

Strange bedfellows agree on demands for health reform

By JANE WINEBRENNER

CHICAGO—Consumer awareness and a "combined effort" are needed to unwind the present national health care cost spiral, according to panel members of an Illinois Blue Cross and Blue Shield symposium.

A Greek chorus of labor union representatives, employers, doctors, insurance representatives and even conservative columnist William F. Buckley and consumer advocate Ralph Nader all echoed each other on the need for reform of the health care delivery system. They differed only in the degree of reform advocated.

John H. Perkins, president of Continental Illinois National Bank, said "employers are often too willing to go along" with labor's demands for higher benefits, but added that he thinks labor unions are beginning to realize that higher health costs hurt their jobs and any future benefits.

United Auto Workers president Leonard Woodcock said in remarks to the November symposium that his union has been concerned about costs since 1968. He said a Michigan Chrysler worker and his family gave up the equivalent of one month's wages in the bargaining package two years ago to pay for health insurance premiums. As of September this year, the same benefits cost over six week's wages.

Third party cost reimbursement was criticized heavily by most

panel members as leading to excessive testing, unnecessary surgery and drugs, and poor hospital management.

Virginia H. Knauer, special assistant to the President for consumer affairs, said third party payments to providers accounted for 92% of expenditures for hospital care and 65.6% of physician payments in 1975.

"Also, because of the third party payment system, she said, "hospitals usually adopt a cost-reimbursement approach. Normally, all the costs incurred by a hospital in treating a patient are reimbursed. Under such a payment mechanism, there is little incentive for the hospital to be efficient. Rather than compete on a cost basis, hospitals tend to compete by increasing in size, in technological sophistication, or in prestige."

Ralph Nader blamed the health care cost rise on increased disease and accidents in the workplace, the "mania for the latest technology," and most important, the "failure of accountability of institutions to the people they're supposed to serve."

To increase consumer awareness of the indirect costs of health care delivery, Mr. Nader suggested consumer advocacy groups on a community level, supported by a voluntary check-off system. Similar contributions are now used to support advocacy groups in the utility industry, with requests of money contained in electric and other utility

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business insurance

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Product liability study is one of 12 on Carter's list

By PAUL R. MERRION

WASHINGTON — President-elect Jimmy Carter's staff will be fully briefed on the work of the Interagency Task Force on Product Liability in the next few weeks when transition talks get down to specifics, a key White House aide told *Business Insurance*.

The product liability task force is only one of about a dozen inter-agency study groups on various economic problems sponsored by the Economic Policy Board, a Cabinet-level decision-making body created by President Ford. All of the Board's unfinished business will be outlined for the Carter staff "to make sure the work gets passed on," said Roger Porter, a special assistant to the President

and executive secretary of the Board.

"I don't think (Carter's transition planners) know anything about the task force on product liability, but they will," Mr. Porter said. "We're concerned that the information we've gathered doesn't fall through the cracks."

Mr. Porter and L. William Seidman, executive director of the Economic Policy Board and assistant to the President for economic affairs, met for the first time with two members of the Carter transition staff in a one-hour meeting on Friday, Nov. 19.

That initial meeting didn't go into specifics, Mr. Porter said, adding that their talks centered on a Board discussion of how economic policy has been made under



Jimmy Carter

the Ford Administration. In addition, "we indicated what materials would be provided" to the incoming President, Mr. Porter said.

Besides the fate of the product liability task force, another crucial question is the continuation of the Economic Policy Board, which under the current system will not only receive the three-pronged report, but will also be responsible for making legislative recommendations to the President.

"The Economic Policy Board stays in existence unless an executive order is issued to dissolve it," Mr. Porter said. "Carter has been advised to keep (the board) or else return to pre-Ford economic chaos," he added.

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Super-captive idea raises eyebrows

By MARGARET LeROUX

HAMILTON, BERMUDA—A leading Lloyd's representative wants to see operators of captive insurance companies form a "super-captive" in order to make more capacity of Bermuda companies available to the international markets.

John R. Parry, director of Bellw, Parry & Raven Ltd., London, told the fall meeting of the Captive Insurance Company Assn. that rather than have captives form a pool, he'd like to see each captive subscribe to one major reinsurance company by establishing a separate entity.

Mr. Parry's remarks were greeted with interest but some skepticism by CICA members, 196 strong and representing a wide variety of different approaches to insuring parent company risks.

To have any real impact on the market, the super-captive would need capital of \$25 million or more, Mr. Parry noted. "That is 100 captives subscribing at \$250,000 each. And as I believe there are over 300 captives in Bermuda, the suggestion would be feasible."

The super-captive would negotiate with insurance companies, with a view to writing the insur-

This story and others on pages 23, 26 and 27 resulted from a CICA invitation to associate editor Margaret LeRoux to be the first reporter ever to attend the group's annual meeting.

ers' treaties, and reinsuring the super-captive's account on a quota share basis to its shareholders. The super-captive would also act as a front for its shareholders when any one of them was offered business by an outside company which had some questions about the strength of the individual captive insurance companies which would be reinsuring the risks.

Mr. Parry noted an objection to the capitalization of a company in this way is "the various participants might not want to lock up \$250,000" in any single investment.

"To overcome this objection, I would suggest the capital be split into ordinary shares and preferred shares, with 20% of the capital in ordinary shares and the remaining 80% in preferred shares, which total \$20 million," he said.

"When referring to a market, I would suggest that the company apply to the Bermuda Stock Exchange to obtain a quotation for

both its ordinary and preferred shares," Mr. Parry continued.

"If the stock exchange would not grant this until such time as the company had been trading and had trading results, then I believe that an informal market could be created by the banks to deal in these shares."

Mr. Parry further suggested CICA take on the association responsibilities for the super-captive.

Other points about the super-captive that should be considered, the Lloyd's member said, include the need for its independence, "rather than be aligned to a broker or agent . . . or management company which has strong broker connections."

If the support of all international agents and brokers is sought, then independence is necessary, he said.

When forming the new company, it would be advisable to have a base of business from which the company can begin trading, he said, suggesting this be forthcoming from the shareholders on a 5% or 10% quota share of each one's net account.

Further, a facility for withdrawal must be available, he said.

Success of the super-captive depends on how enthusiastic the captives would be to develop a non-related account and become genuine insurance companies.

While CICA members greeted

his remarks with interest, most were unwilling to commit themselves to action on the super-captive proposal.

"It's a great idea, but it's still a long way off," said E. William Altstaetter, assistant treasurer at Rockwell International Corp.

Other CICA members expressed similar opinions, many citing the

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First solid pension data is predictable

By PAUL R. MERRION

WASHINGTON—The American pension universe has finally come into focus—looking much as expected—in the first comprehensive statistics culled from the August 1975 filings of the Labor Department's EBS-1 form.

It is primarily a universe of small corporate pension plans and large multiemployer plans, distributed evenly across the country, with funded plans outnumbering insured plans by two to one. Very large welfare plans, on the other hand, were usually insured, with nearly all plans using insurers for claims handling.

As expected, plans with 10 or less participants account for roughly two-thirds of the nation's 473,272 private pension plans, although nine out of 10 of the pension plan participants belong to the larger plans, the statistics revealed.

In addition, 76,375 welfare plans filed the short version of the EBS-1 forms (the first two pages), the department said about 4,000 pension plans also had welfare provisions.

The survey did not include about one million fully-insured welfare plans that were exempt from filing because they had less than 100 participants.

The significance of the EBS-1 data is that, for the first time, the government has put the information it receives into a computer, "so you know what you're getting," said Dallas Salisbury, acting director of the Office of Policy Planning and Research.

"Instead of speculation, we now have confirmed data," he said. The study "breaks up everything claimed" about the private pension universe so that "one can rely to a very high degree on studies

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Been axed? RIMS may know—page 4

Insurer settled Gulf's D&O claim after initial threats to disallow it

By GREG DAVID

PITTSBURGH—North River Insurance Co., which paid \$2 million as part of the settlement of suits in connection with Gulf Oil Corp.'s illegal political contributions, at first threatened to cancel the company's directors' and officers' liability policy because the application was fraudulent.

But the company agreed to the \$2 million payment under the policy after a series of meetings with Joseph A. Katarincic, attorney for five of the defendants, according to affidavits filed with the court.

Exactly why North River decided to pay under the policy is unclear. Efforts to reach the company's attorneys were unsuccessful. Mr. Katarincic said he could not comment on published reports that he threatened to sue North River if they did not cover his clients under the D&O policy.

The insurance company payment appeared to be the key element in the settlement of the eight shareholder suits against 19 current and former Gulf directors and officers. U.S. District Court judge Joseph P. Willson called the \$2 million "new money" when he approved the settlement at a public hearing in Pittsburgh.

The suits asked the defendants to reimburse the company for the estimated \$12 million in illegal political payments made both in the United States and abroad in the 1960s and '70s. The compromise was estimated to be worth \$3.6 million by Howard Specter, the lead attorney for the shareholders.

In addition to the \$2 million payment from North River, several former officials will surrender \$850,000 in stock options and \$370,000 in deferred compensation. Two other officers will reimburse the company a total of \$250,000 in cash and recipients of the donations will return \$57,000.

Gulf paid \$142,631 in premiums for the D&O policy covering the three-year period June 1974 to June 1977. The policy provided \$25 million in coverage with deductibles of \$10,000 for each director or officer loss with an aggregate deductible of \$30,000. The deductible for company reimbursement was \$100,000.

Marsh & McLennan was the broker for the policy. North River is a wholly owned subsidiary of Crum & Forster in Morristown, N. J.

At North River's insistence, the defendants released the insurance

company from any further liability under the policy. Gulf in turn agreed to reimburse the defendants against any future loss. The D&O policy continues in force at Gulf for other actions not related to the political contributions.

The policy covered legal fees and expenses in connection with defending actions under the policy. But the \$2 million is a total payment from the company. Gulf has agreed to pay the legal fees of almost all of the directors and officers, an action the judge said was required under the bylaws of the corporation and the laws of Pennsylvania.

The plaintiffs attorneys will receive about \$600,000 while defense costs amount to \$1.1 million. Not included in this \$1.7 million figure is the \$200,000 Gulf spent on internal legal work.

One shareholder, Pat Holloway of Beaumont, Tex., said the high legal fees were out of line with the settlement "which was of no overall financial benefit to Gulf." Mr. Holloway had planned to contest the settlement, but withdrew the objection because he said he was convinced the corporation "would die under the weight of legal fees."

Negotiations over the insurance company's role began on Feb. 13, 1976, when Mr. Katarincic met with George G. D'Amato and Kenneth A. Sagat, attorneys for North River, according to the affidavit filed by Mr. Katarincic.

The Pittsburgh attorney said his clients expected the insurance company to cover them for any losses resulting from the shareholders action. Mr. D'Amato said North River was going to rescind the policy since the application filed by Gulf chairman Bob R. Dorsey in December 1974 was fraudulent.

In the application on file with the court, Mr. Dorsey said he "had no knowledge or information of any act, error or omission which might give rise to a claim under the proposed policy."

The Securities and Exchange Commission later reported Mr. Dorsey had himself previously authorized several million dollars in payments in South Korea and that at least three other top executives had been aware of some of the slush fund activities.

Mr. Katarincic, the North River attorneys and William Mahoney, vp of claims for Marsh & McLennan, attended a second meeting on April 28. Again Mr. D'Amato said North River was going to rescind the policy. Mr. Katarincic says in his affidavit that he again explained why the insurance company should cover his clients under the terms of the D&O liability policy sold to Gulf.

North River finally agreed to the \$2 million payment at a meeting between the attorneys on July 21.

In urging the court to accept the settlement, Edwin Klett, Gulf's attorney, said the insurance company could still rescind the policy if the compromise was rejected. He said while Gulf would "vigorously contest" such a move, "such allegations cannot be lightly dismissed."

Thus, "the settlement was justified in light of the risks" of continuing the case, he said.

The plaintiffs' principal attorney, Howard Specter said, "We have accomplished significant benefits for the corporation." He cited the monetary compensation and organizational changes at Gulf in saying "litigation has achieved all it can reasonably expect to achieve."

Only one suit, filed by the Project on Corporate Responsibility in Washington, D.C., is still pending in the Gulf case.

Health care costs . . .

Continued from page 1

Continental Bank's Mr. Perkins also supported a community approach to health care delivery reform. "But the community approach must be truly community-wide, embracing the best efforts of individuals—both as health care consumers and citizens—as well as the combined, cooperative efforts of the entire health care industry, and of the business community as employer and consumer of health services," Mr. Perkins said.

The only dissension on the panel came from a physician. Dr. Daniel Tosteson, dean of the University of Chicago medical school. Referring to statistics that show 8.3% of the gross national product was devoted to health care in 1975, Dr. Tosteson said this is not necessarily an outrageous sum.

"I see no compelling economic logic which suggests that the economic stability of the country is imperiled when the percentage of the GNP devoted to health care reaches 8% or 10%. The economist Uwe Reinhardt has pointed out that Americans spend one-third as much just on alcohol and tobacco as they do on health care. Perhaps we should spend more, not less, on health care," Dr. Tosteson asserted.

However, economic indicators for calendar 1976 show signs that the health care sector is beginning to cool off. For the first six months of 1976, medical services prices rose at an annual rate of 8%, and hospital service charges, 7.2%, compared to a general inflation rate of 5% on an annual basis. These health cost increases are still too great, but they suggest that after several years of runaway inflation, health care prices are beginning to respond to broader economic conditions," Dr. Tosteson contended.

To keep down costs, the insurance industry and the Blues had

"better not be just a funnel," the president-elect of the Health Insurance Assn. of America said. Robert F. Froehlke said any federally mandated solution will set up cost controls and will destroy a few sacred cows in the process.

Unless insurance companies correct the health cost increases, they will leave a vacuum in the marketplace filled by the government, he warned. Among those sacred cows that need to be knocked down are promises of the best in medical care for every American; technology as progress even if it means weighing moral versus cost benefits; and using malpractice risks as an alibi for unnecessary medical care.

If there is any government intervention in the form of national health insurance, conservative spokesman William Buckley prefers the so-called Ketchum bill, which provides for voluntary contributions to a plan on a regional basis; the plan would eventually cover 100 million Americans. Maximum government subsidies would be no more than 50% of the cost, with plan members paying a flat \$12 monthly.

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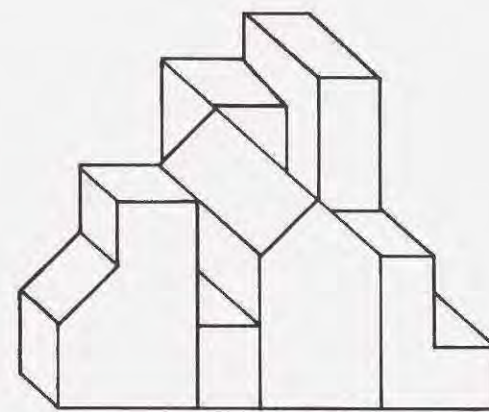
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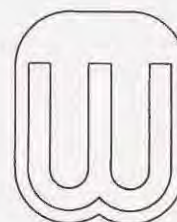


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the benefit beat

Sandia taps Travelers for group dental program

SANDIA CORP. in Albuquerque, N. M., has selected The Travelers Insurance Co. for its new dental insurance program. Norris Rose, employee benefits administrator, said the plan would cover 100% of preventive care and 50% of the average, reasonable charge for restorations, periodontics, and other care. There is a \$50 lifetime deductible but there is no orthodontic coverage. Mr. Rose said the plan, effective Jan. 1, will cover at least 5,000 employees. The company is now negotiating with its unions to extend it to all 7,200 Sandia employees. He said Travelers was chosen because of its record in providing the dental insurance coverage for the one million workers in the Bell system. He would not disclose the program's cost or the other insurance companies that bid on it.

STATE OF WISCONSIN'S group life insurance program has been put out for competitive bids. The program includes 105,000 current and retired state and municipal workers and involves \$11 million in annual premiums and over \$1.5 billion in face value. Dale Hanson, director of the group insurance program, said specifications were sent to the 20 largest writers of group life insurance in the state in 1975. Over 35 companies sent representatives to a conference on the policy in late October. The

Malpractice premiums too high: Court

MUSKOGEE, Okla.—A federal district court in Oklahoma ruled Oklahoma hospitals are paying "prohibitive" rates for malpractice insurance.

The Muskogee Medical Center Authority asked the court to clarify the conditions of a bond issue requiring the hospital to carry \$3 million of professional liability insurance. The court ruled the hospital's \$462,000 insurance premium is prohibitive and paying such premiums would not be in the best interest of the bond holders, the community, or anybody "except perhaps the insurance companies."

After issuing bonds, the hospital determined it could no longer afford malpractice rates. It opted to pay \$90,000 for insurance covering \$100,000 per incident and \$300,000 a year.

The trust for the bond issue had advised the hospital that it was in technical default for not carrying the \$3 million of liability insurance.

"The ruling means members of the hospital board are not personally liable if the hospital is sued for more than the covered amount," said Ray Schmitz, a hospital spokesman. The court ruling stated that the board had acted "prudently" in paying the smaller malpractice premiums.

Group life sales up

Group life insurance contracts in September totaled \$8.2 billion, up \$300 million from the \$7.9 billion sold in September 1975. Total insurance sold in September amounted to \$25.7 billion, up from \$24 billion. Group life insurance for the 12 months ending Sept. 30 amounted to \$102.1 billion compared with \$97.5 billion figure for a year ago.

deadline for sealed bids was Nov. 19; a decision is expected to be announced in mid-December. The Minnesota Protective Life Insurance Co. has had the group life policy since the program's inception in 1958.

THE UNITED AUTO WORKERS won an additional \$1.5 million in pension benefits for 240 former employees of the defunct Riverside (N. J.) fabricated metals division of H. K. Porter Co. The company bought annuities with the \$500,000 in the trust fund when it closed the New Jersey plant in 1970. But the annuities provided only half the pension benefits retired workers were entitled to. Workers who had not yet turned 65 were not accepted into the plan. A federal dis-

trict court ruled the company must meet all the contractual pension arrangements in its contract with the UAW.

THE STATE OF CALIFORNIA signed a \$100,000 contract with Wyatt Co. and Sybron Dental Administration Inc. to study the feasibility of a dental plan for 200,000 state employees. "It's going to be a very extensive study of delivery modes," one of the consultants involved in the study said. Insured plans, fees for service groups and California's health maintenance organizations (HMOs) will be considered. The consultants are due to give their recommendations to the state by the end of the year. Also involved in the study are the state finance department and the direc-

tor of dental care for the California Dental Assn.

WHITTAKER CORP. in Los Angeles placed \$6 million to \$7 million in pension funds with the John Hancock Mutual Life Insurance Co. in a guaranteed return contract and an additional \$1 million in funds with a similar Lincoln Mutual Life Insurance Co. arrangement. The head of the company's investment management firm said the 9% rate of returned on the guaranteed contracts was attractive when compared with long term bonds. Whittaker's pension plan contains \$20 million.

CITY OF COLORADO SPRINGS chose the Equitable Life Assurance Society of the United States

to underwrite the life insurance coverage on its 3,242 municipal employees. The coverage includes accidental death and dismemberment and dependent life. The total group life volume on the business is approximately \$50 million, with an annual premium of \$210,000.

FRONTIER AIRLINES INC. in Denver placed \$9 million in pension funds in a six-year guaranteed return contract with the John Hancock Mutual Life Insurance Co. The amount represents almost 30% of the \$33 million in five pension plans the company maintains for specific groups of employees. The five plans are operated as a single entity for investment purposes. The rate of return is 9.25%.

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RIMS may know you've been fired before you do

By MARIE KRAKOWIECKI

NEW YORK—There are a couple of looseleaf binders that Ron Judd keeps under lock and key at the national headquarters of the Risk & Insurance Management Society.

They are the records for the job referral service RIMS offers free to its members and to companies seeking seasoned risk management talent.

Mr. Judd, executive director of RIMS, prides himself on keeping the files for his eyes only. He says he won't even let the trade association's own president or executive committee steal a peek at them.

Why the secrecy? Beyond the usual requirements for confidentiality which keep prospective employers and job hunters happy, there is a twist to the RIMS

executive referral service.

Some of the jobs which Mr. Judd keeps specification sheets on and tried to fill from among the ranks of RIMS are already filled—from among the ranks of RIMS.

There may be a case, for instance, when a company feels its current insurance manager is asleep at the wheel and it wants to replace him. The firm's top financial management will file a job description with the RIMS referral service.

Then Mr. Judd finds himself in the delicate position of having to find a job for one of the association's members at the direct expense of another.

Mr. Judd said the companies have already made their decision to fire someone before they contact him, so he feels justified in

trying to help out other RIMS members who are out of work because of mergers or other reasons.

When *Business Insurance* visited him in November, Mr. Judd said there were about 60 positions listed in the royal blue vinyl folder he reserves for spec sheets of job descriptions. Roughly half of the openings were for positions currently filled by people whose employers are attempting to replace them.

Compared to the 60 job openings in the blue file, Mr. Judd said he had about 160 resumes from risk managers in the bulging black binder he pulled off a credenza behind his desk.

Still, the RIMS executive director explained with a sigh, the demand for top-level risk management positions far exceeds the supply, a condition he blames on the

wretched state of training in the profession as little as 10 years ago.

The RIMS executive referral service does not handle any entry level positions in risk management, it deals only with top level jobs which pay a minimum salary of \$20,000. Some of the jobs now open pay up to \$75,000, Mr. Judd said, but he was not optimistic about filling them easily.

RIMS sticks to the \$20,000-and-up jobs for several reasons. The first is very practical: in New York state, if you run a job referral service for positions below that salary level, you have to be licensed as an employment agency, which is not RIMS' intent at all.

More to the point, Mr. Judd said he wants to avoid fielding offers from companies which downgrade the risk management profession by

offering \$10,000 for a professional whom they expect to handle property/casualty, loss prevention and employee benefits.

"They don't want a risk manager, they want a competent secretary," Mr. Judd said, adding: "You can't get a man with that much knowledge for that kind of salary, but you'd be surprised at the companies, some of them \$500 million companies, which think they can."

RIMS won't work with a company like that, or with a company that refuses to furnish a complete outline of what the job requires, who the risk manager will report to, and what latitude and responsibilities go with the position.

While most of the specification sheets come to RIMS directly from the prospective employers, Mr. Judd is notified of some openings by the executive search firm Ward Howell Associates.

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Mr. Judd thinks that arrangement is fine: it takes some of the burden off him, because the RIMS referral service has been growing by leaps and bounds and is taking up much more of his time.

On one hand, he is enthusiastic about the referral service because he finds it is a very concrete and effective way that RIMS has been able to promote risk management as a recognized corporate function.

He likes to tell the story of how one company, which never had a risk manager before, hired one through the RIMS referral service and managed to get a \$400,000 savings in six months as a result.

Mr. Judd says he will put a company which is contemplating a risk management position in touch with a similar company which already has one, to get pointers on how the professional risk manager functions. He recently did this for a supermarket, and the firm is now looking for its own risk manager.

Mr. Judd said the referral service has grown by at least 50% to 75% in recent months.

"Back in 1967 if we had a job or two a month it was a big deal and we'd celebrate if we got a job that paid \$30,000," he said, reflecting on the service's growth since then.

Mr. Judd doesn't know exactly yet how the service will be handled if it gets any bigger than it already is, but he said a special executive referral committee chaired by James Tobin of Joseph E. Seagram & Sons will hold a meeting soon to work out some solution.

Meanwhile, if you are an experienced risk manager and RIMS member looking for a job, you can send your resume in to Ron Judd. He will put it in with the five-inch thick stack already in his black folder.

If you already have a good risk management job, don't rest on your past laurels, though. Mr. Judd said requests from employers to replace their risk managers are coming in at a steady clip.

"I got a call in confidence from the executive vp of a major firm that wanted to hire a risk manager in a vp capacity to consolidate the department, be in charge of property/casualty, loss prevention, and start up and run a captive insurance company," Mr. Judd said.

The firm already has an insurance manager, but when Mr. Judd did some checking up on him he discovered the man never keeps up with his local chapter and seems to have a rather lackluster performance record.

"Will you tell them that?" Mr. Judd asked, seeming exasperated. "Will you tell those risk managers that if they don't keep up with their profession they have a good chance of losing their jobs? They need to be shaken up a little." ■

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Carter . . .

Continued from page 1

The product liability study is only one—and a fairly “narrow” one at that—of about a dozen task force studies now in process, on areas including bank regulation, agriculture, international commodities, labor negotiations, questionable payments abroad and several other subjects, Mr. Porter said.

When asked about the relative importance of the product liability study, Mr. Porter said, “We don’t set up a task force unless it’s important.” As for its specific priority, he said a task force report “gets put on the agenda when it’s ready.”

And while Jimmy and Rosalynn Carter are unpacking and getting settled at 1600 Pennsylvania Ave., the 95th Congress will be gearing up for its first session and turning to—among other matters—the problem of product liability insur-

ance.

Even before Congress convenes next year, the Senate Small Business Committee will “probably” hold additional hearings, a key staffer told *Business Insurance*. The select committee held the first congressional hearings on the product liability problem last Sept. 8 and 10 (*Business Insurance*, Sept. 20, 1976).

“It’s one of our biggest issues,” the staffer said. “It’s getting a lot of attention.”

The committee is authorized to hold hearings when Congress is not in session because it is a select, non-legislative body. In the 95th Congress, however, the Small Business Committee will have legislative powers although they will primarily be used for matters concerning the Small Business Administration, according to the staffer.

And at its counterpart on the other side of Capitol Hill, the House Small Business Committee

will hold two days of product liability hearings as soon as possible after Congress convenes.

“Product liability is going to be our first order of business,” Tony DiStefano, professional staff member of the committee’s subcommittee on commodities and services, told this magazine.

“In response to numerous letters from trade associations and other members of Congress,” Mr. DiStefano said, holding hearings on product liability problems is almost a “fait accompli.”

Although a witness list has not been compiled yet, he said he hopes to have representatives from small business associations, the insurance industry, attorney groups, the Small Business Administration and the Department of Labor.

The House Small Business Committee has legislative authority only on Small Business Administration matters. The commodities and services subcommittee does not have law-making powers, Mr.

DiStefano said.

Elsewhere in Congress, in the real centers of power where any legislation involving product liability reform will have to pass through, other matters are taking precedence. Such tasks as jockeying for chairmanships are taking everyone’s time right now and legislative priorities and hearing schedules won’t shape up until the legislators meet in January.

At the Senate Judiciary Committee, which would have to rule on any tort reform measures, “we don’t know what the chairman will want to get into,” a spokesman for the antitrust subcommittee said. “We don’t even know who the chairman will be,” he said. The three senators in line for the job of retiring Sen. Philip Hart (D-Mich.) are, in order of seniority, Sen. John L. McClellan (D-Ark), who is not expected to take the post because he holds other important subcommittee chairman-

ships, Sen. Edward M. Kennedy (D-Mass.) and Sen. Birch Bayh (D-Ind.), who has indicated a desire for the job if the other two senators don’t take it.

Other committees that will probably have jurisdiction over product liability reform are the House Judiciary Committee, the Senate Commerce Committee and the Interstate and Foreign Commerce Committee. None of these committees has decided on the legislative agenda for next year, spokesmen said.

A key staffer on the House Commerce Committee added, “I’m recommending to the chairman that we examine the Interagency Task Force report. It would be premature to speculate where we’ll go before we see the report.”

However, the high-ranking staffer said hearings on insurance problems are inevitable, adding that the consumer protection and finance subcommittee may get together with the health subcommittee and hold joint hearings on shortages in product liability and medical malpractice insurance.

“I don’t see any way to avoid hearings” on these subjects, the staffer said, “but I don’t know if we could frame a solution at the federal level.”

One major difference in next year’s Congress will be the absence of Sen. Robert Taft Jr. (R-Oh.), considered by many to be a leader of efforts to ease the product liability problem. Sen. Taft was defeated in the Nov. 2 election by the narrow victory of Democrat Howard M. Metzenbaum.

Sen. Taft sponsored a bill last summer that would have allowed a machinery manufacturer to countersue an employer if an injured employee subrogated against the machinery manufacturer for recovery of workers’ compensation awards and other damages, provided the accident was caused or contributed to by a violation of federal job safety and health rules. The senator also spoke at a two-day conference here last September sponsored by the Multi-Association Action Committee, an ad hoc product liability reform group.

The impact of Sen. Taft’s departure will be judged largely by what importance is placed on his proposed legislation. Many people, especially in the insurance industry, took a dim view of it, claiming that it would only increase the amount of litigation.

To machinery manufacturers, however, the bill probably would have eliminated many of their product liability suits. At the National Machine Tool Builders Assn., public affairs director James Mack said, “Taft’s defeat was a serious setback to product liability reform because of his great knowledge and willingness to be in the forefront of that effort.”

“Taft was largely responsible for calling the matter to the attention of his colleagues,” Mr. Mack said. “If anyone deserves credit for alerting them to the crisis, it’s Taft. His leadership will be sorely missed.”

Mr. Mack said he couldn’t point to a single new leader of product liability reform efforts in the Senate.

However, Paul Kipp, vp for public affairs for the Risk & Insurance Management Society, said the loss of Sen. Taft is “not necessarily fatal.”

“It depends if you’re a supporter of the bill,” he said.

In any event, Sen. Taft’s bill ultimately had seven co-sponsors before the 94th Congress adjourned, with some from both sides of the political spectrum, including a liberal in Sen. Gaylord Nelson (D-Wis.) and a conservative in Sen. Strom Thurmond (R-S.C.). ■

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'75 reinsurance premiums abroad, \$690 million, largest in 26 years

WASHINGTON—Net premiums on reinsurance sold in foreign countries in 1975 totaled more than \$690 million, the largest amount reported in the 26 years the Commerce Department has compiled data on international reinsurance transactions.

Losses paid abroad totaled \$480.2 million last year, giving U.S. reinsurance companies net receipts of \$210.4 million on premiums of \$690.6 million for the reinsurance of foreign risks, the Commerce Department reported.

At the same time, U.S. insurance companies paid out more than \$830 million in net premiums (premiums minus commissions) to foreign reinsurers in 1975, which was also the largest amount in that

category for the department's 26-year reporting period.

Over half of those payments, \$494.6 million, went to reinsurance companies in the United Kingdom, while reinsurers in the six countries of the European Economic Community received a total of \$95 million in net premiums last year, the department reported.

U.S. insurance companies recovered \$568.2 million in losses on the \$830.5 million in net premiums they paid to the foreign reinsurers, resulting in net U.S. payments of \$262.3 million for reinsurance of U.S. risks accepted abroad.

The Department of Commerce cautioned that the reinsurance figures are meant to show the effect

of these transactions on the balance of payments, and they are not meant to indicate underwriting results of the reporting companies.

"This is especially true with respect to the results for any single year because of the normal time lag between the payment of premiums and the settlement of claims," the Commerce report said.

Comparing the net U.S. receipts of \$210.4 million with the net U.S. payments of \$22.3 million, the effect of all 1975 international reinsurance transactions was a net outflow of \$51.9 million to foreign reinsurers, the department noted.

The report noted further that the reinsurance statistics do not take into account earned premiums, losses incurred (including losses in-

curred but not reported), and expenses incurred, which are normally used to calculate underwriting results.

However, the department noted that the reinsurance statistics do indicate long-term trends in underwriting, even though they cannot be applied accurately to any specific year.

The annual growth rate over the 26-year reporting period shows a 15.2% increase for receipts as opposed to a 7.4% rise in payments. In 1950, when the reporting period began, U.S. insurers ceded \$129.7 million in premiums abroad while assuming only \$17.5 million in premiums from insurers in foreign countries, the report said. Those figures contrast with \$830.5 million (payments) and \$690.6 million (receipts) for 1975.

In recent years, assumptions of risk by U.S. companies have outstripped cessions in both absolute and relative terms, the department

noted.

However, in 1974 and 1975, there were "strong upsurges in U.S. reinsurance premiums placed abroad," the report said. The result is that increases in premium payments have exceeded increases in premium receipts in the two most recent years.

During the last two years, the department noted, the growth rate of payments rose to match the growth rate of receipts. Both expanded by 17% from 1973 to 1974, and by 23% from 1974 to 1975, the report said.

The Commerce Department breaks down the payments and receipts from abroad to show transactions with the European Economic Community, Latin American republics and other countries in the Western Hemisphere, Japan, Switzerland, United Kingdom, and Canada.

The figures in this year's study are preliminary figures and will not be final until next year's report is issued, the department said. The revised figures for 1974 show that U.S. insurance companies paid \$673.5 million in net premiums and recovered \$498.7 million in losses, while receiving \$559.4 million in net premium receipts and paying \$393.2 million for losses suffered abroad, according to the report.

The reinsurance report does not indicate the entire effect of international insurance activities on the U.S. balance of payments, the report noted, because it does not take into account profits returned here by U.S. companies doing business overseas.

Data for the report are supplied by the major U.S. reinsurers and primary insurers that do a great deal of reinsurance business, the report said. "These companies are understood to transact virtually all the international reinsurance business done by companies operating in the United States," the report said.

School finds policy after long search

ALBANY, ORE.—It took Union High School District here over two months to find a company willing to provide liability insurance. Coverage through 1977 was finally obtained from three carriers, but at a cost more than double the 1975 premium.

The new coverage, according to Tom Gaulke, business manager for the schools, will cost \$33,000 and will be shared by State Farm Insurance Co., Maryland Casualty Co., and Insurance Co. of North America.

State Farm, at a premium cost of \$12,403, will provide \$1 million of liability coverage on school buses and other vehicles; Maryland's general liability insurance of \$300,000 will cost \$8,800; INA will provide \$5 million of errors and omissions coverage for three years for \$7,700.

Umbrella liability coverage must still be found, Mr. Gaulke said, to bridge the gap between the Maryland CGL policy for \$300,000 and the \$1 million general liability policy furnished to the high school district last year by Farmers Insurance Co.

Bank buys finance firm

The insurance premium financing division of Guaranty General Corp., Los Angeles, was acquired by Wells Fargo Bank, San Francisco, for an undisclosed sum. This service will be incorporated into the Wells Fargo insurance financing department.

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Offshore oil risks seen outpacing capacity to insure or control losses

By JOHN H. MILLER

LONDON—Lack of insurance capacity is resulting in several North Sea oil developments not being fully insurable. This is causing concern both to drilling rig owners and financiers, said Iain Hope of Glasgow, speaking at a U.K. risk management conference on offshore oil activities.

Mr. Hope, director of the Stenhouse insurance brokerage group, added: "Perhaps the time has come when the insurance industry should be seeking wider support—to produce extra underwriting capacity—from members of the financial world such as the banking community, from which in the past the insurance industry has shied away."

"In current terms the worldwide capacity limits of an insurer for physical damage of one North Sea location is about \$325 million. The problem of current worldwide capacity is being made worse by unsatisfactory underwriting experience in recent years," said Mr. Hope.

"Insurers can take active steps to improve their position by getting the clearest possible information on development projects well in advance of construction operations being started, and by arranging adequate reinsurance backup."

Mr. Hope declared: "If current worldwide capacity is inadequate to fully insure all major offshore disasters in the North Sea and certain other areas, the question arises as to what role national legislation has to play in coping with the potential disaster situation."

"Nobody attending this conference can fail to notice the increasing impact of legislation around the world in connection with potential oil disasters. Greater attention is being paid to safety because of legislation in the U.K., but not all legislation on the oil industry by the U.K. or other nations can be claimed to produce satisfactory results," Mr. Hope said.

"It's unfortunate that there is competing and contradictory legislation between Norway and the U.K., even on the same oil basin, in connection with the maximum insurance limits which should be applied for seepage and pollution from offshore drilling operations."

"These competing figures have in turn been 'leap frogged' by far higher figures suggested for drilling operations off the Irish coast where exploration is contemplated," he continued.

Mr. Hope advocated "internationally agreed legislation on this important topic of maximum insurance limits, so that any losses above those limits can be treated as a national or international disaster."

He drew a parallel between this risk and that of commercial nuclear materials around the world.

He suggested, too, that U.S. court actions on oil disasters in the offshore drilling field have revealed that in many cases there had been "multiple management and insurance mistakes" before the project had begun. Mr. Hope advised: "Some of these worst U.S. court actions can be traced back to the lack of an insurance presence at the negotiating table when the project was still at the

contract stage. In times of financial stringency, it is too easy for pressure to be applied and for contractors and subcontractors to accept totally unfair 'hold harmless' clauses."

This can result, he said, in the insurance industry being expected to pick up the tab. "On other occasions it is found that the risk is simply uninsured. Insurance managers, brokers and underwriters ought to be brought in at an early stage in negotiations so that they contribute to discussions, and to save a minor disaster from becoming a major disaster."

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editorial opinions

Safety doesn't count

SELF-INSURERS in states whose laws provide decent benefits to disabled workers are being penalized by the excess and surplus insurance market. Not only are employers required to self-assume amounts up to seven times those of employers in low-benefit states, but they are not even given the satisfaction of knowing the guidelines will be softened if they have good safety records.

One large reinsurer which is a major market for excess work comp coverage said that when it sets minimum requirements for retention levels on self-insured comp programs, all it considers are the benefit levels of the state in question. Nothing more and nothing less.

So, no matter how excellent the industrial safety experience of an employer in say, Michigan, Illinois, or Alaska might be the company will nevertheless be forced to assume up to \$500,000 for each single employee accident before it can buy excess insurance. By contrast, in Alabama, where a disabled worker may receive benefits as low as \$41 a week to live on, a self-insurer can buy excess insurance for a work comp program after assuming as little as \$75,000 or even \$50,000.

Now particularly when a product liability "crisis" has been partially intensified by lawsuits stemming from industrial accidents, it is disturbing to find insurers putting benefit levels under a magnifying glass without giving equal scrutiny to the issue of workplace safety. The issues do not exist independent of one another.

The insurance industry cannot continue to refuse workers' compensation coverage on the one hand because benefit levels are too high, while it simultaneously refuses product liability insurance to suppliers of machinery used in low-benefit jurisdictions, where many third-party suits are filed after an accident.

Needs more scrutiny

THE EXCESS INSURANCE business is one which deserves a lot more regulatory scrutiny than it's getting. It appears that brokers taking their corporate clients' risks to excess intermediaries or directly to excess insurers seldom perform any tough financial analysis of the stability of these firms and their ability to pay claims under the insurance policies they write.

And despite several notorious scandals in recent years involving excess intermediaries, regulators—the state insurance commissioners—have yet to recognize the potential for scandal in that very fast-growing business. Commissioners are casting their gaze away from obvious dangers such as excess intermediaries holding onto and spending the collected premiums which they are supposed to cede to excess insurers participating on a risk.

Commissioners are also ignoring the potential which an excess intermediary has to exceed his binding authority, and to bind an excess insurer to a risk which could produce a loss larger than the insurer could pay.

Growth of excess insurance business is expected to continue at this year's pace throughout next year. We urge

insurance commissioners to keep a close eye on the excess insurance filings in their states, to assure the stability of the intermediaries and the excess insurers. It's the job of the state regulators to protect policyholders, and we hope they take this job seriously. A great many commercial customers are obtaining coverage through relatively unknown excess intermediaries and untested excess insurers which are virtual newcomers to the field.

State insurance commissioners would perform a great service if they could provide lists of excess intermediaries and all excess insurers operating within their respective states, along with financial data on these firms, so that buyers of insurance could access the companies with which they're doing business.

Send us your Info

YOU'VE NEARLY MISSED the annual Info for Buyers issue deadline to submit material for publication. If you need the form which must be filled out when materials are submitted for the Info issue, call Jane Winebrenner, (312) 649-5236. The deadline is the first week of December.

Insurance companies, risk management consultants, employee benefit consultants, agents and brokers are invited to submit informational presentations, brochures, pamphlets and other items of interest to our 23,000 readers responsible for buying insurance financial services related to risk management and employee benefits.

Published information on loss control, for example, is welcome. Some categories relating to loss control might be claims administration, property protection, safety, security, workers' compensation and OSHA services and recordkeeping.

Suppliers of services or insurance related to self-insured or captive insurance company programs are urged to send materials of interest to corporate risk managers and employee benefit directors.

Specialists in excess and surplus insurance programs have a particularly timely opportunity to avail insurance buyers of their informational materials about the excess markets or their specialties.



letters

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

Raise a question

To the Editor: On page 39 of your September issue is an article whose content is interesting and informative. But the heads on it raise a question. The main head is, "Capturing interest of workers through safety competition." The subhead is, "My basic premise is that the methods for effectively managing safety do not differ significantly from those for managing any other function in the organization."

The question is, "Are the other functions in the organization also managed by 'capturing interest of workers through competition'?"

Bob A. Hedges

Editor's note: Not necessarily. Sorry for the confusion.

'Sue the Bastards'

To the Editor: Mr. Jack E. Schang, president of Allied Van Lines Inc., recently sent us a reprint of editorial opinions entitled "Sue the bastards" as seen in the August 9th issue.

Perhaps we are fortunate in our area that neither our State Senator nor our three members of the Legislature are lawyers. Thus, if you would be kind enough to supply us with five or six extra prints, we will gladly include them in our letters to our state representatives.

We agree whole heartedly with the opinion set forth in the editorial. Because so many individuals who make up the legislative bodies are lawyers—many of them trial lawyers—your efforts to amend or reform the legal system may be an uphill fight. We can only wish you success in your endeavors.

J. C. Miller

Chairman of the Board, Jones-of-Utica Warehouses Inc., Utica, N. Y.

* * *

To the Editor: Thank you very much for your authorization to reprint the editorial 'Sue the Bastards.'

We have distributed approximately 15,000 of the reprints in question. The response was immediate. At the recent convention in Phoenix, we received nothing but favorable comments generally in the area of "it's about time somebody started doing something." Further, the general feeling was that they (the individuals receiving the reprint) were going to use the article whenever and wherever they could and as often as possible.

We are going to print another 10,000 for distribution in California. The reprint will be included in the Alfred M. Lewis-Orange

Continued on page 14

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Info for buyers issue

If you have not yet submitted data or literature for publication in Jan. 10, 1977 Info for Buyers Issue, please return the coupon below for forms and instructions. All material for publication must be in the hands of the editors no later than Dec. 1, 1976.

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Please rush me forms and instructions for submitting data for publication in your Jan. 10, 1977 Info for Buyers Issue. I understand that there is no obligation on your part to publish the items submitted, nor is there any cost or obligation to my firm if they are published.

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REMINDER

YOU'VE NEARLY MISSED submitting your materials for our annual Info for Buyers issue, scheduled for Jan. 10, 1977. Send us your pamphlets, brochures and other literature right away. The deadline is the first week in December!

Last year, the Info issue carried over 250 items of information, which pulled over 36,000 responses from readers requesting copies of available materials.

Among the items you are invited to list are those materials relating to insurance, self-insurance, loss control, safety, security, property protection, claims administration, recordkeeping, self-insurance claims and loss monitoring, employee benefit planning and insurance, employee benefit self-insurance, and benefit administration.

Info items should be free or available at nominal cost up to \$5.

letters

Continued from page 12

ed in the Alfred M. Lewis-Orange Empire Division food cooperative bulletin which is mailed every week to approximately 10,000 member and customers.

We appreciate your courtesies and authorization for this distribution and will keep you advised as to the numbers and comments as we continue.

R. E. Pruitt Jr.

Chairman of the Board, Western Continental Management Corp., La Jolla, Calif.

To the Editor: We have read with interest the editorial "Sue the bastards: A social malaise" as it appeared in a recent issue of The Independent Adjuster.

We make a periodic mailing to our top-management employees, other Beechcrafters and friends,

and are interested in including this material in one of these mailings.

We would need approximately 400 copies for this purpose—if these are available, we would appreciate it if you would forward them with your invoice to the attention of the writer. If they are not available, may we have permission to reprint the editorial with the proper credit line as directed by you?

Seymour Colman

vp, administration, Beech Aircraft Corp., Wichita, Kan.

Editor's note: Permission granted.

INA agrees to reinstate credit policy

NEW YORK—INA Life Insurance Co. of New York agreed with the state insurance department to continue or reinstate group mortgage disability insurance policies that have been cancelled or are scheduled for cancellation this year.

More than 40,000 people are insured under these policies, which are held by 10 banks located in western New York state. Before the agreement was worked out with the insurance department, effective termination dates for the policies were set on various dates between June 1, 1976 and January 1, 1977.

Thomas A. Harnett, superintendent of insurance for New York, said his department will approve a new plan of insurance for the certificateholders involved.

It will provide a maximum benefit payment period of three years for those who become disabled before their 50th birthday and a one-year benefit period for those who become disabled at or after age 50.

The monthly premium is based on the certificateholder's mortgage payment. It will cost \$4.00 per \$100 of monthly mortgage payment, plus an administrative fee of 35 cents per month per account.

In those cases where coverage has already been terminated and certificate holders have stopped paying premiums, INA Life will offer insurance retroactive to the date of termination.

If the bank accepts INA's offer, everyone who was covered at the time of termination can be added to the new plan without having to show evidence of insurability. They will be added to the new plan upon payment of the amount of premiums owed since the termination date.

New certificateholders who are solicited for participation in the new plan will be required to provide evidence of insurability, however.

Chastain on leave

Dr. James J. Chastain, alumni professor of insurance at Drake University, was granted a two-year leave of absence, which he will spend at Howard University in Washington, D.C. as visiting professor of insurance. He will work with the college of business and public administration there to expand Howard's insurance education program.

Dr. Chastain received his BA degree from the University of Utah, his MBA degree from the University of Chicago, and his PhD degree from the University of Illinois. He is a Chartered Life Underwriter (CLU) and a Chartered Property & Casualty Underwriter (CPCU).

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Pension, welfare data...

Continued from page 1

made in the past," Mr. Salisbury added.

Under the federal pension reform law's predecessor, the Welfare and Pension Plan Disclosure Act, many critics had charged that

the forms the government received were never examined and sometimes never filed.

Although the Labor Department's leap into modern computer technology may still be met with a "so what?" from ERISA's de-

tractors, the information available next year from the complete EBS-1 forms filed this past year will be more substantial, a Labor Department spokesman said.

However, the information released this month does provide, for the first time, a definitive if unsurprising look at the basic structure of the private pension and welfare system.

Of the 473,272 pension plans reporting, 77% were defined contribution plans with defined benefit plans making up the remainder. The most prevalent defined contribution plans were profit sharing plans at 38% of all pension plans, followed by money purchase (22%) and Keogh (18%) plans.

There were 7,754 plans with target benefit provisions, 4,087 plans with thrift or savings provisions, and 857 plans with stock bonus provisions, which accounted for less than 3% of all pension plans, the department said.

Although the plans were put into specific categories, their provisions sometimes cut across more than one label. For example, about 1,000 defined benefit plans had profit sharing provisions, the department noted.

Defined benefit plans tended to be larger than the average for the universe. While only 1% of all plans had more than 1,000 participants, 3% of the defined benefit plans were that large. Another 13% of the defined benefit plans had between 101 and 1,000 participants, while plans with 10 or less participants accounted for 51% of the defined benefit plans.

Of the defined contribution plans, thrift or savings plans and stock bonus plans were predominantly large, while 67% of profit-sharing, 80% of money purchase

and 97% of Keogh plans had 10 or less participants, the department noted.

Multiemployer plans accounted for only 2.3% or 10,986, of the pension plans, and only 4% were covered by collective bargaining agreements. However, these plans generally have large numbers of participants, the department noted.

Grouped by industry, pension plans had the following distribution:

- Services—187,721 (40%);
- Wholesale and retail trade—89,361 (19%);
- Manufacturing — 58,607 (12%);
- Finance and real estate—30,453 (6%);
- Construction—27,144 (6%);
- Other industries—79,986 (17%).

Following the pattern of the universe at large, pension plans were largest in manufacturing, where 44% of the plans had more than 100 participants, while the service industry, with the largest number of plans, tended to have the smallest, with only 5% having more than 100 participants.

Because most welfare plans did not have to file the ESB-1 form because of their small size, the ones that did report showed characteristics similar to large pension plans. Distributed by size, 15% of the welfare plans had more than 1,000 participants, 59% covered 101 to 1,000 employees, and only 7% had 10 or less participants, although this latter group was exempt from filing.

Approximately 9% of the welfare plans were multiemployer operations, and about 23% were established by collective bargaining agreements, the department noted.

The predominantly large welfare plans were insured by a mar-

gin of two to one. Four-fifths of them used insurance companies to pay claims. The rest of the plans were split fairly evenly between those using in-house trust funds and those using general assets, the department said.

The industry distribution for welfare plans is somewhat different than that for pension plans:

- Manufacturing—37%
- Services—13%
- Wholesale and retail trade—10%
- Finance, insurance and real estate—8%
- Construction—6%

The pension plans and the welfare plans were distributed fairly evenly across various parts of the country. About 30% of the reporting plans came from the northeast, 30% from the north central region, 20% in the south and nearly 20% in the west.

Dates for Buyers

Jan. 10-12: Assn. of Private Pensions and Welfare Plans—One-day meetings for employee benefit managers will cover national health insurance, pension expectation for 1977, the Tax Reform Act and issues in the 95th Congress. Participants include attorneys, corporation representatives, consultants and congressional members. Sites are the Roosevelt Hotel in New York City on Jan. 10; the Hyatt Regency O'Hare in Chicago on Jan. 11; and the Hyatt Regency Atlanta on Jan. 12. Cost is \$90 for members, \$100 for regional pension plan members and \$125 for nonmembers. Contact Sue Mel-drim, Assn. of Private Pension and Welfare Plans Inc., Suite 909, 1028 Connecticut Ave., N. W., Washington D. C. 20036. (202) 659-8274.

Jan. 27-28: National Assn. of Employers on Health Maintenance Organizations—Sessions on how to negotiate with an HMO, HMOs as a "corporate opportunity," and corporate experience with the HMO option will be held at the Houston Oaks, Houston, Tex. Contact Barbara Davis, NAEHMO, Federal Reserve Bank Building, Minneapolis, Minn. 55401, (612) 338-4823.

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agent/broker topics

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'Being where it's at' helps to make this broker a success

By JANET MROCZEK CORRADO

WASHINGTON—Frank L. Wright has put many of his eggs in one basket.

His agency, Wright & Co., specializes in insuring the biggest risk in town, and depends on it for a substantial part of the shop's income.

While that may seem like a dangerous level of concentration of an agency's business, Frank Wright's town is Washington, D.C., and the client is the federal government.

Wright & Co. administers the insurance programs for a majority of the federal agencies, Mr. Wright said, starting with the Executive Office of the President which it has had since the Truman Administration.

The agency covers many large government departments, such as the Treasury, Commerce, Justice and State Departments and the Federal Bureau of Investigation. It also has smaller regulatory agencies, such as the Securities and Exchange Commission, the Federal Communications Commission, the Civil Aeronautics Board, and the General Accounting Office.

"If the GAO thinks our programs are good, they must be," Mr. Wright said. The GAO is the congressional watchdog of government spending.

The administration of the programs for the 35 federal agency clients includes billing, collecting, taking care of changes in coverage and handling accident and health and disability claims.

The federal government pays only part of the cost of medical and life insurance for its employees, Mr. Wright explained, so his agency also sells and administers "non-appropriated fund insurance." This

includes life, health, disability and accidental death coverage, and some group auto for the FBI, which the employees pay for themselves.

Mr. Wright calls his agency "the leading specialist in the country in providing insurance for the federal government." He points to the fact that Wright & Co. not only administers the programs it has placed, but programs for federal agencies that other brokers have sold.

"It is unusual," he said, "to have the policyholder records of other brokers, collect their premiums, and report to their carriers."

"Insurance, because of its nature, is intangible," he said. "That's why integrity is so important in the business—to do what you say you're going to do."

"We try to instill in our staff the attitude that each policyholder is to be treated as if his problem or question is the most important thing."

Wright & Co. had gross revenues of \$500,000 in 1974, and \$600,000 in 1975. Mr. Wright expects \$900,000 to \$1 million in revenues for 1976.

The agency's growth is coming from the group health field, administering its own program as well as other brokers', and also from the property/casualty area.

The firm has 20 professional associations as clients, including the U.S. Chamber of Commerce. The program provides directors and officers liability coverage for executives of chambers of commerce countrywide.

Other clients include the Marriot Corp., the National Academy of Science, the Brick Institute of America, and the Watergate development. "We had the coverage on Watergate since before the first



Frank Wright (far left, top picture) has built a firm that handles insurance for 35 federal agencies.



shovel of ground was turned," Mr. Wright said.

The agency does a great deal of work around the world, especially in South America and the Caribbean. It handles the insurance for several independent agencies of the Organization of American States, including the Inter-American Institute of Agricultural Science, the Inter-American Commission on Women, and the Inter-American Commission on Children.

Mr. Wright said the agency is also a reinsurance brokerage specialist, primarily in life and health coverages. Wright & Co. has a captive insurer in the Grand Cayman Islands, Wright International, and also works with Inter-American Assurance Co. in the Caymans. The firm has spent more than a

year becoming a specialist in Defense Base Act coverage. Mr. Wright added, which is workers' compensation insurance with very high limits for American citizens working overseas on U.S. government sponsored projects.

It's worldwide work demands, of course, that the agency settle claims in many foreign languages, including Spanish, Portuguese, and French.

"The customs and culture of foreign countries are so different from ours," Mr. Wright explained, "that we try to work as if we were Brazilian in Brazil, for example."

For all of this, Wright & Co. has a staff of only 16 people, though Mr. Wright plans to add four or five more in the next six months.

Of course, a great deal of its

work is done with computers. But, unlike other agencies, Wright & Co. does not own its own computer but buys the computer time it needs.

"Once you buy a computer, you wind up selling time to others," Mr. Wright thinks. "I believe we should be insurance salesmen not computer salesmen."

The agency works on a five-year plan for growth, but goals are not set in dollar figures but in programs that it wants to develop.

"A great deal of growth comes from recognizing specific problems and developing solutions. We also try to find new solutions, a better way of doing things, and if we decide that there is something we can do, we will spend our own money to develop the program," Mr. Wright said.

Continued on page 16B

New York probes legality of agent commission cuts

By GREG DAVID

CHICAGO—At least one state insurance department is investigating charges that insurers may have cut agents' commissions after receiving rate increases based on higher acquisition costs.

The Independent Mutual Insurance Agents of New York said they have sent their department a list of 22 companies that have reduced their commissions in the last six months on private passenger auto insurance or other lines. It said the department has promised to check the companies' recent rate filings to determine if the commissions are reported accurately.

New York Superintendent of Insurance Thomas Harnett has said such action by an insurance company would be "immoral and possibly illegal."

A spokesman for the department's legal office would not come to the telephone. Through a secretary he said, "We are looking into it very intensively—exclamation point."

Edward J. Berry, president of the group, said, "We are hoping to catch some of these companies and put the breaks on this cutting of commissions."

The association said it is not contending these companies cut insurance commissions across the board or in every territory. However, each company has been cited by at least one agent as having cut some commissions.

One of the companies on the list, Kemper Insurance Cos. has cut commissions on homeowners insurance, a spokesman said, but those reductions were reflected in the company's latest filings with the department.

William O'Brien, vp of marketing for Hanover Insurance Co., said Hanover had not reduced its commissions since the first quarter of the year. Mr. O'Brien said Hanover now pays a 15% commission on auto insurance and 20% on homeowners and that its commissions in New York had been higher than other insurance com-

panies for several years.

O'Brien said the company's auto insurance grew 9% last year while other firms were withdrawing from the New York market.

"I believe we have been a pretty good carrier in tough times," he said. "We really just came to scales that some companies implemented three or four years ago."

A spokesman for the Hartford Fire Insurance Co. said its rates accurately reflect changes in commissions.

"The Hartford is keenly aware of the need to compensate fairly the independent agents providing business to us. We have consistently moved slowly and with careful consideration on any commission level changes," he said.

The action by the Independent Mutual Agents is only one of a series of actions by agents in the Northeast to fight the commission reductions. The presidents of Independent Mutual Insurance Agents of New York, New Jersey and Connecticut issued a joint statement Oct. 30 condemning com-

mission cuts.

Claiming to represent 18,500 agents in the three states, the presidents warned the agents would be forced to side with those urging regulatory or legislative solutions to the problems resulting from commission cuts.

The three presidents estimated annual premiums handled by the members of their associations totaled more than \$2 billion annually. Thus a 1% cut in commissions, they charged, would cost the agents more than \$20 million a year.

"Additional commission reductions will not only drive away business, but have a crunching impact on the economy as well when you consider the amount of dollars it takes out of local economies of our communities," they said.

Another New York group the New York State Assn. of Insurance Agents, has formed a committee to study the entire problem of payment for agents. "The action that companies have historically taken is to cut where ever

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they can," according to John D. LaValle, director of public relations for the group. "We feel it is ridiculous to slash the hand that feeds you."

The study by the Assn. of Insurance Agents will involve a statistical analysis prepared by researchers at Syracuse University and may also involve a marketing research firm.

In addition to Kemper and Hanover, the companies on the Independent Mutual Insurance Agents list are: Aetna Casualty and Surety
Continued on page 16B

Frank Wright . . .

Continued from page 16A

Wright said. Most agents with an idea for a new program will approach an insurance company, and the insurer's representatives will go out and sell it, Mr. Wright said.

"In our case, we believe that to be true professionals, we have to do it all—sell the program, enroll, and educate the members."

The agency holds briefing sessions, on new programs at the clients place of business to explain coverage to the employees, Mr. Wright said.

He believes that one of the things that the insurance industry as a whole has fallen down on is communication. "The industry really doesn't communicate to the policyholder what is being done for him. We believe in doing this

ourselves."

Wright & Co. has an outside staff to write and produce brochures and other mailing information. In some cases the agency writes an entire policy for approval of the carrier.

Four of the 16 staff members, including Mr. Wright, are producers. There is also a vice president exclusively in charge of administration and finance for the various group programs.

Each producer works with technicians and clerical staff on each account. "We like to have two or three people familiar with any one account," Mr. Wright said. "With the extensive travel our people do, we like to always have a policyholder hear a familiar voice when he calls. We also encourage our people to work on their own

initiative."

Wright & Co. is a young firm. The average age is in the low thirties. Producers are about five years older, and there is very little employee turnover Mr. Wright said.

Producers are paid by salary plus incentive, and the agency president believes his people receive above average pay for the area. The agency also provides employees with a complete package of fringe benefits, including long-term disability and a pension plan.

Most of the agency's income is from commissions, though it does charge a fee for consulting work. Mr. Wright said the agency has acted as a consultant for local counties in the Washington area, which needed help in choosing the best agent and coverage.

According to Thomas Rogers, one of the agency's producers, the firm is actively trying to diversify, and has appointed exclusive brokers for some new whole life investment type products.

And, Wright & Co. is now in the process of opening an office in London to get new business rather than to service the agency's overseas accounts, through the office will do some of that.

"Some people have said that we're crazy to open a London office now," Mr. Wright said, because of the dismal shape of the pound, "but we believe we can make a profit."

"We've been in the international field for so long, and our business is so concentrated in it, that we feel we can be profitable in London. He added that he expects to not only do business in the British Isles from the London office, but throughout Europe, following the dictates of the various countries that are members of the European Economic Community.

"We may find ourselves knocking our heads against a brick wall," Mr. Wright said, "but we may find that wall to be papiermache."

Exec notes emphasis on salary for many agents

TORONTO—Agents for life and health insurance companies can look forward to more of their income being based partially on a salary, John M. Bragg told the Society of Actuaries annual meeting here.

The president of the Life Insurance Company of Georgia said high turnover rates of agents will eventually be curbed through better selection, training and supervision. More incentives for the agent for the conservation of business will also help the problem, he said.

The agency system will continue to survive, Mr. Bragg said in his farewell speech as president of the Society of Actuaries, because "the public at large prefers to deal with individual personalities rather than functionaries of machines."

In the next 25 years, Mr. Bragg predicted a consolidation in the life and health insurance industry into fewer but larger companies. These companies will still be relying on package sales for specific needs for the bulk of new sales, but several new concepts will also become important.

Among these he emphasized new "savings-type" plans that would guarantee high rates of interest and survivors benefits which could be tied to the consumer price index.

"I believe we will see a development in which companies widely accept deposit account funds primarily for retirement purposes but operating for practical purposes like bank savings accounts as adjuncts to the life insurance business," Mr. Bragg said.

New York . . .

Continued from page 16A

Co., American Policyholders' Insurance Co., Associated Mutual Insurance Co., Calvert Fire Insurance Co., Colonial Cooperative Insurance Co., Continental Insurance Co., Crum & Forster, Eveready Insurance Co., and Firemen's Fund Insurance Co.

Also, General Accident Fire & Life Assurance Co., Greater New York Mutual Insurance Co., Hartford Insurance Co., Holyoke Mutual Fire Insurance Co., Home Insurance Co., Merchants Mutual Insurance Co., Minute Man Insurance Co., New York Central Mutual Fire Insurance Co., Public Service Mutual Insurance Co., Transamerican Insurance Co., and United States Fidelity and Guarantee Co.

Name Hug president of Cook-Treadwell

Robert C. Hug Jr. has been appointed president of Cook-Treadwell and Harry Insurance Agency of Memphis, the largest subsidiary of Cook-Treadwell and Harry Inc. Mr. Hug joined the parent firm as vp of client services in August 1975. In conjunction with Mr. Hug's appointment James B. Chase Jr. was named senior vp, commercial sales. Richard Burns and Allen Russell were named vice presidents at CTH Insurance Agency. Cook-Treadwell and Harry Inc. is one of the nation's largest insurance agency/brokerage systems.



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B-6

Illinois oks commissions for work comp pool

CHICAGO—The Illinois Department of Insurance has adopted a schedule that will allow agents and brokers for the first time to receive commissions on workers' compensation placed in the state's assigned risk pool.

Agents previously received no payment since the limited number of policies in the pool required a small amount of their time. But decreasing availability of workers' compensation insurance resulting from increased benefits has forced thousands of firms into the pool.

Acting under a law passed by the last session of the state's General Assembly, the insurance department has ordered new policies commissions of 8% of the first \$1,000 in premiums; 2% on amounts between \$1,000 and \$10,000 and 1% on all premiums over \$100,000. Commissions on renewal policies will be 2% of the first \$10,000 in premiums and .5% on all premiums over \$10,000.

David Taylor, deputy director of the insurance department and the official who set the rates, said there was a lack of information on agents' costs to guide him.

"The problem that came out was that everyone was relating it to the percentage of premium, the traditional way insurance agents are compensated," he said. "Nice tidy measurements don't exist."

Richard Maloney, assistant executive manager of the Independent Insurance Agents of Illinois, said his group was disappointed with the decision.

"He did not consider all the costs it takes to place business in the assigned risk pool," he said.

The independent agents had proposed commissions on both new and renewal policies of 10% of the first \$10,000; 7% of the next \$4,000; 4% of the next \$95,000 and 2% on all amounts over \$100,00.

The difference in commissions between new and renewal policies is particularly disappointing, Mr. Maloney said.

"Time and expense in renewal policies is usually less than for new business," Mr. Taylor said. The agents fear the Illinois decision could create a precedent for other lines of insurance, he said, a fear that is unjustified.

The law under which commissions were established requires workers' compensation carriers to

keep information on the cost of placing risks. Mr. Taylor said he had recommended another hearing be held before April 1, 1977.

The independent agents are considering appealing the ruling, but they may also decide to wait for the review, Mr. Maloney said.

"Because it's a controversial issue there is likely to be legislation next year," Mr. Taylor said, although he would not predict what form that legislation might take.

In general, Mr. Taylor would recommend a rate review after each session of the legislature.

In 1974, 545 new policies were placed in the workers' compensation assigned risk pool. In the first 10 months of 1976 over 9,000 new policies were placed.

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Or that in the insurance industry Zurich-American is one of a handful of insurance groups capable of writing boiler and machinery coverage—and is very eager to write the right kind of business.

Then, in most states, there's the Top Security multi-peril package policy, our premier product for the commercial risk. I'm impressed that it has real advantages over the standard package policy. Agents are too when they see a coverage-to-coverage comparison.

And, of course, there's Z-A's corporate commitment to better service. Agents polled in our San Francisco branch say we are among the best companies they deal with and that our service has improved significantly in the last six months.

These days, Z-A field managers have a lot to say that can mean more business—profitable business—for agents. Providing that kind of help is a field manager's number one service.

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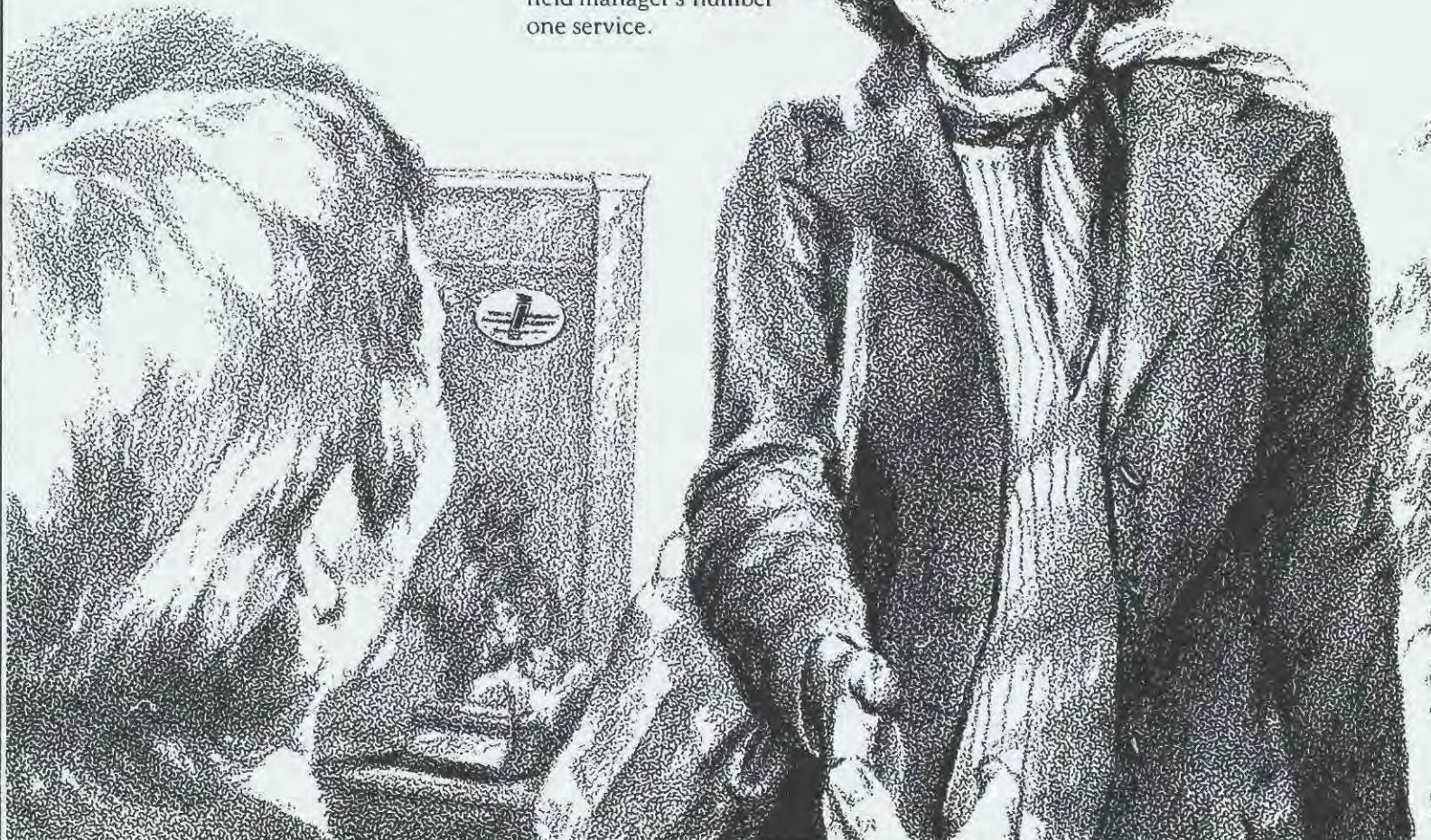
Changes set for Bayly

LOS ANGELES—Bayly, Martin & Fay restructured its organization to identify its corporate staff separately from the firm's operating companies, and to emphasize its international operations.

Corporate operations are now identified as Bayly, Martin & Fay, International, and conducted from corporate headquarters in Los Angeles by William N. Martin, chairman; Charles R. Warde, president and chief executive officer; Samuel Alcorn, CPCU, senior vp-property and casualty operations; Jack H. Seiter, senior vp-life and employee benefit services, and others.

Bayly, Martin & Fay operates in 19 cities in the United States and has foreign divisions in London and Paris.

Further expansion of foreign operations is under way. An office will be opened before the end of 1976 in Oslo, Norway, and an office is planned for Tokyo, Japan in early 1977.



With fears subsiding, agent tells what changes at CNA mean for him

By MARIE KRAKOWIECKI

NEW YORK—When CNA announced its reorganization plans to its independent general agents back in June of 1975, many of the agents got nervous over the proposed combination of life and casualty operations.

They were concerned that their own marketing strategies would be affected. Life agents, in particular, feared that they would be forced to deal with casualty products for which they had little or no taste. Up until that point, the independent general agents had represented the different CNA subsidiaries like Continental Casualty Co. or Continental Assurance Co.

"An agent who needed several

products to serve the needs of a customer often found that he had to deal with independent company units which followed different procedures, policies and priorities, sometimes even competing with each other," CNA chairman and chief executive officer Edward J. Noha said when he described the creation of a single CNA insurance operation.

It sounded good but some agents were wary. Many had established long-standing relationships with a single CNA subsidiary to the point where they felt other CNA subsidiaries were rivals. What could it mean to the general agents' own day-to-day operations if the two needed to be combined?

More than a year has passed, some of the smoke has cleared, and CNA agents are regaining their confidence. *Agent/Broker Topics* spoke to one such agent to find out what the transition meant to him.

Malcolm M. (Bud) Teare, CLU, president of the H. Malcolm Teare Agency Inc. on New York's Fifth Avenue, told what it was like for his firm since Mr. Noha's 1975 directive. Even prior to the takeover of financially-troubled CNA by Loews Corp. in late 1974, rumors were flying every day about the impending "ruin" of CNA. That made it difficult for the general agency salesmen to represent the firm, he said.

But the worst problems belonged to the general agents who

dealt with CNA's property/casualty operations through subsidiary Continental Casualty. The life agents, who dealt with Continental Assurance, had more of a sense of insulation from the company's most serious financial difficulties.

The Teare Agency falls into this category. It has just completed its 30th year of representing Continental Assurance, and gets its biggest revenues from the life and benefit business, producing more than \$30 million annually in individual life volume.

When Mr. Noha made his decision to consolidate marketing in 1975, it meant "a challenge of tremendous proportions," Mr. Teare said of his 11-member agency.

"It seemed to many of us in the life end of the business that the greater concern of CNA had to be with its property/casualty operations," the agency president said, noting that when the reorganiza-

tion announcement came through, "we had this constant feeling of 'where are we really going?'"

It turns out that for the Teare Agency, the change has not been as radical as feared. Probably most significant is the posture CNA has taken regarding its product lines.

Some industry pessimists predicted that CNA would run into trouble by forcing life agents to sell property/casualty products.

But what these gloomy prognosticators failed to discern was that although CNA was very vocal about wanting each of its field operations to be involved in all product lines, it has not actually forced general agents to sell anything they are uncomfortable with.

So if a life and benefits specialist would just as soon not become immersed in property/casualty products, the company won't push the point.

Asked whether his firm has faced difficulties in marketing property/casualty products since it has historically been involved in life and benefit products. Mr. Teare commented: "We did not find this to be a problem. There was a great deal of concern, but this has been redefined and restated by CNA. For general agents like us in the life end of the operations, it has been made clear that while we will be encouraged to handle as many CNA lines as possible, we will in no way be forced to handle product lines we don't want to."

Commissions have also remained relatively stable at the Teare Agency since the CNA restructuring took place, the agency president said.

Another indication that general agents can still carve out their own identities while representing CNA since its reorganization is the Teare Agency's experience with its association and group business.

The Teare Agency has been strong in providing coverage for trade associations. It frequently acts as an insurance administrator for such groups and will even work with brokers on the group's behalf.

However, when Edward Noha announced CNA's reorganization, one of the key points he made was that the parent company would be cutting back on unprofitable lines of business—and trade association liability insurance was high on the list of things to be cut.

One might think that an agency like the Teare Agency would be forced to cut back on its work with associations since it represents CNA. But that did not happen.

Bud Teare said association plans represent about 15% of his firm's total book of business; and the amount did not drop after the CNA reorganization.

Some of this might be attributable to the fact that "of necessity" the Teare Agency has come to represent several other carriers in addition to CNA.

Mr. Teare declined to name those carriers, but he explained that they would frequently enter the picture when a special arrangement was being worked out for an association plan.

The Teare Agency's representation of other carriers predates the CNA reorganization. Mr. Teare said the move became necessary when CNA Financial began having financial troubles prior to the Loews Corp. takeover.

Mr. Teare said his firm's move during the last couple of months to a new, more spacious office was one of the ways it was showing its renewed commitment to representing CNA.

One change he has noticed, and likes, is that during the last three months, his agency has been able

Continued on page 16E

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Internal control sheets can streamline operations

By JANE WINEBRENNER

SHORT HILLS, N.J.—Agents and brokers who want to streamline their commercial lines operations and keep transactions under tighter supervision may be able to take their cues from insurance companies now achieving their goals.

One such underwriter is Chubb & Son which for the last three years has used an internal system of speeding up transaction times, recording at what stage each policy is at and reporting any possible service problems. The firm also keeps close tabs on its producers.

Chubb director Thomas V. A. Kelsey, said this was done for about 1,700 commercial lines employees without adding any staff to handle paperwork. He said about six independent agents have expressed interest in using such a program in their own businesses.

Mr. Kelsey grades the Chubb system as "generally satisfactory" and "fair to good" so far, adding the grumblings about extra paper work have now subsided.

The system uses control sheets filled out by clerical help and the producer, a control register listing the control sheets in one place and service posture reports which measure the service provided to producers on each type of policy. This enables the branch underwriting manager (or any principal for that matter) to "respond to individual item service complaints through the ability to trace individual items and to identify items in the system which have been there for excessive lengths of

time," Mr. Kelsey said.

The system begins when each transaction is given a control sheet identifying the type of transaction, date received, producer, the insured and identification numbers. Steps to be performed are listed in the order to be performed and the date each step is completed and by whom. Included are rate quotations, risk inspections, evaluations and even letters typed.

A control register is used to record all the control sheets and when each transaction is completed, the dates of each step are recorded to check the overall time the transaction took. At regular intervals a percentage of work done in each of the steps is recorded on the "service posture reports."

The time between inspections depends on "each manager at his

discretion," Mr. Kelsey said, and is determined by how many service problems a manager is having.

Independent agents and brokers are involved in the system in that their steps are recorded by the insurance company; the independent agent doesn't directly fill out any extra papers or schedules.

Mr. Kelsey said in a speech before the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives that "our own managers will want this kind of information and our producers will also find it very useful in their dealings with us." Because Chubb has more control over transactions, a producers' productivity can now be measured.

The reason for the streamlining, is that "Chubb couldn't tell what had been done and didn't have any record of how long it took." He

said producers, in turn, could maintain records of the services provided him by the company."

Chubb's system is apparently there to stay despite the initial reaction to increased paperwork, and more work for the producer who must fill in each step in the transaction as he performs it. He also has to tell how long it takes. Mr. Kelsey said the system is now "a way of life" and commercial lines service for new lines, renewals and endorsements is now reduced to eight days after final underwriter approval.

At Hartford Steam Boiler Inspection & Insurance Co. a similar system is used to keep track of transactions. Using a magnetized "big board" in each of its 20 branch offices, up to 2,000 policies can be accounted for at one time.

The policies are identified on small magnets and listed alphabetically.

Spokesman J. R. Eklund said short of expensive total computerization, it is the best method for Hartford's needs. "Moving the paperwork physically is one of our biggest headaches. Our product is the paper we use to deliver the insurance," he said.

The four-by-eight foot board, called the production control unit, could be adapted by any agent or broker with a "sizable book of business" to locate where a policy is at any given time. As each new or existing account arrives or leaves a department, it is recorded and its counterpoint on the board moves along with it.

As with the Chubb system, the streamlining is an internal operation, designed mainly for the benefit of the underwriters.

CNA . . .

Continued from page 16D

to pick up more business in individual life underwriting. "Some of us told the company management we felt individual life underwriting had been one of the strongest competitive points CNA had. The management responded by announcing reductions in substandard ratings," Mr. Teare said.

"We can now move more aggressively, because our customers in the substandard categories (people with diabetes, hypertension and the like) can now in some cases buy standard life coverage, and buy it through a quality company."

This sort of feedback from management of CNA encouraged Mr. Teare to install an electronic facsimile transmitting machine in his office which he uses to exchange information with CNA management. He said he believes his agency is the first general agency to install equipment like that for an exchange with the insurance company it represents.

While the restructuring of CNA had general agents worried for some time particularly about their own marketing roles, it appears that Mr. Teare, at least, thinks the bulk of the problems are over:

"We believe that a lot of the major changes CNA wanted to make have already been accomplished," he said.

Illinois license test

The Illinois Department of Insurance will test applicants for agent and broker licenses Dec. 4. This will be the first test given since a court ruling in August overturned the financing arrangement employed by the insurance department. Under the new system the Illinois Life Insurance Council, a trade association, will pay an administrative fee to Educational Testing Service Inc., Princeton, N.J., the group that administers the test. Applicants will pay the statutory fee to the insurance department.

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editorial opinions

Call for better planning and training

AMONG THE SUBJECTS brokers and agents are devoting a great deal more time to is excess and surplus lines insurance. As a series of stories in our last issue pointed out, risks ordinarily underwritten by large domestic insurers as part of a company's primary insurance are no longer covered by these insurers.

The editors of this magazine determined in the course of their reporting that many of the large national brokers are training excess insurance specialists for their own staffs.

Agents and brokers are also trying to raid each other of top casualty personnel in order to have enough people to effectively market risks.

Both of these events highlight chronic brokerage industry problems which deserve attention. It's apparent that despite predictions in 1974 and 1975 that the insurance markets would become difficult, nobody in the brokerage field (or very few people, anyway) bothered to plan ahead.

If brokers would have started then setting up excess and surplus specialist departments, and training new people in this field, there would be less of the perennial problem of not having enough good producers and marketers, and not being able to steal enough from the next guy.

Brokers also might find that they would spend less money in the long run. There are, we understand, some handsome prices being paid to lure casualty experts away from their present employers.

Brokers don't have any right to call the under-

Some healthy competition never hurt

TO HEAR THE agency and brokerage community screaming about the threatened takeover of their business by the federal government, you'd think the Soviets were coming. Or that someone—namely the federal government—no longer believes in free enterprise.

Perhaps it's the chosen role of the American Agency System to extol capitalist virtues. If so, agents and brokers had best start talking as if they also believe in some good, tough competition.

The brouhaha is over the possible repeal of the McCarran-Ferguson Act, which would for the first time in many years make commission structures as well as insurer rating practices subject to the federal antitrust laws.

We see no reason for the insurance industry to rate special favors not available to many other industries

writing community unresponsive. They've been caught in the same trap. It's called complacency. And now, to hear the brokers tell it, they're killing themselves hustling. Well, they should have been doing that all along.

And where agents and brokers have fallen down is in the area of planning for the future, planning for the day when more good service oriented personnel would be needed. They should have been planning along for the day when well-trained specialists in property, casualty, benefits or whatever line of insurance are needed, they will be set to go.

in this country. We support repeal of the McCarran-Ferguson Act. Markets, when allowed to operate unhindered by artificial controls, usually work just fine, thank you. Competition works to the benefit of the consumer.

That goes for the insurance distribution system—of which agents and brokers are part—as well as the underwriting process. The American agency system, particularly, has been the target of much criticism as being anti-competitive.

That end of the business could do with more competition, more rewards for the productive instead of rewards for the inefficient, less guaranteed compensation and protection, and more commissions based on competition and negotiation, less sitting and taking renewals and more hustle to provide services for buyers of insurance.

SPEAKING BRIEFLY ABOUT BROKERS

BROKERS CONTINUED their winning ways in the third quarter; thus nine month revenue gains averaged 19.5%, with earnings up a more impressive 23.1%. Margins in general widening as expenses and taxes are leveling; at the same time, commission income is in a strong uptrend. Demand for expert insurance counsel during the present period of tight underwriting accounts for much of the volume gains, as do the substantial rate increases which are symptomatic of this market condition...

PART OF THIS (GROWTH) has to do with the factors mentioned above, particularly the rate increases, and part to the fact that the larger entities in the industry, because of their breadth and specialization, are obtaining business at the expense of the small local broker...

IT WOULD BE UNREALISTIC to expect conditions so uniquely favorable to the brokers to continue much beyond 1977. By that time, the consensus opinion holds that recently enacted rate increases will be fully reflected in earned premiums and that pressures will be building for coverage, whether inflation-inspired or not, will mean that premiums should continue to grow at a faster rate than GNP. A return to the secular 10%-12% growth pattern would work no terrible hardship on the brokers provided they 1) maintain some control over expenses, 2) experience no further escalation of taxes, 3) continue to broaden their respective market shares, and 4) withstand the pressures of gradually lower commissions.

—Special Report, Insurance Stocks Department, Legg Mason, New York.

FRANK B. HALL & Co. Inc.... As with the other national brokers, Hall's revenues were bolstered significantly by premium rate increases. We estimate that roughly 60% of the third quarter's 20% rise in commissions and fees derived from rate changes. That lion's share of rate increases is still coming from the liability area. Rates on marine and aviation, both categories of particular importance to Hall, remain soft. Nonetheless, third quarter revenues from aviation likely advanced close to 20% as a result of new business. We believe that the quarter's marine revenues rose 10-12% year to year, a reasonably satisfactory performance given the status of tanker utilization and the rate environment. Employee benefits registered a strong gain of about 20%...

FRED S. JAMES & Co. Inc.... The gain in revenues was unusually large as rate increase contributed powerfully to the favorable comparisons and that new business effort was highly productive. Comparisons were all the more impressive insofar as revenues in the 1975 quarter increased by a solid 18% over those of 1974...

Employment costs and other operating expenses increased 21.6% and 23.2% respectively. Other operating expenses for the first six months advanced only 10%. It could be that allocations of expenses were shifted forward in time and that operating strength has led to a loosening of purse strings in certain controllable areas like travel, entertainment and advertising...

CLEARLY THE MAJOR imponderable for 1977 is the magnitude of ongoing rate increases. Most knowledgeable contacts opine that rate increases will carry through most of 1977, although the magnitude of increases will diminish. It seems plausible to assume that 1977 revenues will not benefit from rate change to the same extent as 1976 revenues...

CORROON & BLACK... Something on the order of two-third of the increment to revenues could have been generated by rate changes. The gain in reinsurance brokerage was marginally higher than that for total commissions, while employee benefits may have experienced a rise of better than 30%. Interest income expended roughly 35% owing to improved cash management and growth in the float. Glanville Enthoven, a U.K. broker in which the company acquired a 35% interest last year on a purchase basis, contributed approximately \$0.05 per share in (third) quarter 1976...

ROLLINS BURDICK HUNTER Co. Inc.... Employee benefit revenues may have increased close to 20% due to greater production emphasis in this area... Expenses, excluding Tittle & Jones, posted an increase of only 13%, the lowest quarterly rise for the year. Clearly, there are significant components of expense which are keyed to revenue growth, most notably bonus and incentives...

MARSH & MCLENNAN Inc.... We think that reinsurance brokerage revenues could have risen as much as 30%, with a likely greater percentage increase in profits. Canadian operations, which have for several years been somewhat stronger than overall performance, advanced about in line with total revenues. Profits in Canada may be negatively impacted by profit controls in that country, although the effect should not be serious... Consulting, still in the doldrums, was probably flat in the quarter...

—Leonard M. Wilson, analyst with Drexel Burnham & Co., New York.

COMPANIES MUST RELINQUISH many customer services to the producer, who can do them better, more cheaply and more personalized. Producers must relinquish to the companies other things they can do better, including routine billing and collecting.

—B. P. Russel, chairman and chief executive officer, Crum & Forster Insurance Cos.

The self-insurance business booms for Gallagher & Co.

CHICAGO—The biggest problem the self-insurance division of Arthur J. Gallagher & Co., has is keeping up with growth, according to Louis E. Metzger Jr., a vp in charge of sales and marketing at the company's headquarters outside Chicago.

The division, Gallagher Bassett, was formed in 1962, and while Mr. Metzger believes that there has been a noticeable increase in interest in self-insurance in the last year or two, Gallagher Bassett has never lacked for clients.

Business comes "almost entirely from inquiries to our office," he said. "We don't have time to make cold calls. We are growing at the pace that we can absorb the business."

Arthur J. Gallagher & Co., based in the Chicago suburb of Rolling Meadows, is the 18th largest insurance broker in the country with 1975 gross revenues of nearly \$8.9 million, and estimated 1976 gross income of over \$11 million.

Gallagher Bassett accounts for something more than one-third of the agency's revenues, Mr. Metzger said. Robert E. Gallagher, president, said that self-insurance division has registered a 34% gain for the first six months of the year.

Mr. Metzger believes that Gallagher Bassett was the first operation to offer total self-insurance administrative services for all lines. The service include claims handling, safety engineering, appraisals and data processing.

It now has 75 major clients which include institutions, government bodies and industry, serviced by 200 full-time employees from 37 offices countrywide. The division administers over \$30 million in client funds, Mr. Metzger said, and expects to handle over 45,000 claims this year.

Gallagher Bassett is a service organization, he said, and to deliver good service you've got to have good people. "Our people are in the front line trenches delivering what is sold."

Employees are primarily former claim managers, safety engineering managers of insurance companies or they come from independent engineering firms, Mr. Metzger said.



Louis E. Metzger Jr.

Gallagher . . .

Continued from page 16F

"We don't have a formal training program," he said. "We use only experienced people. Our adjusters have 12 to 14 years experience on the average. Our engineers are all certified safety professionals."

"It takes a special kind of person to do the job," Mr. Metzger explained. "They must have a high level of technical skills as well as public relations skills."

"We feel that every claim adjuster should be a good-will ambassador. Programs go smoothly when they do their job well."

Somewhat surprisingly, Gallagher Bassett has no trouble finding people, Mr. Metzger said. To keep them "we pay well, probably better than the average compared to insurance company personnel or staff of similar organizations."

And, to provide good service to its clients, "we insist that our people's case load be low. We won't let them carry a 'normal' case load," normal for the rest of the industry, he said.

The main expense of a self-insurance program are the losses themselves, Mr. Metzger explained, "and to the extent that we can reduce losses, we are doing our job. So, we make sure that our people have the time to handle all losses completely," including subrogation, and salvage which is not always done throughout the industry, he said.

Gallagher Bassett clients are charged a fee for the administrative services, depending on the client's business. But the fee is never based on a percentage of loss dollars.

Charging a fee based on losses, using retrospective rating for example, is common in the industry, Mr. Metzger said.

"But we think that's dumb. There is no reason why a service organization should have a vested interest in the amount of dollars for losses. Whether a loss is settled for \$1 or \$100, the cost to handle the claim is the same for us."

Gallagher Bassett charges a fee based on payroll figures, sales, or annual premiums, Mr. Metzger said. Most often it takes the engineers from two to six months to get a good feel for a new program so an initial fee is agreed on with the client. After a complete study is done, the organization will present the client with recommendations as well as the cost.

Sometimes a flat fee is set, Mr. Metzger said, and sometimes, there are some provisions for fee adjustments. For example if a client makes a major acquisition or has a significant increase or decrease in business which affects Gallagher Bassett's service load, the fee should reflect the change.

Mr. Metzger feels that a key factor in the success of a self-insurance program is control. "We feel that there must be one source to coordinate the brokering, engineering services and data processing information," he said.

For that reason, Arthur J. Gallagher & Co. insists that a client place its excess coverage with the agency if Gallagher Bassett is providing self-insurance administration services.

"There have been cases when we have been asked to administer a self-insurance program for a firm which had already placed the excess coverage with another broker, but so far we have turned them down," Mr. Metzger said.

Gallagher Bassett provides each client with a detailed computerized claim report monthly "which are quite prompt compared to the rest of the industry," he said. "The rea-

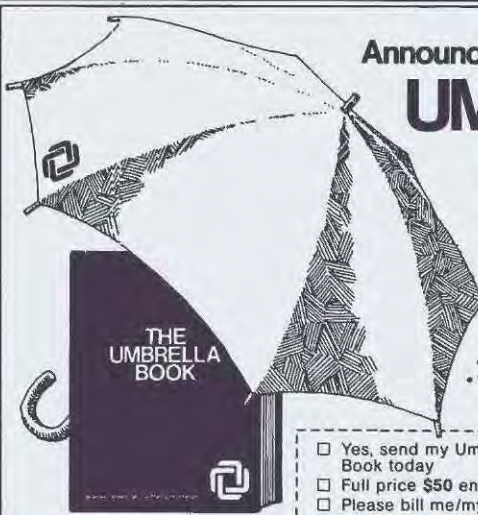
son is that the information put into the computer comes right from our own offices," and the variables of information fed into the computer don't have to be dealt with.

Monthly claim reports can be 12 inches thick for some clients, he said, and losses can be reported by divisions, plants, location, time of day, whatever the client wants, he said. Other information, that the client may not want but which is helpful to the safety engineers in loss prevention is also included, Mr. Metzger added.

The agency is often asked for a rule-of-thumb in measuring when a company should consider self-insurance, but there isn't one, he said.

A relatively small company could consider self-insuring workmen's compensation if its operations were concentrated geographically, Mr. Metzger said. A lot depends on exposures, he added. ■

Janet Mrozek Corrado



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Foundation and Wharton sponsor course to train benefits specialists

BROOKFIELD, WIS.—Classes in employee benefit administration will join readin', writin' and 'rithmetic in the school room under a joint program of the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania.

The new Certified Employee Benefit Specialist (CEBS) program will begin in January and the first examination will be given in June. The 10-course curriculum and examinations are designed for persons responsible for the operation of employee benefit plans or who provide plans with administrative or professional services.

The courses were begun because "the Employee Retirement Income Security Act has imposed new and uncharted responsibilities on all persons exercising any control over or management of employee benefit plans."

The courses include: the legal environment of employee benefit plans, health and welfare plans, pension plans, Social Security and

other retirement plans, employee benefit plan administration, accounting, industrial relations, asset management, management principles and employee benefit plans and the economy.

The foundation said the courses will be phased at a rate of two a year and all will be offered on the fall-spring semester schedule. Dr. Dan McGill of the Wharton School said the courses would be geared

to the junior-senior level of a university but there are no age, education or experience requirements.

While the Wharton School will be responsible for academic content and standards, the foundation will be responsible for overall administration of the program. The Wharton School also developed the Chartered Life Underwriter program and the Chartered Property and Casualty Underwriter program.

Applicants can register as a CEBS candidate and apply for any examination without taking the underlying course; to qualify for the designation CEBS, all ten exams must be passed.

To register for the program, \$50 is paid to the International Foundation; after that there is a \$75 fee for each examination in addition to learning guide and textbook costs.

According to the foundation, "potential classes" are anticipated for Chicago, Cleveland, Columbus, Detroit, Los Angeles, Miami, Milwaukee, Minneapolis, New York, Philadelphia, St. Louis, San Diego, San Francisco and Washington D.C.

Persons desiring more information should direct their questions to Mrs. Nel Daniels, Educational Program Director, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005.

Wells Fargo expands

Wells Fargo Bank has acquired the premium financing division of Guarantee General Corp. of Los Angeles. The firm will be incorporated into Wells Fargo as the insurance premium financing department in the bank's Los Angeles contract center. The service enables users to stretch insurance payments over several months.

ISO to collect its commercial data new way

NEW YORK—A new commercial statistical plan—which is hailed as a "major change" in commercial risk data collection and one which is expected to have substantial impact on insurance company data gathering and reporting systems—has been established by the Insurance Services Office (ISO).

The final CSP, scheduled to be circulated to companies no later than Feb. 1, 1977, for implementation July 1, 1978, is designed to capture statistics in sufficient volume to provide underwriters with complete knowledge of objective parameters of each risk. The CSP also will enable actuaries to set prospective rate levels for classes of risks based on historical data and on projections of future conditions.

Henry W. Menzel, vp of technical services for ISO, said the fundamental goal is to collect data for both mono-line and package policies which would be "combinable for future ratemaking."

Mr. Menzel noted that the same goal was part of the commercial risk statistical plan (CRSP) but was not achievable because mono-line and package statistics were collected under CRSP in different statistical plans.

"The statistical plans for all but fire and allied lines evolved with the changing times," he said, "but CRSP stood rock still." The actuary said CSP will collect all commercial line statistics in one plan divided into a number of distinct and separate modules.

There are four basic changes between CSP and the statistical plans it will replace. These were listed as record length; elimination and/or addition of data elements; modifications in reporting of existing data elements; and increases in number of records.

CRA taps Wei

Mark Wei has been named chairman of the Cargo Reinsurance Assn. at the group's annual meeting in New York. Mr. Wei, vp and director of Chubb & Son Inc., succeeds John R. Walbridge of INA. Roderick H. Gerrard, vp of Royal Globe Insurance Companies, was named vice chairman.

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Fears that unlimited, automatic liability is just 'round the corner

By George I. Whitehead
Corporate Director
Piper Aircraft Corp.

THE UNITED STATES has the most advanced products liability laws in the world devised to compensate victims of accidents. Under this system rules are deemed archaic and harsh when they protect the interests of manufacturers at the expense of consumers. It is indeed a bad time for manufacturers in the defense of products liability cases.

This is not to say that nowadays the trial of products liability actions cannot produce verdicts for the defense. There have been, and will continue to be, some conspicuous successes for the defense trial bar most often in special situations with facts peculiar to the case.

In all events, the milestones in the development of products liability law mark a relentless march toward holding manufacturers to a guarantor's responsibility without limit for their products safety. Make no mistake, however, the system cannot forever escape the day when accounts must be settled, sometimes referred to as a crisis in the making.

The "controlling principle" holds that consumers collectively pay for the damages suffered by the few in the prices they pay for goods and services, the age of spreading the risk. Risk spreading to be successful requires stability, established principles against which consequences may be predicted with some degree of certainty over a period of time.

If things go wrong and accidents occur, this is the range of predictable cost. On the funding side of the coin, the "controlling principle" is regulated, manipulated and shaped by a number of influences not all of which are related to loss experience, but an effort is made to achieve some sort of fiscal stability and relationship to what is needed to do the job now and in the future. On the other side, the payout side of the coin, the continuing trend toward sudden and stunning new theories of recovery and increasing evidence of social and emotional justice are destroying fiscal stability, the ability to predict and plan for the impact of losses.

Industry is prepared to accept the consequences of equal justice under the law and the effect of inflation on the size of awards, but this side of the coin in a large measure is in the control of judges and juries. In a products liability action the application of ordinary principles of justice will vary with time and place and the facts of each case.

Is it possible for juries everywhere with reasonable consistency to render even justice, fair and impartial verdicts when called upon to weigh the conflicting testimony of competing experts and arrive at the truth? Probably not. The root clash in product liability trials frequently focuses on complicated issues involving design criteria, manufacturing processes and operating techniques all difficult to explain, understand and solve.

Do lawyers and judges always understand the subtle distinctions? Probably not. "Everywhere" has to be the geographical limit. It is increasingly difficult for manufacturers to prevail on jurisdictional points where long arm statutes permit states to assert jurisdiction over non-residents who engage in activity in the state. Manufacturers are not often sued in their home towns.

Vmc, minimum control speed with the critical engine inoperative, was a much discussed issue in the trial of a multi-engine

airplane accident. When the jury made a visit to the airport to view a sistership, one juror, pointing to a parked, single engine airplane asked, "What is the Vmc of that airplane over there?" Constant reiteration by both sides had not conveyed the meaning of Vmc upon this reluctant mind. And then there is the judge's admonishment to the jury, "I will not tolerate jurors sleeping in my courtroom," heard with dismay by trial counsel, depending upon whose and what testimony was being offered during the jurors' siesta.

This actually occurred more than once in the trial of an aviation products liability case where millions of dollars were at stake, and caused an early settlement when contesting co-defendants concluded it was unlikely that this jury would make the effort to understand highly complicated engineering testimony and give their verdict according to the evidence. Nevertheless, in the adversary system which depends so much upon the skill of the cross-examiner to reveal the truth and the true worth of witnesses' testimony lay juries are a better bet to give their verdict according to the evidence than a tribunal of unsworn experts each having preconceived notions of what the controversy is all about.

This position is not intended to be seen as contradictory. A young engineering school graduate who worked in hydraulics when called for jury duty could not understand why neither side wanted him to sit as a juror in the trial of a case in which solving hydraulic problems would be a central issue. After all, this is his field of expertise. He did not understand the major fear that he would be the unsworn, expert witness in the jury room to explain to his fellow jurors what really happened.

This is why, for example, a pilot should be allowed to remain on the jury in the trial of an aviation accident case only after carefully weighing the anticipated benefits against the potential risks, the principal risk of which is that he will be a know-it-all expert whose know-how was not put to the tests of examination and cross-examination—a one person jury. A lawyer likes to have the jury hear the case from him.

In products liability the idea was that developing industries required protection from attacks on their treasuries—that the right to sue for damages should be based upon a contract—that the wide range of economic benefits to be obtained for society from the new manufacturing activity justified special treatment at some sacrifice to the rights of consumers. Extreme changes in the balance of things over the years immediately past and ahead will require another hard look at those ancient thoughts.

What is meant by "extreme changes in the balance of things?" The adversary system is based upon society's recognition of individual rights and individual responsibilities, the principle of equal justice under the law and the verities of trial by jury. Some balance, but no delicate balance between the adversaries, is needed to make the system work. The trial of a damage suit is a battle of persuasion. The fortunes of the contestants will ebb and flow as the trial progresses.

Comments like, "We had a good day today," or "This is the low point of our case" are commonly heard from both sides as they analyze how things are going. There is

nothing new in an outsider getting a bad call from home town justice or in the fact, that it is difficult, if not impossible, to be entirely detached and impartial when a contest is going on, even as a non-aligned spectator. If the lawyer for one side needs a personality transplant, some jurors may even privately root for Mr. Good Guy representing the other side. Forum shopping has been around for a long time. The cliché, "bad facts make bad law" is as good a rule of thumb today, and will be tomorrow, as it was when first coined. Suits are not tried in a vacuum. This is not a perfect world. And, too, in this environment corporations are less equal than injured people. These things are part of the litigation scene.

After *MacPherson v. Buick Motor Co.*, the law evolved in areas of implied warranty recovery, but the changes were not all that alarming for manufacturers until in the 1960s when courts began to go beyond warranty theories of recovery and the rule of strict liability, liability-without-negligence, was established in many jurisdictions. This in effect is the law of *MacPherson v. Buick Motor Co.* without plaintiff being required to show negligence on the part of the manufacturer.

The rationale, obviously, is that costs of injuries should be internalized. Manufacturers can best afford to pay the cost of the system and recoup in pricing products, spreading the risks. The rule of liability-without-negligence was then memorialized in Section 402A, Restatement of Law, Second, Torts, by the American Law Institute. An extreme change in the balance of things had occurred.

Automatic and absolute liability without limit must be just around the corner. This is the system the plaintiffs' trial bar seems to want, and the courts are giving it to them. What place will contingent fee contracts have in this new system for adjudicating rights and responsibilities? How far do the scales have to be tipped before the adversary system of deciding products liability damage suits is destroyed? Is anyone shocked and angry?

Continued on following page

VOCATIONAL REHABILITATION

Waldo's case provides study of on-job injury cost controls

Prepared By:
Employee Benefits Insurance Co.
San Jose, Calif.

THE DAY STARTED like any other for 49-year-old Waldo Robertson, a hard working employee of S & W Logging in Willits, California. He arose early and drove at dawn into the Northern California woods where the company was logging . . . the beginning of another long, tough day as one of S & W's "landers."

Mr. Robertson's job kept him right in the middle of the action. He often had nearly direct contact with the large felled trees as they were loaded onto the trucks.

Then, it happened. That one accident every logger fears. Mr. Robertson suffered a crushing injury to his chest when a log rolled onto him.

Had it not been for a workers' compensation insurance company's—as well as his employer's—intensive commitment to vocational rehabilitation, that might have been the last working day for Waldo Robertson; certainly his last working day outdoors.

But S & W Logging is insured by Employee Benefits Insurance Co. (EBI), workers' compensation specialists based in San Jose, Calif. EBI's approach to claims management soon solved both Mr. Robertson's problem and that of his employer, James Smith, who now faced operating without Waldo's services for months and paying much higher claims and vocational rehabilitation costs.

Immediate investigation of the serious injury to Mr. Robertson indicated that he would quite likely be left with some type

of permanent disability. Within 48 hours of the injury, Mary Ellen Copner, EBI's director of rehabilitation services, was involved in the case.

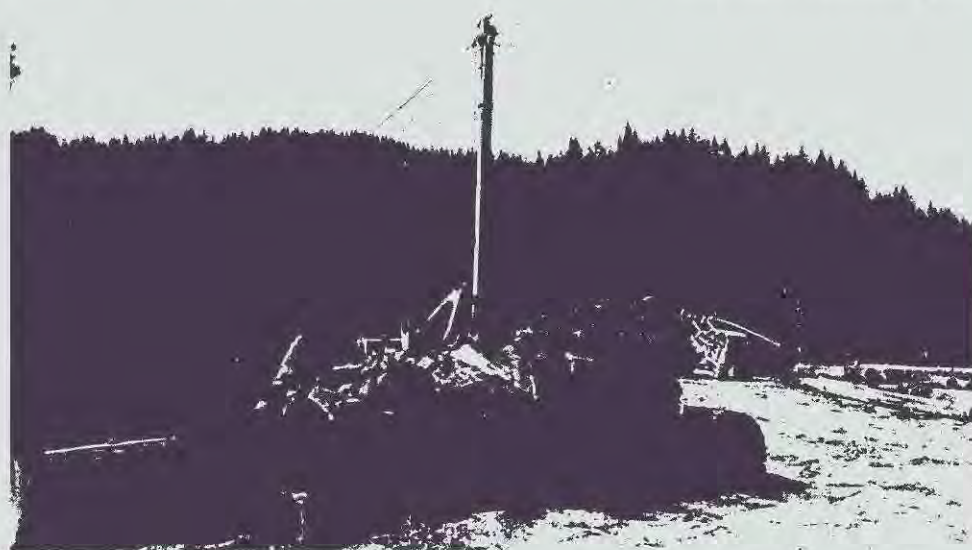
Initially, Ms. Copner worked with the hospital, attending physicians, and Mr. Robertson's family to insure the best possible medical treatment and to answer the questions and doubts family members always have in serious injury cases.

In time, it became clear that Mr. Robertson would not be able to return to the kind of heavy logging work he had been doing. Upon learning this, Ms. Copner met with owner James Smith to discuss the situation.

James E. Little, vp and Northern California division manager for EBI, describes what took place.

"They discussed the various options, first," he explained. "Under California's new vocational rehabilitation law, Mr. Smith was responsible for getting Mr. Robertson back to work, whether with S & W Logging or some other firm. That would also mean that Mr. Smith would have to pay for any testing, retraining and even placement costs necessary. Programs like this often cost \$10,000 or more. So besides being best for Mr. Robertson, since he would not have to go through joining a new company and making new friends, it

Continued on following page



An S&W logging site. Note size of logs Robertson used to be in close contact with.

Comp case . . .

Continued from preceding page

was also in Mr. Smith's best interests to find a new place for Mr. Robertson in S & W Logging."

After a series of meetings, Mr. Smith decided to offer Mr. Robertson the job of "yarder operator," a position that would keep him active and outdoors, as he had been his entire life. But there was one more difficulty to overcome. The "yarder" machine would have to be modified for Mr. Robertson to operate it correctly.

Plans were drawn up and the changes made. Then came Ms. Copner's final triumph. She managed to get Dr. Michael Sommers, the attending physician in Mr. Robertson's case, to come out to where Waldo Robertson was to work and approve the modifications and the physical requirements of the job itself at the site. All changes were approved.

So it was that the enthusiastic Mr. Robertson, just five months after an accident which could have meant the end of his career, returned to work as a "yarder operator" for S & W Logging.

S & W Logging and EBI point to five factors that made this a success story: a rapid and timely response to a serious injury, a positive view of vocational rehabilitation, a director of rehabilitation services who knows how to work with people, an employer who showed a genuine concern for his employee, and a highly motivated employee.

The significant amount of money saved by not having to completely re-educate Mr. Robertson—estimates were that it could have cost nearly ten times as much—is easy to measure. More important is the savings in "human productivity" that owner James Smith made possible by returning Mr. Robertson to a job that fits his skills and desires.

The passage of Assembly Bill 760 by the California state legislature, effective January, 1975, placed the responsibility for an affirmative vocational rehabilitation program squarely on the shoulders of the employer. When permanent disability, the result of a work related injury, prevents an employee from returning to his regular occupation, he must be retrained for another occupation that is within his new physical limitations.

Product liability defenses . . .

Continued from preceding page

Thirty years ago \$50,000 per passenger aircraft legal liability insurance coverage was not uncommon for the airlines. Settlements at \$50,000 were few, and were high water marks. One non-scheduled airline operator advertised on the radio for a time, that the operation was so safe underwriters at Lloyd's provided \$50,000 per seat insurance. The average listener probably thought this was seat accident insurance, which it was not.

Airline passenger wrongful death cases could be, and were, successfully defended. There were important and interesting products liability trials, some landmark cases, but such actions were more conspicuous by their rarity. It had not become commonplace to sue manufacturers. Claims and suits from accidents causing mass injuries and deaths of folks from widely separated sections of the country were usually resolved in the families place of residence with local counsel. "Grouping of contracts", "center of gravity" and "governmental interest" tests in resolving choice of law problems, and class actions and transfers administered by the judicial panel on multi-district litigation were not even specks on the horizon.

The crisis in the making will probably have to become a fully mature crisis. When the goose is in extremis, the "deep pocket" becomes bankrupt and come the sudden unavailability of insurance for high risk products, new proposals, and old proposals renewed, will come in one way or another, most likely through state and federal legislation. There will be no instant solutions, but some proposals to be expected may be listed as follows:

- The original manufacturer to have no liability when there has been a substantial alteration in the product.

These retraining programs can be expensive. They may require an outside consultant, formal schooling, books, transportation, room and board, and continued disability payments; as well as a reasonable effort towards job placement. It is not unusual to increase the reserves \$15,000 and more when such a case is recognized.

EBI believes there is a way to significantly reduce the cost of vocational rehabilitation and at the same time take care of the needs of the employee.

The first step is to hire personnel who are trained in "people handling." This includes staffers such as benefit representatives and a rehabilitation nurse, but excludes adjusters who tend, through their training as investigators, to build an adversary relationship with the injured employee rather than one of confidence.

Next, immediately identify cases which may qualify for vocational rehabilitation. In most instances, recognition comes soon after meeting with the employee and reviewing the medical evaluation. When a case is identified as one qualified for vocational rehabilitation, the best answer is not to immediately employ an outside consultant. Rather, begin to build a rapport with the employee through personal contacts from the rehabilitation nurse or benefit representative.

SPEAKING OUT

Repressive laws not the answer

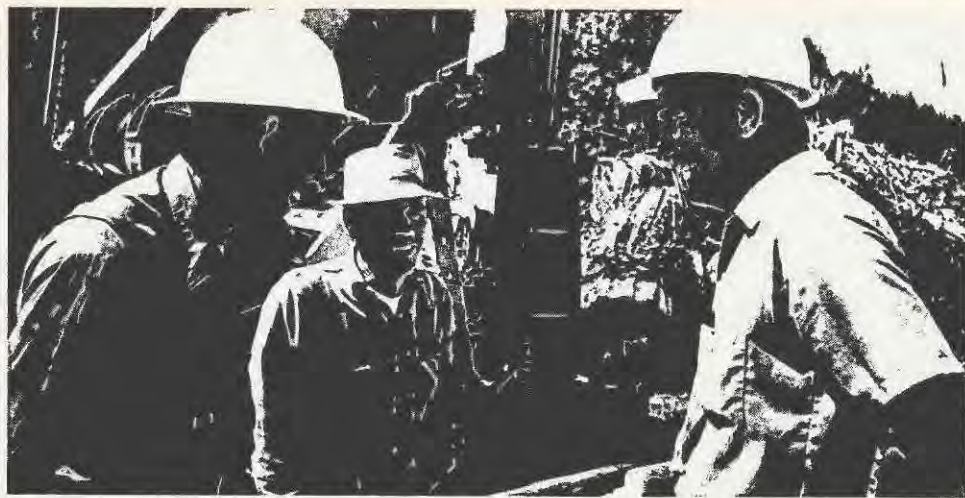
By Peter Downes

Manager of Insurance

American Trading & Production Corp.

WE ARE CURRENTLY seeing in American thought the perennial flowering of a desire to throw out the baby with the bath water, or the cutting off one's nose to spite one's face, or whatever cliché you prefer! The tort system of law is all wrong, it is said, let us change it beyond recognition.

In a recent speech made to the California Assn. of Independent Insurance Adjusters, however, Herbert Hafif, a well known plaintiffs' lawyer, characterized the tort system of law as a "very dynamic and efficient



James Smith, S&W Logging, (left), Waldo Robertson (center), and Cliff Piazza (right).

Retraining and placement of the injured employee with the same employer will save an enormous amount of money which would otherwise be charged to the employer's workers' compensation loss experience record. Most importantly, the employer has this opportunity to make use of an adverse situation in a positive way.

Attempt to return the employee to work in some capacity as quickly as medical

judgment permits. As the employee returns to a familiar and productive environment, this alleviates some of his depression and anxiety regarding his future.

Some employers actually create a new job for the employee immediately. They recognize that by doing so, some temporary total disability payments are eliminated. Also, the sooner the employee gets back into a work environment, the better the chances of ultimate success.

system." He also expressed the thought that it is "more disgraceful than fiscally threatening" that American juries have awarded fewer than 100 million-dollar verdicts over the years.

I am inclined to agree with both these statements. Moreover, at the risk of inducing apoplexy, it may be confidently said that the crowning glory of American legal practice is the contingent fee system.

When viewing our overcrowded and stagnated courts, to say that the tort system is dynamic and efficient may seem absurd. But, as Mr. Hafif pointed out, of 300 automobile cases 150 are settled without benefit of an attorney, and of the rest only two get into court. Thus, a system which can settle better than 99% of its cases without going to court at all has to be a good system.

As for excessive judgments, there is no doubt that there have been unnecessarily massive awards. I also have the feeling that such awards are few and far between and that their existence has been blown out of all proportion by gross publicity. During my own career over the past 20 years, I have been struck by the inadequacy of awards rather than otherwise.

A row of books could be written on the subject, but there is space here for just a couple of cases which have stuck in my mind. Very recently a plaintiff secured an award arising out of an automobile accident which had occurred some years previously. As soon as the funds were available, and her lawyer had, quite properly, collected his fee, the vultures, largely in the form of insurance companies, began to descend. Blue Cross got back all the money it had paid out. There was nothing illicit about this, there being a provision to this effect in the group contract negotiated with the plaintiff's employer, but not by the plaintiff herself. Then the automobile insurer wanted its money back, and so on.

By the time everything had died down there was not too much of the original award left to provide against a deteriorating physical condition. Moreover, the plaintiff received a hopelessly inadequate award in the first place on a more or less take-it-or-leave-it basis. Besides this, the defendant in this case could have afforded to admit its obvious liability without all the procrastination it indulged in—the defendant being the United States government.

Public authorities are prone to this kind of rip-off, however, and the public condones it. One recalls, some years ago, a case where a lady was severely injured and a public transit authority was obviously wholly liable. We reserved the case for \$500,000, a very large sum in those days. Some time later we gleefully rubbed our hands when the case was thrown out of court. Tucked

away in the rules and regulations was a provision that all suits must be filed within 90 days of the accident, and the plaintiff's lawyer overlooked it. I do not know if the lady ever received redress from anybody and at the time I did not care. When I reflect on the matter, however, I do know that the lady did not receive her just dessert.

I do agree, therefore, with the contention that quanta damages should be established and should be administered by judges rather than by juries. This will certainly put a stop to hyperinflated awards, but far from causing an overall reduction in insurance costs, it will in my opinion increase them because all those who receive inadequate judgments under the present system will obtain their awards at a proper level.

After praising the contingent fee system, it may seem sheer cussedness to express approval of the doctrine that the loser shall always pay. There is no doubt in my mind that the contingent fee system is often abused, largely by lawyers who intend to squeeze every last cent from their clients' misfortunes. It may be simplistic argument, but if "the loser always pays" criterion is used, we might expect to see lawsuits reduce in numbers overnight. This would not eliminate the contingent fee system but it would perhaps ensure that it be used more sparingly.

It seems to me that when we get hot under the collar about the readiness of everybody to sue at the drop of a hat, we often fail to ask one question, "Why should anybody wish to sue?" An unthinking response is to say that they are on the make. This is no doubt true in some cases, but not in most. In most cases people want to obtain what they think is rightfully their own. And if bringing a lawsuit is the only way to get it, then this is what they will do. Consequently, in my opinion, reform should be directed to making a suit for damages what it always should have been, a very last resort and not the only one.

The current drive toward legal reform seems to be directed toward limiting the use of courts by prohibition and restriction, and at the same time advocating changes in legal principles which will be completely at odds with current social trends. But if in our reforming zeal we prevent the public from obtaining what it considers to be a proper redress, then the public will find other means to achieve its goals.

Simply put, we cannot make our problems go away by wishful thinking. Repressive legislation in the legal field will do no more than bring about new social legislation with its attendant inefficient regulatory agencies. Should this happen we may all wind up reminiscing about how good things were in the land of Goshen.

Exhort employers to take loss control initiative

WICHITA, KAN.—Insurance companies and the private sector must improve health and safety in the workplace or face more government control and more Occupational Health & Safety Act directives an insurance company official said.

John L. Pickens, assistant vp of The Hartford Group also criticized OSHA last month at the Governor's Safety Conference: "Indeed, I am convinced, after nearly 30 years in this business, that a program based solely on correction of physical conditions will never result in any substantial improvement in the safety record, particularly when it relies on enforcement of regulations that are both ambiguous and confusing."

"OSHA may actually do more harm than good by concentrating so heavily on physical improvements. The law was never intended as a crutch to prop up a fundamentally shaky loss control program, nor to distract attention or divert funds from the total safety effort," he said.

Mr. Pickens said if the private sector does not take the initiative soon, loss control efforts "may be slowly strangled by government directives." The government's consulting services would duplicate the loss control services now available from the private insurers.

"The availability of these services must ultimately be limited to companies that recognize their responsibilities in this area and do their share to control their own losses. For those that will not, the answer is government regulations and enforcement to eliminate risks that are no longer acceptable to society," Mr. Pickens said.

Corporate loss prevention programs must state their objectives clearly, measure results, integrate day-to-day operations at all supervisory levels, and learn how to identify potential problems, Mr. Pickens said.

Since 1961, the accident rate has gone up, while over the 25 years preceding 1961 the frequency and severity rate was cut by more than half, according to Mr. Pickens. Because society has mandated tougher standards for industrial safety, workers' compensation laws in many states have been upgraded and courts have granted larger damage awards.

Mr. Pickens advocated passage of two recommendations made in a 1971 report issued by the National Commission on State Workmen's Compensation Laws. One is a standard workers' compensation reporting system that would mesh with forms required by OSHA. The other proposal is to require workers' compensation carriers to provide loss prevention services to every employer they insure, especially small policyholders.

The problem with government intervention, he said, is OSHA's staff seems to have an inadequate grasp of safety requirements of the industries they regulate. "Then the administration and enforcement of the law are turned over to trusted political operatives whose hiring practices bear no

relation to the professional requirements of the field being regulated."

He said OSHA, has not produced the same amount of training material in loss control as private insurance companies. At Hartford, every workers' compensation policy written includes data about the loss control services available, and offers explanatory materials and audio-visual units that deal with a specific section of the federal regulations.

"All of which leads me to wonder just how badly the federal government needs to seek and to spend millions of dollars to create consulting services that largely duplicate what is already available from private insurers."

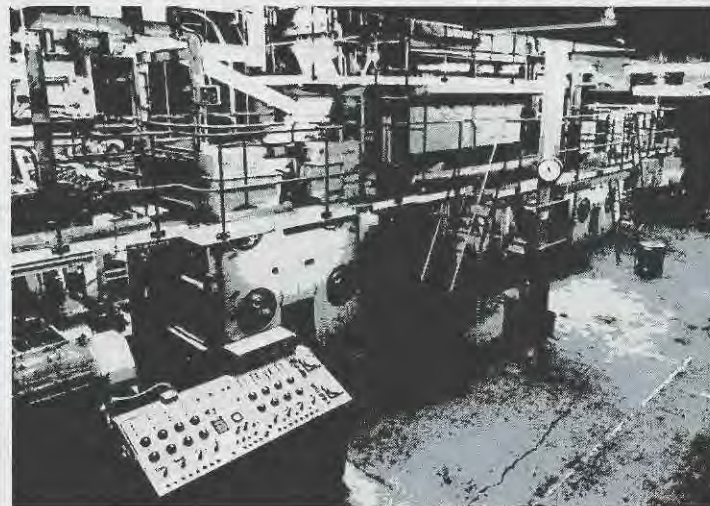
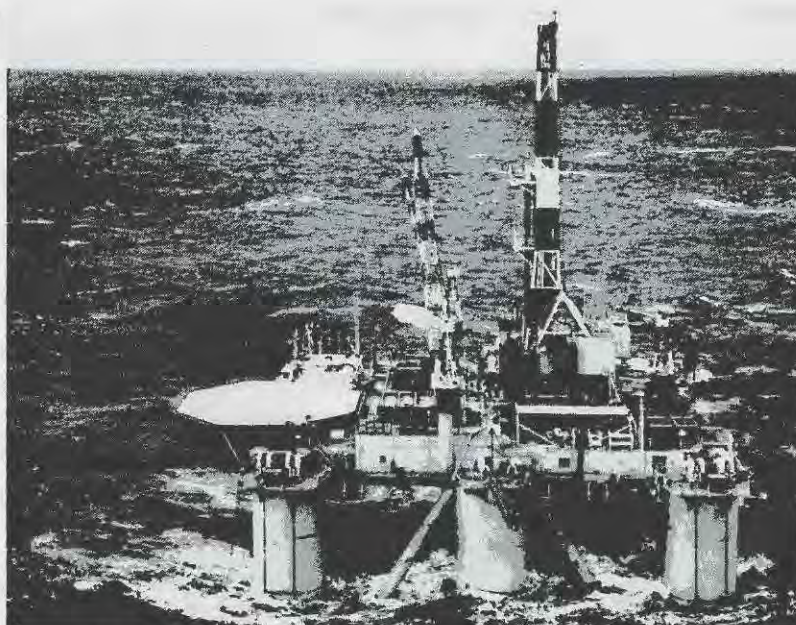
"The sad part of it is that government, with all the enforcement powers at its disposal, has yet to prove that it can do the job as effectively as those of us who have been plugging away in the private sector," Mr. Pickens said.

In his advice to corporate insurance managers and loss control professionals, the insurance official said "accidents on the job should be treated as warning signals that something has gone wrong with the management system" and can be handled in the same way as any other operating problem.

"The objective of a safety program is not to gather statistics, put up safety posters, hold safety meetings, or conduct inspections. Ultimately the program must be judged on the end result, which is the reduction of job-related injuries and illnesses."

Also, supervisors should be trained to stress corrective action and improvements rather than emphasize fault, he urged. An integrated safety program includes not only a good safety professional but also a "smart design engineer, an experienced production engineer, a good purchasing department, and a capable and dedicated maintenance department," Mr. Pickens pointed out.

Systematic methods and procedures, regular reports and follow-ups should also be instituted, he advised.



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Marine assn. officers

Warren P. Noll of Royal-Globe Insurance Co. has been elected president of the New York Marine Insurance Co. The group representing 80 marine underwriters, claims and brokerage personnel. Matthew F. Hogan of Nausch, Hogan & Murray was elected vice president.

Predict 1980 oilfield premiums of \$450 million

By JOHN H. MILLER

LONDON—Forecasts of future insurance costs for the big North Sea oilfield developments between Britain and Norway were made by consulting engineer Hans Butler of London at a U.K. risk management conference.

He estimated that in 1980 the "real replacement cost" of fixed drilling equipment in that area will be about \$24 billion. With premium rates ranging between 1.25% and 3.5% annually, there

will be a national premium expenditure on this basis of more than \$450 million a year, said Mr. Butler.

But the incidence of rig slip limits, self-insurance and the possible underinsurance of true replacement costs can affect these figures, which are based on the assumption that in the next three or four years there will be 100 significant platforms in the North Sea delivering 150 million tons of oil.

A significant fire incident on a platform producing 100,000 barrels of oil per day at \$12 per barrel, with insurance cover placed at \$8 million premiums per year, could result in a cash flow loss of more than \$30 million if the effects lasted for six months, he pointed out.

This estimate is based on total production loss for seven days (\$8.4 million), 50% loss for another seven days (\$4.2 million), and 10% loss for the rest of the period (approximately \$20 million).

A major platform "wipe-out" on a similarly insured platform could cost operators more than \$630 million if there is total loss of production for six months (\$218 million), 50% loss for another nine months (\$327 million), and 10% for the next two years (\$88 million).

So the better the standard of maintenance, the lower the number of incidents, and the less expensive they should be, he said.

Mr. Butler, of Orr, Boss & Partners, told the conference on offshore drilling risk management convened by the Institute of Pe-

troleum and Oyez IBC Business Communications.

"The purpose of offshore oil (drilling) inspection and maintenance is really to prevent loss of production, pollution, and loss of life. Its purpose is not to reduce insurance premiums. In many areas of risk it cannot influence them at all.

"In the offshore insurance market the operator has contractual responsibility, in any case, to fully maintain his equipment. In my view maintenance has little effect on some major risk phases.

Mr. Butler holds the view that the rig insurance market is very short of capacity. This problem is compounded because demand for that insurance capacity by operating companies is growing as more and more expensive installations are planned, he said.

"So far there have been only a very few years in which to build a history of claims, and when they arise they are big ones. As a commercial fact of life, there is at present little scope for any trade-off between increased maintenance and insurance," he said.

"I would say that at present the two are almost unrelated. The insurance premium is related essentially to market factors and is virtually unaffected by any realistic variation in maintenance practice which is likely to be acceptable to the operator.

"Maintenance expense is related essentially to the best possible engineering practice," Mr. Butler continued, "in order to preserve production and reduce hazard to life and the environment. Any way which improves these objectives will be pursued by operators, whether the insurance premium goes up, down or sideways."

But the interaction of maintenance and insurance could arise in the event of further sources of

underwriting capacity from "fringe" areas being made available as claims experiences improve. This could lead to relatively lower premiums in the face of competition, but offshore oil is not a normal marine market, Mr. Butler noted.

It was a field where there were relatively few installations, with very large sums at risk, and with little experience so far on some of the technological hazards involved.

Mr. Butler concluded: "In the long term I believe good inspection and maintenance, aided by avoidance of bad luck, will show a trade-off, but that trade-off will operate largely through the action of market forces in the insurance market."

Robert C. Walker, British Petroleum Group deputy project

manager, told the conference: "The 'Forties Field' in the North Sea is an area of real financial risk, where millions of dollars are at stake, and decisions about uncertainty have to be made, so that many of the developments depend on sound engineering principles.

"Aspects which can put human life at risk have to be eliminated as far as possible. For example, it was decided to 'up end' a jacket using a remote control system, rather than use the more hazardous but cheaper alternative of putting a man on the structure to take it down.

"Design risks can be reduced by technical knowledge, and an island platform is an operational risk which must be reduced to a minimum by safe engineering," said Mr. Walker. ■

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Captive owners challenged to become risk-takers, competing in world market

By MARGARET LeROUX

HAMILTON, BERMUDA—"Today's well-managed captive may well be tomorrow's general insurance company."

This declaration of faith in the captive industry was made by John G. Paine, president, Insurance Co. of North America (INA) at the fall meeting of the Captive Insurance Company Assn. Inc. (CICA).

The maturing of well-managed captives will result in "the creation of a number of sound, risk-taking organizations particularly adept at dealing in the world marketplace," Mr. Paine said.

This accomplishment will mean putting the brakes on accelerated growth, INA's president continued, to develop such basic expertise as astute underwriting capability, ac-

curate risk analysis proficiency and skill in claims adjustment, loss control, investment and administration.

Captives "will have to prove their willingness to put capital at risk," Mr. Paine said.

"If you can't accept the fact that considerable losses are part of the cost of doing business, then owning an insurance company, especially one that wants to expand into general insurance, is not for you," he added.

The necessary capital will come from traditional insurers, the executive noted. "In all probability, captives will be asking us for the use of our surplus."

The amount of the premium to

be charged for the use of that surplus, he continued, "will be determined . . . by the availability of resources at any given time."

Mr. Paine explained INA's position on ceding business to captives and accepting retrocessions from them.

"In the case of cessions, we want to take a hard look at the captive's financial, technical and administrative stability . . . along with proof that the captive has sound reinsurance protection" he said. "In the case of retrocessions, the criteria are price and understanding acceptability."

In the practice of fronting, "a captive's reinsurance program must be unquestionably solid," Mr. Paine said. "In addition, because fronting

requires us to commit a portion of our surplus—to loan it, if you will—we believe we have every right to be paid at the going rate for the use of our money."

INA would expect to "earn a reasonable return by participating in the risk transfer element and by offering underwriting support, claims administration, loss control, salvage and subrogation, rehabilitation and all the other services general insurers offer on a day to day basis," he added.

There is still resistance to captives in some quarters of the insurance industry, Mr. Paine acknowledged. "But it is not organized resistance. Nor is it, in my opinion, supported by logic."

"Any company . . . that supports the solvency of a major price cutting competitor is being illogical if it then turns around and decries captives or self-insurance techniques," he said.

INA has a positive attitude to-

wards captives for a number of reasons, the chief executive said. "Where the industry has been unwilling or unable to provide coverage or capacity, captives have acted as safety valves."

Captives provide a sophisticated means to circumvent the obstacles inherent in the present insurance mechanism, Mr. Paine said.

The tendency to form captives outside the U.S. has encouraged captive managers to seek capacity on a global basis rather than in the U.S. alone, he noted.

Captives have driven home the need for strong risk management programs, Mr. Paine continued, and they can provide an additional source of income for capital-hungry industries.

"As captives expand and begin to share risks other than their own, opportunities arise for the rest of us to provide the resources, techniques and specialized services necessitated by this expansion," he said.

New tax law restricts trip deductibility

HAMILTON, BERMUDA—Tax deductible business trips to Bermuda will be severely limited by the new income tax law, captive managers attending the fall meeting of the Captive Insurance Company Assn. Inc. (CICA) were told.

Section 602 of the 1976 Tax Reform Act which goes into effect Jan. 1, allows an individual to deduct for expenses incurred in attending not more than two conventions, seminars and similar meetings per year held outside the U.S., according to Sidney Pine, partner in Trubin, Sillcocks, Edelman & Knapp.

The expert on captives told CICA members the section, which amends section 274 of the Internal Revenue Code, also limits travel expenses to the lowest coach or economy airfare in effect at the time.

In addition, travel and other expenses are deductible only if more than half the total days of the trip, excluding travel time, are devoted to conducting business matters, Mr. Pine said.

For example, if six hours of business meetings are scheduled per day, an individual must attend two-thirds of them, or four hours of meetings.

An individual's daily expenses for subsistence are limited to the same per diem rate allowed government employees travelling to the same place. For example, the per diem expense for government employees travelling to Tokyo is \$57; Rome, \$43; Paris, \$62; Mexico City, \$39; London, \$52 and Bermuda, \$62.

To deduct business expenses for meetings and conventions outside the U.S., an individual must include a statement regarding the sponsoring organization in his tax returns, Mr. Pine said.

"There is some disagreement among tax experts whether this also limits employers on sending the same individual on more than two business meeting trips outside the U.S.," the attorney said. "Nor is it clear at present how broad the definition of convention, seminar and similar meetings is," the tax attorney added.

There is also some question as to whether the definition includes meetings of boards of directors, he said.

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Autoworkers obtain vision care at Deere

MOLINE, ILL.—The new United Auto Workers contract with Deere & Co. provides vision care as part of the insurance program for 27,000 employees of the nation's largest farm equipment manufacturer.

The contract between the UAW and Deere is expected to be used as a master agreement for UAW negotiations with International Harvester Co. and Caterpillar Tractor Co., the other major farm equipment manufacturers.

The vision package provides \$20 for an eye examination by an optometrist, \$25 for an examination by an ophthalmologist. It also provides a specific amount, not yet determined, for lenses and frames. A Deere spokesman said the vision package was similar to the program won by the UAW in its contracts with the automobile companies.

Pension benefits will be increased \$15 for every year of service in the first year of the contract, \$15.50 in the second and \$16 in the third. Pensions for workers currently retired increase 75 cents per year of service in the first year and an additional 50 cents in each of the next two years.

Deere also agreed to changes in the time off bonus to allow employees with regular attendance to earn up to 6½ days off per year with pay. Workers will receive 1 hour for working their regular schedule for 4 weeks; after that they will receive 1½ hours for every 4 weeks of regular attendance.

Dental care changes include increasing the one-time limit for orthodontic care to \$750 from \$100 and increasing coverage for some items involving basic care to 100% from 75%.

The new contract also mandates the use of hospital review boards to control admissions and length

St. Paul cuts premiums for malpractice

ST. PAUL—St. Paul Fire & Marine Insurance Co. has reduced physician malpractice insurance rates an average of 20% in three states.

Donald Clifford, vp for casualty, called the action "a pretty significant decrease in terms of what's been happening in the last year."

More than 12,000 doctors, one-third of those covered by the company, are affected. The cuts range from 21.9% in Virginia, to 21.2% in North Carolina and 18.3% in Minnesota.

The company said the action reflected a leveling off of claim costs in the three states. It said the new claims-made policies will quickly reflect changes in claims.

Mr. Clifford said it is too early to say if the move is the turning point in the malpractice problem, although there has been a nationwide leveling off in claims.

A spokesman for the American Medical Assn. believed the new claims-made policy was the reason for the reductions. Since malpractice claims are usually filed three to seven years after an event, the true claims experience will not be known for several years, he said.

There is no common action linking the three states which could have accounted for the decline, Mr. Clifford said.

of stays.

Supplemental unemployment benefits will now be guaranteed for 26 weeks without regard to the status of the fund.

The contract does not contain several important benefits the auto workers have won in their contracts with the automobile manufacturers. The auto companies promised to pay all taxes or premiums required under a future national health insurance plan and have agreed to include hearing aids in the insurance coverage.

Wage increase range from 33 cents to 43 cents per hour in the first year for hourly employees. Incentive employees will receive increases of 27 cents to 36 cents an hour.



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• **Organization of the Employment Function** is a foldout dealing with the results of a survey conducted by Towers, Perrin, Forster

he National Safety Council recently published **Fundamentals of Industrial Hygiene**, a 1,008-page textbook self-teaching or college class in an industrial fundamentals course indexed

• The Ansol Co. has released **Fire Protection for the Petroleum Industry**, a booklet discussing hazards and proposed fire protection for the petroleum industry, including off shore platforms

• **The Internal Security Handbook**, an authoritative and comprehensive guide for security programs, utilizing and improving security programs, from the Association of Insurance Agents

ie Ansol Co. has released a new **Sentry Fire Extinctors**, describing the company's new chemical fire extinguishers, their UL ratings and comparative fire killing power of the new unit

h water, soda, extinguishing s. l by Underwriter in their categories

• **Proper Planning . . . For New Construction . . . Additions** is a kit containing an information planning guide consisting of 18 booklets, fold-out sheets covering construction hazards and recommendations for safety precautions. The kit is \$3 and available from the service department, Insurance Mutuals, 15 N. Plains, N.Y.

Insurance Agent's Action Guide to Catastrophes, produced by the General Adjustment Bureau Inc., is a handbook of procedures for insurance agents in such disaster situations, explosions, and fires

• **Multi-Employer Pension Plans**, a basic informational guide for employers, administrators and unions, jointly administered by the Pension Insurance Association and the Insurance Industry Pension Fund

tion Insured Can Avoid Duplicate Recordkeeping under OSHA is a folder prepared by the Travelers Insurance Co. booklet containing a chart of workmen's compensation used in each state

• A revised third edition of **Insurance for Contractors** is available from Fred S. James & Co., N. La Salle St., Chicago, Ill. 60602 at \$3 per copy. The 109-page booklet provides a wide interest in the construction industry and sub-contractors, engineers, architects, and other professionals involved in construction

• The United States Aircraft Insurance Group has made available the **Legal Liability of Manufacturers of Aircraft and Aircraft Components**. The pamphlet discusses the increasing scope of liability, aircraft liability, sources of liability, testing, design, fabrication and repair, and components, aircraft repair, and safety

• **Guide to Property Conservation**, a booklet produced by the engineering staff of the combined property department of Kemper Insurance is available free to insurance readers. The insurance is applicable to almost all types of property and covers security, cut-p, regulations, expansion, what loss occurs and case of disaster. The brochure also contains information on writing

• **Commercial Property Product Lines** is a concise guide to the various commercial property product lines in which American Insurance Co. The brochure also contains information on writing

Super-captive . . .

Continued from page 1

diversity of the individual captives' business.

"We've got 196 CICA members in this room and almost that many different approaches to what sort of business we should get our captives into," one member said.

Reluctance to commit their captives to a concept like the super-captive was perhaps motivated by an earlier speaker's remarks at the CICA meeting. William G. Clark, senior vp at General Reinsurance Corp., elaborated on the pitfalls of the casualty reinsurance market.

"Nobody wants to give you good business in the reinsurance market," Mr. Clark said. "If it's good business, they're going to keep it for themselves."

The single most important aspect of the reinsurance market is that

"you can't control your business," he said. "You get what everyone else doesn't want."

Referring to Mr. Clark's comments, one excess and surplus lines broker noted that "he scared a lot of captives out of the reinsurance business."

But for those captives willing "to be very selective about what you'll reinsure," and to put themselves in a risk situation, "there's a lot of capacity in the reinsurance market," Mr. Clark said.

Another speaker at the CICA meeting, Peter Bennett, president of Canadian International Reinsurance Brokers Ltd., told of reinsurance opportunities in the Canadian market.

Advantages such as a legal system where fees are fixed, no contingency fee lawsuits have caused casualty insurance price increases,

Mr. Bennett said, make Canada attractive to captives looking for reinsurance business.

"The largest award in a third party liability suit has been \$2 million," he said, "and it still makes headlines in Canada if an award exceeds \$300,000."

Judges in Canada are appointed, not elected. "A Cook county, Dade county atmosphere doesn't exist," he said.

One stumbling block to participation in Canada's reinsurance market is inadequate capitalization by some captives, Mr. Bennett acknowledged. Most Canadian ceding companies require \$2 million in capitalization, but this can sometimes be negotiated between the parties involved, he added.

However, the Canadian market "is too big for captives to ignore," Mr. Bennett said. He estimated that \$30 million to \$40 million is available for reinsurance in Canada in 1977.

Captive alternatives for surplus explored

HAMILTON, BERMUDA—Besides the "super-captive" theory, (see related story) several other alternatives for captives to exchange surplus or quota share treaties were presented by John R. Parry, director of Bellew, Parry & Raven Ltd., London.

Captives could reciprocate with each other, Mr. Parry said at the fall meeting of the Captive Insurance Co. Assn. (CICA) meeting. If similar captives were willing to exchange business, then the acceptances could be increased by that additional amount.

For example, if there were two shipowners with similar fleet values, then their captives could accept a larger share of their fleets and exchange the additional

amount, Mr. Parry explained. "This now increases the business into each captive without increasing their exposure on any one claim."

Another alternative is for a captive to reciprocate with insurance companies operating elsewhere, he continued. "The most likely possibility would be for a captive owned by an insurance group, whose parent placed shares of its treaties with the captive, which the captive would then exchange with other insurers."

Most established treaties have had long-standing reciprocal agreements with other companies. This indicates, however, they would not normally become available for exchange with a new company, he added.

A final alternative is for a group of companies to pool their surplus business which could then be exchanged.

Problems arise in that under such an arrangement several parties would have to reach an agreement and inevitably one captive's surplus treaty would prove to be a loss, which might sour the relationship, Mr. Parry noted.

Additionally, the problems facing the previous alternatives of finding good surpluses with which to reciprocate would still apply, he said.

The super-captive approach, he believes, would provide the best security for captives.

Mich. eyes changes in no-fault law

DETROIT—Changes in Michigan's no-fault auto insurance law are under consideration following a legislative hearing reviewing the law's three-year record.

Rep. Matthew McNeeley called the hearing in response to complaints on the cost of providing unlimited medical benefits under the law and the inability to hold negligent drivers responsible for collision accidents.

Mr. McNeeley's office said no specific changes had been agreed on, but it said amendments to the state law could still be considered by the state legislature before the end of the year.

"The record bears out that no-fault has been a great success in righting the wrongs of the tort liability system and in protecting the Michigan consumer," insurance commissioner Thomas Jones told the hearing in Lansing.

Robert Row of the League Insurance Group, Mr. Jones and others urged caution in amending the no-fault system until the Michigan Supreme Court rules on two cases now before it.

One case involves a direct challenge to the constitutionality of no-fault insurance. The other case has already resulted in a lower court decision voiding a section of the law that coordinates personal injury benefits with workers' compensation and Social Security payments. That case is on appeal.

Other cases have been or are being heard in lower courts in the state on various parts of the no-fault law. The basic concepts of the law usually have been supported in court decisions. But the Michigan Trial Lawyers Assn., remains opposed to no-fault.

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Bermuda law to set 'soft' standards for captives

By MARGARET LeROUX

HAMILTON, BERMUDA—Insurance legislation being developed by the Bermudian government will not seriously hamper captive insurance companies domiciled on this island, captive managers were told by the Minister of Finance.

Speaking at the fall meeting of the Captive Insurance Company Assn. (CICA), here earlier this month, J. D. Gibbons, JP, MP said the legislation isn't meant "to stifle the industry with restrictive legislation: the object is to set standards for new and existing members and see that those standards are maintained."

The principal objective of the bill now being discussed in committee and slated for passage next spring, Mr. Gibbons said, is to require all companies carrying on insurance business to be registered as insurers. The bill will also require registration of insurance agents, brokers, managers and

salesmen. For different classes of insurers, it will specify certain minimum financial standards, the minister said.

Minimum solvency requirements will be established, Mr. Gibbons said. Insurers will be required to submit periodic returns to the Minister of Finance to "satisfy him that appropriate solvency margins and a reasonable net assets to annual premium income ratio will be met." The ratio Mr. Gibbons suggested is 10%.

The insurance bill will give the finance minister the power to investigate the affairs of local or direct insurers and allow him to demand further information where he has reason to believe that an insurer maybe in financial difficulties. This power will be "fairly limited," Mr. Gibbons said.

The minister assured captive managers that "the minimal machinery set up to expedite the legislation will be so designed as to pre-

serve the confidentiality of information obtained from insurers."

In addition, insurance companies doing domestic business in Bermuda will be required to invest a specified percentage of their domestic liabilities in authorized financial securities in Bermuda. "The appropriate percentage will be determined in the light of both the needs of the economy of Bermuda and of the availability of suitable local securities," Mr. Gibbons said. There will be a provision whereby the percentage investment required may be varied by the minister with the approval of the legislature, he added.

The underlying thrust of the legislation is to produce a system setting "minimum financial standards which is capable of giving what we might call early warning signals of financial difficulty or mismanagement," he noted.

The emphasis must be on self-policing by the captives, he continued, "and there are very good reasons for this."

The government does not wish to set up expensive policing machinery, since "it is policy not to extend the civil service," he said. "It intends to avoid adding more administrators to the cost of the government and the consequent need for more taxation."

The "top class talent" to staff a full fledged insurance commissioner's office "is just not available in

Bermuda—nor would it be easy to obtain within the present government civil service salary structure," Mr. Gibbons said.

Self-policing by captives in Bermuda "would be consistent with the flexible arrangements under which the industry has evolved in Bermuda and under which it is continuing to prosper," he said.

The key to Bermuda's success in the offshore tax haven field has been to ensure quality by the pre-screening of applicants for company incorporation, Mr. Gibbons said. "But in the event of the need for some rescue work our informal structure has enabled us to make quick contact with Lloyd's and other centers for advice."

A major insurance center as Bermuda is, should be seen to have a

sound legislative framework, Mr. Gibbons said. "It cannot prevent the occurrence of a bad apple—the nature of the insurance business involves too many uncertainties for that—but it can minimize the damage that such a member can do to the rest of the industry and indeed to the whole economy."

PHICO execs named

The Pennsylvania Hospital Insurance Co. (PHICO) named Paul B. McGinnis vice president and appointed James Webb underwriting manager. The company was started earlier this year to provide professional liability insurance for hospitals and health care institutions in Pennsylvania. It presently insures 80 Pennsylvania hospitals; headquarters are in Camp Hill, Pa.

people

Continued from page 28

Robert C. Hendrickson, 54, was named director of employee benefits at Sherwin-Williams Co., Cleveland, responsible for planning, control and administration of all corporate benefit plans. He replaces Robert E. Carpenter, who recently left the company to join Reed Shaw Stenhouse, as reported. Mr. Hendrickson joined the company in 1964 as manager of recruitment and placement and since 1969 has held various other positions with the company, most recently that of plant manager for Chicago Chemicals, a subsidiary. In his new position, Mr. Hendrickson reports to the vp-administration.

At Whittaker Corp., Los Angeles, Tom Cannan, 44, was named

corporate employee benefit manager, replacing Robert Kropf, who joined Olanie, Hurst & Hemrich, employee benefit consultants. Mr. Cannan, formerly employee benefit manager at Rockwell International Corp., is responsible for Whittaker's retirement security, pension and insured benefit programs. He reports to the vp, industrial relations.

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Hocklander promoted at shipping firm

Austin E. Hocklander, 52, was promoted to vp, insurance and claims for Yellow Freight System Inc., in Shawnee Mission, Kan. He was formerly director of insurance and claims. In his new position, he reports to the company's executive vp. Mr. Hocklander is responsible for all property and casualty insurance programs as well as claims handling for cargo, liability and workers' compensation. Mr. Hocklander joined Yellow Freight in 1959 as manager of cargo claims and was promoted to insurance and claims manager in 1967. In 1975 he was named director of insurance and claims.

Phil Spotts, 44, was named insurance manager for Ceco Corp., Chicago, replacing David Haight who joined CF Industries, Chicago, as reported. Mr. Spotts is responsible for Ceco's property, casualty and employee benefit programs. He reports to the secretary and general counsel of the company. He was formerly director of insurance and safety at Allied Supermarkets Inc. in Detroit. No replacement for him there has been named.

Leonard Zawadniak, 42, joined Suburban Propane Gas Corp., Whippany, N. J. as corporate insurance manager, replacing Thom-

as J. Peterson who left the company to join the brokerage firm of Emmett & Chandler Inc. Mr. Zawadniak is responsible for administration of the company's property and liability insurance programs and management of the corporate real estate program. He reports to the financial vp. The new Suburban Propane insurance manager was formerly corporate insurance director for J. B. Williams Co., Cranford, N. J.

At J. B. Williams Co., Cranford, N. J. Steven Zalewicz, 28, was promoted to the position of corporate insurance director, responsible for property, casualty and employee benefit insurance program. The former administrative assistant to the corporate insurance director, Mr. Zalewicz reports to the company treasurer.

At Anchor Hocking Corp., Richard C. Heydinger, 32, was promoted to director, risk management and retirement, reporting to the treasurer of the company. In his new position, he is responsible for administration of the company's retirement programs in addition to his current responsibilities for the risk management, property and casualty insurance and employee benefit program.

On Nov. 22, Carol Williams, 28, took over as manager of employee benefits at Borden Inc., Columbus, Oh., replacing Elliot E. Burd, who left to join Carlin-Black Co., a Columbus employee benefit consulting firm. Mrs. Williams was promoted from within Borden, where her previous position was benefits specialist. No replacement has been chosen for her. Her new responsibilities include researching, designing and developing all of Borden's domestic and in-

ternational employee benefit programs. Mrs. Williams reports to Dennis Kairis, director of employee benefits.

Suzann M. Horne, 29, was promoted to benefits specialist at Borden Inc., Columbus, Oh. She replaces Virginia Grady, who left Borden to become supervisor of medical and dental claims at United Airlines. Ms. Horne's new job responsibilities include the analysis,

design, and financial review of all corporate employee benefit plans. She reports to Borden's manager of employee benefits. Before her promotion, Ms. Horne was supervisor of insurance claims. Stepping into that position is Catherine Carlisi, 29, senior claims examiner.

Carol Polkinghorn, 30, was promoted to senior administrator in the risk management department of Control Data Corp. in Minne-

apolis. She will head the company's workers' compensation program which is being shifted to the risk management department from the employee benefits department. Ms. Polkinghorn has been with Control Data for seven years; her last position was claims administrator. She will report to Robert E. Abrahamson, manager of risk management and corporate insurance.

Continued on page 27

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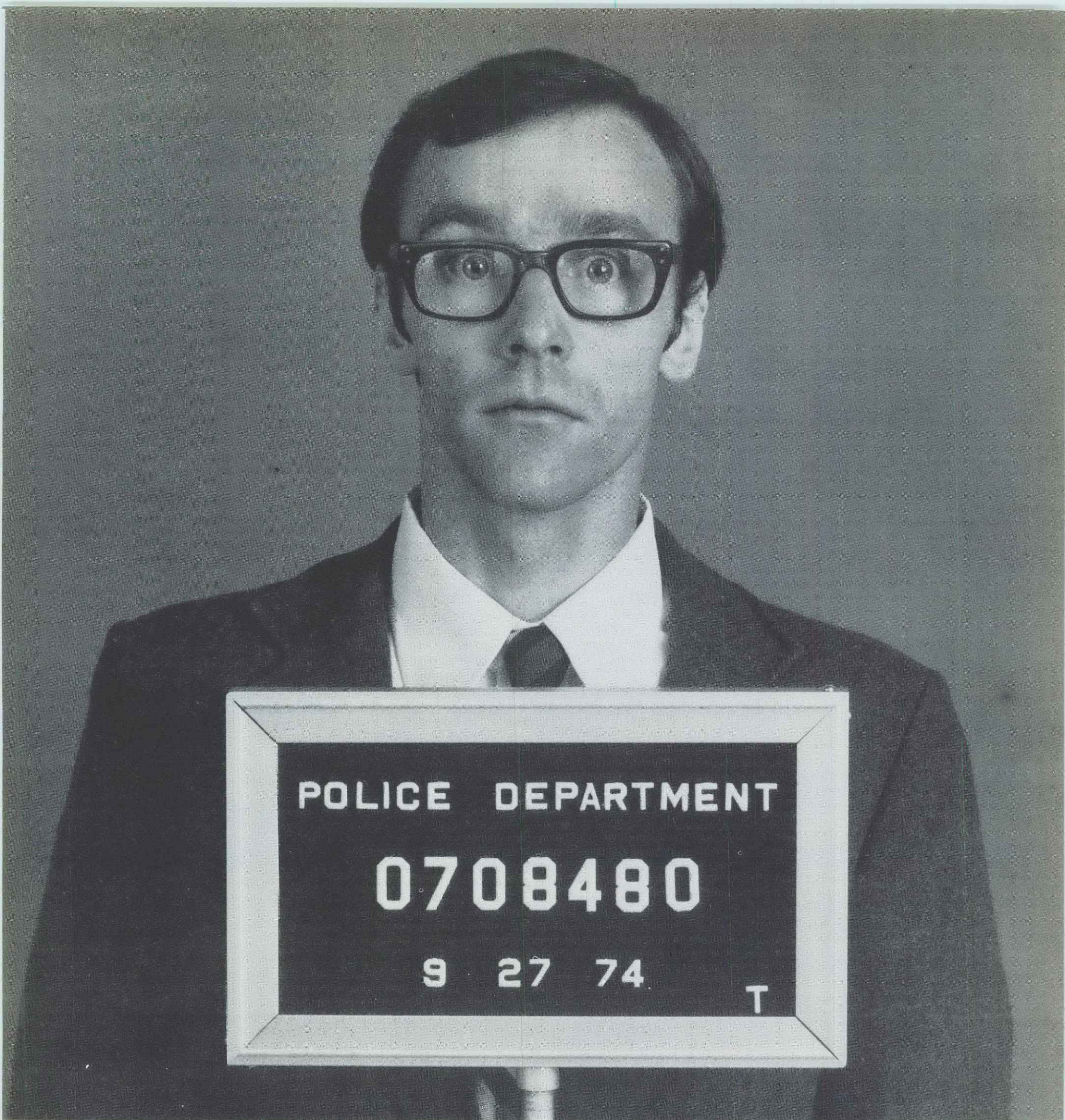
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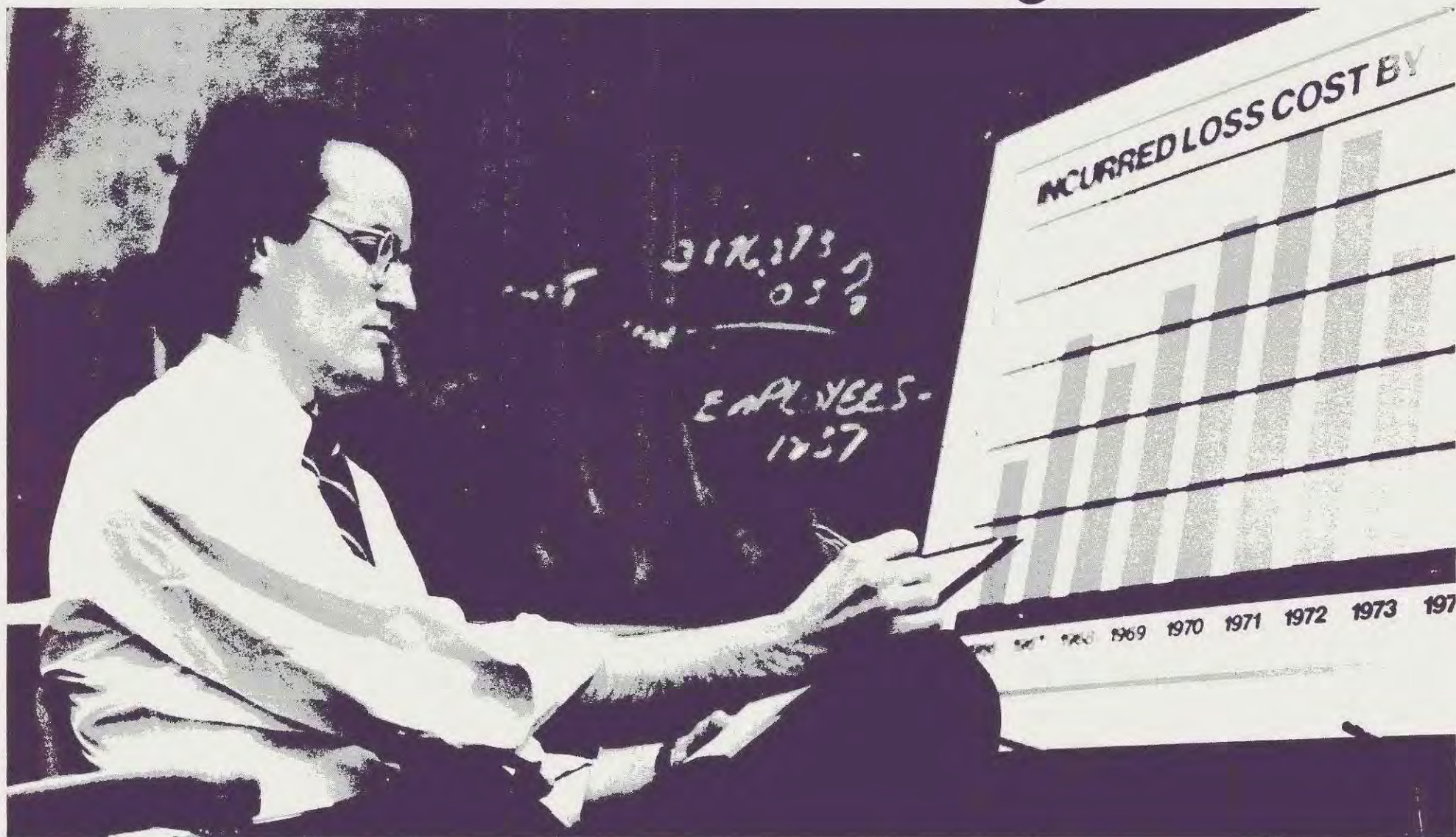
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