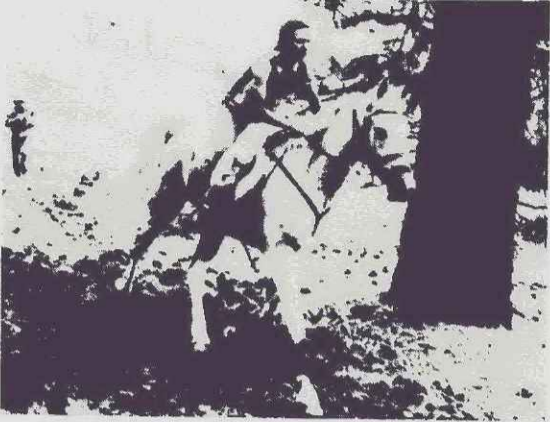


Maneuvering marathons

Some marathon sponsors run long and hard for liability insurance, but a few corporate sponsors win the race. **Page 50.**



Packed in with the usual haul of risk management problems, you can find special risks that demand special handling to be properly insured. But rather than being a Pandora's box, a crateful of special risks can stretch your skills and creativity and sometimes tickle your fancy.

It's a dog's life

What cute little apples of Hollywood's eye have more insurance than most corporate executives? Benji and a pal. **Page 56.**



Managing mountains

Safety plans give Outward Bound the ropes to scale liability insurance problems for its outdoor training school. **Page 26.**

business insurance

Week of October 29, 1979

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

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EEOC jeopardizes pregnancy benefits for women who quit

By JERRY GEISEL

WASHINGTON—One of the ironies of the new pregnancy benefits law is that it could end up taking away benefits from the class of employees it is designed to protect: pregnant women.

Guidelines issued by the Equal Employment Opportunity Commission, the federal agency enforcing the law, say that if an employer offers extended benefits to pregnant employees, the same benefits must be offered on the same basis to other employees leaving the firm.

Employers will probably stop providing extended benefits for pregnancy rather than open their benefit programs to the expense of providing equal extended benefits for other conditions that could be much more expensive than pregnancies, say consultants.

Meanwhile, the cost of granting benefits for pregnancy disability

equal to those for other disabilities is driving up the cost of health insurance plans 5% and paid sick leave programs 20%. But despite these cost increases, employers say they won't cut back other benefit plans. (See story page 101.)

The controversy over extended benefits develops because typical corporate extended benefit plans provide medical and hospital benefits to women employees who leave a company after they become pregnant. They do not have to be disabled to collect such benefits. The benefits end after delivery of a baby.

By contrast, extended benefits offered to men are provided on a much more restrictive basis. Total disability, for example, usually is required before a man leaving a company can collect extended benefits.

In addition, extended benefits *Continued on page 101*

Fiduciary liability:

Pilot tests ERISA investment rules

By ELLIS SIMON

BROOKLYN—In one of the first tests of ERISA's prudent man rule, an Eastern Airlines pilot is suing his employer and the Air Line Pilots Assn. to recover more than \$5.3 million invested in real estate by the pilots' pension fund.

The fiduciary liability suit filed Aug. 31 by David L. Mudd of Southold, N.Y., seeks not only to rescind the real estate transactions and recover the legal expense of the suit, but also asks that:

- An officer of the court be appointed to investigate the opera-

tions of the pension plan.

- Documents surrounding the real estate transactions be disclosed.

- An injunction be ordered banning the defendants from pursuing further real estate business.

- The pilots' retirement committee be restructured.

Eastern Airlines fiduciary liability insurance is written by National Union Insurance Co., a member of the American International Group, *Business Insurance* learned. ALPA is insured with Lloyd's of London through Professional Indemnity Agency Inc. of New York.

Since Eastern Airlines administers the fund and ALPA representatives on the retirement committee are Eastern Airlines employees and covered by the airline's fiduciary liability policy, the ALPA is not likely to be found to have liability, said Marshall Rattner, president of Professional Indemnity Agency.

Neither the defendants nor their insurers have responded to the complaint filed in U.S. Court for the Eastern District of New York, said plaintiff's attorney Robert R. Schorm of Bayport, N.Y.

Continued on page 99

Suit creates policy form confusion

By LEN STRAZEWSKI

NEW YORK—Capitol Cities Media Inc., parent firm of Fairchild Publications here, is preparing its defense against a \$6.9 million class action suit charging the company mishandled the reporting and dividends of a former pension plan.

Capitol Cities recently denied the charges in its initial response to the suit that was filed in April. Its New York law firm, Satterlee &

Stevens, has also begun taking depositions of the plaintiffs, Bernard Frank, a former Fairchild employe, and John Pareti, who still works for the firm.

The suit, however, does not name any individual fiduciaries by name, but cites the old and new Fairchild/Capitol Cities plans and corporations as defendants.

Fiduciary liability brokers and underwriters are watching the lawsuit closely to see:

- If insurers are held responsible.

- If Capitol Cities' current fiduciary liability insurer, Chubb & Sons/Federal Insurance Co., is held responsible for all of the likely claim.

- If Fairchild's past insurer, National Union/AIG, is brought in to take all or part of the claims.

"Usually fiduciary liability policies are written for individual fiduciaries by name to take care of the corporation's responsibility to indemnify the individuals against loss for their actions," explained excess/surplus broker Thomas Sheehan, whose suburban Chicago firm, Thomas Sheehan Inc., specializes in professional liability.

"In a case in which no individu- *Continued on page 99*



Because of EEOC guidelines, employers may stop paying health benefits for a pregnant worker who quits her job before delivering a baby. Extended benefits for all would be expensive.

The people column page 104

Photo: Mary Cairns

Bermuda insurer sues A&A for "negligent" management

By KATHRYN J. McINTYRE

NEW YORK—A \$2 million suit pending here charges the Bermuda subsidiary of Alexander & Alexander Inc. with negligence in producing reinsurance business for a Bermuda-based insurance company.

Oppenheimer Reinsurance Co. Ltd., owned by a group of investors, is suing A&A to recover more than \$2 million in underwriting losses suffered on business A&A selected for the company over a four-year management relationship. The losses are approaching OpRe's initial capitalization of \$2.5 million.

The suit reveals a new liability exposure for brokers who seek business for their clients' captives. It also shows that small offshore insurance companies can suffer heavy losses from underwriting reinsurance.

A&A hasn't responded to charges in the suit. It has asked the U.S. district court for the southern district of New York to dismiss the suit, filed April 24, arguing that the court doesn't have jurisdiction.

If the court doesn't dismiss the suit, A&A will file a response denying all the allegations, said A&A general counsel Ronald J. Roessler. "And we plan a very vigorous defense," he added.

Presumably, A&A's errors and omissions insurance policy would cover the legal expenses and any judgment if one is rendered against A&A. The broker's E&O insurance

is thought to be underwritten by Shand Morahan and reinsured in the London market, but A&A wouldn't confirm those reports or discuss policy limits.

"Their performance was horrendous," said Robert Rosenkranz, chairman of Laguna Reinsurance Co. Ltd., OpRe's new name. "If we'd listened to them, we'd be bankrupt now," he told *Business Insurance*. "Our portfolio lost \$2.25 million between 1974 and 1977," when A&A was managing the company, he said.

Mr. Rosenkranz was a general partner at Oppenheimer Co. when the investment company decided in 1973 to invest in forming OpRe.

Laguna discontinued \$7.3 million in reinsurance business A&A had arranged for it, leaving the insurer with only \$4.4 million in premiums on continuing business in 1978. The business produced by A&A showed a \$1.1 million loss when it was discontinued at year-end 1977, according to Laguna's annual report. An additional \$1.1 million, including additional reserves, was lost in 1978 on the discontinued business.

Laguna's capital is intact, however, "because we did well on investment and business from Mutual Fire, Marine & Inland Insurance Co. and Royal Chartered General Fire Insurance Co. Ltd.," Mr. Rosenkranz said.

Both insurers are now investors in the holding company that owns Laguna and sit on the board of underwriting advisers that makes un-

derwriting decisions for Laguna.

Laguna's current business also comes primarily from its three insurance company investors, including Forene de Assurandor.

The business produced by A&A for OpRe was arranged by A&A executives who traveled to London to sign OpRe as a quota share reinsurer on international treaties, Mr. Rosenkranz said.

A&A no longer produces business directly for clients as it did for OpRe, Mr. Rosenkranz said. Alexander Underwriting Agencies, a joint venture by A&A and Alexander Howden in London, now offers reinsurance business to captives looking for third-party risks to underwrite.

OpRe's suit charges that Alexander International Ltd., A&A's Bermuda captive management company, managed OpRe's reinsurance business "in an incomplete, defective and negligent manner," from 1973 through 1977, when the agreement was terminated by OpRe.

The suit also charges AIL used OpRe as a fronting company for other companies managed by AIL without informing or getting authorization from OpRe to do so. OpRe did not receive any compensation for the use of its name and potential liability for unpaid losses, the suit charges.

OpRe has not had to pay any losses from these fronting arrangements, Mr. Rosenkranz said.

The suit criticizes AIL's underwriting advisers that makes un-

for your information European insurers drop suit over Itel's computer-leasing

SAN FRANCISCO—A group of European insurers has dropped a suit that charged they were defrauded into providing coverage for Itel Corp.'s controversial computer-leasing operation.

The \$20 million suit, filed against Itel, the Guarantee Appraisal Corp., Americas Insurance Co. and Marsh & McLennan in late July, contended the insurers were led to believe they were reinsuring real estate and heavy equipment, not the more volatile computer leasing business (*BI*, Aug. 20).

At issue was a computer lease contract between Itel and the state of Georgia canceled by the state last June, leaving Itel with a loss of \$1.6 million that it tried to collect from Americas. That's when the Europeans, who said they had reinsured 100% of the policy, balked at paying, charged fraud and asked that the policy be declared void.

Itel, which recently closed its computer-leasing operations, is still suing Marsh & McLennan and Americas for payment on the Georgia claim.

Insurers offer fire settlement

NEWPORT, Ky.—In the latest in a series of out-of-court settlement offers, insurers and equipment manufacturers are offering \$4.7 million to settle suits in connection with the 1977 fire at the Beverly Hills Supper Club.

Previous settlements in litigation arising out of the May 28, 1977, fire that killed 165 persons and injured 50 total more than \$10 million.

The \$4.7 million settlement offer includes \$3 million from about 900 insurers participating in the Kentucky FAIR Plan.

Other settling defendants listed include: Sterling Light Co., \$75,000; Groman Corp., formerly Coleman Cable & Wire Inc., \$300,000; Lennox Industries Inc., \$100,000, and Sierra Electric Division, Sola Basic Industries, \$525,000.

The defendants other than the insurers either made or distributed equipment used in the club or in its construction. Lawyers for the victims contend that the fire started through failure of an aluminum-to-copper connector and was spread by the wire insulation, which also produced toxic fumes.

Insurers were named in the litigation by plaintiffs who argued the insurers should not have provided insurance for a building that didn't meet fire code requirements.

About 40 more defendants who produce aluminum devices or PVC insulation for wiring are scheduled for civil trial Dec. 3 in a joint session of state and federal courts.

Longshoremens' benefits rise

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

Effective Oct. 1, the weekly maximum benefit for total disability jumped to \$426.26 from \$396.78, a 7.43% increase.

Each Oct. 1, a new maximum benefit is set. It is based on 200% of the current national average weekly wage.

Last year, more than \$211 million was paid out in benefits under the longshoremens' act, which is administered by the Labor Department. The act covers more than one million workers, including maritime workers and all private employes in the District of Columbia.

Panel to review herbicide claims

RALEIGH—A committee of farmers and representatives of the insurers will meet to review all disputed claims, settled and open, arising out of the herbicide contamination of 10% of North Carolina's tobacco crop.

The state is also expected to decide in the next month whether to revoke the license of Affiliated Factory Mutual over the way it has handled 1,100 claims for damages caused to tobacco crops by a fertilizer manufactured by Borden/Smith-Douglas that had been contaminated with the herbicide picloram (*BI*, Sept. 17).

Affiliated FM insures Borden for up to \$10 million of any losses and excess coverage of more than \$100 million is provided by Lloyd's of London. Borden self-insures the first \$500,000 of any loss, but state officials said recently that the Ohio-based firm had already paid \$2 million to farmers affected by the fertilizer.

State counsel Dan Nelson said Affiliated FM admitted during the weeks of recent hearings that it did not investigate claims as thoroughly as it should have, but it denied the state's contention that the investigation had been purposely delayed.

U.K. faces \$50 million loss

LONDON—U.K. marine insurers face a \$50 million loss unless a newly built floating dock, which ran aground in Arctic waters, can be salvaged.

The dock, 300 meters long and capable of lifting 80,000 tons, was built in Goteborg, Sweden, and broke away from the barges towing it to Murmansk, Russia, on Oct. 4. Salvage operations have been hampered by icy weather, and the dock will become one of the year's worst shipping losses if it is not refloated. Lloyd's and the U.K. market underwrite 56% of the insurance and the rest is spread in Sweden, the U.S. and other markets.

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Activists fight sterilization of women in hazardous jobs

By MARY ELLEN McKEE

CHICAGO—An unusual coalition of women's groups, labor unions and doctors are uniting to fight forced sterilization of women working in chemically hazardous areas.

The activists vow to outlaw sterilization policies and discriminatory work assignments that employers say are necessary to protect women who may have children.

The unions and women's groups are busy courting the support of federal agencies and lobbying groups, to some success.

Already American Cyanamid has been fined \$35,000 by the Occupational Safety & Health Administration for an alleged sterilization policy at its Willow Island, Va., chemical plant after unions complained.

But the chemical company denies it ever had any sterilization policy in force and hasn't paid the fines.

In a citation issued Oct. 9, OSHA alleged that American Cyanamid adopted and implemented a policy that required "five women employes to be sterilized in order to be eligible to work in those areas of the plant where they would be exposed to certain toxic substances."

OSHA charges this policy is a willful violation of the general duty clause of the Occupational Safety & Health Act of 1970, which requires employers to provide employment free from recognized hazards likely to cause death or serious physical harm.

The Equal Employment Opportunity Commission has received at least 40 complaints about various

companies either requiring women in their childbearing years to be sterilized or keeping women out of certain jobs because of the high toxic levels.

Responding to these reports, the EEOC is drafting a set of guidelines on toxic substances for employers to be issued by next month. The commission refused to comment on the guidelines.

Wendy Williams, assistant law professor at Georgetown University Law Center and a member of the Coalition for Reproductive Rights of Workers, charges, "These employment practices are unequivocally a violation of Title VII of the Civil Rights Act."

Title VII, Ms. Williams explained, "outlaws general disparate employment practices, which means that a company cannot block a group of people from a job based on race, sex or creed."

For example, if a company requires a person to have a high school diploma before being con-

errors & omissions

• In a Sept. 17 story about McGraw-Edison Co.'s shift to self-insurance for workers compensation risks, Self-Insurers Service Inc. in Chicago was inaccurately identified as a division of Fred S. James & Co. Self-Insurers Service Inc. is an independent supplier of workers compensation and employe benefit claims administration services associated with the Chicago law firm of Seyfarth, Shaw, Fairweather & Geraldson.

Coming Jan. 7

How do competitive insurance markets affect corporate use of captives and self-insurance?

Are companies self-funding workers compensation capitalizing on their reserving rights expressed in the Crescent Wharf & Warehouse decision?

How do small and medium sized businesses self-fund benefit and property/casualty programs?

The Jan. 7, 1980, issue of *Business Insurance*, its first as a weekly newsmagazine, will focus on captives and self-insurance, answering these questions and more about self-funding for corporate risk and insurance managers and benefit managers.

Readers with questions they would like answered in special issue articles or those who would like to contribute an article for the issue should contact Susan Alt or Kathryn McIntyre at *Business Insurance*, 740 N. Rush, Chicago, Ill. 60611; 312-649-5278.

Federal funds fill quake insurance void

By RHONDA L. RUNDLE

LOS ANGELES—Uninsured losses to public buildings and facilities in the earthquake-stricken El Centro-Brawley area near the Mexican border will top \$11.1 million, with damage to 11 privately owned commercial buildings and 470 homes tallied at about \$10 million, state officials say.

The total of insured losses was estimated at \$2.5 million by the American Insurance Assn., but the total of commercial insured losses was not available.

No immediate estimate of insured commercial losses was available.

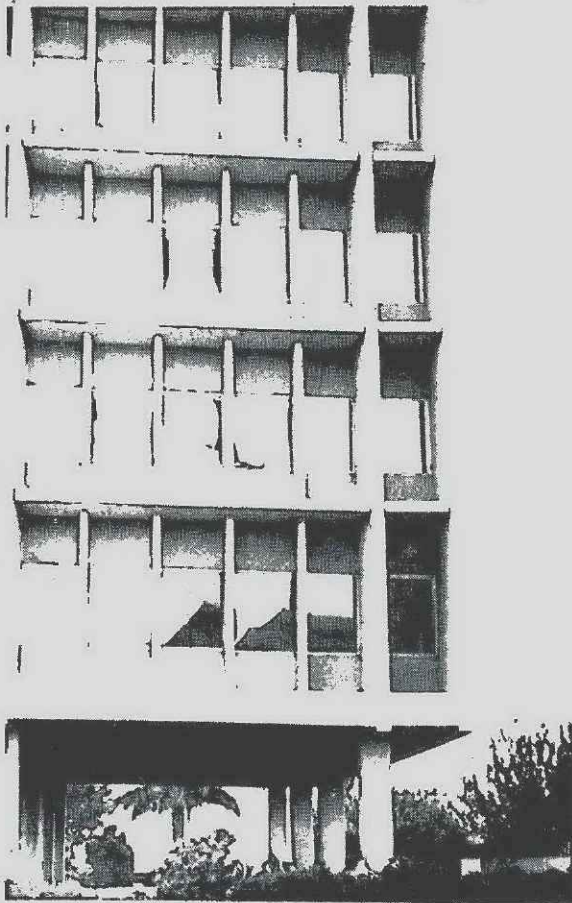
No deaths but about 100 injuries resulted from the Oct. 15 quake, which measured 6.4 on the Richter scale and was felt in San Diego and as far north as Los Angeles. Property losses will hit \$21.1 million and may go much higher, Gov. Jerry Brown reported in his successful plea to President Carter for federal disaster aid.

"Our public facilities are not insured against earthquake," confirms John Kennerson, chairman of the Imperial County board of supervisors. "We could buy it, but it's not economically productive. It just doesn't make sense."

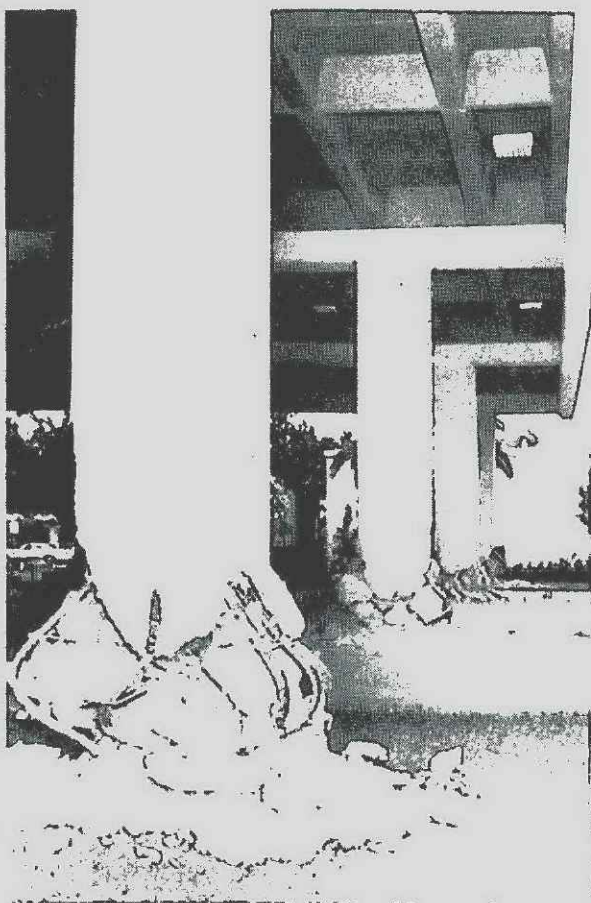
Perhaps not. The federal government, in effect, underwrites public property against such natural catastrophes. President Carter's emergency proclamation activates the Disaster Relief Act of 1974, qualifying Imperial County for a 100% direct federal grant for repair and replacement of public facilities. By the same stroke, small businesses and homeowners are eligible for low-interest loans, presently running about 5% to 7%.

The largest single loss was the eight-year-old county services building in El Centro. A quarter of the six-story structure tilted about 14 degrees off its base after the initial jolt. Two days later, it sank another three inches when the quake-battered area rocked with a series of potent aftershocks.

Engineers are inspecting remains to see if any part of the structure or its contents can be salvaged. Price tag for demolition and reconstruction will probably run about \$7 million, Mr. Kennerson says.



Public facilities in earthquake-stricken Imperial County, including this county services building,



are not insured against earthquakes. But the federal government is supplying disaster aid.

Photo: Wide World

Local authorities describe the collapsed county services building as "earthquake-proof." No one could say, however, exactly what that means.

"We will review the contract documents when we get the chance," said John McClure, county administrative officer. Construction engineers hired by the county will check the wreckage to see if the structure met existing building codes.

"There has been no discussion of any action against the architect or contractor," supervisor Kennerson stated.

The architect, William Jehle of Design Sciences Inc. in Pasadena, Calif., could not be reached for comment.

The All-American Canal, which supplies drinking and irrigation water from the Colorado River to Imperial County, sustained about

\$1.2 million in damages, reports Robert Carter, executive officer to directors of the Imperial Irrigation District. Service was slowed briefly after the main shock, but prompt action to repair the earthen canal had water flowing at normal again within a couple days.

Time will tell if there's some \$8 million to \$10 million in losses to the valley's agricultural irrigation system, a complex network of clay pipes buried several feet below ground.

Farmers won't know the full extent of possible cracks or breakage until next spring.

Other damage included buckled highways, bridges, railroad tracks and structures. The Border Patrol's point-of-entry facility at the California-Mexico border was severely hit. El Centro's nine-block business district was littered with

broken glass, merchandise and mannequins that tumbled out of display windows.

Holly Sugar Corp. feared substantial damage to massive silo-like sugar bins at its Brawley refinery, but its fears were not realized. "There are hairline cracks around the bins but it's hard to say if they were caused by the quake," said Albert Dischinger, Holly Sugar's insurance manager.

"We are insured against earthquake, but there won't be any claim—the deductible's too high."

A spokesman for Southern California Edison said a complete systems check was made of the San Onofre nuclear power plant on the coast and that there were "no problems."

"Many building owners don't take earthquake coverage because the premiums are too high," says Don Sherwood, president of Don

Sherwood Insurance Services, an excess/surplus-brokerage firm in San Francisco. Less than one out of 20 California commercial buildings, and perhaps far fewer, carry earthquake coverage, *Business Insurance* has learned.

The reason commonly cited is cost. A ballpark estimate of annual premiums on a building comparable to the six-story county services in El Centro would be \$15,000 to \$25,000 with a 5% deductible, figures Berl Goodheart, a technician in the L.A. property department of Bailey, Martin & Fay Inc. And that assumes a soundly constructed, modern building with reinforced concrete walls, roofs and floors.

Even at that rate, earthquake coverage is difficult to place, brokers agree. Insurers strictly limit their liabilities and try to spread the risk throughout a wide geographic area.

"It's especially tough to find after a quake," Mr. Goodheart says. "Most of the big companies are Eastern-based, and they get the impression that earthquakes hit California about every 20 minutes."

Insurance rates in Los Angeles are 43% to 53% less for buildings constructed after 1933, when stricter earthquake codes were enacted, Mr. Goodheart says. In many other California cities, those new earthquake regulations were not adopted until 1950.

"Earthquake-proof is really a misnomer," says Mr. Sherwood. "The proper term is earthquake-resistant." Such buildings are primarily designed to protect against loss of life. Secondly, they are supposed to resist damage, he observes.

Earthquake insurance may or may not include debris removal, Mr. Sherwood continues. A good policy on an older structure will contain a cost of construction clause, so insurance pays to rebuild rather than repair a building which, although not in ruins, must be brought up to code as required by law.

The Imperial Valley quake was the biggest since the San Fernando earthquake that rocked Los Angeles County in 1971, killing 65.

The last previous major earthquake on the Imperial fault occurred in 1940 and measured 7.1 on the Richter scale.

the benefit beat

Oscar Mayer packs in second opinions

About 2,500 employees at Oscar Mayer's Madison, Wis., plant and 1,800 at a Davenport, Iowa, plant have won the right to a second physician's opinion at company expense when a primary physician recommends surgery.

The new three-year contract ratified by Local 538 of the United Food & Commercial Workers also changes several health benefits. The insurer, United Benefit Life Insurance Co., will pay reasonable and customary fees for surgery and anesthesia and the first \$300 per occurrence for emergency treatment, accidents, medical examinations and illnesses in a 12-month period. Costs above \$300 are split 80/20 between the insurer and worker. Previously, the employee paid a \$75 deductible and the rest of the costs were split 80/20.

Optical coverage was doubled, to \$30 for an eye exam, \$16 for single-vision lenses and \$80 for contact lenses. Charges will be reviewed and coverage will be revised once a year.

Retirees have also been given a major medical limit of \$20,000, up from \$15,000 and a full "30 and out pension" allowing retirement after 30 years of service with full benefits. Previously, a worker could not receive full benefits unless he retired at 65.

Ford follows GM

With the exception of slightly differing increases in Supplemental Unemployment Benefits contributions, Ford Motor Co. and the United Auto Workers have agreed on a three-year contract identical in wage, pension and benefits improvements to the recently-negotiated pact with General Mo-

tors Corp. (*BI*, Oct. 1).

Ford will increase its range of hourly contributions to the SUB fund to a maximum of 26 cents per hour, a two-cent hike from the previous range of 14 to 24 cents per hour. In the GM contract, the range of SUB benefits rose to 15 to 29 cents hourly, also from the 14 to 24 cent level. The Ford settlement covers approximately 197,000 workers.

Less at Chrysler

The UAW, however, has promised to make "significant concessions" in its contract negotiations with the financially ailing Chrysler Corp. to help keep the automaker alive.

"In a sharp departure from our traditional bargaining position, Chrysler will not be asked to match the total cost of the contracts we have with GM and Ford," said UAW president Douglas A. Fraser.

The UAW already has tentatively agreed to allow Chrysler to defer for one year the \$200 million payment to the pension plan covering U.S. hourly workers in an effort to help the cash flow of Chrysler. Other concessions will involve paid personal holidays and wages, Mr. Fraser said.

Federal premium increase

Health insurance premiums will jump approximately 10% next January for the eight million U.S. workers, dependents and retirees covered under federal group health insurance plans. The premium a worker pays will depend on which of

the 104 participating plans he or she is enrolled in.

The premium hikes are expected to cost federal workers about \$150 million, while the federal government, which pays between 60% and 75% of most employees' premiums, will have to ante up an additional \$250 million to cover the rise in premiums.

IRS bill approved

The House has given final approval to legislation (HR 5224) barring the Internal Revenue Service from regulating the taxation of employee benefits.

Currently, the IRS is prohibited from issuing such regulations before Jan. 1, 1980. The new law would extend the moratorium on benefit regulations until June 1, 1981.

Most employee benefits, such as health insurance, already are specifically exempted by statute from federal taxes.

However, a "gray area" of benefits, such as employer-paid parking spaces, is not covered by statute and the IRS reportedly is looking into these gray areas as a means of raising additional tax revenues.

The Senate has not yet taken up a companion bill.

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

Firm to defend putting benefits in captive

By SUSAN ALT

NEW YORK—U.S. Industries will defend itself against a Department of Labor challenge of the company's use of an offshore captive to reinsure employe benefits.

The reinsurance arrangement among USI, Prudential Insurance Co. and the Bermuda captive doesn't fall within the scope of the recent exemption allowing some companies to use their insurance subsidiaries to underwrite their employes' benefit programs, the department told USI late last month.

This is the first official challenge by the Department of Labor against companies that use offshore captives for funding employe benefit plans. But it merely confirms what has been known to

be the Labor Department position.

USI's Bermuda-based Diversity Insurance Co. Ltd. has been used since the early 1970s to reinsure group plans placed with Prudential Insurance Co. In November 1974, USI requested a waiver of the Employee Retirement Income Security Act's self-dealing prohibitions to allow it to continue using Diversity as a benefit reinsurer.

In August, the Department of Labor eased the ERISA restriction on the use of captive insurers, allowing a domestic subsidiary insurer to write a parent company's direct benefit business as long as it doesn't account for more than half of the insurer's total book of business. But the new rule didn't address the issue of reinsurance with a captive and didn't recognize off-

shore captive companies (*BI*, Aug. 20).

Therefore, it was no surprise when USI received a letter in late September saying its arrangement doesn't fall within the class exemption issued in August. If USI wants to pursue its waiver request further, it must seek a private hearing with DOL's Gary Lefkowitz, the letter said.

"We have discussed this with our lawyers and we will seek a hearing," said S. Peter Law, vp-insurance at USI, who is in charge of employe benefit management at the company.

The willingness of the department to consider each case on an individual basis is considered by some benefit experts to be a positive sign that the government does not have a jaundiced view of all

dealings between parent corporations and subsidiary captive insurers.

On the other hand, the federal government has not looked kindly upon the establishment of offshore insurance companies in tax havens like Bermuda and may not give its approval to the use of any such company for employe benefit insurance or reinsurance.

Only a few companies use captives to reinsure employe benefit plans, including Sambo's Restaurants and Agway Inc. But benefit experts have predicted the practice would become widespread because of the financial advantages if the ERISA rules were eased appropriately.

Neither Sambo's nor Agway has received any official confirmation from the DOL about their plans.

Agway is "pursuing an individual exemption" to allow continued use of its domestic insurer as the reinsuring vehicle, its Washington lawyer said.

Sambo's uses an offshore captive to reinsure benefit plans (*BI*, June 11).

Diversity Insurance Co. Ltd. reinsures a "major part" of the USI benefit business insured with Prudential, with that reinsurance totaling about 10% of Diversity's total book of business. At year-end 1978, Diversity reported premiums received of \$16.2 million, 70% of which was related to parent company risks.

If USI were forced to stop using Diversity to reinsure its benefit plans, said sources close to the company, a couple of percentage points would be added to the cost of USI's benefit premiums. Mr. Law declined to comment on the cost impact of a failure to obtain a waiver of the ERISA provision on prohibited transactions with related entities.

USI probably wouldn't set up a licensed domestic insurance company for this purpose, if it doesn't obtain the exemption, Mr. Law said. "If it came to that, it wouldn't be worth the capitalization requirements and the other costs to set up a captive here. You might as well go into an administrative-services-only contract," he told *Business Insurance*.

The Department of Labor restricts a corporation's benefit insurance dealings with a subsidiary captive insurer, arguing they present an inherent conflict of interest. DOL says there is the potential for abuse or manipulation in transactions of this type.

Pension guide expands data

WASHINGTON, D.C.—The revised and updated 1980-81 edition of the Financial Directory of Pension Funds published by Insurance Research Inc. here offers a free Marketing Research Analysis with each of the 84 separate geographic directories.

The new directory reveals weak and strong sales markets in each territory, the number of pension plans by participant sizes, the number of businesses in each zip code with pension plans as well as all trust funds, split-funded or combination plans, insured funds, defined benefit plans and employe stock option plans.

The new directory has been expanded to include 514,800 funds, 87,700 more than last year.

A pre-publication special of 15% savings is offered to those who order by Nov. 9.

Also available is a separate National Marketing Analysis, compiling all 84 regional analyses into marketing statistics. The price is \$199.50. Insurance Research Inc.'s headquarters are 515 National Press Building, Washington, D.C. ■

Schanes office closes doors

SAN DIEGO—Schanes Associates here, an employe benefits consulting firm, has closed its Washington D.C. office.

President Steven C. Schane said his company is still doing consulting and lobbying work but "we just don't have a full-time staff in Washington anymore." Mr. Schanes said he will still travel and from Washington as needed in the course of his work, which includes advising the National Employee Benefits Institute.

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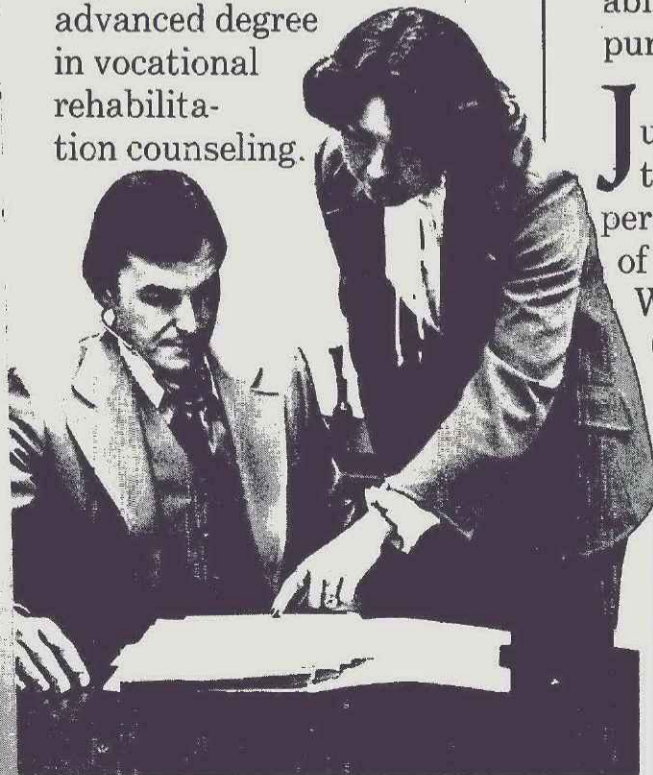
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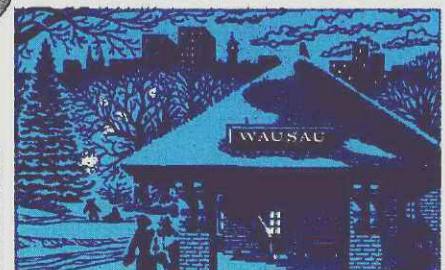


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Insurers pay 25% of Wash. bridge loss

By RHONDA L. RUNDLE

SEATTLE—The state of Washington has collected the \$33.6 million in insurance on the lost Hood Canal Bridge here, but it's only a quarter of the replacement cost.

Reconstruction of the bridge that collapsed here last February under the force of 100 mile-an-hour winds is estimated to cost \$121 million, although no specific design has been selected. That leaves the state to finance the \$88 million difference.

Policy limits were tied to the original \$30 million bond issue floated in 1957 to build the bridge and were refactored on renewal every three years, said John Cook, state claims administrator. Up to \$56 million of insurance could have been purchased, he added, to cover

the full value of the Hood Canal bridge, the longest floating salt water span.

New engineering techniques not used in the 20-year-old structure, however, will boost the replacement cost of a stronger bridge to the estimated \$121 million.

Additional costs of \$14.6 million for alternate transportation service to get people to and from popular vacation spots on the Olympic Peninsula also can't be recovered under insurance policies. Pedestrian ferries and connecting buses operate south of the downed bridge and a small motorized barge for commercial traffic runs north of the site.

Washington authorities are dickering with Federal Emergency Relief Fund officials for reimburse-

ment of about \$12 million of these expenses.

Insurers paid their full property insurance obligation on the bridge after receiving an engineer's report concluding that the windstorm, and not design defects, faulty maintenance or operation, caused the bridge to collapse. The report also determined there was no salvage value in the sunken span.

These findings generally confirm those of the state's own study, conducted by Tokola Offshore, a San Francisco-based engineering firm, that the bridge sank as a result of hurricane-force winds.

"I actually anticipated an earlier settlement with our insurers," said Mr. Cook, since proof of loss was submitted to the claims adjuster, Toplis & Harding, in early August and the terms of the policy called

for settlement within 60 days. But the insurers wanted the results of their engineering study.

The settlement breaks down to \$30.5 million for property loss and an additional \$3.1 million for loss of revenue, Mr. Cook said. A 20% deductible was not applied because the total loss exceeded the policy limits.

The loss of revenue award is slightly less than one year's tolls, worth about \$3.6 million. The state, therefore, stands to lose toll money until the bridge is rebuilt.

The 10 underwriters of the policy reached an agreement in principle Oct. 5 and have all paid up, Mr. Cook confirms. The lead underwriter was Insurance Co. of North America with a 40% share of the policy. Several Lloyd's of London

syndicates together held 22% and The Central National Insurance Co. and Hartford Fire Insurance Co. each underwrote 10%.

Others on the risk were Royal Globe Insurance at 5%; Employers Mutual Casualty Co., 4%; Trans-America Insurance Co., 3%, and Northwest National Insurance Co., 1.5%.

Recommendations for design of a new structure are due shortly, says Martin Pietz of the transportation department, including thorough analysis of the soundness of the still-standing bridge span.

Considerable controversy surrounds resurrection of the bridge, however, since even optimistic guesstimates put completion in 1984. In the meantime, local residents and business people who used the bridge for commuting and commercial purposes are clamoring for a temporary span that could be in use by November 1980.

The price tag for the temporary link would be \$28.7 million, Mr. Pietz reports, and the state is asking the federal government to pick up \$27 million of that. Insurance claim money can only be used to construct a new, permanent bridge, Mr. Pietz said.

The temporary bridge project has been stalled in state courts which overturned the department of transportation's building contract, saying the bidding had not been conducted through proper channels. State authorities plan to reopen those negotiations soon.

The old bridge was financed with a \$30 million bond issue sold in 1957 and refinanced in 1963 with a \$37 million issue sold to meet bridge costs and pay for ferry system improvements.

There is \$27 million in bonds outstanding and state officials say it is impossible to separate the share attributable to the bridge rather than to the ferry system. The bonds will have to be paid off, despite the loss of revenue from bridge tolls.

The Hood Canal Bridge catastrophe started at 1:30 a.m. on Feb. 13 when high winds closed the bridge to traffic (BI, March 5). Nearly half the structure broke up at dawn and sank. It was the second bridge disaster in the state. The Tacoma Narrows Bridge blew away in severe winds in 1940.



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editorial opinions

Getting off easy

A FEDERAL JUDGE recently imposed on two corporate executives a measly \$100 fine for violating ERISA's requirement that they give employees information about their benefit plans.

The maximum fine that could have been imposed is \$5,000 or one year in prison or both.

This case was the first of its kind under the pension law. The penalty against these two executives, administrators of Omaha Dressed Beef Co.'s profit sharing plan, was so measly it makes a mockery of the pension law.

ERISA imposed administrative and cost hardships on employers beyond what it was originally intended to do, but the mandatory reporting and benefit communications provisions of the law are, in our

mind, central to the concept that if an employer makes promises to employees concerning benefits, the employees are entitled to know exactly what benefits they've earned and what funds are available to pay those benefits.

As believers in full disclosure, we'd like to see the Labor Department put teeth into the enforcement of ERISA's provisions that employees be given benefit statements on request, and that a summary annual report of the plan and its description be provided annually as a matter of course.

Most employers have come to realize how good benefit communications can parlay each dollar spent for benefits themselves into "bonus plans" perceived by workers as having a value equal to salaries and wages.

Resting on their laurels

TOO MANY MEMBERS of the Society of Chartered Property & Casualty Underwriters appear willing to rest on past laurels now that they've earned their designations. They don't mind asking non-members to work hard to earn the CPCU key, but they don't want to have to do any more work themselves to stay on the cutting edge of their business.

Officers of CPCU appointed a blue-ribbon committee more than three years ago to study whether there should be a continuing education requirement for members, in the interest of maintaining and upgrading the professional image of those holding the designation.

The recommendations of the committee wouldn't have placed any inordinate burden on CPCU members, even with the grandfather clause suggested.

The committee decided there should, indeed, be a continuing education requirement for recertification and that it should be mandatory. Beyond that, the committee of nine insurance industry notables came up with some extremely flexible rules that would have required each CPCU member every three years to fulfill one of the three basic options:

- Participation, including 60 hours of attendance in the many approved educational forums or seminars, or 30 hours as a speaker or panelist in approved seminars or forums, or 30 hours as an instructor in a full-length course.

- Examination, including passing one exam in the Insurance Institute of America courses, or one exam in the series of courses leading to other professional designations, or retaking a CPCU exam after a lapse of five years, or passing an accredited college course enhancing a CPCU's professional competence.

- Publication, including authoring or co-authoring a book or monograph, or writing an article for a recognized professional publication, or writing two articles for insurance publications, or preparation of study materials used in IIA or CPCU courses.

The requirement, as recommended, would apply to persons receiving the CPCU designation on or after Aug. 1, 1980, but would also apply to all CPCUs as of Aug. 1, 1990.

To make a long story short, the final recommendations were put to a vote at the recent CPCU board meeting in Boston, and were soundly defeated.

The issue is hardly closed for all time. But in an industry where so much emphasis is placed upon "professionalism," and the desire is so strong to be viewed by the non-insurance world as "professionals" at underwriting, brokering or whatever part of the business a particular CPCU is in, it's surprising and more than a little disturbing that so many CPCUs would oppose updating their educational achievements periodically.



letters

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

Customer first

To the editor: I hope in Speaking Out, Peter Downes was putting us on in the Oct. 1 issue.

An account executive's first duty is to his client, last to his employer. When you think about it, that is just the way his employer wants it. In a service business, that attitude retains clients, which in turn makes a profit for his employer. It is just inconceivable that a professional insurance broker could consider his client's needs last.

I wouldn't be surprised if Pete's broker does not send him a calendar next year.

Brian J. Waters

Vp, Rollins Burdick Hunter of New York Inc., New York.

Comic relief?

To the editor: Re: *Business Insurance* 9/17 page 26: "Tiny staffs hamper state regulation."

This article was quite comical. The study proves two major points. First, if a U.S. senator requests a GAO study, that study will probably justify the senator's opinions. Second, federal agencies are already overstaffed and overpaid in comparison to the more efficient state regulators.

Why should we federalize insurance regulation so we can get the same adequate results for a higher cost?

Clifford E. Salwen

Reidy & Casey Insurance, San Francisco.

Unneeded solution

To the editor: Re editorial opinion, Sept. 17: "Give Buyers More Facts."

It is true that a few bad apples in our business (excess and surplus) have created some problems. However, your suggestion as to requiring the state insurance departments additional data, I feel, is not necessary.

First of all, there is case law that has held the retail producer liable for his client's loss if he places business with a wholesaler without checking the firm out thoroughly (prudent expert rule).

Next, all the items you have suggested would not stop the "opportunistic crooks," as they easily could and probably would just submit false reports.

There are ways for the insurance buyer and insurance broker to protect themselves against being issued "phony paper," which is the

Continued on page 104

business insurance

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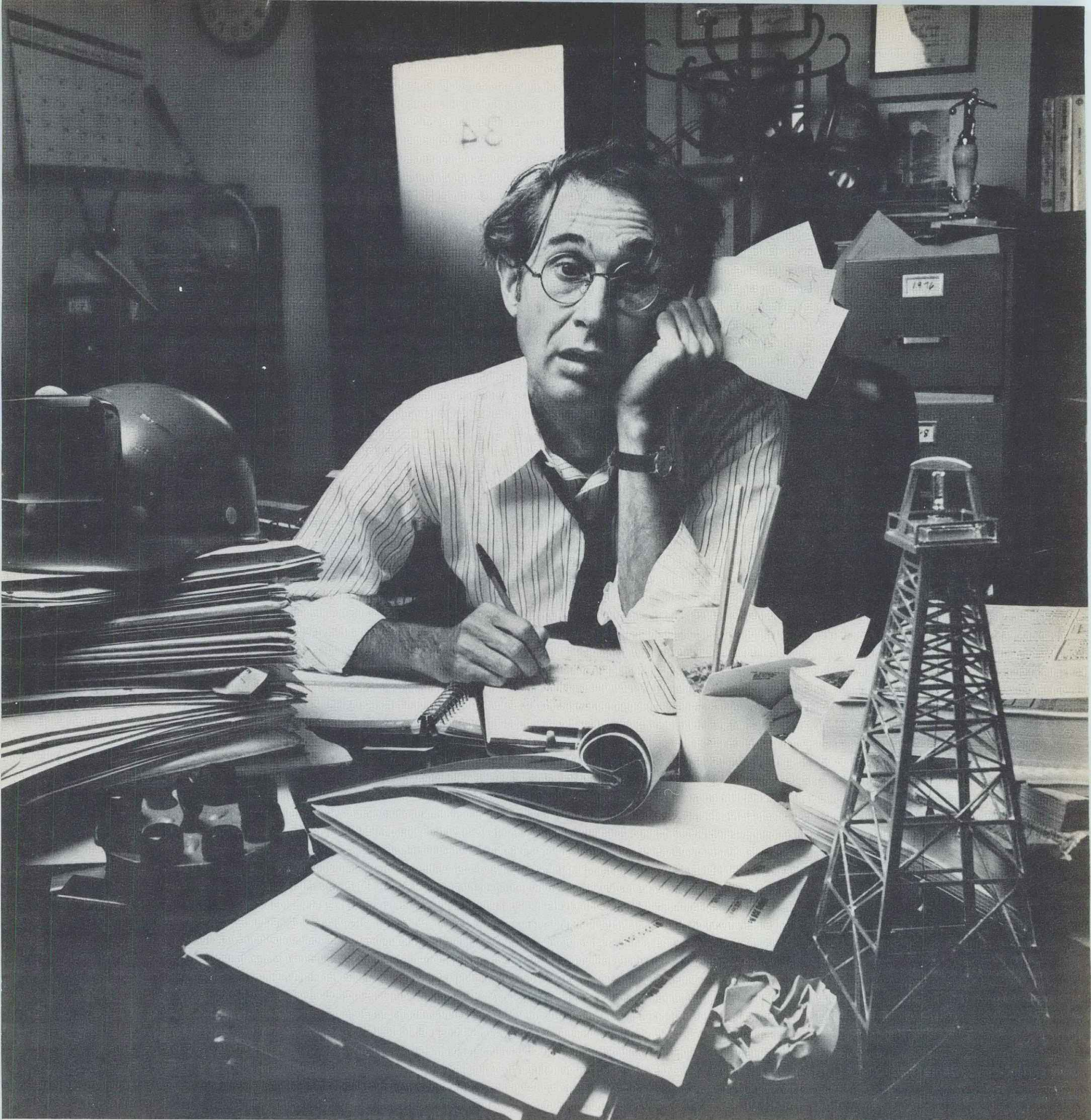
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Firms contribute more to profit sharing

LINCOLNSHIRE, Ill.—The average employer contribution to profit sharing plans in 1978 was 9.89% of pay, a slight increase from the 9.69% reported in 1977, according to a survey of 576 members of the Profit Sharing Council of America.

Small companies generally contribute a greater percentage of pay than larger companies, said the 22nd annual study of profit sharing plans conducted by consultants Hewitt Associates of Lincolnshire, Ill. The average contribution by companies with fewer than 5,000 employees was 10.15% in 1978, while the average contribution by firms with more than 5,000 employees was 6.95%, the study said.

Contributions made by the 576 surveyed companies totaled more than \$970 million and benefited 54.7% of the 1.13 million workers at the companies who participated in the plan. The market value of plan assets was more than \$8.2 billion and more than \$197 million was distributed to employees.

Seventy-one percent of the surveyed companies have fewer than 500 employees.

Deferred plans—shared profits deposited in trust with no optional cash payout—account for 80% of all survey plans. Most of these are offered as stand-alone plans without a pension. Only 30% of survey companies offer a pension plan to employees participating in any type of profit sharing plan.

In 104 deferred plans offered with a pension plan, the average employer contribution was 9.09% of pay. In the 315 deferred plans standing alone, the average employer contribution was 9.21% of pay.

In the other three types of surveyed plans, 20 were cash plans, in which shared profits are paid directly to participants instead of being deposited in trust. Of the 10 cash plans offered in conjunction with a pension plan, the average employer contribution was 10.93% of pay. In the 10 cash plans standing alone, the average employer contribution was 12.25% of pay.

Thirty-eight combination plans were reported, in which a predetermined portion of shared profits is paid in cash in combination with a deferred plan. In the 14 combination plans offered with a pension plan, the average employer contribution was 14.01% of pay. In the 24 combination plans standing alone, the average employer contribution was 15.2% of pay.

Forty-five combination option plans were reported, in which participants have the option of taking part of their allocation in cash in combination with a deferred plan. In the 28 combination option plans offered along with a pension plan, the average employer contribution was 12.37% of pay. In the 17 combination option plans standing alone, the average employer contribution was 10.35% of pay.

Pension plans are most prevalent in companies offering either cash or combination option profit sharing plans. About 50% of cash plans and 62% of combination option plans are offered in conjunction with pensions. Cash plans especially do not function as primary retirement vehicles because the profit sharing benefit is not deferred until retirement, the study says.

In companies with both pensions and profit sharing, employer contributions average 10.24%; in companies with profit sharing only, employers contribute an average of 9.74%. Twenty-five survey companies made no contributions in 1974.

Employer contributions to cash, combination and combination option plans tend to be greater than contributions to deferred plans.

This is at least partially attributable to the tax treatment for plans with cash payouts; employer contributions distributed directly in cash to employees are taxed as employee pay in the year received, the report said.

The average profit sharing employer contribution has fluctuated only slightly over the last five years, from 9.61% in 1977 to 10.11% in 1974. The difference between employer contributions to profit sharing plans which are offered along with pension plans and to profit sharing plans only has been minimal for deferred plans over the past five years.

Contributions to cash plans have varied most over the past five years, from a high of 13.5% in 1974 to a low of 7.46% in 1977. The differences are particularly notable for plans not offered in conjunction

with a pension plan, with a high of 28.9% in 1974 to a low of 5.57% in 1977. Only a few cash plans have been represented in the survey, accounting for the fluctuation in contributions.

Average employer contributions to combination-type plans have generally been higher than contributions made to either cash or deferred plans, with a low of 10.74% in 1977 to a high of 14.76% in 1978.

The number of employees has a considerable impact on the type of formula used by profit sharing plans to determine employer contributions. Companies with less than 1,000 employees tend to base their contribution wholly on the employer's discretionary decision. Larger companies, however, are more likely to base their contribution on a specific percentage of

profits or a variation of that formula.

Employees contribute to 46% of the survey plans. Of those plans, 8% require employee contributions, 81% permit voluntary employee contributions and 11% require employee contributions of a certain percentage of pay and permit additional voluntary contributions as well.

In terms of rates of return, 1978 was a good year for profit sharing plans. Profit sharing funds performed as well or better than standard market indexes.

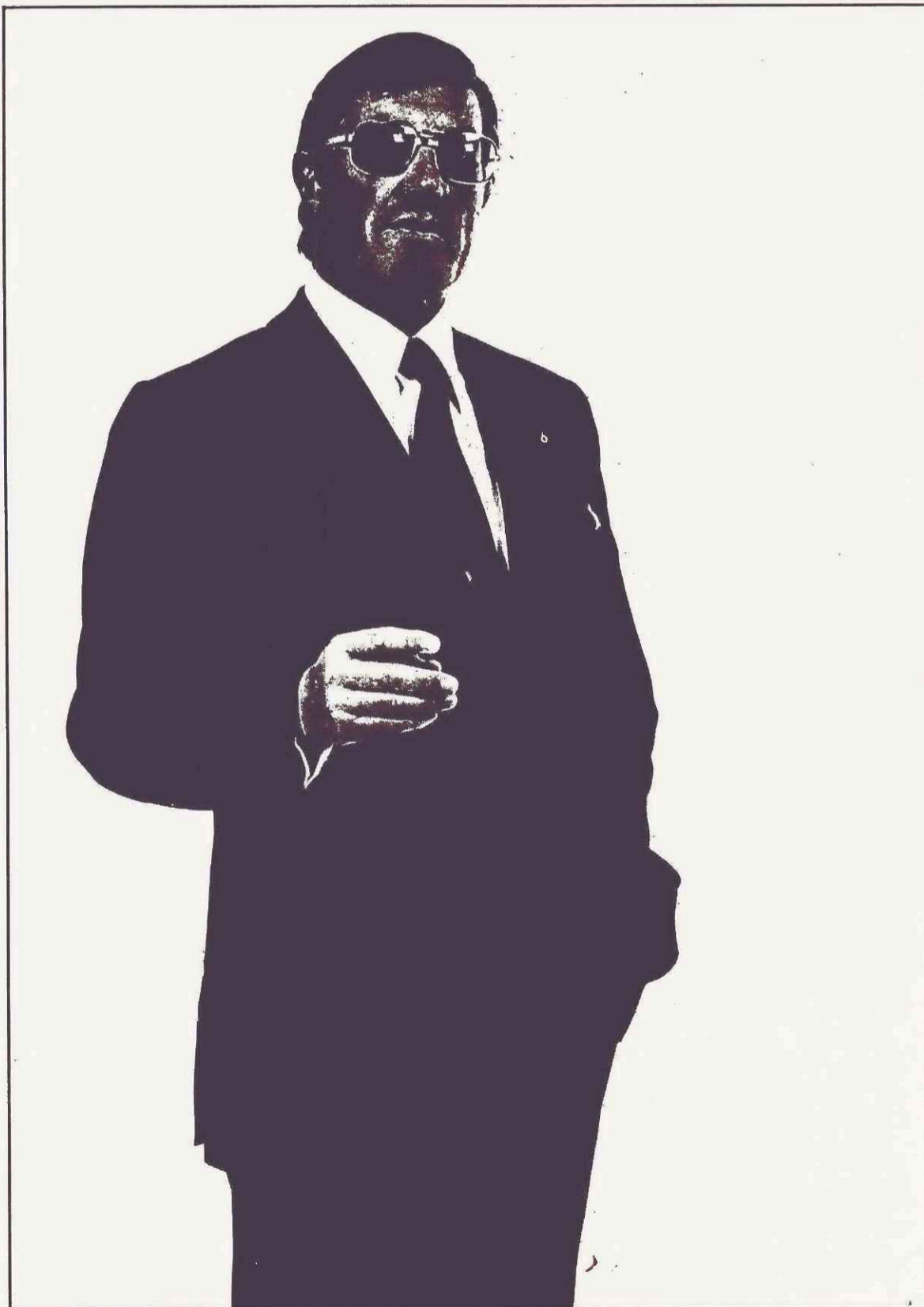
Assets allocated to "balanced funds"—a mix of equity and fixed income securities—posted a median return of 6% in 1978. Profit sharing money in diversified equity funds, mainly common stock holdings, showed a median return of 10.5%. The Dow Jones Industrial

Average advanced only 2.8% in 1978, while the Standard and Poors 500 Index increased 6.5%.

Profit sharing funds invested in other ways also performed well. Funds invested primarily in bonds showed a median return of 4.3%, while plan assets in guaranteed interest contracts returned 8.5%. A number of plans were invested in stock of the employer company and showed a wide range of returns, with a median of 19%.

As in past years, the percentage of plan assets under insurance company management continued to increase. Although banks still manage the largest percentage of assets, 38%, followed by internal management of 24% and external investment advisers for 20%, insurance companies now manage 13% of profit sharing assets, compared with only 5% in 1975.

Although most plans leave investment decisions to the plan trustee, an increasing minority give employees a choice. ■



Consumers lack voice in regulation: GAO

By JERRY GEISEL

WASHINGTON—In its final report on state insurance regulation, the General Accounting Office is asking new questions about the effectiveness of the National Assn. of Insurance Commissioners in representing consumer interests.

A draft copy of the GAO report, reported exclusively by *Business Insurance* (Sept. 17), cited sharp shortcomings in state regulation. Insurance commissioners in more than 20 states told the GAO their departments lack sufficient staff for consumer protection and trade practice regulation.

Going beyond these shortcomings, the GAO probed extensively into whether the corporate and individual consumer has a voice at the NAIC. Although the consumer

may be beginning to be heard, his voice usually is drowned out by the blast of industry power, the report found.

For example, even though the NAIC constitution was amended two years ago to encourage consumer participation in its advisory committees, these committees remain dominated by insurers.

Of the 11 advisory committees that have been convened since 1977, seven committees' members were drawn entirely from the ranks of insurers. The total membership of these committees, which study insurance issues and help formulate NAIC model laws and regulations, was 114 from industry, four consumer representatives, two government agency employees and two academics, the report said.

This lack of consumer participa-

tion was most evident recently when the NAIC failed to actively poll business and consumer groups before deciding to reject the Commerce Department's Risk Retention Act at its June meeting, a government source said. The proposal, which would allow firms to pool their product liability risks under a federal charter, was later endorsed by a broad array of business groups, including the Risk & Insurance Management Society.

NAIC meetings are generally dominated numerically by insurance companies, according to the GAO. "The semi-annual meetings and most zone meetings find the regulators heavily outnumbered by insurance industry members," the report said.

The official meetings of the

NAIC are not characterized by the customary arms-length relationship between regulator and a regulated industry, the GAO said.

For example, the regulation fees at NAIC meetings paid by insurers pay the administrative expenses. In addition, insurance companies and trade associations are allowed to maintain "hospitality suites" to entertain commissioners and other meeting participants, the report said.

"There is almost no consumer participation, but almost no limit to the extent of industry participation," the report contends, citing New Jersey insurance commissioner James J. Sheeran's remark that the NAIC is merely an "industry association."

In a letter to the GAO, NAIC president H.P. Hudson, who also is

the Indiana state insurance commissioner, said advisory committees have "industry people as well as consumer interests within their structure."

Mr. Hudson said the GAO's contentions that an adequate arms-length relationship does not exist between the NAIC and the industry "impugn the integrity of every state regulator, which I think is grossly unfair. There appears to be no factual evidence contained in your report to substantiate this questionable integrity."

Mr. Hudson has submitted his resignation, citing his plans to run for the U.S. Senate.

California insurance commissioner Wesley Kinder questioned why the GAO seems to regard "as an evil" industry representatives outnumbering commissioners and staff at the semi-annual meetings.

"How could the numbers be otherwise, considering the number of insurers?" Mr. Kinder asked. "Since NAIC activity is directed, in part, to proposed model legislation, the industry affected cannot be denied input nor knowledge of proposed legislation."

The GAO report was requested by long-time insurance industry critic Howard Metzenbaum (D-Ohio), who has been contemplating for some time introducing legislation to repeal the McCarran-Ferguson Act, the 1945 law that gives insurers immunity from federal antitrust law in favor of state regulation.

The GAO surveyed insurance departments in 44 states to sample the effectiveness of state regulation. Although the GAO did not take a definite position on whether the McCarran-Ferguson Act should be repealed, a recent Marsh & McLennan survey found that a majority of the 300 risk managers it polled preferred the current system of state regulation to federal intervention (*BI*, June 25).

New managing firm

A new Colorado captive insurer management firm, Risk Treatment Services Co. Inc., has been formed to take over the captive management activities of the Glendale Agency and Glendale Risk Management Co. Inc. The new firm is an affiliate of National Business Services. William R. Kersten, CPCU, will oversee all the captive insurance operations of National Business Services, including Risk Treatment Services Co.

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My sincerest thanks to all the fine boys and girls who entered the IYC, the pros who give us the uniqueness of this tournament, the Independent Insurance Agents of Michigan and all of the other participating states... and above all, the fine companies who make it all possible.

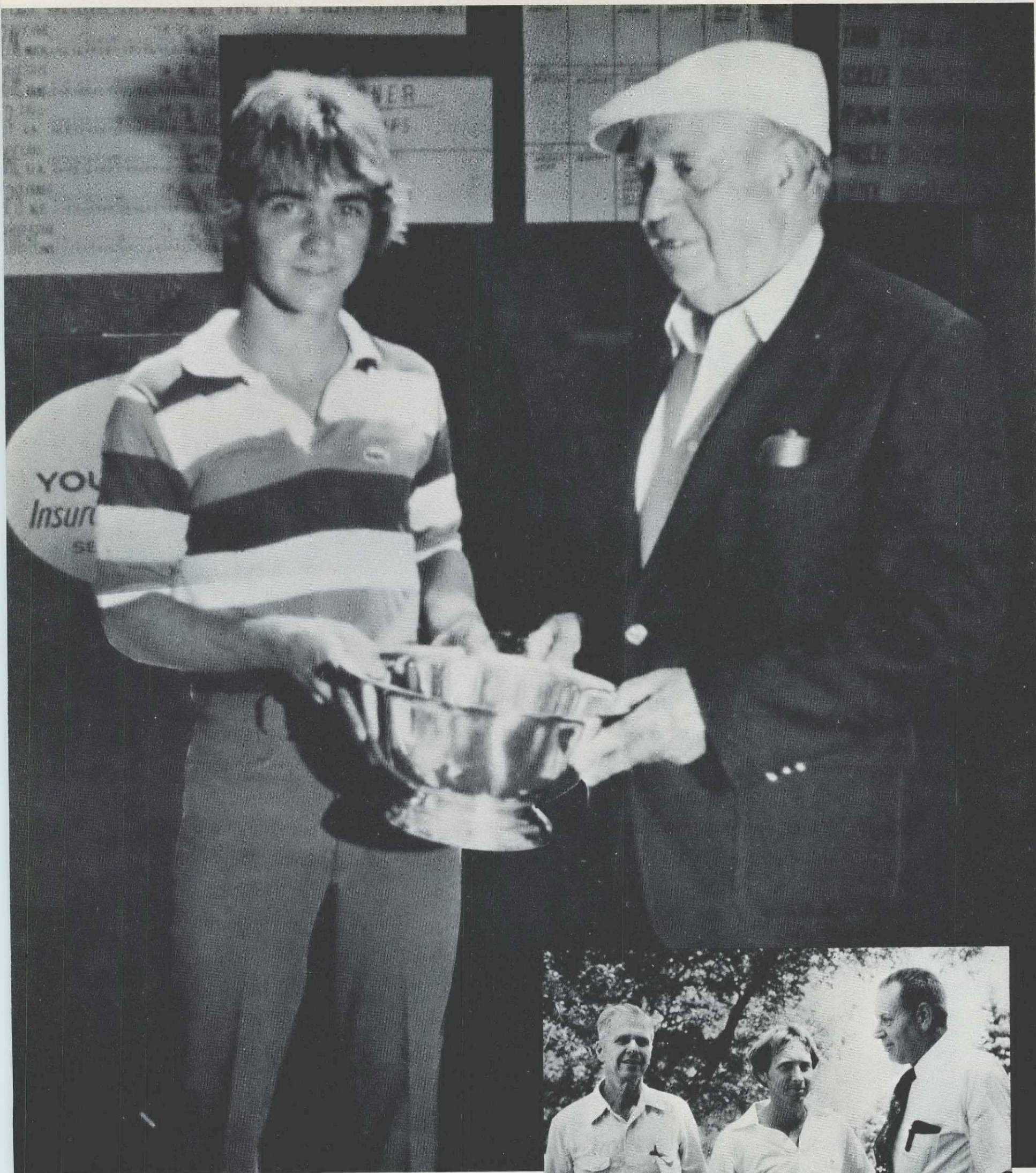
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Sixteen year old Tracy Phillips of Tulsa, Oklahoma, winner of the 1979 Big "I" Insurance Youth Classic played at Radrick Farms Golf Club in Ann Arbor, Michigan. Tracy shown here accepting the Robert Trent Jones Trophy from Robert Trent Jones.



Forrest Fezler, the pro from Hollister, California captured the win on the pro side with a one-under par 143. From left to right IIAA President Donald C. Brain, CPCU, Forrest Fezler and IIAA Immediate Past President Lee R. Meyer, CPCU.

Guard firm finds security in risk plan

By JOHN MAES

MEMPHIS—Hubert McCommon became a sort of pioneer early last year.

His pioneering venture was to assume the post of first full-time risk manager for Guardsmark Inc., a private security firm working to stay ahead in a highly competitive industry with some giant sized insurance problems.

With the soft-spoken Mr. McCommon as the firm's vp for risk management, Guardsmark boasts it is not only one of the best-trained, high-quality guard forces in the business, but also has one of the most insurance-efficient operations in the field.

In his second year as the firm's charter risk manager, Mr. McCommon believes he has put into practice a program that has the firm well down the road to reducing its insurance costs which now total about \$1.4 million yearly. That's 3.5% of annual revenues of \$40 million and half of the insurance cost before Mr. McCommon arrived. The program includes self-insurance, selectivity in the types of business Guardsmark will take and promotion of safety among employees, a cost-control factor in workers compensation.

Guardsmark's insurance and loss prevention moves over the last year represent a combination of Mr. McCommon's techniques plus the ideas of Ira A. Lipman, the company's insurance-minded founder-president who believes a risk manager is well worth the expense.

Before the company had a risk manager, Mr. Lipman and the firm's legal department used to do the corporate insurance buying. "With insurance being our third largest expense behind payroll and taxes, I felt we needed someone to handle our insurance matters," Mr. Lipman said.

"I don't think the position of risk management in business is fully appreciated, but our department will grow and become more sophisticated because I consider it as key a position as the treasurer and attorney—it's an absolute key spot."

Self-insuring the first \$50,000 of general liability has turned out to be a big money saver, Mr. McCom-

mon said. "We would be paying \$500,000 to \$800,000 more for first dollar coverage over what we pay now with self-insurance."

And there's talk of increasing the self-insured retention on general liability and workers compensation. "We're considering going to a higher deductible of \$100,000 on liability and doing away with specific stop-loss insurance on workers compensation," he said. Not only that, the company has considered forming its own captive insurer, "but you've got to take these things one step at a time."

Guardsmark insures its general liability with a \$1 million primary policy with National Union Fire Insurance Co., a unit of American International Group, for such personal injury risks as false arrest, defamation of character, assault

and battery and wrongful entry. Errors and omissions, third-party thefts and losses to property in Guardsmark's care, custody and control are also covered under the general liability policy.

A \$4 million umbrella policy with Puritan Insurance Co. provides another layer of coverage for those risks and picks up auto and employers liability. Primary auto liability is covered by a \$1 million policy with Maryland Casualty Co. while fidelity bonding is handled through Federal Insurance Co. to a \$1 million limit.

Guardsmark buys additional excess liability insurance of less than \$30 million, but Mr. McCommon declines to detail the arrangement, saying it could harm the company's "competitive edge" in

the security field.

The company insures \$2 million worth of property: its Memphis headquarters and a building in Augusta, Ga. Federal Insurance Co. is the underwriter for the coverage brokered by Alexander & Alexander. A floater for an art collection in the Memphis building is included.

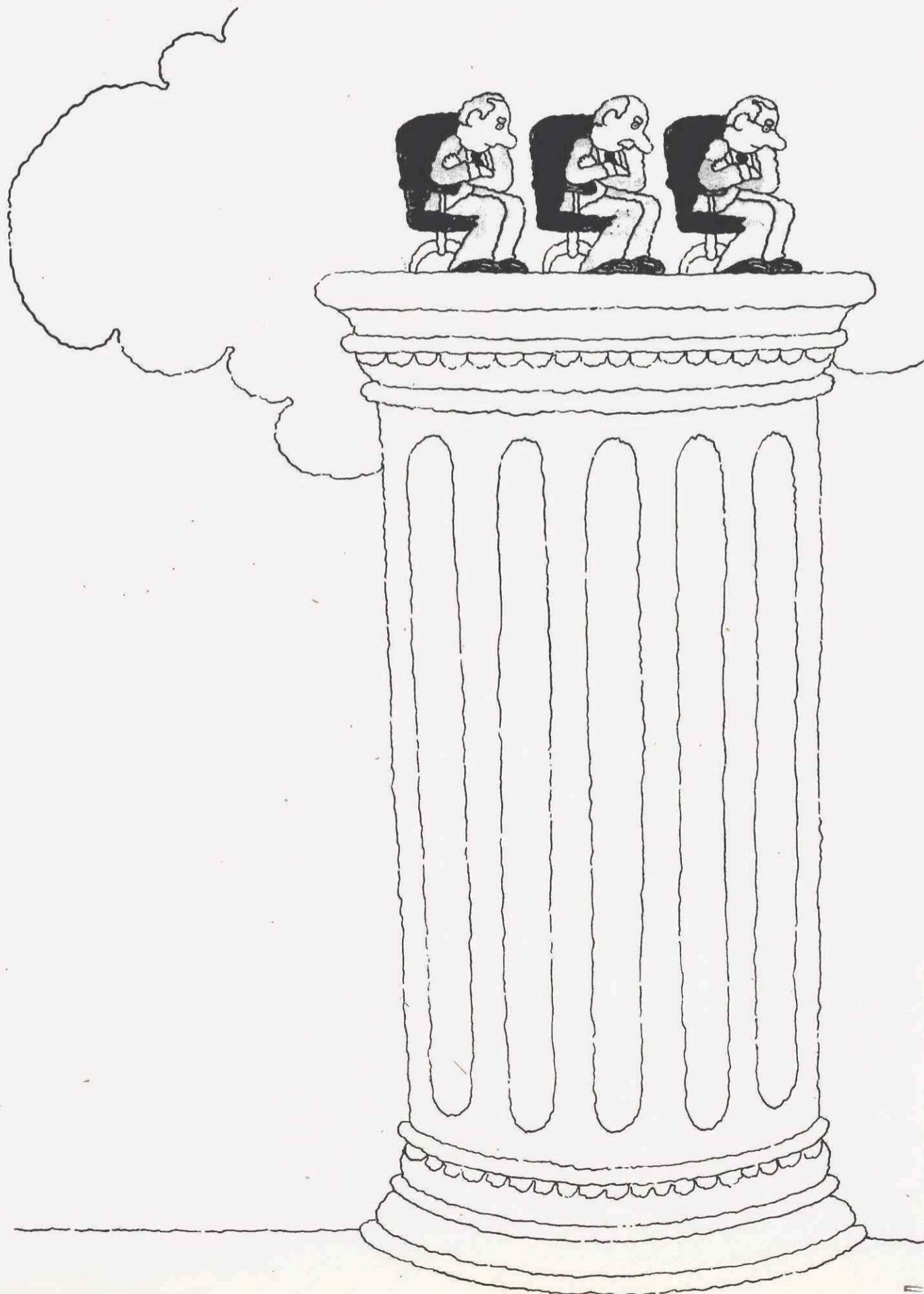
Workers compensation is also insured by National Union with specific stop-loss of \$100,000 and aggregate annual stop-loss of \$765,000, with an attachment point of 130% Mr. McCommon said.

The firm's workers compensation situation has "improved significantly" over the last year, Mr. McCommon said. Even though claims have risen 25% to 59 through six months in 1979 from 41 after six months last year, the company has paid less in benefits.

So far this year, \$84,000 in benefits has been paid, as opposed to \$200,000 in the first half of last year. A contributing factor to the higher six-month total for 1978 was a fatal accident involving a guard at a refinery at Texas City, Texas.

The improving workers compensation experience is partly a product of Guardsmark's attention to safety promotion, which includes periodic distribution of safety bulletins to employees and stuffing of pay envelopes with circulars containing loss prevention messages.

But, the improving track record also reflects the type of guards hired by Guardsmark, Mr. McCommon said. The company is known for its stringent, meticulous screening process which all applicants for guard jobs must undergo. The process includes extensive



Unguarded success

Guardsmark Inc., the sixth largest security guard firm in the U.S. with a force of 4,000 guards, expects to reach the \$40 million mark in revenues this year. It was founded in 1963 by Ira A. Lipman, expanding the firm from an investigative service run by his father Mark.

With branch offices in 33 U.S. cities, Guardsmark derives a substantial portion of its income from plant and industrial security, retail institutions, banks, airport security, hospitals and internal investigations. The company has also handled strike security and provides polygraph and technical services to help clients prevent crime.

The company bills itself as having the highest-caliber guards in the field because of its extensive applicant screening and training requirements.

Photo: Guardsmark



Hubert McCommon's (right) risk management techniques and Ira Lipman's ideas have produced Guardsmark's efficient insurance program.

psychological testing and back-ground checks for all guard job hopefuls. Many applicants are rejected.

As a result, Mr. McCommon says, the company gets a more conscientious, reliable and less accident-prone employee. "We think a guy who is a bad performer on the job is also likely to get injured," he said.

Safety ideas are brainstormed by the company's loss prevention committee, Mr. Lipman's creation, but whose members include Mr. McCommon, head of Guardsmark's guard division, and personnel administrators. The committee meets monthly and discusses safety problems and possible solutions.

The corporate philosophy of promoting safety and minimizing liability exposures is translated into corporate policy in Guardsmark's dealings with clients. Guardsmark is selective in accepting accounts and shies away from those in which the liability potential is greatest.

For instance, the company is big in industrial security, airport pre-

flight screening, investigations, personal protection and strike security. But Guardsmark shuns such business as construction sites and armed accounts, Mr. McCommon said.

"Construction sites are one of the worst types of risks," he said, explaining it's virtually impossible for a single guard to deter all thefts on a large construction site. Still, it's likely the victimized contractor will seek recovery from the guard firm even if the guard "is performing his job properly," he said.

As for armed business, Guardsmark, at Mr. Lipman's direction, deemphasizes sales of armed services, and the reduction of liability exposures speaks for itself, Mr. McCommon says. Currently, less than 2% of Guardsmark's business is armed and the company discourages clients from buying it by charging higher rates and providing salesmen with bonuses for procuring unarmed business.

To Mr. McCommon, it's like a

breath of fresh air from a risk management standpoint to eliminate that risk. "We're considering dropping an armed account right now," he said.

A 1975 accidental shooting death involving a Guardsmark employe, in which Guardsmark shared in payment of a \$250,000 settlement, was a driving force behind the de-emphasis on arming guards.

While turning away from armed guards, Guardsmark is now turning toward attracting career-minded employes and is designing a benefits program for its guard force including hospitalization and major medical plans. But the company is withholding details until the plan is enacted.

Mr. McCommon is still somewhat new to the security field and Guardsmark, but he's no stranger to risk management. In 1949, he joined the Memphis Gas, Light and Electric Co., a division of the city of Memphis, as a storekeeper and stock clerk but worked his way through the ranks into the insurance department.

Mr. McCommon became manager of funds and insurance in 1961, the year he also earned a bachelor of business administration degree from Memphis State University.

In 1974, the company separated its insurance operations into a single division, to which Mr. McCommon was appointed director. Mr. McCommon has also found time to take part in RIMS affairs, serving as vp of legislation on the national executive committee from 1969 to 1971.

Frederic sets record losses

NEW YORK—Hurricane Frederic, which produced insured losses of \$752.5 million last month, resulted in a record insurance loss from one disaster, the American Insurance Assn. says.

The most extensive damage, an estimated \$483.3 million, took place in Alabama. Mississippi saw \$175.5 million in damages; \$80 million in Florida; more than \$5.1 million in Ohio; about \$2.75 million in Tennessee, and more than \$2.5 million in New York. Damage in Louisiana, Kentucky, West Virginia and Pennsylvania totaled about \$3.3 million.

Damage estimates do not include flood losses covered under the National Flood Insurance program or losses involving ocean marine, aircraft, crops or federal installations.

The previous high had been Hurricane Betsy, causing insured damage of \$715 million. (The 1965 dollar is now worth less than 43 cents.) ■

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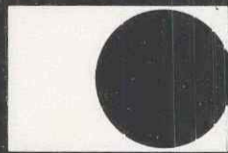
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SPECIAL RISKS REPORT

Profits go on when the show doesn't

By STUART EMMRICH

NEW YORK—When Liza Minnelli came to Broadway in 1977 to star in the musical "The Act," the show's producers thought they had a hit on their hands. Even if mixed reviews came in, there would still be plenty of people willing to pay \$25 a ticket to see Liza Minnelli perform, they reasoned.

But in building a show around Ms. Minnelli, the producers also knew they were taking a large risk. If the star wasn't able to show up for a performance one night, it was a safe bet neither would the audience. No understudy was going to be able to attract ticket-buying customers to this show.

So before "The Act" opened, the producing Shubert Organization went looking for a little protection: non-appearance insurance. And they found an insurer willing to write the policy guaranteeing against lost revenues in case Ms. Minnelli had to cancel a show and refunds were issued.

Shubert had to pay quite a bit for the unique policy—5% of the limits is often a standard premium rate—but it turned out to be worth it. When a bad cold flattened Ms. Minnelli and darkened the theater, the producers collected much of the more than \$200,000 it estimated was lost during the week of canceled performances.

Non-appearance insurance is just one factor that adds to the complexity of protecting a theater's risk. It is one more variable in a field where insurance needs must be based on such perplexing problems as how to insure irreplaceable costumes or scenery or how to estimate a theater's revenues from its latest show months before the first reviews come out

that label it a flop or a hit.

Like any business, there are certain standard insurance needs that a theater has: property coverage, workers compensation and general liability, for instance. But in placing even the simplest policies, problems can be encountered from underwriters who may not know a proscenium from a box office and see the theater as uncharted waters.

"If I had a business office, every company on the block would be willing to write it. Things aren't that easy when it comes to insuring theaters, though," explained Milton Trager, a commercial underwriting manager for Polar International, a New York brokerage firm that has a reputation for specializing in handling insurance needs for various theater organizations.

Although placing standard policies in the insurance market takes a little footwork and cajoling of companies, finding coverage for the special risks of the theater—a star not showing up, for example—can be an absolute headache.

"It is getting harder and harder to find non-appearance insurance," said Peter Goldberg, a spokesman for the Shubert theaters. "There have been some bad experiences lately from the insurance company's point of view: Henry Fonda getting sick and causing the national tour of 'First Monday in October' to be canceled. The same thing happened to 'Sly Fox' with Jackie Gleason."

Premiums are sometimes prohibitive and deductibles usually are set at one day's revenues for the policies, which either just cover out-of-pocket expenses or both expenses and anticipated revenues.

Continued on page 18

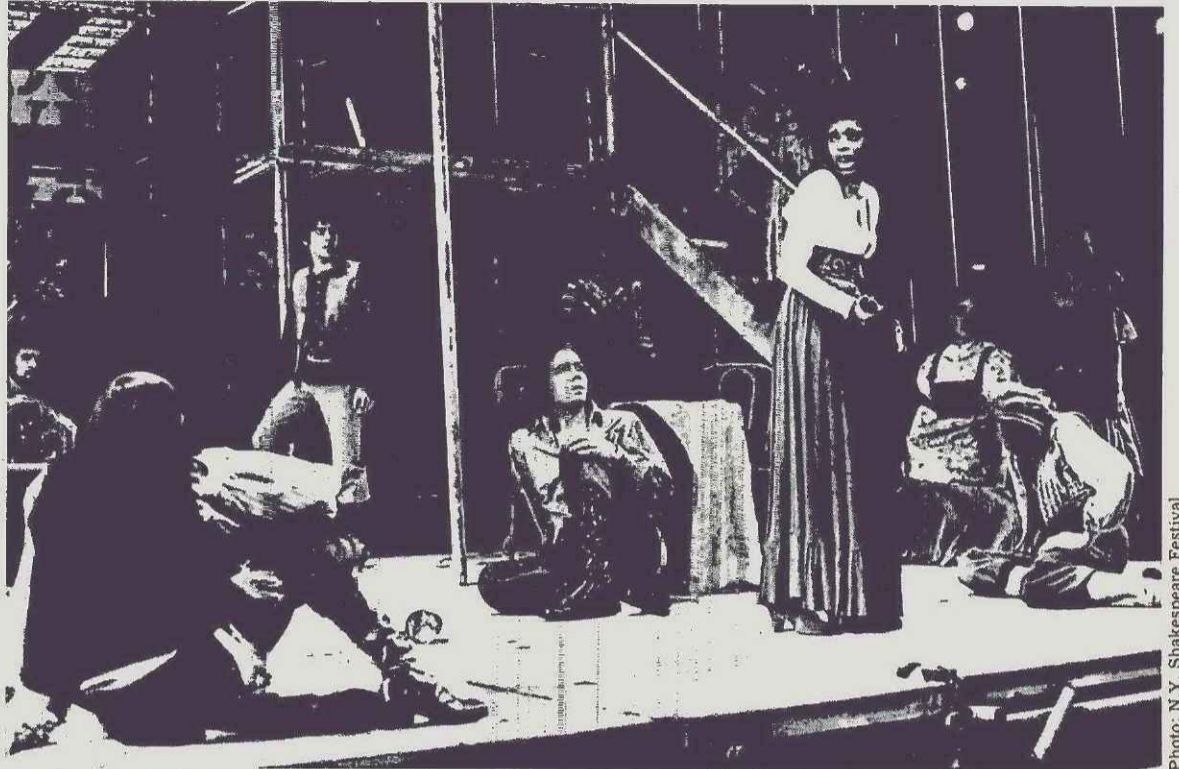


Photo: N.Y. Shakespeare Festival

The New York Shakespeare Festival, a year-round expense insurance and sometimes non-theater organization, buys rain insurance, extra appearance insurance for big-name stars.

Liability premiums driving shops out of moped rentals

By MARY ELLEN MCKEE

CHICAGO—A bicycle shop here is getting out of the potentially lucrative moped rental business because the liability insurance premiums are driving the profit out of

leasing the fifty motorized bicycles.

Byron Coon, manager of Moped of America of Chicago, has sold all but one of his 50-moped rental fleet because he was paying \$130 every six months to insure each moped

that rented for \$26 an hour. And his coverage was only for service liability, covering damage to people and the mopeds if the accident were caused by poor maintenance.

"I wouldn't mind if my loss experience justified that outrageous a premium. But there were no claims filed by my shop in two years," he moaned.

New York cycle shops renting mopeds have decided to go without insurance in the face of insurer reluctance to take moped rental business. Ten New York cycle shops contacted by *Business Insurance* admitted they had no liability insurance for the mopeds they rent.

Another Chicago cycle shop had considered pedaling into moped rental at the beginning of the year. But when the lowest insurance estimate came from the now defunct American Reserve Insurance Co. at \$90 every six months for each moped, Sandy Rubenstein, manager of The Cycle Scene, reluctantly parked the idea.

"My customers are very ticked off because we don't offer this service," he said. His shop gets at least 35 inquiries each week on moped rentals and the number keeps rising, he added.

"The insurance companies and brokers don't know anything about the business. As a result, they're so inconsistent, it makes my head ache," said Mr. Coon of Moped America.

Mr. Coon cited the disparity of the coverage and the premiums charged by his insurer and Mr. Rubenstein's estimate to support his charges. Unlike Mr. Coon's policy, the American Reserve policy would have covered damages made to the moped by the customers and accidents to customers caused by poor maintenance.

"The premiums seemed to climb as the number of claims each year dipped," said the owner of Gene's Bicycles & Mopeds in New York.

Continued on page 20

Halloween policy halts liability ghouls

By VALERIE BERG

BIRMINGHAM, Mich.—It's the time of year when spooky houses are haunted with all sorts of fearful creatures: ghosts, witches, black cats, skeletons—and the specter of possible injuries to persons who dare to enter.

But a growing number of haunted house operators frightened not by spooks but by the liability exposure are seeking protection under special liability policies for haunted houses that cover the people visiting them. "We've never had a response like this year," says Brigitte Williams, underwriter with Amusement Business Underwriters here, which writes such a policy. "It's unreal."

Most of the buyers are Jaycees organizations throughout the country, although various clubs and church groups also are buying. Claims experience has been very good, Ms. Williams said, because the tours through the haunted houses are usually well organized and conducted by guides. Only one claim was filed last year by a person who tripped and fell.

"But they're becoming more conscious that they need coverage just in case," she said.

The policy is a type of owners, landlords and tenants liability coverage which covers people going through the house; property damage is not included, but property insurance can be obtained from other markets, Ms. Williams said.

Premiums are "very reasonable" and are based on the limits of liability and the number of days the haunted house is in operation, but she would not be specific. A primary policy can be written up to a limit of \$1 million, with excess insurance available if needed. Usually, the \$1 million limit is sufficient, Ms. Williams said, but if an organization rents a building or house owned by a government entity, more coverage may be needed.

The policies do not, however, include as named perils such ghoulish tricks of the evil spirits as bumps from a ghost in the night or bites from a vampire. But no one has filed such a claim yet either, Ms. Williams reports.

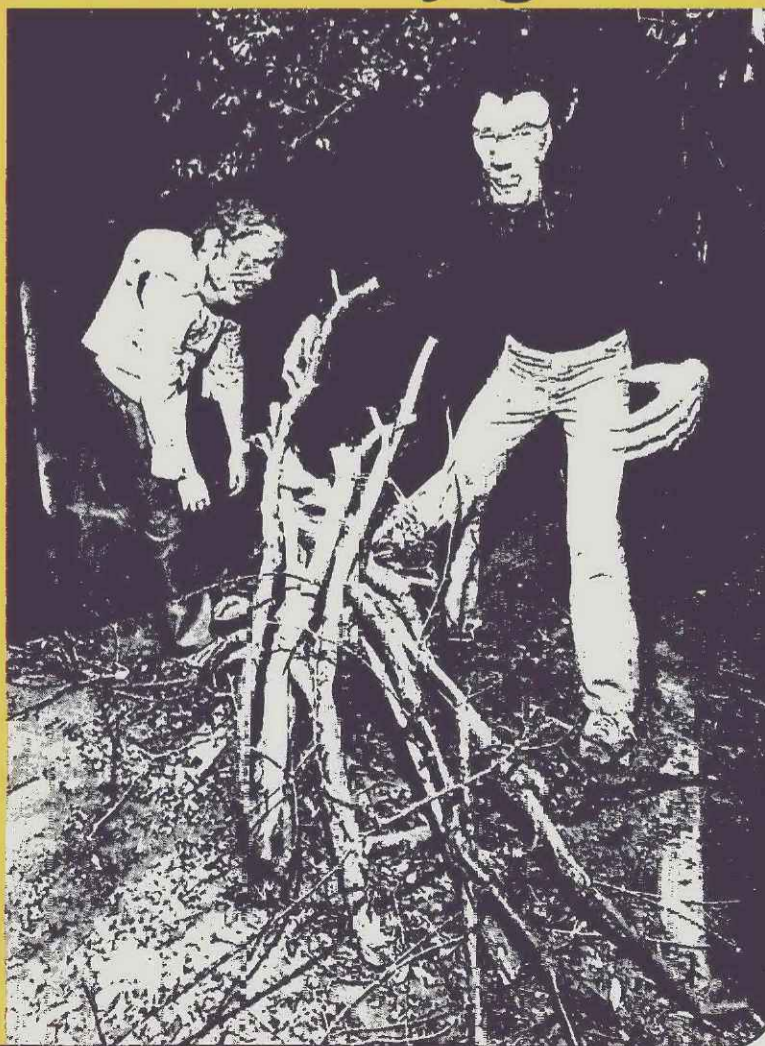
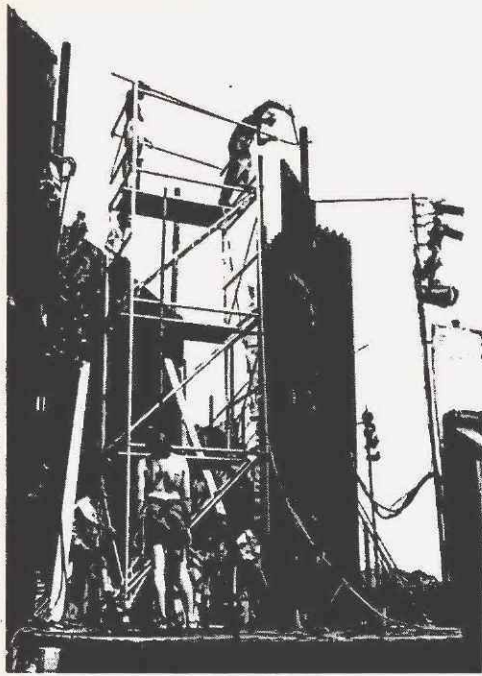


Photo: Variety Club of Ill.

Insurers understudy the stars

Photo: N.Y. Shakespeare Festival



Because shows open and close frequently, no policy can be cut and dried. The Shakespeare Festival often changes its schedule from month to month and the coverages are often reevaluated and changed to reflect the new risks.

Continued from page 17
Mr. Goldberg said.

Perceiving tighter markets, theater managers are reluctant to divulge their markets. But the known specialists in the field of theater risks are Chubb & Sons and Lloyd's of London for non-appearance insurance and INA and Fireman's Fund for performers' insurance.

One of the more famous claims involving a performer was the \$320,000 Fireman's Fund paid out to cover the production losses caused by Montgomery Clift's near-fatal car accident that disfigured his face and stalled for months the filming of "Raintree County."

Along with insurers that have specialized in the performing arts are brokerage firms that have also carved out a niche in the area.

SPECIAL RISKS

Among the most successful is Polar International, under president Stanley Kleckner.

Besides placing insurance for various theatrical events, Polar also has as one of its major full-time clients the New York Shakespeare Festival. It is one of the country's largest theater organizations and one of the few that have year-round, continuous performances.

Special considerations

Part of placing insurance for the festival is the mundane, almost rote work of buying standard liability policies (\$1 million per occurrence in the primary layer, with an additional \$10 million in umbrella

coverage), property insurance (\$500,000 for the festival's two buildings, plus \$40,000 for an outdoor performing area) and the typical workers compensation, disability, auto liability, directors and officers liability and blanket bond coverages.

But the special considerations unique to theaters make their insurance needs unusual.

In property insurance, for instance, because the theater can change productions each month, the value of the property involved—costumes and scenery—can widely fluctuate. Plus there is an unknown factor involved in determining the values of the sets and costumes.

A dress for the leading actress may have only taken \$25 to make, but if it disappears the night before opening, its value dramatically increases. And that dress might be looked on as a work of art by the designer, who expected to have control over it once the show closed.

When writing the policies, the broker usually stipulates that the value of anything to be insured is both based on the various factors that went into it—the reputation of the designer, for instance—and how much it will take to replace it, a variable that can depend on where and when the original item was destroyed.

Extra expenses

The same considerations go into insuring the theater against business interruption for extra expenses. The policy covers the difference between what it would have cost to put on the original production and the added cost of performing the play either at a new theater or with new sets and costumes replacing those destroyed by some disaster.

The New York Shakespeare Festival carries about \$100,000 of extra expense insurance.

The theater also purchases rain insurance to protect against its outdoor summer productions being canceled by the weather. Premiums can vary widely and claims are paid based on precise measurements, such as so many tenths of an inch falling in so many minutes.

Although the festival seldom uses so-called "big name" stars, when it does it considers buying the non-appearance insurance. One recent policy covering a woman film star who appeared in a festival production estimated that \$10,000 a day could be lost if the actress did not go on. The limit of the policy was \$400,000 for a 3% rate.

Because shows are opening and closing with sometimes alarming frequency, no policy can be cut and dried. The festival often changes its schedule from month to month and the coverages are regularly reevaluated during the year and often changed to reflect new risks.

The festival also often purchases tailored one-day policies, say for \$100,000, to cover special events at its theater.

Polar spokesmen say that almost all the coverages are placed through admitted domestic underwriters. They rarely have to go to the surplus markets and even more rarely to Lloyd's of London. ■

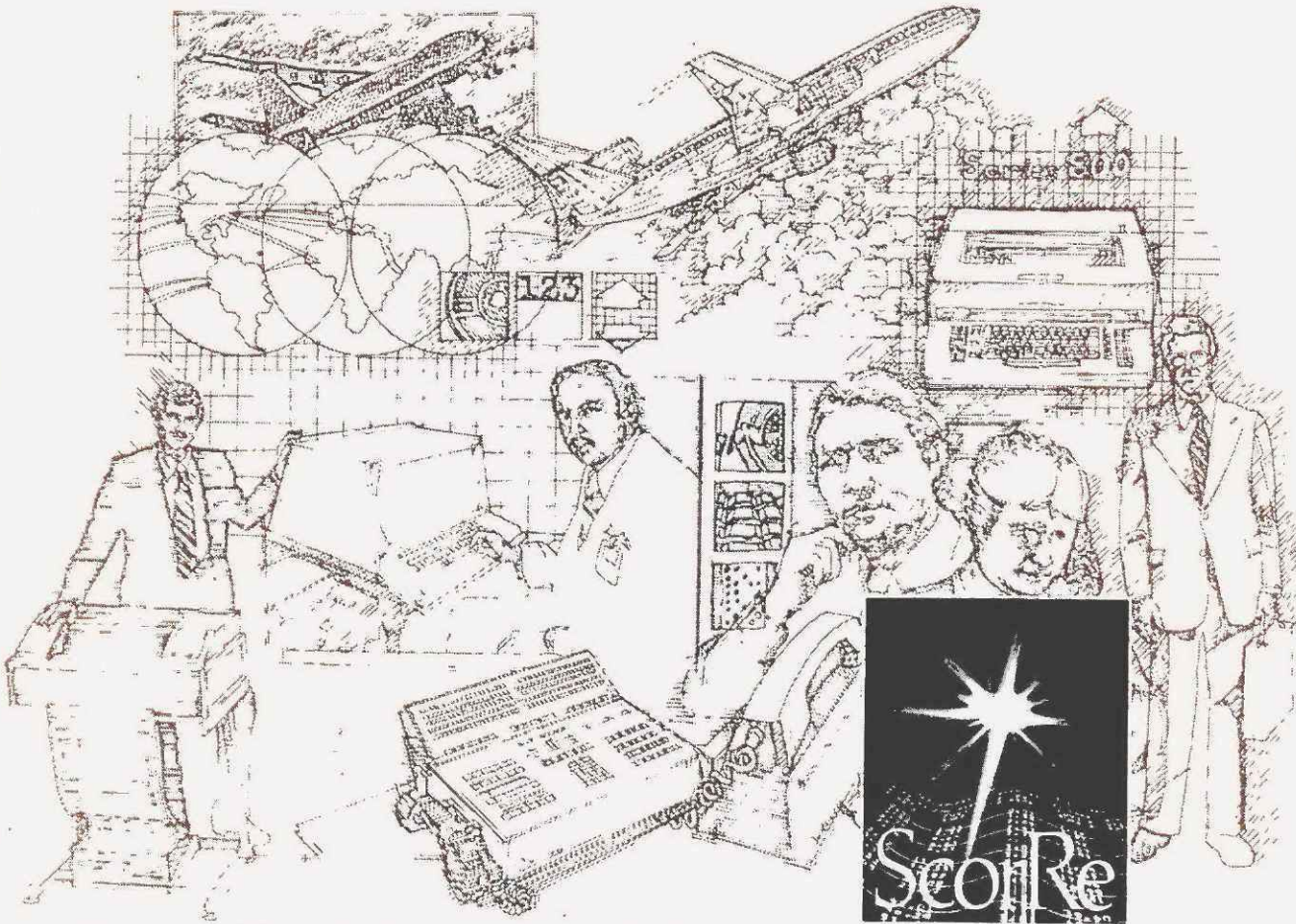
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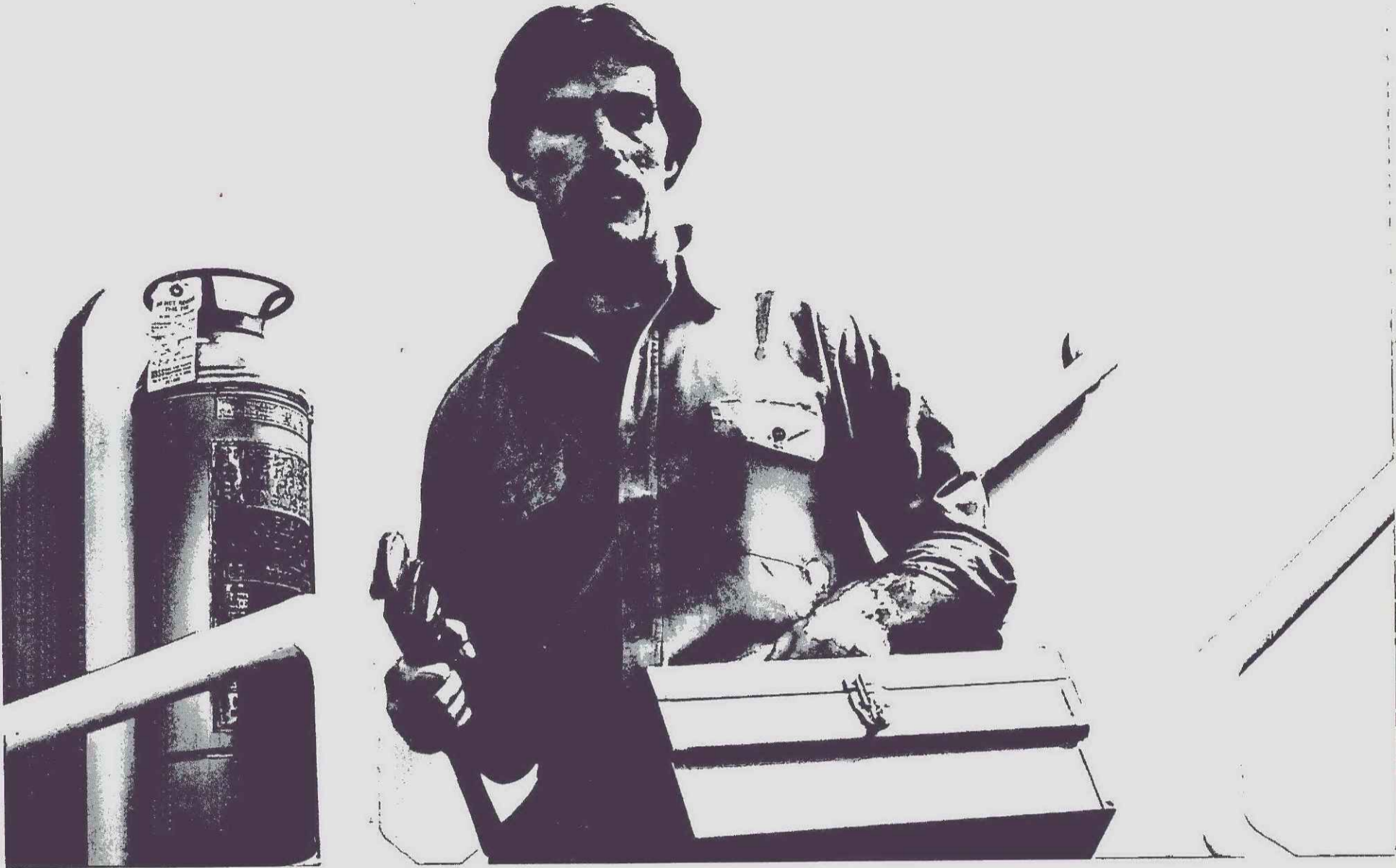
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LOS ANGELES—Knudsen Corp., Hughes Aircraft Co., Shasta Beverages and Gulf Oil Co. were honored for outstanding fleet safety operations at the greater Los Angeles chapter of the National Safety Council's annual fleet safety awards banquet. ■

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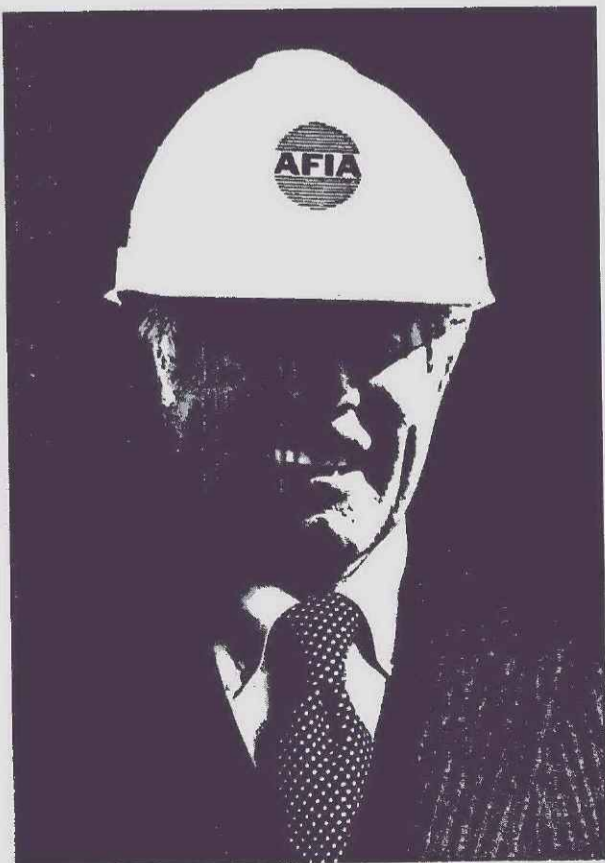
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Moped dealers can't afford the insurance to rent mopeds, says Byron Coon.

Mopeds driven out

Continued from page 17 recalling the days when he purchased insurance.

"I decided I didn't need the insurance companies," he noted. Instead, he implemented a rigid verification system in his shop for any customers renting mopeds.

The customers of Gene's Bicycle & Mopeds must also sign a waiver of liability, a common procedure among moped rental services. By signing the waiver, the customer promises that if he or she is in an accident while driving the moped, the shop will not be sued.

Credit check

Customers have teased the cycle shop owner about requiring an entire life's history for one motorized bike. Gene's owner admits that's not too far from the truth, because

SPECIAL RISKS

he wants to know if the customer has a good credit history and knows how to use the moped.

Mr. Coon and Mr. Rubenstein are encouraged by the cycle shops in New York sidestepping the purchase of insurance, considering also getting into the business with no insurance if they had a bigger volume of business.

"There's a moped market simmering out there," said Mr. Coon of Moped America.

"Retailers are dying to go into moped rental, but no one can afford the premiums."

"Let it simmer," vehemently responded a spokesman for a Chicago-based insurance company that gladly underwrites mopeds on an individual basis, but steadfastly refuses to touch the moped rental market. "There are too many unknown variables."

National brokers Marsh & McLennan, Alexander & Alexander and Fred S. James & Co., Chicago brokers Mack & Parker Inc. and Ryan Services Corp. and Payan-Stitt Corp. of Palos Heights, Ill., are all willing to resist the bait of profitably marketing the insurance because they fear the unknown factors would eat up insurers' profits.

Rigid procedure

And most insurers and brokers are unconcerned about the shops in New York that are renting mopeds without liability coverage. As one New York broker explains it: "Since mopeds appeared in New York long before they surfaced in the Midwest, shop owners out here have become sophisticated.

"They have rigid verification procedures and they have built up a crop of regular customers over the years, added the broker, who is also a regular customer of Gene's Bicycles & Mopeds shop and has rented a moped for spins in Central Park.

Lamenting his departure from renting mopeds and the insurance company reluctance to tap the premium dollars, Mr. Coon does not expect consumer interest in moped rental to subside. "Not everyone is affluent enough to buy one, but a lot of people are willing to set down \$20 to \$30 for a few hours of fun," he said.

Work comp suits edge up: Report

SAN FRANCISCO—The incidence of workers compensation litigation edged upward slightly during the second quarter of 1979, according to the California Workers Compensation Institute Bulletin.

Based on data from 35 insurer groups writing 74% of statewide premium, the litigation rate averaged 7.5% of new claims reported, up from 7.4% last year.

However, the litigation rate increase may be attributed to fewer claims rather than an increase in the number of applications for litigation, the institute says.

The incidence of applications first notice continued to decline during the second quarter to the lowest rate since 1972. An application first notice is when the employer first hears of a worker's injury by receiving notice of the worker's request for a hearing. This was the case in 46% of the incidents in which applications for a hearing were filed.

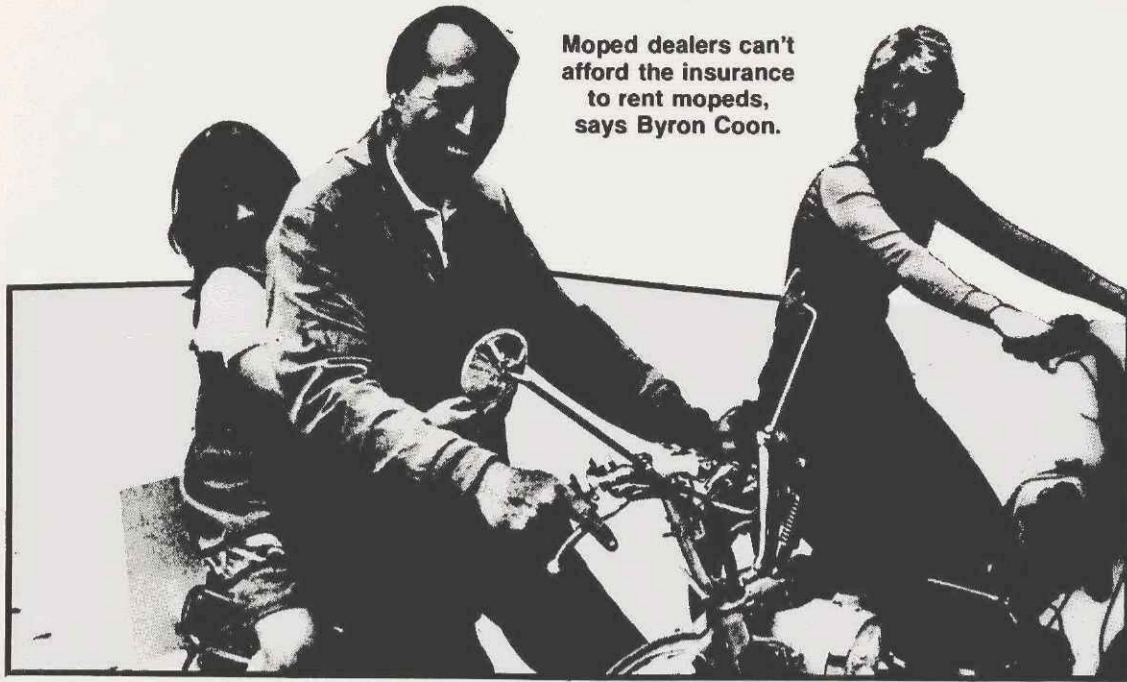
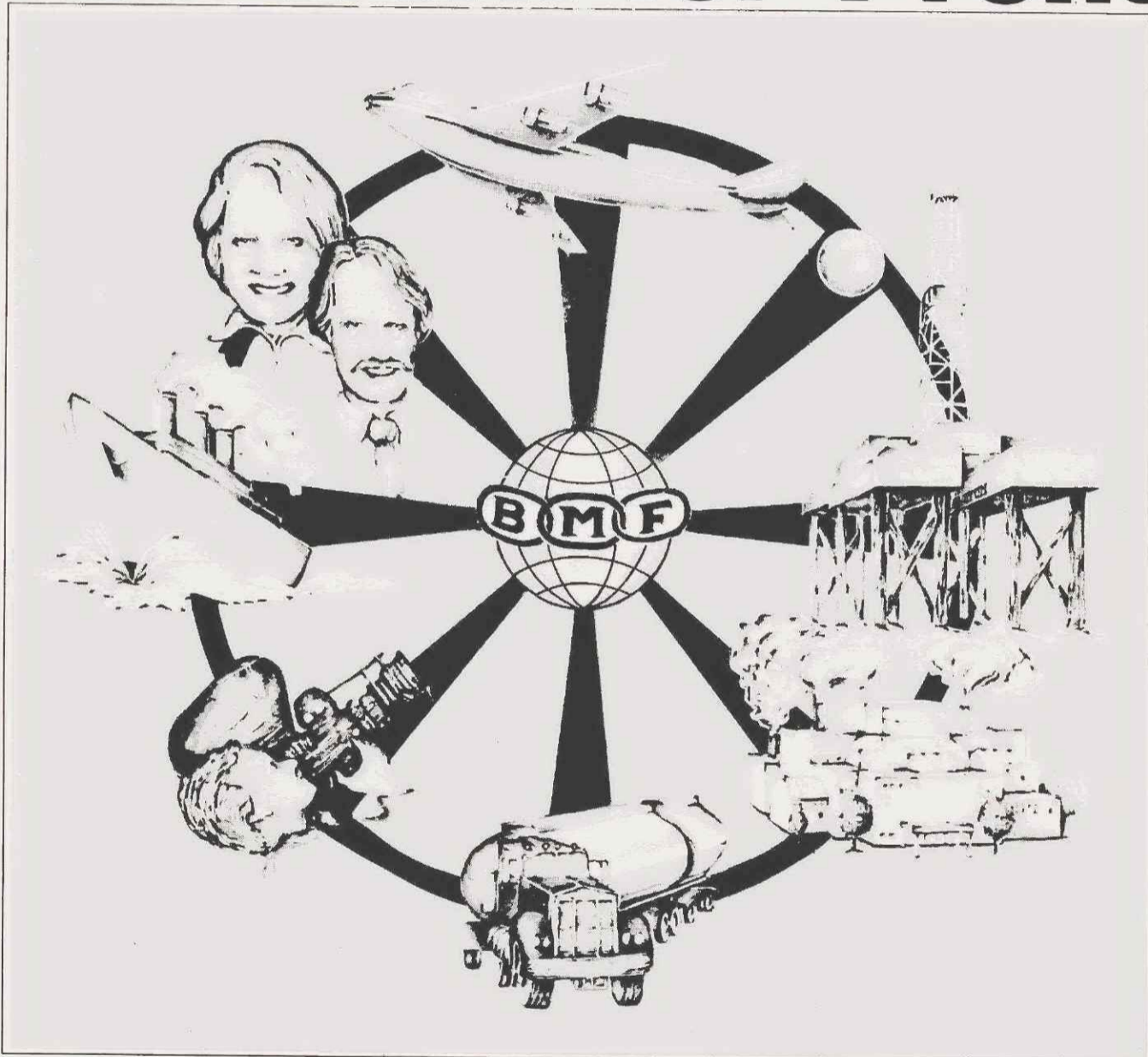


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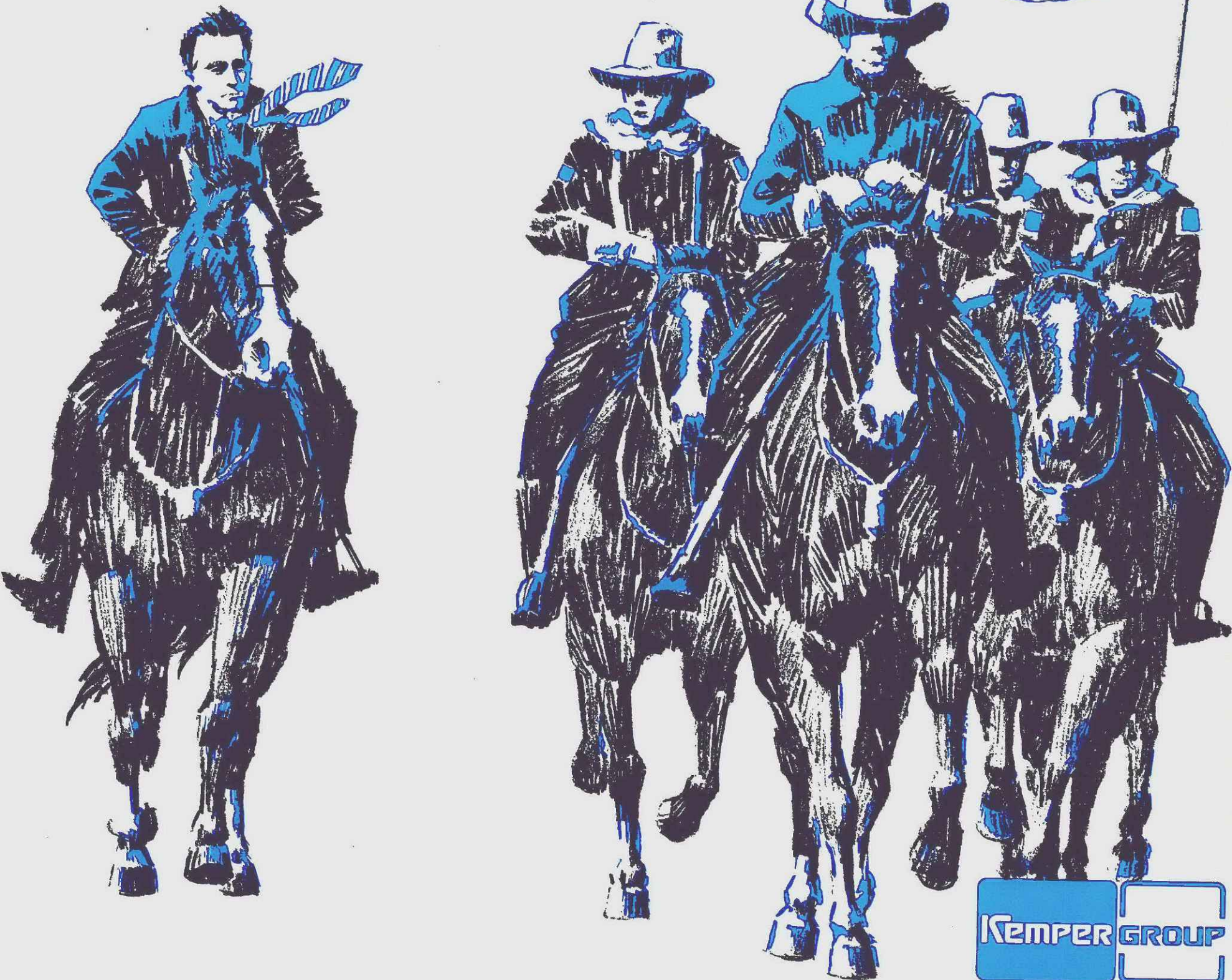
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Policies keep blacksmith class well-shod

By MARY ELLEN McKEE

LA PUENTE, Calif.—If a student of the horseshoeing class in Hacienda La Puente School District gets kicked or bitten by a horse, risk manager Mike J. Patterson would be surprised but not unprepared.

Under a new program hammered out by Mr. Patterson after touring the adult education classrooms and locations, the district is protected against much more than kicks or bites.

Covered are: injuries to students from horses; injuries to horses from students; burns from gas-fed forges; injuries to instructors from students, horses or gas-fed forges; theft or damage to a freezer chest of horse hooves, and damage to the blacksmith's shop, which includes cowboy garb, horses, hay and the village blacksmith smack in the middle of a park.

"It's right out of the Old West," Mr. Patterson said.

But getting an insurance program covering the wide expanse of exposures in the horseshoeing class and other classes offered in the adult education programs here was a little more complicated than the simple, laid-back life on the Old West range.

First, Mr. Patterson increased the district's coverage to \$10 million from \$5 million. Then he nego-

SPECIAL RISKS

safety.

So that students could spend the first two to three months practicing horseshoeing without endangering a live horse and increas-

ing the liability exposure for the school district, Mr. Patterson and the adult education administrator bought a huge freezer and 100 horse hooves costing \$35 to \$50 a piece.

"The frozen horse hooves allow the students to develop their skills and give the instructor something

concrete to judge the progress of the students against so he can help him to work on the real thing," Mr. Patterson explained.

If the freezer goes on the blink, the school district is not covered for the damaged horse hooves. Instead, Mr. Patterson got around the

problem with a little engineering, he said.

The freezer is hooked up to a direct line so it could be checked periodically by the security people each evening. If the eight-foot freezer chest malfunctions, the horse hooves can be taken to other freezers in the school district.

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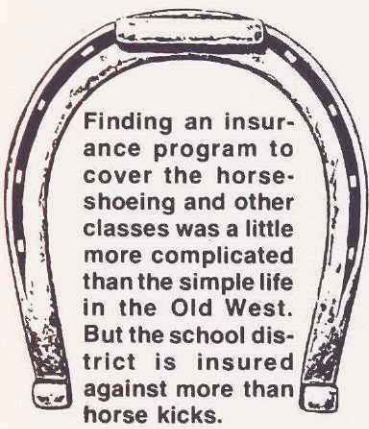
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Finding an insurance program to cover the horseshoeing and other classes was a little more complicated than the simple life in the Old West. But the school district is insured against more than horse kicks.

tiated a broad, all-encompassing liability policy covering everything from malpractice for instructors demonstrating CPR (cardiopulmonary resuscitation) in inhalation therapy classes to liability protection for students or instructors that smash one of their fingers with a hammer while shoeing a horse.

Brokered by Universal Pacific Insurance Services of Los Angeles, the first \$500,000 over a \$5,000 deductible of the general liability policy is underwritten by Great Atlantic of Delaware and the next \$9.5 million is underwritten by Allianz Insurance Co.

Recently, the Hacienda La Puente School District started self-insuring the first \$100,000 of its workers compensation coverage with a \$5 million excess-of-loss policy from Employers Reinsurance Corp.

Since December, when Mr. Patterson took the job as the school district's first risk manager, the school district has had no workers compensation or liability claims.

The promising results over the past eight months were no accident, Mr. Patterson boasts. The horseshoeing course had to be modified to curb the liability exposures.

First, the size of each class was cut to no more than five students. The instructor, a professional blacksmith with "thousands of hours" in the trade, can now closely watch the students to see they are doing the job correctly and doing nothing to jeopardize their



"It's very difficult to get insurance on this kind of thing and once you get it it would probably be extremely expensive," Mr. Patterson remarked. "Frequently a freezer goes on the blink because of a short." Because this is a malfunction inherent in the equipment, it is difficult to get insurance on it, Mr. Patterson explained.

Since the public brings in the horses for shoeing free of charge, Mr. Patterson insisted that a waiver be drawn up for the public

to sign when dropping their animals off at the classroom.

The waiver states that the school district is not responsible for any animals that are stolen, injured or infested with insects unless the mishap resulted from a mistake or carelessness of the students or the instructors.

Horses are not kept overnight to cut down on the chance of theft.

"When I first made the tour of the horseshoeing classroom and loca-

tions my mind was buzzing with questions and worries," Mr. Patterson admitted. Grabbed from the corporate insurance world, Claims Management Corp. in Los Angeles, Mr. Patterson had never considered the insurance or the loss prevention techniques of a horse hoof.

The transition was extremely smooth, he said. "People in education, or at least the people here, are willing to put out money now to save dollars later."

"This one-year class, as well as

many other adult education courses in La Puente, are providing a valuable service to the state of California," Mr. Patterson said. "We are training people to go out and earn a living."

There are a lot of horses in Southern California, Mr. Patterson said. Some areas have developed a ranch style of living so that a blacksmith is becoming a necessary professional, hearkening the days of the Old West.

Several race tracks that have opened up on the West Coast will also increase the need for horse-shoers. Registration has boomed, but Mr. Patterson sticks to his rule of no more than five in a class.

Students who have completed the course have been placed in a job within one month and are earning salaries ranging from \$20,000 to \$30,000.

"The challenges of my job don't end here," Mr. Patterson said. The adult education administrator is always coming up with a new idea, he added.

"Only now, I review each course, work out the steps and procedures that must be taken to curb the school district's liability and protect the students, coach the instructors in basic risk management and then I shop for the necessary coverage."

Mr. Patterson says a course hasn't crossed his desk yet that he hasn't been able to work a system for to make it financially feasible for the district to offer. "It's a far cry from corporate insurance, but it's much more interesting."

Exec urges U.S. marine competition

HOUSTON—U.S. marine insurers who are willing to compete will be rewarded with premium growth, Maurice R. Greenberg, president and chief executive officer of American International Group Inc., said at the Houston Marine Insurance Seminar recently.

Mr. Greenberg gave the U.S. marine insurance industry poor marks for growth in the last decade, saying the U.S. share of direct marine insurance premiums dropped to 35% in 1978 from 40% in 1969. To remedy this problem, competitive underwriting and aggressive marketing must be accompanied by innovation, with an emphasis on bringing more young people into the industry, he said.

Competition with foreign insurers will remain intense, he said. In many countries, laws require local placement of marine coverages.

The U.S. must institute foreign economic policies that offer insurers the same incentives and benefits offered to the manufacturing and agricultural sectors, he said. Tax incentives also would help insurers build the capital to make increased capacity possible.

Looking ahead to the future, Mr. Greenberg said the industry will see risks that "no one has even thought about," such as those related to emerging transport technologies including space shuttles, submarine carriers, jumbo air transport and specialized carriers for different types of bulk transport. Risks related to the utilization of ocean resources will soon join the standard offshore drilling and ocean mining exposures.

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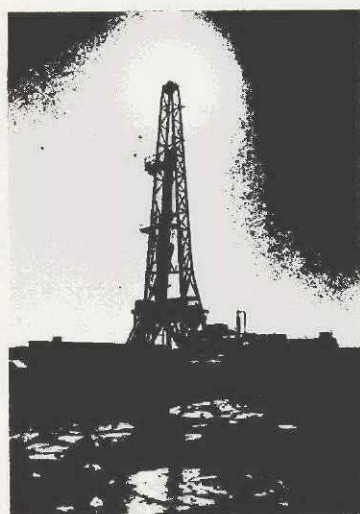
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Clergymen put faith in malpractice policy as well as heaven

By VALERIE BERG

MERRILL, Wis.—In this age of increasing lawsuits against professionals, clergymen are finding they need more than God on their side. Many of them have put their faith in malpractice insurance.

The home office of Church Mutual Insurance Co. here reports that 50% to 75% of its new or renewal church package policies now include coverage for acts, errors or omissions in a clergyman's counseling relationship with parishioners. And as one excess/sur-

SPECIAL RISKS

plus underwriter in New Jersey sums up the situation: "Nothing is sacred anymore."

"Demand is tough to measure," says Herbert Heyne, vp for marketing with Church Mutual. "We've had pastors write us and beg us to write the coverage and we've had pastors write us and raise Cain. I can see both sides."

The insurer first offered the policy in Wisconsin in December 1978 and now writes it in 19 states, with requests for approval to write it in the works in six more states.

The premium for a primary policy of \$300,000, which covers up to two ministers in a church, is \$35 a year. Umbrellas are also available. Policies are sold only to churches, not individual ministers, and are only available as part of a church's package coverage.

So far, Church Mutual has had only one claim, which it denied, and the suit was subsequently dropped, Mr. Heyne said.

Church Mutual prefers to write for the "mainline" denominations whose ministers have clerical backgrounds and education. But a recent suit won by a young woman against the Church of Scientology may influence that policy, Mr. Heyne said. In that suit, the woman charged that the Church of Scientology did not improve her life as it said it would and an Oregon court awarded her \$2 million.

Church Mutual is not alone in offering a malpractice policy for clergymen. Western World Insurance Co. Inc., an excess/surplus underwriter in Ramsey, N.J., has written such coverage for "a couple years" as part of a broad program covering social workers, marriage counselors and the like, says Ted Ziffer, underwriting manager. The policies cover both individuals and groups.

Premiums are usually calculated on a per person basis and vary according to geographical location and the exposure involved. "We believe we've gotten one or two cases," he said.

The Church Insurance Co. in New York, owned by the pension fund of the Episcopal Church, has included malpractice coverage in its comprehensive church policy since June. The policy only covers clergymen engaged in counseling as an employe of the church, not those in private practice. About 80% of the Episcopal congregations purchase the comprehensive policy.

But the area of theology remains off-limits for insurers.

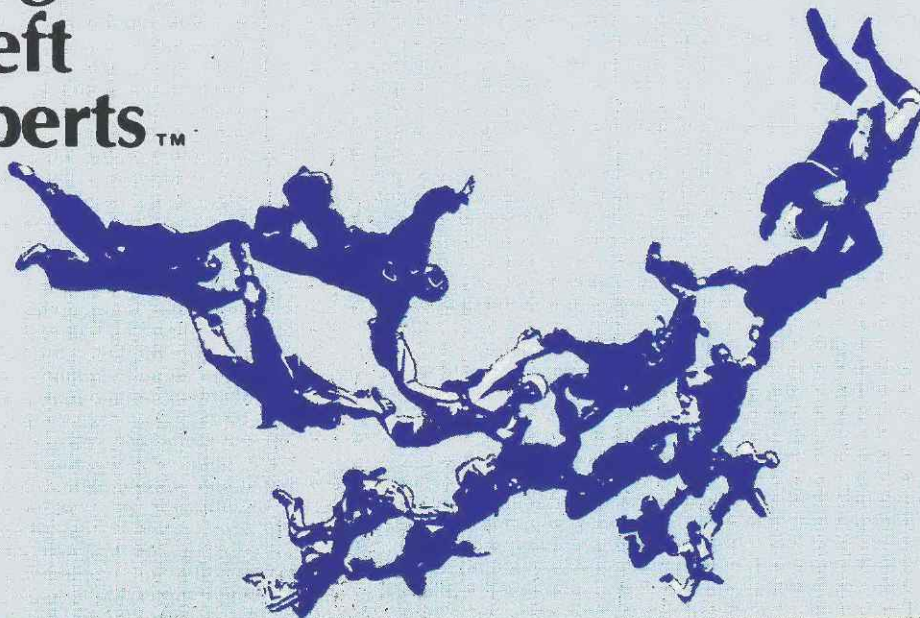
"The policy doesn't restrict itself by not including theology, but how do you say it's right or wrong?" asked Church Mutual's Mr. Heyne. "If someone returned from the dead and didn't get into heaven, I suppose he could sue." ■

E&O markets

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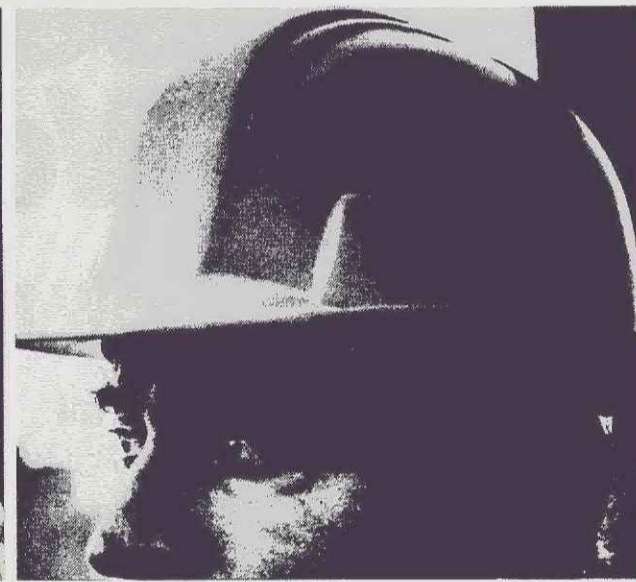
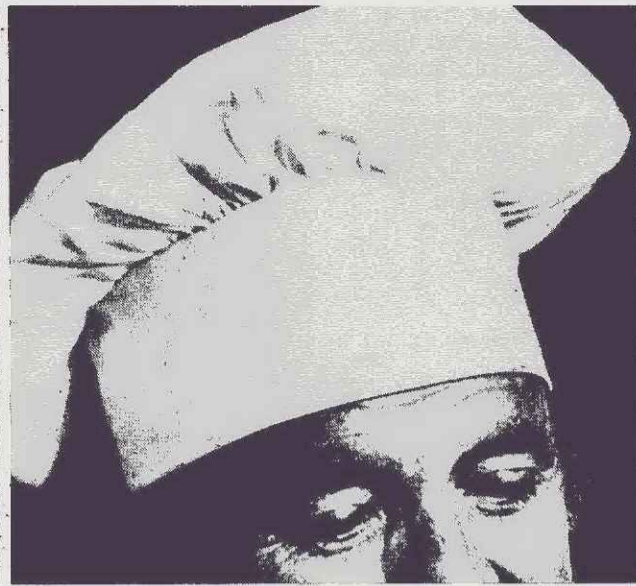


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Our findings call into serious question many currently held assumptions. For instance, many past reports suggest that only 10% to 25% of the work force intends to stay on.

Harris finds that 51% intend to stay at work, full or part time.

Furthermore, though executives think guaranteed income and vesting are the most important things in pension plans, employees don't think so.

The wealth of reliable information in this study can help you shape employee pension programs to cope with changing conditions and attitudes.

You are invited to review both the Harris study and two newly developed J&H pension planning analytical tools (BAI and GAIN)*. Simply call any J&H office.

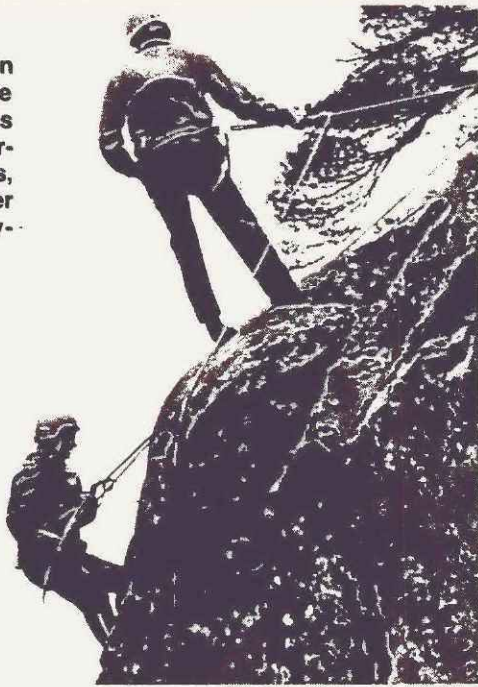
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EMPLOYEE BENEFIT AND ACTUARIAL CONSULTING; RISK AND INSURANCE MANAGEMENT SERVICES THROUGHOUT THE WORLD

Safety comes first in Outward Bound, the program that teaches city folks how to survive in the wilderness, and insurers no longer shy away from covering the account.



Wilderness survival school avoids liability cover pitfalls

By JERRY GEISEL

SPECIAL RISKS

GREENWICH, Conn.—Outward Bound, the school that teaches city folks how to survive in the wilderness, also knows how to avoid being swamped by churning liability waters.

An innovative safety program and the continual educating of underwriters about the program has kept insurers on an account whose risks include teaching 16- to 80-year-olds mountain climbing, whitewater canoeing and hiking through deserts and canyons.

During the insurance crunch of 1976, Outward Bound, whose courses on survival in the mountains, desert, forest or at sea annu-

ally attract 7,500 students, almost lost its liability coverage even though the school had a good loss record.

"There was nothing to compare Outward Bound to in terms of structure," business manager George F. Supan recalled. "So (insurers) said: 'Hey, we better not stick out our necks any farther,'" he remembered.

Before Mr. Supan joined Outward Bound in 1976, the school simply tallied up its insurance premiums and paid them. But when

continuing coverage became questionable, Mr. Supan set out to meet with the underwriters to explain Outward Bound and all the safety precautions taken to prevent accidents.

Mr. Supan's efforts appear to have paid off. A visit to the auto underwriter, The Hartford, and a new safety program in which all Outward Bound employes and participants enroll in school-sponsored driver education programs, resulted in auto premiums dropping to \$25,000 from \$62,000.

Although those kind of savings haven't been achieved for general liability insurance, liability insurers now want to stay on the account, where they once wanted to chart a course away from the school, Mr. Supan said.

Outward Bound self-insures the first \$10,000 of losses. Above that, St. Paul, which is reinsured by Prudential Reinsurance, provides cover for the \$10,000 to \$500,000 layer. U.S. Fire Insurance Co. offers excess protection "in excess of \$1 million," Mr. Supan said.

"We've told our insurers that we have a very controlled program and with us, safety is No. 1," Mr. Supan said. "Nothing else is first."

Each of Outward Bound's seven schools based in Colorado, Maine, Minnesota, New Mexico, North Carolina, Oregon and Dartmouth College in New Hampshire follows a safety program and manual. Mr. Supan says there is "nothing else like it."

The schools follow a set format of safety procedures in all their activities. Rope usage, for example, is carefully monitored and ropes are replaced on schedule before an accident can happen. Instructors, who are all qualified to administer emergency medical care, check out a new area for risks before Outward Bound students venture forth.

Accidents do happen and they trigger a number of events. The school where the accident occurs convenes a safety committee to study the events that led up to the accident.

At the same time, the Outward Bound national office brings in outside experts to take a closer look and make recommendations. "If there is a mountain climbing accident, we'll bring in mountain climbing experts and we'll see what they come up with," Mr. Supan says. "That's the format we've used and it works."

More recently, a group of retired chief officers, including a former top official at a major coal mining company, surveyed the schools, which one observer described as "conditioners to face hell." The group is now preparing safety recommendations.

Bringing in the retired chief executives to make safety recommendations is an example that "we never are satisfied with taking a stand and stopping. Each year we try to take another look at what we are not doing to prevent accidents," Mr. Supan explained. ■

E/S broker formed

INA Special Risk Facilities Inc. has formed Surplus Insurance Brokers of North America to write excess and surplus lines business produced through excess and surplus lines wholesalers. Robert H. Hutchins, senior vp, will head the new facility. Mr. Hutchins was formerly executive vp responsible for excess and surplus lines operations with American Reserve. Surplus Insurance Brokers' headquarters are in Chicago.

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Southwest air carrier shoos fly liability

By LEN STRAZEWSKI

SPECIAL RISKS

DEL RIO, Tex.—There are no flies on John Dickehut, managing partner of Val Verde Insurance Agency here, but there are several thousand of the bugs on his account books.

Del Rio Flying Service, a local air and truck hauling service that was confronted with a U.S. Department of Agriculture contract to transport sterile flies, unceremoniously pointed its swarm of problems in the direction of its broker, the largest agency in this small Texas town.

The flies, used in a USDA program to eliminate the screwworms that attack cattle in the Southwest, have created bugging insurance problems for the hauler and Val Verde.

"The flies have to be shipped in

refrigerated trucks," Mr. Dickehut explained "but unlike meat, lettuce or other commodities that go by refrigerated truck, have no salvage value. Once the refrigeration goes, the flies have had it."

Truckloads of refrigerated flies are insured for \$40,000 per truck at a cost of \$460 per truck by the Hartford Insurance Group. Mr. Dickehut credits a long-standing relationship with the insurer for prime rates.

"The Hartford was receptive right away," Mr. Dickehut said, "but then we've represented them for 40 years." The Hartford required a package of information on the animals and the screwworm

A USDA program using sterile flies to eradicate screwworms that attack cattle presented a swarm of problems to Val Verde Insurance Agency in Texas.

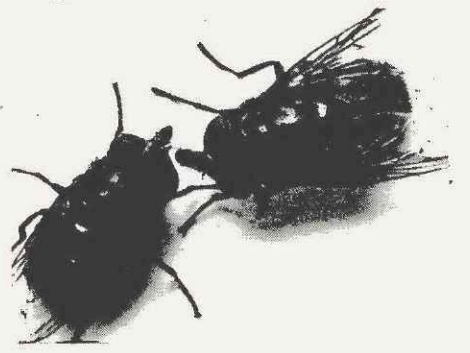


Photo: U.S. Dept. of Agric.

eradication project that uses the flies.

The USDA project ships the sterile male flies around the Southwest to prevent the female screwworm flies from laying live eggs that hatch into worm-like larvae. The screwworm-larvae have been the bane of western ranchers for years,

attacking cattle, infecting wounds and killing the cattle, usually within six days.

As demanded by a treaty with Mexico signed during the administration of President John F. Kennedy, the screwworm eradication program stretches from the fly hatchery in Mission, Tex., to distribution points around the U.S. Southwest and Mexico.

Mexican insurance regulations, however, forced Mr. Dickehut to tap a Mexican insurer, La Commercial, for similar cargo coverage. For help in placing the international risk, Val Verde turned to excess/surplus broker Cravens-Dargen, which had placed aviation risks for the agency in the past.

The Val Verde Agency, which handles more than \$2 million in premiums per year, also looked to Cravens-Dargen for the flies' aviation risks—not the risk on the flies flying, but the coverage on the airplanes that dropped the flies on infected areas.

"We've always placed the liability and hull coverage for Del Rio Flying Service with the Cravens-Dargen subsidiary, American Aviation Underwriters, even years ago when the insurer was handling the T41 jet training program. So naturally we went to them," Mr. Dickehut said.

But American Aviation Underwriters was skeptical and tried to boost rates for the coverage to the higher prices used for crop-dusting airplanes that fly at dangerous low altitudes, often during bad weather.

"We had to give them a lot of information in order to explain that the job of dropping boxes of flies did not create the same risks as crop-dusting," Mr. Dickehut explained.

"We told them that we flew at a safe 2,000 feet and didn't have to fly in bad weather. That saved us some money."

The hatched flies are flown from a distribution point to an area that is infested with screwworm larvae and dropped from airplanes in boxes that open on impact. At the drop stage, the flies are self-insured by the air carrier.

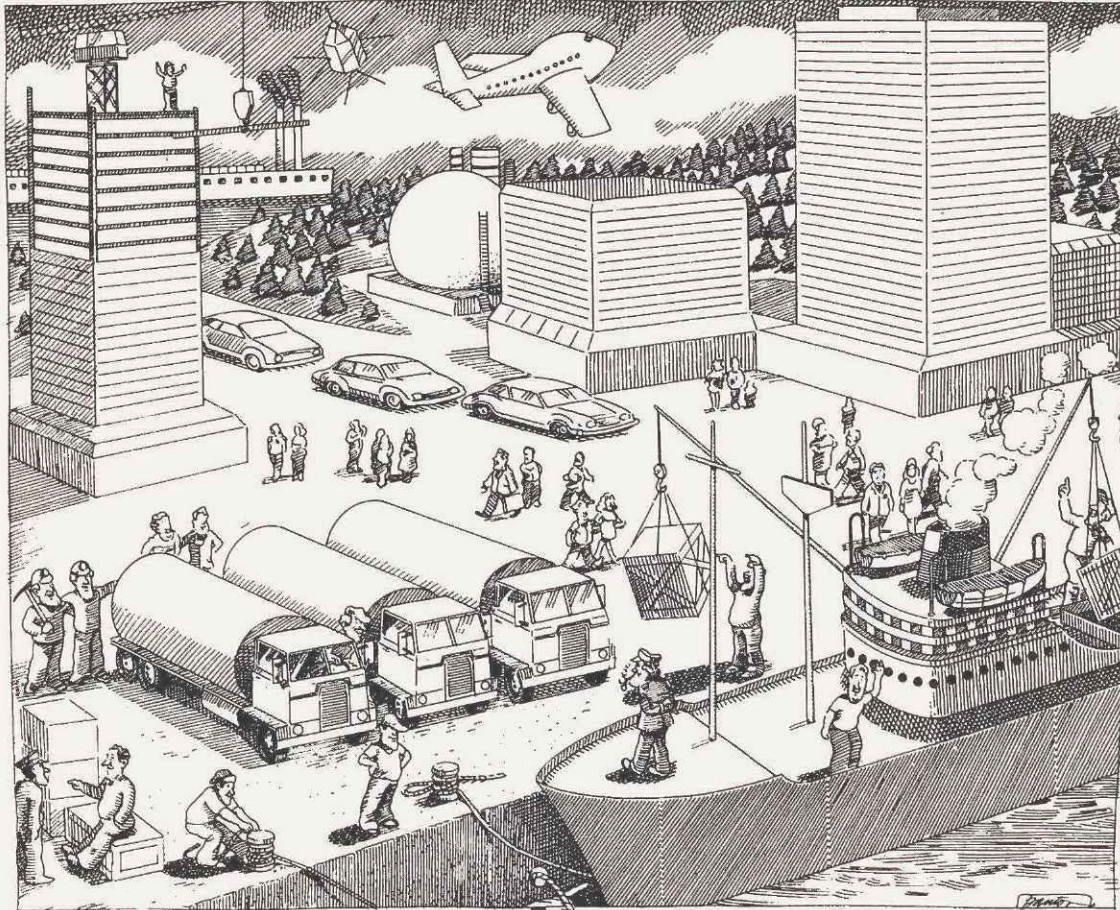
No claims have ever been filed with the aviation underwriter and only one claim involving a loss because of a traffic accident has been filed with the cargo insurer. The Hartford, however, expects to pass the loss onto the insurer of the other trucker who got the ticket for the accident.

The fly shipments have previously been insured by INA Special Risks when common carrier H.T. Priddy had the USDA contract. Alexander & Alexander in Fort Worth, Tex., placed the risk at that time but didn't have the good loss history that later helped attract The Hartford.

"There was no precedent for covering flies then," said A&A unit manager Vera Dee Onstott. "They didn't know what the exposures were. The answer I got from underwriters was that they didn't insure flies; they swatted them."

Now brokers and insurance companies find that they shouldn't kill flies, they should make profits from them.

Can you put a price tag on this picture?



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The hatched flies are dropped from airplanes in boxes that open on impact.

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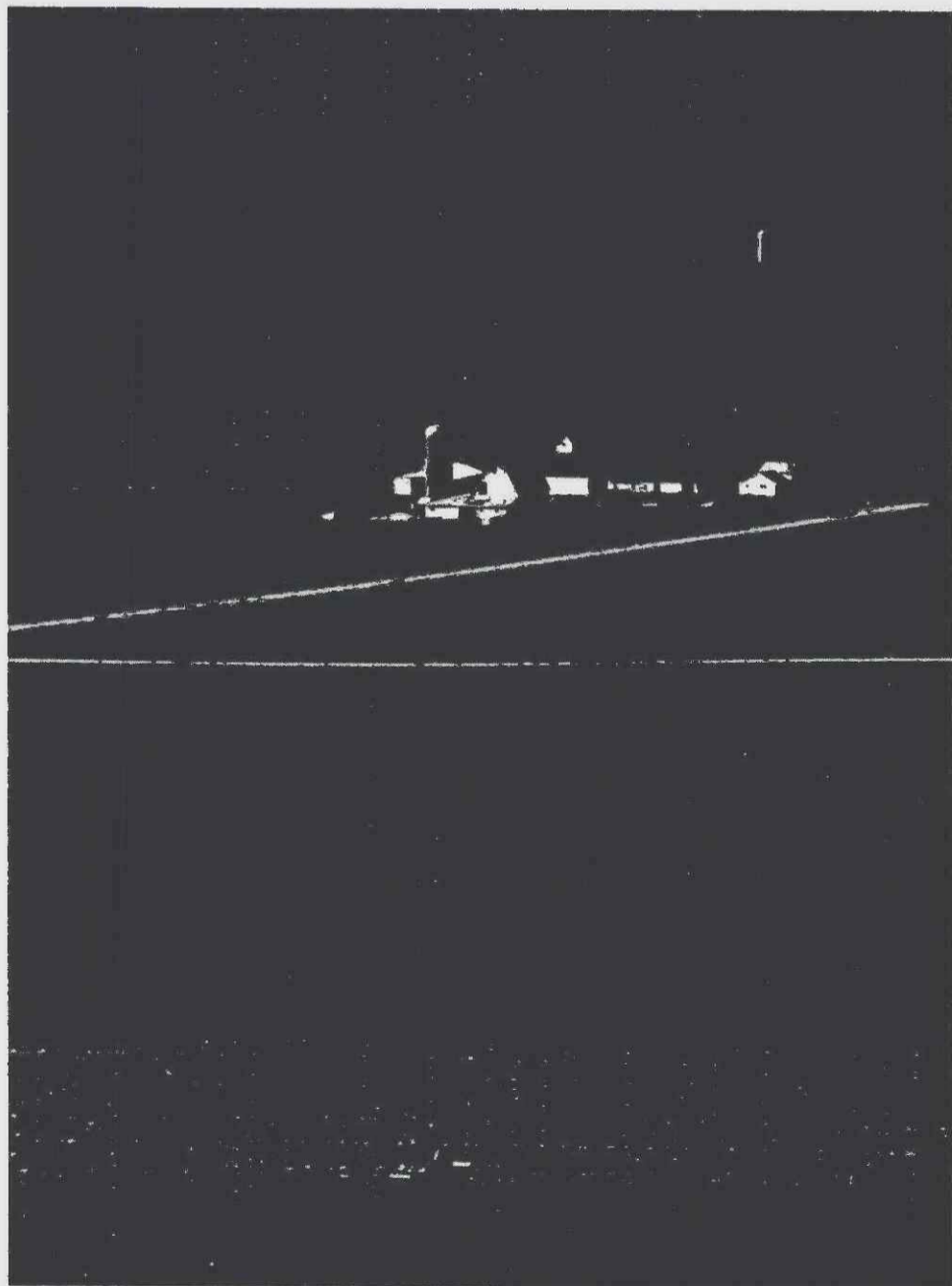
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BI-10/29

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Slinky minks dodge standard rating rules

By STUART EMMRICH

SPECIAL RISKS

NEW YORK—Staked out at Chicago's O'Hare Airport, and shivering in the cold winter winds, Lawrence Schott studied the workmen loading mink pelts from one plane to another.

The broker who had placed the insurance on the minks was on the lookout for why there had been so many losses of minks in transit.

He found it. Workers trying to escape the cold for a few minutes would often leave the minks unattended, piled outside the planes and ripe for picking by thieves.

The vp of the New York City brokerage firm Kornreich & Sons recommended beefed-up security measures and warned that no losses would be paid unless someone was always guarding the

minks.

Mr. Schott has established himself as one of the few brokers with an extensive background in mink pelts.

He has seen the industry pass from the days when live-animal insurance was a necessity for farms to recent years when financial guarantee insurance is now an often controversial part of dealing with the ranches.

Kornreich arranges for auction houses to buy insurance covering the value of the minks from the time they are killed and skinned to the time when they are auctioned off and sold to the highest bidder.

But the broker has to dicker with

an underwriter because there are no firm rules to follow, no set rate book to consult and no sure way to know exactly how much the minks are worth.

Kornreich's client is the New York Auction Co., one of the three largest auctioneers in the country. The company has a marketing agreement with 50 to 60 ranches whereby the ranches agree to send so many pelts to market per season and the auction house agrees to sell them. The auction house does not buy the minks, but instead acts as a conduit between the ranch and the retailer.

But the auction house buys the insurance, charging the farmers 5 cents per pelt for it. The house then pays the insurer varying fees per pelt for coverages on transit, stor-

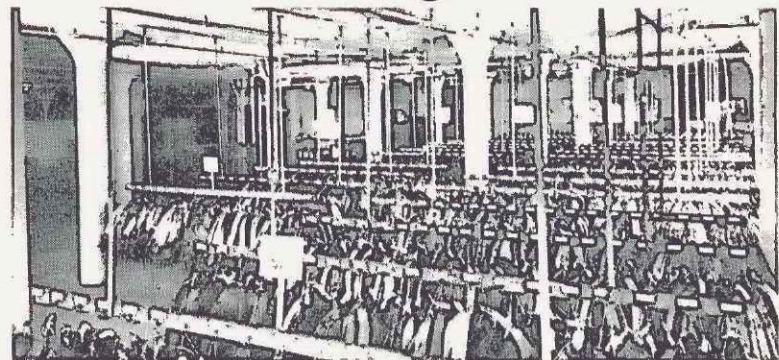


Photo: N.Y. Auction Co.

Auction houses purchase insurance on stored mink pelts from when the animals are killed to the time they are auctioned. Cost is passed on to mink farmers.

age and processing.

Deductibles for losses are only about \$250 or \$500 per occurrence, Mr. Schott says, and coverage usu-

ally is for \$4 million per loss, with excess insurance ranging from an additional \$1 million to \$8 million.

In peak seasons, excess coverage might run as much as \$30 million, Mr. Schott said. Both primary and excess coverages are purchased from one of five domestic underwriters, none of which Mr. Schott would identify.

Losses, which Mr. Schott said have been infrequent in recent years—present a challenge to adjust. The underwriter can't just look at a mink and say how much it might be worth; the market changes too much from month to month to ever put a finite value on the risk.

Instead, all the parties start haggling. They look at what the ranch's minks brought in previous years and how they usually stand in the market. They also look at the market as a whole and see how it is faring this year.

Although the rates and payments are kept fairly flexible for losses incurred on minks, the criteria for the so-called financial guarantee agreements are rigid in comparison.

A bit skittish about discussing the matter, Mr. Schott admits the coverage has become a controversial item since the insurance industry has learned of Lloyd's of London being burned on similar policies involving computer leases.

But he says his experience on the guarantees, which involve insurance on loans lent by the auction house to ranchers with payment supposedly backed up by the value of the minks when they come to market, has been "excellent."

The auction houses only lend funds to ranchers they have dealt with for many years and "trust implicitly," Mr. Schott says. The loan is based on the assumption that the animals will live to maturity so their pelts will be sold. If something happens to the minks and the loan can't be paid off, the insurance covers the loan payment.

Besides a "huge" deductible on the policies, there are also severe restrictions. For instance, the loan cannot exceed 50% of the anticipated proceeds from that year's sale of mink, Mr. Schott explained.

The loan insurance is limited to just \$250,000, with no chance to purchase excess insurance, Mr. Schott said. Premium rates average 15 cents per \$100 of insurance per month. The broker said he "wouldn't dare" tell the name of the domestic underwriter.

Although a little controversial these days, the financial guarantee insurance is not unlike "live-animal" insurance that used to be carried by ranches a few years ago.

But Mr. Schott said advances in science and animal husbandry have just about wiped out incidences of diseases that used to destroy whole mink ranches. The ranchers found that the experience of losses was too small to justify paying the premiums.

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PROGRAM

MONDAY, December 3

8:15 am: Registration. Enjoy coffee, rolls and our display of print materials from the 1979 Business Insurance Employee Benefit Communications Awards Competition.

9:00 am: Creative Benefit Communications—An Overview. Exciting audio-visual presentation by Peter Iversen, President & Chief Executive Officer, Iversen Associates, and John Kerney, Jr., President, Emcom Group Inc.

9:15 am: Creative Benefit Communications—A Marketing Approach. Keith L. Reinhard, Executive Vice President, Director of Creative Services, Needham, Harper & Steers Advertising, Inc., talks about communicating with employes as benefits "customers."

10:45 am: Concurrent Sessions. Attend the one of your choice to discuss specific challenges in depth.

• **Packaging Your Communications—Media And Their Uses.** Judith A. Karam, President, Karam & Versch.

• **How To Avoid Litigation Arising From Language.** Robert W. Ridley, Partner, Forster, Gemmill & Farmer.

• **The Potential For Generic Communications.** John Kerney, Jr. and Robert J. Ellis, Communications Consultant, Eastern Division, William M. Mercer Inc.

12:45 pm: Luncheon/Program Screening. View audio-visual entries to BI's Awards Competition as lunch concludes.

2:00 pm: Daring To Say It Right And Daring NOT To Say It At All. Audrey Zale Cramer, Staff Assistant, Office of Program Operations, and Sarah W.

Casseday, Public Information Specialist, Pension Benefit Guaranty Corp., discuss the language of benefit communications.

3:15 pm: Concurrent Sessions. Repeat of morning sessions; attend the one of your choice.

5:15 pm: Reception.

TUESDAY, December 4

8:15 am: Coffee, rolls and review BI competition entries materials.

9:00 am: How To Make A Successful Benefits Presentation. John A. Connellan, President, The Executive Technique, tells how to utilize personal presentations as "selling" opportunities.

12:00 noon: Luncheon/Program Screening. View additional audio-visual program entries.

1:30 pm: The Mechanics Of Putting Your Program Together. Three consecutive general sessions on specific areas of program implementation.

• **Tailoring The Program To Your Company.** Philip Murphy and William S. Miller, Employee Communications Specialists, Emcom Group Inc.

• **Developing The Graphic Approach/Working With Suppliers.** Peter Iversen.

• **Developing A 5-Year Communications Program.** Curtis L. Snodgrass, Vice President, Principal, Towers, Perrin, Forster & Crosby.

4:30 pm: Discussion & Questions.

WEDNESDAY, December 5

9:00 am: You Be The Judge. Herbert Zeltner, Group Vice President, Crain Communications Inc., evaluates communications programs along with a panel of registrants and speakers.

12:00 noon: Adjournment.

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Please enroll me and my associates in the Business Insurance Employee Benefit Communications Conference.

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Additional Registrants From The Same Company:

Name _____ Title _____

Name _____ Title _____

Rock groups play specialty plan tune

By MARY ELLEN McKEE

CHICAGO—Rock and roll musicians may swing in loose and freewheeling circles, but they keep their insurance plans tight as a drum.

Brokers and underwriters, specializing in entertainment insurance, eagerly discuss the score of risks for which rock and roll musicians are insured, but refuse to explain how and for what price.

"Client confidentiality and the vast diversity of insurance programs for the individual band, its management company and its concert promoter(s) seal the lips of many insurance people," explained William Robertson, a 15-year entertainment specialist at Lloyd's of London. Adams Brothers's clients include such headliners as The Rolling Stones; The Who; Emerson, Lake and Palmer; Fleetwood Mac; Jethro Tull; The Tubes, and formerly, the Beatles.

Also underwriting entertainment risks is Fireman's Fund Insurance Co., but equally silent on the specifics.

Most entertainment specialists admit that markets are responsive to the

SPECIAL RISKS

accident, leaving him unable to perform or cut a record for two years or write music for 13 months, his management company, the music publishing company, the record

company and promoter recovered some of the money they lost while he was recuperating.

- When a member of Kiss breathes fire, the band, the instruments, the actual stage and the audience are covered.

- If the sequined wardrobe of Kiss is damaged in concert or in

transit, the band collects.

- When Bruce Springsteen finishes off his concerts with a leap on the piano, the piano or anyone hurt from the stunt is covered.

- If Pink Floyd incites a crowd to rush the stage, causing damage to concert hall property or injury to a member of the band or audience,

the band's manager and concert promoter are covered.

All risk coverage for the musical instruments, sound or lighting equipment is very common and usually purchased by the band or its management company. General liability and property policies are taken out by the concert pro-



Good crowd control is required by insurers for in-tune insurance coverage for rock concerts.

offbeat exposures of the rock and roll world; brokers are beginning to ask the right questions to orchestrate an adequate insurance program and the lot of specialists in the field is growing.

"For the past 10 years bands have purchased coverage for every off-the-wall exposure imaginable, for a price but without much trouble," remarked Joseph H. Straus, vp for M.D.M. Associates, an entertainment broker in Culver City, Calif. Some of the priceless exposures are:

- When drummer Keith Moon, the bad boy of The Who, demolished a hotel suite, the band was covered.

- When Janis Joplin failed to appear at a Fillmore West concert because she pulled a muscle while boogying the night away, the promoter was able to recoup his losses.

- When The Electric Light Orchestra hired a 200-man symphony Orchestra to tour with it, the musical instruments were covered anywhere they traveled and the classical musicians were entitled to workers compensation.

- When one of the caterers of a lavish backstage bash for the Rolling Stones slipped while serving the hors d'oeuvres, he was also covered under a workers compensation policy, compliments of the band's U.S. promoter.
- When Jimmy Page of Led Zepelin was seriously injured in a car

Anatomy for

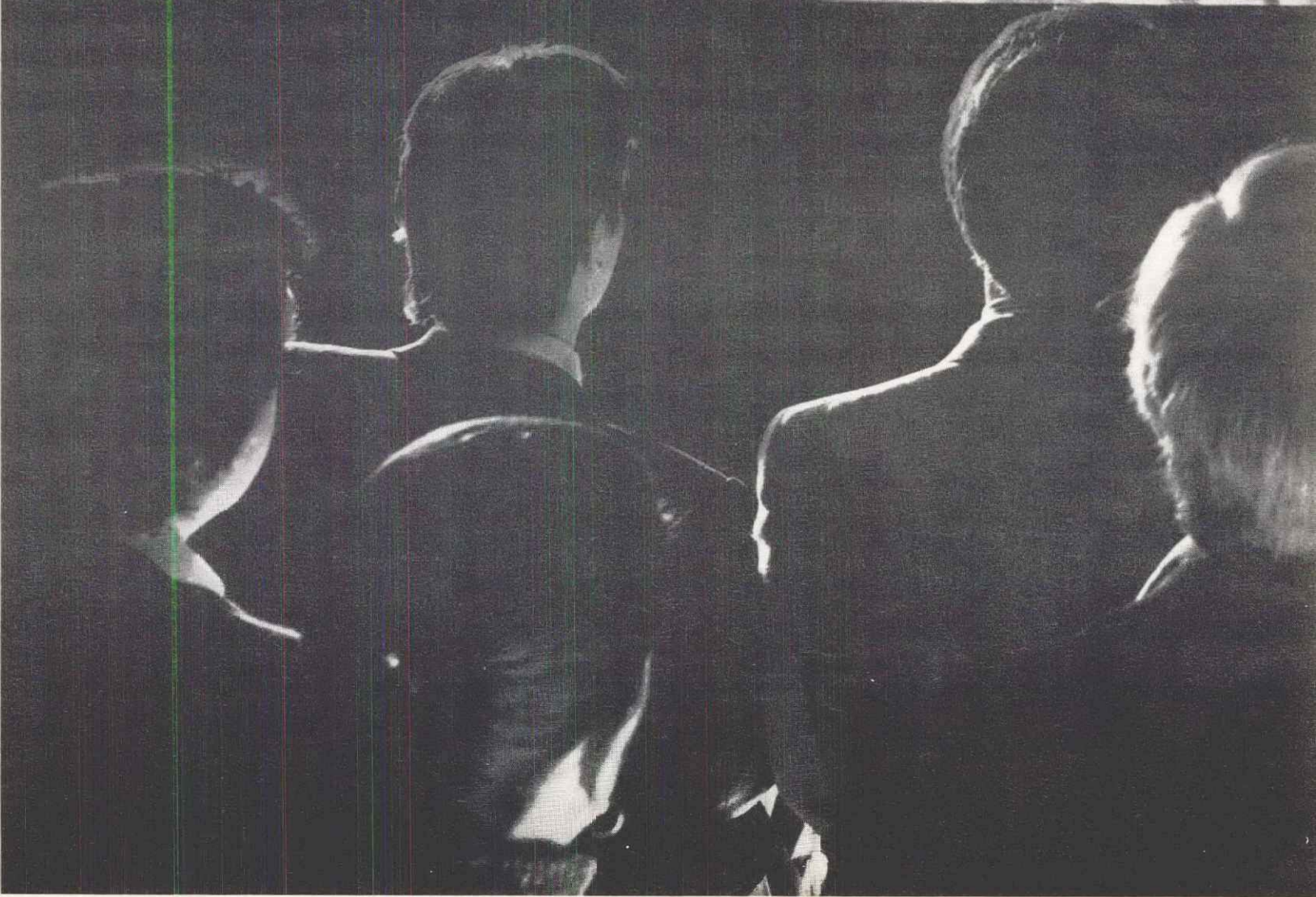
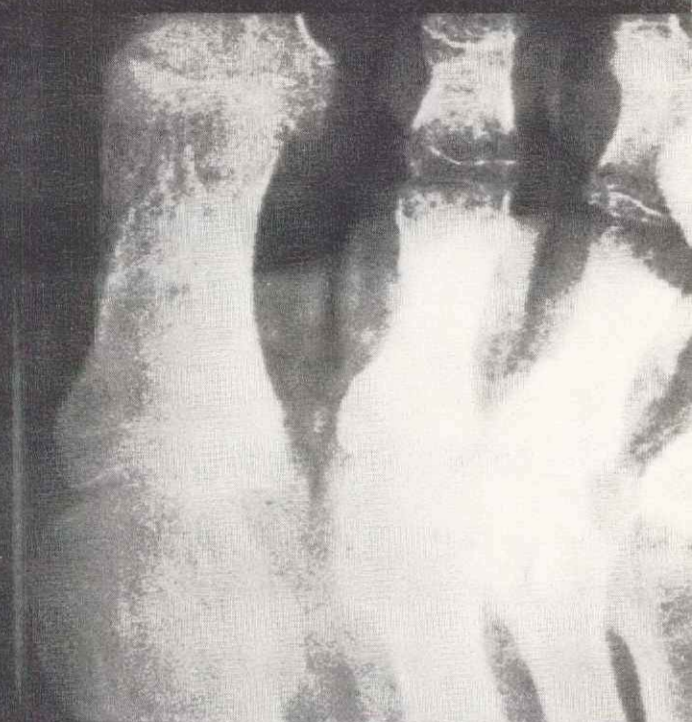
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motors. But the limits of the general liability are determined by the owners of the concert theatres or open air spaces where the band will play.

A promoter cannot reserve a theatre or public grounds without presenting the owner with a certificate of insurance within the limits set by that owner, said Mr. Reider of American National.

The owner of the Auditorium Theatre in Chicago requires all

bands to purchase at least \$200,000 in general liability coverage. Owners of the Uptown Theatre, becoming a favorite showcase for rock and roll groups appearing in Chicago, requires a promoter to purchase at least \$100,000 in general liability coverage.

"Most bands and their promoters buy only what they have to," admitted Mr. Straus of M.D.M. Associates.

But Mr. Reider of American National finds the exact opposite is

happening. "The longer a band and a promoter stay in the business, the more sophistication they acquire about insurance. There are many bands that have been alive and kicking for more than five years and promoters who have been operating for at least 15 years," Mr. Reider countered. "I wouldn't be surprised if some of them know as much as I do about pounding out a good responsible program," said the 15-year entertainment insurance veteran.

Mr. Reider handles the insurance programs for more than 500 concerts each year.

Insurance on the musical instruments, sound equipment and lighting equipment being transported cross country for a tour once struck a sour note among brokers and underwriters. Today, few bands have any problem getting the coverage. "Brokers learned to tailor a program to the specific group's needs and the bands learned a little loss

control," said a broker at Horan, Goldman Cos. Inc. of Philadelphia. Horan, Goldman brokers most of the floater policies for most of the local groups in the Mid-Atlantic states.

Many companies automatically excluded coverage on musical equipment left overnight in a concert hall or in a truck or van. If a band using Horan, Goldman can prove they have an alarm system in the truck or sign a statement saying that the musical equipment will never be left unattended, they will be covered at all times, in all places at "reasonable premiums," explained the Horan, Goldman broker. And bands that have obtained floater policies through Horan, Goldman are seeing premiums as much as 25% lower than their colleagues in the Midwest and West, he boasted.

"I learned from personal experience that the band values their instruments almost as much as their own lives," noted the broker, whose son has performed in a local rock and roll band for five years. "They'd sleep with their instruments before they'd leave them unattended," he added.

"The trick to handling the insurance program for the rock and roller relies very heavily on the information that an agent or broker is able to ferret out," said Mr. Reider of American National. Unfortunately 70% of the brokers handling this kind of business are "little Joe brokers" who know nothing about concerts, Mr. Reider complained. The problems with the coverage are the result of brokers who don't know enough about the business to ask the right questions rather than the bands' risks, he added.

An underwriter must know exactly what kind of exposures there are. He has to know how long the band will be traveling, the means of travel, how tight a schedule it has and how many people will be touring with the band. Another factor is whether the management company or the band itself has control of the tour.

An underwriter must also know the location of the concert, the number of people expected to show up, the number of security guards who will be handling the crowd control and how many policemen will guide traffic and the parking arrangements.

As with all risks, the past claims experience of a group is vital before the broker or underwriter can devise a good program and determine premiums, Mr. Reider said. For example, Glen Campbell probably has a sterling loss experience simply because he's so low key he couldn't incite raucous behavior even if he tried, he joked.

Pink Floyd, however, is notorious for inciting everybody to "go up the wall," according to Mr. Reider. Therefore, a security emphasized program with sky high premiums are inevitable, Mr. Reider added. ■

E/S broker acquired

H&W Insurance Services, a national excess/surplus lines broker based in Encino, Calif., has been acquired by Insurance Management Corp. of Richmond, Va.

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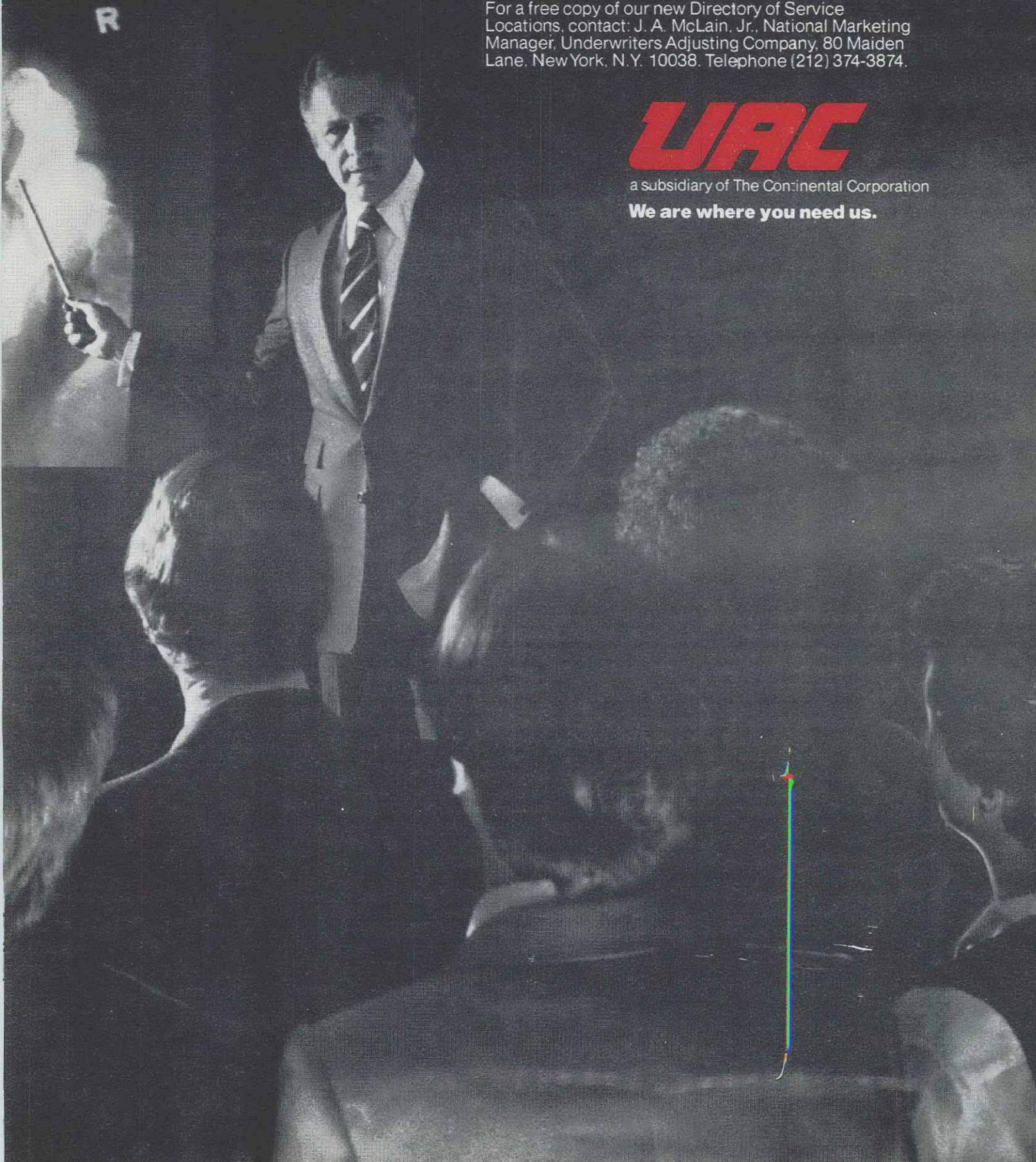
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Disability coverage

Policy serves benefits to injured tennis stars

VIRGINIA BEACH, Va.—When a professional tennis player is injured and can't play on the tour, he or she is hit with a financial blow potentially more painful than the injury.

Missing a single major tennis tournament can cost an injured player a chance at winning more than \$100,000 in championship money.

But a Virginia Beach insurance broker has come up with an insurance policy that has averted the high cost of tennis injuries for one of the top-ranked players on the pro tour.

Edward K. Phillips of the Pembroke Insurance Agency Inc. here

SPECIAL RISKS

has developed an insurance policy that gives new economic protection to the stunning 27-year-old southpaw from Argentina, Guillermo Vilas.

Under the policy, issued by National Union Fire Insurance Co. of Pittsburgh, Mr. Vilas is guaranteed \$5,000 a month for nine months, following a three-month rehabilitation period, if an injury prevents him from playing on the professional tour.

If the injury remains at the end of the nine-month period, the benefits would continue at a rate of \$100,000 a year for up to five years.

The annual premium for the special disability policy is \$4,881.85, a fraction of what Mr. Vilas has collected in some tournaments.

The disability policy covers on and off the field injuries. However, injuries arising out of pre-existing conditions are not covered.

If Mr. Vilas is injured, his claim will be evaluated by his own physician and a physician appointed by the insurer. If the two physicians cannot agree about the validity of a claim, the two doctors would select a third physician to arbitrate the claim. The third physician's decision would be binding on all parties.

Mr. Phillips developed the disability policy after Mr. Vilas's attorney, Tom Betz, approached him, saying he was concerned that his client lacked sufficient financial protection if an injury cut Mr. Vilas's playing days short.

"An athlete's skills are as vital to his profession as a surgeon's hands are to his," Mr. Phillips says. Disability insurance is considered a necessity in the corporate and professional world, but professional athletes and their advisers have often ignored this form of income protection, Mr. Phillips said.

Mr. Phillips, who believes disability income policies for professional athletes are only in their infancy, is now working on a new policy providing athletes with compensation benefits if injuries cut down on endorsement income.

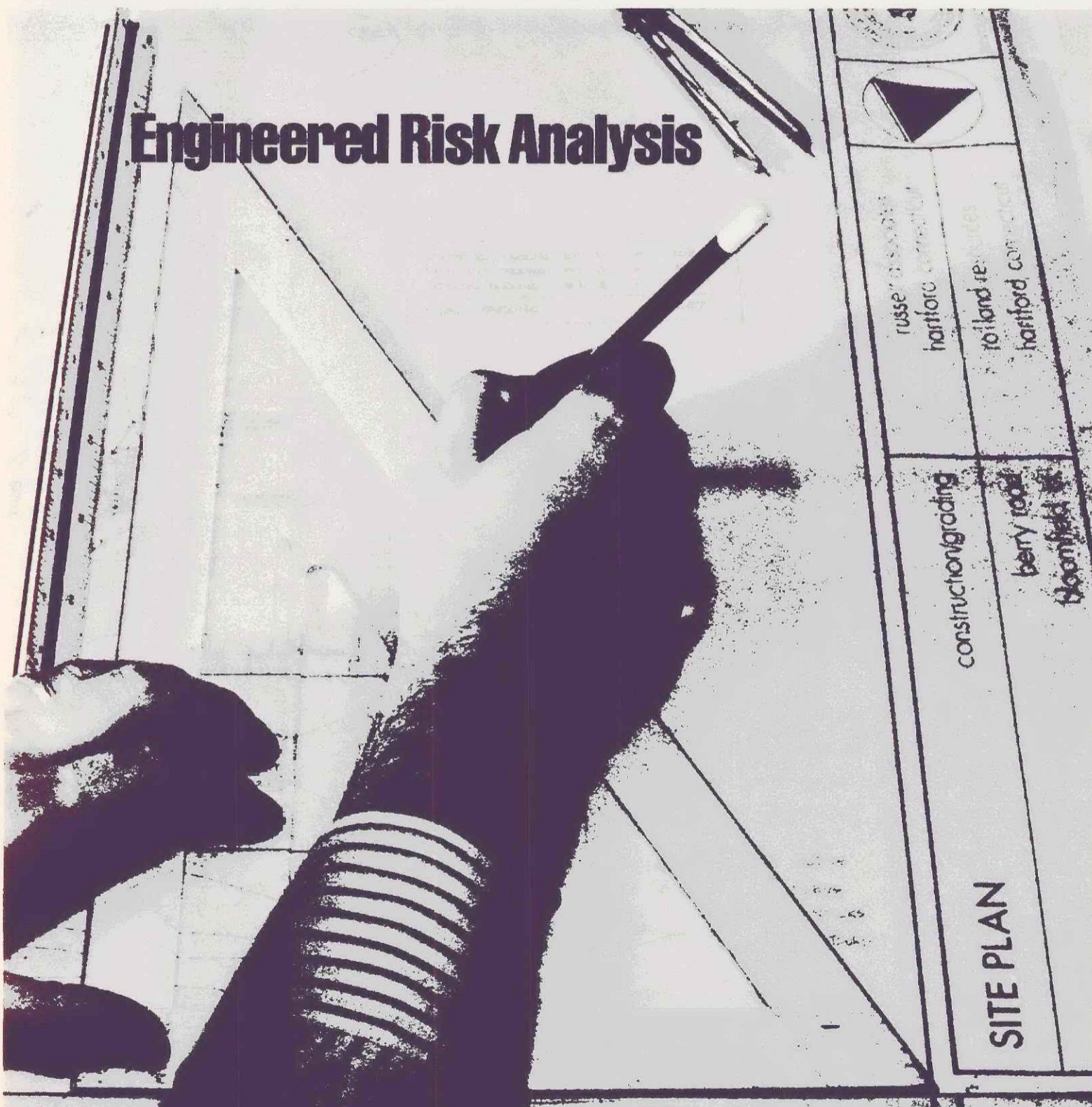
Prudential Re exec joins another firm

BOSTON—Ross Cowan, former vp-facultative at Prudential Reinsurance Corp. of Newark, has joined Commercial Union Assurance Cos. as first senior vp.

At Commercial Union, Mr. Cowan will be in charge of reinsurance, surplus lines and risk management operations and will also serve as president of subsidiary companies in these fields. Mr. Cowan said he will also advise Commercial Union on any decisions relating to participation in the New York Insurance Exchange. Commercial Union hasn't joined the exchange.

Mr. Cowan helped make Prudential Re one of the nation's largest professional reinsurance companies after six years of operation. He also helped establish and served as president of Gibraltar Casualty Co. and Dryden & Co., Prudential's surplus lines insurer and underwriting management agency created earlier this year.

Engineered Risk Analysis



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International Year
of the Child 1979

Albert J. Tahmouh, Chairman and
CEO of Frank B. Hall & Co., Inc. with
some of our "neighborhood kids". In this,
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have millions of good reasons to
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most are under ten years of age.

Pierre, Mohammed, Chueng, Hans, Maria, Sean, Tess and A.J. discuss growth strategy.

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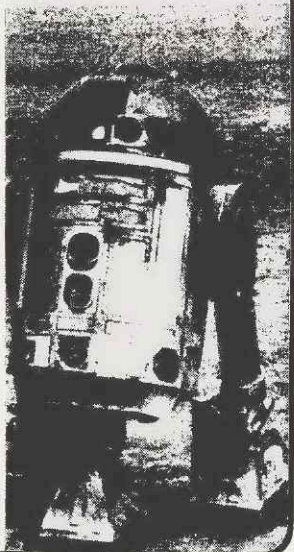
Just a prop

It may be the world's most famous robot, but to 20th Century Fox's insurance department, R2-D2 (or Artoo-Detoo) is just a prop.

The pint-sized android whose exploits delighted millions in the motion picture "Star Wars," is just a listing on 20th Century's property insurance schedule, treated no differently than any other building content, explained an aide in the corporate insurance department.

The film corporation's property insurance is underwritten by Lloyd's of London for coverage of \$2 million per occurrence with a \$25,000 deductible.

Photo: 20th Century Fox



Robots delight risk managers as well as sci-fi followers

By ELLIS SIMON

SPECIAL RISKS

NEW YORK—Robots, great promotional gimmicks and handy additions to industry, are an insurance manager's delight.

Robot manufacturers boast of no problems placing product liability insurance for their machines, although a couple of manufacturers fold coverage on robots into broader liability programs underwritten by Bermuda-based captives.

Promotional robots, like the giant Coca-Cola can that ice skates and holds press conferences, neither demand benefit packages nor are they enough of a risk to require insurance like business interrup-

tion coverage should one go flat and blow the promotion.

In the workplace, where the most robots are used, robots require no workers compensation coverage, no health insurance and no pensions. And they are used to perform tasks in environments that could be dangerous for people.

"You can put a robot into a hostile environment that would be unhealthy for humans," said W. Beaumont Whitney III, vp at Alexander & Alexander. Mr. Whitney has placed liability insurance on behalf of Cincinnati-Milacron Inc., a lead-

ing domestic manufacturer of robots.

Cincinnati-Milacron's robots are among the 3,000 robots used in U.S. factories, including plants owned by General Motors, General Electric and Westinghouse. The Cincinnati-based manufacturer's robots are used for moving parts, manipulating parts of a machine and for moving materials from one location to another.

The robots built by Cincinnati-Milacron and its competitors are designed to operate without a person at the controls, says assistant treasurer Allan Beattie.

In addition to heavy lifting, these machines perform such tasks as welding and spray painting. Typically the robots cost about \$50,000 each, Mr. Beattie added.

Machinery manufacturers producing robots can achieve better overall product liability experience, Mr. Whitney said: "They are far safer than the machine tool equipment manufactured a generation ago."

To the extent that robot manufacturers self-insure, their product liability costs are reduced through the absence of loss, Mr. Whitney explained. Cincinnati-Milacron assumes the first \$1 million in product liability losses through its Bermuda captive, Cincinnati-Milacron Assurance Ltd. Excess insurance of another \$24 million is underwritten by INA, Puritan, First State, Cal Union, Affiliated FM, National Union and Prudential.

Prab Conveyors of Kalamazoo, which also makes industrial robots, obtains product liability coverage through a group captive, North American Manufacturers Insurance Co. of Bermuda. But robots are covered along with the firm's products considered more hazardous like conveyors, president Jack Wallace explained.

Neither Cincinnati-Milacron nor Prab has been hit yet with product liability claims on robots. Mr. Wallace, who has been an officer of the Robot Institute, added he does not believe there has been a claim against an industrial robot, although they have been manufactured for at least 20 years.

Losses could result if a worker standing too closely gets hit by a robot's arm or someone gets his finger caught in a robot's working parts, Mr. Wallace acknowledged.

No serious injuries other than a few run-over toes have occurred at New York's Citicorp Center, where a robot traveling along an electrified path delivers mail, said William Burnett of Citibank N.A.'s risk management department.

The value of the unit would be less than the bank's property deductible, he noted. While injuries to others might present workers compensation or third-party liability claims, that concern would be minimal on the worldwide exposure of the multibillion-dollar concern, Mr. Burnett explained.

At Westinghouse, if a robot malfunctioned in a plant and caused damage, it would probably be recognized as one of the costs of doing business, said a staff assistant in the insurance department. "It's not an item we'd consider insuring and it's never been the subject of concern," he said.

Sometimes, corporate risk managers are not even told that their employers own robots. The Coca-Cola Co. insurance manager, W.H. Quay, said he learned from a newspaper article that his company and its network of bottlers had a team of promotional robots deployed worldwide.



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God underwrites insurance policies for arboretums

By ELLIS SIMON

NEW YORK—Only God can make a tree and only God can replace one. Botanical gardens and arboretums don't insure against financial losses that could result from destruction of their plants. Although some have suffered damage from windstorms and other causes, arboretums and botanical gardens generally choose to self-insure.

"We never even thought of insuring our collections," said Marion Hall, director of Morton Arboretum of Lisle, Ill. Dr. Hall said he was not aware of any arboretum or botanical garden insuring its plants, adding that he doubted whether coverage could even be purchased.

"There are too many variables involved such as insects, fungus and disease."

"Paying large premiums to an insurance company would be expensive," said Everett Miller, director of

Longwood Gardens of Kennett Square, Pa., another self-insurer. "Being self-insured, you can keep the money and if you lose a tree, you can replace it."

At Morton, funds are set aside, however, to pay for replanting trees and shrubs lost each year, Dr. Hall said. But replacing 70- or 80-year-old trees is not a simple matter.

Around the turn of the century, giant trees were successfully replanted onto the Long Island and Connecticut estates of New York City tycoons, such as the Phipps, Morgans and Vanderbilts, but the art is a lost one, said Carl Totemeier, director of Old Westbury Gardens of Old Westbury, N.Y., which is a former Phipps family estate.

"A real large tree cannot be replaced by anyone except God," Longwood Gardens' Mr. Miller said.

Arboreal collections can be appraised, however. The International Society of Arboriculture has established precise standards for evaluating plantings that have been accepted in court, said Dr. Hall of Morton Arboretum.

A tornado hit Morton Arboretum two years ago, destroying at least 100 trees including 15

worth more than \$1,000 each, Dr. Hall said.

An example of the exposure, one of the arboretum's shrub collections, with 3,000 shrubs in an area of between 15 and 20 acres, is valued at \$250,000, Dr. Hall said.

Dr. Hall, Mr. Miller and Mr. Totemeier agree windstorms are the greatest threat to arboretums. ■



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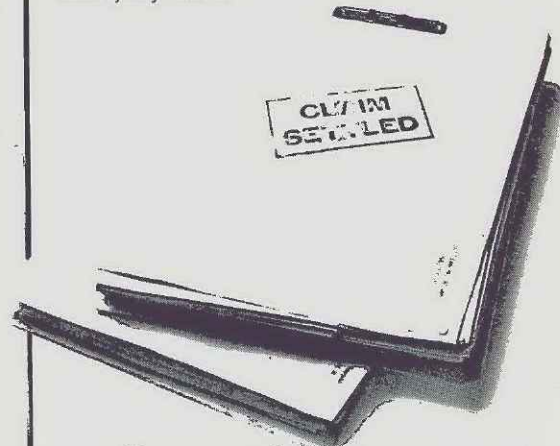
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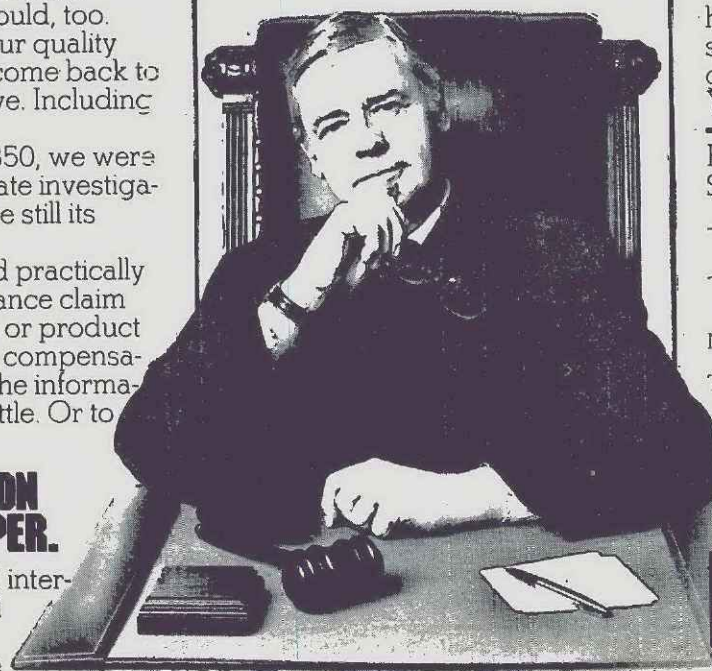


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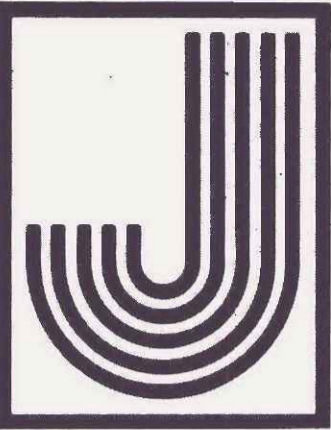
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Cable TV stations tune out insurance for extended outage

By JERRY GEISEL

SPECIAL RISKS

WASHINGTON—When a fearsome tornado whipped through Centralia, Ill., several years ago, the local cable television station was left in a shambles.

The transmission tower toppled over, cutting off service. But in five or six hours with the aid of some diesel generators, Sullivan Cablevision was back on the air beaming programs to central Illinois subscribers, former station manager Shirley Watson recalled.

Cable television's ability to

bounce back even after being hit with the worst Mother Nature can dish up is the reason most cable station operators can tune out business interruption insurance.

Business interruption insurance to protect against the loss of revenue to a cable TV station from cut off transmissions is about necessary as static because programming interruptions are so frequent and of such short duration, say cable television executives.

"Even when a hurricane moves into an area and the system has problems, we're usually able to revive the system in less than a week," says Kevin Coyle, manager of financial analysis for American Television & Communications in Englewood, Colo., which is self-insured for business interruption. "I can't imagine any major reduction of income for an extended period of time."

"The occurrence of an extended outage is so rare that no one would even think of buying insurance against it," says Anthony Eposito, executive director of the New York State Cable Television Assn.

Things weren't always that way. When cable television was in its infancy in the early 1960s, some banks required station owners to purchase business interruption insurance before the cautious lenders would approve loans to the cable entrepreneurs, says Ben C. Doherty III of Doherty & Co., a Dallas-based broker that specializes in serving cable television.

While banks no longer impose such requirements, a reflection of the \$1.5 billion industry's growing financial stability, some station operators, particularly small "Mom and Pop" operations with financial debts bearing high interest rates on new equipment, continue to purchase business interruption cover.

Typically, the business interruption cover is added as an endorsement to the physical damage insurance stations purchase to protect their transmitting equipment.

The basic rate for a business interruption endorsement is 50 cents per \$100 of revenue, Mr. Doherty said. So a firm with annual revenues of \$1 million that wanted to cover loss of subscriber revenues for six months might pay a premium of \$2,500.

However, the actual premium a cable television station would pay depends on such variables as the size and background of its staff, its prior on-air reliability and the amount of backup equipment. A business interruption policy would pay losses after 30 days from the time the station stopped operating, Mr. Doherty said.

Mr. Doherty said he never has seen a case where the insurer had to pay a business interruption loss.

Although business interruption insurance presents no problems to cable station operators, some local agents have had trouble obtaining performance bonds for smaller cable stations.

To combat this problem, Smith-Sternau Organization Inc., a wholly owned subsidiary of Marsh & McLennan, has been retained by the National Cable Television Assn. to assist cable station's agents in obtaining the necessary bonding covers, said P. Allen Haney, an assistant vp in Smith-Sternau's Washington office.

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THE TRAVELERS

Disability cover goes to bat for ball clubs

By LEN STRAZEWSKI

SPECIAL RISKS

BOSTON, Mass.—If Pete Rose chokes on his sushi during his coming exhibition tour of Japan and misses the 1980 baseball season, the Philadelphia Phillies will be financially compensated.

Mr. Rose, who is joining 40 other National and American League baseball stars for an exhibition tour to Japan this winter, will be covered under a special umbrella policy that includes coverage for permanent and temporary disability, medical expenses and accidental death to an aggregate limit of \$25 million for the three-week, nine-game series.

The package plan, underwritten by International Accident Facilities Inc. and reinsured with Lloyd's of London, protects baseball club owners from loss of their players on the tour. It also picks up the slack in any disability policies the clubs may have on their players, said IAF executive vp John A. Skingsley.

"This is the first time a sports package policy like this has ever been written," he said, "and we hope that this Japanese tour turns into an annual event."

The program, purchased by the Major League Baseball Promotions Corp., a company held by the National and American League baseball club owners, was placed by Boston brokers Kaler, Carney Liffler & Co. It is costing the owners "in excess of \$100,000," Mr. Skingsley said.

The individual baseball clubs would be compensated for the whole of their contracts with the players if the players are permanently disabled from playing baseball in Japan. Some players, like Mr. Rose, also have an additional \$200,000 "key man" coverage to help supplement the promotional loss of a star.

If a player is temporarily disabled, the club would receive compensation for each game the player misses, based on the player's salary divided by 162 games.

And if Mr. Rose, or another star including Chicago Cub Dave Kingman, California Angel Rod Carew, L.A. Dodger Steve Garvey and Carl Yastrzemski of the Boston Red Sox, needs help settling the Japanese food, medical expenses off the field are included.

Planning the program was no easy win for the broker and underwriter, explains Mr. Skingsley, because the individual club insurance on players (a more common occurrence these days) had to be evaluated to prevent overlapping coverage and extra costs.

Rating, in particular, was a problem "because there really are no set guidelines for these sports disability coverages," Mr. Skingsley explained. "And the needs of each ballplayer have to be evaluated according to dozens of factors, including his contract, position, age... This is a one-time special risk and there's no reason it could ever be rated the same way again," said Mr. Skingsley.

IAF, however, may have the opportunity to do the job again next year if the tour is a success, but the rating and research, which took between two and three months, would have to start again. One different player would create a whole new risk.

One of the baseball stars invited on the tour, Boston Red Sox left

Scholarship fund

More than \$23,000 has been donated to the Leyton B. Hunter Scholarship Fund for advanced studies in insurance and risk management at Georgia State University.

part of his contract negotiation.

The personal policy, also underwritten by International Accident Facilities, provides that Mr. Rice would be paid \$3 million and released from his long-term contract if disabled. The Red Sox, whose actual contract with Mr. Rice totals nearly \$4 million, would be re-

leased from all liability.

But Mr. Rice is only covered so long as he stays in the major leagues with a top flight club, according to Mr. Skingsley.

"If he went to some Mickey Mouse club we would consider that all the risks have changed," he said, "and the policy would be

voided."

Unlike other disability contracts on sports stars, the Rice policy provides payment to the player directly, not to the baseball clubs, though the Red Sox pay all the premiums.

IAF, however, declined to reveal the costs of the coverage.

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Some marathon sponsors run long and hard for insurance

By MARGARET LeROUX

SAN FRANCISCO—For some sponsors of races and marathons, obtaining sufficient liability coverage is comparable to "hitting the wall" after 20 miles of running: They can't seem to get enough to pull them through.

But others involved in races and athletic events handle liability problems with the seeming ease of the airborne stride of marathon champion Bill Rodgers.

Roadrunners of America, a nationwide association of more than 200 running clubs, for example, offers individual chapters a \$1 million liability policy that includes participant liability as well as third-party liability.

The policy covers about 65% of Roadrunners chapters and is available "at unbelievably reasonable rates," said Lester Seasongood, broker with Reed, Shaw Stenhouse in St. Louis, who arranged the insurance plan.

Mr. Seasongood acknowledged that "ordinarily it's very difficult to obtain coverage that includes participant liability." But during negotiations with several underwriters, the Roadrunners' "good track record of no claims" was emphasized, he said.

The Roadrunners convinced CNA their races were well managed and coverage on a per race occurrence basis was arranged. Premiums are based on the type of event, from fun runs to marathons, and the number of participants.

The American Athletic Union, however, finds the liability insurance problem a major concern and the association is currently negotiating with underwriters in an at-

SPECIAL RISKS

tempt to upgrade its coverage.

The AAU does have a \$1.5 million corporate liability insurance policy, but it does not include participant liability. For individual AAU sanctioned events, corporate headquarters prefers that local chapters or sponsors arrange their own insurance, including the AAU as a named policyholder on the policy.

Where this is not possible, an AAU spokesman said, "We include the local sponsor on a special purpose endorsement to our liability policy."

While the Roadrunners are involved only in foot racing events, the AAU sanctions some 22 athletic events and eight olympic sports ranging from swimming to bobsledding; baton twirling to weightlifting.

Spokesmen for the two associations acknowledged no great rivalry between them, but the New York chapter of the Roadrunners, the association's oldest group, was caught between their national association and the AAU in establishing coverage for the New York Marathon.

Peter Roth, treasurer for the New York Roadrunners, said the national association had indicated

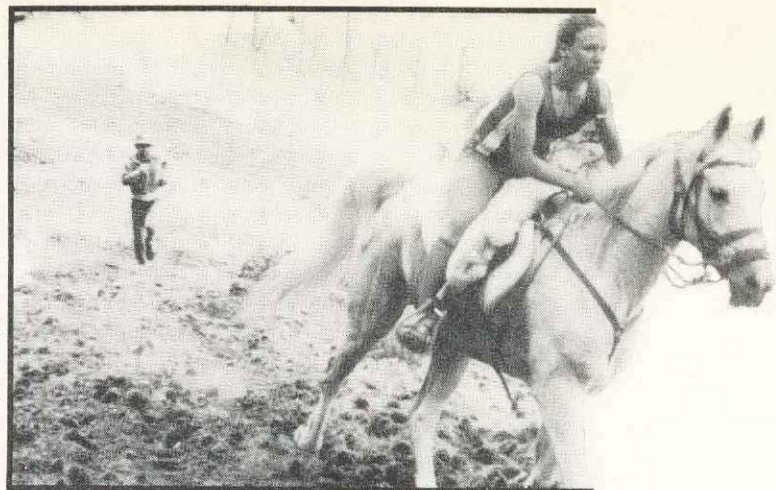


Photo: Ray "Scotty" Morris

In the Ride and Tie race sponsored by Levi Strauss, teams alternate running and horseback riding for 25 to 35 miles.

they would not cover the marathon, which is an AAU sanctioned event.

Mr. Roth said the New York chapter is considering legal action

against the national association for disallowing coverage. In the meantime, the chapter has arranged its own liability insurance through New York broker Leonard New-

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Group health

INDIANAPOLIS, Ind.— Though beset with problems in obtaining sufficient liability insurance, the American Athletic Union introduced a group health insurance plan for all its athletes early this year.

The policy provides accident and health coverage in addition to any other insurance an athlete might have, up to \$1,000. Underwritten by American Home Insurance Co., it includes a \$25 deductible.

The advantage to AAU athletes is the coverage is available for an annual rate of \$3. "For some of our athletes, it's the only accident or health coverage they have," a spokesman for the AAU said.

"In the past, we were only able to provide practice coverage for swimmers," he continued, "but since we negotiated the new policy with American Home, we were able to provide practice coverage for everyone."

The AAU spokesman said the policy has precluded serious liability claims. "A good accident policy prevents a lot of claims," he said. "If people are treated fairly and their injuries taken care of, they aren't likely to sue."



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man "and it is costing us seven times what the national Roadrunners policy costs," Mr. Roth said.

The policy covers all New York Roadrunners events. "We'd rather spend the money and be secure we have the coverage," he added.

Although marathons seem to command more media attention than other running events, there are hundreds more, from mile-long fun runs to 20 kilometer races, being run every weekend of the year.

California is where the lion's share of races and marathons occur. Runner's World magazine listed seven marathons, 19 races and 46 fun runs scheduled to take place in California in October and November.

The magazine sponsors several running events including an annual New Year's Eve midnight run and is covered by a liability policy underwritten by Great Southwestern Fire & Casualty Co., a member of the Sentry Group.



An extra declaration on Levi's domestic general liability policy with The Home Insurance Co. covers exposures for the Ride and Tie race in San Francisco, including injuries to the horses and damage to the helicopters that monitor the race.

Photo: Ray "Scotty" Morris

Races are covered on an individual basis, usually to limits of \$300,000, and participant liability is not included, said Gary Swanson,

broker with K&F Insurance in Campbell, Calif., which handles insurance for World Publications Inc., publishers of Runner's World.

Sometimes additional limits of liability are required by cities where Runner's World events are held, Mr. Swanson said. Los Altos,

which made national news in its battle against joggers in the city streets, required a liability insurance certificate of \$2 million, while other Northern California cities such as Berkeley and San Francisco require \$1 million limits of liability.

Some race sponsors include the events in their general liability policy.

City Sports magazine in San Francisco includes liability for the Bridge to Bridge run it co-sponsors with a local radio station into its comprehensive general liability policy with CNA Insurance Co. The coverage doesn't include participant liability for the 7.9 mile race from the San Francisco Bay Bridge to the Golden Gate Bridge, said City Sports publisher Maggie Cloherty.

The San Francisco Examiner newspaper also includes liability for the famous race it sponsors, the Bay to Breakers 7.8 mile run from San Francisco Bay through the city to the ocean, in its general liability insurance program.

At the Hearst Corp. headquarters in New York, insurance administrator Paul Cashin explained that the publishing company's general liability policy with the Hartford Insurance Co. included a special endorsement for the Bay to Breakers run.

Levi Strauss & Co. in San Francisco sponsors the most unusual running event on the West Coast: the Ride and Tie race in which teams of two runners alternate horseback riding and running during a 25 to 35 mile trek. An extra declaration on Levi's domestic general liability policy with The Home Insurance Co. covers exposures, including injuries to the horses and helicopters that monitor the race, said Tina Haley, assistant director of risk and insurance management.

The combination horseback and running race began in England in the 18th century and Bud Johns, Levi Strauss vp of communications, originated the West Coast version in 1971.

Levi's took the race back to its source, sponsoring its first Ride and Tie in Great Britain in September. Liability coverage for that race was included in the jeans manufacturer's overseas policy with AFIA. ■

Higher loss figure

The estimated insured losses from wind, tornadoes and flooding which struck parts of five states Sept. 18-23 have been increased to \$14.1 million from \$6.39 million by the American Insurance Assn. The additional damage occurred Sept. 21-23 in portions of Tennessee, North Carolina and Virginia. The storm also struck Texas and Louisiana. The damage estimate does not include losses covered under the National Flood Insurance Program. Insurance Services Office assigned the storm Catastrophe Number 30.

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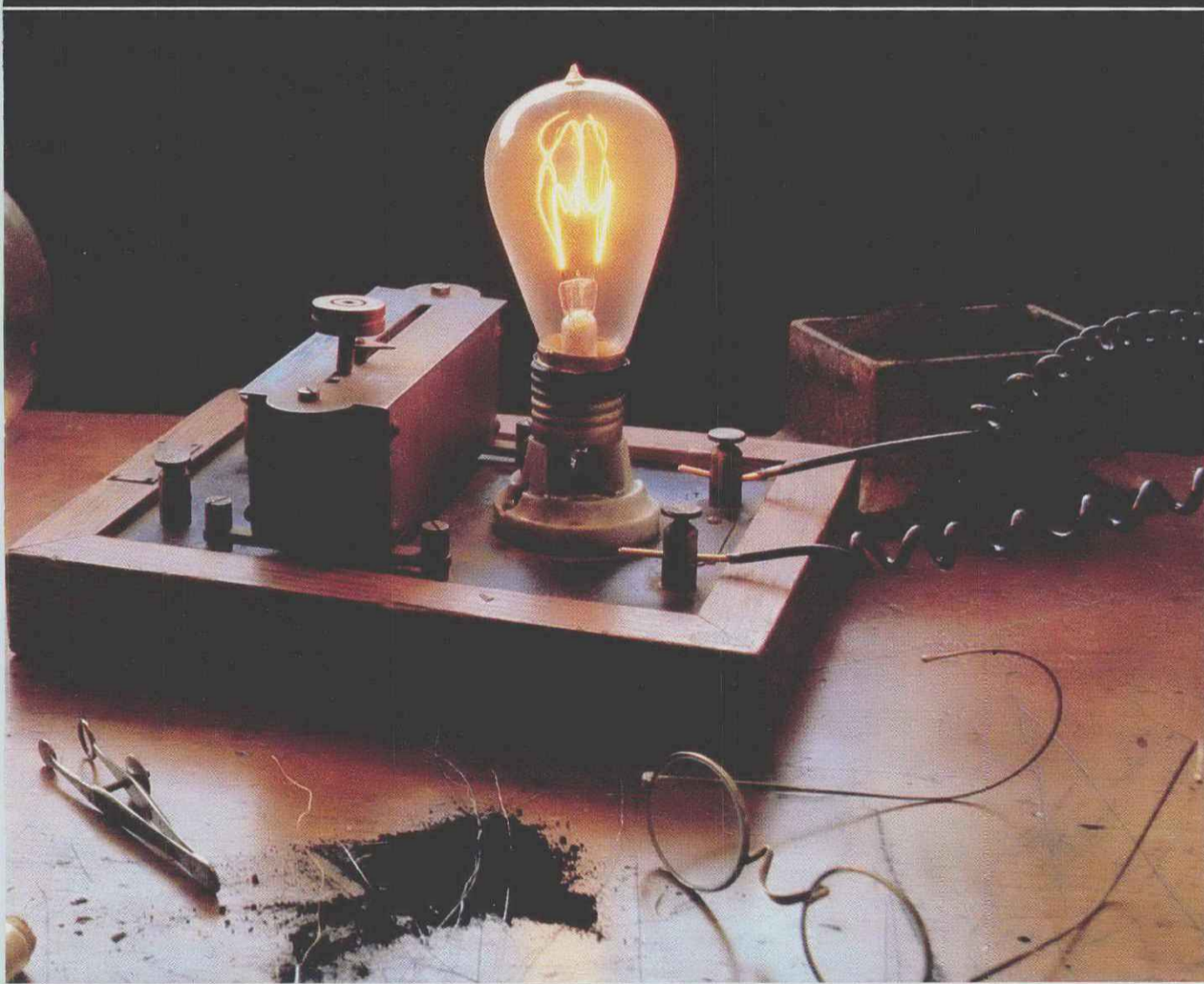
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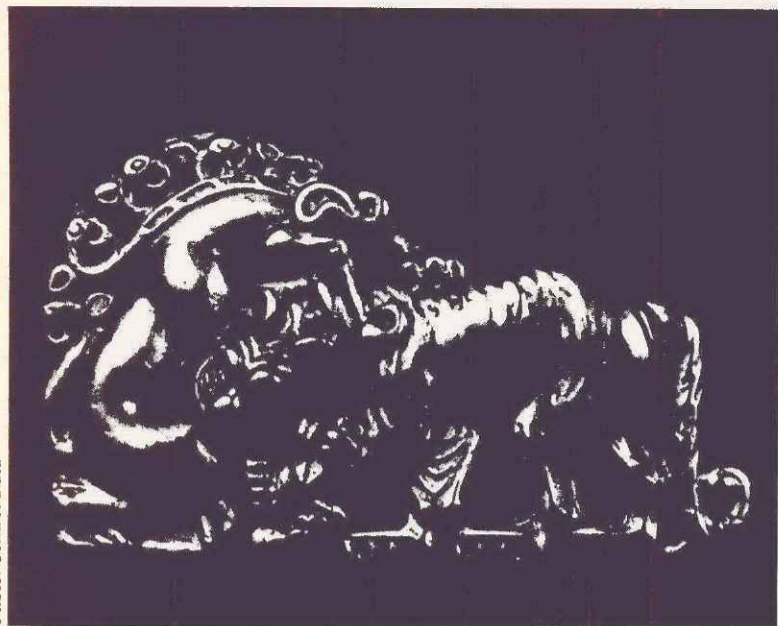
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This gold plate is only one of the 413 pieces of a traveling Soviet exhibit sponsored by Control Data.

Soviet collection

Control Data paints picture of insurance for art exhibit

By JOHN MAES

SPECIAL RISKS

MINNEAPOLIS—Protecting a \$100 million art collection moving several thousand miles across two continents paints an insurance challenge few risk managers encounter.

But Robert Abrahamson and his seven-person corporate risk management staff at Control Data Corp. here are in the thick of arranging insurance and tackling safety problems for the May 1980 arrival of 413 artifacts from the Hermitage Museum in the Soviet Union.

Control Data is sponsoring the project to bring the collection to the U.S. for exhibits in Washington, D.C., New York, Detroit, Los Angeles and Minneapolis over a two-year period. Control Data is financing the move of the exhibit as part of a deal that will eventually lead to the sale of a Control Data computer to the Soviets, which the Hermitage museum will use to inventory its art objects. Control Data will ultimately

spend about \$1 million to insure, transport and protect the exhibit, but will recoup some of the expenses from admissions to the displays in various cities and from publishing and souvenir ventures associated with the tour.

Although some risk managers may think the insuring of an art exhibit is a highly unusual project, Mr. Abrahamson said it involves a lot of routine risk management practices and is not too unlike other insurance matters he's handled at the computer and finance company.

Preparing for the transportation and arrival of the exhibit has been no small task for the corporation. Much of the work centers on setting up an insurance program and addressing the various safety and security problems that go with moving the precious exhibit, which includes paintings by Titian, Rubens and Van Dyck along with sculptures, etchings and tapestries.

Insurance arrangements are still being conducted and "nothing's been concluded," said Mr. Abrahamson. The negotiations include the Soviet insurance company, Ingosstrakh, along with Lloyd's of London and American companies. "One or more of those could be involved" in the insurance package, Mr. Abrahamson said.

The company will apply to the National Endowment for the Arts for financial aid to pay insurance costs. The foundation, which allocates money each year to help insure touring art exhibits, has indicated it may have some funds available for the Hermitage project by mid-1980, Mr. Abrahamson said.

Art objects moved from one country to another are insured under general marine-aviation policies, but each policy "must be tailored for the specific exhibit," Mr. Abrahamson said.

Because the arrangements are pending, Mr. Abrahamson would not say if the coverage for the transoceanic journey would be coordinated in the same package with coverage for the collection while it is touring the U.S.

Aeroflot, the Soviet national airline, will probably transport the collection to the U.S. from Leningrad. Underwriters will probably insist the collection be transported in more than one aircraft to spread the risk, he added.

Control Data's traffic department is to supervise the movement of the collection while it is in the U.S., but Mr. Abrahamson said the mode of transportation from city to city has not yet been chosen. The company is weighing the comparative risks of transporting the exhibit by truck, where the chances of an accident are greater, or by air, where the potential for a catastrophic loss is greater, he said.

Curators from the Hermitage, from the host museums and Control Data personnel will oversee the meticulous pre-shipment packaging of the pieces as well as loading and unloading. A security detail will also be on hand during those phases of shipment. While on display at the individual museums, the institution's own security forces will guard the exhibit.

"We've spent a lot of time with (the project) and we will be for the next few months," Mr. Abrahamson said. Dennis Ness, manager of administration, has been "very instrumental in the overall negotiations."

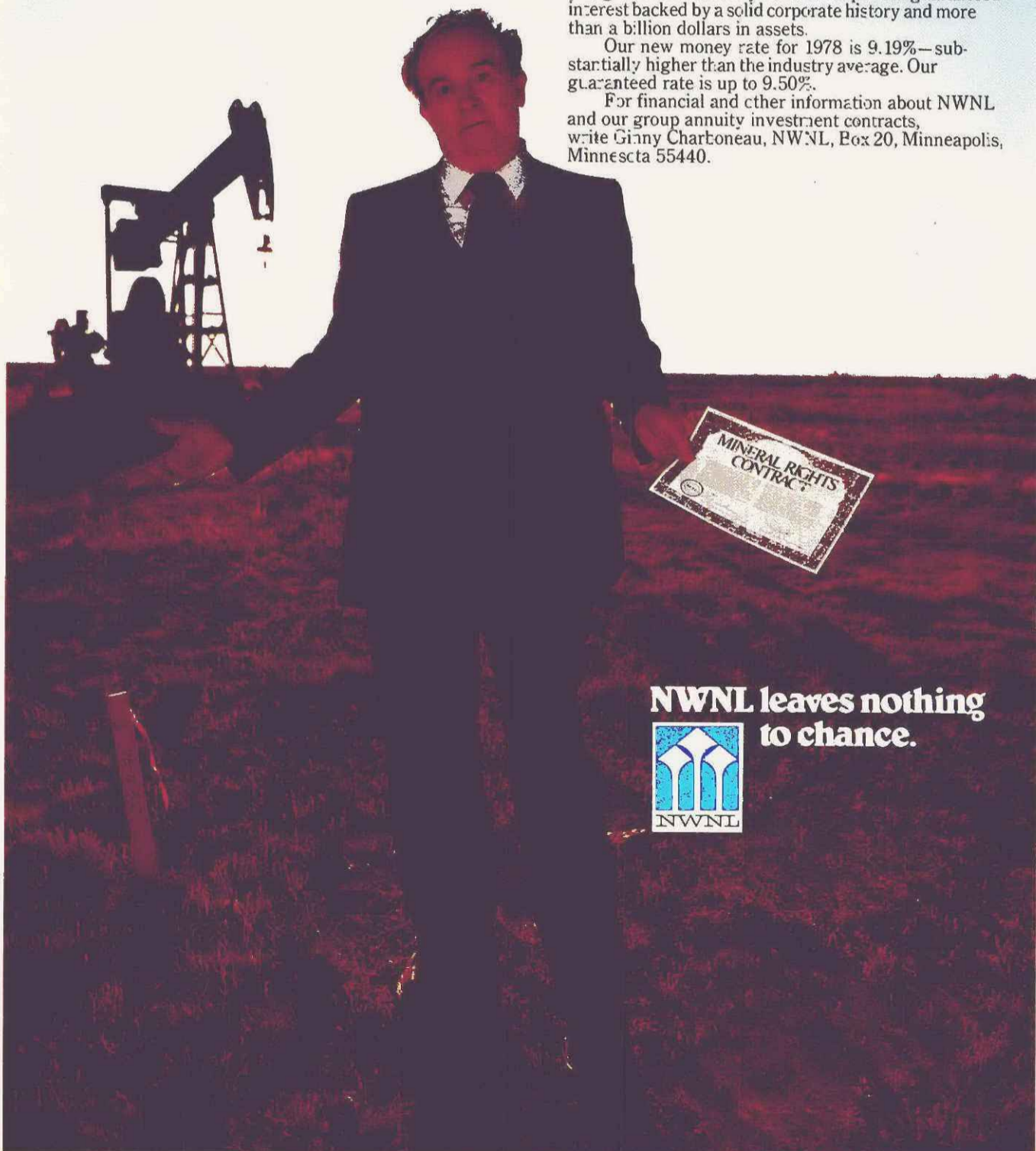
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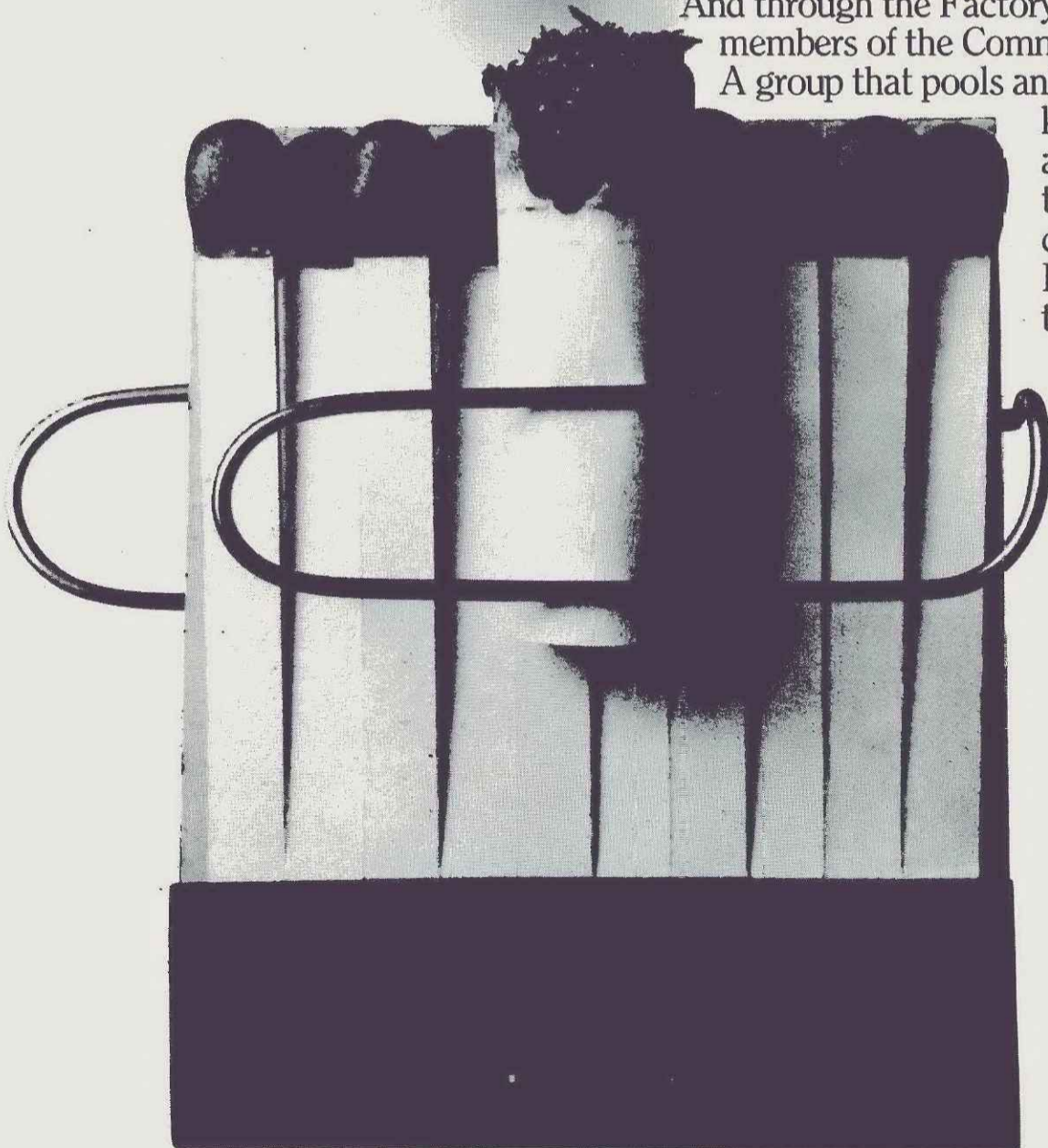
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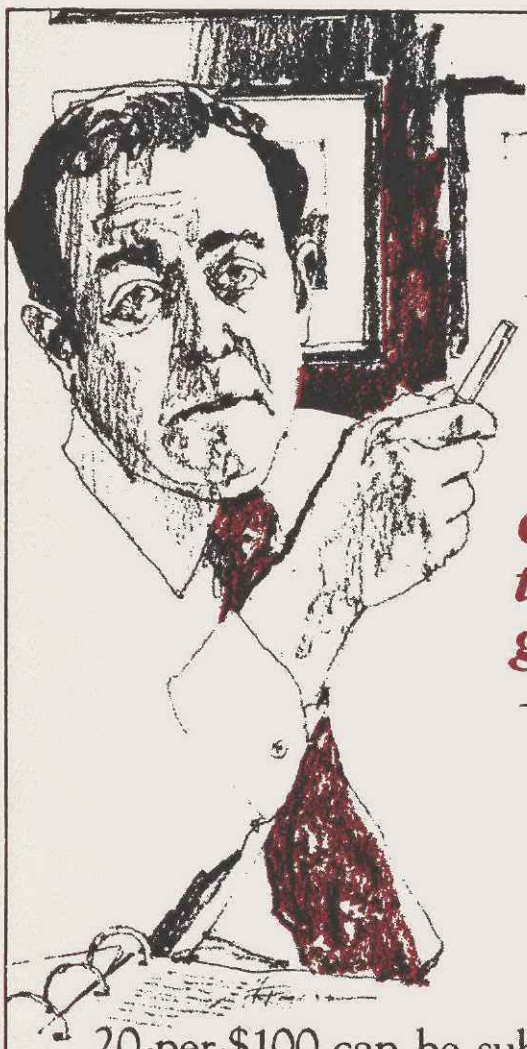


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Cost analysis tells us when to go offshore.

-Gillette's Mather

A multinational firm, according to William L. Mather, Administrator of Risk Management for The Gillette Company, doesn't necessarily have to buy all its overseas property coverage at high local rates.

In Gillette's case, when the company determines that an overseas exposure is costing more than a comparable U.S. exposure (.20-per-\$100, for example, as opposed to .10-per-\$100), corrective measures are taken. "In countries which permit the practice," says Mather, "we export the reinsurance back to our offshore captive."

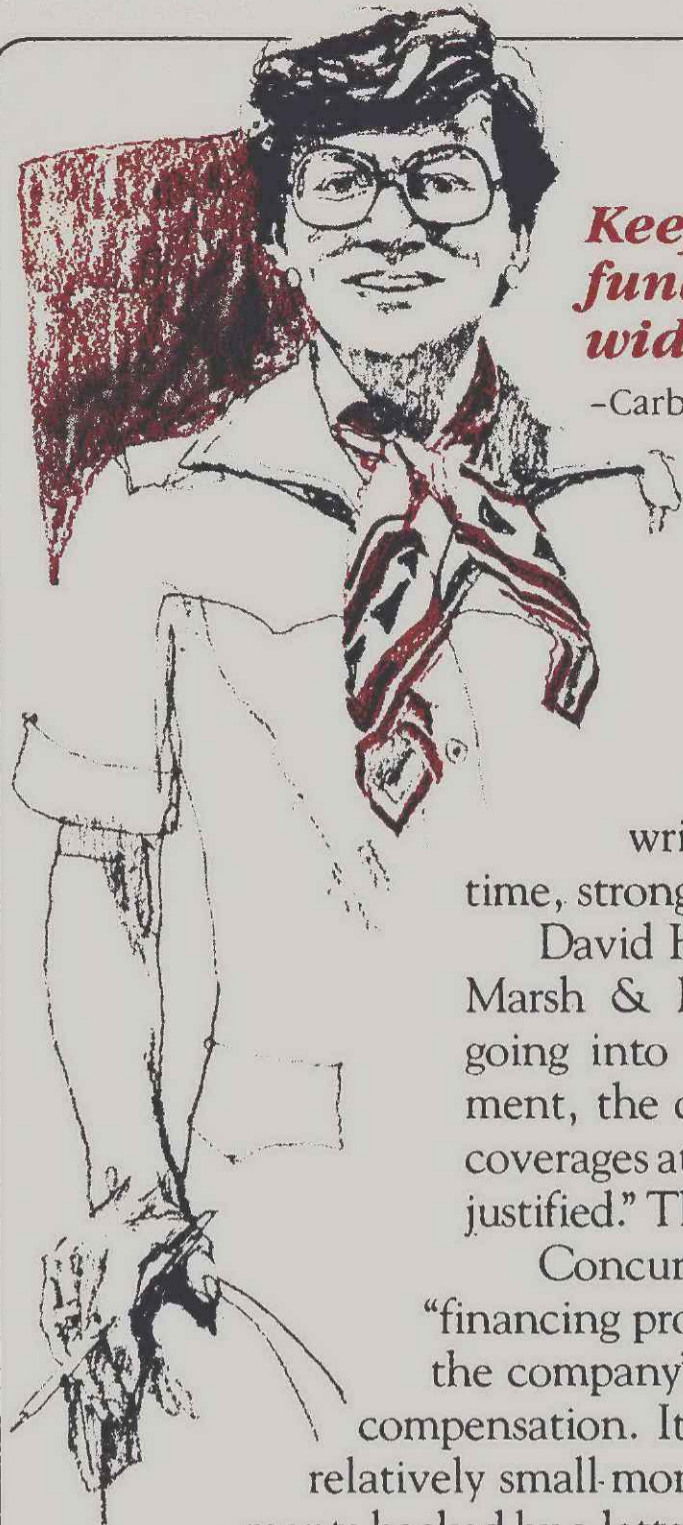
An admitted national carrier writes the basic property coverage for Gillette at prevailing rates – assuring that the policy is in compliance with local laws and regulations. But the carrier retains only part of the risk, with the majority being reinsured by the Gillette captive.

When the two premiums are averaged, the high rate of .20-per-\$100 can be substantially reduced. Mather sees this as a viable way of smoothing out differentials between U.S. and overseas property-coverage costs.

Inflationary pressures continue to push employee benefit costs higher and higher. Outlook for a slackening of this trend is doubtful, but one hopeful sign exists in a mechanism for controlling the rate of growth of these costs. From the corporate standpoint, flexibility in cash-flow management and investment return are additional advantages.

The Carborundum Company now self insures medical, surgical and death-benefit programs for over 3,000 salaried employees in the U.S. "Our cost increases," says Edith Lichota, Assistant Treasurer of Insurance and Benefits, "have beaten the inflation statistics in this area by one-third to one-half."

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Keeping our funding options wide open.

-Carborundum's Lichota

current basis – or, alternatively, be pre-funded. In the latter case: no impact on P&L. Additionally, tax-exempt interest generated in the Trust reduces corporate expenses or accumulates as a funding reserve.

Ms. Lichota sums up: "We've got an effective vehicle from the benefits viewpoint and the Treasurer's."

A brokerage firm reports that a large conglomerate's insurance department recently implemented two "opposing" money-management plans – with excellent results. Management had requested that department heads seek operating tax write-offs through purchases and capital investment. At the same time, strong cash-flow positions were to be maintained.

David Holbrook, Senior Vice President of Marsh & McLennan, commented: "By going into the market at the right moment, the conglomerate bought property coverages at as large a premium as could be justified." This satisfied the write-off goal.

Concurrently, M&M worked out a "financing program," as Holbrook called it, for the company's workers' compensation. It involved relatively small-monthly payments backed by a letter of credit guaranteeing the carrier future premiums plus loss-adjustments.

Large amounts of cash were retained by the company in the same year it achieved a major write-off on insurance purchases.

We went in two directions at once.

-Marsh & McLennan's Holbrook



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Hollywood's animals get human treatment from their insurers

By MARGARET LeROUX

SPECIAL RISKS

LOS ANGELES, Calif.—Two of the most heavily insured actors in Hollywood aren't human.

Insurance policies "in the seven figure neighborhood," according to entertainment industry brokers, are written on the lives of Lassie and Benji, two of the most famous canines in American films. If either of them or their stand-ins couldn't work, insurance would cover the thousands of dollars lost by the film production companies.

Fireman's Fund Insurance Co.

insured both dogs. Lassie's coverage is arranged by the Ray Speare agency and Benji is handled by the Alexander & Alexander subsidiary Albert G. Ruben Co. Inc., both of Los Angeles.

Lassie last appeared in a movie released a year and a half ago, "The Magic of Lassie," while Benji just finished filming "Oh Heavenly Dog," a Mulberry Square Production with 20th Century Fox to be released in the spring of 1980.

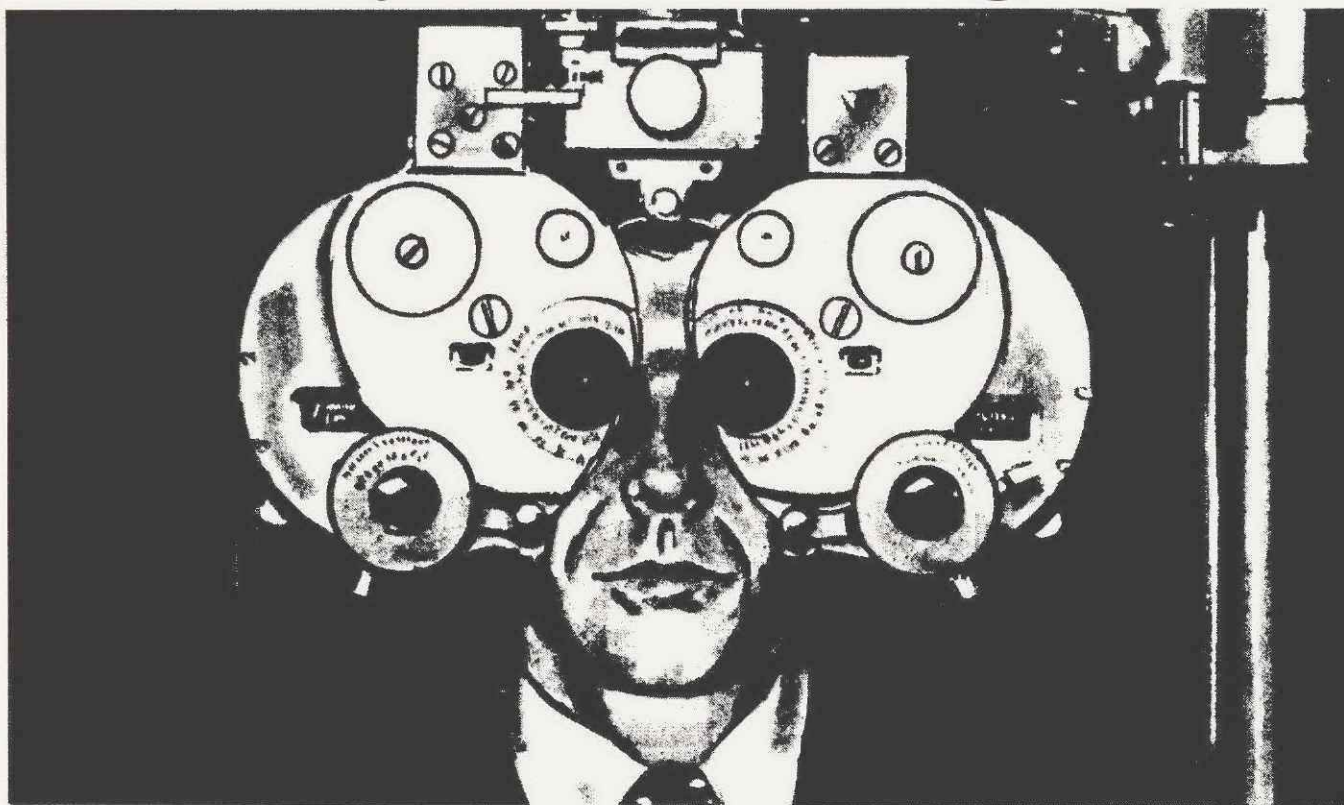
Hollywood is full of stories about special star treatment afforded some of its animal leads, but as far as insurance goes, they are treated like their human counterparts.

Animal stars are named in cast insurance policies which pay film production companies for losses resulting from death, injury or illness that would cause filming to be delayed or halted.

That includes the actor's walking off the set, though in the case of

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Photo: Mulberry Square

Man's best friend Benji is one of the most highly insured actors in Hollywood.

one animal insurance claim, it was swimming off the set.

When some dolphins escaped during the filming of the movie "Day of the Dolphins," the cast insurance paid for the delays, said Ernest L. Scanlon Jr., entertainment specialist with Bayly, Martin & Fay in Los Angeles.

The value of the insurance policies for animals is based on the gross production costs and the value set by the owners or trainers.

A trainer with Ray Burwick Inc., which produces an animal show as part of Universal Studio tours, noted, "The time and trouble we spend with the animals far exceeds the value of an insurance policy."

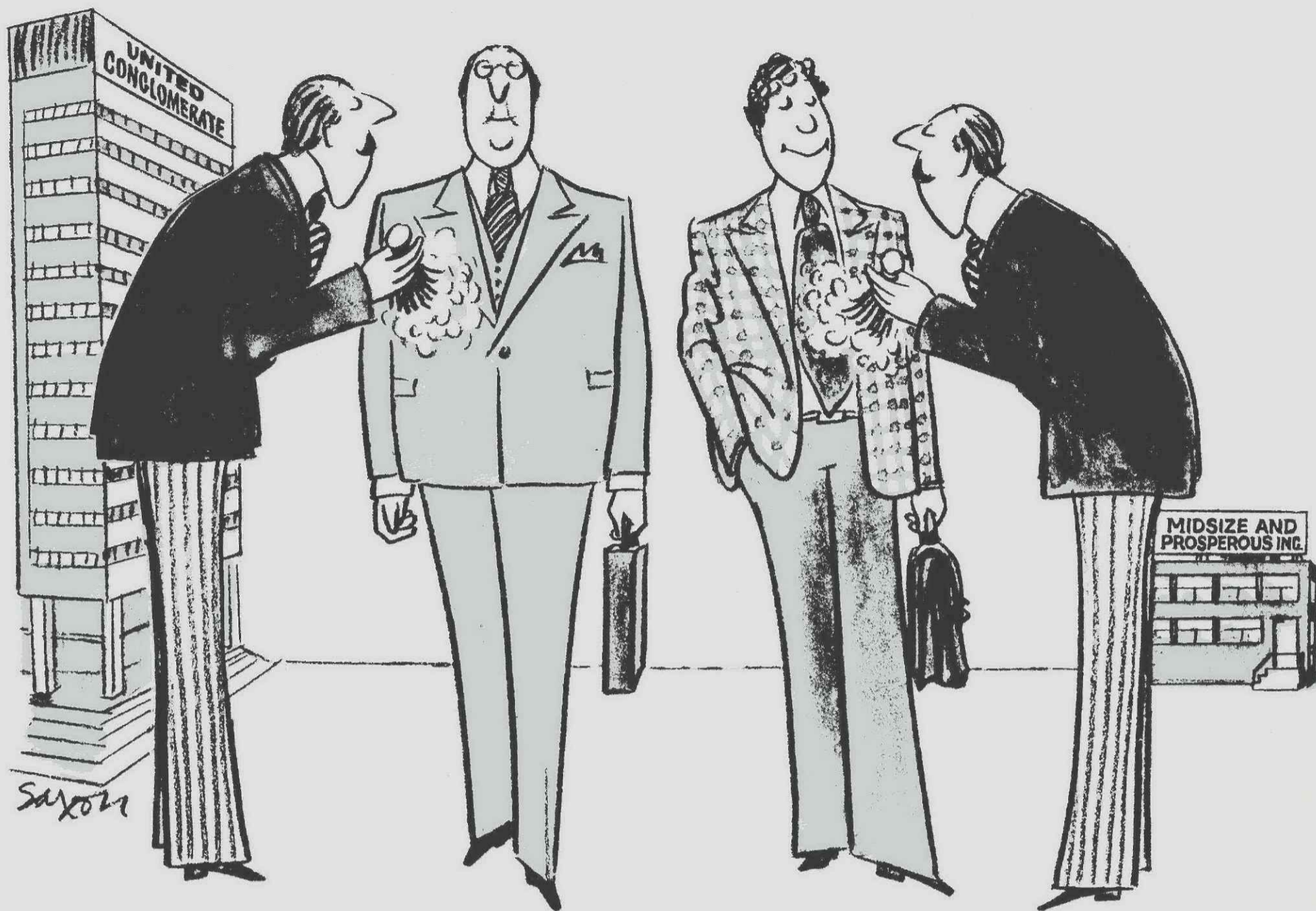
Trainers function as risk managers for animal stars, as trainer Greg Wallen explained. "We spend a lot of money on preventative care. We don't allow our animals to get into a risky situation. We know what's safe and what is not."

Lloyd's of London is most often mentioned by entertainment industry brokers as the source of insurance for animals. Besides Fireman's Fund, domestic markets include Pacific Indemnity Insurance Co. and Frehlinghuysen Livestock Inc., in Whitehouse Station, N.J.

Finding sufficient markets to insure animals isn't particularly difficult when the limits are low, said Don Cass, senior vp at the Ruben Agency.

"The difficulties arise when you're trying to place a \$2 million or \$3 million exposure," he said. ■

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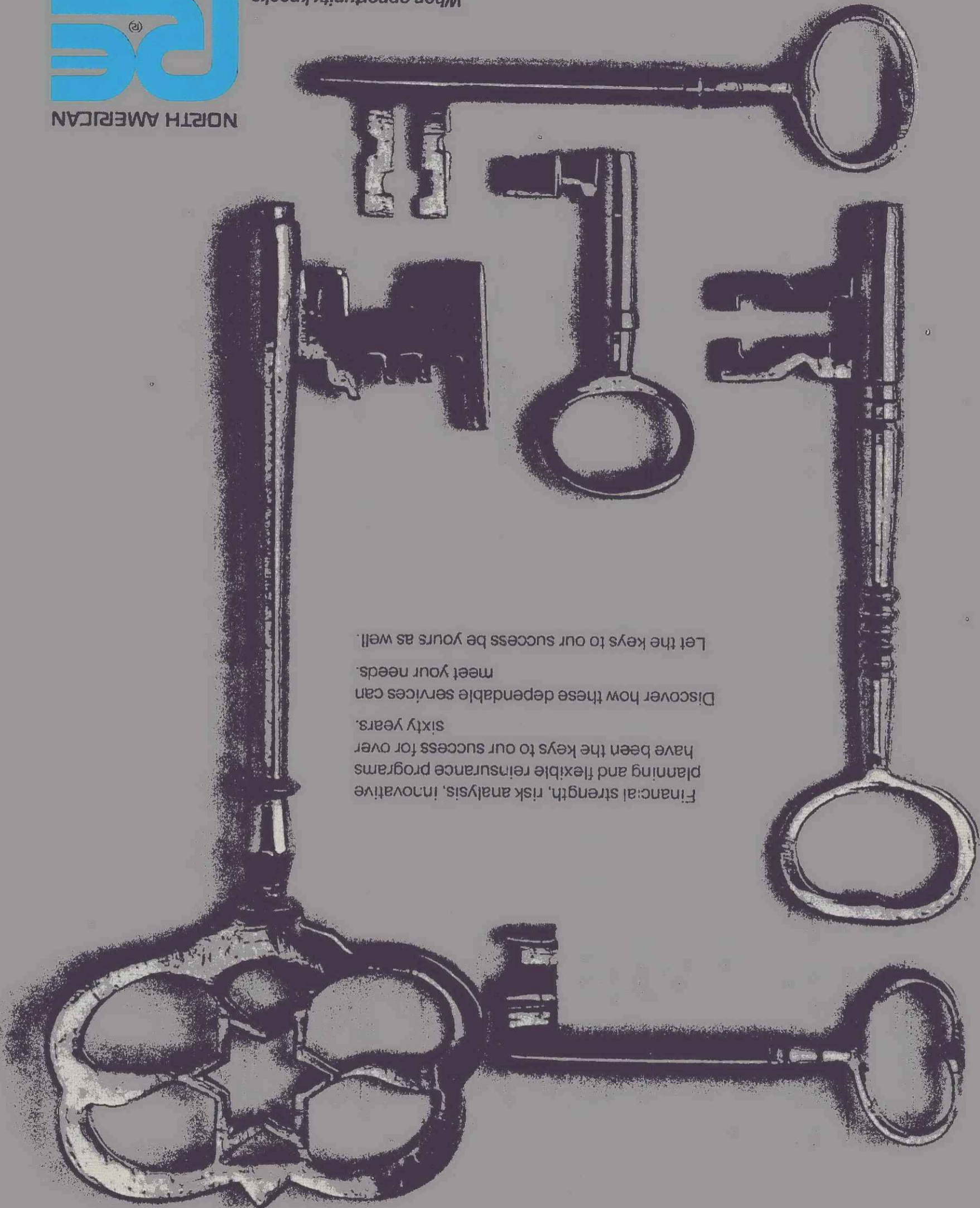
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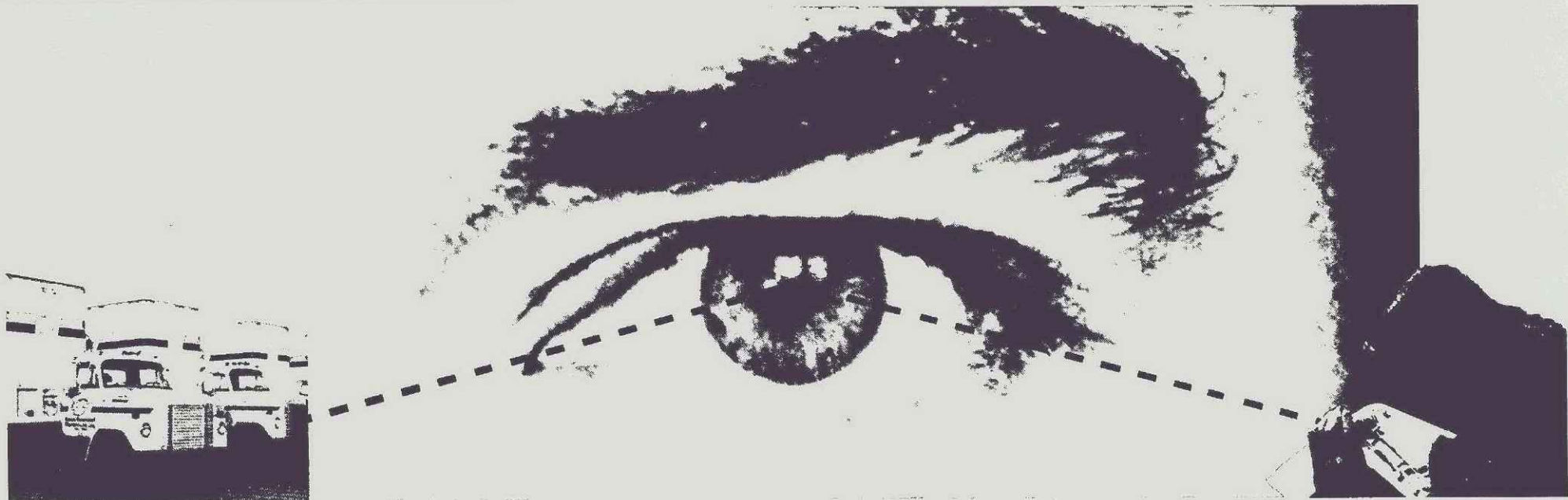


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PERSPECTIVE



Special risks business blossoms into apple of an underwriter's eye

By Stanley B. Markel

THE PEOPLE in our company got a big kick some time ago when our San Francisco office was successful in placing the liability coverage for Koko, Stanford University's famous talking gorilla. The specialty insurer's underwriter apparently reasoned that there was much less exposure in this risk than insuring an unconfined student. He was right, and the policy was readily renewed at expiration along with coverage on a gorilla freshman named Michael.

There is no question that special risks constitute the most exciting, fun segment of the insurance industry today. No manuals, no rate filings and frequently no prior loss experience—just gut underwriting, Lloyd's style.

We are living in an environment with ever-changing social conditions. This is constantly creating new, legitimate enterprises that require insurance to stay in operation—everything from acupuncture and abortion clinics to massage parlors and marriage counseling services. Only the specialty markets have the speed and flexibility to meet the challenge and provide coverage for new types of business. Policy forms can be manuscripted and tailor-made to fit the particular exposure.

The standard companies are not equipped

Stanley B. Markel is vice chairman of the board of Market Service Inc., an excess/surplus brokerage in Richmond, Va.

to handle the unique and unusual risk. They are strictly geared for the kinds of coverage readily marketed through their large agency plants. As a matter of fact, some coverages, normally standard, become special risks only because the standard companies have never learned how to write the class of business profitably.

Trucking along

Take long haul truck liability and physical damage, for instance. Most of the larger companies have been in and out of the truck field on numerous occasions over the years, running hot or cold as the underwriting cycle swings.

The lack of stable standard markets in this field is surprising. We are not talking about a peanut stand, but an important part of our economy. The trucking industry employs more people in the United States than any other except agriculture, and the 1978 gross revenues of ICC regulated truck lines alone totaled \$36.5 billion.

"Long haul trucks are dynamite" is a statement we have heard from many insurance executives. That is pure baloney, as the truck specialty companies will testify.

In the first place, long haul truck fleet underwriting authority cannot be successfully delegated to a network of regional production offices. It is not only difficult to maintain underwriting consistency and continuity, but it is practically impossible to staff each office with capable, experienced truck

underwriters.

Then, too, such offices are subject to pressures by the large agency with a good loss ratio. There can be no such accommodation in the truck field. Each risk should be underwritten to produce an underwriting profit. In addition, a loss control service that knows truck safety problems and a claims service familiar with leasing procedures, statutory filings and truck accident investigation and adjustment are essential.

But let's get back to special risks fun and games—the unusual and the unique. When Skylab appeared ready to fall, many newspapers, radio stations, etc., offered fabulous prizes to anyone in the area bringing in a piece of the debris. Some bought insurance to protect themselves against this remote possibility.

In similar fashion, auto dealers routinely insure against a hole-in-one when they offer a new car for this achievement in a golf tournament. The New Orleans Pelicans baseball club did the same when it offered a new car to a lucky ticketholder if—and a big if it seemed—the first home team batter in the sixth inning hit a home run. Despite the odds, the random-picked hitter slammed the ball over the fence!

And how about the parachutist who lands on someone's noggin instead of the drop zone, or the radio controlled model aircraft owner whose plane hits a spectator instead of the landing strip? They all need liability insurance.

The specialty companies are happy to co-

operate with their producers to develop new coverages. We recently found a need for errors and omissions accreditation coverage to protect educational and professional associations that accredit institutions, programs and individuals. A joint effort with one of our companies produced a policy specially tailored to meet this need.

No-show groom

Specialty coverages range from a deer petting farm and motorcycle hill climbs to installation and testing of solar sun screens and environmental impairment for industries. Even a used car lot was able to buy protection against sales under false pretenses!

No-show insurance for entertainers is rather common, but we were surprised to place similar coverage for a groom at a wedding. The groom's father had already paid the bill for a very expensive reception and was worried about his son's attendance. He apparently had no concern about the bride.

Rock concerts, festivals and KKK rallies; alcohol, methadone and VD clinics; electrolysis, gymnastics and dog obedience schools; weight reducing and anti-smoking groups (even those using hypnosis)—the list goes on and on.

Special risks and the specialty companies will undoubtedly be with us as long as there is an insurance industry—long after Koko and Michael have talked their way into gorilla heaven. ■

Speaking Out E/S report info demands miss the mark

By Charles A. McAlear

I WOULD LIKE to compliment you on your excess/surplus report. Overall it was excellent and this office has had many people compliment us on our participation in it. The editorial on page 14 as well as the riskWatch column on page 51 do seem as if they are motivated, at least to some extent, by frustration.

As you point out, privately held firms are not legally required to provide you, or anyone, with the kind of information you requested. While it is agreed that it would be a good thing if E/S brokers would be more open, we would hope that it would be a matter of education of both buyer and E/S broker rather than of law. In preparing for next year's issue it might be appropriate to contact the AAMGA and NAPSLO to see

Chuck McAlear is principal of the excess/surplus lines brokerage firm bearing his name in Grand Rapids, Mich.

whether their boards would encourage participation in your survey.

Certainly your publication can go far in educating buyers who ask pertinent questions relative to any surplus lines office that is going to be used on their account.

I do not think under any circumstances that an excess and surplus lines broker should be required to provide information relative to corporate accounts. These are the property of the retail agent and furnishing the names of such agents should be sufficient. They can provide that information if they think it is appropriate.

Financial statements

Since the Pritchard & Baird incident, many reinsurance intermediaries are providing financial statements on a segregated account basis. In this manner premiums receivable and premiums owed are separated from the other items and constitute a balance sheet within a balance sheet. At some

point it seems likely that, given the publicity surplus lines brokers and their imitators attract when a problem surfaces, surplus lines brokers might see it as appropriate to do the same thing.

I'm sorry Mr. Pearce of Foremost-McKesson doesn't like the E/S markets. Buyers, with their agents, come to our office on a regular basis and do feel they are communicating with our markets. In many cases if the buyer has met the E/S broker he has met the market, because it is the broker who combines the capacity of the various carriers to meet the needs of the buyer.

I think Mr. Pearce would be surprised at how much knowledge exists and how familiar underwriters are with the risk. It's just that E/S brokers and underwriters tend to zero in on those aspects of a risk that present difficulties or require special treatment. And those aspects of any risk may change as the market changes. The retail broker's marketing expertise includes knowing which excess and surplus lines in-

termediary to approach, and when and how. If all goes smoothly he has certainly earned his commission or fee and a buyer may make the error of assuming he did nothing. If the retail broker's approach to the E/S market is inappropriate, the buyer will soon find out.

Misleading figures

The series beginning on page 44 examining the premium volume of leading brokers is misleading in that the premium volume indicated in each case is that filed with the state as surplus lines business. E/S brokers also represent admitted markets and have the duty to place business in those admitted markets whenever possible. A decline in the amount of business placed as surplus lines, in nonadmitted markets, is an indication, very often, that they are succeeding in discharging this duty. Their overall premium volume may be up while the amount of busi-

Continued on page 62

PERSPECTIVE

Coping with fires

Proper storage helps prevent large losses . . .

By Chester W. Schirmer

LARGE LOSSES such as the Ford warehouse fire in Cologne, Germany, and the three large warehouse fires here in the U.S. do have some positive aspects. They lead us to analyze causes and measures to prevent recurrence. The thread running through the loss reports on these fires continues to emphasize basic fire protection.

A review of the National Fire Protection Assn. Standard for rack storage of materials, NFPA 231C-1975, indicates varying levels of protection for varying storages. Protection requirements increase as the height of storage increases and as the hazard of the stored material increases. More protection is required for multi-row racks than for double row racks or for single row racks.

When the material is stored higher than contemplated in the sprinkler system design and a fire occurs, the chance of a large loss is materially increased. Likewise, when the stored commodity is more hazardous than the sprinkler design contemplated, for example—plastic products or flammable liquids where design contemplated ordinary cellulose materials—large loss possibilities increase.

Where design was based on double row racks and material is stored in aisles, the fire will probably approach multi-row rack criteria. When flues are blocked by storage, thereby preventing sprinkler water from reaching lower levels, the probability of a large fire loss increases.

The owner or operator of a facility should be aware of these facts. Large catastrophic losses highlight the need for action—but what action? It seems prudent not to overreact, but rather to carefully consider the problem and select solutions appropriate to the situation.

Prudent action

Solutions may be administrative or they may be equipment or facility oriented. Certainly, to reduce the possibility of large loss fires, fire prevention is of extreme importance. Common sense indicates the need for control of ignition sources such as smoking, welding practices, electrical installations, heating systems, flammable processes. Tightening of security precautions related to arson prevention is definitely needed.

Administratively, controls should be instituted to keep flue spaces clear in storage racks. How about pile height above that planned in the sprinkler design or storage in aisles? If the storage cube is sufficient to contain the intended inventory, these can be controlled administratively.

If adequate storage cube is not available, two basic choices remain. Additional storage space can be built or leased or protection may be upgraded by increasing the ceiling sprinkler discharge density. This can sometimes be accomplished by replacing ½-inch orifice sprinklers with 17/32-inch orifice sprinklers. In other cases, changes in piping configurations or water supplies may be called for. In other instances, replacing 165-degree ceiling sprinklers with 286-degree sprinklers may solve the problem. The answer may be in-rack sprinklers.

Upgrade protection

Where the commodity stored has changed and become more hazardous, controls also may be either administrative or facility oriented. If space permits, lowering the height of storage to a point where existing installed protection is adequate may provide the least costly solution. In cases where only a small amount of high hazard commodity is to be stored, it may be possible to upgrade protection in an isolated section separated by appropriate fire partitions. Where neither of these approaches is appropriate, an upgrading of the installed fire protection system may be necessary.

The risk manager plays an important role in evaluating the overall picture. He must consider costs of changes, costs of insurance under present or corrected conditions, availability of insurance under present conditions, degree of risk retention under present and improved conditions.

It is important not to overreact. Some have advocated installation of smoke and heat vents to alleviate the large fire loss problem. The General Motors fire in Livonia, Mich., has been cited as one basis for this suggestion. It should be recalled that Livonia was an unsprinklered building.

Continued on page 62

Chester W. Schirmer serves on the board of directors of the National Fire Protection Assn. and is president of Schirmer Engineering Corp., loss control engineering and consulting firm.

. . . accountant can increase loss recovery

By R.M. Shannon

YOU ARE THE RISK MANAGER of ABC Manufacturing Co., the mythical company found in so many business school textbooks. Your company makes widgets. But you also make a line of portable battery-operated lights for construction, emergency and camping use. You also make components for small electrical appliances.

This is not based on one incident, but it could happen.

Driving to work a few days ago, you heard on the radio that one of your company's largest plants had just caught fire. By the time you got to the plant, the fire was almost out.

The next few days were hectic, to put it mildly. The fire destroyed about half of the company's largest plant. All three product lines were made there, but at least one other plant also makes each line. Your prompt call to the insurer brought a fast visit by the adjusters. You went with them on their tour to see that they got answers to all their questions.

Maintenance arranged, with your approval, for a local contractor to board up the damaged sections. Machinery and inventory that might be usable were moved to other locations, including a rental warehouse. Purchasing and production control began working on replacing lost materials and moving production to other plants. Sales started phoning customers about rescheduling orders. The controller's department set up special accounts to accumulate as many of the special costs associated with the fire as is possible—the remainder will have to be estimated.

Outside help

The president of ABC wants a report from you by 9 a.m. tomorrow on how the insurance claim will be prepared and who will be involved. He is anxious to see the project move promptly so ABC can get its money.

The controller said he understood that Book & Co., ABC's independent public accountants, had claim preparation experience, and asked if you could meet with them this morning to find out what role outside auditors could play. You agreed—knowledgeable help would be welcome, and the 9 a.m. deadline is quickly approaching. Following is what you and the outside auditor discussed:

A major fire-related claim, such as yours surely will be, is an unusual event for the company. Most losses have been less than the policy deductible; the few that exceeded it by a small amount entailed very simple claims. This often is not so for a major loss.

The insurer will be represented by adjusters who work full time on claims, compared to the occasional experience a risk manager, broker or agent has. The insurance company regularly hires accountants, engineers or other experts with substantial claims experience. The adjusters' job obviously is to protect the insurance company's rights first. As the policyholder, you need to consider employing people with experience to even up the odds. An outside auditing firm may be able to help.

The outside auditor often can help your claims project manager develop the ABC claim. Doing an audit or preparing a tax return entails gathering and reviewing a large body of facts and being able to bring it all together logically in a final product. He knows how to integrate the work of other experts.

General guide

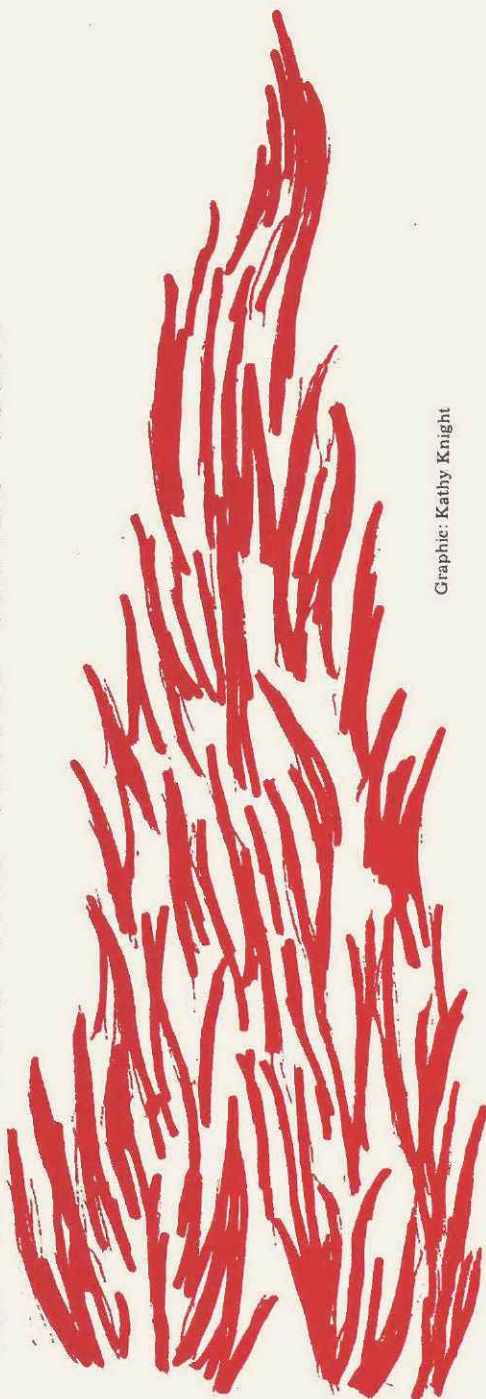
An insurance claim is similar. The accountant with claims experience will know what kind of evidence is needed to support a claim, and he may suggest some other kinds of experts as needed.

The good accountant will typically tell you what he cannot do. Although his experience will be a good general guide, specific guidance about what exactly is covered by the policy is the responsibility of the risk manager, broker and the company's lawyer.

Opinions about what machinery is worth or whether it can be repaired, or how long it will take to repair the building, belong to the appraiser, engineer, architect or supplier. However, the experienced accountant may often help you and your team save the company some money by suggesting a letter from a vendor (for free) where such a letter will do as well as the report of an appraiser (for a fee).

Continued on page 62

Mr. Shannon is a partner-in-charge of the business products and services division of the Chicago office of Arthur Andersen & Co., public accountants. He also is responsible for the firm's program to assist companies in preparing claims.



Graphic: Kathy Knight

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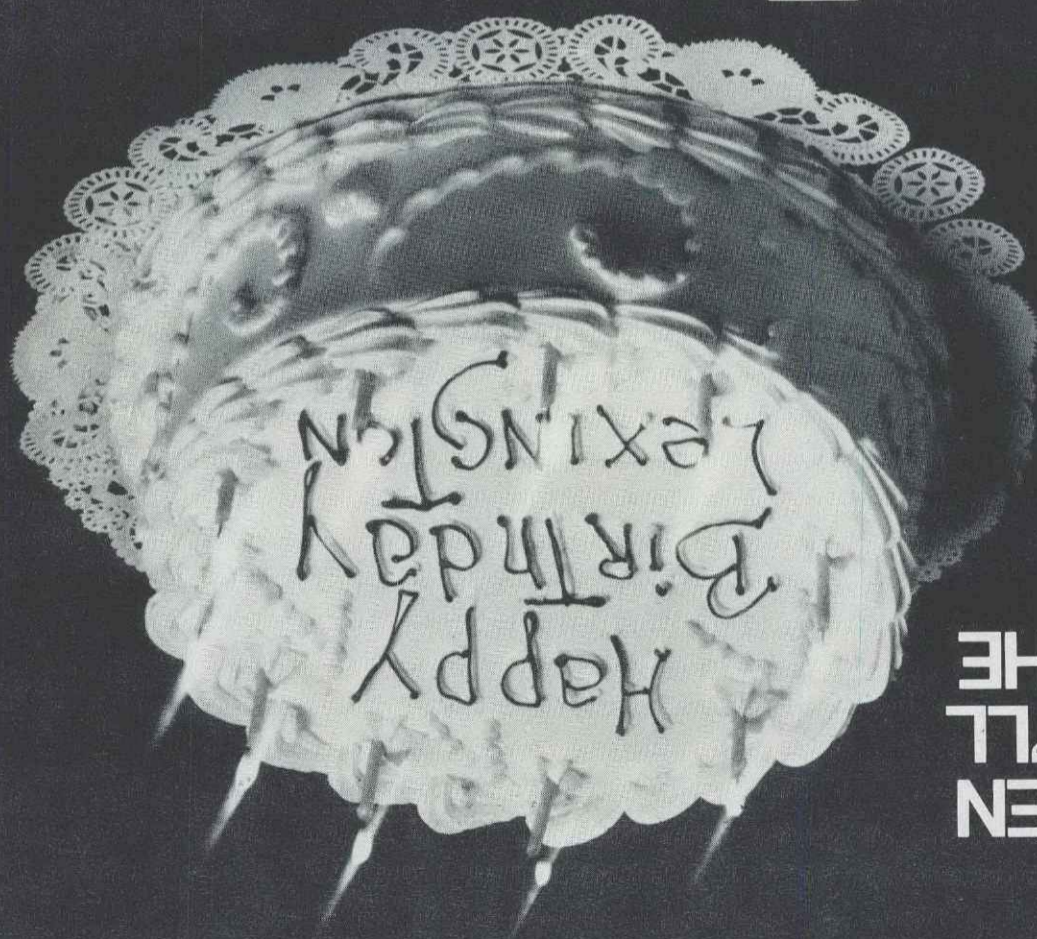
8 We deal exclusively through excess and surplus lines brokers. But *all* agents and brokers are welcome to place business with us through such brokers.

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PERSPECTIVE

Outside accountants can increase loss recovery

Continued from page 60

The parts of the claim related to buildings and contents, other than inventory, are often viewed as outside the accountant's realm. Certainly the property records need to be analyzed to develop a list of what was on hand and possibly lost. But whether the insurance is for replacement cost or ACV, the recorded amounts of original cost and financial depreciation will be of little value.

As a member of your claim team, the accountant will suggest that property records and similar accounting documents must be used with great care since they often omit certain kinds of items. Many accounting systems charge off to expense as purchased all items below a certain dollar value, i.e., supply items, spare parts, hand tools and minor furniture items.

In order to get these items considered in the insurance claim, the accountant may suggest that the company's foremen make detail lists from memory of these items. Increases of 20% or more in the claim for "off the books" building contents are not unheard of.

Records analyzed

Your claim for inventory or stock is much more directly in the accountant's area of expertise. First, you determine what was there just before the fire. Compared to the post-fire count, the difference should be what was lost. This sounds simple, but is usually complex and no two cases are identical.

Does the company have reliable, detailed records of what is on hand in each department? Will the records that were used to schedule and control production be useful? When was the last physical count taken and how did it compare to the perpetuals and ledger balances? If standard or average costs are used to record transactions, what kind of differences have been recognized and what do they mean? These questions, in their various forms, will need sound, supported answers before you can conclude what was on hand before the fire.

These are the same questions the outside

accountant must analyze each time he does an audit of financial statements. Perhaps your own accounting staff can make the detailed calculations and the outside accountants can review them to see they are complete and well-documented. If, because of other demands caused by the fire, your accounting staff is short of time, perhaps the outside accountant's staff can be put to work on the project.

Cost of inventory

Many policies insure inventory at replacement cost and some insure manufactured products at selling price. The accounting records will normally state inventory at something different—say actual or standard cost. An analysis of recent purchase price and production variances will often be enough to convert inventory losses stated at cost to a claim amount based on replacement value.

In like manner, an analysis of selling price to cost ratios and various selling expenses, such as commissions and freight, can express lost finished goods at expected net selling price values. In all cases, goods that were damaged or obsolete before the fire should be reduced to proper values.

Frequently, one of the most difficult parts of a fire-damage claim to understand, prepare and document is the loss from business interruption. Insurance companies often advertise that business interruption insurance will restore profits to what they would have been without the fire. This will only be true if the claim is prepared with great care.

Business interruption normally covers the company only for the period necessary to replace or repair damaged property. If you put the plant back pretty much as it was, the actual time will be a good indicator of the interruption period.

But what if the company takes this opportunity, as many do, to change the plant in some major way? Maybe it moves all or part of the operations to another location. What if there were long lead times to get replacement machinery?

The outside accountant helping with your

claim will suggest that you work with your contractor, architect and machinery suppliers to build up a theoretical claim period. You need a detailed calculation of how long it would take to rebuild the plant as it was, including replacing and installing machinery.

Once you have documented the proper interruption period, the next step is to determine what production would have been. It is important to distinguish sales from production. Perhaps there are seasonal sales patterns, such as higher spring sales for camping or construction items. Does production have the same seasonal pattern or is it fairly level during the year with inventory used as a buffer?

Past experience is often a good guide, but it can be misleading. Has new management of the company or a division just made some changes that would have had a major effect? Is the company in a high growth situation for some reason, such as changed technology?

Cost experience

A comparison of expected production with actual production yields an amount for lost production expressed in terms of net selling prices. Policy formats vary somewhat at this point, although there are really only two basic types: gross earnings and net profit.

In any case, a detailed analysis of manufacturing, selling and administrative costs is required. The object is to determine which costs will not be incurred after the fire stops production. Some items are obvious, such as direct materials and supplies. Others are controlled specifically by the policy language, such as ordinary payroll. Others, like utility costs and advertising, require a careful review of the facts in each claim.

Just as in the case of projecting what production would have been, past cost experience is often a good guide. Planned changes, like union contracts, should be considered. A comparison of the coming year's budget to prior periods is in order.

This detailed review of costs—how they are recorded and what they mean—is frequently done by the outside accountant as part of many types of assignments. ABC's accounting staff can make the calculations, again assuming it has the time, for review with the outside accountants. Otherwise, the outside accountants can become directly involved.

Claim challenges

There are some areas that frequently cause challenges over and above the obvious judgment issues already mentioned. First, if your company's manufacturing accounting is based on standard costs, variances must be carefully reviewed to see that the claim is based on actual costs.

Second, if your company temporarily shifts production to another plant or to another company, the claim should include the extra costs of doing this. The proper way to measure this is to compare the charge from the other company or the variable cost at your other plant with expected variable cost at the fire-damaged plant. The difference is part of the claim.

Third, the effect of any coinsurance clause must be carefully reviewed. If an overly optimistic production projection is used for the claim, it must also be used to test for coinsurance.

Finally, if the company has spent funds to hurry along repairs (e.g., overtime), or incurred costs to transfer production elsewhere, or hired extra people to keep up production in a partly damaged plant, it must show that these costs reduced the overall claim.

In writing your report to the president today, you should also stress three concepts. First, no matter who is hired to help, the claim is ABC's claim. Stay involved.

Second, well-documented claims yield more money than vague ideas put forth as claims.

Third, to get this all done right, designate a project leader from the company—you as risk manager or someone else. ■

Proper storage plan can prevent large fire losses

Continued from page 60

Subsequent research at Illinois Institute of Technology produced NFPA 204, "Guide for Smoke and Heat Venting." This document provides good guidance for unsprinklered structures but does not take into account later research relative to sprinklered buildings. The document was tentatively adopted by NFPA in 1959 and 1960 and was officially adopted in 1961. The only change made in the 1968 edition, the publication presently available, was addition of a section on inspection and maintenance.

The first large-scale research on smoke and heat vents in sprinklered buildings was conducted as part of the rack storage fire protection committee test program at Factory Mutual Research Center. Tests were set up to evaluate smoke and heat vents with ceiling sprinklers only and with ceiling sprinklers plus in-rack sprinklers as compared with the same fires without smoke and heat vents. The test facility does not contain roof vents and, as such, perimeter eave line windows or vents were used. This arrangement conforms to Section 201(e) of NFPA 204.

Vent tests

The vents were opened manually because with sprinklers, the temperatures at the vents, less than 75 feet from the point of ignition, never reached 165 degrees F., the temperature necessary to activate the fusible link release mechanism normally found on roof vents or wall vents.

In these tests, 92 sprinklers opened in the vented fire compared with 45 sprinklers in the unvented fire with ceiling sprinklers only (test 72 compared with test 65). In tests with ceiling and in-rack sprinklers, 30 sprinklers opened in the vented test (No. 73) compared with 16 sprinklers in the unvented test (No. 83).

In September 74, Factory Mutual Re-

search Corp. published its report, "Model Study of Automatic Smoke and Heat Vent Performance in Sprinklered Fires." This report states, "Vents and draft curtains (FM and NFPA recommended mode) caused a 35% increase in water demand relative to the unvented fire, delayed loss of visibility from 13.1 to 20.2 minutes and increased the fuel consumption by 66%."

Hazard differences

This seems to indicate that to gain approximately seven minutes increased visibility time, one must increase water supplies 35% (or be 35% deficient) and anticipate 66% more loss in a controlled fire. These reports, as well as past research, indicate roof vents are advantageous in unsprinklered building fires and in buildings where the sprinkler system is seriously deficient and approaches the unsprinklered situation.

It must be recognized also that the existing "state of the art" relative to smoke and heat venting recognizes differences in hazard. Sections 240 and 330 of NFPA 204 suggest venting ratios of 1 square foot of venting per 150 square feet of floor area for low heat release contents, 1:100 for moderate heat release and 1:30 to 1:50 for high heat release. Curtain boards are suggested at intervals of 250 feet maximum with maximum contained areas of 50,000 square feet, except these limits are reduced to 100 feet and 10,000 square feet in high heat release occupancies. Thus, a change in the hazard of stored material would dictate a change in the smoke and heat venting design.

The owner, operator or risk manager has a number of alternatives to consider when evaluating potential for large loss fires and appropriate control measures, including administrative controls, risk costs, physical upgrading, retrofit or new design. Costs of properly designed upgrading of suppression systems should be balanced against cost of adding features such as roof vents

and draft curtains to an existing or planned system.

In making this evaluation, the probable maximum loss or normal loss expectancy must be evaluated between the properly designed suppression system compared with a lesser design suppression system in combination with roof vents and draft curtains. In the event smoke and heat vents are to be considered in combination with a properly designed sprinkler system, then cost, including continuing maintenance, should be evaluated against reduction in loss potential.

E/S report misses mark

Continued from page 59

ness placed in nonadmitted markets may be down.

I'm sure that as you refine your reporting techniques you will be able to offer a better picture of the various excess and surplus lines offices. For example, the gross revenues figure was evidently variously interpreted. I know that the figures we provided are not net after commission to retail agents and therefore are overstated by more than 100%. It is clear that some offices interpreted your request as we did and others provided you with a figure that was net after commissions. The question might be worded to elicit the net figure as, I'm sure everyone would agree, this is more meaningful. You were, I believe, provided with a number of employees at the end of 1978 and as this is a measurement very often of interest, this figure might have been included in your published data.

We also created an error unintentionally. Our only executive vp is Derek Repath. The other vps mentioned in the article are senior vps.

Your questionnaire requires that offices provide you with information as to those carriers for whom an office is acting as man-

Additional tests of smoke and heat vents in combination with sprinklers are planned by the fire vent research committee. These tests are not, however, fully funded at this time, so projections cannot be made as to when results or conclusions will be available.

Large loss fires are not new. They are catastrophic to those who have them and to those who insure them. The benefit to be gained from them is a realistic reevaluation of our fire problems and fire protection programs. We must, however, avoid overreaction or improper action. ■

aging general agent. This provides only some of the information that would be of interest to buyers and agents. Companies listed are those for which a given firm is exercising some kind of underwriting authority.

Survey advice

A vast amount of excess and surplus lines business is transacted outside these underwriting authorities with carriers with which the office has a contractual relationship. To be more meaningful, I would suggest that your future questionnaire include an inquiry into this aspect of the business. Knowing to what carriers the office provides direct access is extremely important to the retail agent or broker and the commercial insurance buyer.

Your directory relisting brokers by city and state is incomplete in that those on which you did a feature article are not included. I cannot imagine Tennessee without the Crump organization nor Texas without Joe Blades.

As you can see the excess/surplus report has been read very carefully in this office and I am sure we are typical. ■

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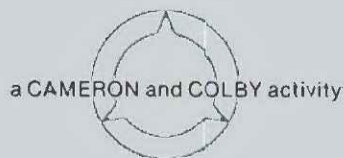
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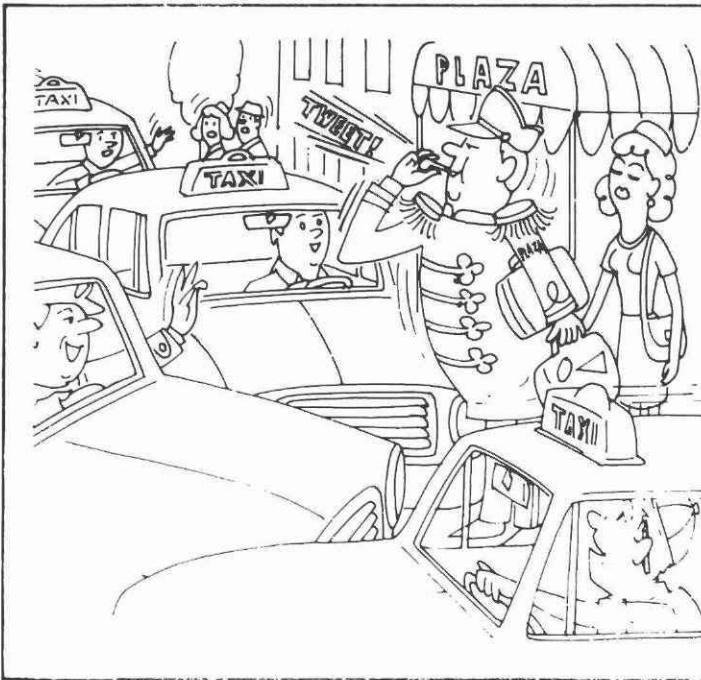
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White Sox strike out with game promotions

SPECIAL RISKS

CHICAGO—It was a tough year for the Chicago White Sox and their president Bill Veeck in more ways than just the team's dismal finish in the American League standings.

Mr. Veeck, the acknowledged master of ballpark promotions, tried again this year via dozens of promotional maneuvers, such as giveaways, fireworks displays and ethnic nights, to lure people into Comiskey Park to watch the struggling team.

But this year, Mr. Veeck watched a couple of his intended money-making ventures backfire into sizable revenue losses against which he says the White Sox are not insured.

A "disco-demolition night,"

sponsored by a local radio station in July, degenerated into chaos that forced cancellation (and subsequent forfeiture by the White Sox) of a ballgame with the Detroit Tigers.

Two days of rock concerts in August followed by heavy rains drenched the playing field into a marshy, soggy mess that forced postponement of the three other games because of the unplayable conditions. It also led to a lawsuit by the White Sox against the rock concert organizers.

But business interruption and use and occupancy coverage is not carried by the White Sox and would not have come into play anyway for the canceled games, Mr. Veeck said. This is essentially because the antidisco promotion occurred between games of a double-header with gate receipts already in hand.

The promotion involved the ceremonious destruction of disco records on the playing field between the games. Fans were admitted to the park at reduced prices if they brought along a disco record to be destroyed in the ceremony. But once it began, thousands of frenzied fans poured onto the playing field and created such havoc that the second game was postponed with the White Sox forfeiting the match.

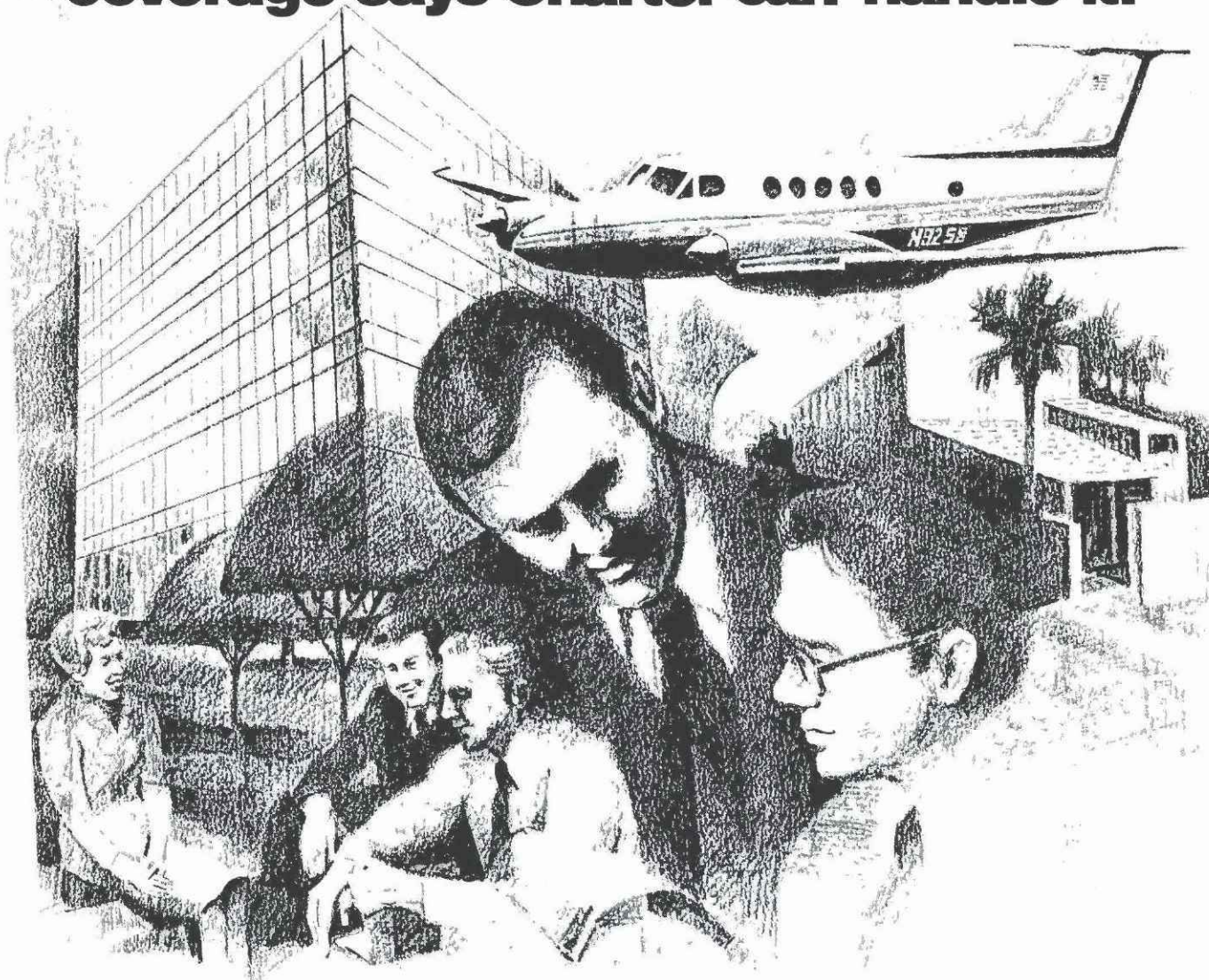
The other canceled games would have been played had it not rained so heavily after the rock concerts of Aug. 18-19, making the postponements the same as a rainout, against which the team is not insured.

The White Sox, however, are trying to recover some of the losses through a \$3.8 million lawsuit that has been filed by Artnell Co., the White Sox parent company, against California Jam Inc. of Los Angeles, organizers of the rock concerts.

The suit seeks to recover expenses incurred in restoring the playing field and payment of rent, licenses and other expenses related to the concert.

California Jam wouldn't comment on the suit.

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Boston player forgets suit

When the Chicago White Sox and the Boston Red Sox met in late August on a Comiskey Park playing field made swamp-like by rock concerts and heavy rains, a liability question was raised from an unexpected quarter: the players.

Dwight Evans, a Red Sox outfielder, was forced to leave a game with an injury when he lost his footing and slipped while making a play. He publicly threatened to sue the White Sox, arguing the poor playing conditions were a danger to his health and career and were a detriment to the Red Sox's pennant chances, which were still alive at the time. Mr. Evans, however, never followed through with the suit which was one of the few such threats of suits ever uttered by a baseball player.

book review

Creative management ideas put into print

By Z'EV KRONISH

Managers Must Lead!
By Ray A. Killian
AMACOM, 254 pp., \$14.95

MANAGEMENT CONCEPTS are brought to life by this highly readable, revised volume issued by the American Managements Assns. The author, Ray A. Killian, translates managerial goals into leadership tasks—a sensible approach.

Employee motivation requires a lot more than a one-shot effort. Since the word "motivate" contains the letters m-o-t-i-v-e, the manager's stimulus will mean the difference between stagnation and achievement.

The author observes that motivation depends on the work climate. The manager has a greater chance for success if he or she conveys an explicit objective. Decision-making opportunities and control over specific functions raise the employee's sense of satisfaction and responsibility.

Pride, prestige and a chance for promotion are "secondary stimulators" that also influence the employee's effort. Mr. Killian advises the manager to "ask questions" in order to win cooperation; seeking a response makes a person feel important and prompts involvement.

Motivation depends on efficiency, the author writes, and is impeded by fatigue, noise, boredom and inadequate training.

Even when the employee is eager, the manager's guidance is crucial to the overall effort, as Mr. Killian explains in his chapter on correction entitled "The Supervisor's Unique Opportunity." Constructive evaluation is in the employee's self-interest. But never correct when others are present or when angry, he cautions. Otherwise, do it promptly.

The correction interview will succeed if you bear in mind these points:

- Do it in privacy.
- Think through the problem.
- Begin with a question, this gets the employee involved. Play it cool. By listening, the manager can get to the heart of the problem.
- Seek agreement of the facts.
- Don't be argumentative but calmly control the interview.
- Close the interview on a pleasant note.

Employee grievances—both verbalized and unexpected—are a serious challenge. As a preventive measure, a supervisor should maintain morale watching for symptoms of dissatisfaction and keeping lines of communication open. Take a few notes, the author advises, when the employee's complaint is presented. "This impresses the employee with the importance you attach to the case."

The work scene is changing more frequently because of technological improvements. Although this upsets people, adaptations are mandated by the need for efficiency. The manager has to become skillful at soothing the employee's acceptance of innovation.

In a discussion on learning, the author points out that the process is influenced by frequency (repetition reinforces the habit of performing a task automatically); intensity (visual aids and demonstrations); recency (reduce the interval between tasks); duration (don't press too much into a short span); effect (how does the employee react

to the new material?), and association (relating it to other familiar bits of knowledge).

Mr. Killian observes, in a brief chapter on retention, "Poor memory is not an inherited trait"; we have simply not been trained to remember. Motivation contributes to retention while lack of effort is responsible for poor memory.

Counseling roles are often thrust upon supervisors by employees in trouble or simply in need of guidance. It is a complaint to the manager when his or her advice is sought, but the manager's function is primarily to listen sympathetically and refer the employee to

those who can help him or her.

Who is doing the job well and who is floundering? This crucial judgment depends on each firm's rating method and the manager's skill in applying it.

Avoid the trap, Mr. Killian warns, of allowing one outstanding employee characteristic to influence the entire evaluation. Labeled a "halo effect," this tendency warps objectivity.

Increasing productivity is vital if costs are to be contained. By personally analyzing work procedures, the manager can improve efficiency. The author doesn't em-

phasize this problem to the degree it deserves. How do you spur your subordinates to do more and do it better? An employee motivated still requires the manager's expertise in developing and sustaining effective habits.

Delegation of responsibility "are trademarks of mature executives," the author writes, noting that failure to share responsibility causes a shortage of trained people and overburdens the manager.

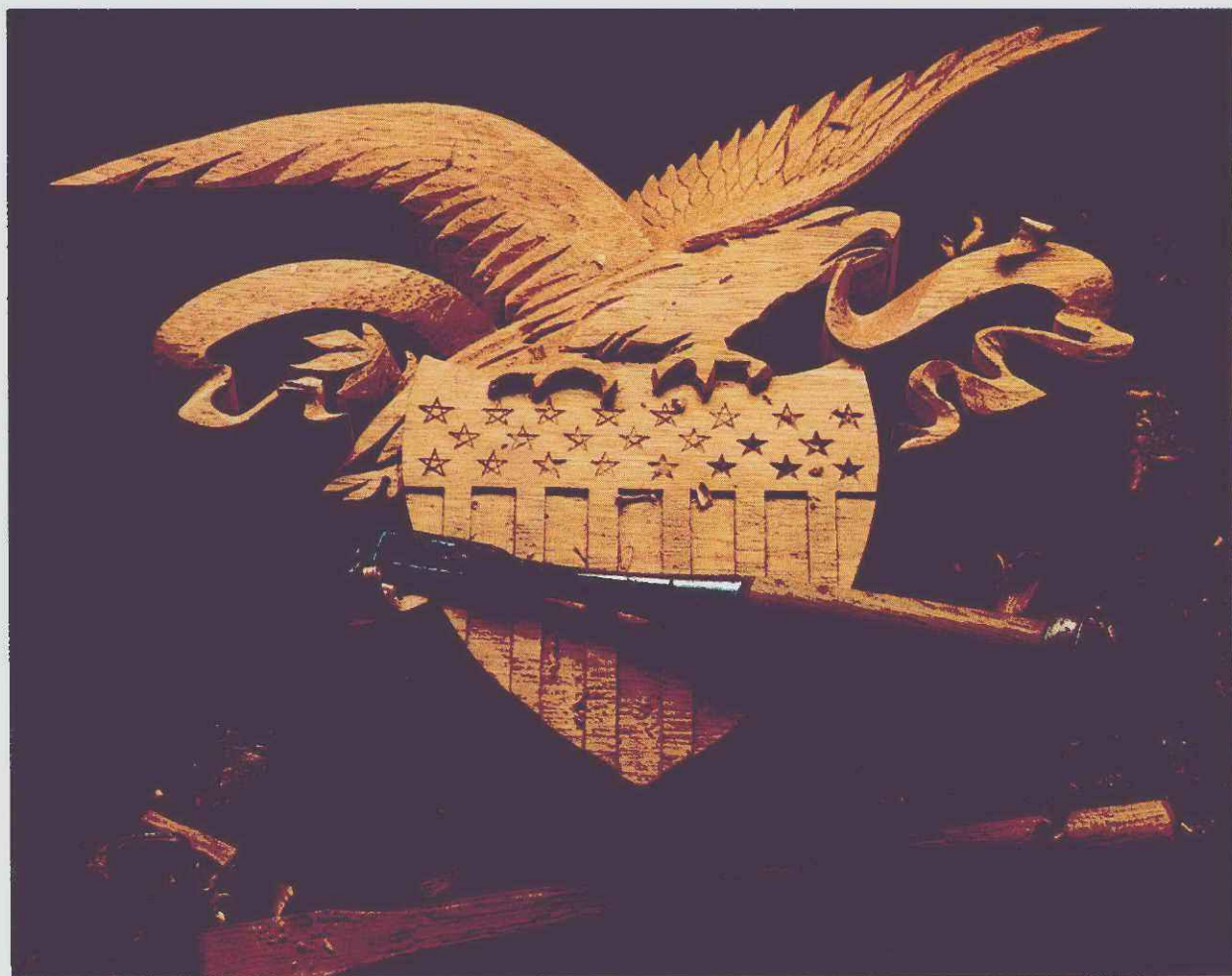
Mr. Killian urges management to foster the upward flow of communication because it stimulates the employee to work harder and to view his or her individual involve-

ment as essential to the enterprise. Personal contact and written communication, he stresses, can remove some of the distance. The observation has merit.

Innovation can spell growth and success for the company. Creativity is probably the most underdeveloped area in our society and this low state extends especially to business. The author's awareness of the need to nurture creativity is a notable contribution.

The book "Managers Must Lead!" may be obtained by writing to AMACOM, 135 W. 50th Street, New York, N.Y. 10019.

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legal brief

Court rules heroin overdose an accident

THE BENEFICIARIES of an accidental death policy sued an insurer to recover benefits for a policyholder's death from a self-administered heroin overdose. An Illinois appellate court ruled the death was an accident for purposes of the accidental death policy. The court also ruled that a policy exclusion for losses caused by an intentionally self-inflicted injury did not provide a defense for the insurer.

The decedent was insured under a group policy for accidental death issued to his employer, Caterpillar Tractor Co. Before his death the decedent had been a patient in various drug treatment programs. His sister found him on the floor of his bedroom, unconscious, with a needle in his arm. He died from a lethal dose of morphine.

It was conceded that although the overdose was self-administered, death was unintended. The accidental death policy contained an exclusion for "an intentionally self-inflicted injury." The insurer denied the beneficiaries' claim. The beneficiaries lost their suit in the trial court.

On appeal, the insurer argued that the death was not an "accident" because it was "foreseeable" that a heroin user will unintentionally administer a lethal dose to himself. However, the court said that in Illinois "accidental means" is synonymous with "accidental result" and is defined as something that happens by chance, without intention and unforeseen.

The court ruled the decedent's death was not foreseeable as to render the mishap a non-accident for insurance purposes. The exclusion for self-inflicted injury was inapplicable, the court said, because the "mishap must be regarded as an accident since the result of the intentional act, the death, was unintended." *Marsh v. Metropolitan Life Ins. Co. Inc.*, Appellate Court of Illinois, April 16, 1979 (BI/01/0.-\$4).

Continuous service

The Supreme Court of Mississippi, in a suit on two group life insurance policies, ruled that a fraction of a day sufficed to cover a continuous service provision.

John Sewell started work for his employer on Oct. 11, 1976. On that date two group insurance policies between Aetna Life Insurance Co. and the employer were in effect. Under the terms of the policies, any new non-supervisory employes became eligible for coverage when they completed two months of continuous service.

Mr. Sewell worked continuously from the date of his employment through noon on Dec. 9 when he and all employes in his department were laid off because of a lack of materials. The layoff was temporary. Under the policy, in case of temporary layoff employment could be deemed to continue until terminated by the employer.

Mr. Sewell died about 5:30 a.m. on Dec. 10 in a highway accident. His beneficiary filed a claim for benefits. Aetna denied the same because Mr. Sewell had not completed two months of continuous service. A trial court upheld Aetna's position.

Initially, the appellate court determined there was no valid reason why the period of employment should not commence on Mr. Sewell's first workday, Oct. 11. The court rejected Aetna's claim that Mr. Sewell was required to complete and survive the entire workday on Dec. 10 before he was cov-

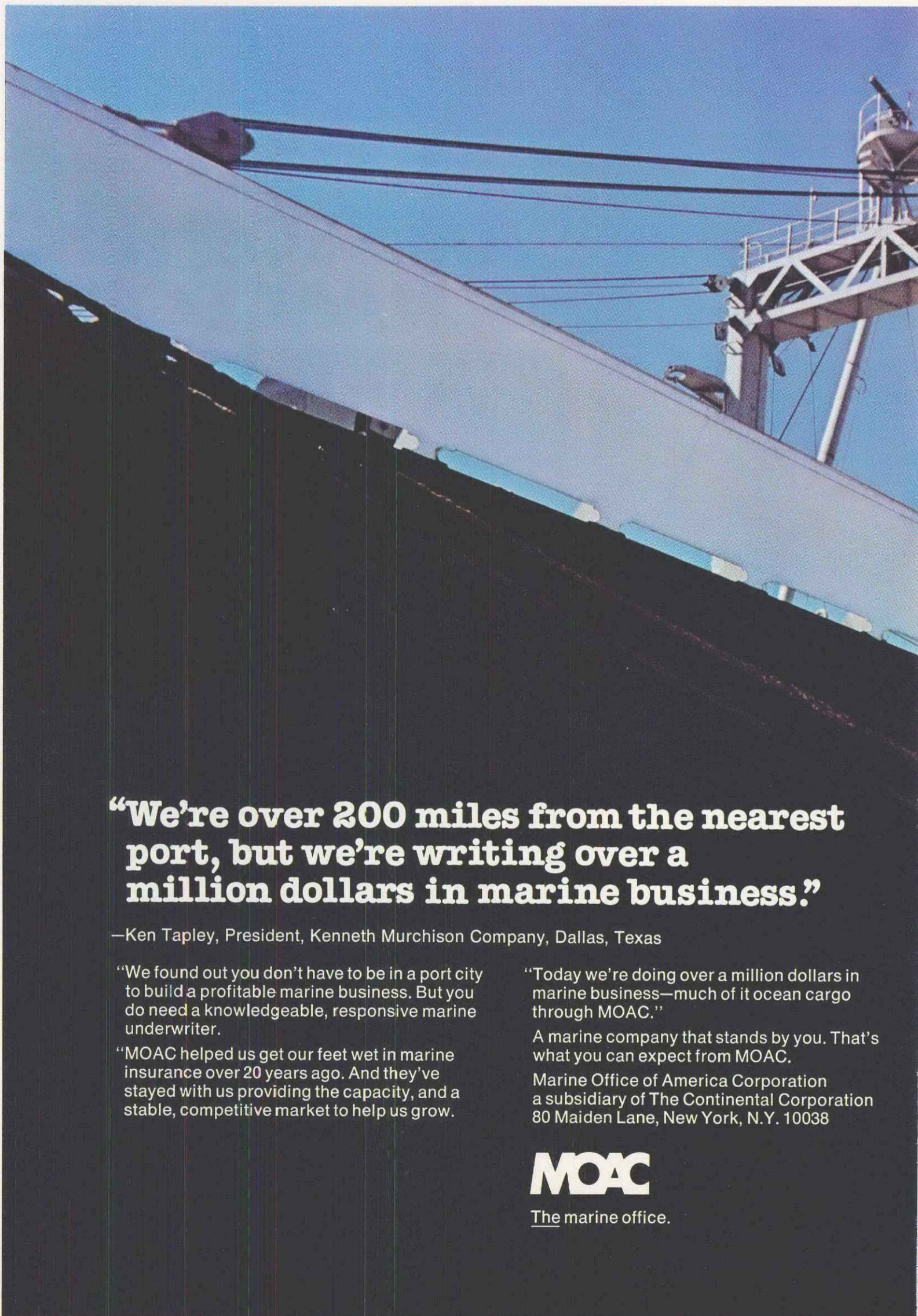
ered.

The court ruled insurance policies should be construed strictly against the insurance company.

Because the policy here did not specifically state that Mr. Sewell must have completed the last day, either by working or by survival,

the court concluded that Mr. Sewell had satisfied the continuous service provision. Furthermore, under the terms of the policy, the

court agreed that the temporary layoff did not interrupt the two-month eligibility period. *Cruse v. Aetna Life Ins. Co.*, Supreme Court



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The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

of Mississippi, April 18, 1979 (BI/02/0.-\$4).

Group credit life

The principal issue here was whether a certificate of insurance furnished to a policyholder under a group credit life insurance policy should control provisions of the

policy if the terms of the two documents conflict. The Wyoming supreme court ruled the certificate of insurance was evidence of coverage only.

This suit was brought by the widow of Henry Poling, who was insured under a group policy issued by North American Life & Casualty Co. The policy was issued in connection with a promissory note for a loan the Polings obtained from a bank. The total premium paid by Mr. Poling before his death

was \$245.

The certificate of insurance issued to Mr. Poling contained a clause limiting liability to the premium paid if a suicide occurred "within—year(s)" from the effective date of the policy. The blank in Mr. Poling's certificate was not filled in. However, an identical clause appeared in the master policy issued to the bank and this was filled in with the word "two." Other sections of the master policy stated that the policy constituted the en-

tire contract between the parties and that the certificate did not constitute a part of the policy.

The widow sued the insurer, which offered to pay only the premiums paid. The trial court ruled in favor of the insurance company.

The supreme court rejected the widow's argument that there was an ambiguity in the policy and, thus, she was entitled to the most favorable interpretation. This, she asserted, was that the limitation in the suicide clause was not effective

because it was for zero years.

The court agreed with the insurer that the master policy alone described the rights and obligations of the parties. The court also held that credit life insurance policies were not subject to a state law with regard to the issuance of certificates by an insurer for group life insurance policies. *Poling v. North Am. Life & Cas. Co.*, Supreme Court of Wyoming, April 16, 1979 (BI/03/0.-\$4).

Accidental death

A Texas appellate court considered whether the death of a person who was killed in an automobile collision while driving under the influence of intoxicating liquor was accidental within the meaning of a group life insurance policy insuring that person against accidental death. The court concluded the death was accidental.

Jackie Freeman was covered under a group life insurance policy issued by Crown Life Insurance Co. to his employer, providing \$15,000 in benefits with an additional \$15,000 if he should die from accidental bodily injury. Mr. Freeman sustained internal injuries in a single vehicle collision which caused his death. Mr. Freeman was intoxicated at the time of the accident.

Mr. Freeman's beneficiary filed a claim for both benefits but was refused the accidental death benefits. The beneficiary sued for the accidental death benefits but lost in the trial court.

On appeal, the insurance company argued that because Mr. Freeman's act was a criminal act inherently involving substantial risk of harm, serious bodily injury and death were readily foreseeable consequences of such conduct and were therefore not accidental within the meaning of the insurance policy.

The court disagreed, stating, "The mere fact that a person's death may have occurred because of his negligence, even gross negligence, does not prevent that death from being an accident within the meaning of an accident insurance policy."

The court believed that more was required than a simple showing that Mr. Freeman could have reasonably foreseen a resulting injury or death. *Freeman v. Crown Life Ins. Co.*, Court of Civil Appeals of Texas, April 10, 1979 (BI/05/0.-\$4).

Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

\$2 million sent to nuclear plants

HARTFORD—Insurance premium refunds totaling more than \$2 million have been sent to operators of nuclear power and related facilities because of their safety records, said Burt C. Proom, president of American Nuclear Insurers.

Approximately 360 policyholders covered by the two nuclear insurance pools, ANI and Mutual Atomic Energy Liability Underwriters, have received refund checks. Nuclear power plants, fuel reprocessing plants and fuel fabrication facilities are among the firms receiving refunds.

The refunds are part of the ANI-MAELU Industry Credit Rating Plan, in which about 70% of each year's premiums is placed in a reserve fund used only to pay claims and claims expenses. After 10 years the unused portion of the reserve is refunded to the policyholders.

The refunds reflect the fact that during the 10-year period from 1969 to 1978 there have been few liability losses and those losses were minor, Mr. Proom said.



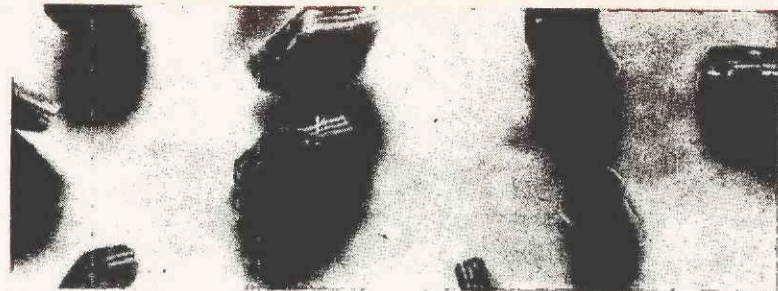
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3M's "microtaggants" have been gaining popularity among many U.S. corporations as a product identification device.

Firm takes liability woes with a grain of plastic

HOUSTON—A plastics firm has found that a product liability safeguard exists in a particle no larger than a grain of salt.

The particle is a product called "microtaggant" manufactured by

3M Corp. The microtaggant has been gaining popularity as a product identification device among many corporations and U.S. government agencies.

The product, developed in 1976 by 3M's new business ventures division, is incorporated into the manufacturing process of many products such as plastics, explosives, paints, feeds and others to enable identification of the manufacturer.

Too small to be seen with the naked eye, the plastic particles are color-coded for individual customer firms and must be examined under a low-power microscope for proper identification.

At International Polymer Corp. in Houston, officials say use of the microtaggants in their line of precision-engineered plastic products protects them from liability problems.

Product liability is becoming an increasing concern to manufacturers associated with the fast-growing petrochemical and thermoplastics industries, where failure of a component part could cripple an entire drilling or refining project and cost millions of dollars, said Al Hinojosa, marketing manager at IPC.

In such cases, product liability suits are a virtual certainty, he said, but added sometimes it may be difficult to identify the manufacturer of a component because there may be more than one involved in a particular project.

For instance, a major oil tool manufacturer and oil well service company uses seals made by IPC and some of its competitors. "It becomes obvious that the source must be correctly identified in the event of a product failure," Mr. Hinojosa said.

The company has never been sued for product liability, but its decision to use the microtaggant tracers in its products resulted from a \$2,000 loss stemming from problems in identifying some of its components.

A West Coast firm purchased a shipment of moldings from IPC and one of its competitors but later returned some of the shipment to the Houston company, contending it was defective.

IPC was convinced the moldings were manufactured by the competitor but was unable to prove it and refunded the purchase price, Mr. Hinojosa said.

At 3M headquarters in Minneapolis, Donald O'Brien, who heads the microtaggant development program, said the company did not manufacture microtaggants with product liability protection in mind but said the product can definitely serve that purpose.

Currently priced at \$200 per pound, microtaggant sales have been "encouraging," Mr. O'Brien said, but he would not discuss sales volume.

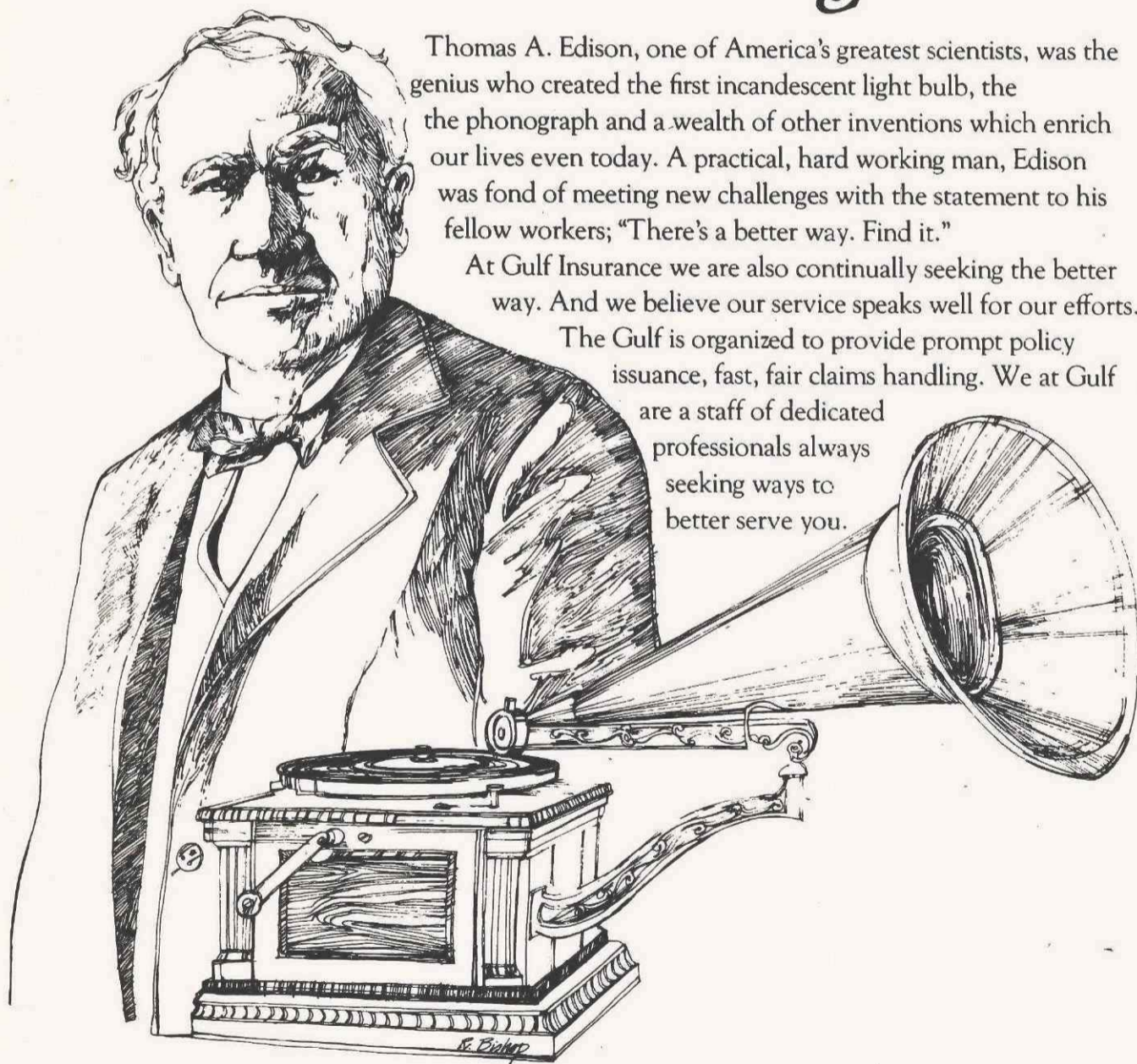
Within a few years, microtaggant will be available in spray aerosol cans for the general public to put on valuables to speed identification and recovery in case of theft, Mr. Hinojosa noted.

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dates for buyers

NOV. 8-9. Ocean Marine Insurance Management, a seminar for insurance buyers and brokers sponsored by New York University, will be held in Chicago. The focus will be on how to broaden insurance coverage, react to disasters and save money. The six-person panel will repeat the presentation in New York City on Dec. 6-7. Tuition is \$545 per person plus \$75 per organization per seminar. Contact Registrar, 14th Floor, NYU Conference Center, 360 Lexington Ave., New York, 10017; 212-953-9022.

NOV. 12-14. Captive Insurance Cos.: Offshore Management and Operations Conference sponsored by American Management Assns. will be held in Nassau, Bahamas. The new Bahamas regulations designed to attract captive insurance

companies and an update on the effect of the Internal Revenue Service ruling against tax deductions for premiums paid to captive insurers will be discussed as well as other aspects of deciding to form and manage a captive. Tuition for members is \$525 and nonmembers \$600. Contact Sal Nicosia, program manager, American Management Assns., 135 West 50th St., New York, N.Y. 10020; 212-586-8100, ext. 535.

NOV. 12-15. Described as the "computer security event of the year," the Sixth Annual Computer Security Conference in Boston is sponsored by the computer security Institute and will focus on case studies and workshop session in **computer security**. The conference is designed to cover developments in risk analysis, fraud and embezzlement, disaster recovery and EDP auditing. Cost is \$465 and an additional one-day seminar on special topics is an additional \$130. Contact Computer Security Institute, Five Kane Industrial Drive, Hudson, Mass. 01749; phone 617-562-7311.

NOV. 14-15. How to **Reduce your Municipal Insurance Costs** while improving your coverage is the title of a seminar in Seattle, Wash., for school districts, counties, universities, states and public utilities. Sponsored by International Risk Management Institute Inc., the program includes discussion of risk management techniques, mobile equipment, umbrellas and public officials liability. The seminar will be repeated **Nov. 27-28** in Tampa/St. Petersburg and **Dec. 12-13** in Dallas. Cost for an individual is \$395 and cost for a team of three attending the same meeting is \$345 per person. Contact International Risk Management Institute Inc., Suite 350, Building V, 10300 North Central Expressway, Dallas, Tex. 75231; 214-363-9656.

NOV. 15-16. The Risk Management Symposium in Paris, France, is designed to provide insurers, brokers and risk managers with a greater understanding of the risk management needs of the modern corporation. The program focuses on **practical application of risk management techniques** to cut insurance costs. Cost is \$558. Contact International Chamber of Commerce, 38 Cours Albert ler, 75008 Paris; phone 261.85.97.

NOV. 28-30. Risk Management in Hospitals, sponsored by the American Hospital Assn. and held in Phoenix, Ariz. as part of the regional seminar program, includes sessions on planning and organizing a risk management program, use of patient care data for loss prevention and physician involvement in risk management. Cost is \$185 for AHA members and \$235 for others. Contact American Hospital Assn., 840 N. Lake Shore Drive, Chicago, Ill.; phone 312-280-6425.

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

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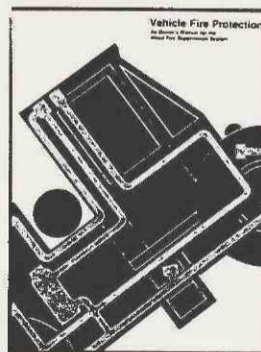
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St. Paul Guardian Insurance Company/The St. Paul Insurance Company of Illinois: Property and Liability Affiliates of The St. Paul Companies Inc., Saint Paul, Minnesota 55102.

info for buyers

• A 25-minute film on **hand tool safety** featuring all-star catcher Johnny Bench is available for purchase, loan or one-time presentations from Ingersoll-Rand. The show explains and illustrates proper tool use and centers on punches, chisels, hammers, screwdrivers, ratchets/sockets/attachments, wrenches and c-clamps. Write Proto Tool Division, Ingersoll-Rand, 2600 E. Nutwood Ave., Fullerton, Calif. 92631.

• An **OSHA Handbook for Small Business** recommends a seven-point program to increase awareness of hazards as a way of eliminating them. The program includes assignment of responsibility among supervisors, identification of accident causes, training and maintaining accident records

and a first-aid system. For a free copy of the booklet, No. 2209, and a list of other safety publications write U.S. Dept. of Labor-OSHA, Publications Office, Room S1212, 3rd and Constitution Ave., N.W., Washington, D.C. 20210.

• Underwriters Laboratories Inc. has published **two new standards for fire protection equipment**: the fifth edition of the Standard for Hydrants for Fire Protection Service, UL 246, describes the requirements for the construction and performance of hydrants employed in piping systems supplying water for fire protection service. The second edition of the Standard for Safety for Fire Department Connections, UL 405, describes the requirements for connections intended for exterior installation on buildings

that have standpipe and hose or sprinkler systems to enable a fire department to connect hose lines directly to the system to supplement existing water supplies. The standards are available from UL for \$3. Write Underwriters Laboratories Inc., Attn.: Publications Stock Department, 333 Pfingsten Rd., Northbrook, Ill. 60062.

• Details about a new, automated system developed by KVB Inc. of Tustin, Calif., to help prevent fires and explosions in coal pulverizers by monitoring the buildup of carbon monoxide in the mill are available from the manufacturer. For information about the **KVB fire and explosion prevention system**, write Jim Wakeman, manager-equipment systems division, KVB Inc., 17332 Irvine Blvd., Tustin, Calif. 92680.

• Do your employees travel frequently? If so, a booklet describing American International Group

Inc.'s annual **travel protection** package may interest you. For a free copy of the promotional brochure write American International Group Inc., Corporate Communications, 70 Pine St., New York, N.Y. 10005

• The Insurance Institute of London is offering the Advanced Study Group's report Number 207—**The Insurance of U.K. Product Liability Risks on a Worldwide Basis**. The report deals with legal aspects and conditions of sale, general underwriting and rating considerations, limits of indemnity and overseas aspects of product liability. Cost is \$10 plus postage and packing. Write The Insurance Institute of London, 20 Aldermanbury, London EC 2V 7HY, England.

• A new directory of national, state and local organizations participating in an **arson control program** is available from the Insur-

ance All-Industry Committee for Arson Control. A copy of the directory can be obtained by writing All-Industry Committee for Arson Control, 20 N. Wacker Drive, Suite 2140, Chicago, Ill. 60606.

• R.L. Kautz & Co. is offering a booklet describing the various facets of a **responsible safety department**. New employee orientation, management development, employee training, liability interest documentation, video inventory documentation, analytical loss cause studies, communication programs, audiovisual production and safety and health surveys are discussed in the neatly indexed booklet. For a free copy write R.L. Kautz & Co., 17880 Sky Park Circle, Irving, Calif. 92714.

• **The Schedule of Bank Insurance** provides descriptions of various insurance policies and bonds used by banks. It refers to the Digest of Bank Insurance for each type of coverage and serves as an excellent reference source on bank insurance coverage for trustees, directors, managers and examiners. The 1978 revision of the schedule ranges in cost from \$5 for one copy for members, \$6.25 for nonmembers, to \$3.50 each for 11 or more copies for members, \$4.40 for nonmembers. For a free copy request 21-800, Order Processing Dept., 1120 Connecticut Ave., N.W., Washington, D.C. 20036.

• ESIS Inc. offers an illustrated brochure for prospective self-insurers explaining its claims management, statistical, loss control, recovery and rehabilitation services. For a free copy write Joanna M. Ridgeway, ESIS Inc., 4050 Wilshire Blvd., Los Angeles, Calif. 90010.

• Recent legal decisions, merger or consolidation of welfare and pension plans, actuarial requirements for self-funded health care plans, prepaid legal plans and investment management are topics examined in the **1978 Fund Advisors Institute Proceedings**. The 130-page book contains edited texts of 17 presentations given at an International Foundation of Employee Benefit Plans program. Cost is \$6 for members, \$10.50 for nonmembers. For more than five copies the cost is \$5.50 each for members, \$9.50 each for nonmembers. Write International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005.

• Thousands of restaurant fires will occur this year. Eighty percent of the restaurants as a result will not re-open their doors. In an attempt to prevent this, Ansul has prepared a booklet outlining its R-101 system. The booklet is intended to help the restaurant owner understand how his system works, his responsibility for maintenance and what to do in case of fire. For a free copy of **Restaurant Fire Protection**, Write The Ansul Co., Marinette, Wis. 54143.

• **Building a Result-Oriented Control Program** is an article reprinted from Risk Management magazine that explains the conditions of possible trade-offs of risk control and risk financing as it relates to hospital professional liability coverage. For a free copy write Charles G. Lenhard, RIMCO Risk Management Inc., Suite 350, 10300 N. Central Expressway, Dallas, Tex. 75231.

• **In a Real Catastrophe, You'll Want to Know Just One Thing...** is a promotional brochure from American Home Assurance Co. describing its difference in conditions protection. For a free copy write Product Information, Corporate Communications, American International Group, 102 Maiden Ln., New York, N.Y. 10005.

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Merchant sues over clove leaf mystery

By JOHN H. MILLER

LONDON—Fuerst Day Lawson, a large London merchant firm, has filed a \$500,000 claim in Britain's High Court over the mysterious loss of highly concentrated clove leaf and similar essences from Indonesia.

Fuerst Lawson arranged to import large quantities of essential

mates will be given later this year if the situation changes. "Till then we're sticking at the \$220 million figure," he said. "That's the latest estimate, and that's how things stand."

Lloyd's hopes that the sharp rise in the U.S. Federal Reserve Board discount rate to 12% and generally higher interest rates in the U.S. will help its computer leasing prob-

lem on Lloyd's, which will take another two to three years to work out the results.

Lloyd's, meanwhile, is challenging a bid by Federal Leasing in Baltimore to get an immediate payment of \$23.6 million toward its \$630 million claim over leasing insurance now lodged in court. Lloyd's wants until Dec. 20 to file a reply to a demand by Federal seeking a court injunction for the

such as Royal and Commercial Union, \$10 million each, stockbrokers Kitcat & Aitken estimate. The U.K. market will also suffer heavy reinsurance losses, with an estimated \$1 billion in insured damage.

Marine survey

Marine insurers have initiated a worldwide survey to find if traditional bills of lading, which are used frequently for insurance purposes, can be replaced by electronic data processes to save time and labor.

Several countries, including Canada and Australia, already support the idea, but Argentina op-

poses it because its domestic customs laws forbid any change in the existing type of ship's papers.

The International Union of Marine Insurance is preparing reports on the opportunity for change.

"The pressure for reform of the system is mounting," said its cargo committee chairman.

Fire damage

Fire damage in the U.K. has totaled \$800 million in the last 12 months compared with \$675 million in the comparable period last year. The worst event recently was a \$8 million blaze at a hosiery plant in the West Midlands.

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U.S. and Canadian risks. Lloyd's contends that if the names authorized the use of "binders" through their underwriting agents, they are liable for losses. The quarrel will go to judicial arbitration by next March.

Computer leases

Despite predictions that computer leasing losses may reach \$400 million, Lloyd's maintains losses will be held at \$220 million.

Fortune magazine has suggested Ite's claims may reach \$200 million if customers cut back on their leases and that another \$200 million may come in claims from other leasing corporations. The London Evening Standard has said that higher computer claims will affect the future losses of the Sasse syndicate, which already assumes it will hit for \$4.5 million for 1977.

"Any such figures are pure speculation and I've no idea how they have been arrived at," said Murray Lawrence, who heads a Lloyd's panel set up to consider the claims. But he agrees that revised esti-

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It's true that Marsh & McLennan serves most of the largest multinational companies. The experience we've gained in doing so enables us to help any company with multinational operations. In fact, the corporation that is just beginning to develop internationally has an even greater need for a brokerage organization skilled

in planning and implementing an international risk management program.

If you'd like to know more about ways we might help you protect international operations, write to Ms. Joan Bullwinkel, Marsh & McLennan, Incorporated, Department 1100 BI, 1221 Avenue of the Americas, New York, New York 10020.

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around the states

Illinois malpractice countersuit dies

CHICAGO—The Supreme Court has declined to review the Illinois court decision throwing out the medical malpractice countersuit of Dr. Leonard Berlin, a Chicago-area radiologist. The decision lets stand a 1978 Illinois appellate court ruling that lawyers cannot be held accountable for filing suits that lack merit.

The original trial court jury found two lawyers, their client and her lawyer-husband guilty of "wanton and willful misconduct and negligence" for suing Dr. Berlin without probable cause and without reasonable investigation. Dr. Berlin was awarded \$2,000 in compensatory damages and \$6,000

in punitive damages.

The appeals court, however, ruled that a physician must show that the original suit was brought against him with malicious intent or that he had been arrested or had property seized as a result of frivolous litigation.

Award upheld

AUSTIN—The Texas supreme court has upheld a \$2.4 million award to a 42-year-old man who suffered brain damage 14 years ago when his 1962 General Motors Corvair overturned.

The court agreed with a jury finding that GM was liable because the

car's rear suspension was defectively designed and manufactured, a point consumer advocate Ralph Nader stressed in his book "Unsafe at Any Speed," an indictment of the Corvair. GM stopped making the rear-engine auto in 1969.

GM has a high self-insured retention for product liability losses.

MAP-CAL to end

SACRAMENTO—The California product liability market assistance program will be discontinued Nov. 1.

In a recent letter to insurance commissioner Wesley J. Kinder, MAP-CAL chairman Joseph D.

Shakespeare reported that 85 completed applications were received during the 18 months of the organization's activity. This smaller-than-anticipated number indicated that when MAP-CAL began its operations, "The regular market was starting to show an ability to provide products and completed operations liability coverage at a price that was acceptable," Mr. Shakespeare wrote.

Of the 85 cases, MAP-CAL was able to place 22 with participating insurers and 27 more were placed outside of MAP-CAL. In 17 cases, the MAP-CAL quotations were not accepted. Nine other cases were closed because of miscellaneous rea-

sons, such as the prospective risk being sold or going out of business. In eight cases, MAP-CAL didn't quote, and two are pending.

\$1.7 million refund

PORTLAND—CNA Insurance is returning \$1.7 million in premiums to more than 1,700 physicians of the Oregon Medical Assn. for their efforts in keeping malpractice claims under control.

The payment is the second within the past year for the doctors insured under the OMA/CNA physicians protection program. The previous return was \$342,000.

The program, begun in 1971, figures premiums by a formula under which malpractice claims are evaluated for a given time period. Dividends are declared under the profit sharing provisions of the OMA/CNA contract.

Actuarial study

HARRISBURG—Pennsylvania insurance commissioner Harvey Bartle III will appoint an independent actuary to conduct the first comprehensive study of the state's workers compensation insurance rating system.

The actuary, whose appointment was included in the department's approval of a 9% workers compensation increase, will submit a report to the department in April 1980. The cost of the study, expected to be between \$100,000 and \$200,000, will be paid by the rating bureau, Mr. Bartle said.

The rate increase settlement, reached between the insurance department, the rating bureau and business representatives business, is expected to generate about \$90 million in new revenues for insurers writing workers compensation. Manual rates will be increased by 2.25% and every employer will also pay a \$35 policy fee now and \$25 sometime in 1980. Additional revenue will be generated by reducing premium discounts given to employers paying workers compensation premiums.

Work comp request

ST. PAUL—The Minnesota Compensation Rating Assn. has requested a 28.6% increase in workers compensation rates. The request is 8.4% lower than the one refused by the insurance commissioner last spring because of the passage of a new workers compensation law designed to lower costs.

Under the law, the rating board must furnish information regarding investment income, which the insurance department will consider when ruling on rate requests.

Benefits, which are indexed to the change in the average wage, were automatically increased Oct. 1, with a maximum hike of 6%. Excluding self-insurance, Minnesota employers currently pay about \$400 million a year for workers compensation coverage.

Rate hike sought

JUNEAU—The National Council on Compensation Insurance has proposed an 1.8% increase in workers compensation rates in Alaska. Employers in the state paid \$107 million in premiums in 1978. Benefits were increased about 3% last January.

Charges dismissed

NEW YORK—A New York trial court has dismissed indictments under the state antitrust laws against physicians who had refused to treat workers compensation patients. The state workers compensation act provides a mandatory fee schedule.

The court ruled that the "learned professions exemption" removes physicians from jurisdiction of state antitrust laws. ■

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Hospitals treat executives to increased benefits: Study

By JOHN T. BOURKE

Crain News Service

CHICAGO—Top hospital executives now receive benefits with an average annual value of \$4,152 a year, up 12% from \$3,696 in 1977, according to a survey of 1,250 respondents by A.T. Kearney Inc. for Modern Healthcare magazine.

Coverage in group health, accident and disability insurance programs increased significantly. Almost six times as many top executives receive health insurance coverage in 1979 than in 1977, while approximately eight times as many have disability insurance. The incidence of accident insurance rose 70%.

Almost two-thirds of the executives are covered by a retirement income plan, whereas only 47% reported such coverage two years ago.

Some form of bonus or incentive compensation is provided by less than 10% of the hospitals.

Approximately 43% of the top executives are granted sick leave pay with less than three months of service. Another 32% qualify for paid sick leave after three months of service, while about 20% qualify after three to six months of service.

Of the top executives reporting life insurance benefits, 47% are covered from the date of employment. The remaining 14% have coverage after six months to one year of service.

Most hospitals, 81%, pay the entire premium on the life insurance coverage; 12% pay more than half.

Disability insurance coverage starts from the first day of employment for 40% of the executives. Another 10% qualify after one month of service, 23% more qualify after three months, 13% more qualify at the end of six months. The remaining 14% become eligible within one year or later.

The entire premium cost is paid by 77% of the hospitals; only 12% pay less than half the premium.

An important aspect of long term disability insurance programs is the maximum duration of the benefit payments. In 19% of the hospital programs, benefits are payable for life. In another 74%, they are paid to age 65 or to retirement.

Of all of the executives reporting coverage, 97% indicate they have either a major medical or combined comprehensive policy. The percentage of coverage for outpatient hospital is 86.7%; other outpatient surgical, 84.9%; psychiatric services, 72.6%; prescription drugs, 52.6%; physician office visits, 51.8%, and vision care, 17.9%.

The hospitals pay the total premium in 62% of the plans; an additional 20% pay more than one-half the premium. In 12% of the hospitals, the individual pays between 25% and 50% of the premium.

Retirement benefits are computed in relation to "final pay" in 36% of the reported plans, on "average pay" in 14% of the plans and on some other basis in 50%.

Three-fourths of the plans require a minimum of 10 years of service to qualify for a pension. The remaining 25% have no specified minimum years of service.

The minimum age requirement of 55 in 58% of the plans is typical of such plans in general. The other one-third of the plans either have no specified minimum age or a combination of age and years of service.

Full vesting is attained with 10 years of service in 89% of the plans.

Almost two-thirds of the plans are integrated with Social Security benefits, while slightly more than

one-third provide benefits exclusive of Social Security benefits. Of the integrated plans, 40% provide benefits including the Social Security which are less than 50% of final pay, 48% provide between 50% and 75% of final pay and the remaining 12% provide between 75% and 100% of final pay.

The non-integrated plans provide less than 50% of final pay in 71% of the plans, from 50% to 75% of final pay in 23% of the plans and more than 75% of final pay in 6% of the plans. When Social Security benefits are added to the non-integrated plans, the pattern of benefits in relation to final pay will probably equal those available in

the integrated plans.

In general, the level of fringe benefits available to top hospital management are fairly well in line with those available to executives in industrial, trade, financial and other service organizations. However, responses to specific questions regarding aspects of the plans indicate a much greater incidence of such plans than is shown in the chart, which shows the general response as to whether the hospital had certain benefits.

For example, it appears that the incidence of plans is 88% for life insurance, 96% for health insurance, 71% for long-term disability and 79% for pension or retirement income plans.

Hospital executive's benefits

Benefit	Percentage Receiving Benefit	
	1979	1977
Insurance		
Life	79.1%	65.3%
Health	86.2	15.3
Accident	45.0	25.5
Disability	49.6	6.4
Pension or retirement	65.7	47.0
Bonus or incentive	9.6	5.6
Annuity or deferred compensation	17.8	14.2
Home or housing allowance	5.0	6.4
Automobile	52.1	52.4
Club dues	34.5	41.0
Professional dues	69.4	57.3
Other	5.8	6.4
Total annual value (average)*	\$4,152	\$3,696

*Average value for those receiving benefits

Source: A.T. Kearney, Inc.

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Regional RIMS report

Insurance prices to rise next year: Vp

ASHEVILLE, N.C.—The bargain-basement days for insurance buyers will end when underwriters scramble for ways to protect profits against continued inflation and the effects of the past few years of competitive rate cutting, a broker predicts.

Samuel Alcorn, senior vp at Bayly, Martin & Fay in Los Angeles, says insurance companies are finally realizing that the current inflation rate will continue and they better start preparing for some hard economic times. That means an effective end to customers setting the prices and conditions of policy coverages by late 1980 or early 1981, he said.

But Mr. Alcorn told a gathering of the Carolinas and Piedmont chapters of the Risk & Insurance Management Society here recently that some companies might have realized too late that they should be pulling in their competitive reins and they are going to suffer because of it. He was especially critical of some underwriters' reserving practices in the last couple of years.

"I was recently talking to a European reinsurer who, in looking at the American market, said he didn't think adequate reserves were being put aside to pay off future losses. These firms say they are reserving enough, but there are plenty of people who say they are not," Mr. Alcorn said.

He was equally critical of underwriters who, he said, were even at this late date still looking for ways to cut prices to grab a few more customers before the market crunch hits.

"There are companies still filing rate deviations this month; that is just incredible," he said. Increased competition and rate cutting combined with an uncertain economic future add up to an unstable and dangerous condition, he said.

Although he scoffed at the government's efforts to control inflation, he said something had to be done to contain it or else the industry is going to be in bad shape.

"I don't know of any industry that has been able to sustain double digit inflation. No one has that experience unless they were around at the time of the Civil War," he said. As companies try to cope with the problems of inflation they are bound to make some mistakes of inexperience, he added.

Mr. Alcorn was less than optimistic about the future, but he reminded his audience that the recent past hasn't been great, either.

Speaking of the big losses sustained by the industry in the past year, he said, "If there was a quota for disasters, we met it in 1979."

The nation's worst aviation di-

saster, two huge hurricanes—with Frederic setting a record for insured losses—and oil spills that hit marine underwriters with huge losses all added up to make this year one of the least profitable for the insurance industry.

But things could have been worse, Mr. Alcorn assured the audience. With the stock market falling the way it has, it was a good thing many insurance companies pulled out of it after last being hard hit in the mid-'70s, when some firms lost 50% of their surplus because of market downturns.

Property and casualty under-

writers averted large operating losses during the first half of 1979 only because of a high level of investment income, he said.

In looking ahead to the 1980s, Mr. Alcorn predicted that the main concern of insurers will be to restore profitability. He also foresees increased loss funding and more pooling by manufacturers to fund against future product liability losses.

Workers will also make headway in winning group auto plans at large companies as well as group legal service programs, Mr. Alcorn

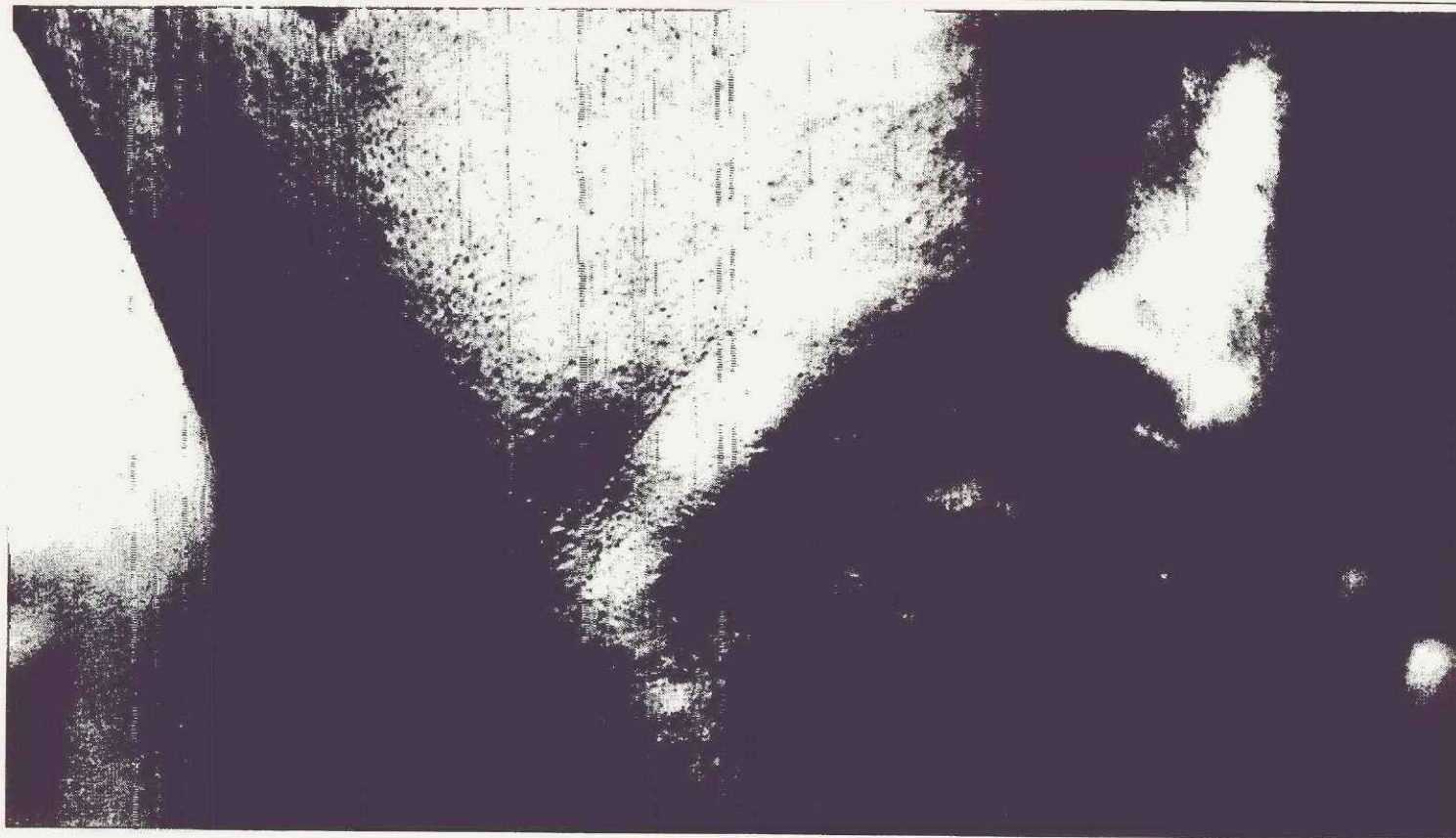
said. He also predicted increased government intervention in the health care system and federal minimum standards for benefit levels.

Insurers will find capacity a problem for certain risks, Mr. Alcorn said. Besides product liability insurance problems that will affect future generations, Mr. Alcorn said there will also be a problem finding adequate capacity for offshore drilling rigs.

"We are talking about \$350 million to \$500 million per rig. We really haven't gotten an answer to that one yet," he said. ■



"I don't know of any industry that has been able to sustain double digit inflation," says Samuel Alcorn.



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Group life totals \$1,244 billion

WASHINGTON—Group life insurance totaled nearly \$1,244 billion at the end of 1978, 11.6% more than a year earlier and nearly a three-fold increase over group protection in force in 1968, the American Council of Life Insurance reports.

Group insurance today accounts for nearly 43% of all life insurance in force in the U.S. The average coverage for an employee under an employer-sponsored plan totaled \$16,753 in 1978, the council reports, while workers covered under union or joint employer-union sponsored plans had an average coverage of \$5,175. ■

Captive behind schedule

ASHEVILLE, N.C.—Arkwright-Boston's newly formed captive, HPR Mutual Ltd., probably won't get its first members until January rather than the original target date of October.

The mutual captive, of which Arkwright-Boston will control 51% of the voting rights, is expected to attract members because it will give them the advantages of a captive without the costs of capitalization or the standard start-up expenses, Frank Perkins, assistant vp for Arkwright-Boston, told a recent gathering of risk managers here.

Members can either join the insurer as a pure captive arrangement, handling only their own risks, or they can opt to join the pooling arrangement offered, Mr. Perkins said. He expects three or four companies to sign up for participation in January.

Open only to Arkwright-Boston customers, the captive will be managed by a sister organization, Arkwright Management Ltd., and will also provide members with the company's engineering services. Excess coverage could be written by Arkwright-Boston.

Regulatory threat may help insurance buyers: INA exec

ASHEVILLE, N.C.—Insurance companies' response to perceived signs of increased government regulation and scrutiny in the coming years might pay substantial dividends to insurance buyers.

To avert direct government involvement in the insurance marketplace, underwriters are going to have to solve such pressing dilemmas as capacity problems in business lines like product liability, warns John Cox, president of Insurance Co. of North America.

Insurers are going to have to be more responsive to consumer needs in the next few years, Mr. Cox told more than 100 risk managers at the 10th annual educational conference sponsored here

recently by the Carolinas and Piedmont chapters of the Risk & Insurance Management Society. If insurers aren't more responsive, he warned, efforts to pass bills now being considered in Congress that would heavily regulate the industry will be boosted.

State tort reforms should also be suggested by industry leaders as a way to solve problems that the federal government is considering tackling with congressional mandates. Mr. Cox argued for limits on product liability losses or else the industry won't be able to continue to provide coverage.

"One prime example is asbestos," Mr. Cox said. "The numbers



Insurers will have to be more responsive to consumer needs, says John Cox of INA.



When a problem is talked about as much as this one, it's sometimes difficult to see the progress that's being made.

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HELPING CONTROL ALL YOUR COSTS.

there are just incredible. Asbestos claims could wipe out some of the nation's major carriers."

The INA president also said the industry should look at other problem areas of coverage—and find ways to solve them—to head off direct government involvement. He pointed to bills in past years authorizing riot insurance, crime insurance and farm crop insurance as a trend by the government to encroach on private competition.

"They see a problem and decide the best way to solve it is to throw money at it. Nothing they do in this area would surprise me," he said.

Mr. Cox also put in a few words of encouragement for state regulation, saying that state-by-state laws often work out best for insurance companies and their clients because individual states might have individual circumstances. But this relationship is being threatened by a number of proposed bills that suggest the best method to oversee the insurance industry is by federal regulation, he added.

One, the Williams-Javits bill to set minimum standards for workers compensation, is considered typical of action the government will consider taking in the next few years. Mr. Cox said he expects future bills to set similar levels for other benefits, such as product liability claims.

A bill proposed by the former Sen. Edward Brooke would have created dual state and federal regulation of insurance companies to provide some guidelines for handling insolvencies. Although the prospects for this bill looked good when it was first proposed, it has lately been dropped from active consideration.

More dangerous, Mr. Cox said, are proposed revisions of the McCarran-Ferguson Act, changes that are already being vehemently opposed by many insurance industry officials. One bill Mr. Cox said the industry should be especially wary of is the Insurance Competition Incentive Act, drawn up by the staff of Sen. Howard Metzenbaum.

"Even the name worries me," he said. Besides providing that insurance rates would not be based on sex, age or marital status of policyholders, the proposed bill also includes provisions that would broaden federal control of the industry, superseding state laws, apply antitrust laws to the insurance industry and prevent insurers from pooling risks except to meet coverage demands.

Companies add benefits to trusts, consultant says

ASHEVILLE, N.C.—As companies become more familiar with the intricacies of 501(c)(9) plans and self-funded employee benefit trusts, they are finding new applications for them, says a consultant.

One "wave of the future," says a prominent actuary, is funding ancillary retirement benefits, such as continued coverage under a pre-retirement medical plan for the ex-employee and his spouse.

"More and more companies are beginning to do it," John C. Hickey, a partner at Kwasha Lipton, told a recent gathering of risk managers here.

Explaining that the costs of these post-retirement benefits are far from insignificant, he said that companies are finding they can

reap the same advantages in placing these funds in the trust as they did when they set them up for standard employee benefits.

Besides offering tax-free investment income, the deductibility of contributions and flexibility of contribution determination, the trust allows the company investment flexibility and potentially more flexibility in transferring funds to another funding vehicle, he said.

The alternative to the 501(c)(9) program for these post-retirement benefits, adding a special rider to the company's group insurance contract, might seem more attractive to some employers, however, Mr. Hickey conceded. He said com-

panies see the special life insurance fund as an easier and cheaper way to fund the benefits and it also frees them from the investment responsibilities inherent in trusts.

But he emphasized that employers who already have the trust program established should carefully consider adapting to the program to meet these new needs.

Mr. Hickey, who advocates the use of 501(c)(9) trusts, said he has been signing up a steady flow of about three or four clients a year since 1970 and all seem happy with the experience with the trust programs.

Much like companies that choose self-insurance, almost no one ever decides to back out of the trust once it gets going, he said.

But some industries might never be interested in setting up the programs, he said.

Employers who have less than 1,000 salaried employees also find their loss experience would not justify the program, he said. ■

Blue Cross to test drug abuse benefit in group programs

By JOHN MAES

CHICAGO—Blue Cross Assns. will begin test marketing drug abuse treatment as an employee benefit as a step toward including the treatment in all group programs offered by its 69 plans.

Blue Cross announced it will shortly select two large urban corporations as test sites for the drug abuse benefit. Under the program, workers will be able to receive inpatient and outpatient care as well as therapy and counseling for drug problems.

The new benefit is a departure from established Blue Cross practices. Most plans provide limited drug abuse coverage only for associated conditions that require hospitalization. The new concept places emphasis on prevention and rehabilitation, Blue Cross officials say.

"A number of our members may be treated for drug abuse but with disguised diagnoses," said Arthur F. Leyland Jr., senior project manager. "But by promoting early treatment, we can avoid the costs associated with drug problems."

"While the Blue Cross organization is traditionally associated with the payment of hospital bills, we feel a responsibility to see whether prepaid treatment benefits, both in and out of the hospital, can deal with the problem of drug abuse," said Walter J. McNerney, president of Blue Cross/Blue Shield Assns.

Drug abuse treatment alone cost \$500 million throughout the U.S. last year, he said, and the problem creates additional costs of between \$10 billion and \$20 billion yearly in lost work time, productivity, crime, health care and the costs of rehabilitation and welfare programs.

The costs of testing the plan will be financed with a three-year \$930,000 grant from the National Institute on Drug Abuse, Mr. Leyland said. The funding will pay for project costs such as data collection, consulting services and underwriting, he said.

Initially, Mr. Leyland said, the two program test sites will be larger corporations in urban areas that have a greater number and diversification of employees to ensure more accurate evaluation of the program.

Ultimately, it is hoped Blue Cross will be able to recommend that all its member plans, with group programs covering some 83 million workers, adopt drug treatment as a regular employee benefit, he said.

The benefit will cover therapy for up to two one-year periods, 28 days of hospital care and up to 140 days in a residential therapeutic community. Also covered will be up to 100 outpatient or therapy visits.

Mr. Leyland said the benefit is expected to cost 50 cents to \$1 per month for a family of four. However, Blue Cross will discourage employers from requiring copayments or cost-sharing in order to promote use of the benefit.

Citing Blue Cross estimates that nearly one million plan members or their dependents need the benefit, Mr. Leyland said the coverage of dependents will be an important factor in its success. Frequently, a worker's spouse or teen-age child will have a drug dependency problem that affects the worker's performance, lowers productivity and creates cost, he said.

Blue Cross will also promote use of the benefit, he said. "We'll want members to know that they won't be fired if they use the program and that it won't affect their promotional possibilities." Confidentiality of files is assured, he said.

Mr. Leyland said Blue Cross hopes to integrate drug abuse treatment into a comprehensive benefit package that will include preventive care for alcoholism, hypertension detection and control and cancer screening.

Blue Cross also hopes to offer the benefit to individuals. ■

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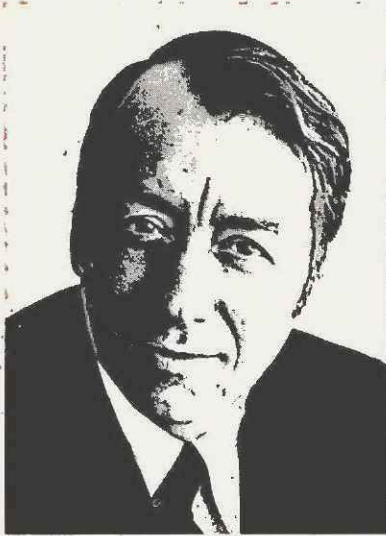
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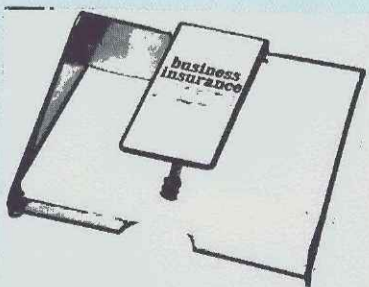


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Syntex Laboratories

British women sue pill manufacturer

By JOHN MILLER

LONDON—A large number of British women are suing Syntex Laboratories Inc. of Palo Alto, Calif., as they threatened to, contending they have been harmed by taking birth control pills (BI, May 28, 1979).

The suit, filed in the U.S. by Catherine Holmes, 28, of Marsden, Yorkshire County, alleges Mrs. Holmes took one of the U.S. firm's products known as Norinyl for five years before she suffered a severe stroke in May 1978. She and her husband, Leslie, are seeking both general and punitive damages on the ground that Syntex Laboratories marketed the drug as an oral contraceptive even though the

company knew it had dangerous side effects.

The amount sought in damages is not given in the lawsuit filed in California state court in Santa Clara, but Mrs. Holmes has said in the U.K. that she wants at least \$1 million because she cannot lead a normal life.

The action is being taken only in the name of Mrs. Holmes, but members of the Pill Victims Action Group in the U.K. are waiting to join the litigation either in California or other U.S. states.

Syntex Laboratories has not been notified of the suit, said its attorney, Terry Ansnes. If the firm is notified, it will probably fight the suit on the jurisdictional grounds

that the drug was manufactured, prescribed and used in England.

Syntex Pharmaceuticals Ltd. manufactures and markets birth control pills in the U.K. Both Syntex Laboratories and Syntex Pharmaceuticals are subsidiaries of the Syntex Corp. of Panama.

Syntex Laboratories is self-insured for the primary layer of liability insurance, but Mr. Ansnes would not disclose the amount.

Birth control pill-related lawsuits have also been filed against G.D. Searle & Co. of Skokie, Ill., and Y.F. Wyeth of Philadelphia, and are being contemplated against Ortho Pharmaceutical Corp. of New Jersey and Parke-Davis Co. of Detroit, noted Mr. Ansnes.

Drug companies generally have substantial self-insured retentions with excess insurance written by the London market.

Syntex, one of the U.S.'s largest drug producers, began promoting Norinyl in the U.S. nearly 20 years ago and later distributed it in the U.K. and other countries.

The Holmes suit contends that 'defendants knew that it possessed dangerous properties which could cause serious injury or death, but caused it to be distributed in the U.K. without any reasonable warning. They failed to give adequate warning about its propensities to the medical profession and failed to educate the public about it, even though its long-

range effects were really not known at all by them."

Strict liability is alleged on the ground that Syntex supplied a defective product that had not been properly tested for long-range use and there was no reasonable or fair warning given about its nature.

The lawsuit charges fraud because Syntex is said to have "falsely represented to the general public and the medical profession in the U.K., and to Mrs. Holmes, that oral contraceptives generally and Norinyl specifically, were relatively harmless... and that every precaution had been taken to ensure safety."

Punitive damages are sought because Syntex acted in "conscious, willful and reckless disregard of the rights of others" and knew that injury to innocent persons would result, the suit alleges.

Mrs. Holmes, who took Norinyl on her doctor's advice, had a severe stroke which caused impairment of speech and the bodily functions of her left side, as well as partial paralysis and shock. Five months after she stopped taking the pill in 1978 she found she was pregnant, but had a miscarriage which she blames on prior medication. Mr. Holmes seeks damages for being deprived of her care and consortium while she was ill.

The suit suggests that Syntex knowingly concealed the facts from U.K. oral contraceptive victims and that they should therefore be entitled to an extended limitation period for filing a suit.

Product liability insurers in both the U.S. and U.K. are watching the demands of the Pill Victims Action Group, which began after attorney Gerald C. Sterns of San Francisco visited them in London to explain the possibility of U.S. lawsuits. The group's membership in the U.K. has jumped to 600 from 300 since his visit last April.

Judith Challenger, one of the group's vigorous leaders, told *Business Insurance*: "Although the complaint filed in Santa Clara names only one family, it has been lodged on behalf of all the families in the group who have taken this particular pill."



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Profit sharing execs fined

OMAHA—Two administrators of a corporate profit sharing plan here have been fined a total of \$100 plus court costs by a federal judge after pleading guilty to violating ERISA's reporting and disclosure requirements, the first case of its type.

John Douchev and Lee Bernstein, owners of the Omaha Dressed Beef Co. and the plan's administrators, pleaded guilty Sept. 19 to a charge that they failed to provide two employees with a summary description of the plan, an annual report and a statement of accrued benefits.

Each man could have faced a year in prison, a \$5,000 fine or both, said Robert Kokrda, assistant U.S. attorney for the district of Nebraska.

The charges stemmed from an investigation by the Department of Labor earlier this year after company employees complained they were unable to obtain the information they had requested about the profit sharing plan, Mr. Kokrda said. ERISA requires the statement of benefits must be provided on request while the summary annual report of the plan and its description must be provided as a matter of course. Charges were filed when the two administrators failed to comply with the law after the Labor Department notified them about their responsibilities to disclose the information, said Mr. Kokrda.

Chrysler collapse could fuel huge hike in PBGC premiums

WASHINGTON—The premiums companies pay for federal pension termination insurance could more than triple if ailing automaker Chrysler Corp. goes bankrupt, a top federal pension official told a Senate committee.

Annual termination insurance premiums could skyrocket to \$9.60 per participant, up from the current \$2.60 per participant, if Chrysler folds, said Robert Nagle, the newly installed executive director of the Pension Benefit Guaranty Corp. The PBGC is the federal agency that guarantees workers' vested pension benefits.

Mr. Nagle's warning of a huge pension premium hike came as the Senate Banking Committee opened what appears to be a lengthy series of hearings on what the federal government should do, if anything, to bail out the financially troubled Chrysler Corp., the nation's third largest automaker.

Possible federal remedies to shore up Chrysler have been discussed since the company revealed it lost an unprecedented \$270 million in its last fiscal quarter and that it could go into the red to the tune of more than \$1 billion before year-end.

A quick look at the arithmetic explains why pension plan termination insurance premiums may have to rise so dramatically if Chrysler folds, assuming a "worst case" situation as Mr. Nagle did before the Senate committee.

PBGC estimates Chrysler's total pension liability that the federal agency would have to guarantee is about \$2 billion. If Chrysler goes under, the PBGC would take over the automaker's \$1.043 billion in pension fund assets.

These assets would provide PBGC with sufficient cash to pay guaranteed pension benefits to Chrysler retirees for about the next six years, but would still leave the PBGC holding the bag for another \$1 billion in guaranteed pension benefits.

Under the pension reform law, the PBGC has a preferred lien on 30% of firm's net worth. It is feared, though, that if Chrysler goes down, the firm may not be worth anything at all, forcing the PBGC to raise termination insurance premiums for all other companies to make up for the \$1 billion Chrysler shortfall.

Some observers question if the PBGC has the management or financial capability to take over Chrysler's plans (BI, Aug. 20).

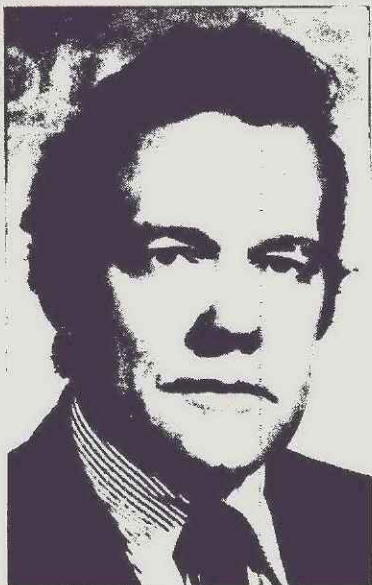
Sen. William Proxmire (D-Wis.) questioned if Mr. Nagle's "worst case" scenario is realistic.

Mr. Proxmire, the influential committee chairman, noted that Mr. Nagle assumed that all Chrysler plants would be shut down, that none of its divisions would be picked up by other corporations or that the firm would not resurface after going through bankruptcy

reorganization—which are assumptions that may not pan out.

Mr. Nagle said the PBGC cannot fine tune its estimates of the impact of a Chrysler termination on pension plan insurance premiums until Chrysler's plans actually terminate and more information becomes available.

Chrysler has 11 defined benefit pension plans covering 90,000 employees and 50,000 retirees or spouses of retired workers. All but one of these 11 plans lack sufficient assets to cover promised pension benefits.



Annual termination insurance premiums could more than triple, says Robert Nagle.

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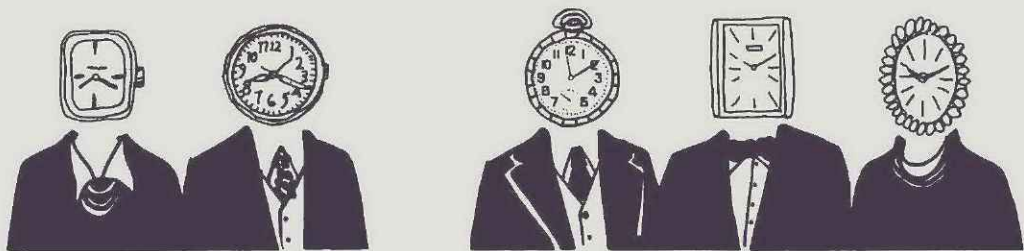
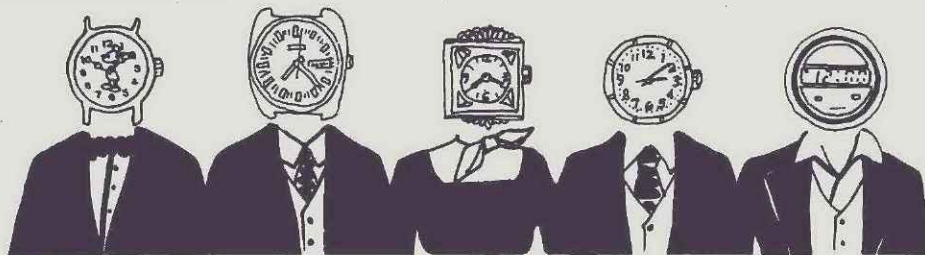
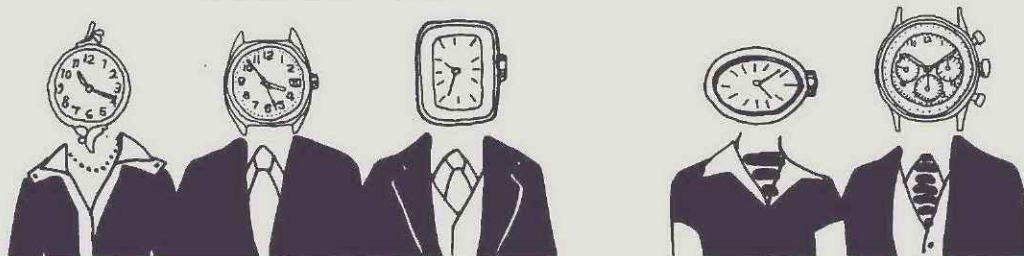
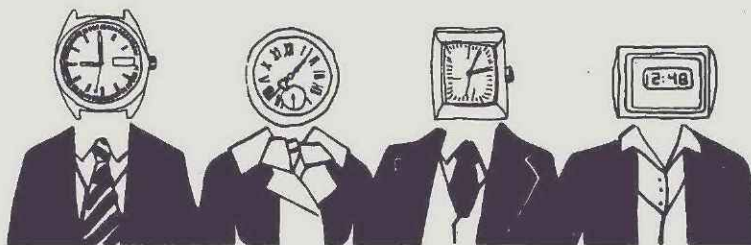
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Benefits conference

Only pros get fiduciary policy: Insurer

NEW YORK—Pension fund sponsors and trustees who fail to hire competent advisers could face another "malpractice crisis," warns a leading fiduciary liability insurance underwriter.

Availability of fiduciary liability coverage for trustees of multi-employer pension plans will reflect the professionalism of persons selected to manage and advise the plans, said Marshall R. Rattner, president of Professional Indemnity Agency of New York.

Mr. Rattner's firm is managing agent for U.S. fiduciary liability business written by Lloyd's of

London. He says he controls 40% of the market for this risk.

"To reduce expense through hiring incompetent professionals would be sheer suicide," he told participants in a seminar at the International Foundation of Employee Benefits Conference here. Funds that do so will find themselves subject to an insurance crisis, he predicted.

Noting that trustees must act as "prudent men" under the pension reform law, Mr. Rattner said it is impossible to be a prudent man without the aid of highly qualified professionals.

It is too early to tell whether all pension fund sponsors will face a fiduciary liability insurance crisis, Mr. Rattner said. Fiduciary suits are on the rise, but court attitudes have varied.

Since passage of ERISA, about 2,500 fiduciary liability cases have been reported. More than \$25 million has been restored to pension plans under ERISA enforcement suits brought by the Department of Labor, said Joseph Hellman, secretary treasurer of the Washington-based Graphic Arts International Union.

Of the six insurers writing fiduciary liability insurance in 1974, Sequoia Insurance Co. and GATX Insurance Co. (now INAX) have dropped out and First State Insurance Co. and CNA have reduced their underwriting activities, Mr. Rattner said. Other markets presently writing the coverage include Aetna Life & Casualty, Lloyd's of London and Federal Insurance Co.

The DOL has "unlimited resources" to bring ERISA actions and insurers have often found defense costs running several times the value of the claims themselves, Mr. Rattner said. A critical factor in

selecting a fiduciary liability insurer should be the amount of legal expense coverage provided, he added.

Other criteria for evaluating fiduciary policies include whether they cover activities the policyholder should have known about, whether they cover wrongful acts and, if the form is an amendment to a corporate plan form, whether all trustees are insured, he said.

Fiduciary liability claims have resulted primarily from criminal activities, errors and omissions, as an outgrowth of handling of benefit claims and as a result of professional incompetence or failure to heed advice given by professionals, Mr. Rattner continued.

So far, most of the claims have been for failure "to act solely in the interest of plan participants" or "to provide benefits and defray necessary expenses," said ERISA expert Marc Gertner of Shumaker, Loop & Kendrick, a Toledo law firm.

Cases are likely to be brought in the future for other breaches of fiduciary responsibility defined in Section 404(a) of ERISA, he said. These include failure to act as a prudent man, failure to diversify investments and failure to act in accordance with plan documents, he noted.

The definition of who is a fiduciary varies with the pension plan, Mr. Gertner noted. Under ERISA and various court decisions, trustees and investment managers have always been found to be fiduciaries.

Consultants, auditors, actuaries and attorneys could be considered fiduciaries, however, if their services go beyond performance of "ministerial duties," he said. A person who possesses or exercises authority over the fund is a fiduciary, Mr. Gertner explained.

"Sitting in on a meeting and giving advice doesn't make a professional a fiduciary in all cases," he said. But a consultant presenting an extensive report on investment strategies is likely to be considered a fiduciary if that advice is accepted.

FICA tax to increase: Consultant

NEW YORK—Employers grumbling about the cost of Social Security contributions have only further increases to look forward to in the next 50 years, says a consultant.

Government estimates show that employer-employee tax rates for Social Security will rise from the present level of 6.05% of payroll to about 8% in the year 2000 and 12% by the year 2025, A. Haeworth Robertson, vp at William Mercer, told a recent gathering of employee benefits managers.

Although it's expected that as much as a third of future Social Security expenditures will have to come from an additional nonpayroll tax, that won't mean employer contributions will decrease as a result, he added. That extra money will be needed to pay for the increased cost of the Social Security programs, not to relieve the financial burdens of employers.

Mr. Robertson said the national trend of later retirement might lessen some of the problems facing the Social Security system in the coming years because more people working longer means a reduction in benefits paid, but he added that the net result wouldn't be a savings of funds.

"These cost savings would be negated by further liberalizations of the retirement test and further increases in the delayed retirement credit," he said.

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Second surgical opinions cut costs: Study

NEW YORK—Second opinions on elective surgery, negotiating physicians' fees and in-house hypertension clinics reduce the amount of surgery and health care costs, conclude recently completed studies by Cornell Medical College.

The findings present some of the first concrete evidence that these cost containment efforts work.

Two multiemployer welfare funds that participated in the study at New York Hospital-Cornell Medical Center reported substantial savings from members obtaining a second opinion before claims for surgery were paid. Since 1972, the United Store Workers showed an annual 9% decrease in surgical claims and the Building Services Workers Fund reported a 12% decrease.

In all, 10,082 health plan members received voluntary and mandatory second opinion consultations. Of that number, 26% were not confirmed for surgery by the second consultant. Of those patients who did not receive the second go-ahead, 78.7% chose not to have the surgery performed.

The experience of these two plans ran counter to the national average on surgery during the same period. Some of the most frequently performed types of surgery greatly increased, with hysterectomies going up by 40%, cataract surgery by 146% and knee surgery by 56%.

The study, conducted by Dr. Eugene McCarthy and research associate Madelon Lubin Finkel, was released at the recent conference of the International Foundation of Employe Benefit Plans.

The study of two second opinion programs found that 33.5% of participants in a voluntary program with Local 32J of the Building Services Workers Union were not confirmed for surgery and 17% of participants in a mandatory program with Local 32B of the same union, were not confirmed for surgery. (The locals merged in 1978.)

Knee surgery, hysterectomies and prostatectomies were found to have the highest non-confirmation rates. In the voluntary group the non-confirmation rates were 48.1% for knee surgery, 42% for hysterectomies and 41.5% for prostatectomies.

For the mandatory program, the rates of non-confirmation were 20.8% for knee surgery, 27.3% for hysterectomy and 20.7% for prostatectomy.

Mandatory second surgical programs have lower non-confirmation rates because all patients recommended for surgery must participate while only interested patients do so in a voluntary program.

Dr. McCarthy, clinical professor of public health at Cornell, recommends the mandatory approach since plan participants can fall back upon this requirement when getting their doctors to agree to a second opinion.

Cornell has also been conducting a cost-impact study of the benefits of second surgical opinion programs to find out whether they produce long term benefits.

Medical costs for 350 non-confirmed persons are being compared with those for 350 randomly selected confirmed cases. All medical histories involve persons who sought second opinions between January 1977 and December 1978. The comparison focuses upon the 62% of the non-confirmed persons who did not have surgery and the 91% of the confirmed who did.

Cost for persons in the two groups are being measured for the 12 months following acceptance of a second surgical opinion. Although data is not complete and

the results will not be finalized until next summer, substantial savings are expected, said Susan Armstrong, a research associate with Cornell.

Local 32B of the Building Services Workers Union also saved \$987,034 through a physicians' fee negotiations program in operation since 1975. The union pays doctor bills at 13 times the rate listed on the California Payment Schedule.

Members can either go to doctors participating in the union's panel or outside doctors. If fees exceed

the union's schedule by less than \$50, the member pays the balance. If they exceed the schedule by more than that, the union tries to negotiate a lower fee.

Of approximately 440 physicians contacted during the program's first year, 298 agreed to accept Local 32B's schedule, 114 refused and 19 said they would discuss the fee with their patient, said Hirsch S. Ruchlin, professor of economics at Cornell.

The average savings per case was

\$246 and the administrative cost of \$5,000—the program involved one-fourth of a fund employee's time—yielded total savings of about \$100,000 or \$20 for each dollar spent, he added.

In-house hypertension screening and treatment clinics have also resulted in 80% of participants with high blood pressure getting their blood pressure under control, said Dr. Michael Alderman of the medical center.

The program was begun with the United Store Workers Union and

expanded to five other unions in New York.

The program has resulted in a 19% reduction in absenteeism and elimination of at least one heart disease case a year at one of the department stores participating in the program, Dr. Alderman said.

The treatment, which involves an annual checkup with an internist plus followup consultations as needed and 11 annual visits to a nurse-therapist, costs about \$200 per patient versus \$500 per patient in a traditional medical setting. ■



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Freezing pensions for older workers cuts costs: Actuary

By ELLIS SIMON

NEW YORK—Employers with a substantial number of employees working beyond age 65 can save between 15% and 25% on defined benefit pension costs by freezing pension benefits for these older workers, an actuary says.

The recent amendments to the Age Discrimination in Employment Act provide a rare instance in which the government is providing a way to cut employe benefit costs, said Ronald L. Haneburg of Buck Consultants Inc.

Mr. Haneburg provided an overview of the effect of ADEA amendments on benefit plans to participants at a seminar during the International Foundation of Employee Benefit Plans conference held here this month.

Savings result from freezing workers' pension benefits at age 65 because when an employe retires after age 65 on the same benefit as he/she would have received at 65, the benefit is paid for a shorter period of time, Mr. Haneburg explained.

If benefits paid to retirees are increased, however, the benefits paid to persons working beyond 65 must also be increased, Mr. Haneburg said.

Freezing benefits at age 65 for people who work beyond that normal retirement age is "clearly discriminatory," Mr. Haneburg observed, but is permitted under the law. During congressional debate on the amendment, supporters of the bill answered yes when asked if freezing benefits would be permitted, he said.

Final Department of Labor guidelines on handling employe benefits under ADEA were issued May 22. Enforcement has been the responsibility of the Equal Employment Opportunity Commission since July 1, and the EEOC has temporarily adopted the DOL rules. EEOC could issue new regulations, Mr. Haneburg said.

Employe benefit plans were required to comply with the regulations as of May 22, but it will take several years before the government can bring all plans into compliance, he noted. Plan sponsors should be taking steps to bring the plans into compliance, he said, adding that doing nothing could bring trouble from the EEOC.

If pension plans freezing benefits also subject older workers to reduced benefits for choosing a lump sum payment or dependent coverage could be found to illegally discriminate, Mr. Haneburg warned, the older retiree in that case would be penalized twice. Plans must freeze actuarial reductions or have a specific reduction applicable to persons of all ages, he said.

The regulations also require automatic preretirement spouse's death benefit coverage for persons working beyond 65. It would be "unacceptable" for plan sponsors to reduce pension benefits to older workers for providing this mandatory coverage, Mr. Haneburg said.

Sponsors should either make the preretirement spouse's death benefit coverage available free of charge, or charge for it before age 65 and make it free after that, he suggested.

Most single employer pension plans are expected to freeze benefits for persons working beyond age 65. Multiemployer plans are expected to continue accruing pension benefits for these persons,

however, Mr. Haneburg noted.

Employers could also choose to begin pension payments at age 65, regardless of whether a person stops working, but few firms are likely to do so, he added.

Another alternative is segregating funds needed to pay an individual's pension, freezing contributions and letting them earn interest from the time the worker reaches age 65 until he retires. That approach would be attractive primarily to small employers seeking to increase the size of their own retirement funds, Mr. Haneburg said.

For defined contribution plans such as profit sharing and thrift plans, freezing of benefit accruals is permissible if they are the sole retirement plan. If the plan is a supplemental one, benefits can't be frozen. Mr. Haneburg called the government's approach "backwards," since the "person with the single plan needs the money more."

Regulations on group insurance benefits are guided by three principles:

- It's illegal to deny coverage to workers up to age 70.
- If benefits for workers over 65 are reduced, the cutback must be justified by cost comparison with coverage costs for workers between 60 and 65.
- Employe contributions cannot be increased to keep coverage levels constant.

For group health coverage, employers may "carve out" coverage for items payable through Medicare, but must notify the employe of it and assist him in enrolling for Medicare coverage, Mr. Haneburg said. He expects EEOC to interpret this rule strictly.

In noncontributory plans, sponsors are expected to be required to pay the premium for supplemental Medicare coverage and continue coverage on the spouse and dependents, Mr. Haneburg said.

For contributory plans, premiums charged employes may rise only in proportion to increases experienced by the employer. Supplemental coverage can be provided separately from the under-65 plan, but the employer's cost must be as high as if he simply carved Medicare out of the existing plan.

For group life, employers can annually reduce benefits on a percentage basis as the employe ages or they may use a single cut in benefits for workers over 65.

Long term disability coverage can either be provided in full until age 70 or be reduced according to several formulas, provided it is lessened only to keep costs in line with providing coverage for workers in the 60 to 65 age bracket.

Insured and self-insured employers providing short term disability coverage also are permitted to reduce benefits to the extent of cost increases, but firms providing coverage directly from payroll are not permitted to do so. ■

German firm seeks stock

ST. PAUL—Allianz Versicherungs-Aktiengesellschaft, headquartered in Munich, has offered \$138.3 million for 98.2% of the stock of Minneapolis-based North American Life & Casualty Co. Allianz is seeking to purchase the stock currently held by Mutual Life Insurance Co., of New York.

Allianz is one of the world's 10 largest insurers. ■

Abolish insurance to cut health costs: Vp

NEW YORK—Walter McClure, vp of the Minnesota-based Health Policy Group of InterStudy, suggests a way to cut the country's medical bills: Practically do away with insurance.

"The only way to make people spend dollars on medical care as if it were their own money is to make it their own money," Mr. McClure told a recent conference of the International Foundation of Employee Benefit Plans.

"If it is insurance that creates the blank check for medical care, then let us get rid of all the insurance that we can. We can replace that with a program that only covers medical expenses when they equal more than 10% of a person's income."

But while pushing the merits of his scheme, Mr. McClure admitted he had little hope of it ever being accepted.

"It is a clever, attractive idea that would probably work, but there is no way that this idea is going to go anywhere. It is just politically unfeasible," the researcher conceded.

Instead, he urged his listeners to consider another way to control health costs that he said is not only more acceptable to the public, but has already proven its success in at least one experiment: Force competition among the providers of medical services, particularly in the case of HMOs.

Citing seven HMOs in the Minneapolis area that have found eco-

nomical ways to provide medical services to attract a portion of the patient market, Mr. McClure argued that market incentives can sometimes do a job seemingly beyond the ability of traditional health cost regulators.

The need to be competitive forced the HMOs to tightly control costs, he said, adding that the average monthly charge per enrollee in the HMOs during 1977 was \$23.67, compared with a national HMO average of \$32.52. One of the involved HMOs even lowered its charges per enrollee to \$25.61 from \$25.72 during 1978, he said.

About 12% of the Minneapolis population gets its medical care from the HMOs, according to government figures, a growth of 27% a year since 1971.

The competition has achieved its

desired result in the city, Mr. McClure said, because the choice of several HMOs gives the residents a chance to shop around for the best deal medically and financially. Any employer or government contribution to the plan stays constant, with the consumer paying or being rebated the difference. Those factors have allowed the HMOs to attract members either through more comprehensive benefits or lower premium contributions.

Competitive factors have also led to some hard-nosed decisions by the HMOs, particularly when it comes to hospitalization costs.

One HMO requires that all hospital admissions by participating physicians be approved in advance by the HMO board, with an agreed upon length of stay. Physicians

who fail to follow this procedure are not reimbursed by the plan and some have been asked to leave because of it.

These controls helped the HMO reduce hospitalization by more than 100 days per 1,000 members in 1978, Mr. McClure said.

Although Mr. McClure is admittedly a strong supporter of the competitive HMO environment in Minneapolis, he acknowledged there might be some problems duplicating it in other towns.

Roadblocks to establishing a wide range of the health care plans within a reasonable amount of time, along with questions over whether the HMOs would actually compete or collude over prices, whether the traditional providers will cooperate with the HMOs and whether a competitive market can

reduce prices without impairing quality, all may work against the success of HMOs around the country.

But private competition and cost controls are the only antidote to possible government regulation and takeover of the health industry, he argued.

While others might not agree with his assumption, Mr. McClure warned his audience that if the private sector did not control costs adequately in the next decade, the medical care system would be turned into a public utility.

He added that government has already taken the attitude that it can't expect much self-regulation from the medical field, arguing that "asking doctors to change now is like asking Caesar to submit to an election."

U.S. health cover likely: Consultants

NEW YORK—Will there be a national health insurance program enacted in the next few years?

The answer, say several national benefits experts, is yes, no and sort of.

"It now appears that short of some major national or international development, we will see the enactment of a national health insurance program in the very near future," predicted Steven Schanes, president of the San Francisco-based consultants Schanes Associates.

"I don't think the political forces are there to bring about a national health care plan, certainly not within the next few years," countered Willis Goldbeck, director of the Washington, D.C., Business Group on Health.

"The future of national health insurance depends on the election of 1980," said Richard Citron, manager at A.S. Hansen Inc. "It may come in four years, and if not, then perhaps within six to 10."

All three men were speaking at the recent national conference of the International Foundation of Employee Benefit Plans.

Although they differed over when, if ever, the country will get a national health plan, they agreed on one thing: Whatever comes will be on a much smaller scale than most people expect.

A program ultimately approved by Congress will probably mandate minimum levels of benefits to be provided by employers, the speakers said, but most employee benefit plans already meet those standards.

The speakers acknowledged that any health care program would probably involve both labor and management and said that even though the government might try to put a cap on fees, they will certainly go no lower than at present and have to be allowed to gradually inch upward.

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New rules may curb multiemployer plan pension sign-ups

By ELLIS SIMON

NEW YORK—Employers could be discouraged from joining multiemployer pension plans if the strict withdrawal liability provisions proposed by the Pension Benefit Guaranty Corp. are adopted, a PBGC official admits.

But the PBGC "can't continue to live with the disastrous multiemployer provisions of ERISA," says Jeffrey R. Hart, assistant to the executive director at PBGC, defending the agency's proposals.

Firms withdrawing from a multiemployer plan would be required to pay off their portion of the plan's unfunded liabilities over a period not to exceed 15 years under legislation proposed by PBGC (S 1076, HR 3904).

PBGC, the federal agency that guarantees pension benefits to beneficiaries of terminated pension plans, expects final action by May 1980 on the bills now in committees.

Now, when an employer withdraws from the multiemployer pension fund, the remaining employers are left to pay the unfunded liabilities. "The choice has been to come up with more money or terminate the plan and turn it over to PBGC," said Gerald E. Cole Jr., PBGC assistant executive director.

"The current law (ERISA) punishes firms that stay with the plan and benefits companies that leave," Mr. Cole told participants in a seminar at the International Foundation of Employee Benefit Plans conference here.

If the plan decides to terminate instead of increase member contributions, under current plan termination insurance provisions PBGC can elect to take over the terminating multiemployer pension plan. PBGC has a right to collect 30% of the net worth of the employers contributing to the plan in the last five years.

"That doesn't protect the plan and it doesn't protect the employee," Mr. Cole complained.

Anticipating a flood of terminating multiemployer plans plagued by employer withdrawals under current law, PBGC's losses from terminations could run into the billions of dollars, said Matthew Lind, former director of PBGC and now a senior vp with The Travelers Insurance Cos.

Without the revisions, the cost of insuring multiemployer plan participants could run 160 times greater than the present contribution level of 50 cents per participating employee, Mr. Cole said. PBGC is now asking for a premium hike to \$2.60 to cover the proposed program that would guarantee coverage to multiemployer plans.

The PBGC proposals call for an end to voluntary termination of plans and stricter funding standards. Plans would be required to be funded so that all retirees' bene-

fits can be amortized in 10 years and all workers benefits can be paid off in 30 years, Mr. Cole said.

Plans that exceed these goals would automatically be subject to reorganization, through higher funding or reduced benefits. Only if a plan in reorganization could not meet benefit obligations after reducing benefits to guaranteed levels would it be permitted to be declared insolvent, said Peter Turza, special counsel to Sen. Jacob Javits (D-N.Y.).

A plan moving into insolvency would have to give prior notice to the PBGC, which would provide financial assistance under terms that would protect the insurance program from unreasonable cost, he added.

To fund the program, per capita premium paid to PBGC by multiemployer plans would be increased to \$2.60 from 50 cents over a five-year period. Liability for the proposed program would run between \$177 million and \$313 million annually, corresponding to between \$2.29 and \$3.79 per person, Mr. Turza said.

Although the \$2.60 charge was proposed by PBGC, some members of Congress believe a higher premium could be necessary, he added.

However, if voluntary terminations are permitted to continue, and it becomes impossible to recover from employers who withdrew from the fund, the cost of running the insurance program could be as high as \$80 per person, Mr. Cole said.

Withdrawal liability will become a plan asset for reorganization purposes, noted Donald H. Seifman, vp of Seifman & Lechner, a Washington law firm. The commitment of the remaining employers would be reduced by the size of withdrawal liability payments.

Employers will have strong incentive to meet withdrawal liability commitments since the PBGC proposals would permit plan trustees to sue for the entire outstanding liability plus legal fees and expenses, Mr. Cole said. In addition, the courts could add punitive damages equal to the size of the withdrawal liability.

The bill contains a special provision for employers in the construction industry, who traditionally have a high turnover. Only contractors who elect to withdraw from a plan and continue operating in the same line of work would have withdrawal liability.

Employers who go out of business, die, sell their business to a plan participant or have an open shop business operating alongside a union shop participating in a plan would not have withdrawal liability under the bill.

An employer who moves from an area and returns within five years would have withdrawal liability if he did not resume contributions to the plan upon his return. ■

Insurer receives \$1.2 million

SAN FRANCISCO—A \$1.2 million subrogation settlement has been awarded to The Travelers Insurance Co. in the case of a Fresno discount department store fire.

The Travelers insured Lucky/Gemco, scheduled to open its Fresno branch in November 1970. The store was destroyed by fire just before the scheduled opening. The Travelers filed suit against the contractors and subcontractors, charg-

ing they were responsible for the fire and the failure of the store's sprinkler system.

A partial settlement was reached a few years ago with all of the defendants except Cosco Fire Protection, the sprinkler subcontractor. The liability phase of the trial resulted in an 80% verdict in favor of Lucky/Gemco and against Cosco.

The \$1.2 million settlement came just before the damage trial. ■

Lloyd's reports healthy '76; future cloudy

By JOHN H. MILLER

LONDON—Lloyd's saw a global profit of \$263.5 million on premium income of \$3.65 billion for the 1976 trading year, Lloyd's annual report shows.

Under Lloyd's statutory audit system, which runs for three years, claims for 1976 are estimated at \$3.45 billion. Investment income is taken into account later for calculating profits.

But handsome profits are less likely in future years until the fierce battles for marine and non-marine business cool off and rates start to reflect proper underwriting ratios. The marine and aviation markets made a \$200 million profit in 1976, but still fear ill effects from worldwide rate cutting. Already it is clear that 1977 will not be a good year, although 1978 may see some improvements.

The non-marine market suffered underwriting losses of \$2.2 million on premium income of \$1.7 billion, making it nearly as bad as 1974, one of the market's worst years on record. The Sasse syndicate's losses of \$15.7 million are included in those figures.

Computer leasing losses, currently put at \$220 million, will be included in the 1977 accounts, which would otherwise show a profit.

"Some doom laden words have been written about the effect on Lloyd's," chairman Ian Findlay said of the computer leasing problem. "But our U.S. trust fund is \$2.3 billion, so that 12 months interest at 10% on that fund is sufficient to cover the estimated figures."

Lloyd's is generally satisfied with its 1976 figures, which represent a profit of 7.2% on premium

income. Profits were 8.5% in 1975 and even better figures ranging as high as 9.6% have been recorded in every year since 1970, except 1974. In that year, profits dipped to 5.3%.

"The underwriting climate, particularly in the U.S. and Canada, is now highly competitive in all classes of business," said Edward E. Nelson, chairman of Lloyd's Non-Marine Underwriters Assn. "The latest substantial increase in U.S. interest rates will not encourage companies to resist competitive pressures, since they will expect to make up losses from investment income."

"Non-marine underwriters view this development with apprehension, as they know only too well the dangers of adopting an attitude where the target is premium flow at all costs, with any losses made

up from investment income.

"Syndicates at Lloyd's are geared to the theme of making underwriting profits, and the new levels of interest rates will have a tremendous effect on the degree of competition they get from the U.S.," he said.

"The bottom line seems to be what counts in corporate management, and if the results for the operations are good, it seems to matter little where they come from. People will be inclined to go for cash flow, but this can turn out to be a highly dangerous policy, just as it did in 1974."

"Rates cannot be corrected overnight. This is a big worry in the U.S., where it can take up to 18 months for new rates to be approved by the regulatory authori-

ties and then implemented. So if interest rates used for investment purposes suddenly fall back and underwriting ratios have been cut to loss-making levels in the meantime, the insurance industry will be in a very unenviable position," Mr. Nelson said.

Mr. Findlay says, "We are going to get into a very difficult underwriting period. It will be worldwide, not just at Lloyd's, but I'm sure Lloyd's will go on playing its special role as it has always done."

Peter Daniels, chairman of Lloyd's Underwriting Agents Assn., which keeps a close watch on the influx of new members to its syndicates, said, "We've gone through a whole spectrum of changes in the past five years and are likely to enter a quieter period now until we see how market con-

ditions operate in the coming months."

Lloyd's capacity is likely to stay fairly static for the next year. Only 1,400 new members will enter in 1980, bringing the total to about 18,500, compared with the sharp hike of 8,713 since 1976, when there were only 8,565 members.

One reason is that the pound sterling has improved so much in value against the dollar that there is no longer any need for the technical solvency requirements that Lloyd's had to meet three or four years ago in order to write business.

At the same time the market has gone so soft, especially since 60% of its non-marine flow comes from the U.S.; that there is less incentive to put people into the Lloyd's syndicates.

A.O. Smith joins Bermuda group captive

HAMILTON, Bermuda—The captive insurer of A.O. Smith Corp. becomes the 13th member of Corporate Insurance & Reinsurance Co. Ltd., the group-owned reinsurance company here, on Nov. 1.

CIRCL will reinsure \$4.5 million of A.O. Smith's excess product liability insurance over a \$500,000 retention by A.O. Smith's Bermuda captive, Claymore Insurance Co. Ltd., said James Fix, corporate insurance manager at Milwaukee-based A.O. Smith.

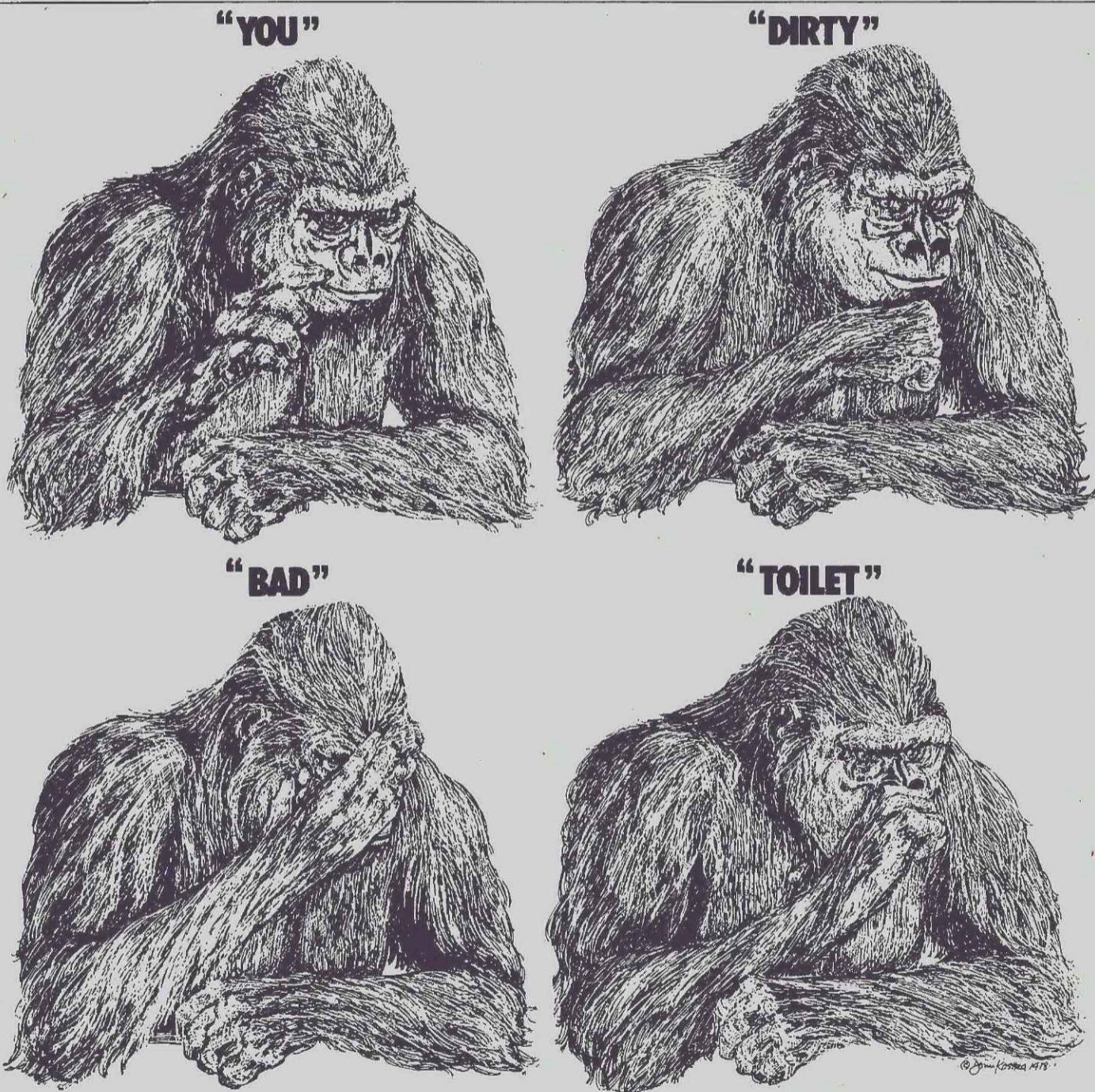
Employers of Wausau is the lead underwriter for Smith's program with CIRCL.

A.O. Smith decided in June 1978 when it organized Claymore that it wanted its captive to underwrite both parent and third-party risks to create both a profit center and a bona fide insurance company, Mr. Fix noted.

The company chose to acquire third-party business by participating in CIRCL, where members pool and share their risks, because "we decided CIRCL was as close to a wholesale and controlled situation as we could get," Mr. Fix said.

Business obtained from other reinsurance pools created to funnel third-party risks into captives can often be three, four or five times removed from the original underwriter with substantial commissions pulled off the premium before it reaches the captive.

A.O. Smith may also someday add workers compensation risks to the business it offers CIRCL, Mr. Fix said, and it may participate in CIRCL's primary layer reinsurance treaty.



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Aneco's rent-a-captive plan gives new twist to tax shelters

By ELLIS SIMON

NEW YORK—Bermuda-based Aneco Reinsurance Co. Ltd. is marketing a rent-a-captive plan with a new twist that it believes will keep the Internal Revenue Service out of the hair of its corporate clients.

Risk management consultants who have reviewed the plan praise it. However, none of the major brokers contacted by *Business Insurance* are recommending it to clients yet, and at least one broker was skeptical about the Insurance Profit Center's ability to beat back an IRS challenge.

The program, called the Insurance Profit Center, targets clients with annual premiums of \$500,000 to \$3 million. It requires clients to purchase nonvoting preferred shares in a noncontrolled foreign corporation, Aneco Mutual Ltd. Aneco Mutual, in turn, reinsures the clients' risks.

Aneco Re has capitalized Aneco Mutual with a \$1 million cash contribution.

Because Aneco Mutual would be a noncontrolled foreign corporation, with no single owner having more than 9.9% interest, and because risk is shared among participants, premium placed under the Insurance Profit Center would be tax deductible, states a legal opinion by LeBouef, Lamb, Leiby and

MacRae. Aneco requested the legal opinion.

Investment income in a noncontrolled foreign corporation is also permitted to accumulate tax free until shares are redeemed. Then it is taxed as capital gains, rather than at the higher corporate income tax rate.

As foreign source income, return on the redeemed shares could be used by multinational corporations to increase their foreign tax credits and reduce their domestic tax burdens.

The Insurance Profit Center yields after tax savings 36% greater than could be achieved with a conventional captive insurance company and complies with the Carnation decision, said John Kessock Jr., president of ANECOM, the firm's marketing arm.

The Carnation decision, rendered by a U.S. tax court judge, found there was no transfer of risk in a reinsurance arrangement among Carnation, American Home Assurance Co. and Carnation's Bermuda captive, Three Flowers Assurance Co. Ltd. (*BI*, Jan. 8).

INA Special Risk Facilities is the only U.S. insurer currently willing to cede risks into Aneco Mutual on behalf of clients. ANECOM is presently negotiating with several other insurers, said Mr. Kessock.

Commercial insurance buyers wishing to place business in the Insurance Profit Center would purchase a conventional retrospectively rated insurance policy from a standard insurer. Maximum and minimum premiums conforming to standard insurance industry practices must be used if there is to be sufficient transfer of risk to satisfy the IRS, states LeBouef, Lamb.

The retro premium would be adjusted by the primary insurer to reflect the policyholder's loss experience. Typically, this would be done after 18 months and annually thereafter during the five-year life of the policy.

In the first policy year, the policyholder would purchase nonvoting preferred shares in Aneco Mutual equaling one-third of its premium. This would be used to capitalize Aneco Mutual sufficiently to maintain a three-to-one premium to surplus ratio in accordance with accepted reinsurance practices.

In lieu of cash, a letter of credit would be acceptable to finance the purchase of preferred shares, Mr.

Kessock said. Use of nonvoting shares increases the prospects for Aneco Mutual to be recognized by the IRS as a noncontrolled foreign corporation, he added.

The importance of Aneco Mutual being recognized by the IRS as a noncontrolled foreign corporation is so great the LeBouef, Lamb's opinion suggests aborting the program "if within a specified offering period sufficient subscriptions have not been obtained so that no single insured represents more than 10% of the exposure of Mutual."

Aneco Mutual has one year from the time it accepts the first risk to achieve the desired spread of ownership, Mr. Kessock said.

The firm has quoted on eight risks so far and expects to underwrite the first account by year-end, he added.

Being a noncontrolled foreign corporation would be one of the Insurance Profit Center's biggest pluses, says risk management consultant George Betterley: "I think it's well sheltered against the IRS since no firm will own more than 9.9%."

Claims against Insurance Profit Center policyholders are to be serviced by the policy-issuing company, but paid out of premiums ceded to Aneco Mutual. Policy-issuing companies, in turn, reinsure Aneco Mutual. Each issuing company will stop losses on all its clients' business at a predetermined level, tentatively 98% of the premiums paid by the issuing insurer to Aneco Mutual.

The arrangement results in a true sharing of risk, LeBouef, Lamb said. "To the extent that a particular insured's losses exceed its premiums, they will be funded with premiums paid by other insureds. Thus, losses will be distributed over all the risks covered by (Aneco) Mutual.

"To the extent that aggregate losses exceed the point of attachment for the excess of loss coverage, they will be funded by an insurance carrier, not by the subscribing insureds."

But Corroon & Black vp James Davis believes the amount of risk sharing is not sufficient to beat back an IRS challenge. Since Aneco's losses will be segregated by insurer account, losses are not really distributed, he said.

"If the Bermuda people (Aneco) sell nonvoting stock and preferred

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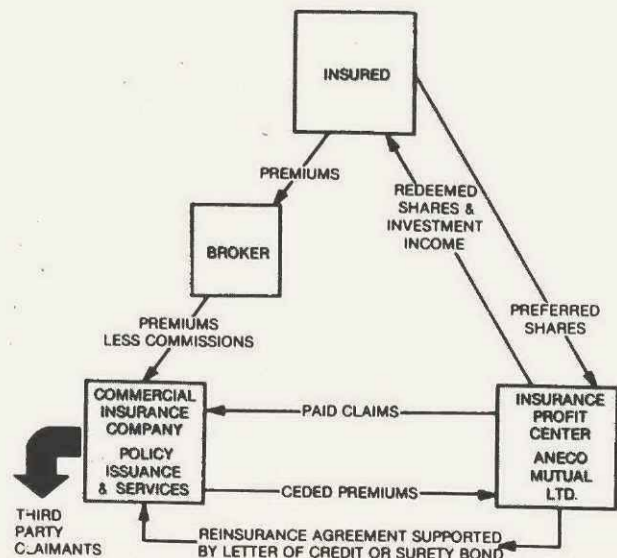
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How the money flows in Aneco's plan



dividends reflect the program's experience, I don't believe the IRS has a way to get at it," countered Jack Morrison, president of INA Special Risk Facilities Inc.

Another broker cautioned that unless the program is carefully constructed, a "sharp IRS man can pierce through it." The Insurance Profit Center will work for some companies and be challenged for others, he predicted.

It should, however, have a "fair track record" provided that insurance agreements are structured so there is an element of risk assumed by the policy issuing company and the Insurance Profit Center, he concluded. The retro program must have "realistic maximum and minimum premiums," he said.

Policyholders would redeem their holdings in Aneco Mutual after five years, receiving the cost of their original shares, investment income on the shares and Aneco Mutual's loss reserves and a proportional share of any underwriting profit in excess of 2%.

Out of this, the policyholder would pay to Aneco Mutual a commission of one-half percentage point on investment income earned on the preferred shares and one percentage point on investment income earned on the loss reserves. To continue in the program after five years, the policyholder would have to purchase a new series of preferred shares.

Aneco Mutual would invest its capital and loss reserves in the Eurobond market, which typically pays 1% above domestic rates, said Mr. Kessock. This would avoid having to pay a 30% withholding tax to the IRS on U.S. source income.

According to Aneco Mutual's cost comparison analysis, a \$5,098,812 gross premium policy placed in the Insurance Profit Center would result in an after tax net cost of \$508,875, compared with \$659,518 for a self-insured retention, \$799,765 for a captive, \$1,254,527 for a standard paid-loss retro and \$1,577,264 for conventional insurance.

Assuming actual losses and loss expense of \$3,043,988, the Insurance Profit Center program would have a retro return premium of \$933,083, administrative costs of \$1,121,738, a tax deduction of \$1,916,234 and investment income

of \$1,740,617.

Retro returns for self-insurance and a captive would be the same and tax deductions and administrative costs on a captive would equal those of the Insurance Profit Center, although they would be less for a self-insured retention. However, the \$1,740,617 investment income earned on the Insurance Profit Center would better the \$1,499,927 earned by the captive or self-insured program, according to Aneco's projections.

The program would have its greatest appeal to companies in the \$500,000 to \$1 million premium range, Mr. Betterley predicted, giving small firms the advantages of having a captive. It would be less attractive to jumbo accounts, he said, noting that "we'd have to work the numbers out to see how it works for a particular client."

Hugh Rosenbaum of Risk Planning Group called the Insurance Profit Center "an ideal type vehi-

cle" to be considered as a rent-a-captive alternative.

There is nothing wrong with the Insurance Profit Center concept, but less expensive alternatives such as cash-flow retro programs and self-insurance provide self-retention of risk without requiring capital contributions, said Peter Densen, president of Alexander & Alexander's Anistics division.

Aneco's cost comparisons do not take into consideration the income that could be generated by internally investing the capital contribution, he noted. As a result, Insurance Profit Center would benefit only companies that earn more money by investing in marketable securities than in their own ongoing activities.

"If a company can't earn more on internal investment than marketable securities, it shouldn't be in business," he declared.

Mr. Kessock agreed that if a firm can get a higher rate of internal return, Insurance Profit Center is not

for them.

Other brokers are still taking a wait-and-see attitude. Mr. Davis said Corroon & Black has sought advice from outside tax counsel on the tax deductibility of premiums placed in the Insurance Profit Center.

Although Marsh & McLennan senior vp Joseph Fahys said his

firm is satisfied with the tax status of the concept, it is seeking additional information from LeBouef, Lamb on operational aspects of the program before deciding on recommending it to Marsh & McLennan clients.

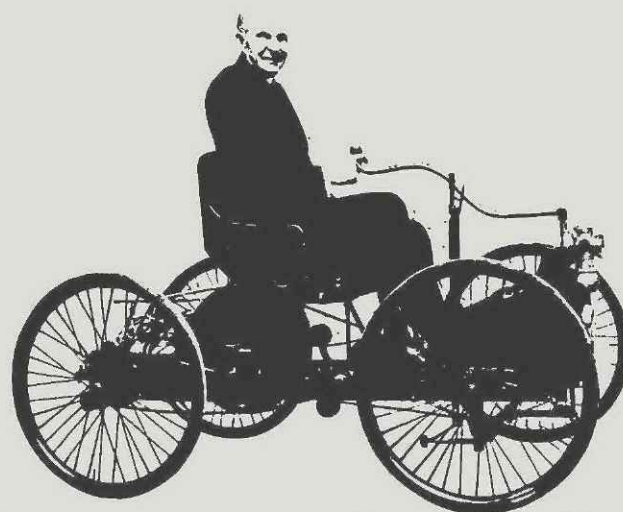
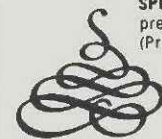
Frank B. Hall & Co. senior vp John McCaffrey said the Insurance Profit Center is still under study by the broker.

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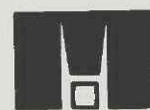
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NAIL elects new officers

CHICAGO—Joe E. Lancaster, executive vp of Tennessee Farmers Mutual Insurance Co. of Columbia, Tenn., has been elected 1979-80 chairman of the National Assn. of Independent Insurers. Frank J. Barrett, executive vp and chief counsel of Omaha Indemnity Co., was elected vice chairman.

Ten members of the board of governors were re-elected to three-year terms: Sol Tversky, director-insurance services, Automobile Club Inter-Insurance Exchange; Duane L. Miller, executive vp and chief executive officer, Country Mutual Insurance Co.; Robert D. Hilton, president, Excalibur Insurance Co. of Minnesota; Edward S. Ring, senior vp and chief operating officer, Government Employees Insurance Co.; Bradford W. Mitchell, president and chief executive officer, Harleysville Mutual Insurance Co.

Also Harry W. Williams, manager, Motor Club Insurance Assn.; W.V. Siegfried, vp-underwriting, Nationwide Mutual Insurance Co.; Melvin J. Shannon, president, Occidental Fire & Casualty Co.; Herbert L. Parks, president, Peninsular Fire & Casualty Insurance Co.; and Edwin Seaman, president, Transamerica Insurance Co.

Elected to a one-year term was Gustav J. Lehr, executive vp, MFA Mutual Insurance Co.

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Cost control group develops criteria for health programs

By ELLIS SIMON

PHILADELPHIA—Piqued by inability to obtain comparable data to measure health benefit cost trends and the effectiveness of cost containment techniques, the Joint Health Cost Containment Program of Philadelphia has developed health data criteria that it hopes member companies will adopt.

Need for uniform data was cited in a study on economical management of health benefit programs recently released by the organization. Area business groups—Penjerdel Council, Greater Philadelphia Chamber of Commerce and Health Services Council Inc.—formed the program in an attempt to stem the tide of escalating health costs (BI, Feb. 5).

Of 33 Philadelphia area companies participating in the study, only one-third were able to provide satisfactory cost data.

The study was undertaken to conclusively measure the effectiveness of various cost containment techniques, but was thwarted by the lack of comparable data.

Therefore, it developed proposed uniform data criteria using 13 data elements obtainable from corporate personnel records, eight elements from corporate financial records and 19 elements from insurer records.

Statistics that should be gleaned from company personnel records include: average number of full-time employees; hours worked and hours paid; hours and cost of paid

Cost Control Efforts

"Which existing techniques have been most effective in or show the greatest potential for cost containment"?

	Cited	Used
Second opinion on elective surgery	42%	9% ¹
Encouragement of outpatient services	36%	0% ²
Deductibles and coinsurance	30%	97%
Education of employes	27%	76% ³
HMOs and preventive care	27%	76% ⁴
Financing controls (minimum premium, control over reserves)	24%	52%
Review of utilization; interaction with providers	18%	100% ⁵
Coordination of benefits	15%	100% ⁵
Surgical fee schedules	12%	24%
Monitoring of turnover and absenteeism	9%	unclear
More intensive bargaining with carriers	9%	unclear
Premium sharing	6%	61% ⁶
Involvement of employer in HSA	6%	unclear
No technique will work	6%	—

- 42% reported use of this technique, but only 9% specified it in the benefit literature.
- All plan designs seem to discourage outpatient care. While 60% orally reported PAT coverage, only 6% specified PAT within the benefit literature.
- Education programs were generally reported to be casual or "as needed."
- Estimated.
- All claim use of this technique, predominantly via carrier.
- 27% require sharing of employe's premium, 61% dependents'.

sick time; hours of health-related absence not eligible for paid sick time; full time employes terminated for health and other reasons; workers compensation disability claims; eligible employes whose health risks have been reduced by participating in health education, screening or detection and preventive or behavior modification programs and hours of non-paid sick leave, number of disability or compensation claims and number of terminations categorized by diagnosis.

Obtainable from company financial records should be the cost of: health insurance claims paid; in-company health services; in-company health benefits administration; contracted health services; screening and detection, preventive and behavior modification and health education programs plus total employe contributions toward health insurance premiums.

Insurance company records should provide figures on: hospital inpatient admissions; days of inpatient hospital care; ambulatory care visits; hospital admissions using pre-admission testing; operations performed in short procedure units; operations performed in a given month without second opinions; second opinions sought in a given month; operations performed in a set time after a given month in which a non-confirmative or second opinions were made; transfers to home care programs, skilled nursing and rehabilitation facilities; days of care and cost of claims for care rendered in skilled nursing and rehabilitation facilities; cost of claims paid for outpatient services; total employe cost-sharing exclusive of contributions to premiums, categorized by provider and service; cost of claims paid for physician and institutional services and average number of days hospitalized before surgery.

These elements would be used to measure the impact of health status on employe productivity, costs of influencing employe health

utilization of health care services, performance of selected cost containment techniques and changes in health care benefit plans taking effect during the reporting period.

Cost containment techniques recommended for measurement are pre-admission testing, short procedure units, second professional opinion programs, employe health education programs and detection, prevention and behavior modification programs.

No companies are believed to have yet adopted reporting criteria proposed by the cost containment group, said assistant director John English. An analysis of the cost of compiling the data has not been done, but a utilization study being conducted by Greater Philadelphia Blue Cross should provide some cost insight, he added.

Historically, employers have not maintained detailed records on utilization of health care facilities because they have only recently become interested in health benefits as a corporate cost center, Mr. English noted. As corporate awareness of this dilemma grows, business will put more effort into finding solutions, he predicted.

Although the survey findings were statistically inconclusive, they indicated that savings could be achieved from greater use of alternatives to acute hospital care such as pre-admission testing, outpatient surgery and routine care and second opinions on surgery.

Ironically, the cost containment techniques survey participants believe to have the greatest savings potential have been least utilized.

In addition, coinsurance, deductibles and premium sharing provisions frequently found in plans "could provide improved cost containment if their use were reoriented to encourage greater use of outpatient as opposed to inpatient benefits," the report said.

Companies providing in-house medical facilities could achieve savings through improved productivity, the report said.

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Liberal disability plans invite abuse: Study

CHICAGO—Steady increases in disability benefits and the number of disability programs in the U.S. have made it "socially acceptable" and in some cases more financially convenient for the disabled to remain on the disability rolls rather than return to work, says a report by the federal Office of Management and Budget.

The private and public sectors have created such a variety of disability programs in the last 30 years that many workers, who otherwise would have worked or at least attempted to work, are collecting disability or substituting disability for retirement benefits, the report says.

"Apparently, more and more people are labeling themselves disabled although (probably) impairments are becoming less common," the report states. "The greater acceptance of the label—and the diminution of the work ethos it implies—probably are accompanied by substantial increases in claims and awards under disability systems."

The OMB report tends to reinforce a recent study by the Health Insurance Assn. of America (HIAA) which concluded that millions of disabled workers are "overinsured" and living more comfortably on disability benefits than on pre-injury income. Both reports point out that overlapping coverages provide excessive benefits and a disincentive toward rehabilitation.

Cash disability payments grew to \$34 billion, or 2.2% of the gross national product in 1975 from \$10 billion, or 1.4% of GNP in 1965; the report says. In addition, Social Security disability insurance, the largest single public program, paid benefits to 1.3 million disabled workers 10 years ago. Today that number has more than doubled to 2.9 million, although the workforce has grown by only about 30% in that time.

But the growth in disability usage may level off and subside the way the number of welfare recipients peaked out after rapid growth in the 1960s, the report says.

Since medical evidence shows no increase in disabling injuries, increases in disability plan usage is probably because of "intervening factors," the report continues.

"Economic analyses find that

higher benefit levels, because they increase the attractiveness of disability benefits, compared to the financial gains from working, have been partially responsible for increased use of disability programs," it says.

Benefit levels increased at the same time disability programs were created, such as supplemental Security Income in 1950 for nonworkplace injuries, DI in 1956 for workplace injuries and black lung disability in 1969. In addition, long term disability insurance became popular in the private sector around 1960, the report said.

Between 1950 and 1975, the period under study, those four programs paid out more than \$12 billion, or more than 35% of total disability cash payments.

"If society had not invented and funded new programs for disability since 1950, disability spending in 1975 would have been less than two-thirds as high as it was (\$34 billion)," the report states.

Still more accelerated growth of disability program use is being held in check by a widespread ignorance of their existence.

The report says 26% of the totally disabled and 24% of the partially disabled persons: ages 20 to 64 know nothing about any public disability program. In addition, 47% of partially and totally disabled persons in that same age group do not know that DI coverage exists. "Widespread ignorance of programs only implies that the influx of beneficiaries onto the rolls will be substantially less than it would if all eligible persons knew of available programs and applied to them."

OMB's picture of the future of the disability system is not totally bleak. The report compared the situation with the welfare crisis of the 1960s, when a rapid rise in the number of claimants for Aid to Families with Dependent Children eventually peaked. The dramatic increase in welfare recipients, which caused considerable public alarm a decade ago, was largely because of the growing percentage of eligible persons claiming the benefit.

The disability situation is showing similar tendencies, said the report, offering as evidence that DI and Civil Service retirement claims are no longer rising. But growth will subside only if new programs

are not created and eligibility standards for existing programs are not made more liberal, it said. "If new programs are developed and more persons are made eligible for existing ones, the beneficiary rolls may be expected to grow because the number of eligibles grows."

The report points to other issues and problems in the disability system:

- There are conflicting definitions of disability from program to program which lead to variations in the availability of benefits. Programs should be made to apply uniform definitions.

- On one hand, the DI and SSI systems define disability as impairment so severe that the individual is unable to perform any "gainful work." However, the less stringent federal Civil Service retirement

system sees a disabled person as one who is prevented from "performing any essential part of the duties to which he is assigned."

- There is a disparity in benefits that causes some, after tax payments to exceed predisability earnings while others fall short of that level. Some plans base replacement on gross rather than net predisability earnings, causing some workers to pay higher income taxes and have less disposable income. But not all plans pay health insurance costs, leaving some disabled persons to face even further expenses.

- On the other hand, low-wage earners can receive benefits exceeding predisability pay because Social Security is "skewed" to provide higher replacement ratios to low-income people. DI benefits are

also available for these individuals with higher entitlements for dependents.

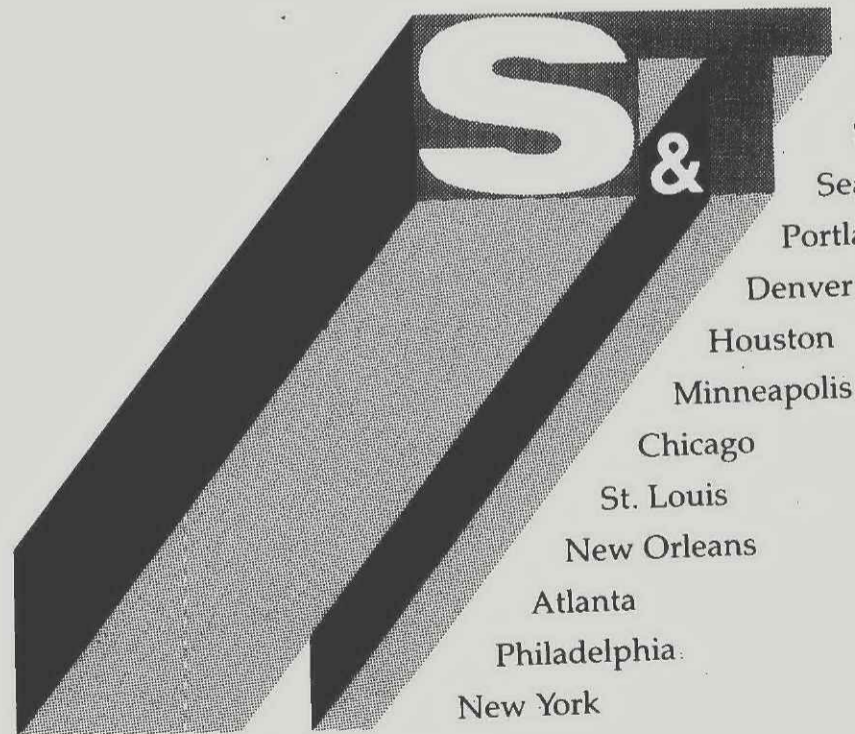
- Differences in earnings tests for various plans make benefits more available to some workers and less available to others. DI and federal Civil Service have stringent earnings tests to determine benefits while others do not.

- Many programs have waiting periods before initial benefits are paid to discourage malingering and reduce administrative workloads during short term disabilities. But other programs, such as Social Security, have none.

- Some programs overlap, leaving the disabled person to shop for the most generous benefits, or in some cases collect from multiple programs. But there can also be gaps in programs.

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Big disability study begins

CHICAGO—A test questionnaire for a massive study of private disability insurance plans will be mailed to a random sample of employers the second week in November.

In early 1980, the final questionnaire will be mailed to a random sample of 5,000 employers.

The questionnaires will gather data for a two-year, \$400,000 study commissioned by the Social Security Administration to analyze private disability insurance programs, focusing on who is covered, for how long and at what costs. The study, awarded in competitive bidding to Thomas L. Jacobs & Associates here, will also analyze claim practices, rehabilitation programs and re-employment practices.

The study, believed to be the biggest ever of disability insurance, is designed to provide the Social Security Administration with information to assist in future policy and planning decisions, says Jacobs & Associates. But it's also hoped the results will help employers in their benefit planning, says Steven N. Schrenzel, vp at Crampton, Lewis & Co., a Jacobs & Associates subsidiary specializing in employe benefit consulting, which will assist with the study.

Questionnaires will be mailed to a random sample of 5,000 employers to gather the data for the study. Additional information will be requested of insurance companies, pension and welfare administrators and rehabilitation specialists.

Also assisting Jacobs & Associates in the study will be the University of Illinois Survey Research Laboratory and Donald Doudna, a Ph.D. professor of insurance studies at Drake University.



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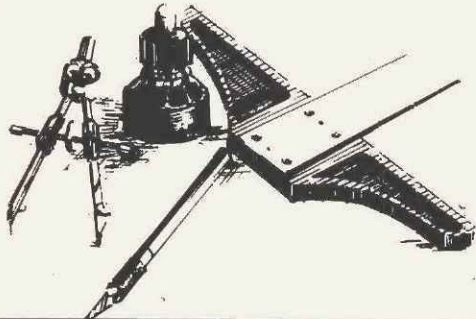
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N.C. firm cuts cost of cover

CHARLOTTE, N.C.—After three years of prodding and pleading with his insurers, a North Carolina risk manager has cut the premium costs for his excess casualty coverage by getting the rate base switched to payroll from revenues.

Like other risk managers who recently have had similar success in the current soft insurance market, Henry Shelby, manager of employee benefits and insurance at Piedmont Natural Gas Co. Inc. here, argued that the inflationary cost of his firm's product unrealistically raised the cost of his insurance premiums.

"It was illogical to base premiums on sales and revenues, which went up even when the exposure stayed the same. It was the same amount of cubic feet; the price just skyrocketed," he said.

Mr. Shelby estimated he saved about 15% on the program renewal he put together in October to cover the first \$10 million of the \$30 million aggregate excess coverage on his company's auto and general liability policies.

The company self-insures the first \$100,000 and Aetna Casualty & Surety provides the primary layer of \$500,000. That coverage has been based on payroll for the past three years.

Bellefonte Insurance Co., Harbor Insurance Co. and California Union were the insurers who agreed to the rate change for the excess coverage.

The program renewal was placed by Marsh & McLennan vp Dick Johnson.

But Mr. Johnson added that risk managers who haven't been able to get underwriters to go along with the premium-saving plan in recent months may find that the chance of achieving those savings has passed them by. An expected tightening of the market is going to take away a lot of risk managers' bargaining weapons in placing coverage, he predicted.

Brokers E&O

Insurance brokers errors and omissions insurance is available through Catalina General Agency, a Los Angeles excess and surplus lines broker.

riskWatch

By SUSAN ALT

NAII: Where insurers barter next year's prices

Picture the bazaars of Baghdad, merchants huddled nose-to-nose with customers, haggling over prices, each side pressing for the best terms.

The scene wasn't too different at the National Assn. of Independent Insurers meeting at Chicago's cavernous downtown Marriott Hotel earlier this month, as insurers, intermediaries and reinsurers huddled in tight clusters and haggled over reinsurance treaties and prices for 1980.

What happens in the reinsurance markets now, as treaties are renewed and facultative relationships reinforced for 1980, heralds price trends for corporate buyers 12 to 18 months into the future. The problem is, it's often—if not always—difficult to catch a glimpse of the deals made between reinsurers and insurers. *Business Insurance's* intrepid editors, venturing for the first time into the midst of the bazaar, however, were able to see that:



Alt

- There's still a tremendous amount of new reinsurance underwriting capacity flooding into the world marketplace, pushing property and casualty reinsurance prices still lower.

- Buyers can expect competition in the property and casualty insurance markets through most of next year. And most reinsurers predict there won't be any hardening of prices for insurance until 1981 renewals roll around, at the earliest.

- Despite mounting U.S. property and liability losses showing up as red ink in the underwriting results of U.S. insurers, reinsurers aren't feeling the effects because higher net retentions by primary insurers are preventing any heavy losses from flowing into the reinsurance field.

Cutthroat price competition among insurers begins to mean more at meetings like NAII where you can see some of the results: A large West Coast corporation with manufacturing and marine exposures sought a high layer of excess workers compensation insurance from the excess or reinsurance markets, attracting a premium quotation of more than \$50,000 from the London market, a bid of slightly more than \$30,000 from the Bermuda market and a (winning) bid of \$9,500 from a U.S. insurer. That's competition, folks.

"It's crazy, everybody's going crazy," moaned one reinsurer, looking worried and rubbing his forehead. "With interest rates so high, insurers are making so much money on investments that they don't seem to be paying any attention to underwriting results."

But if there's any "central marketplace" for insurance in the U.S., the annual NAII meeting is surely it, with an estimated 200 of London's most prestigious (and aggressive) underwriters and brokers on the scene, along with the world's leading reinsurance companies, to "touch base" and do a little business with their customers, the insurers. Among registered guests alone were the names of people representing more than 40 London brokerage firms and underwriters.

Insurance market changes over the last few years become obvious simply by observing who attends NAII. Captive management companies come to the meeting in force. They want to solidify relationships with reinsurers taking slices of risks from pools of captives and to drum up new business as more captive insurers plunge into non-parent underwriting. More corporate risk managers are at NAII, primarily those whose captives have already begun writing third-party insurance, but also a few who are only now heading in this direction. Members of NAII once captives writing solely parent risks but now "general" insurers are evident in growing numbers on the list of registered members.

Representatives of the Bermuda market are also showing up in force: reinsurance brokers, insurers and reinsurers. Next year, for more visibility and leverage, the Bermuda movers and shakers want to put on their own party so the world will start viewing Bermuda markets as a force to be reckoned with.

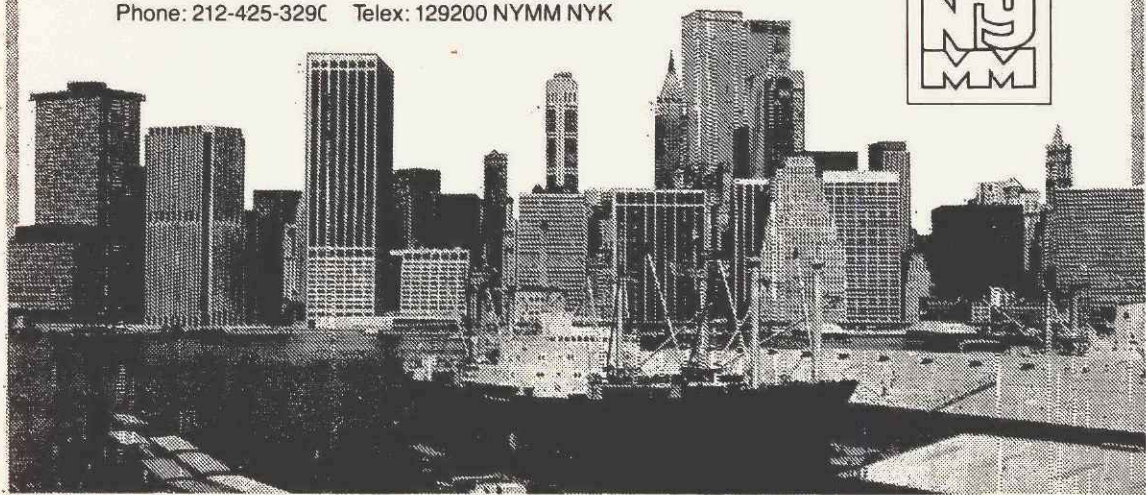
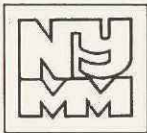
That the insurance business has become truly international is evident in the attendance of executives from the world's leading Far Eastern and European reinsurers: Skandia, Scor Re, Tokio Re and Gerling Global were there.

And so it was that when next year's insurance prices are tallied, the future of your risks will be as the prophets doing their deals at NAII have written.

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Lawsuit strains ERISA investment rules

Continued from page 1

The case raises the "prudent man" question, Mr. Schorn said. "The rule is quite strict. The defendants must show that they did an awful lot of homework and cross-checking before investing."

Most fiduciary liability claims to date have been for failure "to act solely in the interest of plan participants" or "to provide benefits and defray necessary expenses," said ERISA expert Marc Gertner of Schumaker, Loop & Kendrick, a Toledo law firm. He predicts more tests of the prudent man rule will be brought in the future.

According to allegations in the complaint, retirement committee chairman Charles G. Dyer acted "without participation of investment manager or counsel or independent appraisal" in committing retirement fund assets to several real estate transactions.



The suit charges retirement panel chairman Charles Dyer with wrongly investing funds.

purchase was made with a wholly owned subsidiary of the firm that owns Capital Alliance, one of the plan's money managers, and the transaction was not documented as required under ERISA, the suit continues.

Warehouse purchase

Mr. Dyer purchased a \$1.2 million warehouse in Atlanta in 1974 without the participation of the retirement committee and the named defendants, the suit charges. The

The warehouse occupancy was below a level guaranteed by a prior owner and reflected in the sale price and the roof collapsed soon after the purchase, the suit also noted.

Another transaction the suit objects to is the 1976 purchase of \$1.5 million of stock in a Southeastern land holding company, Atlantic Land Co., and an additional payment of \$2.5 million in 1978 to "another participant in the transaction after the property was reevaluated higher.

Purchase appraisal

The purchase was based on an appraisal by a company owned by the Wall family which sold the stock to the fund, the suit charges, and the later payment based on an appraisal by a Wall family member.

Such a transaction is not a permissible investment for the plan since it involves "participation in business operations," the complaint notes. This could "invite challenge to the tax preferences otherwise available to the plan and participants, the suit adds.

Mr. Mudd also objects in his suit

to the undetermined amount of investment in 1975 in a joint venture with Trammel Crow Corp. to develop a \$50 million warehouse project near Chicago's O'Hare airport. Crocker National Bank, one of the fund's real estate managers, had advised that Trammel Crow was in financial trouble at the time, the suit contends.

It also charged that participation in the joint venture represented entry into a "hazardous field where the plan lacked capabilities for business judgment and manage-

ment."

This created obvious "risks to other assets of the plan," the complaint said, adding that "controversy could make fair administration of plan benefits impossible for years."

The suit also charges Mr. Dyer did not act prudently in replacing money managers Alliance Capital and T. Rowe Price with Gordon Rollert Associates for handling real estate investments. Mr. Dyer has described Rollert Associates as a "captive" of the pilots' fund. The suit charges Rollert Associates "lacks staff experience, resources and legal authorization to conduct real estate operations."

Policy limitations blur under test

Continued from page 1

are named as defendants, it is possible that the fiduciary liability insurer's responsibility may be limited to giving advice," he said.

The case also comes at a time when court cases are blurring the limitations of claims made insurance and forcing some insurers to pay or share claims reported after claims made policies have terminated, he said.

The court cases—notably *Gyler vs. Mission*, a Cincinnati, Ohio, personal injury battle—in addition to fuzzy exclusions and reporting requirements could draw National Union into the case, agree other experts contacted by *Business Insurance*.

National Union's spokesman, however, would only say that it no longer insures Fairchild/Capitol Cities. Federal Insurance Co.'s vp Robert Lynyak would not discuss the suit, noting only that Federal does insure Capitol Cities.

Fiduciary liability experts contacted by *Business Insurance*, however, say Chubb is the likely candidate to bear the potential losses. The claim and suit were filed while its policy was in effect.

Chubb is also known to extend fiduciary liability insurance retroactively to cover unexpected claims as far back as July 1975, when ERISA was enacted.

Standard exclusion

"The National Union policy at the time looks like a claims-reported form," remarked Marshall Rattner, president of Professional Indemnity Agency Inc., a fiduciary liability underwriter. Mr. Rattner is following the case closely to assess its impact on his own forms and reporting requirements.

But National Union would only be liable for the claim if the insurer had received some knowledge of a potential claim during the period its policy was in force because of the modification of its claims made form, he said.

If Capitol Cities had some knowledge of the potential claim before the suit and before insuring with Chubb, Chubb may be able to deny coverage based on a standard exclusion that denies coverage for prior acts known to the policyholder, Mr. Rattner said.

"I have heard that the Chubb had made the mistake of deleting that

exclusion and not excluding the return of personal profits," Mr. Rattner said. "If so, that would be sheer stupidity on their part."

Another fiduciary liability watcher, James Donahue, vp of underwriting at J.H. Blades & Co. had not been aware of the suit until contacted by *BI*.

The Chubb policy, he agreed after considering the case, is the most likely to apply. Since the current corporation, Capitol Cities, and the current pension fund are named as co-defendants, Chubb is on the spot immediately, he explained.

Suit's allegations

"Unless Chubb cut off their tail by excluding all prior acts, its policy would traditionally provide implied insurance for the terminated plan," he said.

The charges levied against Capitol Cities in a New York federal court under ERISA allege that Capitol Cities fully vested employees of Fairchild covered under a premerger plan in 1971 but stopped providing members with summary annual reports required by ERISA.

The suit further charges the defendants received dividends from Bankers Life Co., which underwrote the life insurance policies that provided benefits to the vested employees, and applied those funds to benefit the corporation, not the plan participants.

No dividends were paid to plan participants, alleges the suit, and Marine Midland Bank and Boston Safe Deposit should have known the dividends were marked for plan participants and collected the funds on the employees' behalf.

The suit also charges that the defendants had allowed the rate of return to be substantially lower than received on other investments and therefore lower than what a pru-

Berkley completes group acquisition

NEW YORK.—W.R. Berkley Corp. has completed its acquisition of the Jersey/International Group, an excess/surplus underwriting manager.

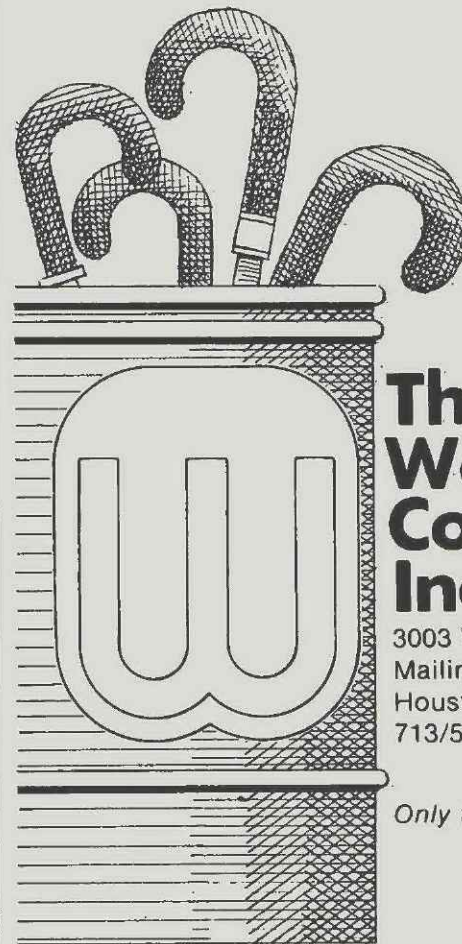
W.R. Berkley specializes in ownership of regional and specialty property/casualty and reinsurance companies.



The fiduciary liability insurer may only be responsible for advice, says Thomas Sheehan.

dent man could expect to receive, a fiduciary requirement under ERISA. The sum of the plan's assets is unknown.

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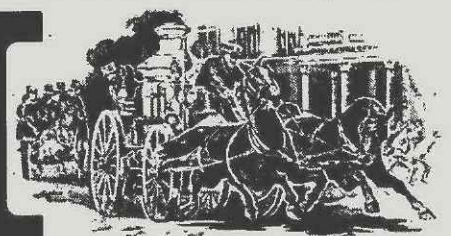
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Insurer charges A&A with negligence

Continued from page 2
writing performance for:

- Accepting reinsurance risks without first obtaining data of sufficient quantity and quality to make a prudent assessment of them and accepting risks that from the data available were "plainly imprudent or likely to produce underwriting losses."
- Accepting reinsurance contracts in which the magnitude of risk to OpRe was "disproportiona-

tely great in relation to the premium income to be realized by OpRe."

- Failing to ensure that premiums due OpRe were collected in a timely manner.
- Entering into a reinsurance contract in at least one instance that carried a loss exposure more than 50% greater than OpRe had given AIL authority to accept.
- Failing to terminate reinsurance contracts that had proven to

be unprofitable or unsatisfactory for OpRe.

- Advising OpRe to set reserves at 85% of premiums received, "which was unrealistically low."
- Performing underwriting alone in at least one instance when A&A said it would only accept reinsurance principally underwritten by established outside underwriters.
- Accepting reinsurance contracts in which commissions, bro-

kerage and other fees were "plainly so high as to deprive OpRe of any reasonable opportunity for profit.

In addition, the suit charges AIL failed to provide information requested by OpRe "or otherwise failed to provide reasonable and forthright cooperation."

As the basis for recovering its losses, OpRe quotes its agreement with A&A that said if OpRe sustained losses or damages "due to negligence or dishonesty of em-

ployes or officers" of AIL, then OpRe could look to A&A.

OpRe was founded in September 1973 as an investment by Oppenheimer Co., an investment company, and Forenedo Assurandor, a Danish insurance company. United Insurance Holding N.V. was established in the Netherlands Antilles as the parent company.

Mutual Fire, Marine & Inland Insurance Co. and Royal Chartered General Fire Insurance Co. Ltd., a Danish company, became shareholders in the parent company in 1978.

Groups fight forced female sterilization

Continued from page 2

sidered for a job, the company must be able to justify this qualification by business necessity.

In order for that qualification to hold any water with EEOC, the company must prove the actual business or the safety and job security of the current work force depends on that particular policy.

Women are being barred from jobs in chemically hazardous areas because it's expedient, Ms. Williams charged. But the actual business or the safety and job security of the work force could not possibly depend on this policy, she argued. "Instead, the employer could do what he is mandated to do under OSHA—minimize the hazardous exposures to the workers.

"Employers are hiding behind this theory in order to avoid what might be more troublesome and expensive—to clean up the workplace," Ms. Williams charged.

CROW was formed shortly after the sterilization policy at Willow Island was widely publicized early in 1979.

The most conspicuous victims of a sterilization policy are women in the chemical, nuclear, auto, rubber and steel industries, CROW says. "Under the guise of concern for fetuses, employers are forcing

women to choose between sterilization or loss of their jobs and have stopped hiring women for jobs posing any reproductive hazards," the group charges.

In the first six months since it was created, CROW has expended most of its energies courting the support of federal agencies, such as EEOC and OSHA, and also the labor unions. It has been holding seminars for workers in the chemical plants informing them about the dangers of chemical exposures on the reproductive system.

Peggy Seminario, an industrial hygienist for the AFL-CIO and the CROW member conducting these seminars, was surprised when more than half of the people showing up for her seminars were men.

"They are not only disturbed about the hazards to the women they work with, but they are very worried about what effects the toxic substances will have on their own reproductive systems," she said. "The male workers are too smart to think that they are immune to the reproductive damage caused by exposure to some chemicals.

"The strongest weapons in this fight against employers are the workers," Ms. Seminario admitted. "CROW and any other interest groups that are serious about this are aware of that fact."

Meanwhile, groups including Coalition of Labor Unions, the International Chemical Workers Union, Oil, Chemical and Atomic Workers Union and the Chicago Area Committee on Occupational

Safety & Health Administration, have been investigating charges made by workers that companies other than American Cyanamid are barring women in their child-bearing years from jobs.

Also investigating these employment practices are several women's groups that have also made sizable contributions to medical organizations and universities conducting research on the effects of toxic substances on both the male and female reproductive systems.

"None of these companies have been as blatantly discriminatory as American Cyanamid," admitted Manny Tuteur of the Coalition of Labor Unions. "These companies are just barring women from the higher paying jobs and justifying it

by saying they are protecting the health of the fetus."

The International Chemical Workers Union is currently investigating the employment practices of a plant in Danville, Ill., which is barring women from holding certain jobs. The union refused to name the company or how many workers were affected.

If the medical community could prove that exposure to certain toxic substances provokes changes in the reproductive systems of both men and women, the companies would not have a leg to stand on, said Ms. Seminario of the AFL-CIO.

But so far the medical community hasn't been able to produce enough evidence, said Dr. Jeanne

Manson, assistant professor of environmental health (reproductive toxicology) at the University of Cincinnati, "and early research has not been accepted."

"It's just corporate mentality to refuse to accept the findings of fledgling research which increases the possibility of reproductive problems," she said.

But recent lab animal research is revealing that high levels of toxic substances do damage the male reproductive systems, she said.

Based on this research, Dr. Manson said: "If they (men) remain in these plants where they are exposed to toxic substances, they face the possibility of impotency, sterility or genetic mutations, which cause birth defects in their offspring.

Dow Chemical Co., Monsanto Co., Celanese Corp., Shell Oil Co. and Exxon Corp. refused to discuss these issues.

Risk exec award nominations must be submitted by Dec. 31

CHICAGO—The deadline for submitting nominations for the 1980 *Business Insurance* Risk Manager of the Year is Dec. 31.

The third annual Risk Manager of the Year competition is sponsored by *Business Insurance* to honor an outstanding risk manager and give visibility to the risk management profession.

Forms to use in nominating a practitioner of risk management—in corporations, institutions or government—are available from the editorial headquarters of *Business Insurance*. The nominees may be full-time or part-time insurance or risk managers or executives handling insurance and risk management as part of their overall duties.

A panel of 10 distinguished insurance experts will judge the nominations against nine criteria to select an outstanding risk manager for 1980 (*BI*, Oct. 1).

The nine criteria to be used in selecting a risk manager of the year are:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applied the diverse tools of risk management and insurance.
- Creatively and effectively used the insurance markets.
- Established a workable intelligence system inside and outside the organization, culminating in access to a flow of information about events and activities which impact on the organization's risk management and insurance.
- Skillfully applied the principles of management in the overall organization and within the risk management/insurance department.
- Achieved the most effective program possible at the optimum cost to the company over the long

term.

- Exhibited technical expertise in any or all of the broad categories included within risk management (insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications, information systems, etc.) leading to a better managerial grasp of the operational aspects of the job.
- Displayed an attitude that fostered the advancement of the risk management profession.

The competition is meant to foster the qualities of courage, innovation and upgraded general management and administrative skills among the men and women practicing the discipline of corporate risk management.

Nominations may be submitted by anyone in the insurance industry or the field of risk management.

Names of those who nominate a candidate for the 1980 award will not be disclosed, just as the names of nominees not selected to receive the award are never revealed.

Managers nominated in the two previous years for awards are eligible for renomination.

The winner of the 1980 award will be announced in the April 1, 1980, issue of *Business Insurance*. As in previous years, the winner will receive an engraved plaque and will be honored at a special presentation.

To request a nominating form, call 312-649-5278 or write to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

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Companies absorb the higher charges of pregnancy plans

WASHINGTON—Despite the increased cost and some administrative problems of complying with the new pregnancy benefits law, companies aren't planning to slash other benefit plans to control costs and problems are being solved.

Some employers have been socked with premium increases of 5% by their health insurers after re-vamping their benefit programs to bring pregnancy up to the same level as other covered disabilities in their group medical and hospitalization plans.

Paid sick leave plan bills also have jumped—in some cases more than 20%—but these costs have been easier for corporations to digest. Paid sick leave programs, even when covering pregnancy leaves, cost substantially less than group health insurance programs.

"You're not going to take away from the 90% (of employees) to pay for the minority," says David Wine-land, manager of compensation and benefits at Armco Inc. in Middletown, Ohio. Cutting back benefits is not a "real world consideration," he adds.

At least one employer, the Archdiocese of Minneapolis-St. Paul, beefed up its other benefit plans recently despite the new cost burdens of covering pregnancy on the same basis as other illnesses.

The premium hikes for providing equitable pregnancy benefits generally are in line with insurers' predictions that premiums probably would rise 3% to 4% for companies including pregnancy in their benefit plans for the first time.

But the new law has not, as some insurers feared (BI, April 18, 1977), resulted in stretched out disability periods of an average 12 weeks.

In Memphis, for example, pregnant employees are working "almost right up to their day of delivery," says Ellen Cobey, a supervisor in the city's insurance department. And women generally are returning to work within six weeks after delivery, she adds.

The law has caused confusion at some companies where pregnant employees thought they were entitled to collect sick leave pay once they left their jobs even though they were not disabled.

One benefit manager said several pregnant employees tried to collect more than half a year of disability benefits. But after the company began to require pregnant employees to visit company physicians to have their disabilities certified, the

claims were withdrawn and the problem of employees claiming long pregnancy disability periods disappeared.

Other benefit managers are wrestling with the problem of how to find jobs for women who want to work right up to the time of delivery. "How do you shift a pregnant female employe around from one job to another and she can't do any lifting or bending?" pondered Victor Gilla, manager, employe benefits at Ball Corp. "There aren't that many jobs around" not requiring physical exertion, he added.

Some male employees have grumbled when their group health insurance premiums were increased earlier this year to pay for adding pregnancy to their benefit plans, said one insurance director. Under the law, premium hikes to include pregnancy in corporate benefit plans can be apportioned between employers and employees on the same basis as other benefit costs are divided.

The new law, however, has raised morale among women workers in Memphis. "It has been a great benefit for employes," says Ms. Cobey of the city insurance department, which now provides full pay to women employees unable to work because of their pregnancy. Before Feb. 1, pregnancy was not a covered benefit in the city's paid disability program.

Not everyone, though, is delivering all the pregnancy-related benefits required under the law. The Archdiocese of Minneapolis-St. Paul, along with hundreds of other Catholic employers, specifically excludes abortion from its benefit plan. "Paying for abortion is contrary to our moral teachings," says Jim Douglas, pension and insurance administrator of the archdiocese.

The Equal Employment Opportunity Commission, which administers the pregnancy law, says employers are required to pay for an abortion if the woman's life is endangered by the pregnancy. Employers also must cover the costs associated with the medical complications that could result after a woman has an abortion.

But the EEOC isn't enforcing the abortion part of the pregnancy law pending the outcome of a suit filed in U.S. district court in Washington by two Catholic organizations that charge the abortion requirement is a violation of their constitutional rights (BI, July 23).

Firm may get \$8.5 million in excess reimbursement

CHICAGO—Gould Inc. here reported it could recover \$8.5 million in excess reimbursement over the book value of property damaged in a fire at a West German plant in September.

The announcement, required under accounting rules of the Financial Accounting Standards Board, precedes settlements with the West German insurers of the damaged metal foil plant in Eichstetten, said James Mascarella, director of corporate insurance at Gould.

"We haven't recovered a thing, but based on the insurance proceeds available, we can expect that's the financial impact," he said. Twenty-five percent of the plant production has been restored already with full production slated to begin in six to eight months. No

one was injured in the fire. The \$8.5 million pretax excess reimbursement isn't relevant to the insurance proceeds that ultimately will be paid, Mr. Mascarella said, because it doesn't encompass payments for business interruption or loss of revenue.

Mr. Mascarella declined to estimate the total loss of the fire or identify the several West German insurers on the risk while the settlement is being negotiated.

"We are adequately and properly insured and in no way concerned about the outcome," he stressed. "The network arrangement is responding well." Gould's international insurance philosophy "is to give a relatively high amount of autonomy in insurance, subject to guidelines," he noted.

Women may lose pregnancy benefit

Continued from page 1
for conditions other than pregnancy are limited to fixed time periods. Extended benefits for pregnancy have no time limits—benefits end when the condition ends, which usually is delivery.

Under pressure from business groups and Congress, the EEOC this month backed down from its original position and said employers with extended benefit plans for pregnancy do not have to offer extended benefits for other disabilities during the law's first year.

But after Oct. 31, one year since the law was passed, extended benefits must be offered on the same basis for all employees leaving a company, the EEOC says. The law took effect last April.

Such a requirement could prove to be ruinously expensive to corporations, consultants say.

"Employers don't have much of a problem covering pregnancy (on an extended basis) because they know when it is going to end," says Janet Shephard, a consultant with Hewitt Associates in Lincolnshire, Ill.

Open liability

But providing extended benefits for other employees could leave employers with an open-ended liability.

Providing extended benefits for a former employe who left the company with a diabetic condition, for example, could leave the firm liable for medical bills stretching over many years.

"From an employe relations viewpoint and a sound benefit design point of view, it makes sense to provide the extension for pregnancy, but not for everything else," says John Hickey, a partner with Kwasha Lipton, a consulting firm in Englewood Cliffs, N.J.

Employers probably would stop providing extended benefits for pregnancy if that meant extended benefits had to be provided to ev-

eryone, says Steve Bokan, an attorney with the National Chamber Litigation Center here. This would mean that women would be deprived of a major benefit, Mr. Bokan said.

taining that the pregnancy law applies to discrimination on the basis of pregnancy in employment related situations. The law says nothing about extended benefits to other employees, he adds.


Consultants say it is too early to determine if companies will heed the EEOC's extended benefit guideline. But the largest business trade group in Kansas, the Kansas Assn. of Commerce and Industry, has filed suit in U.S. district court in Topeka to overturn the EEOC extended benefit guideline.

EEOC stands firm

The EEOC, though, is sticking by its position, maintaining that if extended benefits are not offered to men then the plan has sex distinctions, a violation of the law.


But Mr. Bokan disagrees, main-

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N.Y. E/S agents appeal revocation of licenses

GREAT NECK, N.Y.—A Great Neck-based excess/surplus agency has appealed revocation of its license for failing to pay \$283,000 in premiums to insurers and failing to bind promised coverage for a commercial client who suffered a \$162,000 fire loss.

The appeal to the New York supreme court was filed by Jay B. Rappaport Corp. and American Brokerage Services Corp., both of Great Neck, and Alfred Rappaport of Kings Point, N.Y. The two-firms' insurance agent licenses and Mr. Rappaport's agent and broker licenses were revoked following a state insurance department hearing. Mr. Rappaport is a sublicensee

of the two firms.

By appealing the revocation the licenses will be in effect for 30 days and subject to extension only by court order.

According to findings of the hearing, Jay B. Rappaport Corp. failed to remit \$229,427.87 in commercial casualty premiums it had collected and owed to Lloyd's brokers Sir William Garthweite Ltd. and Wright, Deen & Co.

American Brokerage was found to have failed to remit to New York National Insurance Co. \$53,000 in commercial casualty premiums it had collected as of Dec. 15, 1975. Those premiums were remitted March 30, 1977, following depart-

mental intervention.

In addition, Jay B. Rappaport was found to have never actually bound fire insurance on behalf of Howard Stores Corp., an apparel chain, for the period May 1, 1976, through May 1, 1977.

Jay B. Rappaport had sought to place coverage for Howard through agent Derek J. Hiscutt of Atlanta with the Excess Insurance Co. of London, but Mr. Hiscutt's authority on behalf of the London insurer was no longer in effect.

Howard suffered a \$162,000 fire loss and submitted a claim only to have it rejected by the London insurer on the grounds that no policy had ever been issued.

No criminal actions have been brought against Alfred Rappaport.

Mr. Hiscutt voluntarily surrendered his Georgia agent's license in February 1978 and is believed to be in London, Georgia officials say. ■

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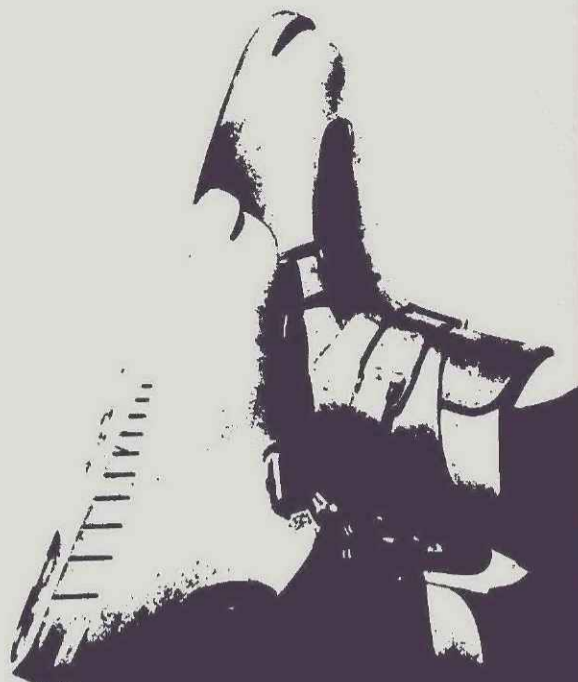
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people

Gas company names Beard risk director

Charles H. Beard is the new director of risk management for El Paso Natural Gas Co., replacing the recently resigned Ronald Polard. Mr. Beard was previously risk manager for Beaunit, a now-defunct subsidiary of El Paso Natural Gas located in Raleigh, N.C. Mr. Beard will direct risk management activities, excluding safety control and employee benefits, for El Paso and its remaining subsidiaries. Mr. Beard, 50, has a BS from North Texas State University. He reports to Harrauld Lines, vp and treasurer. Also recently promoted in the company's risk management department is **James R. Ayres**, named insurance manager. Mr.

Ayres, 44, was previously administrator of risk analysis. He has a BBA from the University of Texas at El Paso.

The San Francisco-based Natomas Co. has hired **Jerry Sullivan** to fill the newly created position of assistant risk manager. Mr. Sullivan, 42, formerly was insurance manager for Del Monte Corp., also of San Francisco. He reports to assistant treasurer Richard Palferyman. Mr. Sullivan is a graduate of the Hastings College of Law. Del Monte replaced Mr. Sullivan by promoting **Ben Gleason** to the position of insurance manager.

Gerald Wallin, formerly vp of the Food Industry Insurance Co., the Bermuda-based captive of the American Frozen Food Institute, has been named a risk management consultant for the Wyatt Co., of Washington, D.C. Mr. Wallin will not be replaced in his previous position because the AFFI has decided to phase out the captive organization (BI, Oct. 15).

Gene Heskett has been promoted to assistant risk manager for the Hanna Mining Co. of Cleveland. Mr. Heskett, 28, was previously risk management assistant for the company. In the newly created position, Mr. Heskett will

assume increased responsibility for loss prevention and claims administration for Hanna. He has an MBA and a BS in mathematics, both from Ohio State University. Mr. Heskett continues to report to Duane Allen, assistant treasurer.

Edward J. Robinson has been named vp and treasurer at the New York-based Standard Brands Inc., increasing his responsibilities in the supervision of the company's risk and insurance management programs. Mr. Robinson was previously vp and controller for the company. He has been with Standard Brands for six years.

Fred Silverthorn, 60, has joined the Dallas office of Marsh & McLennan as a risk management consultant. He reports to Phil Brown, senior vp. Mr. Silverthorn, formerly a vp with Republic National Bank in Dallas, retired after 24 years there. His replacement has not yet been announced.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stuart Emmerich, Business Insurance, 708 Third Ave., N.Y., N.Y., 10017 or call 212-986-5000. We'd also like to receive pictures of those involved.

Letters column . . .

Continued from page 8
greatest danger they face. Here are some suggestions:

- A simple letter to the insurer asking if the wholesaler has authority to write in class in the territory written on their behalf.

- What is the reputation of the wholesaler? Most "deals" that blow up are coverages written by a wholesaler, outside the area of the risk, of which the retailer has little or no knowledge. Find out if the wholesaler is a member of the American Assn. of Managing General Agents or National Assn. of Professional Surplus Line Offices. Then check with a local member of these associations as to reputation, etc.

- A retail producer owes it to his client to have visited with and talked to the principals of any wholesaler he deals with.

- Will the placement be properly filed? Many states do not have non-

resident surplus line licenses. Therefore, if a retail producer purchases coverage from a wholesaler not domiciled in his state, both the buyer and retailer can have a serious problem if the coverage is placed with a nonadmitted carrier and not properly filed.

Unfortunately, many buyers and retail producers are only looking for the lowest cost, and in their euphoria over getting what appears to be a good deal do not do their homework.

We will always have crooks in every type of business. Insurance is not unique in this respect, and it is impossible to legislate them away.

D.F. Anderson
President, Anderson & Murison,
Pasadena, Calif.

Derelict in duties

To the editor: I did not return the Excess/Surplus Broker's Directory

questionnaire because I objected to some of the information being sought as well as the arrogant manner in which you are running this so-called service. I am referring in particular to the matter of gross revenues. For publicly owned entities, the figures are a matter of public record; but for you to sit in your seat of judgment and require gross revenue figures as a condition to the rendering of a public service strikes me as a dereliction of your fundamental (sic) duties and responsibilities.

Over the years your goofs have been pretty hysterical but some of your most current news gathering methods are downright objectionable!

Richard C. Marx
President, PCM Intermediaries
Ltd., New York.

Second opinions

To the editor: I read with interest and concern the editorial opinion on second surgical opinions on page 10 of your Aug. 20 issue. This editorial reflected either a lack of information from the benefit managers of the large corporations referred to or potential mismanagement of the second surgical opinion benefit in each case.

Having been involved with second opinion programs for the past four or five years, I am convinced that there is a direct proportional relationship between the utilization rate of a voluntary program and the degree of the company's communications and promotional effort in keeping the employees informed. Had the benefit managers concerned implemented an appropriate promotional effort, I am sure the utilization rates for the second surgical opinion benefit would have been acceptable, consistent with rates of other programs.

A.H. Wagonhurst
Project manager, product development, Pennsylvania Blue Shield, Camp Hill, Pa.

Self-insurance

To the editor: An article in the Perspective section of the Sept. 17 issue of BI by John Timmer, who is president of a claims administration company, leads us through more ballyhoo about the wonders of self-insuring.

The author states that because medical costs have been rising faster than most other segments of our economy, self-insurance has the solution. But small employers may want to consider another issue: excess loss insurance. This author, along with other proponents of the cause, seems to hint that self-insurance somehow will solve the medical cost inflation problem.

Then he suggests that those small employers, whose expected

claims experience varies by several hundred percent from year to year, may save money by replacing their existing insured employee benefit program by one that is partly covered by self-insurance, administered by a third-party payer and partly insured by excess loss insurance. How can repeating some of the necessary record keeping and processing three times instead of once through a fully insured plan result in savings?

He states that the principal goal of self-insurance is to reduce costs and increase cash flow. In the small groups the author is talking about, if the excess level is set high enough that the employer has accepted a substantial risk, the amount the employer will lose in setting up and paying into a fund will eat up any possible cash flow advantage. On the other hand, if the excess level is set low, the employer simply multiplies his administration and substitutes one form of insurance for another.

In large companies that have more stable experience and, consequently, lower risk of catastrophic claim experience, most insurance companies and Blue Cross & Blue Shield plans can work out reasonable financing alternatives to meet the employer's needs without his breaking his benefit plan into mul-

multiple administrative pockets, all of which add to the cost.

Mr. Timmer correctly points out that self-insured claims payments are not subject to premium tax. What he doesn't say is that in most states, Blue Cross & Blue Shield plans are not subject to premium tax either and domestic insurers pay only minimum premium tax.

Companies considering self-insurance should be aware that they will pay actuarial fees, legal fees, claim administration costs, costs to prepare documentation and employee communication materials and all the other functions involved in establishing and operating an employee benefit plan, whether they pay it as a part of their premium to an insurance organization, whether they pay it in many payments to each of the people providing the individual services or whether they pay it to their own employees.

Some of these functions seem to disappear from proposals from third-party administrators. In spite of the claims of small claim payers, large organizations can capitalize on economies of scale to provide all the necessary services in the most cost effective manner.

James A. Hughes
Regional senior vp, Hospital Care Corp., Cincinnati, Ohio.

Where is Greenwood, Indiana?

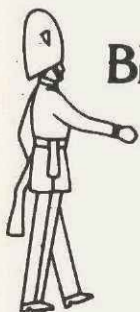
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Shirt-Sleeve Forum

What's The Best Answer To Contractors' Insurance Problems?

By Dinner Levison

(Asked in the financial district)

Robert G. Nelson, Partner,
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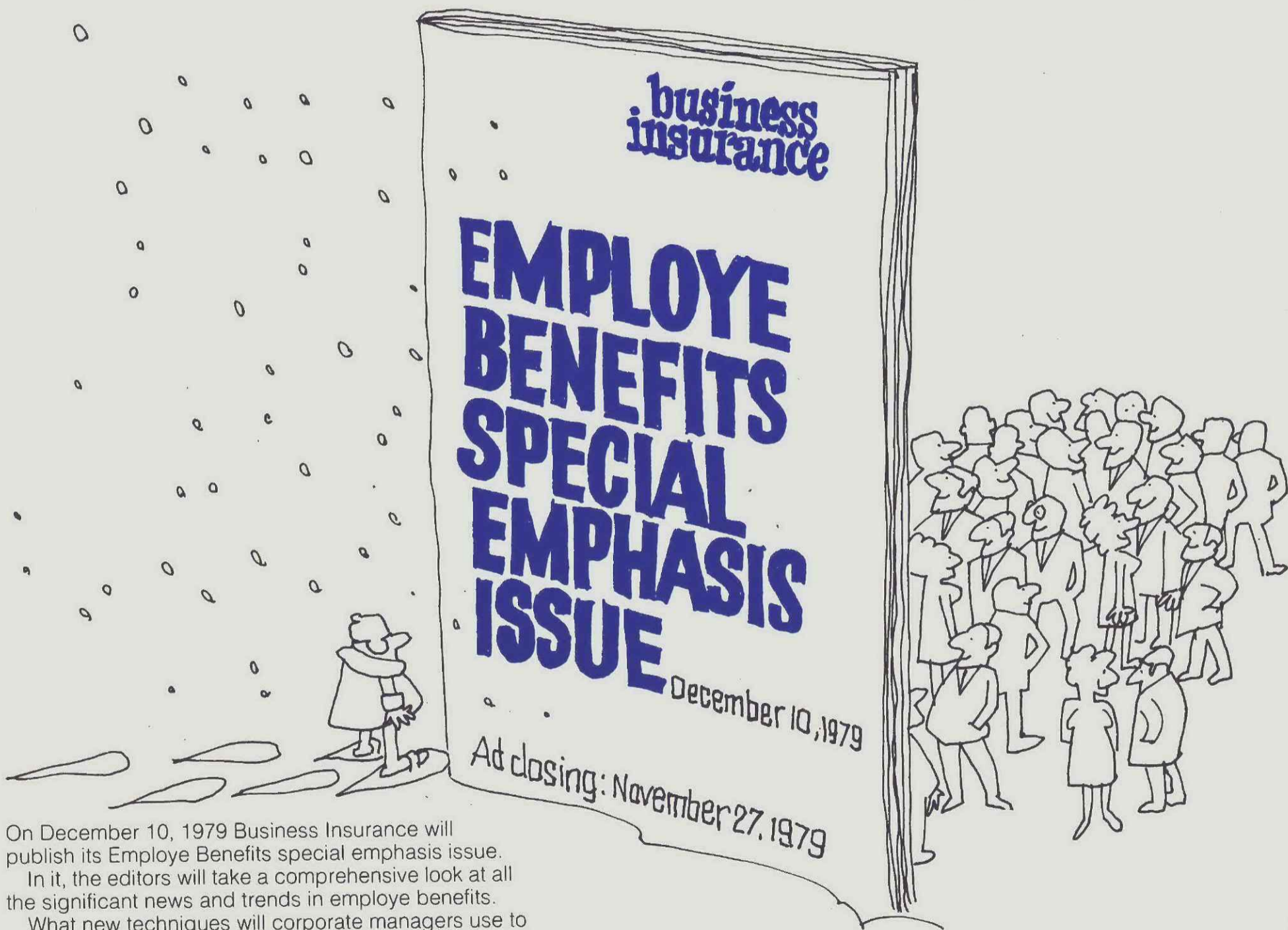
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