

# business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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## FDIC sues INA for \$126 million in Ca. bank case

By PAUL R. MERRION

WASHINGTON—INA's denial of a claim under a \$10 million banker's blanket bond has led to a \$126 million damage suit brought this month by a defunct bank's receiver, the Federal Deposit Insurance Corp., against the insurer.

Insurance Co. of North America, a subsidiary of INA Corp., has said it will fight the suit and has filed a countersuit against the FDIC and the Comptroller of the Currency. The countersuit charges the agencies knew of wrongdoing as far back as 1962 at San Diego's U.S. National Bank, an INA spokesman said.

"The suit is totally without merit," the company spokesman said. "We denied the claim because the principals (the FDIC and the Comptroller) had knowledge of the wrongdoing and failed to correct it."

The FDIC filed a claim under the blanket bond shortly after the agency declared U.S. National Bank to be insolvent in October 1973. Negotiations to reach a settlement broke down when the insurer's proposed settlement was thought to be insufficient," said Meyers Fisher, FDIC assistant general counsel.

The FDIC spokesman said he was unaware of any settlement negotiations.

U.S. National Bank was declared insolvent when it was learned that the bank had loaned millions of dollars to firms controlled by the bank's chief officer, C. Arnholt

Smith, who received a suspended sentence after pleading no contest to several felonies for fraud.

The total losses discovered by the FDIC will "probably exceed" \$126 million, Mr. Fisher said, but the suit is based on the amount of losses that have been traced so far. The suit also seeks recovery of interest and costs.

The FDIC attorney said that the blanket bond provides coverage of up to \$10 million for each loss, and there "might be more than one group or parties involved," making the Insurance Co. of North America potentially liable for the whole amount.

U.S. National Bank paid a \$50,000 premium for the policy, according to the INA spokesman. Coverage was in two levels: \$2.5 million in primary coverage and \$7.5 million excess insurance.

The coverage was written on a three-year basis using the "discovery" form of banker's blanket bonds, Mr. Fisher said, as opposed to the "losses sustained" form. The discovery vs. losses sustained forms are similar to the claims made vs. occurrence liability insurance policies.

Insurance Co. of North America began insuring the bank in 1971.

The suit alleges several specific fraudulent transactions and lists seven ways in which the bank allegedly suffered losses.

After taking the bank into receivership in 1973, the FDIC applied for an additional year to report discovery of losses to the Insurance Co. of North America, the FDIC attorney said.

## Benefit costs climb 23% in 2 years, survey finds

By MARIE KRAKOWIECKI

WASHINGTON—Private sector firms in the United States paid an average of nearly \$4,000 per worker for employe benefits in 1975, according to a study just released by the U.S. Chamber of Commerce.

The chamber pointed out the amount, \$3,984, received by the average American worker is the equivalent of four months regular pay, and is 23% higher than benefits reported just two years ago.

As a percentage of payroll, benefits payments now average 35.4% for the 761 firms which reported to the chamber. That works out to about \$1.93 per payroll hour.

The study covered a cross section of American industry, and found wide variations by industry in the amounts of benefits paid. They ranged from the average of

24.0% of payroll reported by hospitals to 42.2% paid by chemical and allied product industries.

There were even larger extremes in benefits expressed as percentages of payroll when the companies were considered without regard to industries. At the lowest end of the spectrum, 16 companies paid less than 18% of payroll for benefits last year, while 13 firms paid more than 60%.

Employe insurance programs most frequently cost the firms between 4.0% and 5.5% of payroll, averaging 5.2%. But some 35 companies reported that their insurance payments for employes amounted to 10% or more of the payroll. Virtually all the firms in the survey reported insurance payments for employes, although 11% said they did not pay for pensions.

Employer payments described in the survey are net amounts after

deductions of dividends or credits returned to the employer by the insurer.

Pension payments for all companies surveyed averaged 5.5% of payroll, with premiums under insurance or annuity contracts accounting for 3.0% of that amount.

If the 11% of companies which said they pay no pension benefits are eliminated from consideration, the average amount of pension benefits paid by the companies in the survey came out to 6.2% of payroll.

The Chamber of Commerce has been conducting comprehensive statistical studies of benefits for a cross section of American industry every two years since 1948.

This most recent effort, "Employe Benefits 1975", is its fifteenth such study and for the first time includes the hospital industry. It also contains a more adequate representation of department and specialty stores, due to assistance from the National Retail Merchants Assn.

Of the 761 firms cooperating in the study for fiscal 1975, 152 have reported statistics since 1955, the chamber said. A special section of the survey results used these figures to trace the growth of employe benefits in the identical group of companies.

The comparison of statistics over the 20-years showed that the firms benefit payments increased 78% in that period. In 1955 benefits accounted for 22.7% of payroll compared to 40.3% of payroll for fiscal 1975.

But this increase did not even reflect the tremendous growth of em-

Continued on page 10

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### FIFTH EDITORIAL ADVISORY PANEL REPORT

## Higher rates likely despite lower losses

CHICAGO—The overwhelming majority of insurance managers on The Business Insurance Editorial Advisory Panel are doubtful that insurance rate increases will begin to taper off by yearend.

Generally pessimistic predictions for premium rates, however, contrast sharply with this year's loss experience, particularly in the liability area, which members of the advisory panel reported. While 49 of the 61 panel participants fully expect insurance rates to continue climbing through the end of this year, well over half the panelists said that liability losses and reserved losses are holding even with last year's levels or are down from this time a year ago.

Some insurance buyers did, indeed, note that it is too early to tell what this year's loss experience will be, because of the tail on liability claims. But fully one-third of the insurance managers participating in the fifth editorial panel survey stated that their loss experience has improved between 10% and 200% from a year ago.

Lower losses were attributed in most cases to much more extensive loss prevention programs, prompt claims investigation and settlement, and better quality control. One insurance manager panelist said claims frequency for his company is down 11% from the corresponding period a year ago, while another noted that a reduction in the company's operations had contributed to a 50% drop in losses.

Several said the dip in losses this year has been due to "just plain luck," especially the panel member who described a 95% slide in liability losses as "a real fluke." But other panel members pointed to things like a 40% drop in auto claims and 25% fewer incidents to give rise to claims as the reasons for improved experience this year.

Risk and insurance managers on the Editorial Advisory Panel are clearly more optimistic about the prospects for premium rates leveling off during 1977. Of the 61 panelists participating in the fifth survey of attitudes and experiences, 19 believe premium hikes will level off throughout next year, a contrast to the small group of only seven panelists who think rates will level off in 1976.

Another five panel members predicted that 1977 will see a return to more competition in the insurance business, with the possibility that rates will fall in some lines particularly troublesome now. Only two panelists felt that competition would be evident anytime in the current year.

That leaves a hefty group, however, of some 37 panelists who look for rates to keep right on climbing through 1977, and they foretold further premium boosts of 10% to 100%, with the vast majority of those expecting 20% to 30% increases during next year. Panel members are responsible for spending over \$275 million a year for insurance and self-insurance.

Panelists, asked what they believe will happen to premiums yet this year, clearly expect more bad news. Nearly all of our panelist said they've already faced major increases ranging anywhere from 10% to 450% on a wide variety of coverages. Those who haven't already had notices of higher premiums in most cases noted that they just haven't gone through renewal negotiations yet.

The five panelists who predicted a return to competition next year,

though, were stalwart in their beliefs. "I believe insurance companies over-reacted," one risk manager remarked. "They will show profits in 1977 and will be competitive toward the end of 1977."

Another analyzed the situation this way: "Liability insurers are in a capacity crunch. Demand for coverage exceeds surplus availability for most insurers, and therefore I believe we are facing 'demand-pull inflation'."



### Monsanto sued for \$1.5 billion on PCBs, page 40

Lawsuits totaling \$1.5 billion have been brought against Monsanto Co. charging the corporation with negligence in connection with PCB pollution

of two Southern waterways. The Sangamo Electric Co. was named co-defendant. The Sangamo wastewater treatment facility is shown above

# OIL Ltd. continues as a viable alternative

By MARGARET LeROUX

NEW YORK—Although OIL Ltd., the petroleum industry captive, lost two of its founding members in less than a year, it gained four new members and, according to oil industry sources, remains a

viable alternative to the commercial market.

"I feel conceptually that OIL is probably one of the most advanced risk management concepts to be found in any industry today," Alan Pearce, risk manager for Aminoil USA Inc., formerly Burmah Oil and Gas Co. said in an interview. Aminoil ceased participation in OIL in July.

Gulf Oil Co., another founding member of OIL announced its intention to withdraw from the captive over a four year period a year ago.

Since that time four new members have been admitted to the captive. They are: Shell Oil USA., Caltex Petroleum, Coastal States Gas Corp., all admitted as of Dec. 31, 1975 and Coke Industries Inc., admitted April 4, 1976.

"I feel quite happy about the membership situation," a spokesman for OIL in Bermuda told *BI*. He declined to comment, however, on the total assets and premium income of the captive.

The fact that Gulf is withdrawing and Aminoil is no longer participating in OIL "has had no effect whatsoever" on the captive, another OIL member said.

"We're stronger than ever," another OIL member commented.

The captive apparently felt it was strong enough to refuse Aminoil's request for a split of the experience credit earned by Burmah

Oil and Gas Co. and its parent, Burmah Oil Co. Ltd when the former was acquired by the R. J. Reynolds Co.

"As a group we were getting a 34% experience credit which would have dropped to a 70% credit commencing in 1978, had no losses been incurred," Mr. Pearce said. "All we asked for was the same experience credit on the respective assets on each company after the sale."

However OIL's board of directors decided that Aminoil would be treated as a new member and therefore would not be eligible for an experience credit until July 1979 if it decided to join OIL. According to Aminoil's risk manager, that decision made the commercial market a viable alternative.

Mr. Pearce noted that "it wasn't difficult to find insurance in the commercial market."

Aminoil secured a total of \$40 million in insurance from domestic underwriters Starr Technical Risk Agency, The Hartford Stream Boiler Inspection & Insurance Co. and the London market.

"It would have cost us \$750,000 to rejoin OIL and \$500,000 if we would have gotten the experience credit," Mr. Pearce said.

"Our analysis last July indicated that the commercial market was economically superior based on a 10 year discounted cash flow basis," Aminoil's risk manager said. "This analysis, however, was predicated on assumptions regarding OIL and the commercial market which may or may not hold true."

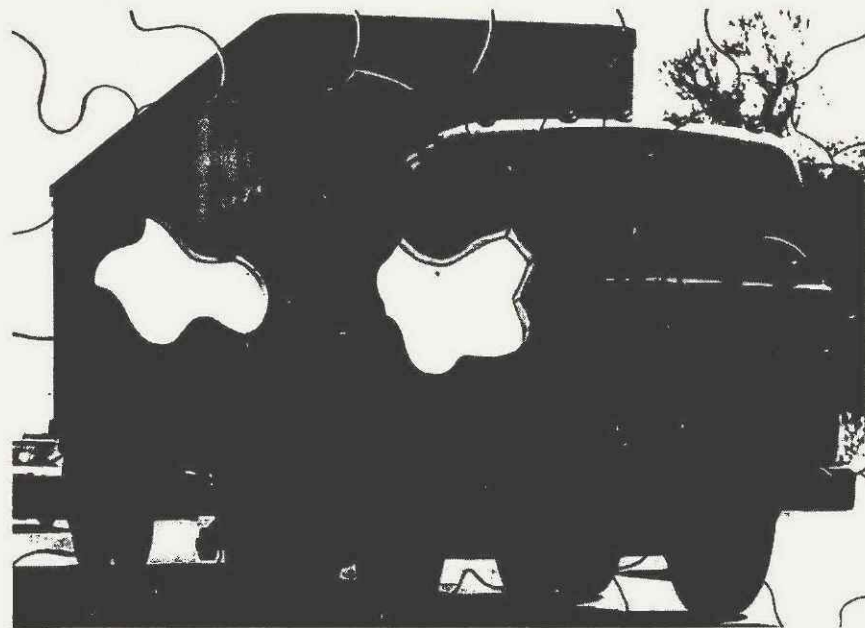
Aminoil does intend to continue to periodically evaluate OIL as a risk financing technique. ■

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## Close-up on benefits

*Business Insurance* will provide its annual close-up survey of what's happening in the employee benefits field in its December 12 issue. This annual special issue is to serve a particularly important purpose this year: Benefit and insurance managers nationwide will receive an update of the current state of competition among group insurers. Readers will be supplied with a comprehensive report on the latest happenings in group life, health, dental, retirement, and disability plans, along with news of self-insured and insured benefit programs. There will be a special effort to examine what's been happening to insured dental plans, with insurers aggressively competing for this growing segment of benefit business. Suggestions from *BI* readers are welcome. Contact, Susan Alt, Editor, *Business Insurance*, 740 N. Rush St., Chicago Il. 60611.

## Monsanto Co. captive underwriting is slated to begin by April 1977

ST. LOUIS—Monsanto Co. has completed work establishing its two Bermuda captives and plans to begin underwriting overseas property insurance in one of them by about April 1, 1977, *Business Insurance* learned.

Contrary to earlier reports (*BI*, June 14), Monsanto has no plans at the present time to use AFIA, the insurance company with which fronting arrangements for foreign property insurance had been discussed. Commercial Union Assurance Co. will remain the lead underwriter on the Monsanto account even after part of the risks are shifted into the captive.

Robert B. Chapman, director of insurance for Monsanto, confirmed that the captive would probably be in use by early next year as the European property policies come up for renewal. He declined, however, to provide any other details of his plans to use the captives.

Marsh & McLennan manages both captives for Monsanto.

Monsanto is expected to place about 5% of its total overseas property risks (and premiums) in the captive, as a way of achieving the necessary coverage limits desired and participate in the risk-sharing process. The sharing will be on a vertical, pro-rata basis, with the captive acting as a reinsurer.

Commercial Union is expected to provide about 10% to 15% of the capacity needed, with European tariff markets providing the remainder of the insurance.

Monsanto's biggest exposures outside the U.S. are in Europe.

Acting as broker on this insurance will be Montal, a captive agency wholly-owned by Monsanto established in 1959 and used for European insurance acquisition.

Although Monsanto uses five brokers in the U.S.—including Marsh & McLennan, Frank B. Hall, Fred S. James, Thomas E. Sears in Boston and Lawton, Byrne & Brauner in St. Louis—it doesn't use any U.S. brokers overseas.

Monsanto's total premiums for its worldwide property insurance are estimated at \$12 million a year, with European chemical plants and facilities thought to represent about \$3 million of that premium. The company is thought to need extraordinarily high insured limits because of its large petrochemical plants both in the U.S. and overseas.

Mr. Chapman said he is "not sure" when Monsanto will begin using the Bermuda captive established to handle domestic property risks. ■

## David joins magazine

CHICAGO—Greg David joined *Business Insurance* as associate editor here, replacing Elisabeth M. Wechsler, who left the magazine to join Modern Healthcare, another Crain Communications publication, as managing editor.

Before coming to *BI* Mr. David, 26, spent 5 years with the *Charlotte Observer*, a Knight-Ridder newspaper in Charlotte, N.C., where he was an assistant national editor. Prior to that he spent 18 months as a copy editor and state editor on the *Sarasota Herald-Tribune* in Sarasota, Fla. He received his BA degree from New College in Sarasota, Fl., in June 1971. ■

## errors & omissions

● In a Sept. 6 story on a Richmond Metropolitan Authority bridge, it was incorrectly reported that magnesium oxychloride cannot be used to fireproof steel. Carboline Co. of St. Louis, Mo., which makes the powder, said the product cannot be used on stainless steel, but that it is effective on carbon steel.

● A recent story about the new officers of the Aircraft Builders Counsel Inc., Summit, N. J., omitted the name of James E. Palmquist who continues as general manager, vp and secretary of the aerospace manufacturers group.

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# Pacific Mutual retains Hughes Aircraft account

Hughes Aircraft Co., Los Angeles, ended a four month competitive bidding plan for its group health plan by deciding to stay with its present underwriter, Pacific Mutual Life Insurance Co. of Newport Beach. Hughes had put its entire group health plan, which generates about \$3 million a month in premiums, out for bids in early June through William M. Mercer Ltd., its broker. Mercer is a division of Marsh & McLennan. Pacific Mutual apparently retained the huge account by submitting the lowest bid, said sources close to the situation. Some 30,000 employees are covered by the group health plan.

The Internal Revenue service relaxed several of its requirements for employe benefit plans. Working with the Department of Labor, the IRS decided that party-in-interest transactions needn't be listed on the Form 5500 series of financial reporting forms for tax-exempt benefit plans, provided an administrative or statutory exemption applies to the transactions. Benefit plans were also given slightly more time to comply with the 1974 federal pension law. The IRS said retroactive amendments to bring benefit plans into compliance will not have to be made until at least Dec. 31, 1976. Additional time will be available for changing the plans retroactively if a request is made by that time.

The IRS also extended the time period during which employers can adopt or amend plans using the so-called Special Reliance Procedures (SRP). Employers now have until Oct. 31, of this year to draft new benefit plans using the SRP, issued in late 1975 as temporary qualification rules to be created as guidelines fixed until Dec. 31, 1977 so that employers wouldn't have to worry about adoption of final rules in the intervening period. The new SRP deadline is also applicable to employee stock ownership plans (ESOPs) set up under the Tax Reduction Act of 1975, as well as requests for IRS approval of benefit plans known as master plans, prototype plans or pattern plans.

Jackson Manufacturing Co., Dallas, became the second employer in Texas to enroll its 20 employees in the group prepaid legal services program of the Texas Legal Protection Plan Inc. Under this plan, an employe of Jackson can go to the attorney of his or her choice to obtain legal advice, or document preparation. The benefit plan also covers some judicial and court fees. Jackson is picking up the entire tab of about \$70 per employe per year, a cost which Jackson's chairman Gordon Jackson believes will be worthwhile. He's counting on less absenteeism and higher efficiency of his workers to reap benefits. The first group in Texas to sign up for the legal protection plan was the 115-employe State Bar of Texas.

Atlantic Richfield Corp., Los Angeles, began a long term disability program for its salaried employes Sept. 1. Arco is funding the LTD program with a 501(c)(9) trust. The plan was non-contributory during September, but beginning Oct. 1 changed to a 50-50 employe contribution basis, according to a company spokesman. Arco anticipates that approximately 75% of its salaried workers will choose to sign up for the plan. Aetna Life Insurance Co. is handling claims administration services for the new program.

The United Auto Workers Union is claiming credit for increasing the pension benefits being paid starting Oct. 1 by the Pension Benefit Guaranty Corp. (PBGC) to more than 500 retirees of the bankrupt Diamond-Reo Corp. of Lansing, Mich. Diamond-Reo's pension plan was the first 30-and-out plan to be terminated following passage of the 1974 federal pension reform law. PBGC took over the Diamond-Reo plan on May 31, 1975, continuing to pay full pension benefits until April 1, 1976 when it cut benefits back to the level it felt was guaranteeable under the law. This entailed cutting out all supplemental 30-and-out allowances as well as any temporary disability supplemental benefits. Some retirees were

cut from over \$500 a month to below \$100 a month. The UAW credited its "close involvement" with the pension reform law, "frequent consultations" and its "assistance" to the PBGC as resulting in increases of as much as \$93 a month in pension checks the 500 Diamond-Reo retirees receive.

The increases were retroactive to April 1. Under the revised benefit determination, the PBGC will pay out about \$10,000 per month more in pension payments to the 500 Diamond-Reo retirees. An additional 750 employes out of a total of 2,300 UAW workforce from the defunct Diamond-Reo Corp. have vested pension rights and will receive the guaranteed pension benefits when they reach retirement

age.

Sperry Rand Corp. agreed to settle a class action suit by 25 of its male employes who alleged in late 1970 that the company was discriminating against them by offering retirement benefits to women employes at a younger age than when male employes were eligible for the benefits. Sperry Rand's retirement plan for individuals hired before June 2, 1967 provided for retirement at age 60 (and early retirement at age 50) for women, although the retirement age was 65 (with early retirement at age 55) for men. Persons hired after that date have identical pension rights. The men had sued under Title VII of the 1964 Civil Rights Act, and

their charges dated from July 2, 1965, the effective date of the act.

Sperry Rand denied the charges and noted that the plan was not discriminatory because offsetting benefits were provided to male employes which were not available to women.

But the settlement, accepted by the U.S. District Court for the Southern District of New York, lowered the retirement age for men employed during the period in question, thereby increasing accrued benefits. Retirees whose pension payments will be hiked by the terms of the settlement will receive lump sum payments to equalize their benefits with those of the women, to account for the lapse of time since their retirements. ■

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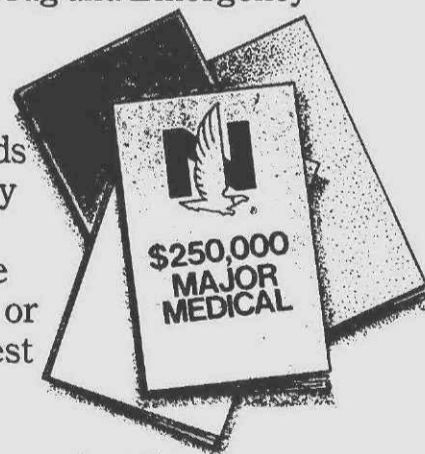
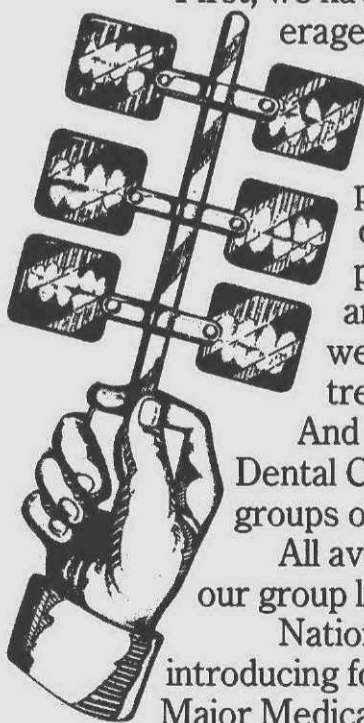
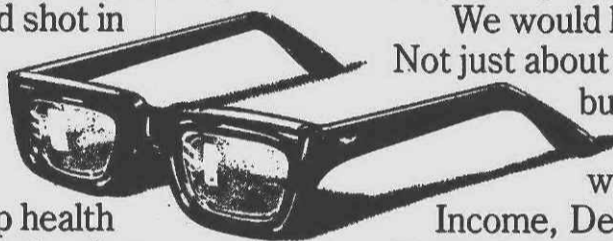
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# Businesses think many initial bids are enticingly low, risk study finds

By MARIE KRAKOWIECKI

NEW YORK—A major survey of risk management and businesses' attitudes toward insurance showed that American businesses do not trust competitive bids quoted to them by underwriters.

They feel that the insurance industry follows a practice of enticing businesses to switch underwriters with unrealistically low bids and then raising the premium later on, concluded the Wharton School's Department of Insurance after studying 1,143 companies from six industrial classes.

The Wharton School also found that companies are so unsophisticated about the risk management function that only 23% of them

have one or more employees whose full time responsibilities are insurance management. Almost half of the businesses that pay more than \$100,000 in premiums do not have insurance managers, the survey revealed.

**Other findings** of the study which could have broad implications for risk managers, agents and brokers and the insurance industry include:

- Most businesses do not undertake a complete integrated analysis of the insurance-related risks they face, nor do they even seem to have a notion of what comprises an analysis of all sources of disruptions to the future cash flow of their operations.

- Less than 20% of the companies studied undertake a risk identification process without outside assistance, and 74% of those who use outside sources rely on the agent/broker for the entire analysis.

- The great majority of businesses, small and large alike, have kept the level of deductibles constant despite increases in the value at risk. They have also raised, or plan to raise, the amount of insurance on property exposures in relation to the total values at risk. The Wharton School believes this shows that firms are moving away from self-insurance because they generally do not consider that risk management can make substantial contributions to profits.

- Agents' and brokers' roles have become so important to some businesses that they may actually submerge the identity of the insurance company that is providing the protection. The study found that 11% of businesses were not even aware of the number of insurance companies they use, but almost all were aware of the number of agents/brokers.

- Along with the primacy of the agent/broker role comes the emphasis on services rather than prices in the selection of insurance companies. The fact that a greater percentage of businesses place emphasis on the choice of the best agent/broker rather than the best insurance company stems from the types of services offered by the agents/brokers and the lack of sophistication of the typical business in their fundamental risk management process.

- There seems to be substantial reason to believe that there will be greater use in the future of fee-for-

service compensation since the traditional concept of compensation by commission is inconsistent with professionalism among agents/brokers.

The study was initiated in the fall of 1974 when the Sentry Insurance Group commissioned the Wharton School along with Louis Harris & Associates to design and administer a survey to a cross section of American businesses.

During the spring of 1975, the Harris organization conducted personal interviews of key executives responsible for the insurance/risk management function in six major industries in the four major regions of the United States. The initial findings were released last year (*Business Insurance*, Sept. 22, 1975), with the approach and conclusions under the sole control of the Wharton School.

Michael E. Hogue and Douglas G. Olson of the Wharton School made a more extensive analysis of the data, and put it into a book more than 400 pages long entitled "Business Attitudes Toward Risk Management, Insurance and Related Social Issues."

The book has just been released; it breaks the survey into three distinct sections: Social issues, the risk management process, and selection and evaluation of insurance companies and agents/brokers.

Based on the responses from the interviewees, the authors not only published some of their conclusions about the lack of sophistication in the risk management process, but also included some suggestions about how certain problems could be better dealt with.

For instance, to remedy the "extremely serious criticism" that insurance companies deliberately underquote in a competitive bidding situation in order to win business, only to raise premiums shortly thereafter, the Wharton School suggested a type of short-term premium guarantee.

When an insurance company bids in an effort to induce a business to switch, it could provide a guarantee that the premium would not exceed a stated level through the first policy renewal, Mr. Hogue and Mr. Olson wrote.

Or, the insurance company could guarantee that premiums would not be raised by more than a stipulated percentage at the first policy renewal. The initial premium savings offered by companies that provide guarantees would not have to be nearly as large as would be necessary if such guarantees were not present.

The study also suggested summary sheets should be developed to accompany each insurance contract. These summary sheets would highlight the major provisions of the contract, with specific reference to the clauses in the contract in which the actual coverages, conditions, and limitations are provided.

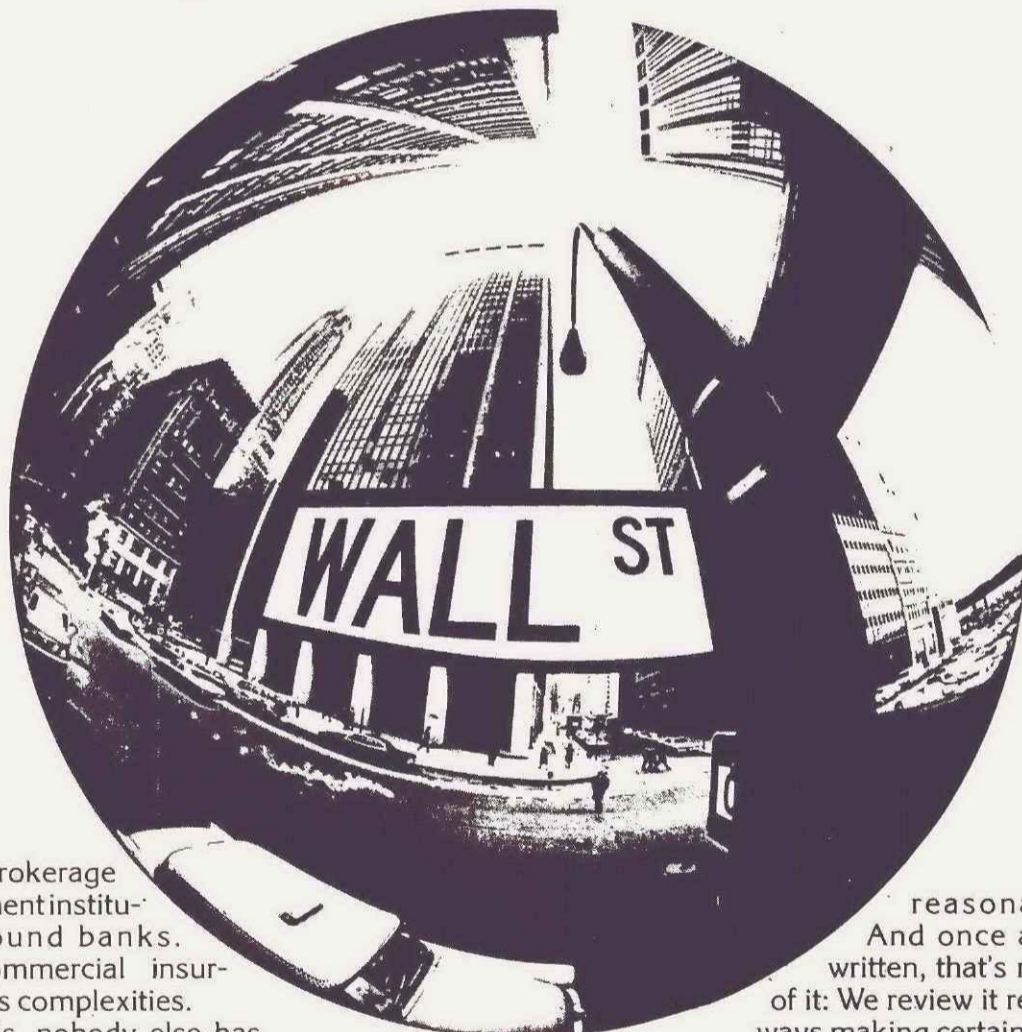
These summary sheets, the authors feel, would help clear up the problem of businesses not being able to perceive differences in the prices for insurance among different underwriters because they cannot readily detect the differences in the promises, conditions, and exclusions of different insurance policies. Seventy percent of businesses surveyed believe that insurance policies need to be revised to more clearly reveal circumstances that will not be covered, the study found.

In a phone interview this month, survey co-author Douglas Olson said the area of the survey which has "ballooned" so much that attitudes of respondents may have already changed is the product liability field.

Five groups which did show the greatest tendency to be aware that

Continued on page 10

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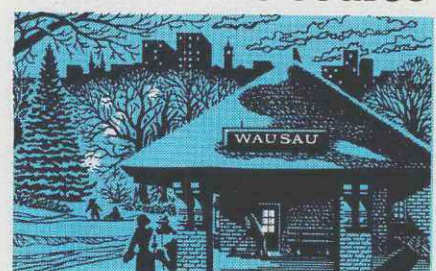
BUSINESS INSURANCE IS A PARTNERSHIP. If it's going to work the way it ought to work, both partners have to recognize their responsibilities.

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# Goodrich to split property account equally between IRI and captive

By SUSAN ALT

AKRON—B. F. Goodrich Corp. is said to be splitting its \$3 million a year U.S. and Canadian property insurance account 50-50 between Industrial Risk Insurers and its new wholly-owned captive insurance company established in Bermuda and being managed by American Risk Management Inc.

Goodrich plans to have the captive operational Jan. 1, 1977, underwriting only property insurance initially but structured so that it can eventually be used to underwrite Goodrich's casualty exposures.

"Because of our stable loss experience and diversified facilities, the establishment of the insurance

subsidiary provides significant economic benefits," said Goodrich president John D. Ong.

Anticipated savings on the new program, according to Spencer J. Traver, director of risk management, exceed a minimum targeted premium recapture of "not less than 3% to 5%," although sources outside the company familiar with the Goodrich program said the expected savings are more like 10% to 15%.

**Goodrich's statement** to the press, issued in the wake of *Business Insurance's* story of August 23 noting that the company was moving toward such a captive program, explained that use of the captive insurance company will

not affect existing levels of self-insurance.

Property insurance for rubber and tire manufacturing facilities is currently underwritten by the Factory Insurance Assn. division of Industrial Risk Insurers, through Johnson & Higgins. Goodrich's relationship with FIA goes back to about 1890. IRI's Oil Insurance Assn. division underwrites the petrochemical risks through Marsh & McLennan. Both brokerage firms had competed with American Risk Management (ARM) for the captive management account along with a third broker, Rollins Burdick Hunter.

The replacement cost of Goodrich's U.S. and Canadian properties is about \$3 billion. The tire and

chemical producer maintains insurance for replacement cost on all assets.

John & Higgins, which handles the larger portion of Goodrich's coverage, and Marsh & McLennan will continue to broker the property insurance remaining with IRI, although the premiums will be slashed by 50%.

**Goodrich will be participating** in the Hopewell pool established by American Risk Management in Bermuda. The Hopewell pool consists of a group of captives which reinsure a portion of each other's risks, with the management company handling all other reinsurance arrangements for the captives through its treaty reinsurance program involving about 98 worldwide reinsurers.

Industrial Risk Insurers and American Risk Management will both be providing engineering and inspection services to Goodrich, Mr. Traver said. He indicated that

while Industrial Risk Insurers will provide "some" of these services, the captive management company will be picking up a "substantial" part of the property protection engineering job for Goodrich.

The plan for IRI and the captive to share Goodrich's risks involves a "vertical sharing configuration" between the two, where each takes a pro-rata share of the risk to be underwritten, Mr. Traver explained. He's not made a decision yet on the name for the captive insurance company.

The plants and facilities to be insured under this new program are substantially HPR (highly protected risks), according to Mr. Traver. There have been a few other insurers involved in underwriting the non-HPR properties under the old program.

"With the exception of some bad loss experience in 1975, our loss ratio had been well below 50%," Mr. Traver noted. In March 1975, explosions and fires (the result of suspected arson) destroyed a sponge rubber products plant in Shelton, Ct., which was owned by B. F. Goodrich, causing a multimillion dollar loss under the FIA insurance policy of something under \$5 million, which represented the cost of the building for which Goodrich was responsible. The operation was in the process of being sold to another company at the time the fire occurred.

Among the reasons Goodrich is setting up this captive to handle some of its property risks is "direct access to reinsurance markets," said Mr. Traver. "It gives you a pricing and market structure you can't get by using self-insurance alone," he believes.

The Goodrich program using American Risk Management is thought to be unusual in that the captive management company has previously been extremely cautious about the size of petrochemical risks it would take into its treaty reinsurance agreements and into the Hopewell pool. Since Goodrich's operations are increasingly chemical-oriented, the program is thought to represent a shift in the posture of ARM towards petrochemical risks it once shunned. ■

## Chamber hits OSHA regs

WASHINGTON—The U.S. Chamber of Commerce says a government study of the cost of a multi-billion dollar noise control program is grossly understated.

"Congress does not appear to have intended to protect employees by putting their employers out of business," a chamber statement said.

At issue is the Occupational Health and Safety Administration's regulations to control noise by requiring engineering changes in many plants. A study by a private consulting firm for OSHA estimated the cost of such changes would be between \$10.5 billion and \$18.5 billion. Two years ago the same firm estimated the changes would cost much more.

The chamber said "there is little in the way of reliable evidence to support these differences." The group also contended at a hearing on the regulations that the government will not release documentation for the findings and said it had filed a request under the Freedom of Information Act to obtain the information.

The group contends the government should consider the costs of the proposals in relation to the benefits they provide, while OSHA takes the position that the engineering changes should be implemented if they are technically feasible. ■



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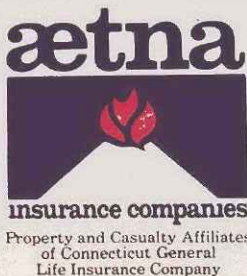
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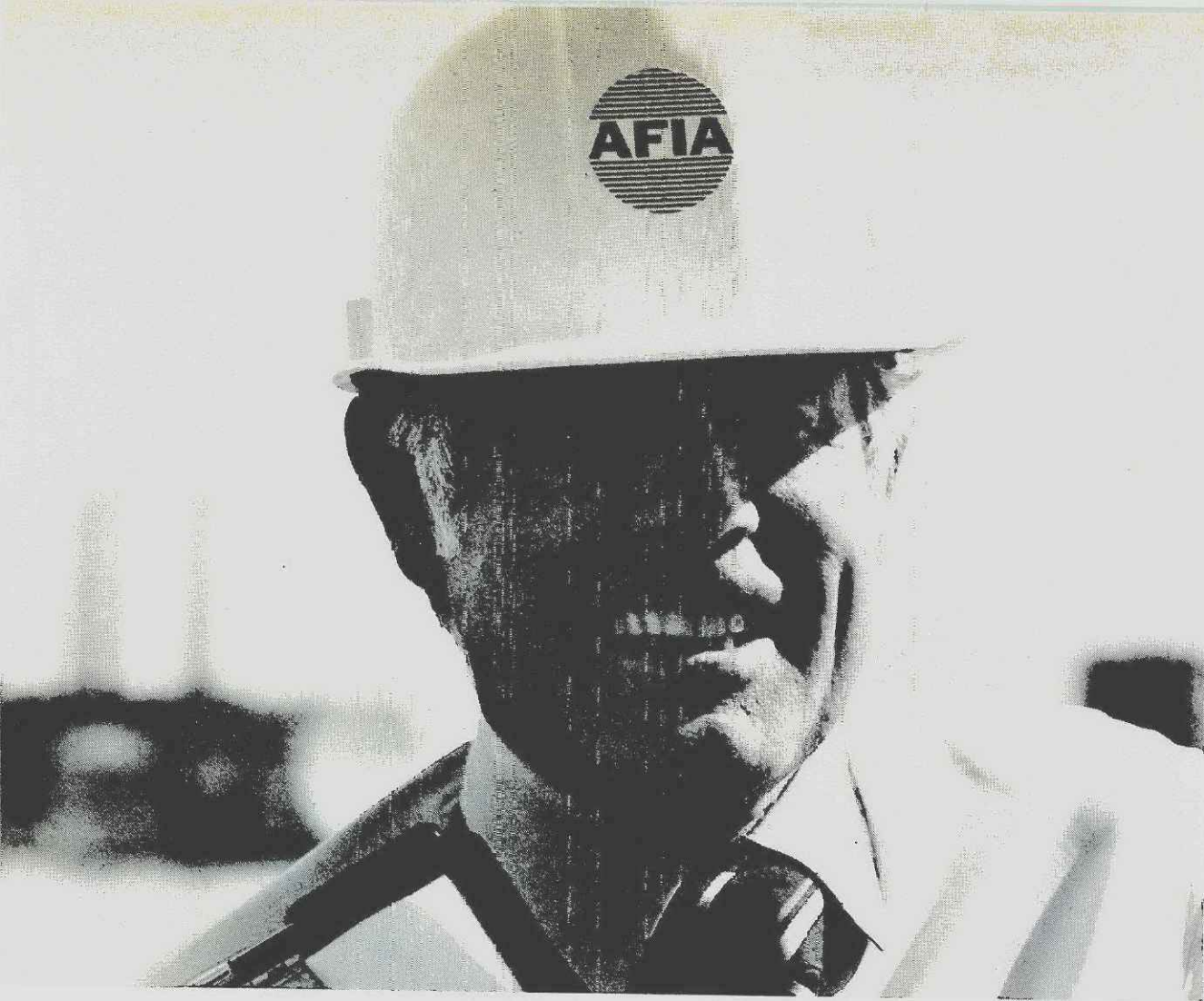
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## Benefits report . . .

Continued from page 1  
ploye benefits expressed as cents per payroll hour or as annual dollars per employe.

Because of rising wages, employe benefits for the group increased to 230.9 cents per payroll hour in 1975 from 46.7 cents per payroll hour in 1955, a rise of 394%.

And as dollars per year per employe, benefits increased to \$4,731 in 1975 from \$970 in 1955 to \$4,731 in 1975, a rise of 388%.

The report pointed out that average benefits of this identical group of companies was somewhat higher than was the overall 761 companies' because many of the original group were large firms which established benefits programs earlier than the other companies.

In general, the study found that

larger firms tended to pay higher benefits than smaller firms did.

For the group of 152 companies which had been reporting benefit statistics to the chamber since 1955, benefits employers are required to pay, such as Social Security, unemployment and workers' compensation insurance, represented the fastest increase of five different categories of benefits.

In 1955, these employers were legally bound to make payments of 2.8% of their payroll for each worker. This cost went up by more than 250% in the 20-year period, and in 1975 amounted to 7.1% of total payroll for each worker.

Of the 761 companies surveyed in the study for fiscal 1975, manufacturing firms had higher benefits payments than nonmanufacturing firms for old-age, survivor, disability, and health insurance,

unemployment compensation, private insurance, and paid vacation time.

Nonmanufacturing firms had higher payments for nongovernment pensions, sick leave and discounts on goods and services purchased from the company.

Separated by industries, these are the groups which reported the highest benefit payments as a percentage of payroll last year. Chemicals and allied products, 42.2%; primary metal industries, 40.6%; rubber, leather and plastic products, 40.4%; transportation equipment, 39.9%; and petroleum industry, 39.2%.

These groups paid the lowest benefits as a percentage of payroll: Hospitals, 24.0%; textile products and apparel, 27.8%; wholesale and other retail trade, 28.2%; department stores, 28.4%; and printing and publishing groups tied with miscellaneous nonmanufacturing industries such as mining,

research, hotels etc. in having the next lowest percentage of benefits at 32.2%.

On a regional breakdown, the chamber found that the highest benefits payments were made in the Northeast, followed by the East North Central, Western and South-eastern states.

The survey was conducted in the Chamber's economic analysis and study group by senior associate Fred D. Lindsey. Its finding that the average worker in 1975 received benefit payments of \$3,984 last year compares to the Chamber's first survey for calendar 1947, when benefits average only \$424 per employe, or just 11% of the 1975 benefits.

Copies of "Employee Benefits 1975" may be ordered from the Chamber of Commerce of the U.S., Washington D.C. 20062 on a post-paid basis. The chamber charges \$3.50 each for up to nine copies, \$2.80 each for 10-99 copies or \$2.45 each for 100 copies or more. ■

## Allianz taps Raab to head subsidiary; begins in Ca.

LOS ANGELES—The Allianz Insurance Co., which is headquartered in Munich Germany and has assets of \$1.8 billion, is opening a U.S. subsidiary which will be headquartered here.

The subsidiary is headed by Frank Raab, former head of the Insurance Co. of North America (INA), who told *Business Insurance* that the new insurance company he heads has \$25 million in capital and surplus and will be operational by Jan 1. Initially, it will write coverage only in California.

The new insurance company will specialize in commercial coverage. Mr. Raab noted that already waiting in the wings is a workers' compensation client with an annual premium volume of \$850,000.

Allianz bought the General Fire & Casualty Co. from Greyhound Corp. to use as a shell, Mr. Raab said. General Fire will serve as the basis of the commercial insurance company he expects to build.

Noting that his company is coming into being in a booming seller's market, Mr. Raab noted that he hopes that within fire to 10 years it will be the largest insurance company based in Los Angeles. Outside observers, however, suggest that the time span may be considerably shorter—six months to a year.

Allianz Insurance specializes in engineering insurance, doing about 10% of the world's premiums in engineering. The company maintains offices around the globe, including South America and the Middle East. It has 23,000 employes and 45,000 agents who represent Allianz alone. Of these, 10,000 are full-time workers. ■

## Survey . . .

Continued from page 4  
they were under increasing pressure to supply adequate product warnings to customers were utilities, manufacturers of plastics, petroleum and allied products, retailers of automobiles and automobile supplies, food and farm products wholesalers, and manufacturers of mineral and primary metal products. However, the overall survey sampling taken in the spring of 1975 indicated that most businesses had a lack of complete, readily usable data about the whole product and safety service area.

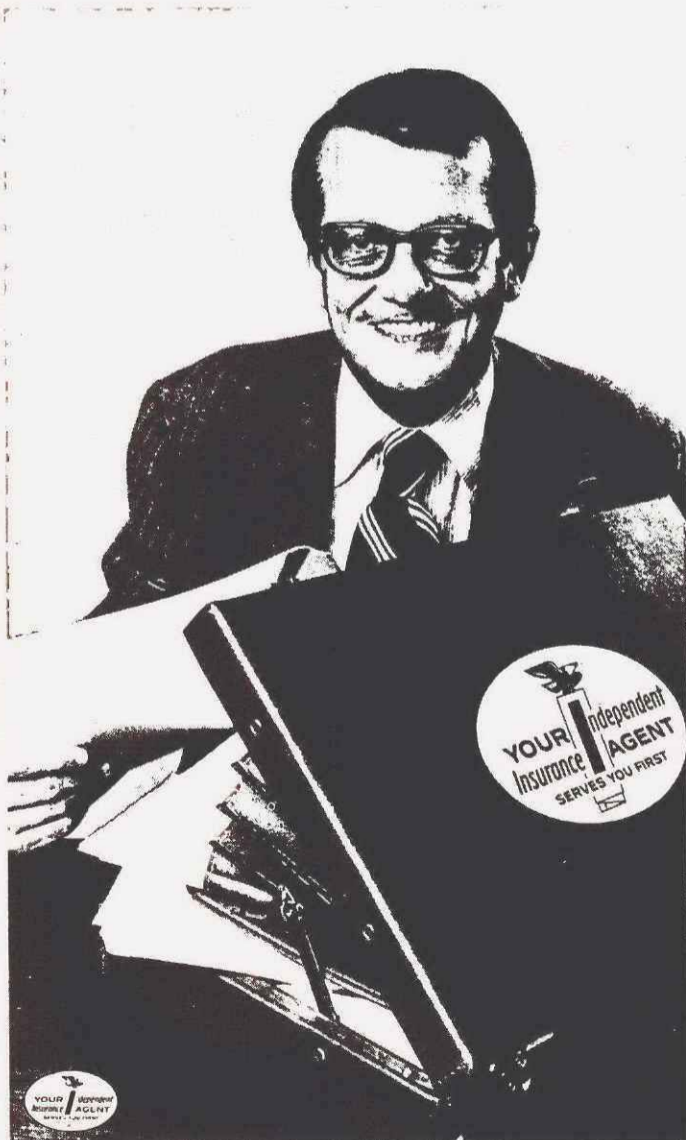
Mr. Olson said if the survey were repeated now, there would probably be much more awareness and concern in business attitudes about product safety assistance because of rapidly changing developments.

At present, the Wharton School is using its study in the classroom. If any follow-up on its findings is to be made, the business school would have to find a financial sponsor for it to act in the same capacity Sentry Insurance Group did for the original study.

The six industrial classifications surveyed in the study were construction; manufacturing; transportation, communications and utilities, wholesale trade, retail trade; and services.

Copies of the study are available by writing to Michael Hogue or Douglas Olson at the Wharton School Department of Insurance, 305 Colonial Penn Center, 3641 Locust Walk/CE, Philadelphia, Pa. 19174. ■

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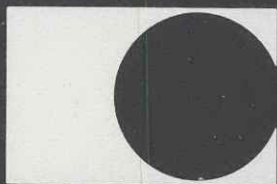
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## Advisory panel . . .

Continued from page 1

"However, we will begin to see insurers being more eager to follow more innovative risk financing techniques."

A few panelists avoided making any forecasts of premium activity. One explained his reluctance thus: "It's hard to make forecasts in answer to such a broad question. I believe there won't be more big rises on top of recent jumps in premium, as it's more than the market—the buyer—can bear. But there will continue to be more careful underwriting and risk selection rather than direct premium boosts. There will also be more self-insurance, at least through higher deductibles."

General casualties marked rates will increase next year, wrote a risk manager for a governmental body, "because of inflation, products claims, etc. Rates for property insurance may be more competitive and keep present levels, except that there will be more pressure to increase retentions by insureds. Replacement coverage values will increase due to infla-

tion, with the net result being higher premiums on property coverages including business interruption."

Half of the advisory board members said they're paying significantly more for general liability insurance than they were a year ago. Increases for the most part in this line of coverage were between 20% and 100%.

The second biggest group of increases were reported in the related area of excess liability and umbrella liability policies, with 18 of the insurance managers noting premium hikes of very substantial amount—generally 50% to 300%. Three panel members said their premiums were jacked up over 1,000%.

**Auto collision** and liability insurance cost more for 11 of the panel members, paying anywhere from 20% to 200% more for the coverage but generally reporting increases in the 40% to 50% range.

**Product liability** insurance and workers' compensation coverage were next in line of frequency of premium increases, with eight advisory panel members noting boosts in each of those lines. Workers' compensation premiums being paid by these eight panelists have risen 10% to 30% for the most part. Product liability premiums were reported to have gone up 40% to 500%, with the responses evenly spread across that range.

But several panelists worried that excess workers' compensation insurance purchased in conjunction with self-insured programs had undergone whopping premium climbs of 130% to 200%.

Property insurance costs 10% to 25% more for five of the panel members. One insurance manager bemoaned a 250% premium increase for crime coverage.

Fidelity bonds cost 20% to 30% more for three of the panelists, while errors and omissions liability coverage for two of the participants, who reported premiums up 50% and 400% respectively.

Despite wide ranging premium increases for so many companies purchasing insurance, a surprising 43 Editorial Advisory Panel members said they have found at least one—and sometime four or five—

lines of insurance to be relatively competitive. Panelists were asked if there were any policies they buy on which they've been able to hold rates and premium down.

Of the 43 who said there are some lines they've found to be competitive, 24 cited property insurance (fire and extended coverage) as holding steady and, in a number of cases, becoming less costly. "We've had a reduction of 10% in premiums," said a panel member. Participants in the survey noted that insurance for both HPR and non-HPR properties was, in their view, competitive.

An astounding 18 panel members told *Business Insurance* they've found liability insurance policies of various kinds to be competitively priced, either with no higher premiums asked or with premiums decreasing. Four panelists said general liability coverage fit this pattern; eight noted that aircraft hull and liability insurance isn't going up in cost; two said aircraft product liability insurance prices haven't risen.

In addition, four other panelists are finding fiduciary liability insurance, directors' and officers' liability insurance at prices level with or below what was being paid for the same coverage during 1975.

"Our very high excess liability coverage held steady" in premiums, said an insurance manager, contradicting the tales of woe being related by other panelists reporting higher costs. "Our umbrella liability coverage was renewed for three years and held steady," said another.

"Excess umbrella liability from Lloyd's was held steady," reported a third panelist.

Boiler and machinery coverage and business interruption insurance each were mentioned by five panelists as competitive lines.

Fidelity bond premiums have held steady for four panelists.

Marine insurance markets, 17 panelists enthused, have been good. Eight panelists noted steady or falling costs for ocean marine coverage, six said cargo insurance costs aren't changing.

Employee benefits insurance—including the group travel accident lines, along with group life, health and disability—was cited by seven board members as offering stable or falling premiums. ■

## Callaghan nixes move to nationalize big insurance companies

LONDON—Delegates at Britain's Labor Party conference have decided by a voting strength of 3.3 million, with only 526,000 votes being cast against it, to call for the nationalization of seven leading U.K. insurance companies.

But Prime Minister Jim Callaghan, even though he heads the Labor Government, has refused to include the plan in his future program for Parliament.

So there will now be a row over the long-term effect of these insurance takeover proposals which have been a growing part of grassroots Labor politics since 1971 and were predicted once again this year (*Business Insurance*, Aug. 9).

The companies likely to be affected if ever the scheme gets off the ground are Commercial Union, General Accident, Guardian Royal Exchange, Legal and General, Sun Alliance and London, Royal, and Prudential.

Many of these have strong U.S. links, and represent 50% of the U.K. stock insurance company market's \$8 billion premium income, to which U.S. sources contribute \$1.5 billion annually.

Lloyd's, whose premium income also comes substantially from the U.S., is excluded completely from the state takeover proposals because of its traditionally unique background.

The affected companies are now getting together to fight the scheme. It must be examined against the background of Britain's economic crisis, and the fear that if Labor tries to implement the plan it might well lose the next British general election in 1978-79.

Insurers realize that even if Labor stays in power, it can take a long period of bitter political fighting before the scheme gains acceptance. The drastic fall in the value of the pound against the dollar has already made it certain there will be no immediate move.

Militant leftist Labor Party supporters feel they had to push the nationalization proposals, which also cover leading banks, through their annual conference as a matter of political doctrine, so that they could lay their hands on investments and put them to use supporting socialistic programs.

But on the very day that the plan was being debated, the pound hit a new all-time low and Prime Minister Callaghan had to reject the insurance takeover demand because he knew it would destroy international confidence in Britain's economic future.

What happens now? The proposal becomes an official part of future Labor policy and will remain indefinitely on its books. The long-term fear is that over the next decade, the demands will be revived presenting ever-present anxiety on both the business and political scene.

But calls for further nationalization in the U.K., which have already covered coal, steel and rail transport, and currently embrace the shipbuilding and aviation industries, will recede under economic pressure from the outside world.

Britain already faces a huge debt to the International Monetary Fund which will make certain it does not waste money in the next year or two.

Plans for nationalizing insurance companies have been gathering strength for five years, especially in the domestic auto, fire and life

business, but only this year the demand spread to the overall commercial business of the U.K. markets large cash flow.

Rejecting socialist dogma in this direction, the seven big U.K. companies named as nationalization targets have pointed out: "The insurance industry is one of Britain's largest invisible export earners and in 1975 contributed more than \$800 million to the country's balance of payments.

"Confidence of overseas customers has been gained very largely because successive U.K. governments of all parties have allowed the companies freedom to compete and serve their customers."

"Our earnings would be at serious risk in the event of nationalization, because in the U.S., our major overseas market, legislation in most states prohibits the operation of insurance companies wholly or partly owned by foreign governments."

Dealing with Labor Party claims that insurance companies should be nationalized as an essential part of future political philosophy in the U.K., William C. Harris, chairman of the British Insurance Assn., said: "The move comes at a time when the nation needs the support of domestic life insurance savings, as well as the insurance industry's invisible earnings. The policy threatens the entire insurance industry."

"Government control of policyholders' funds is a threat to personal freedom, and foreign confidence will be eroded so that serious harm will be done to our overseas earnings if ever this irresponsible scheme is put into effect in Britain."

One reason why Labor supporters want to get their hands on insurance companies is that they are an investment channel for large amounts of funds from corporate pension plans, over which trade unions are now trying to exercise future control.

But there will now be such a severe clash between the left and right wings of Britain's Labor Party that it could mould political attitudes for a generation to come. ■

## OSHA ups inspections

WASHINGTON—Safety inspections for the month of July totaled 7,300, the Occupational Safety and Health Administration (OSHA) said. These represented a substantial increase over the 6,598 workplace visits made in June. More than 1.4 million workers were employed at the workplaces visited in July.

Inspections resulted in 5,876 citations covering 28,223 safety violations, including 885 serious violations, according to OSHA.

Proposed penalties amounted to more than \$1.1 million, of which \$751,061 has been remitted. There were 361 contested cases in July.

Most of the jump in the number of inspections arose out of complaints. There were only 531 such visits in June, but there were 1,593 in July. Twenty-five percent of the establishments visited in June were found to be in compliance with OSHA requirements, after initial inspection findings for that month were reassessed for possible additional citations. ■

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# Common Market drafts tough product liability law

BRUSSELS—A uniform product liability law with balanced safeguards for consumers and manufacturers has been drafted by the European Common Market and could be adopted in all member countries by 1978.

The proposed law contains many of the reforms recommended as possible solutions to the product liability crisis in this country, including a 10-year statute of limitations, limits on personal and property damage awards, and establishment of several defenses for manufacturers.

Dealers of merchandise would be exempt from liability under the draft law, but those in nonmember countries who import goods into the Common Market, formally known as the European Economic Community (EEC), would be subject to the same liability as manufacturers.

The purpose of unifying the li-

ability laws of member countries in the EEC is to remove competitive advantages that are enjoyed by firms in countries that limit liability by putting the burden of proof on the injured person.

"Liability rules imposed on producers of defective products which vary in strictness lead to differences in costs for the economies of the various member states and in particular for producers in various member states who are in competition with each other," according to an explanatory memorandum on the proposed law.

"Under the laws of the individual member states the liability of the producer is usually governed by the law of that state in which the damage has arisen; therefore, the producer's decision as to the member state in which to sell could be influenced by, amongst other factors, the liability laws of

the member states," the memo continued.

"Economic decisions should however be based on economic, and not legal considerations," the memo said.

The main thrust of the proposed liability law is the uniform establishment of strict liability regardless of fault. "Only a liability of this type leads to an adequate protection of the consumer, since he is freed from the burden of proving fault on the part of the producer and also need not fear that he will have to bear his damage alone because the producer can prove that there was no fault," the draft law's explanation said.

The cost of compensating injuries under a strict liability system should be passed on equally to all consumers through the pricing of goods, the memo said.

However, the proposed law also recognizes the need for a statute of limitations because of a provision that makes manufacturers liable even when a product is defect-free at the time of manufacture according to safety standards at that time.

"Liability for an unlimited period would place an unreasonable burden on the producer in view of the constant development of science and technology," the memo said.

Under the proposed law, manufacturers' liability will lapse 10 years after the end of the calendar year in which the defective product was put into circulation, unless a lawsuit is instituted in that period.

The proposed law recognizes that manufacturers cannot reasonably be held liable for injuries that occur after 10 years of safe operations. If a 10 year old machine starts to cause damage, the explanatory memo said, "this is comparable to an unavoidable accident, the risk of which has to be borne by everyone as part of the general

hazards of life and for which no one else need be answerable."

While the draft law is designed to provide uniform safeguards for consumers, it does not attempt to set up a framework for compensating workers injured on the job. Compensation for damage in the business sector both personal and property, is left up to the individual members of the Common Market.

Besides providing for a statute of limitations, other protections for the manufacturers of products include:

- A limit on damage awards. Total liability for all personal injuries caused by the same product is 25 million European units of account (EUA), or \$30 million; for property damage, liability is limited to 15,000 EUA (\$18,000) for damage to movable property and 50,000 EUA (\$60,000) for damage to immovable property, on an individual rather than a cumulative basis.

(A European unit of account is an average of all the currencies of the countries in the EEC.)

- A three-year litigation period is allowed to limit the time in which an injured person can start and pursue a lawsuit after the accident occurs. The three-year period begins to run when a person becomes aware of the injury.

- Damages for personal injuries are limited to the cost of treatment and the cost of impaired earning ability due to permanent injury. Damages for pain and suffering are not included, but those awards would be possible in countries that recognize such claims.

The draft law exempts dealers from liability because including them would increase the price of products without increasing the protection to the consumer, except by making it easier to sue, the memo said, "since every dealer would have to insure himself

against claims even in respect to products which are completely free of risk."

Moreover, the memo said, "the liability of the dealer would be in any event only an intermediate liability, since he in turn would claim against his suppliers and back to the producer."

"Finally, there is no reason to make the dealer liable since in the overwhelming majority of cases he passes on the purchased product in unchanged form, and therefore has no opportunity to affect the quality of the goods." ■

## OSHA reinforces its workplace standards on noise abatement

WASHINGTON—The Occupational Safety and Health Administration continued its tough stance on noise hazards last month with a ruling that future compliance agreements will be on a plant-by-plant basis. The decision kills any hope for negotiation of more industry-wide agreements.

"The primary difficulty with industry-wide agreements is that they are general in a nature, covering large numbers of employers and plants," said Dr. Morton Corn, assistant Secretary of Labor for OSHA.

"Since these agreements lack specificity, they have provided neither employers nor OSHA with a yardstick to measure the adequacy of the steps taken or to be taken in the plant covered by the agreement to comply with noise rules designed to protect workers' hearing," he said.

OSHA already has noise abatement agreements with two industry associations, Western Wood Products Assn. and the National Concrete Masonry Assn. In addition, the agency has agreements with the American Can Co. and several other employers on a company-wide basis.

Future agreements will be preceded by an inspection of the plant or plants in question to determine what noise hazards exist and what abatement measures, including engineering controls, can feasibly be used to reduce or eliminate the hazards, Dr. Corn said.

Although OSHA inspectors are required by law to issue citations and propose appropriate penalties whenever a violation of any OSHA standard is found, Dr. Corn said the "good-faith" efforts of the employers would be considered if a hazard is found during an inspection to set up an abatement agreement.

"I would anticipate that the civil penalties in these situations will be minimal or no penalties would be proposed, provided violations were not judged to be serious," Dr. Corn said.

Employer associations would not necessarily be excluded from the noise control agreement procedure, he said, especially where the development of new technology is needed or where similar problems exist in several plants, he said.

"As a consequence, OSHA would

continue to deal with associations on noise problems on an industry-wide basis," Dr. Corn said. "But the agreements would set forth in specific detail the steps any affected employer agrees to take within a defined time frame, to come into compliance."

In another development related to OSHA's noise regulation, a consultant for the agency told a hearing last month that full compliance would mean that 700,000 fewer workers would suffer permanent hearing loss.

OSHA imposed a standard in 1971 that set a maximum of 90 decibels on the level of noise to which a worker can be exposed. In late 1974, OSHA proposed retaining that standard with the added requirement that noise levels above 85 decibels be monitored.

Compliance with the standard would cost business \$10.5 billion in capital investment, according to OSHA reports.

The Environmental Protection Agency (EPA) proposed in December, 1974 that the maximum exposure of workers to noise be set at 85 decibels.

OSHA's consultants, Bolt, Beranek and Newman Inc., reported at the hearing that compliance with the EPA noise limit would save another 770,000 workers from permanent hearing loss beyond the 700,000 that would be protected by OSHA's 90 decibel regulation.

Their report said that 19% of the workers in the 19 industries they studied are exposed over an eight hour period to noise levels greater than 90 decibels. They also found that 34% of the workers in those industries are exposed to more than 85 decibels.

One part of the controversy is whether machines should be changed or protected to reduce the noise, or whether workers should wear protective devices.

The consultants said an 85 decibel regulation met through hearing protection would cost about \$43 million annually, plus \$155 million for noise monitoring and \$86 million for audiometric testing.

The economic benefits of a quieter workplace include a reduction in workers' compensation for hearing loss, fewer accidents and lower physiological stress, they said. ■

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## editorial opinions

# Are insurers in bad shape or good shape?

A BOND MARKET columnist for the Wall Street Journal noted in a recent column that insurance companies are hungrily seeking tax-exempt investments in order to obtain tax relief now that underwriting earnings are turning sharply upward.

Insurers have been stepping up their pace of investment in tax-exempts, and they're expected to continue buying heavily through the rest of the year, the column noted. Chase Manhattan Bank cited improved cash flows from higher insurance rates and a turnaround in profits from insurance operations as being the cause of whetted appetites among insurers for tax free investments.

In fact, underwriters' efforts to find these tax free investments were characterized as bush-beating, implying a sense of near-desperation on the part of underwriters to offset the large tax obligations they'll face following big boosts in earnings this year.

When the column appeared, we took note of the apparent discrepancy between the woeful tale the industry is telling insurance buyers and their actual experience. Several of our loyal readers also wrote to us . . . one of the letters is in our Letters to the Editor column. As this reader wonders, is there something the underwriters haven't told us about the continuing need for substantial rate increases?

Now we realize it's necessary, and good, for insurers to get their operations back on a profitable footing. Insurers understandably are anxious to build surpluses back to the points at which they will once again be able to underwrite the large commercial risks for which insurance will always be needed.

And those surpluses have some distance to go yet until they reach the point where insurance capacity will once again expand.

The question has been raised many times whether statutory figures submitted by insurers to regulators accurately reflect actual underwriting results. At the time CNA was in trouble, it became evident that no one inside or outside the company had really known how bad losses were, and what poor shape CNA's surplus was in. Thus, the statutory results apparently understated the trouble CNA was experiencing.

But it's also been said that insurers can be in much better shape than the figures would indicate. Allegations of inflated reserves and IBNR (incurred but not reported) losses are frequent topics of discussion at industry gatherings.

Whatever the case, we're left with an uneasy feeling that the talk of capacity crunches and social inflation is but an excuse to manipulate buyers of insurance into a frame of mind that they will more readily accept high prices.

J. Robert Hunter carried this line of questioning one step further when he spoke at the annual meeting of independent agents in Toronto. The federal insurance administrator charged that some rate filings by insurers have rivaled science fiction "in terms of imagination and flights of fancy." He recounted his review of applications for rate increases of more than 50% which contain "exponential trend factors which are then applied multiplicatively year on top of year without explanation or, I believe, logic."

It's about time insurers started explaining their actuarial methods in more detail.

## Cashing in on hospital risk management

FEDERAL REGULATIONS governing the procedures hospitals must use in accounting for costs which the government reimburses are moving toward allowing more self-insurance of professional liability risks. This is true particularly because malpractice insurance is, in many cases, virtually unavailable at prices hospitals can afford.

Because many of the nation's hospitals are publicly-funded not-for-profit organizations, various government bodies have power to control hospital management practices. City, state and federal laws control the alternatives open to hospitals in the risk management area. And some laws have already been changed to allow self-insurance of malpractice exposures in response to an insurance crisis.

Florida's law, for example, permits internal funding of these hospital risks, but only if the reserves are segregated from operating funds of the hospital and provided that there is an annual actuarial determination of the validity of the financing level to pay for future malpractice losses.

It looks as if federal regulations under Medicare and Medicaid will go the same direction. The rules previously have allowed hospitals to be reimbursed only for costs attributed to the purchase of insurance, but will soon, it appears, be liberalized to allow hospitals to obtain reimbursement of costs attributed to the funding and maintenance of a self-insurance program.

The hitch comes with the provision that all these self-insurance programs must be fully evaluated and certified each year as reasonable and sound.

So-called risk management consulting firms are springing up everywhere to cash in on this lucrative opportunity. Though nearly all the new consultants we've talked with claim to have expertise either in the hospital field or the insurance field, some of them aren't readily able or willing to explain what it is exactly that they are advocating hospitals should do to establish and maintain a solid self-insurance program.

The entry of many new consulting firms on the risk management scene has its good and bad aspects. Positively speaking, risk management is being afforded much broader recognition in the field of business management generally and within the overall management consulting profession.

But on the negative side, we can't help but feel that some hospitals might be taken to the cleaners by some instant experts who contend they can offer unique help establishing "total" hospital risk management programs including everything from claims investigation to captive insurance companies.

It behooves risk managers in hospitals to check credentials very carefully when choosing consultants to assist in formulating their self-insurance plans.

## letters

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

### Sybron has details

To the Editor: Your editorial opinion dealing with dental plans, "What You Don't Know Can Hurt—in Lost Control," was read with considerable interest at Sybron Corp. While administering self-insured dental plans for our employees for more than 10 years, we have compiled useful statistics on dental plan utilization and expenditure patterns.

In our experience, for example, utilization of a dental plan varies significantly with family size. But very few employers keep a record of this parameter. Also, we know the degree to which utilization increases as a function of the time an employee has been eligible for plan benefits. It is this increase in utilization which causes plan costs to increase during the first few years, more so than any increase in the level of dental expenditures.

To date many benefits managers have been in the dark when it comes to dental plans. Sybron's experience with dental plans is outlined in a paper prepared for presentation at the 1976 annual meeting of the American Public Health Assn. I will be happy to provide copies to your readers as long as the supply lasts.

**Stephen D. Hooper**  
Marketing Director, Sybron  
Dental Administration Inc.,  
Rochester, N. Y.

### Who needs relief?

To the Editor: I enclose a photocopy of the column "Bond Market" from the September 20, Wall Street Journal. If, as this indicates, property and casualty insurers are in need of tax relief on earnings from their investments, then there is something that they have not yet told us about the continuing need for their substantial rate increases.

**Malcolm A. Bernstein**  
CPCU, Frederick Rauh & Co.,  
Cincinnati, Oh.

### Customer interest

To the Editor: I am hereby requesting permission to send copies of your article "Sue the bastards": to our customers, (about 700).

We are manufacturers of electrical wiring devices and sell to lamp and Christmas tree string manufacturers. I feel your article would be of great interest to them. Thank you.

**Irene Segal**  
VP-Treasurer, Gilbert Manufacturing Co. Inc., Long Island City,  
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Editor's note: Permission granted.

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# Employee Re

**When an injured employee's return to work is speeded, an employer regains a needed worker—and insurance costs for the firm may be held down.**

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

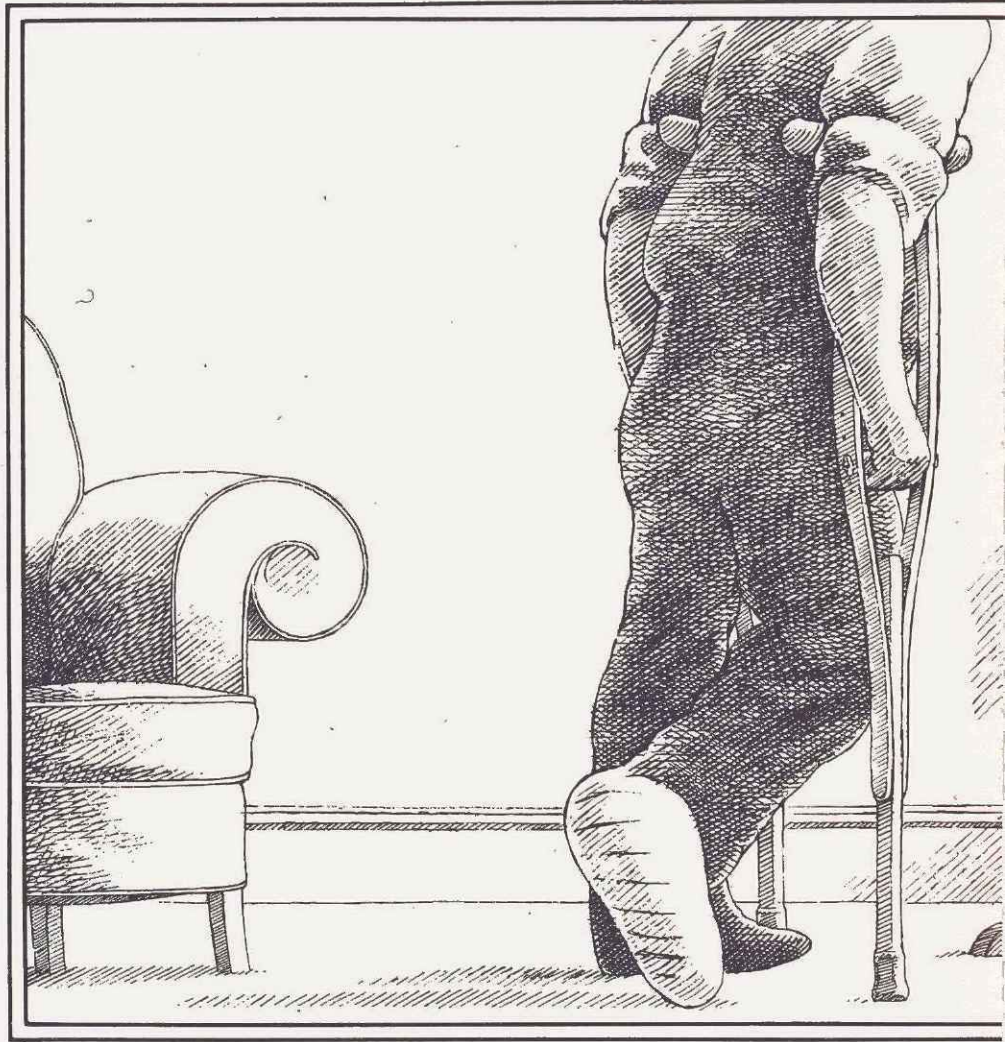
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The compensation received by a worker for a disabling injury was formerly fixed by most states at a specific sum for a specific disability.

But that arbitrary method of making awards is fast giving way to the concept that the worker should be compensated on the basis of loss of earning capacity—for a lifetime, if the disability is permanent—together with full and unlimited medical expenses. This principle, embodied in new laws in many states, has meant a continuing rise in the cost of insurance coverages for workers' compensation.

Faced with compensation claims which can now run, in some cases, to hundreds of thousands of dollars, insurers are turning to rehabilitation services to put disabled workers more quickly on the road to recovery and reemployment wherever possible. In fact, several states have enacted regulations which make employee rehabilitation mandatory after a worker has missed a specified period of employment. Although claim costs can be thereby reduced, the more important benefit of rehabilitation can be the restoration to health and some degree of productivity of an injured person, benefiting both the individual and the employer.

At the same time, the money which may be saved

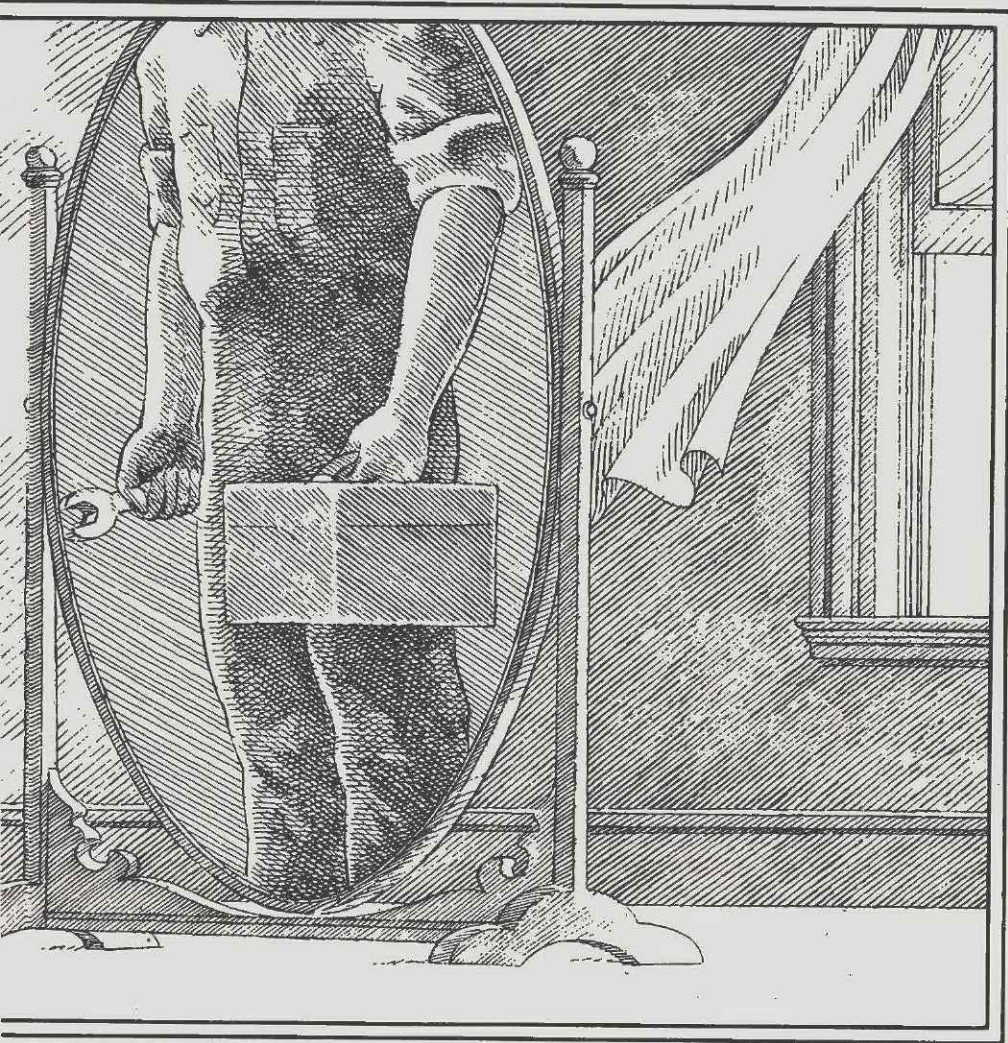


through rehabilitation programs can be reflected, for insured companies whose premium rates are based on claims experience, in downward pressure on insurance premiums. For a given company, the wider the experience with claims to which rehabilitation is applied, the more likely it is that the size of the average claim will be reduced and favorable premium action will result.

## **Aiding the "whole person"**

How does rehabilitation work in practice? Although some insurance companies maintain rehabilitation facilities of their own—a few of them quite extensive—most of the work is done by firms specializing in the field. Workers' compensation cases predominate, but rehabilitation for victims of automobile accidents and other injuries is becoming more frequent. Typically, the need for rehabilitation services in a case will first be suggested by an insurance company claims adjuster or the corporate risk manager.

# habilitation



The goal is maximum recovery and early return to a productive, self-sustaining life. Working closely with the patient and the family, the rehabilitation specialist coordinates the efforts of the other professionals involved. The overwhelming concern is not with physical needs alone, but with aiding the "whole person."

This includes therapies aimed at physical recovery, as well as psychological and vocational counseling and, when needed, financial advice and assistance. The patient's family, too, is encouraged to aid in the recovery process.

In each instance, the specialist evaluates and implements the measures needed while controlling the costs involved.

## Getting an early start

A crucial factor in the success of a rehabilitation program is early identification of the need for one. Too often a disabled worker loses motivation and

morale after weeks of inattention and inactivity.

On the other hand, even employees with severe cases of disability—involving such conditions as amputation, blindness and paralysis—have been returned to work by intensive rehabilitation programs. And with the numerous cases involving minor disabilities, where recuperation is fairly simple, the fact that help has been timely has often avoided months of employee down time.

The disability victim and his or her family are not the only beneficiaries of rehabilitation. For example, an employee with a chronic low back injury might represent \$200,000 in lifetime compensation payments and medical costs. Rehabilitation expenses for this person might not exceed \$10,000. Therefore the financial savings from the rehabilitation investment could be substantial. Most important, much-needed and possibly unique abilities may have been preserved.

For a fuller discussion of employee rehabilitation from an objective standpoint, INA has prepared a booklet entitled, "Employee Rehabilitation: Some Professional Considerations." Copies may be requested by writing INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

\* \* \*

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Insurance Professionals

# Argonaut files \$25 million suit, seeks 'repudiation' of its contract

By LINDA MOSKOWITZ

PHILADELPHIA—Argonaut Insurance Co. has filed suit against the Pennsylvania Medical Society seeking "repudiation" of its contract to provide medical malpractice insurance for the group's members. Argonaut seeks damages of more than \$25 million.

Argonaut claims that the medical society did not support the programs as originally agreed and specifically did not provide a broad spectrum of doctors for the plan, according to a spokesman for the society.

"This is totally untrue," the spokesman said, explaining that 4,300 physicians participate in the program, organized and sponsored by the Pennsylvania Medical Society.

"Argonaut is now the second largest (malpractice) writer in the state," he continued. Medical Protective Co. is the largest writer in Pennsylvania for malpractice, but

does not write policies on a group basis.

The medical group has organized its own captive insurer to handle the insurance, which originally was to succeed Argonaut as underwriter. However, Argonaut has now refused to assign the business to the captive, a society spokesman said.

"We will not compete with Argonaut," said the spokesman. He explained that the captive, which is presently unfunded and has not yet been granted a certificate of authority from the state insurance department, will only be activated if Argonaut leaves the Pennsylvania medical malpractice market.

"If they get out of the state, we'll take over," said the spokesman. The medical society presently prefers to continue doing business with Argonaut at rates agreeable to the two parties, if a settlement can be worked out.

The group insurance program between Argonaut and the medical society was arranged in June 1971. The society solicited quotes from about 17 of the largest insurers at that time, but none would agree to write the coverage on a group basis in the state.

Argonaut then solicited the medical society and agreed to underwrite the program. Frank B. Hall & Co. is the broker for the plan.

It was agreed that all participating doctors would be approved by a Commission on Professional Liability Insurance. A network of local committees, composed of medical and insurance representatives, were organized and the chairman of each of these groups formed a statewide commission.

"Things went very nicely for several years," explained Ronald Bachman, director-economic affairs for the society.

The insurance company, however, began expanding its malpractice operations into several other states and "apparently got in over their heads," Mr. Bachman said.

The combination of a rising number of malpractice suits with increasingly large awards, a declining stock market offsetting investment profits, and an inflationary economic climate have impaired Argonaut's ability to manage the group malpractice programs, Mr. Bachman believes.

Argonaut officials could not be reached for comment. It is that company's policy not to discuss matters involving pending litiga-

tion.

In 1975, Argonaut applied for a 248% rate increase. This move was opposed by the society and did not gain approval by the state insurance department.

Later in 1975, the insurance company attempted to withdraw from its agreement with the medical society and brought the case to the Court of Common Pleas in Philadelphia. The court ruled that Argonaut had an obligation to the society members and refused the insurer's request.

Argonaut applied for another overall rate increase of 42% earlier this year. "This could amount to almost a 200% rate increase for some doctors," said a society spokesman, "and the society is vehemently opposed to this." This

matter is now before the Pennsylvania Insurance Department.

In late July, Argonaut mailed 428 non-renewal notices for the malpractice policies to society members. Pennsylvania State Insurance Commissioner William J. Sheppard then announced he would take action against any discriminatory policy cancellations. The next day all but 79 of the non-renewal notices were rescinded by the insurance company.

Presently, the Pennsylvania Medical Society is seeking a court ruling allowing "a return to the status quo," permitting all doctors dropped from the insurance program to be reaccepted. The society claims that Argonaut's recent actions are in violation of the previous court order. ■

## Urge pre-admission testing

CHICAGO—"We have calculated that if everyone in Illinois who required elective surgery had their pre-operative tests on an outpatient basis, nearly \$4 million could be saved each year," the executive vp of Chicago-based Blue Cross-Blue Shield Plan said.

Though pre-admission testing has been in effect in 98 out of the 257 Illinois hospitals, Blue Cross-Blue Shield is expanding the program to eventually include all hospitals. Some hospitals have been using pre-admission testing for as long as ten years. "In terms of dollars," vp Charles R. Goulet said, "pre-admission testing can produce significant savings, particularly when you consider that a day of in-patient hospital care for our members in Illinois costs an average of \$174."

Under this type of testing, a person takes his required tests, lab analyses and electrocardiograms

prior to surgery, thereby saving hospital bed charges. The final decision is made by the patient's doctor as to whether pre-admission testing will be done.

Also, hospitals cannot be required to offer pre-admission testing according to Blue-Cross-Blue Shield spokesmen.

On the national level 58 million out of the 84 million Blue Cross-Blue Shield subscribers have pre-admission testing coverage and 56 plans out of the 69 plans nationwide offer the benefit.

According to national Blue Cross-Blue Shield spokesman, "six hospitals in Des Moines, Ia. estimated they saved \$340,000 a year in room charges alone." In St. Joseph hospital in Paterson, N.J., he said an average hospital stay was reduced by 2 days when pre-admission testing is used. ■

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## Sentry cancels press builder's coverage

NEW YORK—Sentry Mutual Insurance Co., Stevens Point, Wis., is cancelling its line of product liability insurance coverages for punch press type manufacturers as the coverages come up for renewal in the firm's Eastern region which includes New York, New Jersey, Pennsylvania and Delaware.

One of the casualties of the Sentry Insurance decision is the Clifton Hydraulic Press Co. of Clifton, N.J. Company president Michael Brodsky told *Business Insurance* that his firm had its product liability coverage cancelled at the end of July and has been unable to find a carrier willing to accept the risk.

Sentry had been Clifton Hydraulic Press Co.'s insurer for about a decade, Mr. Brodsky said, and it will continue to write other portions of the punch press maker's other corporate insurance.

John Makely, underwriting manager for Sentry's Eastern region said in an interview that the company decided to drop product liability lines for punch press operators because "we as a region here have almost been killed" by claims coming in from those coverages.

The policies are being cancelled on a case-by-case basis as they come up for renewal, Mr. Makely said, or as Sentry becomes aware of policies now covering exposures of which the insurer was not originally aware.

"Until the tort laws give manufacturers some relief," Mr. Makely said product liability insurance for punch press manufacturers is an undesirable line from the insurance company's point of view.

Meanwhile, back at Clifton Hydraulic Press Co., Mr. Brodsky can find little comfort in the underwriter's problems. He has his own.

The uninsured firm is being sued by a plastics company in Passaic, N.J. where a foreman was injured on equipment made by Clifton Hydraulic Press.

Mr. Brodsky claims the equipment was not faulty, but that the workers left the power switch on and then pushed buttons which activated operations while the foreman was servicing the machine.

Nevertheless, under current workers' compensation laws, the employer may not be sued for negligence, but a third party manufacturer of equipment may be sued. Mr. Brodsky is worried about what lies ahead for his company if he is unable to buy products liability insurance.

He said that Sentry, "as an accommodation," tried to help him get coverage through Lloyd's of London, but was unsuccessful.

Last month, Mr. Brodsky said he had a tentative quote for coverage from a Canadian firm through Clifton broker Feldman Agency Inc. The quote, from the unidentified insurer, was for \$100,000 limit policy with a \$15,000 premium with a required 30% downpayment.

The New Jersey machinery maker later decided that the Canadian coverage would be a mistake. While he was considering the bid, he spoke with a Connecticut manufacturer who said the Canadian insurer's ploy was to start out with a low premium and then to keep jacking it upwards until it became nearly impossible to pay.

By late September, Mr. Brodsky still had not found coverage for Clifton Hydraulic Press.

"We may have to liquidate or transfer our assets somewhere else," he said in a phone interview.

A spokesman for the Feldman Agency, which tried to get coverage for the firm, characterized the entire product liability market in New Jersey as "terrible" and said Clifton Hydraulic Press was not the only victim.

The agency said it handled a case involving a man who received a patent for his invention of an electrified treadmill exercising machine. He wanted to set up his own firm to manufacture his invention, the broker said, but nobody would insure him. The man had to give up the entire business because he couldn't buy product liability coverage. ■

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# San Diego is 'damn near' uninsured, but lack of coverage isn't widespread

By JOANNE GAMLIN

LOS ANGELES—"Based on our experience, we are bare or damned near bare in public liability," acknowledges San Diego risk manager Robert Walters.

The reason for all that nakedness: A self-insured retention of \$5 million per occurrence in public liability with no aggregate stop loss insurance. The figure of \$5 million is up—way up, in fact—from \$500,000, the figure that until last July was the city's limit on its per occurrence self-insured retention in public liability.

Yet for all that, the lack of insurance does not appear to be commonplace among California's beleaguered public entities, not-

withstanding the realms of publicity about the hard times they suffer in the liability insurance marketplace. What's more, for those entities going bare in certain lines of liability coverage, the situation does not seem to be generating any searing anxiety. Don Blackhurst, risk insurance manager for Santa Clara county, for example, told *Business Insurance* that although his county "is pretty much bare in medical malpractice coverage," he is not unduly troubled.

"So far, we've had only one medical malpractice claim of \$500,000, stemming from an incident in which a woman in a wheelchair tumbled from a hospital

ramp," he explained. "But, in general, we pay out much less, about \$100,000 a year, in medical malpractice."

San Diego risk manager Robert Walters said that the switch to the \$5 million per occurrence self-insured retention occurred three months ago when his excess carrier approached him with the unwelcome news that coverage under \$2 million was unavailable.

"So we said: 'A pox on all of you; we are going with a \$5 million self-insured retention,'" he recounted. "At the same time, we placed \$3 million in a reserve fund to be in excess of what we budgeted annually to cover public liability losses."

Mr. Walters noted that San Di-

ego has an excess insurance layer of up to \$25 million per occurrence over the \$5 million, underwritten by Crum & Forster.

The city, which has an annual budget of \$246 million, budgets annually for public liability losses, he went on, "plugging in such factors as inflation, changes in public attitudes as shown in jury verdicts and statutes as well as appellate and supreme court decisions." This year, San Diego has budgeted \$550,000 for public liability claims.

However, the whole self-insurance program in liability, including salaries, telephone, gas, electricity, excess coverage premiums and legal expenses, will come to only \$871,000 this year, he calculates.

Mr. Walters said that the \$3 million in reserve is a special tort liability expense fund. He noted that his staff has been able to reduce public liability litigation to

only 8% of total claims. Of that 8%, a mere 2% go to trial, he said.

Workers' compensation for San Diego is totally uninsured with no excess coverage. And it is administered on an in-house basis.

This year about \$1,800,000 will be used to pay workers' compensation claims and \$67,000 for administration, the risk manager figures. Had the city remained insured with the state fund, he believes it would have been forced to ante up \$4 million in premiums in 1976.

"We believe we are saving the taxpayer about \$5 million this year by being self-insured in public liability and workers' compensation," he said.

A claims recovery and subrogation program, begun in 1970, is now generating about \$300,000 a year for San Diego, a figure which Mr. Walters said is not bad considering a similar program for Los Angeles is returning only about half of that or \$150,000 a year.

People management—peppered with plenty of massaging—is the formula he employs to transform his self-insurance programs into cash flow gushers.

Once they resolve to go into self-insurance, public entities should move into developing first-rate, in-house staff and not contract the work out to independent administrators, he insists. Only in this way will the city's own manager be in a position to call the shots on claims investigation and other critical jobs associated with cash savings in self-insurance.

Santa Clara County risk insurance manager Don Blackhurst told *BI* that being bare in medical malpractice is a new turn-of-events for his county. Last year, Santa Clara went self-insured for medical malpractice, opting for first layer retention of \$2.5 million. It had an insured excess layer with a \$5 million limit and an aggregate of \$3.5 million.

But this year the county was unable to negotiate a firm commitment on an excess layer, related Mr. Blackhurst, "and so we are bare."

Yet he repeated that being bare is causing him no loss of sleep.

He said the medical malpractice bill passed by the state legislature late last year has been a big help in this regard. It puts a \$200,000 limit on what can be paid out for claims of pain and suffering. In addition, it allows damages to be paid out over an extended period of time and states that if the claimant dies, these payments must cease.

Similarly, Gerry M. Surfus, chief of risk management for giant Los Angeles County, noted that the county has been bare—that is, completely uninsured—historically in comprehensive general liability (CGL). Given the county's taxing abilities, CGL coverage is not perceived as needed, he indicated, noting that the county will soon be in the marketplace for a \$15 million to \$20 million catastrophic umbrella for CGL.

Comparatively tiny Chula Vista, a charter city near San Diego, with an annual budget of about \$15 million, is sporting a \$50,000 per occurrence retention in public liability with an aggregate stop loss of \$150,000. So it might be pardoned if it feels a trifle bare. Until last June, the city had a first dollar public liability policy, according to Larry Wittenberg, assistant to the city manager.

But that protection vanished, he said, when efforts to acquire first layer coverage ran into a wall of rejection. Still, the city is not completely naked for public liability risks. Indeed, it boasts three organizations writing excess coverage in that area: Admiral Insurance, Columbia Casualty and Manhattan First/Marine. ■



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# Premium credit firm 'unfair' in FTC ruling

WASHINGTON—A premium financing company in Rhode Island has been found in violation of the Truth in Lending Act for using "unfair debt collection activities," according to a Sept. 17 ruling by an administrative law judge for the Federal Trade Commission.

In making his decision, the judge ruled that the McCarran-Ferguson Act does not preempt the FTC from taking action because the premium financing company "is not an insurance company. It is in the business of extending consumer credit and, in the course of that business, it collects outstanding obligations to it. "It is not engaged in the business of insurance simply because its loans are limited for the purpose of financing insurance premiums," the judge said.

The ruling does not amount to a final decision by the full com-

mission and may be appealed, stayed or reviewed by the FTC.

Judge Alvin L. Berman found that Providence Premium Service Inc. (PPSI) violated the Truth in Lending Act by sending letters to alleged delinquent debtors that said PPSI was referring overdue accounts to an attorney for collection and possible legal action. The judge found that PPSI never actually referred the accounts to the attorney named in the letter or to

any other attorney.

He also held PPSI's parent company, Providence Washington Insurance Co. (PWIC), "vicariously responsible" for the acts of its subsidiary.

Judge Berman did, however, grant an exemption to PWIC for its activities in Texas. The McCarran-Ferguson act was held to apply there and preempt federal regulations because in that state PWIC accepts promissory notes in payment for premiums rather than using its credit subsidiary.

The judge also found that PPSI had failed to make the required disclosures under the Truth in Lending Act. ■

# Broker cites liability law tort reforms

LOS ANGELES—Six ways to alter the nation's tort liability system were suggested by Samuel Alcorn, CPCU and national vp of Bayly, Martin & Fay Inc., before a meeting of the California Citizens Commission on Tort Reform.

Mr. Alcorn described the six ways to approach a change in the nation's tort liability laws as the following:

- The establishment of a reasonable period following the manufacture of a product during which a manufacturer would be responsible for injuries arising out of unsafe design or defective conditions in the product.

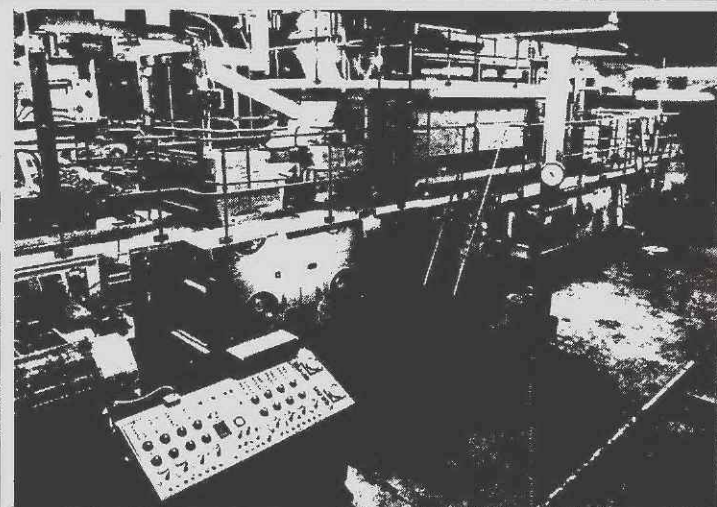
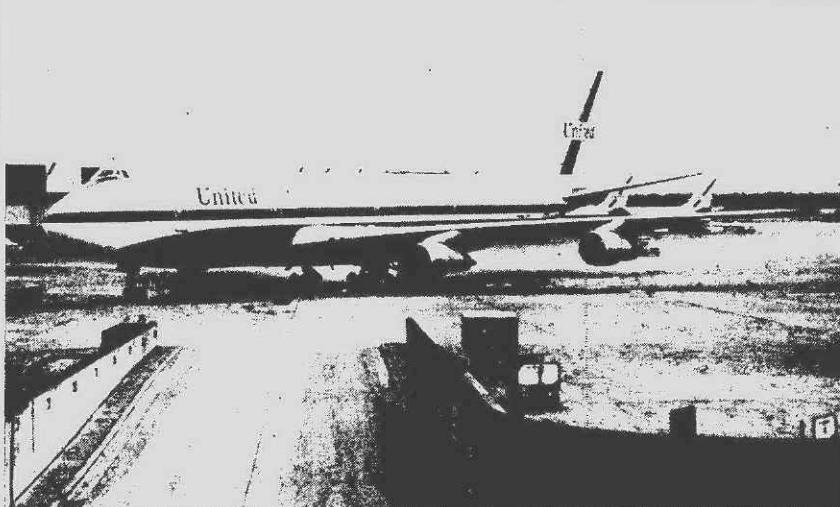
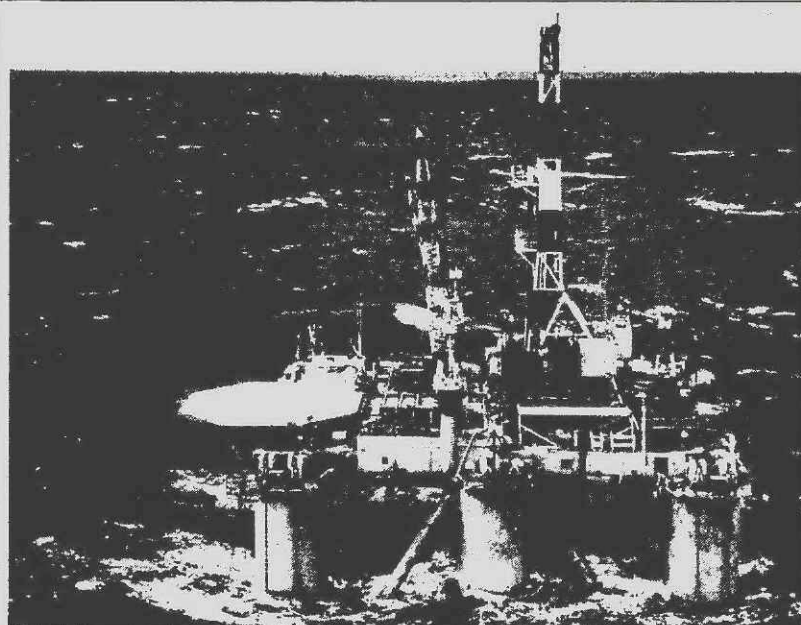
- The setting of reasonable standards of foreseeability to be applied to the use or misuse of products. "It is not realistic to hold a manufacturer strictly liable when a product is sued outside the scope or application for which it was intended—where the manufacturer in sales literature and advertising has clearly set forth the intended use of the product," he told the group.

- The clear delineation of responsibility for failure to maintain and update equipment to new safety standards. "Liability of the manufacturer should be limited to meeting the safety standards in force at the time a product is manufactured and distributed—with a clear imposition of responsibility on the user for injuries arising out of modification or subsequent failure to keep the equipment in conformity with newly established safety standards," according to him.

- The clarification of safety standards. Mr. Alcorn said there is a clear need to define the scope and nature of safety devices which must be included in manufactured machinery.

- The establishment of reasonable limitations on recoveries for damages.

- The redefinition and establishment of clear cut limitations on both causes for punitive and exemplary damage awards. He pointed out that several states are considering a limitation on punitive and exemplary awards to an amount not exceeding three times the amount of proven damages in an action. "This would be a significant move in the right direction," Mr. Alcorn said. ■



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# Broker hits extra cost burden on firms overseas

NEW YORK—An insurance broker charged that "the absence of U.S. participation in international Social Security agreements places an extra cost burden on American companies operating overseas compared with companies of other national origins."

To help rectify that situation, William B. Ryan, assistant vp in Johnson & Higgins' international employe benefit division here, urged those who agreed with him to write their representatives in Congress, where three legislative bills are under consideration.

"In one form or another, there happen to be nearly 1,000 international Social Security agreements in effect between various countries around the world. It is of vi-

tal competitive importance that the U.S. join in," Mr. Ryan believes.

The agreements are "intended to prevent duplication of Social Security coverage and expenses," he continued. "It is a method by which years of contributory service in all Social Security systems are combined by each country to determine benefit eligibility under its system."

Mr. Ryan was quick to point out that totalization agreements "do not require the exchange of pension reserves and additional accounting and financial record-keeping are unnecessary."

He sees participation in such a system as "practical and work-

able" because "only a minimum of information needs to be exchanged" between systems.

One obvious advantage, Mr. Ryan explained, is that "with totalization or non-duplication of coverage, (an) expensive waste of funds is eliminated." The increased cost comes because many U.S. multinationals want to keep their foreign-based personnel "whole" by continuing to pay U.S. Social Security taxes as well as those required by foreign tax laws.

A key provision would allow an American employer who maintains expatriates' U.S. Social Security coverage under the terms of a 3121(1) agreement to exempt their participation in the assignment country's Social Security system, according to Mr. Ryan.

The three "identical" bills—HR 14429, HR 14440 and SB 3598—would authorize the President to approve bilateral and multi-lateral agreements that would allow

coordination between the U.S. Social Security System and those of other countries, he said.

The legislation "is extremely important to multinational companies," Mr. Ryan emphasized. "It is one of the few pieces of legislation in Washington designed to save money for U.S. multinationals without adding to the burden of the U.S. taxpayer."

"This legislation, supportive of American international interests and fair to all concerned, calls for prompt action on the part of Congress," Mr. Ryan intoned.

"A look at current U.S. companies' contributions to Social Security programs in any number of countries will show the serious financial impact caused by the absence of such legislation," he said.

Members of the House Ways and Means Committee and the Senate Finance Committee should be contacted, Mr. Ryan urged, "to insure prompt, positive action." ■

# Medicaid risk contract terminated in N. Carolina

By JOANNE GAMLIN

LOS ANGELES—The risk portion of the two-year Medicaid contract for the state of North Carolina, administered by Health Applications Systems (HAS), a subsidiary of Bergen Brunswig Corp., has been mutually terminated, retroactive to June 30, 1976.

The risk portion provided that HAS would pay all of the state's Medicaid costs in return for a flat fee.

HAS agreed, at the same time, to continue to process Title 19 claims as fiscal agent for North Carolina through June 30, 1977, or until the state can enter into a new contract.

"We have already begun preparing a new request for bids in order to have a new risk contract in effect as soon as possible," North Carolina governor Jim Holshouser said during an August address concerning the resolution of the three-month long negotiations with HAS.

By early September, Business Insurance learned that the governor's office had mailed its request for bids to 11 potential bidders. The new request contains three options: (1) at risk, (2) modified risk and (3) fiscal intermediary.

The governor reaffirmed in his address that until the new contract becomes effective, HAS will operate as the state's fiscal agent to process and pay claims for services rendered by hospitals and other providers since July 1. He said that HAS will operate on a cost basis only with no fees or profits involved.

Negotiations between HAS and North Carolina began in May, after the parent company revealed "a material adverse trend" and told North Carolina that it was bowing out of the contract, which at the time had more than a year to run.

The contract had been hailed earlier as a prototype for the application of professional business management techniques to the administration of programs like Medicaid.

The compromise reached between the two parties said that North Carolina had agreed to assume full responsibility for costs resulting from state actions which increased the number of nursing home beds. Bergen Brunswig and HAS agreed, at the same time, to waive claims for damages or rescission based upon the contention that North Carolina had misrepresented the number of residents who were eligible for Medicaid benefits.

Bergen Brunswig said that if a loss results from the contract the loss will be fully covered by the company's reinsurance program. A \$2 million reserve fund from this program has been established to meet such a loss, it is understood. But the reinsurance has reserved the right to contest the extent of its liability under the current settlement.

Bergen Brunswig would not identify its reinsurer.

Gov. Holshouser in his address praised the work done by HAS and said that North Carolina saved more than \$22 million last year due to a sophisticated computer program used by HAS and due to more efficient administrative claims handling methods. ■

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# Have 'obligation' to check insurer's financial state

By SUSAN ALT

CHICAGO—"It is the responsibility of the risk management consultant and the risk manager to advise their clients or employer on the financial condition of each insurance company, insurance pool, self-insurance company and even the brokers with which they intend to do business."

This declaration came from Stephen R. Wilcox of the securities brokerage firm of Conning & Co. based in Hartford, Ct. He went on to accuse those practicing risk management of "ignoring the cost of risk associated with transferring risk and funding risk (by using independent insurance companies, insurance pools, captive insurance companies or brokers who may or may not have the resources to meet the risk exposure."

Mr. Wilcox told the Institute of Risk Management Consultants at its annual meeting here that it is the obligation of those about to use insurers to not only analyze their financial stability, but also to scrutinize the trends of the financial conditions of those organizations who would underwrite risks.

"In the fall of 1974, we were rapidly approaching the elimination of significant amounts of capacity as well as the possibility that there would be an absence of resources to meet risk exposure already insured," Mr. Wilcox stated. "Under those conditions, should there not have been under consideration an alternative program for the funding of risk?" he asked.

Despite the existence of insolvency funds in 45 of the 50 states and a regulatory system which tests and reviews solvency, Mr. Wilcox suggested that risk management consultants and risk managers themselves "must be concerned about the financial trends of a scientific insurance company and an awareness of the consequences which those trends may suggest for both individual company and industry capacity is essential."

At times, Mr. Wilcox urged, some of these trends must suggest a re-examination of risk funding alternatives, such as more or less emphasis on insuring risks.

Mr. Wilcox said he strongly disagrees with those who believe that the recent loss experience and weak surplus and reserve conditions of insurance companies in the U.S. are "largely nonrecurring, and that, as a result of these problems, greater awareness and closer control . . . (by) company managements and regulators will make the monitoring of financial trends unnecessary."

Insurers are presently more susceptible to sharper fluctuations in financial capacity than they previously have been, he stated, predicting that "more rapid changes in marketplace conditions will be occurring" in future years.

These rapid and sharp fluctuations in financial trends and insurance industry capacity will arise largely because there is a fundamental change occurring in the nature of exposures, and subsequently, the nature of financial risk, Mr. Wilcox believes.

He cited a recent speech by Klaus Gerathewohl of Munich Re about international insurance problems as a indicator of these fundamental changes, such as the growing magnitude of exposures. "His company sees earthquake activity increasing cyclically, and windstorms may be occurring with greater frequency. The recent increase in values in Coastal areas has caused them to feel they must expect losses from storms every

year with earthquakes not far behind," Mr. Wilcox said.

"He suggests that while insurance premiums worldwide have kept up with economic growth, the more significant yardstick of capital capacity has not," Mr. Wilcox continued. "Against a 61% increase in premium growth over the past five to six years, the value of

target risk exposure has increased by a factor of 2.5 times. This means that the impact of a large loss in an increasingly leveraged industry will cause that loss to have a leveraged impact on available capacity."

Thus, the risk manager has "as a primary responsibility," Mr. Wilcox stated, some obligation to judge

whether the "capital guarantee" which the purchased insurance represents is absolutely assured, probably assured or possibly may not be completely assured.

State guaranty funds are far from adequate to cover the values at risk which are insured, Mr. Wilcox told to his audience of about 50

consultants and their invited guests. He pointed to assessments by the guaranty funds of \$109 million over the last seven years, and the projected cost for the 45 most recent insolvencies adding another \$143 million, and noted: "As alarming as these figures sound, it is really not much of an exposure compared to our estimate of \$25.5.

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billion of capital capacity as of June 30, 1976" in all U.S. stock, mutual and reciprocal companies.

"How many of you examine the capital and trends in financial capacity of insurance companies with which you are doing business?"

Mr. Wilcox asked. "Do you receive financial statements, or an analysis of those statements, on the brokers, managing general agents, reinsurance pools or reinsurance managing agents with whom you are funding risk?"

Very little independent auditing occurs in these fields, said Mr. Wilcox. "Is it prudent to deal with organizations which will not provide you with independently audited statements?"

There are those who say it wouldn't make much difference whether audited information was available, Mr. Wilcox continued. "However, if I had been dealing with Resource Facilities or Pritchard & Baird or (was) in the Agen-

cy Manager's pools, I would like to have pulled out the financial information which could demonstrate that I was doing everything in my power to keep current on the financial condition of those organizations."

Markets were competitive and soft in the summer of 1974, Mr. Wilcox recalled. "Was it a risk manager's responsibility to be aware that a study of most major stock property and casualty companies suggested that as of Oct. 4,

the property and casualty operations of the Chubb Corp. were writing \$5 of net premiums for every \$1 of capital, had \$1.5 of common stocks to \$1 of capital and surplus, and were a further 67% decline in the market from that to have occurred, it would have completely eliminated the company's capital and surplus?"

"INA had \$4.3 of net premiums to \$1 of capital, \$1.6 of common stocks to \$1 capacity. American

General's property/casualty operations had \$5.3 of net premiums supported by \$1 of capital, and \$2.5 common stocks for every dollar of capital. For that group, a 40% decline in the market value would have eliminated surplus.

"USF&G had \$4.7 of net premiums supported by \$1 of capital, \$2.3 of common stocks to \$1 of capital and a 43% decline in the market would have eliminated surplus.

"The St. Paul Cos., were writing on a 10.1 to one ratio, and a 33% decline in the market would have eliminated capital and surplus. Safeco writing on an 8.3 to one ratio with \$3.30 of common stocks to every dollar of capital would have had its capital and surplus eliminated on a further 31% decline in the market."

Among the documents which should be scrutinized and analyzed, Mr. Wilcox said, are the financial statements, either audited to unaudited, the statutory financial statements used for regulatory filing purposes, and quarterly information when available. ■

## See return of large stock companies

CHICAGO—Although the availability of insurance will continue to tighten for the duration of this year, 1977 and 1978 will see the return of the large stock insurance companies to the marketplace so that by late in 1978 the atmosphere will most likely be competitive.

This is the prediction of reinsurance intermediary Peter Norton, assistant vp of Tre-Fac Brokers Inc. of New York, an affiliate of Chicago-based Bowes & Co.

Mr. Norton told the Institute of Risk Management Consultants annual meeting here that there will be "a gradual trend" for underwriters to come back into the insurance markets.

But in the meantime, he is witnessing a lot of commercial insurance business coming out of Chicago, St. Louis and the Midwest markets going to London markets, he said.

Excess insurance rates are continuing to soar, Mr. Norton pointed out, citing rating factors of 15 for aircraft product liability insurance which a few years ago had a rating factor of about 2.75.

"In 1976, we are confronted with additional pressures for income productivity," he said. "Risks are being underwritten and re-underwritten especially in the facultative (reinsurance) area."

One exception to the general trends of retrenchment by the large stock insurance companies is the excess and surplus lines area, where companies like Lexington, Cal-Union and First State are still very active.

Admiral Insurance Co. of New Jersey is one of the companies which is being fairly aggressive in writing low levels of excess coverage, in the working layers, above relatively low deductibles, he said.

But for sizeable casualty risks, "instead of three insurers, you now have to get 20 reinsurers to cover a \$10 million line," said Mr. Norton. "Very rarely will a reinsurer put up \$5 million or \$10 million the way they used to," he added.

"The problem we see later this year is that all the excess/surplus companies have set quotas on their writings, and they're all getting near the point of hitting their ceilings. Admiral is getting close. Midland has just about stopped writing. Cal-Union is getting close to its quota. And they're all going to stop writing," he warned. ■

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# Firms have more ability to retain risk than they're now using: Gentry

CHICAGO—A large number of companies still depending on insurance to protect them from losses have a lot of unused capacity to assume risk without materially affecting their financial statements.

Such is the conviction of Ralph E. Gentry, insurance manager for Times-Mirror Co. in Los Angeles and current president of the Risk & Insurance Management Society. In a speech before the Institute of Risk Management Consultants here in late September, Mr. Gentry questioned the reasoning behind the widespread reluctance of companies to retain aggregate loss exposures even when they are willing to consider self-insurance of specific single losses.

"Many companies assume \$1

million in workers' compensation losses, but very few assume the risk of the \$1 million jury verdict in a single auto accident," he noted. Times-Mirror Co., for example, has workers' compensation losses totaling at least \$2 million a year, with the potential under retrospective adjustments of at least \$1 million more, said Mr. Gentry. The firm has been assuming this \$1 million risk in retrospective adjustments for a number of years.

"However, we do not take anything like a \$1 million risk on fire or public liability, either in the aggregate or single occurrence. Now it is possible that a company like Times-Mirror could suffer many fire losses within our \$100,000 de-

ductible that could total \$1 million, but it has never happened and is not likely to happen," he added.

"If my assumption is correct, there is no reason why we should not assume a \$1 million deductible on fire losses," said Mr. Gentry.

"My point on the workers' compensation versus public liability and fire loss is an opinion that more concern or reluctance is expressed by risk managers" concerning self-insurance of specific single losses than assumption of the same amount of aggregate loss. "I am not sure this is a proper position to take," said Mr. Gentry.

The numbers all add up to the "same \$1 million on the operating statement and have the same effect of earnings per share," he said, de-

spite the differing degrees of certainty in the risks.

Mr. Gentry suggested that a certain percentage of average earnings might be a better measure of a company's ability to pay for its own losses, instead of the more commonly used earnings-per-share yardstick.

A \$1 million uninsured loss, he went on to say, "no more adversely affects earnings than reduced sales due to a downturn in the economy that lowers earnings by \$1 million. Thus, an uninsured loss should be viewed the same as any business risk since its effect is the same as the loss of, say, funds expended for research and development on a project that proved worthless.

Mr. Gentry said he believes "a case can be made in some areas for not purchasing aggregate (stop loss insurance) coverages," by companies that self-insure.

"I think that when self-insured workers' compensation first started

being popular, a \$25,000 stop loss was acceptable and standard. This has now been pushed up to \$100,000 or \$200,000 by most underwriters. Granted, the benefits have increased and have been substantially liberalized. Nevertheless, I am not sure that the price being asked for these high level stop loss programs is justified by the actual loss experience," Mr. Gentry declared.

Insurers would have a hard time producing statistics showing many losses exceeding large six-figure numbers, Mr. Gentry believes.

Even though a good risk manager will attempt to keep unidentified risks to a minimum and will normally urge as high a public liability (insurance) limit as appears economically sound, "a risk manager should not rule out the possibility of accepting a technical unlimited liability risk, such as workers' compensation, if in his judgment and that of competent advisors the risk is within his company's ability to assume it.



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"Just because most risk managers buy stop loss (insurance) on workers' compensation does not necessarily mean it is the proper procedure," Mr. Gentry said.

Mr. Gentry noted that his company self-assumes the risks of loss from earthquakes or floods. High premiums for earthquake insurance have convinced Mr. Gentry that if Times-Mirror does have a total loss from earthquake, the loss would be for far more than the company has the money to buy insurance for.

Furthermore, the "odds of a serious quake doing total damage in excess of the high deductibles assigned by the risk takers, when compared to the possible economic gain from the premiums saved if the risk is assumed does, in most cases, in my opinion lead to the obvious answer of assuming the risk" he told his audience.

## Tells need to analyze reinsurance arrangement

CHICAGO—Risk managers, their brokers and consultants should ask the insurers with whom they do business for the names of reinsurance companies to which the insurers are ceding risks, so that the insured customer or broker or consultant can evaluate the stability of the reinsurers which may be called on to cover losses.

So said Stephen R. Wilcox, with the securities brokerage firm on Conning & Co. in Hartford, Ct., speaking to the Institute of Risk Management Consultants here.

At the same time, the insurer should be asked to reveal the terms of the reinsurance agreements it has with those firms to which it is ceding business, said Mr. Wilcox, in answer to a question about monitoring of reinsurance by small insurers which lay off nearly all of the risks they underwrite.

Asked about the current state of the insurance industry, Mr. Wilcox said he doesn't think "there is an insolvency exposure today that would substantially impact on the marketplace." He believes Geico's finances are under control.

## Work comp hearing

A public hearing to consider an overall state increase of 10.1% for coal mine compensation insurance rates was held in Harrisburg, Pa. last week. If approved, the rate increase will generate an additional \$8.7 million in premium revenue.

# Group health costs are adding to overhead

RICHMOND, VA.—Blue Cross and Blue Shield costs alone may soon add \$200 to every new car and truck that rolls off the assembly line, the chairman of Virginia's Blue Shield Board said in a speech here last month.

Dr. John S. Thiemeyer Jr. told a seminar of physicians who participate in Blue Shield coverages that the auto industry is now paying one billion dollars a year for Blue Cross and Blue Shield benefits.

"Blue Cross and Blue Shield are General Motors' largest single supplier—ahead of U.S. Steel!" Dr. Thiemeyer pointed out, before noting that the increased costs of health care benefits for autoworkers would likely boost new car prices by \$200.

Dr. Thiemeyer examined what rising national health care costs meant for subscribers to Blue Cross and Blue Shield through the Medical Society of Virginia's group program. Nationally, health expenditures have tripled since 1965, and the 1974 to 1975 increase of \$15 billion was "the biggest in our history," he said.

"In 1970, total family coverage (in the Virginia group plan) averaged \$29.38 a month. This year, many doctors and their office staffs are paying \$81.72 a month—an increase of 178%," Dr. Thiemeyer said.

The Blue Shield executive said that some Virginia blue collar workers who saw their rates go up nearly 66% since 1972 had to drop their family coverage because they felt they couldn't keep up with the payments.

"The group program for one of our area hospitals now costs nearly \$100 a month—an increase of almost 350% since 1968," Dr. Thiemeyer said in one of his most dramatic examples of how nationally increasing health care costs impacted local Virginia coverages.

To help trim back the costs now connected with group health benefits, Dr. Thiemeyer told the Virginia group they should try to check the length of hospital stays and to get their hospitals to use pre-admission testing.

"If we can impact on the length of stay, we can impact directly on health care costs. The reduction of only one-tenth of a day of hospital stay would amount to \$1.8 million annually. The reduction of one full day could be as much as \$18 million," he said, adding:

"By having pre-surgical work-ups performed on an outpatient basis—before admission—we can save anywhere from \$100 to \$300 on a typical hospital bill—depend-

ing on the number of days the patient doesn't have to spend in the hospital waiting for test results.

"There is potential for millions of dollars of savings here if the procedures are properly used."

Dr. Thiemeyer said that among other things Blue Cross and Blue Shield are doing to help pare costs on group health plans was to encourage changing benefit patterns including more out-patient alternatives such as skilled nursing facility and home care.

He said the Blues' coordination of benefits program, which looks for double insurance coverage and tries to assure that only one company pays the claim has saved nearly \$12 million since 1970. ■

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\*Engineering News-Record, May 20, 1976



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## New broker for Western

LOS ANGELES—Western Air Lines has moved its hull and liability coverage which generates annual premiums of \$4 million, from Frank B. Hall & Co., Los Angeles, to Emmett & Chandler, Los Angeles. Emmett & Chandler currently handles the Western Air Lines workers' compensation account.

The brokerage firm will retain the present underwriters for the coverage, which are USAIG for the United States and the London market for overseas risks, the majority of the coverage.

Emmett & Chandler had the Western Air lines account in the early 1960s, but lost it to Hall six years ago. ■

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## How a UAC adjuster and his teenage son found \$5,000,000 in securities.

A major New York bank had a tough problem for the adjusters of UAC:

"We just discovered some government securities are missing. \$5,000,000 worth."

That's when UAC adjuster Vincent R. Blazewicz went to work. As a member of the UAC team assigned to the case, he pitched right in—even into the bank's trash, although it had been combed through several times before. For company, he took his teenage son along on the hunt.

After five hours, nothing. Then the search party heard the shouts of young Blazewicz: "Here they are! I've got them! I've got them! And they're all clipped together."

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# agent/broker topics

## 'Persuading account to reject us'

# Broker turns diplomat when ousting an account

By JOANNE GAMLIN

LOS ANGELES—The rejection of an account by a successful broker demands a mix of the diplomacy of Henry K. and the delicate maneuvering of a belle with too many beaux.

"We don't think we can turn down an account so much as to seek ways to persuade the account to reject us," pointed out Sam Alcorn, national vp of Bayly, Martin & Fay. "In this way, Joe has the psychological satisfaction of believing he threw us out."

Bayly, Martin & Fay operates on the principle that there are only two real reasons for turning down a commercial account: It represents too many headaches or its cost of service makes it unprofitable.

Other West Coast brokerage firms have different techniques for walking away gracefully from businesses they do not want. A Seattle-based firm which prides itself on being straight forward with clients, has a policy of candidly owning up to lack of capacity for accounts that are outside of its area of specialization.

Barney & Barney, San Diego, first carefully screens incoming calls related to new business, then labors to leave the impression that a diligent effort has been expended in behalf of a rejected client.

McCord & Holdren, North Hollywood, follows a procedure by which it first pre-qualifies a new account and then finesse an 'out'

if that account goes on to fail to meet the standards established by the brokerage firm.

"We are only interested in writing the highest quality accounts within any class of risk," emphasized Jerry McCord, head of the brokerage firm founded in May, 1965.

"Yet if we back out of an account—and we do this about 15% of the time—we always work at leaving a good impression."

Mr. McCord explained that his firm painstakingly evaluates every new account against its underwriting, loss control and credit requirements. If the new client is found lacking, McCord & Holdren doesn't hesitate to say so in diplomatic language, he said. Similarly, during the pre-checks where the firm's producers get a first glimpse of a prospective client, they are instructed to have no qualms about saying a graceful "no" to a clients who does not measure up.

Bayly, Martin & Fay has a carefully contrived strategy for convincing a client the firm wishes to escape that the client would be wise to turn its back on the brokerage firm. Making offers that the prospect cannot afford to accept is the main line of attack.

"We don't want clients who are shaky," asserted Mr. Alcorn, noting that the same applies to clients with service needs that exceed the income Bayly, Martin & Fay can expect to receive.

To make his firm unpalatable to

the unwanted, BMF might say: "We would be delighted to handle your business, but you will have to pay by certified check . . . or we will handle your account for a fee or for commission plus fee (where legal.)"

Split accounts, usually involving personal lines or small commercial accounts, are where most of these problem pop up, with errors and omissions (E&O) lawsuits a likely result, he went on, adding: "More and more E&O lawsuits are being filed."

He said the difficulty usually focuses on "oddball" coverage which could have gone to either broker. Thus the overhanging question: Who is responsible?

Still, by maneuvering around these situations and by not being afraid to turn down clients where trouble outweighs profits, Bayly, Martin & Fay has gained more business than it has lost, insisted Mr. Alcorn.

On the subject of split accounts, another broker, who does not want to be identified, related he encountered a mess of trouble when his firm attempted to cover the gay community. He said the result was constant questions about apartment burglary claims that turned out to be lovers' quarrels and the loss of fine art which was found to be the theft of pornographic pictures.

Turning away a would-be client causes no jitters for a Seattle-based brokerage firm which regards itself as a specialist that cannot venture outside of its elected

preserve. "Construction, light manufacturing and retailing are where our expertise lies," said a spokesman, noting that his firm has no problem with forthrightly telling a prospect that it lacks the capacity to make a leap outside that arena.

"We have a small capacity in handling hospitals. But if we were offered coverage on Mt. Sinai in Los Angeles, we would have to say plainly that we would have a problem in staffing for that account."

Nevertheless, he quickly added that his firm would break all records to staff up if it thought it had a chance at the Boeing Co. account.

Bruce Moore, a partner in Barney & Barney, San Diego, pointed out that his firm is most apt to bow out of an account when the risk and the headaches begin to overwhelm everything else.

Recently, Barney & Barney dropped out of a medium-sized taxicab account that had to be placed in the assigned risk market, he related. Although Barney & Barney lost about \$35,000 in annual premiums, Mr. Moore indicated no regrets, maintaining the problems overshadowed the profits.

It is important, nonetheless, to make the prospect believe that an honest effort was made and that a genuine search of the marketplace was undertaken, Mr. Moore said.

He said that not long ago a student pilot phoned to say that he had purchased an airplane which

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he was planning to lease to other student pilots. The pilot, of course, needed insurance to get the plane off the ground.

"My partner listened to his story and told him that we would investigate the marketplace and call him back in 24 hours," recounted Mr. Moore.

While the partner did have to tell the student pilot back to tell him that he could find no insurance for the plane, Mr. Moore said the prospect went away satisfied, content that Barney & Barney had done the utmost to help him.

On the other hand, he said that a client who owns a Turbojet in partnership with another man was rejected for insurance on the plane when a third individual was brought in as an additional owner.

Mr. Moore observed that the tough marketplace has made San Diego brokers more willing to cooperate with each other. If one broker cannot handle an account, he is now more apt to recommend another, Mr. Moore said. ■

## 'Domestic carriers less able'

# Predict U.S. agents will be forced into the foreign market

By MARIE KRAKOWIECKI

NEW YORK—American insurance agents may be forced to deal increasingly with foreign markets to place coverages their clients need, a leading agents' association predicted.

Arthur F. Blum, executive vp of the Independent Insurance Agents of America (IIAA) said in an interview that the weakened surplus positions of American insurance companies might force independent agents to go outside this country as the domestic carriers grow less able to absorb business.

In addition to tapping the London market, which he called "a different animal altogether" because it is legal in some places and not in others, Mr. Blum said agents would also start turning to better-known firms in the Japanese, German, Swiss and French markets.

While he admitted agents would have to undergo some sort of special training to learn how to deal effectively with foreign markets, Mr. Blum asserted there was "no question" that some agents are al-

ready working with markets outside the country and that others are prepared to begin doing so.

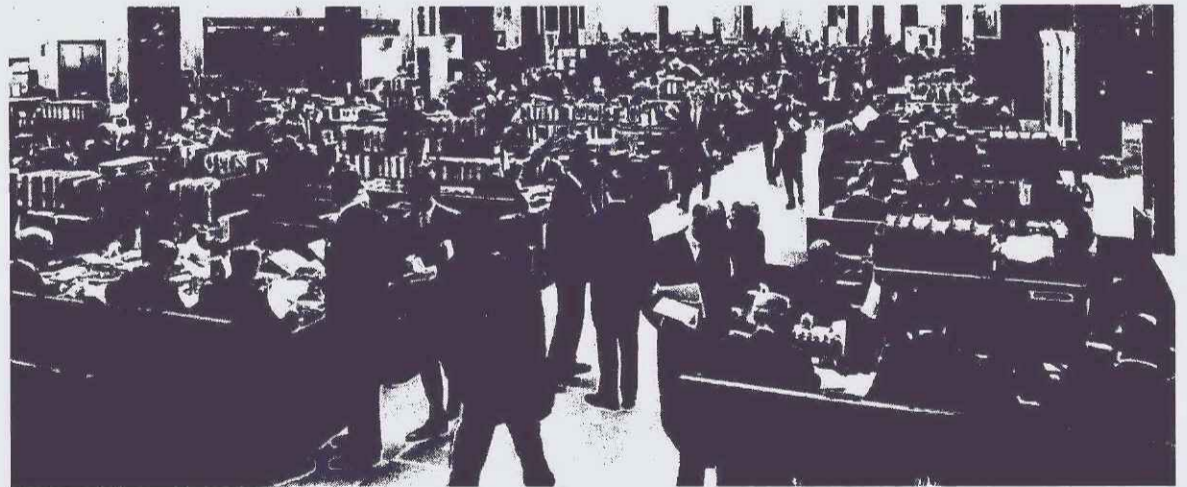
The IIAA executive vp was an agent himself for 20 years before working for the association, and during that time he said he worked frequently with the London market through a Lloyd's broker in New York.

Based on his own experiences, and comments from other IIAA members, Mr. Blum said individual agents could equip themselves to deal with the foreign markets as readily as could agents connected with large firms.

Mr. Blum first made his predictions about American agents expanding into foreign markets to a group of Japanese insurance men who were visiting the IIAA headquarters in New York.

At that time, the subject of international cooperation between insurance agents did not come up, Mr. Blum said.

However, at a meeting of the Bureau of Assurance and Reinsurance held in Vienna to discuss the prob-



The underwriting room at Lloyd's may see more U.S. business as agents are forced into foreign markets.

lems of surplus and excess markets, Mr. Blum said representatives of 26 countries informally talked about ways agents around the world could help each other out in securing adequate markets.

One of the reasons an American agent would actively pursue a foreign market, Mr. Blum explained, would be to obtain coverage for a particularly difficult portion of a valuable total account.

By making the extra effort to explore the foreign markets for the difficult portions of large accounts, the agent would be able to hang on to valuable pieces of business which might otherwise be lost, Mr. Blum said.

He said commercial accounts will probably be the first ones for which agents would be forced to go to foreign markets, but that some personal lines coverages might be affected as well.

Agents contacted at random had

mixed feelings about Mr. Blum's predictions that they might soon need to contact foreign insurance markets to place their coverages.

"It sounds like a lot of nonsense to me" said Raymond R. Kravetz, president of America's Insurance Center in Kenilworth, N. J.

Mr. Kravetz said his \$2.8 million premium volume firm has "no problem" with markets and doesn't think it is unique in that respect.

What you have are people who are trying to place coverages at lower rates than they should," he said of agents who complained there was not enough capacity anymore. "They'll never be able to find adequate markets."

The New Jersey agency has had its own correspondent in London for the last 12 years or so, Mr. Kravetz said. He feels that, as the foreign contact the firm will need to supplement its domestic

market coverages for commercial risks like coin-operated laundries, clinical laboratory malpractice, dry cleaners and automatic car washes.

In San Diego, Ca., R. Culbertson, a partner in the \$2 million premium volume agency Barney & Barney, had a different point of view.

While Mr. Culbertson allowed that Barney & Barney has so far used only the London market as a foreign supplement to the domestic coverages it places, he says conditions during the past year have made it necessary to use Lloyd's more extensively than ever.

Coverages that the agency used to be able to place with admitted carriers in California are getting harder to place now, Mr. Culbertson said. The firm was forced to go to London recently to insure a horse show risk for the Southwest Quarter Horse Assn.

Product liability, malpractice  
Continued on page 30B

## Foreign markets . . .

Continued from page 30A

and auto liability are lines for which "the situation is getting worse all the time" he said. If carriers continue to restrict their writings for the year, he said, the agency might consider seeking markets in foreign countries in addition to Great Britain.

Two other agents thought Mr. Blum's prediction was correct as far as it concerned an increased use of foreign markets, but they felt that the typical agency would be better off approaching those foreign markets through an experienced excess and surplus lines broker.

John E. Thurston, president of Indianapolis-based Affiliated Agencies Inc., said his firm went directly to London a couple of years ago to try to make a contact,

but found it easier and more effective for the most part to work through two big excess brokers near Chicago.

"They have the contacts and outlets at Lloyd's and other foreign markets for umbrella coverages," the president of the \$5 million premium volume agency explained. He said having the right contacts at foreign markets would be increasingly important, particularly to obtain liability coverages for machinery manufacturers.

John Fiorillo, vp of the Elkins Park, Pa. agency Allman & Co. Inc., agreed it makes better sense to approach foreign markets through excess brokers.

In addition to being a general agency, the \$5 million premium volume Allman & Co. is an excess and surplus lines broker itself.

"But even at our size, we would

not go to foreign markets directly because we would have very little bargaining power there since we would be going with a one or two line submission," explained Mr. Fiorillo.

He said it makes more sense to work through specialty underwriters. The firm favors using firms like Delaware Valley Underwriting Agency of Wyncote, Pa. or Montgomery General Agency of Wynnewood, Pa. to get help in placing coverages in foreign markets.

He did not feel that capacity problems among domestic carriers are as severe as some other agents depicted them.

"We just placed a \$50 million liability coverage on a seven-passenger Falcon jet, and we were able to place a full \$20 million of that risk right here in the domestic market," he said.

An excess broker in Chicago handled placing the remaining \$30

million in London for the agency. "He got a better quote there than we would be able to," Mr. Fiorillo said.

Of the domestic carriers the agency deals with, the vp said there are some who are cutting back on their capacity, thus making foreign markets somewhat more attractive.

"But for every one carrier that won't provide the capacity we need, there are five more who are willing to write the coverage," he said.

"What I think you will find more frequently than agents who are looking to foreign markets are domestic carriers who would be looking for foreign reinsurance." ■

### Correction

• The brokerage firm of McCord & Holdren, North Hollywood, Ca., was founded in May 1965, not May 1975 as a story in our Sept. 20 issue stated.

## THE MAIL DIDN'T GET THERE, SO WE SENT THE BRANCH MANAGER

Lucille Mazur, Z-A's processing and services manager in Philadelphia, recalls an embarrassing moment:

The agent was on the phone asking about a super-important endorsement, one I had put in the mail myself. It never arrived, and it was needed urgently. So I told the branch manager about it—and he delivered it by hand.

That's unusual, of course. But at Z-A, we do what we have to do to keep our level of service up. The ten people in my department know the company means business about improved service. We are monitoring our performance on a regular basis and basic jobs like rating, typing and filing have been put under the microscope by experts. So now, for example, we know that our policy typist can turn out, on average, 14 simple new commercial property policies a day. And that one of our liability raters, on average, can rate up 35 new workers' compensation policies a day.

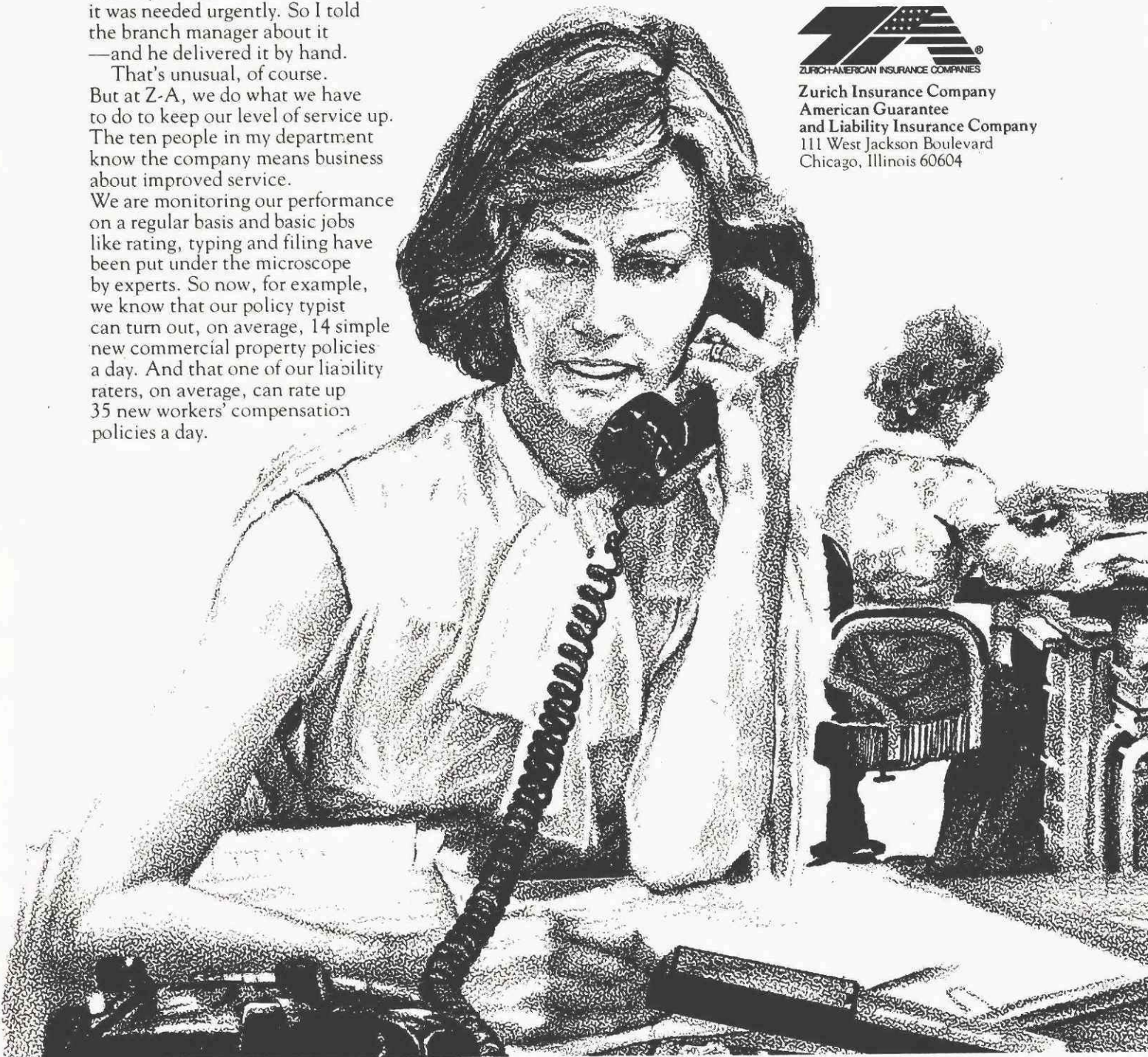
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## Cite problems with disability cover offered associations

MIAMI—Group disability insurance coverages offered to professionals like doctors and dentists through association plans are riddled with problems, an originator of a special kind of disability insurance charged.

William Harmelin, CLU and owner of the Harmelin Agency in New York, singled out the American Medical Assn. plans for special criticism, citing their "unsuccessful performance history."

"The bitterness of poor quality remains long after the sweetness of low price is forgotten," Mr. Harmelin told an annual convention of the National Assn. of Life Underwriters last month.

"Among problems in these (AMA) plans are the lack of security for participants, rising costs of premiums, termination of policy, limitation on disability benefits, and problems resulting over handling claims, he said.

Mr. Harmelin's criticism of association coverages was in a speech which accused the Internal Revenue Service of discriminating against partnerships or sole proprietorships stricken with the total disability of one of their principals.

The IRS taxes such businesses at buy-out time more heavily for disability than for the death of a principal, even though the firm's economic position and continuity may be more threatened by disability, Mr. Harmelin said.

He urged the NALU to develop alternate proposals to the IRS code, and he encouraged members to sell a type of disability coverage he helped develop because, he said, disabled parties are worse off than survivors of a deceased.

"We all know that when prolonged disability occurs among sole proprietors, active partners, or close corporation stockholders, without adequate income protection, the result can be the 'economic death' of the business," Mr. Harmelin said.

Besides CNA, for which Mr. Harmelin is a top life producer, other major carriers which write disability buy-and-sell contracts include Provident Life and Accident, Aetna, Bankers Security, Guardian, Monarch, Paul Revere, and Union Mutual, he said.

He cited a Provident Life survey which revealed that 94% of the applicants for several hundred policies issued in late 1975 chose a 12-month waiting period between the disability of a key partner or stockholder and a buy-out.

Mr. Harmelin described his own product, which has issue ages from 18 to 60 and a waiting period of 12, 18, 24, or an optional 16 months. There is a waiver of premium that is the same as that for benefits, contract termination at age 70 or when full time employment ends, and a requirement of a written disability buy-and-sell agreement on inception. ■

### New commissioner

T. F. Gilroy Daly is the new insurance commissioner for the state of Connecticut, replacing Jay W. Jackson. Mr. Daly, 44, was Connecticut deputy state treasurer before being named insurance commissioner by Gov. Ella T. Grasso. Previously, he was deputy state attorney and a federal prosecutor in New York.

## Problem recruiting new personnel for agencies

By JANE WINEBRENNER

CHICAGO—"Finding a few good men" is one of the main concerns of insurance agents and brokers, not only the United States Marines.

Agents, both small and medium-sized, have found there is a continuing shortage of professional sales people and young people out of college interested in insurance. When asked how new recruits were found for his agency, one officer replied, "I wish you could tell me."

The problem has reached the attention of the Independent Insurance Agents of America (IIAA). Its education director, Leslie Loveland, said the IIAA is planning a "recruiting program" to be distributed to agencies to help them establish plans for hiring more qualified personnel.

A program tentatively would include scholarships for college students interested in insurance; psychological tests for potential employees; learning systems involving texts and tapes; and subsidized financing for agencies hiring inexperienced recruits.

As Mr. Loveland notes, up until now, "nepotism more than anything else" has been the basis for hiring in insurance agencies.

But times are a-changing, at least in Cincinnati, Oh. Continental Associates Inc. president Carl R. Schlotman, said he looks for an educated person and not necessarily an applicant with a business administration degree.

"We look for someone who is constantly upgrading himself and has the ability to self-educate," Mr. Schlotman said. "People demonstrate this scholastically or through the work record in college. From their past record, there is a pattern indicating ambition."

At Panhandle Insurance Agency in Amarillo, Tx., S. Wayne O'Keefe, a principal officer, lamented the lack of young people entering the insurance field. He said those recruits that do show an interest want salaries commensurate with five years of experience. "We can't compete with industry," he noted.

Agents expressed a desire to train a new person rather than hire someone with a previous record of experience—unless, of course, he can bring those clients with him when he changes jobs. The exception would be those agencies in a highly specialized field.

For example, at the Financial Insurance Service Inc. in Des Plaines, Ill., president William C. Eickhof Jr. said because his agency specializes in placing commercial bank insurance, he needs people versed either in banking or insurance.

"We have to train them ourselves whether or not they have previous experience. We estimate it takes \$40,000 to train a person, even with experience. It costs even more if we have to train them in insurance as well," Mr. Eickhof said.

Mr. Schlotman has found that people with a previous unsuccessful experience are "rarely successful the second or third time around," due to an "intangible something."

At Panhandle, Mr. O'Keefe said people with insurance company experience are desirable but only if they haven't worked with a company too long, usually over three years.

"In several instances we hired a man with a company over three years and it just didn't work out,"

Mr. O'Keefe said. "It seems after a certain time period they think of an 8-to-5 job and the security they used to have."

What a person lacks in insurance ability when hired is supplemented through on-the-job training in conjunction with insurance company courses and industry courses such as those offered by the society of Chartered Property & Casualty Underwriters.

At the medium-sized Cincinnati agency, "basic training" consists of two years of insurance company training courses whereas at the Texas agency, on-the-job training consists of three to four years working in personal lines before moving into commercial lines. ■

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# Agency's four-year effort to cultivate association clients about to pay off

By SUSAN ALT

INDIANAPOLIS—Bill Garrity is genuinely proud of the progress he's made in the field of managing trade association insurance programs. In fact, he's at the threshold, he's convinced, of becoming a major agency because of the big dollars in group programs.

But it's taken him nearly four solid years to staff up and build the business. And he's still losing money at it. "This year we'll be in the black," says Mr. Garrity of the Association Program Managers division of his commercial insurance agency, Associated Insurance Managers Inc. The four year struggle to break even on this group commercial business "is on target," he

adds. "We had a building period that you just have to go through."

Mr. Garrity's agency operation is set up in a most complicated fashion. Beyond the two companies already named, there's yet another company by the name of Management Advisers, established to originate national trade association accounts and manage programs.

It's easier to understand the differences between the operations in terms of various types of association business handled by Mr. Garrity. He has essentially three phases of operations: seven Indiana state trade association mass merchandised accounts originated and managed solely by Association Program Managers; 30 association accounts

originated by firms such as Famex, Penn General, MMI, ARM and Royal-Globe and administered under contract in Indiana by Association Program Managers; and last, national association insurance accounts originated by Management Advisers on which is earned only a 1% to 2.5% override.

"You've got to gear up to handle association business," Mr. Garrity believes. "And you've got to handle it out of a separate office. That's where most people are going wrong; they think they can market and administer everything together as part of one operation, but you can't do it that way."

Association business is "keyed off completely different concepts and ideas" than regular commer-



Indiana Home Builders Assn. is one of Mr. Garrity's "large" accounts.

cial brokerage business, declared Mr. Garrity. "A program that has been endorsed by an association is your plus-factor. The association

has looked at the plan and decided that is the way to go for the members. Because of this, I can save money.

"We handle claims direct in many cases for our association clients. That is, we go directly to the company to settle claims. Also, most association plans are billed directly by the company . . . it's probably about half and half now but more underwriters are doing this. It's an extension of the direct writer concept, and my acquisition cost is greatly lowered."

Association Program Managers has five association clients which Mr. Garrity considers "large": Among those are the Indiana Home Builders Assn. with 2,700 members including 800 builders and the rest associate members, and the Bowling Proprietors Assn. with about 300 qualified members. His average size commercial account (members of associations) generates \$8,000 to \$10,000 a year in premiums.

Associated Insurance Managers (AIM) was established in 1964 and now has annual premium volume of \$3 million, about two-thirds commercial. In 1972, Mr. Garrity brought in Mel Matthews to handle the association business "because we started seeing the emergence of that business. After several troubled years, you started to see in 1972 the marketing concept of association plans coming back into its own with a greater need for specialized coverages. It was about a year and a half before we got Association Program Managers off the ground. We got the home builders in June 1972 and used that as a vehicle to get the association business going.

"In January 1974 we decided that the businesses had to be completely separate," Mr. Garrity recounts. "So we opened a separate office. At the end of this year we will hit \$2 million in statewide premium volume on Indiana associations."

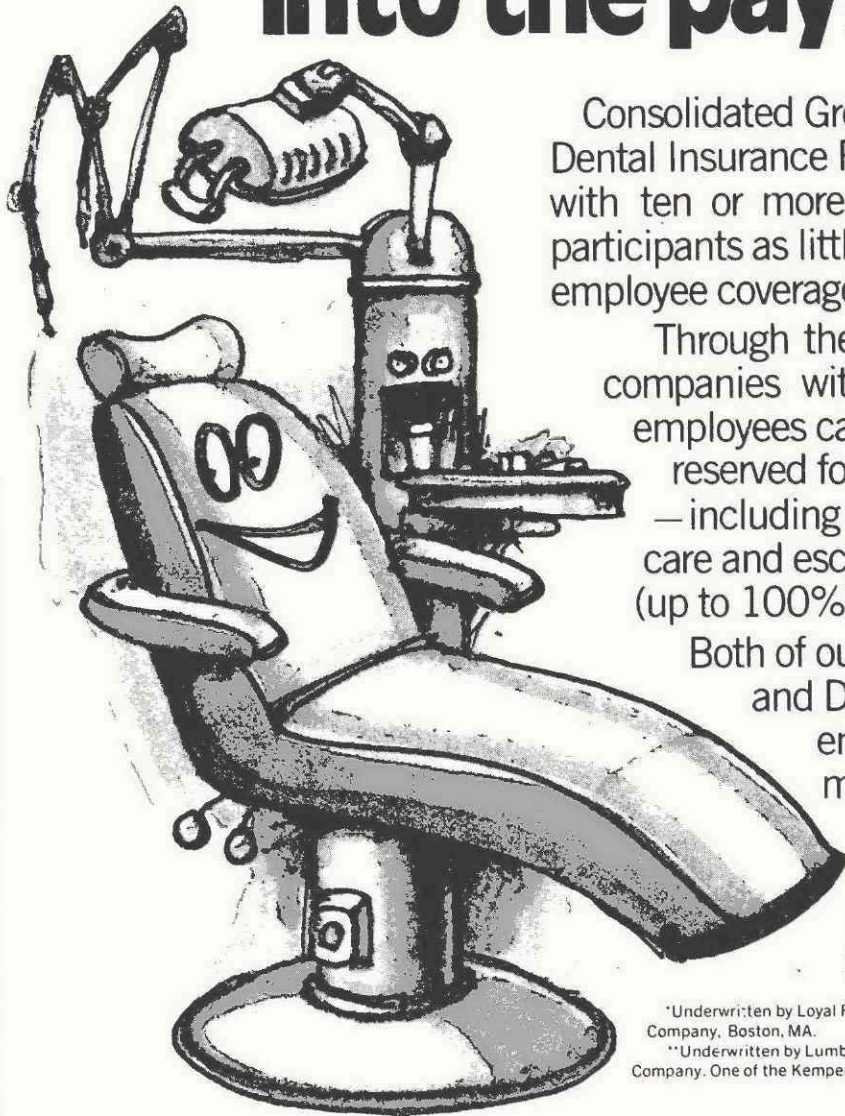
In addition to the \$5 million premium volume already accounted for, administration of national association programs is expected to amount to another \$8 million in premiums this year.

AIM has an employe roster of 20 people, and the newer Association Program Managers has six women and five men working on group mass marketed accounts.

"Our target goal is to come up with 15% of premiums as income, and we're gearing up for \$10 million to \$15 million a year in revenues. Right now, we're getting average commissions of right around 12%," said Mr. Garrity.

A major advantage of winning commercial association accounts is that the retention rate is very high in the association business, he noted. In the current insurance industry environment, it's more trouble keeping underwriters on the accounts. But if you can get insurers on the accounts, he said, "you just won't lose the accounts you have."

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This is attributable to a close working relationship built up between the broker and the members of the association, and the special policy forms which the broker often works out for such groups having special kinds of risks to insure. "When you handle associations, you get to know their businesses very well. You learn to bill them when their cash flow is best, perhaps seasonally, and you know their exposures and their most profitable kinds of operations.

"You make it a point to attend their meetings, their state conventions and to know their problems. For example, the fact that home builders don't have any money in the wintertime explains why we set up our programs and bill them starting July 1.

"We will actually work out special forms, say, for builder's risks and negotiate with the insurers involved to get the coverage accepted."

All of this contact and negotiation requires people, of course. And the people costs in Mr. Garrity's business are high. He figures that roughly 20% of commission dollars go into salaries for internal personnel who handle both marketing and service. Outside sales and underwriting people get another 40% of the commission dollars. Another 25% of the commission dollar goes to expenses including accounting, advertising, office costs and telephones. That's the ideal yardstick for cost allocation, which would leave the targeted 15% net profit. But since Mr. Garrity's business isn't in the black yet, obviously some costs have run higher than anticipated.

"The inside costs and outside costs (of personnel) have been higher as we've tried to build the business to the (premium) levels we want," he said. "Salaries for producers are the biggest single cost of doing business in this operation," explaining why he expects his producers to handle \$750,000 to \$1 million in annual premium business.

Travel expenses, which Mr. Garrity finds difficult to control, have

## Illinois issues temporary agent license

CHICAGO—The Illinois Department of Insurance still is not testing insurance agents but has resumed issuing temporary agents' licenses in the wake of a Sangamon County court's temporary injunction in August.

The injunction stopped payments to an independent testing agency, Educational Testing Service, after two downstate agencies filed suit claiming the method of payment violated state law. The plaintiffs are claiming that money paid to the testing service should be appropriated by the state legislature and not be paid directly from the insurance department as presently is done.

The temporary licenses, valid for 90 days, were ruled legal by the state attorney general, William Scott, this September. However, during the 90 days, the holder must take and pass an examination for the broker's licenses.

Persons who received the license in September will be unable to sell insurance after December unless the state can come up with a new method of test payments or the court rules the old method was, in fact, constitutional. Test fees are \$25, \$10 of which goes to the testing service.

So far, no court date has been set on the case. ■

been increasing substantially, as have phone costs. APM has turned to using more WATTS line to control those phone expenses.

Insurers have run into problems underwriting association insurance plans because "they've often violated a principal rule of homogeneity of risks" when setting up a new plan, declared Mel Matthews, director of the Association Program Managers operations. He acknowledged that APM has had a real problem keeping carriers on its program especially when Safeco pulled out of association plans on a major scale, along with the St. Paul Cos.' pullout.

Three of APM's seven state association accounts have had to replace insurers in the last year because of cancellations. Of the 30 national group accounts which Mr. Garrity's organization has contracts to service in the state or region, 10 have had a change in insurance carrier in the last year. Of

the four key Management Advisers accounts, only one had a change in carrier recently.

Mr. Garrity finds that more association members will now participate in group plans that are offered, a change from several years ago when insurance underwriters were highly competitive. "We don't have the shopping with association plans the way we did during the price war. Then, the only company that went into the association plan was the one that couldn't go out and shop for lower premium for a separate program."

The insurers used for state mass merchandised accounts include Bituminous Casualty Corp., Proprietors Insurance Co., Hartford Fire Insurance Co., American Druggists Insurance Co., Maryland Casualty Co., Royal-Globe Insurance Co., Great American Insurance Co., Providence Washington Insurance Co., Chubb & Son, and Security Insurance Co. of Hartford.

The most unusual of the four key accounts established by Mr. Garrity's Management Advisors is that insured by Emmco, a division of Gulf & Western for Sonitrol, a large central station alarm company based in Orlando.

Sonitrol has 125 franchises operating central station alarm businesses, and expects to have 300 franchisees by yearend. Mr. Garrity designed a special warranty program for these operations insuring them for losses in the event their alarms don't respond as promised. The insurance pays the first \$5,000 of loss by guaranteeing that the alarms will work as they are designed to.

"We're also designing product liability coverage and errors and omissions (E&O) coverage for them," said Mr. Garrity.

Mr. Garrity's other three national accounts include 300 members of the National Ornamental Metal & Iron Manufacturing Assn.

(NOMA) out of Atlanta, for which he "put together" the insurance program, underwritten by Fireman's Fund and serviced through its Famex division. Fireman's Fund and Famex also insures and handles the 600 members of the Council of Periodical Distributors Assn. (CPDA) out of New York. And Home Insurance Co. underwrites Mr. Garrity's program for the 5,200 schools and churches of the United Pentecostal Church out of St. Louis.

Bituminous is underwriter for the 2,700 members of the Home Builders Assn. of Indiana for all property and casualty coverages, while Fireman's Fund insures commercial packages, workers' compensation and group coverages for the 600 members of the Indiana Restaurant Assn. Hanover Insurance Co. insures commercial packages and workers' compensation for the 300 members of the Indiana Electronic Service Assn. under Mr. Garrity's plan. ■

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## COMMERCIAL LINES PROSPECTING:

# Necessary to focus on more sophisticated sales methods



By **GEORGE NORDHAUS**,  
President,  
Insurance Marketing Services  
Santa Monica, Ca.

PROSPECTING is an art. But prospecting is talked about by many, practiced effectively by relatively few.

As strange as it might seem to those in other businesses, most independent insurance agents and brokers do not have an active prospect list. The time-honored method of referrals as the basis for a marketing program does not call for active solicitation of a preselected group of prospective clients.

The more sophisticated insurance salespeople, however, spurred on by inroads into the commercial lines business by direct writing agents and companies, are now beginning to return to the basic principles of selling. The foremost of these principles is to have a prospect to whom the agency would like to sell.

Prior to the 1970s, commercial lines prospecting was a "guess and by-gosh" proposition. Although numerous sources for pros-

pects were available, either the insurance fraternity did not understand how to tap this information, or it felt that the effort was not worth the time and money expended. In the early 70s, however, a combination of competitive factors, better communications about sales methods successfully used by these aggressive marketing organizations (State Farm, Allstate, Employers of Wausau, Liberty Mutual, to name a few), and the entry of college graduates with marketing majors into the insurance industry re-focused the attention of the agent and broker towards more sophisticated sales methods.

A major sales and marketing tool which had seldom been used for that purpose was the computer. Computer technicians had focused only on insurance accounting and had ignored the area of insurance marketing. Within the past two years, computer personnel have begun to realize the vast potential of their hardware as an aid to marketing the insurance and risk management product. It is easy to predict that the computer will have a tremendous effect on prospecting (and marketing in general) in the years ahead.

Simply developing a list of those firms you would like to have as clients is not going to solve your marketing problems. Without an overall sales plan, designed with long and short range agency goals in mind, putting together a prospect list is futile.

This is not an article on marketing by objectives. To neglect to mention that a total sales and marketing plan (of which prospecting is only one step) is vital for the continued growth of any organization would not tell the entire story.

Someone in every firm has to be in charge. Without a sales manager (even if he or she must sell and

service business, too), the agency will not have an orderly and effective growth program.

Before developing a prospect list and taking the other steps necessary to developing a meaningful marketing program, a thorough understanding of what is to be accomplished must be shared by personnel in the agency. This means that all agency employees understand the importance of sales . . . and how necessary it is to create and update a list of prospective clients.

How many names you should have on your prospect list depends a lot on your agency and your total marketing plan.

Do you have a method of keeping in touch with prospects? Do you let them know that they are considered prospects for your agency, and then follow up via personal or written communication regularly? If you have established such a procedure, a good rule of thumb is to add as many prospects to the list as you can stay in touch with over a reasonable length of time (perhaps a year, or eighteen months at the most).

Until you determine certain demographic characteristics and other details about your prospect, and until you let him know he really is on your list of potential future customers, he is really only a suspect.

For commercial lines prospects, many agencies limit the number of firms on their list to the number they can call on person-to-person within a year's time. They reason that it is too costly to keep contacting prospects over greater lengths of time. These agents try to analyze the average number of new calls on prospects their sales people can see in a month, six months, or a year.

Other aggressive agents feel that the average commercial lines

salesperson can see 10 to 15 new prospects per month (in addition to servicing existing clients). Consequently, these agencies try to keep about 120 to 160 commercial lines prospects per salesperson on their prospect mailing lists at all times. This means that additional names have to be added, as prospects become customers or become non-prospects for one reason or another.

If this figure seems a bit high for your agency, don't use it. Any number of prospects you select is better than none. One of the most successful agencies we know uses a system of having each salesman use a prospect list of only ten commercial lines prospects. These "Top Ten" are given the full sales treatment by this agency's salespeople. They are seen or called almost every month. The prospects are discussed in agency sales meetings. Other salespeople in the agency give helpful sales suggestions to their counterparts. Peer pressure and competition on each agent's Top Ten keeps this agency's sales program interesting and challenging. Of course, when a name is removed from anyone's Top Ten, an additional prospect is put on the list.

Some of the major brokerage firms have even a smaller number of prospects. Of course, their prospects are usually much larger commercial establishments than those served by smaller agencies. It is not unusual for a Marsh & McLennan broker, for example, to have as few as four or five prospects on his active prospect list. He can then concentrate on that prospective client, learning as much about the prospect's business as possible, meeting the personnel and taking the other vital steps leading to a sale.

Probably the best number of prospects for most independent agencies is the number that will keep the agent and his salespeople a bit uncomfortable. The challenge of always having more prospects to call than time available to make the calls is the kind of fuel that motivates effective salespeople.

There are almost as many ways to find the names of commercial lines prospects as there are commercial lines agencies and brokerage firms.

City directories, civic club ros-

ters, Chamber of Commerce directories, telephone books, alumni lists . . . there is endless source material available to develop names and vital information on prospects.

Dun & Bradstreet, Standard & Poor's and Reuben Donnelley Corp., to name a few, offer all sorts of lists and directories giving vital information about commercial prospects. Your sales manager can make a quick trip to the business section of the library and get a list of all the directories available for lease . . . and the library probably has most of these directories on hand.

One directory every commercial lines agency should have is the state directory of manufacturers. Your state Department of Commerce publishes an annually updated directory containing information on all industrial firms in that state, including the company's product, number of employees, Standard Industrial Classification code, officials of that company, its capitalization and other key information.

Probably the best and most complete method of commercial lines prospecting is that offered by Dun & Bradstreet Inc. through their Dun's Market Identifier (DMI) program. Dun & Bradstreet has the largest computerized data bank of business organizations ever assembled. Some 3,500,000 firms have been analyzed. Over 2,400 D&B employees work to keep these lists as up-to-date as possible.

Information on the DMI cards can be ordered by zip code, by number of employees, by SIC code, by sales volume, and by other variables. The cards contain information on each firm, including SIC codes, line of business, sales volume, number of employees, year business started, name of chief executive, telephone number, and additional marketing information. The computer print-out accompanying the DMI cards contains marketing profiles listing all the companies received by SIC code, number of employees and much valuable information that will help the sales manager in outlining his marketing plan.

Many agencies have developed their own methods of prospecting, and a few bear mentioning.

Continued on page 30G

## Exercise 'more selectivity' writing banker's bond

By **JANET MROCZEK CORRADO**

DES PLAINES, IL.—Insurance companies have "tightened up the screws" on banker's blanket bond coverage, William C. Eickhof Jr. said.

That means his suburban Chicago agency, specialists in insuring commercial banks, have had to become more selective.

Mr. Eickhof, president of Financial Insurance Service Inc., said the application for banker's blanket bond insurance used to be two pages long and take a half an hour to fill out.

Now it is eight to 10 pages long and gets into "the nitty-gritty of bank operations."

"That means our people have to work harder," Mr. Eickhof said. They spend an entire day reviewing operations with a bank officer and conducting a physical review of the premises, which includes looking into teller's drawers for marked money, and a host of other security measures.

The increased time has "built up our expenses," he said, and now if one of the agency's representatives calls on a bank which does not have an annual CPA audit or absolutely conform to the National

Security Act of 1968 (two underwriting requirements of insurers) "he will walk away," Mr. Eickhof said.

And after a review, he added, the agency sends a four to five page letter to the bank, with a copy to the insurance company, outlining the bank's operations and recommending any corrective risk control procedures.

Financial Insurance Services Inc., takes in about \$10 million in premiums a year. Of that about \$1

million comes from banker's blanket bond and other operational coverages for banks.

The agency originated kidnap ransom insurance in 1972 and had an exclusive on the coverage with National Home on the condition that it would also act as a broker for the large national brokerage houses, such as Marsh & McLennan, Fred S. James, Frank B. Hall, and Johnson & Higgins, Mr. Eickhof claims.

Kidnap ransom insurance is

now written into banker's blanket bond, he said.

Financial Insurance Service Inc., and Scarborough & Co., Chicago, managing general agents for Employers of Wausau, are the only two specialists in bank coverage in the country "and perhaps the world," Mr. Eickhof said.

He said that he and six other principals of the agency left Scarborough & Co. and started Financial Insurance Service in February

of 1969.

Financial Insurance Service is probably the biggest writer in the country of single-interest insurance, Mr. Eickhof believes, which covers the bank's interest in autos with outstanding loans against physical damage whether or not the customer carries his own insurance.

About \$3.5 million to \$4 million a year in premiums is realized from single-interest insurance, he

Continued on page 30G



Financial insurance services requires an applicant for banker's blanket coverage to undergo a physical review of the bank's premises.

## Banker's blanket bond coverage . . .

Continued from page 30F said, placed about evenly with National Union and Zurich.

"Auto physical damage experience has been so catastrophic that many companies have pulled out," Mr. Eickhof said, "but we've been able to keep our companies by paying attention to loss ratios."

The agency has its own computer to keep track of loss experi-

ence in single interest coverage, which is a sophisticated market, he said, and for 1976 the loss ratio is running under 50%. The agency also has claims paying authority for the line, and works hard to maintain what Mr. Eickhof describes as "a fine reputation for claims handling."

Financial Insurance Service also handles credit life and accident and health insurance for installment loan departments, and offers data processing coverage whether the bank is a user or supplier, which includes dishonesty, loss in transit, legal liability, and damage to equipment.

About \$1 million in premium income a year comes from directors and officers liability and pension trust liability coverages. Both markets have bloomed in recent years, Mr. Eickhof said.

About 75% of the banks now carry directors' and officers' liability insurance, which is a big jump from a couple of years ago, he said. Pension trust liability coverage became important with the Employee Retirement Income Security Act of 1974 which broadened the definition of, and placed personal liability on, fiduciaries.

Crum & Forster and National Union are the underwriters for the agency's directors' and officers' liability business.

Financial Insurance Service is also the administrator for the employee benefits program of the Banks of Illinois Insurance Trust, which was set up when a split took place in the Illinois Bankers Assn. so that all banks in the state could be eligible for the program.

Prudential underwrites the cov-

erages, which include hospitalization, major medical, life, salary continuance, and a pension plan, for the approximate 400 Illinois banks in the program with over 7,000 lives involved.

The agency has claims paying authority for the program and is paid on a fee basis account for about \$3.5 million to \$4 million a year in volume.

The agency also works on a fee basis to survey a bank's insurance program, which costs about \$1,500 for a moderate size bank, Mr. Eickhof said, reduced if the bank then buys insurance from the firm.

Financial Insurance Service has 1,500 client banks in 22 states for which it handles primarily operational coverages but also employee benefits. The agency's carriers for banker's blanket bond are Hartford, INA, St. Paul Cos. and Continental Cos.

The agency has 40 employees, 15 outside producers or market representatives, and 85% to 90% of its

business is developed by making calls on banks, Mr. Eickhof said.

"Our specialization, and the sophistication of our people sells our product," he said. "Availability and knowledge of the field convinces banks to come with us." ■

## Increases capital

Directors of Mentor Insurance Ltd., based in Hamilton, Bermuda, said that effective Sept. 1 the authorized and issued share capital of the money was increased to \$5 million from the previous issued capital of \$950,000. The increase is in keeping with Mentor's objective of improving its security standing, by increasing its present capital and surplus to approximately \$16.8 million. The insurer's current earned premium to surplus ratio is 0.7 to one. Mentor, a subsidiary of Ocean Drilling & Exploration Co. (ODECO), has a subsidiary Mentor Insurance Co. (U.K.) Ltd. in the London market.

## Prospect . . .

Continued from page 30F

One Atlanta agency has five sales people. Each of these agents has a dictation unit in his or her car. Each is charged with developing 15 new prospects a month. As the salesperson travels about the city and sees a new building being erected, a renovation taking place, an old building torn down or other activity, he dictates the name and location into the recorder. Each week the sales manager of this agency coordinates the names of these prospects into the agency's master prospect list.

On an organized basis, asking for referrals is a obvious method of prospecting utilized by some productive agencies. Satisfied commercial lines customers are asked for names of four or five of their business friends to whom they would be willing to recommend the agency. A letter is then written, with the permission of the satisfied client, on the client's stationery to these referrals. Naturally the prospect names are then added to the agency prospect list . . . and follow-up calls are made.

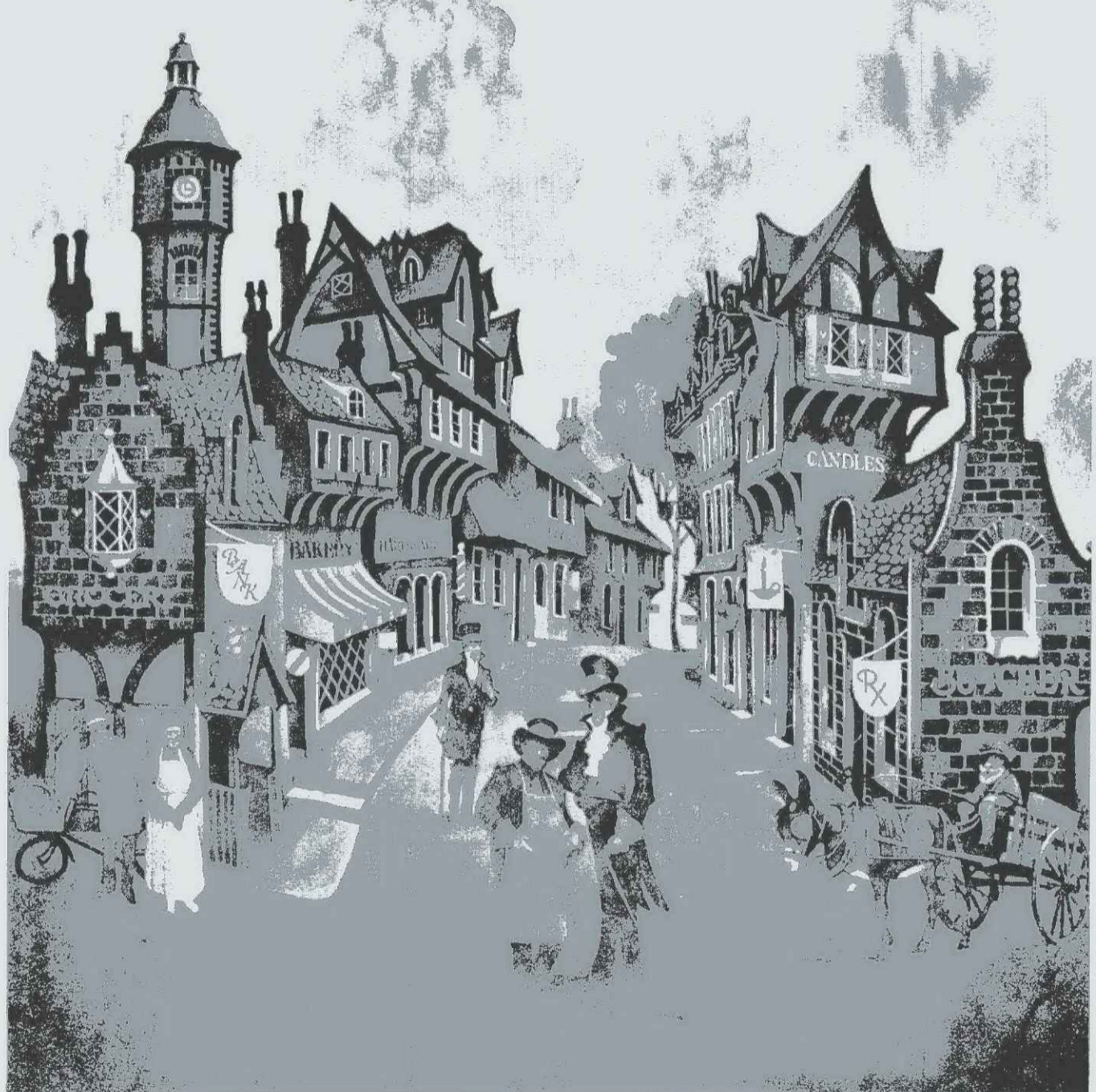
Most aggressive agencies list their commercial lines prospects by expiration date as well as by alphabetized name. Even for commercial lines, the buyer is more inclined to be thinking of his insurance coverage at the time his present coverage expires. A call sixty or ninety days prior to that date has been proven to be more effective than at mid-term.

Yet most agents do not look upon their present clients as potential customers. They set up an annual review only, sometimes not even that, on smaller commercial establishments. They ignore the fact that there is normally \$1 of "Class 2" business—life, health, pension, profit-sharing—for every \$1 of property and casualty coverage.

Well-run agencies usually establish some sort of guideline for reviewing commercial lines accounts. An annual review for accounts developing less than \$250 of commissions and fees, a semi-annual review for those developing commissions of up to \$500, and a quarterly review of customers developing over \$500 in agency income, for example, is the system used by several aggressive agencies. This method, coupled with the "one-shop shopping center", full-service agency approach, can be the best method of prospecting an agency can use. ■

Mr. Nordhaus is founder and president of Insurers Press Inc. and Insurance Marketing Services, both of Santa Monica. He's served as managers of several insurance agent associations, written two books on insurance agency advertising and public relations, and has done consulting for insurance underwriters and agents around the country. Inquiries about Mr. Nordhaus's newest book, *Marketing Property and Casualty Insurance*, should be addressed to 1323 Lincoln Blvd., Santa Monica, Ca. 90401. Mr. Nordhaus is an underwriting member of Lloyd's.

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# ARM agencies are able to compete successfully with the large brokers

By MARGARET LeROUX

ROCKVILLE, MD.—Mass market programs on a statewide basis have made Associated Risk Management (ARM) a potent force in independent agencies' competition with the large brokers, Joseph W. Bow, treasurer of ARM International said in an interview.

"Mass marketing has failed where it's tried to do business on a nationwide basis; national programs lack control and market penetration," Mr. Bow said.

Conversely, ARM groups, associations of independent insurance agents on state and regional basis, offer better service of association group programs because of their thorough coverage of a given area,

Mr. Bow explained.

There are 25 member units of ARM International, representing more than 400 agencies throughout the U.S. with total premium volume of \$1 billion.

Most ARM agencies are small, although their premium volumes range from \$500,000 to more than \$10 million. ARM groups design, market, sell and service group property/casualty programs and related financial services.

"Each state group has its own approach and bylaws," Mr. Bow said. "There's no need for every state or every program to do things exactly the same."

For ARM members, the association offers services ranging from

seminars on agency management to arrangements with appraisal companies. In Michigan the ARM group established a premium financing company for its members.

ARM International operates as coordinator of member groups, the treasurer pointed out. "We share market analyses among member groups and in a day of tight market situations, it can give an agent an edge on the competition."

When one ARM group markets an association program, ARM International sends out information on the program to other member groups, Mr. Bow said. "It helps members to know where the good markets to approach are. It saves them from chasing down 20 different markets when they want a

specific one."

Another program ARM International is exploring for member groups is the administration of 501(c)(9) trusts.

"We're sort of a mutual aid society," Mr. Bow said. "We get together people not in competition with each other."

The Wisconsin ARM group, for example, has 15 marketing territories, noted Rod DenBor, executive director. "We can effectively compete with the big national brokers for association programs," he explained, "because we have offices throughout the state."

"Marsh & McLennan has offices only in Milwaukee and Appleton, and Alexander & Alexander has an office only in Green Bay. They're not going to send an agent across the state to call on a single member of an association," Mr. DenBor said.

The Wisconsin ARM group writes a program for 310 members

of the Retail Gasoline Dealers Assn. generating a billing of \$57,-000 per month.

"We offer a business package, group life and health, disability and retirement," the director said.

The Wisconsin Food Dealers Assn. recently endorsed the Wisconsin ARM group for a business package, health, life and disability coverage for its smaller stores.

"With the present market situation, we're having difficulty finding markets for insurance to cover larger supermarkets," Mr. DenBor said.

The Chesapeake ARM group and the Ohio ARM group are marketing directors' and officers' liability programs underwritten by MGIC Investment Corp. for banks.

Mass marketing has yet to become profitable for most of the ARM groups, Mr. Bow acknowledged. "Only three or four of the groups are profitable in dollars and cents," he said. "It takes three or four years for this type of program to become profitable."

However, even where ARM groups aren't presently making money, members are glad to pay dues (\$500 to join, which includes stock in the ARM Assn. and \$75 per month) because of the market information and education programs offered them, he added.

"We're looking for expansion oriented agents who have a CPCU (Chartered Property and Casualty Underwriter) in the agency," Mr. Bow said. "We want an agency with the proper staff to sell and service association programs." ■

## Wholesale insurance facility set up

SAN DIEGO—A group of executives from John Burnham & Co. formed Beech Street Insurance Services, a wholesale insurance facility which will operate through agents and brokers throughout Orange, Imperial and San Diego Counties, and in Arizona.

One of the divisions of Beech Street Insurance Services, under the direction of Sam Hartman, will offer special programs and administration of self-insurance, pre-paid medical and dental plans. Mr. Hartman has a background in the administration of health services and in the development of computerized health examinations.

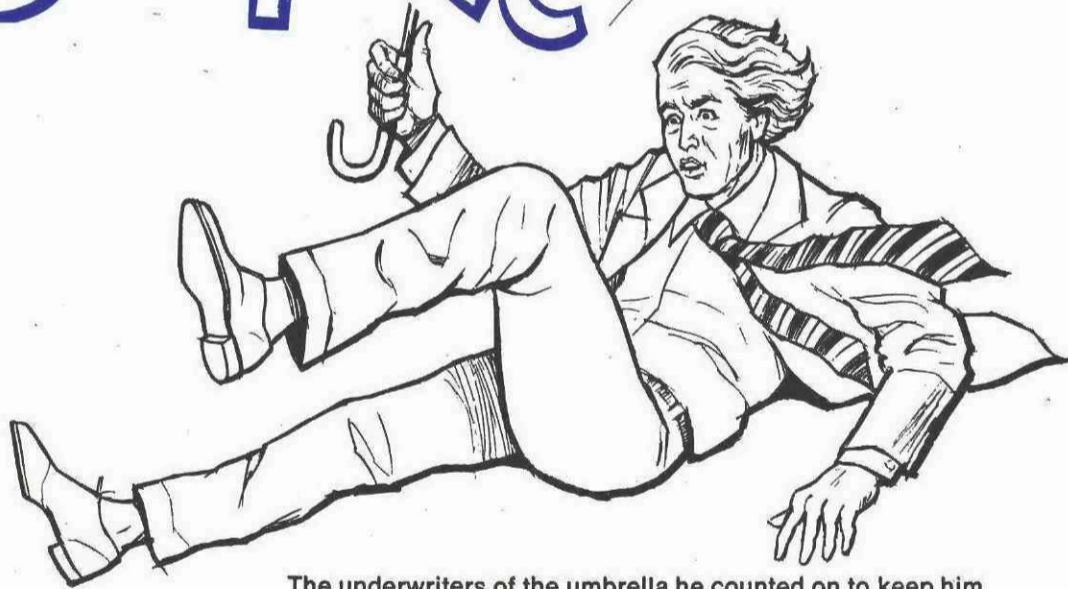
William S. Custer will manage a separate division, Beech Street Surplus Lines Insurance, which will handle sales through independent agents and brokers, drawing upon worldwide connections in marketing surplus lines and special risk coverages. He will offer property and casualty insurance not normally provided by domestic insurance companies.

At the same time, Roy E. Erwin, executive vp of Burnham Co., announced the acquisition of the self-insurance administration facilities of Swett & Crawford, the oldest and largest operation of its kind in Arizona.

Robert L. Kley, former director of the Industrial Commission for the State of Arizona, and vp of Swett & Crawford since 1974, will head up the successor firm, Burnham of Arizona. Present self-insurance operations will be expanded to include the other Beech Street Insurance Services throughout Arizona.

Other principals in Burnham of Arizona and Beech Street Insurance Services are: Mr. Erwin, chairman; Henry Harriman, president; Louis J. Garday, CPA, secretary-treasurer; and Malin Burnham and Bruce Morrice, directors. ■

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# Pru Re decides to underwrite bigger piece of OPIC's international pool

By PAUL R. MERRION

WASHINGTON—Prudential Reinsurance Co. is planning to significantly increase its participation in the insurance pool of the Overseas Private Investment Corp. next year, an OPIC official told *Business Insurance*.

OPIC is currently engaged in a drive to increase participation by private insurers and reinsurers, both foreign and domestic, in a \$40 million pool called the Overseas Investment Insurance Group (OIIG).

Pru Re has made a commitment to increase its already larger-than-average participation of \$300,000 by 50%, bringing it to \$450,000 for fiscal year 1977, according to Robert Svensk, manager of private programs for OPIC.

Pru Re also indicated that it may boost its participation even further—depending on the insurance industry's response to OPIC's recruitment efforts—up to a maximum of \$800,000, Mr. Svensk said.

Seventeen private insurance companies currently subscribe \$7.8 million of the \$40 million pool, with OPIC taking up the balance as well as handling reinsurance for the pool.

Lloyd's of London has a \$4 million chunk of the risk, and Zurich Insurance Co. has \$1 million, leaving \$2.8 million to be spread among 15 companies.

Private participation in fiscal year 1976 fell short of OPIC's \$10 million goal, but participation next year is expected to increase 20% to 30%, according to Milliard A. Zola, OPIC vp for insurance. "There's good indication that private companies will be more receptive this year," he said.

OPIC held a meeting earlier this year to discuss the need for more participation by the private insurance industry. At that meeting, several speakers, including a representative of Lloyd's of London, were skeptical about the likelihood of significant new or increased participation (*Business Insurance*, May 3).

With multinational corporations under increasing scrutiny by Congress, the future of OPIC as a primary insurer of the political risks of investing abroad is also being questioned. A deadline of yearend 1980 has been set by Congress for OPIC to turn over all of its insurance functions to the private sector.

The drive for more participation by the private insurance industry can be seen as being, in part, a response to this pressure from Capitol Hill to get the government out of the insurance business, especially when the insureds are large multinational corporations.

OIIG, the OPIC insurance pool, provides coverage against the political risks of expropriation and

currency inconvertibility. The pool now provides coverage for some two-thirds of all new non-petroleum investments in about 30 countries, according to OPIC.

OIIG operates as a combined underwriting and reinsurance pool which issues new coverage and reinsures a portion of the risks in OPIC's existing expropriation and currency inconvertibility portfolios.

Net written premiums for the first three quarters of fiscal year 1976 amounted to \$12.4 million and the OIIG posted a combined ratio of 33% for the nine-month period, according to OPIC.

OPIC officials are currently meeting with the senior executives of about 35 to 40 "target" compa-

nies, Mr. Zola said. An initial participation of 1% of the pool, or \$400,000, is being recommended.

OPIC has been striving to improve its image among the insurance industry this year. Prospective participants in the pool are getting a look at OPIC's books as well as being briefed on OPIC's management philosophy in order to convince them of the soundness of the venture.

"We're getting greater acceptance this year," Mr. Zola said. "We've changed the nature of the nature of the policy and our underwriting philosophy to be more consonant with what the traditional insurance industry does."

The recruitment and increased participation drive is being directed

primarily at American companies to keep the insurance pool balanced between foreign and domestic parties, he said.

"There is all the foreign capacity you could want," the OPIC vp for insurance said. "A good marketing effort on the Continent would probably fill the \$40 million pool."

OPIC is trying to keep the participation of foreign insurers down to a ratio of 2:1 against the domestic insurers so that with the participation of OPIC in the pool, the domestic share would exceed the foreign share, Mr. Zola said.

Besides the possibility of making a profit in the OPIC insurance pool, Mr. Zola said there are "intangible benefits" for participants.

Private insurers who subscribe to the pool get a chance to watch a government agency at Work and to meet government officials, he said, in addition to getting a "feeling for participation in the international investment community."

Under its constitution, the OIIG's operating policy is determined by a 12 member board of governors, six of whom represent the private insurers with the remainder representing OPIC. During the first two years of operation, the board has been chaired by the St. Paul Fire & Marine Insurance Co.

Private insurance companies who have participated in the OIIG include: Aetna Insurance Co., American Mutual Reinsurance Co., American Reinsurance Co., American Universal Insurance Co., Bellefonte Insurance Co., Employers Mutual Liability Insurance Co., INA Reinsurance Co., Interstate National Corp., Lloyd's of London, Lumbermen's Mutual Insurance Co., Michigan Mutual Insurance Group, Pennsylvania National Mutual Casualty Insurance Co., Prudential Reinsurance Co., St. Paul Fire and Marine Insurance Co., Sentry Insurance Co., Transatlantic Reinsurance Co., and Zurich Insurance Co.

## WHAT BERNARD DAENZER SAID ABOUT RISK MANAGEMENT.

"There is nothing more embarrassing to a risk manager than to build a whole program of insurance and then to discover that it went all wrong because it was built on an improper assumption of facts or on inadequate information. If he really wants to break down this whole idea of the 'insurance survey' or 'financial management of a risk,' or whatever term he uses for his approach to the problem of risk, he must start with an analysis of the three basic functions: (1) risk detection, (2) analysis and evaluation, and (3) decision making.

"The biggest problem is definitely in risk detection, the basic fact-finding procedure."

(Bernard John Daenzer. From his book "Fact-Finding Techniques in Risk Analysis." ©1970 by American Management Association, Inc.)

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## CPCU elects new officers

CHICAGO—The Society of Chartered Property and Casualty Underwriters (CPCU) elected John D. Phelan, chairman of boards, American States Insurance Cos., Indianapolis, In., president at its 32nd annual meeting here.

Other elected officers include: Robert C. Nevins, managing partner, Dinner Levison Co., San Francisco, president elect; Edwin J. Sealy, president, Davis & Dissette Inc., Cleveland, vp; Burt C. Proom, of NEL-PIA, secretary.

# Alexander forms centralized risk services group

By MARIE KRAKOWIECKI

NEW YORK—Alexander & Alexander Inc. formed a new risk management services group by combining Anistics, its analytical statistics division, with its self-insurance and captive management services.

For corporate clients, this means A&A's risk consulting will be put on a national level and will be more coordinated and complete, but will not affect the cost of services, the head of the new group said.

Robert A. Gielow, senior vp and regional director for the Midwest, is directing the operations for the new Risk Analysis and Management Group from his home base in Chicago.

During a visit this month to A&A's corporate headquarters in

New York and where Anistics is based, Mr. Gielow told *Business Insurance* he anticipates the new risk management group will be in full swing by about the first of the year.

**A&A decided** in July to make the changes. Mr. Gielow said A&A had been considering the formation of a coordinated risk management group since before mid-1975, but partially because of its regional approach to corporate accounts, had been somewhat slow in implementing the idea.

He admitted that competitor Marsh & McLennan's recent success with its technical services division had "crystallized" A&A's resolves to move ahead with its risk management group. But he said the need for such a service had developed swiftly, and that

he felt both firms were responding to the same type of client needs in their separate ways.

Mr. Gielow denied a rumor to the effect that the president and founder of Anistics, Joseph Destein, was being "bumped" down in A&A's organization as a result of the new risk management group. "Joe Destein was and is president of Anistics, and I would dispel any thought that he is getting 'bumped,'" Mr. Gielow said.

"He is still responsible for Anistics, and that is the rock on which this whole operation is based. He's got a major challenge as a result and his importance, if anything, has been increased."

Although Mr. Gielow initially characterized the formation of the new risk management group primarily as a marketing move, he described a number of elements

involved with it which could impact on the kinds of services corporate clients can expect to receive from A&A.

Anistics, for instance, has developed a scoping study which the new risk management group will conduct ("for a modest fee") to determine if a company is big enough to effectively use such alternatives to conventional insurance as higher deductibles, self-retention of risk, or captive insurance companies.

**The whole area** of captive management is one Mr. Gielow hopes the new operation can aggressively pursue. One of the three divisions making up the new group is the Bermuda-based Alexander International Ltd., which currently manages about 20 captives.

One of Risk Analysis and Man-

agement Group's major goals will be to increase A&A's edge in the captive management field, bringing it closer to the level of competitors like American Risk Management (60 captives), American International Co. Ltd. (40 captives), Johnson & Higgins (35 captives), and Marsh & McLennan (34 captives).

A&A has greatly expanded its concern with risk management counseling for its clients, Mr. Gielow said, and as a part of its sharpened interest, the brokerage firm will probably try to hire a few top corporate risk managers away from their companies.

All told, the three units comprising the new risk management group will have about 75 staffers when fully underway. In addition, Anistics will be acquiring its own computer capability instead of operating under a time-sharing arrangement using terminals.

**In October**, A&A was still working on its official announcement of the formation of the new risk group, but had not released the statement. Part of the announcement quoted Mr. Gielow as explaining: "I think it's important to note that the Risk Analysis and Management Group will not offer a fixed set of services to be selected separately by the client.

"It's not a packaged program or one based on broad generalities and assumptions. Instead, the group will lend itself to an overall process which includes risk identification and analysis and risk management consulting in all its forms."

When a copy of the still-unreleased announcement was obtained, its references to A&A's intended expansion into risk identification—one of the basic functions of the corporate risk manager—raised some question about whether A&A's new group might be receptive to the kind of arrangement that developed at Fairchild Camera & Instrument Corp. last year.

In an admittedly unusual arrangement, the San Francisco office of Marsh & McLennan installed two of its own employees to act as Fairchild's risk manager and assistant risk manager (*BI*, Oct. 6, 1975).

Mr. Gielow stated unequivocally that he does not foresee the new A&A risk management group heading in that direction. A&A would not attempt to replace the internal corporate risk management function with a broker service as at Fairchild by its emphasis on identification of risk.

**Rather**, A&A plans to offer an expanded counseling service to its clients and provide a statistical analytical base from which the corporate risk manager can make his own decision on ways to identify, analyze, and fund risks, the executive stated.

The difference in the services the corporate risk manager will be getting under the new set-up is that all the services will be offered as a coordinated body rather than in piecemeal fashion.

Costs should not change appreciably, Mr. Gielow said. While there might be some different fees to reflect changes in the statistical services themselves, he added, the cost-plus basis of the firm's self-insurance and captive management services will remain the same.

If a client for some reason still prefers to buy the services separately, A&A will accommodate the request on a fee-for-service basis, he noted.

"We are perfectly willing to talk to any client about using any part of our services, but we would

*Continued on page 33*

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# Agents/brokers in mass merchandise group get packaged E&O insurance

CHICAGO—After several months of searching for an underwriter, the Professional Independent Mass Marketing Administrators (PIMA) lined up Shand, Morahan & Co. of Evanston to underwrite errors and omissions insurance for many of its agents and broker members.

"Unfortunately, because of the changing nature of the market place there has been a severe reduction in the number of insurance companies willing to underwrite this type of coverage," said PIMA of its arduous search.

Close to 50 of PIMA's 100 member firms initially expressed interest in buying the E&O coverage through the association, representing a premium potential for Shand, Morahan of \$250,000.

Shand, Morahan acts as managing underwriter for Mutual Fire, Marine & Inland Insurance Co. based in Philadelphia. The coverage will specifically include all administrative functions which PIMA members normally provide, including billing and collecting of premiums and claims payments.

PIMA approached over a dozen different insurers to obtain insurance for its members, said Robert L. Morris, executive director of the association. Since the larger members of PIMA are experiencing the most difficulty obtaining E&O insurance for their own operations, he expects that there will be about \$250,000 a year in premiums generated "eventually."

Larger members of PIMA gen-

erally bill \$50 million to \$60 million a year in mass marketed premiums, Mr. Norris said, noting that one member experienced a jump in annual premiums for his own E&O coverage to \$36,000 a year from \$10,000 a year, upon renewal.

"Our rates under this program aren't the lowest, but the coverage is better," Mr. Norris said. Some policies written for agents don't cover billing, collection of

premiums or claims payments by program administrators, but the Shand, Morahan program covers all of these exposures, he added.

Rates depend on the risk and premium billing volume of the PIMA member applying for coverage, although the minimum premium is \$1,000 a year for coverage of \$100,000 single limit with a \$1,000 deductible. Maximum limits available are \$5 million single limit, with higher deductibles of \$2,500

or \$5,000 applied if a firm wants the higher limits. Some PIMA members have already signed on for still higher deductibles of \$10,000 and \$25,000 per occurrence, Mr. Norris said, in order to get the available premium savings.

Conversations with PIMA members and sources close to the mass marketing business indicated that interest was generated in the PIMA group program because markets for E&O coverage for agents and brokers had tightened significantly in recent months.

Northwestern National Insurance Co. was reportedly pulling out of the markets, and had sent notices of nonrenewal of policies to at least five of the association member

firms. Interstate Fire & Casualty Insurance Co. was taking no new applications but was said to be retaining the policyholders already on the books.

Fireman's Fund Insurance Cos., which underwrites the group insurance program for agents who are members of the National Assn. of Life Underwriters, is said to have asked PIMA for a minimum annual premium of \$500,000.

Cal-Union Insurance Co. was known to be sending out nonrenewal notices to agents for E&O insurance, while St. Paul Fire & Marine Insurance Co. was renewing, but at double or triple the previous year's premiums. ■

The Spirit of Independence

The Surveyor

## A&A . . .

Continued from page 32  
strongly recommend a study be done by the Anistics group," Mr. Gielow said.

Even though Anistics, Alexis, and Alexander International Ltd. are forming the nucleus of the new Risk Analysis and Management Group, they will continue to retain their distinct identities.

Mr. Gielow said that under his direction the risk group's specialists from disciplines including computer sciences, physics, nuclear technology, finance, industrial safety, engineering and claims would combine their efforts in a problem-solving approach which A&A expects will differ widely from one corporate client to the next.

It is this problem-solving approach he sees as the basis of the new group's service. He also thinks it is what's needed to fill the gap some insurance companies left for their clients when the insurers ran into surplus problems in recent years.

"For many years people seemed to feel this kind of service competed with what insurance companies should offer their clients. I don't think it so much usurps this service as much as it fills a place the insurance companies have abdicated," Mr. Gielow said.

As far as priorities A&A would set up within the new risk management group, the biggest one seems to be simply to win more corporate accounts by luring them with the promise of improved service.

"We are not too interested in establishing priorities ourselves as offering a program for clients which will help them set up their own priorities," Mr. Gielow said.

"This is not being thrown in as a service after A&A wins a big national account; it is being offered as a way we can win those big accounts in the first place." ■



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# Rand Corp. study reveals there's no benefit from preventive care

CHICAGO—Tentative findings of a Rand Corp. economist show that preventive medical care has "no beneficial effect" on health status of patients and that coverage for ambulatory care can actually increase hospital utilization.

Charles E. Phelps, senior research economist with The Rand Corp. in Santa Monica, Ca., said that co-insurance reduces the demand for health care slightly while deductibles in health care insurance "have been observed to reduce medical care by significant amounts, the effect becoming stronger as the deductible's size increases."

Mr. Phelps told a Blue Shield plan conference on health care costs this month that a 20% co-insurance plan for example, would result in about a 30% decrease in demand for care over plans with no copayments for physician ambulatory care, but there would be only a 10% reduction in hospital use.

Deductibles can affect decisions on whether to hospitalize a patient but it has "almost no effect" on decisions concerning length of hospital stays or use of services.

The economist claims that co-insurance and deductibles do not deter people from seeking preventive care which had been thought to increase medical care costs. Instead, Mr. Phelps cited a Kansas Blue Cross study that showed extending coverage to ambulatory care increased the amount of hospitalization not decrease it.

He said if there is still concern about denying preventive care, different deductibles for different income classes can be used in the insurance plans.

When the deductibles are removed, hospital care stays are not reduced possibly because of inefficient screening; doctors ignoring

the screening or patients not complying with initial findings.

"Data from both prepaid group practice plans and from the military also suggest that much of what is commonly described as 'preventive medical care' has no beneficial effect on health status, and certainly is not justified on cost-benefit considerations," Mr. Phelps said.

The Rand Corp. has begun an experiment on 2000 families enrolled in health insurance plans set up by Rand to find the effects of insurance plans on health status and cost savings. The study is scheduled to last three to five years; preliminary findings won't be ready for another 15 months.

Citing what he calls "sketchy" data, Mr. Phelps notes that persons with full coverage hospital insurance use one-and-one half to two times as many hospital days as uninsured persons. Persons with full outpatient coverage use "substantially" more than twice as much service as the uninsured and any move to full coverage by the public would cause "substantial increases in demand for physician services."

Persons insured for dental and prescription insurance coverage use twice as much of those services as those without insurance.

Mr. Phelps says that people want copayment plans with lower premiums and are willing to pay deductibles or coinsurance in exchange for high coverage limits

and major-risk protection.

According to both Charles Phelps and Karen Davis, another economist and a senior fellow at the Brookings Institute, the health care cost boom is the result of distortion in the economic pricing mechanism.

Because health insurance is subsidizing medical care, "the possibility exists that consumers may be induced by their insurance to consume too much medical care."

"Health insurance has destroyed the general market structure. It removes the conflict between buyer and seller when care is prepaid," Mr. Phelps said.

Ms. Davis called for a moderate national health insurance bill because she "does not see any way to get an effective method of controlling costs." Under her plan, the government would subsidize insurance coverage and health care services would be reorganized to "try to keep people out of hospitals rather than reducing stays."

Also, unified reimbursement handled through the government would be a major part of her insurance program, with doctors' fees negotiated with the government. Other controls she said would help keep down costs under a national health insurance program were: Lower charges for ambulatory care than hospital care; promote primary care practice rather than specialization; penalize duplicated hospital capital equipment; and create more ambulatory centers.

In answer to several charges that her proposals were socialist, Ms. Davis said, "The situation is unique. One person's actions and choice in kind of insurance they buy affects all the rest of us because it is insurance that is dragging health costs up."

Dr. Alan Sheldon, of the Harvard School of Public Health, added, "Once we had private armies, now we have public armies—is that socialism?"

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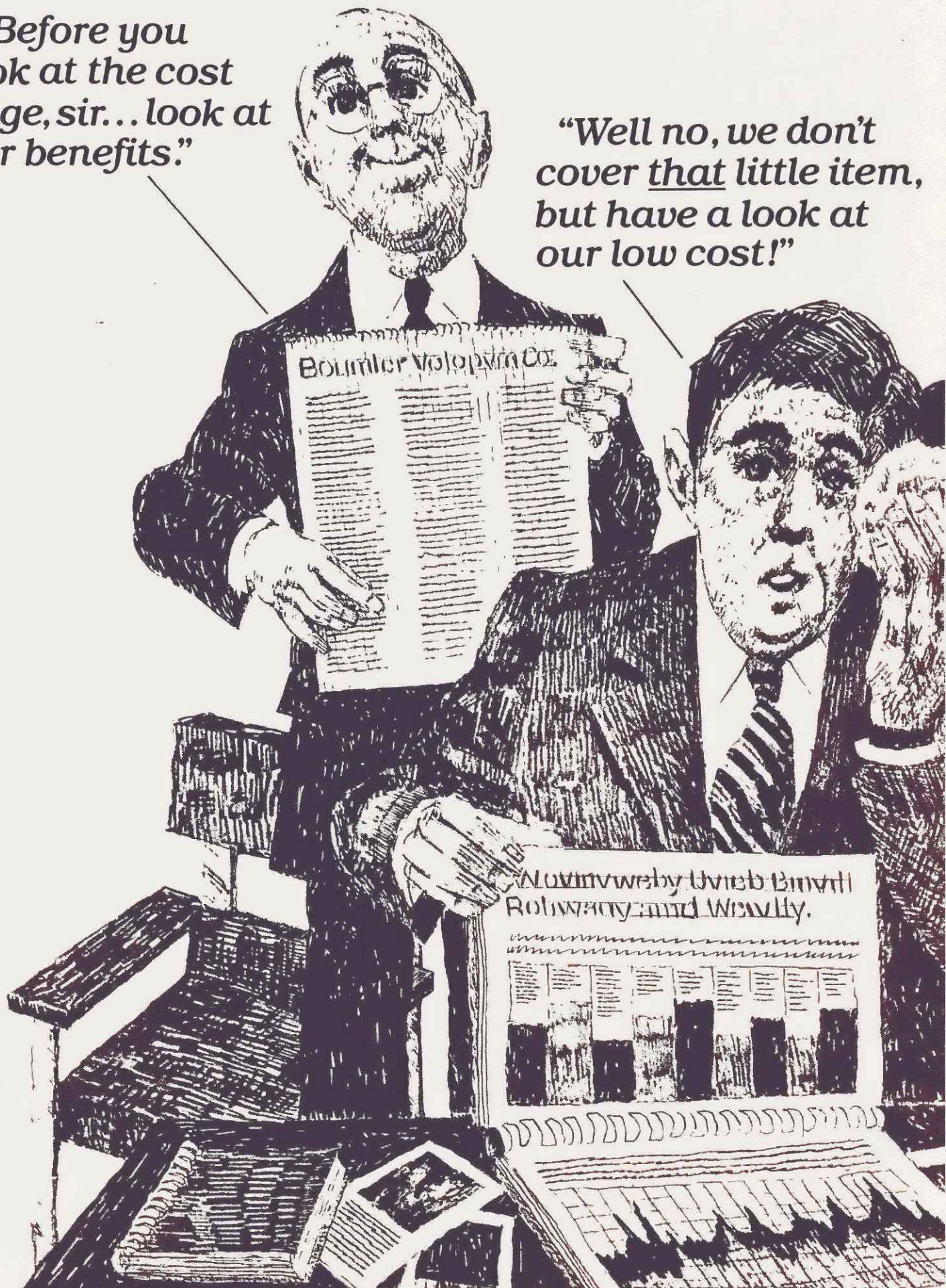
## Hits insurers for illegal bank deals

INDIANAPOLIS—The Insurance Department of Indiana said some insurance companies, mainly those engaged in writing credit life and accident and health business, are maintaining deposits in banks with which they do business at no interest, or at interest rates substantially less than competitive rates.

When an insurance company places funds on deposit in a bank with whom it does business at less than competitive interest rates, the additional income the bank receives for use of those funds, represented by the difference between what interest is paid on the account and what the bank would normally pay in interest on such an account, constitutes additional compensation to that bank by the insurance company, the Insurance Commissioner said.

The department has specific regulations on the compensation and commissions an insurance company can pay on credit insurance business. For an insurance company to engage in depositing non-interest bearing funds in banks in order to secure or maintain the bank's credit business is a form of compensation to that bank that is illegal in Indiana, H. P. Hudson, insurance commissioner, charged.

He directed all insurers doing business in Indiana that have deposits of the above nature to cease such practices immediately.



# Boeing jogs to success with its exercise programs

By JANE WINEBRENNER

CHICAGO—One of the more unusual aspects of preventive medicine in industry is the sight of middle-aged men exercising in cafeterias and running back and forth along company fire lanes in their gym shorts.

It happens daily at Boeing Corp. in Seattle, where 120 blue collar and white collar workers participate in a program to examine employee-patients and prescribe exercise before heart disease begins.

Its director, Dr. Manuel Cooper, chief of preventive medicine in the Boeing medical department, outlined the successes and limitations of the program at the Blue Shield annual conference on health care costs held here. He said \$800 million is now spent yearly on surgical repair and coronary diseases. The

figure may rise to \$2 or \$3 billion in the future if the trend is not changed.

The success is that despite an increase in the average age of Boeing workers to 47 years, coupled with increases in stress, Boeing's mortality rate has decreased from 376 per 100,000 to 241 per 100,00 in 1975.

"An efficient and well-staffed industrial medical department, given a strong mission in preventive medicine, and the respect of the community," Dr. Cooper said, "may become a powerful force in cost containment by effective triage: In-house treatment of minor illnesses and complaints, relief of worry by counseling and a well-planned common-sense health education program, and prompt and effective treatment of emergen-

cies."

Dr. Cooper's program started eight years ago at the request of the Boeing Management Assn. which was not a part of the Boeing Corp. as a way to give joggers time and places to exercise. Because the Boeing Corp. has not yet accepted the program, joggers must jog in fire lanes and exercise in cafeterias on their own time.

According to Dr. Cooper, the whole field of non-industrial preventive medicine as an integral part of industrial medical departments is fairly new. Boeing's began in January 1975.

The program gives participants physicals then determines how much exercise they need to maintain good cardiovascular condition using treadmills, jogging or isotonic exercises, all under the supervision of an exercise physiologist

on the staff.

It offers participants week to week management of hypertension problems in cooperation with the employee's private doctor. There is no hard data yet on the cost or cost-effectiveness of the program, according to Dr. Cooper, because of the program's newness. But Richard Keelor, director of program development of the President's Council on Physical Fitness and Sports said industrial fitness programs are also underway at Arco, Chase Manhattan Bank, and Xerox among others.

Dr. Cooper said such medical programs "should be underwritten for a period of time by insurance carriers." But he and Mr. Keelor noted that insurance companies also should offer lower rates for companies having such industrial

fitness programs.

Dr. Cooper also warned that a program cannot be undertaken without a doctor's supervision or someone trained in recognizing heart trouble; otherwise "you're going to have trouble," if an employee cannot cope physically.

Another doctor, Donald M. Vickery, suggested that by using such industrial exercise programs and issuing increased information to employees and other individuals, unnecessary medical visits can be reduced.

"We continue to try to insure health by insuring access to medical care. . . . In addition, even if we took the lowest estimate of unnecessary visits and could only eliminate half of those, we would still save over a hundred million visits a year at a savings of several billion dollars," Dr. Vickery said. ■

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## Technology adds to high health costs doctor warns

CHICAGO—Uncontrolled modern medical technology usually increases health care costs, not decreases them, a Harvard University doctor warned.

"My experience and my reading tells me that technology usually increases—sometimes sharply—costs and rarely decreases them (such as) the auto analyzer which sharply reduces the per-test cost, but encourages an increase in the number of tests per patient and therefore the overall cost to the patient," according to Dr. Alan Sheldon of the Harvard School of Public Health.

Dr. Sheldon told the Blue Shield annual conference audience this month that some ways for costs to go down would be if the medical technology is sharply controlled and consumers realize "sophisticated technology is not always appropriate."

Dr. Sheldon, co-author of the book "Future and Medical Care," also claims that many advances in medical technology are not really progress but are done because they are "fashionable," citing coronary bypass surgery as an example.

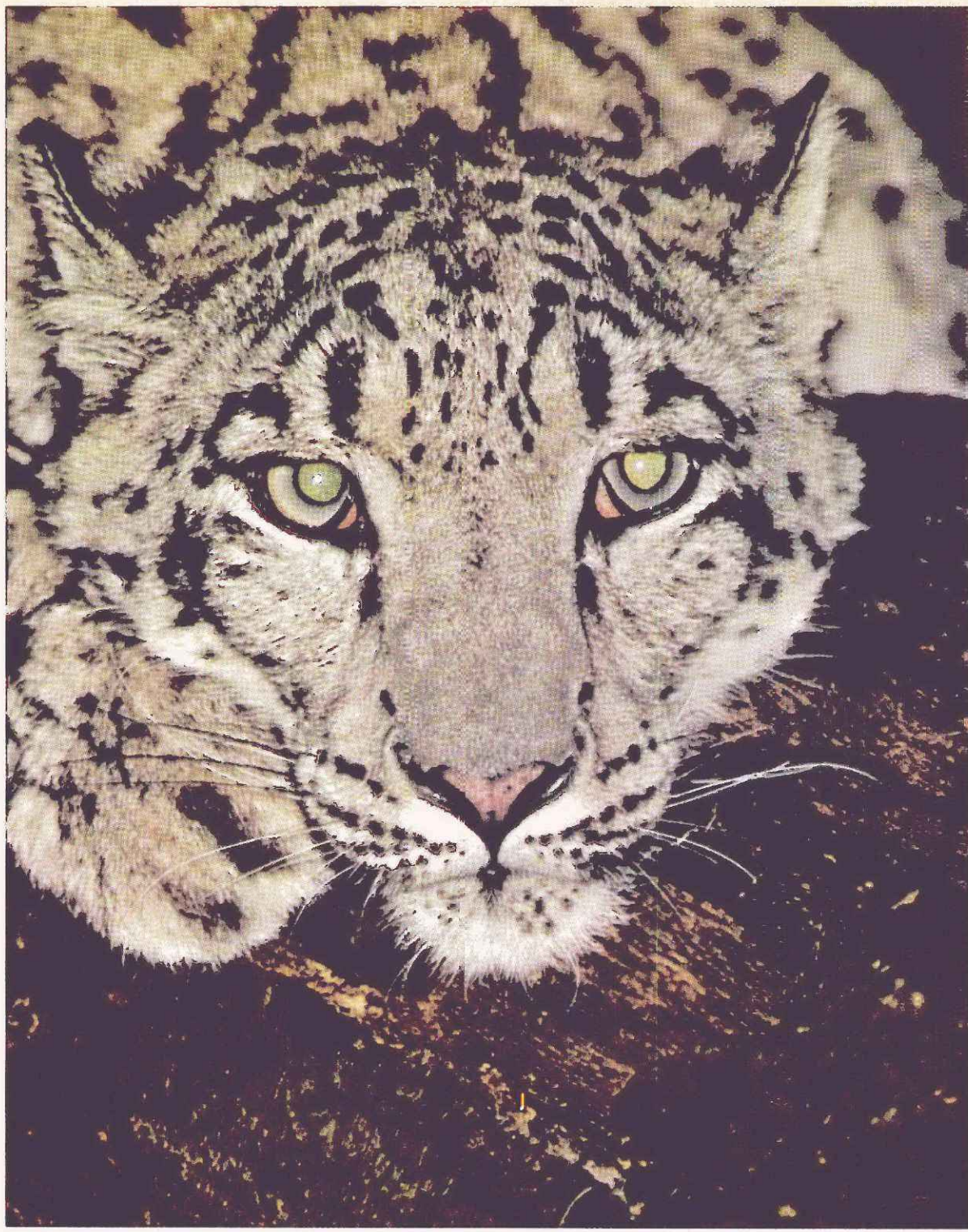
"Such advances may often occur because they are less related to intrinsic need than because certain individuals or groups within an organization can maintain or enhance their professional status by adopting them," he said.

Also on the panel discussing new pressures on cost and the right responses to these pressures was Dr. Mohan Garg of the Medical College of Ohio. He cited studies showing doctors are largely unaware of the cost of tests, goods and services they order for their patients.

In one 1973 test, 41% of the doctors quoted a price that was too high; 45% were too low and only 14% were correct some of the time.

Dr. Garg said because 70% of health care costs are generated by physicians, including 40% in hospital charges, the Blue Shield plans "should try to develop charge criteria for physicians' fees for important diagnostic categories and inform their members about such statistics."

He also said practicing physicians should be "aware of health care costs and their part in its creation." ■



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to save the snow leopard.*

*Don't count on a miracle  
to save your plant.*

*The existence of the snow leopard has been seriously  
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# PERSPECTIVE

## Analysis of changes in banker's blanket bond reveals significant policy restrictions

"The intention of the companies in revising the definition (of dishonesty) is to obviate the liberal interpretation of the term by the courts . . ."



By HENRY SALFELD  
Consultant to Frenkel & Co.  
New York

"Overkill" is the term used in a statement of the American Bankers Assn. (ABA) for the restrictions of Bankers' Blanket Bond #24 promulgated by the Surety Assn. of America (SAA) in April 1976. The SAA, of which most companies writing bankers' and other financial institution bonds are members, deliberated a long time on the steps to be taken to improve the loss experience of the companies and then decided to limit the broad coverage afforded by the blanket bond. They had conferred and consulted with the Insurance and Protection Division of the ABA but no agreement was reached on the projected changes<sup>(1)</sup>. The endorsement, drafted by SAA, therefore, contains language not accepted by the ABA but approved by the various state insurance departments to whom it was submitted according to law.

Without further contact with other trade organizations, the SAA then decided to make the changes also applicable to Stockbrokers' Blanket Bond #14, Savings Bank Blanket Bond #5, Finance Companies Blanket Bond #15, Federal Home Loan Banks Blanket Bond #20 and Credit Union Blanket Bond #23. To date Insurance Companies Blanket Bonds #25 have not been included. According to informed sources, the Surety Assn. is also preparing endorsements equally restricting the coverage under Commercial Blanket, Blanket Position and other bonds.

The endorsements were or are presently being sent to the brokers of the insureds for acceptance without change. Should an insured refuse, the underwriters have left no doubt that the bond would be cancelled. Some companies which are not members of the Surety Assn. also developed similar riders, e.g. Chubb & Son for the Federal Insurance Co. restricted its coverage even before its competitors. Neither the SAA nor the companies have issued an explanatory letter to the insureds and it is, therefore, important for them and the brokers to become informed through other sources concerning the changes. The following is an attempt at an analysis and interpretation of the conditions. The conclusions may be applied to the other financial institutions bonds analogously.

### DEFINITION OF DISHONESTY

The first part of the endorsement deletes Insuring Agreement (A) of the basic bond and substitutes a completely new wording. As heretofore, new Agreement (A) covers losses resulting from dishonest or fraudulent acts of employees. However, such losses are now only insured if they result "directly" from such acts; indirect or conse-

quential losses are no longer insured.

While the bond so far referred to losses through "any dishonest or fraudulent act," the endorsement changes this to "one or more dishonest or fraudulent acts," thus clarifying what was already stipulated in Condition 7(c) that the company is liable only for the limit of liability stated in the bond even if several unconnected dishonest or fraudulent acts are committed by the employee.

The bond itself does not contain a definition of the words "dishonest" and "fraudulent." Courts have not differentiated between the terms<sup>(2)</sup>. Even though the caption of the endorsement only reads "Definition of Dishonesty," it applies equally to fraud and fraudulent acts stating: "Dishonest or fraudulent acts as used in this Insuring Agreement shall mean . . ." It is important to realize that the new definition is only applicable to Insuring Agreement (A) and not when the aforementioned words appear in other parts of the bond which we shall see has important consequences.

The intention of the companies in revising the definition is to obviate the liberal interpretation of the term dishonesty by the courts and to avoid a further broadening of the coverage. Courts have considered the

"Courts may rightly question whether contracts of this kind should not be clearly understandable to insureds without reference to law books or consultation with a lawyer."

words "dishonest or fraudulent acts" also to comprise acts which indicate a lack of integrity or breach of trust<sup>(3)</sup> and reckless disregard for the interest of the employer<sup>(4)</sup>. On the other hand, simple violation of rules and regulations is not either dishonest or fraudulent<sup>(5)</sup>. In the words of Justice Cordozo, there must be some "wrongful motive" or "some degree" of intent to perform the wrongful action.<sup>(6)</sup>

According to the new wording, coverage is only provided if "such" employee had a "manifest intent" in two specifically outlined directions: "(a) to cause the Insured to sustain such loss; and (b) to obtain financial benefit for the Employee, or for any other person or organization intended by the employee to receive such benefit, other than salaries, commissions, fees, bonuses, promotion, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment."

The introduction of the word "manifest"

into insurance terminology caused an objection by the ABA and the reply by the SAA that it is well defined in a legal dictionary and is to avoid "constructive" or "general intent" claims<sup>(7)</sup>.

Courts may rightly question whether contracts of this kind should not be clearly understandable to insureds without reference to law books or consultation with a lawyer. Must the insurance broker consult such books before advising his Insured although the broker is not supposed to practice law without a license?

But let us look at the definition of "manifest" in Black's Law Dictionary<sup>(8)</sup>: "Evident to the senses, especially to the sight, obvious to the understanding, evident to the mind, not obscure or hidden, and is synonymous with open, clear, visible, unmistakable, indubitable, indisputable, evident and self-evident. In evidence, that which is clear and requires no proof; that which is notorious." It is most doubtful that this legal interpretation will accomplish the result intended by the SAA but companies may use it to object to the introduction by the insured of documentary or other evidence to prove the employee's intent<sup>(9)</sup>.

Looking first at subsection (a), we must realize that intent to cause loss to the Insured is usually not the determining factor in the mind of a dishonest employee but the act is generally committed for other purposes. As an example let us take the case of the employee of a bank or stockbroker who in willful violation of instructions speculates in foreign exchange for the account of the employer and conceals the fact through manipulation of documents. The acts of the employee might have benefited the insured if successful but caused an unintended loss when the expectations of the employee did not materialize. Such losses may no longer be covered.

Under subsection (b) the employee's intent must also be to obtain financial benefit for himself for any other person or organization. In the example of foreign currency speculation, there may be no intent on the part of the employee to obtain financial benefit for himself but usually the attainment of a financial benefit is the purpose of the employee committing a dishonest or fraudulent act.

There is no definition of the type of "other person or organization" that might benefit from the employee's actions. They may be family members, fellow employees, indigent people, charitable organizations or concerns in which the employee has a financial interest. The wording therefore does not completely exclude coverage in so-called Robin Hood cases in which the employee only wants to help the poor at the expense of the affluent.

The words "financial benefit" are clarified by the exception of "salaries, commissions. . . or other employee benefits earned in the normal course of employment." The

exception seems to apply not only to the "other person or organization" but also to the employe himself or herself. If this interpretation is correct, the insured would no longer be covered even if all other conditions are fulfilled, in cases where the employe obtained the raise or bonus or was paid commissions as a result of a dishonest or fraudulent statement. However, as there appears to be an ambiguity, courts can be expected to resolve the question in favor of the Insured<sup>(10)</sup>.

### COVERAGE UNDER INSURING AGREEMENTS B, C, D and E

Whereas the new restrictive interpretation of dishonesty limits the coverage under Insuring Agreement (A) if the prerequisites of the endorsement are not fulfilled, it has no effect on Insuring Agreements B, C, D and, if included in the bond, E. None of these agreements excludes coverage if an employe causes the losses enumerated. If an employe commits fraud or larceny or is responsible for any other loss "on premises", if he willfully and maliciously damages the employer's office (furniture) and equipment, if he absconds with securities or money "in transit" or is guilty of "forgery or alteration" or "securities forgery", Insured may invoke Agreements B, C, D or E of the basic bond.

### EXCLUSIONS (f) and (g)

The interpretation of dishonesty in the endorsement does not affect Exclusion (f) under the Bankers Blanket Bond and (g) under the Stockbrokers Blanket Bond. They exclude coverage for loss of property contained in customers' safe deposit boxes unless such loss be sustained through any dishonest or fraudulent act of an employe in such circumstances as shall make the insured legally liable therefor. Contrary to other Exclusions, (f) and (g) respectively do not refer to Insuring Agreement (A) and, therefore, not to the new definition.

The same argument in favor of coverage is valid in connection with Exclusion (g) under Banker Blanket Bond #24 where the exclusion of loss through payment of forged or altered travelers' check contains an exception for "fraud or dishonesty" on the part of any of the employes.

### NEW EXCLUSIONS

To the many exclusions, limitations and restrictions of the bonds, the endorsement adds four new ones:

According to Exclusion (1) the company shall not be liable "under any insuring agreement": for "potential income including but not limited to interest and dividends not realized by the insured because of a loss covered under this bond". It may be assumed that the drafters wanted to eliminate liability for "loss of" potential income even though these two words were omitted.

Continued on following page

# PERSPECTIVE

## Banker's bond changes . . .

Continued from preceding page

The word "potential" is another addition to the bonding vocabulary. Webster defines it as something "that can, but has not yet, come into being; possible; latent; unrealized; undeveloped; opposed to actual". Is it loss of potential income if future dividends or interest are not paid because stock certificates or coupons were stolen and the issuer made payments to a new party of record or owner of the bonds? Or does the new exclusion only apply to uncertain but possible future increases in earnings, extra dividends and unanticipated contingent income? This is another ambiguity in consequences of the use of new terms that will in all likelihood be resolved against the company.

Exclusion (II) also introduces a hitherto unused legal term by excluding coverage for all legal liability claims for damages that are not "compensatory". The words "compensatory damages" are considered to be synonymous with "actual damages" and include all damages other than punitive or exemplary ones<sup>(11)</sup>. The exclusion answers in the negative the question previously raised whether coverage for punitive damages might be insured under the bonds<sup>(12)</sup>.

Exclusion (III) pertaining to "all costs, fees and other expenses incurred by the insured in establishing the existence of or amount of loss covered under the bond" confirms the previous practice of bonding companies to deny liability for such expenses except if unusual expenses were incurred for audits of books of accounts or reconstruction of destroyed records required to support the proof of loss<sup>(13)</sup>. It is questionable whether the insurance company can invoke this exclusion if it has unsuccessfully attempted to deny liability and thereby caused the insured to incur lawyers' and accountants' fees and other expenses that would not have been otherwise required.

As Exclusion (III) only applies to expenses of the Insured in establishing the claim, it does not interfere with the special section on Court Costs and Attorneys' Fees which refers to the defense by the Insured of any suit or legal proceeding brought against him.

Exclusion (IV): "Loss resulting from payments made or withdrawals from a depositor's account involving funds erroneously credited to such account, unless such payments are made to or withdrawn by such depositor or representative of such depositor who is within the office of the Insured at the time of such payment or withdrawal, or unless such loss is covered under Insuring Agreement (A)."

This exclusion applies to payments made or withdrawals from a "depositor's" account. The term is not contained in Stockbrokers Blanket Bond #14 and legally a stockbroker is not permitted to accept deposits. On the other hand, stockbrokers usually have customers' funds in margin and other accounts but the customers are not called or considered to be "depositors". Does Exclusion (IV) apply to them?

Errors of the kind to which Exclusion (IV) applies have been frequent, particularly since operations have become computerized. Withdrawal by a customer in full knowledge that he was not entitled to the money credited to his account might be considered to be fraud and the loss suffered by the Insured would be covered under Insuring Agreement B. The exclusion does not introduce additional coverage.

There is a question whether coverage is also eliminated under Insuring Agreement D when payment or withdrawal is the result of a forgery or alteration committed by another person.

However, there seems to be no insurance if the loss is the result of compliance with the customer's instructions received by mail and payment made not at the insured's office but through the mail by check, note, draft or similar means.

### REVISION OF EXCLUSION (f) BROKERS BLANKET BOND #14

The SAA has also devised an Exclusion (f) Rider which applies to Brokers Blanket Bond #14. No similar endorsement has so

far been issued for other bonds.

The rider deletes Part (b) of subsection (f) of Section 2 and substitutes a new wording which broadens the original exclusion. The exclusion pertains to losses resulting from any violation by the Insured or by an employee of "any rule or regulation made pursuant to any such law (regulating (1) the issuance, purchase or sale of securities, (2) securities transactions upon security exchanges or over-the-counter market; (3) investment companies or (4) investment advisers) unless such loss in the absence of such laws, rules or regulations would be covered under Insuring Agreement (A)".

The new endorsement omits the exception pertaining to Insuring Agreement (A) and states: "Unless it is established by the insured that the act or acts which caused the said loss involved fraudulent or dishonest conduct which would have caused a loss to the Insured in a similar amount in the absence of such statutes, rules or regulations". Why the endorsement introduces the word "conduct" and in one place refers to "laws" and then to "statutes" is not clear but may be inconsequential. What is of consequence, however, is the fact that the endorsement as printed now includes the exception of "unless . . ." only under f(b) whereas the bond also includes it under f(a). Whether this change was made on purpose or unintentionally requires clarification. Should it be intentional, the companies deprived the insured of an important coverage in cases where a claim is based on violation of the statutes and also fraud and dishonesty.

No explanatory memorandum has been issued by the SAA or the companies but it appears that the exception has the purpose of covering loss caused by violation of a statute or regulation only if the Insured

can prove that the loss would be covered under the bond due to fraudulent or dishonest conduct. The rider does not state whose conduct is the determining factor but as it no longer refers to employees, the bond may include coverage for losses due to "fraudulent or dishonest conduct" of others than employees provided any insuring agreement of the bond is applicable to such conduct.

If such claim is made and based on violation of statute and regulation as well as fraud, the companies in the past assumed the defense of a suit on behalf of the insured. Now it appears that the insured can only expect to be defended if he not only admits the facts alleged by the plaintiff but also proves to the satisfaction of the company that there was a dishonest or fraudulent conduct. This seems to be an absurd conclusion and a clarification or better revision of the rider might be in order.

There is no doubt that the experience of the bonding companies has been deteriorating over the last years and the ABA as well as other trade organizations realize that something more than expressing sympathy must be done about it for the benefit of the underwriters. Strengthened internal controls to prevent losses and higher deductibles to reduce the impact of the losses on the coverage are recommendations of the ABA in its previously mentioned statement. The rating organizations and companies have chosen the path of restricting the coverage by endorsements. What we have seen in that direction is a haphazard attempt which may be partially successful but also creates new questions and problems. This should have been and may still be avoided if knowledgeable representatives of the insurance industry and the financial community meet and as prudent businessmen cooperate and come to an agreement on the steps to be taken. A "take-it-or-leave-it" attitude on the part of the insurance companies will not attain the goal everyone desires. ■

### FOOT NOTES:

1) ABA Statement and James Rubenstein: Revision of Blanket Bonds Threatens to Boost Banks' Financial Liability. American

Banker, April 22, 1976. Pages 1 and 24.

2) Fraud and Dishonesty under the Blanket Bond. Fidelity Program of the Fidelity & Surety Law Committee American Bar Assn. Forum Vol IX No. 2 Winter 1973 page 238; also Tabor: Timely Review of Bankers Blanket Bonds 1956 Insurance Counsel Journal page 121.

3) Exeter Banking Co. v. Taylor 85NH-458, 160A 733, 735 (Sup. Ct. 1932).

4) London & Lancashire Indemnity Co. of America v. Peoples National Bank & Trust Co. 59 F2d 149, 152.

5) Charles W. Schreiber Travel Bureau v. Standard Surety & Casualty Co. of New York 269 N.Y.S. 804 240 App. Div. 279.

6) World Exchange Bank v. Commercial Casualty Ins. Co. 255 NY 1 (1930); Great American Insurance Co. v. Langdeau 379 SW 2d 62, 65.

7) ABA Statement.

8) 4th ed. 1951 page 1115.

9) Black; Law Dictionary (definition of "Intent") page 947.

10) F. Philip Kirwan: Bankers' Blanket Bonds: Contracts of Adhesion? 1976 Insurance Counsel Journal page 386 rejects this generally recognized conclusion as to ambiguities in insurance policies whenever the language has been devised in cooperation with the ABA.

11) Corpus Juris Sec. vol. 25 Damages sec. 2 pages 616.

12) Edward J. Saunders: 1969/70 American Bar Assn. Section of Insurance, Negligence and Compensation Law 79.

Mr. Salfeld has been connected with Frenkel & Co., Inc., national and international insurance brokers, for more than 40 years. He has retired as senior vp and is now consultant to the firm. Mr. Salfeld was a member of the faculty of The College of Insurance and a director of the Greater New York Insurance Brokers Assn. He has a degree of Doctor of Law from the University of Frankfurt, Germany. He has published numerous articles on problems of casualty and property insurance in law journals and insurance magazines. Mr. Salfeld has been a speaker before the American Management Assn., the Practising Law Institute, CPCU and other insurance organizations.

### SPEAKING OUT

## Scientific tools of risk analysis belong in a good manager's kit

By PETER DOWNES  
Manager of Insurance  
American Trading & Production  
Corp., Baltimore, Md.

The content of the seminar "Scientific Methods for Risk Management" held in New York September 20-21, and sponsored by Wharton School, University of Pennsylvania, is governed by the principle that it is not necessary to know how an internal combustion engine works in order to be able to drive a car. Similarly, says John M. Cozzolino, associate professor at Wharton who conducted the seminar, it is not necessary to have the theoretical background of utility theory and mathematical statistics in order to use the tools of scientific risk analysis and operations research.

It has long been a complaint that the decision analyst does not live in the real world and nobody is capable of understanding what he is talking about except perhaps another analyst, and one cannot be too sure about that. Moreover, when one does come across a text where insurance, for example, is mentioned the author appears to be so naive as to make one doubt the validity of anything else in the text. If only, say the critics, decision analysis can be described in a meaningful way, then perhaps we shall discover that there is something to it after all.

Risk and insurance managers no longer have this excuse because this is precisely what Mr. Cozzolino has done. Not that what he has done is perfect—he has a long way to go yet! But he has formulated a tool which can be used now, regardless of the

refinements which will be added in years to come. In response to this Mr. Cozzolino might say that the tools he was supplied will do the job he has described for them, but in fact, he still has to complete the task of describing them in risk management language and not that of the analyst.

While we are being critical, what else must Mr. Cozzolino do? Basically, he must learn or be advised something about real life in the risk transfer business. It is not good enough to say that a formula demonstrates a principle—it must be measured against reality.

Neither of these things are overwhelmingly difficult to accomplish and if the effort is made to do so in terms of the way a risk manager actually operates, the gospel Mr. Cozzolino is preaching will become far more readily acceptable. Moreover, the onus is on him because he is the one who is selling the goods.

Just what is it that he is telling us? At this point, nothing particularly startling. In essence, all that he is saying is that we as risk managers entertain certain basic assumptions which are wholly subjective in nature. Using these assumptions we decide how much insurance to buy and the level of the deductibles we will accept. However, with appropriate mathematical tools we can rationalize these decisions in a scientific manner.

But it may be argued that all this rationalization will tend to do no more than confirm the decisions we have already made, assuming we know our business in the first place. True enough, but what's wrong with that? At the very least it will tend also to eliminate our informational biases and thus

reduce the tendency to delude ourselves. What seems far more important, however, is that if we convince ourselves that analysis is a workable tool for what we already know, then with proper application it will become a tool for what we do not know yet.

Obviously, a risk manager will obtain from such a tool no more than the effort he puts into its use. If he suspects that the whole thing is a lot of nonsense he will not trouble with it. If he regards it as a universal panacea he will find himself in trouble quickly enough. However, if he perseveres in its use and perceives its limitations he will add consistency to his decisions.

All risk managers make decisions about what to insure and how much, whether or not they employ analytical techniques. Moreover, the use of analysis does not affect the subjective basis of these decisions, or the risk aversion level, symbolized in mathematical formulae by the letter *r*. These risk aversion levels, of which there may quite a number in any corporation for varying purposes, are of great significance and, indeed, may represent a concept which a risk manager now uses subconsciously. Clearly, the use of analysis will create an awareness of these *r*'s.

Arising out of this we perhaps hear an echo of an old adage, for may it not be said that the most effective risk manager is he who can tell the difference between his *r*'s and his elbow?

This is the first article in a series which Mr. Downes will be contributing monthly presenting an insurance manager's view of events and trends in the business and insurance worlds.

# Hospitals faced with hefty hike in premium costs eye self-insurance

By ELISABETH M. MEYER

DALLAS, TX.—A Louisiana hospital administrator has decided to self-insure his 266-bed institution's medical malpractice coverage after receiving a September quote for a rate increase of more than 700 per cent.

"We've paid out only \$8,000 in claims in the last five years," said Julius R. McLaurin, administrator of Rapides General Hospital, Alexandria, La.

The insurance policy from USF&G went from \$16,000 in 1975, to \$96,000 in 1976 and finally to a quote of \$713,000 for next year, Mr. McLaurin said during an informal survey taken at the American Hospital Assn. convention in Dallas.

Although his experience with malpractice rate increases was among the most dramatic noted, other hospital administrators polled expressed concern as well.

Mr. McLaurin hoped to have a self-insurance program set up by October 1, the expiration date for his hospital's current policy, and plans to fund the coverage "over five years." All hospital employees, medical staff and Board of Trustees' members will be covered.

He said he is counting on the continued constitutionality of the Louisiana state law, which limits malpractice claims to \$500,000.

Logan County Hospital, Russellville, Ky., was hit with a doubled malpractice premium in June, according to Ted Whitley, administrator. The 100-bed facility's premium went up to \$56,000 from \$28,000 last year.

"I don't think it will increase an alarming amount next time—maybe 10% to 20%," he predicted. Logan County's policy covers 225 staff employees, but no physicians, and is underwritten by St. Paul Insurance Co.

A patient benefit fund set up by the state assesses each hospital \$50 per bed to finance a claims fund, Whitley explained. A limit on malpractice claims currently is being tested in Kentucky courts.

LDS Hospital in Salt Lake City doesn't anticipate a significant premium increase for this year, administrator David B. Wirthlin said. The 570-bed hospital joined with 29 other institutions across the country to form a Bermuda insurance captive which provides its malpractice coverage.

Coverage for LDS Hospital costs about \$200,000 and the policy insures 2,100 employees, including full-time staff physicians, Mr. Wirthlin said. Each hospital's rate is based on bed size, number of full-time physicians and claims experience. LDS Hospital belongs to Intermountain Health Care, a corporation composed of 17 hospitals in Utah, Wyoming and Idaho. This group joined with 13 other institutions to establish the malpractice insurance captive.

At another hospital, "our premiums tripled over the last two years," noted John N. Christenson, executive director of Jeannette District Memorial Hospital,

Jeannette, Pa. The 171-bed facility pays \$112,000 a year for malpractice insurance, covering about 500 part-time and full-time staff members.

"My gut feeling is that it will be the same at the next renewal," Mr. Christenson said. Jeannette District Memorial participates in Pennsylvania Hospital Insurance Co., a state-sponsored fund. "We've gone to arbitration and are hoping this will curtail the costs."

St. Joseph's Hospital, Brainerd, Minn., expects its malpractice cost to continue rising at the current rate of 200%, according to Jerry B. Scott, administrator. The 148-bed hospital's premium reached \$118,000 four months ago, up from

\$58,000 last year. Before that, the policy cost \$15,000 a year.

It's "one of several factors" that has pushed the hospital's room rate to \$65 a day, Mr. Scott explained. Some 370 full-time and part-time personnel are covered, but no physicians are included in the policy. The state has "looked into" the idea of a captive insurance company to underwrite malpractice risks, he said.

Smaller hospitals aren't having an easy time either, believes J. R. Johnson, administrator of Sycamore Municipal Hospital, Sycamore, Ill., a 51-bed facility located in a "semi-rural area."

Sycamore paid \$32,000 in fiscal 1976 for malpractice coverage, up from \$20,000 in 1975. Mr. John-

son said the hospital had "a good track record" on claims experience. The St. Paul policy covers the 98 full-time employees.

Robert Gleeson, administrator of East Tennessee Chest Disease Hospital, Knoxville, paid a 150 per cent increase a few months ago for the 180-bed hospital's malpractice coverage.

"It will continue to go up at the same rate," Mr. Gleeson predicted. "I think there should be a limit on claims. Judges and juries shouldn't be so lenient."

Claims are arbitrated by a division of the attorney general's office in Tennessee, Mr. Gleeson explained. They are handled in a manner similar to workers' compensation claims.

Two Canadian administrators indicated that the malpractice situation is much less serious north of the border. "The worst is over," believes R. J. Pearce, administrator of Public General Hospital,

Chatham, Ontario. He spends about \$100 per bed for 304 beds on malpractice insurance.

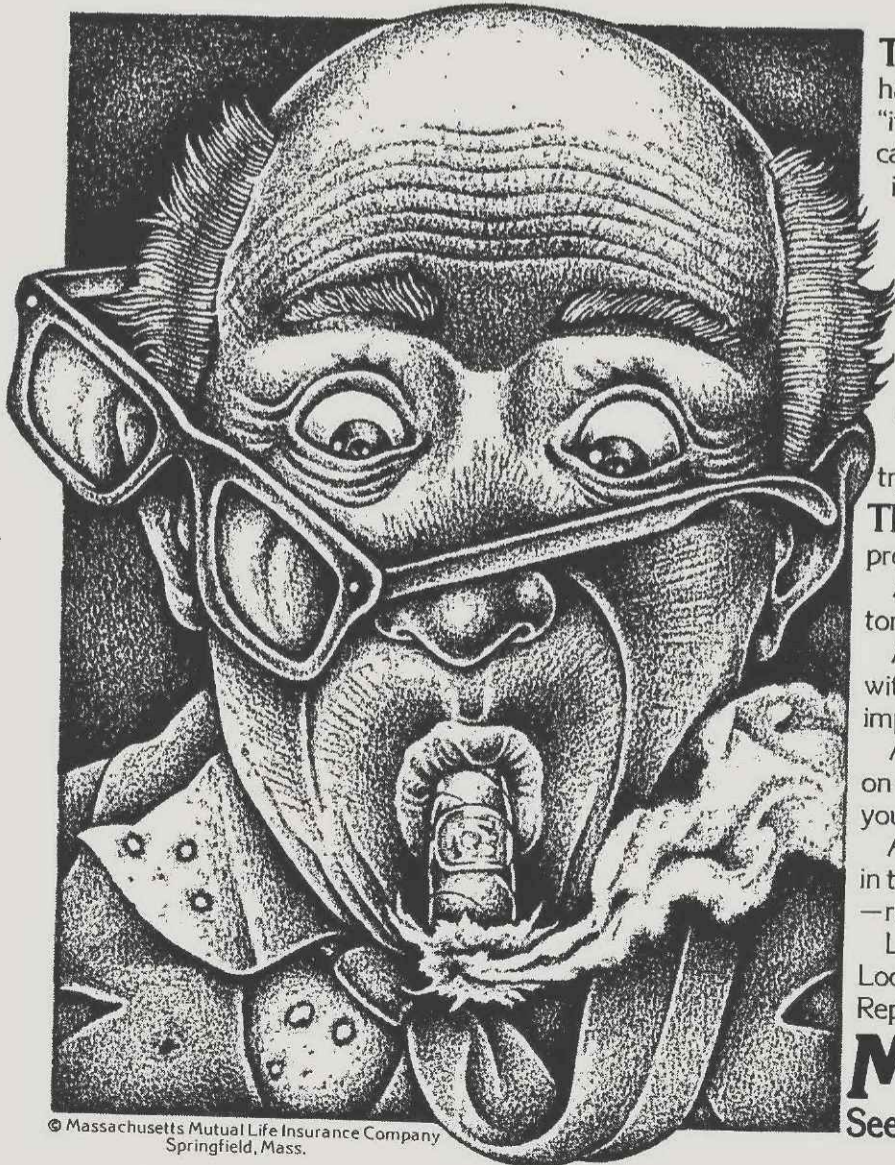
Mr. Pearce said the premium rose 20 per cent last January but he doesn't think it will increase that much next year. The Ontario Hospital Assn., through an insurance division, sells coverage with limits up to \$2 million per occurrence, he said.

"Our hospital doesn't pay more than \$10,500 a year for malpractice coverage," estimated Kenneth R. Hughes, executive assistant at Misericordia Hospital, Edmonton, Alberta. The 555-bed facility's policy covers the entire hospital staff.

"The courts lean more toward physicians in Canada," Mr. Hughes noted. "No contingent fees for lawyers are allowed. There's more desire by the courts for proof of malpractice and to reimburse the patient for the actual cost rather than for pain and suffering," he explained.

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### Hall to acquire

Frank B. Hall & Co. Inc. has signed a letter of intent to purchase Risk Management Services Inc., Orlando, Fl. Risk Management Services also has branch offices in Miami, Fl., and Birmingham, Al. Its business lines include traditional insurance brokerage activities as well as claims and safety administration for self-insurance plans in its market area.

## Insurance policies may cover some losses

# Monsanto hit with \$1.5 billion suits on PCBs

By MICHELLE GREEN

GREENVILLE, S.C.—Lawsuits totalling \$1.5 billion were brought against St. Louis, Mo.-based Monsanto Co. in September, charging the corporation—the sole U. S. manufacturer, distributor, and seller of the environmentally hazardous industrial chemical polychlorinated biphenyls (PCBs)—with negligence in connection with the PCB pollution of two Southern waterways.

Company officials have declined to discuss any of Monsanto's insurance arrangements, saying only that they believe "any suit alleging culpability on our part has no grounds."

But there is a possibility that

under the wording of Monsanto's liability insurance policies, some of the losses resulting from these suits will be covered. It's understood from sources close to the company that insurance coverage and the allegations in the lawsuits themselves are presently under study to determine coverage.

**Fishermen**, property owners and businesses filed a \$500 million class action in U.S. District Court in Atlanta, Ga. on Sept. 20, charging General Electric Co. and Monsanto with contaminating Georgia's Coosa River with the toxic compound, used in the manufacture of electrical transformers and capacitors. The suit charges that GE's Rome, Ga. plant poisoned the Coosa

and its wildlife by dumping PCBs into one of its tributaries, and alleges that Monsanto is "strictly liable" for the damages because it sold the chemical to GE.

The Coosa, where GE discharges its treated wastewater, has been closed to commercial fishing and Georgia Game & Fish Division rangers are personally warning sport fishermen and the public not to eat fish caught there.

Two days after the \$500 million action was filed, a \$1 billion class-action lawsuit that had been filed here Sept. 10 accusing a South Carolina company with damaging business and property values near Lake Hartwell by polluting its waters and fish with PCBs was amended to include charges of neg-

ligence against Monsanto. Lake Hartwell is located near the upper section of the Georgia-South Carolina border.

**Monsanto produces**, distributes, and sells PCBs to manufacturers of electrical capacitors and transformers for use as coolant insulation fluids. The company markets the compound under the trade name of Aloclor.

The \$1 billion suit amended here on Sept. 22 names the Sangamo Electric Co. near Pickens, S. C. as Monsanto's co-defendant. It alleges that Sangamo, which has been positively identified by the U.S. Environmental Protection Agency (EPA) as the Lake Hartwell pollution source, "either wil-

fully, wantonly, negligently, recklessly and/or intentionally allowed PCBs to enter Lake Hartwell in violation of the laws of the United States, its agencies, and the laws of South Carolina."

The action on behalf of Hartwell property and business owners—who, it charges, have suffered "irreparable" financial losses due to the pollution of the lake—also charges that Monsanto, as the vendor of the toxic compound, "knew, or should have known, that the chemical substance was used in (Sangamo's) manufacturing process." It further alleges that Sangamo did use the PCBs, and contaminated the lake by allowing improperly treated wastewater to enter one of its tributaries.

**EPA officials** have said that Sangamo's wastewater did cause the pollution, and have ordered the company to clean up the water it discharges into Twelve Mile Creek, which then empties into Lake Hartwell.

Since PCBs are known to be a serious threat to human health and the environment, the class action alleges that, "the defendant, Monsanto Co., was aware or should have been aware of this situation, and knew, or should have known, that they should exercise the highest degree of care in the distribution for use of the substance and should properly warn users thereof of the potential hazards."

The action against the two companies doing business in S. C. also charges that Monsanto is "strictly liable" for health hazards resulting from the handling and discharge of the chemical because, it alleges, the company was "guilty of intentional misconduct in failing to properly test, inspect and warn potential users when they knew . . ." that the use of PCBs "would certainly result in damages to the public in the vicinity of its known use." The \$500 million lawsuit filed against GE and Monsanto in Atlanta makes similar claims.

Monsanto public relations representative Dan Bishop replied to the charges of negligence by saying that his company has "a long and proud history" of responsibility in the manufacture and distribution of the chemical.

"It would seem we have taken every precaution humanly possible," towards insuring the safe handling of PCBs, Mr. Bishop said. "We don't feel any suit alleging culpability on our part has any grounds."

Mr. Bishop would not say whether Monsanto had liability insurance coverage to provide for suits such as those brought against the company last month. "Our insurance provisions would have to be confidential," he said.

The Monsanto Industrial Chemicals Co.—which manufactures the PCBs—is one of five units of the Monsanto Co. and led the company in sales last year.

**Mr. Bishop noted** that Monsanto "goes to great lengths to advise customers about the potential dangers and the safe disposal" of the compound. He added that the company had sold PCBs to both General Electric and Sangamo, and had "most assuredly" informed them of the environmental and human health hazards associated with the use and discharge of the chemical.

Although the environmental impact of the compound was not recognized until 1971, Mr. Bishop said that the company imposed several self-regulatory measures after the hazards of PCBs finally became known.

In 1971, he said, Monsanto made a "voluntary and unilateral decision to limit" PCB sales to manufacturers who used the compound only in closed systems—such as electrical transformers and capaci-

# Frank B. Hall is very worldly.

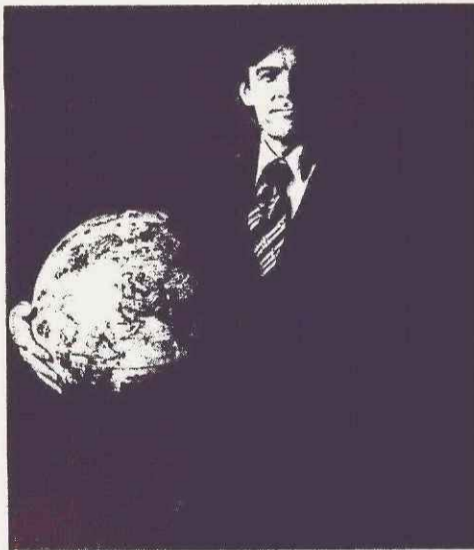
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## James third house to focus on self-insurance

CHICAGO—Fred S. James & Co. Inc. has become the third major national insurance brokerage house to reorganize and centralize its self-insurance service capabilities.

"For clients, this gives us a breadth of services which our individual offices around the country might not be able to provide," said William E. Burch, president and chief executive officer. At the same time that James finalized executive changes for the self-insurance services division, it is also in the process of establishing a national division to coordinate servicing on national accounts. This, too, will be centrally managed from the headquarters here.

Within the last year, Marsh & McLennan and, more recently,

Alexander & Alexander have also pulled together their services groups providing insurance-related and advisory assistance. "We weren't really influenced by the other brokers doing this," said Mr. Burch, "We looked into this for about one and a half years."

He characterized the changes as necessary not so much to centralize and coordinate James's capabilities as to bring together the management of sales with servicing, because the combination of providing services to commercial accounts along with sales efforts "has become more important."

James's self-insurance services division is to be managed by Robert L. Young, vp, formerly of San

Francisco. He will be assisted by three regional executives—Andrew Fink in Los Angeles for the Western territory, George J. Griffin in Boston for the Eastern territory, and Charles McHam in Tulsa for the central territory—and a services administrator here.

Mr. Young will coordinate about 100 services people in 18 James offices. Included in the services division are quantitative analysis risk consulting, captive management, and property protection and engineering.

"While traditionally used for workers' compensation, self-insurance has broadened into the liability and employee benefit fields," Mr. Burch said. Because James fully expects self-insurance among corporations to grow, the firm "continues to expand and diversify its self-insurance products," he added. When asked about any plans to add new services, Mr. Burch said there are no new services being added at this time.

Companies which are not insurance clients of James will continue to be able to purchase services from the broker on a fee basis, despite the clear effort to link insurance sales and self-insurance services.

There is more shuffling of personnel expected at James in the next few weeks as plans are finalized for management and organization of the national division, which is expected to include about 20 persons from around the country who are key people selling and servicing specialty commercial risks. These changes are "underway right now," said Mr. Burch, who said this is based on the same idea that prompted the centralization of self-insurance services.

Tom Hobbs, a James specialist in boiler and machinery insurance accounts, is being moved to Chicago from New York to head the national division. Also included in that team is Charles Botts of Kansas City, a specialist in aviation insurance handling the TWA account. ■

tors—where the chemical could not easily escape into the environment. Prior to that time, the compound had been used in the manufacture of products such as adhesives, plastics, paints and carbonless carbon paper.

Following that self-imposed limitation, Monsanto introduced a PCB compound with a lower chlorine content that made it less persistent in the environment. The company also initiated strict safety procedures involving the shipping of the chemicals, although no federal law requires such measures. And, Mr. Bishop said, Monsanto made a policy to sell only to qualified industrial customers. Fifty companies in the U.S. now purchase the compound from the Missouri-based firm.

Studies have shown that the threat posed to human health by PCBs is considerable. Sufficient exposure to the compound—which is not broken down in the body—may cause cancer, damage the reproductive and digestive systems and trigger symptoms including jaundice, fever, fatigue, numbness in the limbs, and skin eruptions. According to EPA studies, about 1.4 billion pounds of the substance have been produced in this country since 1931, and more than half has already made its way into the environment.

Monsanto has been trying to develop a safer substance for use as a PCB substitute for several years. But the company shelved its search for a replacement early this year "when it looked like the industry had zeroed in on replacement chemicals (already) widely available." The Monsanto spokesman predicted that any PCB replacement likely to be developed soon will probably not be as fire-resistant and may therefore pose a different kind of health hazard.

Although the Toxic Substances Control Act recently approved by Congress would provide for a ban on the use of PCBs within two years of its passage, Mr. Bishop said the provisions of the act are a "moot question" to Monsanto.

"We plan to be out of PCB production by the end of 1977, if possible, so the act wouldn't affect our plans at all," he explained.

Monsanto produced about 40 million pounds of the industrial chemical each year through 1975, but expects to manufacture only about 25 million pounds this year, Mr. Bishop said, "in the downward turn towards the total phase-out," of the compound.

Recently, a precedent has been set for industrial users of PCBs—specifically, GE—to at least share in the cost of clean-up operations on waterways they have polluted with the chemical. On Aug. 9, GE agreed to a \$4 million settlement in a case brought against the company by the state of New York in connection with the firm's contamination of the Hudson River. GE will pay \$3 million to help clean up the waterway, and donate another \$1 million to research efforts aimed at preventing similar PCB-pollution cases.

GE also agreed to halt the use of PCBs at its New York plants by July 1, 1977. Company officials have said they expect to have an environmentally acceptable PCB replacement by that date. ■

### London conference

A government report that cites some 300 chemical installations and energy reservoir in the United Kingdom as potential major industrial hazards will be the subject of a one-day conference on industrial hazards in London next month. The conference is sponsored by the Health and Safety Committee of the British government. Participants will include the British Insurance Assn. and the Chemical Industries Assn.

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# Warren & Sommer has little trouble finding enough liability insurance

By JANET MROCZEK CORRADO

DENVER—Medical malpractice insurance may be in a crisis state in many parts of the country, but not in Colorado. In fact, doctors in the Colorado Medical Society insurance program will have malpractice premiums returned to them this year.

Warren & Sommer Inc., based here, is the agent for the program, and how it accomplished its malpractice feat illustrates its successful approach to the insurance business in general.

In a word, Warren & Sommer believes in planning. And that means thorough analysis of markets, choosing the areas it feels it can serve, and solid internal structuring to compliment and backup the sales effort.

The agency recognized the growing difficulty in the malpractice field six years ago, John Sommer, president said, and spent a year investigating the problems in the state.

"We have a record of seeking troublesome situations, like medical malpractice," Mr. Sommer said. "We look at ourselves as problem solvers rather than agents."

The need of the client is foremost, he said. "Where there's trouble, that's where we feel we shine best."

The agency gathered and analyzed the state's malpractice loss data, and put together a plan using risk management techniques long applied to other insurance lines.

"We looked at it as a long-range program," Mr. Sommer said. "We knew there were no quick answers."

The plan, which the agency president called "a benchmark program, a hallmark of the industry," was put together "to enable us to return premium in the form of dividends if the results were better than the insurance community expected."

"After six years," Mr. Sommer added, "we feel we have ample experience so that we can return premium, and we anticipate dividends in the future."

The agency has a close working relationship with a committee of the Colorado Medical Society. Together they review applications and claims, and the society is helpful in loss prevention, Mr. Sommer said.

Over 80% of the society's members participate in the plan, he said, which "we feel is testimony to its working."

Warren & Sommer is the largest independent agency in Colorado, with premium volume last year of over \$10 million, and a compound growth rate of over 15% for the last five years.

About 85% of its revenue, from its estimated 9,000 accounts, comes from commercial business.

Commercial accounts range in size from the Main Street store to Fortune 500 companies, Mr. Sommer said, and though the agency will serve any client, "we feel we have the talent and expertise to work on larger accounts," he said.

Warren & Sommer belongs to the Assurex group, a loose worldwide network of over 70 agencies, all locally owned and operated.

Assurex operates like a national brokerage in that the partner agencies give technical expertise and service assistance to one another.

Mr. Sommer thinks the agency benefits greatly from its participation in Assurex. "It enables us to operate in the world arena," he said. "If we didn't belong to As-

surex, we would be just another local agency."

Though it finds the large national brokerage firms its competitors more than anyone else, and its marketing thrust is toward the larger accounts, Warren & Sommer actively seeks out personal lines. The reason is, again, the agency's view of itself as problem solvers.

The personal lines market is in turmoil, Mr. Sommer said. Insurance companies are facing challenges with the lines' loss ratio, which means instability for the client, cancellations or policy changes.

"We are in there working with the confused consumer to explain

to him what is happening, and with the number of companies that we represent, we can place him with the best carrier."

Gene Mapes, vp of sales, called auto and jewelers coverage very troublesome.

"We call ourselves agents," he said, "but we find we are fulfilling the broker's role more and more because of our problem solving approach trying to do the best professional job for the client."

Warren & Sommer has a contract with over 20 insurers, and does business with another 10 companies to one extent or another, including direct writers.

"We have virtually any market open to us," Mr. Sommer said.

The agency has had "significant

success in problem-solving for the fast food franchise business," he explained, and it created a property/casualty insurance program for oil jobbers with "good penetration in the market."

While it will often approach a market on an association basis, as with the medical society, it doesn't limit itself to that tack.

Though most of the agency's revenue is from brokerage rather than fee income, "we are prepared to go either way," Mr. Sommer said.

"We always work under full disclosure with the client," he said, "and the situation dictates the propriety" of the compensation arrangement.

Fee income will increase as a recently formed unit of Warren & Sommer Inc. develops. The agency has set up Warren & Sommer Management Corp. to do feasibility studies and administer self-insured programs, including captive com-

panies.

Again, Mr. Sommer said, "our mission is to assist a company or an entity to solve a problem."

The limited market availability for product liability coverage primarily, but property coverage as well, "is forcing more industrial and commercial buyers of size to look to self-insurance," Mr. Sommer said.

Because of insurance companies' capacity problems, they are being very selective, he said, and not seeking additional premium volume as aggressively as some did a few years ago.

"This provides a reservoir of clients that must investigate the possibility of self-insurance. And, we are finding companies that are financially mature enough to self-insure," Mr. Sommer said.

In planning its role for the future, the agency has also just completed a market analysis of what the Rocky Mountain region will

## If we didn't own ourselves, maybe our local offices would think like local offices.

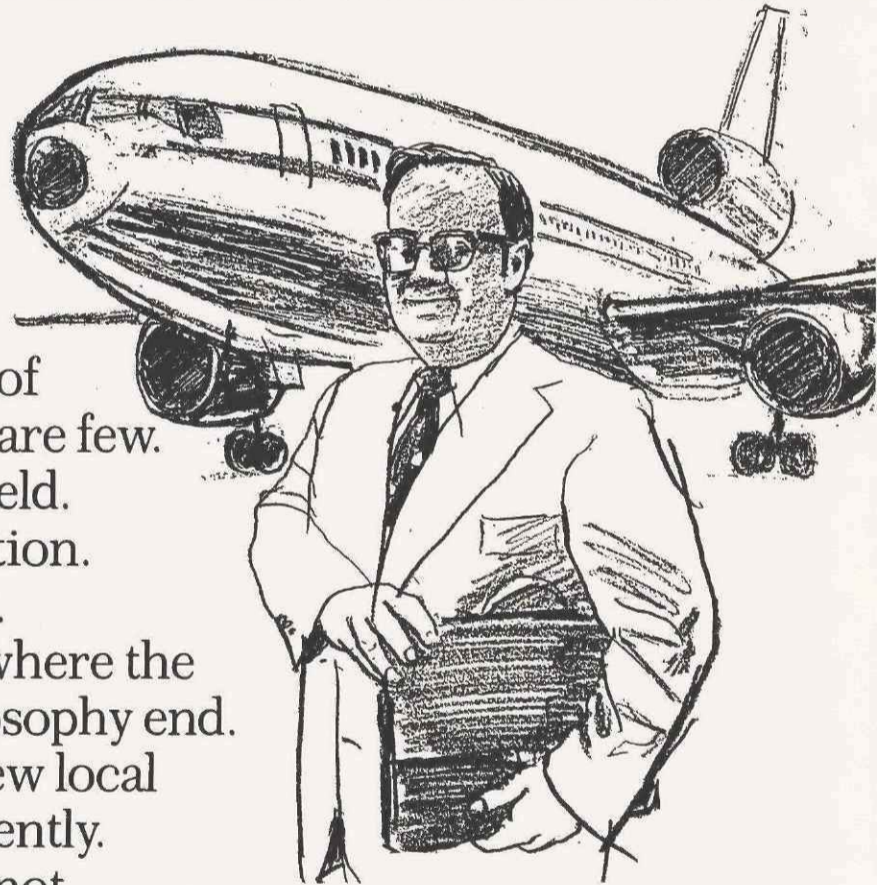
Insurance brokers of our scope and size are few. Most are publicly-held. There is one exception. Johnson & Higgins.

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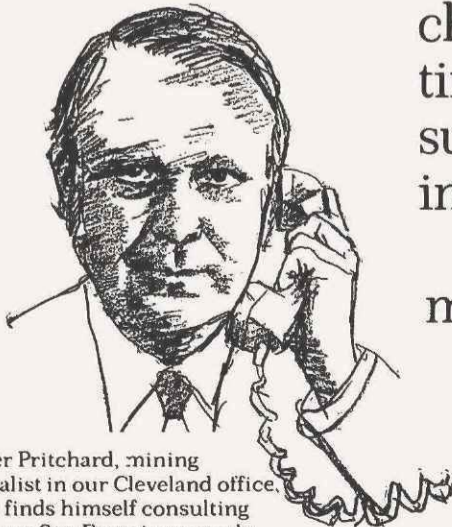
To us they are not individual profit centers.

If we looked at them as profit centers, we'd have to charge a local office every time it asked for special support from somewhere else in the system.

Which could easily make an office hesitate to request



Bob Meyer spends as much time supervising property loss control specialists overseas as he does in this country.



Walter Pritchard, mining specialist in our Cleveland office, often finds himself consulting with our San Francisco people.

look like in the next five years, and is choosing those areas where it feels it can play a role, Mr. Mapes said.

Mr. Mapes pointed to the oft written-about emerging opportunities in "the Golden West," but disagrees with some who predict that the national brokerage firms "will rule the roost."

"We're a regional firm" he said, "but we are geared up to handle and take advantage of the opportunities here. We are convinced we can do every bit as good a job as a national brokerage firm. We're convinced we can compete," Mr. Mapes said.

The firm, which started in 1958 as Warren & Sommer Agency, has acquired a number of smaller agencies over the last 10 years, and the thrust of the future is to grow internally as well as through acquisitions. It has one office in Vail now to serve the needs of the recreation industry, an increasing segment of the state's economy,

and is reviewing expansion to other cities.

"Our objective is planned growth," Mr. Sommer emphasized. "We feel we know where we're going."

And to Mr. Mapes, one of the cornerstones of growth is solid internal operations. "Your own house must be in order before you can go out and sell," he said.

One of the agency's main objectives for 1976, which has just been completed, was working up a career development program for employees, Mr. Mapes said, which was "one of the crying needs for us and others in the industry."

He said the agency is now in a position to show current and prospective employees their career path, what education and requirements are necessary to advance.

"We will still have to look outside our agency for personnel," Mr. Mapes said, "and perhaps we always will, but we hope to hire

and train our own people. We never had the internal assets before, but now we are going towards it.

"The career development program can also help our employees to reach the highest level they can reach," Mr. Sommer said.

All the agency's systems and procedures, job descriptions, salaries are in print for employees to see.

Fred Barnard, vp of operations, said "the systems and procedures of this company are leading the industry. Internally, we are in fine shape."

The agency has 12 producers and 30 administrative and clerical personnel, which Mr. Sommer calls "a very generous ratio which demonstrates part of our philosophy of giving our account executives the administrative backup to get out from under paper shuffling."

The producers are responsible for servicing and for marketing, because "they know best how to problem solve for the client," Mr.

Sommer said, but with a lot of backup help. Each account executive has an account representative who is always in the office to take care of clients.

"Our personnel are on a salary plus bonus arrangement," Mr. Sommer said, "and we're proud that our total employee remuneration exceeds dramatically that of publicly held firms.

"Our personnel are on a salary higher than others because we are providing more backup services, but our interest lies in putting our money towards the client in the form of talent rather than putting as much as possible on the bottom line," he said.

The agency's employee turnover is very low, and its attrition rate is less than 5%, "which we are very proud of," Mr. Sommer said. "That is a product of keeping our clients satisfied," he added, and an important part of that is our support services." ■

## Reed Shaw buys Kaiser's captive firm

SAN FRANCISCO—Reed Shaw Stenhouse Inc., part of Reed Shaw Osler Ltd. of Canada, acquired Underwriters Service Inc. (USI) effective Oct. 1 although the official legal closing of the merger will take place a month later.

Underwriters Service Inc. was sold by Kaiser Industries, which announced in early 1976 that it intended to liquidate its business by selling the operating divisions.

Donald Henning, president of USI, told *Business Insurance* that no details of the purchase agreement could be made public. The name of USI, which has branches in Washington, D.C., New York and Hawaii, will be gradually phased out, he said.

Its Seattle office, however, was acquired effective Sept. 30 by three principal officers of that firm: Graham Anderson, Jim Weller and Robert Chase.

Mr. Anderson said that as of Oct. 1 his firm will reclaim its old name of Pettit-Morry Co. He explained that Pettit-Morry was the name of his firm before it was purchased by USI in 1973.

Pettit-Morry's business is concentrated in the fire/casualty business, with accounts spread around the United States, said Mr. Anderson. He projected 1977 premium volume to be in the area of \$8 million to \$10 million.

"We are delighted to be separated from USI because we wanted to be back on our own," said Mr. Anderson. He pointed out that the position of his group has always been against the sale of USI to an outside broker. In fact, he said he was among the leaders of a movement of key employees to purchase the firm for themselves.

Dick Nausch, formerly an executive in the USI offices in New York City, said that he also supported the move of key USI employees to buy out the entire firm. It was after that effort collapsed, he said, and two colleagues broke away to form a new brokerage firm known as Nausch, Bogan & Murray.

Mr. Nausch declined to say more, explaining that "this is a chapter in my life which has expired."

Four or five national brokerage firms, initially evinced interest in acquiring USI, which is said to have commission income of about \$6 million a year, much of which derives from its business with the various Kaiser Companies and from Bechtel Corp.

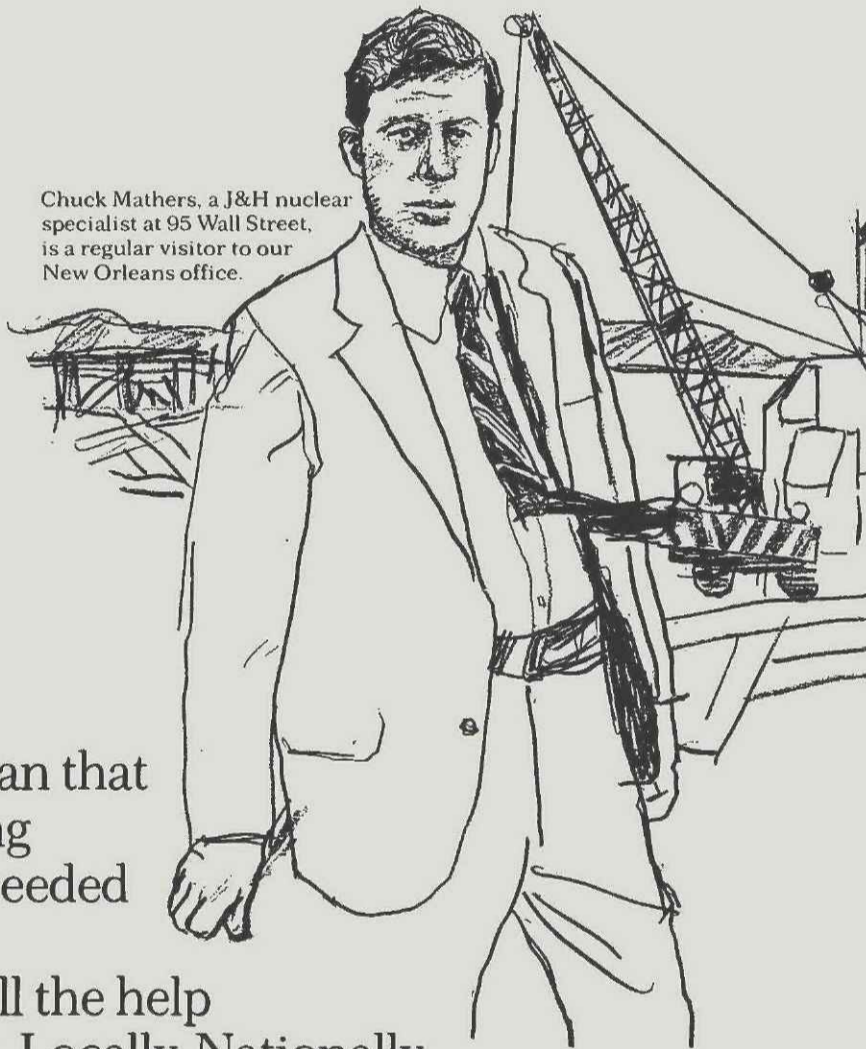
Marsh & McLennan and Johnson & Higgins were known to have been interested in the brokerage firm. Nevertheless, Reed Shaw Stenhouse, which has 14 offices in this country, has long been the lone suitor.

Bay Area insurance sources have questioned whether the accounts from Bechtel Corp. and the various Kaiser Companies will remain intact in the wake of USI's sale by Kaiser to Reed Shaw.

However, Mr. Henning affirmed that, barring unforeseen circumstances, he expects the business from the Kaiser Companies and Bechtel to remain with the merged firm on a long term basis.

"I think Reed Shaw Stenhouse will have a far stronger position in the United States as a result of this merger," said Mr. Henning, who noted that as for his own future with the merged firm he is unable to make any comment because he is involved in the negotiations over the legal documents pertaining to the merger. ■

Chuck Mathers, a J&H nuclear specialist at 95 Wall Street, is a regular visitor to our New Orleans office.



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• A comprehensive report on **Section 501(c)(9) Programs** is available free from Kwasha Lipton. The special report analyzes the background, acceptable benefits under the IRS, financing and rules and regulations. For free copies of the 28-page booklet, write Harry F. Bremer, vp, Kwasha Lipton Inc., P.O. Box 1137, Englewood Cliffs,

New Jersey, 07632.

• **Insurance Facts 1976** gives an overall view of the property, liability, marine and surety markets. Statistics on various lines of insurance, loss summaries for fire, earthquake, work and catastrophes among many others are included. For a free copy, write Insurance Information Institute, 110 William St., New York, N.Y., 10038.

• Private health insurance views on the **Major Issues in the Financing and Management of Health Care** are in a 34-page booklet from the Health Insurance Institute. Cost containment, quality controls, cost sharing, and health education are among the topics covered. The booklet contains edited papers prepared by the technical advisory committee of the health care program task force. Single free copies are available from the Health Insurance Institute, 277 Park Ave., New York, N.Y., 10017.

• The **1976 Hospital Daily Service Charges** brochure is updated and includes state-by-state listing of private, and semi-private room and intensive care charges. Free copies are available from the Equitable Group Insurance Department, 1285 Avenue of the Americas, New York, N.Y. 10019.

• Court cases are legal trends in **Hospital Liability** are contained in a pamphlet from the Underwriters Adjusting Co. Defenses, legal terms and the importance of hospital records and charts are included. For a free copy write Underwriters Adjusting Co., 224 S. Wacker Dr., Chicago, Il. 60606

• Industrial Risk Insurers offers recommendations for protection of **Buildings Under Construction**. Loss preventive procedures, proper design procedures and protection against fire and wind hazards are included. For a free copy write 85 Woodland St., Hartford, Cn. 06102

• **Product Liability Litigation** by Arthur D. Little Inc. describes how lawyers and others involved in litigation can use the consultant's services as expert witness and technical support in product liability actions. A few case histories are presented. For a free copy, write to Irving J. Arons, Product Technology Section, Arthur D. Little Inc., Acorn Park, Cambridge, Ma. 02140.

• Employers Insurance of Wausau and the Liberty Mutual Insurance Cos. have developed jointly a brochure on **Emergency Medical Service Systems . . . A Community Challenge**. It stresses the importance of improving emergency medical service in the community through public education, transportation, professional competency and regional planning. For a free copy write Peter E. McGuirk, director of publications, Liberty Mutual Insurance Cos., 175 Berkeley St., Boston, Ma. 02117.

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

• **What do I do now?** explains what beneficiaries should do following the death of a relative or spouse. From CNA Insurance, this brochure is available free by writing to Mary Ann Poruzcnik, CNA Insurance, 29S, CNA Plaza, Chicago, Il. 60685.

• **PayPlus**, published by Pension Planning Co. Inc., describes employee benefit statements marketed by the company which provide each employee with a personal computerized summary of the value of his or her fringe benefits. For a free copy of the brochure, write to Steve Sundheimer, manager of communications division, Pension Planning Co. Inc., 355 Lexington Avenue, New York, N.Y. 10017.

• **Loss Prevention: The Best Way to Protect Your Assets** is a promotional brochure from Philadelphia Manufacturers Mutual Insurance Co that describes how you can protect your business against loss by identifying and correcting potential hazards. Also included is an outline of the company's approach to meeting the insurance needs of

large, well-protected facilities. For a free copy, write to J.G. Richardson, Mktg. Dept., Philadelphia Manufacturers Mutual Insurance Co., P.O. Box 824, Valley Forge, Pa. 19482.

• Changes in today's society are discussed in **Risk Management in the future: Four Challenges**, a publication of Risk Planning Group, in terms of the risk manager. Areas of fortuitous loss exposure and the tools needed to control and fund this widening area of risk are the focal point. For a free copy of this publication, write to H. Felix Kloman, president, Risk Planning Group, 24 Old King's Highway South, Darien, Ct. 06820.

• **HALLways to Better Benefits**, a periodic newsletter from the National Benefit Services Division of Frank B. Hall & Co., describes in one of its past issues the concept of employee stock ownership trusts (ESOPs). For a free copy write to: Mary Lee Cato, Frank B. Hall & Co., 549 Pleasantville Road., Briarcliff Manor, New York. 10510

• **Eagle Eye Optical Security** describes an optical device manufactured by Continental Instruments Corp. which utilizes and automatically adjusts to surrounding light and operates without reflectors or transmitters. For a free copy of the brochure, write to: Michael Morgenstern, Continental Instruments Corp., 170 Lauman Lane, Hicksville, N.Y. 11801.

• **Your Professional Reputation is at Stake Each Time You Hire a New Employee** describes employee screening processes including the flaws of many selection programs. It outlines Well Fargo Guard Services' techniques in which an employer can be more thorough in its hiring processes. For a free copy of the brochure, write to George Mulqueen, Director of Marketing, Wells Fargo Guard Services, Randolph Park West, Rt. 10, Randolph, N.J. 07801.

• Willson Products, a division of ESB Inc., is offering a five-part catalog showing eye protection equipment. Included are sections on safety spectacles, faceshields, welding goggles and helmets, lightweight spectacles and safety goggles. For a free copy, write to Stephen A. Neimiller III, advertising manager, Willson Products Div., ESB Inc., P.O. Box 622, Reading, Pa. 19603.

• Underwriters Laboratories Inc. (UL) is offering its **Standard for Safety** covering portable, stationary and fixed power supplies for specific uses including industrial and power supply equipment. Copies are \$3.00; if the subscription service for any further revision is desired, cost is \$8.00. Write Underwriters Laboratories Inc., Attn: Publications Department, 207 East Ohio St., Chicago, Il. 60611.

• Life/Safety automatic door closing devices are described in a free brochure from Reading Door Closer Corp. The UL approved system is designed for smoke or fire emergencies. Write Reading Door Closer Corp., Reamstown, Pa., 17567.

• An independent inspection and appraisal company, **Sanders Inspections Ltd.**, is making a self-descriptive brochure available. The company provides services such as loss control recommendations, underwriting information and building appraisals for self-insurance programs, risk managers and insurance companies. For free copies, write to Harvey Sanders, Sanders Inspections Ltd., division of RM/i Consultants, 49 S. Main Street, Spring Valley, N.Y. 10977.

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# Product safety agency wants to levy penalties

WASHINGTON—The Consumer Product Safety Commission would be a more efficient regulator if it had the authority to assess civil penalties as many other agencies do, its director told the Senate Commerce Committee last month.

Testifying in reaction to a highly critical General Accounting Office (GAO) report issued last July, chairman S. John Byington said he agreed with the GAO that civil penalties would give much-needed flexibility to the enforcement mechanism of the Consumer Product Safety Commission (CPSC).

"In many instances, cases under the Federal Hazardous Substances and the Poison Prevention Packaging Acts are brought before us and we are faced with either recommending that a U.S. attorney seek criminal penalties or closing the case," Mr. Byington said.

"This 'go-no-go' situation does not allow the commission such flexibility in tailoring a sanction to fit an offense," he added.

"If the instance is a one-time offense, then a criminal sanction might well appear overly harsh. However, the danger to the public from inattention and poor quality control is as real as the danger from intentional acts.

"Therefore, an 'in-between' sanction such as civil penalties would provide the deterrent and flexibility needed to address the many gradations of violation with which the commission must deal on a daily basis," the CPSC chairman said.

Mr. Byington argued that the CPSC should have authority similar to that of the Federal Trade Commission (FTC) in the use of civil penalties. One of the laws administered by the CPSC, the Flammable Fabrics Act, was once in the domain of the FTC, and recent authority granted to the FTC to use civil penalties would have been applicable to the Flammable Fabrics Act if that agency still administered the law.

A bill that would give the CPSC the authority it is seeking was pending in the Senate Commerce Committee, but it died under the pressure to finish more important legislation before the scheduled Oct. 2 adjournment of Congress.

The bill's sponsor, Sen. James B. Pearson (R-Ka.), is planning to reintroduce the legislation in the

next session of Congress and is asking for additional suggestions by the CPSC.

Mr. Byington, who took office as CPSC chairman on June 2 after some heated controversy over his appointment by President Ford, said he basically agreed with the criticism of his agency by the GAO, which serves Congress as a watchdog on the administration of federal laws.

The GAO report scored the CPSC for management inefficiency, and Mr. Byington said it was an "excellent adjunct" to an in-house management study he had already initiated.

The in-house management report found that CPSC suffered from an "inherited structure (that) was entirely too diffuse, lacked cohered by duplication of effort, lack

ence or logic, and was characterized of accountability, and an excess of informal rules of procedure," Mr. Byington said.

Action has already been taken to improve management and performance of the commission, Mr. Byington said, including:

- Development of profiles on more than 100 products that may merit CPSC attention.
- "A new approach to translating agency mission into programmatic operating terms has been taken, and a fiscal year 1977 operating plan and fiscal year 1978 budget based on that approach have been completed;"
- Communication has been improved between commissioners and senior managers, both at headquarters and in the field;
- And the organization of the CPSC has been rearranged to al-

locate personnel and funds to support the new management approach.

Furthermore, the CPSC will strive to educate companies within regulated industries more than it has in the past, Mr. Byington said.

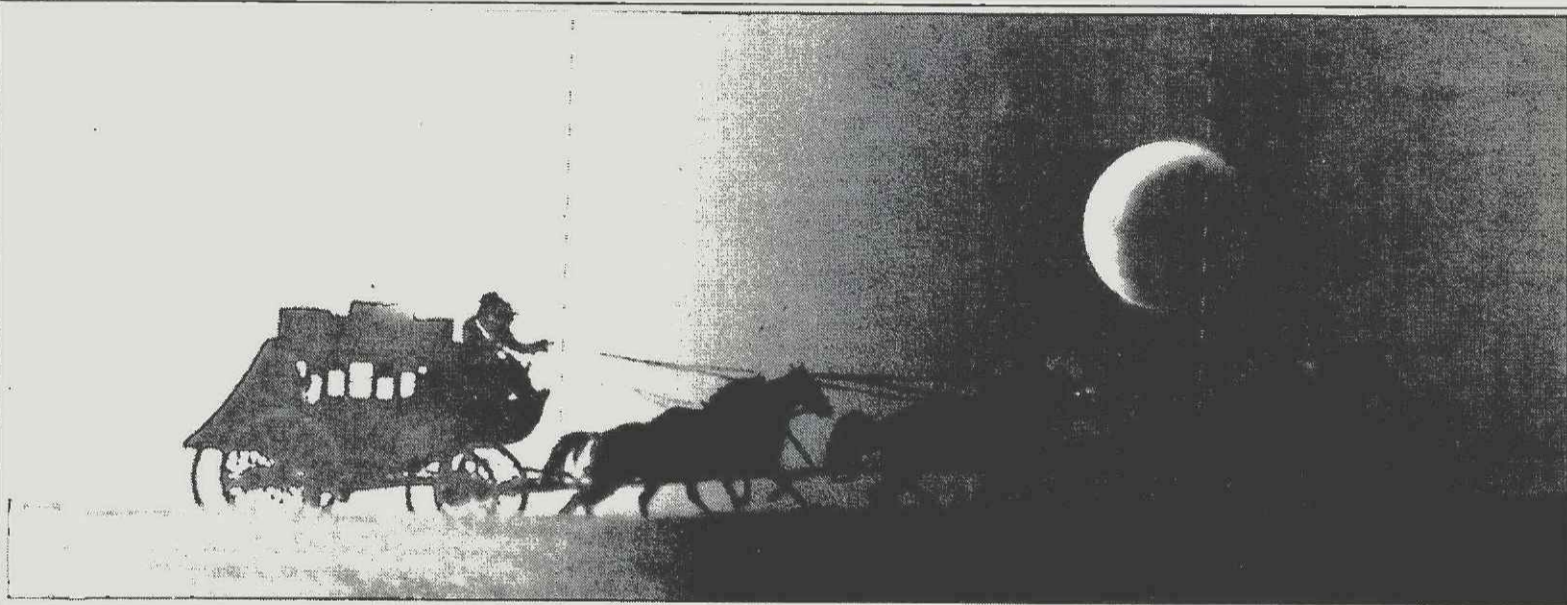
Before a recent bicycle regulation was issued, the CPSC held meetings and seminars with the affected manufacturers, distributors and retailers to inform them of their upcoming obligations under the regulation, he said. "Information and education has played a major role in our efforts to date in implementing this regulation," the chairman added.

The CPSC is also trying to get state and local authorities involved in its compliance and enforcement efforts, he said.

The agency's fiscal year 1978 budget request is designed to include a small increase in personnel and funds "to aid in the more efficient handling of field case-work activities, improving liaison and response time with appropriate courts and U.S. attorneys, and providing needed on-the-job training for our area personnel," he said.

"However, I must stress that our operating plan for fiscal year 1977 and the budget request for fiscal year 1978 are premised on a very important assumption—that there will be significant self-initiated compliance by the regulated firms," Mr. Byington said.

"If that is not the case then I believe very significant increases will be necessary in our compliance and enforcement programs," he added.



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## NFPA tells cut in number of large fires

BOSTON, MA.—A decrease in the number of large-loss fires, during 1975 but an increase in the cost of property damaged was reported by the National Fire Protection Assn. (NFPA).

There was a 2% cost increase, from \$565.9 million in 1974 to \$579.49 million in 1975, while there were 9% fewer fires during the year.

According to the NFPA, most of the large-loss fires occurred in January (61) with December second (54). The month with the lowest number of fires was May (29) with October second (33).

In February, 1975 one of the largest fire losses in history occurred in New York, when a central telephone exchange was destroyed cutting off service to 170,000 phones. Damage was estimated at \$70 million, not including business interruption.

## benefit tax slants

# Patchwork tax reform act to impact on benefit, compensation schedules

By Joseph S. Robinson  
Attorney-at-Law

THE TAX REFORM Act of 1976 is a 1,500 page patchwork. It will, however, produce significant changes in many pay plans and offer some added fringes to boot.

For openers, stock options take a beating as does the tax break previously given to those who receive sick pay. But make no mistake; there are some goodies thrown in for the rank-and-file worker as well as for executives.

The following is a capsule rundown of some of the more important items pertaining to pay plans with tax changes noted.

**Lump-sum benefits:** The complex mixture of capital gains and ordinary income treatment on distribution of benefits is out. It is replaced by a uniform favorable 10-year averaging rule. Further-

more, pensions, annuities and other types of deferred pay will now qualify for the 50% ceiling heretofore limited to earned income. In other words, these payouts are no longer subject to the "minimum tax" as before. Consequently, some executives will want to reconsider their previous decision to postpone taking lump sum payouts to a later year.

**Sick Pay:** The \$100 per week sick pay exclusion is removed for most employees; it is reduced for others. Commencing this year, only early retirees who are under age 65 and permanently and totally disabled are still eligible for the \$5,200 a year exclusion. But even this break begins phasing out on incomes above \$15,000 on a dollar for dollar basis.

**Stock Options:** The tax break no longer applies to qualified em-

ploye stock options granted after May 20, 1976.

**ESOPs:** The 10% investment credit has been extended through 1980. The provision allowing a company to claim an additional one percent investment tax credit, providing it contributes an amount equal to this tax saving to an Employee Stock Ownership Plan, has also been extended. Effective Jan. 1, 1977, an added 0.5% investment credit will be allowed for any company that contributes an amount equal to the extra credit to an ESOP, but only if employees agree to match that amount with their own contribution.

**Office-at-home:** Executives and other employees who work at regular places of business and also claim office-at-home deductions will be hard hit by the new rules. From now on, a taxpayer can't

qualify for an "office-at-home" deduction unless the office is used exclusively and on a regular basis. Moreover, the residence-office must be maintained for the convenience of the taxpayer's employer.

The requirement of "exclusive" use of a "specific part of a dwelling unit" will knock out deductions for any room used at different times for office and personal purposes. It will also hit salesmen and other employees whose employers provide no office and require them to do their recordkeeping at home. If they do this work in a room also used for personal purposes, they will lose the deduction even though their office-at-home is required by their job and is the only office they have.

**Foreign Conventions:** Starting in 1977, if an employee attends a convention in a foreign country, no deduction for transportation may exceed coach or economy air fare. Even that sum can't be deducted in full unless more days of the trip (excluding travel time) were devoted to business than not. In order to deduct meals and lodging for a given day, the convention must have scheduled six hours of business that day, and the employee actually attended four. Daily living expenses are deductible up to the per diem allowance which the government pays its employees.

Not only must an employee submit his own tally of his daily devotion to convention business, he also must get a statement from the convention sponsor showing each

day's agenda of business and the hours the employee actually came.

**Group legal plans:** Tax free treatment of the value of legal services is a new fringe awarded to employees. The payins are deductible by the employer provided they are made to a trust fund through an insurance arrangement or tax exempt organization. In other words, direct payments to an attorney will not entitle the employer to a deduction.

**Dependent care:** Employees who require hired help to look after dependent children, etc., in order to hold down their job, get a boost from Uncle Sam. A new tax credit replaces the previous deduction. The credit is 20% of up to \$2,000 spent on behalf of one dependent; \$4,000 for two or more. What's more, the credit is available to all eligible taxpayers regardless of their income levels and irrespective of whether or not they itemize deductions. Payments to relatives qualify for the tax credit.

**Moving expense:** The allowances are liberalized commencing next year. So if present plans call for an employee to be transferred to another locality before the end of the year, it may be worthwhile to postpone the move to 1977 where he might obtain a larger deduction.

For instance, the dollar limits on some deductible items are increased to 3,000 for the sale, purchase or lease of residence, including up to 1,500 for house-hunting trips and temporary living expenses. The 50 mile rule is reduced to 35 miles. ■

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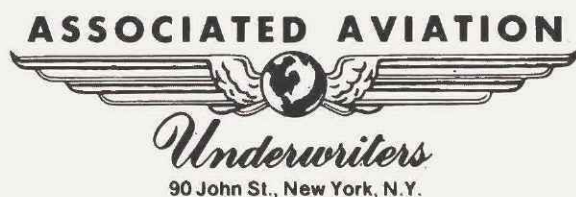
Since 1970, the cost of repairing damaged aircraft has risen 64.4%. Although the percentage of accidents has remained fairly stable, the size of verdicts awarded in liability cases has climbed to almost unbelievable levels. And, similar increases in thefts and malicious destruction of aircraft have had a significant effect on aviation insurance premiums.

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some of the other costs of operating your aircraft... like the increase in fuel costs.

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## Warns of hazards in Section 79 benefits

LOS ANGELES—"If your company has fewer than 10 persons covered by group life insurance and you buy Section 79 coverage for three or four executives, the IRS may disallow your deductions for the premiums and consider the premiums as income for the covered employees," warned Steven A. Eisenberg of Dan McGinn & Associates Inc., an actuarial consulting firm based here.

Otherwise, he explained, "an employee covered by such insurance doesn't have to report as income the premiums paid for the policy. And the premiums are fully deductible for the purchaser."

Another advantage of Section 79 is that the covered employee retains all ownership rights to the policy if he leaves the employer or if his employee terminates the coverage, Mr. Eisenberg continued. In that instance, the employee would "simply continue to pay premiums at the same rate his employer previously was paying."

The so-called jumbo type of insurance is costlier, he noted. Because it can run two to three times the expense, "it's best to superimpose it on an existing group life policy, providing increased coverage for selected employees," Mr. Eisenberg recommended.

The provision can be "a bonus for executives in poor health," he said. "If you or any of your executives have a health problem, Section 79 is particularly attractive. The additional premiums required for all of the insurance coverage on such employees are fully deductible for the employer and non-taxable for the employee.

"The same is true for all accidental death premiums and all disability benefits," Mr. Eisenberg noted.

The restriction concerning the number of lives to be covered is important, Mr. Eisenberg explained, because "some insurance companies are ignoring it and sell-

ing Section 79 coverage to companies which may not qualify."

Because the provision "obviously is a loophole which discriminates in favor of higher-income executives..." it may become a target of Congress at any time, he warned.

Still, he believes that Section 79 coverage "represents a good buy, subject to the restrictions and conditions specified."

The most common types of policies available, according to the consultant, are:

- Annual renewable term policy—Pure term insurance in which the employer pays the premiums and takes the deduction. "Premiums for policies of less than \$50,000 are not considered as income to the covered employee and thus are not taxable," he said.

- Whole life policy or limited payment whole life policy—"Part of the premiums for such policies are allocated to a term portion of the policy and part to the permanent portion. The employer pays the part of the premium allocated to the term portion and the covered employee pays the other part," Mr. Eisenberg explained. ■

### N.Y. RIMS offices

The New York chapter of the Risk & Insurance Management Society elected John Robert James, vp of Chemical Bank, president for the 1976-77 year. Other chapter officers include: John J. Murphy (Avis), first vp; J. Kenneth Cavanaugh (Loew's Corp.), program vp; Ernest Reach (U.S. Industries), legislation vp; Joseph S. Sardano (Chase Manhattan), education vp; Paul Goldschmidt (Philip Morris), membership vp; John L. Sullivan (International Paper), conference vp. William E. Morrison (Aircro), was elected treasurer; Thomas L. Conklin (Crane Co.), secretary and William F. Wynne (Champion International), will represent the New York chapter to the national society.

# Classifying cuts costs for well contractors

HOUSTON, TX.—Workers' compensation coverage offered by the United General Insurance Exchange of Midland, Tx. has been bought by over 20 well service contractors in Texas.

According to Frank Miller, vp of the exchange and president of the United General Insurance Agency, the market crunch in workers' compensation was the main impetus for providing the coverage. Though well contractors are charged a state fixed rate of \$20.16 per \$100 of payroll, the Exchange claims it is able to offer more specific classifications and loss control services which lead to a cheaper overall premium paid.

While the Exchange says its coverage could amount to a 10% decrease in premiums paid, one contractor who paid \$80,000 to cover about 50 workers' for compensation, had his cost cut to \$65,000 by using the correct classifications for his employees, according to Mr. Miller.

The exchange is also using specialized engineers who can inspect and service wells as a main selling point. The exchange is a reciprocal insurance company owned and operated for its member well service contractors.

Globe Well Service Inc. of Big Lake Tx., was the first well service contractor insured by the workers' compensation coverage. Globe's president, Frank Sandel, is also

## Medical cos. worry most about safety of products

PHILADELPHIA—Medical and health services companies were the number one group to rank product and service safety problems as being "very serious" in their industry in an analysis designed by the Department of Insurance of the Wharton School here.

The same analysis showed that electric utilities had the greatest tendency to feel there have been "increasing pressures" to warn customers about possible dangers of products or services.

Some 61.5% of medical and health services ranked product and service safety as a very serious problem, while 35.7% of the respondents from the medical and health services industry said they felt increasing pressure to provide customer warnings.

Half of the utilities, by comparison, responded they thought the problems were very serious, but 66.7% said they felt increasing pressures to provide customers with warnings about their industry.

The analysis was made of 30 industries. It was part of a larger survey commissioned by the Sentry Insurance Group and designed and conducted by the Wharton School and Louis Harris & Associates on the attitudes of business toward risk management, insurance and related issues. (See story, page 4).

Almost 77% of respondents engaged in fabricated metal products manufacturing and firms engaged in food and beverage processing indicated that the problem of being pressured to provide customer warnings of possible dangers has been increasing, the analysis discovered.

the chairman of the board of the insurance reciprocal.

Oil well service contractors clean, repair and service oil wells once a rig is completed. Depending on the contracting job, a Texas employer pays \$16.68 when rigs are being completed but only \$3.27 when men are not working (called yard time). According to Mr. Miller if an insurance carrier is willing to classify correctly, the employer can save substantially in premiums.

Insurers are reluctant to cover well service contractors because of the risks involved in both inland marine and workers' compensation; among the more serious problems are underground damage to reservoirs, saline damage, and

blowouts and cratering where streams of water can wash the ground out from underneath a well.

The United General Insurance Exchange has been insuring well contractors' inland marine risks since 1973, writing policies for over 100 contractors and 60% of the total in Texas, Oklahoma, Kansas and New Mexico. Presently the Exchange insures workers' compensation only in Texas but plans to expand in the near future.

According to Mr. Miller, the workers' compensation premium retention of the Exchange varies from 20% to 45% on large accounts. Companies entering the exchange for workers' compensation do not contribute capital. He said that loss ratios have run about 20% for inland marine which is the "product of selection and underwriting done by the board of well service operators" who help screen prospective insurers.

# Foreign firms want detailed information

WHITE SULPHUR SPRINGS, W. VA.—Brokers and agents in this country will have to be willing to provide more details than they have in the past about their commercial clients and the risks they need to insure, when approaching London for coverage, said Leslie R. Dew, a leading underwriting member of Lloyd's.

He predicted that brokers and insureds alike will need to use foreign markets such as London, Japan, Germany and Switzerland more during the next two years in order to obtain the coverage needed for commercial risks.

To gain maximum support, U.S. brokers and agents will have to be willing to provide "a fuller underwriting presentation than has been

customary," said Mr. Dew, speaking here at the joint annual meeting of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives.

It may be impossible at this point to reverse the current trend toward more government intervention, more compulsory classes of risks, and more strict liability, said Mr. Dew, because "society's belief that someone has to pay for any personal injury or damage sustained is too deeply rooted to be changed radically."

He advocated doing away with all prior approval rating laws, so that underwriters can meet the demands for insurance by operating on a competitive rating basis.

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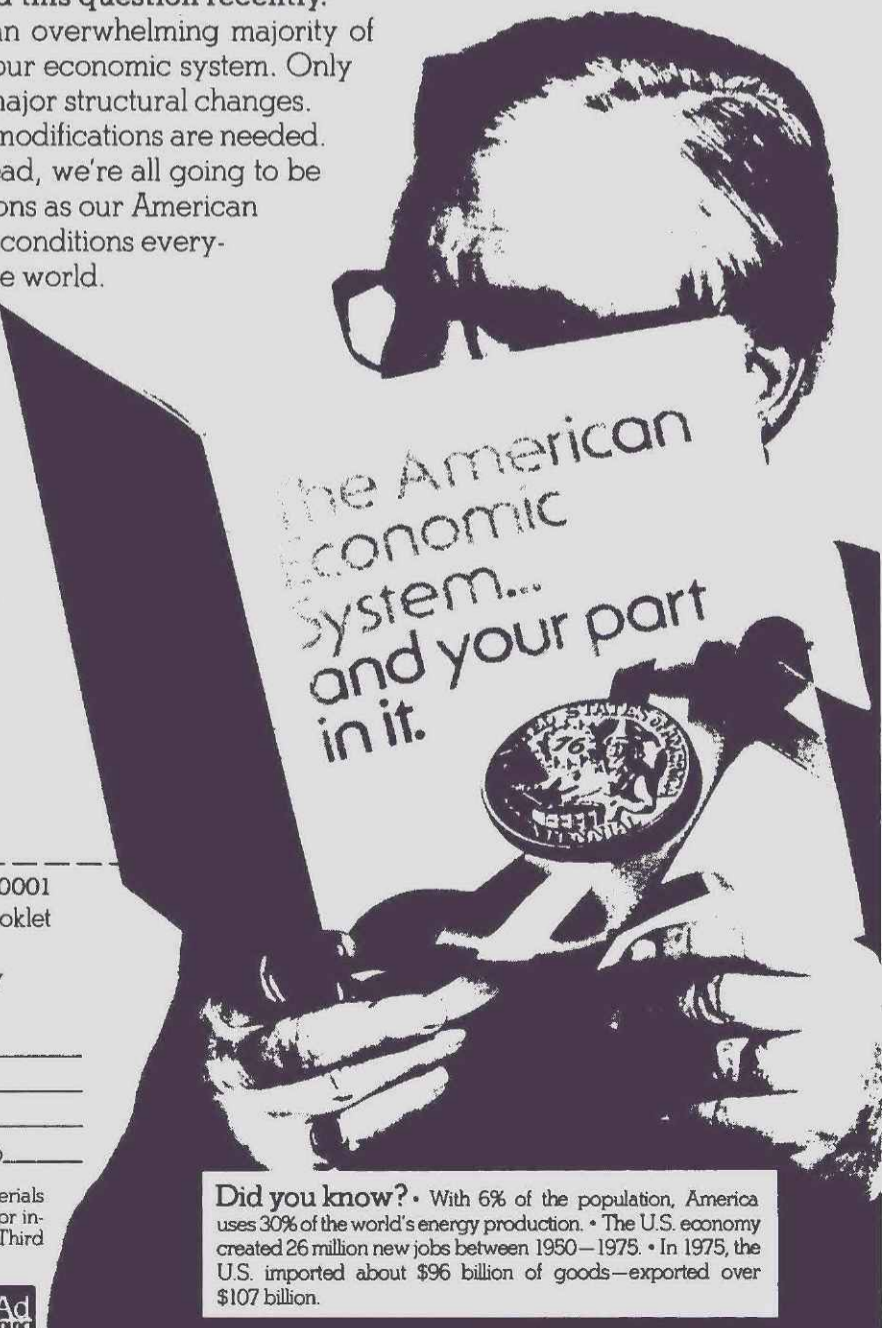
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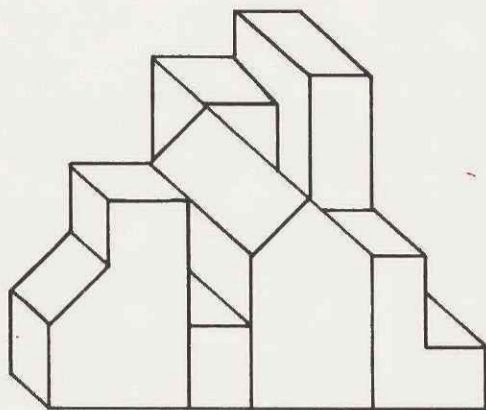
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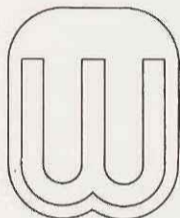


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## London line

# Workers idled by colleagues riot; \$25,000 damage at Ford factory

LONDON—Rioters caused \$25,000 worth of destruction at Ford's big auto plant at Dagenham (Essex County) after complaints that new "precision control" equipment was unsafe to use.

The damage will probably be covered by Ford's self-insurance arrangements.

It is the first time any such incidents have occurred at U.K. auto plants where strikes have frequently stopped plant production lines.

The "orgy of destruction", as some witnesses called it, started when 12 night-shift door-setters refused to handle the equipment, charging that it was unsafe.

It had been brought in for the start of production of a new line of U.K. Ford autos, styled the Cortina, which is already being marketed under the Taunus name in West Germany.

More than 1,000 men were suddenly "laid off" after the stoppage because production was held up, and 300 of them engaged in violence in an executive dining room and other parts of the plant, where furniture and vehicles were set ablaze, because they were angry at losing wages through the sudden stoppage by fellow employees.

After four hours they were persuaded to go home, so that management could check the new equipment which had already been operated without difficulty by day-shift workers.

This same machinery has been in

use without any problems in the U.S., West Germany and Belgium, according to a Ford spokesman, who said that it was used to ensure that doors fitted perfectly in the autos.

Disciplinary action is to be taken against some of the men who caused malicious damage to plant property. It is believed the "safety hazard" complaint was merely a device by some disgruntled workers to exploit job grievances over loss of leisure breaks.

Leading world insurers will be meeting in London Nov. 10 and 11 at a major conference organized by the London Financial Times to discuss new marketing opportunities.

U.S. representatives will include Bernard F. Combemale, vice chairman INA International Corp. and Saul T. Steinberg, chairman and president Reliance Group.

Economic developments in the "Third World", and changes in the economic strategy of other parts of the globe, will be examined at the conference by experts from Lloyd's and other insurance markets.

Damages of \$220,000 have been awarded by the U.K. High Court to a traveler whose auto hit a camel in the Middle East three years ago. He is Christopher John Cullinan, a 28 year old bank officer, who was being driven by another banker from Dubai to Sharjah and was

thrown from the auto into the road when the crash occurred.

Now he is confined to a wheelchair for life, and his career in banking is ended. The award is among the highest awarded by U.K. courts recently for auto accidents, as lawsuits for this type of injury are heard before judges whose rulings can usually only take potential loss of earnings into account.

Kidnap insurance cover was criticized by Jean Nepote, secretary-general of the world police organization Interpol, at a Monte Carlo security conference where insurers debated the growing menace of criminal activities.

"Many kidnappings are perpetrated by small groups of criminals who seek only profit from their ransom demands, and a suitable way of reducing these offences would be for governments to make ransom payments illegal," he said.

"But in countries where governments have not thought fit to take this stand, is it right for insurance companies to agree to cover kidnap risks?"

"If insurers issue such policies, they might well constitute an incentive to kidnapping, for criminals will take the view that their ransom demands will be met without loss or hardship to anyone except the insurance industry."

While insurance costs rise in the U.S. through expensive court awards, Britain is taking a new look at the U.S. contingency fee system.

For many centuries the system has been barred in U.K. law suits and any lawyer who tried to practice it would get expelled from the legal profession.

But at the very time when the system is under criticism in the U.S., there is a move among some U.K. attorneys to get it introduced in their own field of activities.

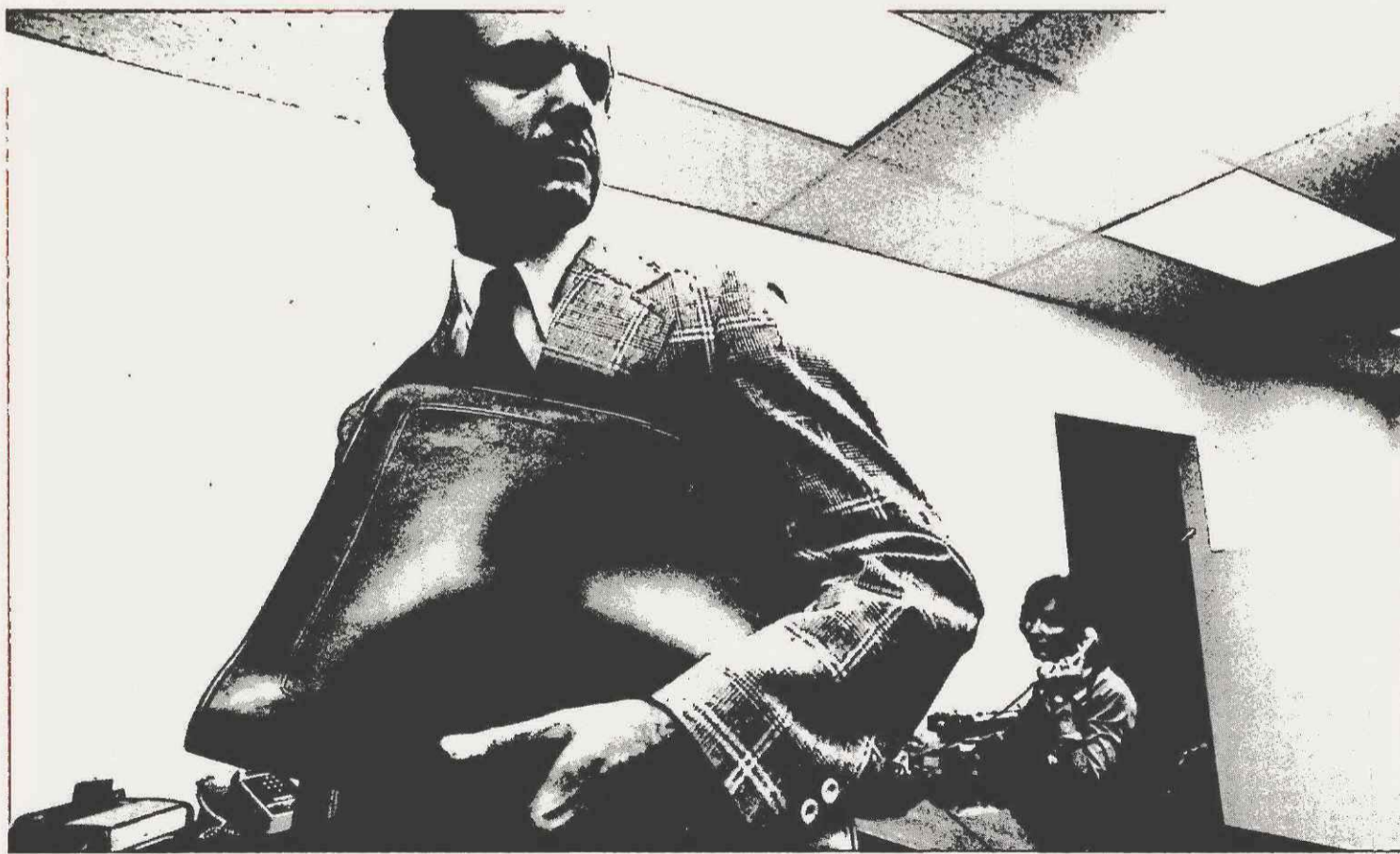
The idea started three months ago when Bernard Engler, a Manchester lawyer who represents some of the English claimants in their trans-Atlantic dealings with U.S. counsel in the Turkish Airlines DC10 litigation, expressed the view that there was nothing wrong with the contingency fee system if it was kept under proper control.

A London solicitor, Andrew Phillips, also supports the proposal. He said he feels it ought to be examined in Britain as a means of helping litigants who cannot afford to embark on expensive lawsuits.

Legal aid is provided out of public funds for many classes of litigants, but there is a strict income test which debar people with middle-level earnings from access to this facility, as it was originally intended for poor people who could otherwise not afford to sue.

But as legal costs rise, there are now many persons hindered by the expense from lawsuits, and some attorneys are urging that there ought to be an experiment with a contingency fee plan as long as it is kept within rigorous limits. Insurers are watching the situation with interest, though there is no sign yet that the plan will ever win approval.

Costly hazards created by the use of new materials in the petrochemical industry should be monitored to control fire losses, says Commercial Union group in a survey of the problem.



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"Petrochemical plants are becoming larger and more complex, and almost invariably represent high values at risk," comments the report, which points out that some plants now under construction will be worth \$300 million.

Risk control is now becoming an essential factor for the industry, where there have been blasts like those which caused \$40 million damage at Flixborough (England) with 28 dead in 1974, \$50 million at Antwerp (Belgium) with six dead in 1975, and \$20 million at Beek (Holland) with 14 dead.

The report is produced by the risk management division of Commercial Union under Ken Duffy, who comments: "The development of improved catalysts and alternative process routes has sometimes enabled the industry to reduce the severity of process conditions and thereby ameliorate the loss potential.

"Good process control is an important factor in ensuring the plant operates in the desired manner, and good maintenance is necessary to preserve the integrity of well-designed plans to improve poor ones. Opportunity should be taken at the planning stage to check whether the projected site will be exposed to perils like windstorms, or close to airports or other hazardous plants.

"Regular meetings should be held to discuss firesafety shortcomings, and responsibility for firesafety should be entrusted to one of the most senior executives at each plant. Disaster plans should be prepared."

The report warns that about 30% of the fire loss is now attributed to malicious acts.

**Pollution defense** schemes costing \$22 million are being planned by Norway to deal with any potential "blow-outs" in the North Sea oil exploration field.

Much of this will come from international oil corporations who already operate in the offshore areas, but there will also be help from the Norwegian government which has its own state-run oil corporation.

Plans are for two major bases where heavy ocean-going equipment for fighting pollution catastrophes will be centered, as well as smaller bases for safety operations.

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# Federal action is called key to product liability

By STUART HANGER

TROY, MI.—Federal legislation to deal with the product liability crisis was the keynote of the first Risk & Insurance Management Society (RIMS) seminar on the problem.

Legislation to establish a statute of limitations on product liability claims, a limit or elimination of contingency fees by lawyers, and expansion of no-fault insurance to the area were the major proposals considered by 72 risk managers, businessmen, insurance executives and lawyers, on Sept. 30.

Ralph B. Baldwin, president of Oliver Machinery Co., Grand Rapids, said chances are good for passage of statute of limitations legislation early next year.

Mr. Baldwin said the law should state that "if a product has been

in service for a reasonable length of time, such as six years, that product must be considered commercially safe and the manufacturer immune to further suit."

Mr. Baldwin is a member of the federal Inter-Agency Task Force charged with finding solutions to the product liability problem. He called a solution urgent and said many cutting tool manufacturers were "in a panic" about the unavailability or skyrocketing cost of insurance. "Many of us, particularly smaller companies, will have to close our door if remedial action is not taken," he said.

The possibility of expanding no-fault insurance to the product liability problem was suggested by Jeffrey O'Connell, a professor of law at the University of Illinois and a major author of no-fault

auto insurance.

Mr. O'Connell said he supports a law that would allow businessmen to elect to pay medical expenses and lost wages that resulted from accidents involving products they have manufactured. To the extent a guarantee of a "no-fault" payment exists at the time of accident, no claims based on fault would be allowed.

Mr. O'Connell said no-fault would "eliminate tort liability and put it (product liability) on an insurance basis." He said there is a great need for accident victims to receive out-of-pocket expenses for medical treatment and lost time from work and argued insurance dollars "are best used to pay for dollar losses."

But manufacturers who fail to produce safe products received no sympathy from Harry M. Philco,

a member of the American Trial Lawyers Association. "It's better you go out of business if you can't perform in a free enterprise," the Detroit lawyer told the seminar.

Mr. Philco said "safety is more than common sense" and "any risk of serious injury or death is always always unacceptable."

A partner in the law firm of Philco, Cockrel, Spearman, Cooper, Rine, King, and Atkinson, Mr. Philco opposed any extension of no-fault insurance to product liability, but did not elaborate.

In particular he singled out the Big Three auto companies for attempting to cut costs by giving work to small alley shops where, he said, the parts carry a greater risk of injury than those from larger firms.

The option of self-insurance was

proposed by Daniel D. Gaitley, manager of the insurance department, Chrysler Corp. But Mr. Gaitley said there are problems in meeting accounting requirements on the validity of loss data and suggested tax changes to improve matters.

"An item of reform that would improve the climate would be if favorable tax treatment would be accorded to self-insured product liability reserves, something equivalent to the tax recognition of the deductibility of such reserves when they are carried by an insurance company," he said.

Mr. Gaitley also suggested companies faced with a product liability crisis consider establishing captive insurance companies to cover retained losses and get the remainder reinsured.

Another arrangement he suggested was a "wrap-up" plan where companies (primarily in the consumer goods area) carry the risk under insurance, self-insurance or a combination of both. This plan would relieve all suppliers, distributors and retailers from liability. This would recognize that there can be only one ultimate loss from one product and eliminate overlapping premiums.

Mr. Gaitley said, "no matter what method is selected under these developing conditions of product liability self-insurance or large retentions, it will be necessary for companies to establish in-house product liability claim centers." These centers should function like claim offices of casualty insurers, he said.

Mr. Gaitley told BI that Chrysler's product liability claims have increased "qualitatively" by about 100 per cent since 1970. While declining to give a total for Chrysler's funding of the company's self-insurance program, he did say has deductibles ranging from modest amounts to \$1 million. Previously, the company retained only \$50,000.

William Gibson, Midwestern regional vice president, American Insurance Association, Chicago said AIA will begin training claims managers (including engineers and legal advisors) in Chicago on October 21. This move is part of a recognition that more expertise is needed in the area.

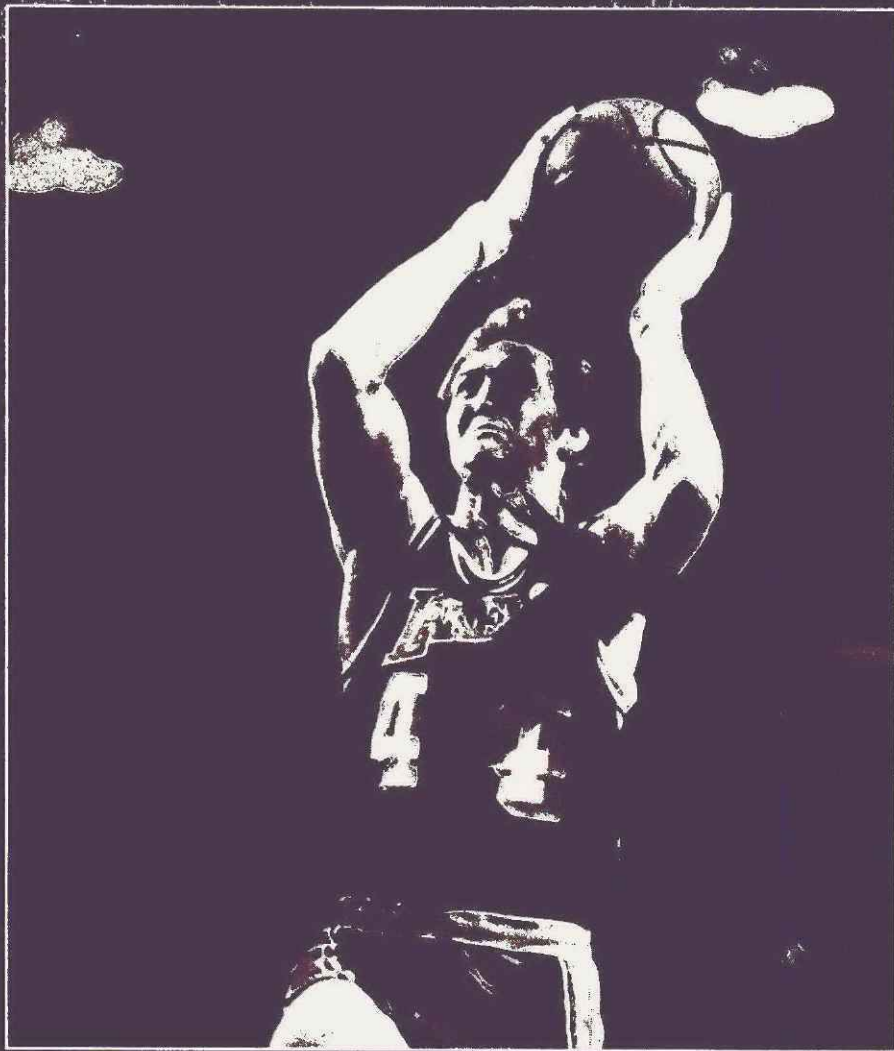
Mr. Gibson said AIA would undoubtedly support some of the proposed solutions by late January. But for now he saw more product liability claims, higher insurance rates and more "outrageous decisions."

Gibson did say he was encouraged by the high degree of concern and effort being put forth by at the federal and state levels to solve the problem.

William H. Wallace, president, Defense Research Institute, and partner in Thompson, Hine and Flory, Cleveland, discussed the defendants' role once the case comes to court. One important point is not to have anyone involved in the case talk about it except to others involved. Another was "establish if it's your product and GET HOLD OF IT." ■

## INA activates captive

Insurance Co. of North America (INA) is in the process of activating a reinsurance facility in Bermuda, *Business Insurance* learned. The company, formerly titled Winchester International Assurance Co. Ltd., will be called INA International Insurance Co. Ltd. It has a capitalization of \$2 million and a surplus of \$13 million. Guy Patterson, president of INA Reinsurance Co., will head the Bermuda company. ■



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# Multinationals beware! You are terrorist's target, warns expert

BRIGHTON, ENGLAND—Violent politically-motivated attacks against multinational corporations can be expected to continue their upward spiral in the foreseeable future, according to a leading authority on international terrorism in a speech here last month.

"It appears now that the different terrorist organizations seem to have mainly one target and one goal, which unites them in a way. That target and that goal seem to be international business," said Fred Rayne, a security consultant and a member of the Justice Department's Committee on Prevention of Terrorist Crimes.

"This very serious threat is not at all times realized by those executives responsible for their corporations. There is a definite need for greater understanding and assessment of the threat by private industry," he said in his speech before the World Assn. of Detectives. Mr. Rayne was head of the Burns International Investigative Bureau for 12 years and before that did anti-kidnapping work for the British Intelligence Service. He now heads his own firm, Rayne International Inc., Miami.

"There is a good chance that in the future, because of heavy security precautions taken by governments and companies, foreign-linked terrorists and fanatics will tend to overreact and stage unbelievable sets and attacks," Mr. Rayne said.

"During the last 12 months, more than 100 active terrorist groups and organizations have been identified," he said. "There is an increase in evidence that a degree of international cooperation exists between some of them."

Violence is increasing, Mr. Rayne said, because of many factors, including publicity by the news media—headlines, he said, are "exactly what they want."

"As seen over the last few years, terrorism seems to follow fairly predictable patterns. If a terrorist activity proves successful in one country, terrorists in others try the same thing," he said. "As with everything else, success is contagious."

He noted that public and private law enforcement professionals are becoming increasingly sensitive to the problem, including the formation by the Federal Bureau of Investigation of a confidential anti-terrorist unit that will pass on important information on terrorist tactics to all U.S. police departments. And whenever an attack occurs, he added, an FBI agent will be sent to investigate.

In the face of increasing violence abroad, many U.S. businesses are pulling up stakes. "In discussing this matter with corporate officials I found that many executives now admit that one of their reasons for withdrawing from foreign operations is the lack of security," said Mr. Rayne.

"One of the best examples of this is Argentina—the terrorist capital of the world—where terror at the present persists despite recent military victories.

"More than 800 persons died in Argentina on account of political violence this year.

"Because of the situation, many European and American businessmen who were successful in Buenos Aires and other cities had to leave the country and operate from other areas. In several instances, operations in Buenos Aires are actually now directed out of headquarters in Brazil, Colombia, Venezuela and as far away as Miami,

Fl.," according to Mr. Rayne.

"What we have here with extortions, sabotage, kidnappings, bombings, etc., is a terrifying challenge to business. It is a challenge which should receive, by all concerned, the highest priority in study and analysis and counteractions by the leaders of business and industries," he said.

Mr. Rayne outlined an 11-point program to combat terrorism:

"Train management and security and safety personnel in effective handling of emergency situations so that they can, within their own organization, set up the necessary plans.

"Establish a communication link with law enforcement (officials) so

that emergency programs can be effectively set up.

"Establish within each department of industrial concerns, factories, offices, etc., an assistant security official who would be responsible for security in that particular department. This is a key unit which can make internal security programs effective.

"Provide for management control; for example, use of undercover services to guard against industrial espionage and sabotage.

"Conduct an up-to-date security survey and include residences of VIPs and executives.

"Conduct an up-to-date personnel security check on all employees, regardless of length of service with the company, including guard force

if in-house guards are utilized.

"Conduct, on an irregular basis, monthly security checks to assure that maximum security is implemented. Include homes and offices of VIPs as well.

"Establish security duties for certain employees in case emergency situations arise. Hold briefings for such employees.

"Provide security, guidelines for employees working overseas.

"As political or emergency situations arise, provide lecture programs on specific problems, including the political situation, information on terrorist groups in the area or country, and briefings on explosives and dexplosive devices, if bombings are involved.

"If overseas, have all executives adopt a low profile and blend in with local conditions."

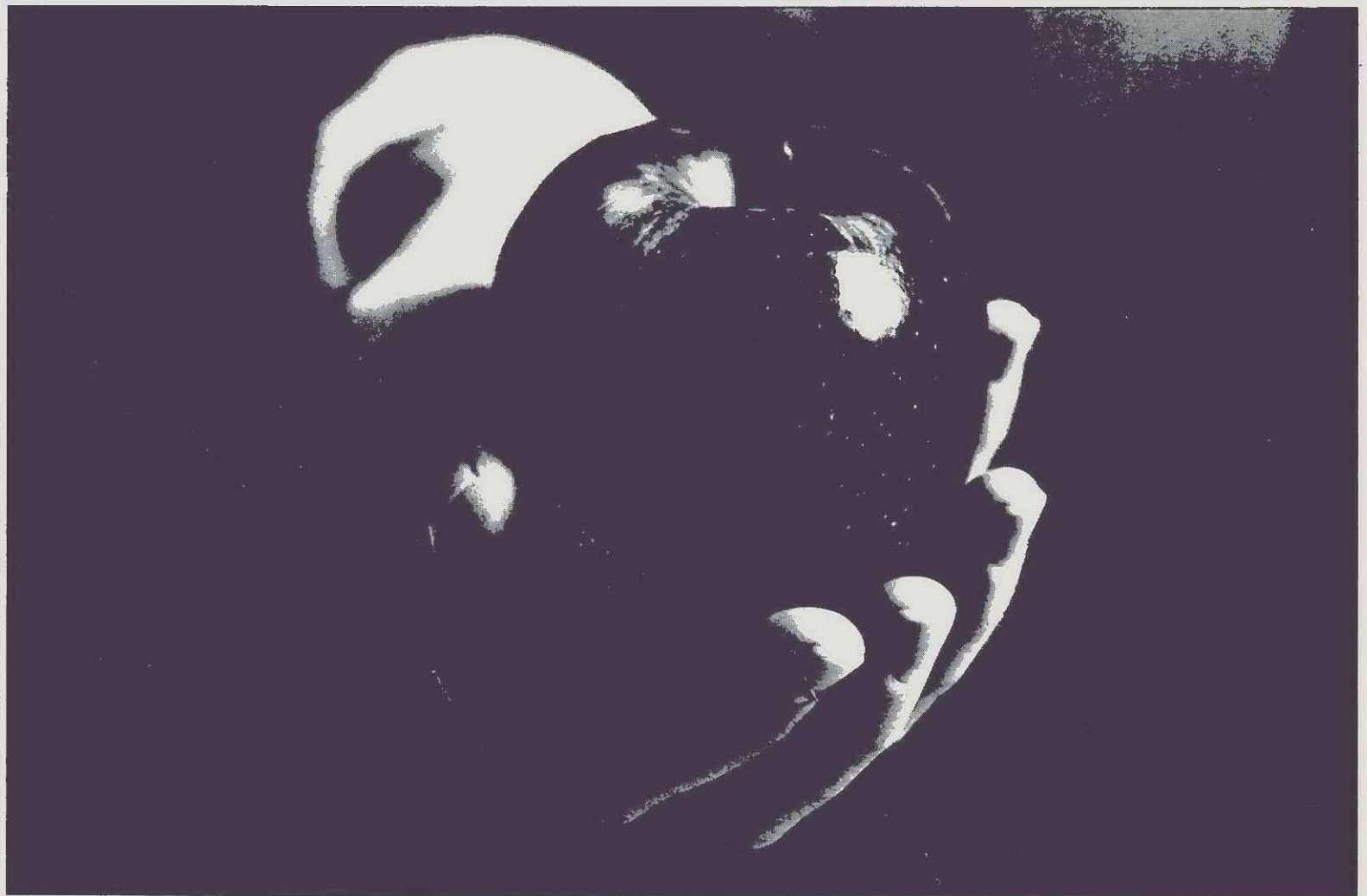
Mr. Rayne said the problem may become much worse in the future if terrorist groups are able to assemble nuclear weapons, although

he said that is a "very remote possibility."

Two trends he sees as very real possibilities are more mass-hostage situations and more youthful terrorist organizations. "With unemployment on the increase in many cities and countries, and in some areas like New York City where the police are reduced in numbers because of financial difficulties, the criminal and political terrorist, the fanatics, as well as the mentally ill, will see better opportunities for making attacks, particularly on private industries, and will continue to be cause for concern," Mr. Rayne said.

Another alarming trend will be the increasing use of sabotage. "Because security will be tightened by law enforcement and private organizations, terrorists, instead of openly attacking their targets, particularly properties of multinational operations, will seek a less dangerous way of carrying out their tasks.

Continued on page 54



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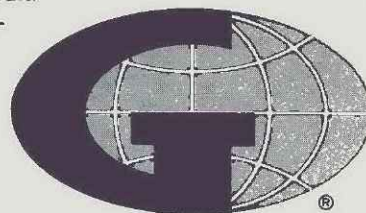
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# Miners ready for next round of negotiations

CINCINNATI—The United Mine Workers voted at their convention here late last month to strive for greatly increased pension benefits in the next round of collective bargaining talks.

The miners also voted to seek a doubling of the royalties on which contributions to the pension and benefit funds are based. The royalty now stands at \$1.55 per ton of coal produced.

They also voted to narrow the gap between the pension benefits received under the 1950 pension trust and the 1974 pension trust. Currently, miners who retire after Jan. 1, 1976, draw benefits from the 1974 trust, which is well-funded and pays maximum benefits of \$550 per month, according

to a UMW spokesman. The 1950 pension trust pays a maximum benefit of \$225, he added.

A liberalization of the age and service requirements for qualification for benefits was also added to the list of collective bargaining goals. The miners are seeking a pension after 10 years of service regardless of age, to replace the current requirement of 20 years of service and age 55 before a miner gets a pension.

Another goal is some sort of cost-of-living allowance on pension benefits for the union's retired miners. The exact nature of the COLA provision was left up to the negotiators at the upcoming bargaining talks.

The miners also passed a resolution to transfer some assets to the financially ailing 1950 benefit trust from other funds, a move that the fund trustees have been considering since a month-long wildcat strike in mid-July nearly wiped out the fund.

The 1950 benefit trust lost a total of \$26 million in expected contributions during the unauthorized work stoppage, which has already necessitated a \$15 million transfusion from the 1950 pension trust, a funds spokesman said.

T. Rowe Price, asset manager for the 1950 pension trust, sold \$5 million worth of securities—mostly bonds—on three separate occasions in July and August, leaving about \$19 million in the portfolio.

One UMW official, Mike Trbovich, vp, has charged that miners receiving benefits from the 1950 benefit trust are in danger of having them suspended. "A couple of months ago the 1950 (benefit) trust was broke, even before the

strike," Mr. Trbovich said.

Fund trustees reallocated 10 cents per ton of coal produced in May and June from the 1950 pension trust to the benefit trust, according to Harry Huges, chairman of the funds' board of directors.

The 1950 benefit trust covers approximately 225,000 retired miners and their families and has no reserves, making it very sensitive to changes in cash flow.

At the peak of the walkout last July and August, in which approximately 120,000 out of 170,000 UMW miners were idle, the 1950 benefit trust was losing about \$500,000 in contributions per day.

The UMW devoted a full day to consideration of pension goals in collective bargaining at their 10-day convention here.

Fund officials were keeping a wary eye on the general tenor of the convention, which accurately reflects the mood of the rank and file, a UMW spokesman said. ■

# First court suit against N-accident limits begins

CHARLOTTE, N.C.—Preliminary hearings were held late last month for what could be one of the first court challenges to the constitutionality of the \$560 million limit of liability provisions of the Price Anderson Act.

The Carolina Environmental Study Group sued the Nuclear Regulatory Commission back in 1973 for approving the construction permit for Duke Power Co.'s McGuire Power Station, and it wants to contest the entire limitation of liability provisions of the law.

Basically, the group maintains that since homeowners near the nuclear sites can't get insurance coverage in their own policies for nuclear accidents, and since Price Anderson limits the amount payable to them to \$560 million, although a \$4 billion accident is seen as possible, they suffer potential damage.

But in order to even be allowed in court to contest the constitutionality of Price-Anderson on that point, the plaintiffs have to establish their right to bring the action. Since they have not suffered any injury or loss thus far, but are talking about possible future injury or loss, this was the purpose of the hearings.

District Court Judge James B. McMillan heard expert testimony from both sides, but is not expected to make a ruling about whether the environmental group can contest Price Anderson for at least another month, according to persons who attended the hearings.

Among the expert witnesses were Lawrence G. Cummings, vp and general manager of Nuclear Insurance Consultants, a technical service of Marsh & McLennan, and Professor Dan Anderson of the University of Wisconsin's school of business. Mr. Cummings spoke in his capacity as consultant to Duke Power and Mr. Anderson, as an expert on Price Anderson. ■

# Terrorism . . .

Continued from page 53  
They will do so through sabotage by infiltration," he said.

"More security to counter sabotage will be needed and I urge industrial concerns to take the necessary precautions against this kind of terrorist attack, which is not so easily detected as other terrorist crimes," said Mr. Rayne.

In reaction to the terrorism threat, governments will become tougher and less yielding to terrorist demands, he predicted. He also said that one day terrorism will cause governments to require everyone to carry an identification card and register at local police stations. "You will not be able to move your residence from one city to the other without registering at the police station," he said. ■

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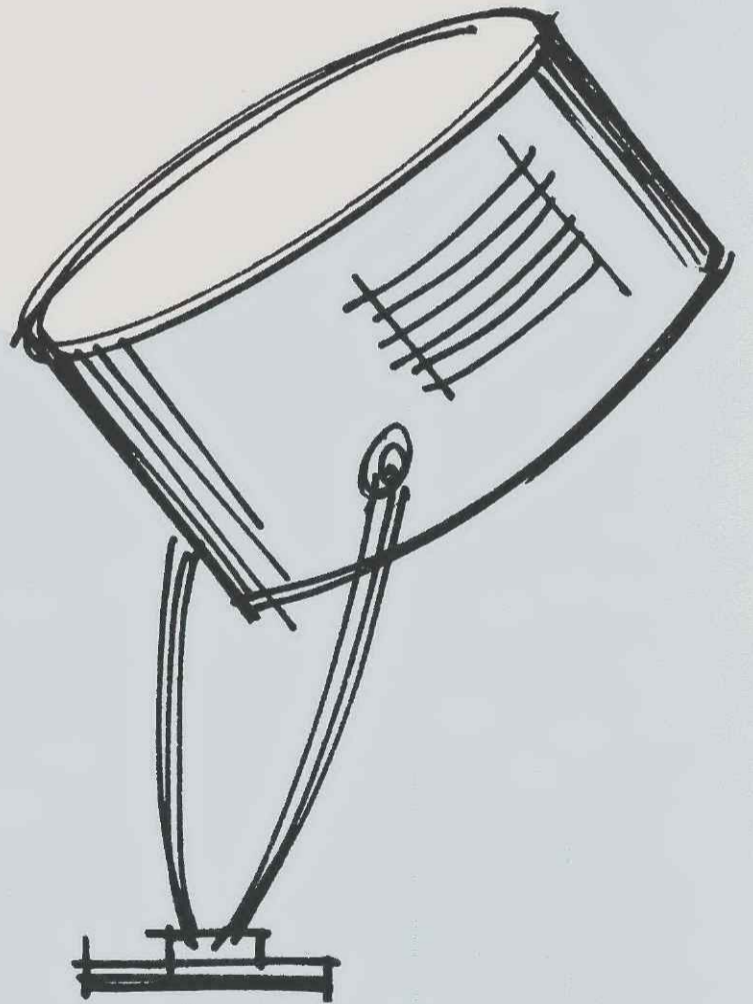
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## Select panel proposed for business liability

WASHINGTON—A freshman congressman has called for the creation of a select committee to focus on the product liability problem.

Rep. Ronald M. Mottl (D-Oh.) said the special committee "would be authorized to sit and meet throughout the remainder of the 94th Congress whether or not the House is in session."

Coming two weeks before Congress adjourned Oct. 2 until next January, the resolution to create the select committee had little chance of surviving the last-minute legislative crunch that was expected.

However, an aide to Rep. Mottl said the measure will "undoubtedly" be reintroduced in the next

session, assuming that the congressman will be re-elected in November.

A select committee does not have law-making powers but can gather facts through hearings and studies. If the select committee on liability insurance is created before Congress adjourns, investigators will be hired to gather research and consolidate information from other sources until Congress reconvenes next year, the aid said.

Problems with all types of liability insurance will be studied, but the focus will be on product liability, according to the staffer.

"I doubt that anyone needs an introduction to the escalating rates of medical malpractice insurance,"

Rep. Mottl said when submitting the resolution. "Product liability, which primarily affects small and independent businesses, is also quickly rising to a crisis level."

Attention has already been turned to the product liability crisis in the Senate, where the Select Committee on Small Business held two days of hearings on the problem in early September (*Business Insurance*, Sept. 20, 1976).

In introducing the legislation, Rep. Mottl said a select committee could focus its full resources on the complex problems of product and professional liability, and it would have the potential to resolve the crisis in a "timely manner."

Any legislation to deal with the problem, however, would have to be considered by the regular committees, possibly including Interstate and Foreign Commerce, Judiciary and Small Business committees. ■

## Barges aren't insured for work interruptions

ST. LOUIS—Barge owners don't carry business interruption insurance for all the slowdowns they're experiencing on the Mississippi River this harvest season.

Although the Mississippi is at an all-time low, harvests are at an all time high, so that the pressure to keep the barges moving in the shallow waters is not insignificant.

Instead of the normal 15 foot level, the once-mighty Mississippi is now dredged continuously by the Army Corp of Engineers to maintain the minimum nine foot level. Drought has hit the Upper Midwest and most observers predict no relief until spring when the winter snows melt.

John Roskopf, insurance manager for CF Industries, which owns

Agri-Trans Corp. barge line in Long Grove, Ill., said he knows of no barge line that carries business interruption insurance. Instead they try to cover such risks through physical damage claims.

Serious accidents have not increased on the river but groundings have, according to Tom Gladders, chairman of the American Waterways Operators task force on the Mississippi. The groundings are not usually serious and the Coast Guard is usually able to pull the barges off sand bars which can build up in a matter of hours.

However, Mr. Gladders, president of G. W. Gladders Towing Co., St. Louis, feels business interruption insurance costs are "prohibitive." Navigation is rarely stopped for prolonged periods of time on the rivers, he said, and even if one river is blocked it does not usually affect other rivers in the system.

Mr. Gladders said the waiting periods he found in interruption policies he studied were not practicable in barge lines type of business.

If the river is not navigable, it is the barge owners' worry because barges only operate on a contract basis; there are few unconsigned barges. Farmers do not ship unless they have sold shipments to Gulf Coast grain operators, according to Bill Robertson of Agri-Trans' Corp., partially-owned by several farm cooperatives.

William Goldsmith, president of Neare, Gibbs & Co., marine underwriters in Cincinnati, Oh., said business interruption insurance "just has never been done" in the business.

Mr. Goldsmith said that because barges are made to withstand most normal groundings, he has had only a slight increase in the number of claims stemming from Mississippi River mishaps.

Instead, most serious accidents occur in high water where the swift currents can bend tows out of shape, create swift runs, and result in collisions with bridges and other tows, according to Mr. Goldsmith.

The situation is most serious downriver near Vicksburg, Ms. and north to Memphis, Tn., although the situation is not rosy anywhere. Near St. Louis, two-thirds of the water in the Mississippi originates in the Missouri River where the dams are closed Dec. 1 to curtail the water supply, Mr. Gladders said.

Unless there is an unusually wet autumn, relief will not be forthcoming until the spring. Until then, the number of barges and towboats are restricted, but Mr. Gladders said barge owners plan to keep operating through the winter.

If farmers in the Midwest cannot ship by railroads, they will have to store their grain. ■

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### Could raise surplus

Insurers could immediately increase their available surpluses in order to underwrite more insurance by using more quota share reinsurance, said Ward B. Gordon, executive vp of Intere Intermediaries Inc. based in Chicago. Speaking at the annual meeting of the Society of Chartered Property & Casualty Underwriters (CPCU), Mr. Gordon said quota share reinsurance has been "out of favor in recent years because of the fetish for cash flow" in most companies. But such reinsurance can be used to raise surplus because it releases the equity in the unearned premium reserve of the reinsured portfolio, he added.

# Losses of \$50 million are foreseen in two recent major airline crashes

LONDON—Insurers in London are waiting to assess the effects of two major air crashes within nine days. The overall effect is likely to be losses of at least \$50 million to borne by the market both at Lloyd's and with the UK insurance companies.

The first, at Zagreb (Yugoslavia) on Sept. 10, resulted in the deaths of 176 people after a mid-air collision between a British Airways Trident and a Yugoslav-owned DC9. This may cost more than \$23 million. It was the direct result of a serious ground-control error.

The second, at Isparta in southwest Turkey on Sept. 19, resulted in the death of 154 passengers and crew after a Turkish Airlines Boeing 727 hit a mountainside with a planeload of tourists, and will cost an even larger amount if heavy compensation is eventually demanded.

John C. Peters, chairman of the

## Comptroller: credit letters are liabilities

WASHINGTON—The Comptroller of the Currency ruled that banks can treat letters of credit for guaranteeing performance of overseas contracts as a contingent liability rather than a loan.

The Overseas Private Investment Corp., a government agency charged with promoting and insuring investment in foreign ventures, asked the comptroller for the ruling after it started offering political risk insurance for the letters of credit last July.

Most foreign governments, particularly in the Middle East, require letters of credit from a contractor's bank guaranteeing performance of a contract, in amounts usually ranging from 2% to 20% of the gross contract.

OPIC's insurance and the Comptroller's ruling will make it easier for contractors to get the letters of credit, often referred to as bank guaranties, and they will improve the position of U.S. contractors in competitive bidding for multi-million dollar overseas contracts.

OPIC insures 90% of the letter of credit against an arbitrary drawing. As a result of the OPIC insurance, several surety bond companies have agreed to provide on-demand bonds to collateralize the commercial risk under the letters of credit, thus minimizing the issuing banks' risk and facilitating the issuance of the letters of credit, according to OPIC.

## Name insurance chief

J. Robert Hunter was named administrator of the Federal Insurance Administration after serving as acting administrator since December 1974, the Department of Housing and Urban Development (HUD) announced last month. The Federal Insurance Administration oversees the national flood insurance program, the federal crime insurance program, and urban property insurance programs, including the FAIR plan and riot reinsurance. His career with the FLA began in 1971 when he served as chief actuary. Mr. Hunter has testified at various proceedings as the government's expert witness on several insurance issues, including national health insurance, and the medical malpractice crisis.

Aviation Insurance Offices' Assn. in London, told *Business Insurance*: "Aviation insurers in general have had a fairly good year so far, but with these latest losses the trend is worsening. We still have the winter months to face on the large European and U.S. routes."

Speculation centers around the Turkish Airlines crash because it is the second catastrophe to hit that airline within two and a half years. The first crash, at Paris in 1974 when 346 people perished, led to the massive lawsuits in California against McDonnell Douglas, which made the DC10 involved, and General Dynamics, fuselage makers, with an end-product of claims

which may reach as high as \$200 million, having to be met by Lloyd's and related insurers in London.

Plaintiffs succeeded in those product liability actions. Even though some of the legal decisions are still being appealed, it is feared their success might encourage other litigants to follow the same pattern if crash victims feel U.S. courts would be more sympathetic to their claims than European courts.

Latest reports in London on the Turkish Airlines crash are that insurers are now treating the hull casualty as a total loss on the basis of \$8.75 million insured value.

Claims from next of kin of the victims are still awaited.

Reports from Turkey are that a

flight controller has been suspended pending further investigation of the cause, as the plane was flying off course and much lower than should have been the case.

There is no suggestion currently that any defect of the Boeing 727 can be blamed for the latest Turkish Airlines disaster. The 727 is regarded as one of the safest aircraft in service, with a high reputation among the insurance fraternity for its freedom from accidents.

It is among the world's most popular aircraft, with 1,200 listed in use internationally. There were three incidents involving Boeing 727's last year, and two so far this year, which have seriously affected the aviation insurance market.

Until investigators find the cause of the Turkish air crash, in which the pilot was obviously flying too low, there will naturally be concern in case the European relatives of the victims try to steer their

claims for compensation through U.S. courts.

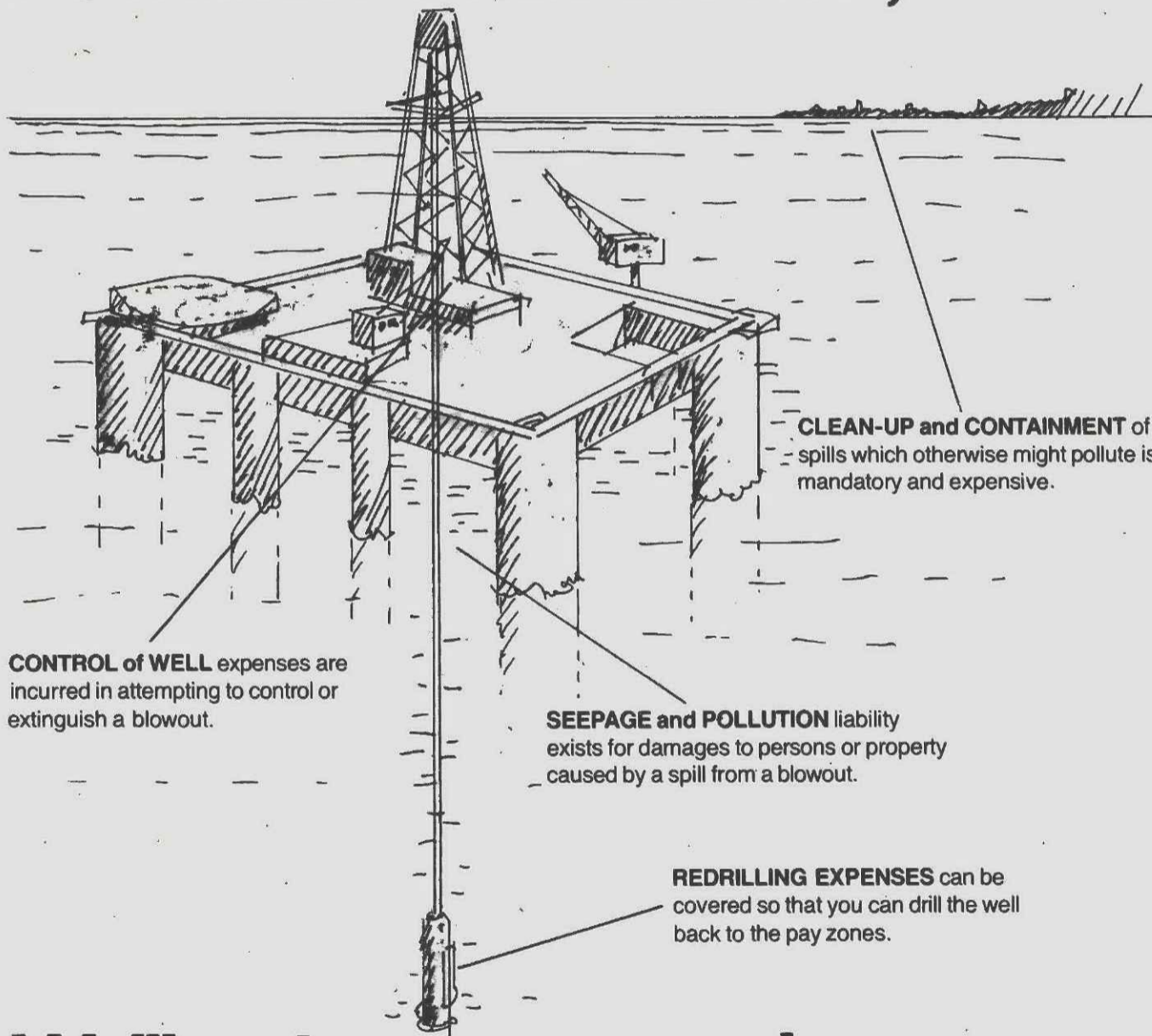
Turkey is not party to the Warsaw Convention, which limits ordinary passenger claims, and there is uncertainty about any other insurance limitations.

But the majority of the dead were tourists visiting Turkey from Italy, West Germany and Holland, and it is conceivable that lawyers may try to get compensation from U.S. courts if they felt this would bring better rewards than in their own countries, in the event of some product liability "loophole" opening up.

Turkish Airlines is almost wholly covered in London, both for the hull value of the Boeing 727 at \$8.75 million, and for passenger liability in the London market.

It is emphasized in London that there is no sign so far of any U.S. lawsuit being launched, but the situation is being watched with interest in case there are future moves in this direction.

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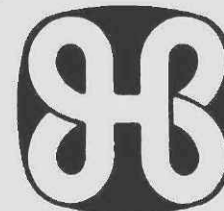
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# Cooper leaves OPIC for Engelhard post

George R. Cooper, 52, left the Overseas Private Investment Corp. (OPIC) where he was vp for insurance and joined Engelhard Minerals & Chemical Co. as vp of the Philipp Brothers division. His responsibilities include developing consortia to make projects in underdeveloped countries more economically and financially sound, Mr. Cooper said. This includes handling political risk insurance, "a significant factor" in these countries, he noted. At OPIC Hilliard A. Zola, 38, former deputy vp for insurance, was named to replace Mr. Cooper. Mr. Zola also becomes manager of the OPIC Group, an unincorporated pool of private insurance and reinsurance companies which have joined with OPIC to underwrite risks against currency convertibility, and expropriation for U.S. private investors in developing countries. Caryl S. Cole, 42, was promoted to assistant general counsel for insurance for OPIC, responsible for insurance and reinsurance agreements. Since May of 1974, Ms. Cole has been OPIC's senior counsel for insurance

Howard H. Fletcher, 52, was named to the newly created position of risk manager for the city of Lincoln and Lancaster County, Nc. Reporting to the finance director, Mr. Fletcher is responsible for the total insurance program for the city and county, including property, ve-

hicular and casualty coverage. He was formerly a marketing representative for Hartford Insurance Co. and has 20 years experience in general insurance agency operations and the Insurance Services Office in Nebraska.

Jeff Stevens, 34, is the risk manager at Peterson Publishing Co., Hollywood, Ca., a new position. He reports to the treasurer and is responsible for property/casualty and group insurance programs and the profit sharing plan. Mr. Stevens was formerly an assistant insurance manager for Santa Fe International, Orange, Ca. Replacing Mr. Stevens at Santa Fe is J. D. Farley, 34. He is responsible for the insurance for Santa Fe Engineering & Construction Co., one of the company's two major subsidiaries. Mr. Farley was formerly insurance insurance supervisor for J. Ray McDermott & Co. Inc., Morgan City, La. No replacement has yet been named for him there.

Dolores Harrell, 49, was named administrator of the salaried retirement plan at Borg-Warner Corp., Chicago where she is responsible for administering the company's retirement plan for more than 15,000 salaried employees. Ms. Harrell joined Borg-Warner in 1968 and was secretary to the senior vp-finance since 1972. In her new position she reports to the manager

of pensions. The former administrator of salaried retirement plan, Betty Stack, is no longer with the company.

Robert D. Varone was named assistant manager of general administration at General Foods Corp., White Plains, N.Y. He replaces John F. Ballback, who joined Mobil Oil Corp. as a senior international benefits advisor (*Business Insurance*, Sept. 20). Mr. Varone is responsible for disclosure, reporting and accounting statements for 80 employe benefit plans. A former systems specialist, he reports to the manager of benefit administration.

Ralph W. Haacke, 38, was promoted to corporate insurance manager at Alton Box Board Co., Alton, Il. He replaces John M. Carroll, 36, who was named assistant treasurer of the company in January. Mr. Haacke was formerly assistant insurance manager and continues to report to Mr. Carroll.

H. Daniel Hayes Jr., 24, was named to the newly created position of insurance manager at Flowers Industries Inc., Thomasville, Ga. He reports to the vp-finance. Prior to joining Flowers Industries Mr. Hayes, who has a law degree from Mercer Law School, was associated with the firm of Westmoreland, Patterson & Mosely. Mr. Hayes is responsible for group insurance, property and casualty programs for the company which manufactures and distributes frozen, canned and snack foods.

John S. Anzulis Jr., CPCU, 33, who was insurance manager for the state of Maryland joined the insurance agency of Maury, Donnelly & Parr. No replacement for Mr. Anzulis has yet been named.

# dates for buyers

Nov. 1: Risk and Insurance Management Society—An overall survey of the product liability problem and its impact on corporations, including case histories, the engineer's role and the reaction of the insurance industry, will be presented in a one-day seminar. For more information on the seminar, held in the Copley Plaza in Boston, write RIMS, Conference Office, 205 East 42nd St., New York, N.Y. 10017.

Nov. 4-5: Assn. of Private Pension and Welfare Plans—Practical pension fund management and investment will be stressed in this meeting held at the Century Plaza Hotel in Los Angeles. Cost is \$100 for APPWP members, \$150 for non-members. Among the speakers will be Peter Drucker and Donald Alexander. For more information contact Sue Mel-drim, Assn. of Private Pension and Welfare Plans Inc., Suite 909, 1028 Connecticut Ave., N.W., Washington, D.C. 20036.

Nov. 8-10: Risk Management Institute—Expense projections, quantitative methods in risk management and communicating risk management are the topics of a program at the University of Dallas. Risk managers, risk management consultants, brokers and loss control managers are among the seminar's faculty. Cost is \$270 for RIMS members; \$295 for non-members. Contact Prof. Bruce Evans, executive director, The Risk Management Institute, Management Laboratories of American Inc., University of Dallas, Irving, Tx. 75061.

Nov. 8-12: American Society for Industrial Security—Cost-effective security and assets protection systems designed for security specialist and managers is the subject of a seminar held in Chicago at the Lake Shore Club. Among the topics are computer operations, fraud prevention, guard operations and security vulnerability. Contact the American Society for Industrial Security, 2000 K St. N.W., Suite 651, Washington, D.C. 20006, (202) 331-7887.

Nov. 8-19: Northwestern University—The traffic institute is conducting a workshop on fleet motor vehicle accident investigation techniques. Lectures, training exercises and field projects are used to teach evaluation of accidents, with the reduction in vehicle accidents the goal. Cost is \$425. For more information contact Thad Aycock, 405 Church St., Evanston, Il. 60204, (312) 492-7241. To register, contact the Registrar, Traffic Institute, Northwestern University, 405 Church St., Evanston, Il. 60204.

Nov. 22: National Assn. of Manufacturers—Health care cost is the subject of a conference held in Detroit for employers. The economics of health care, the provider's role in the health care system, cost-saving methods, second opinion pro-

grams and plan design will be the topics. For information contact Brenda Ballard, National Assn. of Manufacturers, 1776F St., N.W. Washington, D.C. 20006, (202) 331-3811.

Dec. 3-8: International Foundation of Employee Benefit Plans—Plan administrators, advisors and trustees of joint labor-management employe benefit plans who are members of the Foundation are eligible to attend the conference held in Miami Beach. Among the 45 topics covered are trustee responsibility, health care cost control, plan termination insurance and insured welfare fund alternatives. Sessions will be held at the Fontainebleau, Doral Beach, Eden Roc and Konover hotels. Cost is \$180. Contact James Neitzel, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wi. 53005 (414) 786-6700.

# JUAs called no solution

WASHINGTON, D.C.—Joint underwriting associations (JUAs) are no solution to the product liability insurance problems facing manufacturers, a U. S. Senate committee on small business was told by a representative for insurance agents.

Edward J. Kremer, chairman of the federal affairs committee of the Independent Insurance Agents of America Inc. (IIAA) told the committee that the association had endorsed JUAs as a remedy for problems related to medical malpractice, but stressed that "parallel stop-gaps are not appropriate as remedial measures for the product liability situation."

"For most product liability insurance there is no potential to produce short term premium reduction by changing policy forms," Mr. Kremer said. "Joint underwriting associations are implying another form of mandatory assigned risk plan. Their creation can do nothing to affect increasing premiums and losses. Products liability represents far too large a proportion of the casualty insurance business to be consigned to residual market status..."

# Bonds seen way to hike co. reserves

CHICAGO—Insurance companies may turn to bond issues and debenture offerings within the next few years to raise the large amounts of capital needed to provide the reserves necessary for underwriting the risks which will generate ballooning premium flow, predicted Shelby Cullom Davis, chairman of Shelby Cullom Davis Co. of New York.

"With premiums written estimated to rise to \$140 billion by 1985, some \$35 billion of additional insurance capital will be necessary to support even a three-to-one ratio, one-sixth of the amount needed for all U.S. companies," said Mr. Davis.

Stock market gains will not provide the necessary surplus as they did in the '60s, because most insurance companies have sharply reduced their common stock holdings, he contended. Reinvestment of earnings and maintenance of relatively low dividends will also be inadequate to provide the necessary surplus growth, Mr. Davis believes.

"Dividends must rise, in many cases 50% to 100%, in order to attract sufficient capital" so that surpluses can grow, supplying the insurance capacity needed to keep insurance out of the hands of the government, Mr. Davis said.

In remarks delivered at the annual meeting of the Society of Chartered Property & Casualty Underwriters (CPCU), Mr. Davis said insurers face very tough competition from other industries in the scramble for capital between now and 1985, "unless there is an early return to adequate underwriting profitability."

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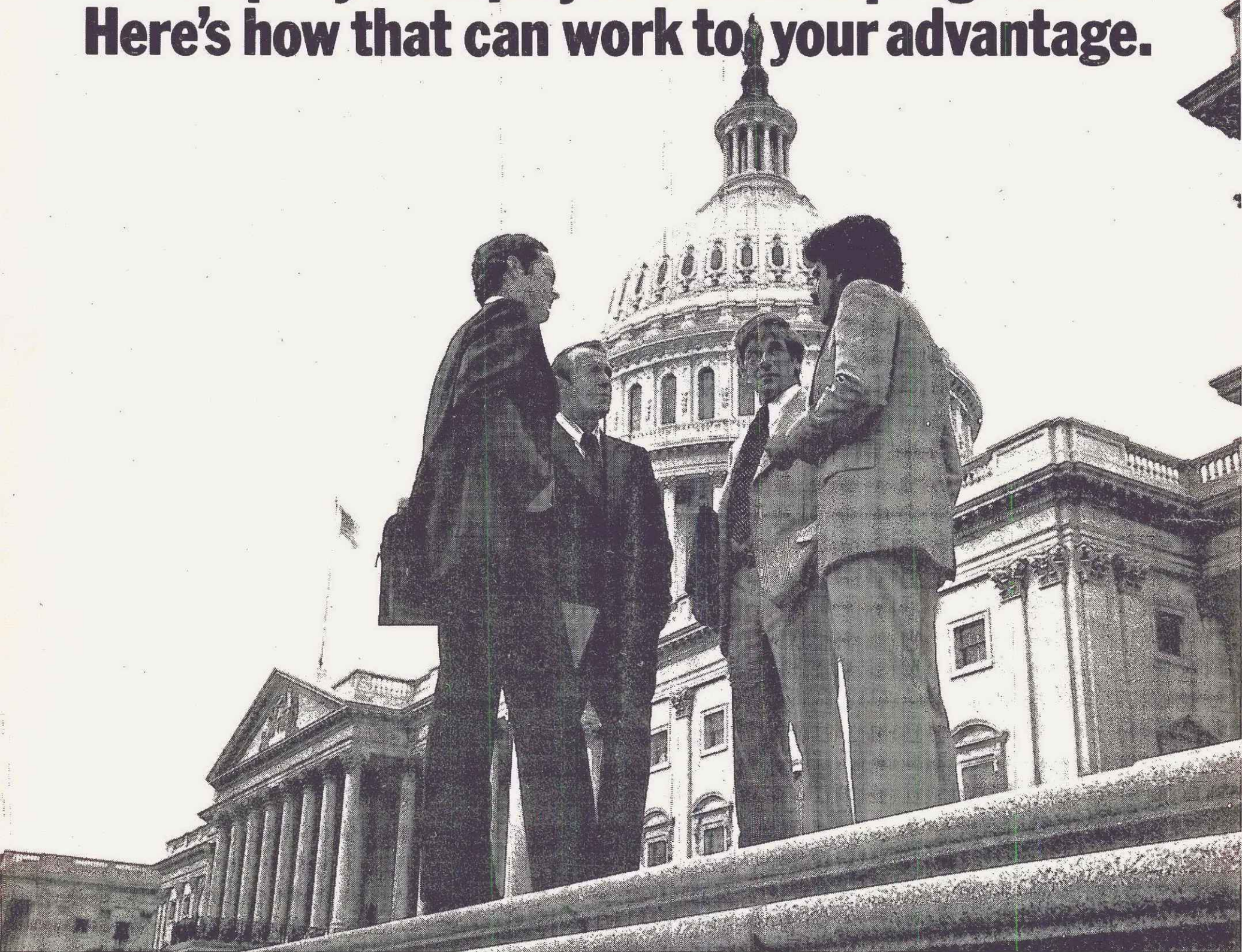
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