas are now encouraged to make hotel and airline reservations under pseudonyms; remove company identifications on aircraft, cars and trucks; keep addresses and phone numbers confidential; remove all names and numbers from the outside of residences; change at irregular intervals the types and license numbers of cars; avoid traveling unescorted to remote areas, and use pseudonyms when making reservations at restaurants.

Employes are also urged to be constantly aware of the threat of kidnaping and to live their lives accordingly, even though it might be a strain.

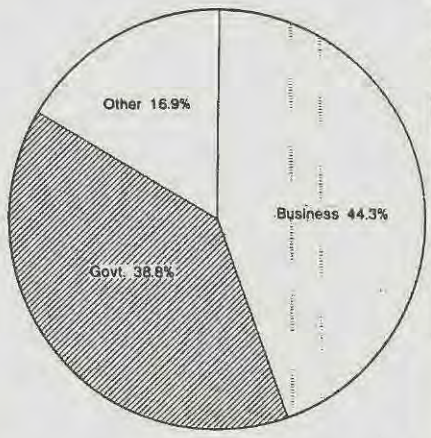
They are encouraged to avoid being a "creature of habit"—in essence, change the times and routes taken to and from work, avoid outward displays of affluence, check out requests for meetings from unknown business prospects and keep family members aware of each other's daily schedules. Some families have developed telephone code phrases to indicate whether all is well at both lines. Even jogging, if done the same time and place each day, is seen as a security hazard.

If all else fails, Mr. McGuire suggests just one response to a ransom demand: pay. Governments have the clout to negotiate with terrorists, but businesses are practically powerless. And terrorists put off by a company's delays are not squeamish about killing their captives, he said. ■



Type of Business Targets Selected by Terrorists 1970-1978

▲ Includes kidnappings, assassinations and facilities attacks.



Distribution of Terrorist Targets 1970-1978

Executive Kidnapping International Incidents*

* Does not include domestic U.S. kidnappings.
▲ Through Oct. 4, 1978
Note: Totals include both U.S. and foreign executives.
Charts: Conference Board

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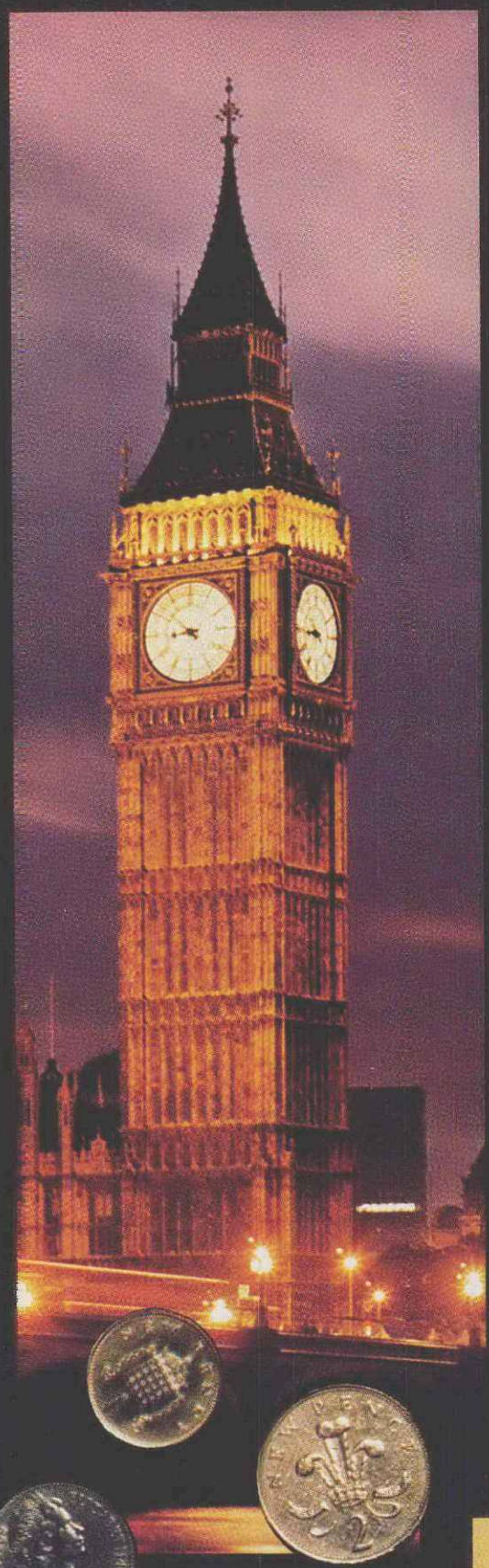

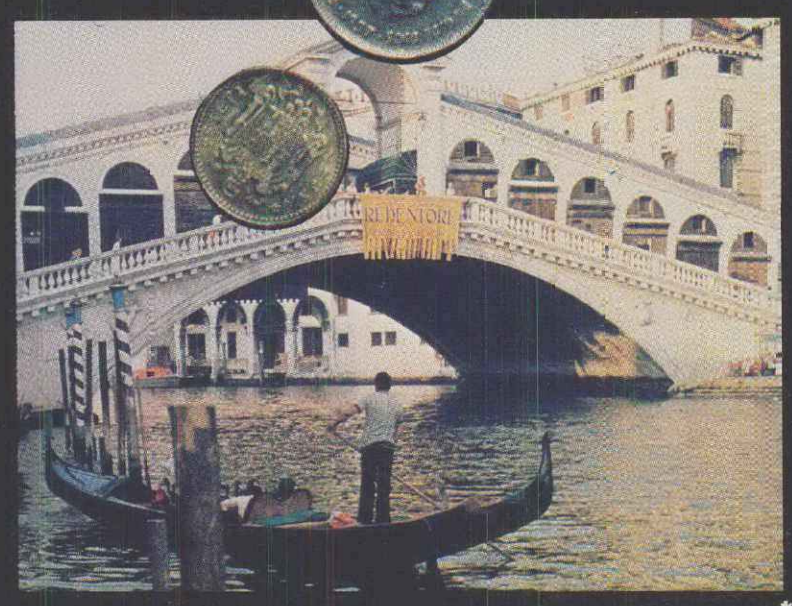

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When creative protection is essential

Midwest fault makes few insurers quake

By JOHN MAES

CHICAGO—There's an earthquake fault near here that geologists consider potentially more dangerous than the notorious San Andreas fault of Southern California.

In St. Louis, the largest industrial center within its destructive reaches, only about half of the commercial property is insured against earthquake damage.

But many agents and brokers in this region say there isn't a shortage of the coverage. Quake coverage on a commercial property is relatively simple to obtain because the last major quake occurred in 1811. Since then, there have been only minor tremors from time to time and losses have been extremely light.

"As in Los Angeles, the people here just seem to live with it," said David Anderson, senior vp for Marsh & McLennan in St. Louis. "Losses have not been a major problem—there have been losses paid but nothing compared to what's happened in California."

But simply because of the presence of the risk, insurers still keep an eye on how much coverage is being written, brokers add.

The area is known as the New Madrid fault zone, which touches Southeastern Missouri, Southern Illinois, the western portions of Kentucky and Tennessee and Northeastern Arkansas.

Researchers have warned that a major quake could rock the area sometime before the year 2030. Although it's been nearly 170 years since the last major quake, there are occasional tremors that remind residents of the volatility of the region they inhabit.

The fault zone reaches as far north as Carmi, Ill., as far south as Trumann, Ark., and has within its grasp a population area of four million persons including the cities of St. Louis and Memphis.

When a tremor does not occur in the area for a year or more, a client firm may drop its earthquake coverage, said Mr. Anderson of M&M.

In Memphis, closer to the fault zone than St. Louis and where industrial growth has been taking hold over the last several years, most commercial properties are insured against quake damage, said Richard Coletta, commercial property marketing manager for E.H. Crump & Co.

Map: Toby Roberts

New Madrid fault zone

It's difficult to obtain quake coverage separately, however, and it generally does not cover the full value of a property, Mr. Coletta said. The coverage is usually included in a difference in conditions policy and will generally be restricted to a sublimit of $1 million to $2 million on a policy covering $5 million of peril, he said.

Such companies as USF&G, Crum & Forster, CNA, Aetna Casualty & Surety and The Hartford Group underwrite earthquake insurance. Rates vary by type of construction, but Mr. Coletta said they generally fall into the 13¢ to 30¢ per $100 range.

But simply because of the presence of the fault, there is some reluctance on the part of underwriters to insure a property for full value for quake damage alone.

Many companies moving into the area, however, are protecting themselves against possible quake damage by constructing their facilities from wood frame and reinforced concrete, which are also more easily insured, Mr. Coletta said. Even so, Crump clients are encouraged to carry some quake coverage.

In Trumann, Ark., a town of about 7,000 on the very perimeter of the fault, there's little quake insurance on commercial property. Agent Dennis Morgan says he handles about 50% commercial property in his Trumann agency, but very little quake coverage. Much of the commercial property in the vicinity, however, is farmland. ■

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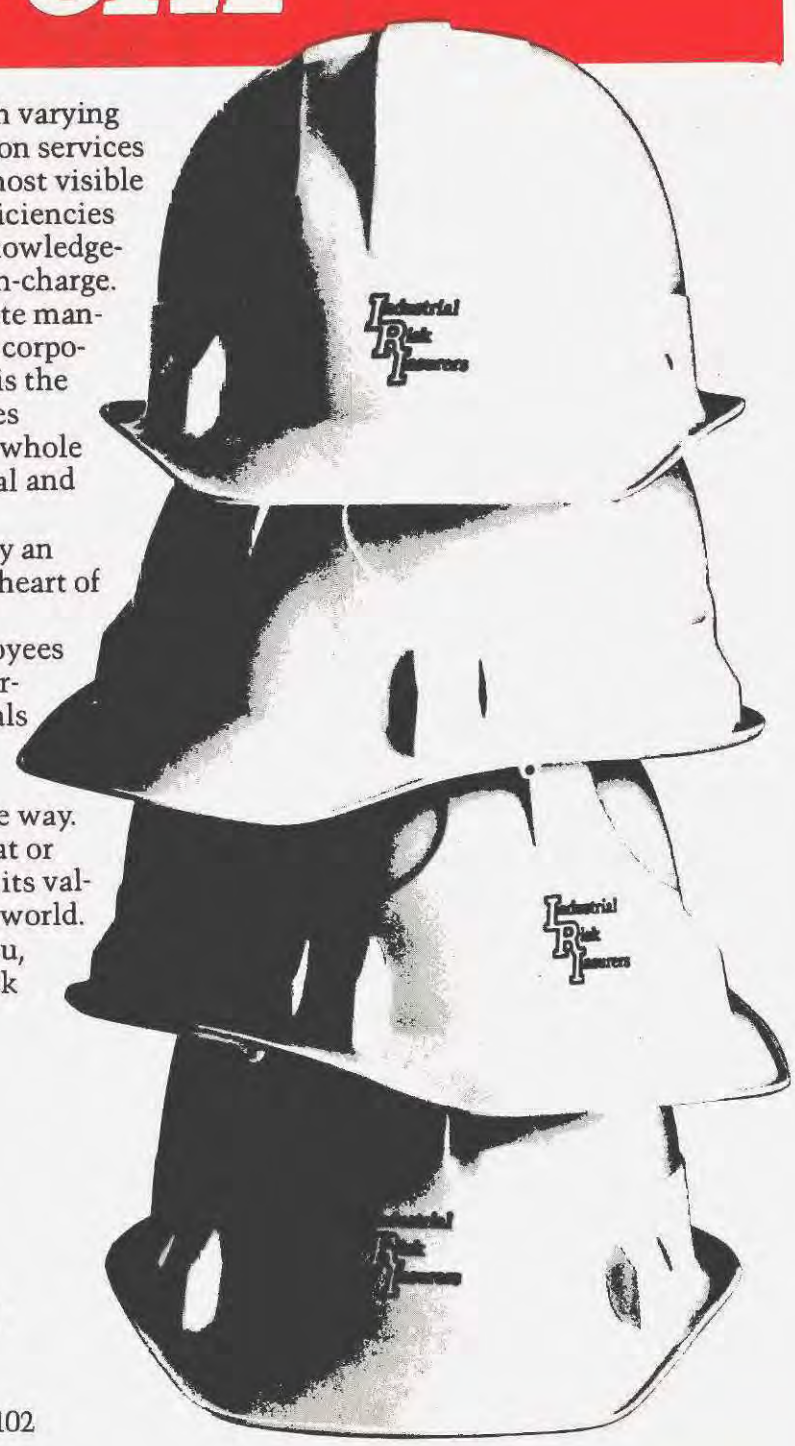

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Utilities form pool to cover fuel losses in nuclear accidents

NEW YORK—Prompted by the huge financial losses still piling up from the Three Mile Island nuclear accident, a group of utility companies is forming a pool to provide a form of business interruption insurance unavailable in the regular marketplace.

Although the owners of the Pennsylvania plant, shut down since March 28, have liability and property insurance to protect them against still undetermined losses in those areas, utility companies depending on the nuclear power to provide service to their customers have no coverage to pay for the cost of finding replacement fuel while the plant is out of service.

General Public Utilities has estimated it is losing between $500,000 and $600,000 a day because it has to shop elsewhere for its fuel. Although most of the cost is expected to be recouped in higher utility bills, area consumer groups are challenging that action.

To protect against similar losses in the event of future nuclear accidents or shutdowns, a group of 47 utilities recently agreed to form a Bermuda-based mutual company that would cover up to 90% of a member's cost for replacement fuel. The coverage is expected to be available next April, said William Lee, president of Duke Power Co. in Charlotte, N.C.

Mr. Lee presented the program to power company executives at a meeting in Toronto last month and the plan was endorsed.

Recovery under the policy would begin within the 27th week after an outage caused by an accident to a nuclear plant. The pool's organizers argue the 26-week deductible is needed to keep premiums affordable.

The policy would cover 90% of the estimated costs of replacement power for a 52-week period, subject to a maximum recovery of $2 million per week. For the second 52 weeks, coverage would be limited to $1 million per week.

For this total maximum limit of $156 million, the utility companies would have to pay a premium of $1.7 million per nuclear reactor. The 41 utility companies now own 72 reactors with operating licenses.

During the initial years of the pool, each utility would also be subject to an assessment of approximately three times the annual premium, in the event of an actual outage. This is designed to solve the problem of insufficient reserves in the first few years. As reserves are built up, organizers say, the assessments would be lessened and possibly dropped.

Each of the initial members pledged to contribute $25,000 to get the pool started. A steering committee has been established and the first meeting takes place this month. ■

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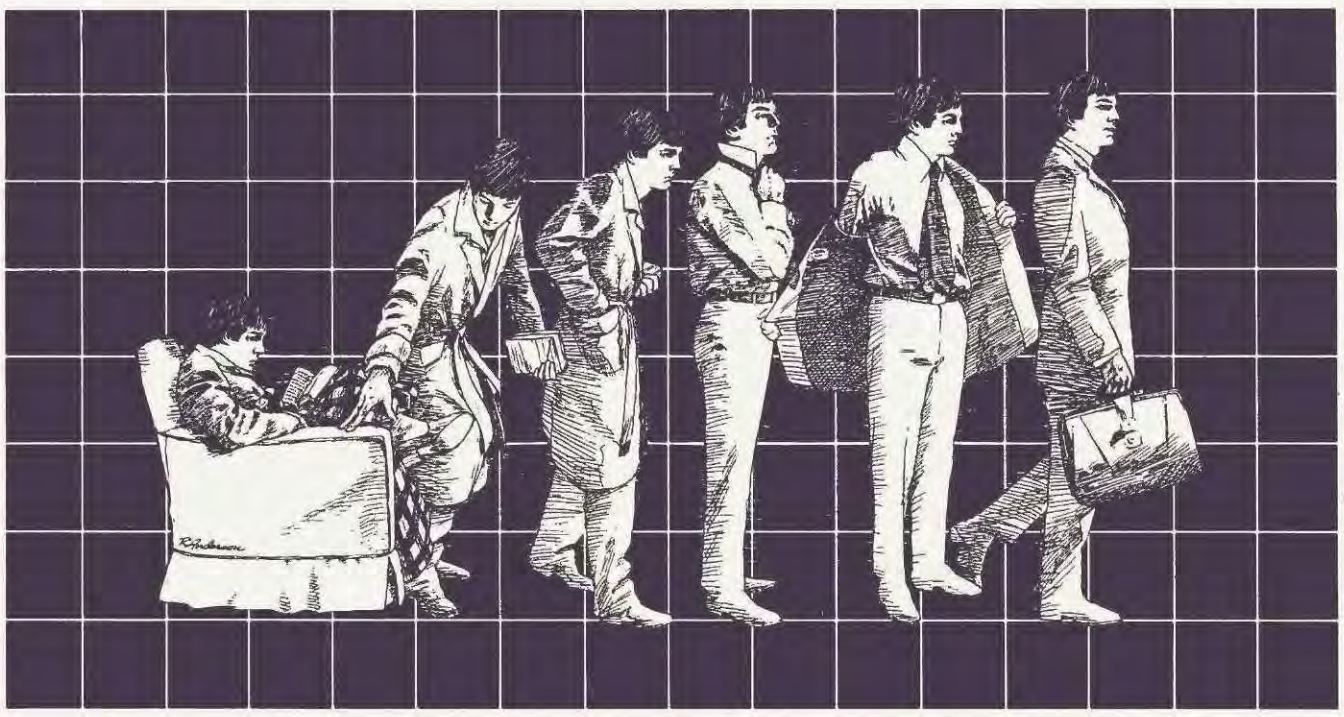

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ISO allows broader form for garages

NEW YORK—Commercial garage owners will be able to purchase insurance coverage that protects them against both property and liability losses when a newly revised policy recently approved by the Insurance Services Office goes into effect in January.

Up to now, garage owners who wanted to purchase insurance against personal liability claims had to buy a separate comprehensive general liability policy, distinct from the standard garage policy. New endorsements recently passed by ISO will change that requirement and will offer the owners a complete coverage policy instead.

Additions to the policy also provide coverage for garage keepers, those persons who are not legally classified as business garage owners, but who nonetheless often have a similar responsibility. ■

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OSHA fines builders in arena roof cave-in

By MARY ELLEN McKEE

CHICAGO—A federal agency has slapped five firms building a suburban sports stadium here with $62,730 in fines for willful and serious safety violations in the collapse of the stadium's roof.

Five workers were killed in the accident and 16 others were injured (*BI*, Sept. 3).

At the time of the accident, the roof was in a shockingly unstable condition, charged Ronald McCann, the acting regional administrator of the Occupational Health & Safety Administration here. Something as slight as a worker sneezing in a certain place on the roof might have contributed to the actual collapse, he said.

The citations issued Nov. 13 followed a comprehensive accident investigation by OSHA which began Aug. 13 when the roof of the stadium collapsed at the center and broke off from the supports of the concrete walls.

Repercussions of the citations are expected to extend beyond the tug-of-war between the individual firms and OSHA and accelerate the litigation in the Rosemont case.

The "willful and serious" violations that CST Construction Co. is being charged with and fined $52,800 for include:

- Only 106 of the required 966 bolts were installed with nuts and many were only finger tight; 338 bolts were installed in a position without nuts and many were too short, 517 bolt holes had no bolts at all and the remainder had metal pins or bolts inserted smaller than specified.
- All the required nails on supporting wooden joints of the 280 by 380 foot roof were omitted.
- Physical modifications and alterations were made to component parts and eccentric loadings placed on the structure without the written approval of the architect and definitely contributed to the hazards of the roof's instability and collapse.
- The roof was being erected without the development of written erection procedures which should have included the sequence of main and secondary support assemblies.
- All drawings including erection drawings should have been submitted to the architect for approval, comments, corrections and recommendation before the erection began.

Three serious violations found by OSHA may cost CST Construction Co. $2,000 in penalties: failure to provide frequent and regular inspection by a competent person of the work in progress, failure to remove defective rigging equipment from service and the lack of guardrails to protect workers on elevated platforms.

Lentin Lumber Co. of Franklin Park, Ill., was charged with three violations and fined $1,200. The principal charge against the company was that heavy bundles of "decking" were placed on the uncompleted roof without the additional weight being considered in the design.

The architectural firm, Anthony M. Rossi & Associates of Addison, Ill., was charged with four violations totaling $5,050. According to the OSHA citation, the architect permitted construction to continue without temporary bracing of the roof segments, contributing very heavily to the roof's instability and eventual collapse.

The Degen & Rosato Construction Corp., acting as the overseer of the work and progress of all of the subcontractors involved in the project for the village of Rosemont, was charged with failing to supply guardrails, ladders and protective helmets for the workers and fined $1,400.

Ironically, Wiss, Janney, Elstner & Associates Inc. of Northbrook, engaged by Rosemont to investigate the accident, was also hit with a $280 penalty by OSHA. The engineering consulting firm was charged with exposing workers to the hazard of a fall from 12 to 14 feet while moving from one work area to another.

Despite the grocery list of safety violations found in the practices of the five subcontractors at the Rosemont site, only Anthony M. Rossi & Associates and CST Construction Co. have been named in the first string of lawsuits filed following the accident.

Anthony M. Rossi & Associates, previously reported to be apparently uninsured for errors and omissions liability, is insured by American International Group, *Business Insurance* learned.

"Now we're going to see lawsuits popping up filed against Lentin Lumber Co., Degen & Rosato Construction Inc., Northern Steel Erectors and Korndoerfer Construction Co. (all named in the OSHA citations), especially by workers unable to directly sue their employer and forced to go through Illinois's workers compensation system," observed a Chicago attorney close to the case.

The widows and the injured workers are reading about the million dollar-plus lawsuits being filed by others, the attorney said. "Their attorneys are bound to turn around and sue one of the other companies in addition to receiving a lump sum settlement from workers compensation."

Although officials of the five firms refused to comment on specific charges made in the citations issued by OSHA, they called them "outrageous, exorbitant and unfair."

An official for the CST Construction Co. accused OSHA of not taking its share of the blame in the tragedy. "If OSHA inspectors had been out to the site, they might have detected some of these problems and just may have prevented the roof from collapsing. I'm not saying it's probable, I'm just saying possible," he noted.

Mr. McCann of OSHA responded to the charge made by the subcontractor saying: "Unfortunately, we investigate only when a complaint is filed in our office. We had received no complaints about the Rosemont stadium."

The regional director did admit that upon orders of OSHA's national director Eula Bingham, the workload of each regional office will be lightened to allow inspectors to periodically check construction sites.

Charges made by OSHA and the responses to the citations which must be made by each company will be reviewed by an OSHA judicial panel in 15 working days. But officials from the five firms hit with the penalties are confident they can refute the "flimsy" charges made against them by OSHA. All firms expect to take their cases to a court of appeals if the OSHA judicial panel sides with Mr. McCann and his associates. ■

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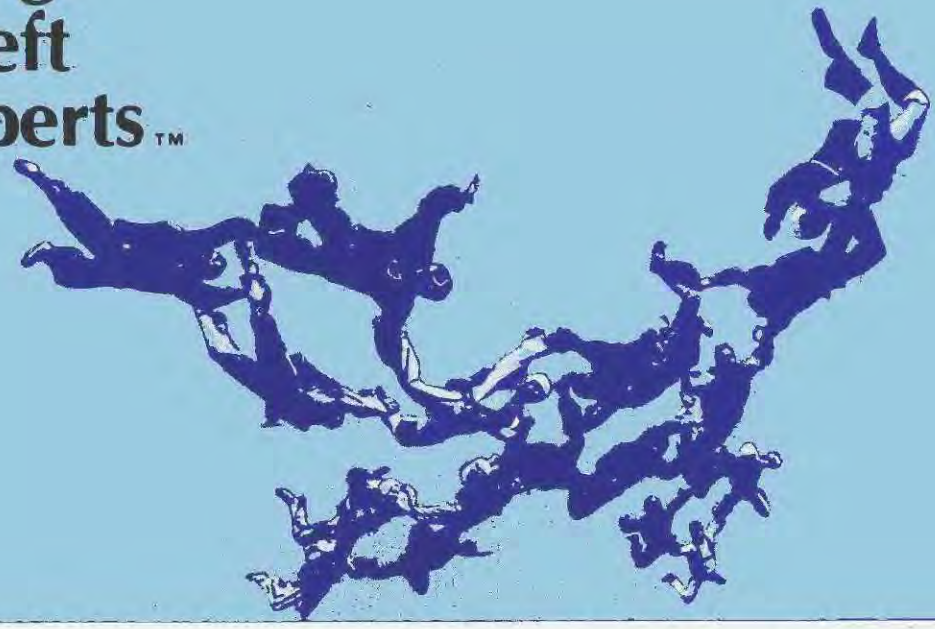

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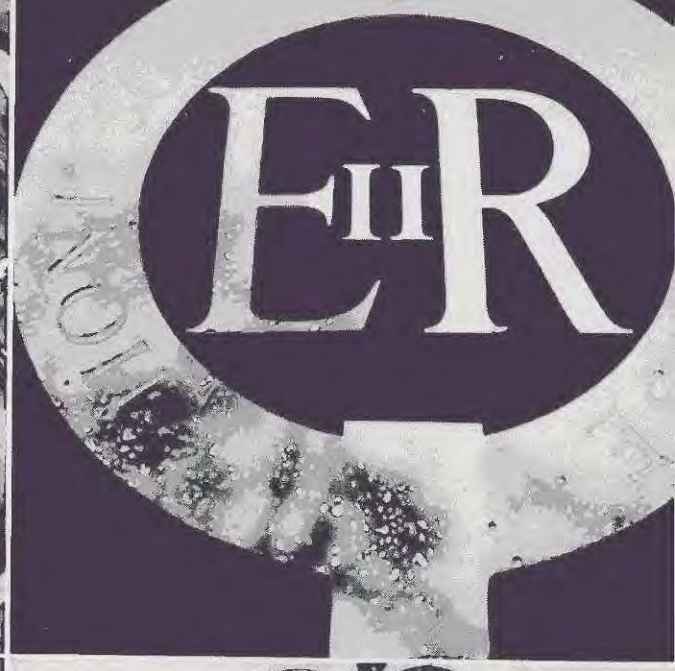

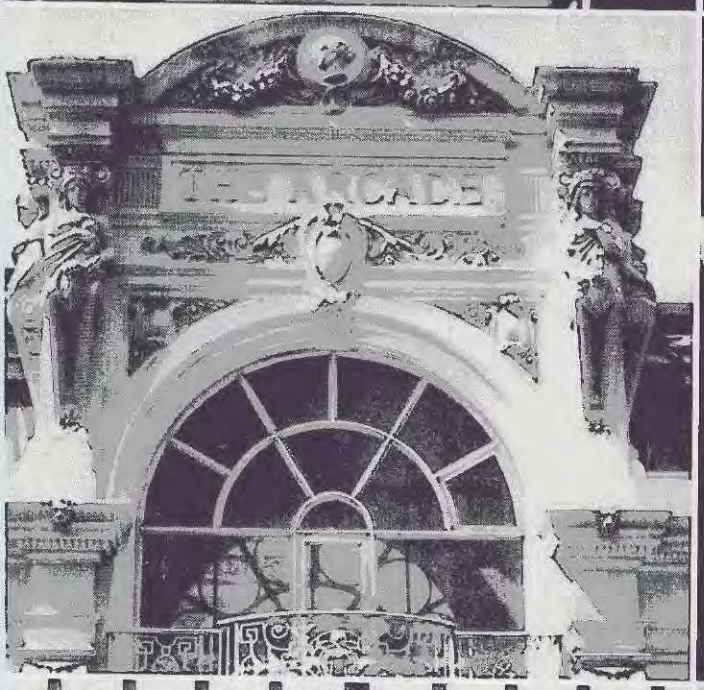

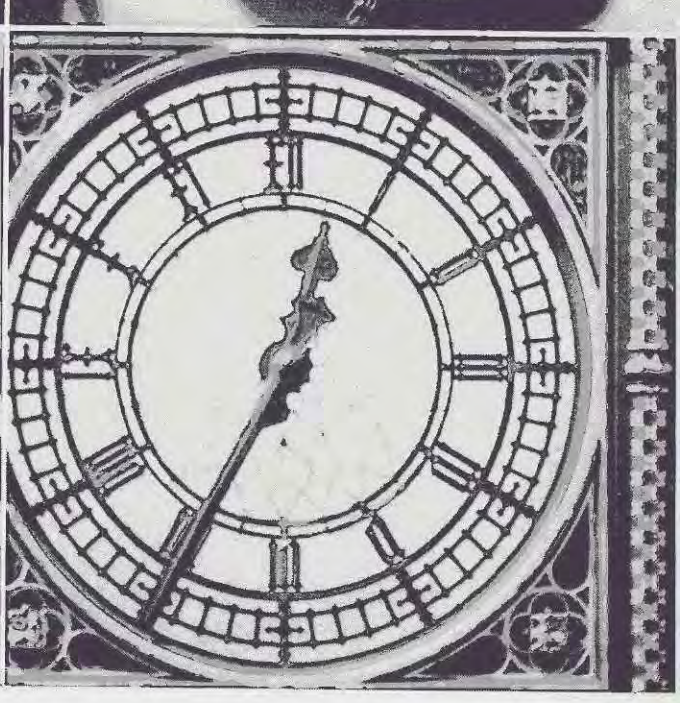

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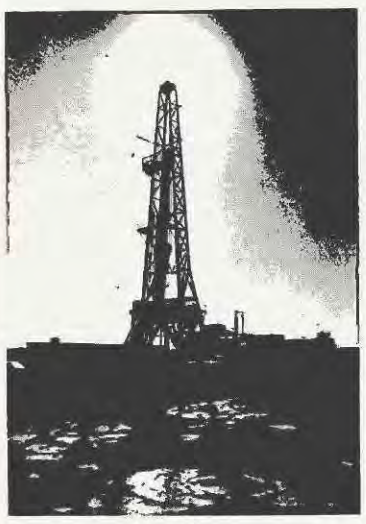

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U.S. departments oppose changing pension reporting

WASHINGTON—The Department of the Treasury and the Labor Department this month came out in opposition to legislation that would give employers the option of filing pension reporting forms at the time they file their annual income tax returns.

Daniel I. Halperin, deputy assistant secretary of the Treasury, warned of regulatory confusion if employers were allowed to file their annual pension reports with their income tax returns.

Multiemployer pension plans, for example, are maintained by more than one employer, so there would be no single employer's tax return to coordinate with the plan's filing, Mr. Halperin said.

Joint filing of pension and income tax forms could present the government with enforcement problems, said William Hobgood, assistant secretary of Labor.

"Taxpayers often get extensions for the filing of their income tax returns. In such cases the suggested provision could result in a long delay in the filing of pension plan forms, thereby preventing information needed for enforcement from being promptly available," Mr. Hobgood said.

Mr. Halperin's and Mr. Hobgood's remarks came as the Senate Labor and Human Resources Committee held a one-day hearing this month on legislation introduced by Sen. Lloyd Bentsen (D-Tex.) to simplify the pension reform law.

The Bentsen bill (S. 1089) would relieve employers of the current requirement of distributing annual summary reports to plan partici-

Sen. Lloyd Bentsen's bill would relieve employers of distributing annual summary reports.

pants. Instead, employers would only have to post an outline of the plan, the name of a corporate official who could provide additional information and a statement explaining participants' rights.

The legislation would also require the Internal Revenue Service to prepare a guide to assist small firms in keeping accurate records.

Business groups testifying before the committee endorsed Sen. Bentsen's recommendation that the summary annual distribution requirement be eliminated.

The Assn. of Private Pension and Welfare Plans, representing 600 companies, plan sponsors and consultants, argued that summary annual reports are superfluous because they fail to provide useful information to plan participants.

But Karen Ferguson, director of the Pension Rights Center, disagreed sharply, arguing that information contained in the summary annual report is "essential."

The summary annual report is the only document that informs plan participants how their money is being invested and "alerts them to any transactions a plan may have had with a company or union officials or other parties-in-interest," Ms. Ferguson said.

The Labor Department's Mr. Hobgood urged the Senate committee not to take any action on dropping the summary annual report requirement until the department can measure how effective its new streamlined summary annual report (*BI*, Sept. 4, 1978) has been in reducing employers' paperwork. ■

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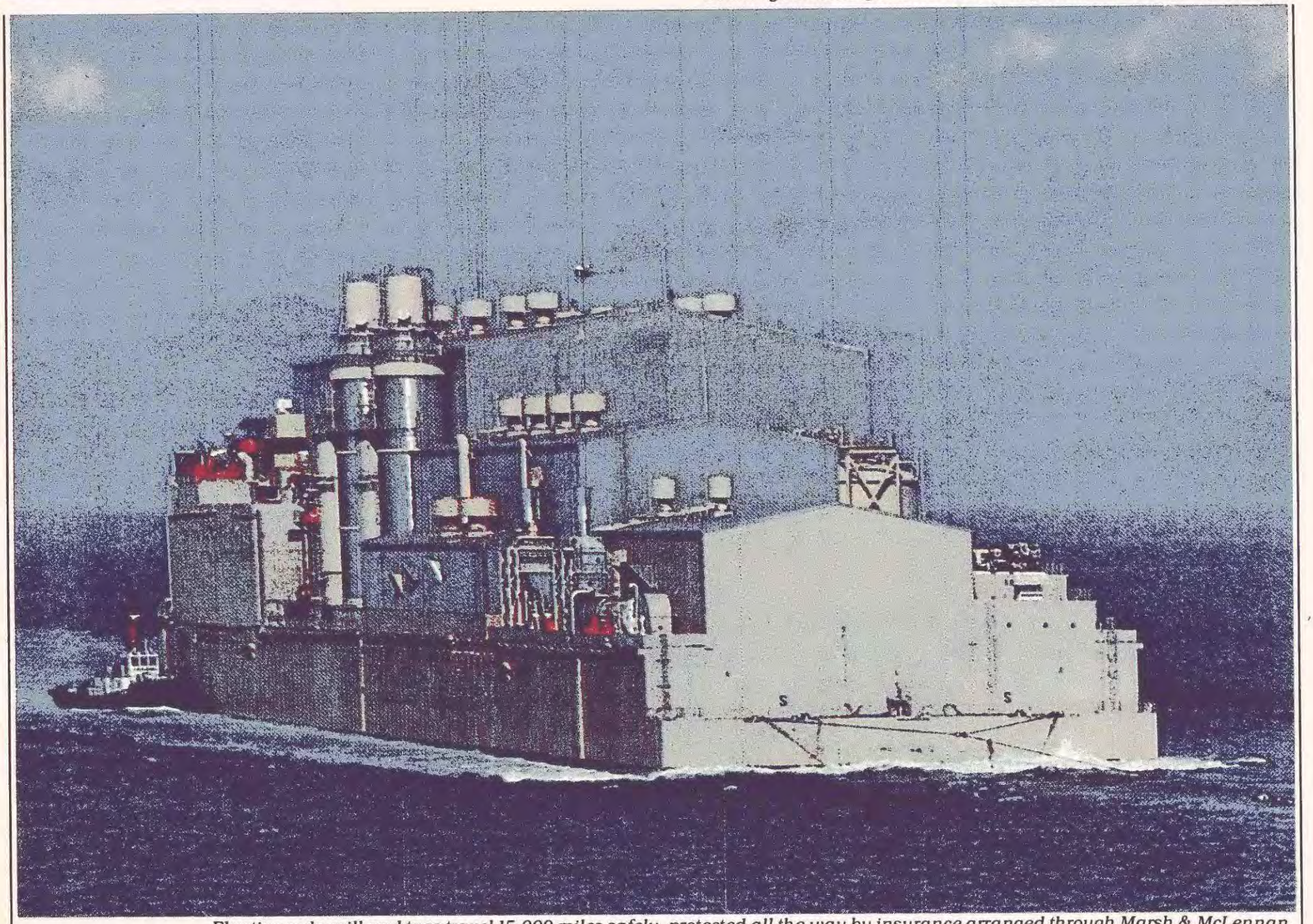

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- We negotiated and placed coverage on the first of the Condeep North Sea drilling platforms.

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Don't let our size scare you off. A project the size of a pulp mill is extraordinary, even for Marsh & McLennan. Most of our hull and cargo clients are much smaller in scale—and each receives the services of experts in the intricacies of marine insurance. These skills are as useful to a relatively small shipper as they are to a company that operates a large fleet.

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"We're aggressively promoting price competition," says HEW's Howard Veit, right, with Christopher Cohen, also of HEW.

HEW sets 'open season' on federal health costs

CHICAGO—The U.S. Department of Health, Education and Welfare, declaring an "open season" on rising health care costs, is urging federal agencies to take a better look at the array of employe health benefit plans for sale, particularly health maintenance organizations.

Howard Veit, national director for HEW's office of HMOs, told a group of federal agency heads here they should more economically purchase health insurance coverage for their employes.

To accomplish this, the federal government as an employer should seek more information about the number and types of benefit plans available and take a closer look at the possibility of HMOs, he said.

Many federal workers "don't make intelligent, informed decisions about the health benefits available to them" because they lack the information, Mr. Veit said. "That's why we're aggressively promoting price competition. We want to make the choice of health insurance more than just a passing occurrence."

The HEW official said he is not exclusively trying to promote enrollment in HMOs, but said federal employers should supply their workers with more information about HMOs because they are a proven factor in price competition among health care delivery systems.

Although 9% of federal workers were enrolled in prepaid plans—higher than the national average among workers of about 4%—more HMO enrollment would save the government, and hence the taxpayers, more dollars, Mr. Veit said.

Currently, government employes chose from 106 different health insurance plans but "there's a great deal more we can do in making federal employes aware of their options," Mr. Veit suggested.

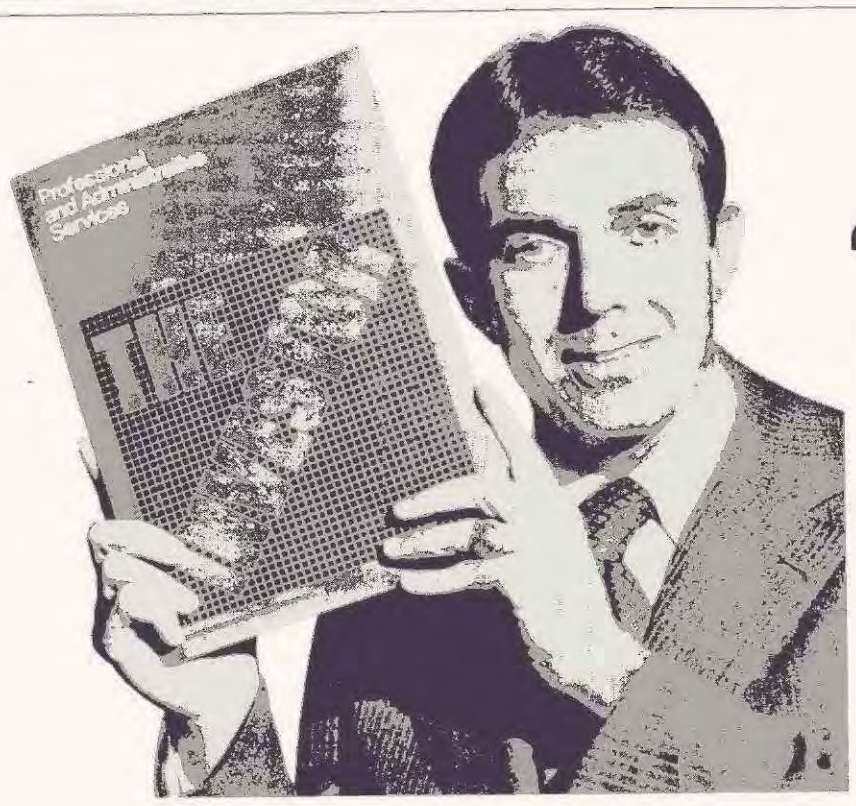
In a recent Harris poll, only 20% of those surveyed know what an HMO is and of that total, only 5% can name a prepaid plan.

Mr. Veit cited HEW projections that average national premiums for HMOs will increase at a lower rate than conventional health insurance plans. The average national premium under a Blue Cross/Blue Shield plan will rise 11.5% to $124.54 in 1980, up from $111.69 in 1979, he said. Under an Aetna Life & Casualty Co. plan, premiums will rise to an average $93.53 next year from $86.92 this year, a 7.6% increase. HMOs, however, will experience an increase of 7.1%, rising from a 1979 level of $113.38 to $121.44.

HEW has targeted 20 U.S. cities with high health care costs as areas where the agency will promote dissemination of information about available health insurance. ■

New NEBI office

The National Employe Benefits Institute has opened a new Washington headquarters at 515 National Press Building.



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Connecticut General Insurance Corporation, Hartford, Connecticut

Calif. HMO switches to fee-for-service

SAN FERNANDO, Calif.—More than 100 employers here are seeking health insurance alternatives for their 4,000 employe-members of the Northeast Valley Health Corp. which will shift Jan. 1 from a prepaid to a fee-for-service center.

Executive director Louis Garcia declined to name the HMO's subscriber companies, saying only they are small and medium sized groups based in the San Fernando Valley.

"No one will be stranded," he said. "Efforts are under way to assure continuity of care with a smooth transition to other health service providers in the community."

Officials of the U.S. Department of Health, Education and Welfare recommended the Northeast Valley Health Corp. make the switch after audits showed it more than $600,000 in the red and sinking deeper into debt every month.

HEW put teeth into its "proposal" with notification that $1.2 million a year in federal funds would be stopped after year-end. These funds, paid to subsidize poor plan members, represent about 20% of the corporation's budget.

HEW's decision followed years of deficit funding in which the HMO incurred debts of more than $400,000 in 1976 and more than $1 million last year. An HEW bailout of $2.6 million last January was reportedly the largest ever to a prepaid health plan.

The Northeast Valley Health Corp. was established eight years ago as a public, nonprofit corporation operated by an executive director elected by a board of directors. Current enrollment, including group and individual members, Medi-Cal recipients and poor patients, is more than 7,000.

"We do not attribute the plan's financial problems to mismanagement," said Kent Angerbauer, HEW deputy regional health administrator in San Francisco. The real problem was poor planning, he said. The corporation repeatedly projected income from more members than it actually enrolled.

One reason for this, Mr. Angerbauer believes, is the intense competition in the community from other health care providers. Besides Northeast Valley Health Corp., there are five or six others, including two health maintenance organizations, Kaiser-Permanente and Roos-Loos.

The financially troubled Northeast Valley group's application for HMO certification was turned down, Mr. Angerbauer said, because the marketing area is already saturated with certified organizations. Approval "would have provided funds to them such that they could have eliminated their deficit," he said.

Northeast Valley Health also had a high percentage of "high risk" members which increased the cost of hospitalization, said a spokesman for the HMO. In 1973, the federal Office of Economic Opportunity mandated the program maintain an open enrollment with membership open to everybody without health screening.

Mr. Angerbauer acknowledged that five or six other health programs with former OEO links had also experienced money problems, although it appeared they had gotten on their financial feet and would survive. HEW's Western regional administrators oversee about 25 federally funded health centers in the West.

Mr. Garcia described the Northeast Valley Health Corp. as a "hybrid" between a staff and an individual practice organization model. The corporation operates medical facilities at three locations in Toluca Lake, Pacoima and San Fernando, all within a 20-square-mile region north of Los Angeles.

Under the prepaid plan, members paid a monthly premium for medical, dental, pharmaceutical and optometric services provided by the program's own physicians and contract suppliers. About 4,950 private individuals and group members paid full premiums, while Medi-Cal covered some 1,300 and HEW paid 30% to 70% for 1,100 "near poor" members.

Mr. Garcia wants to dispel the notion, however, that the Northeast Valley Health Corp. is collapsing. The staff of eight physicians will remain, he said, and the corporation will continue to operate on a fee-for-service basis.

The group is negotiating to retain its Medi-Cal contract and must also seek approval from the California Dept. of Corporations to obtain licensing for a fee-for-service program. ■

APS receives $1.7 million

PHOENIX—An excellent safety record for construction at the Arizona Public Service Co. Cholla power plant has resulted in a refund of almost $1.7 million in workers compensation and general liability premiums from Argonaut Insurance of Menlo Park, Calif.

The refund is based on experience from March 1, 1978, to March 1, 1979. Since the insurance began in August 1973, APS has paid $8.1 million in premiums for Cholla construction projects. The $1.7 million refund brings the total rebate to $3.9 million.

The APS Risk Management Services staff helped design the policy aimed at eliminating multiple insurance contracts. If loss ratios are less than those insurers estimated for comparable projects, APS receives a refund.

Brokers are the Valley National Co.-Insurance of Phoenix and Los Angeles and Phoenix office of Johnson & Higgins. ■

Financial Strategies

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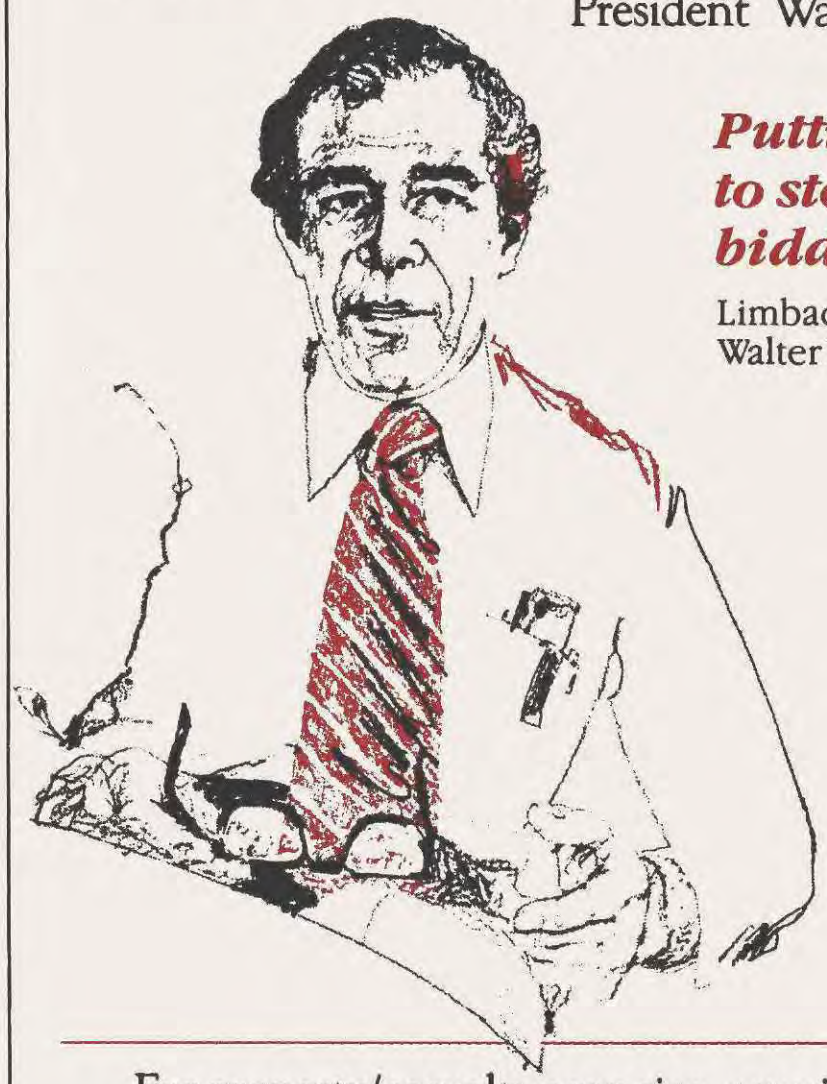
Contracting firms usually obtain surety bonds – guarantees to clients of project completion – on a job-by-job basis. A different approach was developed by INA and the Limbach Company, a $100-million Pittsburgh-based mechanical engineering firm.

President Walter Limbach says, "The firm is largely decentralized, which means the regional offices should be able to run things without interruption, especially in the bidding stage. Our strategy is to negotiate with INA a surety bond budget for all projects to be sold during the year."



Putting a stop to stop-and-go bidding.

Limbach Company's Walter Limbach

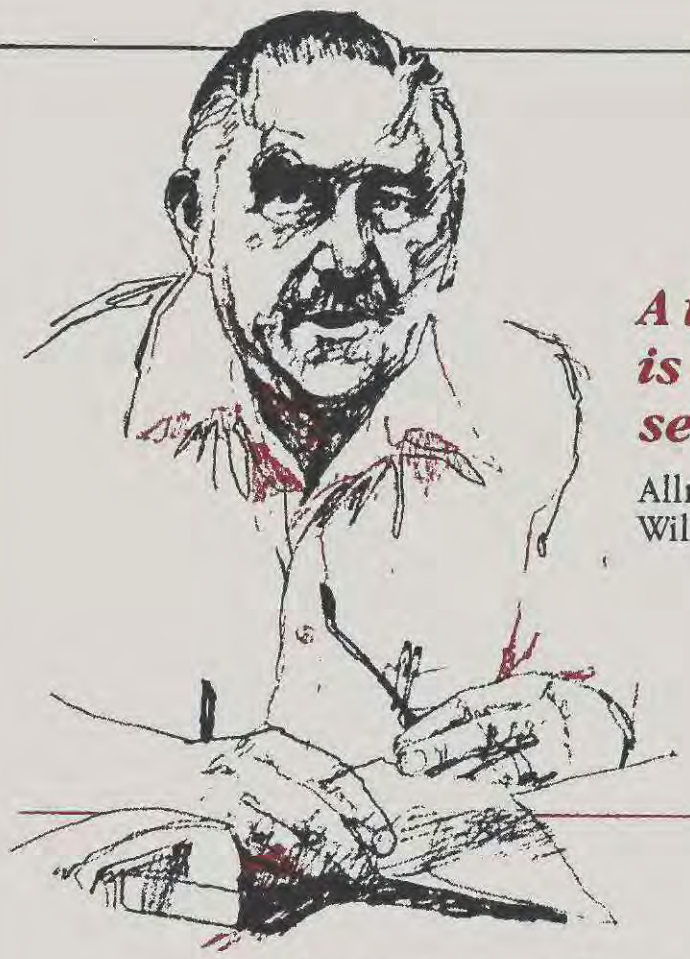
The result, for Limbach, is the ability to structure its annual business plan based on an exact, predetermined figure for surety support.

Blanket approval for Limbach's surety bonding is the result of a long-standing relationship with INA. The carrier takes part in the company's financial meetings and is fully informed about revenues, goals, and work-in-progress. This knowledge, plus INA's understanding of contracting has, according to Walter Limbach, "made them totally receptive to the overall bonding concept."

For property/casualty agencies, assuring prompt loss settlements is crucial. William Thompson, President of Allred-Thompson Agency in Wichita Falls, Texas, meets this goal with comprehensive "insurance to value" reports when first securing property coverages.

Along with INA representatives, Allred-Thompson does physical workups on each property: preparation of square-footage diagrams to be included in a master file of structural features. The strategy has two advantages.

The insured benefits because his agency can upgrade coverage – based on the initial



A tape measure is our best claims settlement tool.

Allred-Thompson Agency's
William Thompson

valuation – to reflect increasing replacement costs. Secondly, when a disaster strikes, settlement (at the upgraded levels) can be made almost immediately.

Thompson comments: "After a tornado leveled parts of Wichita Falls in early '79, many clients had no property left to inspect. But INA settled millions in claims on the spot, because we had documented reports on file." The rescue job hinged on advance planning by both agent and carrier.

Expenditures for hospitals in rural communities are rising no less sharply than for institutions serving large metropolitan areas. "Since 1965," says Donald W. Stubsten, Administrator of Ocean Beach Hospital in Ilwaco, Washington, "I've seen inflation drive the cost of a semi-private room from $11 a day to over $120." Faced with this problem, more and more small hospitals are now self insuring certain risks.

Participation in a hospital association program allows Stubsten to self fund staff liability exposures to a limit of $100,000. Excess coverages are obtained commercially. The first year OBH took part in the program, the hospital's savings were 25% over conventional liability rates.

Translated to OBH's balance sheet, the net saving was $1,800 – sizeable for a small, 25-bed hospital. There are also cash-flow advantages. Stubsten remits OBH's share of the reserve monthly, rather than paying a lump-sum premium.

Some new leverage against health-care inflation.

Ocean Beach Hospital's
Donald Stubsten

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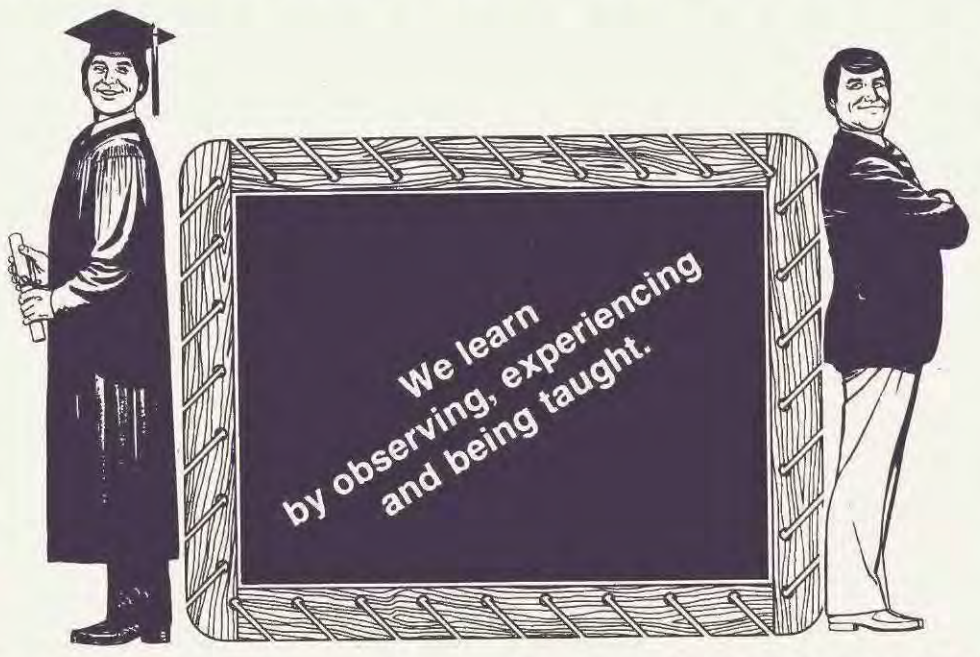
PERSPECTIVE

Formal, informal education lead risk exec to head of the class . . .

By Norman Hoffman



FROM A HIGH SCHOOL STUDENT'S composition: "If you thought being a child and an adolescent was a lot of fun, wait until you experience the joys of adultery."

Humor aside, the responsibilities of risk management require serious consideration. As the field of corporate risk management expands, it will be important to know from what garden risk executives are going to grow. Schools that provide both formal and informal training and education in management and insurance are obviously places to look. But understanding what qualities and skills make a top risk manager is also a complex problem.

For our entire lifetime we learn—by observing, by doing, by experiencing, by listening, by being taught. We learn to become adults and to apply our knowledge to our business, our art, our profession. And indeed, how should we categorize the position of a risk manager—an office worker, a manager, an artist, a scientist, a professional?

Probably all of the above.

Surely a risk manager needs to be a manager first of all. He (meaning managers of all sexes) is involved in the process of management, which essentially requires him to identify problems, analyze and evaluate them, select alternative methods of handling the problems and implementing solutions. He must monitor, control and continuously reevaluate the solutions. From the chief executive officer on down to first-level management, the process is the same. The magnitude of the personnel and dollars involved differs but risks and rewards for the individual manager are similar.

Learned traits

In Rodgers and Hammerstein's "The King and I," Anna, the schoolteacher, sings, "Getting to know you, getting to know all about you. . ." And in so doing she demonstrates a prerequisite of management, the ability to communicate to and with others.

All managers, including risk managers, must have the ability to communicate their thoughts, their wishes, their progress to others. In risk management, those others are fellow employes above and below them in rank, their peers and their colleagues with whom they do business. Early in life we learn that "no man is an island unto himself," but that success in all endeavors depends upon our working together with others.

In addition to an ability to communicate successfully, all managers should be competent in directing people, delegating authority, planning, setting objectives, monitoring and controlling. All of these are learned traits added to a knowledge of one's profession.

More specifically, a risk manager needs knowledge of business risks, personnel risks, insurance, law, accounting, some engineering, property conservation, industrial hygiene, safety, electronic data processing and operations management. If becoming an expert or professional in all of these fields and disciplines is too much to expect of any mortal, a good question is how much should a risk manager be expected to know of each and where should he learn about them?

In high school we can learn certain business skills. In association with the College of Insurance, independent agents and insurance women's associations throughout the U.S. run "Project Invest," which teaches high school students how businesses operate through the use of simulated insurance agency and company offices in the schools. The courses allow the students to actually perform such office functions as answering telephones, filing, typing, managing, planning, supervising, communicating, monitoring and evaluating results.

Acquiring knowledge

At the undergraduate college level, young people may acquire greater knowledge of specific business philosophies and skills. Management is taught everywhere; insurance, though, is not quite so universally available. Also available on the college level are programs that enable students to alternate study semesters with work semesters, graduating potential risk executives with both a degree and work experience. Summer job opportunities with insurance companies, agents and brokers and internships in the more glamorous outposts of the insurance world such as Lloyd's of London and that captivating isle of captives, Bermuda, are available and provide good training. Many colleges now offer degrees with insurance majors.

Preeminent, I hope and believe is The College of Insurance in New York and now California, which offers both undergraduate and graduate degrees with insurance specialization. Other colleges known for their insurance departments include Georgia State, Howard, Drake, Arizona State, Florida State and the granddaddy of them all, the Wharton School at the University of Pennsylvania.

In "Moby Dick," Herman Melville says, "A whale ship was my Yale College and my Harvard." Indeed, pulling oneself up by the bootstrap is in the best American, Horatio Alger tradition. Stories abound in fiction and in the real world of people who started at the bottom and through their own untiring efforts reached the top of their chosen careers.

Learning at work

The insurance industry shines in offering opportunities for on-the-job learning. Insurance companies teach and train their employes in underwriting, selling, communications, marketing, claims adjusting, managing—every skill needed for an insurance career. Traditionally, insurance companies have provided education to second and third generation agents and brokers who then return to their family businesses. Like other large businesses, insurance firms pay the costs of educating employes.

Independent insurers, agents, brokers, adjusters and consultants provide on-the-job training. They have formal programs operating throughout the country, through their trade and professional associations. RIMS chapters conduct formal and informal educational meetings, and offer perhaps the largest industrywide seminars.

Other organizations providing insurance education include the American Management Assn., which holds classes year-round on almost every facet of insurance and the Insurance Institute of America, which offers self study programs leading to associate degrees in underwriting, loss-control, adjusting, risk management and management. The American Institute of Property & Liability Underwriters holds examinations for the professional designations and similarly offers the life underwriters training courses leading to a professional designation. For mathematicians, actuarial designations offer virtually unlimited opportunity for gratification and reward in the risk management field; it is said there is less than one actuary alive for every U.S. insurance company.

One of my associates, after speaking with an insurance practitioner on the phone, commented, "That person shows signs of having been trained but not educated." Risk managers owe it to themselves, employers, colleagues and society to be both. ■

Norman Hoffman, CPCU, is adjunct assistant professor of the N.Y. College of Insurance. He is on loan from the Kane Miller Corp.

. . . if industry, educators work as a team

By Victor T. Ehre

THE INTERRELATIONSHIP between insurance professors and insurance executives is one that does not often occur in other businesses. The insurance industry is quite distinctive because there has been a traditional and valued intercourse between insurance professors and insurance executives.

These interrelationships have been, and should continue to be, beneficial to professors, students, consumers and the industry. Should one of these groups be neglected, the entire multifaceted relationship would be diminished.

The established relationship between insurance professors and the industry is understandable when we recognize that many professors wear or have worn an industry hat at times, either as agents, consultants or employes. Similarly, insurance executives are not unfamiliar figures on college campuses.

I, for example, have served several academic responsibilities and maintained several enjoyable relationships with faculty members of universities with insurance expertise. As a director of the Insurance Information Institute, I consider it a major vehicle through which our academic relationships may be enhanced and made viable. III conducts annual seminars for college and university professors of insurance. It has held 23 such meetings with a total attendance of about 400.

Better understanding

When the III began these seminars, the program was not too well accepted, with only 10 or 12 professors involved in each seminar. It is now so successful that it must limit its participants to 20 to 25 professors per seminar. What's more, in the beginning the academic group was almost anti-industry in its outlook. Now it is quite evident that those in attendance demonstrate a better understanding of the pragmatic versus the theoretical aspects of insurance.

We have gained some observations from internship experiences, too. On the average, the academic fraternity has had little actual work experience in its discipline. However, it recognizes our practical experience and wishes to benefit by it.

Our personnel people have also observed what they consider to be a problem with the academic fraternity. Recruiting people have told us of instances where professors have stated very openly to students that they should jump jobs—move—don't settle in until they have seen several companies. In our companies, we try to hire a dozen college graduates each year, put them through a six-month preliminary training course where they are exposed to every department in our operation. Each of them is then placed in the department that most appealed to them, or where they made the best impression, or where they were most needed.

But our turnover is high. In general, we shoot for an overall turnover rate in the range of 20% to 24%. But of the college graduates we hire, either directly or those making a career change by coming into an insurance company for the first time, the turnover rate is a whopping 56%. Either we don't challenge them adequately, or what I prefer to think is that we don't get enough college graduates who have a commitment to the insurance industry. We simply don't recruit from the colleges enough of the people who have majored in business generally or majored in insurance specifically. We must change that because training takes time and costs money. We must work together.

Working together

What are some of the things that insurance executives and insurance faculty members can do together? Bob Hedges, professor of insurance at Temple University, made a point in a recent letter to the Society of Insurance Research. He said, "For some time now I have been considering the question of how underwriters may be successfully educated, trained and developed. The common description of it is, you learn to be an underwriter by being one."

He points out that we take pretty good care of the pricing of our product or our services through organizations such as the Insurance Services Office, or through our own trained actuaries, but pricing and underwriting aren't the same. Underwriting consists of evaluating the risk and determining whether to accept or reject it at the given

Continued on page 38

Mr. Ehre is chairman of the Utica Mutual Insurance Co. His remarks are excerpted from a speech to the American Risk and Insurance Assn. in Toronto, Ontario.

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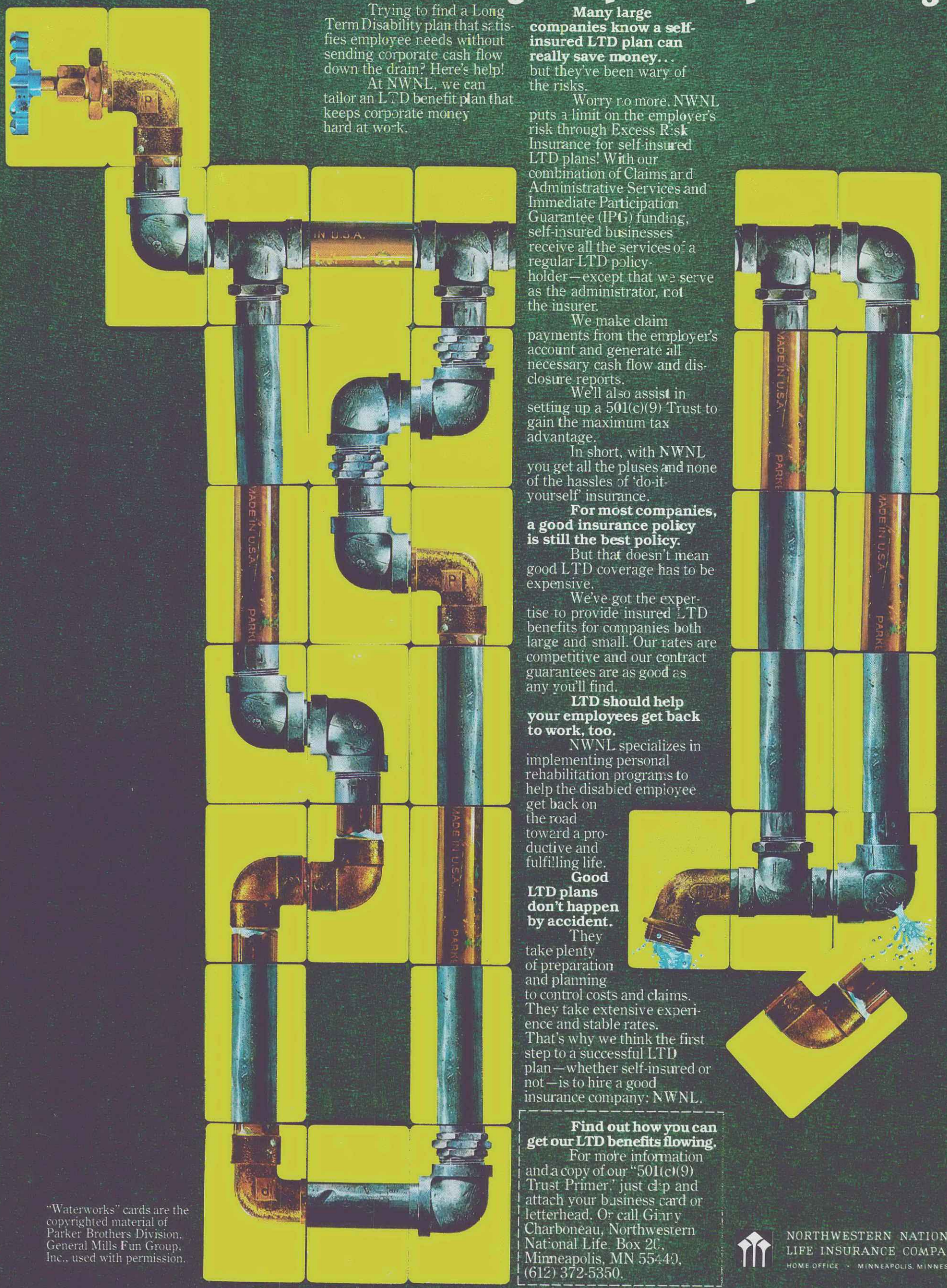

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PERSPECTIVE

Loss control cutbacks may prove costly

Continued from page 35

stantially in an attempt to increase costs, the ultimate expense to an organization could far exceed the immediate savings.

Loss control efforts should also be emphasized during a recession because it can be more likely losses will occur.

If, for example, the size of the workforce has been reduced through layoffs or attrition, the remaining workers will often have greater responsibilities and may perform tasks for which they are not adequately trained. This can greatly increase the probability of accidents.

Some individuals with key functions in the loss control program may be eliminated. If this is the case, provisions should be made to assign these duties to remaining personnel. There should always be adequate availability of first-aid teams, fire brigades and emergency evacuation teams. There should be a thorough review of all emergency procedures to ensure contingency plans for foreseeable disasters are retained. These procedures should be kept up-to-date and proper lines of communication with emergency service groups should be maintained.

If preventive maintenance programs are restricted, more equipment and vehicle breakdowns can be expected. Testing, inspection and repair programs should be continued so equipment and vehicles are maintained in good working order. The condition of automatic sprinkler systems and fire pumps should be closely monitored because these are the first line of defense against fire. If you use outside maintenance firms, you should review similar services looking for a reduced cost for these services. Such services should not, however, be eliminated unless similar internal programs are developed.

If sales or delivery personnel have been reduced and the size of individual territories increased, drivers may use higher speeds and longer hours to cover their areas. The safety of the driver and members of the public should not be compromised.

Specialists available

The safety of the public must also be extensively considered in relation to product reliability and integrity. Any cuts in material, production or quality control costs should not be made if they will significantly increase the probability of product failure.

Efforts to identify and eliminate potential causes of accidents and losses through surveys and audits should be continued. This is one area, however, where a change in the frequency of these activities may be acceptable after careful review of each situation. Depending upon the extent and degree of hazards at a facility, the scheduling of formal surveys can be changed by assigning shift or area supervisors limited responsibilities for some of the inspections normally made by loss control personnel.

You can take greater advantage of engineering personnel from insurers and brokers. These specialists in safety and property protection can assist in program evaluations or in the development of new programs. They can also provide valuable service through in-depth surveys of individual operations and audits of management activities, for a price.

To be successful, loss control programs must have the full support of management. Organizations cannot afford to view safety and property protection requirements as non-productive expenses. Such requirements must be an essential part of all operations if a business hopes to maximize profit in a highly competitive market.

Cost containment is mandatory during periods of recession. Successful loss control programs can help achieve this goal. The potential savings can readily justify the expense of such programs. ■

Industry and educators work as team

Continued from page 36

price.

His conclusion is "that the research needed for underwriting is a neglected, underemphasized subject." I agree. This is an area that might well be considered in the curriculum of insurance education.

Research responsibilities

Professors of insurance are involved in a great deal of research. The no-fault automobile insurance program arose out of research by professors Mr. Keaton and Mr. O'Connell. We also do a great deal of research with the industry. There is the Society of Insurance Research, and there are research departments in the Alliance of American Insurers, the American Insurance Assn., the Insurance Information Institute, the Insurance Services Office, the CPCU organization and the Casualty Actuarial Society. Finally, many individual companies sponsor research-type public opinion surveys. It does occur to me, however, that quite possibly we don't use the academic fraternity as much as we should in our research responsibilities.

I don't mean to infer that all is peace and harmony between the pragmatic executive

of insurance and the philosophical or theoretical educators. The October 1977 issue of Management Review published by the American Management Assn. was titled, "In Industry Versus Educators, the Score is 0-0." I don't believe that. But I can buy the impression that professors may be insensitive to the sometimes conflicting demands made upon us by consumers, consumerists, regulators, legislators, shareholders, producers and other constituencies.

I suppose it could be argued that insurance company managers get so wrapped up in trying to meet the day-to-day challenges presented by those constituencies that they tend to lose track of what is going on in the academic world. This may present a challenge to create a forum whereby educators and practitioners could meet informally to discuss areas of common concern or interest.

Point made

One of my associates tells the story of the senior vp of one of the major oil companies who spent a week on the campus of a fine, small liberal arts college as a Woodrow Wilson Fellow.

On Friday evening he was the guest of honor at a reception. His opening comment during his after-dinner presentation was, "I've been on this lovely campus now for six days, and I have yet to meet anyone in the college community who knows the first damn thing about the free enterprise system!" The reaction was shock. But the point had been made.

Don't let it be said about you. We can all make the maximum contribution to this business if we who are doing it help and understand those who are studying it—and vice versa. ■

P/C market withstands lashing from hurricanes

THERE ARE AT LEAST TWO WAYS of looking at the recent insured losses from catastrophes such as Hurricanes David and Frederic:

- The numbers are large and staggering.
- The insured net effect on the insurance companies was material but not punitive; ergo, it could have been a lot worse.

These remarks recall Churchill's alleged comment during World War II: "The situation is hopeless but not critical!"

In the first half of 1979, all U.S. insured catastrophe (as defined by federal and industry sources) losses totaled $600 million. To this must be added approximately $121 million for David and more than $650 million for Frederic, a total of more than $1.37 billion versus the prior peak of $896 million set in 1975, when Hurricane Betsy's $715 million setback was the main factor.

But this time around many of the insurers were much better positioned to protect their flanks from such catastrophes. Because of higher deductibles, tougher underwriting standards, improved financial capacity—especially in reserves—better reinsurance treaties, federal absorption of certain previously private sector losses, higher premium rates and a larger earnings base per se, property/casualty companies were hurt by David and Frederic, but not so badly as to wreak financial havoc.

The impact on the insurance stock market has been negligible, unlike after many prior meteorological disturbances. This suggests either a greater degree of sophistication among investors than previously; a lack of awareness or concern over the cumulative effect of such numbers and others yet to surface; greater interest in the property/casualty industry's asset base in the takeover route than in its quantity, quality or direction of earnings, or all of the above.

What is clear is that this group of companies has suffered a far less punishing cumulative effect on earnings and stock market prices than in many a year. That may be self-deluding; for with the third-quarter earnings yet to be reported and price conditions in the commercial sector deteriorating rapidly, P/C stocks are facing a watershed critical path.

Market price weakness may lie ahead, along with the realization that not every company is truly a practical takeover candidate. Market prices for several have been buoyed on this fragile count alone. But one thing is clear: The industry does seem better protected against the shock effect of this nature than was the case before 1975.

Remarks and the accompanying chart are reprinted from the Bache Halsey Stuart Shields Inc. investment newsletter with its permission.

Loss Impact of Hurricanes David & Frederic on Major Insurance Companies

(dollars in thousands except per-share figures)

	David		Frederic		Combined Impact	
Company	Total	Per Share	Total	Per Share	Total	Per Share
Aetna Life & Casualty	$2,500E	3¢	8,000	10¢	10,500	13¢
Allstate Insurance	2,500	1	7,500-10,000	2-3	10,000-12,500	3-4
American General	375	1	2,000-2,500	7-9	2,375-2,875	8-10
Chubb Corp.	1,500	12	3,500-4,000	27-31	5,000-5,500	39-43
Crum & Forster	1,750	13	3,050	23	4,800	36
Fireman's Fund	700	1	2,350	3	3,050	4
General Reinsurance	500	5	2,000	18	2,500	23
The Hartford Insurance	3,500	2	8,000	6	11,500	8
Kemper Corp.	450	5	1,000	11	1,450	16
Reliance Group	300	4	500	6	800	10
St. Paul Cos.	1,600	5	1,300	10	2,900	23
Transamerica	—	—	—	—	—	—
The Travelers Corp.	2,500E	6	3,755-5,000	8-11	6,255-7,500	14-17
U.S. Fidelity & Guaranty	750	3	7,800	28	8,350	30

All figures are after assuming full federal income taxes, often not actually the case.

RISK.

Americans thrive on risk. It's part of our national character. The people who opened the frontier were risk takers. So were those who put a man on the moon. In fact, risk is so American, that sometimes people who avoid it are a little suspect.

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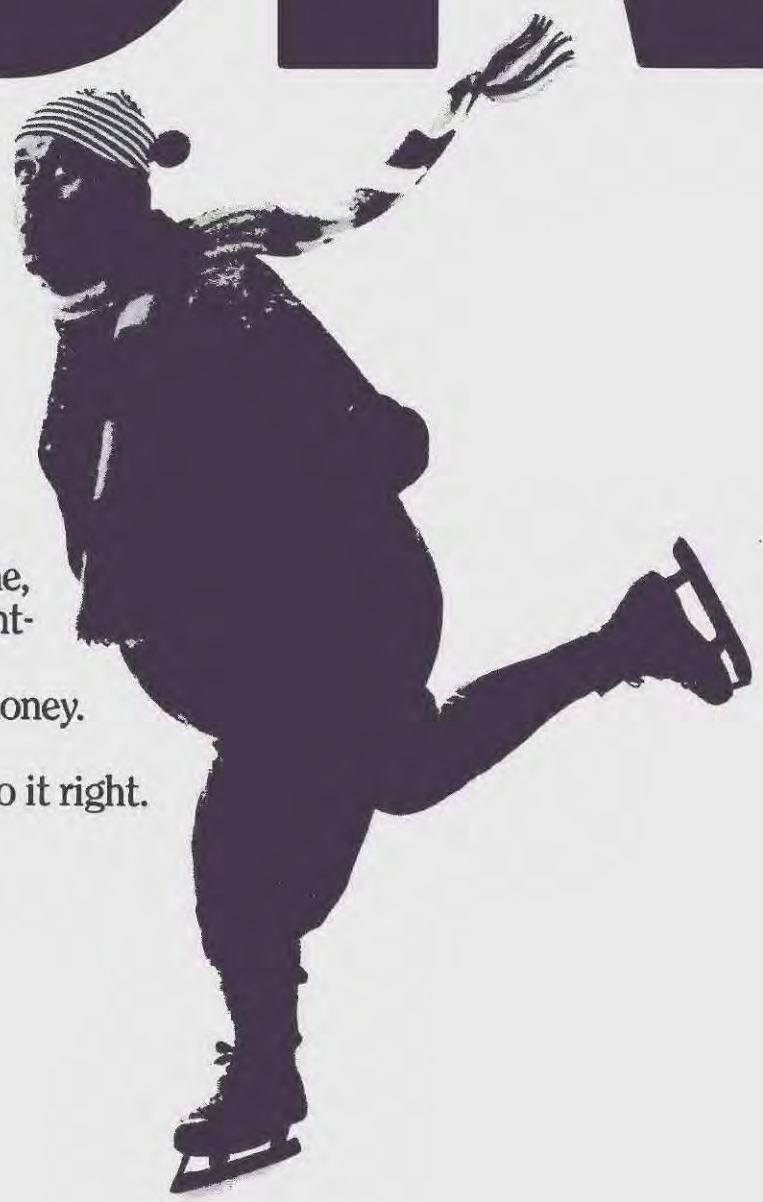

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book review

Apt anecdotes illustrate decision making

By Z'EV KRONISH

Decision Making
By Irving L. Janis and Leon Mann
The Free Press, 200-D Brown St., Riverside, N.J. 08370
488 pp., $7.95

TWO PERSONS were killed and more than 300 injured when a tornado recently ripped through Windsor, Conn. There was absolutely no warning, a factor that may have significantly kept casualties low.

Too little warning, surprisingly, benefited the public; there was practically no opportunity for hysteria and wrong moves. Panic in an emergency is one of the many elements of decision making attitudes and circumstances that Irving L. Janis and Leon Mann discuss in this in-depth behavior study.

The authors serve us a heavy dose of decision dysfunctions. Wrong steps are delineated, but it is through the apt anecdotes that the lesson hits home.

Traditionally, decision making centers on a rational approach likely to produce the best choice or outcome. The authors lucidly demonstrate that this approach fails to take into account the psychological stress caused by change. Tension and personality traits deeply affect the decision process. And when the rational approach clashes with the fears and doubts of personal experience, confusion ensues.

The phrases of decision making which the authors painstakingly narrate are applicable on the personal and group levels—to executives and to corporate entities, institutions and government.

The common approach to decisions centers on data collection, careful analysis of available alternatives and resolute selection. Mr. Janis and Mr. Mann have expanded this concept to a plan for "vigilant information processing."

Obstacles often block a clear path to sensible action. The authors show us the harmful consequences of "hypervigilance," when severe pressure precludes a proper search for the practical solution. You are likely to be immobilized by hysteria or terror. Apprehension clouds your reasoning and warps your judgment.

"Defensive avoidance" is another source of erroneous decision making. You tend to discount the challenge by assuming there is plenty of time to deal with the issues. You sense a certain amount of discomfort about which way to turn. No viable solution is in sight. There's really nothing to be done, you muse. To feel calm you engage in self-deception; your agitation ceases; you have lowered your level of stress.

Warning that the crisis doesn't evaporate, the authors assert the price for self-delusion is enormous. Failure to come to grips with a challenge cuts off an avenue of escape. Tranquility in these circumstances interferes with alert perception and is ultimately harmful.

In the group setting, as in the corporation, a tendency to support the leader in deference to his authority compounds the problem. Reluctance to disagree reinforces the leader's stubborness and the folly of defensive behavior is set on its ruinous course.

Mr. Janis and Mr. Mann propose a balance sheet for effective analysis of "ego-involving decisions among alternative courses of action viewed by the decision maker as entailing a large number of different types of potential benefits, costs and risks."

By outlining the relative merits and drawbacks of specific factors, it becomes easier to measure your choice. Idealism and loyalty can play a crucial role in decision making.

Awareness of potential criticism arms the executive for an onslaught, if and when it comes. An honest self-evaluation can lessen the pain and reduce the need to reexamine the soundness of your position. You should be alert, the authors caution, not only to the merits of your decision but also those of the rejected options. If you're honest about the pros and cons of each alternative, you will avoid regret later on, the authors say.

The decision making process is not always a simple procedure. "Creative modification" can help in reaching the right decision. Vacillation isn't necessarily detrimental, since some back-and-forth effort is a prerequisite for open-mindedness, but resolution is required. A thin line separates diligent research from procrastination.

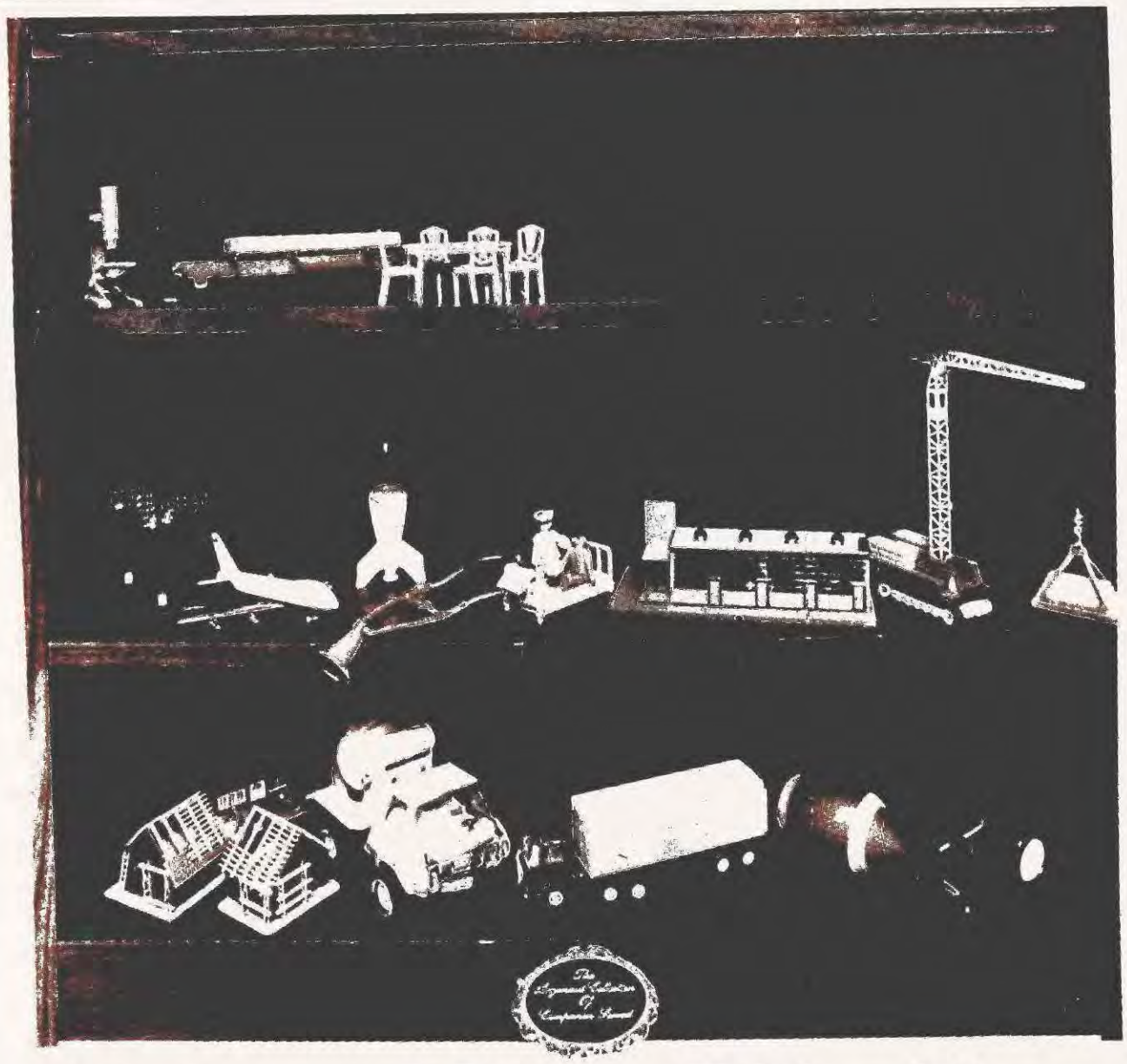
The book's contribution lies in describing all the facets of the search for options. Sometimes sloppy, often limited to one-sided facts, the effort frequently hinges on hope that the right answers will be found. Above all, the vigilant searcher is broadminded, purposeful, discriminating—and optimistic.

Decision making is a never-ending cycle. Though you are certain one moment that your choice is the best possible, circumstances may suddenly change—and a new challenge starts the process all over. Commitment, change and costs weave through the process.

Citing anecdotes from real life, the authors are convincing and vibrant. Most of the volume is first rate prose, but on occasion the authors are trapped in their own technical discourse. They'll repeat certain phraseology, fearful that a change of expression will cause misunderstanding. The word "salient" appears over and over as if it were an essential part of decision making language.

In a sense, they're defeated by the very decision making crisis they so ably describe. ■

Z'ev Kronish, who holds an M.B.A. degree from The College of Insurance, has handled corporate risk management and benefits administration. He is now in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.



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U.S. share of world market drops: Study

By JOHN H. MILLER

LONDON—The U.S. share of world insurance business is dropping sharply as growth continues in Japan and many other countries, figures from Swiss Reinsurance Co.'s U.K. office show.

The U.S. portion of world premium volume has fallen to less than 50% from 60% in the last 10 years, while Japan saw annual premium growth of 23%. Latin America, Australia, Africa, Asia and Europe have also been handling more business. The top six countries in premium income are the U.S., Japan, West Germany, the U.K., France and Canada.

World premium volume, excluding the Soviet bloc, rose to $300 billion in 1977 from $83 billion in 1967, according to Swiss Re's latest figures. The U.S. proportion rose in that time to $144 billion from $51 billion, while Japan's business jumped more than eight times, to $34.6 billion from $4.3 billion.

Life insurance accounts for 40% and non-marine cover for 60% of world insurance business. General liability cover has shown a strong increase, especially in such lines as product liability and medical malpractice, which are expanding because of new laws in many countries. New possibilities of cover will open up with economic and technological developments, but the spread of Social Security arrangements has caused a drop in accident and health insurance in many parts of the world, the report points out.

Chlorine ban

The Environment Office has banned public swimming pool authorities from using chlorine for disinfectant purposes because pool users may be accidentally gassed by its fumes.

Pool officials are being given until 1985 to comply with the instructions, as they will have to install new apparatus costing millions of dollars for the changeover to other disinfectant systems. Chlorine, used throughout the country as a cleansing agent for pools of all kinds, is being replaced by a liquid disinfectant, sodium hypochlorite, on the advice of Imperial Chemical Industries.

ICI will continue to supply liquified chlorine gas to pools with adequate safety procedures. But in newly developed leisure complexes where air conditioning systems operate at high levels, concentrations of chlorine gas could build up in the recirculated air that would seriously affect swimmers or other visitors. Private pools are not affected by the ban.

Strike cover

The Confederation of British Industry has approved plans to set up a mutual fund with a premium income of between $200 million and $400 million to provide strike cover for hundreds of U.K. industrial firms (*BI*, Oct. 1).

Details are being worked out by five teams of insurance brokers, who hope to come up with a final plan by next summer to combat losses suffered in recent years by Britain's strike-prone economy.

$1.5 million award

Three self-insured U.K. hospital authorities have been ordered to pay a total $1.5 million in damages to injured patients.

Taxpayers will foot the bill, as the Department of Health, which supervises the hospitals, is responsible for any damages awarded against them. Tracitionally, government-owned organizations are not required to buy insurance because at one time it was impossible to sue the Crown, from which they derive their authority.

Ship casualty

Mounting shipping casualties may lead to new problems in the marine insurance market, where competition remains high.

The latest casualty is the mystery of the 224,000-ton Norwegian ore carrier Berge Vanga, which vanished between Brazil and Africa with a cargo of iron ore and was largely insured in London for its $19 million hull value. Some shipping experts fear the vessel may have been trapped in the ocean phenomenon known as a "hole in the sea," in which ships are drawn into a vacuum created by huge waves.

Its associate ship, the Berge Istra, vanished after an explosion in the South Pacific four years ago.

C&B severs link

U.S. insurance broker Corroon & Black has severed its four-year-old financial link with the medium-sized Lloyd's broking group Glanvill Enthoven, in which it received 35% interest for $4.57 million in 1975.

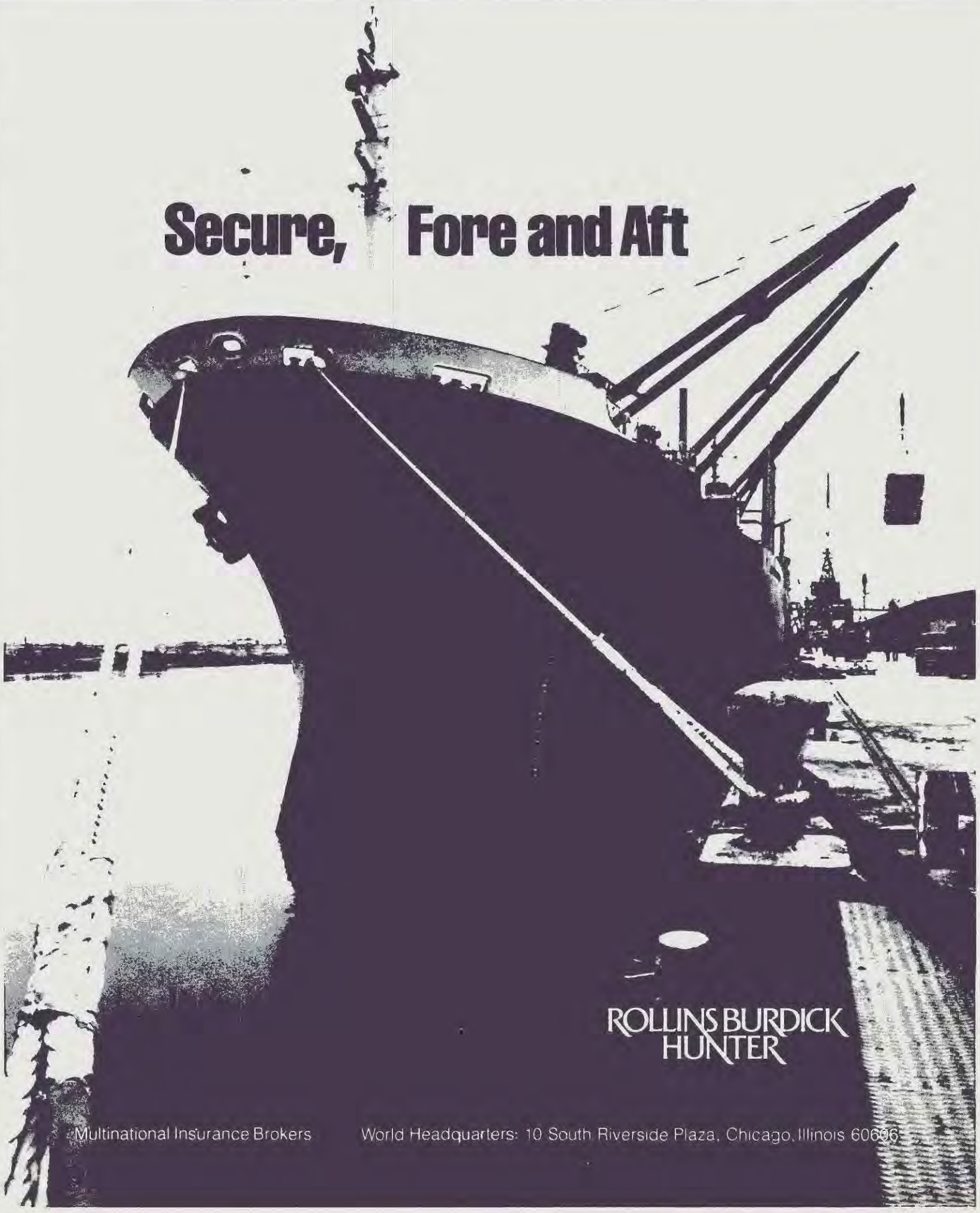
The shares have been sold back to Glanvill Enthoven for three million pounds sterling, while Corroon & Black pursues its plan, announced last February, to share worldwide interests with another Lloyd's broker, Minet Holdings, as soon as legal, tax and other factors can be worked out.

Another Lloyd's broker, Alexander Howden, forecasts improvements in its U.S. operations, reporting that its U.S. excess and surplus lines operations appear to have passed the low point ■

ABU expands worldwide

BIRMINGHAM, Mich.—Amusement Business Underwriters, the leading U.S. broker of amusement business insurance, has expanded its facilities worldwide through the American International Group.

"Currently the major markets that we are contacting are Japan, Europe, South America and Australia," says Beverly Bingham, president of Amusement Business Underwriters. "Our immediate goal is to establish correspondent agents for each geographical territory." ■



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Company workshops help retirees cope

By JOSEPH S. ROBINSON
Attorney-at-Law

UP-TO-DATE STATISTICS indicate people reaching age 65 can look forward, on the average, to 15 more years of life. That's roughly one-fifth of the total lifespan.

Consequently, more than 400 companies are offering preretirement programs, compared with only a few dozen five or six years ago. The following is a summary of what one leading company is doing and which is fairly typical of programs pursued by other major employers.

Dayton's Department Store of Minnesota has a series of workshops which includes guest speakers who are expert in their fields. The topics covered are:

- The challenge of retirement, which includes psychological adjustments; the loneliness and depression that can sometimes accompany the loss of a productive job and the self-esteem associated with such a job.
- Financial planning, including lectures on Social Security and the company's retirement and stock purchase plans plus a discussion of personal money management.
- Legal affairs, including information on wills, estate planning, consumer protection and tax advantages for senior citizens.
- Miscellaneous discussions on such subjects as health, the importance of physical activity, the use of leisure time for a part-time job or hobby and where to live—the pros and cons of staying here or moving to the Sun Belt.

Year-end pointers

As a company moves into the home stretch, it's time to think how it can use its profits to benefit both itself and employes. For instance, if it pays a bonus to selected executives, the amount is fully taxable for the employes.

But since most corporations are on the accrual basis and most individuals are on the cash basis, there's this special tax planning opportunity: The corporation will be able to deduct bonuses this year, but it need not pay the bonus until next year and the executive won't pay tax on it until that time. To get the deduction in 1979:

- Fix definite amounts or set up a definite formula for figuring the amount by year-end.
- Obligate the company by letting the executives know about the bonus arrangement by the end of this year.
- Make the payments early in 1980.

Result: The company gets a 1979 deduction; the executive has 1980 income.

Qualified retirement plans should be reviewed with the pension law in mind so any necessary changes can be made to assure the continued qualification of the plans.

Other possibilities should be investigated, such as beefing up group life and health insurance plans.

Mileage deduction up

The IRS has announced a higher flat rate deduction for business-related driving. The new rate, 18.5 cents for the first 15,000 miles, is effective for all of 1979. The rate remains 10 cents for mileage beyond the first 15,000 miles.

Some commentators have begun pointing out that the new 18.5 cent rate is not enough. Unless there's another increase before the year is out, a lot more drivers will be better off claiming their actual expenses. The record-keeping requirements are stiffer, but with dollar-a-gallon gas, inflated maintenance costs and every other driving-related expense going up, it could be well worth it.

Employe ownership

In order to give workers a piece of the action, more and more companies are using the increasingly popular employe stock ownership plans. In such companies, a fixed amount of stock is typically placed in a trust as collateral for a loan drawn on a bank. As the loan is paid off, the stock held in trust is conveyed to the employes.

ESOPs come in many sizes and permutations. Voting rights of stock held in trust are usually restricted, the proceeds usually serve as a deferred compensation plan (a pension fund is the closest analogy) and the stock usually is distributed to employes in proportion to their wages.

Promissory notes

Obviously, employers should not be allowed to take deductions for contributions to qualified retirement plans in years when they can't afford to make plan contributions. From this stance flows the rule that a deduction may be taken only if cash or property is actually turned over to the retirement fund. If an employer merely gives the plan a promissory note, the employer cannot take a deduction.

But what if the note is not the employer's note? Suppose a cash-short company contributes another's obligation that it happens to hold.

A company maintained a fixed-benefit pension plan for its salaried employes to which it was obligated to make specified annual contributions. To meet its obligations in one year, the company contributed an $800,000 promissory note that it had received from the purchaser of one of its subsidiaries. The company then asked the IRS for a private letter ruling as to whether its contribution of the note was deductible.

The IRS distinguished a third-party note from an employer note, observing that while an employer note represents nothing more than a "promise to pay," a third-party note is "property" with a fair market value. Thus, the employer could deduct the third-party note it contributed, to the extent of the value of the note. (*Letter Ruling 7852116*). ■

Name changed

NATLSCO Rehabilitation Services Inc. has changed its name to Kemper Rehabilitation Management. The rehabilitation company, a wholly owned subsidiary of Kemper Corp., was established Aug. 1 to handle serious injury or illness claims. KRM was formed to maximize recovery, minimize physical limitations, provide vocational services and assist with claim closure.

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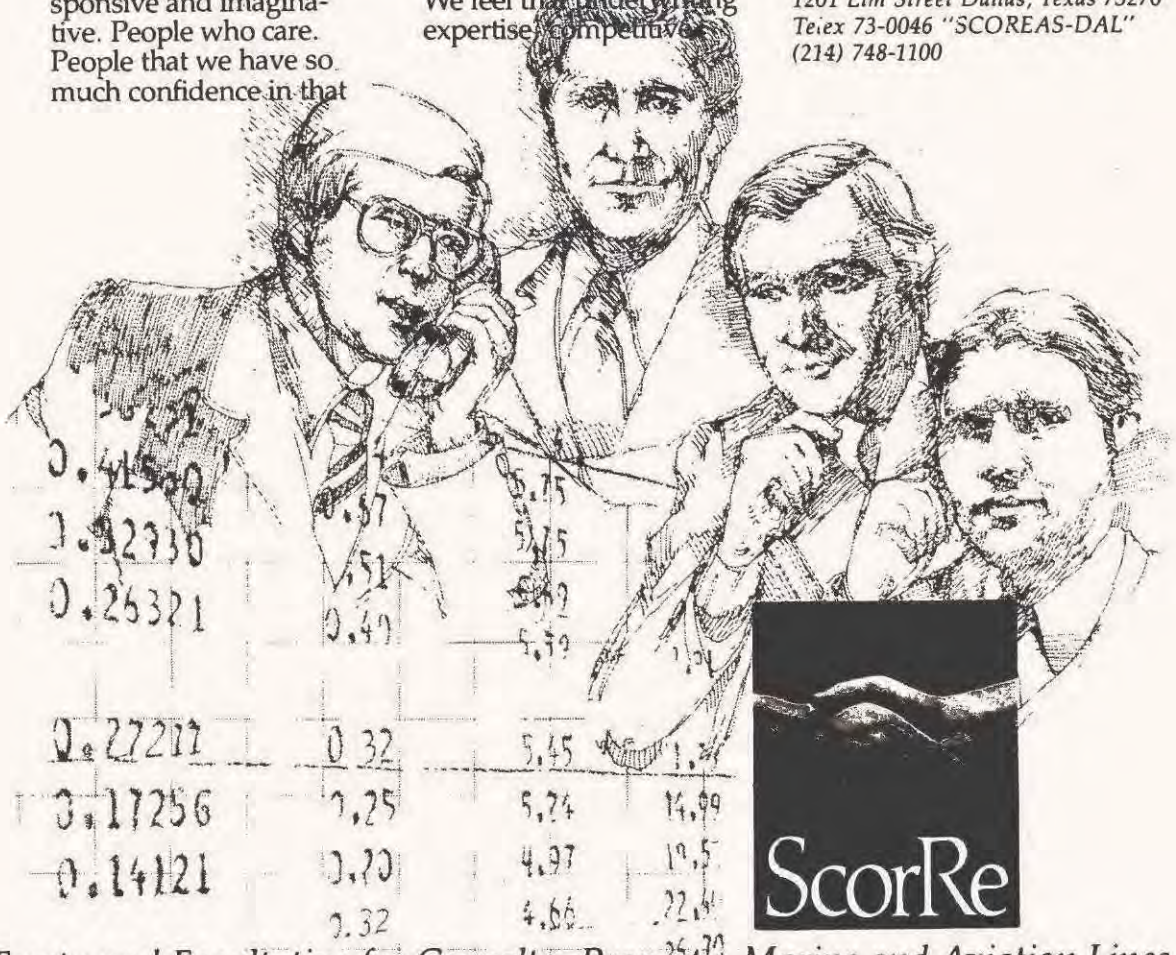

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High court to review Mo. work comp law

WASHINGTON—The U.S. Supreme Court will review a Missouri workers compensation law that denies death benefits to a man unless he proves he was dependent on his wife's wages or is physically or mentally unable to work.

The law provides benefits to a widow regardless of her dependence on her husband's wages.

The law was challenged by Paul J. Wengler of Fredericktown, who was denied $30,000 to $40,000 in death benefits after his wife was killed by a car in the parking lot of the drugstore where she worked. A county court ruled the law illegally discriminated against Mr. Wengler, but the Missouri supreme court reversed the ruling in June.

'Windfall' benefits

ALBANY—The New York supreme court has ruled an employe is not entitled to recover health benefits under both a no-fault insurance policy and his welfare fund and that a plan's provisions limit a beneficiary's recovery to an amount that makes him "whole."

A woman injured in a motor vehicle accident was covered by a no-fault insurance policy, which paid her medical expenses. The woman and her husband then sought further payments from the husband's union welfare fund, but the plan refused to pay.

In its decision, the court said that recovery from the welfare fund would have granted the plaintiff a "double payment" or "windfall," and that the plan trustees have the authority to disallow such a payment in order to prevent waste of fund assets.

MET guidelines

LANSING—The Michigan insurance department has established new guidelines for multiemployer trusts, effective Dec. 31.

An MET is defined as unauthorized if it offers insurance benefits not fully insured by a licensed insurer or if the MET itself is not licensed as an insurer. Agents who engage in transactions with unauthorized METs are subject to revocation of their license, uniform trade practices' penalties or action to recover commissions or sales fees received.

Blues increases

TOPEKA—Kansas insurance commissioner Fletcher Bell has approved an 18.7% increase in Kansas Blue Cross & Blue Shield rates which will generate an additional $19.1 million.

Hospital charges in Kansas increased an average of 13.5% in the past year and physicians' charges increased approximately 7%, Mr. Bell said. Use of physicians' services increased 3.5%.

The increases will apply to persons in groups with less than 25 contracts, farm association groups, non-group subscribers and persons covered under Plan 65 and Plan D. The increases will not directly affect groups with 25 or more contracts because they are rated on their own claims experience and will not affect subscribers in Wyandotte and Johnson counties, which are served by Blue Cross & Blue Shield of Kansas City, Mo.

Bethlehem cleared

BALTIMORE—A Maryland hearing examiner has cleared Bethlehem Steel Corp. of charges of "serious and willful violation" of occupational safety standards in the death of a steelworker in 1978 and serious injury of another.

Both men, who worked at Bethlehem's Sparrows Point, Md., plant, suffered heat strokes on July 3, 1978. One died and the other remains in a nursing home.

There was no evidence that Bethlehem should have known steelworkers removing molten metal from furnaces would suffer heat strokes, ruled H. Carl Butler, hearing examiner.

Permit requirements

AUSTIN— The Texas Motor Fuel Tax Law, to take effect Jan. 1, will contain new permit security requirements.

Gasoline distributors, diesel fuel distributors, bonded users of diesel fuel, liquified gas dealers and interstate truckers will be required to purchase a security for their permits. The only securities authorized will be surety bonds, cash deposited with the state treasurer or certificates of deposit assigned to the state comptroller.

Riders extending surety bond coverage of a gasoline permit to cover additional type fuel permits will no longer be accepted.

A gasoline distributor permit will no longer be required of individuals whose transactions are solely with the natural, absorption, casinghead or drip gasoline unless these products are sold for use or used in motor vehicles.

Pa. rate requests

HARRISBURG—The Pennsylvania insurance department has received three rate requests for medical malpractice insurance.

The Pennsylvania Medical Society Liability Insurance Co., representing 5,100 policyholders, is seeking a 6.2% rate decrease, which would result in reduced revenues of $1.3 million.

The second filing, seeking an overall 31.9% increase, came from the Medical Protective Co., representing 6,300 policyholders. It seeks a 62.8% increase for physicians and a 15.7% increase for surgeons, and would generate $3.8 million.

The Catastrophe Loss Fund has requested a 10% surcharge on the insurance premiums of all health care providers to generate $10 million.

The fund is designed to pay for malpractice claims over a certain amount to protect individual insurers from huge claims payments in a catastrophic case. All health care providers pay a surcharge on their malpractice insurance premiums to provide money for the catastrophe loss fund. ■

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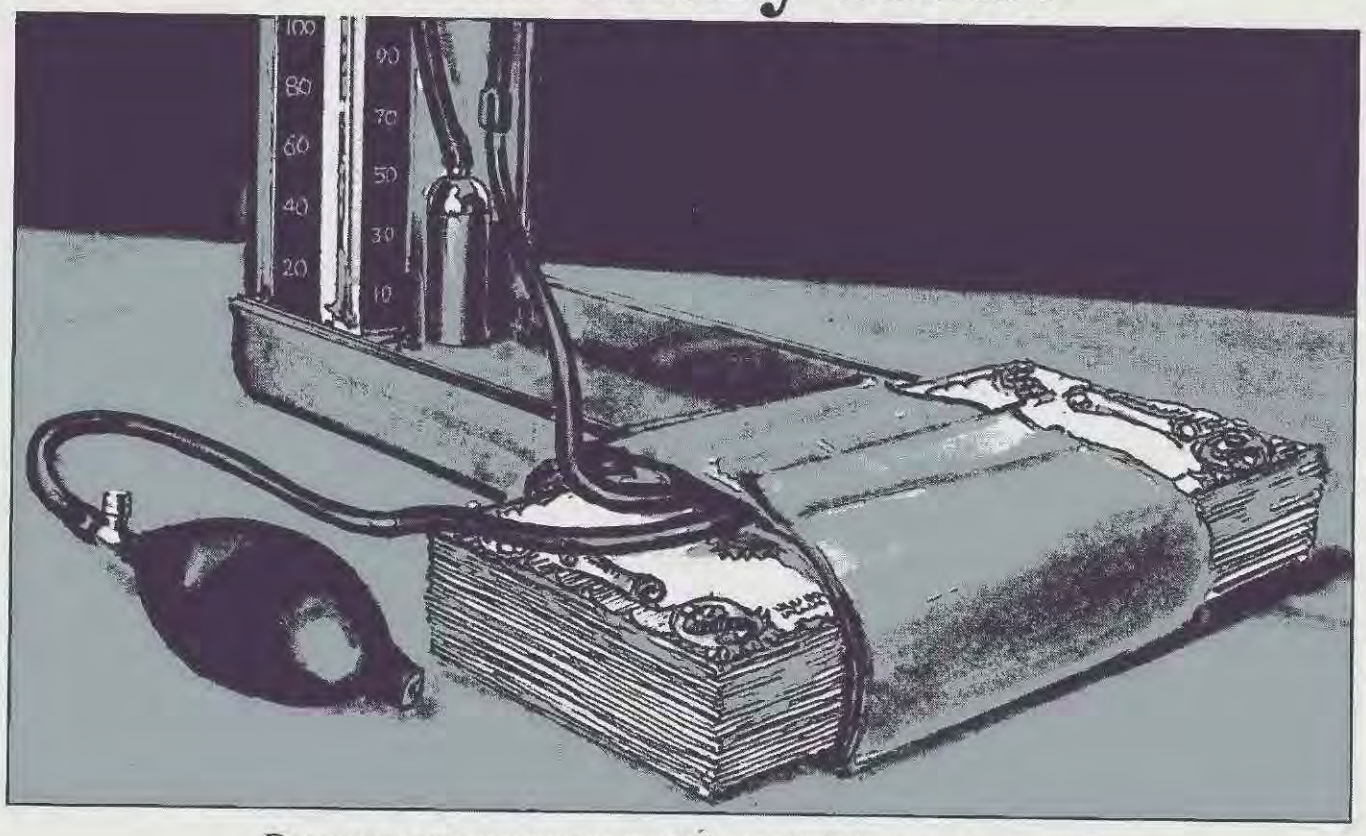

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Firm expects savings with new broker

By MARY ELLEN McKEE

CHICAGO—Bell & Howell Co. expects to save more than $100,000 on the property and business interruption insurance programs for its 26 overseas operations by changing brokers.

The Chicago-based maker of business equipment, video systems and other information products last month moved the international property and business interruption insurance business to Reed Shaw Stenhouse from Marsh & McLennan.

"We weren't dissatisfied with the integrity or even the performance of Marsh & McLennan, but the savings Reed Shaw Stenhouse offered under what I saw as a compact, efficient program were very attractive," explained Bruce Wilson, insurance manager for Bell & Howell.

Reed Shaw Stenhouse developed a global property program using AFIA worldwide for all property and business interruption coverage for Bell & Howell's overseas facilities, with a difference in conditions policy on top to bring individual policies for facilities up to U.S. standards.

Bell & Howell's new program, however, "is not unique compared to the international programs of other Reed Shaw clients," said a spokeswoman for Reed Shaw Stenhouse. The policy reflects the broker's approach to international insurance buying, the spokeswoman added.

This program runs counter to trends in international insurance buying which have surfaced in the past year, in which many of the policies are negotiated and bought on a local basis with some centralized control (*BI*, Feb. 19).

A switch to a global property program will not elbow out the responsibilities of the local manager, but rather engage him more actively in the day-to-day administration of a worldwide program, emphasized Bell & Howell's insurance manager. Before teaming up with Reed Shaw Stenhouse, AFIA was used strictly on a local basis by the local manager.

With 150 offices in 33 countries, Reed Shaw Stenhouse brokers plan to constantly be in touch with the local manager and the insurance company representative in each country.

This arrangement accomplishes several goals besides saving Bell & Howell some cash. Mr. Wilson said. Under the new program, local personnel can be used more effectively on administrative details, he said. Control of the overall program is centralized and interraction between the local manager, the local insurance company underwriter and the Reed Shaw Stenhouse broker should be nurtured, he added.

Not included in the new property and business interruption program is Bell & Howell's most recent purchase—a German electronic firm specializing in manufacturing broadcast equipment, particularly equipment used for public television, closed-circuit television and cable TV.

Robert Bosch was purchased by Bell & Howell to complement the equipment currently being manufactured and distributed by Tele-Mation, a Bell & Howell facility, Mr. Wilson noted.

The German company was excluded in the worldwide Bell & Howell program because of its small size, Mr. Wilson said. "I had to tailor a program attuned to this company's needs," he explained, but negotiations on the Bosch insurance program have not been completed.

"The program will definitely have lower deductibles than any other Bell & Howell facility currently operating and all coverage will be provided by one underwriter," Mr. Wilson noted. "By allowing the German firm to stand alone in its insurance program, it eases the administration considerably."

Because it's a new operation for Bell & Howell, a loss sensitive rating plan is inappropriate, Mr. Wilson elaborated. Instead, the company must rely more on guaranteed cost coverage. ■

Ruling may influence appraisals

LOS ANGELES—If an insurer does not advise a policyholder that he may demand arbitration under the provision of a policy, the insurer waives any right to subsequently compel arbitration, the California supreme court has ruled.

Although the 4-3 decision in a class action suit, Davis vs. Blue Cross of Northern California, involved arbitration provisions under hospitalization policies, it may apply to appraisal provisions of property policies, says Richard B. Wolf, attorney with Long & Levit in Los Angeles.

If so, it would require a property insurer that disputes actual cash value or loss claimed under a policy including such a provision—such as the California Standard Form Fire Policy—to remind the policyholder that he may initiate appraisals and how to do so, Mr. Wolf says. If it does not do so, the insurer risks losing its right to compel appraisal.

The court's ruling suggests an insurer must remind a policyholder of his other policy obligations if the insurer wishes to rely upon them, Mr. Wolf says.

The court reiterated that in handling claims submitted by its own policyholder, an insurer must give at least as much consideration to the policyholder's interest as it does to its own.

Although many insurers and their adjusters routinely point out some or all of the policy obligations in writing, some insurers may not have reminded their policyholders of the limitation of suit provision, Mr. Wolf says.

Under the Davis decision, an insurer may have to do so or risk waiving the provision, he said. ■

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Thefts dry up garment industry insurance

By STUART EMMRICH

NEW YORK—Periodic hijackings of trucks carrying shipments of expensive clothing make the headlines and get the blame for the garment industry's increasing theft rates, but daily, small-scale stealing racks up the losses.

Manufacturers might be misdirecting their loss-control efforts and ignoring ways they could cut their thefts, says a New York City police captain working on a special task force to investigate losses in the garment district here.

Preventing losses in the garment industry is becoming increasingly important as the number of insurers willing to underwrite property insurance for the industry dwindles with the increasing losses, a broker says.

Capt. Arthur Katz told a recent gathering of clothing manufacturers that, contrary to public assumption, there were only two hijackings last year in the New York garment district. In one of those cases the merchandise was recovered and in the other it was partially recovered.

Much more serious, he said, was a ring of 50 thieves who each day of the year pilfered one carton each from shipments going out of the garment district. At an average cost of $250 per carton, multiplied by 50 and then by 365 days of the year, Capt. Katz said the $4.6 million loss to the industry was far more than the occasional hijackings.

Contract truckers driving around the district with unlocked doors leaving some cartons unattended in the truck while they are delivering others are contributing to the theft problem, he said. Because no one has realized most of the losses come in the daily transactions in the busy New York district, the truckers have not been pressured to take many security measures.

The absence of any real financial penalty on truckers if they lose a shipment also contributes to the lack of effective loss-control programs, other industry observers say.

Daniel Matarasso, president of the A. Matarasso & Co. brokerage firm, blames a 50-year-old state regulation that holds truckers responsible for only $1 per garment or $50 per package a loss for freeing truckers from having to protect the shipments better.

"Everything else has gone up in the last 50 years; why can't this?" Mr. Matarasso asked, calling for legislative action on the matter. Even increasing the liability limit on truckers to $5 per garment would provide an incentive for them to beef up security measures, he suggested.

The possibility of having to pay the increased charge for stolen goods would also force truckers to buy insurance to protect themselves, something Mr. Matarasso said is now ignored by the trucking companies because they can easily self-insure their current losses.

Insurers could then refuse to write the needed coverage unless truckers agreed to such things as alarms on the trucks or guarantees that someone would always be with the cargo.

Something has to be done to curb theft losses, industry experts say, because they are becoming an increasingly larger part of a business's expenses. The New York City police department has recently established a special task force against crime in the area.

Although hard figures on annual thefts in the garment industry are difficult to come by, industry officials agree it is a multimillion dollar problem. And it is having the ripple effect of drying up the insurance market for garment manufacturers.

"I see a definite tightening of the market," Mr. Matarasso said. "Six months ago, I had 10 different insurance companies knocking down my door to write business. Now I am lucky if I can find two that are willing to handle the garment business."

Among the insurance companies that still seem willing to underwrite garment industry policies are The Hartford, Chubb & Son, Royal Globe, Eagle Star, The Home Insurance Co. and Hanover Insurance Co., industry sources say.

Capt. Katz has called on insurance companies and manufacturers to band together in some sort of an association to devise ways of reversing the trend of increased thefts. He suggested inspectors be designated to regularly survey the garment district and notice which trucks are left unattended, which ones don't have all their doors locked and which ones leave packages on the sidewalk.

He said the inspector would take down the information about the truck and notify the company's management so it could take corrective action.

But Mr. Matarasso said he thought the inspector solution was unworkable, at least under present conditions.

Because the truckers are independent of the garment manufacturers and often carry none of their own insurance, Mr. Matarasso said the insurers would have little to stand on in trying to enforce regulations.

"They are not insuring those trucks and they have no idea what might be inside them, whose property it is and who is insuring it. It just wouldn't work," he said. Manufacturers associations are so numerous and "disjointed" it is almost impossible to coordinate anything with them, he added.

Capt. Katz also suggested beefed up use of lie detectors on employes could curb losses.

Arguing that many employes might lie about thefts either because they had a hand in them or because they are afraid of retaliation, Capt. Katz said the lie detector would help investigators ferret out the true information about a theft. But he acknowledged that union pressure against the detectors is enormous.

Union pressure isn't the only hindering factor in increased security measures, however. Industry officials say a forecasted bad year in sales during 1980 will give manufacturers little incentive to pay for new loss-control programs ■

Cooperative contract

Meidinger & Associates Inc., a Louisville, Ky., benefits consulting firm, and International Pension Consultants of Wiesbaden, Germany, have signed a cooperative agreement under which Meidinger will represent IPC clients in the U.S. and Canada while IPC will reciprocate in Europe, Australia and Africa.

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Insurer groups step up fight against risk retention bill

By JERRY GEISEL

WASHINGTON—Trying to deflate a wave of business enthusiasm for legislation to allow companies to pool their product liability risks under a federal charter, insurance industry trade groups stepped up their attack on the Commerce Department proposal.

The American Insurance Assn., the Independent Insurance Agents of America and the Reinsurance Assn. of America raised numerous objections to the Administration-backed Risk Retention Act before a House consumer subcommittee this month.

Insurers argued that the pooling legislation is unnecessary, unworkable and would impose a new layer of federal regulation.

Legislation to give corporate buyers of product liability insurance a pooling alternative is unnecessary because product liability insurance is now a competitive product, argued American Insurance Assn. counsel Dennis Connelly.

"The market is composed of numerous insurers who are actively competing for the business," Mr. Connelly said.

However, business groups that testified before the subcommittee last month (*BI*, Nov. 12) told a different story, complaining of high deductibles, and, in the case of the National Machine Tool Builders Assn., difficulty in obtaining coverage.

Taking a different tack, J. David Rowland, speaking on behalf of the Independent Insurance Agents, said state laws already allow business groups to set up insurance companies on the state level.

"Is it necessary to create yet another federal program which would duplicate several existing state programs and which, if properly administered, would add a substantial financial burden to an already over burdened federal budget?" Mr. Rowland asked the subcommittee.

Commerce Department officials previously have testified that state capitalization laws are so high that all but the largest trade groups are unable to set up captives. These officials also have pointed out, contrary to Mr. Rowland's assertion, that the act would be completely self-supporting with user taxes paying administrative costs.

The AIA's Mr. Connelly also opposed the Risk Retention Act on philosophical grounds. "In creating a new federal bureaucracy with all possibilities of expansion attendant upon such a birth, (the act) discards 100 years of state insurance regulation," he charged.

A Commerce Department spokesman disagreed with Mr. Connelly's analysis, pointing out that the legislation would keep intact insurers' protection from federal antitrust law as mandated by the McCarran-Ferguson Act.

Members of the subcommittee "were not especially impressed" with the arguments of the trade groups, said one committee source. At least one more hearing will be held before the subcommittee decides if and when it wants to amend and vote on the legislation.

Drafted by the Commerce Department and endorsed by the Carter Administration, the proposal would allow firms to band together as "risk retention groups," pooling all or a portion of the participants' product liability exposures.

The risk retention groups would be exempt from state insurance regulations and instead would be regulated by the Commerce Department.

Before deciding whether to allow a risk retention group to operate, the Commerce Department would review the group's assets, reserves, loss prevention efforts and management expertise.

Premiums paid into the risk retention groups would be tax deductible if spreading and sharing of risk satisfies Internal Revenue Service requirements.

By tailoring insurance regulations to meet the needs of businesses forming their own insurance cooperatives and allowing them the same tax deductions companies are given for purchasing insurance from commercial insurers, more competition will be injected into the insurance marketplace, the Commerce Department believes. ■

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1.	CAPTIVE & SELF-INSURANCE REVIEW	JAN 7	DEC 20

more to come :

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1.	CAPTIVE & SELF-INSURANCE REVIEW	JAN 7	Dec 20
2.		JAN 14	Jan 2
3.		JAN 21	Jan 9
4.	Spotlight Report: Workers Compensation	JAN 28	Jan 16
5.		FEB 4	Jan 23
6.		FEB 11	Jan 30
7.	RISK MANAGEMENT SERVICES	FEB 18	Feb 5
8.		FEB 25	Feb 12
9.	Spotlight Report: Computers/Quantitative Techniques	MAR 3	Feb 20
10.		MAR 10	Feb 27
11.		MAR 17	Mar 5
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Employes sue 2 mills, insurer

NEW YORK—Two textile manufacturers and the workers compensation insurer for one of the firms kept employes from learning that they had occupation-related pulmonary diseases, allege two class action suits filed last month in Alabama and South Carolina.

Burlington Industries of Greensboro, N.C., and Liberty Mutual Insurance Co. were named as defendants in a suit in federal court in Greenville, S.C. West Point Pepperel of West Point, Ga., and several present and former company officials are defending a case in state court in Opelika, Ala.

Both suits, which were filed last month, seek compensatory damages of $5 million and punitive damages of $10 million. They were filed on behalf of disabled former employes by the Southern Poverty Law Center of Montgomery, Ala.

The suits allege both mills and Liberty Mutual knew that cotton dust exposed workers to several chronic obstructive pulmonary diseases, commonly referred to as brown lung, and failed to inform workers of the hazards, allowing them instead to continue working. The diseases include byssinoisis, chronic bronchitis and emphysema.

Neither manufacturer nor Liberty Mutual would comment on the case.

West Point Pepperel is believed to be self-insured for workers compensation, says Dennis Balske, staff attorney with the Southern Poverty Law Center. However, the suit against it includes as defendants any workers compensation insurers that might have insured the firm during the 1960s and 1970s, he added.

Southern textile workers have had little success in winning compensation claims for brown lung, says Candace Carraway, legal coordinator for the Carolina Brown Lung Assn.

In North Carolina, the nation's leading textile employer, state industrial commission figures reveal 258 of 854 brown lung claims filed have been settled with awards to textile workers totaling $3.3 million, she said. ■

Employes to pay more benefit costs

Continued from page 1
ploye benefit plans in the past that they don't want to see continue, 74% of the executives opposed raising the mandatory retirement age or eliminating it. A whopping 92% of the executives oppose any more regulation of benefit plans and 88% oppose regulation increasing private funding of benefit plans.

Most executives, 62%, don't want to see employes play a greater role in shaping company policies and 77% don't want unions to increase demands for employe benefits in lieu of increased wages.

But 51% of the executives said they want to see employe benefit plans play an increasingly larger role in total compensation and 70% want to offer benefit plans that provide employes with a choice in their benefits.

In examining where pressures to provide additional benefits will come from in the 1980s, 46% said it would come from middle management employes while 43% said pressure would come from blue collar workers.

Inside pressures

George Faunce, director of William M. Mercer, said middle management employes will press for increased benefits because they are career-minded, with upward aspirations. Also, since they are probably in the higher income brackets, non-taxable benefits are more advantageous to them, he added.

In the survey, 65% said outside pressure to expand benefits would come from unions while 49% said the federal government would exert that force.

In commenting on the governmental pressure, 36% of respondents said they foresee excessive regulation and government interference in the 1980s.

Private pension systems should assume a more important role in the 1980s because of difficulties associated with the Social Security system, 58% of respondents said.

However, 73% would be very concerned if cost-of-living features were introduced to private pension plans; 71% would be very concerned if pensions were provided for non-working spouses; 40% would be very concerned if portability were introduced, and 29% would be concerned if earlier vesting were initiated.

Almost three-fourths of executives said they had reviewed their pension plans to assess whether unfunded liabilities are a problem and 92% said they believe there is no problem. However, 49% said the problem of unfunded liability is exaggerated and 44% said it isn't.

National health

In commenting on a national health insurance plan, 82% favored no plan at all while 38% said such a plan was very likely and 52% said it was somewhat likely one would be enacted.

The national health insurance plan would add to the cost of the company's employe benefits, according to 72% of respondents.

The survey also found that:

- 70% of respondents agree with the Administration that 1980 increases in Social Security contributions should be postponed as inflationary.
- 71% said the change in mandatory retirement laws has had major (3%), some (22%) or a little (46%) effect on their company.
- 87% said mandatory retirement legislation would have no effect on personal retirement plans.
- 64% said their companies don't have preretirement counseling.
- 56% said employes regard company benefits as a right.
- 50% said they would like no government regulation or a relaxation in regulation of employe benefits in the 1980s. ■

Fire costs $2 million

LOS ANGELES—The Apollo Tire Co. in Canoga Park, a San Fernando Valley suburb here, sustained an estimated $2 million insured loss when its tire retreading plant burned Oct. 16.

The blaze destroyed everything but the walls of the one-building plant, reports Ed Kerr, senior adjuster for Sidney Greenspan & Co. in Los Angeles, the public insurance adjusters representing Steve Bostonian, Apollo Tire owner.

Mr. Kerr declined to discuss details of Apollo Tire's insurance.

The loss was relatively high, Mr. Kerr said, because the tire recapping plant contained a large number of electronic tire machines recently imported ffom Italy. ■

Benefit cost jumps 9% in '78

Continued from page 1
age, survivors, disability and health insurance. Weekly FICA taxes averaged $15.06 per employe.

Private pensions are employers' next more expensive benefit, averaging $14.98 per week. The petroleum industry's pension payments were the most generous, averaging $35.98 per week, followed by the public utilities where the weekly pension payment averaged $30.84.

Employer payments for group life, medical and hospital insurance cost an average per week of $14.88 per employe. These benefits are costing employers 270% more than in 1967, the chamber said.

Paid vacations cost companies an average of $13.15 per week. Vacations ranged from 16 days for the petroleum industry to eight days for the textile products and wholesale and retail trade. The average vacation length was 12 days.

Paid coffee breaks, rest periods, wash-up time and other on-the-job time paid for but not worked cost employers an average of $9.69 per week per employe in 1978. These paid breaks averaged 17 minutes per day, up from 13 in 1967.

The surveyed companies provided an average of eight paid holidays annually, costing employers an average of $8.69 per week per employe.

The transportation equipment industry averaged 11 paid holidays annually, while the nonelectrical machinery industries and insurance companies averaged nine.

The chamber estimates that this year employe benefits will cost U.S. companies almost $400 billion. By contrast, in 1929, on the eve of the Depression, benefits only totaled $1.5 billion for 3% of that year's $50.4 billion in paychecks.

The chamber study found benefits costs are growing about twice as fast as wages. Benefit costs have jumped 199% between 1967 and 1978. In the same period, wages and salaries increased 115%. ■

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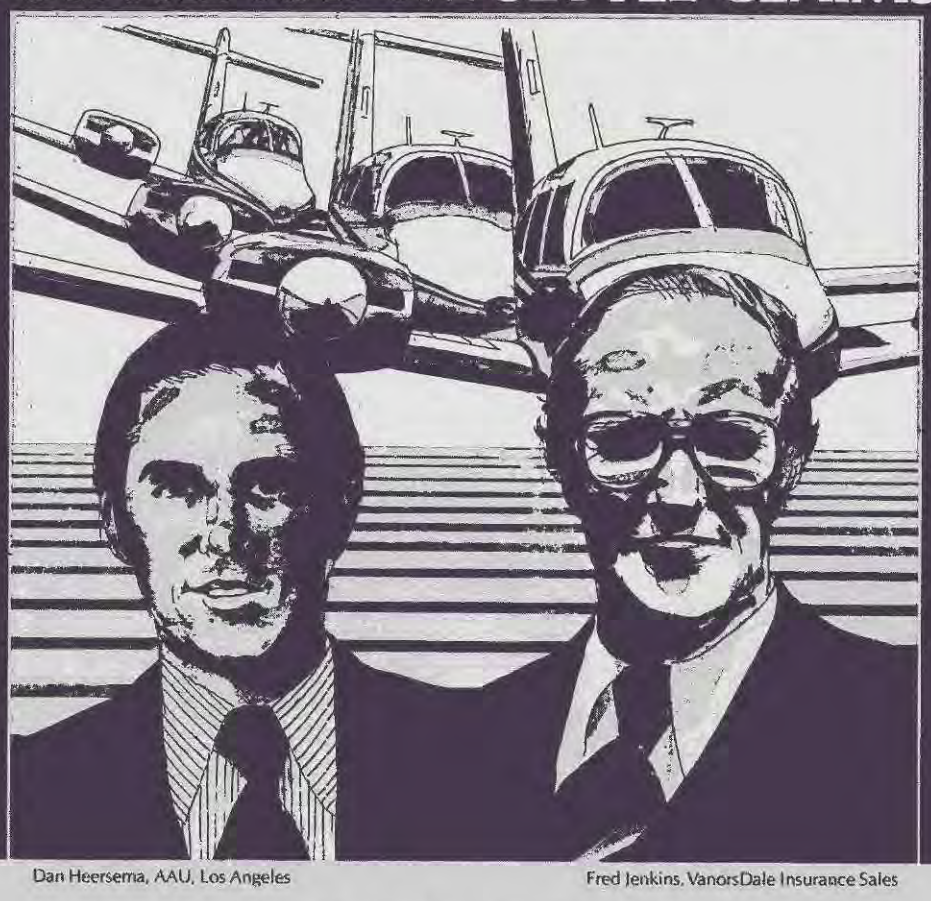

Dan Heersema, AAU, Los Angeles

Fred Jenkins, VanorsDale Insurance Sales

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Control Data sues insurer

MINNEAPOLIS—Control Data Corp. has filed a $1.1 million lawsuit against one of its insurers, Affiliated FM, for denial of a claim after one of the firm's computers was destroyed during rioting in Iran in November 1978.

Affiliated FM, a subsidiary of Allendale Insurance Co., denied the claim under the war risk provision common to many insurance policies covering companies operating overseas. The provision excludes damages caused by acts of war or insurrection.

Control Data sustained the $1 million loss on Nov. 5, 1978, when a building housing a Control Data computer being leased by the Iranian government was firebombed and destroyed during riots surrounding a governmental upheaval (*BI*, Feb. 19).

Earlier this year, industry sources and observers predicted claims resulting from the Iranian strife would be denied by insurers contending that rioting during the government overthrow constituted war and insurrection.

The corporation has said it has since pulled all its remaining operations from Iran.

Iranian woes threaten U.S. interests

Continued from page 1

tion of the risk," he said. Since many companies' assets consisted of equity in a locally owned firm, they decided not to insure, Mr. Svensk explained.

AIG has paid one claim for contract repudiation involving an American investment in Iran, he noted.

Small investments

Several companies with investments in Iran say they don't know yet whether they'll try to recover losses from nationalization because virtually all the nation's manufacturing and industry has been at a standstill for several months.

"We don't know what's going on," said a risk manager for one firm, adding it will probably be necessary for the current U.S.-Iranian political crisis to subside before losses can be counted.

Most U.S. assets in Iran include standard equity, debts and fees for technical assistance contracts, said Gerald West, vp for insurance with OPIC.

With the exception of Amoco's valuable investment, several other firms say their direct ownership of Iranian business ventures is small. Small investments don't demand expropriation coverage, some corporate officials say.

Fluor Corp., a California-based construction and engineering firm, for instance, recently pulled its 52-member workforce out of the country and discontinued work on a nearly completed $750 million oil refinery project. Fluor left some construction equipment behind which is not insured for expropriation because its loss would have no serious financial impact on the company, a company spokesman said.

Political shortsight

John Deere & Co. of Moline, Ill., carries no coverage against seizure of an Iranian manufacturing facility because it owns only 20% of the venture. A company insurance executive said it is still impossible to tell how much the firm stands to lose.

Bechtel Corp., another California construction company, said it carries no expropriation coverage because its assets in Iran amount to a "few sticks of furniture."

But Mr. West said the corporations find themselves short of expropriation coverage because they underestimated the possibility that Shah Reza Pahlavi's government would be overthrown. "The overwhelming bulk of eligible investments that could have bought OPIC or private insurance chose not to do it. They must have decided Iran was a nice, safe place to be, that the Shah's dynasty was going to go on forever and that there was no need for political risk insurance."

Currently, expropriation coverage in Iran comprises only 1.5% of OPIC's total insurance portfolio, he said.

He compared the situation to the one that developed in Cuba in the early 1960s when American corporations lost $1 billion to $2 billion in assets after the revolutionary Castro government regime nationalized business and industry. Companies were substantially underinsured for expropriation at that time, he said. ■

Windstorm losses

Wind, hail and tornadoes that struck Texas, Oklahoma and Louisiana Oct. 29-31 caused an estimated $6.25 million in insured losses.

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info for buyers

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• Have you ever installed a fire detection and control system only to have it removed months later because the fire code changes? If so, Johnson Controls is offering a booklet which could help you meet the new fire codes without getting burned. The booklet provides guidelines on how to choose the best **fire safety system** for a building and how to ensure it works properly. For a free copy write Johnson Controls, 507 E. Michigan St., Milwaukee, Wisc. 53202.

• An **arson information kit** to assist communities and others in the fight against arson is available from the Alliance of American Insurers. Prepared by both the AAI and the Property Loss Research Bureau, the kit includes fact sheets outlining the problems and provisions for arson law, awareness and awards programs and offers control measures. Cost is $3 for single copies. Write the Alliance of American Insurers, Communications Department, 20 N. Wacker Drive, Chicago, Ill. 60606.

• **Collective Merchandising of Automobile Insurance**—The Employers' View, a 49-page study, investigates the status and future of group merchandising of private passenger automobile insurance. Price is $5. Write Publishing Services Division, school of business administration, Georgia State University, University Plaza, Atlanta, Ga. 30303.

• **Analyzing Financial Statements** offers a formula for analyzing financial statements and provides clear definitions of standard financial terminology. Prepared by Edward C. Stark as a research product for the Northern California Chapter of CPCU, the booklet is designed to help employes and managers properly evaluate information gathered from financial statements. Cost for one copy is $10; discounts are available for orders of more than five copies. Write Ronald J. Simmons, Fourth and Parker Streets, Berkeley, Calif. 94710.

• The Machinery and Allied Products Institute has prepared a 33-page booklet **Company Programs to Reduce Product Liability: Some Matters to Be Considered.** Single copies are available for $5 for institute members and $8 for non-members. Write Machinery & Allied Products Institute, 1200 Eighteenth St. N.W., Washington, D.C. 20036.

• The fourth edition of Underwriters Laboratories Inc. standards for **safety tests for fire resistance** of roof covering materials is available. The tests are applicable to roof-covering materials and are intended to measure fire-resistant characteristics to prevent fire originating from sources outside a building. Cost for one copy is $3 or $8 for the fourth edition and any future revisions that may be issued while it is in effect. Write Underwriters Laboratories Inc., Publications Stock Department, 333 Pfingsten Road., Northbrook, Ill. 60062.

• **Funding and Termination of Defined Benefit Plans** is a report prepared by Reymont Associates. The report covers actuarial costs, minimum funding requirements, maximum deductible limits and accounting requirements. Cost is $5. Write D.J. Scherer, Reymont Associates, 29 Reymont Ave., Rye, N.Y. 10580.

dates

DEC. 3-5. Creativity in Communications is the theme of *Business Insurance's* third annual Employe Benefit Communications Conference at the Ritz-Carlton Hotel in Chicago. The conference will examine and critique various corporate communication approaches and investigate generic communications, choosing the right graphic approach, adapting a communication effort to the size and needs of a company and the packaging and legal ramifications of communications. Cost is $310 with a 10% discount for additional registrants from the same company who register at the same time. Contact Sari Lipschultz, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5246.

DEC. 4. The International Risk Management Institute Inc. is sponsoring a seminar in Dallas on **risk funding.**, U.S. and foreign markets, captives, rent-a-captive schemes and approaching reinsurers will be discussed. Cost is $195 per person or $175 per person for a team of three. Contact International Risk Management Institute Inc., Suite 350, Building V, 10300 N. Central Expressway, Dallas, Tex. 75231; phone 214-363-9656.

DEC. 6-8. Malpractice liability control techniques will be discussed at an InterQual seminar in Texas. Methods for accurate risk identification, claims, medical/legal, occurrence analysis and exposure prediction will be examined. The seminars are accredited and continuing education credits will be issued by the American Management Assn. Cost is $375. Contact InterQual, 740 N. Rush St., Chicago, Ill. 60611; phone 312-751-2327.

DEC. 5-8. The International Foundation of Employe Benefit Plans is sponsoring a public employes seminar on the **perils and potential for public employe benefit plans** in Hollywood, Fla. Cost is $345 for nonmembers and $270 for members. Contact the International Foundation of Employe Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005; phone 414-786-6700.

DEC. 6-7. Annual meeting of the **Self-Insurers Assn.** (N.Y.) in New York. Topics include occupational disease, federal trends, state of the law in New York, litigation of workers compensation claims, hearing loss, and the wage-loss concept. Cost is $125 for members, $150 to non-members. Contact: Mary Ann DeSanto, Administrator, Self-Insurers Assn., 420 Lexington Ave., New York, N.Y. 10017; 212-867-9200.

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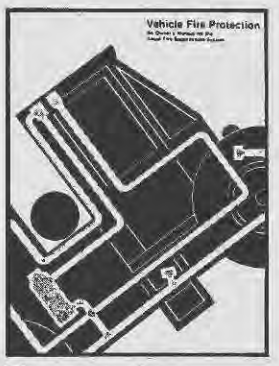

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Five N.Y. cities unite to buy umbrella policy

WHITE PLAINS—Five New York municipalities, members of the Committee for the Organization of Municipal Self-Insurance Pools, are joining together to purchase a $24 million group umbrella liability policy.

By purchasing en masse, White Plains, New Rochelle, Freeport, Middletown and Floral Park expect to obtain higher limits of coverage that would otherwise be unaffordable, said Patrick Carter of Weber/Euclid, risk management consultants to COMSIP. Weber/Euclid will market the coverage and plans to report its quote at COMSIP's December meeting.

The $24 million umbrella automobile and general liability policy would be in excess of $1 million in underlying coverage obtained by the participating municipalities on an individual basis, Mr. Carter said. Those participants whose present coverage is for less than $1 million would have to seek higher primary limits through their brokers, he explained.

New Rochelle presently self-insures its first $250,000 exposure per occurrence and Freeport has a $150,000 self-insured retention. The other communities either have first-dollar coverage or a small deductible, Mr. Carter noted.

Although municipalities are presently prohibited from pooling self-insurance reserves, there are no constraints against jointly purchasing insurance, Mr. Carter said. State insurance department counsel concurs with this.

With present competitive conditions in high-capacity markets, obtaining the umbrella policy should not be difficult, Mr. Carter said. The policy is intended to offer broad coverage, including police, fire and public officials liability when they are included in primary coverages, he said.

Although only the five present members of COMSIP are included in the marketing effort, coverage is expected to be offered to new members, Mr. Carter said. ■

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riskWatch

By SIMON BENSIMON
Crain News Service

OPIC's new bond rules may not lessen the risk

The U.S. government's Overseas Private Investment Corp. has liberalized its rules for performance bond insurance, but experts are uncertain if the moves will lure more medium-sized companies into overseas markets.

Performance bonds, usually 10% of a contract awarded by a foreign government, guarantee a company will deliver the promised goods or services. The bond usually is an irrevocable letter of credit held by the purchasing country.

But since foreign governments have in the past cashed the bond even when contracts were being fulfilled, OPIC offers political risk insurance against the "arbitrary or capricious" calling of a performance bond.

Bensimon

The OPIC policies are more comprehensive and less expensive than competing private insurance offered by Lloyd's of London and American International Group, says OPIC construction insurance officer Joseph Tavares. But in the past OPIC required a company to purchase complete coverage for all projects in a foreign country.

This meant a company had to purchase insurance covering inconvertibility in case the bond money could not be repatriated to the United States, insurance for the contractor or exporter's overseas assets and other coverage. The total cost of thse coverages proved onerous to many medium sized companies and defeated the OPIC aim to promote increased participation by American businesses in overseas ventures.

■ Since OPIC has dropped the "all-or-nothing" clause, Mr. Tavares says the cost of needed insurance should be within the reach of smaller companies.

Two other major OPIC changes also offer companies greater protection in the area of high-risk performance bonds.

Previously, OPIC compensated a contractor or exporter for a bond only if an arbitration court, often in the foreign country, decided in favor of the American allegation that the bond had been called without justifiable reasons. Now OPIC will compensate its clients if they can prove an adverse ruling of the arbitration board in the foreign country was reached through "fraud, corruption or coercion."

OPIC has also amended its policy so it will compensate its clients even before the issue goes to arbitration, if the client can demonstrate that the calling of the bond was "patently arbitrary."

■ Critics of OPIC maintain it remains to be seen whether OPIC's changes will improve the chances of U.S. companies to bid on projects in Mideast Arab countries, which make up the bulk of those nations requiring performance bonds.

This is because everything else being equal, those countries would rather contract with businessmen from France, West Germany and other countries whose governments do not even mention an arbitration clause in the performance bond.

At the risk of being as "daring or foolhardy" as the Europeans, says one senior Commerce Department official who requested anonymity, the only solution is for the Mideast and other countries requiring performance bonds simply to drop the requirement.

The performance bond requirement as a letter of credit should be dropped, Mr. Tavares agrees, because it ties up a company's line of credit with its bank, lessening its financing capability to compete internationally. But, he insists, some kind of performance guarantee should be maintained.

■ He concedes the insurance of performance bonds is a high-risk business. He insists, however, that what he calls OPIC's "bilateral agreements" with foreign governments will enable the agency in the long run to get back from those governments the money it pays out in compensation claims.

The long run, however, may be very long indeed—sometimes 25 or 30 years. The depreciation of the money alone makes the recovery a Pyrrhic victory, critics of OPIC say.

Liability clouds derailment

Continued from page 1

those general rules, but there are exceptions, one of which would be if there were a latent defect in one of the cars leased.

"I'm not aware that CP has accepted any liability," he added.

Canadian Pacific has $51 million of excess liability insurance for its railroad operations in Canada. Lloyd's of London and other London insurance groups underwrite the large portion of that coverage, which is in five layers, a railroad spokesman said.

A small portion of the liability insurance is underwritten by Chateau Insurance Co., a subsidiary of Canadian Pacific based in Toronto. This portion, however, is "not enough to talk about," says G.A. Harmon, manager of insurance and fire protection for CP.

"It will be years before this comes down to roost," he added.

To try to untangle the liability question, the Canadian Transport Department Commission has set a public inquiry for Dec. 4. Canadian Pacific; the Chesapeake & Ohio line; North American Car, and various governmental agencies responsible for maintaining safe transportation conditions are expected to participate.

Fla. accident

Louisville & Nashville Railroad officials said it is "fairly premature" to estimate losses incurred as the result of a six tank car derailment and evacuation of nearly 500 persons in Molino, Fla., last week. Officials refused to disclose details of the railroad's liability insurance to cover possible claims as the result of the derailment and evacuation.

The accident occurred Nov. 11 when the L&N cars carrying propane derailed when the train hit a section of washed-out track. There were no injuries.

Evacuees were allowed to return to their homes Nov. 14 after demolition experts blasted the derailed cars in an effort to avoid an uncontrolled explosion. ■

Mary Ann Matlock, 25, joined the New York staff of BI on Nov. 1 as a reporter. She previously worked as a copy editor and political reporter at The Pottsville Republican for two years. Ms. Matlock has a BA degree in English/communications from King's College in Wilkes-Barre, Pa., and is a masters in journalism candidate at Pennsylvania State University.

Rail insurance markets won't get worse: Broker

Railroads, already driven to heavy self-insurance of liability risks by wary underwriters, aren't expected to suffer any further tightening of insurance markets because of the Toronto train derailment that drove more than 250,000 people from their homes in fear of toxic gases.

"I don't think it will have any impact at all (on insurance markets)," said John Stricker, vp of the transportation department at Alexander & Alexander Inc.

The accident could force more government regulation of transportation of hazardous chemicals, he noted. Such legislation is expected to be introduced soon in Canada.

Don Stuart, coordinator of RIMS Canadian activities and one of the evacuees, said rules for transporting chemicals should be examined. "It's crazy as the birds to have all those things mixed together," he said.

Mr. Stuart, who stayed away from his home for two nights during the evacuation, said he would file a claim with Canadian Pacific for his out-of-pocket expenses. His current reaction, though, "is one of great relief that no one was injured or killed."

Workplace accidents increase

WASHINGTON—The number of workplace accidents increased sharply last year, the Department of Labor reports.

About 5.66 million work-related accidents occurred during 1978, an increase of about 300,000 from the 5.3 million incidents recorded in 1977.

The Department of Labor report, based on a survey of 285,000 private companies, found that in American industry last year there were 9.4 work-related injuries and illnesses per 100 full-time workers, up from 9.3 injuries and illnesses per 100 in 1977.

The number of injuries involving lost time from the job increased nearly 300,000, jumping to 2.4 million from 2.1 million in 1977. The average number of days lost in 1978 as a result of a workplace injury remained at 16 as in 1977.

About 38.2 million workdays were lost because of work-related injuries during 1978, up from 35.2 million in 1977.

For employers with 11 or more employes, the number of work-related deaths dropped to 4,590 in 1978, a decrease of 170 from the 4,760 fatalities reported in 1977.

Overall injury rates increased in seven of the eight surveyed industry divisions between 1977 and 1978. ■

Football star files claim

PONTIAC, Mich.—Steve Owens, a former star running back with the Detroit Lions, has filed a workers compensation claim against the club in connection with a 1974 leg injury that ended his career.

Mr. Owens, a former Heisman Trophy winner and the Lions' first-round draft pick in 1970, has filed a petition with the Michigan state workers compensation board for a hearing on the claim. The agency hearing officer will decide whether the claim is to be paid.

Mr. Owens sustained severe cartilage and ligament damage to his left knee during a Thanksgiving Day game in 1974, sat out the entire 1975 season and retired from the game before the 1976 season. During that time, he remained on the Lions' payroll, earning an estimated $75,000.

Chuck Schmidt, controller for the Lions, said the club is insured for workers compensation losses but would not name the insurer. ■

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Regulators' vetoes stall brokers' plans for links to Lloyd's

By LEN STRAZEWSKI

NEW YORK—Creeping progress in the proposed profit combinations of three large U.S. brokers and London counterparts may be forcing a return to more traditional kinds of shared investments, industry watchers say.

Though all of the U.S. brokers involved in link-ups—Marsh & McLennan Inc., Alexander & Alexander and Corroon & Black—have reported painfully slow progress, Corroon & Black is the first to try a return to a more traditional alternative.

C&B, which nine months ago announced profit-merging discussions with Lloyd's of London broker J.H. Minet, has acknowledged it intends to increase its equity interest in Minet from 4.8% to a consolidated 20% at a cost of $20 million. The move is similar to Frank B. Hall's arrangement with British broker Leslie & Godwin. Hall settled for minority interest last year when the committee of Lloyd's of London vetoed a larger acquisition.

Though the C&B/Minet deal does not separate retail and Lloyd's business as the Hall/Leslie & Godwin arrangement did, analysts of the brokerage industry see the traditional investment based on London stock exchange purchases as an abandonment of the innovative combination plans.

"Either they couldn't wait or they found the problems insurmountable," remarked Harvey H. Bundy III, security analyst for William Blair & Co. who has followed the combination plans since their announcement.

Mr. Bundy, who lauded the link-ups in a special report several months ago, termed the current C&B/Minet development "a regression of the combination concept."

An analyst counterpart at the First Manhattan Co., Leonard Wilson, agreed, noting M&M, A&A and C&B have all reported "lots of obstacles" in completing plans and may be getting frustrated.

The brokers, however, denied the analysts' views that they are doing anything but slowly approaching their goals: a pooling of profits, skills and management that provides U.S. brokers with a

London broker warns

Business conflicts loom in broker/insurer ties

By JOHN H. MILLER

LONDON—Conflicts of interest can develop if there are too many big linkups between brokers and underwriters, says David Palmer, chief executive of the U.K.'s Willis Faber group, which has interests in the U.S. through Johnson & Higgins.

Willis Faber has just acquired a surplus lines agency, Neal Lloyd in Chicago, in association with Johnson & Higgins and is expected to develop this venture in Illinois.

Other London brokers already own interests in U.S. excess/surplus brokers and underwriters. Alexander Howden owns specialty underwriter Wohlreich & Anderson and the Stewart Wrightson Group owns and operates the Stewart Smith Inc. wholesale brokerage.

More British investment in U.S. insurance firms is expected, following the elimination of a standing premium placed by the Bank of England on British investment in foreign firms. **(See related story.)**

But at the annual conference of the U.K.'s Chartered Insurance Institute, Mr. Palmer warned: "The erosion of the dividing line in the broker-underwriter relationship in both the U.S. and the U.K. is a change that cannot be ignored. Major insurance groups are getting into the intermediary activity and major brokers are enhancing their underwriting activity. There are obvious dangers in this trend."

Willis Faber, which last January formed a syndicate management company with Johnson & Higgins to operate on the New York Insurance Exchange (*BI*, Jan. 22), is among Britain's largest brokers and also runs an important underwriting agency at Lloyd's, as well as underwriting for a significant consortium of foreign insurance companies. Underwriting accounts for about 12% to 15% of its activities at present, which last year produced profit from all sources of around $40 million.

Lloyd's rules, however, are very clear in separating underwriting and broking operations, keeping them at arm's length to avoid any conflict of interest, Mr. Palmer said.

Yet he sees trends developing that could lead to conflict of interest, he suggested, pointing to the recent purchase by Continental Corp. of 20% of Stenhouse Holdings, a broking group, and the 20% stake Worms Group of France will have in U.K. brokers Bain Dawes (*BI*, Sept. 3).

"The 20% stake by Continental in Stenhouse is not just a portfolio investment," he noted. "Just suppose Commercial Union or some other big corporation decided to go into broking. What would happen then?"

Arthur R. Matanle, deputy chief general manager of the U.K.'s Phoenix Assurance group in which Continental itself has more than 20% interest, responded to the issue.

"Brokers are becoming insurers, some by direct ownership of insurance companies and others by managing one or more of the underwriting agencies which have sprung up to add further capacity to the already overinsured situation," he warned the Insurance Institute of London when he became its president for 1980.

"I don't think it's fanciful to expect that in self-defense, insurers will follow suit and assume the role of intermediaries either by accepting business directly placed by the buyer or by the acquisition of a part or whole of broking firms.

"This has already happened in the U.S., whose actions so often anticipate those in the U.K. Can we contemplate a significant extension of this practice in Britain without concern?" ■

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share of American premiums now going directly to Lloyd's. Lloyd's brokers would get a share of premiums that escape them during soft U.S. markets.

Insurance buyers have held split opinions about the link-ups, some expecting more efficient placing and service from the London market and some fearing monopolistic pressure that limits their choice of Lloyd's brokers.

"We don't see our increased interest in Minet changing any of our plans," C&B's financial vp Robert Kaiser explained. "If anything, this move was planned to be complementary to our discussions and it seemed like a good investment.

Countering reports that it's playing "follow-the-leader" to M&M and A&A and waiting for the larger brokers to work out link-up bugs, Mr. Kaiser said C&B has a plan "in the polishing stages, though we haven't submitted it to any regulatory bodies yet."

"Certainly there's been accounting and tax problems," he continued, "and it has been slow going. But we still expect our plan to succeed."

The stock purchase with Minet may actually speed combination preparation, Mr. Kaiser says, as two representatives from Corroon & Black join the Minet board of directors.

If a combination does succeed, C&B will continue to tap more than one Lloyd's broker and not grant exclusivity to its partner, Mr. Kaiser said—at least at first.

"Clients have preferences that have to be acknowledged," he said. "Any move to shift business to Minet would be gradual and never total."

M&M, whose proposed combination with C.T. Bowring would grant an exclusive feed of business, began switching accounts to Bowring early this year. Though Marsh & McLennan Cos. Inc. chairman John Regan Jr. declined to comment on the status of M&M's negotiations, knowledgeable sources in the brokerage report stalled success.

On two occasions, sources say M&M has been on the verge of announcing a completed game plan only to have the final outline vetoed by U.S. and U.K. governmental regulatory bodies. The European Economic Community is also said to have taken a negative interest in the deal and slowed completion.

Alexander & Alexander has encountered similar obstacles, industry watchers say, and is not completely confident its combination with Sedgwick Forbes/Bland Payne Group will ever be finalized.

"Things are going slowly," A&A vp and secretary Frank Wieczynski remarked, "but we have not given up hope. We are not considering in any way taking an equity position like Corroon & Black."

Though A&A has stated it will continue to spread its business among several Lloyd's brokers and not grant exclusivity to Sedgwick Forbes/Bland Payne, the U.S. broker has rapidly been combining reinsurance and international efforts with the Lloyd's broker.

"Actual business arrangements have been proceeding much faster than financial details," Mr. Wieczynski noted, "and we are already seeing the benefits of working with Sedgwick Forbes/Bland Payne."

Reinsurance, he said, has always been A&A's weak suit compared with its giant competitor Marsh & McLennan, which owns Guy Carpenter, a reinsurance broker.

Good relations with SF/BP and its London and Continental market connections have helped strengthen the A&A hand in reinsurance, Mr. Wieczynski said. A&A is also tapping SF/BP international offices to service U.S. multinational firms.

Meanwhile, the call to strengthen financial ties between the British and U.S. insurance industry is coming from another direction: British brokers seeking interests in U.S. underwriters and excess/surplus brokers.

A recently changed Bank of England premium on U.K. funds invested in foreign countries has made British investment in U.S. firms cheaper than at any time in the last 20 years and stimulated new investment interest, industry consultants say.

Though several Lloyd's brokers already own minority or majority interest in U.S. brokers and underwriters, including Alexander Howden, Stewart Wrightson Group, Hogg-Robinson and SF/BP, more activity is likely soon, say brokerage consultants Hales & Associates.

Russell R. Miller & Co. Inc., industry consultants that like Hales & Associates plan mergers and acquisitions among other consulting activities, also expects more investment activities. Mr. Miller, principal of the firm, is traveling to London next month to meet with clients on that issue, he said.

Though neither firm would reveal its clients, both firms painted similar pictures of potential British investors which were confirmed by other industry observers.

Several Lloyd's brokers, the sources say, are looking to establish partnerships with U.S. excess/surplus and reinsurance brokers as well as specialty underwriters to help command a steady flow of business to London during soft U.S. market periods.

Soft U.S. markets traditionally mean leaner years for Lloyd's, a situation London would like to change. A "synergistic" relationship with an excess/surplus brokerage—even one as small as $1 million in commissions—could create an exclusive business flow for a Lloyd's broker.

Aviation specialists, most likely C.E. Heath and Stewart Wrightson Group, are expected to seek partnerships with U.S. brokers with similar interests, the sources say.

Willis Faber, who has a longstanding working relationship with U.S. broker Johnson & Higgins, has already taken steps to consolidate U.S. investments. Willis Faber is said to be establishing a marine and aviation underwriting firm, similar to Southern Marine & Aviation Underwriters in New Orleans owned by Sedgwick Forbes/Bland Payne.

Heading the underwriter will be Lee Stentz, retired president of Southern Marine. Johnson & Higgins has confirmed the new operation will have reinsurance provided by Willis Faber and receive some business from J&H, though the broker has denied granting exclusive oil and aviation business rights to Mr. Stentz's firm, as other industry sources have reported. ▪

"We don't see our increased interest in Minet changing any of our plans," says Robert Kaiser.

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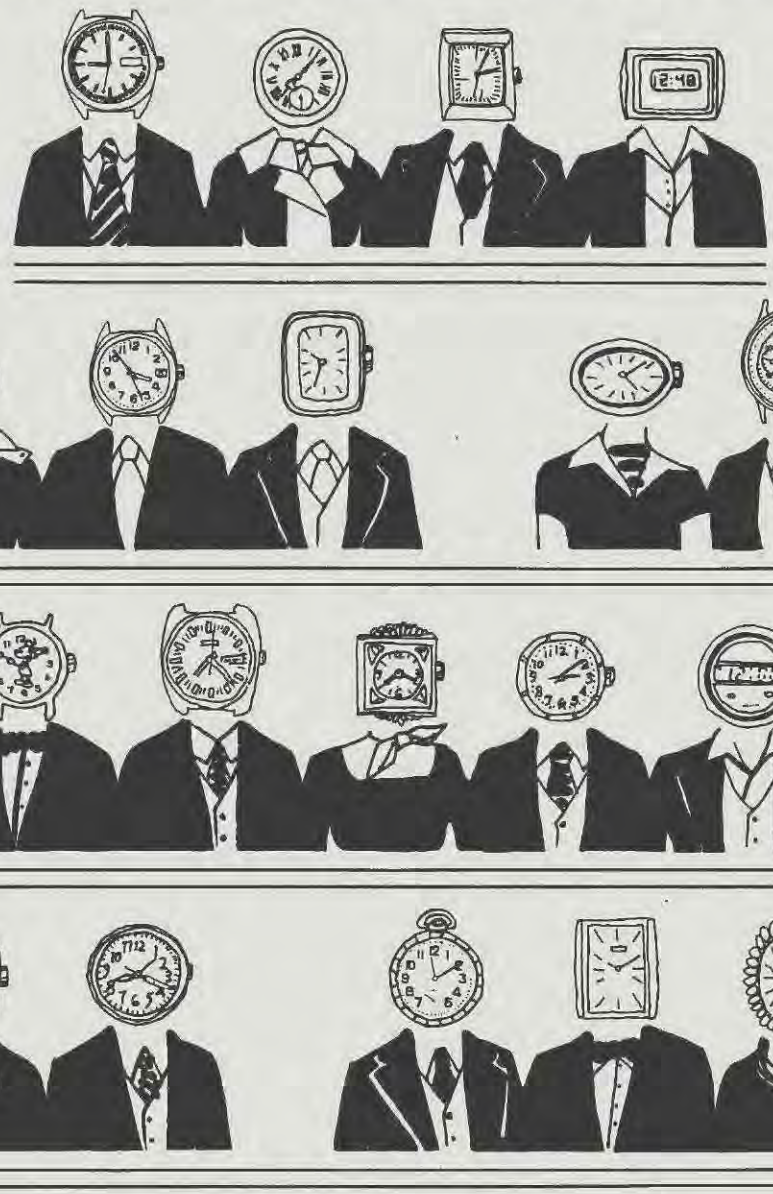

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General Mills taps Dempsey for worldwide risk position

Michael J. Dempsey, 46, has been named director of risk management for the worldwide operations of General Mills Inc. in Minneapolis. He replaces **Paul W. Kolbe**, who is retiring at the end of November after almost 40 years with General Mills, 30 of them in risk management. Mr. Dempsey joined the company's insurance department as claims administrator in 1968 after 12 years with The Travelers Insurance Co. In 1974 he was promoted to assistant risk manager and assumed the position of risk manager in 1977. His replacement has not been named. Mr. Dempsey has a B.S. degree from LaSalle College. He will report to J.L. Weaver, vp and treasurer.

* * *

Joseph Anastasio, 31, has been named risk analyst at Freeport Minerals Co. in New York. He replaces Frank Feeley, who was named general insurance manager for Thiokol Corp. in Newtown, Pa., as reported. Mr. Anastasio, who reports to risk manager Harvey Molloy in his new position, has a M.B.A. degree from the College of Insurance. He was previously supervisor of workers compensation at Associated Aviation Underwriters in New York.

* * *

Crum & Forster Corp. in Morristown, N.J., the management and services subsidiary of Crum & Forster, has appointed **David R. Boxler** assistant vp. Mr. Boxler, who reports to Richard A. McGinnis, vp of employe benefits, joined the company in 1977 and continues to be responsible for corporate employe benefits and personnel data system operations. Before joining C&F, he was corporate supervisor of employe benefits for Mutual Benefit Life. He is a member of the Newark, N.J., Personnel Compensation Board. Mr. Boxler is a graduate of the University of Pittsburgh, where he majored in economics.

* * *

Glenn A. Williams, 29, has been named to the newly created position of corporate risk management specialist for Fairmont Foods Co. in Houston. Mr. Williams, who will report to corporate risk manager John Lower, was a safety management representative at Aid Insurance Co. in Des Moines, Iowa, before assuming his new job. He has an M.S. degree in safety management from the University of Arizona and a B.S. degree in industrial education from Iowa State.

* * *

Shirley McLane, 30, has been named manager of compensation and benefits at Sealy Inc. in Chicago. Ms. McLane, formerly with A.S. Hansen Inc. as an employe benefits consultant, will administer benefit and compensation programs. In this newly created position, she will report to Stephen Weckstein, vp of personnel and industrial relations. Ms. McLane has a bachelor's degree in economics from the University of Illinois.

* * *

The Taylor, Mich., firm of Masco Corp. has promoted **George Smith**, 36, to the position of corporate insurance manager. He replaces **Tom Mosier**, who has accepted employment with Farmbank Services in Denver. Mr. Smith has a bachelor's degree in history from the University of Michigan and more than 11 years experience in the insurance industry. He was casualty underwriting manager for Employers Insurance of Wausau before joining Masco in 1977. For the past 2½ years he has served as corporate property and casualty supervisor. In his new position, he reports to David G. Wesenberg, director of personnel and insurance.

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Ill. taps computers for speedy finish

Continued from page 3

he said. "Actually, we expect most of the financial support of the exchange to come from outside the insurance industry from such places as the Chicago Board of Trade."

"The investors at the Chicago Board of Trade are undeniably intrigued by the Illinois Insurance Exchange as an investment and as soon as they figure out exactly where they fit into the scheme, they'll eagerly support the exchange," said Robert A. Podesta, investment broker with Altorfer, Podesta, Woolard & Co. and one of the newly selected members of the interim board of directors.

LaSalle Street, Chicago's financial district, will be very helpful to the exchange, he said. "It's our business to put people with money in touch with people who need it."

Donald Fisher, president of General Casualty Cos. of Madison, Wis., and another interim board member, says there's a built-in need for the exchange in the Midwest. "The Midwest is still an industrial powerhouse and I doubt if we'll have any trouble mustering support."

Another ace in the hole for the Illinois Insurance Exchange is the computer design that will be used to start and maintain the operation of the exchange, Mr. Epton maintains.

The design of the computer system is largely the brainchild of Richard Friedman, an attorney in Mr. Epton's Chicago law firm of Epton Mullin Miller & Druth Ltd. Mr. Friedman also helped Mr. Epton draft the enabling legislation for the Illinois exchange.

Blueprints for the Illinois Insurance Exchange computerization include four basic phases, Mr. Friedman explained. The first phase or display phase outlines how the syndicates can bid on a certain risk.

If a broker in Iowa has a client who needs a grain elevator covered, he would contact an exchange broker who would then take the risk to the syndicates to see if they could accept it.

As soon as the syndicates accept the business, it would be given a number with the day's date and then certain characteristics of the risk such as location, size and loss experience would then be entered into a computer.

Once the risk is officially entered into the inventory of the exchange, the syndicates can decide what chunk of the risk they will take. Under the enabling legislation, each syndicate and subscriber can take no more than 10% of each risk. But, the interim board will decide the maximum total risk each syndicate and subscriber can take. The computer will also make sure each syndicate and subscriber hasn't exceeded the limits.

In the transaction phase, a policy is immediately written and issued through the computer, all information about the risk is stored and the trail of money between the policyholder, broker, and syndicate is handled.

Since the Illinois insurance department is required to audit the exchange, the computers will be programmed to contain information needed by an insurance department audit. Equipped with a computer in its office, the department will be able to conduct an audit quickly and probably more frequently in the audit phase of the operation, Mr. Friedman said.

The final phase of the operation will make profiles available of certain kinds of business written by the exchange or marketing information on business not currently written.

"The system is not complicated and relatively inexpensive in the long run," Mr. Friedman said. He estimates the cost to buy, install and program the computers will run well less than $500,000.

By using computers, marketing a risk is done in such a compressed period of time that it will keep overhead expenses to a minimum, Mr. Friedman said.

"Instead of siphoning all of the money into a gymnasium-type building and into the wages of hordes of bookkeepers to do the paperwork, "the Illinois exchange is instead investing in a program designed to be rapid, accurate and objective," he said.

With this program, Illinois is not confined to brokers in one location, Mr. Friedman noted. "I can see brokers on the move taking their portable 35-pound computer with them wherever they travel."■

N.Y. plans 'safe but sure' course

Continued from page 3

some control over the exchange guaranty fund and can take action against members "doing business in a manner detrimental to the people of this state" that the exchange fails to discipline.

In addition, entities controlled by foreign governments can become underwriting members only with prior approval from the superintendent. This provision in state insurance law protects other insurers against subsidized competition, explained Mario Carfi, chief of the department's exchange bureau.

Mr. Learson said the governors are studying the proposed regulation and will offer testimony at the hearing. Sources close to the exchange add there are some objections to the draft version.

The exchange, meanwhile, is contemplating seeking state legislation to clarify some technicalities in its tax status.

Everyone denies, however, that the New York legislature will be asked to amend the original enabling legislation to allow the exchange more freedom to directly underwrite risks.

Several supporters of the exchange, including Mr. Clements of Marsh & McLennan, concede the Illinois law has all the provisions that should have been included in New York's law, particularly the right to underwrite any risk with a premium of more than $50,000. "They benefited by learning from New York's experience," he said.

Marsh & McLennan and other brokers would like to see the free trade zone impediment to direct underwriting lifted, but such action is not likely in the near future, concedes M&M senior vp David Holbrook, a member of the board of governors.

Superintendent Lewis said he would oppose such action, as would Gov. Hugh Carey, who has close ties to American International Group president Maurice R. Greenberg, a key supporter of the free trade zone. John Dunne, the senate insurance committee chairman who favored such action, has resigned that post and no successor has been named.

Mundane operating points still need to be resolved by the exchange's management. They include establishing operating and management rules, accounting procedures, setting up an operating budget, putting the exchange security fund into operation and obtaining accredited status for reinsurance written by the exchange.

Hiring a staff to assist him will be one of Mr. Reutershan's priorities. "We have a board of governors, one president and an information office. We need a treasurer, data processing specialists and other administrative people," he said.

The exchange has also retained Cahill, Gordon & Reindel as legal counsel and uses Chase Manhattan for banking services. Coopers & Lybrand is expected to be appointed auditor.

No plans for electronic data processing equipment have been made. Since the exchange is not expected to write a heavy premium volume when it first opens, it could probably operate for a time without electronic data processing equipment in place, Mr. Reutershan said.

However, it is important that the exchange's recordkeeping procedures be planned to facilitate computerization at a later date, he added. ■

Letters column . . .

Continued from page 12

As an insurance agent involved in this problem for years, one major factor that concerns me is that property purchases in the inner cities of our nation are said to motivate arson, based on the great difference between market value and replacement cost. However, the same situation in suburban America is turned into a replacement cost only.

Example: We take a home that has an estimated replacement cost in today's market at $200,000 and place that home in one of our inner cities across our nation. The home is sold at a market value of approximately $100,000. There would be no way an insurer would be convinced to write that property on a replacement value. However, if we took that same home in suburban America, and through some real estate transaction were able to negotiate a purchase price of $100,000, we would be encouraged, and I might add, required, to provide replacement cost value on that property if we were providing homeowners coverage.

I ask, what is the difference in creating a moral hazard through the so-called redlining problem? Herein lies the whole basic concept of the racial motivation that the inner cities of our nation are now relegated to the poor, the minorities, the disadvantaged, the old and the handicapped.

Usually, based on my experience as a member of the board of governors of the Ohio FAIR Plan, the torching incidents that have occurred in our inner cities are a result of the absentee landlords and not a result of the homeowner who resides in the inner city.

If, in fact, our cities are to be built again and if we are to encourage homeowners to reside, purchase and grow within our cities, the problem of providing proper coverage for proper homes must be met. There are some insurers addressing this problem. I think it is time that we, as an industry, begin to "accentuate the positive and eliminate the negative."

Charles B. Perry
Pinkney-Perry Insurance Agency Inc., Cleveland

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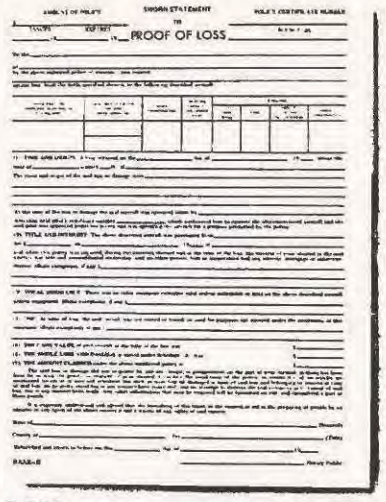

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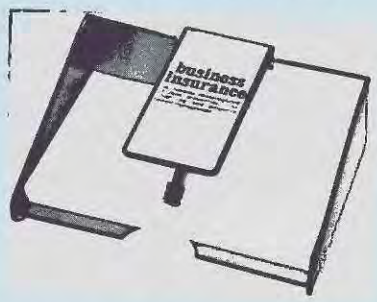

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