Mergers

Risk execs in peril as big mergers snowball

By REBECCA A. FANNIN

NEW YORK—When J. Ray McDermott & Co. Inc. acquired Babcock & Wilcox Co. in March 1977, Babcock insurance manager Jack W. Lyon hastily waved good-bye to the company. By mid-May, he was director of insurance at Ingersoll-Rand Co.

When Allegheny Ludlum Industries acquired Chemetron Corp. in 1977, Sheldon Staubitz, former insurance manager at Chemetron, was lucky. He had earlier moved to Chicago-based Marmon Corp. as director of risk management, months before Allegheny Ludlum, whose own risk management department is fairly small and new, began phasing out Chemetron's insurance department and consolidating its insurance policies.

Both fortunately escaped the acquisition ax that so often squelches a risk manager's job as insurance programs are combined with the acquiring company's programs for economy and efficiency.

Although the scenario may vary, there's generally little room left for a risk manager to stay aboard and share the risk management decisions with whoever is in charge at the acquiring company.

And more risk management jobs may be jeopardized in the future. Although acquisition fever has cooled significantly since 1970 and the numbers have declined slightly every year since 1974, merger scorekeeper W.T. Grimm & Co. notes that more large companies are now involved in takeovers. In the first six months of this year there were 37 mergers or acquisitions valued at $100 million or more. This is an increase from only 20 $100-million mergers which took place last year.

It's when large firms combine, both often with developed risk management departments, that there is bound to be risk management friction.

Although the staff under a risk manager is usually needed to continue han-

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Product liability

Senate okays 'weak' self-insured tax cut

By JERRY GEISEL

Sen. John Culver says the tax breaks are only a weak solution to the product liability problem.

WASHINGTON—In a surprise last-minute move, the Senate this month approved two measures to give limited tax breaks to businesses with product liability problems.

The first measure introduced by Sen. John Culver which was attached to the major tax cut bill approved by the Senate this month, would exempt funds set aside to pay product liability losses from the existing tax on excess accumulated earnings.

However, businesses would not receive tax deductions on money put into the reserve or income generated by the funds.

The Iowa Democrat's second measure attached to the tax bill by the Senate would permit businesses to carryback a product liability loss for up to 10 years. The current carryback limit is three years.

A loss carryback permits a company which has been the victim of an uninsured product liability award to obtain a refund on taxes paid in past year, providing the company has a net operating loss in the current year.

However, Sen. Culver failed to

Continued on page 61

. . . Bill allows employers to opt for IRA system

WASHINGTON—Employers could set up a system of individual retirement accounts for workers under legislation approved by the Senate and designed to lessen the burden of pension reform on small employers.

The legislation, part of the major tax cut measure approved this month, would grant employers tax deductions up to $7,500 per worker for contributions to IRAs.

The bill also provides a new tax deduction for employe contributions to company-run retirement plans.

The Senate legislation also would amend the current federal law affecting employe stock ownership plans (ESOPs), cafeteria plans, medical programs and deduction of medical expenses.

However the Senate and House versions of the legislation call for making different changes in the tax treatment of these benefits. As a result, a conference committee will have to iron out these differences as well as the other more highly publicized differences in the bill providing billions of dollars in tax cuts.

President Carter has also indicated his unhappiness with the size of the tax cuts in the legislation and has hinted that he might veto the bill.

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The people column

page 66

Week of October 16, 1978

business insurance

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

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Experts see no rate hikes from San Diego air crash

By JOHN MILLER

LONDON—The crash of Pacific Southwest Airlines 727 in San Diego which killed 145 persons is not expected to lead to any immediate hikes in aviation insurance rates, according to experts.

Meanwhile, a lawsuit asking for $50 million in punitive damages and an unspecified amount of compensatory damages has been filed in Sacramento on behalf of the parents of crash victim Ronald Burkley of Los Angeles. And Aetna Life & Casualty Co. says it is processing more than $3 million in claims under a group life insurance policy in connection with the worst U.S. aviation disaster.

Peter Brewis, chief executive of the aviation division of brokers Alexander Howden, told *Business Insurance:* "Apart from this disaster there has not been any tremendous loss pattern so far this year, and rates are still purely a question of supply and demand. Reinsurers are still taking business, even though they would like to see premium levels improve."

Due to the intense competition in the London market, some U.K. insurers were forced to drastically cut premium levels on aviation lines or pull out of some business offered to them.

Reductions of more than 30% have already been obtained by some international air operators in recent months despite the fears that one major catastrophe would reverse present market trends.

"There's so much over-capacity in the world markets at present that rates are being negotiated on very keen terms for buyers and I don't see any drastic change coming in the next few months," Mr. Brewis said. "I don't believe the

Continued on page 58

The inside story

Weber

Risk Manager of the Year

Two respected risk managers and two top insurance company executives will join six returning judges for the 1979 Risk Manager of the Year competition. Last year's Risk Manager of the Year Howard Weber and Tenneco vp Charles L. Baily will join INA Corp. president John Cox and Hal B. O'Connor, senior vp at American Mutual Insurance Co., on the panel for the 1979 award. Page 4.

U.K. brokers face new challenge

Boards of directors of leading U.K. brokerage firms are already meeting to consider the challenge presented by the Bowring group's planned link with Marsh & McLennan. Bowring chief executive Ivor R. Binney says he wouldn't be surprised if his lead isn't followed by other London brokers. Page 18.

Bowring

Tough benefit decisions ahead despite early FASB rulings

STAMFORD, Conn.—Although several tentative decisions on accounting rules for defined benefit pension plans have been made by the Financial Accounting Standards Board, the "real gutsy" issues have yet to be dealt with.

These decisions are intended for inclusion in FASB rules on defined benefit pension plans to be published later this year or during the first part of 1979, explained Robert Van Riper, public relations counsel for the board. The rules would be effective for the pension plans' 1979 financial statements, he added.

Most recently, the board tentatively decided that information regarding changes in net assets available for benefits "shall be presented in sufficient detail and arranged in a manner that all significant changes in net assets during the year can be identified."

The decision also calls for identifying certain minimum disclosures, including net change in current value for each significant class of investment. These disclosures would be segregated between investments whose current values are market values and investments whose values are determined otherwise.

The board also decided not to require disclosure of net gain or loss realized during the year on sales of investments.

Other tentative decisions that have been reached by the board are:

- "That the primary objective of financial statements of a pension plan should be to provide financial information that is useful in assessing the security for the payment, when due, of participants' benefits.
- That the information about benefits to be reported in a plan's financial statements should be determined on the assumption that the plan is an ongoing plan. (This is opposed to an immediate termination assumption.)
- That plans in similar circumstances should use a uniform basic method for determining the information about plan benefits to be included in plan financial statements."

However, according to project manager Jules Kassel, several crucial issues have yet to be decided. They include measurement of benefit information, how that information should be presented, how contributions shall be handled and disclosure of investments. ■

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errors & omissions

- Score Re is a U.S. reinsurance company with its home office in Dallas. The insurer is wholly owned by a French reinsurance company, which in turn is 78% owned by an agency of the French government. An article in the Sept. 18 issue called Score Re a French reinsurer.
- Due to a typographical error, the directory of excess/surplus brokers in the Sept. 18 issue incorrectly listed areas of specialization for Michelotti Facilities Inc. of New York. The firm specializes in primary construction insurance, not primary container insurance.

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for your information

Meany attacks Carter at hearing on Kennedy health insurance plan

WASHINGTON—AFL-CIO president George Meany told a Senate committee this month that he had misplaced his faith in President Carter by believing the president's campaign promise to enact a national health insurance program.

"We believed his program . . . would make adequate health care a basic right of every American," Mr. Meany told a Senate committee that was holding three days of hearings on national health insurance. "Obviously, our belief was misplaced."

Mr. Meany, along with Union Auto Workers president Douglas Fraser, said the two huge labor confederations would be using their resources to support candidates who favor the adoption of a comprehensive national health insurance program.

At the same hearing, which was chaired by Sen. Edward Kennedy (D-Mass.) six Canadian citizens praised their country's national health insurance program.

One Saskatchewan resident said Canadians "would do away" with any political leader that tried to discard Canada's health insurance system.

Michigan panel okays tort reform

LANSING—The Michigan senate judiciary committee unanimously approved a tort reform measure that gives manufacturers a defense against liability if their products were made in conformity with federal or state safety regulations.

The measure also offers a defense in product liability suits if the injury was a result of product alteration or modification.

The bill now goes to the full senate where a vote is expected next month. The house previously approved the bill.

Llewellyn to head OPIC

WASHINGTON—President Carter will appoint J. Bruce Llewellyn, 51, of New York City, to be the next president of the Overseas Private Investment Corp. (OPIC), the White House announced this month.

Mr. Llewellyn is the treasurer of the South Bronx overall economic development. Mr. Llewellyn would replace Rutherford Poats, OPIC's acting president. Mr. Poats is slated to become a member of the National Security Council staff.

Mr. Llewellyn's appointment is subject to Senate confirmation.

Work comp battle nears end

CHICAGO—A settlement in the legal battle here over excessive workers compensation rates is expected to be reached by the end of this month.

Employers who had workers compensation coverage from Aug. 7, 1976 to Aug. 31, 1977 may be eligible for a 7.6% refund on premiums paid out during this contested period.

A hearing officer ruled that 7.6% of the workers compensation increase should be refunded.

Notices of this settlement are being sent out by insurance companies to policyholders. Employers are asked to write to J. Sterling Mortimer, P.O. Box 7174, Chicago, Ill. 60680, to fill out forms giving the necessary information for the refund.

Federal forced retirement ends

WASHINGTON—Mandatory retirement for nearly all federal civilian employes ended this month.

Previously, federal employes could not work past age 70, but involuntary retirement came to an end Oct. 1 as legislation passed earlier this year by Congress went into effect.

The same legislation will raise the mandatory retirement age from 65 to 70 for most workers in private industry on Jan. 1, 1979.

Government officials expect the elimination of involuntary retirement to have little impact on the composition of the federal work force. Of the more than 2 million civilian federal employes, only about 1,500 have continued to work until age 70.

Meanwhile, the Labor Department will hold a public hearing Oct. 23 on its recently released guidelines on how much companies can reduce benefits for workers over age 65. Those guidelines call for very limited cutbacks in life insurance, medical benefits and long-term disability coverage. The hearing will begin at 10 a.m., Department of Labor Building, Room 3437 N, 200 Constitution Ave., N.W. Washington, D.C.

More PBGC benefits studied

WASHINGTON—The Labor Department is studying whether the Pension Benefit Guaranty Corp. should pay out benefits to participants of plans which terminated prior to the passage of ERISA.

One of the main problems of the law, ERISA administrator Ian Lanoff said recently, is that it is not retroactive.

"We hear from people whose cases could tear your heart out," he said. But in reality, there is little that can be done to help these people, he said.

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Despite losses, insurers fill elevators' needs

By ELLIS SIMON

NEW YORK—Despite fears of tighter markets for grain elevator coverages following the two major elevator explosions last December that left more than 50 dead, the insurance industry as a whole is not running away from the grain industry.

"A few losses don't necessarily make a class bad and the absence of loss doesn't necessarily make it good," said Charles Flood, senior vp at American Home Assurance Co. Mr. Flood's firm was primary underwriter for Continental Grain Co., whose Westwego, La., elevator blew up last December claiming 34 lives.

The Westwego disaster and a second explosion five days later at a Farmers Export Co. elevator in Galveston, Tex., in which 18 lives were lost, were "statistical freaks," said University of Wisconsin professor Richard Ginnold, who has done research on grain elevator safety.

Grain elevator fires and explosions occur each month, he said. Most recently, an explosion at a Bunge Corp. elevator in Minneapolis claimed three lives.

Insurers have reacted to grain risks with caution. Allendale Mutual, which had the property coverage on the Farmers Export Co. elevator, is refining engineering standards and placing new emphasis on occassional manual cleaning to supplement automatic dust collection equipment, said executive vp William Young.

While Mr. Young said he did not notice Allendale to be pricing grain risks higher, he said the company is not making as much capacity available on grain risks as in the past. Allendale has chosen to cut back its limits or "go fishing for more facultative support," he added.

Facultative reinsurance for grain risks remains readily available. Pat Elio, property underwriting manager for Buffalo Re, said there are fewer facultative risks available than in prior years and while reinsurers who have been "burned" on grain in the past are more cautious, there are new reinsurers willing to take grain risks.

Mr. Elio, who's firm participated in the Continental Grain Co. loss, added that the experienced reinsurers are not afraid of grain elevators if properly rated, but soft market conditions prevent them from getting the needed premiums.

American Home's Mr. Flood called grain elevators "a class of business that must be written carefully. The experience speaks for itself."

Like Mr. Young, he cited housekeeping as a major factor in engineering and underwriting. But, he added, "some of the best risks have excellent housekeeping and they still blow."

While few risk managers were willing to discuss the state of grain elevator markets on the record, for the most part they said the December losses had not resulted in them paying higher rates.

The risk manager at a major Midwestern grain firm reported somewhat higher property rates, but said they were the result of several fire losses endured by his firm and not the explosions. He said the explosions could have affected his excess liability costs, although he could not say by how much.

The Port of Houston, which had to accept higher rates and lower limits on grain stock coverage when its primary carrier dropped it in January, was forced into the Texas workers compensation assigned risk pool in August when it was dropped by Firemen's Fund.

Photo: Wide World

The explosion that rocked this grain elevator in Westwego, La., in December and a similar explosion in Mississippi were "statistical freaks," according to a university professor.

Firemen's Fund dropped the Port of Houston elevator because the elevator was being manually cleaned while a new dust collection was being installed, said Louis Brown, the port's director of marine, fire and safety.

He added that the Port of Houston's experience reflects its unique problem and was not indicative of what other grain elevator operators were experiencing.

A more positive experience was had by Houston-based Goodpasture Inc., which recently went into the market to obtain coverage for its newly rebuilt $24.5 million terminal elevator. That facility suffered an explosion in 1976 in which nine lives were lost.

According to Goodpasture risk manager Kim Backus, the firm was able to obtain property coverage for the Houston export elevator, 33 other facilities and $30 million in business interruption coverage at 42 cents per $100. The rate is higher than what Goodpasture paid for coverage on the terminal elevator prior to 1976 but is still "a fair rate for our risk," she said.

In rebuilding the Houston facility, Goodpasture employed features used in elevators considered to be the safest in the world and installed an automated control system.

"If it weren't for safeguards on the elevators, we would have had a difficult marketing job," she added. ■

the benefit beat

State employes win pregnancy disability benefits

Women state employes in Michigan will now be eligible for disability pay when they leave their jobs to have a baby under a new program estimated to cost $2.3 million a year.

In approving the program, the state's civil service commission noted that nearly all the first year cost would come from about $2 million in excess insurance premiums which has accumulated.

Employe benefits director Duane Marlin said that actuaries estimated the cost based on the assumption there would be 783 pregnancies among the 25,250 women employes who subscribe to the long term disability insurance plan. The employes currently pay $1.04 per $100 of pay and the state pays 50 cents.

The insurance pays two-thirds of salary after the employe has exhausted sick pay benefits. Women taking time off to have a baby have been eligible for hospital benefits and sick leave, but had been excluded from the disability insurance coverage. Commission members observed that the new coverage went along with a new state law adopted this year barring sex discrimination in pensions and insurance, although the constitutionally independent commission was not bound by it.

Pension offset

A provision in the General Motors pension plan, which allows GM to offset workers compensation benefits of retired workers by deductions in their pension benefits, is under fire in New Jersey. A U.S. district court judge issued an opinion that the provision is illegal under ERISA.

Judge Frederick B. Lacey held that a permanent injunction should be issued against any future deductions and that the workers should be reimbursed. More than $20 million in compensation claims against GM are being held up pending the resolution of this suit filed by two retired GM workers.

The right to accrued benefits in the GM pension plan is conditional to waiving workers compensation benefits. ERISA does not allow, the judge said, for such a conditional factor in determining rights to accrued benefits.

A final order concerning the provision is not expected until late this month. GM, however, has filed a motion for reconsideration, so it may reargue its position.

Panel director

Thomas C. Woodruff, the newly named executive director of President Carter's much delayed Commission on Pension Policy, says defining the panel's broad scope is a major task ahead. Mr. Woodruff, recently an assistant to assistant Labor secretary Francis X. Burkhalter, will direct the activities of the commission, which is headed by Xerox chairman C. Peter McColough.

Mr. Woodruff said he hopes to begin staffing the commission within the next several weeks and hopes the panel can begin meetings next month or in December.

Group auto urged

Measures to provide tax exempt group auto insurance should be enacted to reverse the "unfair discrimination" of the younger worker in benefit packages, says a Michigan insurance executive.

Under the present system, IRS rules consider employer contributions to group auto insurance programs as taxable income to the employe, while pensions, group life, disability and health insurance are tax-free benefits.

Group insurance, if established as a potential benefit, would provide more equity and balance in taxation on fringe benefits and younger workers, especially those under 25, would receive greater relative benefits, according to Robert E. Vanderbeek, president of League Insurance Cos. of Michigan.

League Insurance Cos. developed "pure" group auto insurance which offers rates that are the same regardless of age, type of car, residence or most factors that are presently considered in rate determination.

ERISA regulation

The House and Senate this month gave final approval to the Administration's reorganization plan that is designed to reduce compliance, administrative and reporting problems associated with the pension reform law.

Under the plan, which was easily approved, ERISA regulation will be streamlined by clearly dividing responsibility for the program between the Labor and Treasury departments.

The plan gives Treasury primary jurisdiction for setting pension plan standards for funding, participation vesting rights and benefit payments. However, Labor will retain its authority to approve certain Treasury rulings and regulations that primarily affect collectively bargained plans.

On the other hand, the Labor Department will have jurisdiction over establishing fiduciary standards for pension and welfare benefit plans. It will be up to Labor to issue exemptions from the prohibited transactions provisions of ERISA.

The plan also requires the Administration to come up with a long-term solution to ERISA administrative difficulties by Jan. 31, 1980.

Newspaper pensions

Supplemental pension contributions for American Newspaper Guild members at the New York Post will increase from 0.5% to 1% of straight salary effective April 1, 1979. The increased contribution is in addition to the regular 80 cents per shift contribution for each employe paid by all New York City newspapers to the joint Guild/Publishers pension fund. Additional pension money was the only benefit improvement received by Guild members in the contract that ended the eight-week walkout at the Post. The Guild represents reporters, editors, photographers, advertising and clerical personnel at the Post and the New York Daily News and The New York Times, both of which remain on strike.

Benefit changes in the contract with the pressmen's, machinists' and paper handlers' unions will reflect whatever provisions are worked out in contract talks with the News and Times. Drivers at the Post had their supplemental disability benefits increased to $70 from $50 per week. But whether this provision will be included in contracts with other craft unions is still being negotiated, Post officials said.

The Council on Wage and Price Stability says hourly employe compensation costs shot up 9.2% between the second quarter of 1977 and the second quarter of this year. Medical care costs, though, decelerated from an annual rate increase of 9.5% in 1976-77 to an annual rate of less than 8.5% this year.

2 risk managers, 2 insurance execs

4 join panel for Risk Manager of Year competition

Howard Weber, last year's Risk Manager of the Year, joins the judging panel for this year's competition.

CHICAGO—Two respected risk managers and two top insurance company executives will assist six returning judges in selecting the 1979 Risk Manager of the Year.

Nominations using preprinted forms are being accepted by *Business Insurance* through the end of December.

Joining the judging team for the second annual competition are Howard T. Weber, director of insurance at 3M Co. and the 1978 award winner; John R. Cox, president of INA Corp.; Charles L. Bailey, vp of Houston-based Tenneco Inc., and Hal B. O'Connor, senior vp of operations at American Mutual Insurance Co. of Wakefield, Mass.

Returning for the second year are George Betterley of the Boston-based risk management consulting firm bearing his name; Robert C. Nevins, managing partner of Dinner Levison Co. in San Francisco; Alan B. Middleton, president of J.H. Minet & Co. of Canada from Montreal; Waller B. Smith, vp of Chicago-based Rollins Burdick Hunter Co.; A. Grant Whitney, executive vp of Belk Stores Insurance Reciprocal Inc. of Charlotte, N.C., and Dr. John Hall, chairman of the department of insurance at Georgia State University.

To assist those making nominations of candidates for the 1979 award, *Business Insurance* developed a printed form explaining procedural rules to be followed, support documents required and the nine criteria for selection of the winner.

Moreover, the form asks for basic information about the nominee's company to help the judges better determine the environment in which a risk manager nominee operates.

The Risk Manager of the Year award was established by *Business Insurance* in the fall of 1977 on the occasion of the publication's 10th anniversary. The award is designed to recognize outstanding achievement by a corporate insurance buyer and risk manager, either in a full-time risk management capacity or as a corporate manager spending only part of the time on these functions.

Clip out nomination form that appears on page 41.

The judges will use nine general guidelines in their selection process, recognizing the many talents, skills and achievements that make up an exceptional performance by individuals carrying out risk management duties. Ultimately, *Business Insurance* hopes the annual award will foster courage, innovation and general management expertise among the women and men practicing the discipline of risk management. The newsmagazine aims to inspire those who are newcomers to the profession as well as those who've spent many years honing their skills.

The nine criteria to be used in selecting the winner of the award for 1979 specify that the judges consider whether the risk managers nominated have:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applied the diverse tools of risk management and insurance.
- Creatively and effectively used the insurance markets.
- Established a workable intelligence system inside and outside the organization, culminating in access to information about events and activities affecting the organization's risk management and insurance programs.
- Skillfully applied the principles of management in the overall organization and within the risk management/insurance department.
- Achieved the most effective program at the optimum cost over the long term.
- Demonstrated technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job. These categories include insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications and information systems.
- Demonstrated an attitude and participated in activities fostering the advancement of the risk management profession.

Anyone is eligible to nominate a candidate for Risk Manager of the Year. Nominations are welcome from brokers, underwriters, consultants, corporate officials and any other reader who knows of a risk manager deserving recognition for above-average performance. The names of those who nominate candidates are not made public at any time, nor are the names of nominees.

Persons nominated in 1977 for the 1978 are eligible for re-nomination.

Recipient of the 1979 award will be announced in the April 30 issue of *Business Insurance*. The publisher and editor of *Business Insurance* honored the 1978 winner, Howard T. Weber of 3M Co., at a dinner in St. Paul, Minn., attended by top corporate executives of his company. Mr. Weber received an engraved plaque and his achievements at 3M were detailed in an editorial feature in the April 3, 1978, issue.

Nominating forms may be obtained by calling 312-649-5278 or by writing to the Editorial Department of *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. ■

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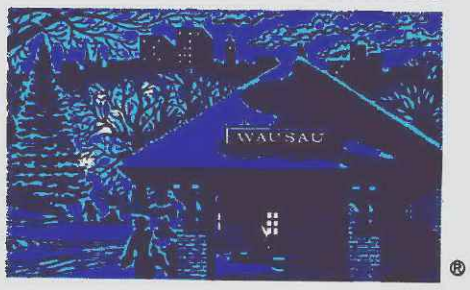

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Employers Insurance of Wausau

Wausau, Wisconsin

Oil delivery firms pour premiums in Colo. captive

By JERRY GEISEL

DENVER—Members of the National Oil Jobbers Council believe they have found the answer to burning increases in their liability insurance costs.

Jobbers Captive Insurance Co. (JICO), a Colorado captive owned by a holding company set up by oil delivery firms, will provide policyholders with up to $1 million of coverage on primary risks.

JICO will assume the first $50,000 of risk on an occurrence basis for property, general liability and auto liability coverage. Five reinsurers, including a Bermuda captive, will pick the next $950,000 of risk.

JICO will pay a fee to a U.S. insurer which issues policies to members, but the "front" will not share in the risk. Fronting arrangements are now being negotiated.

Like many other companies, oil jobbers suddenly were hit with huge liability insurance premium increases two years ago. Rates leaped more than 500% in one year for some oil jobbers, who deliver petroleum to gasoline stations as well as home heating products.

Oil jobbers felt they were being burned by insurers who were charging premiums based on misconceived perceptions rather than hard claims experience, said Richard Bartlett, secretary-treasurer of JICO's holding company.

"The experience of members just didn't reflect the rates that were being laid upon us," said Mr. Bartlett. "Carriers were saying, 'Hey, we don't want you. We don't need your business.' Some insurers stopped supplying coverage, while others began to charge exorbitant rates."

Warren & Sommer Management Co. of Denver was hired to see if there was an alternative to those "exorbitant" premiums. The Warren & Sommer consultants surveyed more than 6,000 oil jobbers and found premiums were excessive in many cases due to the jobbers excellent loss ratio.

A Colorado captive owned by a holding company was decided upon because of tax advantages as well as to give oil jobbers assurance that the captive would be strictly regulated. Some oil jobbers felt that their interests would not be protected as well in an offshore captive, according to Mr. Bartlett.

The capital needed to get JICO rolling is being raised. In order to participate, an oil jobber must contribute 60% of his annual primary liability premium in addition to first year premiums. So far, 25 oil jobbers have kicked in $340,000 toward meeting JICO's capital needs. Under Colorado law, an association captive must have $750,000 in capital.

Policies will be issued annually. Initially, policyholders will pay 15% less than standard manual rates. However, in future years, policyholders will be experience rated, which could result in substantial premium savings for oil jobbers, Mr. Bartlett said.

An underwriting committee will review all applications for insurance. An oil jobber wanting to join the JICO program will have to turn over claims experience for at least three years.

Safety engineers will be hired by the captive to inspect oil jobbers facilities and equipment as well as review or help establish loss prevention programs. Claims will be handled by an independent adjusting company.

Mr. Bartlett said JICO needs an annual premium flow of $1.8 million collected from 250 members in order to give oil jobbers the coverage they need at reasonable market rates.

"We are looking for oil jobbers who have been slapped with a fantastically high rate and have not been experience rated," Mr. Barlett said. "There are enough of them around so that JICO should really take off."

Right now, however, JICO's progress has been slowed by underwriters who are having a second look at the oil jobbers and have in some cases softened their posture, Mr. Bartlett said.

But Mr. Bartlett is telling oil jobbers that insurers will tighten the screws again when the current soft market evaporates. When that happens, oil jobbers once again will face a difficult market.

But oil jobbers that join JICO will be assured of coverage in good as well as bad times, Mr. Bartlett said. Rates will be based on experience, not on the arbitrary decisions of an insurance company that "doesn't give much of a damn whether we're around or not."

JICO is being managed by Warren & Sommer Management Co. ■

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. . . Some new doubts

WASHINGTON—While association captive fever still is running high, some groups are having second thoughts.

The Boating Industry Assn., a Chicago-based trade group, which had been leaning toward renting a captive, decided to re-survey its members one more time before making a decision on any group program.

Matt Kaufman, president of the boating group, said the decision on whether to rent a captive has been complicated by a market that has vastly improved in the last year for many association members.

"There has been a distinct drop off in letters and calls of complaint from members about either unavailable or unaffordable coverage," Mr. Kaufman said. "So the situation seems to be improving."

Mr. Kaufman said the results of the second member survey are now being compiled and a decision on whether to "rent a captive"—the group's favorite approach—will be made by December.

The Fertilizer Institute, a trade association representing members of the giant $7 billion fertilizer industry, will not be taking the captive route. "A captive just didn't turn out to be a viable alternative," said institute president Ed Wheeler. Other group programs remain a possibility.

And the Associated Equipment Distributors, a trade association based in Oak Brook, Ill., found that a special umbrella policy developed by Alexander & Alexander of Texas was the best answer to members' insurance problems, said executive director P.D. Hermann. ■

INA divests

After four years as an INA subsidiary, M. F. Bank & Co., a Minneapolis-based salvage company, will return to family ownership. The decision was made, said Ralph S. Paul, INA Corp. chairman, because the salvage firm has experienced tremendous growth which changed some of its business objectives.

We look, but do we see?

You're looking at an aerial photo of boomed logs in a Washington State mill pond. If it wasn't cropped so tightly, the peripheral landmarks might eliminate any questions.

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editorial opinions

Why risk managers are fired

FREQUENT COMINGS AND GOINGS by corporate risk and insurance managers in recent months point to growing opportunities for mobility as more companies create or upgrade risk management posts.

At the same time, it's apparent that not all companies are enthralled with risk managers. While many insurance buyers are finding their responsibilities broadening, others are being summarily fired.

The firings have become frequent enough for us to start asking questions about why this is happening and it seems to add up to one simple fact: Some risk managers may be technically proficient in the mechanics of insurance buying and policy reading, but they haven't made the transition from technicians to managers.

Then, as a result, the ax falls, quite obviously because the so-called risk manager doesn't fulfill his boss's expectations.

There appears to be several failings common to instances where risk managers have lost their jobs.

In broad terms, the firings occurred because the risk manager couldn't communicate successfully with senior executives of the company. This means the risk manager wasn't talking the same language as his superiors and probably wasn't maintaining the verbal communications necessary to assure that those above him knew what he was up to and appreciated the goals he was trying to achieve.

Moreover, there seemed to be a general feeling that the risk manager couldn't develop internal support for necessary risk management and loss control programs. This requires personal contact with operating managers companywide, combined with some powers of persuasion to encourage cooperation and make the implementer see the potential rewards in making a program work.

Finally, risk managers who've lost their jobs were accused of not being able to "sell" their plans internally. This point in effect encompasses the prior two points, highlighting the need for a risk manager to become a public person rather than an insurance expert holed up somewhere.

An outsider venturing into the world of corporate risk management observed not long ago that the risk and insurance managers he'd met were, as a group, unlike any other group of managers he could think of. Risk managers, he generalized, seemed to reflect more of the personality traits common to accountants, reflecting the tendency to be anti-social and to shy away from the people-oriented personality traits that successful managers usually display.

Should risk managers be salespeople? Apparently so, since they're required to perform tasks which reflect the essence of management: To accomplish assigned tasks through others. Perhaps instead of risk management courses, risk managers should concentrate on Dale Carnegie's programs and a few courses in basic selling and basic management.

Get the policy

"THE SHARKS ARE in the water," says one long-time insurance expert responding to the alleged antics of one Donald Kubovchik and—this person maintains a—whole host of shysters in the excess/surplus business nobody ever hears about.

Excess/surplus lines brokers operate unchecked in a virtually unregulated business. Thus, some fly-by-night operators "come out of the woodwork" during certain times in the insurance cycle when the E/S markets can rake in the most dollars.

"Only a few stories ever emerge about the crooks in the business," says this broker, who's seen nearly 40 years of underwriting, brokering and excess/surplus business. A recent meeting provided a gathering place for several dozen people where the prime topic of conversation was the number of excess/surplus lines brokers who might be doing (undetected) exactly what Mr. Kubovchik apparently did.

"Most insurance buyers are too blind and too ignorant to ever require the delivery of a policy," our broker friend charged.

What to do about nondelivery of a policy, we asked? "I've been in this business long enough to know that you should never pay more than 25% of the premium on a policy, and then you require that the policy be delivered before the remainder is paid," he advised.

You might still be uninsured, but at least you won't have poured good money after bad into the drain.

"Get a loada that guy . . . think we oughta show him what real risk management is all about?"

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.

BNA report

To the editor: I am interested in obtaining a copy of the Bureau of National Affairs report discussed in "Firms expand benefits, reject national health" (Sept. 4).

Your article provides an excellent summary of this survey of 162 personnel directors. I would like to obtain a copy of the complete report for future reference.

Roland I. King
Administrative director, Palm Springs Medical Center, Palm Springs, Calif.

Copies may be ordered from the Bureau of National Affairs, 1231 25th St. NW, Washington, D.C. 20037

A&A merger

To the editor: In an article appearing in the Sept. 18 edition of *Business Insurance* dealing with the proposed merger between A&A and R. B. Jones, a statement is attributed to me to the effect that "A&A began setting the scene two years ago when it began meeting informally with R. B. Jones to discuss a link . . ."

No such statement was made by me. In point of fact, A&A did not begin to "discuss a link" with R. B. Jones in any meaningful way until quite recently. Certainly I hope that nothing arising out of our conversations with Ms. Fannin or out of her article were misleading to you or your readers.

John A. Bogardus Jr.
President, Alexander & Alexander Services Inc., New York, N.Y.

Ms. Fannin's notes reflect that Mr. Bogardus said there had been contacts between Jones and A&A as long as two years ago, but that talks were not formalized until the last two months.

Kudos

To the editor: This is to convey compliments on the editorial "FASB Rule 5" (Sept. 18).

The kind of advice offered to your readers in that editorial cer-

Continued on page 12

business insurance

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letters

Continued from page 8
tainly is constructive from our point of view and I think it also is constructive from a reader standpoint.

Robert Van Riper
Public relations counsel, Financial Accounting Standards Board, Stamford, Conn.

Simplistic reporting

To the editor: I feel compelled to respectfully take umbrage with the somewhat simplistic analysis projected in your special "Excess/Surplus Report."

I suppose that it might appropriately be said that, "It's a buyers' market again," but I wonder if this is not really taking the situation somewhat out of context.

There are undoubtedly soft spots in the market, both property and casualty, especially in the buffer areas, but this is certainly not true of all coverages across the board, both with respect to class and geography. The implication in your reports does not lead one to that conclusion.

Of equal significance to your readers, as well as the buying and selling public, is the very important The Journal of Insurance, September/October 1978. This contained a special issue on the critical subject of "Litigation."

It seems to me that we constantly beg the issue. The problem of the past decade in our insurance industry has most assuredly been one of capacity, the ability to cope with extraordinary exposures of our modern day society and it seems that these considerations have been tied most directly to the burgeoning of a litigous atmosphere in our society, unparalleled in history or geography.

Until we have seen some modification of the current tort liability system that has created lawsuit explosion, lawsuit fever, sue-syndrome, surfeit of lawsuits, a suing mania, the law gone crazy, etc., etc., we really have not brought about the stabilization in a truly ordinary and permanent manner. We may be seeing a temporary hiatus, but if we take it as seen, letting ourselves be lulled, we will as many suggest be inviting a repetition of the past several years to the detriment of both buyer and seller alike.

In this frame of reference, therefore, it does seem to me that your report in the special edition, was, indeed, simplistic.

Paul A. Goldman
President, Paul Arnold Associates Inc., Livingston, N.J.

No answer

To the editor: RE: Sept. 18 Speaking Out: "Risk managers malign own profession."

Did you print the entire article?

Where is his answer to the problem?

It always turns me off a little to listen to or read about some griping which offers no solutions. Okay, I. Racam doesn't like the term "risk management;" what alternative has he to offer?

I submit if the risk manager is to gain and maintain meaningful identification in the industry much less in his own company, he had better have a title.

I further submit "risk manager" will come to mean whatever the profession makes it and not what they call it. Not so many years ago no one would have identified the term Brownie or Kodak with a camera, but these words are now so meaningful they are almost generic. If a risk manager knows his business and does his job well—most do—he will be proud to have the title and well respected for it.

Jay Lavenson
Executive vp, Bayly, Martin & Fay Inc., Philadelphia, Pa.

Utility insurance

To the editor: Your May 1 issue, "Revised captive succeeds gas," indicates the domestic markets aren't actively writing any utility business. The Ranger Insurance Company, an A+ company, is searching for both private and public natural gas distribution systems located in most states. Ranger can write $1 million primary and has umbrella facilities for excess coverages.

J. F. (Jim) Heeter
Vp, Ranger Insurance Co., Houston, Tex.

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BI 10/78

Missouri halts premium refunds on fake policies

By KATHRYN J. McINTYRE

ST. LOUIS—No more money will be refunded to insurance buyers who fear they were issued invalid cover notes of insurance by Donald J. Kubovchik for Associated Underwriters agency here "until this is all sorted out," says Missouri insurance director Jerry B. Buxton.

The trust fund of premiums returned by Mr. Kubovchik to Associated Underwriters is now in the hands of the Missouri insurance division. Though Mr. Kubovchik returned $400,000 to the agency of the $1.2 million in premiums he allegedly skimmed, only $235,000 now remains because some refunds have already been made, Mr. Buxton explained.

Future refunds will be made under court supervision, he said.

At least another $100,000 in assets identified by Mr. Kubovchik will be added to the trust, as well as $500,000, which is expected to be recovered under the agency's fidelity bond, Mr. Buxton revealed.

That leaves at least $200,000 in premiums allegedly pocketed by Mr. Kubovchik. Mr. Kubovchik paid over $100,000 in losses over the three years he is believed to have pocketed excess insurance premiums for coverage he never placed with legitimate markets (*BI*, Oct. 2).

Incurred but not reported losses under the apparently fictitious insurance will be paid for under a policy purchased for this exposure by the agency, believed to carry a $2 million limit.

Meanwhile, authorities and insurance companies involved continue their investigations. Other brokers, assessing the impact the revelations will have on the excess and surplus lines industry, are quick to discuss their own precautions to preclude such incidents and offer words of advice to insurance buyers.

Bellefonte Insurance Co., sent scurrying through its records by reports of the apparent fraud at Associated Underwriters, says, "It appears in some instances we wrote legitimate excess insurance over non-existent low level excess for Associated Underwriters."

Richard W. Rogers, manager of special accounts at Bellefonte, said an investigation of the company's business transactions with the St. Louis agency indicates "two or three cases" of legitimate insurance existing with Bellefonte, while other layers of an insurance program were apparently never placed with the insurers named on the cover notes.

Bellefonte intends to honor its legitimate obligations to those insurance buyers, Mr. Rogers said. But the company also has found "there may have been a cover note issued on a municipality that names Bellefonte and we have no record of it." If that turns out to be unauthorized issuance of a cover note naming Bellefonte, "we won't honor that," Mr. Rogers said.

Entwined in the St. Louis scandal, the Armco Inc. insurance subsidiary is in prestigious company. Lloyd's of London, companies represented by H.S. Weavers of London and Lexington Insurance Co. of the American International Group are among the insurers named on the suspicious cover notes issued by Mr. Kubovchik.

As head of the excess and surplus lines department at the respected St. Louis agency, Mr. Kubovchik issued, or was able to order issued, spurious cover notes to perhaps 125 insurance buyers. He claimed the insurance was being placed in the various markets by E&S Insurance Agency of Memphis, but the agency was Mr. Kubovchik's own post office box which allowed him to pocket $1.2 million in premiums, according to the Missouri division of insurance.

No charges have been filed yet against Mr. Kubovchik, 42, who was a senior vp at Associated Underwriters until his alleged underhanded dealings were stumbled upon by his associates.

Reflecting on the reports of this alleged sham, brokers heaved sighs of relief while reporting they had not conducted any excess insurance business with Mr. Kubovchik. But they also deplored such occurrences in their profession.

"Our business is the easiest in the world in which to create a ripoff," lamented Charles A. McAlear, president of his own Grand Rapids, Mich., surplus lines brokerage firm. And, he fears, "this is the kind of incident that turns people off on surplus lines."

Brokers are confronted with two issues in the face of such an incident: how to keep their own houses in order and how to be sure the business they place through others ends up in the hands of a valid insurer.

"There appears to be a level of insurance handling that involves carelessness," comments Avreco president Fred Pearson on the state of the art of the insurance industry. "You have to have controls, an awareness of the people and accountability."

There are also "ground rules relative to anyone who is a new source of business," Mr. Pearson said. "No one, not even myself, runs off on tangents. We need committee approval of anyone we do business with, though very often it involves people we already know. But there'd be questions and correspondence."

At Swett & Crawford, with over $5 million in gross revenues, similar controls exist. General counsel Harry D. Boyd also noted that since Swett & Crawford issues checks only to "known companies," a check ordered to a fictious company would be difficult to get through and one made out to a known company would be difficult for a prospective embezzler to cash.

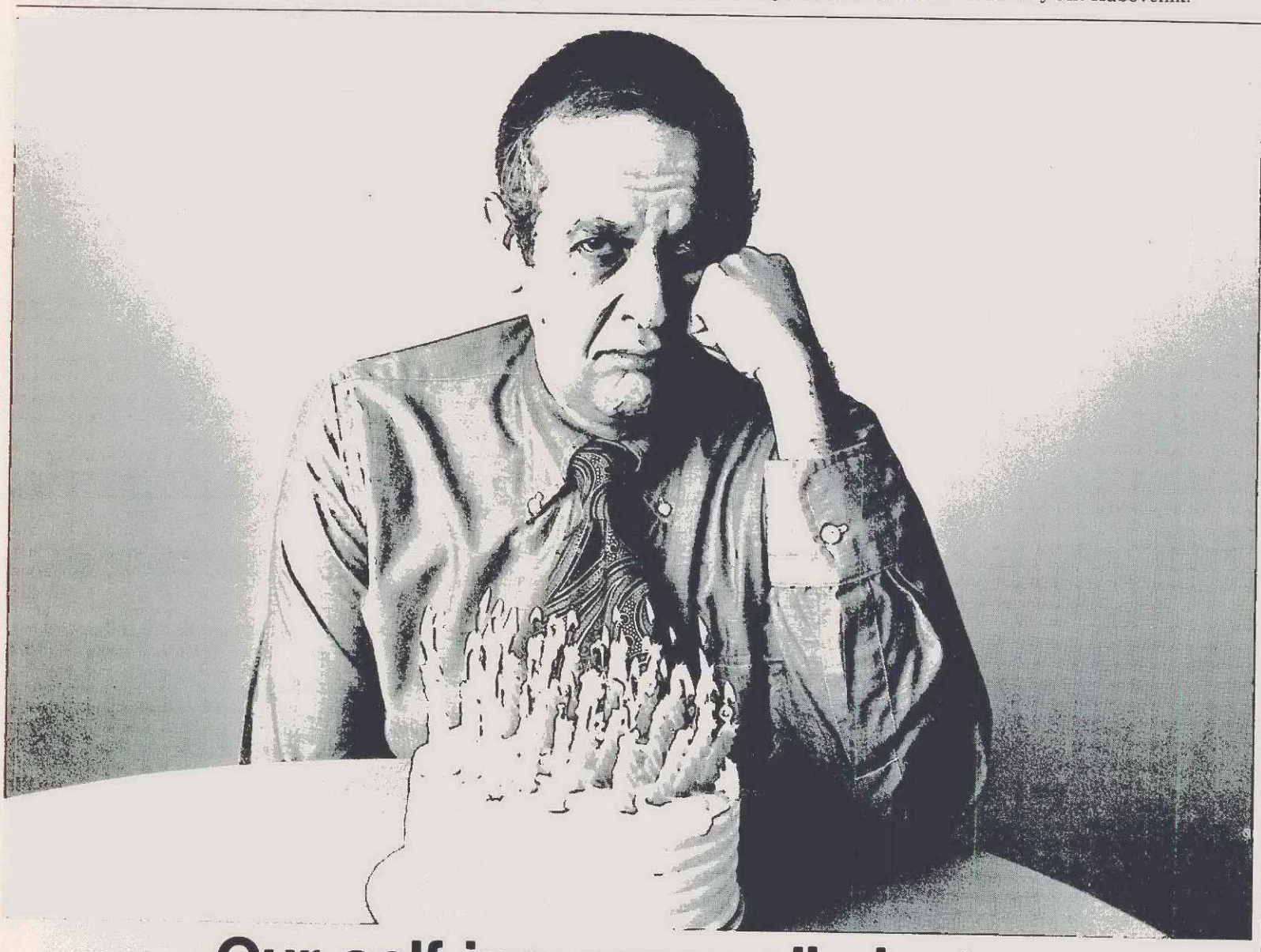
The surplus lines department at Arthur J. Gallagher & Co. in Rolling Meadows, Ill., operates under strict rules. Written documentation from an insurer is required before any quotations can even be offered, said John Gallagher, in charge of sales and new markets at the agency. The firm also maintains "internal controls and auditing" of its business transactions.

In dealing with other brokers, Mr. Gallagher said, "we do an in-depth study of who the people are, who the markets are."

The firm also tries to deal with "the Cadillac of the industry," he noted, though not to exclude new sources of insurance. Ultimately, he said, "We're dealing on the strength of the wholesaler and would look to the wholesaler to make good a policy."

What's the buyer of insurance to do to be sure he or she has really purchased valid coverage?

"In this situation, with so many brokers, it's hard for the insured to make contact to substantiate what's going on," conceded Avreco's Mr. Pearson. "There has to be faith."



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New pool to finance its losses

By MARGARET LeROUX

SAN LEANDRO, Calif.—In a new twist to municipal liability pools, six cities in Marin County are sharing loss financing in a "revolving charge account" type of buffer fund, the first non-risk sharing pool in the U.S., according to the consultant who devised it.

Each of the six cities will pay its own losses up to $100,000. Any one of them can borrow from a $300,000 fund to finance their losses. Any money taken from the fund is treated as a long term loan. It can be paid back over a long period of time, with the rest of the pool members sharing in the interest from the loan.

The fund offers the San Francisco suburbs a buffer layer, bringing them up to the requirements of a $10 million umbrella policy underwritten by Pinetop Insurance Co. and Integrity Insurance Co.

The fund is the main feature of a joint powers agreement developed for the cities by Risk Management Group consultants headed by Gordon Beamer.

"It gives the cities the most cost-effective means of financing their losses without having to share their risks," Mr. Beamer said. "Our objective is to stabilize the financial impact of a big loss."

The fund gives all the cities in the pool a larger reserve to draw from than what would be available to each of them individually. "The chances of all of them having bad losses in one year are very remote," he added.

Claims for all the members of the pool are being administered by Brown Brothers Adjusting Co. and will be charged back to the individual municipal departments responsible as a loss and cost control measure.

Expecting to save money are almost all the cities from Tiburon, the tiny bayside berth for yachts and sailboats, to Mill Valley whose finance director estimated the center of Marin County is paying $85,000 less than if it had agreed to the $200,000 quote it received from a liability underwriter.

Each member of the pool contributes to the fund according to size and number of services offered. The cities also share the $211,000 premium for the umbrella policy.

The largest city in the pool, 31,000-person Novato, is paying $53,200 for the umbrella premium and $25,000 for the buffer fund.

Although the market for municipal liability is "better than it has been," according to Mr. Beamer, "it still hasn't responded well below a $100,000 level."

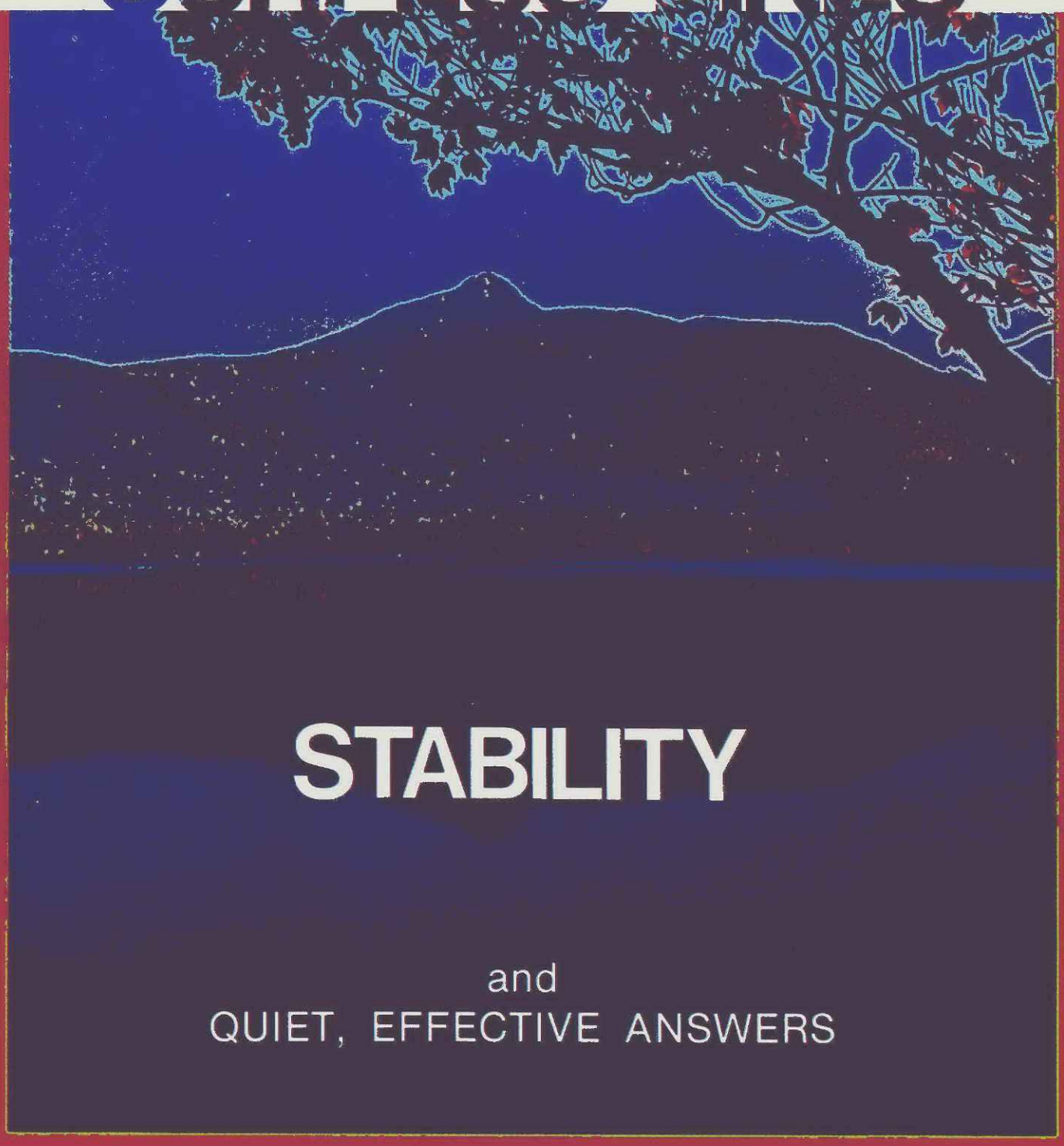
Risk Management Group developed a similar pool for six cities in the Coachella Valley, near Palm Springs, Calif., and plans for a third non-risk sharing pool for seven cities in Orange County to be approved in the near future. ■

OSHA suspends dust standard

WASHINGTON—The Occupational Safety & Health Administration (OSHA) has suspended a new cotton dust exposure standard for the mattress, upholstered furniture and automotive assembling industries.

OSHA currently is deciding whether to reopen the cotton dust record for additional comments on a possible new standard. ■

SURPLUS LINES



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Illinois transit agency to self-insure bus lines

By MARY ELLEN McKEE

CHICAGO—High premiums without sufficient liability protection is behind a decision by a mass transit agency here to self-insure the losses of the suburban bus lines it subsidizes.

Under the program, the Regional Transportation Agency for Chicago and northern Illinois would pay up to $1 million for bus liability and $500,000 in physical damage per occurrence, up to $20 million in claims per year. Excess insurance will be purchased, although the limits have not been determined.

RTA director of internal affairs Michael L. Fultz said that the program will bring strong economic benefits. By consolidating insurance packages, the bus lines as a group gain bargaining power, cash flow will increase and overhead and acquisition costs will decrease.

The recommendation to self-insure was made after the Wyatt Company, the RTA risk management consultant, examined the agency's problems. The transportation agency retained the Wyatt Company in 1976 when bus lines in a 6-county area found it increasingly difficult to obtain sufficient liability coverage to justify the skyrocketing premiums.

The Wyatt Company showed that the suburban bus lines were paying $1.5 million in insurance premiums but had combined losses of $535,886 in 1977.

In addition to suggesting self-insurance as the most feasible solution to suburban bus line problems, the Wyatt report also offered guidelines for a sound risk insurance managment program:

- The board of directors should issue a statement of policy on risk management, which includes guidelines on losses that may be self-insured.
- One individual should bear the full responsibility for implementing all risks and insurance management activities, including identification of exposures, risk control and risk funding.
- Communication tools should be created to instill a greater awareness of risk management problems such as an annual report of the risk management program, loss records and insurance manuals.
- A loss prevention committee should be formed comprised of members from safety, security and risk management departments. The group should share information and coordinate a unified front in attacking variables that contribute to the control of losses.

In the next few weeks, RTA officials will select a risk manager. They also will decide whether to use a service bureau, existing claims personnel used by the mass transit agency that serves the Chicago area (the Chicago Transit Authority) or RTA personnel to service the claims filed under the self-insurance program.

The Chicago Transit Authority, which operates subways and buses in Chicago and is also subsidized by the RTA, self-insures up to $3 million per year.

Once the loose ends are taken care of, Mr. Fultz foresees an effective way for RTA to reduce the adverse economic effects on the authority, the bus lines, the citizens and the taxpayers. ■

Women see dentists more

WASHINGTON—Are dentists more popular with females or males?

If the rate at which people visit dentists is any indicator, it seems dentists are more popular with females than males, says the Health Insurance Institute.

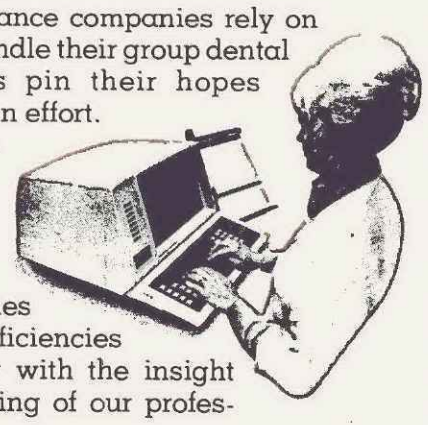
In every age group—from under 17 to over 65—females average more dental visits per year than males, 1.7 vs. 1.4.

Women in the 17 to 24 age group see the dentist most frequently, averaging two dental visits per year. ■

WHAT PUTS THE BITE IN OUR GROUP DENTAL COVERAGE?

Our System.

Some insurance companies rely on computers to handle their group dental claims. Others pin their hopes mainly on human effort.



The Travelers has its own unique system. Our group dental program combines the speed and efficiencies of the computer with the insight and understanding of our professional people.

Our computer network helps cut the cost of claims administration. And our claim forms carry the names and phone numbers of our claim representatives, so your employees can deal with people—not machines. You'll appreciate the savings. Your employees will appreciate the ease, convenience and human touch in receiving their dental benefit payments.

Perhaps our system is the reason last year we were the number one group dental insurance company—both in number of cases written and in employees covered. Or, maybe it's our 116 field offices across the country, staffed with the best group people in the industry, providing support services for clients with from four to more than two-million lives.

In either case, if you want to put some bite in your group dental program, our system can help. Contact your Independent agent or broker or The Travelers Group Field Office nearest you.

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THE TRAVELERS

The Travelers Insurance Company, and its Affiliated Companies, Hartford, Conn. 06115

Cayman insurer boasts its deal can best a captive

GEORGE TOWN, Cayman Islands—A new insurance company here claims to offer a better deal than a corporation could normally put together with its own captive insurance company.

Universal Casualty & Surety Co. Ltd., as it will be known when its name change from Casualty & Indemnity Co. Ltd. is finalized, offers a five-year retrospective premium plan. Under the plan an insured's reserves are segregated in its own account and the unused surplus reserves are made available to the policyholder at the end of the policy period.

The arrangement is intended for corporations with at least $250,000 in insurance premiums which want first dollar insurance in such lines as general liability or inland and ocean marine. Reinsurance arrangements, including gap layer reinsurance for a captive, are also available under the plan.

Going in, the insured is charged Insurance Services Office rates. Based on experience, the premium is later adjusted up or down. An aggregate limit on loss is also available. The arrangement can be canceled by either party with five years advance notice.

Based on its present capital and surplus of $10 million, provided by European interests, Universal Casualty & Surety is willing to write insurance of up to $1 million on any one risk, said president Llewellin Jones.

Mr. Jones declined to disclose how many insureds are on his books or their identity. He noted, however, that a financial statement prepared June 30 by Seidman & Seidman showed the insurance company earned $311,290 after five months in operation. The company was charted in July 1977, but it wasn't funded until January 1978.

The company intends to earn an underwriting profit of 9.4%; the administration charge is 10%. Mr. Jones said the potential client should also consider commission and other acquisition costs, which would be a minimum of 10%, in calculating the amount of premium that will be left to pay losses.

Claims paid under a policy with Universal Casualty & Surety must be handled by an approved claims service hired and paid for by the policyholder.

The exclusive underwriting manager for Universal Casualty & Surety is Interisland Insurance Management Ltd., also in George Town. The Seidman & Seidman financial report noted, "The company shall pay management fees and commissions not to exceed 25.6% of gross premiums on normal business. In no event shall such payments be less than 10.6% on direct business written. In addition, the company has agreed to pay 15% of the net underwriting profit to the management company." The report also notes that the "agreement may be modified by mutual consent of the parties and terminated upon five years notice by either party."

"I think we're very competitive with the wholly owned captive," said Mr. Jones, pointing to an administration cost of 10% as "one area among many" where Universal Casualty & Surety can top a captive.

"We're very flexible," he added, "probably the most flexible in existence because we tailor make the plan for the company." For example, he said, the insurer offers spread losses, agreements which spread the cost of a catastrophic loss over a few years. In addition, premiums are generally payable quarterly, but a large enough account would be granted monthly payments. Annual payments also would be acceptable.

"We are not a cut rate operation," Mr. Jones stressed. "We want sound clients to write on good, basic, solid insurance ideas." Clients are invited to deal directly with Universal Casualty & Surety or through a broker.

The company is intended for firms from around the world, not just the United States, Mr. Jones said. For the U.S. client, however, Mr. Jones believes premiums paid to Universal Casualty & Surety will not be challenged by the Internal Revenue Service when deducted on tax returns.

Referring to the IRS ruling of August 1977, which disallowed deductions for premiums paid to a captive, Mr. Jones said, "This does not apply to us because we are not a captive." ■

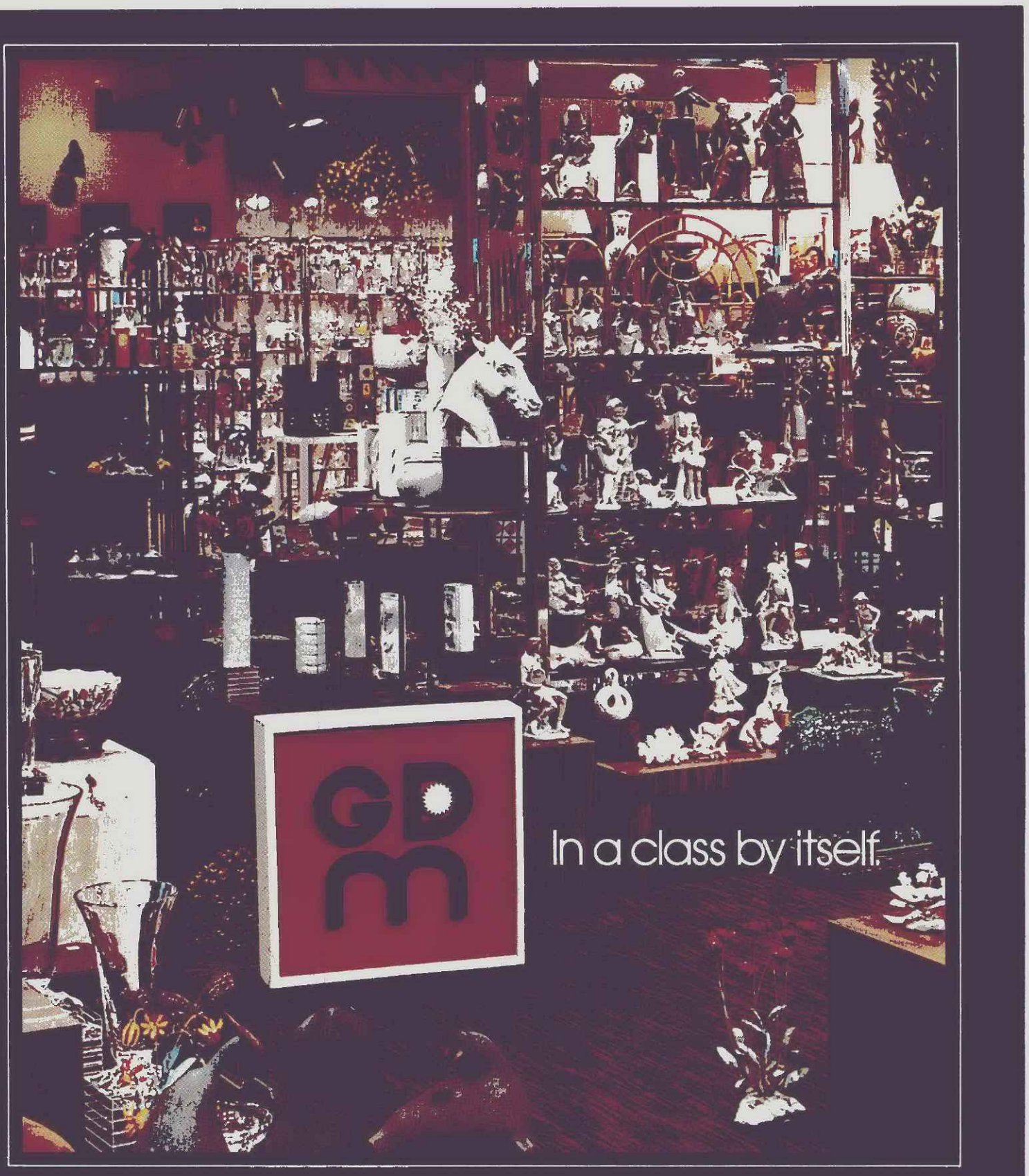
Clorox pays Plumr claim

OAKLAND—The Clorox Co. made a second $500,000 settlement in product liability lawsuits involving children who received severe burns after drinking "Liquid Plumr" drain cleaner.

The second settlement, made on behalf of a nine-year-old Tacoma, Wash., boy, was for the same amount paid in a similar case in New York in late 1977. Fireman's Fund Insurance Co. at the time of the incidents was underwriter for Clorox's comprehensive general liability insurance. The insurer no longer underwrites the policy for Clorox.

Both incidents occurred in 1970. Clorox had acquired Jiffee Chemical Co., manufacturer of the drain cleaner, in 1969. At the time the children swallowed the drain cleaner, the caustic content of the solution was in the range of 26% to 30%, according to a Clorox spokesman. The company released a reformulated version of the product with a 5% caustic content in November 1970, the same month two-year-old Shelby Brown of Tacoma drank the more caustic solution.

Subsequent reformulations have reduced the caustic content of Liquid Plumr to 2%, and the bottle has a child proof cap. ■



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U.K. brokers ponder response to Bowring-M&M link

By JOHN H. MILLER

LONDON—Boards of directors of leading U.K. brokerage firms are already meeting to consider the challenge thrown out by the Bowring group in its coming link with Marsh & McLennan.

Top executives in several firms have been considering the implications of the move, but so far no other Lloyd's brokerage group has declared its intentions over the future of their own U.S. relationships.

Secret talks are believed to be already going on in some cases with their counterparts in the U.S. Everyone in the London insurance market envisages more trans-Atlantic link-ups, especially as the committee of Lloyd's has welcomed the Bowring-M&M negotiations in the belief they will strengthen the market's global position.

Ivor R. Binney, the C.T. Bowring group's chief executive who headed the discussions with Jack Regan, confided to *Business Insurance*, "I'll be surprised if our lead isn't followed by other broking groups, but they'll probably be as secret as we were in the preliminary stages.

"One of the reasons why I instigated this deal is because I believe that by the end of the century the requirements of the insurance broking business in handling large multinational clients will mean that there will be a handful of international brokers leading the scene," Mr. Binney said.

"There'll still be room for small specialist brokers but it's hard to think that medium size brokers will be able to service their clients on the large scale that will be needed by then."

Bowring announced their discussions with Marsh & McLennan because of the need to deal with legal, tax and other matters before a definite plan can be put to stockholders, even though no transfer of actual stock is intended.

The C.T. Bowring group, which began life when a West of England trader named Benjamin Bowring started business links with North America through sailing ships more than 160 years ago, has wide interests in finance, banking, shipping, engineering and insurance.

It had pre-tax earnings of over $60 million last year, to which insurance broking contributed around $40 million. The firm won the Queen Elizabeth royal award for export achievement in the U.K.

In an interview, Mr. Binney said, "My reaction to the project with Marsh & McLennan is that it should not need to change our historic relationship with other brokers in any way, nor will it affect our reinsurance relationships.

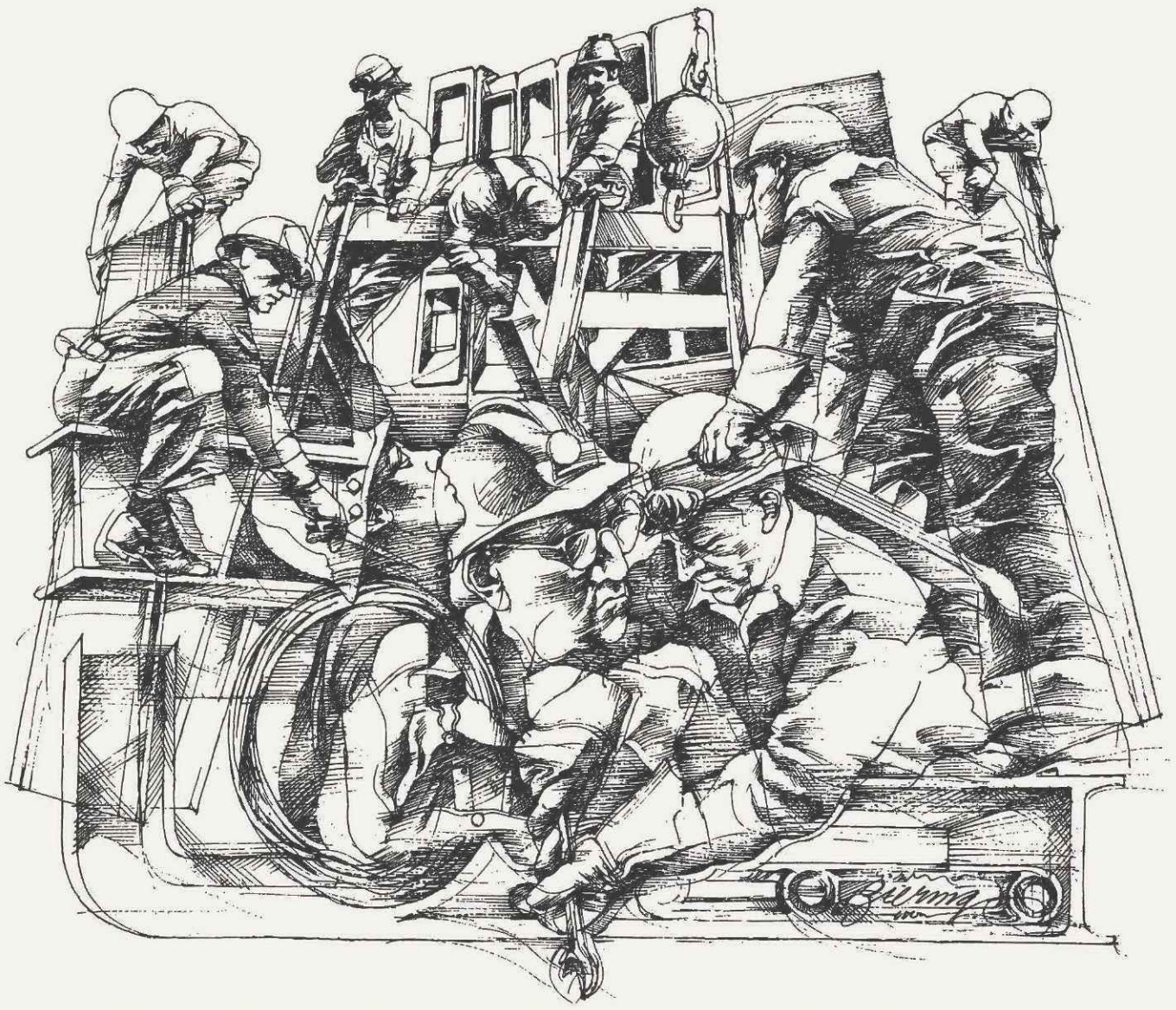
"We do not want to interfere with existing arrangements and we have a well-tried pattern for dealing with any situations where dual interests may emerge," Mr. Binney argued. The executive is a member of the committee at Lloyd's and a former chairman of the brokers' association.

Commenting on suggestions that some large U.S. brokers might be inclined to move to other sources for placing business at Lloyd's if the M&M deal goes through, he declared. "If they want to sack us through emotional reaction they will not be helping either themselves or their clients. For if they seek to use other sources, they'll find we're in a strong position on many risks and can provide quite formidable competition for business. But we naturally hope that won't happen."

Mr. Binney pointed to long term association with the John F. Sullivan reinsurance brokers group of Seattle, which is linked with Fred S. James. "There's no reason at all to think our contact with the Sullivan firm is going to be broken," he said. "We've known them for too long."

Mr. Binney added: "Both Marsh & McLennan and ourselves are proud of our traditions and we're not going to lose our respective identities. We're not selling or ceding control of our individual arrangements to anybody. It's not a move to get around the Lloyd's decision on admitting outside brokers; it's an essential step toward international business relationships which will benefit the whole market."

A formal statement from Lloyd's said: "The committee of Lloyd's has emphasized in recent months that control of operations should rest firmly in the hands of people with long experience in the market. This view is not in conflict with the international nature of Lloyd's business and we welcome the intention of the two parties to meet our requirements over Lloyd's brokers if the proposed combination goes through." ■



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The same things that have kept Equitable group insurance and Butler Manufacturing Company together for 63 years are becoming newfound advantages for even more companies. In the last four years, The Equitable has been #1 in sales of new group life and health insurance and pensions (measured by new premiums and considerations)—a tradition with a growing future.

To find out more about making Equitable group coverage a working asset for your company, contact your local Equitable representative.

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The Bowring group began in the U.K. in 1811 when Benjamin Bowring, a jeweler, sailed to Newfoundland to set up a trading post for commodities for the newly developing communities of America.

Twenty-five years later he moved to Liverpool and with his son Charles formed the shipping firm of C.T. Bowring & Co. for trade with North America.

The family entered insurance 130 years ago as agents for a Liverpool fire and life company and started their own marine underwriting account. One son became a Lloyd's member in 1866 and another opened an office in New York which became known as Bowring & Archibald, Lloyd's agents.

Later they stepped up their insurance brokerage interests in the U.S., which accounts for 40% of the group's present business. The group separately manages eight Lloyd's syndicates with a potential premium income capacity of nearly $150 million.

SOME COMPANIES HAVE FOUND A BETTER WAY TO PROTECT THEIR EMPLOYEES' HEALTH.

These businesses wisely reason that if they can keep their employees healthy, they can keep the cost of health coverage from going up even more.

So all across the country, giant companies, medium-sized companies, even small companies are instituting programs to keep their employees fit.

These programs range from screening programs for hypertension to health information programs (like one in use by Armco).

In addition, an amazing number of companies have begun on-the-job fitness programs. These programs range from exercises employees are encouraged to perform at their desk, to workouts at nearby YMCAs, to medically supervised fitness activities at extensive company facilities (like those provided for their employees by Xerox and Kimberly-Clark).

These bold and imaginative companies realize that preventive medical programs have the potential of returning enormous dividends in greater health and happiness for their employees. And greater productivity from them.

It also stands to reason that if your company can institute a program that is actively designed to keep your employees healthy and well, your company's health care costs can possibly be lowered.

As you know, Blue Cross and Blue Shield Plans are fighting a nationwide battle to keep costs from running away.

Programs such as second surgical opinion, medical necessity programs, home care, health maintenance organizations, same day surgery, pre-admission testing and the like are in use in many Plans with positive money-saving results. As successes are achieved, the results are shared so that knowledge gained by solving local problems can be applied on a wider basis.

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But controlling health care costs without sacrificing quality is a complex problem. One we all need to work on together.

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$80 million program to cover 450 hospitals

By MARGARET LeROUX

LOS ANGELES—The California Hospital Assn. (CHA) negotiated a new group professional liability insurance contract that includes a 21% reduction on the primary layer and control over funding excess layers for 450 of its member hospitals.

The $80 million primary policy underwritten by Truck Insurance Exchange, a member of Farmers Insurance Group, provides each of the hospitals with liability limits of $100,000 on an occurrence, not claims made basis.

A series of deductibles ranging from $1,000 to $50,000 on a 50% coinsurance basis with the insurer are part of the package. The coinsurance applies to the cost of the claim but not defense. Size of the deductibles is at the option of the individual hospitals, according to Douglas Dutton, coordinator of insurance programs for the CHA.

"The hospitals pay their own losses," he said.

The basic excess program provides the hospitals with $1 million per occurrence, but any limit the hospitals want can be written, Mr. Dutton said. "There is no aggregate."

Some of the hospitals in the group, which includes the majority of the 570 members of the association, have excess limits of more than $20 million. The excess coverage is written by Lloyd's of London and various U.S. excess insurers, Mr. Dutton said.

Giving ownership of the excess coverage to the hospitals provides them with a continuous flow of money to offset the need for additional funding, the insurance coordinator noted. The contract also provides a new method of computing investment income on the excess amount, he added.

Another feature of the new contract with Truckers Insurance gives the hospitals greater influence on loss prevention services provided by the insurer.

According to James Ludlam, senior counsel for the CHA, cash flow and investment provisions of the new contract gives the hospitals the benefits of self-insurance while being fully insured.

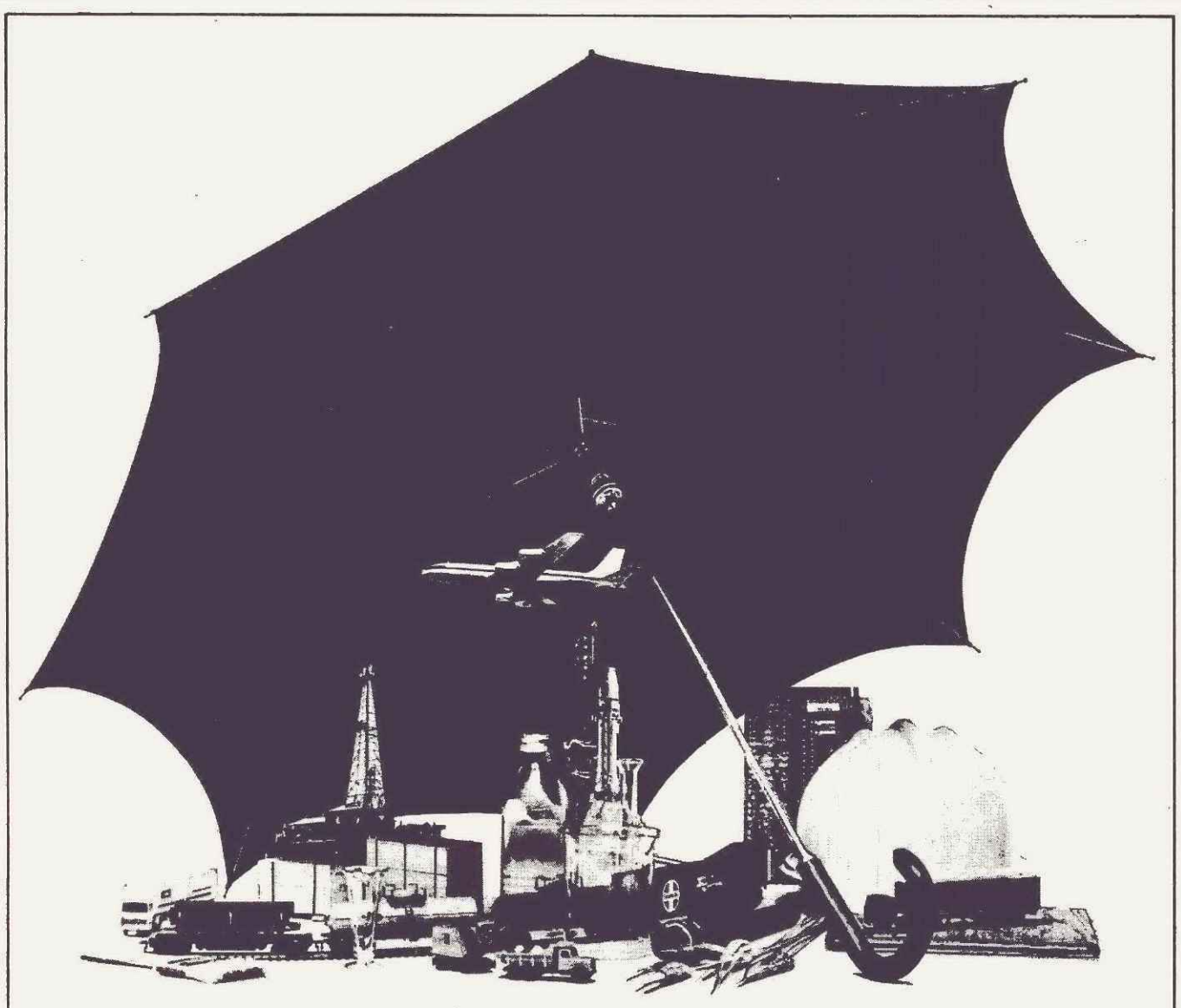
The new contract will be explained to hospitals in the group plan during meetings in October. "It reflects the relationship we've maintained with the Truckers Insurance for almost 25 years," Mr. Dutton said.

The relationship allowed members of the CHA "to stay alive" during the malpractice crisis, he explained. Even in the current loose market situation, "nobody's interested in covering us at a price I feel is equitable," Mr. Dutton said.

Premiums for the CHA's primary group policy are figured according to exposure units. There's a separate rate for out-patient services, emergency room, surgery and other facilities provided by member hospitals.

Also taken into consideration are number of beds and physicians who use the hospital's facilities. The policy covers CHA employes only; physicians must provide their own coverage.

"We don't put an experience rating on our hospitals," Mr. Dutton said. "We've found it to be much more equitable to bill hospitals according to their exposures." If new exposures are found, such as surgery in the early 1970s, they are added to the billing procedure. ■



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Globe Life sets retired lives plan

CHICAGO—Globe Life, a Ryan Insurance Group company, recently introduced retired lives reserve which provides a way for high salaried executives to receive group life insurance.

This concept offers a deduction on the premiums paid by the corporation, yet the entire lives reserve fund is tax free to the individual before and after retirement.

Additional features of the policy include flexibility of premium payment, return premium of the post retirement benefit and a low reserve funding compared to other RLR plans. ■

At BI conference Nov. 13-14

You be the judge of benefit communication efforts

CHICAGO—You be the judge.

The judge of other companies' employe benefit communications efforts, that is.

Again this year at the annual *Business Insurance* Employe Benefit Communications Conference, communication expert Herbert Zeltner will lead participants in a critique of several audio-visual benefit efforts.

The you-be-the-judge sessions were among the most popular parts of last year's benefit communications conference.

In all, a roster of 22 experts will discuss new techniques and trends in the field of benefit communications at the conference at the Marriott Motor Hotel near O'Hare airport on Nov. 13 and 14.

The conference is designed to provide those involved in benefit communications with working sessions and problem-solving meetings on the latest communication techniques being used to convey employe benefit messages to workers. It will also help managers take home ideas useful in tackling their own benefit communications problems.

Concurrent sessions will probe and analyze the different media that can be used to transmit benefit information to employes, including audio-visual techniques, booklets, personalized correspondence, computerized statements and special projects.

One group of concurrent sessions will involve small-group problem solving, using a case study approach to planning and implementing an effective benefit communications program.

Several corporate benefit managers and a benefit consultant will debate whether employe benefits should be communicated differently to hourly and salaried employes. Squaring off on this subject are David C. Wineland of Armco Inc., D. Bruce Sidebotham of General Tire & Rubber Co. and George F. Way with Buck Consultants Inc.

Presenting and discussing their winning audio-visual and print communications programs will be Harold L. Hudson of Revlon Inc. and Meg Franklin of Levi Strauss & Co.

Several general sessions are planned to discuss two subjects of broad concern to benefit communicators: Using supervisors to inform employes about their benefit programs and surveying employes to determine attitudes about benefits and to determine the effectiveness of ongoing communications programs.

Clay Hurst of Olanie Hurst & Hemrich will be joined by Kelly Coy of that same firm to discuss techniques of communicating with supervisors and encouraging communications between employes on benefits.

John Kerney Jr. of Kwasha Lipton will present alternative approaches to surveying employes on their attitudes and knowledge about benefits. He'll discuss the importance of getting accurate feedback from the workforce.

Concurrent sessions during the two-day conference will be led by consultants from around the country, including R. Craig Fulford of Southern Employe Communications, Dennis B. McKoy of Johnson & Higgins, David M. Gladstone of Hazlehurst & Associates, Gary L. Bradshaw of Wyatt Co., Peter A. Danielson of Benefit Consultants Inc., Russell J. Alberding and Dorothy D. Zinck of A.S. Hansen Inc., Nanci A. Healy of Frank B. Hall & Co., Donald L. Sheppard of William M. Mercer Ltd., Ira Kerns of The Creative Establishment Inc., Lee A. Carlson of the Benfo division of M&R Services and Judith A. Karam of Martin E. Segal.

The registration fee for the conference is $295. Attendance is limited. Group discounts are offered for companies sending more than one representative; after the first registration, the fee is 10% lower for others registering at the same time. The conference is to be held at the Marriott Motor Hotel near O'Hare airport.

For more information or to register, contact Taylor Lucas, Crain Education Division, 740 N. Rush St., Chicago, Ill. 60611, or call (312) 649-5242. ■

* * *

The program

- Supervisors—your keys to effective communication?
- Surveys—how to tap employe feedback.
- Developing a winning audio-visual program—how we did it.
- How does your program stack up? Bring it and see . . .
- You be the judge I.
- Can you solve this problem?
- You be the judge II.
- Media close-up: How to best use your tools.
- Developing a winning print program—how we did it.
- White vs. blue—effect of collar color on communications.

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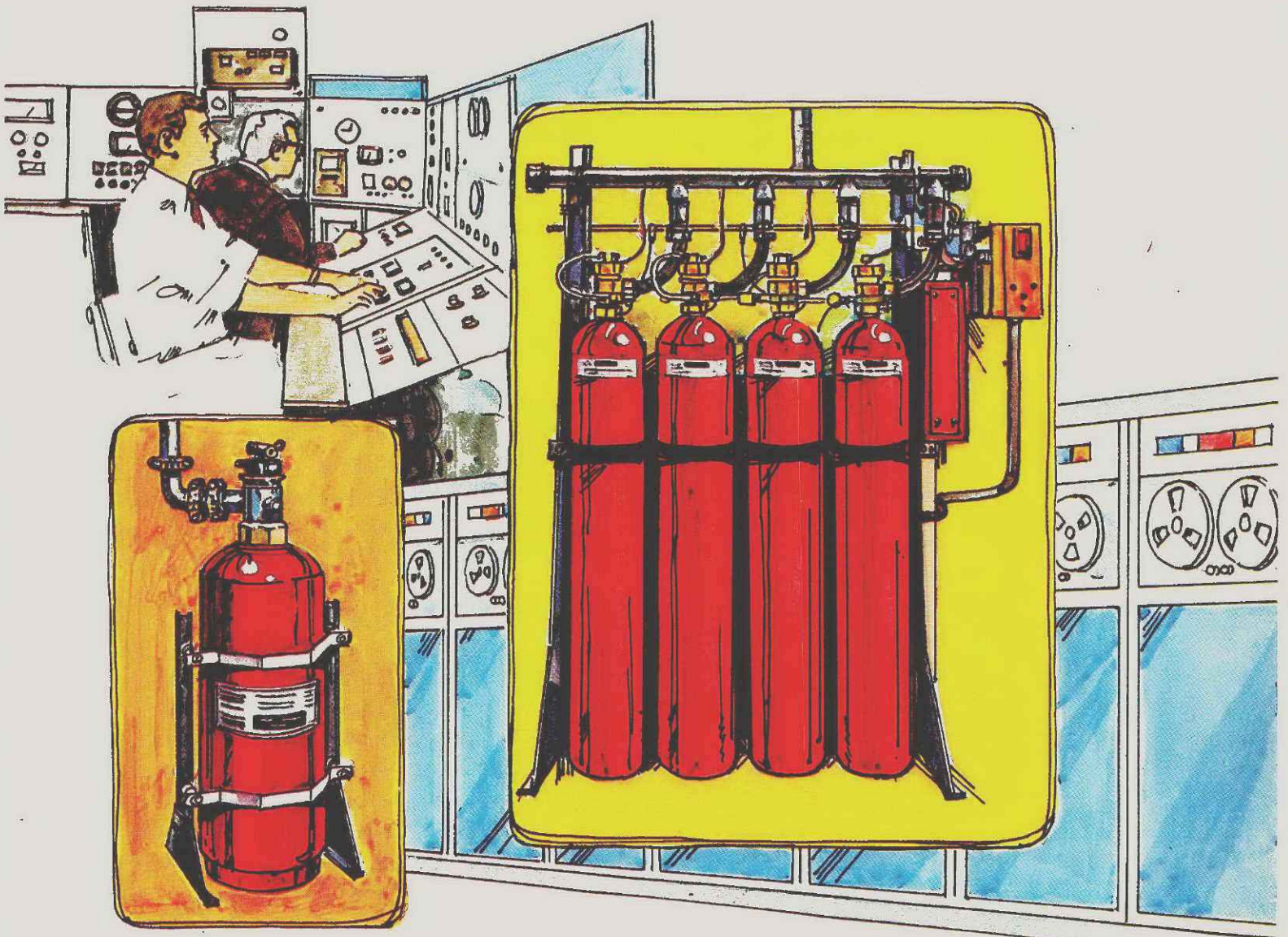

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Pension additions gain for exec compensation

NEW YORK—The growing use of pension supplements for long term executive compensation is a major finding of a comprehensive study of executive compensation and perquisites.

The study, which includes 979 firms, also noted the increasing use of stock appreciation rights, performance shares and phantom stock plans for long term executive compensation.

Qualified stock option plans, however, are becoming less common, according to Martin E. Segal Co., employe benefit consultants who conducted the study.

The study found that the most common perquisites enjoyed by the three top executives of leading companies are provision for company automobile, corporate payment of club memberships and the use of company aircraft for transportation.

Other perquisites offered by fewer companies are financial or tax counseling, life insurance, low interest or no interest loans, product use and reimbursement for medical expenses.

Life insurance and medical reimbursement perquisites are used fairly infrequently. Only 12% of companies reporting types of perquisites pay for life insurance while 9% pay for medical expenses.

The value of perquisites for key company executives, however, is surprisingly low. In percentage terms, the value ranges from an average of 3.1% to 3.9% of total compensation.

In its study of the relationship of executive compensation to corporate profitability, the study found that percentage increases in total direct compensation are generally greater for executives at non-bonus companies than at bonus paying companies, except when corporate profitability is outstanding.

Despite a widespread belief that annual bonuses are a giveaway, the study said corporate performance at bonus paying companies correlates strongly with the payment of bonuses to top executives.

But the study found no correlation between salary increases and corporate performance at either bonus or non-bonus companies. At non-bonus companies, salaries increased even when corporate profits decreased.

The study noted that the increasing use of pension supplements has resulted from a need to replace benefits lost due to ERISA's maximum limitation on benefits and from its use as a long term device to retain executives.

The Segal study was limited to the three most highly paid executives in the corporations selected since these are the only executives whose compensation is spelled out in proxy statements. ■

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Carter OKs bill to trim immunity

WASHINGTON—President Carter last month signed into law legislation sharply curtailing diplomatic immunity for all foreign embassy personnel in the U.S. except ambassadors and their families.

The law makes thousands of foreign embassy employes legally responsible for non-official actions. Embassy staff could, for example, be sued if they were at fault in traffic accidents.

The law also requires all diplomats, including ambassadors, to carry liability insurance if they operate a motor vehicle, boat, ship or plane in this country.

The measure will go into effect Jan. 1, 1979. ■

California is first

California again led the nation in total life insurance protection in force, with $250.2 billion in protection at the end of 1977, reports the American Council of Life Insurance. New York ranked second, with $217 billion. The nation's total life insurance in force reached a new high of $2,583 billion at the end of last year. This averaged out to $32,400 in life protection per family.

CU won't cover firm's bias claim

DANVILLE, Va.—Commercial Union Insurance Co. continues to refuse to honor insurance policies purchased by Dan River Co. that the South Carolina-based textile firm contends protects it against discrimination suits.

Earlier last month, Dan River settled a 1969 suit filed in district court here by black employes who charged the textile company with racial discrimination in employment practices.

Under the settlement, Dan River agreed to establish a $600,000 educational trust fund to benefit black employes. The company also agreed to pay $50,670 to the 18 plaintiffs who filed suit.

Dan River asked Commercial Union to participate in the settlement, but the insurer declined, according to Roger Tuttle, Dan River's assistant general counsel. "There was no reaction on their part."

Dan River previously had asked Commercial Union to assume the defense of the suit filed by the black employes, participate in the settlement discussions and reimburse Dan River for the cost of settling the suit.

When Commercial Union declined to honor its excess umbrella policy which the company claimed provides coverage for discrimination in employment suits, Dan River sued Commercial Union in district court in Danville, Va. Despite the settlement with the black employes, the Dan River-Commercial Union suit still is pending.

In a similar case that was settled this summer, CNA attempted to deny coverage to Union Camp Corp. on the grounds that an insurance contract is unenforceable if "it is, injurious to the public or contravenes some established interest of society." Union Camp also had been sued by black employes who charged the company with discriminatory employment practices (*BI*, Aug. 21).

When CNA denied coverage, Union Camp sued the big Chicago-based insurer. However, two weeks after a federal judge ruled that insurance policies that provide coverage against discrimination do not violate public policy and are valid, Union Camp and CNA settled the suit.

Frank Meade, a Danville attorney who represents Commercial Union, declined to discuss the Dan River case. ■

Hall develops record service

BRIARCLIFF, N.Y.—Frank B. Hall & Co. Inc., the nation's fourth largest insurance broker, is introducing a cost-effective service for financial institution trust departments and their clients.

Recordkeeper, the name of the new computerized service, was designed by the national benefits services division of Hall for managing funds for profit sharing, thrift/savings, ESOP/TRASOP and money purchase plans.

Record maintenance expenses stemming from reporting ERISA and tax reform requirements are intended to be kept at a minimum via the service. ■

New council exec

William A. White, former chief actuary for the New Jersey insurance department, has joined the American Council of Life Insurance as assistant actuary.

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Financial reporting required

New Bermuda insurance act details existing policy

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—A new insurance law, adopted to regulate and thus validate the maturing insurance industry here, grants the minister of finance no more power over the industry than he has had under the Exempted Companies Act of 1950, maintains a government official.

That 1950 law gave the minister "wide powers" to investigate and direct the business of an insurance company if necessary, said Shelton Burgess, the registrar of companies for Bermuda. "But the insurance business is much more sophisticated now," he observed. "People won't accept the wide powers granted the minister under the 1950 law. They want to know what he can and cannot do."

The Insurance Act of 1978, which won't be effective until regulations to implement it are approved, basically provides for "ongoing supervision or surveillance of the insurance industry," Mr. Burgess said. Prior to the act the Bermuda government relied on its initial permit process for registering an insurance company as its only specific regulation.

Now the act not only details the minister's authority over the business of insurance, which is at times discretionary but also places new responsibility for financial reporting and company solvency on the directors and managers of insurance companies in Bermuda.

Under regulations implementing the law, an insurance company in Bermuda could find it is even limited, if liberally, on how much business it can write.

Just how much the law will regulate the 700 insurance companies in Bermuda, and the captives among them in particular, will depend upon the final form of the regulations.

Draft copies of the regulations—which detail the required form and content of accounts and audits, financial returns and solvency—are currently circulating for comment. Mr. Burgess expects the regulations, written into proper form and perhaps modified as the result of comments received, will be presented for approval to Bermuda's legislature when it reconvenes in November. Comments on the regulations will be accepted until the end of October.

Though Jan. 1 had been the target date for implementing the act, Mr. Burgess concedes it may be April 1 before the minister, armed with approved regulations, decrees the act to be in effect.

Even then, under a provision of the law, insurance companies may request a one-year exemption from the provisions of the law "to get their houses in order," Mr. Burgess noted.

At present, the draft regulations "lay down the requirement for companies to prepare accounts in a statutory format and for them to be audited by an independent accountant," Mr. Burgess said. A "clean bill" is required or else the auditor must explain the deficiencies.

A certificate of solvency, signed by two company directors and the principal representative or manager of the company, is also required under the regulations. The certificate would have to include summarized information from the financial statement, such as assets versus liabilities, but normally the full financial records would not have to be supplied.

As a third reporting component, the regulations as now written require submission of a schedule of important statistics: premium to surplus, premium to capital and surplus, change in surplus, a three-year operating ratio and perhaps a surplus to liabilities ratio.

Still, all this reporting does not require public disclosure of the company's operations. Even if the minister of finance were to request additional financial information based on a concern raised by the basic reports, he is subject to strict confidentiality rules laid down in the insurance act.

The insurance act for the first time sets into law the capital requirements Bermuda has maintained for registering an insurance company. And the regulations as now written also detail the amount of capital and surplus necessary to write various amounts of insurance.

Though it is a "complex formula," Mr. Burgess said, basically it requires any company in the general (property and casualty) insurance business to maintain $120,000 of capital and surplus for writing up to $600,000 in premiums. A company writing up to $6 million in premiums would be required to maintain capital and surplus equaling 20% of its premium volume—a five-to-one ratio. A company writing over $6 million in premiums would have to maintain $1.2 million in capital and surplus plus additional capital and surplus of 10% of premiums exceeding $6 million.

It's been suggested that pure captives—companies writing insurance only for its parent and related companies—would be exempted from complying with the law. But Mr. Burgess noted that section 56 of the law "provides that any insurer can apply for an exemption from all or certain accounting provisions."

Criteria the minister would use in granting such an exemption, Mr. Burgess said, would be "the degree to which no third-party risks are present or if adequate guarantees exist from the parent company of a captive."

Mr. Burgess readily admits that whatever regulations are adopted, the new insurance law will require "a bit more" paper work in maintaining financial records and reporting. "But one reason why its taken quite a long time, four years, to get a law has been deciding what approach to take. We tried to be effective with a minimum of extra work to the governmental and private sectors," he explained.

Despite the introduction of this regulation over an industry previously essentially free of government supervision and intervention, Bermuda captive managers are not complaining. The attitude of Clive Himsworth, manager of Bellefonte International Insurance Co. Ltd., appears to be typical.

"I can't see that the Bermuda government would want to introduce anything that will have a detrimental effect on the fast growing market in Bermuda," he believes.

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Hospital captive reaps operating savings

By SUSAN ALT

WILLIAMSBURG, Va.—PHICO, a Pennsylvania hospital malpractice and liability insurance captive, was so successful in its first year that it returned over $1.5 million to policyholders as expense savings and has recently begun underwriting staff physician liability insurance and workers compensation coverage.

Don Steffes, president of the insurer, told a group here for the annual meeting of the Institute of Risk Management Consultants that PHICO has issued third year policies to 61 hospitals in the state, rewarding them with average premium charges of only $184,619, down 20% from 1976 average premiums of $231,055. The lower premiums are in addition to the return of the $1.5 million to policyholders because of lower expenses than anticipated.

PHICO insures 190 hospitals representing approximately 35,000 beds with an annual premium flow of about $42 million.

Earlier in the year, PHICO reduced premiums because claims-made percentage factors were lowered as a result of slower claims development trends. Five out of every six hospitals insured had qualified by early this year for rate modifications because they had implemented the necessary risk management programs.

Eighty-five percent of PHICO's premiums are allocated for losses and loss control expenses; the remaining 15% includes acquisition costs. Mr. Steffes said PHICO obtains business from over 70 brokers, paying commissions on a graduated scale of 2% to 5% depending on the size of the client's premium. Only five hospitals buy insurance directly from PHICO.

PHICO insured 175 hospitals in January, up from the 101 hospitals participating in its insurance programs when it began in January 1977. Mr. Steffes' goal is to insure 220 hospitals in the state out of a total of 247.

As of July 1, PHICO began insuring hospital staff physicians against malpractice liability, anticipating that it'll have 500 doctors participating by yearend paying an estimated average premium of $2,500 per physician per year.

Only a month earlier, PHICO had plunged into the workers compensation liability insurance field, signing up 24 hospitals and processing 24 more for the plan. Premium flow in this business is anticipated at $2 million during the first year. Mr. Steffes predicts 35% to 40% of the malpractice and general liability hospital participants will enroll by June 1, 1979, eventually growing to include 60% to 75% of the hospitals participating in the PHICO liability plan.

Limits available for hospitals are presently at $100,000 per occurrence and $1 million annual aggregate, while physicians' limits are $100,000 per occurrence and $300,000 aggregate.

In addition, PHICO has a catastrophe fund that covers hospitals and physicians for excess layers of $1 million/$3 million. Hospitals are able to obtain still more excess layers of $1 million each up to a total of $5 million through a PHICO facility consisting of U.S. and foreign insurers. In all, this enables health care providers to purchase a total of $9 million coverage.

PHICO has taken the position that it'll fight rather than pay when the hospital doesn't think there's merit to a malpractice or general liability claim. "We'll pay $2,500 or $5,000 for defense rather than make a nuisance settlement," Mr. Steffes boasted to the consultants.

As evidence of PHICO's determination to defend its clients, Mr. Steffes cited Suburban General Hospital in Norristown, Pa., which recently became notorious for having its emergency room anaesthetic gas and oxygen lines reversed. A total of 29 claims for injury or death were subsequently filed against the hospital, a PHICO participant, asking unspecified damages. Mr. Steffes says a PHICO investigation reveals it has 19 valid claims for which liability will have to be acknowledged.

"We estimate we'll pay $250,000 to $300,000 for defense alone on those cases," he said. "We've already spent over $50,000 on them."

PHICO's mandatory incident reporting system is now working "reasonably well," says Mr. Steffes, acknowledging that it is not without its problems. PHICO has handled over 125,000 incident reports since the company began insuring hospitals, but this includes only those reports physically relayed to PHICO for filing. The hospitals participating in PHICO have processed internally over 200,00 incident reports in that same period.

Only about 1% of all incident reports that reach PHICO result in claims, although PHICO continues to work on a reporting system that will result in an incident report on file for almost every claim.

"At first, we were fortunate if 10% of claims had an incident report on file, but now about 48% of all claims have a prior incident report. We'd be happy if we could get that up to 65% or 70% of claims having a prior report on file," Mr. Steffes told *Business Insurance*.

There have been 1,550 claims reported against PHICO hospitals for malpractice or general liability, although only about 251 have resulted in suits. About 55 claims are presently being reserved for more than $25,000 each. Of the 1,550 claims, 840 are outstanding.

Contrary to any hope the hospitals may have had for a decrease in malpractice and liability suits as an outcome of PHICO's programs, Mr. Steffes points to "an appreciable increase" over the last six months in the number of suits filed.

However, PHICO has seen a decrease in the number of nonmeritorious claims being filed against hospitals because of PHICO's attitude that it will fight frivolous claims rather than settle them, Mr. Steffes said.

Of total claims filed, about two-thirds are professional liability (malpractice) and the remainder are general liability. Most malpractice occurs because of failure by the hospital or doctor to properly diagnose a disease, PHICO has learned. ■

Other stories from the insurance consultants conference include:

- **A self-funded** errors and omissions program for the consultants won't work. Page 30.
- **Only 15 pollution** liability policies have been written in the three years of the policy's existence. Page 32.
- **Federal insurance** official works to consolidate coverages for housing programs. Page 33.

PHICO's consultants fall short of claims

WILLIAMSBURG—When Pennsylvania's hospital insurance reciprocal was established in January 1977, Don Steffes ran into problems with outside risk management consultants, actuaries and loss control experts hired to audit hospital programs and rate the policies initially underwritten.

The consulting firms didn't have the expertise they claimed when PHICO contracted with them, says Mr. Steffes, president of PHICO. Among the errors and mistakes the firms made was assigning a liability rate 40% too high for one policy, which meant a hospital would have paid over $500,000 extra in premiums for a policy that should have cost just over $1 million a year.

He declined to disclose names of the firms.

In another instance, a loss control survey failed to include a nine-story building that was part of a large hospital complex. PHICO found the oversight when a claim was filed for an event that took place on the seventh floor of the hospital building, but there wasn't any record on file of that building in the complex.

Needless to say, PHICO discontinued that consulting firm. "These situations prompted us to staff our own operation," said Mr. Steffes. Two of four outside service firms "failed to live up to our expectations. In the underwriting area, this was due mainly to the lack of experience. In the loss control area, the firm didn't have the expertise we required to meet our specifications."

Mr. Steffes doesn't think the poor performance of these outside suppliers was the result of poorly drawn specifications, but rather the firms' tendency to play up their capabilities in order to win the contracts. ■

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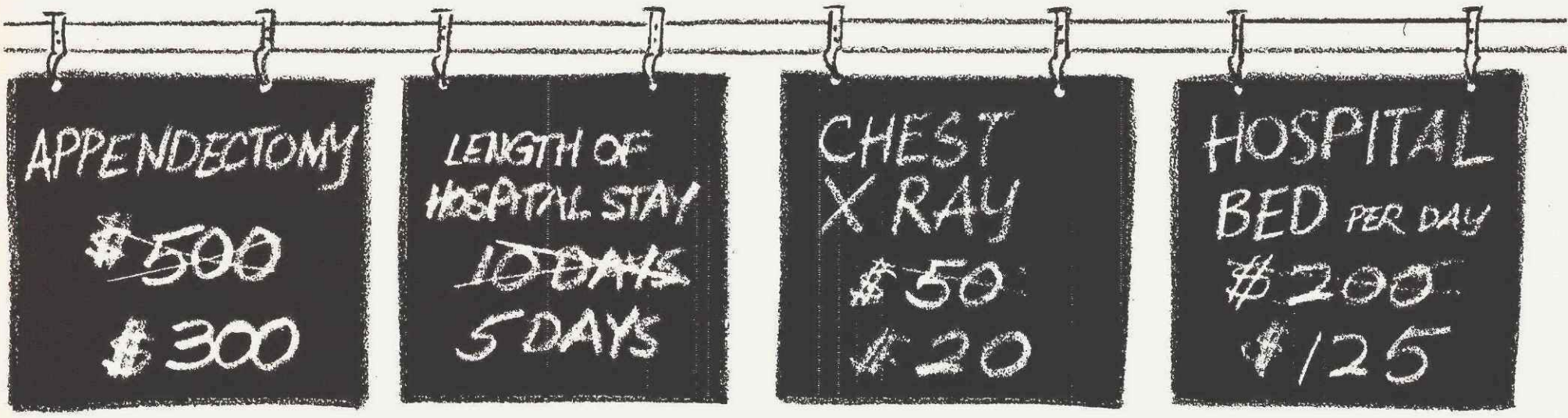
Something new of rising health care



Health care costs in this country are rising at an unacceptable rate. And Metropolitan, as one of the leading group health care insurance providers, realizes that something has to be done.

So, we've put together a medical cost containment program. It has several facets. And its basic strength is that we're involving everybody that affects, and is affected by, the rising cost of health care: users, employers, providers, insurers and regulators.

We can't sum up the whole program in one statement, but here are some of the highlights:

Designing Flexible Group Medical Plans.

We're providing plans that give our group customers more options in health care delivery, eliminating the unnecessary, and finding alternatives to the costly.

For example, we're recommending plans featuring a range of deductibles to shift some responsibility of payment to the users, giving them a greater sensitivity to the costs of medical care.

We're also advocating new types of coverage to encourage the use of effective and less costly alternatives to lengthy and costly hospital stays. Like extended care facilities, home health care, alcoholic and drug rehabilitation facilities, ambulatory surgical facilities, and on an outpatient basis, pre-admission and post release testing.

Metropolitan, in cooperation with some of our group customers, is also evaluating the long-term effects of a Voluntary Second Surgical Opinion feature that may help discourage unnecessary surgery.

What it comes down to is finding the best way to design Group Medical plans. A way that's more effective and less expensive.

Group Claim Consultants. Our people in the field who make it work.

Metropolitan Claim Consultants are key to implementation of most of our Cost Containment Programs.

Metropolitan Claim Consultants act as our group customer's interface with all health care participants (hospitals, doctors, patients, etc.). They analyze programs, recommend changes when necessary and work for mutual cooperation among providers, users and insurers.

They can also initiate various money saving programs for policyholders. Such as an Absence Control Program that can eliminate or cut down abuse of sick time and disability.

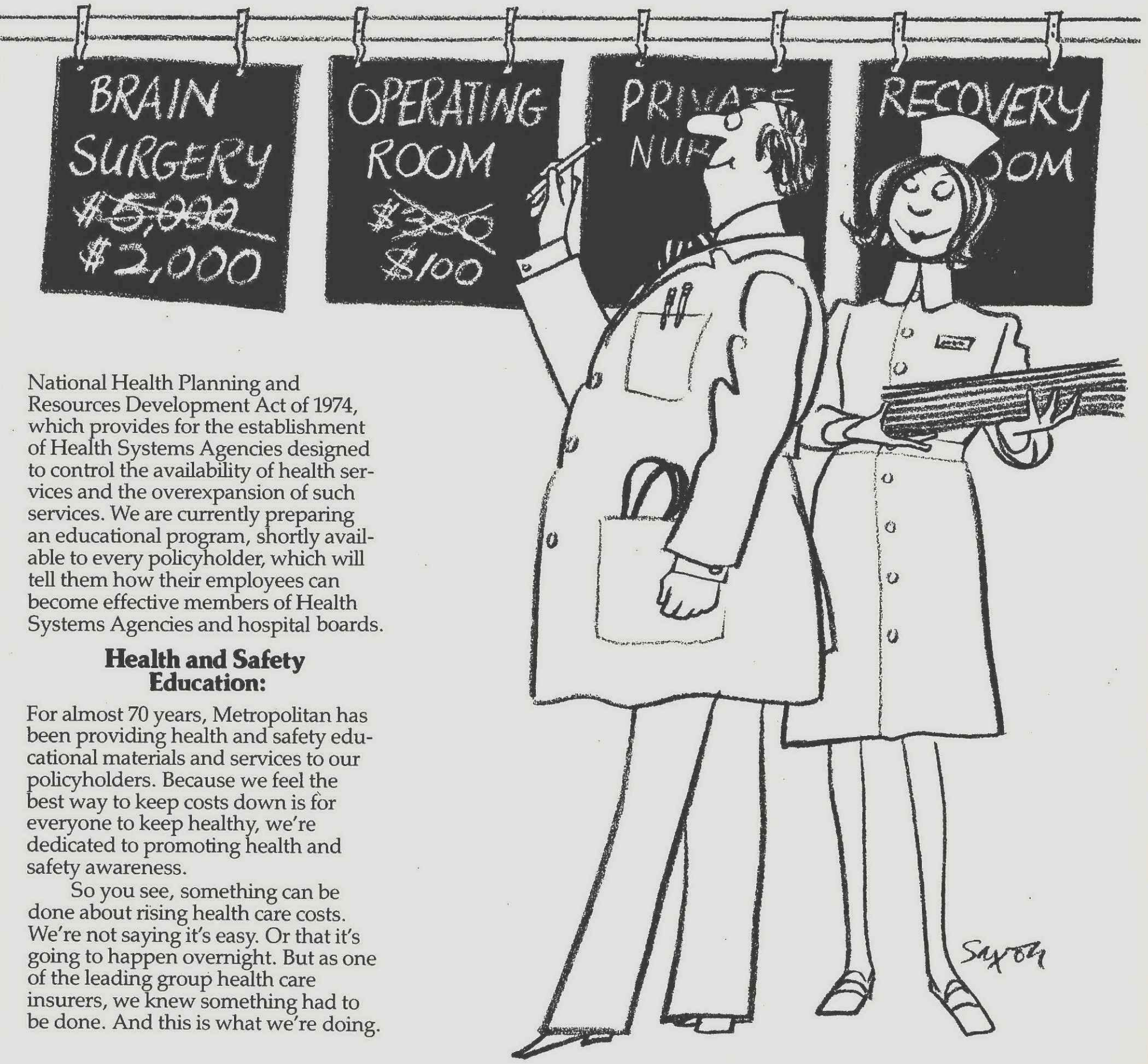
In the administration of health care benefits for millions of employees and their dependents, we have developed a broad data base. Analyzing claim data, claim consultants investigate unusual utilization patterns and resolve unexplained or abnormal charges. They make sure Group plans are functioning properly by monitoring results, and they are responsible for regular evaluations to our policyholders.

Promoting and Supporting Legislation:

Metropolitan is also actively involved in legislation aimed at containing medical care costs. And we're showing our customers how they can also make their concerns felt.

For example, we support the

about the problem costs. A solution.



National Health Planning and Resources Development Act of 1974, which provides for the establishment of Health Systems Agencies designed to control the availability of health services and the overexpansion of such services. We are currently preparing an educational program, shortly available to every policyholder, which will tell them how their employees can become effective members of Health Systems Agencies and hospital boards.

Health and Safety Education:

For almost 70 years, Metropolitan has been providing health and safety educational materials and services to our policyholders. Because we feel the best way to keep costs down is for everyone to keep healthy, we're dedicated to promoting health and safety awareness.

So you see, something can be done about rising health care costs. We're not saying it's easy. Or that it's going to happen overnight. But as one of the leading group health care insurers, we knew something had to be done. And this is what we're doing.

Come to Metropolitan. Simplify your life.

Metropolitan

Just a gag

Would you trust your assets to these men? . . . Looking like Jesse James and his team about to head for the nearest bullion cache are Betterley's boys, proving during the annual IRMC conference in Williamsburg that consultants do have a sense of humor. From left to right are Don Dalbeck, Charlie Tagman, Bob La Forme and George Betterley himself, all of Boston-based George Betterley Consulting Group.

Too few of everything

Consultants' E&O plan won't work, study shows

WILLIAMSBURG—A feasibility study for the Institute of Risk Management Consultants says the group doesn't have enough members, claims and loss experience or premium potential to undertake a self-funded errors and omissions program.

Peter D. Norman of P.D. Norman & Associates Ltd. in Vancouver told the consultants at their annual meeting here that 10 firms out of 17 responded to the survey designed to disclose E&O insurance experience. Those firms included 83 consultants and 45 support staff.

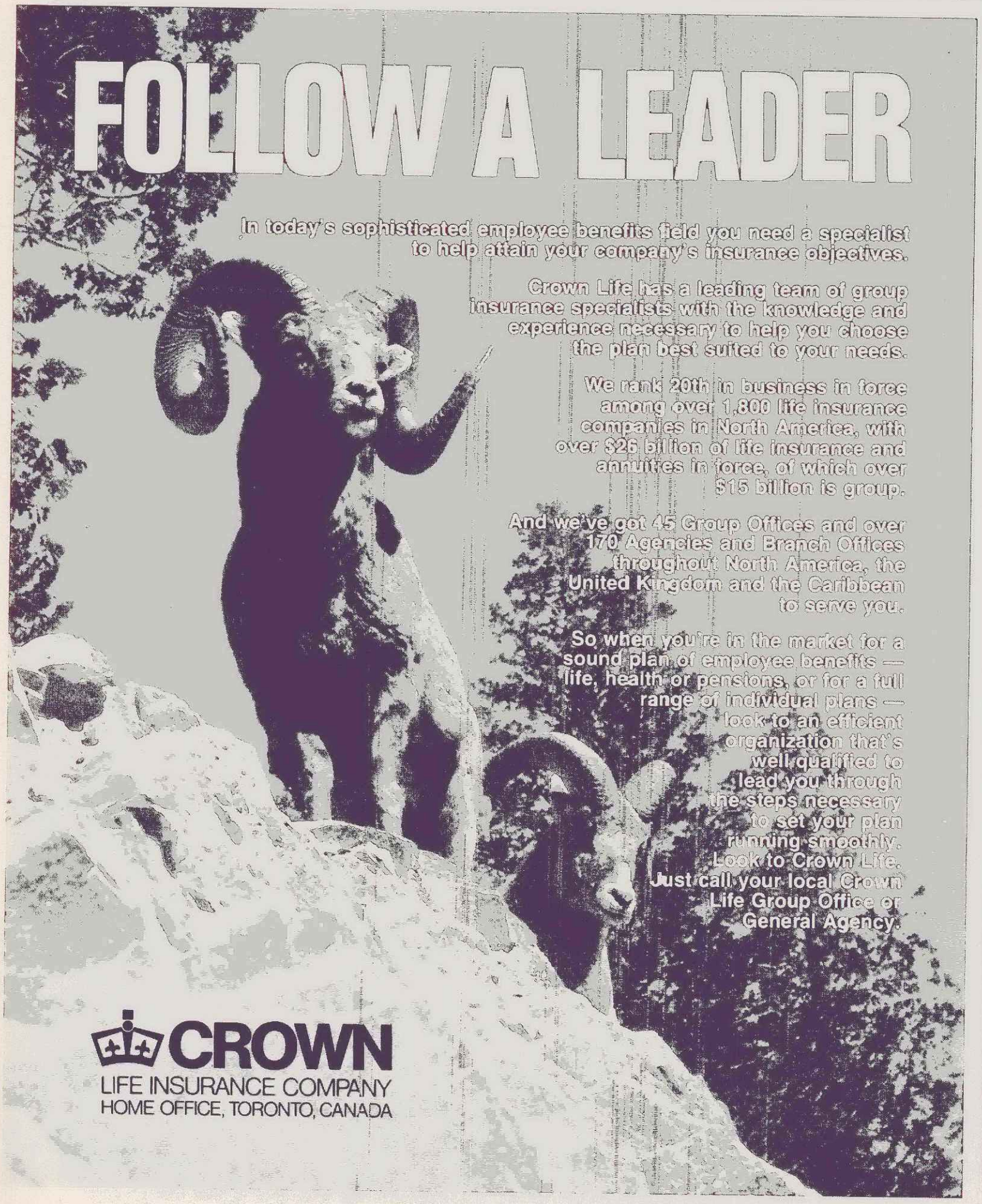
Five firms purchase $1 million of coverage, three purchase $500,000, and two purchase $250,000 in coverage. Gross premiums for the 10 firms are $69,445, with a low premium of $500 a year for a one-person firm to a high premium of almost $18,000 for a large firm. Deductibles varied between $1,000 and $25,000. All policies provided claims made coverage.

International Surplus Lines Insurance Co., a division of Crum & Forster, covers one group for $1 million liability at an average rate of $650 per consultant. National Union Fire Insurance Co. insures three groups at an average cost per consultant of $201 for $500,000 limits. Mutual Fire, Marine & Inland Insurance Co. insures two groups at an average cost of $906 per consultant. Lloyd's of London insures three groups with limits of $1 million each at a cost of $1,291 per consultant. Gestas insures one group at an average cost of $500 per consultant.

"The limited premium plus the disparity of premiums make it impossible to recommend any form of self-funding program," concluded Mr. Norman, president of the IRMC. He pointed out that one firm would face a 50% increase, three firms a 400% increase and one firm would have an 80% increase in cost. Two firms would pay about the same and another three firms would receive a 30% reduction in rates if such a plan were undertaken.

Mr. Norman recommended that "it is much better to direct members toward those insurance companies whose premiums are more reasonable."

A claims survey indicated there had been only one potential errors and omissions claim in five years, reserved for $2,600. ■



INA to offer kidnap policy

PHILADEPHIA—Insurance Co. of North America last month became the latest insurer to offer coverage in the highly sensitive area of kidnap and ransom.

The policies are designed for purchase by corporations to protect their executives. Coverages up to $5 million per occurrence are offered, although higher coverages can be negotiated. Deductibles range from $5,000 to $1 million per occurrence.

INA entered the kidnap insurance field "to help meet the various needs of our commercial clients," said a company spokeswoman. "We had been contacted by some of our clients previously who felt the need for this kind of insurance to protect the financial aspects of their corporations. We felt it was imperative to meet their needs," she said.

INA was unable to predict the premium volume it expects will result from the new policies. ■

Foundation taps Ward for 1979

ATLANTA—William W. Ward, president of a San Francisco labor relations firm, is the new president of the International Foundation of Employe Benefit Plans for 1979.

The Foundation is the largest educational organization in the employe benefits field. ■

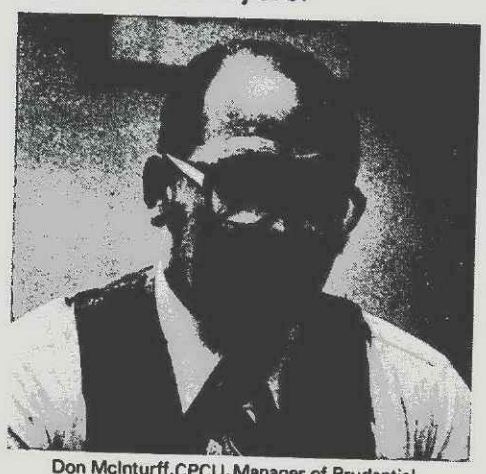
Facultative Reinsurance

Questions & Answers

A conversation with Don McInturff, Manager of Prudential Reinsurance Company's Facultative Regional Office in Chicago.

Q: What kinds of coverages does Prudential Re provide?

A: Prudential Re writes facultative reinsurance on virtually every kind of standard and specialized coverage. In Property, for example, unlike many of our competitors, we are equally at home with pro rata and excess. In fact, we write high excess about as often as low excess. Similarly, in Liability, we write gap layers, buffer layers, and quota share of first umbrella or upper excess layers.



Don McInturff,CPCU. Manager of Prudential Reinsurance Company's Facultative Regional Office in Chicago.

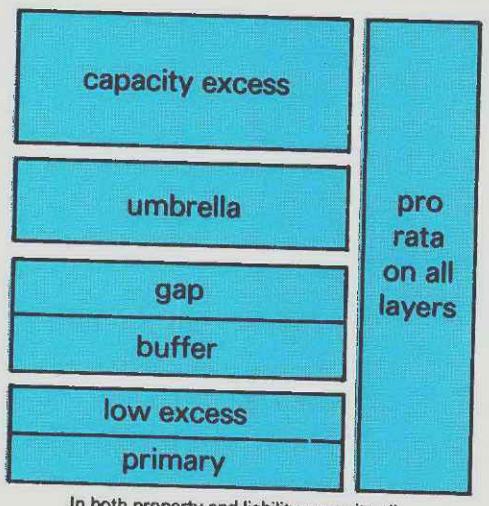
Q: Does Prudential Re have a maximum capacity and do you use it regularly?

A: Depending on your insurance commitment and our analysis of the risk involved, our capacity can be as high as $12 million. And we are looking for opportunities to use a substantial portion of our capacity or all of it wherever feasible.

Q: What kind of risks does Prudential Re write?

A: Our experience has given us more confidence in certain classes of risks than in others but we do write everything from shoe stores to chemical companies.

For example, we have written All-Risks Builders Risk on a nuclear power plant and Excess Liability on many ski areas throughout the U.S.



In both property and liability we write all varieties of excess layers, and pro rata as well.

Q: How can Prudential Re provide facultative product liability reinsurance on small manufacturers' risks at affordable rates?

A: Prudential Re explores every opportunity to work with insurers who underwrite such risks. If you give us realistic descriptions of all products, exposures, risks and safety precautions, we endeavor to respond positively at rates that are realistic but not excessive.

Q: What is Prudential Re's response time in accepting a risk?

A: In most cases, our response is immediate. This is possible because Prudential Re operates regional offices throughout the United States and in Canada. In all cases, Prudential Re provides prompt written confirmation of quotes and binders.

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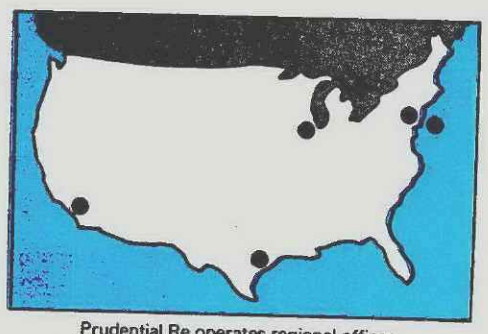

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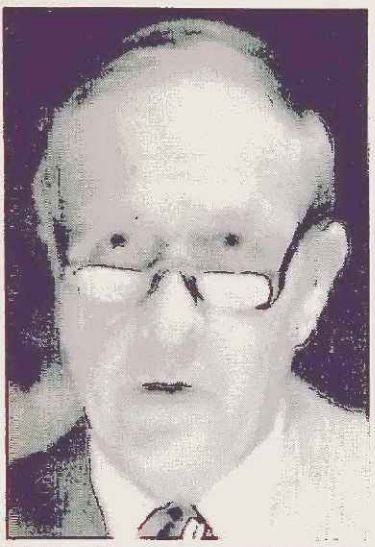


William Mortimer reveals that the total cost of establishing CIRCL was $495,000.

CIRCL eyes early profit

WILLIAMSBURG—Captive Insurance & Reinsurance Co. Ltd., better known as CIRCL, will probably end its first year of operation with an unexpected $100,000-plus profit, said William S. Mortimer, consultant to the Bermuda-based company. The profit is a result of better-than-anticipated loss ratios and higher-than-anticipated premium income.

He revealed that Owens-Illinois Corp. last month became the ninth company operating a captive insurer to participate in CIRCL.

CIRCL was established early this year to enable captive insurance companies to insure on a shared basis the risks of corporations other than those of their parent companies.

Mr. Mortimer scolded corporations with captive insurance subsidiaries for "running around frantically writing outside business" in order to establish themselves as bona fide insurers and to get around the IRS ruling that says a corporation can't deduct premiums paid to a captive.

"These companies would be a lot better off paying the federal taxes" associated with premiums going into their affiliates, he contended, "because they're virtually giving a checkbook on their bank account to some underwriter."

He revealed that the total cost of establishing CIRCL was an estimated $495,000. ■

Higher limits being sought

3-year-old pollution policy sales lag

WILLIAMSBURG—Only 15 pollution liability policies have been written to date, although the sellers of the policy are predicting that faster growth for the three-year-old insurance is just around the corner.

Ken Goldstein, underwriter for the Howden Agencies Ltd. which introduced the coverage in 1975, said his firm is "working right now with several markets to bring the limits up from $4 million per occurrence and $8 million aggregate capacity to $10 million per occurrence. There is a real need for higher limits," he told risk management consultants meeting here.

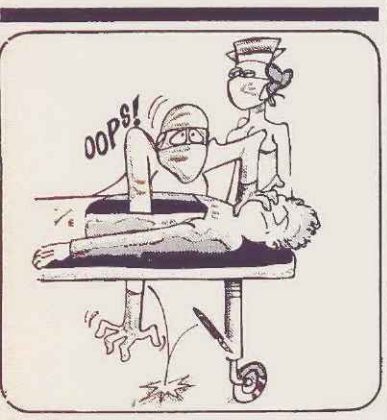
Howden Agencies should have some answer on whether it'll be able to offer higher limits "within the next few months," he added.

Scor Reinsurance Co., a French reinsurer, is now fronting the pollution liability program, taking over after Swiss Re pulled out of the program as lead reinsurer some months ago, Mr. Goldstein said.

Of the 15 policies sold to date, deductibles have ranged between $2,500 and $25,000 and premiums have averaged between $15,000 and $25,000 a year. The highest premium has been between $200,000 and $300,000, Mr. Goldstein said. Minimum premium is around $5,000.

Companies buying the policies have included several tank farms with oil and chemical storage facilities, several pulp and paper manufacturers, a coal mining operation and an underground storage firm.

According to the Environmental Protection Agency, he explained, there are an estimated 425,000 companies that generate toxic wastes, 25,000 that transport toxic materials and 25,000 that store and use materials that could pollute the environment. ■



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"Combined coverage for bodily injury and property damage. If you have this coverage we'll pay claims for bodily injury, mental anguish and damage to someone else's property resulting from the ownership, maintenance or use of the aircraft."

'Consultant' builds better insurance for HUD plans

WILLIAMSBURG—Dave Molloy is with the Federal Insurance Administration, but he functions as an in-house consultant on insurance and risk management to five different programs funded by the Department of Housing and Urban Development.

He is adviser to HUD housing for the elderly, urban renewal programs, Indian housing programs, college housing funded by HUD and public housing authorities funded by HUD.

His chief objective is to help local administrators obtain the best coverage for the money, prompting him to aim for consolidation of coverages wherever possible. In the last few years, there's been a considerable consolidation of fragmented insurance programs in these different areas, Mr. Molloy told consultants at the Institute of Risk Management Consultants annual meeting.

Insurance covering Indian housing funded by HUD but owned by individual Indian families has been put under master contracts for property, liability and fidelity bonds instead of the 150-odd policies previously used.

The 18-month old master property insurance program for Indian housing is "quite unusual," Mr. Molloy believes, because it incorporates only a $100 deductible per loss in a fire and extended coverage policy written on a replacement cost basis. There is an advance three-year premium and a blanket contract covering some $729 million in property values.

The combined three-year premium, paid in advance, enabled Mr. Molloy to win a 17 cents per $100 rate on the unprotected properties. Little Aetna, the property/casualty division of Connecticut General Insurance Co., is the lead insurer backed up by Employers Mutual and Fireman's Fund.

Besides the low rate, Mr. Molloy is proud of the policy's noncancellable provision. "We solved a problem for the Indians who own this housing with a master contract and that's what we look to do. So far the experience under this coverage has been excellent," he said.

Although Allendale Mutual Insurance Co. has a 41% share of the insurance on regular low-rent public housing units subsidized by HUD, the insurer wouldn't even quote on the master contract to cover Indian housing, Mr. Molloy said.

He wasn't able to do as well with the master liability contract which followed on the heels of the property deal, ending up with a 120-day cancellation notice provision. The master liability contract and the master fidelity bond for Indian housing projects are both underwritten solely by Hartford Casualty Insurance Co. The master liability program provides $300,000 per occurrence coverage with no deductible for three years at a cost of $5.71 per living unit. There are 27,000 living units covered, generating a total three-year premium of $154,170.

The master fidelity bond provides $50,000 per occurrence coverage under a blanket position bond with no deductible at cost of $160 per housing authority. There are 138 housing authorities covered, generating a total premium of $22,080.

Mr. Molloy said he "has backed off" from D&O liability coverage for housing authorities after testing the market. His department found that D&O would cost an average of $1,500 per authority per year, too high a price to justify the purchase of insurance. The local housing authorities are uninsured with federal government reimbursement for any incurred defense costs, he said.

Every local housing authority is run by a volunteer board, he noted. "So far in this country there hasn't been a single suit perfected against a housing authority body that would have been covered by a D&O policy," he disclosed.

"Individual directors of housing authorities have asked whether we have the coverage but we tell them that if they're operating within the scope of their authority, they're covered as part of the housing authority," Mr. Molloy said.

—Susan Alt

. . . Broker letters 'no-no'

WILLIAMSBURG—"Broker-of-record letters are a no-no" for local housing authorities under the control of the Department of Housing and Urban Development and taking insurance advice from Dave Molloy, an official with the Federal Insurance Administration.

Mr. Molloy told consultants who work with governmental bodies on insurance bidding and risk management auditing programs that his department prohibits broker-of-record letters. "We want to keep the competition open" so that a variety of agents and brokers will participate freely every three years when the programs are up for bid, he said.

If a housing authority wants to self-insure using higher deductibles and claims administration by an agency or brokerage firm, Mr. Molloy's people "see that the service contract is put out for bid and is compared with the overall costs of an insured program" so the best choice is made.

He acknowledged that the process of putting governmental insurance programs out for rebidding every three years may be self-defeating. "I'd like to see five-year rebids, with premiums payable annually," he observed. "This would be the best of all worlds. It would cut down on the administrative detail and it would save money, too."

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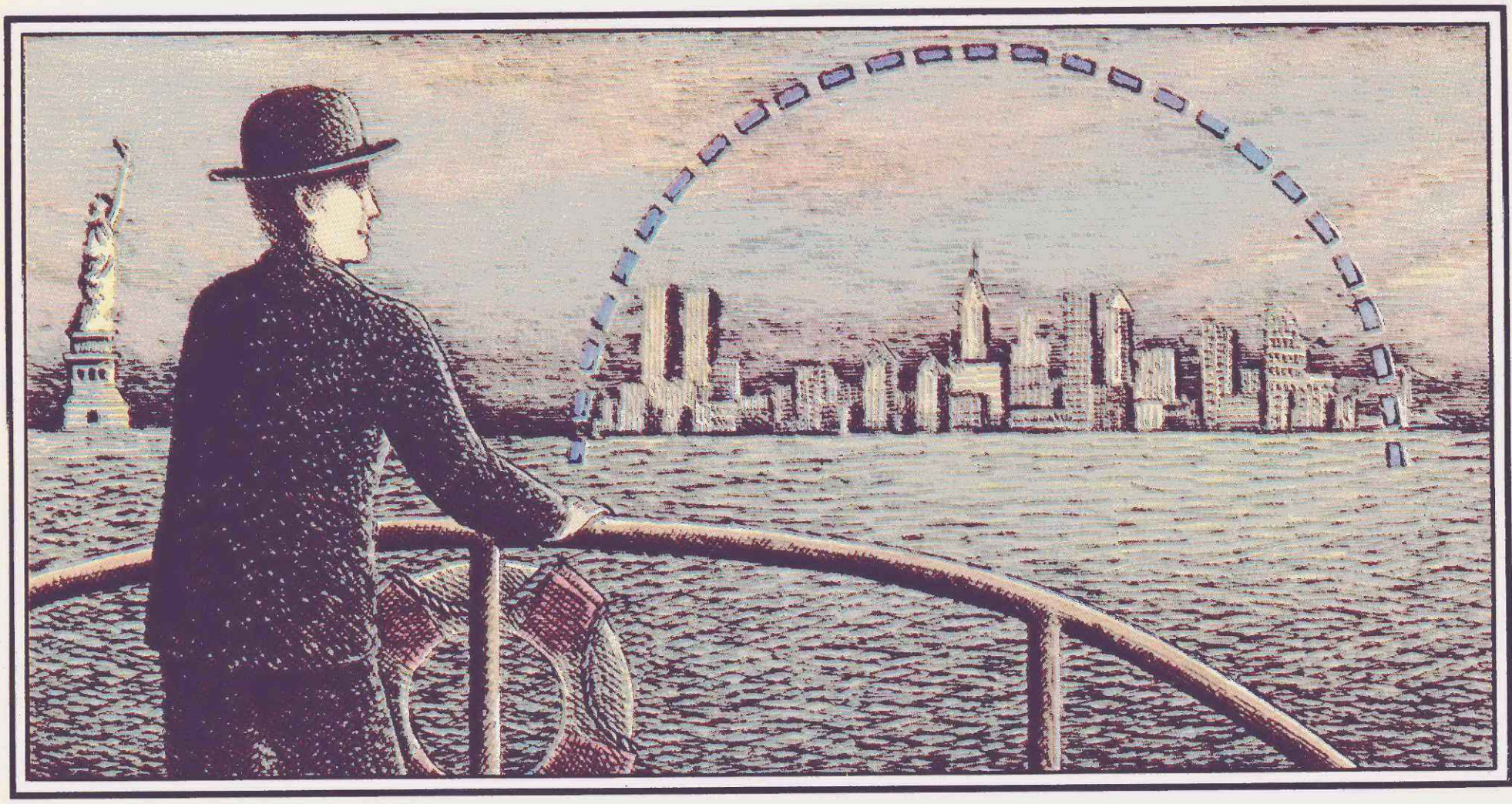
The New Insurance



For the first time in this country, primary insurance covering large or unusual commercial risks can be written free of policy form and pricing regulations—a development made possible by New York State's "free-trade zone" for insurance.

A brief review by INA of an insurance topic of interest to business executives.

On July 20, 1978, Governor Hugh Carey signed into law a New York State bill that should have the long-range effect of helping to put this country's business-insurance marketplace on an equal competitive footing with many foreign locations traditionally regarded as world centers of the industry.

While the focus of attention will understandably be on New York at this stage, this imaginative legislation could produce a ripple effect across the country. Observers believe it will serve as a model for other states to follow in liberalizing the regulations and operating conditions that often tend to restrict competition in the insurance industry.

Now effective

Under the legislation, effective September 1, specially licensed insurers in the state are now able to write primary policies on large corporate risks – contracts with an annual premium of $100,000 or more – without the need for prior state approval of rates and policy provisions. (However, the state will require such insurers to maintain at least twice the capital surplus normally required and will oversee their operations.)

An unhampered market

In effect, the state of New York thus becomes a "free-trade zone" for insurance, the first of its kind in the United States. In it, large-scale buyers and sellers of insurance can do business swiftly and conveniently, unhampered by legalistic restrictions. As such, the free-trade zone will provide a more productive environment for insurance transactions – one that is responsive to the sophisticated

Free-Trade Zone

risk management needs of business today.

Moreover, the advantages of the New York free-trade zone also apply to policies covering unusual or unprecedented risks, including those with premiums well under $100,000. Among them are such diverse exposures as insurrections, catfish farms, animal rides, ear piercing and new drugs. And for contracts involving risks outside the U.S., there are possible tax concessions offered by the state.

An American Lloyd's?

All of this inevitably suggests that with its free-trade zone New York is creating an American version of Lloyd's of London. The world's largest single insurance market, Lloyd's is known for its exceptionally broad range of insurance coverage, including both very large and highly unusual risks. Its operations are free of government control and it can provide quick and imaginative responses to insurance needs. These are the same kinds of advantages that the New York free-trade zone is also expected to deliver, although initially on a smaller scale.

The parallel with Lloyd's will also be heightened with the opening in 1979 of the New York Insurance Exchange, which will allow individual investors and others to participate in the underwriting of both primary and reinsurance risks.

Clearly, the New York free-trade zone should attract much insurance business that up to now has been written abroad. Competition will be spurred to the benefit of insurance buyers. And together with the new Insurance Exchange, the free-trade zone should bring capital to the United States, creating jobs and stimulating American insurance markets.

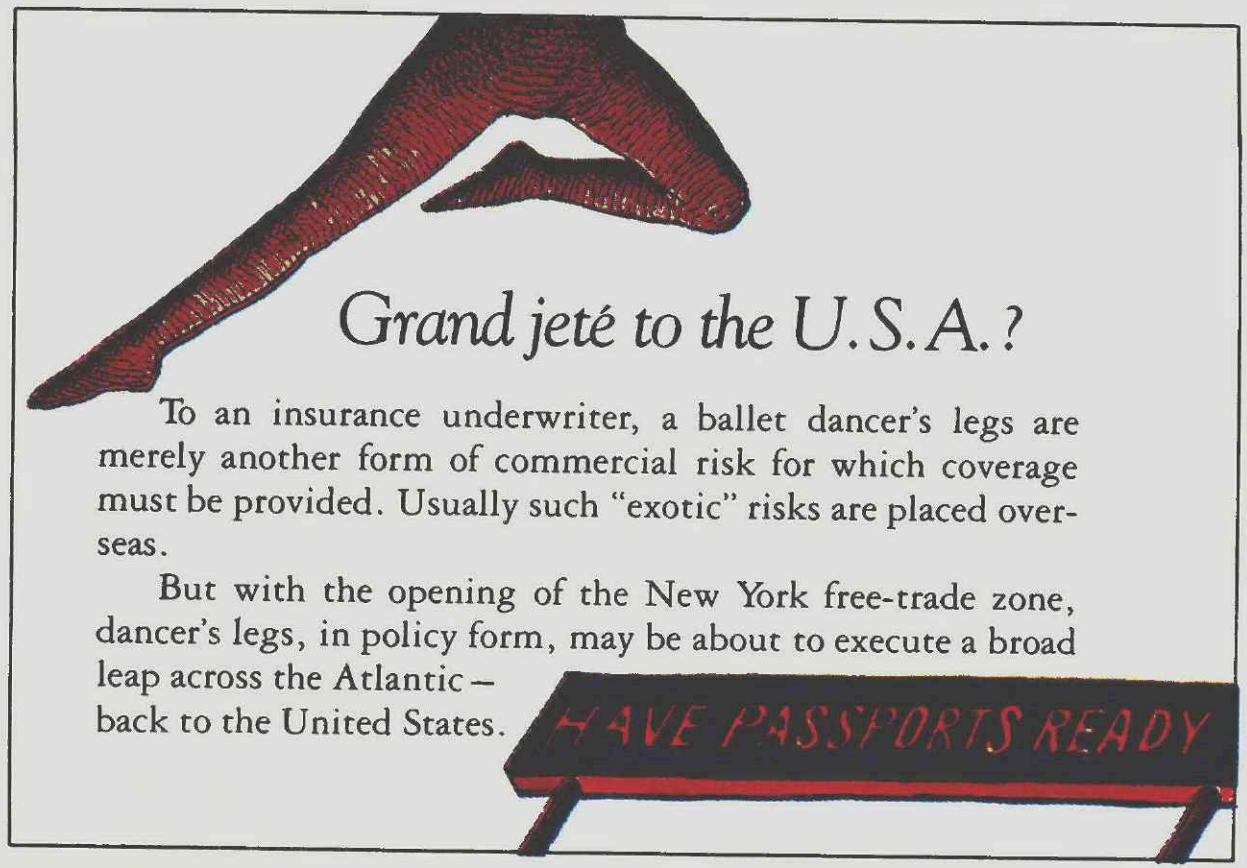
Strong support from INA

INA has strongly favored the creation of both the New York free-trade zone and the New York Insurance Exchange and is pledged to their support through active participation. INA Special Risk Facilities can provide professional counsel on the use of both facilities to risk managers, agents and brokers who may consider using them. And the Insurance Company of North America which will operate in the free-trade zone, maintains offices in New York City.

* * *

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance and financial service companies. In property and casualty insurance and risk management services, life and group insurance, health care management, and investment banking, INA and its affiliated companies offer a unique combination of products and services to business and industry around the world.

INA insurance products and services are available through selected independent agents and brokers. For further information on the New York free-trade zone for insurance, write to INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.



Grand jeté to the U.S.A.?

To an insurance underwriter, a ballet dancer's legs are merely another form of commercial risk for which coverage must be provided. Usually such "exotic" risks are placed overseas.

But with the opening of the New York free-trade zone, dancer's legs, in policy form, may be about to execute a broad leap across the Atlantic – back to the United States.

INA

The Professionals

LA broker to open throttle on aviation markets

By BARBARA JEAN GRAY

LOS ANGELES—Bayly, Martin & Fay, the nation's eighth largest broker, is soaring throttle open into the aviation market.

Senior vp Samuel Alcorn estimates that the highly specialized field will contribute 10% of the firm's overall revenues by the end of this year, up from 3% or 4% just two years ago. Ten percent of last year's revenues would be a dollar figure of $4.5 million.

If that figure is reached, it will make BMF's commitment to aviation proportionately higher than most, if not all, other major brokers.

One of the reasons for the present impetus is BMF's acquisition last year of Houston-based Harlan Inc., Mr. Alcorn said, since Harlan has been strong in aviation.

"We have always been in it to a degree. We have had a major operation in Alaska for 10 years, and we wanted to get into it in a bigger way in the 'lower 48.' "

In BMF's Anchorage operation, aviation brings in 40% of the total revenues.

"Aviation is a very profitable field for the broker, more so for the underwriter," he observed.

BMF's strategy which is still in the developing stages consists of a group of specialized offices around the country, manned by aviation insurance specialists who have been trained by BMF in the firm's Philadephia office.

Seven offices of BMF Aviation Inc. are already operating in Los Angeles, Philadelphia, Chicago, Anchorage, Seattle, Atlanta and St. Petersburg. Mr. Alcorn also mentioned the possibility of a Texas office within the year.

The Seattle operation is somewhat unusual in that it's the first time BMF has gone into a city with aviation first, rather than adding an aviation facility onto an existing general agency.

The specialist training program is being conducted under the direction of Philadelphia executive vp Jay Lavenson. The course consists of two, two-week sessions. Mr. Lavenson said he believed BMF is the only broker to train specialty personnel in-house.

In total, there will be 30 full-time aviation specialists on call for all of the 39 offices, Mr. Alcorn said.

"Our specialists live in the market," he said. "They have an intimate knowledge of structure in the design of programs and placement of programs. When you get into high value aircraft, you need a specialist to tailor coverage, deductible and plan. And you need someone to reach the total world market, to know the competitive alternatives.

"We feel we're in an excellent position not only because we have these specialists but because we can reinforce it with our London division, which has 23 people, and which can serve if only as an ongoing liaison and follow through on the business of the specialists."

London is indeed an important place for aviation brokers.

Marine and aviation had combined premiums of $1.39 billion in 1977. Although specific figures for each of the two areas were not available, in the last six years aviation has four or five times been larger than marine in the combined figure.

Lloyd's reported that 139.3 million pounds in premiums were generated in 1974. That was 9% of the total premiums written. Aviation has ranged between 9.0% and 9.6% of total premium for Lloyd's for the prior five years as well.

By contrast, aircraft premiums amounted to a scant 0.3% of the total domestic premium written in 1977 according to A.M. Best. That was a decrease from the 0.4% that aircraft meant to the total in 1976.

BMF has binding authority in three of its specialist offices for specified classes of business. All three are from London but all are separate and designed for separate classes, he added. "This gives us an advantage in many areas obviously."

Although all aviation can technically be written as excess lines, BMF does not place it that way. Mr. Alcorn estimated that 70% of the firm's present business is placed with non-domestic insurance companies.

He further noted a peculiarity that exists in Alaska, where BMF made its first flight in aviation before it joined forces with aviation-strong Harlan. In that state only, aviation workers compensation can be written at Lloyd's. Alaska is the only state where non-approved carriers can write statutory workers compensation.

BMF's aggressive stance in the aviation market has not gone unnoticed. Late last year, Frank B. Hall filed two suits against the San Francisco broker centering around its aviation operations in Anchorage and Seattle. Frank B. Hall charged that BMF and certain employes conspired to monopolize the aviation business. The suits are still pending.

Mr. Alcorn said BMF really feels in a "peripheral" position on the suits because their primary thrusts are between Hall and its former employes who had joined BMF.

Among those former Hall employes is the present presidents of BMF Aviation Inc., William Baxter. Mr. Baxter had resigned from Hall a year earlier over a dispute over expenses.

Frank B. Hall, is the nation's fourth largest broker with gross revenues of $149.2 million last year. According to the firm's annual report, aviation contributed 6% of the total revenues, putting the dollar revenue figure at about $8.9 million. In 1976 Hall generated 7% of its revenues in aviation, the annual report said, which compared to 7% in 1975, 8% in 1974 and 7% in 1973.

Hall has 25 full-time aviation specialists on staff operating out of six or seven offices, according to Parker Aviation Division executive vp William Woodman.

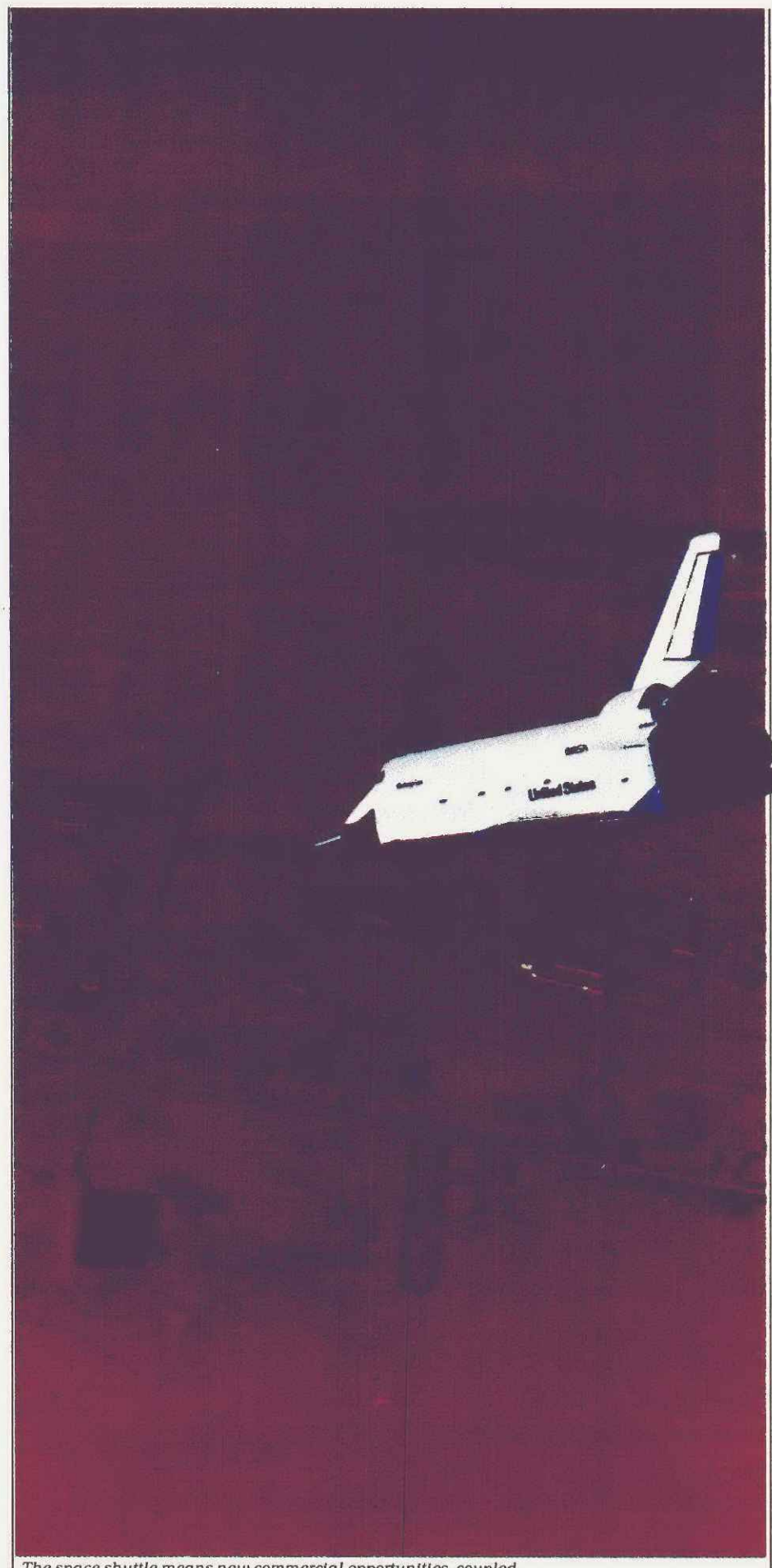
Training for these specialists is done both in-house and out-of-house in a non-formalized program, he said.

Marsh & McLennan Inc. the world's largest broker is also strong in aviation. M&M's aviation and aerospace revenues in 1977 totaled $20 million. That is 6.9% of M&M's total brokerage revenues of $228 million.

M&M has more than 100 aviation specialists in 14 domestic offices, the company reports. This is backed up by the broker's national and technical services organizations. ■

Gallagher acquisition

The Wightman Agency Inc. of St. Louis merged with Arthur J. Gallagher & Co. of Chicago this month. The Wightman Agency will now be known as Arther J. Gallagher & Co.—St. Louis. Gallagher is the nation's 11th largest broker.



The space shuttle means new commercial opportunities, coupled with new challenges for the insurance industry. NASA photograph.

MEMO FROM
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The space shuttle: it couldn't get off the ground without insurance. And what that can mean to you.

Before the space shuttle can be economically feasible, it must attract payloads from the private sector.

But before any commercial enterprise can consider such a venture, it must be certain of the availability of adequate insurance protection.

In other words, insurance is needed. Moreover, since the shuttle is part of an entirely new transportation system, it calls for the creation of new and flexible insurance concepts.

We're pleased to say that leading the way like this has long been a Marsh & McLennan characteristic.

Sen. Edward Kennedy's national health insurance plan would allow companies to assess employes 25% of their bill.

National health insurance

Kennedy plan rejects Carter stop signs

WASHINGTON—When President Carter unveiled a plan for national health insurance last summer, business and insurance groups praised the Administration for deciding that a plan would be phased in gradually.

But Sen. Edward Kennedy (D-Mass.) Congress' leading expert and powerful supporter of national health insurance, labeled "unacceptable" the Carter decision to phase in a comprehensive program only if certain economic and cost control conditions are met.

Now Sen. Kennedy is offering his own plan for national health insurance. Like the Administration's plan, the Kennedy program would be ushered in gradually.

However, in a significant departure from the Administration, the Kennedy timetable for national health insurance could not be overturned by outside factors such as high inflation or budgetary constraints.

While Sen. Kennedy warned that unforseen factors could affect the speed at which his plan would be implemented, he opposed any "automatic trigger" that could stop the program completely. Sen. Kennedy's program is expected to cost the government $21.7 billion by 1983.

Both the Carter and Kennedy plans are only outlines. Sen. Kennedy will hold oversight hearings this month and will introduce a formal proposal in the next session of Congress. The Administration's national health insurance plan also will be presented in 1979, according to Health, Education and Welfare secretary Joseph Califano.

While both plans may only be outlines of future proposals, Sen. Kennedy already has filled in many more details than the Administration.

For example, Mr. Califano said the Administration's plan will be financed by the government, employers and employes, but it isn't clear what percentage of cost each group would be expected to pay.

These three groups also would foot the bill under the Kennedy plan. The premium an employer would pay would be based on the size of payroll. However, companies could require their employes to pay up to 25% of their premium.

Under both plans there will be a role for the insurance industry. However, in order to participate in the Kennedy plan, insurers and Blue Cross would have to meet 20 separate requirements.

Insurers would have to belong to a consortium and could only provide medical insurance or disability income benefits that do not duplicate or conflict with the uniform health insurance benefits offered by the federal program. Their role in providing national health insurance benefits would be limited to administrative services.

The Kennedy plan will make a provision for companies that self-insure their employe benefits, but it isn't clear yet what that provision will be.

The Kennedy program would go into effect in two years with the interim period used to implement a tough control program to curb health care cost inflation.

Comprehensive benefits provided under the Kennedy plan include full coverage for in-patient services, physician services in and out of the hospital, home health services, x-rays and lab tests.

Costs of catastrophic illnesses would be fully covered with no non-medical limits on number of hospital days or physician visits.

Future benefits that would be phased in include prescription drugs and other professional services. The Carter plan only says that "all Americans (should) have comprehensive health care coverage, including protection against catastrophic medical expenses."

Sen. Kennedy has introduced national health insurance proposals in each session of Congress since the early 1970s. None of those bills made it out of committee. The previous proposals, however, did not reserve a significant role for private insurers. ■

M&M acquires Worexco Corp.

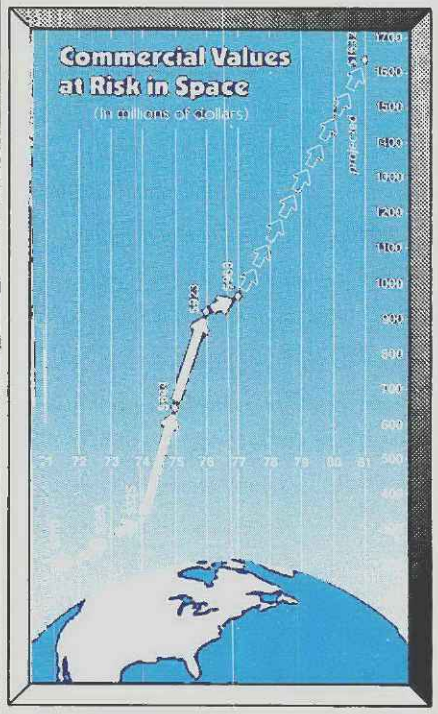
NEW YORK—Marsh & McLennan Cos. Inc., the nation's largest insurance broker, acquired Worexco Corp. from Netter International in late September for an undisclosed amount.

Established in 1972 as an underwriting management company, Worexco now acts as reinsurance underwriting manager for a syndicate of eight domestic, foreign and reinsurance companies.

As a result of the acquisition, Worexco will assume responsibility for underwriting operations conducted by subsidiaries of M&M. President A. Edward Gshwind will continue to be responsible for Worexco.

The acquisition did not include Worexco's wholly owned subsidiaries. ■

In the case of the space shuttle, we started preparing for its insurance needs in 1976. So now, as its first flight approaches



reality, we are in position to define the variety of exposures that must be covered.

Let's look at the record.

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Item: The concept of "satellite life insurance" was developed by Marsh & McLennan and, when the time arose, adopted as needed, by various commercial communications satellites: Comsat General's Marisat,® Comstar,® and RCA's Satcom.®

Item: Today we're looking beyond 1980 to the time when small and large industries, hospitals, and universities will need insurance protection for the many space activities now on the drawing board. When orbiting stations become the location for ball bearing manufacture or spinal fusion operations or the formulation of chemical compounds—a new era of insurance will dawn, and we'll be ready.

Risk management for aerospace enterprises is one of the most challenging in the insurance industry. But our acknowledged leadership in this area—aircraft industry product liability, airline and general aviation insurance, space risks—is just one of many insurance areas in which we've earned a reputation for pioneering.

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Keeping up with the pace of change.

As new technology creates new challenges, Marsh & McLennan has been called upon to innovate and break ground where no other insurance broker has gone before.

But innovation is just one of the reasons we've gained our reputation as a leader in the insurance industry.

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If you are a Marsh & McLennan client, you know how advantageous this can be in the conduct of your business. If you are not, we invite you to investigate the opportunities such a relationship offers.

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PERSPECTIVE

Risk managers: Become underwriters! Create insurance companies! Succeed!

By Howard Weber

Thinking of an insurance department as an insurance company, the risk manager can best use insurance, a captive insurance company or other tool.

I AM SURE THAT BUSINESSMEN have been haggling over and complaining about the cost of insurance for several hundred years. I don't expect that process to change, at least not over the balance of my business career. However, one thing that has changed is the amount of haggling and complaining that goes on in-house over the cost of insurance.

When I started as a general ledger accountant with the added responsibility of amortizing our prepaid insurance, not one manager ever questioned our cost allocation system. Why should they? Our total cost of insurance was such a small element of our cost of doing business that we simply allocated it to a miscellaneous administrative overhead department and neither our managers nor our auditors cared. I had no idea how much that would change during the course of my career.

Today the majority of our insurance cost is allocated directly to our manufacturing departments and I get lots of complaints. The cost of insurance has grown at a faster rate than have our costs for raw materials, labor, energy and even faster than construction and equipment replacement costs. I have heard many manufacturing directors describe insurance as our fastest growing uncontrolled manufacturing cost. Because of this, many of our manufacturing managers are now examining their insurance charges under a microscope and that funny wiggling thing they see through the eye piece is me.

Functional change

I would like to describe the experience that I have had in devising a total insurance accounting system, in selling that system to our division managers and in defending the system with our accountants and auditors.

The first and most crucial step in our new system was to change the role of our insurance department to an internal insurance company. This was not simply an attitude change, it was a functional change that had far reaching effects.

Consider all of the functions of an insurance company and you will realize that it is the role of a risk management department to provide those functions as they are needed by each of the business segments or profit centers of a corporation. Each of the business segments need financial protection in varying amounts, but they also need accident prevention, claims adjustment, fire protection engineering and various other services. By functioning as an internal insurance company you can devise a risk management program that is appropriate for the needs of the individual business segments.

Just as an insurance company would do, you can determine the most cost effective means of providing those services. You can purchase outside claims adjusting services where appropriate. You can purchase outside engineering services where needed. You can purchase financial protection when needed on a total corporate basis just as an insurance company would purchase reinsurance for its financial protection.

Through this system you have the ability to use self-insurance, captive insurance, the commercial insurance market and all other suppliers of services, including your in-house facilities, in the best combination to provide for the total corporate need and the needs of your individual business segments.

Totally new approach

Using the in-house insurance company concept also gives you a totally new approach to cost allocation. No longer are you adding up all of your insurance costs and distributing them. You are now an underwriter!

The Cost Accounting Standards Board has said that the proper expense charge to each business segment during each accounting period is the average long term cost of loss plus administrative expenses. The CASB says that you should use your own past loss experience, the loss experience of other similar business firms, commercial insurance market rates and other statistical and financial information that may be available in projecting the average long term cost of loss. Isn't that what an insurance underwriter does?

The risk management goals of a cost allocation system are:

- **To provide an incentive for risk reduction.** In most insurance underwriting situations the underwriter has the ability to reinforce risk reduction efforts by giving immediate cost credits. In other situations, where the risk reduction effort is less measurable, the credit may be delayed until the effort has proven its effectiveness, but the carrot is always there. In the in-house situation any effort which reduces the probable future loss can be promptly rewarded.
- **A proper charge for each business segment,** in relation to its risks of loss. Many insurance coverages are purchased on a blanket rate basis with no differentiation between business segments. However, as an inhouse underwriter you are obliged to take differences in risk into account in assigning differences in cost. The goal is to rate the

Continued on following page

Howard Weber, Business Insurance's first Risk Manager of the Year, is director of insurance at 3M Co. in St. Paul, Minn.

Claims audit: Who, what, when and why

By Warren, McVeigh, Griffin

RECENT YEARS HAVE SHOWN a phenomenal growth in the number of corporate and public entities that self-insure liability or workers compensation. Claims are no longer automatically handled by the insurer, but administered in-house or contracted from the outside. Whichever is chosen, a claims audit on a regular basis is of great value.

Claims adjusting firms (whether from an insurance company or independent) vary considerably in the quality of work they perform and the services they offer. More important, service can differ not only from one office to another but also in the handling of two separate accounts by the same examiner. Audits, therefore, are an important technique to stimulate the adjusting firm to do the best possible job. As often happens, it is the squeaky wheel that gets the grease.

One purpose of the claims audit is to determine whether the ratio of errors in adjusting claims is acceptable. Unfortunately, no two claims are alike. Much judgment is involved, which leaves a wide margin for error. The adjuster must report, investigate, evaluate damages or benefits, "sell" the settlement to the claimant, report accurately the cost of claims paid and estimate future liability.

Some of the more common errors an auditor looks for are duplicate payments; failure to obtain a proper release which might cause future unanticipated payments; payments of claims out of a wrong fund; frivolous claim payments; failure to recognize obvious legal defenses; permitting adjusters or lawyers to "keep the meter running" on expenses after a claim has been recognized as justified and acceptable or even advantageous; failure to verify alleged damages; poor reserve evaluation resulting in reserve redundancies or deficiencies; high errors on computer input, and failure to recognize and pursue subrogation.

If audits are not scheduled on a regular basis, watch for the following signs that might point to the need for an audit:

- Failure of claims persons to return phone calls or answer letters.
- Steady increase in open or pending cases.
- Ambiguous answers from the examiner.
- Unusual and unexplained fluctuation in reported payments and/or reserves.
- High ratio of litigated cases.
- Unusual number of reopened cases.
- Sudden increases in new cases.
- Seemingly justified complaints from any source.
- Diminished confidence in the claim administrator.

Choose an auditor who is objective. He should not be associated with a competing adjusting firm or organization which could benefit from the results of the audit. He should have extensive training and experience in claim handling and management.

The scope of the audit will depend upon the volume of claims, the geographic distribution and the time elasped since the last audit. Here is what the auditor will usually do:

- First, he will determine the number of files to be reviewed. Usually a representative sampling of 20% of open files is selected plus any "heavy" cases. A small account frequently has all of its open files examined.
- A selected sampling of closed cases are reviewed.
- Persons that handle claims adjusting are interviewed.
- Worksheets are prepared that show trends or patterns.
- If warranted, the auditor will make constructive suggestions as to investigation, setting of reserves or the disposition of individual files.
- Reported payments or reserves will be reconciled with claim files.
- Accuracy of workers compensation temporary disability rates and permanent disability ratings will be checked.
- If the auditor finds any serious conditions that require prompt action, he will call attention to it immediately. His other findings will be presented in a report.

Reporting deficiencies is not enough. A good audit should also determine the cost of any reported deficiency and—most important—recommend solutions. As claims adjusting is more an art than a science, the auditor should conclude his report with his evaluation of the claims adjusting work that had been done. This will permit the risk manager to judge the overall effectiveness of the entire claims adjusting program. ■

Warren, McVeigh, Griffin are risk management consultants headquartered in San Francisco.

PERSPECTIVE

You can monkey with statistics to discover only what you know

By Peter Downes

LATELY I HAVE BEEN REFLECTING on Wordsworth's comment that the child is father of the man and I guess by extension mother of the woman. Back in pre-Freudian days, when there were still poets, they were often the only ones around who were capable of psychological insights that were readily apparent to all, once somebody had pointed them out.

Psychologists who study such matters tend to dwell on our toilet training and the frequency with which Mom smacked our bottoms, but I have come to the conclusion that they should pay equal or even greater attention to the formal education which was inflicted on us. It seems to me that the way we think as adults is governed in large measure by what we were taught at school in our earlier years.

For instance, in my day the study of the classics in high school was considered essential and however much I may have railed about it at the time, I now consider the experience to have been invaluable. One of the outcomes of this was that quite early in my career I was introduced to the categorical syllogism of Aristotelian logic.

For good or ill this affected my entire way of thinking and ever since I have distrusted generalizations and abstractions in any form. This attitude was reinforced when I finally got into my first real textbook in logic written by a very able teacher: A Modern Introduction to Logic by L. Susan Stebbing.

It should not be inferred from this that I am unable to follow the symbolisms of modern logic, but simply that these and their resulting abstractions seem arid, uninspiring and frequently unbelievable. No doubt this skepticism is subjective to a degree because I think in words and not squigglyjigs.

This mode of thought does have its disadvantages, one of which is a disinclination to think in mathematical terms. My high school education in mathematics was quite elementary and never went much beyond calculus. Thereafter, except for a couple of courses in statistical methods, I stayed clear of the subject entirely.

Because of this, many things which should have been immediately obvious to me were not obvious until somebody pointed them out. For example, consider the well known Poisson distribution of statistics. S. D. Poisson published his book containing a description of the distribution in 1837. Von Bortkiewicz did not publish his account of its first practical use until 1898 and it took until 1926 for Ethel M. Newbold to report on its application to industrial injuries.

By the time I got to studying statistical methods, an account of the distribution was in all the standard textbooks usually with a note to the effect that it was of minor importance except for certain uses in biology. But had I a mathematical turn of mind I might have immediately seen its importance for risk management. After all, Ethel Newbold had already shown the way before I was born; yet I was obliged to wait until half a century later when people like John Cozzolino of Wharton pointed out what should have been obvious from the start.

Sometimes critics adopt an approach that can be best characterized by the famous fable of the three monkeys.

It is no consolation at all to know that few, if any, in the trade did any better at this than myself and I wondered why this was so. Of course, I had already answered my own question when I reflected that all of us are governed by the style of education we receive.

There is far too little space to go into this in detail but a glance at what passes for textbooks in American high schools may be illuminating. When examining one of my children's books on analytic geometry and calculus, I found that throughout it piled abstraction upon abstraction, axiom upon axiom, theorem on top of theorem with proof followed by proof.

To my mind this seems nonsense since learning for me starts with the concrete and specific. I learn about horses by studying horses not the concept of a vertebrate mammal. In the case of the textbook, however, it would seem that abstractions which are not understood have to be memorized with the result that the student learns by rote, including methods of practical application. It is this thought incidentally which underlies Morris Kline's most recent book "Why the Professor Can't Teach."

If there is any validity in this line of thought, it is important for the risk manager to keep it in mind, especially in terms of the statistical reports which flood the scene. This is especially so at the present time since

Continued on following page

Peter Downes, manager of insurance at American Trading & Production Corp. in Baltimore, is the most frequent author of the "Speaking Out" column on these pages.

Insurance company . . .

Continued from preceding page

risks so that the expense charge is appropriate to the financial protection and services being provided.

For example, your corporate excess liability coverage may be purchased on a flat rate or flat premium basis, but if one business segment produces light switches and another segment produces electrical controls for aircraft, then you have to underwrite and rate the difference in risk between these business segments.

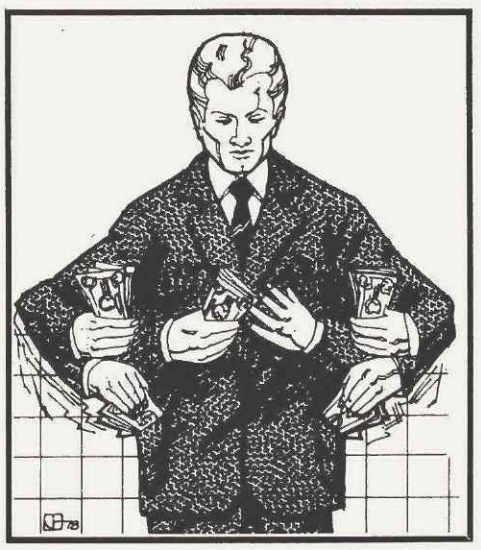
A realistic assessment of total corporate cost. In most business enterprises it is much easier to estimate the results of the total enterprise than it is to make appropriate estimates for each of the individual segments. A cost estimate for the total enterprise should be compared to the sum of the results for each of its segments to be sure that the total cost allocated to each accounting period is appropriate.

An insurance charge

One large property insurer has stated that experience rating or retrospective rating is not appropriate for them. In any given year 3% of their insureds produce 97% of their losses. Almost every insured who has a loss produces losses in excess of that insured's expected loss level. The expected loss level for the total business enterprise is usually substantially in excess of the sum of the expected loss levels for each of its segments.

Therefore, the underwriter must provide an insurance charge for the unexpected. Comparing an estimate of total corporate expense to the sum of the charges developed by underwriting each of the individual segments is an essential step in developing the appropriate expense allocation.

Having accomplished these steps, the in-house insurance company should be providing an appropriate risk management program for each of the business segments at an appropriate cost. This meets the requirements of cost accounting standards and should provide a defensible cost allocation system.



Self-insurance is one tool that can be best evaluated with an insurance company approach.

However, one step remains. That is, what do you do when your expense accrual is either too large or too small? Since your expense accrual is based on the anticipated average long term cost of loss, it should be in excess of your actual expense in most years. After all, we would hope that our actual losses are significantly above average only occasionally. By anticipating the above average year in your rating system, most years will be below average. In those years where your accrual is in excess of actual expense, what do you do with the excess accrual? Perhaps more importantly, in those years where the actual loss is in excess of the accrual, who eats the excess? This is one of the areas where we have had frequent arguments with operating managers.

Any refunds?

In years where our expense accruals have exceeded our actual expenses, the operating managers have argued strenuously for refunds of the excess. Our position is that each business segment has been charged an expense that appropriately reflects its risks of loss and therefore no refund is due. The expense that has been assigned to their business segment and which has been included in their manufacturing cost and product pricing is an appropriate expense. At the same time we always make the point that we are charging them insurance cost on a guaranteed cost basis and if the actual losses of their business segment have been above the anticipated level, we are not making an extra charge to them at yearend.

Therefore, the difference between the expense accruals as determined on an individual segment underwriting basis and the actual expense as determined on a total corporate basis is a home office underwriting gain or loss and is charged or credited to non-operating profit and loss. This profit or loss is determined after adjusting all reserves as required by financial accounting standards.

In simple accounting terms, the expense charges to each business segment are appropriate under cost accounting standards and the reserve retained at the end of the accounting period are appropriate under financial accounting standards. All expense accruals are credited to home office underwriting account and all expenses are paid out of that home office underwriting account, including the expense of amortizing commercial insurance premiums and to provide services. The gain or loss in the home office underwriting account is a charge to non-operating income or expense and is not recharged or credited back to the operating segments.

This year's experience will be taken into consideration in determining appropriate charges for future years, but it does not change the judgment that was used in assigning proper expense to our operating segments for this year.

In selling this program to our operating managers we must first sell the total concept of risk management. We have to concentrate on convincing them that:

- Except for highly unusual and catastrophe loss experience their business segments have to absorb the total corporate cost of loss.
- Our system provides them with predictable costs which are appropriate to include in manufacturing costs and product pricing.
- Their own experience and their own efforts to reduce their loss probabilities will be reflected in their charges.
- The total corporate cost and the method of allocation to individual business segments is appropriate.

More flexibility

If operating management is convinced of these points and if your program is organized to support these points, you will be able to sell your program.

In conclusion, regardless of how sophisticated or unsophisticated you may be in your insurance underwriting activities, I strongly recommend adoption of the in-house insurance company principle as a risk management tool. It allows greater flexibility in providing needed financial protection and services for each of your business segments. It also provides the means of a new approach to determining corporate needs since these needs can be more clearly identified as total corporate needs.

It may still turn out that the best way to provide for both the corporate needs and the needs of the individual business segments is by purchasing standard coverage from the primary insurance markets, but that determination should be made on a corporate need basis rather than because of the demands of the individual segments. ■

Worth Repeating

How to deal with regulation

"ANYONE CAN RUN afoul of the nation's complex regulatory system—even the regulators themselves. But unlimited government intrusion into the economy may no longer prove acceptable. The business community, for one, has begun seeking ways to speak out on the need to reduce regulatory overkill.

How big is the regulatory burden? Last year alone, the Federal Register published 8,000 new rules, final regulations, notices and other relevant documents in 60,000 pages of fine print. No wonder managers are seeking ways to influence the future course of the regulatory system.

The activist manager can easily prepare a blueprint for action. Although the problems and solutions may vary from industry to industry, there are basic steps all managers can take to open a dialogue among opinion-makers. For example:

- Be knowledgeable. Try to keep up-to-date on regulatory decisions that will affect your institution, particularly new regulations under consideration by all levels of government.
- Generate a give-and-take. Write your congressman, state or county legislator. Invite them to tour your operation. Show them the effects first-hand of regulation in your organization.
- Speak out. Many local civic clubs, social or fraternal organizations and industry groups provide opportunities for you to air your views on issues such as regulation. Make yourself available. Help open a dialogue on the problems and prospects for regulatory reform.

Basic to any reexamination of the regulatory climate is a dialogue among organizations, government and the public."

—James L. Hayes
President
American Management Assns.

Education . . .

Continued from preceding page

notions of statistical methods are not limited to those who have carefully worked their way through textbooks but are available to anybody with but the faintest idea of their use. All the practitioner has to do is to run a card through his calculator, pump in data and within seconds come up with a Weibull, Poisson negative binomial or any kind of distribution he likes the look of, and thereafter can misuse them at leisure.

The late G. Udny Yule, a master of statistical methods, always used to lay down two principles to his students at the outset of their studies, namely that statistics is one of the sciences whose adepts must exercise the self-restraint of an artist and that it is a waste of time to apply the refined theoretical methods of statistics to data which are suspect from the beginning.

It cannot be gainsaid that much of the development work in any science has been furthered by the use of sampling techniques and the like, but this statement says nothing about the validity of all statistical reports which are published. Hence, my assertion that the greater number of such reports and papers has no value for anybody depends for me on Yule's criterion: Convince me that your data are not suspect and I shall not only study your report but I may actually afford it some credence.

To equate such a process with the questionnaires mailed out by *Business Insurance* is absurd. I am sure that the editors have no illusions about the biases of those who respond to them and are seeking to gain no more than an immediate reader response to current topics—an entirely acceptable procedure. An apposite criticism for those who suggest otherwise was voiced by Andrew Lang who said of them that they use statistics like a drunk uses a lamp post—more for support than illumination.

It is such as they with their three monkeys' philosophy that perform a "disservice to the profession." ■

Nomination of a Candidate for Risk Manager of the Year 1979

Candidate's Name _____

Title _____

Company/Affiliation _____

Address _____

City/State/Zip _____

Phone Number _____

Describe this individual's risk management/insurance responsibilities: _____

Description of company's business: _____

Number of people in risk management/insurance department: _____

Company or organization's annual revenues: $ _____ million (billion)

Company's or organization's asset size: $ _____ million (billion)

Number and description of operating subsidiaries: _____

Scope of Operations

U.S. domestic only _____ U.S. & international _____ International only _____

Number of states this organization operates in: _____ Number of countries: _____

Risk management and insurance-related activities: _____

Other activities (including personal interests/hobbies): _____

How to nominate a candidate

To give your candidate an equal chance in the judges' eyes, please follow each step carefully.

You MUST submit:

1. On a *single* page, please provide a resume of the candidate's job history and employment record, pertinent facts about education, degrees, honors, including other accomplishments.
2. Address each of the following criteria on a single page, providing as much detail as possible about how the candidate fulfills this requirement for the award. You will end up with nine separate pages of materials addressing the criteria.
3. Accompanying your nomination should be an endorsement of the candidate by a corporate or organization executive, either the nominee's superior or any other higher officer. This should take the form of a letter, certifying the accuracy of all information supplied.
4. A nominating statement from the sponsor, in the form of a letter.
5. Last, but most important, a two-page typed summary by the sponsor, a superior or the nominee capsulizing the most significant *recent* changes and accomplishments (within the last two years) of the candidate.

Please attach all of these pages to the entry form above. The package should contain 13 sheets and two letters.

The nine criteria to be used in selecting a Risk Manager of the Year are:

1. The establishment and implementation of an effective risk management program within the organization.
2. Tackled and solved one or more major problems for his or her organization.
3. The innovative application of the diverse tools of risk management and insurance.
4. Creative and effective use of the insurance markets.
5. Establishment of a workable intelligence system inside and outside the organization, culminating in access to a flow of information about events and activities which impact on the organization's risk management and insurance.
6. Skillful application of the principles of management in the overall organization and within the risk management/insurance department.
7. Achievement of most effective program at the optimum cost over the long term.
8. Technical expertise in any or all of the broad categories included within risk management (insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications, information systems, etc.) leading to a better managerial grasp of the operational aspects of the job.
9. Attitude and activities fostering the advancement of the risk management profession.

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Legislation repealed

Insurers accept 5% cap on Fla. work comp rates

By MARY ELLEN McKEE

TALLAHASSEE, Fla.—Workers compensation insurers here have decided to keep a lid on premium increases for the third consecutive year. The action follows the repeal of the current workers compensation act which expires July 1, 1979.

Insurance commissioner Bill Gunter said that the lid, which allows only a 5% premium increase over last year's maximum, would enable 1979 legislators to channel their energies toward passing a new workers compensation law without the burden of spiraling rates to distract them.

The decision to repeal the law was made after comprehensive reforms failed to pass the legislature. It will force legislators to make workers compensation a top priority and gives reformers another chance to revise the law.

Florida's officials have a tall order to meet in the coming year since some of the causes for escalated rates cannot be controlled through legislation.

According to John H. Lewis, Miami attorney and vice chairman of the workers compensation advisory committee, inflation, a 30% increase in medical charges and astronomical hospital charges (the largest in any state) are uncontrollable factors that have contributed to high premiums.

"It is these uncontrollable factors, however, that makes consideration of the controllable factor vital when drafting new worker compensation legislation," Mr. Lewis said.

A major problem with Florida's current workers compensation legislation, and a controllable factor in legislation, is that maximum benefits are not reaching the seriously injured. Too much time and administrative costs are being eaten up meeting claims for minor injuries, Mr. Lewis observed.

In attacking this problem, the House and Senate select committee, formed to rewrite the workers compensation act, will give careful scrutiny to permanent partial disability, vocational rehabilitation and wage loss scales. The committee will also study how well insurance companies handle workers compensation claims and investment income.

At its first meeting, the joint legislative committee requested that Florida's interested groups submit written comments to the committee before Nov. 15.

"Things seem a little up in the air now, but Florida is two to three years ahead of other states," Mr. Lewis said. "Most states are just starting to feel the repercussions of workers compensation legislation that does not work. It has been a major consideration in Florida for a long time." ■

Congress passes tanker rules

WASHINGTON—The Senate this month gave final congressional approval to legislation (S 682) that sets tough new safety standards for oil tankers.

Under the measure, tankers more than 10,000 gross tons must be equipped with a dual radar system, a sonic depth finder, a gyro compass and an electronic position fixing device by June 1, 1979.

The legislation gives varying compliance dates for installing an inert gas system and a segregated ballast system depending on the size of the vessel.

The measure now goes to President Carter for his signature.

Iowa storm losses

Damage from wind, hail and tornadoes that whipped through Iowa in mid-September has been estimated at $2.5 million by the American Insurance Assn. Most tornado losses occurred in the Grinnell area, while wind and hail damage was most extensive in the Waterloo-Cedar Falls region. The storm has been assigned catastrophe number 66.

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agent/broker topics

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Dallas: A&A's kind of town

Other brokers struggle for spots in its shadow

By BARBARA JEAN GRAY

DALLAS—This is a very sophisticated white-collar town that many of the native insurance agents will tell you has no natural "reason for being."

It has no port; no crucial waterway location; no expanse of oil fields.

But what Dallas does have is a Sunbelt address; a continental midpoint location; perhaps most importantly the world's second largest airport.

In fact, Dallasites think of themselves as being located in something called the Metroplex, a term coined four years ago when the airport opened to denote Dallas, its smaller sister city to the west, Fort Worth, and the surrounding communities.

Johnson & Higgins executive vp Don Matthews says competing with A&A "feels like Daniel in the lion's den." Unlike other national brokers, who chose the acquisition route, J&H started from scratch by opening a Dallas office in January 1977.

The area has a population of 2.5 million. The big "D" itself increased 3.5% in population between 1970 and 1977 while the statistical metropolitan area grew 16.6%.

Marsh & McLennan employs 101 persons, says W. Philip Brown, who joined M&M when his Houseman & Co. agency was acquired by the nation's largest broker. M&M is the second largest office in the city.

Many of those debarking at the Dallas-Ft. Worth airport are major corporations from northern states. The local Chamber of Commerce boasts that 675 million-dollar companies now headquarter in this city, a number surpassed only by New York and Chicago.

The implications for export (already estimated at more than $750 million for 1977) and imports ($22 million plus in 1976) appear limitless, especially when the city's new World Trade Center is taken into account.

Commercial insurance agents (Texas law prohibits the term "broker") are obviously optimistic about their city's fortunes. And while each is planning to carve his own niche in the market, each is also competing under an awesome predominance of Alexander & Alexander of Texas Inc., which is more than twice as large as its nearest competitor.

The Dallas office of Alexander & Alexander is the largest agency in the city with $11 million in revenues and a contender for third-place on A&A's own roster of offices. "We're staffing for growth," says executive vp Michael K. White.

In Dallas, A&A is bigger than life. With just under $11 million in gross revenues, it is far and away the largest agency in the city and probably the largest single agency in the state. Furthermore, many other agents also regard it as the fastest growing.

This is a key city for the nation's second largest brokerage firm. Within its national network of 132 offices, Dallas jockeys for third place at A&A—competing directly with Minneapolis and Philadelphia, trailing New York and Chicago.

This year, A&A's annual meeting was held here. This is also the home base of William L. Carter Jr., A&A's chairman of the board and chief executive officer, who maintains an office here as well as one in New York.

Competition notwithstanding, Mr. Carter probably has more friends here than he realizes. In a typical "local-boy-makes-good" scenario, more agents than not in this city claim they are related to Mr. Carter, go to church with Mr. Carter or are good friends with Mr. Carter.

So strong is A&A's posture in this city that Don Matthews, executive vp of the new Johnson & Higgins office quipped that he "feels like Daniel in the lion's den."

The A&A office added 52 employes in the last year, or roughly one per week. During that same period revenues increased 25.9%, according to executive vp Michael K. White. But the personnel additions have been with an eye to the future rather than just to accommodate the growing business. "We're staffing for growth," Mr. White said. "We could have

Continued on page 42K

National brokers edge slips in key productivity yardstick

CHICAGO—Major national brokers are losing their edge over smaller brokers in revenue per employe, one traditional yardstick of worker productivity and efficiency.

That is the trend that emerges from an analysis of figures in the recent *Business Insurance* Agent/Broker Profiles directory, which detailed the operating statistics of 398 domestic insurance retailers.

Comparing the average revenue per employe figure generated by the 20 largest brokers to the average revenue per employe figure for the other 378 firms listed, reveals a steadily narrowing gap between the two groups over the past three years.

The top 20 reported an average revenue per employe of $40,479 in 1977. This compares to a $35,560 standard for the other 378 firms. (The top 20 firms employed 34,209 workers last year while the smaller firms employed 10,766.)

That 12.2% gap between revenue per employe for the big brokers and the smaller agents and brokers is down from the 16.2% difference that existed between the same two groups in 1976. That year, the top 20 averaged $36,780 per employe while the other firms had a $30,823 rate.

An even wider gap, one of 20.1% existed between the top 20 and the smaller firms in 1975, according to data supplied by last year's directory participants. That top 20 figure of $36,052 compares to $28,839 revenue per employe by the "all other" broker group.

That group of 346 agents and brokers and the top 20 supplying 1975 data, however, is not the same list of firms who were included in this year's directory. Each year's compilation changes because of additions, deletions and acquisitions.

Even though the top 20 appear to be losing ground to the smaller brokers in terms of revenue per employe, they have not been

Continued on page 42O

Inside:

Women producers

Like in so many other fields, women are leaving their secretarial and clerical desks at insurance brokers to enter the ranks of producers. Interviews with producers in Chicago, Dallas and the West Coast—all of whom have been "the first" at one time or another—reveal some of the advantages and disadvantages of their pioneer efforts. Page 42B.

Hines on productivity

What elements go into productivity at an insurance brokerage operation? And what's the outlook for productivity gains in the future? Associate editor Barbara Jean Gray interviewed Marsh & McLennan president Harold Hines to find out some answers. Page 42C.

Women account executives

From 'go-fer' to new challenges

Like so many other fields, women are leaving their secretary and assistant desks to become producers at insurance brokerage operations around the country. Business Insurance interviewed three women to discover the problems and advantages these "first" women are encountering.

DALLAS—Jan Bordelon, account executive for Kenneth Murchison Co. here, says she may walk into the office of a 60-year-old prospective client who's skeptical of the idea of a woman insurance agent.

That delights her.

It "just makes him all the more challenging."

The native Dallasite was even surprised that she landed the job here with Murchison a month ago because she had anticipated the same type of apprehensions. But this sale was made easily.

Ms. Bordelon, 28, began her insurance career here in her hometown eight years ago in an agency. Her job was, she describes, a combination receptionist, secretary and "go-fer" as in "go-fer this" and "go-fer that."

Her boss was gone three months out of the year. "He let me fall on my face, but he never tied me to a desk. In doing that he helped educate and groom me for the sales end of the industry. I think too many employers hire women and tie them to the desk. The women probably have so much potential that's never developed. Mine was."

She believes that there are a number of women in the agency ranks now who are actually afraid of being producers. And that, she believes, is a loss since "the industry really needs female marketers. There are so many men out there who are unqualified."

Her second insurance position that of producer assistant, brought her closer to the sales end of the business. At that agency, her immediate supervisor never confined her to specific duties, but encouraged her to assume wider responsibilities because "it took work off him."

From there she diversified into agency management. She joined a newly purchased agency where she had the responsibility of organizing and hiring. "For the first time I found out what it took to put an agency together," she recalled. "If you know what makes an agency work, it helps on the outside."

After three years with that firm, Ms. Bordelon felt she had to make a decision. The decision was between agency sales and agency management. "You cannot do both effectively. As a producer, you can't make money sitting behind the desk."

With Murchison she's getting farther and farther from that desk. She presently travels on a statewide basis, although the national nature of the Murchison business will probably take her beyond the state limits soon, she believes, a concept she finds exciting.

Her professional aspirations do not end at her present position. She lists owning her own agency as among her goals and points to Winnell Herrington, the president of the Insurance Counselors of Texas and owner of her own agency in Whitney, as an "inspiration."

Another idea that appeals to Ms. Bordelon is that of having the job of her boss, Kenneth Tapley, president of Murchison. ■

Photo:Barbara Jean Gray

Jan Bordelon says many women "have so much potential that's never developed. Mine was."

39-year career flourishes at San Francisco firm

OAKLAND, Calif.—Arlene Vrooman's producer position at Poulton & Associates Inc. here is just one of a series of tradition-breaking roles she's played in the insurance industry.

Her drive and independence is deep-rooted.

Her first role in the insurance agency business was at age 20 with her stepmother's agency in Pontiac, Mich. That agency of eight women was lightly referred to in the community as the "old hens."

Ms. Vrooman laughs now. She recalls that she started her insurance career there 39 years ago at a humble $5 per week.

Her present book of business with Poulton is now in excess of $100,000 and much of her time is spent servicing accounts. She estimated that she averages about two new accounts per month and that she's in the office as much as she's out.

"I have no objection to making cold calls, but I just don't have the time," she says.

Many of her accounts are women's organizations, which she said she's "inclined to think come to me because I'm a female." One example is a home for battered women, a group which "definitely does not want anything to do with men."

Her book also includes large accounts which have come to her by way of referral. "When you have been around as long as I have, people know you and if they want some special service it's better to go to someone with a track record than going to a big house that will just hand the account over to anyone there."

Her affiliation with her boss Ray Poulton goes back many years. Poulton & Associates was incorporated in 1977 by a group of individuals who left Bayly, Martin & Fay. That nucleus of Poulton & Associates was the same group who had comprised Poulton & Orr. So in other words, Poulton & Orr bought itself back from BMF and slightly changed its name. Poulton & Associates now has 22 employes.

When she was associated with Poulton & Orr, Ms. Vrooman traveled nationally to service an international account. She acted in an engineering capacity, looking for OSHA problems.

"I used all the female tactics possible," she recalled. "I would just go to the factory and wear my prettiest dress and my highest heels and maybe even white gloves. I would look unknowledgable and take my camera."

If there were any doubts that her feminine appearance (beneath her hard hat and safety goggles) didn't mean business, those doubts were dispelled when the film in her camera was developed. She would return to the same factory to find changed attitudes about her ability

She also spent 10 years at an insurance company and feels the experience of having been on "both sides of the fence" has worked to her advantage as an account executive.

When she came out to California 12 years ago, with more than 20 years experience under her belt, she interviewed with a number of the large national brokerage houses.

"They were talking about starting me out as a test, but of course they weren't going to give me anything with an account of more than $1,000," she said.

She noted that from her present perspective she sees an increase in the number of women in the insurance agency/brokerage business but primarily in independent firms rather than the national houses. ■

'Doing business' is the acid test

ROLLING MEADOWS, Ill.—Ruth Joplin takes her status as Arthur J. Gallagher's first woman account executive in stride.

That's because she has been a "first" before and because she believes that after the "intrigue" of a woman account executive wears off, clients are only interested in talking if the account executive—regardless of sex—wants to do business.

The 28-year-old native of Kankakee, Ill., joined the nation's second largest privately held brokerage firm seven months ago and is excited about what she feels is limitless opportunity.

Her insurance career began four years ago in Chicago "as a fluke really," she said.

She came to the big city in search of fortune after substitute teaching for a year. One of her opening remarks in the job interviews was that she couldn't type.

"I refused to take a job that required typing because once you do that, you're in a rut."

She took a job as a sales assistant at Liberty Mutual because there was a good training program. It turned out that she liked it, especially the technical aspects.

Two months short of completion of the training program she was itching for more challenges. She remembers finishing her own work in the mornings and helping others in the afternoons.

She approached management with the idea of her getting into sales. They deliberated six weeks, she said, but finally tried it. Within a few short weeks, a second woman salesperson was also hired in the department.

Ten months later she was promoted to resident representative, a flight management position. She was sent to Ft. Wayne, Ind., a four-person office at that time, and had as a secondary responsibility office management. During her 1½ year tenure there she added a sales assistant and full-time clerical person to the payroll.

Although Ms. Joplin said she experienced job satisfaction in developing the office, she didn't care for the small town atmosphere and the double position. "I felt I was torn between two jobs (sales and management) and couldn't do both well," she says.

Remuneration was commissions only.

During the 1½ years she made Liberty Mutual's "Top Producers Club," an award for property and casualty commercial line sales.

Seven months ago she was contacted by a former fellow employe at Liberty Mutual in Chicago who had joined Gallagher.

Ms. Joplin said she prefers the agency side of the business, rather than the company side, because she feels the agent has more to offer the customer than a direct dealer.

"If there are problems, you're restricted to what you can sell the customer and most times you're only selling one line. I feel an agent can manage an account in a more comprehensive fashion. In Ft. Wayne we were always encountering the same things. I like a lot of work to result in a lot of compensation."

If anything, there are more advantages than disadvantages to being female in a predominantly male field, she said, "but I imagine in the next few years it will even out. Right now there are still some businesses who don't respond well to women—like heavy contractors."

There are others, however, who're intrigued with the novelty of a woman producer "and that will get me into the door. But the intrigue wears off quickly and they won't talk to you if you don't want to do business." ■

Photo: Barbara Jean Gray

Ruth Joplin made Liberty Mutual's "Top Producers Club" during her 1½ years with the direct writing insurer.

Productivity era dawns for insurance brokers, predicts M&M's Hines

By BARBARA JEAN GRAY

CHICAGO—Even though service industries have scored productivity gains three or four times greater than the average industrial productivity gain in the past decade, the real era of productivity for insurance brokers is just dawning.

That's the opinion of Harold H. Hines Jr., president of Marsh & McLennan Inc., the world's largest insurance brokerage firm. Mr. Hines bases his hypothesis on the following beliefs:

- As service organizations continue to grow, size will afford economies of scale.
- Brokers have barely scratched the surface in the areas of specialization and function differentiation, both of which will lead to greater time and motion efficiency.
- Electronic data processing technology is becoming increasingly sophisticated.
- The insurance brokerage business is attracting a growing number of career employes, cutting down on turnover.

Mr. Hines prefaced his remarks on employe productivity in an interview with *Business Insurance* by defining the difference between real versus imagined productivity.

"When a given number of employes produce a given amount of commissions and fees, that's a measure of productivity. When premiums go up—let's say premiums double and 'commissions double—the same number of people look to be doubly productive." That's apparent, not real, productivity.

"Real productivity would come when the same number of people produce more commissions and fees in the face of declining premiums. For example, in the past few years there's been a rapid growth of apparent productivity in the insurance brokerage industry, but when you look at the rates of inflation you'll find that productivity gains of most firms have been negligible to non-existent," he continued. In only a few firms has productivity been conspicuous and important, and even then productivity gains are masked by inflated premiums, he believes.

He is irreverently contemptuous of both commonly used yardsticks of productivity in the brokerage business—revenues-per-employe and the ratio of revenues to compensation for an employe. Both are deemed "spurious."

"The inflationary factor that's included in the insurance rate tends to provide a mask," he said. Moreover, companies determine the cost of compensation differently, which tends to distort the "gap" method, he contends.

Marsh & McLennan has other methods of evaluating productivity, he said. "We try to adjust for the factors I've mentioned. In looking at the results of competitors, it's very difficult to make these adjustments because we're not privy to the (internal) figures."

However, Mr. Hines declined to elaborate further on the formula used for productivity at M&M.

According to *Business Insurance's* annual listing, Marsh & McLennan in 1977 had 9,564 employes who generated an average revenue per employe of $43,415. The firm ranked eighth in productivity among the 20 largest brokers.

In 1976, M&M had 8,340 employes each of whom generated an average of $41,043 in revenues. That year, the firm ranked seventh among the Top 20 using that yardstick.

Citing national figures, Mr. Hines noted that the average annual U.S. productivity has increased about 1.5% during the past 10 years while wages for U.S. industry have risen at about 7.5%. That results in a 6% increase in unit labor costs.

Service businesses have generally fared better with productivity than other industrial sectors, he

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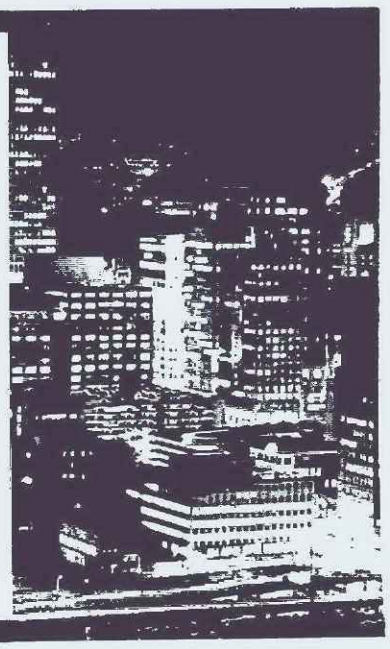

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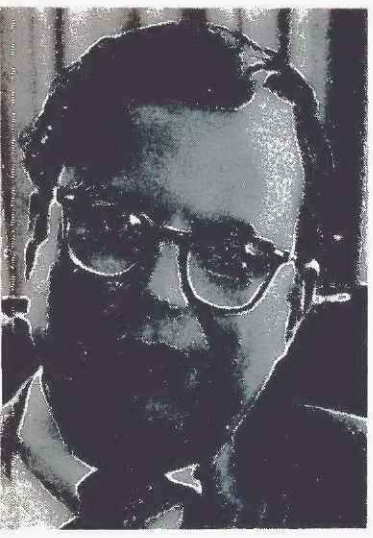


The "reward for more achievement is more work and more productivity," says M&M president Harold Hines.

Hines on productivity...

Continued from preceding page
pointed out. This has often occurred despite rising unit labor costs. But Mr. Hines has concluded that the larger insurance brokers for which he has some data have recorded annual productivity gains three to four times the average rate of gain for all U.S. workers. Meanwhile, unit labor costs have risen in the brokerage business at a somewhat slower rate than for other U.S. business.

Productivity gains have come from a variety of sources, he said. "People in the industry have been motivated to perform better because they have been given more responsibility, more recognition and more rewards.

"There are two schools of thought on reward. One is that there ought to be level and consistent, continuing rewards based on performance and expected performance. Then there's another school that maintains consistency is not important.

"So much has been said on both sides that I won't say more except that I tend to believe that the consistent approach over time gives people more appropriate rewards."

To Mr. Hines, rewards need not always be monetary. His own personality and style of management are very much reflected in his view that "reward for more achievement is more work and more productivity." He firmly believes work is its own reward and places "a great deal of significance on the enjoyment that comes from working."

To those who aren't prepared to be workaholics like Mr. Hines, he preaches: "If (work) doesn't complement the value to which one puts one's life, then it isn't worth a damn and a person ought to get into an activity that he enjoys."

Worker recognition is a key ingredient underplayed by many firms, he thinks. It is the dimension of the reward system that "can happen much more frequently. It can range from a pat on the back to a feature article in a management newsletter."

Responsibility is more complex, he muses. Properly motivated individuals whose real motivation comes from internal energy forces are usually people who seem to crave more responsibility, who want to be free of the shackles of control and want to be able to express themselves and rely on their own integrity and ambition to guide them, rather than some monitoring force.

"There are others who don't want that kind of responsibility and who prefer to be directed," he said. "Productivity gains most when those who want responsibility are given it and those who for one reason or another would prefer less responsibility are also accommodated."

The other factors contributing to productivity, besides the three R's, are less well understood. "One is related particularly to the insurance brokerage business, which is a younger group. There are many people—particularly in the large brokerage houses which are comprised of many younger people—who have come from colleges and universities in the 1960s. They function best in an atmosphere of freedom. Productivity gains achieved through motivation happen when people are operating in a free rather than a controlled environment."

In addition to this atmosphere of freedom, productivity has gained in the insurance brokerage industry because of the differentiation of function, he said. "We know from manufacturing studies of time and motion that the breakdown of tasks into concomitant part creates a structure of functions that, when organized into a whole, produce better results at lower costs."

To reconcile freedom and order, allowing people to express themselves and still keep differentiated functions, requires "an ordered system that allows people to do specialized tasks. A well managed company differentiates functions, but does not make jobs so routine that in the interest of efficiency it creates boredom and disaffection."

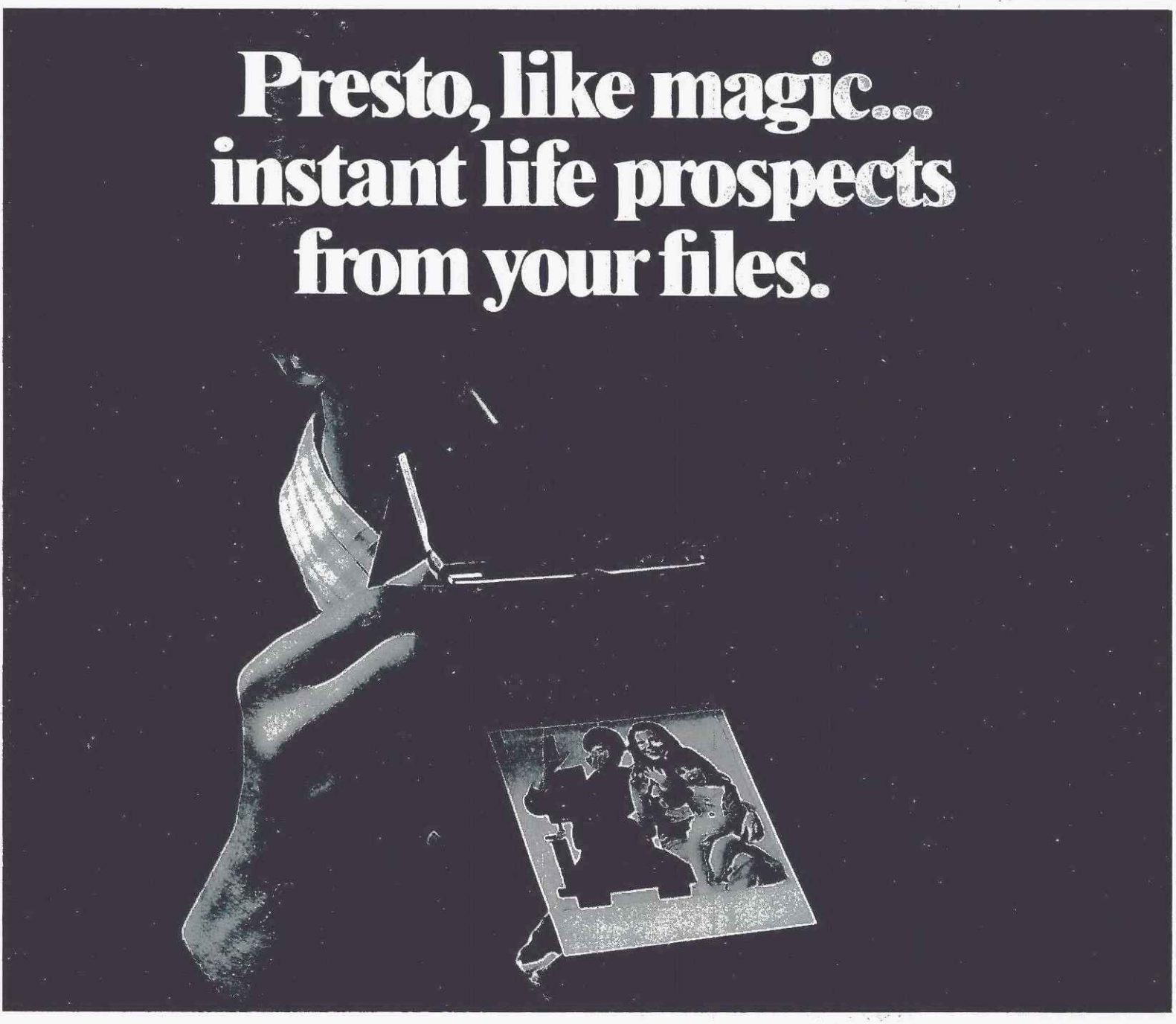
He cites the example of the manager of a casualty account, who creates an alternative group of plans. This manager might have somebody who's an expert on discounted cash flow analysis and might also have another expert who's capable of risk analysis and projecting loss trends.

"He might also bring in another expert who's capable of bringing those two insights together in a planned design so that the financial consideration of the client is evaluated by someone with specific ability to look at the financial requirements of the plan and the risk analysis function, which looks at the statistical dimensions of the plan," Mr. Hines explained. "The manager might bring them to a person who knows the market. When these disciplines start working together and you then add some other disciplines—some loss control experts who can find the best route to prevention of claims and then a claims manager with the capability of converting a loss incident into a claims settlement—you bring them together to an information retrieval system which is run by other experts."

It's impossible for an account executive to manage his account responsibly without the most careful interaction with the whole spectrum of specialized capability, Mr. Hines says. Those capabilities have to be melded into a coherence that requires cooperation.

"Categorically the greatest enemy of productivity is conflict. If account executives don't get along with the marketing people or the claims management, you can't have efficient and productive account management," he asserts.

Attrition impairs productivity, even for M&M. However, "In my judgment, turnover is not particularly great in the brokerage industry from our perspective." He declined to cite figures on M&M's turnover rate, but said it is higher now than it was five years ago. ■



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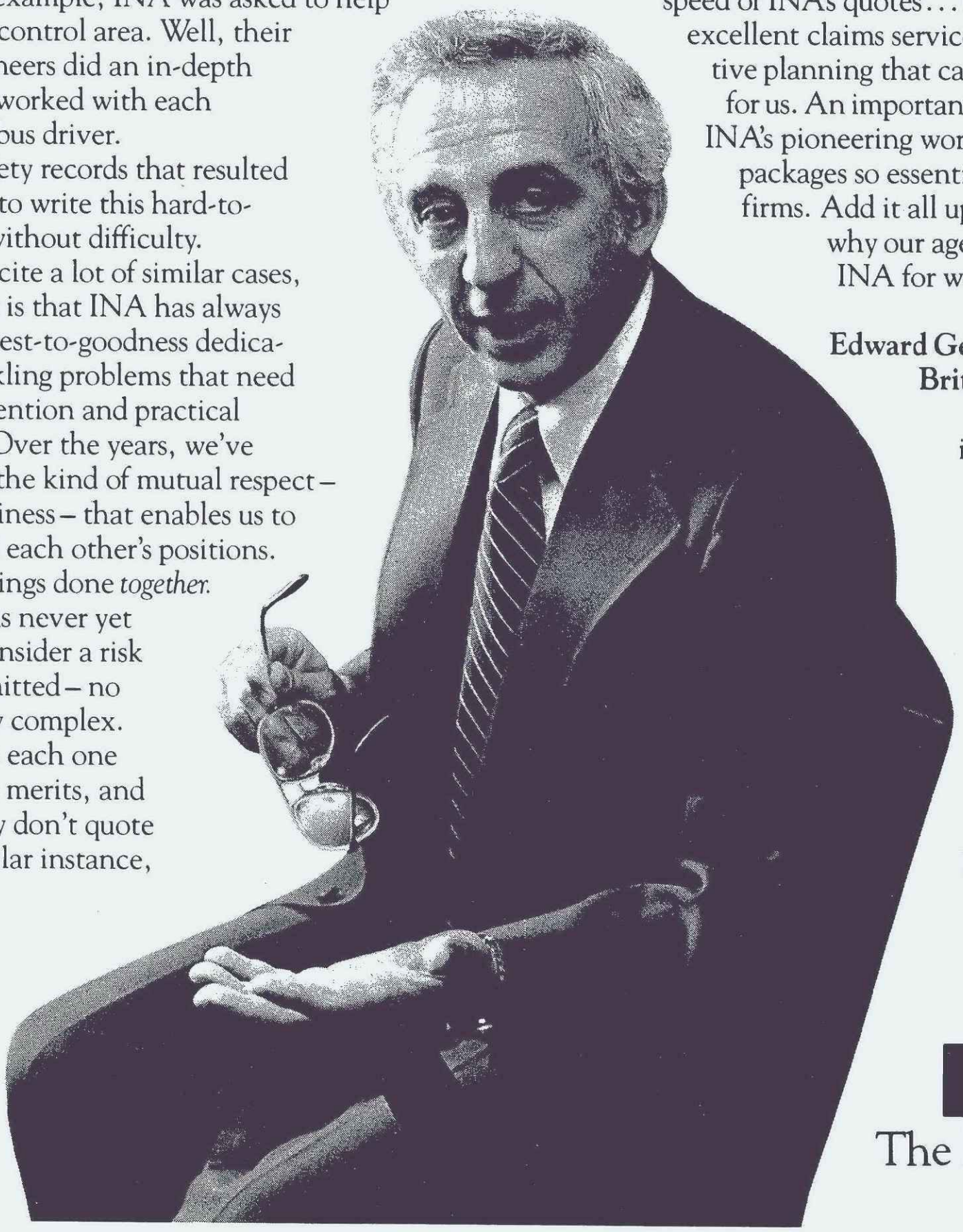

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Computer specialist

Seasoned adviser sells big house expertise

SANTA MONICA, Calif—Joe Destein is bringing alphabet house sophistication in risk management and computer science to the level of the regional broker with his fledgling consulting operation here.

He brings eight years of experience developing and heading the analytical statistics (Anistics) division of Alexander & Alexander Inc. He founded the firm in 1970 and it was acquired by A&A in 1972.

Mr. Destein anticipates that his new venture, Risk Sciences Group Inc., will be 60% devoted to the development of computer systems (software), 20% to risk management consultation, particularly involving self-insurance and captives, and 20% in the Bermuda insurance market.

"The future of risk management will require a high level of professional service for large corporations because they won't be buying insurance, except at the catastrophic levels. The skills required will shift from being insurance-oriented to being financially oriented. With large corporations, there are substantial problems in dealing with large volumes of data," he said.

"There are a large number of excellent regional brokers who have elected to remain independent and they have a prestigious list of clients who need sophisticated risk management services."

His client list is not and will not, however, be restricted only to brokers. To date, clients hail from a range of fields within the insurance industry. Dinner Levison is using his services as a risk management consultant, Pinehurst as a corporate and organizational planner and Bermuda Fire & Marine Insurance Co. as a captive and self-insurance adviser, he said.

Risk Sciences Group Inc.'s software programs, tailored to the individual client firm's needs, will be applicable to both firms which have in-house computer facilities and those that do not.

One major client, Dinner Levison, is using his services specifically for trend analysis, according to managing partner Robert C. Nevins.

The $4 million-plus brokerage firm in San Francisco already has its own in-house computer, but has retained Mr. Destein as an independent contractor for data analysis.

"We have our own internal operations," Mr. Nevins said, "but no capability for analysis and storage. That's what Joe is doing, developing the software. It's another resource added to our bag of tricks."

With the addition of the computer analysis information, Mr. Nevins said, Dinner Levison is in head to head competition with the national houses in terms of services his firm can offer to a client. "We'll have the same or better, because of our people," Mr. Nevins believes. ■

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The Professionals

Experts see little hope for improvement

Picture darkens for agents' E&O policies

DETROIT—The frequency and severity of insurance agents and brokers errors and omissions claims are increasing and a panel of experts at the recent Chartered Property & Casualty Underwriters annual meeting gave no hope for a let up in the immediate future.

Growing consumer awareness, inflation and affluence are all contributing to a problem which may affect even the most careful of agents, the speakers told an overflow crowd.

Lee Walton of the Walton Insurance Agency delivered a barrage of statistics on the 10-year-old E&O program of the Professional Insurance Agents Assn., the largest single program operating. Mr. Walton has been chairman of the PIA's E&O program for the last seven years.

The frequency of claims has risen much faster than the severity, he noted. This year, one out of every 9.5 agents will have an E&O claim. This compares to a ratio of one out of every 14.1 agents only five years ago.

The cost per claim is rising steadily, also. In 1977 the average cost per claim was $5,200, the Jackson, Mich., agent reported. This year the cost per claim is estimated to be $6,200 and next year the figure is expected to hit $7,800 per claim.

While the number of policies in force have increased 33.2% for the PIA program between 1972 and 1977, the premiums paid during that same period have increased five-fold. In 1972 the PIA program had a policy count of 10,215 and the total premiums were $2.8 million. By 1977 the policy count had risen to 13,610 while the premiums had swelled to $16.1 million.

The long tail on E&O claims further compounds the severity problem. Mr. Walton noted that in 1972 50% of the claims were resolved within a three-month period. In 1977, only 33% of the claims were resolved in a three-month period. And the longer a case remains open, he told the seminar, the better the odds that inflation will increase the claim.

PIA members who have a staff of five or less paid an average premium of $561 in 1977. That staff size accounts for 83.5% of all of the program's policies.

Utica Mutual, the carrier on the program, conducted a study of 13,009 claims in 1977. The study found that 44% of the claims were caused by the agent's failure to provide adequate coverage. Twenty-five percent of the claims were attributed to the agent's failure to provide proper coverage.

In addition to Mr. Walton, the seminar panel consisted of Victor L. Sauer, vp of Shand, Morahan & Co. Inc., which underwrites the PIA program. Mr. Sauer reported that 43% of E&O claims were due to failure to obtain proper coverage and 25% were due to failure to place coverage. Ten percent were credited to failure to renew coverage.

The long tail on errors and omissions claims against agents compounds the severity problem, notes Lee Walton.

Present claims frequency, according to the Shand, Morahan vp, is 11 claims per 100 E&O policies in force. This applies to a four-person office. In 1974 the same size category had seven claims per 100 policies. Frequency of claims is related to territory, kind of business, staff and volume of business, he said.

Excess and surplus lines brokers have a higher incidence of E&O claims than primary business agencies and brokerages, Mr. Sauer acknowledged.

Mr. Walton, Mr. Sauer and the panel's third speaker, Maurice Anderson, assistant manager of the J.H. Minet & Co. Inc.'s Toronto office, offered guidelines agents can use to reduce the probability of an E&O claim.

Mr. Anderson suggested a list of 10 "golden rules." According to his list:

- If you don't understand what you're selling, get assistance.
- Make notes on inquiries about rates and/or keep a diary. Avoid making oral commitments.
- Use cover letters when delivering the policy, especially on multi-peril coverages, and make sure the insured reads the policy. If the insured chooses to deviate from the package, put those changes in a cover letter delivered with the policy.
- Be sure each policy you receive from the insurer conforms to what you discussed with the insured.
- In the event your insured has an uninsured loss, don't mislead him by informing him how you'll appeal to the carrier.
- Leave authority for repairs in the hands of the owner or insured.
- Be careful not to give legal advice or to assume the role of engineer or insurance company.
- Never advise or reveal that you carry E&O coverage.
- If you discover an error or omission, report it immediately.
- Avoid the seven "mis's": misinformation, misquotation, misrepresentation, misinterpretation, misconstruction, misconception misconstruction, misconception and misunderstanding. ■

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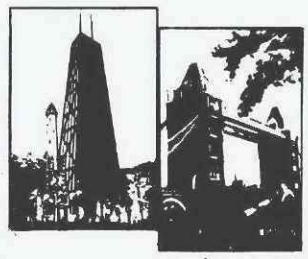

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ARM specialist explains the key elements

Looking for a computer? Here's what to watch

LOUISVILLE, Ky.—Of all the agents he's met who have in-house computers, more believe their investment has not been worthwhile than those who feel their investment was worthwhile. And of the options open to agents who don't already have an in-house computer, he'd suggest they forget the idea.

That was the somewhat unlikely sentiment of Charles T. Walker as he addressed the annual meeting of the Associated Risk Managers International here recently.

Mr. Walker, who's ARM's resident expert on computers, had originally set out a few months ago to do a comparative study of several in-house computer systems. But a survey of ARM members revealed that the group was really more interested in learning what to look for when shopping for a computer.

The comparison idea has not been totally abandoned, however, and Mr. Walker is currently critiquing four systems (ARC, Redshaw, Sigma and Simplified Systems) for a later report.

Mr. Walker is a principal of Midland Service Agency Inc. in Galion, Ohio, a firm with eight producers and $1.7 million volume. He purchased his own computer three years ago from Burroughs for approximately $33,000 and wrote his own software programs.

He counts himself among the few agents who "wouldn't trade his system for anything in the world," although he warned agents that even under optimum conditions in-house computer is an uphill battle on service and the pervasive "anti-computer" attitude of the general public. He later softened his remarks by saying that despite his strong words of warning, almost all agents in the room could benefit from a computer provided they handled it properly.

He predicted computers would be a necessity in every agency within eight to 10 years, due partially to the computerization of insurance companies. Some companies are designing programs in personal lines that require computers in the agency. Some insurance companies are willing to provide computer facilities to agencies now, but other companies that used to provide these facilities no longer are because their programs were a "flop."

Mr. Walker's first words of advice to ARM members contemplating an in-house computer were: "Don't consider any system that's not disc drive." This means data stored is on removable discs.

The other major type of storage system, ledger cards, just don't hold enough, he said. "You're lucky if you can store 1,500 characters. An agency our size would have an eight-foot stack of cards. Also, they can get jammed, destroyed, bent and easily erased. They can be erased by being set beside a ringing telephone!"

Disc drive systems have come down in price over the last few years, he continued. "The system I bought three years ago is now available for just slightly over half the cost. I paid about $33,000. Most people I've talked to have paid that same amount but have gotten better equipment."

The Ohio agent estimated that the average computer-owner he'd spoken to has spent between $30,000 and $40,000 on equipment. "But it's possible to get a working system for an investment of $20,000 to $25,000," he said.

"If you have a used market available to you—and the only way you'll know this is if you ask the question of computer people—you might be surprised to see what you can get. Equipment like I have sells on a used market for around $12,000."

Mr. Walker also made a strong plug for agents to get systems with a logical maintenance contract. This means, among other things, that the service person is reasonably close. "Unless your service is within an hour of your agency, don't consider that type of equipment," he suggested. "If there are no computer companies within that range, don't consider a computer. They always go out when you need them most.

"And when you have a computer, you tend not to keep up other records as well as they might be kept. When the computer is down, a lot of your agency is down. So make sure you have service available that includes preventive maintenance—that means they stop by every once in a while and run a check on it."

A good system will also have removable discs. "It took us four months to put all the data we have on the computer from the standpoint of back-up. We keep three generations of active back-up.

"Some systems don't have any capability for back-up! I couldn't sleep at night! We're in the insurance business? Would you recommend that to one of your clients?

"Discs are cheap. They cost about $80 apiece. I could store everything I've done in the whole quarter on one disc."

There are basically six things that computers can do, although Mr. Walker said he wasn't aware of any one single system that would perform all six tasks.

• **ACCOUNTING.** Even though it's generally the main reason most agencies buy a computer "you'd be surprised at how many of the systems are not good accounting machines. Almost all will give you general ledger, profit and loss and accounts current. A good system will also give you trends and tell you what you should be paying attention to.

"If you're going to buy a machine, don't you analyze it, have your accountant analyze it.

"Some of the systems for instance are incapable of doing split commission invoices. Where you have one invoice with two or three different amounts of different commissions. I don't think my customers would like receiving three different invoices for the same policy. Check things like that.

"Another person you should talk to about your system is your good Girl Friday. Do you have one woman who has 15 or 20 years in the agency and just knows everything about it? Let her analyze the system. She'll be better than you will. There are two reasons for this: Most of you are salesmen. You've

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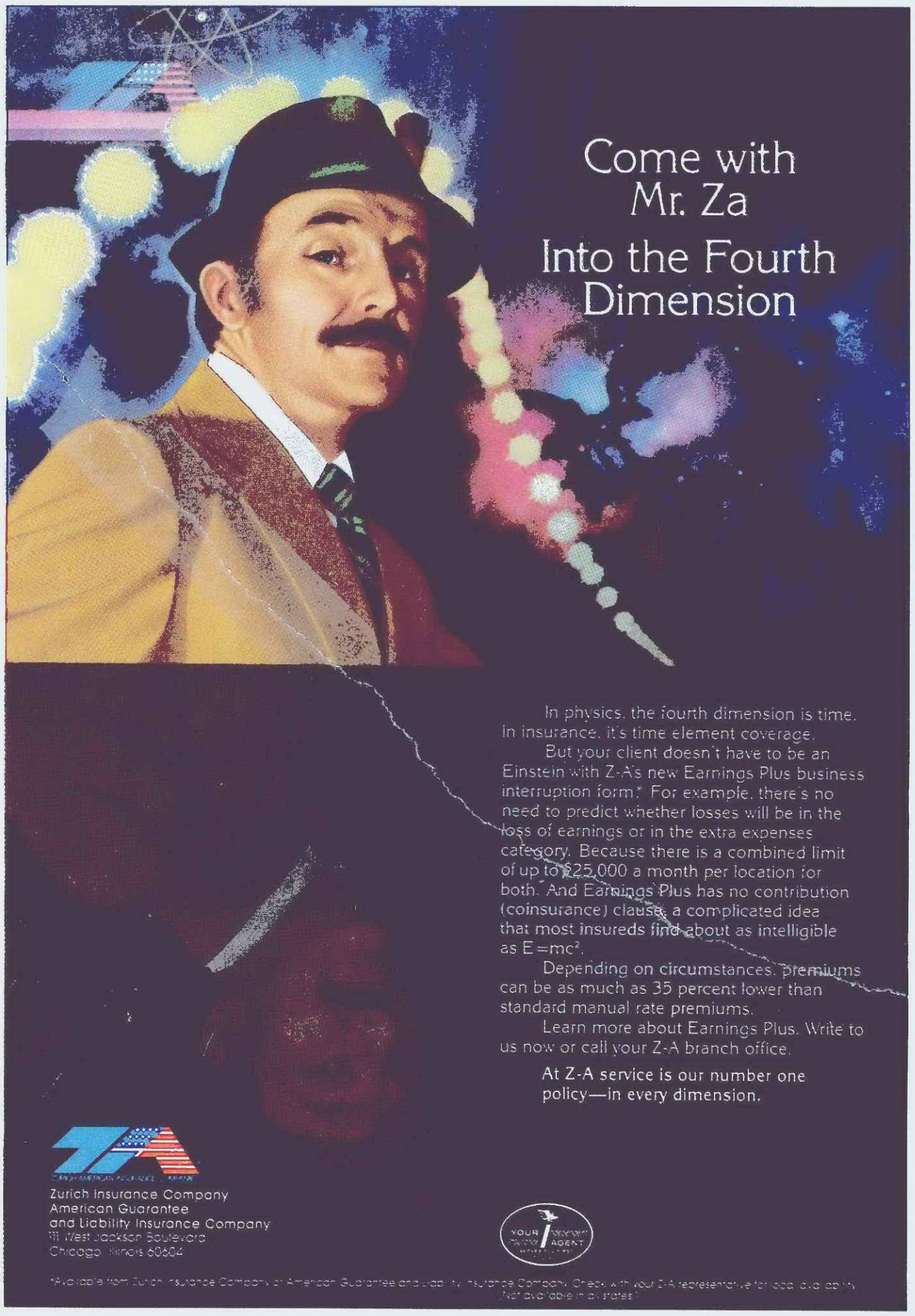

Computer evaluation . . .

Continued from preceding page
probably lost touch with a lot of agency operations, and in the second place almost every good salesman is easily sold."

• **REPORTS.** A computer will produce a number of reports including installment lists, expiration lists, collection reports, production reports as well as claim reports.

• **MARKETING.** "My machine can tell me the name and address of all the people we handle on the South Side of Boston Street in Mansfield. So if I want to go down there and canvas and hit them for homeowners if we write their auto, or auto if we write their homeowners, I can. We also can add prospects to our system and get the same type of reports."

• **CUSTOMER RELATIONS.** "When we went on our agency in-house computer, people came up to us and said how happy they were that we got off the computer." Unlike the agency's prior system, "ours now deals with them in English. No codes appear on my invoices or statements.

"The people in my locality cannot say the word 'computer' without putting the word 'damn' in front of it. It's not just the people in my agency but the general public. They really have a very poor impression of computers. In most cases, it's deserving. Almost everybody can think of a time when they were zapped by a computer in some way or another. Our agency system minimizes these codes."

An agent should be sure his machine has multiple indexing. This means it has the ability to take input from a number of different sources. Mr. Walker's system allows him to call out information by invoice number, cash receipt number, customer number or policy number.

It also enables him to produce four different types of statements: itemized, which is used for most commercial accounts; balance forward, which is used for most personal accounts; monthly amount, a budget type arrangement for personal lines which helps the agency compete against direct writers, and monthly amount for commercial, which is a financed arrangement. In the last two methods, endorsements are just tacked on as they are written.

• **WORD PROCESSING.** This is the ability to write the same general letter to individual clients. If connected with the computer, it can be used for prospecting. Mr. Walker said he doesn't have this capability in his present system but he's interested in adding it.

• **COVERAGE ANALYSIS.** This is the process whereby an agent can store all of the data normally put in the file and have it instantly available. This is Redshaw's big bailiwick, Mr. Walker said. The advantage is mostly convenience but some money-making aspects can be realized too, he said. The Midland Service Agency is thinking about adding this aspect to its system but the snag is that the average life span of a system (before obsolescence) is five years and the agency's system is already three years old.

• **RATING.** It's possible to do rating on many machines but it's just not practical because of the constant change in premium rates, Mr. Walker told the group.

"The problem is, how fast can your girl put in all these rate changes? There is a solution possible. When more and more agencies become computerized, insurance companies may produce the rates on some computer media. Two companies I know are already considering it. They are Travelers and INA."

"The machine should be self-teaching. You ought to be able to pull in a girl off the street and, after she knows the basics of insurance, she should be able to operate the machine. Our training period is about one-and-a-half hours complete. I've seen some systems that charge you $500 to $800 to train someone.

"Another criticism I have of most systems is that they're not secure. Anybody who knows how to use the machine is able to get whatever data he might ever want out of your machine including renewals, expiration dates or whatever other information he wants."

The agent also cautioned his fellow ARM members to make sure the system fits in with their present office procedures. "If the changes make your people object to the machine, you'll never get full utilization. I guess about two-thirds of the time that I've been asked to analyze agency systems that weren't up to par I've found that one or more of the agency principals was defeating the machine by refusing to cooperate with the daily input required. You need the cooperation of everyone."

Basically there are two types of input for an in-house computer, he continued. One is a typewriter type of console printer and the other is video display. "Video display is faster and generally cheaper, but most professional accountants will tell you it's the worst mistake you ever made because you don't have a hard copy. It also makes it a lot more difficult to train your people, because they can't look back to what they did three minutes ago.

"I recommend at least one input station that has hard copy, but the majority of your inquiry stations should be video. We have one input station and have no problems with time."

Output generally falls into one of four categories for most in-house computer systems. Console is the most common. That's followed by matrix printer which is followed by a daisy wheel type of IBM printer. The least common line printer is the fastest output device, cranking out about 600 lines per minute, and is nice for house reports but not for customer reports, Mr. Walker observed.

The term processor is the name for the guts of the machine.

Storage is available in three basic types: ledger card, disc drive and cassette tape. The last method is really too slow for true inquiry, he believes.

"You might also want to consider a system with data communications ability," he said. "That's also known as interfacing. What it means is that your equipment has the capability of communicating with other equipment over standard phone lines. Make sure you at least have the ability to add it.

"Your system should have modular design." That means the ability to add components later. "If you're locked into a system and buy an agency your size," you may not be able to assimilate operations easily. On the other side of the coin, he cautioned, don't buy a computer knowing you're going to have to expand it within the next few years because the additional disc drive comes at full list price.

"When you get quoted a price on a computer, start checking around on the other sources of income you might be able to derive from it," he urged. "For example, I lease my computer in the off hours for $15 per hour. In the last month it was used more than 140 hours. It more than paid for my total cost." **—bjg** ■

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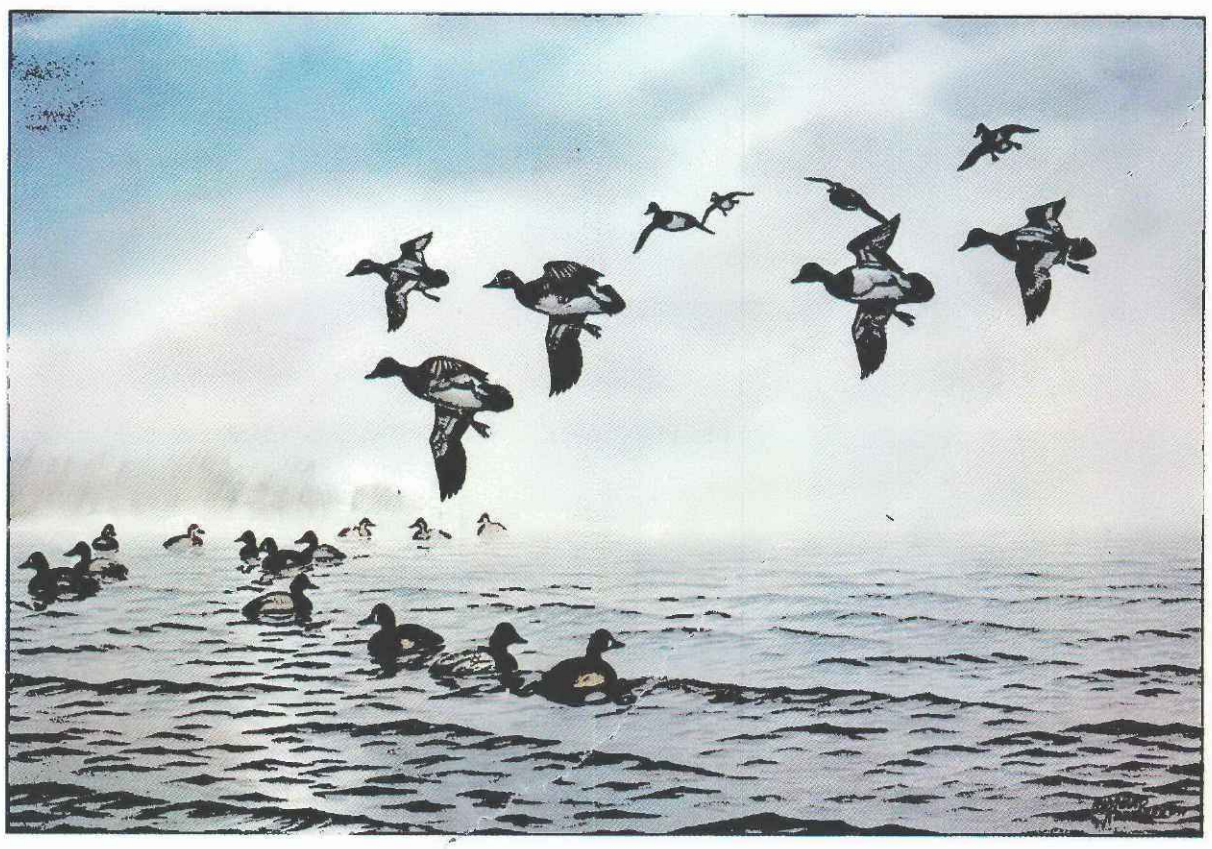

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Dallas market . . .

Continued from page 42A
absorbed (past) growth with existing staff."

He added that the firm plans to hire an additional 45 people in the coming year and expects to exceed $20 million in revenues by the end of 1981.

That figure does not contemplate any merger revenues. Hence if the proposed merger of A&A with R.B. Jones comes to fruition, the revenues of the 10 person Jones office here would be on top of the growth plan.

The Dallas office doubled in revenues every four years since joining A&A in 1970, Mr. White said. "We attribute it 50-50 to the fact that the city is growing and that we're getting more aggressive."

The executive vp, who headed A&A's Tulsa office before coming here one year ago, enumerated three areas responsible for growth in the past year: the growing importance of the oil and gas industries, the addition of medium-sized ($5,000 to $25,000 commission) accounts and the growth of owner-controlled insurance programs. These are arrangements where the building owner accepts contractor bids without insurance and then the owner provides the insurance. One example of an A&A owner-controlled construction insurance program is the new Reunion building here, a spectacular glass structure housing the Hyatt Regency hotel.

The A&A office here is a conglomeration of several agencies over the years. The present office can be traced to the Harris Moore Agency, which even as far back as 1970 touted itself as the largest agency in the state. That agency was the result of the 1967 union of Felix Harris & Co. and Munger Moore and Associates.

A&A chairman William Carter was a managing partner of Harris Moore and is the son-in-law of Felix Harris.

The other major alphabet houses here also entered the city gates through acquisition. Marsh & McLennan, the second largest agency in the city, has as its base Houseman & Co. The M&M office head here, W. Philip Brown, was one of the five partners with Houseman & Co. when it merged with the nation's largest insurance broker in 1972.

Mr. Brown, who bears the same name as the chief of M&M's technical services division, clarifies the duplication by saying "He's the real Phil Brown. I'm the poor man's Phil Brown."

The "poor man's Phil Brown" reported that M&M had taken on 15 new employes here in the last year including a nuclear expert. Revenues grew between 25% and 30%. He declined to identify revenue figures for the 101 person office, although the office would generate $4.3 million if it is keeping pace with Marsh & McLennan's national average.

Fred S. James & Co. of Texas is also a formidable force in the market here with 67 employes. James appeared on the Dallas scene in 1971 with the merger of the Weatherford Smith Thomas Insurance Agency which included two of James' present officers, William Weatherford, now regional director, and Don Harrison, now senior vp.

In August, Robert Earp became head of the James offioe here, after moving over to James three years ago from M&M in Kansas City.

Mr. Earp (yes, his grandfather was a first cousin to the romanticized federal marshal who fought for law and order in Abilene, Witchita and Dodge City) estimated the James office here in the past year increased revenues substantially: "25% or 30%, maybe 40%."

Dallas agents are also expecting big competition from Johnson & Higgins which opened an office here in January 1977 and now has 30 employes. J&H's roots are fresh. It didn't come into the city with an acquisition unlike the other houses, although it does have a large sister office in Houston. Although Mr. Matthews declined to give first year figures for the office, a source close to the firm indicated revenue performance close to $1 million.

The largest privately held national broker hopes to have an office of 50 to 75 people by 1981, Mr. Matthews said. "But we're not hell bent for leather just to add bodies. We want to fit and fill a need with

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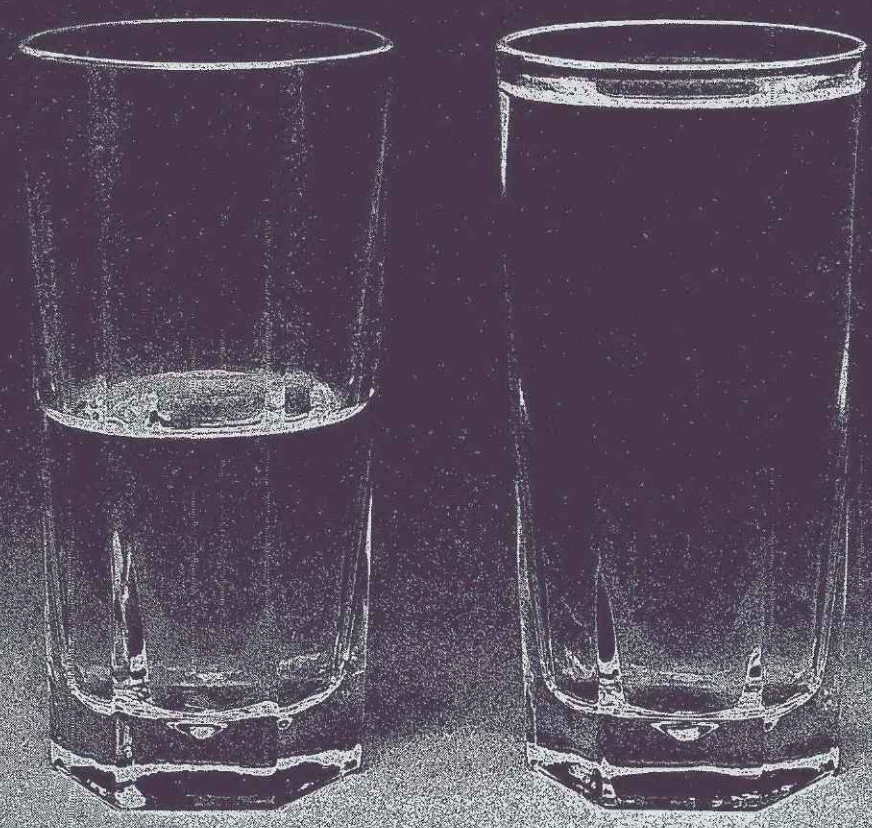

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Dallas market . . .

Continued from preceding page
top notch people."

The nation's second largest privately held brokerage firm, Arthur J. Gallagher, also is a force in this city's market, operating autonomously as the wholly owned subsidiary of J. Frank Holt & Co. President Holt founded the agency in 1936 and merged with Gallagher in 1975.

Holt employs 22 people, four of whom were added last year. Revenues totaled $815,000 last year, beating 1976 figures by 32%, said executive vp Warren Gravely. The first eight months of this year are up 29.5%. Those figures exclude Gallagher Bassett Insurance Services, the self-insurance division which is rapidly becoming as important to Holt as it is to Gallagher's total national operation, where it is about one-third.

Other nationals with a toe in the Dallas door are Bayly, Martin & Fay with a 16-person office and Nordstrom Larpenteur with 14 people.

The growing importance of international business to the metropolitan area's overall economy would appear to give a natural edge to the national brokers who have affiliate offices around the country, if not the globe.

In some cases the independents have competitively responded by linking up with other independent agents in national associations of other independent agents around the country. Examples of this are Maxson Mahoney Turner's membership in InsGroup, Arthur Owen's membership in the Assn. of Independent Insurance Agents and Roach-Howard Smith & Hunter's membership in Assurex.

But membership in these groups doesn't necessarily mean that the independent agents here, several of whom hover around the $1 million revenue mark, plan to meet head on with the national alphabet houses in competition on international accounts.

"There are definitely times when we're at a disadvantage because of the network the national brokers offer," conceded Maxson's managing vp Ben Wheeler. "One of the goals of InsGroup is to supplement this, in using the InsGroup network.

"When a Fortune 500 company moves in we don't sit on their doorstep," he said. "It's not the kind of business we go looking for. We're definitely going to concentrate our business in the areas where we can provide service and can grow with our customers."

The $1.1 million revenue Maxson, which registered 25% growth last year, does not eschew national accounts, however, and has among its clients Docutel Corp. and Jimmy Dean Meat Co. Inc.

In a similar vein, Arthur L. Owen Co. Inc., probably the largest independently owned agency in the city, has just one address and that's in downtown Dallas. "We prefer an account that does not have locations all over the country," president Arthur Owen said. "If the account is in oil, that's different, but not one that would need a lot of local service. Centralization is one of the keys to our success."

In view of Owen's specialization in oil, gas and heavy industry, (40% of revenues are in that area), a Houston office might be logical for the agency. "We have considered it, but with commuter planes every 30 minutes, it's easy to get down there," Mr. Owen said. He also hypothesized that because it takes a conscious effort for Owen people to make it to other cities, the clients probably get better service than if they were located just across the street.

Owen put on four or five new employes last year, bringing their payroll to 34.

In some cases the international tide swelling in Dallas is sweeping the local independent agent along. Max Ligon, president of Ligon, Gump & Ligon notes that two years ago the agency wrote little ocean cargo business. Today, the agency has four accounts in that area.

"We're also finding more and more of our regular customers doing export," he said. "One of our customers just bought a plant in San Salvadore. It ships piece goods from here, assembles them there and ships them back."

In addition to the service capabilities of national accounts, local agents are also hesitant about the idea of putting all of their eggs into one basket. Mr. Ligon, whose firm is now running 40% ahead of last year's $725,000 revenues, argued that a jumbo account could make a firm his size "too vulnerable. You rise and fall on that one account and are susceptible to their moving away."

The national brokers are not playing their long suit of international credentials exclusively and leaving the small and medium-sized accounts for the smaller independent agents. The three major alphabet houses here were very vocal about pursuing the medium-sized accounts.

"We're actively and aggressively soliciting medium-sized accounts," claimed James' Don Harrison. "In fact, we're working our heads off for them."

"Everybody benefits when firms move into Dallas," asserts M&M's Mr. Brown. "That's why we agents work so aggressively with the chamber of commerce and the banks to get them here. We work together to get them here and then we can compete for their business at a later date."

A sampling of the city's glamour accounts show that both nationals and local independents are represented. The Dallas Cowboys, for example, are handled by Kenneth Murchison Co., an affiliate of Kmart Corp. Nieman Marcus had

Who's Who in Dallas

1. Alexander & Alexander of Texas Inc.
2. Marsh & McLennan Inc.
3. Fred S. James & Co. of Texas
4. Arthur L. Owen Co. Inc.
5. Kenneth Murchison Co.
6. Ellis Crotty Powers & Co.
7. Maxson Mahoney Turner Inc.
8. Noel, Greaves & Strother
9. J. Frank Holt & Co.
10. Johnson & Higgins of Texas Inc.

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been largely handled by local Charles Dexter until this year, but now the local agency handles only part of the insurance for the department stores which were acquired by Carter-Hawley-Hale of Los Angeles in 1969. And the Texas distributorship franchise for Coors Beer is handled by J. Frank Holt.

The Fortune 500 resident accounts here are a combination of newcomers and native sons. Marsh & McLennan here handles the accounts for newcomers Gardner-Denver and National Gypsum.

Fred S. James here handles the property coverage for native Braniff International and the aviation coverages for E-Systems.

A&A easily rattles off a list of jumbo accounts for which they write most if not all of the coverage: Texas Industries, Ensearch Corp., Campbell Taggart, Trammel Crow, American Petrofina, Cullem Cos. and Southern Union Gas Co. But, claims the southwest regional director B.J. Cline, "Our big clients ten years ago are our big clients today." Included in this category are Texas Instruments and Southland Corp.

Local giant Dresser Industries is handled by J&H and A&A.

In addition to the burgeoning import and export business, major industries for the local economy

Photo: Barbara Jean Gray

Ellis Crotty Powers & Co. generates a "vital part—20% to 25%—of its revenues in construction," says manager and partner Jim Ratliff.

are wholesaling, transportation, apparel, and banking. Aviation is growing in importance. Energy is too, although agents here say it will never be as important to the Dallas economy as it is to Houston.

Dallas has a broad economic base whose diversity provides a cushion should there be a downturn in any one field, agents feel. This variety, coupled with the area's overall growth, has kept unemployment low. The unemployment rate in the metropolitan area was 5.3% in 1975, 4.6% in 1976 and last year it edged up to 4.7% the chamber of commerce reports.

Construction, after feeling the national slump of 1974 and 1975 is rebounding smartly. Total residential building permits in Dallas County declined steadily from 1972 to 1975, dropping from 22,471 permits (both single and multi dwelling units) to 8,756. In 1977 the permits figure had jumped to 24,484. Non-residential contract awards, measured in terms of dollar value in Dallas County, followed the same course. Contract awards were valued at $464 million in 1972 and declined steadily to $292 million by 1975. Last year, they totaled $365 million.

At least one major insurance agency here had been heavily concentrated in construction accounts. Ellis Crotty Powers & Co. was founded in writing contract bonds, reported marketing manager and partner Jim Ratliff. The firm now generates "a vital part —20% to 25%"—of its revenues in construction.

"The 1974-75 slump in contracting bonds affected our earnings to the point we knew we had to diversify," he said. That area constituted "possibly half" of the firm's total revenues then.

Ellis Crotty Powers & Co. generated $1.1 million in revenues in calendar 1977, Mr. Ratliff said. Through August of this year revenues are already at $900,000. The firm, which has eight partners and a total of 29 employes, has been pursuing accounts in the wholesale warehouse and general retail fields.

In the past year the firm has added one new employe. "We have enjoyed growth without having to add employes but that's not going to last. We're fast reaching the satu-

Continued on following page

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Photo: Barbara Jean Gray

Jim Millerman of Millerman & Millerman is one of a number of Dallas agents considering the idea of adding a Houston office.

Dallas market . . .

Continued from preceding page
ration point," Mr. Ratliff said.

In addition to the Dallas resident agents there are at least two other Texas agencies which are major factors in the market here.

One is Roach-Howard Hunter & Smith, an agency in suburban Garland, which generates most of its revenues in Dallas.

The other is Millerman & Millerman which added a Dallas office to its Abilene headquarters in 1970. The agency entered the Dallas market almost by accident, according to executive vp Jim Millerman. "We were looking at Houston when we came across Dallas."

Millerman & Millerman is shooting for revenues of $1.5 million for the two offices this year, up from last year's $1.25 million. The Abilene office, started by Mr. Millerman's grandfather in 1926 is still larger than Dallas by $100,000 or $125,000, but Dallas is moving up fast. Year to date figures show the office here generating a 46% increase.

Mr. Millerman isn't the only Texas agent to toy with the idea of a Houston office. Holt's Mr. Gravely felt that his firm would "quite naturally expand to Houston sometime in the near future, possibly within five years. We already have three clients there and go down there frequently."

And sometimes the expansion of local agencies goes in the other direction. ANCO, one of Houston's leading independent agencies, maintained an office here for about a year mostly specializing in aviation but decided to concentrate efforts in Houston, according to executive vp John Van Osdall.

Dallasites are very aware of their city's frequent comparison to Houston, their southern neighbor 250 miles away. Most Dallas agents acknowledge that their city's growth is not as spectacular and their dollars not as splashy, but they argue that the overall quality of life is more sophisticated and more genteel.

"Dallas is quality; Houston is quantity," says Bob Rucker, president of W.A. Rucker & Associates Inc.

And it is that quality of life and that moderate pace of growth that the agents are pushing in attempts to attract new personnel into the city.

Almost to the man, every agent interviewed said that a shortage of qualified technical and support personnel presented a crucial concern to agency operations.

"Our major problem is locating enough qualified people to meet the growth we plan to have," acknowledged A&A's Mr. White. "Our office, while we have good production, has service as its whole underlying thrust. It's our lead product. We have very few individuals who don't have service responsibilities. We don't have any one who's designated as a full time producer."

Mr. White anticipates A&A's new additions this year coming from different areas of the country.

Echoed M&M's Mr. Brown, "Many of our new hirees this year were recruited from Detroit, Chicago and other northern cities. They're people who want to come to the Sunbelt."

There's definitely a problem getting good personnel, said Arthur Owen. "And it's gotten worse in the last two years. They can get guys like us (Owen and vps Bruce Mackey, Michael Cook and oil accounts manager Hugh Grandstaff) anywhere, but it's the girls. We used to steal them from the insurance companies and now they want to steal them back."

Owen vp Michael Cook added, "There's a shortage of qualified staff personnel due to the higher than average technical requirements of the men." Fellow vp Bruce Mackey continued, "We now pay 15% to 20% higher than a year ago in sales positions. But the problem is not price, but finding enough people to go around."

The Owen firm has also recently gone to an account executive system where each producer has his own assistant. This arrangement puts a further strain on personnel needs in contrast to the support pool method used before.

Local independent Noel, Greaves & Strother has made a conscious effort to bring new blood into its agency. Specifically, the five principals are striving to add producer and management personnel at staggered age levels so the freshness of the agency is ensured.

Principal Donald W. Greaves said the firm took to heart a Stanford Research Institute study 10 years ago that addressed the subject of staggered age levels. Mr. Greaves is eight years younger than fellow principal David Noel. William E. Strother, who joined the firm later, is eight years younger than Mr. Greaves.

"Last year we brought in a young man and we now have our eye on two others. Within the next few months we will start concentrating on bringing in new people each year." The firm presently has 24 employes.

Noel, Greaves & Strother—with roots back to 1931—was incorporated in 1972 after being a partnership. Gross revenues have hit the $1 million mark and the agency has realized a growth of better than 20% for each of the last two years.

Millerman & Millerman has also addressed itself to the agency perpetuation question and is this year establishing an employe stock ownership trust. The firm already has a pension fund and a profit sharing plan, Mr. Millerman said. "We think the ESOT is a great thing. We like the idea of the employes knowing what they do will count."

Both Millerman & Millerman and Noel, Greaves & Strother are located outside the downtown area of Dallas. Millerman's address on the LBJ freeway, a major artery circling the city, is the firm's entry into the Dallas area. But Noel Greaves & Strother moved to the city's west side Turtle Creek area after being located downtown for many years.

It's a move they've not regretted. "I don't know why anyone would want to be downtown," said Mr. Strother. "I used to think downtown promotes a more business like atmosphere and I still think that's true but it's not that important." ■

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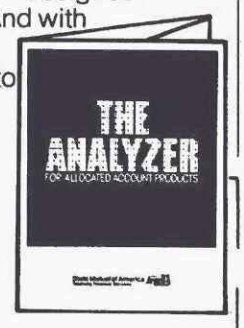

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National brokers . . .

Continued from page 42A

stagnating compared to their own performance of previous years. In 1977 the top 20 topped their previous year's revenue per employe by 10% after a 2% gain in 1976. All other brokers advanced faster—by 15.3% against their own pace of 1976 and by 6.4% over 1975.

Between 1976 and 1977 the top 20 increased their revenues an average of 24.3% and their number of employes by an average of 15.6%. The other 378 firms listed in the profile issue increased their aggregate revenues by 25% (to an average of $1,009,906 from an average of $807,573) and their employes by 8.3% (to an average of 28.4 workers from an average of 26.2 per firm).

Between 1976 and 1975 the top 20 increased their revenues an average of 22.2% and their employes by 9.7%. The 370 firms reporting 1976 figures registered a 7.7% increase in revenues (from an average of $749,817) and a 0.7% increase in employes.

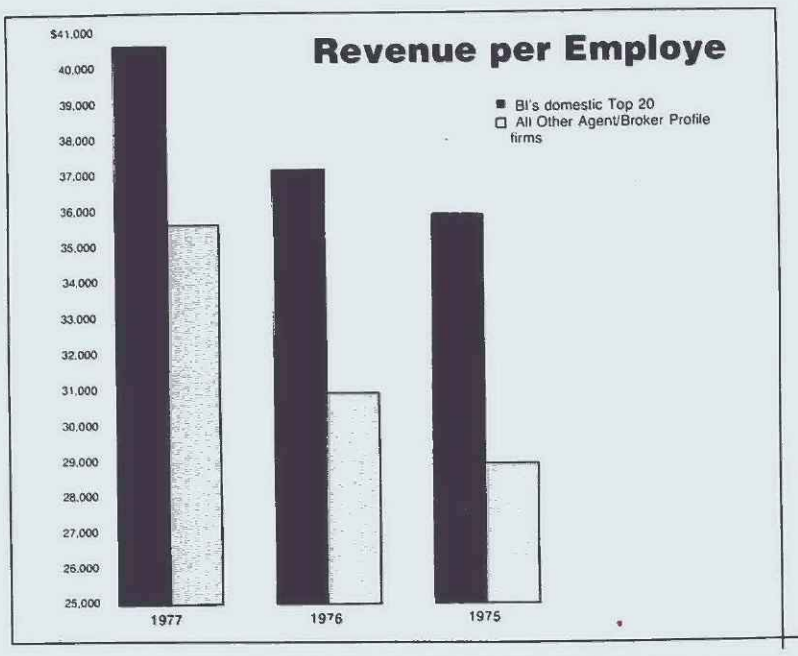
Commercial business represents the largest if not the exclusive source of revenues for the top 20. That's not the case for the smaller agents and brokers, although they're definitely heading in that direction.

In 1977, commercial lines business accounted for 76.8% of the total revenues generated by the 378 agents and brokers. That was a 2.5% increase over the 1976 slice when commercial lines equaled 74.9%. It also represented a 6.5% gain over the 70% portion reported by the 346 firms supplying data for 1975.

A new piece of information on excess/surplus broker licenses was added to this year's directory. Responses revealed that 156 of the 378 brokers, or 41.2% of all primary retailers, also hold excess and surplus lines broker's licenses.

Acquisition activity for the 378 medium to small firms was off from last year by 30.7%. Of this year's list, 39 reported making at least one acquisition during 1977. In 1976 the "all other" broker category made 51 mergers and acquisitions. That was a 10.8% increase from the performance reported for 1975 when the counterpart group made 46 such transactions.

This compares to acquisitions activity by 14 of the top 20 in 1977, by 13 in 1976 and by 14 in 1975. —bjg ■



Fix dollars for 4 steps in acquisition

FT. WAYNE, Ind.—A good agency valuation will contain a dollar value for at least four elements—goodwill, covenants, fixed assets and expirations.

So contended E.J. Leverett Jr., professor of risk management at the University of Georgia, at a financial management workshop sponsored by the northern Indiana CPCU chapter recently.

Goodwill should account for 2% to 3% of the price established in the valuation, he said. Covenants should account for about 50% of that price and the fixed assets should be at book value.

An agent seeking to buy another agency will want as much of the value as possible considered depreciable and "you should be able to write off 90% of the purchase price," the consultant said.

The most sensitive area of buy-sell negotiations is the covenants. "Buyers and sellers get into conflict where covenants not to compete are involved," he said. "It is ordinary income to the seller and he will fight hard to keep as much as possible from being put into the covenant as possible."

A three-year period on the agreements seemed to be the "reasonable" length most acceptable to the IRS, he said.

It should also be limited to a reasonable territory—like a county.

"The best way is to make it a nonpiracy (rather than non-compete), then you have solved the location problem," the professor recommended.

And, he reminded CPCU members, "the problem with enforcing a covenant is that you have to sue to do it."

Like covenants, goodwill is also depreciable for the buyer but considered ordinary income to the seller. This covers such areas as the retention of acquired personnel, the meshing of files, the profitability of the acquired agency, the retention of the name and any change of location. Dr. Leverett advised the agents that no more than 10% of the price should be allocated to goodwill.

Fixed assets, while still depreciable to the buyer, are considered capital gains to the seller.

That is also the tax status of the most recently added depreciable asset, expirations. The useful life of the expirations and their value must be determined by the buyer and seller, he said.

Documentation for expirations is critical. Three years is generally the shortest period of time of documentation for tax purposes and 15 the longest. Expirations are considered capital gains for the seller. ■

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Agents rate 6 profit sharing pacts as excellent

MANHATTAN, Kan.—Six are excellent, 17 are good, 14 are average, 17 are fair and 11 are poor.

That's how two independent insurance agents here size up the profit sharing agreements of 65 insurance companies.

The comparative critique of profit sharing agreements is a 40-page booklet published by the principals of the Charlson Wilson Agency here, Charles Hostetler and Dan Messelt. The booklet, published last August, is the fourth edition of a profit sharing study in the last 18 months.

In their opinion, companies with "excellent" profit sharing contracts for agents are Allstate, Celina, Central, Cimarron, Crum & Forster and Maryland Casualty.

Those with "good" contracts are Aetna Life & Casualty, Atlantic Mutual, Chubb & Son, Cincinnati, Continental, Economy Fire & Casualty, Foremost, General Accident, Great American, Hanover, Highlands, Kansas Fire & Casualty, Pennsylvania National, Trinity Universal, USF&G, Western Casualty & Surety, and Zurich American.

Companies receiving an "average" rating are CNA, Commercial Union, Iowa Kemper, Kemper, Northwestern National, Ohio Casualty, Protective Fire & Casualty, Royal-Globe, Shelby, Silvey, St. Paul Fire & Marine, Statesmen Group, United Fire & Casualty and Utica National.

Falling into the "fair" category according to the Kansas agents are Aetna Insurance, Auto-Owners, Bituminous, Employers, Farmers Auto and Pekin Insurance, Fireman's Fund, General Casualty, Gulf, Hartford, Hawkeye, Indiana, Lititz, New Hampshire, Reliance, Transamerica, Travelers and Westfield.

"Poor" ratings were given to A.I.D., American States, Continental Western, Farmers Alliance, Fidelity & Deposit, Home, INA, Iowa National, Republic-Vanguard, Safeco and State Automobile.

This fourth edition of "Major Criteria in Profit Sharing Agreements" is the agents first to give ratings to the various contracts. Earlier editions have, however, ranked the companies according to the dollar payout yielded when a standard formula of premium and loss is applied.

Of the 65 company contracts put to this test in August, Economy Fire & Casualty showed the highest profit sharing amount, paying $6,656 or 28.9% of net underwriting profit. At the other end of the scale, Continental Western came in last with a payout of $2,000 or a 9.7% of net underwriting profit.

The booklet also contains a comprehensive discussion on trends and changes in profit sharing agreements in the last two years, in which specific company contracts are analyzed.

Specific reviews of significant aspects of each of the 65 company contracts are also included in this booklet as is a lexicon of general terminology used in profit sharing contracts.

The booklet also attempted to reveal those insurance companies whose programs were discussed anonymously last year in a study done by the national organization of the Independent Insurance Agents of America. The IIAA study listed names of the companies supplying data to its study but did not affix a company name to a company program. The Kansas booklet attempts to do this to make that study "more meaningful."

According to "Major Criteria in Profit-Sharing Agreements," the company referred to as company "A" in the IIAA study was Reliance; Company "B" was Aetna Insurance; "C" was Fireman's Fund; "D"-Great American, "E"-INA; "F"-Kemper; "G"-Maryland Casualty; "H"-St. Paul; "I"-Continental; "J"-Hartford; "K"-Home; "L"-Travelers; "M"-USF&G; "N"-Aetna Casualty & Surety; "O"-Commercial Union; "P"-Transamerica; "Q"-Royal-Globe; "R"-Atlantic Mutual; "S"-Chubb & Son; "T"-CNA and "U"-Crum & Forster.

Copies of "Major Criteria in Profit-Sharing Agreements" may be purchased for $5 by contacting the Independent Insurance Agents of Kansas, 917 Topeka Ave., Topeka, Kan. 66612. ■

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Independents market share still sliding

NEW YORK—The average independent insurance agent lost about $56,000 in premiums a year between 1972 and 1977 to direct writers.

That average was reached by Tom Johnson, executive vp of the Florida Assn. of Insurance Agents, in his work on the "Last Manifest," FAIA's fourth campaign in six years to stop the erosion of market share by independent agents.

Mr. Johnson, in a fire and brimstone speech at the Independent Insurance Agents Assn. annual meeting here recently, told agents that they wrote 68.1% of all property and casualty business (both personal and commercial lines) in 1972. But by 1977 their market share had slid 3.4% to 64.7%.

The 3.4% loss figure is a national average of all states. Mr. Johnson told the group that sixteen states lost more than that and that Arkansas, Missouri and Nevada lost more than 10%. Alaska and Tennessee gained.

"Those are only yesterday's figures," he told his fellow agents. "Tomorrow these facts must be considered.

"In 1977, the average independent contractor agent of State Farm took home $32,400 on gross compensation of $54,000.

"In 1985, he will average $65,000 on a gross of $104,150.

"By year end, Allstate will have 1,000 independent agents in 40 states in its rural area program.

"In 1980, 1,500 independent agents will be producing $150 million for Allstate primarily in automobile and homeowners premiums."

He then pointed out the Allstate's Northbrook Property and Casualty Insurance Co. would be operational by yearend to write larger commercial lines through independents.

Agents' own high prices and low market share should be the top priority item for the association, the Florida association executive said.

Mr. Johnson also singled out time management. "In good times and bad, whether the market is open or shut, independent agents spend 81% of their time managing, servicing or something. Only 19% is devoted to selling.

"Salesmen, hired to sell, spend 71% of their time doing something other than selling." ■

london line

Lloyd's issues major alert, probes series of cargo frauds

By JOHN H. MILLER

LONDON—Lloyd's is investigating a worldwide series of cargo frauds which could have cost the insurance market $100 million if they had not been checked in time.

Alerts have gone out to all major business centers to be on the watch for suspicious shipping deals.

Gerald Pepperell, chairman of the American Institute of Marine Underwriters, told *Business Insurance*, "The U.S. market seems to have escaped the net so far, but we will certainly take heed of the Lloyd's warning."

Fifty examples of missing cargoes, worth between $2 million and $10 million each, are now being probed by Lloyd's Underwriters Claims Office and the U.K. Salvage Assn.

Inquiries are spreading to Singapore, Taiwan and India in an attempt to trace the criminals and crack down on their efforts to cheat marine underwriters of large sums.

The scheme rests on diverting valuable cargoes from their shipping destinations while blaming port congestion in distant countries for their non-delivery. But the cargoes are pirated and sold elsewhere.

The jump in unusual claims made Lloyd's suspicious and they told the salvage association to check any peculiar transactions before paying claims.

Godfrey W. Hutton, a leading Lloyd's figure and deputy chairman of its marine underwriting association, said, "It's vital to stress the seriousness of the situation, because millions of dollars worth of cargoes are involved.

"It seems doubtful if other insurance markets will escape completely from the effects unless they take great care not to be tricked. Here at Lloyd's we have had more than 100 cases of unusual cargo claims in the past 12 months and have instructed the salvage association to check out on at least half of them."

Geoffrey Merriman, deputy, chairman of the Institute of London Underwriters, confirmed that incidents involving flag of convenience vessels, usually old ships run by distant one-man operators, are being investigated by cargo insurers with U.K. companies.

Mr. Hutton said: "We think we've cracked down on the problem, but we're still checking out many details to be sure we're not being swindled. Standards of commercial integrity are dropping and there may be issues of contributory negligence to be raised in settling claims if businessmen fail to use reputable forwarding agents and shipping firms for their products."

Broker suspended

Lloyd's has suspended U.K. broker Crow Dalton Lambert from placing further business with it until further notice, although the firm can service existing policies. The reason is that the Committee of Lloyd's is not satisfied with the administration of the company, which was formed in 1971 and is one of the smaller Lloyd's brokers handling a premium volume reportedly of $2 million a year, largely in marine lines.

No statement on the suspension has been made by the firm, which also places much business outside Lloyd's.

Broker rules

Rules for the control of insurance brokers have been renewed by Lloyd's which so far this year has suspended or removed four firms from its current total of 270 approved brokers.

This is four times as many as last year and twice the number in 1976.

The normal practice is for brokers to supply details of ownership, financial stability and past careers of their directors before being approved at Lloyd's, it is pointed out.

They must also give details of any large accounts which if lost would seriously affect their stability and the extent of the business they hope to place with Lloyd's.

Reinsurance cowboys

An international reinsurance conference in Monte Carlo heard attacks on "cowboy operators" who deliberately undercut rating levels to the detriment of the whole market.

Gunnar Benktander of the Swiss Reinsurance group said the "cowboys" were not necessarily of U.S. origin, but their practices were difficult to stop.

Their first priority was to enter the market at any cost leading to the destruction of profit margins, the conference was told.

Mr. Benktander added: "Brokers are often able to find virgin companies who are prepared to give coverage in cases where rates are judged by leading reinsurers to be inadequate. To my mind there is no real capacity problem, but there are inadequate rates or insufficient profit margins. Skilled and energetic brokers succeed in finding capacity in all four corners of the world." ■

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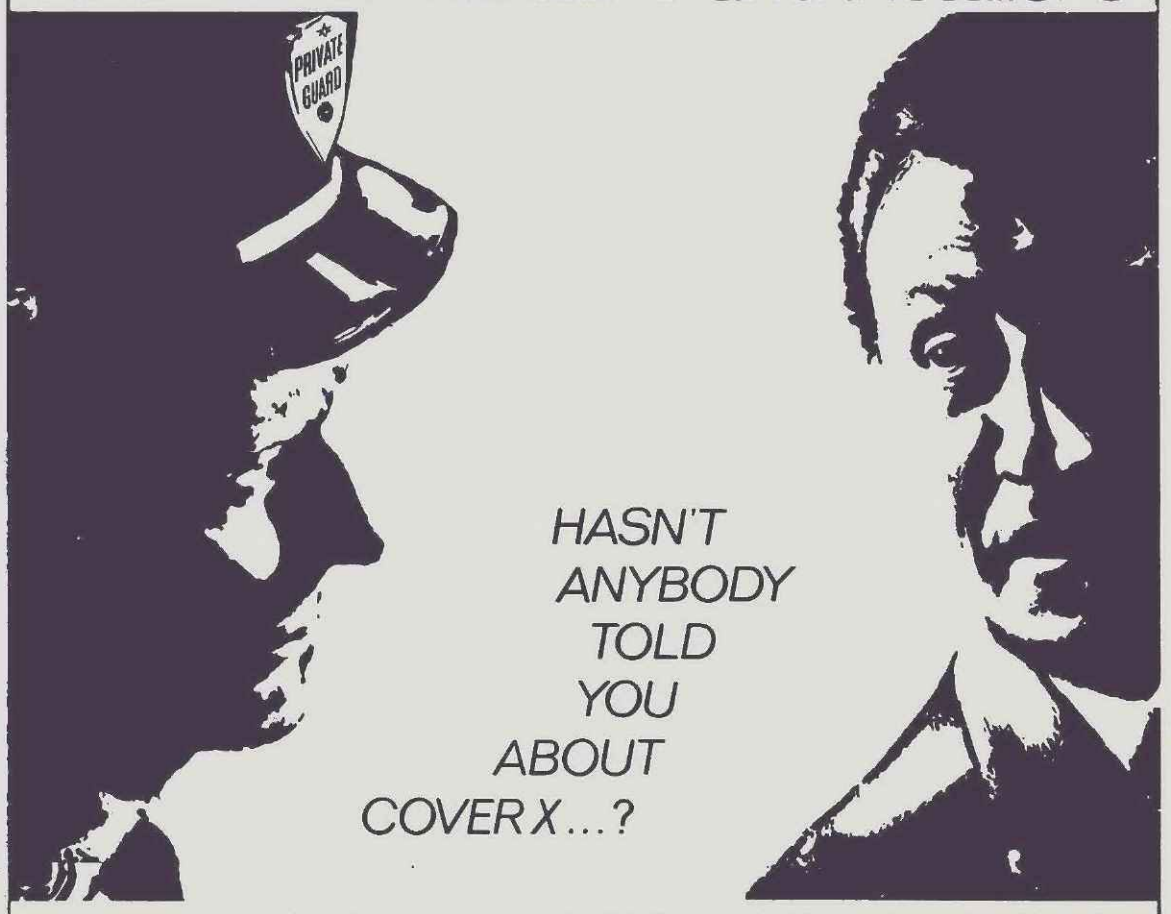

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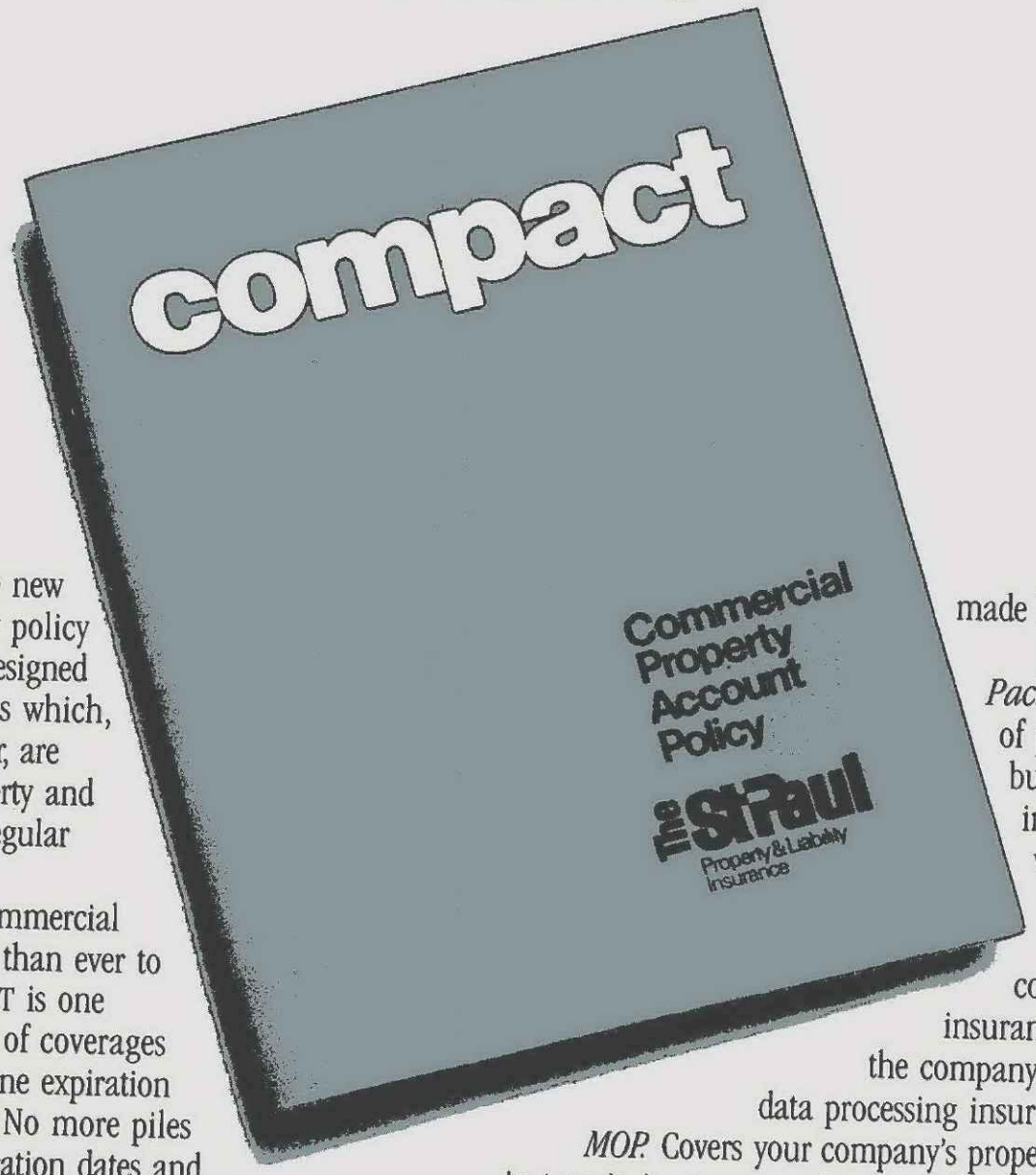

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benefit tax slants

Guidelines assure okay for entertainment expenses

By JOSEPH S. ROBINSON
Attorney-at-Law

EXECUTIVES AND OTHER employes who must entertain customers and business contacts are usually reimbursed for their out-of-pocket outlays. Naturally, the company wants to write off the cost as a business expense; the company may do that if it maintains satisfactory records.

What follows is a rundown of the general rules to serve as a guide for nailing down the deduction.

An expense deduction will be disallowed, unless the taxpayer can show that the expense was directly related to the active conduct of the business *(See Treas. Reg. Sec. 274(a)(1)(A))*. Each element of the expenditure should be backed up with records.

The minimum requirements for recorded entries are:

- The taxpayer must maintain an account book, diary, statement of expense or similar records.
- The entries must be made at or near the time the expense is incurred; that is, while he has present and full knowledge of each element of the expenditure.
- The record must state the business purpose of the expense.
- The record must show the date, place, essential character and amount of the expense.

In addition to these records, the taxpayer must also produce "documentary evidence" when the expense is for lodging away from home or when such an expense amounts to $25 or more. This proof includes such items as receipts or paid bills and will be considered adequate if it contains the amount, date, location, and essential character of the expense. *(See Treas. Reg. Sec. 1.274-5(e)(2)(iii))*.

Keep in mind that when the reimbursed employe owns more than 10% of company stock, additional proof is required. The employe must personally substantiate the expense by submitting his own statement containing specific information in detail and IRS can request further corroborative evidence. *(See Treas. Reg. Sec. 1.274-5(e)(5)(iii))*.

What about country club dues? You must pass a stiff two-step test to qualify for a business-expense deduction for dues paid to country clubs, athletic clubs and the like. First, you must show that you actually spent more time at the club on business than on pleasure. If you are unable to show this to be the fact, you can offer other evidence that you used the club primarily for business, such as the fact that you actually spent more money at the club on business than on pleasure.

Second, you can deduct only the portion of your dues directly related to your business. "Directly related" means that you must actually discuss business and you must show there is more than a general expectation of realizing some specific benefit (other than the goodwill of the person entertained) at some future date.

Veterans pension rights

A federal court ruled that pension payments are protected by the Veterans Readjustment Assistance Act of 1974.

Here's the story:

The employe, a Vietnam veteran, brought an action against his former employer to get credit for the time he had spent in the military. He contended that the employer's denial of such credit violated Sec. 202 of the law (VRAA).

The court ruled that pension payments are benefits protected by VRAA so that an employe who returned to his job after military service was entitled to credit in the company's pension plan for the length of time that he had served in the military. In adhering to the Supreme Court ruling of *Alabama Power, 431 U.S. 531*, the court followed that decision to the effect that pension rights in general are to be protected by VRAA. *(Horton v. Armour & Co. U.S. Dist. Ct., Missouri, 5/5/78)*.

Stretching payouts

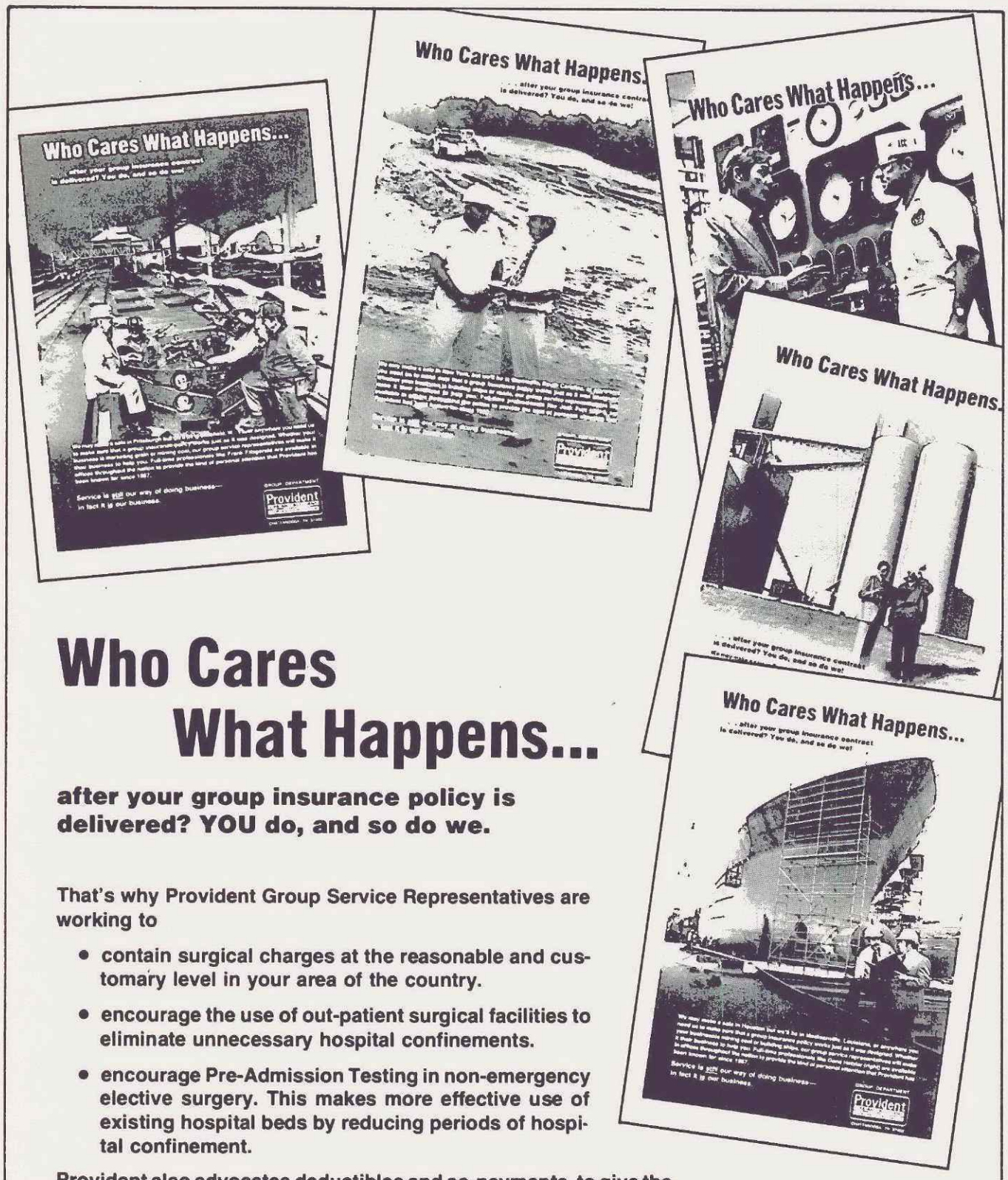
Under ERISA, where a pension includes a life annuity for a participant among its payout provisions, it must provide for a joint and survivor election. This guarantees a surviving spouse a lifetime income based on the value of the deceased employe's retirement account. Since the participant must usually pay the price of reduced benefit payments at retirement, he has election rights where an annuity payment is involved. The plan must give the participant the opportunity to elect in writing not to take a joint and survivor annuity.

Although most pension payouts are turned over to employes upon retirement in the form of an income for the duration of his life and that of his spouse, pension consultant E. John Lewis thinks he found a better way to handle these benefits.

Says Mr. Lewis: Instead of opting for the joint and survivor election, retiring employes should choose the straight life annuity (which ceases with his death) and use part of the extra income to pay for a retirement-type insurance policy on his life to indemnify the widow for the loss of income.

Mr. Lewis cites the example of a 62-year-old executive about to retire. His wife is also the same age. The pension participant may elect a straight pension of $21,000 per year or a joint and survivor annuity of $14,000 under the terms of the plan. Mr. Lewis recommends the larger sum and applying a substantial portion of the difference—say $5,000—to finance an insurance policy, the proceeds of which to be converted to a guaranteed income for the wife in the event of the retired executive's death.

What's the result? The retiree receives a larger yearly income than he would normally have under the joint and survivor option, the widow is protected with a continuing income as long as she lives and should the wife predecease the pensioner, the insurance proceeds could then remain for the heirs. ■



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Spinal injuries need aggressive help, expert warns

By SUSAN ALT

Consultant urges risk managers to tax the tax deduction on incurred, uncontested workers compensation claims. Page 50.

PHILADELPHIA—Employers are often their own worst enemies when it comes to limiting workers compensation losses on serious spinal injury cases, says Gayle C. Foster, assistant secretary for General Reinsurance Corp.

Rehabilitation of seriously injured workers, particularly quadriplegics, is "a very fragile thing" that requires a quick response and immediate notification of qualified specialists, said Mr. Foster, who is General Re's rehabilitation expert handling spinal cord and brain injury cases. "The problem is frequently the employers, not the quadriplegics," he told a Warren, McVeigh & Griffin seminar here on self-insurance and risk management services.

The emphasis must be on medical management as well as rehabilitation, he believes. "If we don't get early notification of that kind of claim so we can establish rapport with the patient, the family and the physicians, and then walk this case through the conclusion, we can spend three or four times the amount of money that we need to," he said.

General Re tries to respond within 24 hours to notice of severe injuries. For one thing, shortly after the accident, a spouse needs "some good news" about insurance coverage and what the company is doing to help.

With serious injuries, Mr. Foster advocates total involvement with the injured worker and his family, even to the point of establishing close friendships with those involved in the case to promote a favorable outcome. "We become emotionally involved with our patients and with the claims attorneys. The old idea of an adversary approach just doesn't work with rehabilitation," he reasoned.

Unless companies name someone in their organizations to manage the rehabilitation process, the patient can wind up bedridden, with nurses around the clock forever or in a nursing home for life, Mr. Foster told his audience.

This usually isn't any fault of the hospital where the injured worker is treated; but is chiefly the result of a lack of coordination to get the patient to specialists and into rehab treatment facilities immediately, he said. "I run into very few doctors who have much imagination with rehabilitation problems," he added.

A lot of industrial back injury cases don't lend themselves to successful rehabilitation, said Mr. Foster, but they should be approached honestly and investigated. "You can often get the person to tell you whether or not he wants to return to work" with a few honest questions and a genuine interest in the worker, he maintains.

Because some workers don't want to ever return to work and don't care if they are helped to a functional life, there are a lot of failures in the rehabilitation field, he said. But he cited a case in Philadelphia where the worker with a spinal injury was rehabilitated and a $1.5 million reserve on the case was reduced to $600,000, proving that rehabilitation can work, resulting in "concrete dollar savings."

Mr. Foster would prefer to see every company hire its own in-house rehabilitation staff to do injury investigation and the counseling that's needed, so that the insurance company doesn't have to be relied upon.

One solution, he suggested, would be to start having insurance company adjusters do this work, since "many of them are well suited to it." Adjusters usually aren't in the position of adversaries, but are usually good counselors and establish a rapport with injured parties. "The adjuster can perform this job, but the nurse (on the case) can't," he warned.

He chided insurance companies for being slow to respond to the need for quick investigations of these serious injury cases with an eye to rehabilitation. Insurers haven't assigned these tasks of medical management to adjusters chiefly because "nobody in the insurance companies wants to confront these cases, nobody wants to get involved," he thinks. He worries that there's little understanding of the need to "get these cases moving immediately."

For example, if a company can move quickly "to the most creative and innovative hospital" treating injury being confronted and get the patient home as early as possible, "you'll get a better outcome," he is convinced. Moving a patient to the right hospital facility provides reinforcement and encouragement at a critical time, he said, proving that it's not always best to keep the patient in a local hospital close to the family during this period.

In cases where there's contested liability, General Re has sometimes advanced funds for rehabilitation and treatment because of the need for quick action, despite the insurer's desire to avoid admitting liability. "We get together with the plaintiff's attorneys in these cases and insist on confidentiality of the source of funds," Mr. Foster revealed.

Risk managers who hire rehabilitation specialists from outside firms should call in several professional organizations and interview them rigorously, asking for specific suggestions on what they would do with the case at hand, urged Mr. Foster. "If you don't like their plans, don't hire them." ■

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Tax deductions urged on some workers comp claim

PHILADELPHIA—Corporations should be taking tax deductions for incurred, uncontested workers compensation claims that are self-insured, but aren't often doing so, says a risk management consultant.

Allon J. Greene, principal consultant with Warren, McVeigh & Griffin, said he estimates 85% to 90% of all risk managers aren't deducting legitimate self-insured losses for which liability has already been recognized but which haven't yet been fully paid. "But I think they should" be taking the deductions, he said, pointing to the Crescent Wharf & Warehouse Co. case in California as proof that the IRS must accept these deductions as valid.

He hedged his advice to risk managers by adding the proviso that these deductions should be taken "assuming there aren't other tax problems" that might make a company want to avoid a red flag to the IRS.

Five types of insurance premiums are currently being questioned because they don't generally fit the IRS requirements for deductibility of premiums paid to an insurer, Mr. Greene pointed out. These include open end retrospective programs, paid retro plans, fronted insurance programs, captive insurance companies and programs designed solely to spread loss and obtain a tax deduction.

"The size of the program has a lot to do" with whether the IRS will allow deductions taken for these types of arrangements, Mr. Greene believes.

The IRS, he added, doesn't allow any deduction for incurred, contested claims that are self-insured, because they don't meet the criteria that the loss be identifiable in time and place and that the amount of the loss be determinable with reasonable accuracy.

"But with incurred, uncontested claims, you've accepted liability and you can determine with reasonable accuracy the amount of the loss" so the deduction should be taken, he observed. He went on to note that two other types of incurred claims—incurred-but-not-reported claims (IBNRs) and claims development schedules—don't meet the IRS criteria and aren't deductible.

According to Mr. Greene, special considerations for a self-insured company when it's wondering whether to take deductions for uncontested claims include:

- Management attitudes about attempting to take deductions that might be questioned by the IRS.
- The number of items being disputed with the IRS at any one time.
- A company's effective tax rate, which affects the decision to self-insure in the first place.
- The need to have effectively documented the occurrence of the loss and to have separated the uncontested claims from contested claims.
- Loss reserving using good actuarial data, possibly using an outside firm to establish an arm's length relationship.
- Consistency of internal record-keeping between the tax approach and the accounting approach of establishing the loss.
- Establishment of book reserves to document recognition of an incurred liability.

—*Susan Alt* ■

★ ★ ★

Don't use bonus plan for services

PHILADELPHIA—Compensation for a claim administration firm shouldn't even be based on a bonus system or on a percentage of incurred claims, says Kenneth J. Savage of Warren, McVeigh, Griffin & Savage, claim management consultant.

The best compensation system for an outside supplier of claims handling is time-and-expense payment, with the claims administrator billing the client monthly for incurred time and expenses, Mr. Savage contended.

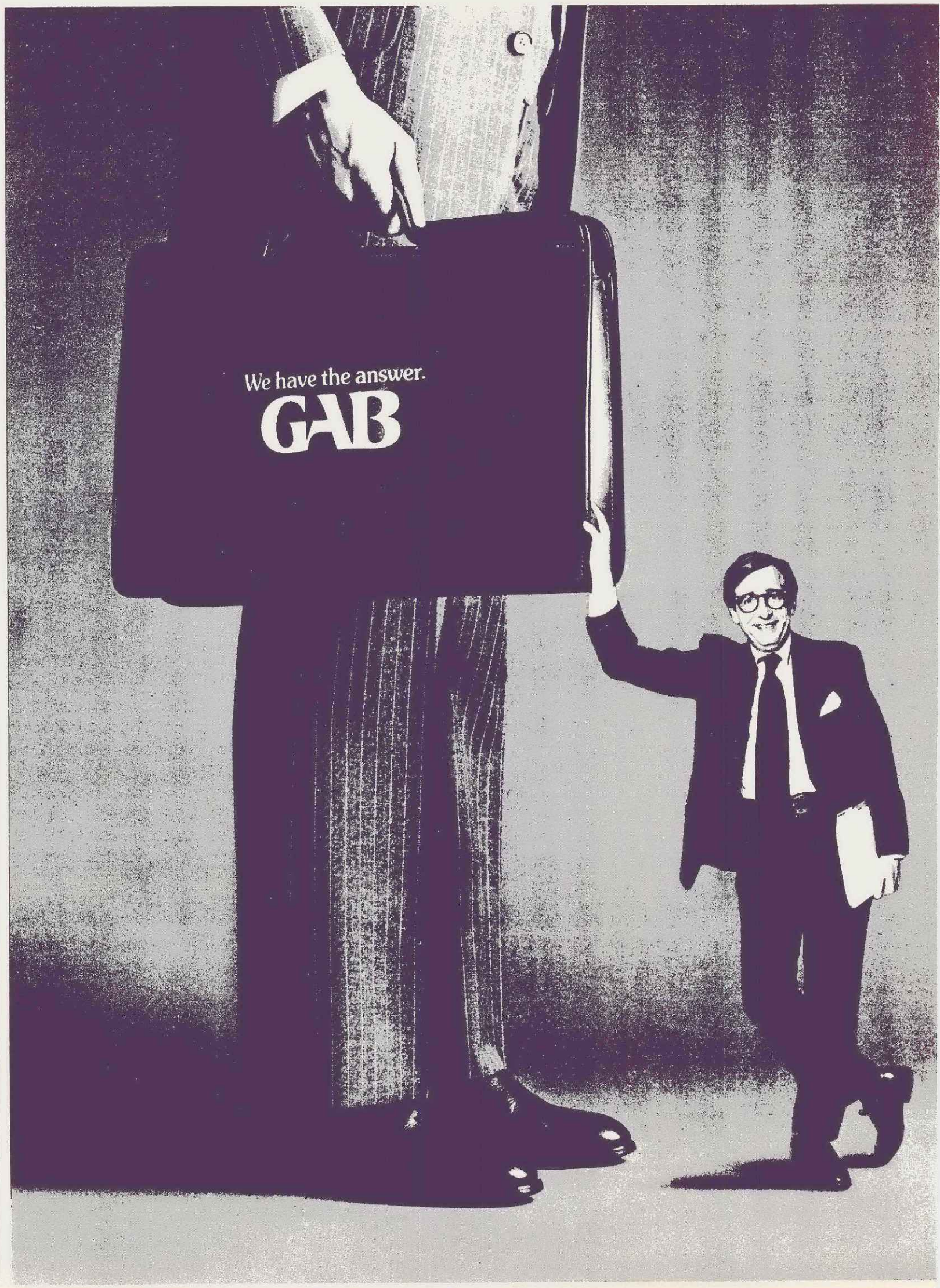
The typical range of hourly charges by claims administration firms is $16 to $25 per hour, he said.

"Beware the firm that seems to have a ridiculously low hourly rate," because that firm will frequently spend much more than the necessary amount of time adjusting or investigating a claim, billing for a much greater number of hours spent on an account to cover its costs, he advised.

Mr. Savage said he's seen quotes of $12 an hour by some claims handling firms, "but the billing often ends up being for more hours than there are in a day." ■

Group insurance

The first U.S. group life insurance program for workers was introduced in 1911, says the American Council of Life Insurance. Today group life insurance protects more than 94 million Americans, including over 14 million dependents of employes.



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False statements cancel policy, D.C. court rules

AN INSURER WAS allowed to cancel a group health and accident disability policy because of false statements made in the application, according to a recent decision of an appellate court in the District of Columbia.

Here an employe began working with a new employer just prior to the issuance to the employer of a group health and accident disability insurance policy by New England Mutual Life Insurance Co. (insurer). Shortly thereafter, the employe suffered heart attacks and claimed policy benefits. The insurer paid disability for one month and then, upon investigation, terminated the benefits and brought this suit to cancel the employe's coverage.

In his application for the insurance, the employe had reported only a single consultation with a physician during the previous five years when, in fact, he had been treated seven to eight times in the year preceding the application. Also, the employe denied past treatment for high blood pressure when, in fact, he had been prescribed drugs for an "elevated" blood pressure. The trial court ruled in favor of the insurer.

The appellate court said that the courts of the jurisdiction had consistently ruled that proof that an insurance application contains a false statement "which materially affects the acceptance" of the risk or hazard assumed by the insurer is sufficient to defeat a claim under the policy. The court agreed that there was undisputed evidence here that had the insurer known the medical facts it would not have issued the employe a policy.

Therefore, the court held that there was misrepresentation sufficient to authorize the trial court to rule in favor of the insurer. *Westhoven* v. *New England Mut. Life Ins. Co.*, District of Columbia Court of Appeals, March 15, 1978. (BI/01/N.-$4).

Employe exclusion

A federal district court has ruled that under Alaska law persons employed in violation of state law who elect to avoid their employment contract are not employes within the meaning of a general exclusionary clause applicable to employes.

Whitney Fidalgo Seafoods Inc. (Whitney) was covered under a general liability insurance policy issued by Home Insurance Co. (Home). The policy contained an exclusionary clause for bodily injury to "any employe of the insured arising out of and in the course of his employment by the insured."

A minor girl, illegally employed by Whitney, was seriously injured while working at the company's crab processing plant. The Alaska supreme court allowed the minor to void the employment contract for the purpose of avoiding the exclusive remedy provision of the Worker's Compensation Act. A $470,000 settlement was made. In this suit Whitney sought to have Home cover the settlement.

The insurance company claimed that although the Alaska supreme court allowed the minor employe to void the employment contract for purposes of workers compensation, that decision did not provide that the minor was not an employe. However, the federal court concluded that an illegally employed minor, once the employment contract was voided was not an employe and the exclusionary clause did not operate.

The court observed that "it is nothing singular in the definition of 'employe' which dictates this result but rather it is the application of principles of insurance law." *Whitney Fidalgo Seafoods Inc.* v. *Home Ins. Co.*, U.S. District Court for the District of Alaska, March 21, 1978. (BI/02/N.-$4).

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

Refusing surgery

The issue in this workers compensation case was whether a claimant's permanent disability award may be reduced because of her refusal to submit to a surgical procedure which might improve her physical condition. An Oregon appellate court ruled the test was whether the refusal was reasonable.

Continued on following page

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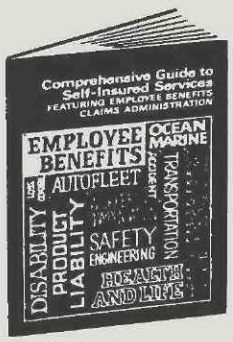

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Continued from preceding page

Marilyn Clemons sustained an on-the-job injury to her right shoulder and arm in 1971. After working for another year, she terminated for non-medical reasons but returned in 1975. After her return, Ms. Clemons aggravated her prior injury. Ms. Clemons received temporary total disability until 1976 when the insurer requested a suspension of her benefits because of her refusal to submit to surgery.

The workers compensation board terminated her total disability payments and awarded Ms. Clemons an amount equal to 10% unscheduled permanent partial disability.

The appellate court said that the relevant inquiry here was whether, if compensation were not an issue, "an ordinarily prudent and reasonable person would submit to the recommended treatment." Furthermore, the court emphasized that reasonableness must take into account the worker's perspective and may not be based upon medical opinion alone.

Under the circumstances of this case, the court concluded that it was reasonable for Ms. Clemons to forego the risks and pain of major surgery and to attempt, instead, to treat her injury with therapy and to learn new skills with which to earn her livelihood. *Clemons* v. *Roseburg Lbr. Co.*, Court of Appeals of Oregon, May 8, 1978. (BI/03/N.-$4).

Pre-existing condition

In this action an insured under a group health policy sued the insurer to prevent it from enforcing the language of the policy and certificate which limited coverage for a pre-existing medical condition to $2,500.

An Illinois appellate court ruled that there was no reason why a beneficiary of a group policy should be any less entitled than the holder of an individual policy to have this insurance coverage stated in such language as to warrant the conclusion that a beneficiary must have understood and accepted the provisions, the conditions and limitations of the policy.

Anthony Campione was insured under a group health policy with his former employer. When he left that employment in November 1974 and took a new position, Mr. Campione had the option of continuing his insurance plan or accepting that of the new employer underwritten by Lincoln National Life Insurance Co. (Lincoln National).

He took the insurance of the new employer. This policy certificate contained a pre-existing condition exclusion except for an initial payment of $2,500. Campione had a pre-existing heart condition which subsequently required open heart surgery with total expenses of $20,000. Lincoln National refused to pay more than the $2,500. The trial court ruled in favor of the insurer.

The appellate court held that Lincoln National had a statutory duty to have the form and content of the insurance policy and certificate filed with and approved by the director of insurance which the insurer had failed to do. According to the court, this was necessary so as to be certain that the group policy be as clear and understandable as policies issued to individuals.

Because the caption of the exclusionary clause in the certificate here issued to Mr. Campione contained no words of limitation, exception or reduction of coverage, the court believed that the case should be returned to the trial court for a determination of what Mr. Campione actually understood with regard to the policy coverage. *Campione* v. *Lincoln Life Ins. Co.*, Appellate Court of Illinois, April 26, 1978. (BI/04/N.-$4).

Product exclusion

This case focused on the interpretation of a clause in a liability policy excluding coverage for property damage to the insured's products arising out of such products or any part of such products. The Oregon supreme court ruled that the clause was not ambiguous and meant that the insurance did not apply to property damage to the insured's products.

Timberline Equipment Co. (Timberline), a dealer in logging equipment, was insured under a liability policy issued by St. Paul Fire & Marine Insurance Co. (St. Paul). Timberline sold a combination tower and yarder to a logger, which it had purchased from the manufacturer. Guylines to rig the tower, bought from another source, were also sold. These were defective causing the tower to collapse.

The logger sued Timberline for damages to the tower. Timberline called upon St. Paul to defend, but the insurer refused because of the exclusion clause. Timberline then settled the logger's claim and in this suit sought recovery from St. Paul for the costs of defense and for the amount paid in settlement. The trial court found in favor of Timberline.

The appellate court reversed, agreeing with St. Paul that the exclusionary clause was not ambiguous. The court concluded that the policy here was to provide for tort liability coverage—that is, coverage for the insured's (Timberline) tort liability to a third party.

Thus, the exclusion clause, the court said, did not apply to property damage to Timberline's products caused by a part of those products, that is the defective guylines. *Timberline Equip. Co., Inc.* v. *St. Paul F. & M. Ins. Co.*, Supreme Court of Oregon, March 28, 1978. (BI/05/N.-$4).

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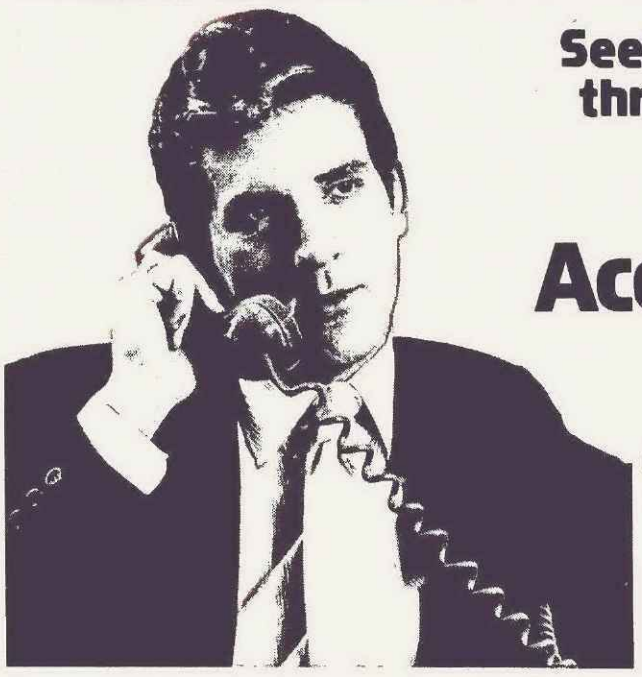
(Copies of the entire decision of cases described may be obtained by sending a check for $4 made out to Cases Unlimited to Legal Briefs, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion requested.)

FAA to develop fire standard

WASHINGTON—The Federal Aviation Administration has decided to develop a single comprehensive regulation aimed at reducing deaths from fire following aircraft crashes.

The comprehensive regulation will deal with all aspects of post-crash fires with an emphasis on developing a standard to reduce the adverse effects of smoke and toxic gases given off by burning fuel and cabin materials. ■



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Consider both tax rulings, expert urges

CHICAGO—A corporation considering whether to buck the Internal Revenue Service and deduct for premiums paid to its offshore captive should also analyze its decision in relation to the IRS ruling last summer on the excise tax issue, advises Marianne Burge, a partner in Price Waterhouse & Co. in New York.

Revenue ruling 77-316, issued in August 1977, said that payments made to an offshore, wholly owned insurance subsidiary insuring only the risks of its parent and affiliated companies do not constitute insurance and therefore are not tax deductible.

Revenue ruling 78-227, issued in July 1978, said that in situation defined in 77-316 the excise tax on insurance for U.S. risks placed with foreign insurers is not levied because there is no insurance transaction.

To the extent the captive reinsures its risks with unrelated insurers, the rulings do not apply.

But for the corporation that leaves its risks in its captive, responses to both rulings must be analyzed. A corporation has three viable options, Ms. Burge believes. It can:

- Follow both rulings, not deduct for the premiums and not pay the excise tax.
- Follow neither ruling, deduct for the premiums but also pay the excise tax.
- Follow the excise tax ruling and not pay the excise tax but buck the ruling on premium deductions and take the deduction.

A corporation may file a tax return that ignores a revenue ruling because rulings are not law, merely the IRS interpretation of the law, Ms. Burge observed.

Running the first course, a corporation gives up a large income tax deduction for the premiums, but it doesn't have to pay the 4% tax on direct insurance or the 1% tax on reinsurance. "Look at your loss history," she urged. "If your losses are about the same as your premiums, there is not a significant tax benefit to taking the premium deduction. You might be better off taking the losses as deductions when incurred and claiming the excise tax exemption."

Fighting both rulings, "your problem is you're paying a tax that a revenue ruling says you don't have to pay. You could argue you won't pay the excise tax until the issue of deductions for premiums paid is resolved in the court."

But on this third course, "it might seem, at first glance, that you are being inconsistent," she conceded, since the corporation is apparently accepting the IRS viewpoint that there is no insurance in regard to the excise tax, but is rejecting the IRS viewpoint that there is no insurance for the purposes of a tax deduction for the premiums paid.

You could defend the third course, she suggested, "by saying you don't agree with revenue ruling 77-316 disallowing the deductions for premiums paid, but you want to protect yourself on the excise tax in case your position on 77-316 is eventually lost in court."

A corporation may file tax returns that ignore recent rulings because they are merely interpretations, says Marianne Burge.

What's at risk in following the second or third course of action? "You have to pay interest on the tax owed," she answered. Are you undermining your opposition to 77-316 if you also claim the exemption on the excise tax? "I can't say," Ms. Burge answered.

"A company that wants 100% certainty on a tax return shouldn't set up a captive," the tax adviser concluded. ■

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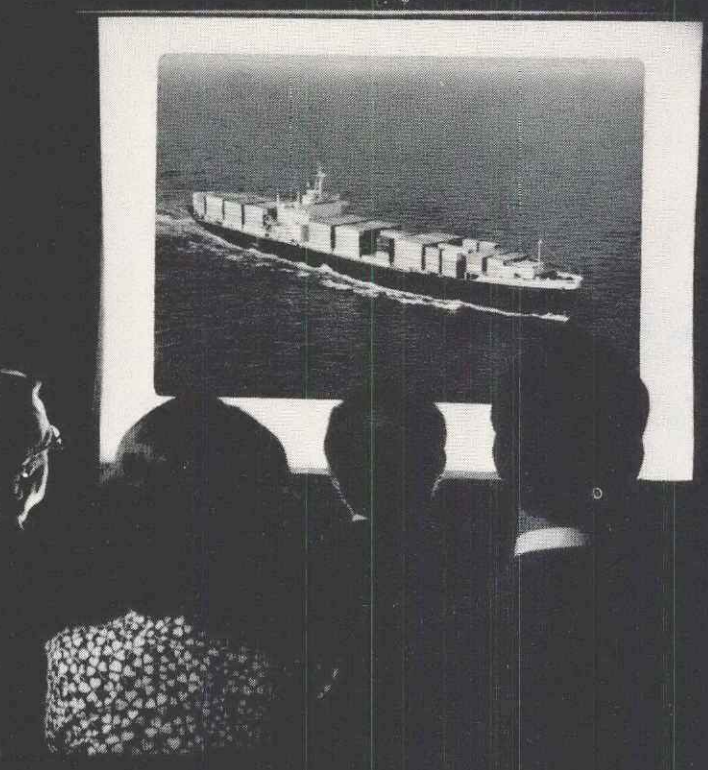

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'78 losses for tankers still lower

NEW YORK—The number of tanker casualties for the first half of 1978 continues to run well below levels reported for the previous four years, according to the Tanker Advisory Center.

There were 331 partial and total losses for the period, compared with 468 during the first half of 1977, 419 in 1976, 520 in 1975 and 615 in 1974. Total losses for the first half of 1978 numbered 10, compared with 14 for the same period of 1977, 11 in 1976, 13 in 1975 and four in 1974.

The biggest cause of tanker casualties was contact with fixed objects, which was responsible for 85 of the incidents. Damage to machinery resulted in 66 losses, strandings in 35, weather damage in 34, collisions with moving vessels in 22 and fires and explosions in 16 losses. Miscellaneous causes were responsible for another 73 incidents.

Strandings accounted for four of the total losses, fires and explosions for three total losses and collision for one total loss. Two total losses were the result of miscellaneous causes.

Deaths from tanker incidents numbered 23 for the period, compared with 93 for the corresponding period in 1977, 43 in 1976, 78 in 1975 and 44 in 1974. Nine deaths resulted from fires and explosions and seven each were the result of collisions and miscellaneous causes.

Oil lost in tanker incidents was sharply higher for the first half of 1978, primarily due to the Amoco Cadiz disaster in which 228,000 tons were lost. Total oil spillage for the period was 247,235, compared with 175,342 tons lost for 1977, 163,400 tons lost for 1976, 169,886 tons lost for 1975 and 1,860 tons lost for 1974.

On an annualized basis, the 331 ships involved in losses would represent 16% of the world tanker fleet of 4,137 vessels. This represents an annual loss rate well below the 22.6% rate experienced between 1974 and 1977. ■

15 facilities provide outside business for captives

By KATHRYN J. McINTYRE

DENVER—At least 50 captive insurance companies have moved into reinsurance or third-party business, writing about $300 million in premiums through 15 different facilities, says consultant Joe Destein.

Those diversifying captives can expect minimum results of a 10% after-tax profit, a 15% return on capital and a 15% annual growth rate on this business, the founder of newly formed Risk Sciences Group maintained.

But captives plunging into third-party business could also lose their shirts, he admitted at the annual meeting of Captive Insurance Cos. Assn. here this month.

Maintaining that it would not be prudent for anyone to direct a captive to a particular facility for acquiring third-party business, Mr. Destein discussed what to look for in the source of third-party business and what are the available options for captives.

Unless a company is willing to jump into the world insurance market by hiring an underwriter with the credentials of Leslie Dew, as Gulf Oil did for its captive Insco, a company has to be "careful who you're getting involved with," Mr. Destein counseled.

In choosing one of the 15 facilities that will provide a captive with outside business, a corporation should consider who the underwriter is and his track record, the financial strength of the underwriting facility, what the cash flow and reserving arrangements are and what controls exist over underwriting policy, the foreign exchange exposure and the exposure to an accumulation of risks to a catastrophe.

A company that considers a reinsurance pool for diversifying its captive's business should especially consider its exposure to an additional liability should another member of the pool fall bankrupt, said the former president of Anistics.

But Mr. Destein dismissed discussion of these pooling arrangements—such as CIRCL, Nuclear Mutual Ltd. and OIL—as not really engaging in the third-party insurance business. "It's not really outside business because a lot of it is self-rated," he explained. "It's sharing a financial risk rather than an underwriting risk."

Of the various methods for engaging in third-party business, Mr. Destein identified participating as a quota share reinsurer for a direct writing company as attractive because the captive is very close to the original premium. "But therefore the fees are higher," he said.

New among the direct writers offering captives this opportunity, which include Bellfonte Insurance Co. and the Alliance Reinsurance Management Co., is Baccala & Shoop. Starting Jan. 1, Baccala & Shoop will provide a captive with business up to two times its capital and surplus, taking into account the premium volume from the parent company.

Already 20 captives are lined up as reinsurers for Baccala & Shoop, willing to give up 9% of the net premium and 20% of the underwriting profit on the property business of Baccala & Shoop's U.S. property and liability business.

A captive should have $3 million in capital and surplus to approach Baccala & Shoop, but there is no minimum period for participating. A 105-day notice of withdrawal prior to the start of the next underwriting year is required, Mr. Destein reported.

Alternately, a captive could seek quota share retrocessions from reinsurers, an avenue offered by American International Group, Prudential Re, Kemper Re Bermuda, Pinehurst's Transworld, Cambridge Re in Bermuda, and INA and General Re on a very selective basis.

Bermuda Fire & Marine and the H.S. Weavers Group are cooperating to provide such an arrangement to captives with at least $2 million in capital and surplus. Property and marine business is available on a treaty basis from Bermuda Fire & Marine and casualty business is retroceded to captives on a faculty program written by Peter Wilson of the Weavers Group, he added.

In its first year of offering its primarily London business to captives, the program has 14 participants who pay 5% of premium for the general treaty business and 7.5% for the casualty business. The Weavers group does not share in any underwriting profits. Catastrophe protection is provided but the client is responsible for the foreign exchange exposure on the premiums, which he received in dollars.

Six months cancellation notice is required.

Mr. Destein enumerated an equally impressive number of underwriting agents who will provide captives with business unrelated to their parent companies, including Alexander Underwriting Agencies, a venture of Alexander & Alexander and Alexander Howden, the Blades Group, Reed Shaw Inc., Alex Cockburn Ltd., Frank B. Hall through Union Indemnity and Marsh & McLennan through Tower Hill and soon through recently acquired Worexco.

The Blades Group, he said, prefers to deal with captives with at least $2.5 million in capital and surplus. Blades can generate up to $4 million in premiums for a captive from its balanced book of worldwide business in all lines. It is now writing $25 million in premiums for seven captives at fees of 4% of premium plus 15% of underwriting profit.

There is no minimum participation period but withdrawal requires 90 days notice. The Blades Group controls the catastrophe protection and foreign exchange exposure.

Taking an equity position in an existing company provides a captive with outside interests, but in this case all that can be lost is the capital investment. AIG offers an equity position in Transatlantic, Kemper holds forth such an arrangement in Seven Continents and Pinehurst provides Transworld for this approach.

Transworld, in addition to offering a captive an equity position at a minimum investment of $1.8 million, will generate premiums to the captive from its international business up to three times the captive's investment in Transworld.

There is a 1% fixed management fee by Pinehurst, plus an estimated 4% charge to cover management costs and a 25% share in the underwriting profits. Catastrophe protection and foreign exchange management is provided in the Pinehurst plan. ■

Aviation markets . . .

Continued from page 1

San Diego incident will have any direct impact on the London market at present, even though it apparently had to bear most of the risk."

"Exposures get greater every day, as the potential costs of personal damages and hull liability rise. But there's still no sign of rates hardening even though this must surely happen eventually. Reinsurers are bringing pressure to bear, but so far without success," he said.

Alexander Howden are brokers in London for Pacific Southwest Airlines though arrangements were made by Atlanta South East Aviation Underwriters, which operated in liaison with Marsh & McLennan.

Prompt work by their claims division, enabled Howden to pay the full hull value, $7.5 million, of the Pacific Southwest Airlines Boeing 727, soon after the crash.

Liability for the victims will take longer to assess, but London experts expect it to be in the range of $40 million. So the total settlement for the London market is likely to be $50 million. The risk was 95% placed with Lloyd's and U.K. companies, though presumably much of it was reinsured.

It looks like the San Diego crash will be the world's third costliest air crash, bearing comparison with U.K. estimates of $125 to $130 million for the Tenerife disaster last year and about $80 to $100 million for the Paris DC-10 air crash in 1974.

Half of the claims for the 579 passengers and crew members killed in the Tenerife crash have already been awarded. The 531 out-of-court settlements have awarded an average of $100,000 to relatives of the victims. And a recent award of $375,000 in New York should have bearing on the remaining lawsuits.

FAA liability?

A total of $62.3 million was paid to 1,123 claimants for the deaths of 340 persons in the 1974 DC-10 crash.

There is always the possibility that the FAA might be asked to contribute to compensation in the San Diego crash if instructions from their control tower become an issue in assessing blame for the disaster.

Many victims were either airline employes or crew members flying into San Diego to take up other duties and their claims may come under workers liability rules.

Suggestions that the FAA might be involved in the final assessment of responsibility intrigue London market experts who are already hoping the FAA will meet some of the $45 million payouts caused by the crash of a Southern Airlines DC-9, with 62 killed and eight injured, in a storm near Atlanta, Ga. on April 4 last year.

It is believed that negotiations are going on to determine whether adequate warning was given to the Southern Airlines plane of severe weather conditions and whether it should have been diverted to another airport rather than being allowed to fly into a storm which led apparently to its crash when its engines failed during extreme hail. Alexander Howden were brokers on that risk also and settled hull liability of $9 million within 24 hours on behalf of the London market.

The lawsuit filed in the PSA crash once again confronts California courts with whether punitive damages may be awarded in wrongful death cases. Presently, it would appear that punitive damages in wrongful death cases are not permitted.

However, federal district Judge Manuel L. Real, in cases tried in Los Angeles resulting from the DC-10 Paris crash, ruled on last year that the law was unconstitutional. He said neither the state legislature nor the California courts have made any rational distinction why punitive damages are allowable in personal injury cases as opposed to wrongful death cases.

Aetna payout

Judge Real and another judge who handled the DC-10 cases submitted a report in February which argues that California law denying punitive damages in wrongful death cases violates the equal protection clause of the U.S. Constitution and the California constitution. An appeal of that decision has been filed by the defendants.

Floyd Demanes, a Los Angeles lawyer representing the Burzminskis, said that the suit was filed on behalf of 96 passengers but not PSA employes or those injured when the plane hit the ground.

Meanwhile, a total of 38 persons were covered by Aetna group life policies. Aetna said 36 of those killed were Pacific Southwest employes and two passengers were insured under Aetna group life policies elsewhere.

According to a company spokesman, most of the claims have already been paid to the beneficiaries. However, claims that are still outstanding are being held up because of confusion over a beneficiary. ■

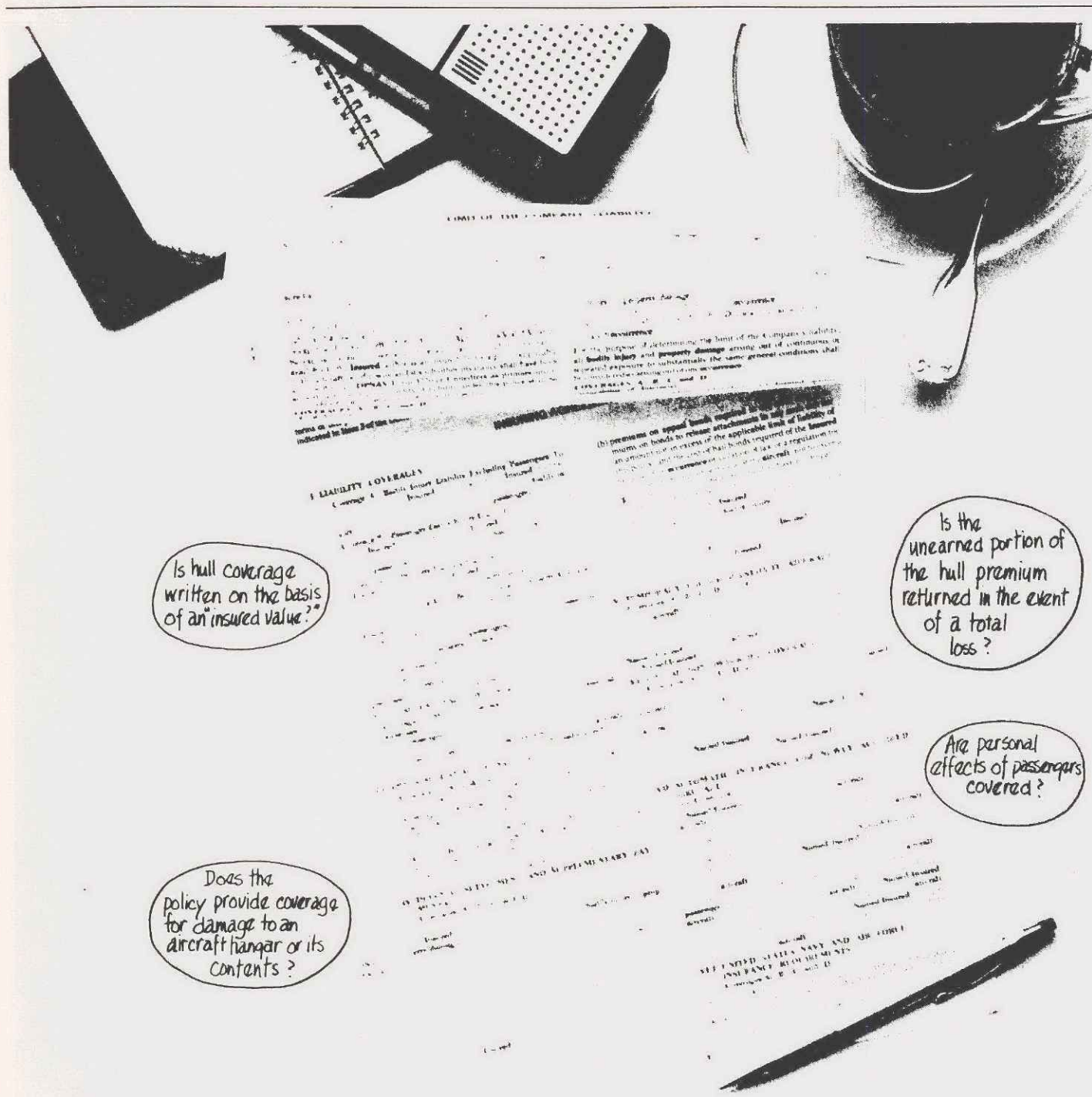
Social experts to aid probe into collisions

LONDON—Psychologists and social experts are being invited to assist an investigation into ship collisions and the outcome is being closely watched by marine insurers.

The aim of the survey is to find whether human error is really to blame for 80% of the losses or whether there may be other factors to take into account.

The two-year survey has been started by the long-established Norwegian ship classification society, Det Norske Veritas, in association with Norwegian shipping authorities and research organizations.

The Norwegian project group will include a trained psychologist, as well as marine experts, and will analyze the role played by physiological and other factors in recent ship collisions both in the U.S. and elsewhere. ■



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Mergers . . .

Continued from page 1

dling claims, loss control and paperwork at the acquired company, the risk manager at an acquired firm is faced with the option of resignation, retirement or fewer responsibilities.

Don Tyson, former insurance manager at Southland Paper Mills Inc. in Houston, found that out when his company was acquired by St. Regis Paper Co. in 1977. St. Regis offered to move him to New York as a division insurance coordinator, but the responsibilities of the job were reduced to those of a clerk.

So Mr. Tyson opted to stay with Southland in Houston as division accounting coordinator, within his chosen accounting profession and a field where he could advance quickly.

Waiting to learn the fate of your job, however, is perhaps worse than becoming a casualty of an acquisition.

J. A. Friday, vp-insurance administration at Colonial Stores Inc. in Atlanta, awaits a decision about how Colonial's insurance program will be consolidated, if at all, following its recent merger with New Jersey-based Grand Union Co. The companies are currently exchanging general management information.

In the same boat is John F. Tingle, insurance manager at Tropicana Products Inc. in Bradenton, Fla. Tropicana was acquired this year by Chicago-based Beatrice Foods Co., which normally melds insurance policies into the parent company program, leaving the acquired company's risk manager to handle day-to-day problems. Their merger is one of the largest so far this year, according to corporate merger specialists W.T. Grimm Co.

The stakes at Tropicana are high since its insurance department is seven-staffers strong and its insurance program is a sophisticated one. The company self-insures several areas, including employe benefits and fleet collision. Insurance manager Mr. Tingle said several major brokers have visited the company to suggest alternatives but have been unable to offer Tropicana any improved ideas.

Curtis N. Culver, insurance manager at Daniel International Corp. in Greenville, S.C., shares the anxieties of others awaiting the outcome of his job. Daniel was acquired last year by Los Angeles-based Fluor Corp. Fluor vp of insurance John L. LaCrosse has visited Daniel once to learn more about its insurance program and is merging certain areas of coverage.

But Mr. Culver is assured he will remain at Daniel since he also functions as a company attorney and wasn't heavily involved with insurance duties. He has relied heavily on his broker, the Furnam Agency in Greenville.

Companies whose insurance departments haven't agonized about being acquired include Molycorp in White Plains, N.Y., acquired by Union Oil Co. of Calif. in 1977, and Anaconda Co. in New York City, acquired by Atlantic Richfield Co. in Los Angeles.

Both acquired companies had one-man insurance staffs who handled other financial responsibilities as well. The day Anaconda was acquired, its insurance program was taken over by Atlantic Richfield, according to C. Kraft, vp and treasurer of Anaconda. Policies were canceled in advance of the acquisition.

Union Oil consolidated insurance policies as they came up for renewal. Each time a policy was up for renewal, insurance manager F.J. McCalley at Union Oil sent memos to Molycorp's secretary/treasurer John R. Cook about how the companies could save money by consolidating insurance coverages. The conversion process took approximately one year.

In instances where both companies have extremely strong risk managers and the companies have dissimilar risks, the insurance programs are generally kept separate.

For instance, when Norton Simon acquired Avis Inc. last year, some minor property policies, workers compensation and fiduciary bonds were combined. But Avis was left to purchase those coverages peculiar to its own operations. This, well-known risk manager John J. Murphy remained as vp of insurance.

Another highly visible risk manager who held onto her job and all its responsibilities is Edith Lichota, assistant treasurer at Carborundum Co. After Kennecott Copper Corp. took over Carborundum in the second largest merger of the year last year, the only subsidiary insurance policy combined with the parent program was a directors and officers liability insurance policy.

Little was changed at Riviana Foods Inc. when it was acquired

Continued on following page

A quick consolidation at Fibreboard

PORTLAND—Louisiana Pacific Corp. swooped down on Fibreboard Corp. in an acquisition last June and immediately tossed Fibreboard's insurance staff out and consolidated the company's insurance coverages.

The insurance takeover was swift because Louisiana Pacific did not purchase Fibreboard's insurance in the sale agreement.

"We just carried on like they never had insurance before," said Antienna Gates, corporate insurance administrator at Louisiana Pacific. Fibreboard was responsible for canceling its insurance policies.

Normally, the parent company waits for the acquired company's insurance policies to expire before it can begin merging coverages. By contrast, Mr. Gates worked four months in advance of the merger to consolidate insurance policies soon after the merger.

While the move was slick, it was sad for Fibreboard insurance personnel.

Woodrow B. Andersen, former Fibreboard insurance director, was forced to leave because Louisiana Pacific didn't need two managers of insurance. Mr. Andersen left in August and is searching for another job.

Likewise, Marilyn Seversen, Mr. Andersen's assistant, who has remained for a period at Fibreboard, is watching her responsibilities dwindle.

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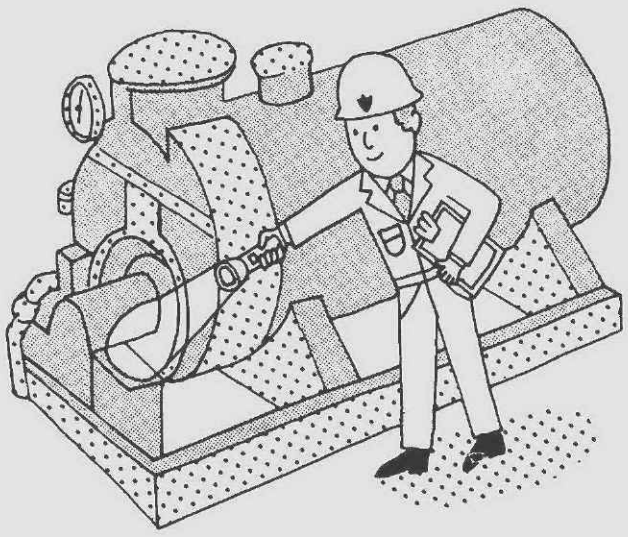

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Mergers . . .

Continued from preceding page

two years ago by Colgate-Palmolive Co., although the companies now work closely together to determine whether they'll gain economic advantages by consolidating coverages. Thus far, workers compensation and some liability coverages have been merged. In an odd twist, insurance decisions made at Riviana are subject to veto by a committee of officers at Colgate, but so far no decisions have been vetoed.

Allan A. Goldberg is one of the more fortunate risk managers to survive an acquisition. When National Industries Inc. in Louisville was acquired by Fuqua Industries Inc. in Atlanta, he was asked to stay on as director of loss control at Fuqua. The job paid more and offered greater responsibilities and freedom than his previous job as insurance coordinator at National.

However, seldom are risk managers treated that well, even though companies profess to make the transition period as smooth as possible. The acquiring company must make good on its promises to shareholders, promises that often include operating savings through administrative consolidation.

"Mergers are always beneficial to the chairman of the board, but not to the staff. They just have to dispose of the excess baggage. And there's no need for two risk managers," said Marmon Corp.'s Mr. Staubitz.

One company actively involved in acquisitions, Tenneco Inc., sees no other choice but to eventually merge or replace the entire insurance program.

When Tenneco acquires a company, the insurance staff initially remains autonomous but after a period of time the entire insurance program is replaced. Tenneco leans heavily on the management expertise in the division while the division, in turn, relies on Tenneco as a support group, said Russell G. Jones, manager of insurance.

Mr. Jones said Tenneco helps the division evaluate its insurance program and then slowly begins making practical suggestions about how it could save money.

Tenneco's highly developed insurance program relies heavily on its two captive insurance companies—Columbine Casualty Co. and Eastern Insurance Co. Ltd.—and on Oil Insurance Ltd. (OIL). It's not surprising, therefore, that Tenneco normally suggests to a newly acquired division that it also use these vehicles.

Remaining at the divisional level are day-to-day risk management tasks involving administration of the program. ■

'We jumped right in'

St. Regis takes 4 months to meld partner's plan

NEW YORK—Perhaps no insurance department has been consolidated as rapidly or smoothly as Southland Paper Mill's program when it was acquired by St. Regis Paper Co. In just four months' time, Southland's insurance coverages were melded into those of the parent company.

"We jumped right in" was the way St. Regis insurance manager John J. Burke described the start of the process. Indeed, he did. His first trip to Houston to view Southland's insurance operations first-hand was a mere five days after the acquisition was completed.

Mr. Burke had rehearsed the task well, having gathered and examined Southland's policies months before.

Time was crucial since the paper mill company's first policy expired only a month after the acquisition. The first policy up for renewal was Southland's property policy, which had been placed through a local agent and underwritten by Industrial Risk Insurers. St. Regis wanted to consolidate the property coverages into its own, underwritten by the Factory Mutual Group.

To give Factory Mutual time to investigate the paper mill's properties before insuring them, Southland insurance manager Don Tyson managed to get extensions from IRI on property coverages for 60 to 90 days.

"We played a little game with the renewals because we knew we would ultimately cancel," said Mr. Tyson. "There was a faint hope of keeping the business, so they were willing to give extensions."

The acquisition by St. Regis provided an opportunity for Southland to improve its liability coverage. The paper mill had no product liability coverage or directors and officers protection despite efforts by insurance manager Mr. Tyson to convince top management of the need to be insured in those areas.

"We were just extremely lucky that we didn't get hit by a tremendous lawsuit," Mr. Tyson said.

Southland's comprehensive general liability coverage was transferred to St. Regis's carrier, Employers of Wausau, increasing Southland's limits from $10 million to St. Regis's limits in excess of $100 million, Mr. Tyson said.

Consolidation of workers compensation programs, however, presented a unique problem. Southland owned its workers compensation carrier through a joint venture and thus was allowed to retain the carrier. But Mr. Burke said he is in the process of deciding how to change the insurer. St. Regis self-insures workers compensation in eight states and Employers of Wausau underwrites the remaining risk.

Plans are also underway to consolidate the safety department into the parent St. Regis.

—Rebecca A. Fannin

Group honors 3 articles

ATHENS, Ga.—The American Risk & Insurance Assn. has awarded cash prizes for articles on punitive damages, small losses and the Social Security system in the Journal of Risk and Insurance.

The awards, based on a decision made by a reviewing panel, are funded by a $1,000 grant from the National Assn. of Independent Insurers and administered by ARIA.

Recipients of the awards for best feature article are: "Should Punitive Damages Be Insured?" by John D. Long, professor of insurance, Indiana University; "Preference for Insuring Against Probable Small Losses," by Paul Slovic, Baruch Bishoff, Sara Lichtenstein, Bernard Corrigan and Barbara Combs, Decision Research Associates, Eugene, Ore., and "Does the Public Support the Social Security System?" by Gary W. Eldred, associate professor of insurance, University of South Carolina, Columbia, S.C. ■

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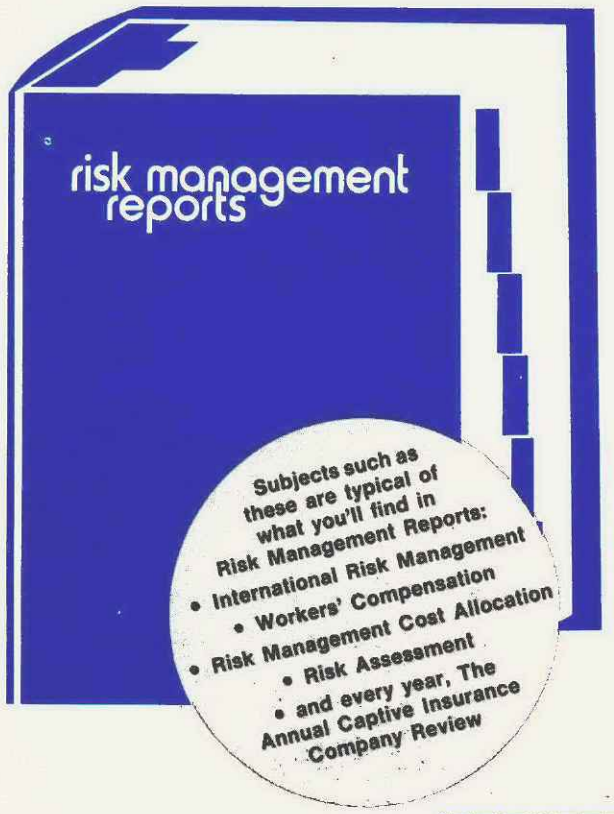

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Product liability . . .

Continued from page 1
get the Senate to accept his third proposal which would have permitted businesses to deduct from their federal income tax funds paid into a product liability reserve. The deduction would have varied between 2% and 5% of sales depending on the severity of the firm's product liability problems.

The defeat of the amendment, which died when the Senate parliamentarian ruled it non-germane, was a blow to business groups which have been intensively lobbying Congress for more than a year to permit tax deductions for funds paid into a product liability reserve.

The defeat of the tax deduction measure also was a blow to Sen. Culver. His staff aide said, "We lost the big one." And Sen. Culver added that the carryback proposal and the accumulated tax relief measure "does not go nearly far enough. It is not viewed as adequate relief. . . "

Under the current tax law, a business may only accumulate enough cash reserves that would be reasonably needed to meet normal operating expenses.

Contingent liability, such as future unknown product liability losses is not recognized as a reasonable expense. Therefore a reserve to pay for product liability losses would currently be subject to the accumulated earnings tax.

Under Sen. Culver's proposal, the Treasury Department would issue regulations on how large of a reserve could be established to pay for future product liability expenses without the reserve being hit with the accumulated earnings tax. The accumulated earnings tax provision and the increase in the carryback period would go into effect in 1980.

More hurdles

However, both of Sen. Culver's amendments must clear two additional hurdles. Since his product liability amendments were not included in the House version of the tax bill, they now must be approved by a House-Senate conference committee.

In addition, the tax bill must be signed by President Carter. Mr. Carter has hinted that he might veto the bill because the tax reductions contained in the measure are too large.

Before the Senate approved Sen. Culver's amendments, business groups had run into a wall of opposition from Administration and insurance industry officials when they testified before a House panel on legislation that would permit the use of pre-tax dollars for product liability reserves.

Treasury deputy assistant secretary Daniel Halperin said the possible benefit for business of permitting tax deductions for contributions paid into a product liability trust "cannot justify the administrative complexity involved."

Unworkable idea

Repeating his remarks delivered at an earlier hearing held by a Senate committee, Walter Vinyard, senior counsel for the American Insurance Assn., warned that encouraging small business to self-insure through tax incentives is an unworkable concept.

"It will not produce lower prices for insurance purchased by small business," Mr. Vinyard said. "It could mislead and fail to compensate injured consumers."

The opposition from the Administration and from several insurance trade groups, came as a House Ways and Means subcommittee held their long-delayed hearings on several bills introduced in Congress that would permit tax deductions for funds paid into a special product liability reserve.

A spokesman for the Alliance of American Insurers, an industry trade group, said legislation to permit tax deductions for product liability reserves is likely to remain a hot issue in future sessions of Congress. But any action remains unlikely and distant, the spokesman said.

At the hearings, more than 50 individuals, including a panel of congressmen testified on behalf of the various tax deduction bills.

More testify

The National Machine Tool Builders Assn., a trade group with about 400 members who account for 90% of U.S. machine tool production, said "much of America's capital goods industry will be forced to the brink of disaster" without some kind of tax relief.

The National Federation of Small Business said tax deduction for product liability self-insurance would "encourage the prudent entrepreneur to predict the potential claims against him and conduct his business to minimize these claims."

But Don Jordan, vp of the Alliance of American Insurers, disputed the grave product liability picture presented by the machine tool builders. Mr. Jordan, drawing upon Commerce Department studies, noted to the Senate that the total cost of product liability insurance is less than 1% of gross sales for the great majority of business firms. ■

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Benefit tax changes . . .

Continued from page 1

Under the Senate version of the bill (H.R. 13511), an employer could now set up a system of individual retirement accounts for its workers. Under current law, an employer wishing to provide retirement benefits must do so in a qualified retirement plan. If a worker is not covered by a qualified plan, he or she may then set up an IRA, receiving tax deductions for IRA contributions up to $1,500 or 15% of income, whichever is less.

The Senate increased the normal limits for IRA deductions to 15% of income or $7,500, whichever is less, for employer-sponsored IRAs.

In addition, employes could add their own contributions if the employer's payments were less than the usual IRA limit of $1,500 or 15% of income.

Tax incentive

"This provision will tend to resolve the differing treatment accorded to employes whose employers do and do not maintain qualified plans (and) will create a tax incentive for increased retirement savings," the Senate bill says.

In making its pitch for allowing increased employer contributions to IRAs, the Senate Finance Committee noted that the complex and "burdensome" reporting requirements of the pension reform law have caused many retirement plans to terminate.

As a result, many employes, particularly those at smaller firms, may no longer be covered under employer retirement plans. The higher amounts that an employer could contribute to IRAs would make them more attractive and would help ensure that employers would continue to provide retirement benefits to their workers.

The Senate also voted to aid workers covered by inadequate retirement plans. Workers could receive tax deductions for their own contributions to a retirement plan.

However, the amount of the deduction would depend on the type of contribution the employe made to the retirement plan. Voluntary worker contributions would be limited to 10% of pay or $1,000 a year, whichever is less.

Where mandatory contributions are required, the annual employe deduction would be limited to 10% of pay or $100, whichever is less.

The Senate also agreed to make permanent the current law that allows employers to take extra investment credits for contributions to employe stock ownership plans (ESOPs). Under the current law, the ESOP credit can add up to 1.5% to the regular investment credit. The House bill lacks an ESOP provision.

It had been expected that Sen. Russell Long would attach to the bill his proposal that the credit for an ESOP be increased to 2% of qualified capital investment and 1% of payroll. This would have made ESOPs more attractive, especially to labor-intensive companies.

An aide to Sen. Long said the ESOP change would have cost $1.8 billion a year, a significant revenue loss in light of President Carter's veto threat.

Both the Senate and the House agreed that where employes are covered under "cafeteria plans" the employe will be required to pay income taxes on employer contributions that finance benefits that are currently taxable. Supporters of cafeteria plans—which allow employes to choose from a number of benefit options—had hoped for more liberal tax treatment from Congress.

The Senate also voted to prohibit discrimination by self-insured plans set up to reimburse employes for medical and accident expenses. The House bill lacks such an anti-discrimination provision.

Self-insured plans

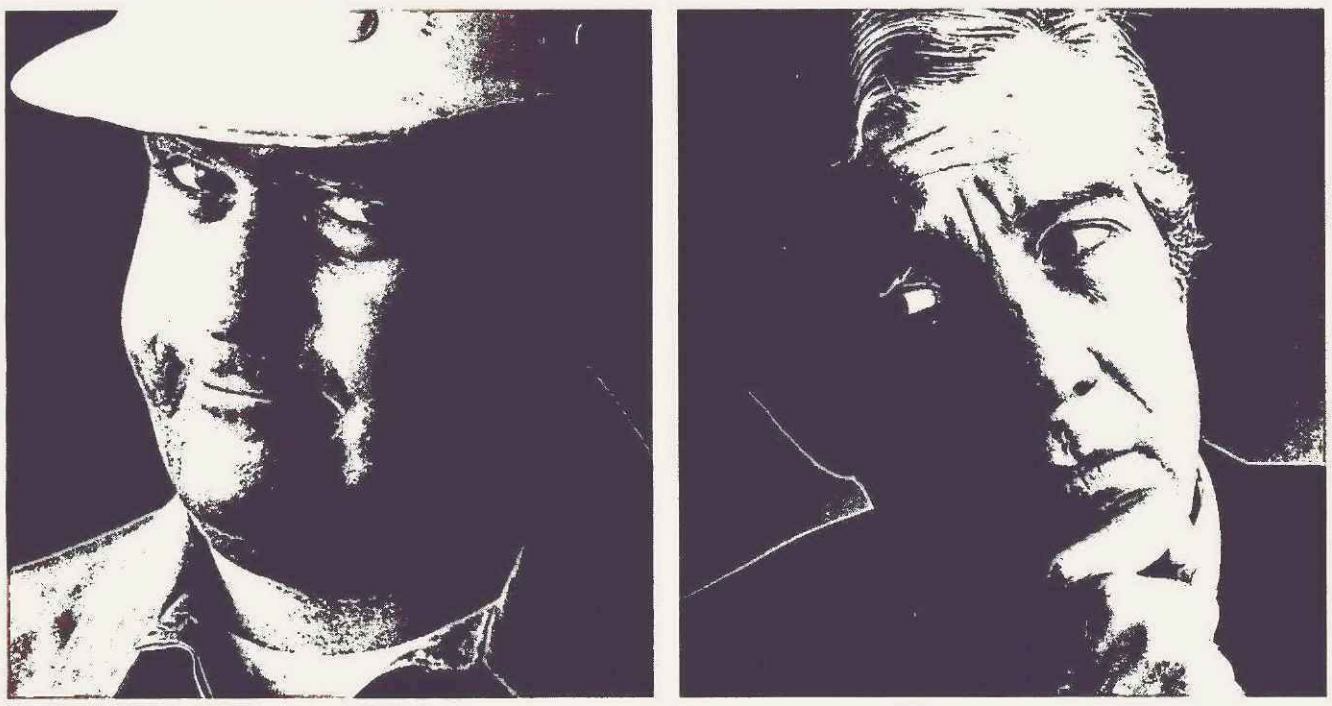
Under the provision, if the self-insured plan discriminates in favor of corporate officers and other highly compensated employes, those individuals will have to pay taxes on the extra benefits they receive over lower-ranking employes.

The House and Senate are at loggerheads on ways to simplify and tighten the existing deduction for medical and dental expenses.

Under the current law, a taxpayer is allowed to deduct all unreimbursed medical and dental expenses for his family if those expenses exceed 3% of adjusted gross income. In addition, the current law allows an itemized deduction for one-half of the cost of medical insurance premiums (up to $150) without regard to the 3% test.

The House voted to repeal the separate deduction for half of medical insurance premiums up to $150. As a result, medical insurance premiums, the cost of prescription drugs and other qualifying medical expenses only could be deducted if they exceeded 3% of adjusted gross income.

The Senate rejected these changes. ■



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Senate kills an offshore earnings tax

WASHINGTON—In the closing moments of debate on the tax bill, the Senate defeated on a 61 to 17 vote an amendment by Sen. Frank Church (D-Idaho) that would have prohibited a parent corporation from deferring the tax on income of its foreign subsidiary, such as a captive insurance company.

Under the current law, a foreign captive does not have to return its earnings to its parent, retaining earnings within the captive where they are not taxed. Taxes are paid only when the profits are repatriated into the U.S.

Sen. Church's amendment would have required U.S companies to pay income taxes on earnings of their foreign subsidiaries in the year in which the earnings are realized. ■

Safety groups get dividends

PHILADELPHIA, Pa.—Safety group programs, a marketing device used by MarketDyne International, yielded cash dividends for 18 trade associations in the 1976-1977 policy year.

The safety groups, composed of small and medium sized businesses that are members of trade associations, issues tailored fire, theft and liability packages for the specific needs of each association.

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Ballgame heart attack gets award

CHICAGO—The family of a local official who died of a heart attack while attending a baseball game will receive $319,214 in workers compensation benefits.

Cook County deputy tax assessor Dennis Dunne died of a heart attack in July 1977 at a White Sox outing arranged at the direction of the county assessor. Cook County, with a population of over six million, includes the city of Chicago.

The benefits will be paid at a rate of $305 a week for 20 years. Also, Mr. Dunne's widow is receiving $410 a month in additional county support, although those benefits may be reduced in light of the workers compensation payments.

The Illinois industrial commission, which made the award, ruled that the death occurred in a work-related setting.

Leonard Foster, an assistant states attorney who opposed the award before the industrial commission, said he made no effort to appeal the award because courts have ruled that workers compensation benefits must be paid in such circumstances.

The Illinois state supreme court has upheld a workers compensation award to another county employe who suffered from obesity and high blood pressure before a fatal heart attack, Mr. Foster said. The court ruled that job pressures contributed to the heart attack. ■

Crum & Forster buys Blades' firms

NEW YORK—Crum & Forster has acquired J. H. Blades & Co. (International) Ltd. and St. Johns Insurance Co. Ltd., both Bermuda insurance companies formerly controlled by Joseph H. Blades.

Mr. Blades was formerly the controlling stockholder of Houston-based J. H. Blades & Co., a managing general agency and captive manager acquired by Crum & Forster in July.

B. P. Russell, chairman of Crum & Forster, said Mr. Blades will continue as chairman of the Blades Group, which will continue to operate with broad autonomy. ■

A lot of them

There are some 1,750 legal reserve life insurance companies in the U.S. today, reports the American Council of Life Insurance, down from 1,780 in 1970.

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around the states

Court allows lawsuits against work comp board

CARSON CITY—The Nevada supreme court says injured workers covered by the workers compensation insurance programs of the Nevada industrial commission can sue the NIC for negligence.

The state high court ruled in favor of Ralph Rush, a mechanic who lost an eye after he got metal shavings in it. He claimed delays by the NIC cost him the loss of the eye.

The unanimous decision, written by justice Noel Manoukian, agreed with Mr. Rush that the NIC can be sued in cases where negligence delays specialized treatment. Mr. Rush contended he could have undergone an operation for a detached eye retina, which could have saved the eye, had it not been for NIC delays.

Minn. anti business

ST. PAUL—The high cost of workers compensation insurance is one reason businessmen believe Minnesota has an anti-business attitude, charges a 3M executive. Allen F. Jacobson, vp of 3M's tape and allied products group, says workers compensation costs $14.30 per $100 of payroll in Minnesota compared to $6.63 per $100 of payroll in neighboring Wisconsin.

Rate hike denied

DOVER—Delaware insurance commissioner David Elliott has denied two rate increase requests that would have cost business in the state almost $700,000 a year.

The Insurance Services Office had requested a major increase in the liability portion of insurance for commercial auto fleets. The ISO also requested in general liability coverage for a broad range of businesses including stores, hotels, motels and theaters.

Heart attacks

CARSON CITY—A Nevada legislative study commission is urging that workers compensation benefits be extended to all employes who suffer heart attacks as a result of the stress at their jobs.

If implemented, the plan could cost employers in the state $16 million a year.

The commission also recommended that employers be allowed to self-insure workers compensation costs. At present, the Nevada Industrial Commission covers workers compensation under a state run monopolistic system.

Injuries decline

OLYMPIA—The rate of on-the-job injuries in Washington state is inching downward despite an increasing number of workers and hours worked, say researchers for the Washington industrial safety and health division.

In 1975, says research and planning chief Steve Levette, there was an average of 11.7 incidents requiring more than first aid treatment for every 100 full-time workers. In 1976, the average was 11.6 and last year's preliminary average was 11.5.

In Oregon the figures for the same three years were 12.1, 13.1 and 13.2, Mr. Levette said.

The state has found that the five most hazardous industries—with incident rates ranging up to 28.9 per 100 workers—are lumber and wood products, furniture and fixture manufacturing, rubber and plastic products manufacturing, fabricated metal products and food processing.

The safest, with incident rates below 1, are insurance and legal services.

S.C. rates up

COLUMBIA—Members of the South Carolina state insurance commission have confirmed a compromise agreement with the National Council on Compensation Insurance to allow workers compensation rates in South Carolina to go up by an overall 38%.

The confirmation reflected an order issued in July by J. Woodrow Lewis of the state supreme court.

After hearings at which the council cited marketing complaints and "deteriorating South Carolina experience," the commission granted an increase of 29.2 per cent in May. Then the council took the decision to the courts.

The retroactive aspect of the rate increase was also softened by the agreement. The employers would have had to pay the new rates retroactive to October 1977, before the compromise. The new order puts the rates in effect on Feb. 1, 1978.

Maine panel

AUGUSTA—Maine Gov. James B. Longley appointed a committee to study Maine workers compensation laws, which he said are contributing to inflation.

In his executive order, Gov. Longley said the insurance premiums employers pay for workers compensation are rising "at the alarming rate of 12% per year." ■

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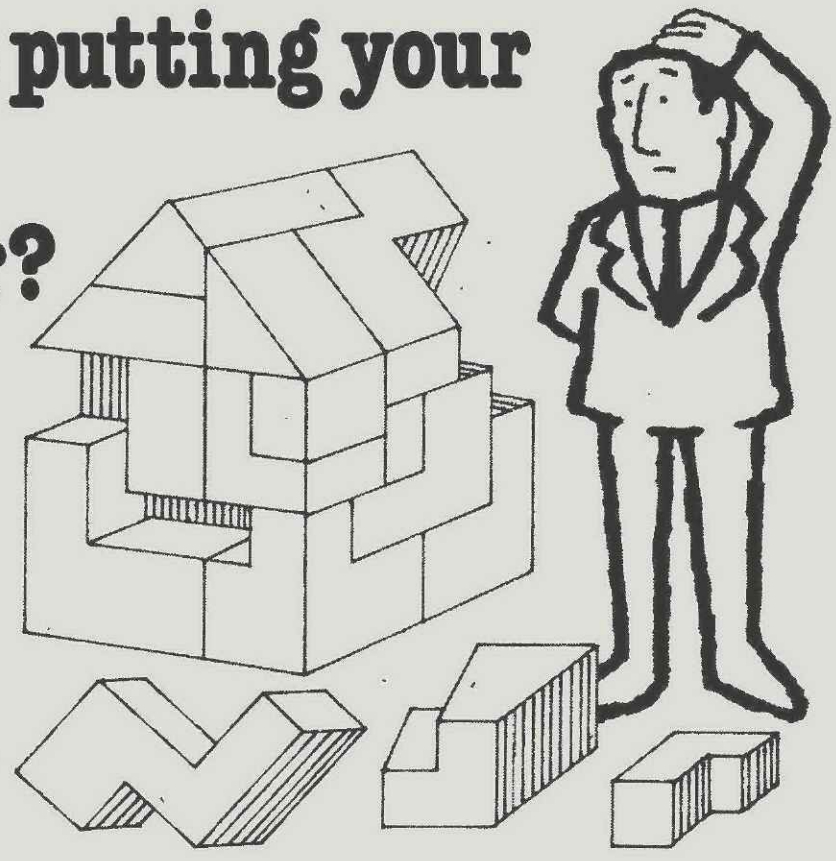

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people

Wright to manage foreign benefits at Levi Strauss

Josephine Wright has been named manager of international employe benefits for Levi Strauss & Co., a new position which was effective Oct. 1. She reports to James Murphy, director of personnel for Levi Strauss, which is based in San Francisco. Ms. Wright was formerly corporate benefits manager for Raychem Corp., Menlo Park, Calif. She had held that position since 1975.

* * *

Ralph Short has been hired as safety director for the state of New Mexico's risk management division, responsible for design and implementation of loss control in all areas. The state self-insures medical malpractice and law enforcement liability, so loss prevention is a key responsibility. Mr. Short reports to Thomas Rabourn, assistant director of the risk management division. Mr. Short replaces **Sterling Tobey,** who has retired and will remain as a consultant to the division.

* * *

Robert D. Stauffer, 31, has joined A-T-O Inc. in Willoughby, Ohio, as insurance administrator for property and casualty coverages. He reports to Bruce Fowler, corporate risk manager. Mr. Stauffer replaces Ambrose Rooney, who left the company.

* * *

At Pennsylvania Power & Power Light Co. in Allentown, Pa., **Donald Fiorito,** 43, has been promoted to insurance administrator from insurance supervisor. He replaces **Richard K. Ball,** who left to join Bayly, Martin & Fay. In another job change at Pennsylvania Power, **John N. Diacogannis,** 29, has been promoted to insurance analyst from staff auditor. The insurance department reports to corporate treasurer C.R. Collyer.

* * *

Allan A. Amundson, 33, has been named pension plan manager at Green Giant Co. in Chaska, Minn. He replaces **George Craig,** who joined Kellogg Co. Mr. Amundson reports to **Walter J. Parker,** corporate benefits manager, and previously worked for Investors Diversified Services in Minneapolis.

* * *

New at Western Union Corp. in Upper Saddle River, N.J., is **Kevin J. Christel,** 31, as director of insurance. Mr. Christel reports to vp and treasurer Stephan E. Smiszko and replaces **Peter J. Lahosky,** who has moved to Marsh & McLennan Inc. in New York City. Mr. Christel worked for approximately six years at Dow Jones & Co. Inc. in Princeton, N.J., as insurance manager. Dow Jones expects to promote from within to fill Mr. Christel's former position.

* * *

Hills Brothers in San Francisco has reorganized its corporate insurance department, transferring employe benefits to industrial relations and property, casualty and marine insurance to credit administration. Both functions previously reported to the controller's office. **John McEachern,** who previously handled both employe benefits and corporate insurance, moved to the industrial relations department, where he is responsible for only employe benefits. Expansion of the company's employe benefit package precipitated the change, Mr. McEachern said. Mr. McEachern maintains his title of administrator of insurance and employe benefits and reports to **J.B. Pierpont,** industrial relations manager.

* * *

Johns-Manville Corp. in Denver has transferred its workers compensation program to the legal department from the health, safety and environment department because of increasing workers compensation litigation, according to **Donald W. Ungemah,** who was hired to head up the program as assistant general counsel. Mr. Ungemah reports to Richard Von Wald and Dennis Markusson, associates in the legal department. Mr. Ungemah, 34, previously was in private law practice and was director of the division of workers compensation for New Jersey.

* * *

Floyd V. Browning, 48, has been promoted to superintendent of insurance management at Memphis Light, Gas & Water Division. Mr. Browning, who has been with the utility since 1954, most recently was supervisor of claims. In his new position, he replaces **Hubert McCommon,** who joined Guardsmark Inc., as previously reported. The new supervisor of claims is **Joe M. Kee,** 45, an attorney. The insurance department reports to **William R. Gardner,** secretary/treasurer.

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Michael G. Crasnick, 29, has joined the Stop & Shop Cos. Inc. in Boston as corporate claims manager, a new position. The position was created because the company switched its workers compensation and public liability to self-insurance from Liberty Mutual Insurance Co. Mr. Crasnick reports to **Lawrence Babbitt,** corporate insurance manager. Formerly, Mr. Crasnick was with the Home Insurance Co. of Boston, responsibile for implementing and monitoring for workers compensation and public liability claims.

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Mrs. Susan Weiner, former acting risk manager for the Dade County School Board in Florida, has been appointed executive director of the risk management division. She reports to **Dr. Robert W. Paskel,** associate superintendent of business services. Mrs. Weiner replaces **W. Richard Hale,** who joined Middle South Services Inc.

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Allan G. Fletcher, 45, former manager of corporate insurance for Mobile Oil Corp. for 18 years, has joined Alexander & Alexander Inc. as vp and account executive. Mobil has appointed **David Waller** as interim manager of insurance until a permanent replacement is found. Mr. Waller's background is in oil marketing for Mobil Oil.

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

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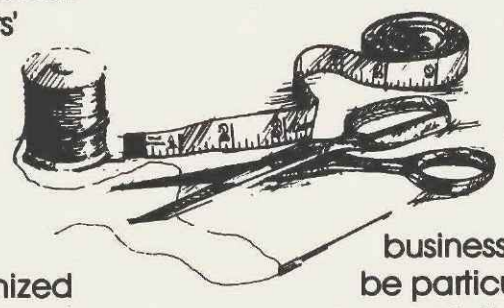

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Cost $2.4 million

Monsanto system to link hazards, worker illness

ST. LOUIS—Monsanto Co. is spending $2.4 million to develop an employe health data system that will monitor worker exposure to various substances so the company can better determine where there is a correlation between exposure to hazardous substances and employe illness.

The system, which is expected to be fully operational in 1981, will collect data on all the company's products and their uses, applicable government regulations and toxicological information on the products. It will also monitor employe workplace history and exposure to various substances.

With the system, the company will be in a better position to determine whether an employe's illness was caused by exposure to hazardous substances in the workplace, explained Fred Meyer, director of special investigation for the firm's medicine and environmental health department.

Monsanto will also be in a better position to quickly identify persons exposed to hazardous substances and provide treatment, he said.

In addition, the company will gather employe medical history information relevant to the hazard of exposing someone in the workplace to various substances, Mr. Meyer said. For instance, a person with a history of respiratory problems might not be placed in a work environment with high dust levels, he said. ■

HMO study

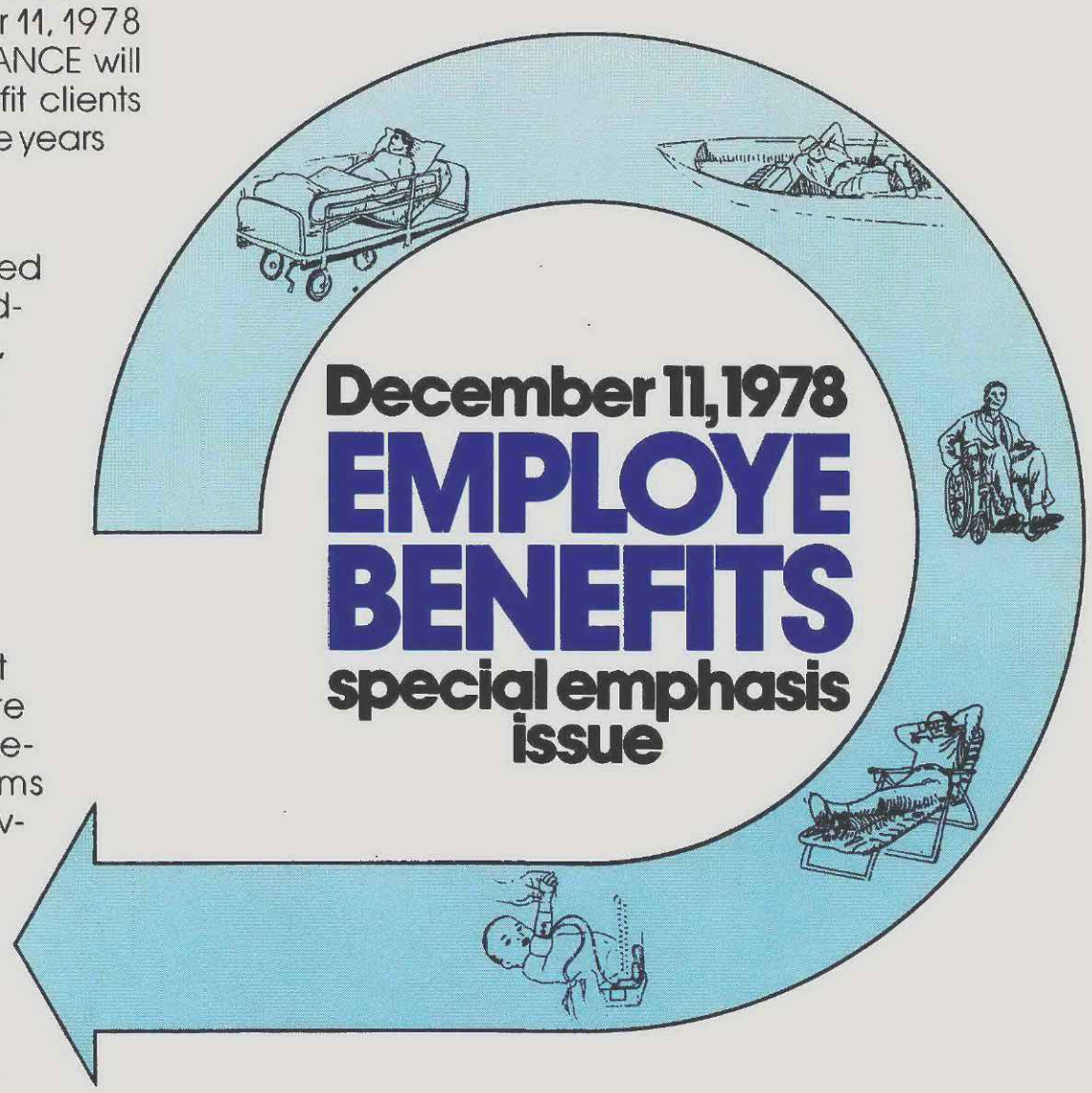
The North Dakota State Employes Assn. is sponsoring a study to determine if it is feasible to start a health maintenance organization in the Bismark and Grand Rapids area. The study is being undertaken in response to soaring health insurance costs.

Cost containment is the byword for corporate benefit and financial executives. The December 11, 1978 special emphasis issue of BUSINESS INSURANCE will probe, in-depth, the techniques that benefit clients have begun to use during the last two or three years to stem the rise in benefit liabilities.

As risk management tools have been applied more frequently to benefit programs—including closer claims scrutiny, more co-insurance, bigger deductibles for workers covered under plans, and fully self-insured programs—corporations have expected to reap the rewards of their efforts in the form of cost savings. Business Insurance will take a closer look at these efforts.

Many companies have also recognized that they can try to intervene in the health care marketplace to control benefit costs, by becoming more involved in Health Systems Agencies and rate setting boards and by serving on hospital boards of trustees.

Competition is hot and heavy in the group life and health field... B.I. editors will scrutinize the impact of competitive forces at work by talking with buyers and suppliers of group insurance packages.



The nation's largest market and most powerful labor union will be negotiating new contracts during 1979. The December 11 issue will take a look at what's in store for bargainers facing off across the tables.

And, as every few years, B.I. will talk with some of the most controversial authorities around the country to compile their views of what will happen to employe benefit programs over the next five years.

Small groups are cashing in on collective clout by joining multiple employer trusts. And insurers are competing for the growing pool of small group funds. The editors will probe this trend as well.

The **December 11 EMPLOYE BENEFITS special emphasis issue** is another outstanding opportunity for marketers of all forms of employe benefits, insurance or services, to reach the largest and most active audience of corporate benefit decision makers, their consultants, agents and brokers. Nearly 100,000 such readers in U.S. corporations and service organizations will be exposed to your advertising message in this important issue.

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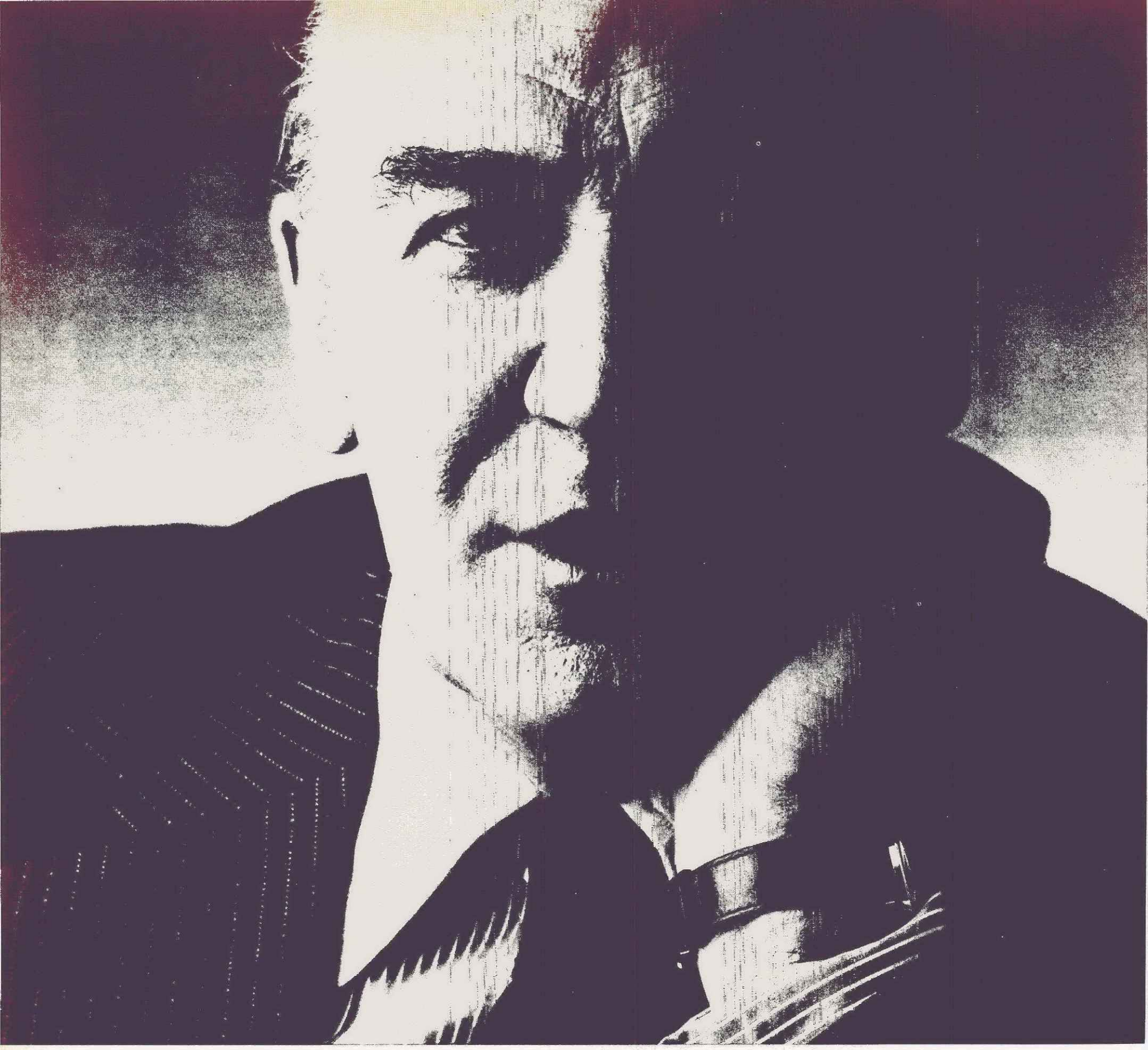

William Bray, managing director Europe, tells how A&A works from a client's point of view:

"We coordinate multinational risk planning so clients have uniformity without overspending."

"To put together a worldwide program for multinationals, we must first understand their corporate philosophy. Our international specialists and loss control people then visit all of the major client sites, gathering data through various risk analysis techniques. After reviewing and analyzing the data, we put together the most imaginative program we can conceive—one that matches our client's philosophy and complies with varying local tariffs and legislation. By properly coordinating and planning multinational programs, we can help avoid errors, duplications and omissions—thus providing uniformity of worldwide coverage with maximum cost effectiveness. We have skilled multilingual personnel in 36 countries, assuring the same level of service around the globe that we provide in the United States."

Working from a client's point of view is our way. In London, where Bill Bray is based. And in over 110 cities here and overseas. That means working as allies, solving business problems together. Our international network does the painstaking field work that enables multinational clients to coordinate their far-flung risk management and benefits planning into a cohesive, more cost-efficient package.

We think our dedication to acting as an ally of the clients we represent is a big reason why A&A has become a worldwide leader in the insurance brokerage and financial services business. We have the facilities, expertise and strength to act as effective allies. We work from the client's point of view, whether the corporation is large or small.

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