

business insurance

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$25 a year

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update:

Prepaid vision plan will be penalized

MINNEAPOLIS—Minnesota Vision Services Inc. will be fined by the state insurance department for operating without a certificate of authority.

The company has been in violation of the state insurance law for seven to nine years, said Tom O'Malley, assistant insurance commissioner in charge of en-

Continued on next page

More tampon suits to come, lawyers say

By RHONDA L. RUNDLE

LOS ANGELES—A nationwide epidemic of product liability lawsuits against Procter & Gamble Co. and other tampon makers is only beginning, say attorneys representing victims of toxic shock syndrome.

At least 14 lawsuits against Procter & Gamble, maker of Rely tampons, already have been filed around the country. Johnson & Johnson Products Inc. has been named defendant in a Chicago suit against its OB tampon. International Playtex Inc. also has been sued in Los Angeles.

The Walter P. Dolle Insurance Agency in Cincinnati is the broker for Procter & Gamble's product liability coverage, *Business Insurance* learned. Commercial Union Insurance Co. of Boston is one of several underwriters on the risk, but not the lead underwriter, said a spokesman at the agency.

A number of retailers that market tampons have been named co-defendants in some cases. A Los Angeles suit names a Southern California supermarket chain and both Procter & Gamble and Playtex. Two Portland suits against P&G also name a number of local retailers.

Toxic shock syndrome is caused by the bacteria staphylococcus

aureus. The combination of tampons, menstruation and the bacteria creates a toxin that invades the rest of the body, says the Center for Disease Control in Atlanta, Ga.

Superabsorbent tampons are linked more with TSS. It is speculated the abrasiveness of these tampons cause ulcerations of the vaginal wall that allow bacteria to enter the bloodstream.

Symptoms of TSS include sudden high fever, vomiting, rash, peeling skin, blurred vision, nausea and rapid plunge in blood pressure.

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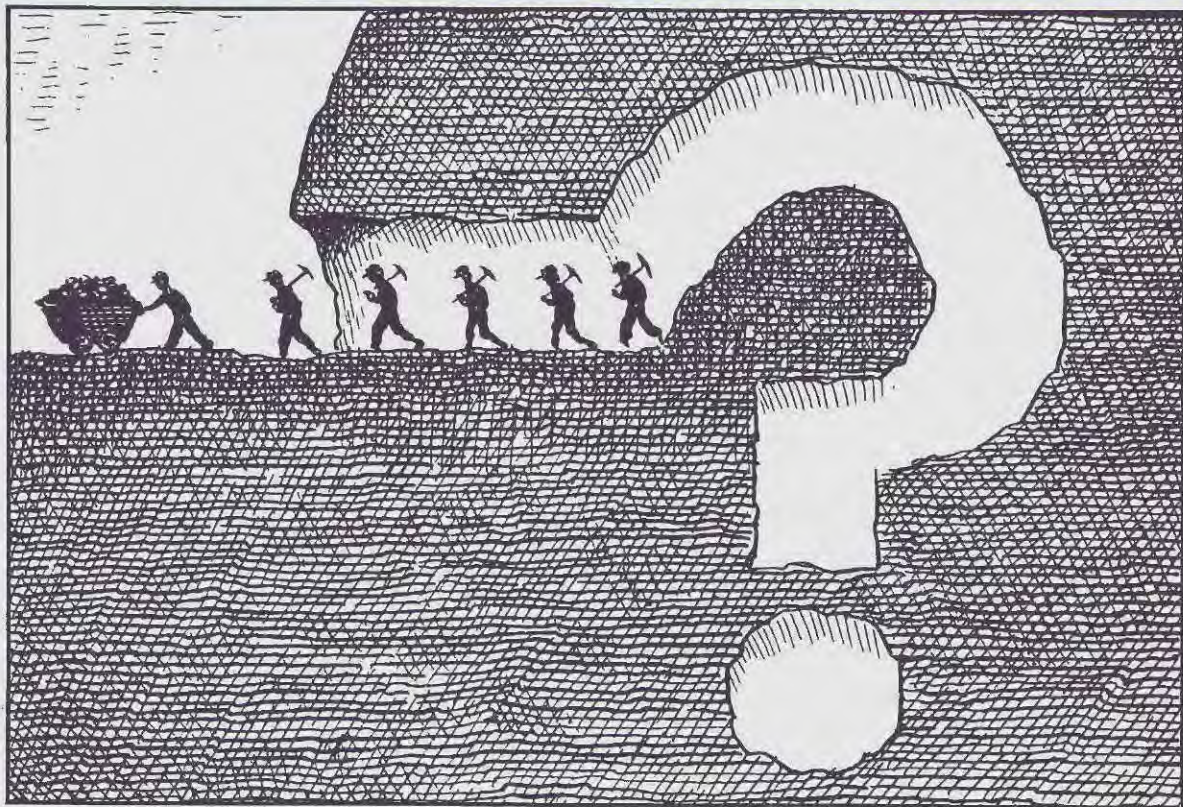


Illustration: J&H

Trusts, pools grow for black lung risks

By ELLIS SIMON

NEW YORK—Dramatic increases in black lung claims costs are forcing coal mine operators to consider alternative funding techniques for their liability.

The number of mine operators considering tax-exempt, self-insured trusts is increasing and two studies are under way on the feasibility of forming captive pools to underwrite black lung risks.

Since March 1, 1978, when a liberalized federal black lung law took effect, the Labor Department has approved 200,000 black lung claims. From 1973, when the department took over responsibility for reviewing cases, to March 1978, only 6,000 were approved.

About 110,000 of the 200,000 approved claims provide monthly benefits. The average value is \$120,000 for claims filed by widows of miners and \$175,000 for those filed by living miners.

In 1979, the Labor Department authorized black lung benefits of more than \$729 million, nearly 10 times the \$79 million paid out the preceding five years, according to a report by broker Johnson & Higgins.

The large increase in disability awards has created a \$1 billion deficit in the federal trust fund set up under the 1977 revised law to pay claims of miners in cases where there is no financially responsible operator or miner whose last mine employment was before Jan. 1, 1970.

The deficit in the fund, which is supported by an excise tax on coal, could reach \$9.2 billion by 1995, according to Assistant Secretary of Labor Donald Elisburg.

Coal mine operators criticize what they consider easy approval of benefits without medical evidence to support the presence of black lung disease (pneumoconiosis), a chronic lung disorder caused by inhaling coal dust.

"The (Labor) Department is processing claims without evidence or with conflicting evidence," maintained a spokesman for the National Coal Assn.

The association filed suit three weeks ago against U.S. Labor Secretary Ray Marshall, Health and Human Services Secretary Patricia Harris and Treasury Secretary William Miller. It charges the employees of these agencies overstep the intent of Congress in approving claims.

Meanwhile, coal mine operators look at their options for funding their growing liabilities.

Historically, insurance for black lung has not been easy to find nor cheap to purchase. Insurers now are seeking rate increases as high as 500% for black lung coverage. (See story on page 39.)

Operators now purchase insurance through Old Republic Insurance Co., the only insurer writing black lung coverage on a voluntary basis; participate in assigned risk pools in which all insurers that write workers compensation coverage share the black lung risk as mandated by the state, or self-insure.

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Special Section

Texas Market Report

The spirit of Texas revolutionary leader Sam Houston lives on in buyers who must deal with a restrictive Texas market.

NEWSPAPER

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Employee Benefit Board on health plan competition Page 3

update:

Vision plan to be fined

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forcement and an investigator of the case.

"We will levy a penalty for those years," he said. The amount is still to be determined.

The state insurance department began investigating the prepaid vision plan as a result of a *Business Insurance* probe (BI, May 26).

MVS was administered from the home of Onan A. Thompson, former president of Minnesota Delta Dental, who was sentenced on a forgery conviction Sept. 26.

He was sentenced to two years probation and fined \$3,000 for forging loss reports as president of Minnesota Delta Dental.

OSHA eyes construction rules

WASHINGTON—The Occupational Safety and Health Administration announced last week it is considering issuing compliance rules to ensure the construction industry meets workplace health and safety standards.

The construction industry currently is required to meet federal standards on workers exposure to hazardous substances and working conditions. However, it has been free to determine compliance methods.

OSHA and the Department of Health and Human Services' National Institute for Occupational Safety and Health have set up a task force to study the proposal.

Regulator runs for Senate

TALLAHASSEE—Florida insurance commissioner William Gunter will run for the U.S. Senate Nov. 4 against Republican candidate Paula Hawkins.

Mr. Gunter became the Democratic candidate after defeating incumbent Sen. Richard Stone in a runoff election last week. It's the second time in Florida history that an incumbent senator has lost a primary.

The runoff was a replay of a 1974 contest between Mr. Gunter and Sen. Stone for the same nomination. Sen. Stone won that year by 10,000 votes.

Little risk in Iran war: Analyst

NEW YORK—American insurers have little exposure to worry about in the war between Iraq and Iran, an industry analyst reports.

The two biggest domestic writers of business in the hostile area are American International Group and Aflac, but neither should be hit with many losses because of the fighting, says Herbert Goodfriend, analyst with Bache Halsey Stuart Shields Inc.

AIG's largest exposure is the marine coverage provided for 10 ships in the Persian Gulf, with each carrying a maximum AIG participation of \$1.5 million, with a net retention somewhat lower than that, Mr. Goodfriend says. No losses have been incurred.

Besides a \$100,000 net retention on a jack-up oil rig on the Iranian side of the Persian Gulf, AIG has no other exposures.

Aflac has no exposures in Iran and its only one in Iraq—a refinery—has war risk as a coverage exclusion, Mr. Goodfriend says.

EPA sues chemical companies

WASHINGTON—Three chemical companies have been sued by the Environmental Protection Agency for allegedly mishandling toxic wastes.

Named in separate civil complaints filed by the Justice Department are Diamond Shamrock Corp. of Dallas; Chemical Recovery Systems Inc. of Elyria, Ohio, and Chemcentral-Detroit Corp. of Romulus, Mich., the EPA said.

The suit asks that each company be forced to clean up waters that the EPA says were contaminated through improper dumping and that future dumpings be done in a safer manner.

The EPA said it could not estimate how much the change in dumping procedures and the forced cleanups would cost.

PBGC proposes asset rule

WASHINGTON—Companies that want to hang on to excess pension assets when they terminate their pension plans must have a provision in their plan making it clear the extra assets revert to the employer, the Pension Benefit Guaranty Corp. has proposed.

Previously, an employer could keep the excess pension assets even if the plan lacked such a provision.

Comments on the proposal, which appeared in the Oct. 2 issue of the Federal Register, should be sent to the PBGC by Dec. 2.

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Owner of cruise ship seeks limit on liability

NEW YORK—The owner of the luxury cruise ship M/V Prinsendam that caught fire off the coast of Alaska Oct. 4 is taking action to limit its liability.

Holland America Cruises N.V. filed a petition in federal court last week asking the court, under admiralty and maritime law, to either exempt it or limit its liability to \$350,000 for claims arising from the fire that forced evacuation of the ship.

Holland America already has posted \$350,000, its estimated interest in the ship, as a security pending further court action.

Hull and liability insurance details were unavailable. Marsh & McLennan is the broker for the shipowner.

A federal court judge has ordered that all complaints and claims against the shipowner be filed in U.S. District Court for the Southern District of New York no later than Nov. 26.

The Prinsendam, on a pleasure cruise en route to Singapore, caught fire not far from Vancouver, British Columbia, its port of origin.

Most of the 500 passengers aboard were elderly vacationers on their way to a 27-day excursion in several Far Eastern ports, said a spokesman for Holland America.

All passengers were evacuated from the vessel and rescued by the Coast Guard with no deaths or injuries. However, several passengers have complained that lifeboats were poorly equipped and overcrowded and evacuation procedures not well executed.

Officials, however, say the mandatory fire drill on the ship as it left the port of Ketchikan Oct. 3 may have been a key factor in preventing a major disaster.



Passengers wait to be lifted from a lifeboat of the M/V Prinsendam, the luxury cruise ship that caught fire off the coast of Alaska.

Railroad deregulation

Bill limits shipper suits

By STACY SHAPIRO

WASHINGTON—Shippers beware.

Your full rights to sue a solvent railroad carrier for cargo losses will be derailed when President Carter signs the new railroad deregulation bill before the presidential election, warns a claims expert.

That means you might have to sue a financially unstable railroad for losses and never receive payment.

The new bill, the Staggers Rail Act of 1980, was passed by Congress this month. It forfeits a shipper's right to sue any railroad

that has been involved in shipping its freight.

The new bill states that a shipper may sue an origin rail line at the origin of shipment, or a delivering rail line at the destination point, explained William J. Augello, executive director and general counsel for Shippers National Freight Claims Council. And a shipper also can sue a rail line in the district where the loss occurred.

A shipper can even sue a rail line if his company and the carrier's company are in the same district.

But he can't sue an origin carrier at the destination point, only the destination carrier. This could cre-

ate problems in collecting claims, Mr. Augello said.

What if the destination carrier is just about to go bankrupt and the origin carrier is not? What if the destination carrier says it wasn't his fault that the goods were damaged, but the shipper can't prove it was another rail line's fault? The shipper could lose his battle and his insurer would have to pay the unaccounted-for loss.

"Insurance companies will have to pay these claims without any recourse," Mr. Augello said. "It takes our options away from us."

Congress referred other liability issues—including the release of li-

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Supreme Court to decide if safety rule worth cost

WASHINGTON—The Supreme Court this term will decide whether the federal government must prove the benefits of regulations to protect workers' health outweigh the added costs to industry.

The textile industry is challenging an Occupational Safety and Health Administration rule that limits worker exposure to cotton dust. Industry argues the rule could cost employers more than \$2 billion to comply.

Whether OSHA has the right to

impose enormously expensive safety requirements on employers is one of the cases relating to insurance and pensions that the Supreme Court will tackle in its new term that began last week.

It will consider:

- Whether an entire industry can be held liable for the safety of a product when an injured plaintiff can't identify the specific manufacturer.

- Whether a corporation can use workers compensation payments to offset pension benefits paid to

an injured worker.

- Whether a state can impose retaliatory taxes on insurers from another state to force the other state to lower its taxes on out-of-state insurers.

In the cotton dust case, employers argue that OSHA cannot issue safety rules to protect workers if it does not back up the rules with proof that the real benefits to the employees will outweigh the added cost to industry.

In a similar case, the Supreme

Continued on page 37

Competition bills won't cut costs, benefit execs say

By STACY SHAPIRO

employee benefit board

Benefit managers are choking on the idea of force-fed competition among health insurance plans as a way to control rising health insurance costs.

A survey of the *Business Insurance* Employee Benefit Board and an informal telephone survey of benefit managers found strong opposition to proposals in Congress to mandate more competition for group health insurance plans.

Only three of 33 benefit managers responding to the *BI* benefit board survey said they support the premier of the competition bills, the Gephardt/Stockman bill.

That bill would pave the way for creation of new forms of federally qualified health insurance plans and revamp tax laws to reward employees for choosing cheaper health care plans (*BI*, June 9).

The three benefit managers supporting the Gephardt/Stockman bill agree that some employees would choose lower-cost coverage if given the option and so reduce health care costs. Their companies employ 2,500 to 12,000 workers.

Benefit managers interviewed by telephone, however, charge that the amount of additional administration required to offer more plans as proposed under various competition bills would only increase their costs.

"The ill-conceived legislation

will only be harmful," said one benefit board member who controls a benefit program for 55,000 employees. "While I believe in competition to reduce costs, this bill would:

- Increase federal involvement.
- Be a boon to HMOs that haven't proven cost effectiveness.
- Eliminate any future developments of cost reductions.
- Inflict the employers with costly administrative efforts."

Legislators who support forcing of more competition into the health insurance business argue competition will drive down health insurance prices. But most employee benefit managers who already offer competing indemnity health insurance plans and health maintenance organizations disagree.

"HMOs are not working," said one benefit manager on the *BI* benefit board.

Benefit board members have a lot of experience with HMOs. More than two dozen of the benefit managers responding to the survey offer three or more HMOs as well as indemnity plans to their employees. One company offers 35 HMOs;

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Median Actual Salaries

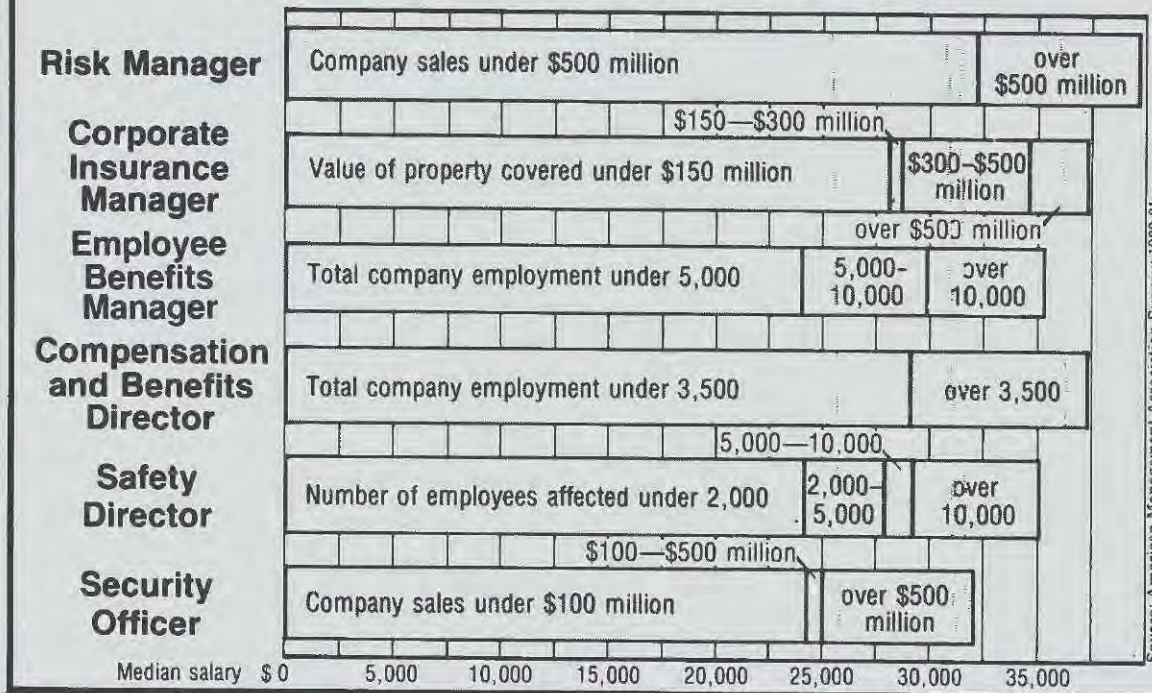


Chart: Toby Roberts
Source: American Management Association Survey: 1980-81

Risk, benefit execs' salaries trail inflation, study shows

CHICAGO—Risk and employee benefit managers' salary increases last year fell about 3% short of the rate of inflation.

Inflation jumped 11.8% and middle management salaries increased 8.5%, according to the American Management Assns. Executive Compensation Middle Management Report.

Risk and employee benefit managers were among the 81 middle management executive positions reviewed in the annual report, based on a survey of 1,081 companies. The term middle management cov-

ers "those positions which report to top executives in charge of a particular function," the report says.

Seventy-three percent of the middle management executives surveyed said they earned \$20,000 to \$40,000. Risk and employee benefits managers came in on the upper end of that scale.

If a risk manager's company had less than \$500 million in annual sales last year, his salary was around \$32,300 as of Jan. 1, 1980. If his company made more than \$500 million, he took home \$39,600.

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AMA conference warnings:

IRS ruling attacks self-funded reserves

By KATHRYN J. McINTYRE

PHOENIX—Many corporations that tax deduct reserves for self-funded workers compensation losses will pull in their horns and stop in the face of an Internal Revenue Service ruling, predicts a self-funding expert.

The IRS ruled this summer it will not follow two 9th Circuit Court of Appeals decisions that corporations are citing to defend tax deductions for reserves established to pay self-funded workers compensation losses.



James Davis on workers compensation reserves.

Corporations outside the 9th Circuit that continue to tax deduct these reserves are risking fraud and negligence charges by the IRS, says James Davis, vice chairman and chief executive officer of the research and sales development division of broker Corroon & Black Corp.

Such a risk will stop the practice in many corporations, he predicted in an interview with *Business Insurance* after a seminar during the American Management Assns. National Conference on Risk and Insurance Management here Sept. 29-Oct. 1.

In Revenue Ruling 80-191, issued in July, the IRS announced it will not follow the 1975 and 1976 decisions of the 9th Circuit Court of Appeals in the *Crescent Wharf & Warehouse Co. v. Commissioner* and *Wein Consolidated Airlines Inc. v. Commissioner* cases. The IRS argues the decisions are incorrect in allowing an employer to tax deduct in the year of an employee's death or injury the liability to be paid in the future.

Corporations can only deduct amounts payable in the taxable year, not future years, the IRS contends.

In *Crescent*, the court allowed the taxpayer to treat its liability for workers compensation losses as fixed when an employee was injured and to tax deduct the estimated cost of medical treatment and disability compensation if the amount can be determined with rea-

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High attendance of more than 400 and high temperatures of over 100 degrees marked the American Management Assns. National Conference on Risk and Insurance and Benefit Management held this year in Phoenix Sept. 29-Oct. 1.

Leaders of the benefit conference, attended by 231 registrants, were Joseph W. Duva, director of benefits and compensation at SCM Corp. in New York, and Thomas W. Freeman, senior consultant with Johnson & Higgins of Texas.

Leaders of the risk and insurance conference, attended by 171 registrants, were P. Richard Hackenberg, assistant treasurer of Allegheny Ludlum Industries Inc. in Pittsburgh, and Joseph Fahys, senior vp of Marsh & McLennan in New York.

Double 1981 budget for health insurance

PHOENIX—Benefit managers should double whatever they are budgeting for increases in health insurance costs next year, warns an insurance company president.

A new explosion of health insurance claims could send health insurance costs soaring 20% to 40%, predicted Harry G. Bubb, president of Pacific Mutual Life Insurance Co. in Newport Beach, Calif.

"If your 1981 budget calls for increases of 10% to 20%, go back and double it to 20% to 40%," Mr. Bubb advised benefit managers attending the American Management Assns. National Conference on Benefit Management here Sept. 29-Oct. 1.

"Our statistics justify that increase," he said.

Health claim costs for the first six months of 1980 are up 34% over the first six months of 1979 at Pacific Mutual, Mr. Bubb reported. That compares with increases in the first six months of 1978 and 1979 of 11% and 10%, respectively.

Admitting that health plan use is traditionally higher in the first six months of a year than in the second half, Mr. Bubb predicted the increase for the second half of 1980 will be 20% to 30% over 1979. "But it won't be less than 20%," he stressed.

Mr. Bubb blamed the dramatic cost increase on inflation and the recession. Demand for health care services increases during a recession, he said.

Mr. Bubb does not link increased demand for health care services with layoffs and people having the time for elective surgery. Instead, he suggested health plan use increases during a recession because fears about job and financial security take a toll on health.

He noted that a group of auto dealers insured by Pacific Mutual is turning in claims rising in cost by more than 2% each month, partly reflecting how the drop in auto sales is hurting health. But a public utility insured by Pacific Mutual, where employment is steady, is turning in claims costing 1% to 1.5% more each month, reflecting

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Harry G. Bubb on health claim cost increases.

Photos: Kathryn J. McIntyre

Boeing workers land home health care

COVERAGE FOR home health care and other expanded medical benefits are included in a new contract ratified between Boeing Co. in Seattle and the International Assn. of Machinists.

The three-year pact, which covers 31,000 workers in the Puget Sound area and about 24,000 elsewhere, is expected to set the pattern for IAM contracts with other aerospace companies.

The home health care provision will cover 80% of services rendered by nurses, aides and therapists and supplies, drugs and lab services.

The contract also raises the coverage for alcoholism treatment to \$1,500 from \$1,200 a year; raises overall major medical limits to \$500,000 from \$250,000; adds hearing aid coverage, up to \$400 for each aid, and covers orthodontia at

benefit beat

50% up to a \$1,000 limit. The company pays all premiums.

Retirees will see a big jump in their lifetime maximum medical benefits next Jan. 1, to \$100,000 from \$20,000.

The weekly disability benefits, now \$90 to \$100, will increase to \$130 to \$150 next Jan. 1. Life insurance coverage increases to \$15,000 from \$12,000.

Also as of Jan. 1, retirees will receive \$14 a month per year of service in pension benefits for all previous years and \$16 for all years after that time. Workers will be able to retire at 60 with full benefits rather than at 62, as before.

Blue Cross & Blue Shield and

Aetna underwrite Boeing's insurance coverages.

Retirees covered

Four more copper producers—Phelps Dodge Corp., Amax Inc., Louisiana Land & Exploration Co. and Duval Corp.—have reached tentative agreements with striking members of the United Steelworkers Union that provide new benefits for retirees. About 8,000 workers are covered by the pacts.

Current retirees, previously not covered by health insurance, will now receive health benefits.

Lump-sum death and disability benefits for retirees were raised to

an average of \$7,500 from about \$5,000.

USW members also won a new vision plan, an increase in the weekly sickness and accident benefit ranging from \$190 to \$195 a week and an increase in pensions to \$20 a month per year of service by the end of the three-year contract. The current pension payout is \$16 a month per year of service.

Pensions for current retirees will increase 8% to 28%, depending on their retirement date.

The settlements vary but generally follow the pattern of last month's pact with Kennecott Copper Corp. (BI, Sept. 8), said a USW spokesman. Seven copper producers have now reached agreement, with four yet to do so.

The Kennecott package provided wage-benefit gains of about

32% and the other contracts are likely to cost a similar amount, the spokesman said.

HMO rate hike

The Capital Area Community Health Plan, a group practice HMO serving the Albany, N.Y., area, is seeking a 16.9% rate increase for subscribers.

CHP is requesting that rates be raised to \$36.92 from \$31.58 a month for basic individual contracts and to \$93.70 from \$80.15 a month for basic family contracts.

In addition, rates for its drug rider (50% coverage) would be raised to \$1.58 from \$1.35 a month for individuals and to \$4.02 from \$3.44 for families; the plus rider (extension of basic benefits) would increase to 35 cents from 30 cents for an individual and to 74 cents from 63 cents for a family, and the unmarried dependent children rider with 50% drug coverage would go to \$3.72 from \$3.18.

The increases would be effective Jan. 1 for the 30,000 subscribers from 612 area employer groups.

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Bank pays a reward for health

SAN FRANCISCO—It pays to stay healthy at Bank of America. Employees who have no medical claims for a year earn rewards.

In a pilot program called "Stay Healthy," the bank is offering free medical coverage—about \$120 per year for a single employee, \$300 for a family—to employees who do not file claims from Sept. 1. to next August 31. The program covers about 600 employees in its Salinas-Central Coast and Santa Cruz branches.

"The costs are modest for a corporation this size," said John Turney, vp of employee compensation and research. Bank of America employs 83,000 people statewide. The bank self-insures its medical plan, which is administered by Blue Shield.

"The president was enthusiastic and is convinced that it would work. He's strong on incentives," said Mr. Turney. But the plan will have greater employee relations benefits than actual cost effects, he adds.

A key aspect of the "Stay Healthy" plan is an educational program aimed at improving health of employees by teaching them about nutrition, exercise and good health habits.

"To the degree that this is successful, there are benefits for both employee and the corporation: more effective employee performance, less absenteeism and reduced health care costs," Mr. Turney added.

Bank of America will take at least two years to evaluate the "Stay Healthy" program and compare results with a control group, said Mr. Turney.

"With our resources, it's foolish not to try different things," he said. "I see this as a no-lose proposition."

Mr. Turney would also like to sell management on videotapes to reinforce health education. These would cover topics including nutrition, good habits and when to see a doctor.

—Carol Blitzer

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Longshoremen's maximum payout rises to \$456

By JERRY GEISEL

WASHINGTON—Benefits payable under the federal Longshoremen's and Harbor Workers' Compensation Act have gone up again.

Effective Oct. 1, the weekly maximum benefit for total disability jumped to \$456.24 from \$426.26, a 7% increase. Each Oct. 1 a new weekly maximum benefit is set, based on 200% of the current national average weekly wage.

Legislators, primarily Rep. John Erlenborn (R-Ill.), have tried to

washington

place a 3% cap on annual benefit increases, but so far Congress hasn't been receptive to the idea.

The longshoremen's act, which went into effect in 1928, covers more than 1 million workers, including maritime employees and all private employees in the District of Columbia.

OPIC directors

President Carter says he will nominate two attorneys for reappointment as members of the board of directors of the Overseas Private Investment Corp.

Scheduled for renomination are James Friedman, general counsel for the Lake Erie regional transportation authority, and Edward Marcus, a New Haven, Conn., attorney specializing in real estate, corporate and commercial law.

The nominations must be cleared by the Senate.

OPIC is the federal agency that provides political risk insurance to U.S. corporations investing in underdeveloped countries.

Risk retention

A major small business trade association is blaming the Carter administration for the failure of Congress to pass the Risk Retention Act before recessing for the elections.

"As you may or may not be personally aware, the administration has seen fit to thwart congressional action of the Risk Retention Act (H.R. 6152) because of opposition to the tourism titles attached to the same," Dirk Van Dongen, executive vp of the National Assn. of Wholesaler-Distributors, wrote to President Carter.

The Risk Retention Act stalled when Sen. Howard Cannon (D-Nev.) combined the bill with a measure that would create a quasi-public company to promote foreign travel to the United States. The new company would replace a Commerce Department office.

The administration and some House members, including Rep. James Florio (D-N.J.), chairman of the transportation and commerce subcommittee, which has jurisdiction over the tourism measure, refuse to accept the proposal.

As a result, the Risk Retention Act, which has already passed the House, has stalled in the home stretch after being passed by the Senate Commerce Committee. Business groups remain optimistic that the dispute can be resolved before the congressional session expires in December.

Consumer group

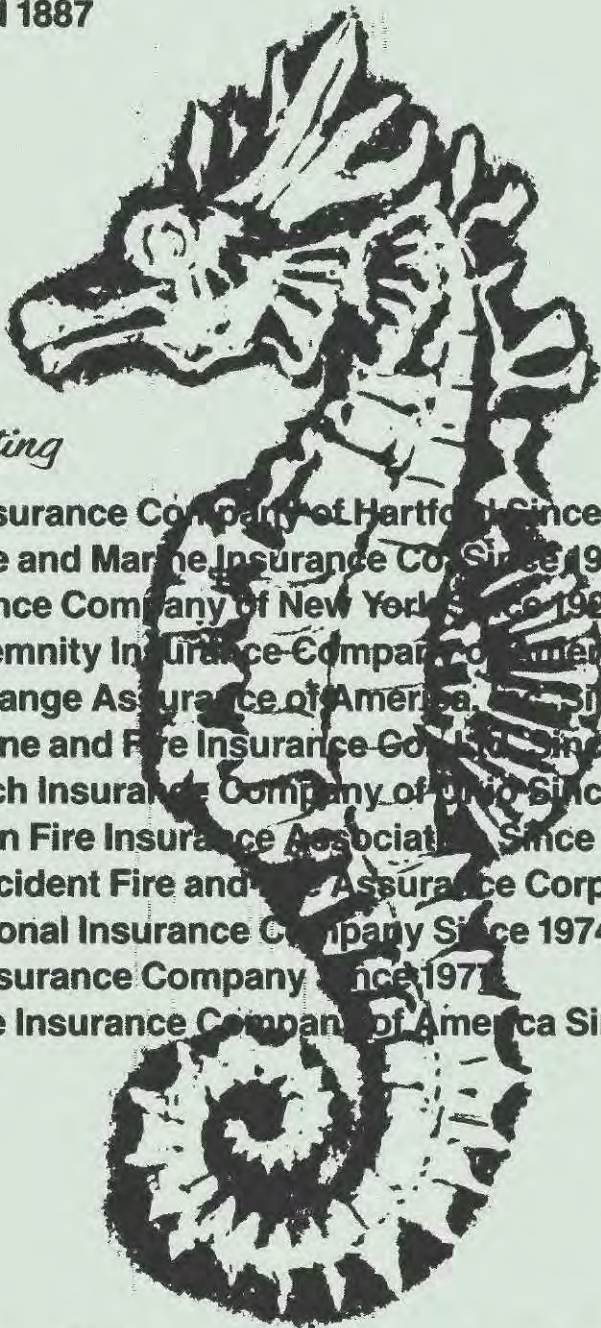
A new consumer group, backed with a \$25,000 contribution from Ralph Nader, has been organized to investigate the insurance industry and protect policyholders.

The National Insurance Consumer Organization will probe "how rates are made to how policies are sold, from how claims are settled to how insurers select (those) with whom they are willing to do business," said president Robert Hunter, former head of the Federal Insurance Administration.

A plan will be developed for national cooperatives selling a wide range of coverages, "under full control of policyholders," he said.

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HUMAN ERROR.

Last year, American industry was staggered by over \$650,000,000 in accidental fire loss. Even more shocking is the fact that nearly three quarters of these accidents were caused by people. By employees who lacked the proper motivation, or the proper training in loss prevention procedures.

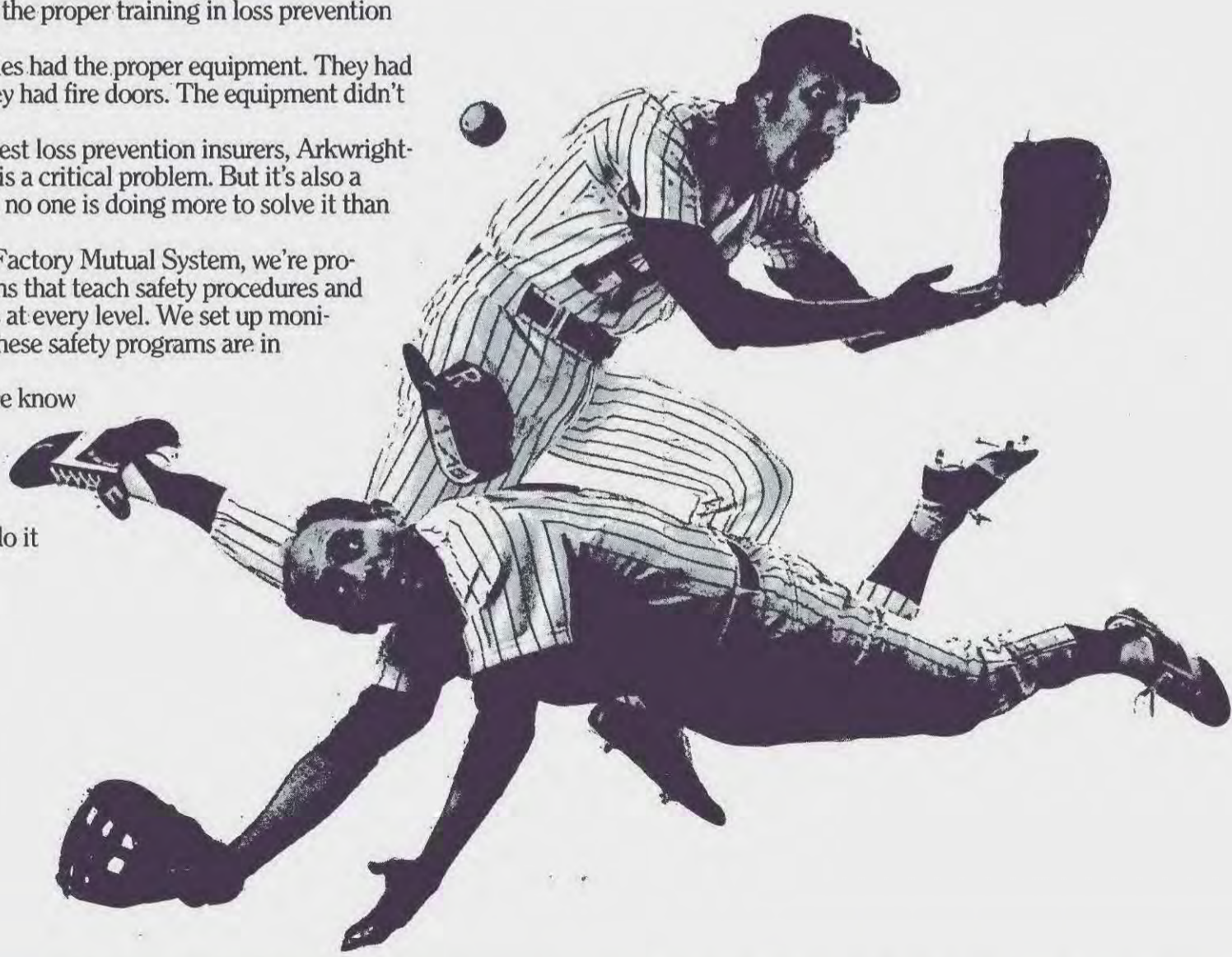
In most cases, the facilities had the proper equipment. They had alarms. They had sprinklers. They had fire doors. The equipment didn't fail. People did.

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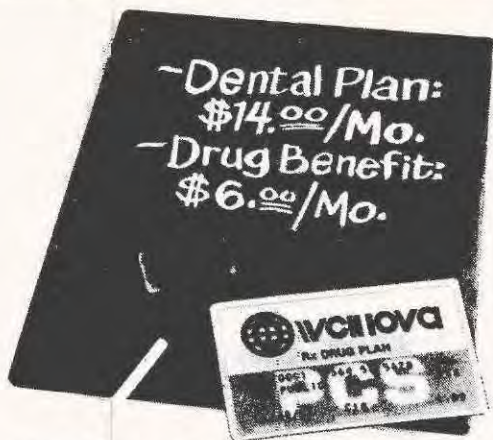
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Bahamas captive industry faces tax, other woes

By NICKI KELLY

NASSAU—A new business license fee may throw another stumbling block in front of the lagging captive insurance industry in the Bahamas.

Beginning this month, companies designated as nonresident under the Exchange Control Regulations Act will be assessed an annual \$100 fee. Banks and trust

companies will remain exempt.

Domestic insurers will continue to pay a 1% gross premium fee, but local insurance agents will be taxed under the license fee scale.

The new license fee is a partial victory for the captive industry, however. The initial license fee bill, put to Parliament more than a year ago, failed to distinguish between domestic companies and those that are registered in the Bahamas for tax purposes but transact all their business offshore.

That bill was scrapped after businesses protested that it would seriously damage the country's position as an offshore financial center.

Only four new captives have registered since 1978, when the 1969 Insurance Act was amended to exempt captives from publication of their financial statements and from the 1% gross premium tax levied on domestic insurers. The present number of captives in the Bahamas is 18.

A number of gray areas still remain under the new measure, including the failure to clarify the status of nonresident trusts and nonresident partnerships and the unrestricted authority granted Ministry of Finance officers to inspect and remove business records from private premises.

The legislation also worries Bahamian businessmen who are concerned about the impact of any new taxation on an economy already overburdened by excessively high unemployment.

Earlier this year, the government proposed a series of constitutional changes, one of which would deprive foreigners of all constitutional protection against discriminatory legislation. The amendment has drawn sharp criticism from the Bahamas Chamber of Commerce, which sees it as an attempt to sanction any future nationalization or expropriation of foreign-owned investment.

The proposed amendment follows on the heels of a land-control policy directed at foreign ownership of Bahamian real estate. The guidelines, introduced last year, remain confusing, business people say.

Foreign companies also are wary of the delays in processing work permit applications and the lack of captive management and reinsurance expertise.

Businesses are taking steps to remedy the latter situation with the formation of British-American Management Co. Ltd., a sister company of McM Corp., holding company for the Occidental & Peninsula Group of Insurance Cos.

B-A Management is also functioning in the Cayman Islands and will shortly be operating in Bermuda. The newly created property/casualty division is accepting primary, excess and special property and liability risks.

Bahamas Underwriters Services Ltd., a subsidiary of the Charter Co., was established last year as a captive management company. BUSL manages New Providence Assurance Co., which insures the risks of the Charter refinery in Freeport, Grand Bahama.

J.S. Johnson & Co., the largest insurance broker in the Bahamas, manages the Ginco Assurance captive for Gurrentz, the meat importing firm, and has added a reinsurance specialist and a special projects consultant.

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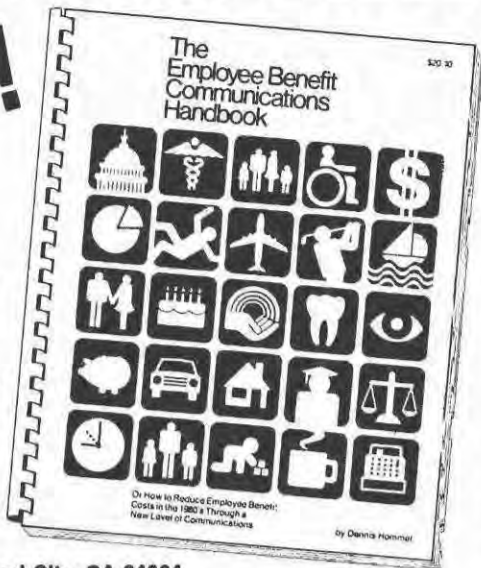
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worldwide

Canada grants shareholder plan favorable status

OTTAWA—Revenue Canada, the Canadian federal tax agency, has ruled in favor of new tax advantages for pension plans that benefit major shareholders in a corporation.

Such plans will now qualify for registration, which means a company may make tax-deductible contributions with the employee incurring no current tax liability. The employee is taxed only when

receiving benefits from the plan and investment income earned by fund assets is not taxable.

The ruling is expected to make it easier for workers who own 10% or more of the voting shares to receive pension coverage.

Non-life volume

NEW YORK—Eighty-five percent or more of the total national premium volume in Spain, Morocco, Italy and Brazil involved non-life insurance in 1978, according to a study published in Sigma, a publication of the North American Reinsurance Corp.

A survey of the nations making up 90% of the world's total premium volume showed that Spain's non-life premiums made up 90.4% of the national total. In Morocco the total was 86.6%, in Italy 85.4% and Brazil, 85.1%.

In the United States, non-life premiums totaled 67%, 10th among 20 nations surveyed, while Great Britain ranked 18th with 48.7%. In Japan, the lowest of the 20, non-life premiums were 32.1% of the total during 1978.

In 1950, non-life totaled 90% of premiums in Morocco, 81.6% in Austria, 77.3% in Spain and 76% in France, the survey showed. At that time, the United States had just over half, 51.7% of its insurance premiums in the non-life area, while Great Britain had the lowest total of 39%.

The same survey also showed that U.S. premium volume for all lines of insurance totaled 7.54% of the gross national product during 1978, the highest of any country in the world. Mexico, with 0.9%, had the lowest total.

In 1950, U.S. insurance premiums totaled 5.2% of the GNP, also the highest in the world. Mexico and Spain had the lowest totals of 0.75%.

Insurance panel

JOHANNESBURG—The South African Finance Ministry has announced formation of an advisory committee to help shape government policy toward the short-term (non-life) insurance industry.

The committee, which will be chaired by insurance registrar J.W. Louw, will advise insurance regulatory agencies and the finance ministry on all matters relating to non-life insurance, reports the South African Digest.

Sen. Owen Horwood, minister of finance, said the steady expansion of the industry necessitated such a committee. "It is necessary that there should be consultation with the industry on a continuous and regular basis," he said.

Storm damage

Wind, hail and tornadoes that struck portions of Minnesota and Iowa Sept. 19-20 caused an estimated \$35 million in insured losses, according to the American Insurance Assn.

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Work comp covers Frisbee accident

SPRINGFIELD—The Eagle Discount Supermarket chain must pay workers compensation benefits to a grocery store stock boy who suffered a broken ankle while playing Frisbee with coworkers during a lunch break, the Illinois supreme court has ruled in upholding a state industrial commission decision.

The commission said James Day Jr. suffered the permanent loss of 25% of use of his right foot as a result of the injury. The company has been ordered to pay Mr. Day \$178.67 a week for 38 weeks.

Mr. Day's injury occurred during a Frisbee game that was regularly attended by the youth and played on company premises. Though the game was neither formally sanctioned nor prohibited by Eagle, the high court said the company "knew, acquiesced and possibly participated" in routine Frisbee games by workers.

Arbitration law

HARRISBURG—The Pennsylvania supreme court has declared unconstitutional a state law requiring that all medical malpractice cases must first be submitted to arbitration.

The decision strikes down the 1976 Pennsylvania health care services malpractice act, which mandated that such claims first be adjudicated by state-appointed arbitrators. The arbitrators' decisions could then be appealed in court.

The supreme court opinion, written by Justice Robert N.C. Nix Jr., said the act was unconstitutional because the system it created had produced "oppressive" delays in resolving malpractice claims and was "an impermissible infringement on the constitutional right to a jury."

The supreme court noted that rather than speeding up the process, the arbitration system had created a large backlog of malpractice cases.

Of the 3,452 cases filed since the malpractice act went into effect, only 936 have been resolved, settled or terminated, the court said. Of the original 48 cases filed in 1976, six remain unresolved.

Job discrimination

OLYMPIA—Employers that set physical limits on employees must be able to prove the limits are justified under anti-discrimination laws, the Washington supreme court has ruled.

The unanimous opinion overturns a ruling of Douglas County superior court Judge B.J. McLean, who dismissed a suit that was filed by employee Richard Rose against Hanna Mining Co.

The suit charged Hanna with job discrimination against handicapped persons after the company refused to hire Mr. Rose as a laborer at a metal smelter.

The company contended that Mr. Rose's epilepsy, controlled by medication, was a valid ground for refusal to hire him. It said because a seizure could further endanger the employee if he were doing dangerous smelter work.

Mr. Rose's doctor, an expert in epilepsy, testified that an epileptic such as Mr. Rose could safely do 90% of the work required, said the court in its opinion by Justice Robert F. Brachtenbach.

around the states

Once a job applicant establishes discrimination by showing a job was denied because of a physical handicap, the burden of proof shifts to the employer to show that the discrimination was justified, the court said.

'Frivolous' appeal

HELENA—The Montana supreme court has fined an insurance company \$500 for bringing what the court called a "frivolous" appeal.

The court ordered Alaska Pacific Assurance Co. to pay half of the penalty to Marie Hartman, widow of logging truck driver Thomas

Hartman. She had brought a wrongful death lawsuit against Clarence Raines, the other truck driver involved in her husband's fatal crash. Mr. Raines was insured by Alaska Pacific.

The other half of the \$500 penalty must be paid to Mr. Hartman's former employer, L.H.C. Inc., because L.H.C. was forced, like the widow, to appear in court during the frivolous appeal to protect its interests, the high court ruled.

Although the wrongful death lawsuit was filed in Sanders County district court, the insurer went to the state workers compensation court, contending it alone had jurisdiction to determine

whether or not Mr. Raines could be sued.

The insurer contended Mr. Raines was an employee of the same logging company on whose behalf Alaska Pacific had paid full

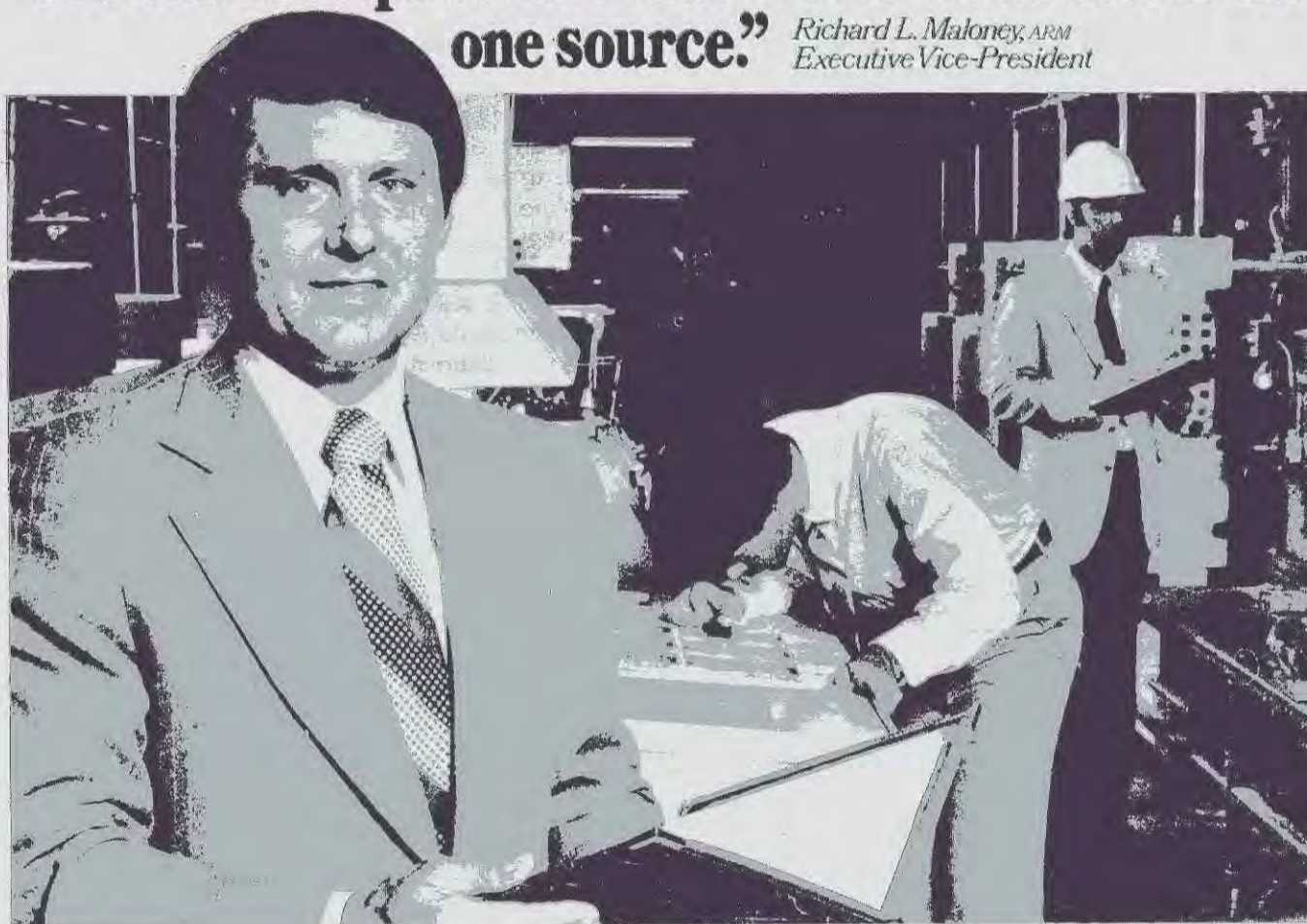
workers compensation benefits.

The supreme court said the insurer's tactics in going to the workers compensation court were deplorable and an obvious attempt to sidetrack the widow's lawsuit.

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editorial opinions

Risk act in rubble . . .

THE RISK RETENTION Act lies in the rubble of bills abandoned by Congress in its hurried closing hours, a victim of overwhelming support and an age-old but still irritating legislative maneuver.

The bill, designed to make it easier for companies to pool their product liability risks without too much interference from state insurance departments, was supposed to be a shoo-in. It passed the House on a glorious 332-17 vote and was unanimously reported out of the Senate Commerce Committee.

But seeing the support for the Risk Retention Act after insurance industry qualms had been allayed by the promise of new federal bureaucracy to administer the act, Sen. Howard Cannon (D-Nev.) decided to use the bill as a vehicle for a pet piece of legislation.

Whenever a bill has overwhelming support, it's vulnerable to be tapped for carrying less desirable legislation through Congress.

Sen. Cannon, whom we have admired for supporting the Risk Retention Act, disappointed us by attaching to the act a bill creating a quasi-public agency to encourage foreigners to visit the United States. As a senator from Nevada where tourism is the chief industry, we can appreciate his concern for increased tourism.

. . . so use your clout

YOU CAN DO your share to see the Risk Retention Act is passed in the lame duck session and not unfairly held over for yet another session of Congress.

You have clout to get legislation passed, a seasoned lobbyist tells us.

Leslie Cheek, vp of federal affairs for Crum & Forster Insurance Cos., knows his work as a lobbyist. And he contends that if you, the corporate executives responsible for insurance concerns in your companies, want Congress to change a law, you can get it done.

How? "By supplying information about what you want or don't want in the way of legislation," Mr. Cheek advises. Congress, without a federal agency on insurance (thankfully, we may add) needs information on insurance-related matters to make decisions.

Mr. Cheek advises you to keep up on

But we're sorry Sen. Cannon chose to use the Risk Retention Act to try to get his bill through Congress and past the administration.

Now both bills are waiting in the empty halls of Congress.

Since the administration opposed the tourism bill, the House made it clear it would not accept the Risk Retention Act with the tourism measure attached. Seeing the futility, Sen. Cannon never asked for a Senate vote on the Risk Retention Act.

Some Capitol Hill lobbyists are blaming the administration for the latest stall in the Risk Retention Act's trip through Congress. They contend the administration should have accepted the tourism bill in order to get the Risk Retention Act passed.

We disagree.

Legislation should be considered on its own merits. We don't like to see a bill passed on the coattails of another bill. Even more disturbing is seeing needed legislation fail to come to a vote because extra baggage makes it undesirable.

We hope Sen. Cannon will separate the two bills in the lame duck session of Congress so the Risk Retention Act can be adopted and a new risk-funding method made available to manufacturers.

what Congress is considering and then tell the lawmakers whether you like it or not and *why*. "The why is crucial," Mr. Cheek emphasizes, "because a legislator's eyes tend to glaze when he is told by the representative of a special interest group that a bill is contrary to the public interest. It's his job to make that judgment. It's our job to explain how a bill helps or hurts."

Mr. Cheek also advises that you don't demand more than you expect or need.

His advice on reaching lawmakers: Write a clear letter. Not only can you make a point today, but you may also be called upon tomorrow by the lawmaker for advice on another bill.

Exercise some clout today. Write Sen. Cannon c/o of the U.S. Senate in Washington, D.C., and ask him to introduce the Risk Retention Act without the extra baggage of the tourism bill.

letters

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible and we reserve the right to edit or shorten letters for clarity or space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Brush up on finance

To the editor: I am always pleased to see *Business Insurance* championing the cause of risk management in general and specifically the risk manager, as in your editorial "Risk of underuse" (Sept. 22). This kind of promotion is beneficial to the cause of risk management generally; however, I still have to believe that it is the risk manager in his or her job who has to convince management that risk management is an important function in the company and that the risk manager is a member of the executive decision-making team.

Having been in the past a risk manager for two of the largest corporations in the United States, I can be very sensitive about the problems the typical risk manager faces in his or her company. It was difficult for me to understand why risk management was not one of the most important functions in the company and that the risk manager was not in a position to be a top management decision-maker, or at least to influence those who were.

Having come out of the insurance business as many risk managers do, it was difficult for me to understand why the company didn't recognize that I had unusual technical skills in insurance and in risk analysis and risk evaluation. I quickly learned that this was not an asset to me, but was, in fact, a liability. Let's face it, folks, many corporate executives view insurance as a necessary evil and more evil than necessary. Somewhat of a "Black Hole of Calcutta" within the company. One is not likely to be too effective in attempting to retrain existing corporate executives in concepts of insurance. Well then, where does this leave us?

In my own experience, I quickly learned that I was talking the wrong language. What I needed to know was what makes this company tick; what makes this company successful or not successful;

what do corporate executives look at as the measure of one doing a good job or not contributing. For once, let's be realistic and realize that it's money. These people are interested in the financial aspect of this company and everything has to be reduced to dollars.

Risk managers should spend time learning about finance so that they can speak the language; they can understand the concepts and convince superiors and their superiors that risk management is insurance, but rather it is a financial matter pertaining to a cost of risk within the company. This is a job that has to be done, not abandoning our insurance skills and our technical knowledge, but trying to reduce the problem in financial terms so that it can be understood by the executive.

It should not be difficult for most risk managers in that they are already dealing with dollars; it's just that they have to change their way of thinking, retaining their insurance skills and increasing their skills in the area of finance as financial matters. I believe this is the way for risk management to be recognized and for the risk manager to succeed in his business.

As a consultant now, I still see this idea unfortunately prevailing in large corporations: that the risk manager can most effectively do his job by convincing his superior that he has insurance skills. As a consultant, I would say to these risk managers: Become more of a financial person, spend the time to assist risk managers in achieving those kinds of results, not only for themselves, but also for their companies.

It's time that risk managers understood what they need to do

Tom Mi

President
Scor Risk Management Inc.
Scor Risk Management
(Bermuda) Ltd
Dallas, Tex.

Sharing the business

To the editor: In "Ratecutting should subside soon: Execs" (BI, Sept. 29) regarding the Houston Marine Insurance Seminar, Bob Daniels of J.H. Blades is quoted as saying "Lexington Insurance Co. is writing inland drilling risks for 50% less than existing rates."

As Lexington's major producer of rig business, we can assure you that this simply is not true.

The name of the game is competition, and you obviously don't get orders by being higher priced

than the other markets, but you only get a small share of the accounts we quote. If Mr. Daniels' statement were correct, we would be writing them all.

Lexington is only one of at least five AIG companies actively soliciting this class of business, with each of them enjoying a measure of success.

Terry A. Girard

Crump-Davis Inc.
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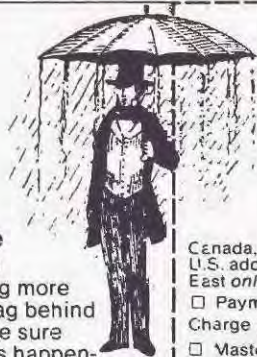
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Officials, unions split on PERISA

By MAISIE LEE

WASHINGTON—Federal government requirements under the proposed Public Employee Retirement Income Security Act legislation will create a tremendous financial burden, state and city officials testified before the House subcommittee on labor-management relations pension task force.

Labor union representatives, by contrast, cited the need for tighter controls in maintaining public pension plans.

Mark O'Brian, chairman of the Southern Legislative Conference Council of Governors, voiced local government concern that H.R. 6525 would create unwarranted

federal intervention without significantly improving the plans.

"(The) assumption that the federal government can monitor pension plans in all 50 states more adequately than the states themselves is baffling," he said. State representatives agreed to a limited federal role in establishing voluntary guidelines and providing financial assistance, but objected to any further intervention.

Union representatives supported the proposed legislation as the only means of ensuring uniform standards for public pensions.

"It will encourage states to enact laws comparable to ERISA," said Charles Olson, legislative consultant for the National Education Assn. The Employee Retirement Income Security Act sets regulations for private pension and benefit programs.

Mr. Olson said some states fail to respond to the yearly surveys of teacher pension plans. The association has to rely on the pension task force for data.

PERISA, introduced by Rep. John Erlenborn (R-Ill.) and Rep. Frank Thompson (D-N.J.), would establish reporting, disclosure and fiduciary guidelines for public pension plans. Under PERISA, administrators would be required to provide pension plan participants with clear, concise information on their benefits.

States also would be required to file annual reports with a newly created Employee Benefit Administration listing plan assets, liabilities, revenues, expenses and party-in-interest transactions and loans.

However, plans would not have to report disclosure statements to the EBA if the states in which they were located met the reporting and disclosure requirements of the federal government.

Plan fiduciaries would be expected to administer plans for the exclusive benefit of participants and with the same caution and skill that a "prudent" man would exercise.

While no action is expected on PERISA this year, the measure is expected to be introduced during the next session of Congress, which begins in January.

info

- Bayly, Martin & Fay has compiled a **Summary of Federal Standards Applicable to Generators and Transporters of Hazardous Waste**. A free copy of the report is available from Samuel Alcorn, Senior vp, Bayly, Martin & Fay International Inc., 3200 Wilshire Blvd., Los Angeles, Calif. 90010; 213-736-9831.

- Services designed to reduce the cost of workers compensation, general liability and fleet auto claims are discussed in **A Powderkeg!**, a free promotional brochure from Occupational Analysts International. Write Occupational Analysts International, 222 Rookery Building, 14 N. Howard, Spokane, Wash. 99201.

- **An Insurance Buyer's Checklist for Hospitals** lists various kinds of insurance applicable to hospitals to aid in reviewing exposures and coverage. Copies are available for \$10 each from International Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.



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Higher maximums. Banks, law firms and financial companies may now qualify for non-medical maximums of \$250,000 for groups of 25 or more and \$150,000 for less than 25. We've raised our maximums for all other businesses as well.

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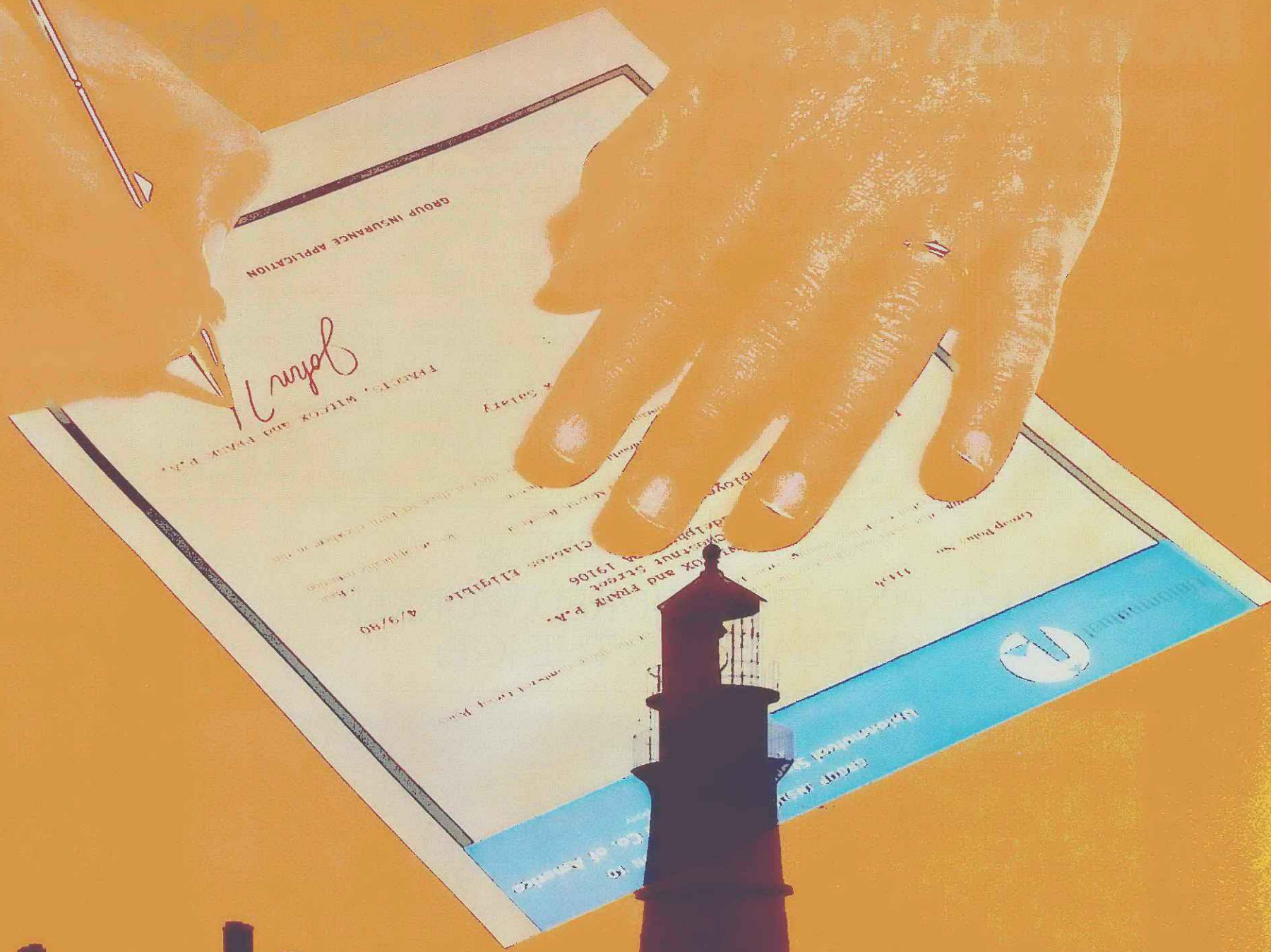
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Morrison to steer GM risk department

WAYNE N. MORRISON, 31, has been named risk manager at General Motors in Detroit to replace Thomas Hallett, who joined Frank B. Hall Inc. as reported. Mr. Morrison is leaving Transamerica

Corp. in San Francisco to assume the GM role. He has a bachelor's degree in business administration from Western Washington State College as well as CPCU and ARM designations. **Richard Siegrist** will be named risk manager at Transamerica. He previously worked in the Houston office of Marsh & McLennan.

In a reorganization of its employee benefit department, General Mills Inc. in Minneapolis has named **Alan J. Ritchie** director of corporate compensation, **Geoffrey S. Workinger** manager of employee benefits planning and **Marie Weiss** manager of benefits administration. Mr. Ritchie, who was previously manager of employee benefits planning and administration for non-food operations, is re-

comings & goings: buyers

placing **Charles Hedlund**, who left the company. He joined the company in 1974, has a bachelor of science degree in finance from the University of Connecticut and a master's degree in marketing from American University in Washington, D.C. Mr. Ritchie reports to J.L. Frost, vp of employee relations.

Mr. Workinger previously was manager of employee benefits planning and administration for the firm's food operations. Both this position and the one held by Mr. Ritchie have been eliminated by the firm. Duties now will be split between administration and planning as opposed to food and non-food operations. Mr.

Workinger has a bachelor of science degree in business from Lehigh University in Bethlehem, Pa. Ms. Weiss, who joined the company in 1957, has held various positions in the firm's personnel and data processing departments. Most recently she was manager of human resources systems planning and development. Both she and Mr. Workinger report to David F. McIntyre, director of employee benefits.

William Navarra, 42, has been named to the newly created position of risk manager for the city of Daytona Beach, Fla. Mr. Navarra, who will report to employee rela-

tions director Edward Joseph, previously was a counsel in the legal department of the Insurance Services Office in New York. In this new position, he will be responsible for the city's self-insured liability and workers compensation programs in addition to loss-control programs. He has a bachelor's degree in business administration from Baruch College of the City University of New York, a law degree from Brooklyn Law School and a CPCU designation.

Barbara Fink has been named to the newly created position of insurance administration specialist at The American Assn. of Advertising Agencies in New York. Ms. Fink will be responsible for preparing insurance packages for member agencies throughout the United States. She previously was a pension specialist at Singer Co. That position is now vacant. Ms. Fink, who reports to executive administrator Jean Bainbridge, has a bachelor of arts degree in math from Fairleigh Dickinson University in Rutherford, N.J.

The metropolitan water district of Southern California in Los Angeles has named **Jack Bresnahan** to the newly created position of risk manager. In this spot, Mr. Bresnahan will consolidate safety and security functions and insurance coverages. Mr. Bresnahan, who reports to director of personnel Jerry Chavez and assistant general manager Bob Gough, previously was a loss-control manager at Industrial Indemnity Co. in Pasadena. He has a bachelor of science and master of arts degree in health science and safety from San Diego State University.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Mary Ann Matlock, Business Insurance, 708 Third Ave., N.Y., N.Y., 10017 or call 212-986-5050.

products & services

Plans cover small groups

NEW YORK—Groups with three to 24 employees are now eligible for dental, vision and hearing coverage from Beneficial National Life Insurance Co. The plan was formerly available to groups of five or more employees.

The new Group III program has no deductibles. Policyholders are not required to purchase group life or any other Beneficial National products in conjunction with this coverage, said regional vp Larry Schwartz.

The plan pays benefits for regular dentist visits and for various dental procedures including X-rays, cleanings, fillings, extractions and gum treatments. Riders providing coverage for dentures and orthodontia are also available.

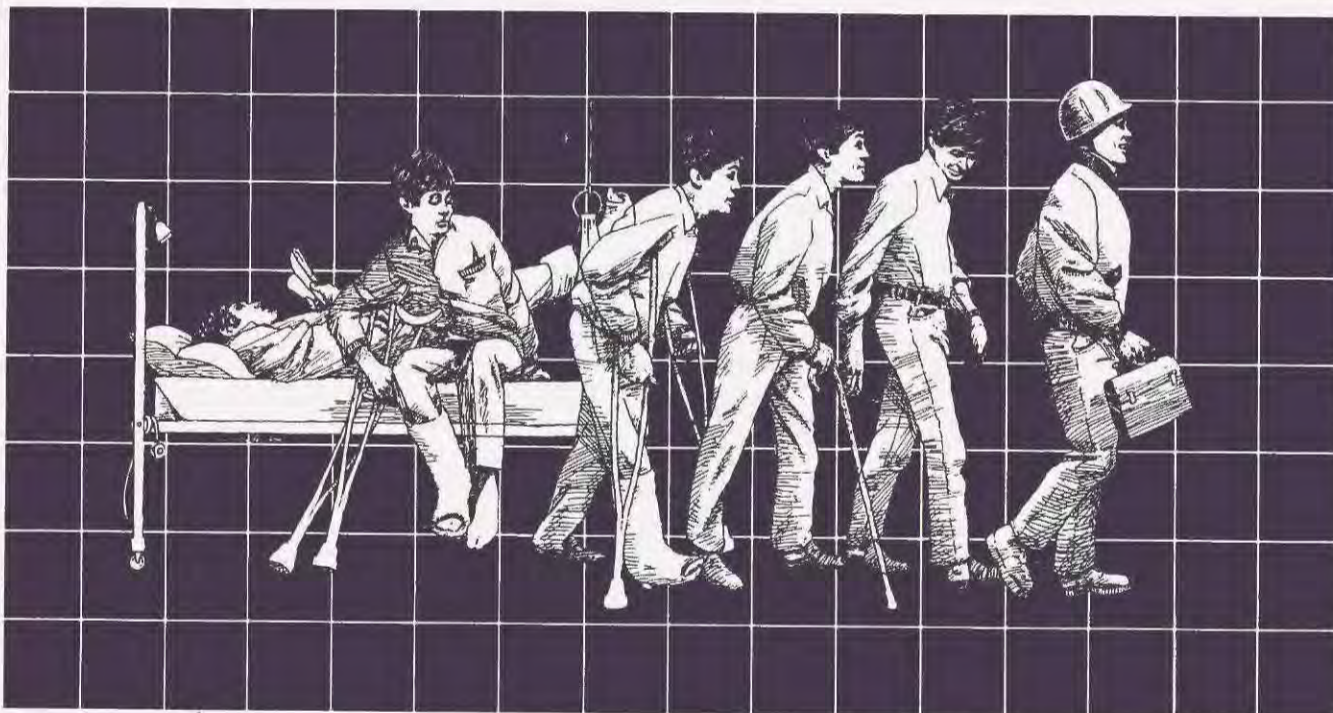
The vision care portion of the plan covers regular eye examinations and the cost of glasses, with additional benefits for the care of subnormal vision.

The audio benefit program pays the cost of hearing aids, up to \$250.

For information concerning rates, contact Beneficial National Life Insurance Co., 2 Park Ave., New York, N.Y. 10016; 212-889-4141.

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At International Rehabilitation Associates (IRA), we've learned from our experience with over 700 companies that injured workers usually want to return to work. It's our task to make that road to recovery as smooth as possible for the worker, the worker's family and the employer.

IRA statistics show that for every dollar spent on effective rehabilitation, a ten-fold savings in claims can be realized. IRA's "whole person" approach to worker rehabilitation has been employed successfully in over 60,000 cases to date. As a consequence, the potential impact of disability payments over the long term has been reduced or eliminated for the companies involved.

IRA's "whole person" approach involves the consideration not only of medical requirements, but motivational, vocational and financial needs as well. The goal is to take every practical step in helping re-

that is not possible, an IRA job analysis can reveal ways in which job conditions may be altered to suit the injured worker. In still other cases, we can help find a new job that makes full use of what an injured worker can do.

Now in its tenth year of operation, IRA has been providing rehabilitation services to self-insureds — as well as to insurers — longer than any other company; and with 50 offices across the country, we are able to offer rehabilitation services nationwide.

For more information, write: George Welch, President, International Rehabilitation Associates, 985 Old Eagle School Road, Wayne, PA 19087. Tel: (215) 687-9450.

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Most importantly, AFIA's *International Group Major Medical Program* is flexible and is being written through St. Paul Fire and Marine, an AFIA member company. It allows a company to build a program of benefits that ideally suits the composition of the company's overseas personnel.

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penses and employer options including the coverage of pre-existing conditions.

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Business Insurance, the national newsweekly of loss prevention, risk financing and employee benefit management.



BM&F chooses Tate chief exec

LOS ANGELES—Joseph N. Tate has been named chief executive officer of Bayly, Martin & Fay International Inc., headquartered here. He will replace chairman Charles R. Warde.



Tate

Mr. Tate was elected president and chief administrative officer of the company April 1. While residing in Houston, he also held the post of president of Harlan Agents & Brokers and negotiated the merger of Harlan into BMF in 1977. Mr. Warde will continue as chair-

comings & goings: industry

man and chief policy officer of the subsidiary of New York-based Sperry & Hutchinson Co.

Insurer changes

James Bradley promoted to field office claims manager of the St. Louis field claims office of Metropolitan Property & Liability Insurance Co., headquartered in Warwick, R.I. Also promoted were **Richard E. Keener** to unit manager of the King of Prussia, Pa., field claims office; **John C. Kohler** to claims manager of the Cleveland field claims office, and **Jorge E. Valdes** to property unit manager of the Miami field claims office.

Howard D. Noyd, vp of claims with Unigard Insurance Group, will retire in October from the Seattle-based insurer.

Frederick D. Watkins has retired as executive vp of Connecticut General Insurance Corp. Before joining Connecticut General he served as president of Aetna Insurance Co.



Watkins

Other suppliers

Robert C. Phillips promoted to manager-international of Towers Perrin Forster & Crosby. He will assume responsibilities for international operations, replacing **John F. Abel** who is retiring.

markets

Specialty firms unite

THREE INSURANCE specialty companies have consolidated into The Will-Gard Group, with offices in Union, Paterson and Toms River, N.J.

Members of the group are: Will-Gard Insurance Agency Inc., formerly the Robert L. Frings Co., which offers professional insurance services for government entities and corporations; Will-Gard Administrators Inc., formerly Will-Gard Inc., which designs and administers partial self-insurance programs for government and business, and Will-Gard Consultants Inc., which provides advisory and consulting services and full risk management analysis.

Headquarters is at 2525 U.S. Highway 22 West, P.O. Box 987, Union, N.J. 07083; 201-687-3400.

Acquisitions

Wausau Insurance Cos. has approved the purchase of **American Marine Underwriters**, a privately held ocean marine insurance underwriter headquartered in Miami. The acquisition is part of Wausau's diversification in the commercial and personal insurance markets.

New offices

General Reinsurance Corp. has moved to 1111 Third Ave., Seattle, Wash. 98101; 206-682-7386.

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Movie to kick off benefits conference



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10-13-80

CHICAGO—Taking employees to a movie might be a good way to make them aware of the nation's health care problems.

At least that's what the producers of "MediSense," a 20-minute motion picture on health care costs, believe.

Benefit managers attending Business Insurance's Communicating Employee Benefits Conference Oct. 26-29 will be able to decide for themselves.

The movie, to be presented by Tylie Jones of Tylie Jones Communications, will kick off the conference Oct. 26 at the Continental Plaza.

"MediSense" can be a tool for communicating the problem of health care costs to every member of a company's work force, says a spokeswoman for Tylie Jones

Communications, the distributor of the film, located at 10718 Riverside Drive, North Hollywood, Calif. 91602.

The film's objectives are to:

- Focus employee attention on the magnitude and complexity of health cost inflation.

- Make employees aware of how skyrocketing health costs directly and indirectly affect them.

- Establish a climate of receptivity to the cost-containment efforts of employers, labor organizations, government and others involved in the health field.

- Show that positive and direct action is necessary and possible to change the health systems for the benefit of all.

"MediSense," written and produced by Robert Drucker in conjunction with Ms. Jones and

award-winning newscaster Joseph Benti, does not list specifics for trimming the fat from health care budgets. Instead, it is designed to make the viewer aware of the problem and motivate him or her to review possible solutions. The movie is designed to be followed by a discussion period.

Besides making employees aware of rising health care costs, the movie can help explain changes in benefit plans.

Continuing the employee benefit communications conference on Monday morning will be Alan Siegel, president of Siegel & Gale Inc., who will explain techniques for simplifying the benefit message. Concurrent sessions on three topics will be held Monday.

CPC International's use of an imaginative benefits story will be explained after the afternoon concurrent sessions by Richard T. Whitman, partner with Kwasha Lipton consultants.

He will be followed by Robert Zabel, president of NW Ayer ABH International-Chicago, who will show how to personalize programs.

On Tuesday morning, Herbert Zeltner, group vp of Crain Communications, will lead the audience in judging the effectiveness of various communications programs.

Tuesday's luncheon features Thomas F. Masloski, director of communications for Source/Inc., examining the role of corporate advertising and public relations in benefit communications.

Kathy Groom, personnel manager for Jewel Tea Discount Foods, begins the afternoon with an account of Jewel's use of audiovisual presentations and how the programs have affected claims.

Joseph Young, vp/manager of compensation and benefits for Bank of California, will demonstrate how to adapt communications programs to changing work atmospheres and new employee needs.

Wednesday morning's program is on how and why to develop a total communications program, with Walter D. LeGrow, director of personnel services for Control Data of Canada Ltd.

How to deal with the legal department to preserve clear communications will be revealed by Robert W. Ridley, partner with Forster, Gemmill & Farmer.

The BI conference will be highlighted by the presentation of the Business Insurance awards honoring the companies with the best benefit communications programs. The awards, to be presented at a dinner Oct. 28, are for booklets, personalized correspondence, audiovisuals, special projects and total communications program.

A registration fee of \$385 includes admission to all scheduled sessions and functions, resource materials, receptions, luncheons and the awards dinner.

Hotel reservation forms listing preferred rates for conference attendees will be provided with the registration confirmation letter.

If your plans change, you may substitute the name of another person from the same company without penalty. Persons canceling will pay \$100 service charge.

A 10% discount is offered for additional participants registered from the same firm at the same time.

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Texas Market

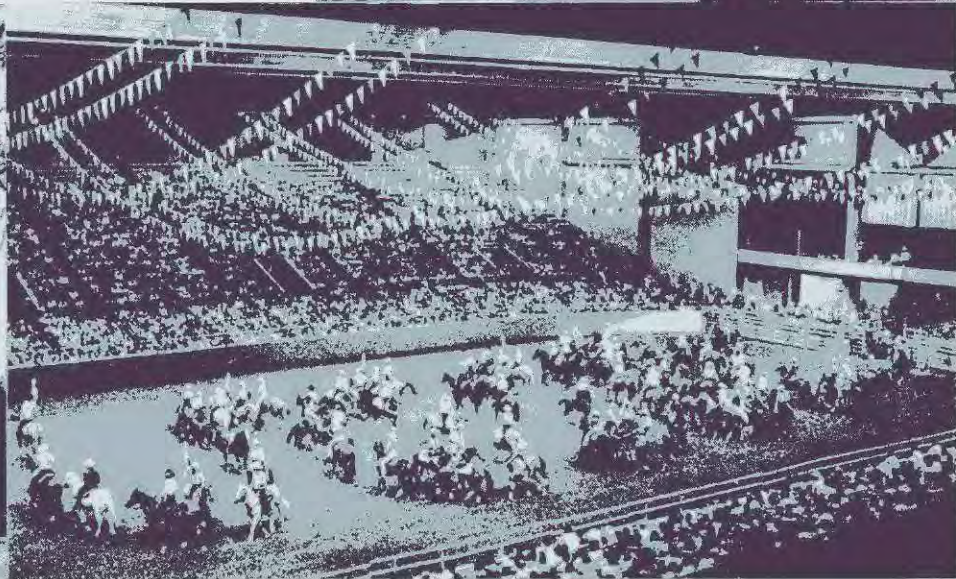
A SPECIAL REPORT ON A REGIONAL INSURANCE MARKET

Buyers try to buck old rules

TERRIFIC GROWTH and good ole Texas ways often bump heads in this evolving marketplace. Flush with energy risks and turned on by high technology, Texas retains its giant cattle industry and the flavor of the Old West.

But the mix of old and new creates some problems for buyers, agents and insurers. Demand for self-insurance plans, captives, cash-flow techniques and loss-prevention services is growing. And, this sometimes bumps into state insurance regulations that prohibit self-insurance of workers compensation and limit cash-flow plans.

The rebellious spirit of Sam Houston lives among Texas buyers: Risk and benefit management sometimes turns into an old-fashioned Texas standoff against some old regulations.



DALLAS—Texas risk and benefit managers are increasingly turning to self-insurance and the captive insurer market to meet needs, a *Business Insurance* survey reveals. But local laws stifle innovation.

Riding the crest of Sunbelt growth and energy production, new businesses are flowing into Texas at a phenomenal rate. Yet risk management opportunity is still playing catch-up.

More and more firms are shaking off loyalties to local insurers and agents. Though new risk-funding techniques are growing, all is not rosy with the yellow rose of Texas.

Corporate buyers complain that Texas regulation doesn't provide very fertile ground for risk management. Firms cannot self-insure workers compensation and the state does not allow open rating competition.

"Our company self-insures in other states, but this is the only state in the union where we can't,"

says one risk executive.

"I feel like we should be able to negotiate (premium) without relying on state guidance," adds the insurance manager of a large energy firm.

Paid-loss retrospective or cash-flow plans for workers compensation and automobile and general liability do not meet state accounting, reserves and premium tax requirements, according to the state insurance board.

Reactions to the retrospective plan ruling will be "interesting," remarks Mike Whelan, property and casualty buyer for Ensearch Corp. The issue may further fuel movements for legislative reforms when the Texas legislature convenes in 1981.

A banking executive cites a problem specific to his industry: Texas does not permit the scheduling of deductibles for member banks under a holding company plan.

Each member bank, regardless

of size, must carry the same deductible. "If you want to assign varying deductibles, you have to figure out another way," he explains.

Sometimes bucking state regulation, risk managers are ready to be their own business advocates. They have found the national markets competitive and, with the exception of the irritating restrictions, willing to design individual plans when they can.

"There is no such thing as a Texas market" from a buyer's standpoint, says Ron Pollard, risk and benefit manager for the Boy Scouts of America. Insurance purchasers feel free to shop the total market to find the packages they need.

Mr. Pollard, formerly risk manager for El Paso Natural Gas, says any difference in shopping may be in the pace. Texans buy and sell slowly but deliberately.

Indeed, as more and more national and international companies locate in Texas, the style has

changed from the "good-ole-boy" to sophisticated buying. Many firms have switched from local agents to big-name agent/brokers to help them shop.

Captives, however, are the big Texas draw. Some major electronics firms not in that market may be exploring it soon, sources say. The banking community, the oil industry and the supermarket corporations already have established captives and the cattle industry is forming association-sponsored plans.

The needs are high. "Most Texas companies don't have the facilities we need," explains Spencer Brewer, risk manager for Dresser Industries. Dresser shops the national market through Alexander & Alexander of Texas and international market through Johnson & Higgins. Mr. Brewer has used a Bermuda captive, Property & Casualty Ltd., for some coverages.

Southern Union Gas, however, helped establish an industry cap-

tive for its offshore industry and then opted not to use it.

"There is a need for innovation," notes Bud Simpson, risk manager for SU. The captive wasn't the way, but other buyers don't see many other alternatives.

Benefit managers report a wide selection of employee benefits. Dental coverage continues to be highest on the list of new desirable coverages, and exploration of health maintenance organization options has a little momentum.

Another regulatory pain, this time for benefit managers, is the restriction of a maximum of two times base salary up to \$50,000 on company-sponsored group life insurance plans.

Corporations are seeking other ways to offer competitive benefits to attract top executives.

"When you're dealing with the big dollars we are," one executive said, "you have to push to make things (such as legislation and the insurance industry) work for you."

Lone star agents: Page 4

Top local insurers: Pages 17 to 20

Texas Instruments benefit plan: Page 8

Oil spill liability remains uncertain

By RHONDA L. RUNDLE

HOUSTON—Texas oil industry risk managers still don't understand their liabilities for offshore oil spills two years after Congress amended the Outer Continental Shelf Lands Act.

That's because there are nearly as many varying interpretations of Title III in the act as there are risk managers, brokers, attorneys and U.S. government administrators who have studied it.

But they all agree the law is poorly written and needs clarification. Insurance industry efforts to obtain such changes have failed. A bill to limit liability (H.R. 85) is stalled in the Senate and faces an uncertain future.

Oil companies, rig operators and their insurers fear current law leaves them open to unlimited liability for oil spill removal and cleanup expenses. And because there has not been a major domestic accident since the 1978 amendments were enacted, that bleak interpretation has not been tested.

The U.S. Coast Guard, with authority to administer the Outer Continental Shelf Lands Act, denies Congress ever intended to create unlimited liability. But spokesmen also stop short of saying definite limitations exist.

At a recent marine insurance seminar held in Houston, U.S. Coast Guard Cmdr. Martin Lindahl defined a tripartite system of separate exposures, the second two of which risk managers are not addressing, he believes:

- \$35 million for third-party damages.
- \$35 million for voluntary

cleanup. Removal costs that exceed this amount can be recovered from the Offshore Oil Spill Pollution Fund, explains Cmdr. Lindahl.

• Potentially unlimited liability for reimbursement of cleanup costs incurred by federal, state and local governments.

The last category contains the real Catch-22 for risk managers, Cmdr. Lindahl admits, because liability could be unlimited. Cleanup standards are strictly a political decision, he acknowledges.

"What's clean in the Houston ship channel may not be clean in Santa Barbara or in Bar Harbor, Maine," he observed.

But if owners and operators voluntarily clean up a spill, they may be able to limit their liability to \$70 million, points out the commander, who is also an attorney. He calculates liability would be \$35 million in damages and \$35 million in voluntary cleanup expenses.

"It appears that any operator who goes the limit to comply voluntarily will ultimately have less liability," noted Dee Swenson, risk manager with Pogo Producing Co.

"I was against at the large number of dollars involved, but relieved that there may be a limit if owners and operators cooperate."

Another risk manager who attended the Houston seminar was more skeptical. "Cmdr. Lindahl speaks for himself and for the Coast Guard," he said. "When it comes down to a court test, the language of the law will be the final measure."

Responding to criticism, Cmdr. Lindahl told *Business Insurance*, "Our interpretation was submitted

to Congress in an annual report last May and we have not had any quarrel with it. If the government later contradicts this stand, I would expect (oil industry) lawyers to have a field day against us in court.

"If I were a risk manager," he continued, "I would seek coverage of \$35 million for third-party damages and separate coverage for \$35 million to pay voluntary cleanup costs."

He also would buy a third policy with limits of about \$50 million to reimburse government removal costs—a factor he concedes is largely beyond industry control.

An oil industry attorney who did not attend the Houston seminar but read a copy of Cmdr. Lindahl's speech rejects the tripartite interpretation. He says the Coast Guard is leading risk managers down the garden path.

Third-party damage liability is also unlimited, he insists.

"With the overregulation in this industry today it is impossible for any operator to be absolutely certain he is not in violation of some standard—for safety, operations, construction—or for federal government regulations," he said.

"Chances are if the government wants an excuse to expand liability, it will find some kind of violation."

Despite liability questions, oil pollution insurance is available, say industry sources. "You could buy \$200 million for third-party damage if you wanted to," said a Houston broker.

Major marine markets such as Lloyd's of London, AGI Oil Rig and All-American Marine Slip



Despite the Coast Guard's contention that oil spill liability is not unlimited, risk managers and insurers aren't so sure.

have refused to sign financial responsibility certificates for policyholders for fear of being exposed to unlimited liability.

But they are continuing to sell coverage—a distinction a lot of buyers have misunderstood, industry sources say.

Oil rig operators can also show \$35 million of financial responsibility required by law with a surety bond, an indemnification agreement or self-insurance. The major oil companies generally self-insure; many of the small drilling rig

operators that cannot afford insurance have been able to obtain indemnification agreements from their customers.

Both the oil and insurance industries are hoping many of their questions will be answered by a Department of Commerce report due by the end of the year.

This study contains a survey of risk managers, brokers and insurers conducted by a Washington, D.C. research firm, the Granville Corp. Those results are now due at the Commerce Department. ■

Only strong insurers survive cattle market

By SHARON WATSON

DALLAS—The cattle industry is a \$5.6 billion business in Texas, largely uninsured, but the number of cattle going bare shrinks daily.

Texas ranks No. 1 in cattle production with more than 13.2 million head spread throughout almost every county in the state. The risks are high, and most losses are taken on the chin because they are either uninsurable or too costly to insure.

Cattle insurers come and go, and only the strong and shrewd survive, observes Joe Goucher, head of the agri-business insurance department of Ordway-Saunders Agency in Amarillo. Insurers themselves usually have been cattlemen who have gone into insurance to fix their own market needs and those of their peers.

Large national insurers such as Aetna Life & Casualty and The Hartford Group also have ventured into the specialty. Even more recently, associations have expanded coverages through self-initiated plans.

But with the exception of exotic breeds and high-priced registered animals, coverage remains scattered. Risks to cattle on the range are high, and the "old-timers" are more likely to talk of the perversities of marketing their beef than the liabilities on the range.

Insurers readily admit the Texas cattle industry does not have the exposures in weather extremes, particularly blizzard conditions, found in other states.

Yet, on an infamous Halloween night of 1979, an early blizzard in the Panhandle played havoc with both range and feedlot cattle. Overnight losses were estimated at \$2.5 million on insured cattle and up to five times that amount on uninsured animals.

But because such occurrences

have been less frequent than those north of the Mason-Dixon line, Texans are willing to gamble and take their losses.

"They're a different breed," says Frank Harding, cattleman and founder of American Livestock Insurance Co. of Geneva, Ill., a major livestock insurer since 1952.

Mr. Harding estimates most Texans in the commercial cattle business carry their own risks when it comes to critters on the range. Insurance is often unavailable for some obvious reasons: The thousands of head of cattle are not individually identifiable, and contrary to what tales of the Old West might imply, cattlemen do not "ride herd" on them daily.

Once cattle are brought in from the range for fattening on supervised feedlots, the underwriting picture changes.

Less than 5% of range cattle operations may be insured, but 25% to 50% of feeder cattle are covered, Mr. Goucher of Ordway-Saunders notes.

As the industry moves cattle off the range to be "super-fed" on

feedlots, a more manageable risk evolves. Firms can identify and inventory animals held in closed pens and fed daily.

This new insurable risk, a phenomenon of the 1970s, drew lots of takers who quickly found there was a price to pay for collecting "all those premiums," said Ben Latham, a principal of National Livestock Insurance Co. of Amarillo, a major Texas-based insurer.

"Feedlot insurance is a young coverage and the market is just now being penetrated. Many are still guessing if the rates are right or wrong," recalls Mr. Latham.

The growth of the commercial feedlot business and the relocation of feeder cattle from the range to the more closely supervised feedlot reflects an even broader change in the cattle industry and its insurance needs. The need for risk management is growing.

The Texas cattle industry is highly diversified and vertically integrated. A large operation includes not only the range land, but also the feedlots or subcontracts with feedlots, grain suppliers and specialty breeding—in short, a more corporate structure, sometimes associated with another industry, such as oil and gas.

Many large ranches own feed companies and feedlots, and many investors are entering where only the guys in worn-out jeans and boots have trod.

With diversification has come more capital investment in land and equipment and more stable employment for the traditional ranchhand and cattle operations employees.

Operations of all sizes are shopping not only for mortality coverage for range cattle, but also property/casualty and liability

coverage and employee benefits.

Words like comprehensive coverage and risk management are new buzzwords among such groups as the Texas Cattle Feeders Assn., which has begun its own comprehensive insurance program, and Southwestern Cattle Raisers Assn.

Charles Hughes, director of Friona Industries, a vertically integrated operation that raises and feeds its own animals and operates numerous commercial feedlots, says feedlot operators in Texas are looking at association-sponsored plans to help them shop.

The Texas Cattle Feeders Assn. came on the scene in 1980. The association package represents a move by insurance buyers to become "more educated shoppers" of insurance, said Mr. Hughes.

Cattle raisers, likewise, find association-sponsored plans inviting. Southwestern Cattle Raisers Assn., through the Texas Farm Bureau, insures animal mortality, property/casualty risks and an assorted menu of employee and personal benefits through Texas Farm Bureau Mutual Insurance Co. and Southern Farm Bureau Life Insurance Co., a stock company based in Jackson, Miss., and licensed in nine Southern states.

Southern Farm Bureau Co. annually collects more than \$120 million in gross premium for property/casualty insurance in Texas.

Employees in the cattle industry are earning expanded benefits, particularly in the large and diversified ranches and feedlots.

"Coverage versus cost is good (for employee benefits)," Mr. Hughes observes. Life and hospitalization coverage are becoming standard benefits; pensions and profit-sharing are lagging. ■



Cattle insurers have usually been cattlemen themselves and have gone into insurance to fix the market needs of themselves and others. Association plans are growing.

Work comp rules burn electronics firms

By LEN STRAZEWSKI

DALLAS—Clean energy and growing financial success draw electronics firms to Texas like a moth to a lightbulb. But strict workers compensation regulations burn them a little.

The Texas state board of insurance, with a long history of enforcing regulation that protects insurers, forbids firms to self-insure workers compensation coverage.

Firms can negotiate some deductibles with willing insurers, but the higher the deductible they want, the more likely the state board is going to take action, agree risk managers and brokers here.

As the electronics firms prosper, however, the workers compensation restrictions grow more irritating.

"Eight years ago we were pretty close to bankruptcy," explains George Rommel, accounting supervisor and insurance buyer for Varo Inc. "And we were having horrendous workers comp losses.

"But we worked with our insurer (Commercial Union) and hired some industrial nurses to take care of small injuries before they got out of hand. We turned the loss problem around," he notes.

Varo also turned around its financial base. By manufacturing night vision devices, rocket launchers and other military products for the U.S. and foreign governments, the firm grew to \$100 million in sales.

Like many other high-technology firms in Texas, Varo turned rags into riches and has the cash-flow to self-insure. Marsh & McLennan is its broker.

"We've got pretty close to first-dollar coverage in workers compensation now," Mr. Rommel says, "but we'd like to take higher deductibles. We've got \$10 million in property values insured and we would consider self-insuring some of that. In workers comp, we've got an experience modification of 10% now. We'd like to take advantage of our improvements."

Electronics business losses tend to be somewhat smaller in Texas than in other states. Less power demand and more efficient energy sources limit brownouts and power surges that can ruin test programs for products, says Daniel Holsonback, manager of corporate finance for Recognition Engineering in Dallas.

But the workers compensation problem still plagues the firm.

"Under Texas law, you can elect not to insure workers compensation," he says. "But if you do, you lose all your common-law defenses. We're basically a clean industry with few workers comp losses, but you can't ever take advantage of it."

Mr. Holsonback estimates Recognition is losing about 30% of its insurance premium by not self-insuring. His firm's losses do not justify the rate.

Texas law also removes employers from workers compensation claims settlements, another issue that causes large firms to lose money.

"Workers comp claims are between the employee, the insurer and the industrial accident board. We don't even get notice of the hearing," he says.



Other insurance coverages pose less of a problem. Markets are competitive and property insurance rates have dropped almost as fast as most casualty coverages. Brokers and risk executives commonly report 20% premium cuts. But innovative risk-funding is difficult.

Recognition would like to self-insure its property risks, one way of cutting its \$400,000 total property/casualty insurance budget.

"In five years, our total property losses have averaged less than \$15,000 a year. That's tiny," Mr. Holsonback explains. "We're not getting that much out of our premiums."

Recognition places its property insurance with Arkwright-Boston of the Factory Mutual System, but the firm is considering a Cayman captive insurer for greater financial control.

The captive might also aid another special insurance problem, an unusual product liability risk.

"We've been expanding both horizontally and vertically," Mr.

Holsonback says, "and we've recently begun manufacturing some computer software. We're right now trying to get an understanding from our insurer of how losses due to software failure might be covered."

Mr. Holsonback fears damaged or mishandled software may destroy valuable corporate data. The firms might then try to sue Recognition.

"We want it to be covered under our product liability policy," he says, "but we haven't had an answer yet."

Texas Instruments, the mighty solid-state electronics manufacturer, is also testing the captive concept, says assistant risk manager Mike Houston. Property insurance will probably be the first set of risks to use a captive if the firm decides in favor of one.

"Basically, we feel Texas is a pretty good area to work in, except for certain restrictions placed by the state board. Texas provides a good work force with a strong

work ethic. Though TI requires an 8½-hour workday, we have very few problems," he says.

And workers compensation rules and a boiler and machinery coverage rule that limits policies to one year are only minor irritations, he says.

The biggest insurance plus for Texas, risk executives agree, is cooperation from insurers, brokers and corporate management. Everyone is willing to make the best of restrictions and plan an efficient insurance program. TI works closely with its workers compensation insurer, Continental, and its brokers, Alexander & Alexander on casualty risks along with Johnson & Higgins for international and property coverages, Mr. Houston says.

David Roberts, risk manager of E-Systems Inc., agrees.

"We get all the claims support and loss-prevention help we need," he says. "Liberty Mutual is our workers compensation insurer and we use its hygienists for fumes and noise-level studies."

Mr. Roberts recently moved the firm's property insurance from the FM System to Industrial Risk Insurers, finding the FM deposit premium too high in the current marketplace. Rollins Burdick Hunter brokered the change. E-Systems has an annual insurance budget of \$8 million to \$10 million.



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Houston agents

Civil War still rages over commercial risks



Houston's booming businesses, particularly the oil companies, keep agents and brokers competing with services and tailor-made policies. New construction is also popping up.

HOUSTON—When the Yankees came to Houston with their big oil and manufacturing firms, the large Northern insurance brokers followed right behind.

Loaded with modern risk management techniques, self-insurance plans and sophisticated loss-prevention services, the big agent/brokers arrived to manage the booming clients of the 1960s and run the local agents out of town.

It's 1980 and the Civil War still rages over large commercial risks.

"If we're not the biggest agency in Houston, let us know. We'll put on a pep rally and go over the top," jokes Joseph Cutler, partner in John L. Wortham & Son, the largest independent agency in town.

Nose to nose with Marsh & McLennan for the title of the No. 1 agency, Wortham seesaws in and out of the lead. But 20 years ago the fight would have been easy to call. Underwriting for the largest locally based insurance group, American General, Wortham had most local risks locked up.

Now the agency competes with service and encourages a good Southern partnership with the big Houston oil firms.

"We run scared," adds Wortham partner John Hervey, "because everybody is scrambling for business. It's healthy for everybody—especially our clients."

Competition has made the Hous-

ton agents more willing than ever to manuscript policies and package insurers for complex risks. If capacity exists anywhere for the large offshore oil rigs, a Houston broker will find it—at the lowest available price.

"We like to think we are partners with our big oil clients. Almost all the large accounts, several million dollars of premium, involve tailor-made manuscripted policies," Mr. Cutler explains. "We'll put together pools with Lloyd's, AIG, All-American Marine Slip and insurers from France, Switzerland, Norway, anywhere where the capacity is good."

Managed by 31 partners, the firm earned \$10.5 million in revenues last year with about 200 employees and six safety and loss-prevention specialists. Insurance markets are not a problem.

"Everybody's knocking on the door these days," Mr. Hervey notes. "It's difficult to keep everybody happy. It wouldn't be too difficult to put together \$200 million in excess coverage."

But so can other agents. Soft markets have made most basic coverages cheap and available. Even some small one-man agencies can win a major account with the help of a friendly insurer.

Faced with this competition, Marsh & McLennan, with 150 local employees, takes a cerebral ap-

proach to risk management, selling service more than rock-bottom prices.

"We approach firms on a conceptual basis," says senior vp Russel F. Sammis, "and analyze whether the firm needs a captive, an underwriting pool or some specific coverage."

M&M in Houston has grown into an oil specialty agency, insuring firms in all levels of the oil industry from the large diversified oil firms like Tenneco to some wildcat oil researchers.

For the largest risks, not even competitive insurance markets can make the job easy. "We try to monitor the scope of coverage and the capacity. Because of the giant risks, there is a shortfall of capacity for offshore oil rigs," Mr. Sammis says.

An individual offshore rig may demand \$1 billion in values, and loss potential including pollution liability may top \$2 billion. World capacity, Mr. Sammis says, can provide only about \$900 million in coverage.

Oil-rich firms, however, are also cash-rich businesses interested in maintaining control of their funds. "So we have to be able to do a good cash-flow analysis," adds senior vp John Elder. "This requires that we offer various cash-flow discount plans."

Houston is a giant cash-flow program, local agents say. Capital

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flows directly into the city and environs, leaving sparkling corporate headquarters in its wake and massive apartment construction projects. The recession is nowhere to be found.

That makes construction Houston's next biggest industry. Construction bonds are also the most difficult to place. Probably the only tight insurance market in the area, bond underwriters are happy to protect experienced, large contractors but reluctant to assume the risk of a new wildcat firm trying to cash in on the boom.

With property/casualty insurance rates falling and bond rates rising, buyers sometimes don't know what to expect. Houston agents report, however, a growing risk management sophistication even from small firms.

"I see a lot of new accounts that have moved to us because of improper marketing," explains Chuck Burton, chairman of Corroon & Black of Texas. "It could be a procedural problem. Maybe somebody in the client's own office made a mistake. But if there's any kind of problem, buyers are willing to move their business."

As firms grow and plan for more control of their insurance program, they outgrow the small agent and hunt for good claims handling and loss-prevention expertise.

"The best advertisement a broker can have here is to be in on a good loss settlement," he says. "Still, there is a strong network of local agents on big locally-based accounts. There are firms who understand that there may be some problems working with a small agent. But the client is willing to accept those problems to keep a friend on the payroll."

Some of the strong local agents have sold out to the Northerners. Fred S. James, for example, has a strong marine department built on the nucleus of the Rathmell Agency. James competes with Adams & Porter for marine and oil risks.

Alexander & Alexander recently grew into a Houston power with the acquisition of local agency

Agent keeps tabs on client loss control

HOUSTON—Small and medium-sized firms here are ready to plunge into risk management if they can get some basic help from their agents, says John Van Osdall, executive vp of ANCO/The Anderson Co.

So his medium-sized agency started offering doses of data.

"About five years ago we found out that we didn't know everything about our clients that we should," Mr. Van Osdall explains. "We had a lot of information in our files but it wasn't out together in a form that we and our clients could use."

Starting with the agency's top 100 accounts, ANCO began keeping a loss-control history for its clients, charting loss experience and experience rating offered by insurers in data manuals.

"By keeping this data, we found that we can see patterns that we can warn our clients about," Mr. Van Osdall says. "If we need to replace a coverage on short notice, all the material we need to tell an underwriter is at our fingertips."

Using this data, even small firms can take cracks at basic risk management by using insurance company services to help correct problems ANCO spots. The data gathering, performed manually, has also caught some clerical errors that led to overbilling, Mr. Van Osdall notes.

Houston's top 10 agents

1. John L. Wortham & Son
2. Marsh & McLennan
3. Alexander & Alexander
4. Adams & Porter
5. Johnson & Higgins
6. Frank B. Hall
7. Fred S. James
8. Bayly, Martin & Fay (formerly Harlan)
9. Corroon & Black
10. Reed Stenhouse

Ranked in order of size and competitive force based on local opinions.

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Photo: Dallas Chamber of Commerce

Dallas is the financial center of Texas, whose marketplace stabilizes a growing economy and whose expanding businesses seek loss and claims services.

Dallas agents

Growing economy demands risk management services

By LEN STRAZEWSKI

DALLAS—This is the big brother city. Dallas, the financial center of Texas, is the mature mar-

ketplace that stabilizes an economy gone haywire with growth.

Agent/brokers here have to play big brother too, providing risk management services to firms growing faster than executives planned.

"Our larger clients are aware of good risk management concepts," explains Mike White, executive vp and manager of Alexander & Alexander, the largest agency in town. "But to make it work, most are looking for tailor-made information on losses and claims."

Mr. White emphasizes local use of the A&A data base system ARIS, which has given the big agency a leg up over most of its competition for large commercial risks. But some of the services usually available from brokers in other states are lost in Texas.

"We will monitor the service by claims administrators if they want," Mr. White explains, "but we don't sell claims service. Since you can't self-insure workers compensation in Texas, there isn't a big need. If we were allowed to self-insure, we'd probably get into it."

Risk managers for the big firms know what they want from their agents, Mr. White says, and they do want to self-insure. "From a cost standpoint, it's not a problem. But what the firms want is total flexibility to negotiate a claims settlement."

As a dominant agency, A&A sees many of the city's best risks with risk managers who know their firms. Other agents in town, however, report that many firms are just discovering risk management.

"There's lots of new companies moving into the area that have never had risk managers," adds Don Matthews, president of Johnson & Higgins of Texas. "But those firms with risk managers find them sophisticated and pretty hardworking."

Dallas firms are run by sharp

businessmen, he adds, and they are very interested in the way their money is spent. "They are a lot more interested in claims settlement. And we've seen lots more interest from large and medium-sized firms for loss-sensitive programs."

Philip Brown, senior vp of Marsh & McLennan, the second largest agency in Dallas, agrees. M&M has expanded its sales of un-

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Don Matthews

Photo: Len Strazewski

bundled services and added expertise in cash-flow programs now demanded by the large firms moving to Dallas.

"The bulk of our business is still in commissions, but we are selling more services. We have had several clients who weren't satisfied with lots of lost-time accidents," Mr. Brown says. "Our answer has been more aggressive claims handling and rehabilitation."

"Everyone in Texas wants to treat their employees fairly. We think we can do a better job with services on a rifle-shot basis."

Coping with Dallas means understanding a diversified economy. Unlike Houston, which lives by the oil industry, Dallas is the bank center of the Southwest,

Dallas's top 10 agents

- | | |
|--------------------------|----------------------------|
| 1. Alexander & Alexander | 6. Ellis Crotty & Powers |
| 2. Marsh & McLennan | 7. Maxson Mahoney & Turner |
| 3. Fred S. James | 8. Noel Graves & Strother |
| 4. Johnson & Higgins | 9. William Rigg & Co. |
| 5. Arthur L. Owen | 10. Kenneth Murchison Co. |

Ranked in order of size and competitive force based on local opinions.

home of several large life insurers, garment center of the cotton industry and transportation hub of the South.

The "good ole boy" of Texas stereotype does not apply in Dallas.

"What we have are highly sophisticated buyers," notes Robert Earp, executive vp of the local Fred S. James branch. "Our medium-sized client's buyer is usually a financial vp. He may not understand everything about insur-

'What we have are highly sophisticated buyers,' says Robert Earp.

ance, but his broker darn well better have a knowledge of finance.

"The firms are looking for ways in which they can control their money: cash-flow, captives and fronting programs."

Insurers, Mr. Earp says, are turning out more creative programs at the guidance of the local agents.

"We can outline a type of program, especially in the casualty coverages, and get the emphasis on cash-flow control that we want," he says. "Insurers are extremely competitive and rates are still going down. In the casualty

Agent sees business potential

DALLAS—Dallas is the center of the world to Willard Crotty, principal of Ellis, Crotty & Powers.

"What many people don't realize about this city is that in addition to being a large industrial and financial center, Dallas is probably the leading distribution center for the South.

"The potential is unlimited. Since most products are shipped by air, I predict the Dallas/Fort Worth metroplex area will be the biggest distribution center in the world in 20 years. Dallas/Fort Worth airport will be the hub."

Former president of the local chapter of the Chartered Property & Casualty Underwriters, Mr. Crotty, is also the head cheerleader of the Dallas business and insurance community. Or so it seems.

"You just can't be dumb in this commercial area. You'll get run over. Everybody has good and smart competition. Even a firm like Texas Instruments has lots of smart competition," he says.

For insurance agents, he says, business potential is unlimited. For Ellis, Crotty & Powers, one of the largest independents in the area, Mr. Crotty predicts at least 20% annual growth for the next five years.

Highly competitive markets haven't hurt agency growth at all, he adds. Cheaper premiums means the agents have been able to offer expanded coverage at the same prices many paid the previous year.

"Very few people have refused to increase coverage," he says. "Most firms here are smart enough to recognize the need to insure to value, so they encourage agents to add the coverage."

Mr. Crotty is also promoting higher limits to his clients, increasing umbrella limits from \$2 million to \$5 million, sometimes for the same cost as the previous year. "I think they need it because the potential for big losses is here, especially as Dallas grows." ■

lines, the insurers are writing to a combined loss ratio of 99% to 102%.

"I don't think we'll see a turnaround until the second quarter of 1981," he adds.

The large agent/brokers are also highly competitive, dueling with local agents whose market relations are as good and sometimes better than those of the national brokerage houses. Arthur L. Owen, Ellis Crotty & Powers, Maxson Mahoney & Turner Co., Noel Graves & Strother and Kenneth Murchison Co. all rank in the local top 10.

William Rigg & Co., a Fort Worth agent, is also one of the largest independents in Texas with great impact on this market, thanks to an oil specialty.

"There's a lot of agents out there—one and two-man shops—that compete with us," Mr. Earp notes. "If they've carved out a niche, in cargo insurance, for instance, there's a lot they can do." ■


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HMOs hope for surge

AUSTIN—Texans have been characteristically slow to accept health maintenance organization membership during the 1970s.

But there might be a stampede as more HMOs gear up, says the state's HMO coordinator Mary Ann Nethaway.

In 1980, statewide membership in the nine existing HMOs was less than 100,000, small compared with a state population of around 14

million, but more than double the 1979 rolls.

Several factors may spur even greater growth. Until this year, the cost of HMO membership has been higher than that of traditional health insurance plans. Rates, however, are dropping with growth. Cost for a single membership ranges from \$40 to \$50 per month; family membership, \$109 to \$130 per month.

More and more HMOs are also entering the marketplace, offering higher visibility and choice among HMOs, says Ms. Nethaway.

As employers move to Texas, so do HMOs, in the same growth areas. The nine existing HMOs are mostly concentrated in metropolitan Houston and Dallas-Forth Worth, with two others in San Antonio and one in El Paso. Five of

HMO growth in Texas

Name of HMO	Enrollees 2/12/79	Enrollees 6/29/79	Enrollees 7/1/80
Prudential Health Care Plan Inc. Houston	22,000	27,000	37,600
Alamo Health Care Plan San Antonio	10,000	11,000	10,800
Group Health of El Paso El Paso	10,000	9,500	9,600
Texas Prepaid Health Plan Bellaire	2,000	2,800	10,800
Southwest Medical Plan Inc. (CompCare) San Antonio	250	1,500	8,300
MetroCare Arlington		88	2,750
Kaiser/Prudential Health Care Plan Dallas		850	12,000
Tarrant Health Protection Plan Fort Worth			1,800
INA Healthplan of Texas Inc. Dallas			150
Totals	44,250	52,738	93,800

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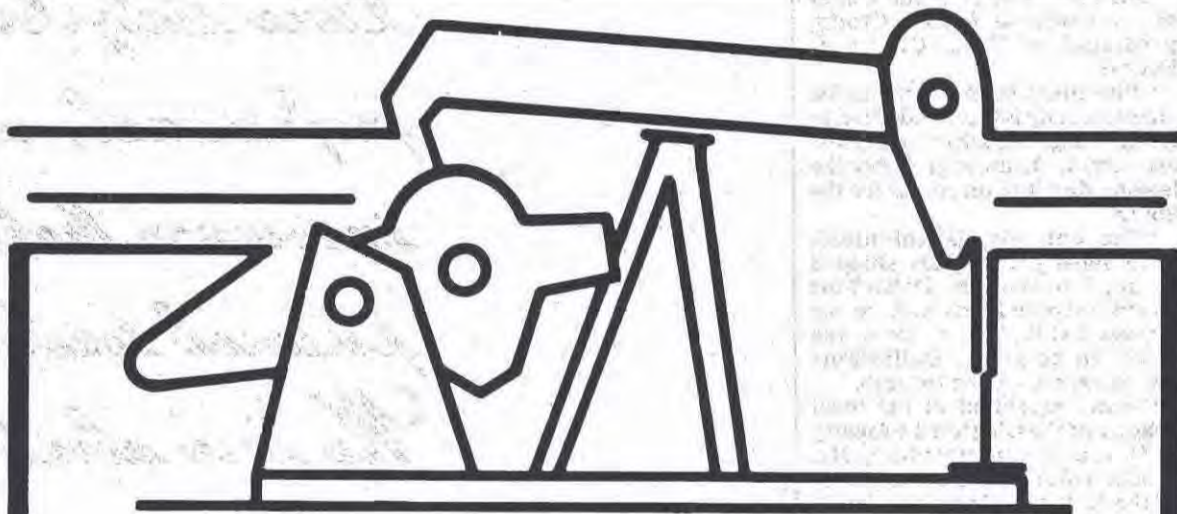


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in membership

the nine are independent practice association HMOs, which means the member can choose from a list of physicians practicing in decentralized offices. The other four HMOs follow the group model, with care centers.

Prudential Health Care Plan Inc. of Houston operates a group practice model in four Houston locations. The largest plan in the state, it has about 38,000 members.

Prudential also has a cooperative agreement with Kaiser in Dallas, the Kaiser/Prudential Health Care Plan, and Oct. 1 opened a third HMO operation in Austin. This marks the first HMO offering in the capital, where a large concentration of state employees is expected to respond.

Prudential is not the only major insurer expanding HMO operations in Texas. In midsummer, INA Healthplan Inc. set up national and regional headquarters in Dallas, announcing at that time plans for three centers in that city by 1981. SAFECO, too, has filed a certificate of need with the state for a Dallas operation.

Blue Cross & Blue Shield of Texas operates a 10,000-member

Most of the active HMOs have been financially sound. However, in September the insurance board filed its first notice of public hearing on the financial condition of an HMO, Texas Prepaid Health Plan of Bellaire (Houston), which serves more than 10,000 members in the Houston area including employees of such major businesses as Exxon, 3M and the Houston independent school district.

Texas Prepaid is federally certified and has received a federal loan guarantee in addition to private funding through physicians.

Ms. Nethaway is hopeful Prepaid's condition can be rectified.

"So far, we haven't had to close any of them (HMOs) down. We've been lucky in Texas."

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The insurance board has set the first public hearing on an HMO's financial state.

HMO in San Antonio, the Alamo Health Care Plan Inc., and is discussing a joint venture with Health Care Assn. of Kelsey-Seybold Clinic in Houston, an inactive privately funded HMO.

In Temple, near Fort Hood, Centroplex Health Plan, associated with the massive Scott & White Clinic, is targeting operations by 1981. Originally begun with federal funding, Centroplex is to be completed with private funds.

Several smaller, privately funded HMOs have filed plans with the state, including the Central Texas Health Plan, sponsored by the Travis County Medical Society (seated in Austin), and the North Texas Health Plan Inc. in Lewisville, a Dallas suburb, also sponsored by physicians.

Corpus Christi may be a new growth area. The Gulf Coast Health Plan Inc. there is still developing under a feasibility grant from the federal government.

Real estate market defies recession

AUSTIN—The real estate industry is having a field day despite the recession as most cities in Texas continue to grow, according to a Kiplinger Report special letter on Texas.

Apartments and multi-family housing are springing up faster than single-family dwellings causing a run on the tight surety bond and builder's risk insurance markets.

Scores of new commercial and industrial sites, office parks and strip shopping areas are being built throughout the state, the report says.

It also predicts another surge in housing once mortgage rates drop sufficiently to allow young people to buy.



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Company benefit plans reward worker service

By Gene McGarrah

ANYONE ASSOCIATED with employee benefits knows all companies do not approach benefits in the same manner.

- Some companies develop comprehensive benefit programs with minimal concern for cost.
- Some companies provide a full range of benefits from the first day of employment.
- Some companies only respond when the employee makes a demand.
- Some companies set up several groups of employees and establish separate benefit programs for each.

The approach at Texas Instruments is "none of the above." There are more than 50,000 TI employees in the United States, and we consider all of them as one group. There are no clearly drawn lines between management and production, salaried and hourly, etc. There is one TI benefits program and it applies to all employees in the same manner.

TI has a mix of approximately 60% manufacturing and 40% non-manufacturing, 56% male and 44% female. The high female percentage, which is not very typical of large industrial corporations, has a significant impact on the cost of benefits such as group medical, short-term disability and paid time off.

TI management reviews the program annually from the point of view of employee need, program cost and competitiveness, and decisions are made regarding new benefits and improvements. There have been cost and plan design improvements of some type in various TI benefit plans in each of the past few years:

- 1980—Pension update, new dental plan.
- 1979—Group medical, LTD, stock option purchase plan improvements.
- 1978—Profit-sharing, pension improvements.
- 1977—Pension update.
- 1976—Group medical improvements, new holiday.

At TI we do have a comprehensive benefits program, but our approach is different from that of many other companies because we attempt to reward service all along the line in each individual benefit area. We have a service eligibility requirement for each type of benefit. The only benefits that do not have service requirements are paid holidays and travel accident insurance. From the cost point of view, this is fairly significant, for we have minimized the amount of company money that goes into certain areas that are typically 100% company-paid elsewhere.

This has been done intentionally in order to maximize the company money available for benefits for longer-service employees. Let's look at how we have integrated service criteria in the group insurance benefits:

- **Group life** is optional. Coverage up to two times annual salary. The company picks up a very modest share of the premium cost after the first year.
- **AD&D** is optional. Coverage up to five times group life. No company funds involved.
- **Short-term disability** is optional during the first year. The company pays total cost after the first year. Benefit level is 50% of pay until employee completes five years of service, then the benefit level increases to 75% of pay.

Texas Viewpoint

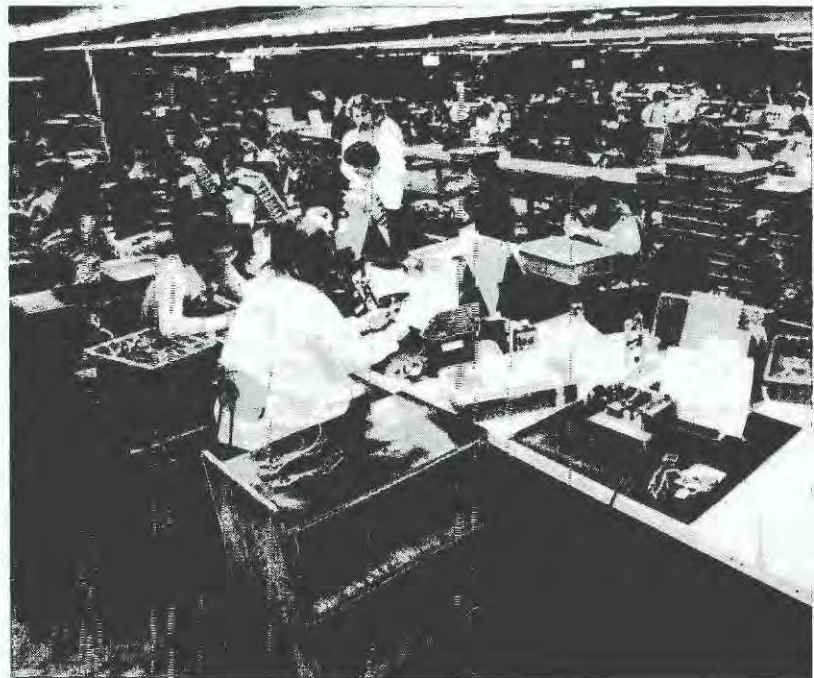
- **Long-term disability** is optional. Employee pays total cost until he or she completes five years of service, then the company picks up half the cost. Benefit level is 50% of pay, with a primary Social Security offset.

- **Group medical** is optional during first three months, then employee coverage is automatic and the company pays the cost.

Dependent coverage is optional, regardless of service. Employee pays total cost of dependent coverage during first three months, then the company pays 25% of cost from three months to five years and 50% of cost after five years. This is a comprehensive plan with a maximum annual out-of-pocket cost of \$375.

- **Group dental** covers only employees with one or more years of service. Coverage for eligible employees is automatic and the company pays total cost. Dependent coverage is optional and cost is split 50-50 between the company

Continued on facing page



Benefits reward long service



Continued from facing page and the employee.

Many companies provide all of these group insurance benefits from the first day of employment, with the employer paying the total cost. At TI we believe in cost sharing in group insurance. At the present time, Texas Instruments pays approximately 70% of the cost of the group insurance plans; the employee pays the remaining 30%.

If we did not have this cost-sharing philosophy, the company-paid cost of these insured plans

There is one Texas Instruments benefits program and it applies to all employees alike, whether they be management or production, hourly or salaried.

would increase dramatically. Rather than spend the money on insured benefits, we have chosen to spend it elsewhere in the benefits program.

There is an optional feature in each of these six group insurance plans. The employee participation varies from plan to plan. The medical plan option is coverage for dependents; approximately 60% of those eligible elect this coverage. Under the dental plan, dependent coverage also is optional and 80% of those eligible elect it. Sixty percent elect the optional coverage under the group life plan and 70% elect LTD and AD&D coverage.

We estimate the group insurance programs will account for approximately 14% of the total cost of TI benefits in 1980. Social

Security is next, accounting for 18% of the total; then pension and profit-sharing, accounting for 24% of the total. Non-productive time—holidays, vacations, break and paid time off—will be 44% of the total, hence, the most costly of the TI benefits.

Now let's consider some of the other benefits and see how we have incorporated our objective of rewarding longer service.

No one receives any vacation during the first year of service. Upon completion of one year of service, the employee receives five days of vacation. Two weeks of vacation a year are given for years two, three, four and five. After five years, vacation entitlement increases to 15 days a year.

In the 15th year, vacation increases to 20 days a year. Everyone

is expected to take at least 10 days of vacation a year, but unused vacation days can be carried forward into subsequent years.

No one has any paid time off entitlement during the first year. In years two through five, there are very modest PTO entitlements. For employees with five years of service, the PTO entitlement is extremely liberal—five paid days per occasion. The supervisor must personally review and approve all requests for PTO, regardless of whether the need for time off is for urgent personal business or because of illness.

The remaining TI benefits are in capital accumulation, or what we call TI Success Sharing. This part of the program is composed of three plans: pension, profit-sharing and stock option purchase. This is the part of the benefits program that we try to empha-

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TI believes in cost sharing of group plans says Gene McGarrah.

size the most, and the part that really pays off for the full career employees.

The pension plan has eligibility requirements of age 25 and one year of service (plus a brief waiting period) as required by ERISA. The profit-sharing plan has an eligibility requirement of one year of service (plus the waiting period). The stock option purchase plan has a "one calendar year" service requirement. Vesting in the pension plan is 10 years. Vesting in the profit-sharing plan is graded down

Continued on next page

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TI benefit plans reward service

Continued from previous page
from 25% after four years to 100% after seven years.

At TI we have the usual other benefits found in many companies: education assistance, employee recreation and credit union. In addition, we have a "reserved parking" benefit; when an employee completes 20 years of service, he is given a reserved parking permit enabling him to park in the areas reserved for key managers. From the employee point of view, this is probably one of the most popular benefits that TI offers.

All along the line we have imposed service requirements in our benefit plans: eligibility, amount of benefit and employee/employer cost sharing. People in other companies, plus many of our newer employees, frequently ask why the heavy emphasis on rewarding longer service. Philosophically, we

want to avoid spending any more money than necessary on new employees who are not committed to staying with TI for a long period of time—hopefully, a full career. The company is prepared to make a fairly generous commitment to those who stay.

As may be expected, there are critics of this "service reward philosophy," especially among new hires and shorter-service employees. However, we believe our overall benefits program is very competitive. We recognize there is some shortfall in benefits for the shorter-service employees, but we believe this approach is the right one in terms of our overall staffing and growth objectives.

Gene McGarrah is benefits manager of Texas Instruments in Dallas, Texas.

Growing companies set fast plan pace

DALLAS—Fast economic development in Texas has given the state "a leg up on the rest of the world" in benefits, says Tom Freeman, a Johnson & Higgins benefit consultant.

Large firms like Texas Instruments, Dresser and Diamond Shamrock are setting a fast benefit pace and businesses all over Texas are boosting benefit plans to compete.

"We are seeing good executive perk programs and many additional benefit developments, in-

cluding child care, recreational programs and more deferred compensation plans," he says.

One Texas electronics firm, EDS, even has its own golf course, Mr. Freeman notes.

Traditional life, health and accident benefits, however, remain stable, limited by state law. Life insurance benefits, for example, are held to twice annual salary to a maximum of \$50,000. Some firms, however, purchase additional life coverage for executives at non-group rates.

"There's certainly a lot of opportunity for ESOPs and TRASOPs and we have seen lots more interest in savings and thrift plans," Mr. Freeman says of employee stock

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Photo: Len Strazewski

'We are seeing good exec perk programs,' says Tom Freeman.

ownership plans. "But enthusiasm and interest haven't turned into reality yet. Those plans may be somewhat ahead of us."

Dental insurance plans are particularly hot now, adds Tom Hardy, Alexander & Alexander senior vp.

"We're two to four years behind the rest of the country on dental," he said. "I guess we've had less union negotiation pressure to force new coverages."

Long-term disability plans, however, are widespread among Texas firms for salaried employees. ■

Unique market causes problems for businesses

By E. Thomas Miller

TEXAS IS IN the middle of the favored Sunbelt area, and with the continued infusion of new and old business relocating to this area, the state's economic condition is booming. This rapid and expanding growth will create a need for a rapid expansion of the insurance and risk management business.

As a market for insurance and related products, Texas has always been somewhat unique. You often hear brokers and agents say there were two ways to handle insurance problems, the U.S. way and the Texas way.

I have to believe that the things that have created the unique character of the Texas market have also created problems for buyers and sellers alike.

In my experience, many buyers have been conditioned by the market to accept a conservative ap-



Regulators haven't encouraged competition, says Mr. Miller, a Texas consultant.

proach to their risk problem solving: buying policies. It is the feeling of many that insurance laws here have created an isolated buyer.

But we are finding that large insurance-buying companies in Texas are becoming more sophisticated in their approach to risk funding. This is good, but only if these consumers can find the products that fill their needs here.

We find that the risk manager and financial officer recognize the effects of more control over risk programs, the increase in cash-flow and lowered expenses that result from departing from the "traditional" insurance programs. These consumers are acutely aware of the benefits one derives from unbundling the typical insurance program, accepting more risk and buying services.

The cost of risk transfer to the insurance market has long been an appropriate measure of the market's ability to meet business needs—in the eyes of the buyer. As the cost of transferring pure risk begins to go up—as it surely will if the predicted downturn occurs—the buyer will have to be ready with a feasible alternative.

The insurance law in Texas has not encouraged "hot and heavy" competition. For example, Texas remains one of the few states not allowing an employer to self-insure workers compensation.

Recently, the commissioner stated that all paid-loss retrospective plans must be approved by the state board. Board members had earlier indicated that such cash-flow plans were not within the law.

Nonetheless, the state board does an admirable job and has

Texas Viewpoint

shown a lot of courage in making Texas a unique insurance market. There is no doubt that the lawmakers will meet the challenge we are faced with in this decade.

E. Thomas Miller is president of Scor Risk Management Inc. in Dallas.

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Excess/surplus

Admitted markets take on more importance

By John N. Molbeck

Texas Viewpoint

TEXAS IS NOT just any state. Just ask a Texan. Texas is one of the fastest growing states in the union using just about any measure of performance. It includes two of the U.S.'s most dynamic cities, Dallas and Houston.

Surplus lines premiums in Texas increased more than \$16 million in 1979 to nearly \$198 million. But surplus lines are just a part of the Texas excess/surplus brokers' normal operations. The admitted markets and specialty

programs can be equally as important as surplus lines and in some cases more important.

For example, J.H. Blades's surplus lines volume placed us second in Texas in 1979. However, our pure surplus lines volume represented only 12% of the total. Although Blades is probably at the

extreme, this scenario is not inconsistent for E/S brokers throughout Texas because of the state's significant offshore oil, gas and marine activity.

In our 1980 planning, we estimated the marketplace would begin to tighten in the third quarter of 1980 and that the prime interest rate would hit a high of 13%. Well, the prime reached 20% and the tightening of the market is no nearer this fall than last year.

The major admitted companies are competing for business that



Not only has the E/S market not tightened, but it has gotten more competitive, says John Molbeck.

just two years ago was quickly and automatically declined. The reinsurers are still locked in their seemingly life-and-death battle to be "low bidder." As a result, not only has the E/S lines market not tightened up, it presently may even be getting softer, albeit at a slower rate.

Although this is true in such lines as builders risks and umbrellas that have been periodically subjected to this phenomenon, it is now true of lines previously unscathed, like directors and officers liability. Price is still king. Therefore, our agents believe they must cover every market to protect themselves from being blindsided. As a result, every potential market is tapped, resulting in the E/S broker spending twice as much time marketing a risk. And if he is lucky enough to get an order, it is probably for 50% of the 1977-78 premium. Automatic renewals are a thing of the past.

We have forgotten the argument that we retain an account because of creativity and professionalism. Only the most loyal client will stick with a broker in the face of a 25% rate reduction.

It is important that we fully recognize our responsibility under the Texas insurance code to not knowingly place surplus lines in-

surance with financially unsound insurers. Moreover, the Texas surplus lines agent is required to make a reasonable effort to ascertain the financial condition and reputation of nonadmitted insurers before placing insurance, as outlined in the code, Article 1.14-2, Section 8.

We can expect the competition for premium dollars to be just as severe as during 1972-74. However, we do not believe the downturn will be as disastrous as it was in 1974-76. Insurance companies have learned well that a significant level of inflation is here to stay and that the double-digit rates experienced during the last cycle were not aberrations. Of course, all of this will be moderated by relatively high interest rates, which should certainly be well above the average prime rate of 8.25% we experienced in the 1970s.

In the near future, insurers will again adjust underwriting standards and the market will tighten, but not to the extent of 1974-76. There is simply too much capacity chasing too few premium dollars.

Not only is there added capacity generated by the bottom-line profits of the U.S. property and casualty industry, but capacity also has been expanded significantly

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by the life insurance giants' serious entry into the business with their seemingly limitless supply of capital. At the same time, foreign insurers have recognized that the U.S. domestic insurance scene is an appropriate place to invest their currency.

Then there is the New York Insurance Exchange, which will add new capital, especially if limited partnership participations are made available to investors whose primary concern may be tax write-offs and not underwriting profits. There is also the significant capital represented by the captive insurance market. Many U.S. corporations have their own captives and many more smaller firms are represented either by their own captive or through an association captive.

The next 12 months look like more of the same in Texas despite increasing loss ratios and interest rates significantly below the 1980 peak. It is a relatively slow time compared with past frenzy. A time when many of us are working on training, improving procedures, controls and forms and controlling expenses.

Two long-range trends in Texas appear to be relevant. First, an in-house underwriting facility will continue to be important to suc-

Law needs revisions, broker says

DALLAS—Sunny Texas may be the promised land for many large firms, but for brokers it could use some changes, says Alexander & Alexander executive vp Mike White.

Texas state law does not allow insurance brokers; all commercial producers must have agency contracts with insurance companies. And the state supervises commercial insurance rates.

"I think we do need an insurance reform package here in Texas," Mr. White says, "and we can start with open rates for commercial risks. For our larger risks, we could use an open form rule for premiums over \$250,000."

Laws forbidding self-insurance of workers compensation are a big



"It's time we legally allowed brokers," says Mike White.

thorn to cash-rich Texas firms, and Mr. White also would like to see more freedom to self-insure or plot large deductibles for firms that want them.

"While we are into making some changes, there's also some regulations for agents that would be worth changing," he says.

"I think it's time we abandoned the 'agency only' concept in Texas and legally allowed brokers."

The rules that limit broker relationships with buyers and insurers also affect agent compensation, he noted.

"It's also time to eliminate some of the commission-sharing and counter-signature requirements we now have for some situations," Mr. White says.

cess. Second, specialization by the E/S broker will be necessary to insulate profits during periods when the admitted markets are writing E/S lines.

Each of the 1979 top five Texas E/S brokers has an in-house facility. Cravens Dargan has the Republic, Blades has U.S. Fire, Sayre & Toso has the Mission, Swett & Crawford has the Harbor and Myron Steves has Surplus Underwriters Casualty.

In 1978, Blades saw the long-range benefits of a stable in-house market, and this was a major factor in the decision to become part of the Crum & Forster organization. Crum & Forster recognized that Blades's commission income could help alleviate the effects of the cycle, especially because E/S brokers do their best when the standard markets are doing their worst.

John N. Molbeck Jr. is executive vp for J.H. Blades & Co. in Houston.

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London-like Lloyd's facsimiles help keep property market competitive

By MARGARET LeROUX

AUSTIN—Arizona may have the London Bridge, but Texas has 34 Lloyd's-like insurance companies that have played an important role in competitive marketing of property insurance in Texas for almost 60 years.

Although patterned after Lloyd's of London in that the underwriters are the owners and are liable for underwriting results, the Texas Lloyd's companies "are a distinctly American animal," says W.C. Hassard, treasurer at Insured Lloyd's of Dallas.

The Texas insurance code grants Lloyd's companies exemption from rate restrictions for the coverages they underwrite, a distinct advantage for them over stock and mutual insurers during competitive market cycles.

Texas Lloyd's companies are allowed to underwrite commercial property, inland marine, homeowners and automobile coverage in the state.

The first Lloyd's companies were established in the early 1920s when financed auto insurance "was the line nobody wanted to write," says Frank Roberts, head of Fort Worth Lloyd's, one of the oldest Lloyd's companies in the state.

Because Lloyd's companies' permits allow them to appoint attorneys in fact to act on their behalf, a lot of Lloyd's business was first written by banks and finance companies.

Today a Lloyd's attorney may well be a major broker, but the distinction between Lloyd's and mutual and stock companies remains: The latter two can use only licensed agents to transact business.

Some Lloyd's companies, like Insured Lloyd's of Dallas, still write mostly personal lines business. "I like to see a lot of little risks running around, so no one risk will kill us," Mr. Hassard says. "I couldn't sleep at night if we insured the kind of business some of the other Lloyd's companies insure."

But many of the Texas Lloyd's companies followed their London forerunners and got into the riskier and more profitable commercial property lines.

"When the competition for commercial property and inland marine business in Texas heated up about 10 years ago, Lloyd's companies began to spring up all over the state," says the president of a Dallas-based Lloyd's company who requested anonymity.

"In order to keep up with the competition, you either have to be a Lloyd's company or acquire one," says a spokesman for Commonwealth Lloyd's, another Dallas-based company whose parent is Crum & Forster.

During the last competitive cycle, underwriters from outside Texas doing admitted business found their rates undercut by the London imitators and retaliated by organizing or acquiring their own Lloyd's companies.

Fireman's Fund, The Hartford, American International Group and the Chubb Group have recently formed Lloyd's companies.

As the head of a stock insurance company in Dallas that organized its own Lloyd's company six years ago notes, "We got tired of losing business to other Lloyd's companies."

Lloyd's companies have made the most impact recently by marketing the Texas multiperil policy. The broad-form, extended coverage policy is the basis for the current highly competitive commercial property market in the state, say underwriters at Lloyd's companies.

"It allows you to do anything except lie, cheat and steal," one Lloyd's underwriter contends.

Although all insurance companies licensed to write property coverage in Texas can write the multiperil policy, the Lloyd's companies with their freedom from rate restrictions have the edge.

The insurance department has uniformly disallowed all applications for rate deviations on multiperil policies by stock and mutual companies.

Lloyd's companies are also going after risky commercial property because their permits allow them to underwrite such risks at a surcharge above the standard premium rate.

One such company whose book of business includes risks usually shunned by the standard market—restaurants, nightclubs and mattress factories—is Delta Lloyd's,

the first of the "new wave" of Lloyd's companies that started forming in 1971.

Delta is also one of the few independently owned and operated Lloyd's companies. Competing against companies that have the backing of billion-dollar parents is tough, says Avrohm Wisenberg, president of Delta, "but we look for areas the big companies don't want to have anything to do with."

Delta's current premium volume is \$8 million, 75% of which is fire and extended coverage for both commercial property and homeowners. "We'll underwrite extended coverage insurance for low-value dwellings that the large companies say you can't make a profit on," Mr. Wisenberg says. "We don't mind using a typewriter instead of a computer and making a few dollars on a lot of small policies."

"We inspect each risk we write," he continues. "We have the flexibility of making our own underwriting decisions and our own mistakes instead of having our underwriting policy dictated by an out-of-state parent."

Mr. Wisenberg notes that unlike some of his competition, "we've made a small profit every year."

If underwriters at Texas Lloyd's companies seem overly concerned with loss experience and profit ratios, it's because, like Lloyd's of London underwriters, they are personally liable for the fortunes of the company.

The Texas Lloyd's companies have maintained good experience,

Not a single Lloyd's company has failed in the 59 years they have existed.

says the state insurance department. Not a single Lloyd's has failed in the 59 years since they began receiving permits.

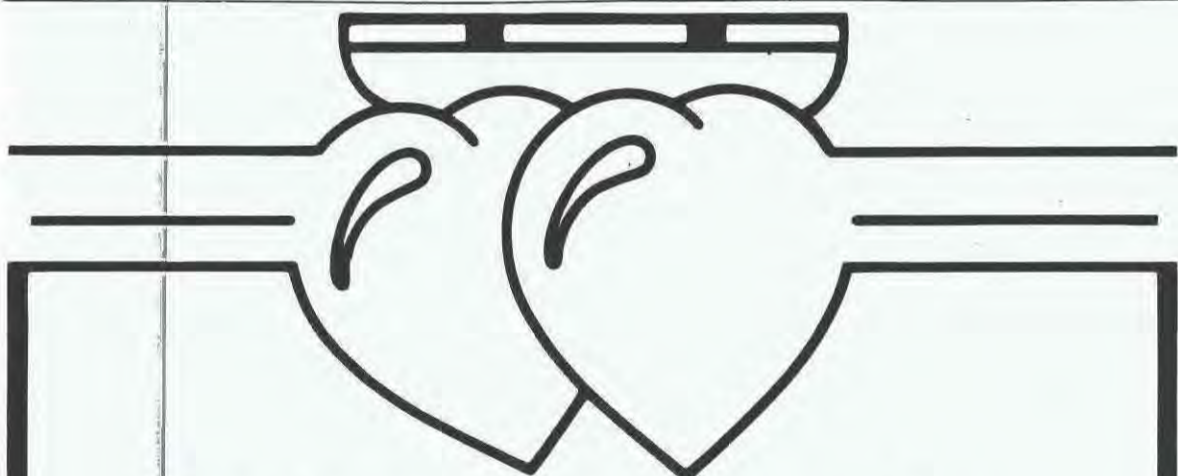
Before a Lloyd's company can apply for a permit, it must have a minimum of 12 underwriters and \$300,000 in capital, although "that amount won't get you off the ground," says Mr. Hassard of Insured Lloyd's. "I usually tell people interested in forming a Lloyd's they'll need at least \$500,000 to operate on a very small basis."

Lloyd's companies' reinsurance arrangements vary; the insurance department doesn't require them to have a reinsurer.

Lloyd's companies with an out-of-state parent often have a reinsurance relationship with that company.

Commonwealth Lloyd's, for example, owned by Crum & Forster, reinsures all its business through International Reinsurance Co., also owned by C&F.

Despite the historical up-and-down swings of the insurance industry's loss experience, the Texas Lloyd's companies have maintained a steady appeal. "We've seen a consistently steady number of applications," says Jack Jones, property insurance specialist for the Texas insurance department, "and we don't see any signs of decline."



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Business boom creates buyer's market

HOUSTON—Texas insurers don't care who shot J.R. They're too busy writing the insurance for all of the new businesses setting up in the state.

"Over 1,000 people per week are moving in here," says J.D. White, executive vp of American General Fire & Casualty Co. "With the increased population there's an increased need for goods and services."

"There's new construction and road-building everywhere you go," adds AGF&C's John R. Hitchcock. "As I look outside the window I can see six cranes swinging."

Texas, the energy capital of the United States, is drawing businesses in record numbers. The large number of potential new policyholders has created more competition in the marketplace, however.

"We're forced to give more dividends and deviations to policyholders," Mr. Hitchcock says. "It's truly a buyer's market."

"There is a tremendous demand by policyholders for relief on premium payments," says vp William E. Dandy. "This is felt more strongly on the larger accounts of maybe over \$1 million. They would prefer paid-loss retro plans."

Such cash-flow plans are not now allowed in the state, however, for auto, workers compensation and general liability. These all have rates and forms set by the Texas insurance department.

But Texas insurers are finding ways of getting around the stringent requirements of the state insurance department. "Insurers have to use more and more of these deviations and dividend programs to attract companies. There is a large amount of deviations for those lines which don't qualify for dividends," Mr. Dandy explains.

Buyers are also less likely to suffer huge rate increases, the vp adds. "There is a tendency to suppress the indicated rate increases by the companies making money on their investment income."

Texans are going to see an increased influence on the market by businesses not headquartered in Texas, says the insurer. "There is an enormous outside influence—and even foreign influence—on land ownership and the development of property," Mr. White says.

California firms, in particular, are attracted by the cheaper land, he says. "They might bring with them some ideas for coverages and premium payment plans." California is a fairly "open" rating competitive state except on workers compensation risks, the opposite of Texas.

Texans so far seem undaunted by the economic woes assailing the rest of the country. Refining, exploration and the production of petroleum have opened up a whole new world of goods and services.

"It's an enormous industry not

Broker predicts competition pinch

HOUSTON—Insurer competition "is a disaster," reports Chuck Burton, chairman of Corroon & Black of Texas. "Companies just haven't realized that they have gone too far."

Umbrella liability premiums are averaging 25% lower than last year, he says, and property premiums are dropping 50% to 60%.

"Property insurance is so underpriced right now that the insurers are really going to feel the pinch in 12 to 15 months," he said.

'With an increased population, there's an increased need,' says J.D. White.



impacted by the recession at all," Mr. Hitchcock says. "Payrolls are high. This creates a need for more insurance."

Casualty Co. is the largest regional office of the Maryland Casualty Co., a subsidiary of American General Insurance Co. Established in 1926, American General is

ranked by Fortune magazine as the 13th-largest diversified financial company in the United States and the largest insurer in Texas.

The company has three operating divisions: life, property/liability and other financial services. Premiums written for property/liability totaled \$706.1 million in 1979, with a 98.9% combined loss ratio. Premium income for the first six months of 1980 is \$357.7 million.

The American General group of companies employs about 9,000 individuals. There are 11 companies under its life insurance division, which is the seventh-largest shareholder-owned life insurance group in the United States.

The property/liability division, with the recent sale of its Fidelity & Deposit Co. of Maryland now has six subsidiaries.

The American General Fire & Casualty Co. is the largest subsidiary of the company's flagship property/liability firm, the Maryland Casualty Co. in Baltimore. Based in Houston, AGF&C has branch offices in Dallas, San Antonio, Lubbock and El Paso.

In addition to Mr. White, who is executive vp of American General Fire & Casualty, the other Maryland Casualty Co. officers are: H.J. Brememann Jr., chairman and president; Marvin Ham, senior vp; L.L. Lucas, senior vp; Don Burke, senior vp; Bill Darragh, senior vp, and Don Hutson, senior vp.

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Exec foresees fewer comp regulations

DALLAS—Texans will join in a trend toward less rate regulation for workers compensation, predicts the state's largest workers compensation insurer.

Insurers are now heavily

regulated by the Texas insurance department, but John F. Stephens, chairman of the board and president of Texas Employers, says a change is in the wind.

"The trend is toward more open

competition rather than the rigid rate regulation of the past," he says. "Throwing all of the rules out of the book won't happen. The question is how far in the direction of open competition we'll go."

Mr. Stephens predicts workers compensation insurers will have a file-and-use law, with regulators reviewing solvency, rate filings and experience.

"There badly need to be some controls," he says. "A lot of insurers don't know anything about the business and shouldn't be in it."

Texas Employers, which writes about 20% of the workers compensation in the state, has been in business since 1913. The largest portion of its premium volume, about 26%, comes from the contracting industry.

Texas insurers are seeing the same trends mirrored in other parts of the country, Mr. Stephens says. Policyholders are increasingly turning to consultants and are looking for more ways to hold on to their premium dollars longer.

"There is more and more demand for cash-flow and more competition on the large risks than we've ever seen before," Mr. Stephens says. "Some insurers are writing at a known loss."

Insurers are increasingly getting into this "goofy" area of competition," he remarks. No turnaround is expected.

Litigation is also growing, says the board chairman.

"We have a greater attorney involvement in Texas than elsewhere," he says. "It's necessary to spend a lot more money in attorney's fees."

But money is available. Texas leads the nation in energy production and is attracting scores of new businesses.

The oil industry comprises about 17% of the total premium



"Throwing all the rules out won't happen," says John F. Stephens.

volume in Texas, Mr. Stephens says. About 9% of the workers compensation premium is written by Texas Employers.

Texas Employers had an earned premium volume of \$214 million last year, a 10% increase over 1978. Headquartered in Dallas, the firm has about 2,200 employees.

The combined loss ratio was 70.7% in 1979, compared with 73.9% in 1978. The figure for the first six months of 1980 is about the same as that in 1979, Mr. Stephens says.

In addition to Mr. Stephens, other officers of the firm are: W. T. Jones, vice chairman; Dewey G. Williams, executive vp; William H. Huff III, senior vp and general counsel; Tyrus R. John and Garland M. Neal, senior vps.

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Open rating may resurface

AUSTIN—Open rating, a perennial sore spot among insurers in Texas, may draw more lobbying when the Texas legislature convenes in January.

Though the state insurance board will not introduce a proposal to end rate controls, at least two of the three appointed governors are reported to have an open mind about the situation.

Proponents say open rating

would make the industry more competitive and responsive. Opponents believe rate review has served a constructive purpose because it has kept insurers solvent.

Another hot issue is self-insurance of workers compensation, which Texas does not permit. The Texas Assn. of Businesses favors a change in this law and companion legislation for open rating of property/casualty insurance.

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Regulators' restrictions cramp insurers' style

By JILL KAPLAN

FORT WORTH—Catering to an expanding market, Texas insurers feel cramped by the state insurance restrictions.

Rates and forms in the state are controlled by the Texas insurance department and self-insurance is still not allowed.

"We don't have the flexibility in rating and product development that we'd like," says Glenn B. Morris, president and chief executive officer of The Equitable General Insurance Co., formerly known as Houston General Insurance Co.

"Most of the business we'd like to get into, we can't do," Mr. Morris says. "The state has control over forms and rates. If there was a new exotic coverage we wanted to write, we couldn't."

Texans are just now getting a readable policy for the first time, he says. Property/casualty

on another plan. We're not a national company so we don't want those kinds of risks."

The Houston General Insurance Group was purchased in 1974 by The Equitable Life Assurance Society of the United States, the third largest life insurance company in the world.

The four subsidiaries of The Equitable General Insurance Group are Houston General Insurance Co. of Texas and The Equitable General of Texas, Iowa and Oklahoma. Houston General Lloyd's is an affiliate.

The group sold about \$150

million in premium in 1979, which Mr. Morris expects to duplicate this year. Premiums written for the first eight months of 1980 totaled \$91 million.

Houston General, which deals almost exclusively in Texas, hit \$50 million in premiums for 1979. The company's combined loss ratio for both 1979 and the first six months of 1980 is 93%.

The Equitable Insurance Group employs about 1,150 people, 350 of whom work for Houston General.

Other officers include: Richard R. Beck, senior vp; David N. Hogue, vp, and John A. Wrigley, vp.

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'Package policies are what people are buying,' says Glenn B. Morris.

package plans, restricted by law several years ago, are beginning to get off the ground.

"Property/casualty plans are becoming increasingly popular. Package policies are what people are buying," he explained.

Even though insurers operate in a fairly proscribed market, most are satisfied with current law. "I happen to think it works pretty well," Mr. Morris says. "On the balance, the Texas insurance department is the best we've ever had to deal with. Regulators are reasonably cooperative."

Houston General is not involved in the oil and energy business now booming in Texas, but is studying whether to expand to the service-related needs of the industry.

"I feel that we should," Mr. Morris says. "We are looking into how much additional money is generated in addition to the major oil companies. It's doubtful that Shell and Exxon would come to us. They're mostly self-insured or

Population boom

Texas is hundreds of miles of potential, says the Washington-based Kiplinger Report. Its population will reach 18.3 million in the year 2000.



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Photo: Wide World



Severe weather conditions, from the severe heat wave and drought of this summer to torna-

does and hurricanes, can play havoc with the Texas insurance market.

Texas weather threatens market with buffeting

By JILL KAPLAN

DALLAS—Hurricanes, droughts and tornadoes are a stormy issue in the Texas insurance market.

Some insurers lie in wait each season, fearful that a string of major hurricanes could turn the market topsy-turvy. Most just accept the weather and keep their fingers crossed.

"If you're going to do business in Texas, you've got to anticipate disasters and hurricanes," says A.J. Tyler, president of The Trin-

ity Cos. "You've got to excuse tornadoes and hurricanes as part of the game."

What has some insurers balking is the mandatory participation in the Texas catastrophe pool, intended to protect property owners in the coastal area from windstorm and hurricane damage. All insurers must share the losses.

"The premium charged is not sufficient to cover the losses," Mr. Tyler says. "In no way will it be sufficient when a devastating hurricane might strike."

Mr. Tyler suggests stricter requirements be set up for building in hazardous areas. "Certainly larger premium charges for businesses with properties in that area would be in order," he says.

But there are advantages to doing business in Texas. Mr. Tyler rates the legal climate as one of the market's best features.

"We've got a heck of a lot better situation than in California where the lawyers and judges haul the insurance companies into court," Mr. Tyler said.

"Texas still has a rather conservative legal climate. The laws are not such that the insurance company is apt to be saddled with punitive damages for this or that. Juries are less apt to give payouts," he said.

Workers compensation is the exception. The law causes a much greater proportion of the cases to "get into the hands of the attorneys," he says.

Texas differs from the other states in that property and auto rules and rates are set by the insurance department, rather than by the Insurance Services Office, he says. But that hasn't helped combat competition.

"Companies are deviating 30% to 35% off the state rate," Mr. Tyler says. "The state has to approve the deviation, but I don't know of any that has been turned down."

Rate slashing is rampant, he says, with companies trying to outdo the competition with new programs, particularly packages.

"The trend is toward more packaging and simplification of forms to make for easier rating," Mr. Tyler says.

The Trinity Cos., owned by Tele-dyne Corp. in Los Angeles, is made up of four subsidiaries: Trinity Universal Insurance Co., Security National Insurance Co., Trinity Universal Insurance Co. of Kansas Inc. and Trinity Lloyd's.

"We'll write \$85 million of premium in Texas this year," Mr. Tyler estimates. About 40% will be in commercial lines and 60% personal. The company wrote \$55.6 million in Texas from January to August and is averaging \$7.5 million per month. The Texas market generated \$72 million of premium last year.

The combined loss ratio for the Texas market through June 1980 is 94.2%. The combined loss ratio was 92.7%, including dividends, in 1979.

Nationally, the Trinity Cos. increased premiums written to \$111.7 million in 1979, a gain of 13% over 1978. The combined loss ratio in 1979 was 92.9% after dividends, not quite as good as 1978's 83.5%

Besides president Mr. Tyler, officers of the Trinity Cos. are: J.V. Jerome, chairman; John C. Spence, vice chairman; Barnett Williams, senior vp and treasurer, and Leon Dickey, senior vp.

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perspective

Cost containment

City shares concerns of business

By Roy L. Ray

DURING THE PAST decade, the United States has seen a very sharp increase in the quantity and quality of health care services. This growth has been of tremendous benefit to most Americans, but it has unfortunately been accompanied by an alarming increase in the cost of health care. In fact, statistics from the federal government indicate the cost of health care has risen considerably faster than the quality.

Just why is the city of Akron concerned about the high cost of health care? First of all, we provide health care services. Our department of public health has an annual budget of nearly \$4.5 million. Much of those funds support clinics and health services for those who might otherwise be without basic care. The city also provides a highly regarded emergency medical service that last year cost more than \$1.5 million.

The second reason for our interest in cost containment is easily forgotten by the average taxpayer. Akron is also one of the area's major employers, a multimillion-dollar customer of the health care industry. We currently pay health benefits for approximately 4,000 active and retired employees. Our insurance bill comes to nearly \$4 million a year, not including dental benefits.

As an employer that must meet these increasing costs each year, we share the concerns of the private sector. We realize, perhaps a bit belatedly, that we must work together as organizations and private citizens to help contain this skyrocketing cost.

First of all, we must understand the extent of the problem and some of its causes. The statistics I quote here are from the U.S. Department of Health and Human Services and are no more reliable than most statistics, but I think the trends they indicate are valid.

As recently as 1965, the U.S. spent a full 6% of its gross national product on health care. Today that figure is more than 9% of the GNP. That's considerably higher than in other industrialized nations. The nation's total health bill last year was \$206 billion: \$980 for each man, woman and child. In 1965, that figure was just \$198 per person.

Of course much of this can be blamed on inflation. What costs haven't skyrocketed since 1965? But the fact is, health care costs have been rising considerably faster than infla-



Photo: Akron Fire Department
Akron's emergency medical service cost the city more than \$1.5 million last year of its \$4.5 million budget.

tion. The government predicts that at the present rate, the cost of health care could double every five years.

Despite the impressive improvements in our health care delivery system over those years, it is difficult to say that the quality of health care has kept up with cost. Employers that have made tremendous increases in their outlay for health benefits have not seen impressive improvements in absentee rates and productivity.

Many factors have led to this situation, and there's blame enough to go around if we want to start pointing fingers.

The patients have for too long thought of their health care as being free. They do not realize that the real costs of health care, while they appear to be paid by company or government benefits, are ultimately coming out of our own pockets. They have also been too quick to put themselves completely in the hands of health professionals. They have never been concerned about their roles as consumers of health care, giving those medical expenditures the same thoughts and scrutiny they would other purchases.

The health care industry, the doctors and hospitals, can also share the blame. They have been allowed to operate for too long without the restraint of open-

market competition that plays a role in keeping costs down in other areas of our economy. As they have invested in new, expensive technology and expanded their bed capacity and services, they have not always shown full concern for the resulting cost increases.

As Washington spends more and more on health care, primarily through the Medicare and Medicaid programs, it has shown increasing concern about the high cost. This interest can only build in coming years with the likelihood of national health insurance. Of course, the federal government's so-called solution will most likely take the form of some imposed regulation.

Given Washington's track record as a regulator, I don't think any of us would be optimistic about its chances for success. Nor can we be certain what effects such regulation would have on the quality of health care that would result.

It is important to us, as the people who pay for health care through our corporations or governments, to work for cost containment. It is important to keep our own costs down, improve the health and morale of our employees and avoid the uncertainties of imposed regulation.

There are several ways the city of Akron is working in this direction. First, we are cooperating with our area hospitals in their own voluntary efforts at cost containment. A blue-ribbon committee of local business and government leaders meets regularly with hospital administrators to gauge progress toward reducing costs and developing cooperative ways to achieve those reductions.

We also participate in the efforts of our local health systems agency. I hope you are aware of the work of the HSA in your community.

These agencies, sponsored by the federal government, offer an opportunity for citizens, business and local government to work with the health care profession in planning for rational, cost-effective growth in local services. With the power to approve or disapprove expansion, it is estimated that HSAs nationally saved their communities more than \$1.5 billion last year in unneeded facilities and equipment.

Finally, we must find a more effective way to communicate to our employees the stake they have in keeping the lid on costs. We must make them see that they are actually paying, indirectly, for the medical care that they've traditionally seen as free.



Roy L. Ray, mayor of Akron, Ohio, addressed Connecticut General Life Insurance Co. group policyholders.

perspective

Swedish upswing

Homogeneous market learns from its past

By Diana W. Wormuth

THE TIGHT, homogeneous Swedish market, which has known both good and bad years in the past decade, is now in the middle of an upswing. The outlook is for a continued recovery, even if more modest than before. The Swedish non-life insurance sector has followed a pronounced cyclic trend throughout the 1970s, with deficits in 1970-71 and 1975-77 and good results in 1972-74 and 1978-79.

Sweden, still functioning as a "mixed economy" where state and private capital complement each other, is one of the most prosperous countries in Europe. A tradition of nationwide trade unions, employers federations and a well-developed welfare system has led to a society highly sensitive to social, legislative and economic changes. The 8.3 million population is well educated and most people have several kinds of insurance in addition to the health care provided through state agencies.

Insurance legislation is currently under review by the government. But a number of de facto modifications have been made to protect the citizen. Compulsory health and pension insurance schemes have emerged from agreements between the parties in the labor market. Consortia for certain broad insurance schemes, such as no-fault patient and pharmaceutical care, have guaranteed citizens recognition of their loss or injury without involving court proceedings. Similarly, a privately financed insurance consortium administers the employers no-fault insurance, the equivalent of workers compensation.

The Swedish market is essentially brokerless and dominated by three major insurance groups: Skandia, Trygg-Hansa and Folksam, which account for some 80% of the market. An association of county mutual insurance companies constitutes the fourth group writing major business nationwide.

This oligopolistic situation has historical origins. In the first postwar years the government encouraged a concentration in the insurance industry through amalgamations, which resulted in stiff cost competition, lowering of operating costs, a concentration of



Swedish employers, like this Kockums Shipyard, buy private no-fault insurance.

capital and ultimately the conditions necessary for the larger companies to expand internationally.

While the presence of a few large insurers lends the market a certain uniformity, it also means the results of one or more of these major underwriters affect the whole complexion of the industry nationwide.

Skandia Insurance Co. Ltd., which writes about one-third of the total domestic private insurance and has the best-developed international business of the Swedish companies—more than 50% of the group's 1979 overall premium volume of \$1.7 billion came from the international operations—is a good case in point.

Skandia Group's worldwide organization now includes offices in 22 countries. In the New York-based North American zone alone, 1979 gross premiums were \$228.3 million. New operations included Hudson Underwriting Ltd. and the two Skandia-spearheaded joint ventures Hudson Reinsurance Co. Ltd. in Bermuda and American-European Reinsurance Corp. in

the United States.

Non-life business regained momentum in 1977 after the decade's low year, 1976, and closed 1979 with good results. The dramatic change is illustrated by Skandia's own results. The aggregate result for Swedish non-life business in 1975-77 was a deficit of \$72 million, but the turnaround yielded underwriting surpluses in the last three years contributing to a 1975-79 surplus of \$38.6 million.

Inflation in the mid-1970s led to an increase in premium volume, while also entailing a decrease in the market value of bond portfolios and a need to bolster reserves, which affected the solvency margins. The drain on surplus funds experienced by all Swedish insurers during the last downswing was serious enough to preclude competition through price-cutting now that better days are here.

The accumulated profits that customarily cushion against temporary dips have eroded. It appears the Swedish insurance industry has learned the lesson of the past, which means the current profit period should be longer. ■



Diana W. Wormuth is a communications specialist for Skandia America Reinsurance Corp. in New York City.

Balancing job and family can be tricky

By Z'ev Kronish

book & ideas

Tradeoffs: Executive, Family and Organizational Life

By Barrie S. Greiff and Preston K. Munter

New American Library, 1633

Broadway, New York, N.Y. 10019
201 pp., \$10.

TODAY'S EXECUTIVE is an acrobat striving to perform on the corporate team while keeping health and family intact.

The risks stemming from conflicting demands of job and family have never

Z'ev Kronish is in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.

been greater. The theme of this book is that stress in one area affects the other.

"Tradeoffs create pressures as often as they relieve it," Dr. Greiff and Dr. Munter write. You give a little, gain momentary peace of mind, but soon realize the equilibrium doesn't last long. Often the executive endures by seesawing between euphoria and sadness and by going through the motions of working out complex human relations problems.

The buzzword in this book is "pressure," which increases as the executive gets older and reaches a plateau. Doubt about choices creeps up and the conflict between job and family becomes more intense.

"Tradeoffs" is a welcome volume be-

cause it reflects the new dimension in organizational behavior that has recently begun to surface: an era of job-family crisis.

Look around and you'll see the impact of the corporation, career and marriage on each other; gears grind as emphasis shifts. This should not come as a surprise once one accepts the premise that they overlap.

Dr. Greiff and Dr. Munter point out that "executives with street sense know they shouldn't place their job in competition with their family." According to the authors, the key to balancing organization and family is establishing priorities, particularly in allocating time.

Although the organization can be as demanding as a domineering parent and as generous (with benefits, for instance) as a doting aunt, employees to-

day tend to resist pulling up stakes and disrupting family routines, a sharp change of attitude in just a few years.

But there are still times, Dr. Greiff and Dr. Munter warn, when executives and spouses typically fall into a trap by deluding each other with promises of a rosy tomorrow for family sacrifices today. Postponed pleasures have a way of becoming an addiction and ultimately a bitter pill.

Executives have to learn early on that it is better to mesh careers and family growth. Otherwise trouble lurks.

In addition, women's careers have become a dominant force. Female executives are beginning to suffer from the stresses of conflicting corporate and family demands. One way to overcome some of the marital difficulties is to build a feeling of collaboration. ■

'Comfort' level helps pinpoint retention

By Robert I. Willar

MANY FIRMS experience some difficulty in establishing an optimum risk retention level. Basically, three factors should be considered in the decision process: the financial capacity of the firm, the predictability of anticipated loss activity and the potential savings from risk retention versus transfer. The first factor generally establishes the firm's maximum retention level, while the second establishes a minimum level. The third then acts as a focal point to achieve the optimum level between minimum and maximum amounts.

Not all managements have the same inclinations toward risk taking. Some are obviously more dynamic and aggressive than others. There are no black and white or good and bad situations in the risk-taking realm. The only test of prudent risk taking is the ultimate success or failure of the firm.

Explore, through discussion, the risk retention "comfort" level of your firm's management team. Sensitivity analysis can be an effective tool here. Start by initially bracketing two extreme risk retention levels (high and low), then continually narrow the focus until an apparently acceptable level is acknowledged.

For instance, you might start with a \$1 million per occurrence retention at the high end and a \$100 per occurrence

at the low end. Then you would ask the executive if the \$1 million retention seems reasonable, given his perception of the firm's financial capacity. Assuming a negative response, you would then try the \$100 retention. Again, assuming a negative response, you would decrease the high retention and increase the low. Repeat the process as many times as necessary.

Don't be disappointed if you get a range of outcomes in the final analysis. Management's perceived relevance of the maximum risk retention level will determine whether it is actually a fixed-dollar amount. In other words, factors two and three may very well affect management's perception of the firm's financial capacity to absorb accidental losses.

Predictability of anticipated losses establishes a minimum risk retention level. Review your own loss activity over the last four or five years. Enumerate the individual loss amounts by dollar-sized intervals. Up to the interval where you can expect at least one loss per year, your loss activity is predictable.

Table 1 exhibits a typical loss stratification chart. Notice that loss activity up to the \$25,000 per occurrence level is reasonably predictable. Once again, if you can expect at least one loss of a particular size year after year, it is predictable.

Most underwriters use experience- and loss-rating exercises to determine your premium level. In addition to charging you for your own losses, they add to the total to cover their expenses and profits. In this instance, retention rather than transfer will minimize

Transitco Inc. Auto Liability Loss Experience

Jan. 1, 1975 to Jan. 1, 1980

Dollar Interval	No. of Losses (Five Years)	Avg. No. of Losses Per Year (2) ÷ 5
0 — 100	101	20.2
100 — 250	55	11.0
250 — 500	62	12.4
500 — 1000	70	14.0
1000 — 2500	55	11.0
2500 — 5000	41	8.2
5000 — 10000	27	5.4
10000 — 25000	5	1.0
25000 — 50000	0	0.0
50000 — 100000	1	0.2
100000 — 250000	0	0.0
250000 — 500000	1	0.2
500000 — above	0	0.0

long-range cost for the buyer.

One of the basic tenets of risk management is, "Don't risk a lot for a little." If the premium credit for retention is insufficient to offset the potential risk of loss, transfer will be more attractive.

For example, if you are currently paying \$250,000 a year for general liability insurance and the underwriter offers you a \$125,000 credit for a \$25,000 deductible, you might consider this attractive. If an additional \$1,000 premium credit for a \$50,000 deductible is offered, the additional \$25,000 retention per occurrence would certainly be less palatable.

The minimum point has historically

been determined subjectively. In this case, the decision maker subjectively determines the point where the risk versus savings trade-off is no longer in his or her favor.

Today, it is possible to quantify the minimum cost of risk point by computer and Monte Carlo loss simulation model. This technique, available through major insurance brokerage and consulting firms, is capable of estimating expected retained loss activity at any level.

By quantifying the expected retained loss portion of the cost of risk equation, you can now objectively determine the best retention level. ■



Robert I. Willar is a staff consultant with Bayly, Martin and Fay Inc. in Los Angeles.

Worker can't collect both comp, group benefits

A GEORGIA APPELLATE court reluctantly ruled that in a conflict between a certificate issued under a group insurance policy and the master policy, an employee was not entitled to recover a claim under the group policy in addition to workers compensation.

The employee was injured on the job and recovered benefits under workers compensation. She was also covered under a group insurance policy issued to the employer. The certificate delivered to the employee excluded coverage for occupational injury incurred in the course of work for an employer "other than the group policyholder." But the master policy issued to the employer excluded any occupational injury incurred while working for any employer subject to the workers compensation law.

The employee filed for benefits under the group policy. When the claim was denied, she sued and won in the trial court.

A group insurance contract is made up of the master group policy and the certificate, which must be construed together, the court said.

Thus, the employee was bound by the provisions of the group policy, the certificate being just evidence of coverage. The court said that "justice is not well served by this rule of law," but the legislature, not the courts, should provide the remedy. *Morrison Assur-*

legal briefs

ance Inc. vs. Armstrong, Georgia court of appeals, Jan. 8, 1980 (BI/01/Au.-\$4).

Emotional disability

In order to determine eligibility for workers compensation, an Oregon appellate court ruled an employer must accept workers as he finds them with all latent and obvious physical and mental deficiencies.

The claimant, a 26-year-old college graduate, was employed by the state liquor control commission. In prior jobs she had conflicts with her supervisors and fellow employees after she took actions to correct what she perceived to be illegal or immoral activities.

Similar conflicts arose on her job with the commission after she observed what she concluded were illegal and immoral activities on the part of the agency.

She was subjected to criticism, intimidation, investigation of her private life and intense employee counseling sessions.

After one such intense session, she consulted her physician and was diagnosed as having an acute anxiety depression syndrome resulting from employment stress.

She took time off from work and

sought temporary workers compensation benefits. The state denied her claim but the compensation board awarded benefits.

On appeal, the state argued that her evident personality traits created conflicts with her supervisors and thus her personality, not work conditions, caused the disability.

The appellate court said that although the claimant may have been more susceptible to anxiety and depression, such was not a basis for denying compensation. *Paresi vs. State Accident Insurance Fund*, Oregon court of appeals, Feb. 25, 1980 (BI/03/Au.-\$4).

Exclusion clear

A federal court held that a comprehensive business liability policy exclusion was not ambiguous and so released an insurance company from defending a suit brought against a policyholder.

CM Inc. contracted to perform mine development work for Homestake Mining Co. Under the contract, CM agreed to hold Homestake Mining harmless on account of all claims, damages, losses and litigation arising out of injury or death sustained by CM employees under the contract.

CM had a comprehensive business liability policy underwritten by Canadian Indemnity Co. and a workers compensation policy underwritten by

Employer's Insurance of Wausau. CI's policy excluded coverage for bodily injury or death of any CM employee while engaged in CM business operations.

Two employees were fatally injured while employed on the Homestake project. The estates of the employees sued Homestake.

Homestake, in turn, sued CM under the "hold harmless agreement" and CM tendered the claim for defense under both policies. Both insurance companies denied coverage. CM filed suit to seek a declaration that CI was obliged to defend.

CM argued, in part, that the exclusion was intended only to cover claims brought by an employee directly against his employer and not claims brought indirectly through a third party.

However, the court concluded that the policy exclusion relied on by CI was clear.

"There is no other policy issued by CI to CM," the court said in its decision, "which excludes coverage for employees any more clearly than the policy in question."

Therefore, Canadian Indemnity was held not liable for CM's debt to Homestake. *CM Inc. vs. Canadian Indemnity Co.*, U.S. District Court for the District of South Dakota, Jan. 14, 1980 (BI/03/Jy.-\$4). ■



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datebook

OCT. 26-29. Communicating Employee Benefits Conference in Chicago, sponsored by *Business Insurance*; \$385. Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611.

NOV. 3. Brief Course in Reinsurance in Chicago, sponsored by The College of Insurance; \$125. The College of Insurance, 123 William St. New York, N.Y. 10038; 212-962-4111.

NOV. 6. Bankers Blanket Bond Seminar in Dallas, sponsored by the Risk & Insurance Management Society Inc. Also **Nov. 7** in Denver. Registrar, Bankers Blanket Bond Symposium, 1120 Connecticut Ave. N.W., Washington, D.C.; 202-467-4000.

NOV. 6-7. Toxic Waste Disposal: A Rational Approach Conference in Washington, D.C., sponsored by Interforum Group Inc.; \$525. Also, **Nov. 20-21** in Chicago. IGI, 68 William St., New York, N.Y. 10005; 212-269-2240.

NOV. 10. Vocational Testing Seminar in San Francisco, sponsored by the California Workers Compensation Institute and California Assn. of Rehabilitation Professionals; \$60. Also **Nov. 12** in San Jose. California Workers Compensation Institute, 201 Sarcoma St., Suite 202, San Francisco, Calif. 94104.

NOV. 10-11. Cost-Effective Strategies for Corporate Health Care Conference in Chicago sponsored by Business Week magazine; \$550. Business Week Executive Programs c/o McGraw-Hill Conference & Exposition Center, 1221 Ave. of the Americas, Room 3677, New York, N.Y. 10020; 212-997-4930.

NOV. 10-13. Seventh Annual Computer Security Conference in Boston, sponsored by the Computer Security Institute; \$495. Also offered is the optional one-day seminar program. Conferees have a choice of **A Day with Donn Parker—Computer-Related Crime** or **A Day with Bernard Plagman—Planning and Implementing Security in Data Base Systems**; \$150. Beverly A. Straight, Computer Security Institute, 5 Kane Industrial Drive, Hudson, Mass. 01749; 617-562-7311.

NOV. 10-14. Modern Safety Management Course in Atlanta, sponsored by the International Loss Control Institute; \$425. ILCI, Highway 78, P.O. Box 345, Loganville, Ga. 30249.

NOV. 11-12. How to Use Insurance Checklists and Exposure Surveys Program in Washington, D.C., sponsored by the International Risk Management Institute Inc.; \$435. Also **Nov. 18-19** in Tampa/Clearwater, Fla., and **Dec. 9-10** in Dallas.

riskWatch

During inflation, penny spent may be penny earned

By LEN STRAZEWSKI

Don't cut back.

Spend all you have and borrow all you can to spend some more.

That's the advice of Michael J. Kami, former corporate director of long-range planning for IBM, whom many executives call the best master planner in the United States.

Though he offered his advice to a group of independent insurance agents, risk and benefit managers should take heed—especially those who think conservatism and budget slashes are the way to deal effectively with inflation.

"You must learn inflation management," Mr. Kami advised. "Should you borrow money? Yes, as high as you can go! Be a spend-thrift and borrow up to your limits."

Many economists and consumerists have echoed Mr. Kami's approach. By buying on credit and borrowing money for immediate use, individuals show a profit by repaying loans later in cheaper, inflated dollars.

Corporate spending works the same way, Mr. Kami says. "There's really no such thing as high interest rates. The cost of money is 2.5%, all the rest of an interest rate is inflation."

For corporate buyers, Mr. Kami's advice means that now might be the time to expand risk management departments, start an advanced safety program and build a top-of-the-line insurance program. Competitive insurers certainly are willing to sell more coverage at rock-bottom prices.

Selling more spending to top management should be easy. Besides insurance bargains, corporations can expect more income from consumer spending, Mr. Kami says.

"Spending and saving patterns in the United States are changing," he said. "People who on the average saved 7% are now only saving 4%. That makes about \$90 billion in additional spending."

More consumer spending, of course, is likely to produce more risks, especially in product liability insurance and other casualty risks. For an inflation and risk manager, this presents an additional reason to keep close tabs on coverages and not let an established insurance program ride along until better economic days.

"Don't try to predict the future," Mr. Kami said. "Live within whatever change occurs, according to the unpredictable. Anticipate regulations and don't trust government promises, predictions and forecasts. They will be wrong."

Don't be afraid of change, he stresses. Constant adjustment is part of good inflation management. The best planner arrives at work on Monday morning with a 10-point priority plan for immediate changes—in insurance, marketing, whatever the corporation needs.

"When you wake up at 3:00 a.m. wondering what to do next, write ideas down and tell yourself, 'By next Monday morning, I'm going to take innovative action based on the clues of change.'"

Risky business? Certainly, says Mr. Kami, "But the future will belong to those firms with imagination who are willing to take risks and find their corporate niche."

Bright staff members will boost your odds, he adds. Instead of freezing new positions, open your department to new, talented people.

Benefit managers should take heed, too, because part of winning and holding the staff capable of dealing with inflationary change will be additional compensation and benefits.

"Get talented people. Overpay them. Overmotivate them. But get them, hold them and give them a chance to make and deal with changes," he said. "Talented people are your asset, and thanks to the power of new populism, people are demanding better health and unemployment insurance. They will get them."

But inflation management also means more efficiency. If a program doesn't work or becomes unnecessary, dump it, Mr. Kami says.

"The efficient will survive the 1980s and 1990s," he says. "The inefficient will go down quite fast."

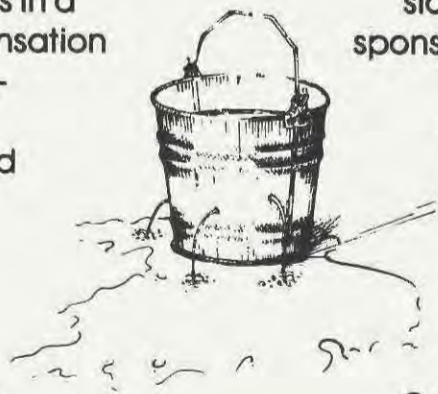


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We wouldn't say that what we are doing for Fiat is routine, but we don't think it was extraordinary, either. After all, when you've been working on loss prevention for as long as we have, you learn to speak a lot of different languages.

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THE TRAVELERS

Keep risk financing in step with goals

PHOENIX—Risk managers have to keep risk-financing policies in step with corporate objectives, advises a self-funding expert.

A plan that may have been appropriate four years ago may be out of step with current corporate finances and objectives, says James V. Davis, chairman and chief executive officer of the research and sales division of Corroon & Black Corp.

He cited the example of a company that chooses to self-fund risks now because its effective corporate tax rate is very low. It can afford to tax deduct losses only as paid and doesn't need the tax deduction advantages of insurance policies.

But five years from now if the company is paying 35% to 40% of

its income in taxes, it would want to switch to a cash-flow insurance contract with an insurer to take advantage of tax deductions for insurance premiums paid to cover future losses.

The amount of self-funding also can be at odds with corporate objectives. A company looking for a higher bond rating, for example, wouldn't want a very large self-insured retention and the potential of a big loss hurting its financial condition.

Self-funding techniques were the primary topic at a packed seminar on cost-effective risk management techniques held during the American Management Assns. National Conference on Risk and Insurance Management.

If a company's financial objec-

tives allow self-funding as a risk-financing alternative, there are a few steps a risk manager can take to further analyze self-funding without immediately contracting for a formal feasibility study, Mr. Davis said.

Realizing that an insurance contract provides a tax deduction this year for premiums paid to cover future losses and that under self-funding a company can only tax deduct losses as they are paid, the risk manager should consider:

- The company's loss payment schedule. The more slowly losses are paid, the more the company would want a cash-flow plan offered by an insurance company. The more quickly losses are paid, the more advantageous self-funding will be.
- The company's rate of growth.

The faster a company is growing, the faster its losses are growing and the more it will want a cash-flow plan with an insurer. But the slower it is growing and as its losses stabilize, the more it will want to self-insure.

• The company's attitude toward litigation with the Internal Revenue Service. Some cash-flow plans with insurers will be open to IRS challenge, Mr. Davis predicted (see related story, page 3). The risk manager has to be sure his company is prepared for potential IRS challenges of the risk-financing method.

If the analysis tells you your company should buy a cash-flow plan from an insurer, there are several alternatives to guaranteed cost insurance and the conventional retrospectively rated insurance

plan, Mr. Davis noted.

Under a depressed premium retro, the insurer could require as little as 20% of the standard premium to be paid initially.

Under some policies, the insurer will pay dividends from the investment income earned on the loss reserves held by the insurer.

Or a company can arrange for a compensating balance arrangement under which the policyholder pays the standard premium, the insurer keeps its portion for expenses and enough to pay losses for two to three months and deposits the balance in a bank account in the insurer's name. But the bank account is used to satisfy compensating balance requirements a policyholder owes the lending institution, freeing up money that otherwise would be unavailable to the company.

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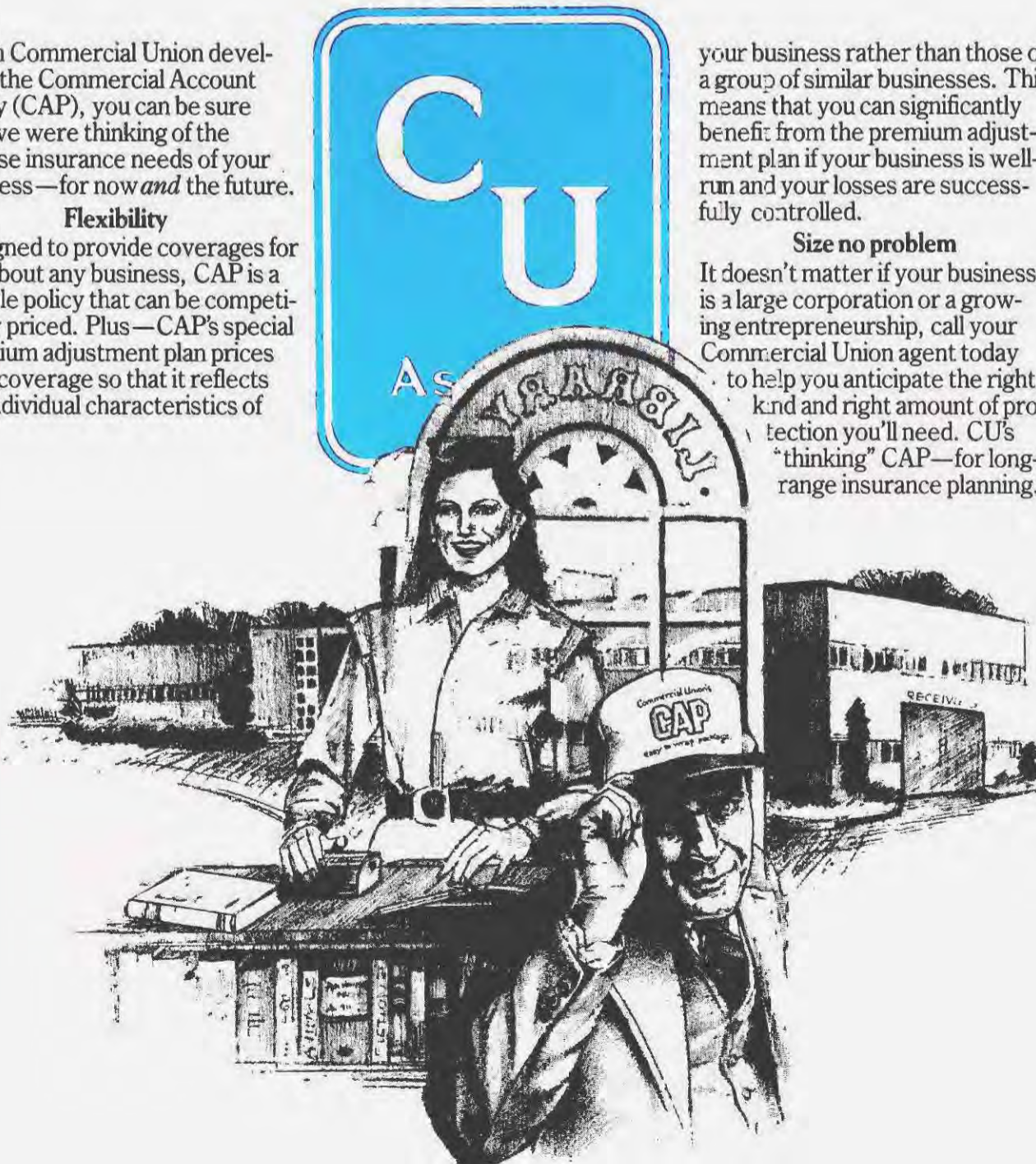
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Designed to provide coverages for just about any business, CAP is a flexible policy that can be competitively priced. Plus—CAP's special premium adjustment plan prices each coverage so that it reflects the individual characteristics of

your business rather than those of a group of similar businesses. This means that you can significantly benefit from the premium adjustment plan if your business is well-run and your losses are successfully controlled.

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The paid-loss retro plan is the most popular cash-flow plan, Mr. Davis noted. Under this, the policyholder pays the basic charge under the retro formula plus two to three months losses, but keeps the balance of the premium until it is needed to pay losses. A promissory note is issued in lieu of the premium balance. A tax-aggressive firm will tax deduct the standard premium under this plan, but most firms deduct only the amounts paid the insurer.

Captive insurers are still "very much alive and flourishing," Mr. Davis said. But he predicted captives will mostly close down if the Internal Revenue Service wins its position in the Court of Appeals that premiums paid to wholly owned insurance subsidiaries aren't tax deductible.

IRS limits deductions

Continued from page 3
sonable accuracy.

In Wein, the court allowed the airline to tax deduct reserves for paying death benefits to the children of employees killed in an airline crash. The court did not allow the company to tax deduct reserves for death benefits due widows, however, arguing that the wives might remarry and so the liability couldn't be determined with reasonable accuracy.

The IRS contends in both cases that the companies should only tax deduct the amounts due in each taxable year because the amount payable each year depends on the occurrence of future events. The IRS counters the Crescent ruling, arguing employees must seek medical treatment to make the corporation liable for the treatment. Injury doesn't establish the fixed liability, the IRS says. In the Wein ruling, the IRS counters that the children could die, relieving the company of its liability.

The IRS ruling is one example of an all-out IRS attack on tax deductions for noninsurance risk-financing methods, Mr. Davis contends.

Even conventional retrospectively rated insurance programs will be scrutinized, he predicts.

One conventional retro plan already has been disallowed as insurance and the premium tax deduction denied by an IRS field auditor, Mr. Davis said. The maximum premium to be paid under the policy was 200% of expected losses.

To avoid potential problems with the IRS, Mr. Davis suggests companies using retro plans set the minimum premium to be paid as high as possible and the maximum as low as possible to reflect risk shifting under the insurance policy.



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Carter to push national health plan

PHOENIX—Mandatory health insurance benefits for employees are one of three health policy goals a re-elected Carter administration would pursue in the 1980s.

The administration would push its national health insurance plan, introduced in 1979, as the first step toward adequate health care for Americans.

Controls on hospital costs and more competition in the health care system, especially through more growth of health maintenance organizations, fill out the Carter administration officials' triangle of health policy concerns in the 1980s.

Karen Davis, deputy assistant secretary for planning and evaluation/health in the Department of Health and Human Services, outlined the three concerns and ad-

ministration policy at the American Management Assns. National Conference on Benefit Management held here Sept. 29-Oct. 1.

Ms. Davis defended the Carter national health plan as fiscally responsible with a price tag of \$17.6 billion for the federal budget and \$6.9 billion for employers.

Charging that 29 million full-time employees and their dependents lack insurance and another 55 million have inadequate coverage because of low benefit levels, Ms. Davis argued for the mandated minimum benefit standards established by the plan.

The Carter proposal calls for employers to pay 75% of the premium for health insurance for full-time employees. A basic package of acute care hospital and medical

services, maternity coverage and first-year infant care would be mandated. The plan would have to limit out-of-pocket payments by an individual or family to \$2,500 per year for mandated services with no cost-sharing on prenatal, delivery and infant care in the first year.

The administration estimates the mandated plan will cost employers about \$500 per worker, since only costs in excess of \$2,500 must be insured. But employers would be free to maintain more liberal plans and pay bigger benefits.

Already employers spend \$50 million a year on health insurance. About 126 million full-time employees and their dependents receive benefits under employer, union or management funds. The Carter national health plan, adding

29 million more full-time workers and families, would increase the number of covered employees and their families to 155 million.

The increased cost of adding benefit plans where none existed and improving benefit levels to meet federal mandates could be "balanced" by increased efficiency and cost controls in the health care system, said Ms. Davis.

The administration's voluntary hospital guidelines still not adopted by Congress, would have saved Americans \$900 million in 1980, Ms. Davis contended.

The guidelines asked hospitals to reduce total cost increases 1.5% below the actual rate of increase in 1979, after adjusting for inflation.

The administration's influential health policy expert, however,

spoke against increased cost-sharing with employees. Ms. Davis argued that copayments, deductibles and contributions toward health insurance premiums hurt low-income workers and their families first. The copayments are often placed on outpatient treatment, reducing the incentive to seek early treatment, she added.

The Carter administration is stepping up support for health maintenance organizations, which reduce hospital stays, Ms. Davis noted. The administration, through enforcement of the dual choice mandate in the HMO Act of 1973 and loans to HMOs, hopes to see the number of HMOs increase to 442 in 198 from 203 at the end of 1978 and the number of enrollees increase to 19.1 million in the next 10 years from today's 7.4 million. ■

Health costs may double

Continued from page 3
mostly inflation.

"Never in 30 years have we been caught so short by increases in medical plan use," Mr. Bubb said.

He recommended that benefit managers take the following steps to help control the claims explosion and increased costs:

- Institute more deductibles and coinsurance in health plans so employees have a stake in controlling health plan use. A \$50 deductible is no longer adequate; it should be \$125.
- Consolidate division health plans into one corporate health plan to reduce the insurer's administrative costs and reap premium savings.
- Self-fund when possible through minimum premium plans.
- Work to change employee health plan use patterns.

Mr. Bubb argued that critical changes in people's commitment to healthy lifestyles are most needed to control the cost of care.

Pacific Mutual, for example, changed the menu in its company cafeteria from greasy, high-calorie foods to a "fit for life" menu that includes a salad bar and low-calorie/high-nutrition foods. The number of employees using the cafeteria instead of "brown bagging" lunch has increased 30%, he said.

"But a one-shot approach in the employee bulletin won't do it. You have to keep hammering away."

Employers should not use an annual physical as the way to control health care costs, he advised. "Doctors are saying forget about annual physicals except for people at risk."

Mr. Bubb also advised benefit managers to participate in local health planning agencies. ■

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Rates to start climb in '83: Analyst

PHOENIX—Rates for commercial property and casualty insurance will start going up in 1983, predicts a stock analyst.

The rate increases won't be tied to combined ratios but to changes in return on equity, contends Robert Brokaw Jr., analyst with Mabon, Nugent & Co. in New York.

Addressing a lunch at the American Management Assns. national conference, Mr. Brokaw laid out a scenario for insurance company underwriting and return on equity for this decade:

Underwriting results will hit a combined ratio of 112% in 1985. Rather than striving for a 100% underwriting combined ratio, insurers will keep their eye on return on equity.

Looking at 1980, Mr. Brokaw sees a 24% return on a combined ratio of 103.5%. But with after-tax investment income of 10% of written premiums, the industry could earn a 15% return on a combined ratio of 109% in 1980. And in 1990, with investment income exceeding 12% of written premiums, the industry could earn 15% return on a combined ratio of 112%.

In property insurance for the next two years, caution and cheap reinsurance will hold combined ratios steady, Mr. Brokaw predicts.

But by 1983 the combined ratio will hit 106% and the return will be only 7%. Responding rate increases will drive the combined ratio down to 95% and the return up to 30% by 1987. By the end of the decade, the combined ratio will move back up to about 105% and returns will drop to 8%, Mr. Brokaw predicts.

In casualty insurance, where results are mostly boosted by investment income earned on long-held reserves, Mr. Brokaw sees high returns falling to 1% in 1985 and the combined ratio to hit 123%. Rates will start going up in 1983, but losses on business written now will strike deeply in 1984 and 1985.

Recovery from higher rates will bring the combined ratio for commercial casualty insurance down to 113% and the return up to 28% by 1989, Mr. Brokaw predicts. The decade will end with an average combined ratio of 114% and a return of 17%.

Bargain prices will hold steady in '81: Insurer

PHOENIX—There is a good solid year of current cheap prices ahead for insurance, predicts Lyman Baldwin, senior vp of underwriting for The Hartford Insurance Group.

"There is no indication of the market firming," he told risk and insurance managers attending the American Management Assns. National Conference on Risk and Insurance Management. "The earliest firming will be late '81, but I'm more inclined to say 1982."

Risks are now being renewed at small price reductions, Mr.

Baldwin reported. "I'm not sure that it is hardening or bottoming out, but there are no huge reductions," he said.

Mr. Baldwin today detects less shopping of the markets initiated by brokers or insurance buyers than he recalls in the hot competition of the early 1970s.

But the image of hungry insurance markets looking for risks was reinforced during a session on the markets.

Alan Parry, director of Sedgwick Group in London, disclaimed he was speaking for Lloyd's but gave a strong defense of the market as if to counteract any concerns buyers might have about Lloyd's. He defended losses on computer-leasing risks: "Many say computer-leasing risks shouldn't have been written, but I'd rather see an adventurous market."

He also defended Lloyd's against the bad publicity of the Sasse Syndicate losses, stressing the lawsuits are being settled and that all valid claims have been paid.

Joseph Blades, president of J.H. Blades & Co. in Houston, a subsidiary of Crum & Forster, promoted the Bermuda insurance market. However, he has severed his relations with the Bermuda market.

He admitted the Bermuda insurance market, with 25 insurers actively underwriting risks, isn't as strong as the U.S. or London markets. But he contended Bermuda supports the other two.

The average capacity per risk in Bermuda is \$5 million, although some companies can write more, Mr. Blades said. "And a lot is net lines—without reinsurance."

Edith Lichota, manager of insurance and risk at Kennecott Copper Corp. and a member of the Committee of 13 that drafted the constitution of the New York Insurance Exchange, defended her market against veiled charges that "innocent capacity" was writing risks at rates far too low to cover losses.

"I don't see signs of unreasonable competition," she said.

New York insurance superintendent Albert B. Lewis has learned he can't open the exchange to direct domestic risks from outside New York by changing the regulations, Ms. Lichota noted. "Some of us hope that change will be built into the law in the not-too-distant future," she said.

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Use checklist to find retirement policy

PHOENIX—Do you think your company lacks a retirement policy?

Take a look at the features of your benefit plans from a potential retiree's viewpoint and you'll find a policy, suggests Ronald R. Jalbert.

The vp for personnel at Stanley Home Products Inc. in Westfield, Mass., suggests preparing a retirement policy balance sheet by analyzing each benefit in your corporate benefit program as to whether it encourages or discourages early retirement.

"You may find a built-in retirement policy you've not been aware of," Mr. Jalbert told participants in a retirement policy seminar during the American Management Assns. National Conference on Benefit Management.

"No one item gives you a policy, but in total there can be one," he said.

The balance sheet is easy to draw. On one side of the paper write "encourage early retirement" and on the other write "discourage early retirement." Down the left side list compensation policy, pension plan, life insurance plan, medical plan, thrift and savings plan, vacation policy and other benefit plans.

Under compensation, consider if the company allows employees to exercise stock option grants only while employed. This would discourage early retirement.

Does your pension plan allow employees to continue to accrue benefits when working past 65, encouraging continued employment

past normal retirement?

Does the life insurance benefit decrease upon retirement? If it does and an employee's health is bad, the employee may continue working to ensure a full benefit for his survivor. An alternative for the company would be to begin reducing the life benefit before retirement.

Does the medical plan provide liberal or few benefits after retirement? A liberal plan with no contributions and coverage for the spouse would be an incentive to early retirement.

Thrift or savings plans that provide retirees with benefits in addition to their pension plan encourage early retirement.

Extended vacations for those close to retirement could ease someone into retirement life. ■

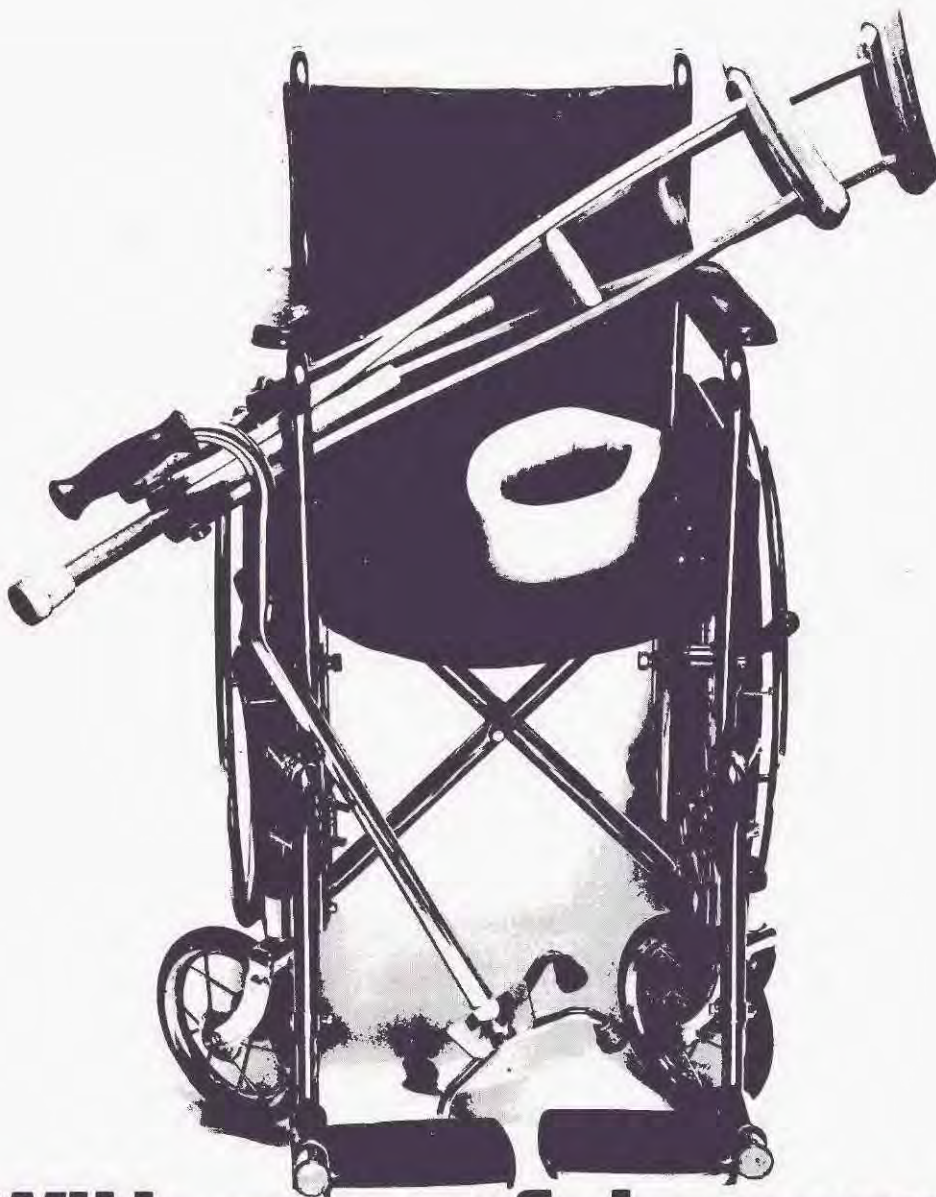
Inflation option for retirees

PHOENIX—Companies that want to provide retirees with some protection against inflation could introduce an inflation option under which an employee would accept a reduced pension in the early years of retirement in exchange for increased pensions in later years, says Lawrence T. Brennan, partner with consultant Kwasha Lipton in New Jersey.

The amount of reduction needed in early retirement years to pay for 4% or 5% benefit increases in later years could be actuarially determined so as not to cost the employer any additional money, Mr. Brennan told a seminar at the AMA National Conference on Benefit Management.

He offered this inflation option as an alternative to adopting cost-of-living adjustments in pension plans.

But if a company wants to adopt a COLA, Mr. Brennan suggested that compensation for inflation decrease as inflation increases. The company could promise to increase benefits at 80% of inflation up to a 4% inflation rate, but increase benefits only to half the rate of inflation when the CPI is climbing 10% a year.



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Financial links can be a plus

PHOENIX—Competition, not conflict of interest, can be the child of financial marriages between brokers and insurers, buyers and insurers and buyers and brokers.

That was the consensus of a panel at the AMA National Conference on Risk and Insurance Management discussing the American insurance business's love affair with vertical integration of services.

"There is an ever increasing trend of buyers, brokers and insurers getting into each other's business," observed Robert F. Corroon, chairman of the brokerage firm Corroon & Black Corp. He contended the trend fosters more competition.

"Everyone trying to do it all could foster more competition and so professionalism will improve," suggested P. Richard Hackenberg, assistant treasurer at Allegheny Ludlum Industries Inc.

"Integration, if done correctly, can only result in efficiencies," added Edward Lalley, president of Ideal Mutual Insurance Co.

Risk managers getting into underwriting through captive insurance companies, brokers owning insurers and insurers buying interest in brokerage firms are all examples of the financial links that are being hammered out among previously independent factions.

Mr. Corroon strongly defended any financial links between insurers and brokers, noting that Corroon & Black Corp. is getting back into underwriting through a joint venture with Bacalla & Shoop and with its Consumer Benefit Life Insurance Co.

Arguments that a broker would use an in-house underwriting facility to the disadvantage of buyers ignore the "high degree of integrity in our business," he argued.

Mr. Corroon also chided some critics for attacking broker and insurer links and ignoring the entrance of risk managers into selling insurance. "Hotel lobbies in Bermuda look like a RIMS conference," he suggested.

Mr. Hackenberg of Allegheny Ludlum noted, "It is beneficial that the middleman be scrutinized. It's often said the broker is the guy who benefits without having to worry about taking any risk."

Risk managers looking for services without having to purchase the indemnity product of insurance have indeed spurred vertical integration in insurance and brokerage companies, he said. ■

More tampon suits to come: Lawyers

Continued from page 1

"So far we've just seen the tip of the iceberg (of lawsuits)," observed Ralph Sbrogna, a Boston attorney who is experienced with product liability litigation in both the Dalkon Shield and Agent Orange cases. Mr. Sbrogna is in touch with scores of plaintiff attorneys nationwide.

"Some of the more experienced plaintiff attorneys lay back and wait for the pioneers to file the first suits," noted Robert L. Dickson, a Los Angeles defense attorney specialist in pharmaceutical and medical device liability. Mr. Dickson was recently contacted by Procter & Gamble.

"The incidence of toxic shock syndrome does not appear to be very high and so it is probably premature to predict what the scope of product liability will be," said Mr. Dickson. "It's also important to note that the syndrome exists outside the use of tampons."

Indeed, some attorneys with toxic shock clients are not convinced there is enough solid medical or scientific evidence available to support a legal theory of product liability. They are waiting for more studies from the FDA and the CDC.

Procter & Gamble of Cincinnati has voluntarily suspended production of its Rely tampon following release of CDC findings that a disproportionate number of TSS victims used that brand. Nearly 300 cases have been reported, including some 30 deaths, but the link with tampons has not been conclusively established.

Retailers that are included in some of the TSS suits do not seem particularly worried about their liability. Stores typically require manufacturers to sign an indemnification agreement, called a ven-

Here's a list of lawsuits

Here's a partial list of suits against tampon makers:

Suits solely against Procter & Gamble:
Thompson and Lee et al. vs. Procter & Gamble, a class action, U.S. District Court, San Francisco. Damages sought: return by P&G of all revenues collected on sale of Rely tampons.

Larramandy vs. Procter & Gamble, King County superior court, Seattle.

Mary Jane Webber vs. Procter & Gamble, King County superior court, Seattle.

Sandi Neddo vs. Procter & Gamble, U.S. District Court, Spokane. Damages sought: \$1 million punitive damages, unspecified compensatory damages.

Cynthia Franklin vs. Procter & Gamble, Newark superior court. New Jersey law does not allow suing party to specify a dollar figure for compensation.

Sarclozzi vs. Procter & Gamble, Cook County circuit court, Chicago.

Susan Bogumil vs. Procter & Gamble, Cook County circuit court, Chicago. Damages sought: \$5 million.

Imboden vs. Procter & Gamble, Shasta County superior court. Damages sought: \$5 million.

Phillips vs. Procter & Gamble, Shasta County superior court. Damages sought: \$1 million.

Mr. & Mrs. George Rosell (parents of Michelle Laura Rosell), Tucson superior court. Damages sought: \$1 million compensatory damages and punitive damages "in an amount justified by evidence presented at trial with respect to the wealth of the defendant corporation but not less than \$17.8 million..."

Other suits:
Kristine Mathis vs. Johnson & Johnson, Cook County circuit court. Damages sought: \$250,000 for negligence, \$250,000 compensatory damages, \$500,000 punitive damages.

Rose Gordon vs. International Playtex Corp., Procter & Gamble and Ralph's Grocery Co. Los Angeles superior court. Damages sought: \$3 million punitive damages and unspecified compensatory damages.

Loretta Jean Patton vs. Procter & Gamble, Pay Less Drugstores Northwest Inc. and Bimart Corp., circuit court of Multnomah County (Portland). Damages sought: \$500,000 general damages, \$50,000 medical damages, \$1 million punitive damages.

Richard Galndon (father of Vicki Galndon) vs. Procter & Gamble, Safeway Stores Inc., Fred Meyer Inc., Thriftway Stores Inc., Pay Less Drugstores Northwest Inc., circuit court of Multnomah County (Portland). Damages sought: over \$2,000 medical damages plus attorneys fees, \$5 million general damages, \$10 million punitive damages. ■

dors broad form, that protects the retailer from product liability lawsuits unless the product is physically damaged or altered.

Ralph's Grocery Co., a leading Southern California supermarket chain, intends to tender its defense back to Procter & Gamble, said a spokesman.

"We get two or three such actions a year and have never had a problem with a manufacturer accepting responsibility," he said.

Meanwhile, the FDA met last week with U.S. tampon makers to discuss inclusion of a warning message inside or outside tampon packages. Such a message probably will be required eventually, but for now manufacturers are being asked to comply voluntarily.

"We're planning on adopting

some sort of cautionary language," said a spokesman at Kimberly-Clark Corp. in Neenah, Wis. "The exact words and timing haven't been worked out. If we move now, the words may have to be changed after FDA finalizes the message."

Another tampon maker, Purex Industries Inc. in Lakewood, Calif., has stopped shipping its Pursettes product until the warning message is crystallized, said Merle Aster, vp of legal affairs.

Purex is the only tampon manufacturer that does not make a superabsorbent product, said Mr. Aster. He was certain the company had not been named in any TSS lawsuits.

According to the FDA, the six U.S. manufacturers of tampons are Procter & Gamble, Tampana (a subsidiary of Purex Corp.), John-

son & Johnson Products Inc. in New Brunswick, N.J., Kimberly-Clark Corp., International Playtex Inc. in Stamford, Conn., and Personal Products Co. (Personal Products Co. is a subsidiary of Johnson & Johnson, which has been test marketing a new tampon called Assure.)

"A horror show for industry" is how a Los Angeles attorney described the TSS litigation. In California, he pointed out, Procter & Gamble's recall campaign can be introduced as evidence that their Rely product is defective.

A landmark California supreme court decision, *Ault vs. International Harvester Co.* in 1975 established that design changes or modifications in a product can be used in product liability cases as

evidence of a prior defect.

Attorneys also are considering consolidating the TSS litigation into a multidistrict action, as was done in the Dalkon Shield cases against manufacturer A.H. Robins Co.

The Dalkon Shield consolidation was ordered after 100 cases were filed in U.S. district courts—far more than have been filed against Procter & Gamble.

Many TSS suits have also been filed in state courts.

The American College of Obstetricians and Gynecologists last week advised: "Women need not stop using tampons; however, it would be prudent to discontinue the use of the newly developed superabsorbent tampon until conclusive scientific research has been conducted in this area." ■

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Executives criticize competition bills

Continued from page 3
another offers over 57 HMOs around the country.

Adding more health plan options on top of these HMOs would create even higher administrative costs, say many employee benefit managers. Total costs would then go up, not down, they say.

"If we had to offer more plans, we'd have to hire at least another person. I'm not all for it," said Alan Jeffery, vp of Security Pacific Bank in Los Angeles, during a telephone interview.

His company now offers 11 HMOs and 27% of the employees opt to use them, not an overwhelming response but higher than in many other companies. At AT&T, which offers more than 100 HMOs across the country, only 6% of the employees use them.

Mr. Jeffery notes that there are other costs to be considered when taking on a new health care plan. "We have to change our computer programs when adding employees and extra HMOs." And computer alterations can be very expensive.

More than two dozen employee benefit managers across the country agree a new competition bill would increase costs to the employer.

"Although it has not been thoroughly analyzed, the additional costs for administration—annual open enrollment, employee communications, marketing efforts and premiums to the Health Benefits Assurance Corp.—will require a substantial reduction in health care costs to offset the new expenses," said one benefit opera-

tions manager for an office equipment manufacturer employing 61,000 people.

He suggested, however, that those with another source of health insurance coverage would opt for low-cost plans. "Because many of our employees are part of two-career families, it is likely that those with more than one source of group health benefits will opt for the cash rebate from choosing lower levels of coverage—unless the law will address multiple coverages also."

The benefits operations manager noted, however, "It is difficult to anticipate employee response. Participation in HMOs that requires employee contributions has traditionally been very low. Perhaps the tax incentive will give the impetus needed to encourage em-

ployees' participation in health care cost control."

Ruth Stack, executive director of National Assn. of Employers on Health Maintenance Organizations, points out that many company benefit programs are built on less expensive self-insured plans. Mandating employers to take on outside health plans would increase costs and ruin a good thing, she said.

"Personally, I don't think that they (legislators) have a good understanding of how insurance works. The worst thing would be to have a bill passed with more regulation," she said.

It would also hurt the benefit programs that have been practicing competition for the past seven years, such as the one at General Mills Inc. in Minneapolis.

GMI has more than 72% employee enrollment in three HMOs offered since 1973, says David McIntyre, director of employee benefits.

"It's become a routine work procedure" to administer these plans, he said.

GMI's insurance staff is busy getting ready for the annual open enrollment for HMOs. They are pulling together rate increases, HMO benefit improvements and other necessary information for their employees choosing health care plans.

This is all pulled together into a pamphlet with a grid that explains the major rates and plan provisions of GMI's indemnity plan plus the HMOs. Then the employee can run his finger down the columns and compare the various benefits and costs.

"After you do this for several years this becomes ho-hum," Mr.

'It's not practical' to readjust a benefit program, says David McIntyre.

McIntyre said. Now open enrollment attracts only new employees who are not familiar with the plans. It runs smoothly and costs are under control, he says.

But administrative costs would skyrocket and thus cut into the funds for the health insurance plans if GMI were mandated to take on more health plans, Mr. McIntyre said.

Why readjust a benefit program that has been running smoothly for seven years and is now cost effective? asks Mr. McIntyre. "It doesn't make any sense," he said. "It's not practical. It would be expensive to do it."

Bill limits liability

Continued from page 2
ability rules—to the Interstate Commerce Commission and the U.S. Attorney General's Office.

The shippers claim council and Mr. Augello, however, are going to fight any more deregulation of railroad carrier liability by the ICC and the attorney general.

"Congress is trying to bring about revolutionary changes in carrier liability," he said. "They're talking about things they simply do not understand."

"Liability has nothing to do with government regulation," Mr. Augello warned. "They're applying political solutions to integral legal concepts."

The most dangerous issue before the ICC involves the use of the principle of comparative negligence, Mr. Augello said. Under present law, a carrier is fully liable for all losses and must prove it wasn't its negligence that caused the loss. Otherwise, it must pay 100% of the claim.

But under comparative negligence, a railroad carrier is only partially liable for a loss for which it is found only partially negligent.

"Railroads are trying to improperly introduce tort law into bailment law," Mr. Augello warned. Shippers' protection under present law is being chiseled away, he added.

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Most lack pensions: Panel

WASHINGTON—Despite major expansion of the private pension plan system in the past 30 years, most elderly retired workers do not receive private pension benefits.

Just 28% of the retired population 65 and older receives income from an employee pension, the President's Commission on Pension Policy reports.

In a new working paper, "Income of the Retired: Levels and Sources," the commission reports the percentage of retirees receiving private pension benefits decreased sharply with age.

For example, 33% of married couples ages 55 to 64 receive a private pension, compared with 30% of those 65 and older and only 24% of couples over 75.

"The decreasing percentages may reflect lesser pension coverage in the past as well as lack of vesting standards" before the enactment of the Employee Retirement Income Security Act of 1974, the report said.

"Lack of minimum vesting standards often resulted in loss of pension rights despite many years of coverage under a plan."

Before ERISA, many companies required 20 years of service before an employee could vest. And firms could deny pensions to a veteran employee who was briefly laid off during his or her years of employment.

Under ERISA, 20-year vesting was outlawed. Most companies now only require 10 years of service before an employee vests. In addition, an employee who vests cannot be denied a pension simply because of a short break in service.

But the commission is concerned that the net of private pension coverage protecting the elderly is so small.

"The absence of pension entitlement for many of the retired means that at least one leg of income support is missing," said Thomas Woodruff, executive director of the President's Commission on Pension Policy.

"Private and public employee pension income, while contributing significantly to the total level of income of its recipients, is received by only a minority and is currently unavailable to the large proportion of retired people who did not achieve eligibility while working," Mr. Woodruff added.

Social Security remains the major source of retirement income for retirees. About 95% of retired married couples 65 and older receive Social Security as a source of income, the report said.

The commission also said:

- Even though federal workers are not covered under Social Security while they work for the government, 72% of all Civil Service retirees receive Social Security benefits because of work with private employers before or after they left government.

- Retirement income programs have expanded significantly in the last 30 years. In 1951, less than half of the population received retirement income. By 1976, more than 90% of all persons 65 and older received retirement income.

A limited free supply of "Income of the Retired: Levels and Sources," may be obtained from the President's Commission on Pension Policy, 736 Jackson Place NW, Washington, D.C. 20006.

Court to decide if safety justifies cost of rule

Continued from page 2

Court last summer overturned an OSHA rule limiting worker exposure to benzene.

The court said OSHA did not prove its benzene exposure rule would reduce significantly the risks of workers exposed to the solvent.

The OSHA rule on cotton dust says workers cannot be exposed to more than 1,000 micrograms of cotton dust per cubic meter during an eight-hour workday. Exposure to cotton dust causes brown lung, a respiratory disease.

Drug manufacturers, worried about a California supreme court ruling last spring in a DES product liability suit, have asked the court to rule on the "market share" concept in product liability.

The California high court ruled women can sue DES manufacturers as a group when they don't know the specific manufacturer of the drug that caused their injuries (BI, March 31). Daughters of women who used the anti-mis-

carriage drug while pregnant with them say they have developed cancer as a result.

When an injury-inducing drug is made by many different manufacturers and the specific manufacturer cannot be identified, liability must be divided among them based on their share of the market for that product, California supreme court justice Stanley Mosk wrote in the majority opinion.

Drug manufacturers E.R. Squibb & Sons Inc., Upjohn Co., Rexall Drug Co. and Abbott Laboratories have asked the U.S. Supreme Court to consider these issues:

- Is the rule of "market share" allocation of judgments among defendants so arbitrary that a manufacturer is denied equal protection under the law?
- Can liability be imposed on a manufacturer even if it cannot be proven that its products harmed a consumer?

In the workers compensation case, the Supreme Court will decide whether General Motors and other employers can offset pen-

sion benefits with workers compensation payments received by retirees.

Attorney Marc Gettis, representing the injured plaintiff, has asked the court to resolve whether pension plan provisions that allow vested retirement benefits to be offset by a later workers compensation award is permitted under the Employee Retirement Income Security Act of 1974.

Lower courts have been divided on the issue, setting the stage for a crucial Supreme Court decision.

The high court also will decide whether a state can favor its home-state insurers by taxing out-of-state insurers at a higher rate.

Western & Southern Life Insurance Co. of Ohio argues it shouldn't be forced to pay higher taxes for doing business in California than California-based insurers pay.

These retaliatory taxes are designed to force states to treat out-of-state insurers the same as insurers domiciled in the state. Forty-six states impose these types of taxes.

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<p>50. EMPLOYEE BENEFITS</p>	<p>DEC 15</p>	<p>DEC 2</p>
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more to come :

	ISSUE DATE	AD CLOSING
44.	NOV 3	Oct 22
45.	NOV 10	Oct 29
46. Spotlight Report: Reinsurance	NOV 17	Nov 5
47.	NOV 24	Nov 12
48.	DEC 1	Nov 19
49.	DEC 8	Nov 25
50. EMPLOYEE BENEFITS	DEC 15	Dec 2
51.	DEC 22	Dec 10
52.	DEC 29	Dec 17
1. CAPTIVE & SELF-INSURANCE REVIEW	JAN 5, '81	Dec 19
2.	JAN 12	Dec 29
3.	JAN 19	Jan 7, '81
4.	JAN 26	Jan 14

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Pay trails inflation

Continued from page 3

An employee benefit manager fared almost as well as the risk manager if the benefit manager's company employed more than 10,000 people. Then he made around \$35,200. But the difference in salaries between risk managers and employee benefit managers at smaller companies was much

larger, the survey showed.

If the benefit manager's company employed fewer than 10,000 workers, the benefit manager earned only \$24,000 to \$29,800.

Giving bonuses to middle managers is not a widespread practice, according to the survey.

Only 29% of the risk managers at companies who earned more than \$500 million last year were given bonuses, averaging 16% of salary. Companies that earned less than \$500 million in 1979 awarded only an average 14% bonus to their risk managers, and only 21% of the time.

Bonus payments for employee benefit managers were not as lucrative as those given risk managers, according to the report. Thirteen percent bonuses were awarded to 17% of employee benefit managers at companies with more than 10,000 employees. Eleven percent bonuses were awarded to 43% of the benefit managers at firms with fewer than 10,000 employees.

The AMA's survey also profiled the following middle management executive salaries:

• Corporate insurance manager:

\$28,000 to \$34,600 depending on the value of property insured. Bonus payments ranged from 8% to 16%.

• Corporate insurance administrator of a bank, financial or insurance institution: \$29,000 with no median bonus.

• Compensation and benefits director: \$29,100 at company with fewer than 3,500 employees; \$37,300 with more than 3,500 employees. If working for a bank, financial or insurance institution, manager will average \$34,000.

• Security officer: \$24,300 to \$32,100, depending on the earnings

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• Safety director: \$24,000 to \$35,000. If a safety director looks out for the safety of 2,000 employees, he makes only \$24,000. If he earns \$27,800, then he's probably responsible for 2,000 to 5,000 employees. He takes home \$35,000 in actual salary if his services affect more than 10,000 employees.

The companies surveyed are manufacturers of furniture, iron and steel, heavy and light machinery, food, textiles and petroleum. Others represent airlines, mining, utilities and investment companies.

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Black lung claims force self-funding

Continued from page 1

Now they are looking more at self-funding through tax-exempt 501(c)(21) trusts, which would be similar to funding pension benefits, and through pooling risks in offshore captives.

Many larger mining firms already self-insure for black lung. But the 1977 amendments to the federal black lung law place heavy penalties on self-insurers that fail to certify their financial responsibility with a surety bond or by putting funds on deposit, said Bruce Ferguson, president of Underwriters Safety & Claims Inc., a Louisville-based self-insurance administrator.

Without a surety bond, self-insurers must put up deposits ranging from \$500,000 to \$3.5 million.

Interest in the 501(c)(21) trusts, named for the section of the Internal Revenue Service statutes that governs them, has increased during the past six months because of the flood of claim approvals from the Labor Department, said Clyde Beers, a principal with Towers, Perrin, Forster & Crosby, an actuarial consulting firm in Philadelphia. He predicts the number of trusts will be even greater by the end of 1981.

Explaining that the concept of 501(c)(21) trusts is still a new one among coal companies, Mr. Beers estimated that 10 to 20 such trusts are probably in the process of being started up.

"There are not a ton of them yet," he said. "Among our clients, I would say there is one company that has gotten it underway and three or four others that have them in various stages of completion."

Slow growth

IRS says no 501(c)(21) trusts have been set up yet.

Self-insured loss reserves are not tax deductible unless they are in a 501(c)(21) trust. However, some disadvantages of the funds have slowed their growth in popularity.

Trust fund deposits cannot be returned to the mine operator and operators fear actuaries could overstate liabilities, said Mr. Beers. Trusts also are restricted to investing in government securities with low rates of return.

TPF&C and other actuarial firms are having some trouble projecting future liabilities of mine operators so they can begin funding for them now. The approach under 501(c)(21) trusts is similar to pension plan funding, but there are several major differences.

"Unlike a pension plan, you don't have the freedom to assume the business is ongoing," Mr. Beers said. "You know at some point the mine will run out of coal and that creates greater valuation problems. At some point, the liability comes due."

"In addition, determining eligibility is not as simple as for a pension plan," he explained. "Medical evidence indicates 5% to 10% of miners should get benefits, but the political process generates claim in the 40% to 50% acceptance range."

"If they change the rule to say all miners will get benefits after 20 years, they'd have even higher frequency." Now operators fund for the 40% to 50% range.

Projecting benefit levels is difficult because they are tied to federal workers' pay levels and subject to annual increases.

"A captive would be another way to handle the funding of the expense of having adequate funds to pay claims and enable operators to adequately charge expenses to current operations," said Duane Allen, assistant treasurer of Cleveland-based Hanna Mining Co.

His company is one of 14 that use Corporate Insurance & Reinsurance Co. Ltd. of Bermuda to reinsure liability risks written by their captive insurers.

Now CIRCL is studying pooling of black lung risks with other long-term compensation and liability risks.

A study of the feasibility of a long-term liability reinsurance treaty to be shared by CIRCL members will be presented at the CIRCL board of directors meeting next month.

If approved, the plan could be implemented by the end of the year since it would involve reinsurance of programs that are self-insured now, he explains. The program would be open to current and new CIRCL members only.

About half the membership probably would use the new program, which would generate "several million dollars" in additional premium for CIRCL, says Mr. Allen, who heads CIRCL's underwriting committee.

Pool studied

Another pool that would handle black lung exclusively is being studied for a group of 20 coal companies, including Hanna. That study, conducted by Trenwick Ltd. of Bermuda, would permit funding of all of a participant's black lung exposure, Mr. Allen says. The study is to be completed around March.

Mr. Allen, whose firm participates in numerous joint mining ventures, says he would consider using both pools. He currently does not use CIRCL for black lung risks although some CIRCL members do.

Black lung funding problems also are affecting the cost of coal and its attractiveness in the export market.

An excise tax on coal is expected to be increased to help cover the growing deficit in the federal Black Lung Benefit Trust Fund. This would raise the price of coal.

The tax now is 50 cents per ton on underground mined coal and 25 cents per ton on surface mined coal.

"The federal fund is busted," said Mr. Ferguson of Underwriters Safety & Claims. "This year they asked the Treasury for \$833 million to keep the fund alive. The 50 cents per ton levy will produce \$270 million a year at current production rates. That won't even pay the interest due the Treasury."

H.D. Reed Jr., general counsel for the House Education and Labor Committee, does not expect the trust fund to break even for some time, but anticipates major recoveries by fiscal year 1983 because of mine operators assuming payment of black lung claims.

Claim control

Coal industry officials blame the government's leniency in awarding claims for the fund's deficit.

"The feds are very liberal and the Black Lung Assn. tells its people to file claims," a National Coal Assn. spokesman said. "The federal law is a system of presumptions. The miner doesn't have to prove a thing. The feds are supposed to disprove cases, but haven't been doing a good job."

"There are no controls," added Mr. Ferguson. "They've gone so far with black lung that it's unmanageable."

The National Coal Assn. filed suit in mid-September against Cabinet members Ray Marshall, Patricia Harris and William Miller, charging their agencies are violating the intent of the 1977 amend-

Continued on next page

Insurance rates increase

NEW YORK—Rates for black lung insurance are going up because of the increase in claims approved by the Labor Department the last three years.

In West Virginia, rates for federal black lung benefits went up July 1 to \$7.15 from \$3 per \$100 wages on underground mines and to \$3.58 from \$1 per \$100 on surface mines.

However, the increase is not enough to cover the increased liabilities, and the fund needs another \$60 million to cover claims, says Sam Davis, director of the state black lung fund.

In Kentucky, insurers want a 300% increase in rates for federal black lung coverage for underground mines and a 515% increase for surface mines.

The rate for underground mine operators would increase to \$13.71 from \$3.42 per \$100; the surface mine rate would go to \$5.23 from 85 cents.

Rates for state black lung coverage already were increased in July by 110% for underground mines and 219% for surface mines to cover improved benefits.

The rates went to \$8.70 from \$4.15 per \$100 for underground mines and to \$3.32 from \$1.04 per \$100 for surface mines.

New workers compensation legislation cut the rates for traumatic loss or injuries in half. Rates went to \$12.21 from \$24.49 per \$100 for underground mines and \$3.84 per \$100 from \$8.77 for surface mines.

Maximum weekly benefits for permanent total disability are \$217, up from \$131. The maximum weekly benefit for permanent partial disability is

\$162.75. Permanent partial benefits were capped at \$425 a week.

Coal mine operators in Kentucky are liable for only 25% of state black lung benefits. The balance is paid by the state second injury fund.

Almost 90% of the second injury fund's payments go for black lung, says Bruce Ferguson, president of Underwriters Safety & Claims Inc., a Louisville self-insurance administrator.

A 20% to 25% tax rate is needed to keep the Kentucky fund solvent, Mr. Ferguson maintains. He says that would never pass the legislature.

Rate increases have not been sought yet in Virginia or Pennsylvania, but are expected before the end of the year, said Don DeCarlo, vp of the National Council for Compensation Insurers.

Ohio is not planning a rate hike now, but rates could double in July if an "avalanche of claims" is approved, said John E. Quinn, assistant director of the state actuarial section.

In Virginia, where strict eligibility requirements limit the number of state claims approved, black lung rates are \$16.74 per \$100 for underground mines and \$8.76 for surface mines.

In Pennsylvania, rates are \$34.12 per \$100 for underground mines, \$12.68 for surface mines and \$6.34 for coke plants. Federal black lung rates are \$7.88 per \$100 for underground mines, \$6.82 for surface mines and \$3.41 for coke mines.

Ohio's rates are \$6.41 per \$100 for underground mines and \$3.79 for surface mines. For state coverage, which includes traumatic losses, the rate is \$31.62 per \$100 for underground mines and \$3.23 for surface mines.

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Claims prompt search for new funding

Continued from previous page
ments and the Administrative Procedures Act in reviewing black lung claims.

The suit alleges the Labor Department and the Social Security Administration, an agency of the Health and Human Services Department:

- Approved claims without considering all medical evidence in claimants' files.

- Approved claims without reliable evidence of eligibility.

- Approved claims on the basis of medical evidence that did not meet quality standards required by regulations.

It also accuses Mr. Marshall, Ms. Harris and Mr. Miller of violating their fiduciary responsibilities as trustees of the black lung fund.

A General Accounting Office report on the Social Security Administration's handling of black lung claims found almost 90% of the cases approved were not based on sufficient medical evidence. The report adds, however, "approval of these claims was not contrary to law; it was

based on provisions of law which GAO believes do not adequately assure that benefits are provided only to those disabled from black lung or to survivors of those who died from black lung."

The current black lung law represents a radical departure from the original provisions incorporated in the 1969 Coal Mine Health and Safety Act. Originally, an X-ray was required to show evidence of black lung.

Determining disability

By 1977, the law had been amended to add eligibility where disability could be determined by physiological examination and where a deceased miner's medical records indicated he had black lung. The definition of black lung was expanded to include dust-induced bronchitis and emphysema. In addition, the 1977 law established a presumption of black lung in deceased miners who worked 25 years or more in mines before June 30, 1971.

The 1977 law also transferred lia-

bility to the coal industry from the government, establishing a trust funded by an excise tax on coal to pay most claims. It made individual operators responsible for claims of miners who worked after Jan. 1, 1970, instead of after June 23, 1973.

It also required reconsideration of claims denied under earlier statutes.

The liberalization produced a flood of claims into the Labor Department and Social Security Administration. "There was a lot of drum-beating going on in the hills by the Black Lung Assn. and United Mine Workers," said Lawrence Kowitch, who is deputy director of the Labor Department's office of workers compensation programs.

However, it took the Labor Department more than a year to establish regulations governing benefit eligibility and set up a network of claims offices. By mid-1979, the Labor Department had a backlog of 240,000 claims.

The backlog has been reduced to 72,000, Mr. Kowitch says. About 7,400 claims were processed in fiscal year 1978, 147,000 in 1979 and 170,000 in fiscal 1980. About 34,000 cases are filed a year.

The sudden surge in approved claims—about 200,000 since March 1978—hit the insurance industry like a tidal wave. Members of the three black lung reinsurance pools, which support assigned risk plans, were hit for \$150 million in additional reserves in March and \$162 million in June (BI, April 14, June 23).

"The insurance companies got caught with a questionable funding base," said Hanna Mining's Mr. Allen.

Don DeCarlo, vp of the National Council for Compensation Insurance, which manages the reinsurance pools, says there was no way the industry could have developed an accurate funding base.

"We were in regular contact with the Department of Labor, but I don't think they knew what would happen," he said. "We couldn't adjust our reserves or rates based on mushy numbers."

Mr. DeCarlo believes the worst is behind. He does not anticipate further calls for reserves from pool members and the insurance industry is seeking rate increases for black lung benefits.

Without rate relief, insurers could withdraw from the reinsurance pools, Mr. DeCarlo says. If the pools collapse, the Old Republic Insurance Co., which writes black lung coverage on a voluntary basis, would be the only remaining market. It couldn't "pick up all the marbles," Mr. DeCarlo said.

The federal government can offer black lung coverage if no other market exists, but it probably would be reluctant to do so because of the troubles with the trust fund, Mr. DeCarlo says.

Lack of evidence

The black lung claims problem is "not a problem of phony evidence, but a lack of evidence to dispute claims," said one coal industry risk manager. "The criteria is so liberal that a lot of doctors lean over backwards for claimants."

"Our job is to adjudicate claims and the benefit of doubt goes to the claimant—that's a principle of workers compensation," said Robert Dorsey, Labor Department chief of claims determination. "If we look in an evidence file and it's a borderline case, you resolve the doubt in favor of the claimant."

The United Mine Workers "feels only deserving people are collecting," said Dr. Lorin Kerr, director of the union's occupational health department. "You hear a lot of gossip about phony cases, but when they try to authenticate that such cases exist, it's impossible."

Black lung compensation "is a one-time recognition of what an uncontrolled product will do to an individual," Dr. Kerr said. Compliance with federal dust standards and proper ventilation of mines should prevent the disease in the future, he explains.

Most actuaries recognize the benefits of improved mine safety and account for better claims experience in setting future liability. But few sources expect black lung liability to be eliminated. Instead, they fear future government action could broaden liability for it and other occupational diseases.

Industries such as asbestos, textiles and uranium have occupational disease problems similar to black lung. Federal occupational disease programs have been suggested as solutions, but industry officials believe the black lung experience will make Congress hesitant.

"If there are other federal occupational disease programs on the scale of black lung, U.S. industries such as textile mills would go out of business," Mr. Ferguson said.

"Because the handling and underestimation of the cost of black lung has been so great, the government will be less likely to extend this program," said Mr. Allen of Hanna Mining. "The experience should leave everyone with a nice, dirty taste in their mouths."

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Brokers make unlikely candidates for takeover

By HARVEY H. BUNDY III
Special to Business Insurance

ARE WE NOW entering an era in which the major alphabet brokers become the pursued rather than the pursuers?

We seriously doubt it, but it was only a month ago that Sperry & Hutchinson announced it had acquired a 6.3% stake in Rollins Burdick Hunter. Now NN Corp., a Milwaukee-based insurance holding company, has announced a 5.5% position.

Both companies profess that their interests in RBH do not extend beyond "investment purposes," a statement we are inclined to believe. Indeed, an unfriendly takeover of RBH would be well-nigh impossible given current employee control over the ultimate destiny of the company. The 1980 proxy statement indicates that officers and directors of the company owned 22.3% of the outstanding common stock as of Feb. 7. Moreover, management indicates other employees own approximately 30% of the shares.

Despite the improbability of a bidding war, these announcements show it is the aggressiveness of the buyers that makes stocks move and not the near-term earnings prospects. RBH was the star performer among the brokers in the past month, up 14%. Word of the outside positions must have had an impact, as earnings for neither RBH nor any of its competitors will be much to cheer about in the September quarter. We consider it virtually certain RBH,

Harvey H. Bundy III, a partner at William Blair & Co. in Chicago, specializes in financial and insurance stocks. His monthly column on insurance brokerage stocks written for Business Insurance appears on this page the second Monday of every month.



Bundy

BI ticker

Fred S. James & Co. and Corroon & Black will show earnings declines in the quarter, while it is a 50/50 proposition for the other three major brokers.

If Alexander & Alexander shows a decline, it will be the first ever for that company and could result in disillusionment on the part of any portfolio manager who still views Alexander & Alexander as a "one decision stock." Perhaps the weaker price action of Alexander & Alexander's stock, the only broker stock to actually decline in the month of September, reflects such an investor concern.

The NN Corp. and Sperry & Hutchinson's positions in RBH raise several questions. Can a broker be acquired on an unfriendly basis, and, if so, who and at what price?

It is not surprising RBH emerged as the first of the major public brokers to show major outside corporate ownership. RBH remains small enough that an interested investor could obtain a meaningful position. Moreover, an institutional position in RBH of only slightly more than 220,000 shares (\$6 million at current prices) would result in the required filing of a form 13-D with the Securities and Exchange Commission, indicating a 5% ownership position. Finally, RBH commands a certain quality image among the brokers and counts among its accounts many of the jumbos sought after so aggressively.

It is difficult to reach a conclusion on management control in the other medium-sized, publicly owned brokers. For exam-

ple, officers and directors own only 4.3% of the stock at Alexander & Alexander, but that company indicates that employees and former employees own more than 50% of the stock as a result of the company's aggressive acquisitions program. Indicated officer and director ownership in the proxy statement of Frank B. Hall was 8.5% of the shares, while in Fred S. James it was only 6.6%. In the case of both of these companies, we believe total employee ownership might be less than that of Alexander & Alexander.

On a purely speculative note, we believe an outside investor might find Frank B. Hall & Co. and its strong position in the marine and aviation markets a more attractive target than James or C&B.

However, one must bear in mind that management is the key component of an insurance broker. In the event that people leave, one can be left with a shell with no inherent value. Marsh & McLennan has learned this lesson at C.T. Bowring even with a deal that became "friendly." The ability of individuals to take accounts with them has undoubtedly lessened in recent years, but a broker that loses most of its talent cannot be expected to hold on to sophisticated accounts for very long.

Likewise, it is difficult to see the economic justification of an outside party acquiring an insurance broker at a significant premium to current market valuations. Were a broker acquired for 15 times earnings in a cash acquisition, the interest on the debt to be issued would eat up virtually all of the broker's earnings and still would not cover the goodwill amortization that would result from acquiring a business with limited tangible assets. Only after the broker had grown significantly from its current base would it be a material contributor for the acquiring company.

Perhaps ruefully for investors, we are forced to conclude that unfriendly takeovers of the major brokers are highly unlikely. However, friendly deals may be a different matter. If the next several quarters severely test some managements, they may be more receptive to a partner.

On a very different note, there is a quirk of accounting about which investors in Marsh & McLennan should be aware.

As a result of the C.T. Bowring acquisition, Marsh & McLennan will have substantially more common shares outstanding in the second half of its fiscal year than in the first half. The earnings per share Marsh & McLennan reports for the full year will be approximately 2% less than the sum of the four quarterly earnings per share.

We won't try to explain this phenomenon here. It is something akin to the mathematically erroneous procedure of adding percentages, or the well-known phenomenon where your business is down 20% and then up 20% and you're not back to where you started from.

William Blair & Co. maintains a market in the common shares of Rollins Burdick Hunter and Alexander & Alexander Services. Edgar D. Jannotta, a partner in William Blair & Co., is on the board of directors of Rollins Burdick Hunter.

Financial briefs Swiss Reinsurance

One of the world's largest reinsurance groups, Swiss Re, is planning a major rights issue totaling 84 million Swiss francs or about \$50.6 million. For the first time in the company's history, the issue will be in participation certificate capital to be offered to the company's shareholders on a 1-to-2 basis at a price of 350 Swiss francs or \$210.84 per certificate.

Further participation certificates, the company said, may be issued later with a nominal value of up to 10 million Swiss francs or \$6.02 million. These participation certificates will be used to back future convertible or warrant bond issues and for acquisitions.

BI Insurance Index



Insurance industry stocks rallied last week from a previous nosedive, rising 4.5 points to 170.4 from 165.8. The base of 100 was at year-end 1978. Biggest gainers were: E.H. Crump Cos. Inc., up 18%; CNA Financial Corp., up 16.7%; MGIC Investment Corp., up 9.5%; Alexander & Alexander Services, up 9%, and Republic National Life Insurance Co., up 8.6%. American National Insurance Co. at 3.3% and Aneco Reinsurance Ltd. at 2.17% were the biggest declines. A total of 50 stocks rose, nine dropped and 14 remained unchanged. The 2.7% increase fell behind the major market indicators. The New York Stock Exchange rose 4.5%, the Standard & Poor's index rose 4.4% and the Dow Jones Industrial was up 3%.

British Issues

10/7 Companies	Price	P/E	Div. pence	Yield %	1 Week High-Low	
					pence	pence
Commi Union	171	8.6	14.63	8.6	173-171	
Eagle Star	251	8.4	14.28	5.7	252-248	
Genl Accident	360	9.0	18.24	5.1	362-356	
Gdn Royal Exch	360	9.5	20.71	5.8	362-354	
Phoenix	308	8.5	20.00	8.5	308-300	
Royal	475	10.0	32.17	8.8	480-470	
Sun Alliance	804	10.3	42.14	5.2	804-786	
Brokers						
CE Heath	221	11.0	13.80	6.2	221-213	
Hogg Robinson	130	9.6	8.14	6.3	130-128	
Alex Howden	103	8.6	10.00	9.7	103-101	
JH Minet	107	42.9	6.45	6.0	109-105	
Sedg Grp	131	12.0	7.14	5.4	131-126	
Stenhouse Hldg	93	8.5	6.46	7.0	93-88	
Stew Wrightson	220	9.2	17.14	7.8	220-210	
Willis Faber	270	12.0	16.14	6.0	270-262	

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Broker Stock Performance

	Price	% Change	
		vs. 9/30/80	vs. 9/30/79
A&A	33	(7.0)	2.3
Cor. & Bk.	26 3/4	3.4	(9.7)
Hall	28 7/8	9.0	1.8
James	27 1/2	0.9	6.2
M&M	68 1/4	2.2	(0.2)
R Burdick	26 1/4	14.0	19.1
S&P 400	142.82	2.8	17.0

BI Industry Stock Report

OCT. 7, 1980 10/1/80 THRU 10/7/80

Price % Chg P.E. \$ Div. % Yld. High Low Vol (000)

Insurance Cos.										
Aetna Life & Cas Co	NYSE	39.37	7.1	5.6	2.12	5.4	39.88	36.75	318.5	
American Bankers Ins Co	OTC	7.38	1.5	5.0	0.44	6.0	7.38	7.13	37.5	
American Fint Corp Ohio	NYSE	26.00	3.0	7.0	1.50	1.9	26.00	25.25	33.3	
American Gen Ins Co	NYSE	40.00	8.1	6.2	1.00	2.5	40.00*	37.25	316.4	
American Indty Fint Corp	OTC	18.13	2.8	5.5	1.12	6.2	18.13	17.88	16.7	
American Intl Group Inc	OTC	78.25	4.3	11.6	0.50	0.6	78.25	74.75	189.1	
American Natl Ins Co	OTC	14.63	-3.3	5.8	0.62	4.2	15.00	14.63	81.9	
American Sta Life Ins Co	OTC	19.00	0.0	7.9	0.64	3.4	19.00	19.00	1.8	
Aneco Reins Ltd	OTC	5.62	-2.2	0.0	0.00	0.0	5.63	5.63	28.9	
Appalachian Natl Corp	OTC	2.12	0.0	6.1	0.05	2.4	2.19	2.13	1.8	
Avenco Corp	AMEX	9.75	1.3	7.0	0.50	5.1	10.13	9.75	25.9	
Banks Iowa Inc	OTC	26.50	0.0	4.2	1.32	5.0	26.50	26.50	0.3	
Bitco Corp	OTC	39.50	5.3	6.0	1.68	4.3	39.50	38.00	6.6	
Carolina Cas Ins Co	OTC	8.62	0.0	3.1	0.32	3.7	8.63	8.63	4.9	
Central Natl Fint Corp	OTC	11.25	0.0	4.4	0.50	4.4	11.25	11.25	0.0	
Chubb Corp	OTC	44.25	6.3	5.8	2.40	5.4	44.25	42.63	107.9	
Combined Intl Corp	NYSE	19.38	1.3	5.6	1.60	8.3	19.50	18.88	156.5	
Connecticut Gen Ins Corp	NYSE	48.25	4.0	7.3	1.52	3.2	48.25	46.50	281.3	
Continental Corp	NYSE	27.75	0.9	5.4	2.20	7.9	27.88	27.50	249.5	
Crawford & Co	OTC	18.75	0.0	15.8	0.54	2.9	18.75	18.75	4.2	
Crown Life Ins Co	OTC	86.00	6.2	62.3	2.40	2.8	88.50	82.50	10.5	
Crum & Forster	NYSE	33.75	7.6	5.9	1.44	4.3	34.38	32.00	128.9	
Employers Cas Co	NYSE	39.50	0.0	6.5	1.20	3.0	39.50	39.50	2.6	
Erc Corp	OTC	93.50	0.0	10.5	1.40	1.5	0.00	*****	0.0	
Equifax Inc	NYSE	23.00	-2.1	7.9	2.40	10.4	23.25	23.00	2.8	
Farmers Group Inc	OTC	32.12	4.9	10.3	1.00	3.1	32.13*	31.38	265.5	
First Colony Life Ins Co	OTC	35.00	2.9	12.0	0.80	2.3	35.00	34.00	1.7	
Foremost Corp Amer	OTC	20.38	-0.6	7.7	0.60	2.9	20.38	20.38	5.6	
General Reins Corp Del	OTC	57.75	0.9	8.8	1.40	2.4	58.25	57.50	91.2	
Great West Life Assurn Co	OTC	175.00	-0.6	8.7	8.00	4.6	176.00	175.00	0.6	
Hanover Ins Co	OTC	47.00	0.5	4.4	0.72	1.5	47.00	46.50	18.0	
Hartford Steam Boiler Insprtn	OTC	34.50	0.0	7.4	2.40	7.0	34.50	34.50	3.7	
Integon Corp	NYSE	26.37	-1.4	9.6	0.48	1.8	26.50	26.00	83.9	
Jefferson Natl Life Ins Co	OTC	68.50	1.5	20.4	0.64	0.9	68.50*	67.50	49.4	
Kemper Corp	OTC	36.00	4.7	5.0	1.40	3.9	36.00*	34.75	45.3	
Lincoln Natl Corp Ind	NYSE	42.37	2.4	5.9	3.00	7.1	42.38	41.25	53.5	
Mgic Invst Corp	NYSE	30.13	9.5	8.7	1.12	3.7	30.63	27.25	304.7	
Mission Ins Group Inc	NYSE	37.75	2.0	8.1	0.80	2.1	37.88	37.00	58.7	
Nationwide Corp Ohio	OTC	20.50	2.5	5.4	0.66	3.2	20.50*	20.00	3.6	
Nn Corp	OTC	48.50	4.0	11.0	2.00	4.1	48.50*	47.00	53.5	
Northwestern Natl Life Ins	OTC	31.62	2.8	5.9	1.25	4.0	31.75	30.75	17.0	
Ohio Cas Corp	OTC	39.13	3.0	6.0	1.76	4.5	39.13	38.25	99.8	
Old Rep Intl Corp	OTC	17.63	3.7	4.3	0.92	5.2	17.63	17.25	52.0	
Pinehurst Corp	OTC	7.12	7.5	10.6	0.60	0.0	7.13	6.75	46.3	
Preferred Risk Life Ins Co	OTC	19.25	0.0	6.7	0.64	3.3	19.25	19.25	0.9	
Provident Life & Acc Ins Co	OTC	47.00	2.2	5.9	1.88	4.0	47.50	47.00	39.9	
Republic Natl Life Ins Co	OTC	23.62	8.6	14.6	0.70	3.0	23.88*	21.75	1,023.2	
Ryan Ins Group Inc	OTC	25.75	2.0	7.8	0.12	0.5	25.75	25.50	2.6	
St Paul Cos Inc	OTC	39.25	3.0	5.4	2.00	5.1	39.25	38.38	129.0	
Safeco Corp	OTC	38.87	4.4	5.6	1.80	4.6	38.88	37.75	109.3	

OCT. 7, 1980 10/1/80 THRU 10/7/80

Price % Chg P.E. \$ Div. % Yld. High Low Vol (000)

Agents/Brokers

Sri Corp	OTC	25.00	0.0	4.9	1.00	4.0	25.00	25.00	16.6	
Seibels Bruce Group Inc	OTC	24.38	0.5	9.9	0.80	3.3	24.38	24.25	28.7	
Statesman Group Inc	OTC	6.25	0.0	4.9	0.15	2.4	6.25	6.25	6.2	
Tokio Marine & Fire Ins Co	OTC	158.75	3.2	17.6	1.03	0.6	160.50*	154.75	2.2	
Travelers Corp	NYSE	43.75	3.2	4.8	2.48	5.7	44.00	42.25	171.6	
United Fire & Cas Co	OTC	27.25	0.0	7.4	0.90	3.3	27.25	27.25	0.0	
United States Fld & Cty Co	NYSE	43.25	-1.1	5.1	2.80	6.5	43.38	42.25	134.6	
United Svcs Life Ins Co	OTC	16.88	0.7	5.9	0.96	5.7	16.88	16.75	11.8	
USLife Corp	NYSE	21.75	1.8	5.5	0.70	3.2	21.88	21.38	370.1	
Washington Natl Corp	NYSE	35.88	7.1	7.3	1.50	4.2	36.13	33.63	32.2	
Zenith Natl Ins Corp	OTC	16.75	3.1	9.5	0.50	3.0	16.75	16.00	10.1	

Insurance Companies

AVERAGE			7.6		3.5					

Conglomerates/Holding Cos.

Alexander & Alexander Svcs	OTC	36.00	9.1	11.8	1.64	4.6	36.00	33.25	98.8	
Baldwin & Lyons Inc	OTC	31.00	0.0	5.7	0.80	2.6	31.00	31.00	4.0	
Corroon & Black Corp	NYSE	27.13	1.4	10.9	1.72	6.3	27.13	27.00	14.0	
Crump 2 H Cos Inc	OTC	14.75	18.0	13.2	0.36	2.4	14.75*	14.13	43.8	
Hall Frank B & Co Inc	NYSE	28.50	-1.3	9.3	1.54	5.4	29.63	28.50	53.7	
Integrated Res Inc	AMEX	18.38	5.0	10.1	0.00	0.0	18.75	17.75	65.7	
James Fred S & Co Inc	NYSE	27.62	0.9	10.0	1.60	5.8	27.63	27.25	48.9	
Marsh & McLennan Cos Inc	NYSE	69.25	1.5	11.0	3.60	5.2	69.25	67.75	73.1	
Peenorp Fintl Inc	NYSE	8.62	-1.4	5.6	0.16	1.9				

A bottom line view of loss control



Oil rigs, like this in the Gulf of Mexico, typify high-hazard operations.

Every business has special perils needing special insurance broker solutions. How Alexander & Alexander looks at off-shore drilling, one of the riskiest, will help explain how we will look at your business. In this case, we study rig safety through a contractor's eyes. Scrutinizing the workers and the working environment. Probing the whys of injuries and the hows of accident prevention. Viewing down-time as dollars.

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From the client's point of view.