

business insurance

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

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Excess/surplus report pages 25 to 61

It's a buyers' market again

The buffer layer is moribund. At least it appears to be terminally ill.

The demise of that hard-to-place and expensive layer of insurance linking the primary and excess programs is the clearest signal that the storybook growth of the excess and surplus markets in 1976 and 1977 has turned into a different plot this year.

Business Insurance reporters on both coasts and in the Midwest wrote stories telling tales of rate cutting, hustling for business and slower growth, albeit with some regional differences, as they queried excess and surplus insurers on the state of their operations.

"For the buyers, the market is the best it's been in five years," one West Coast underwriter told correspondent Margaret LeRoux. "Last year the buyers went begging, but today with a bit of luck a buyer may even get an invitation to lunch."

And *BI* reporters heard more than one insurer reminisce about the good old days.

"It used to be so much fun to watch the brokers queue up," recalled a West Coast excess and surplus underwriter. "Now they're really hitting the market hard."

"I doubt if we'll see a greater time in excess and surplus than 1976 and 1977," sighed Daniel F. Maher of Capacity Managers International in New York. "Everyone was just so happy to find a home for a risk in those tight years."

The reason for the new storyline in the excess and surplus markets can be found in the rebirth of aggressive underwriting by the primary insurance companies.

"What happens in our marketplace is just a product of what's happening in the primary markets," explained William Goldman of Horan Goldman & Co. With replenished surpluses and underwriting profits turning red ink to



"What a bummer . . . When I can't even afford a risk, that guy's rolling in bucks. But this will change, just you wait and see . . ."

black in insurance company ledgers, the primary companies are looking for business again.

The biggest losers in this turnaround appear to be the excess and surplus insurers specializing in the buffer layer. Columbia Casualty, CNA's excess and surplus unit, expects 1978 premiums to plummet \$24 million, or 32% from 1977's \$74 million volume.

Forty percent of Columbia Casualty's business was in the buffer layer. "But that business is simply evaporat-

ing," president Wayne Prather revealed to associate editor Kathryn J. McIntyre.

"The market for buffer layers has pretty much ceased to exist," said Noel Higgit, senior vp of Baccala & Shoop Insurance Services on the West Coast.

Examples of rate cutting were rife. On the East Coast, insurers told associate editor Rebecca A. Fannin that rates for property coverages were being reduced as much as 20% to 30%. "The property market is extremely soft," ob-

served Mr. Maher of Capacity Managers. "You can almost name your price."

There is more confusion, and possibly regional differences, on the liability side. While East Coast underwriters reported a leveling out or declines of 5% or so in rates, West Coast insurers sketched an emerging price war.

"We're seeing a 15% to 30% erosion on liability premiums," said Robert Reynolds, vp of marketing at Aetna/Cravens Dargan.

"Coverages are broader and premiums are being renewed at decreases in the range of 20% or more," added Bruce MacCready, a partner in MacCready & Gutmann Insurance Services.

Finally, there is the cynical view of one West Coast underwriter who also foresees a return to the excess and surplus markets in 1980. "You don't think any of us have learned from past experiences, do you?" he asked facetiously.

In 6 important states

Regional brokerage firms dominate

By ELLIS SIMON

NEW YORK—The national brokerage firms usually are the biggest producers of standard lines business in the largest markets, but regional firms predominate in excess and surplus lines.

Business Insurance obtained premium data on the 10 largest excess/surplus lines brokers in six leading excess/surplus lines states. Insurance departments in five of those states provided information, while information on California came from the state Sur-

plus Lines Assn.

Only George F. Brown & Sons ranked among the top 10 in a majority of those states. The Brown firm ranked second in New York, fourth in Florida and Texas, fifth in California and ninth in Illinois. Louisiana was the only state of the six surveyed where Brown did not make the top 10.

Brown produced \$28.4 million in excess/surplus lines business in those states, with \$10 million from California, \$6.7 million from New York, \$6 million from Texas, \$3.6 million from Florida and \$2.1 million from Illinois.

Stewart Smith, Swett & Crawford

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The people column
page 116

● **The green, go-ahead lights** that E&S insurers on the East Coast saw last year have switched to yellow, caution signs. Page 25.

● **Softened, loose, fluid, unsettled** is how West Coast E&S underwriters see their area. Page 26.

● **Midwest underwriters confront competition** from primary markets. Page 29.

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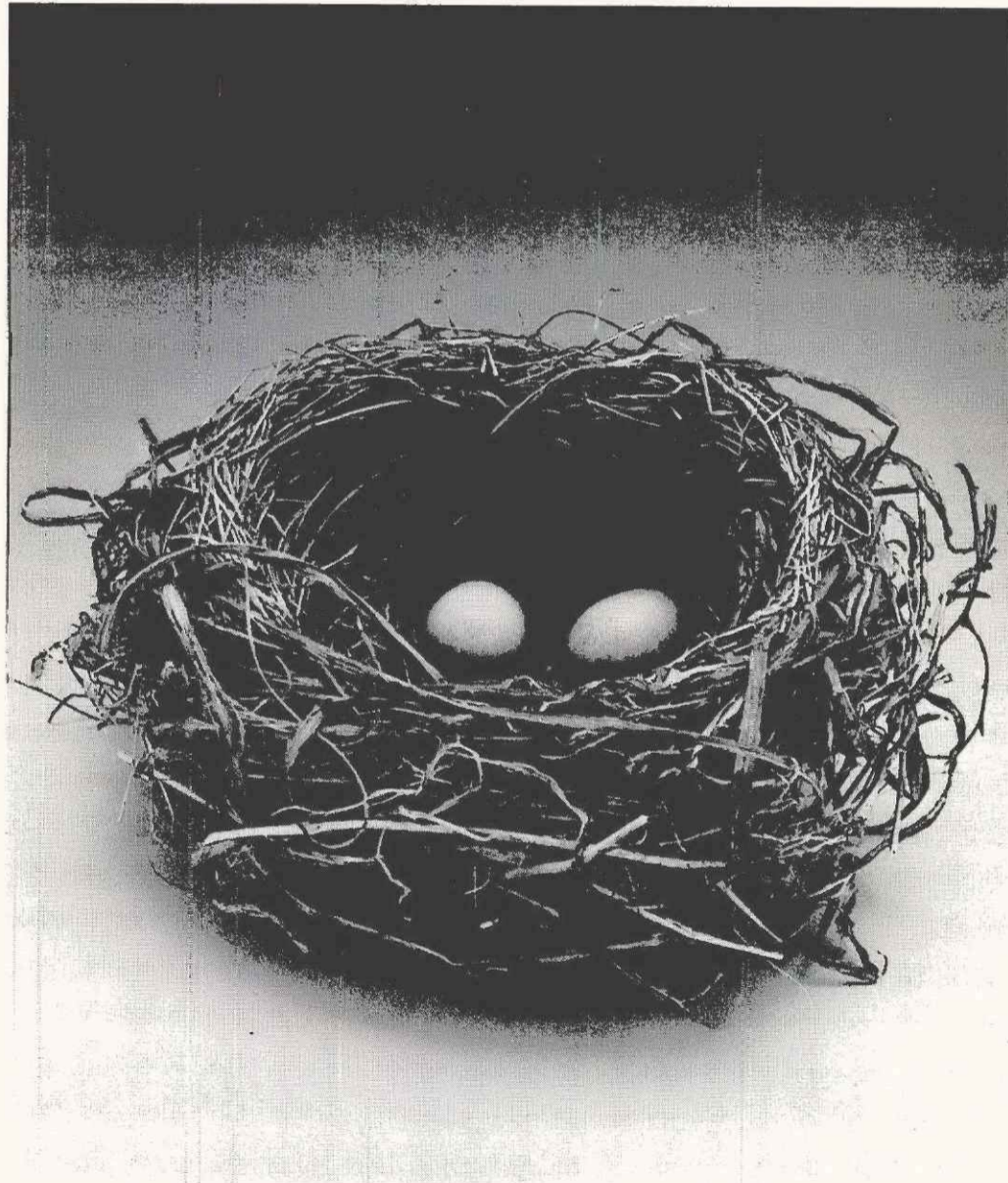
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"We're not trying to be the largest, just the best," said A&A president and chief operating officer John A. Bogardus.

A&A, Jones merge strengths

By REBECCA A. FANNIN

NEW YORK—The union of Alexander & Alexander Services Inc. with the nation's ninth largest broker, R.B. Jones Corp., promises to strengthen A&A's muscle in the Midwest and increase the marketability of Jones' closely held stock.

For Jones, the increased marketability for its stock was a "main consideration" in deciding to merge, according to John W. Tucker, president and chief executive officer.

In exchange, A&A gains Jones strong penetration in smaller Midwestern cities, allowing the second largest brokerage firm in the U.S. to gain four new offices.

Though well-known for its aggressive acquisition pace, A&A surprised the insurance community by its recent agree-

ment in principle to acquire Jones.

If approved, the acquisition would rank as the largest of any insurance broker. The next largest acquisition was Corroon & Black's acquisition of Synercon Corp. in 1976. Synercon's gross revenues at the time were \$17 million while Jones' revenues for 1977 were \$26 million.

Despite A&A's sudden announcement of its intentions, the firm has long rehearsed this major move. A&A began setting the scene two years ago when it began meeting informally with R.B. Jones to discuss a link, according to John A. Bogardus Jr., A&A president and chief operating officer.

Consolidating two such large firms could be complex, but the broker's principal officers said they don't expect difficul-

ties since the brokers complement each other so well in geographics, specialties and management style.

Plans of reorganization have been drafted to allow both firms control over internal restructuring and to keep Jones management intact. Mr. Tucker will become a member of A&A's board of directors.

To complete the transaction, A&A will issue 780,000 shares of stock, approximately \$54 million, for all of Jones' issued and outstanding stock. This would be approximately .59 A&A share for each Jones share.

The transaction must be approved by the boards of both corporations and by a three-fourths vote of Jones' shareholders. A notice of the merger must be

Continued on page 109

King County uninsured?

Officials seek broker over 'fake' policies

By HARRIET KING

SEATTLE—King County officials here are trying to determine whether they held "valid paper" from April 1977 to Aug. 1 on a \$4 million excess liability insurance policy or whether their \$179,000 premium was embezzled by a surplus lines broker.

Also questioning similar coverages are officials in companies—including top Nevada casinos—and municipalities in some 15 states whose policies were handled by Donald J. Kubovchik, 42, an officer and stockholder in Associated Underwriters Inc. of St.

Louis.

Missouri insurance commissioner Jerry Buxton announced that insurance regulators are seeking surplus broker Mr. Kubovchik for questioning in connection with his acceptance of at least \$1.2 million in premium payments from clients in numerous states. Mr. Kubovchik has not been heard from since May.

Those insured include the Nevada interests; King County in Washington state, possibly the largest policyholder; 37 small businesses in Missouri, and 26 clients in Illinois including some hospitals and small government agencies. Other clients were located in California, Colorado, Florida, Indiana, Iowa, Kentucky, Michigan, North Carolina, Texas, Virginia and Wisconsin.

Commissioner Buxton indicated that Mr. Kubovchik allegedly funneled this money into a bogus E&S Insurance Agency between 1972 and 1977 without actually buying the coverage intended for his Associated Underwriters clients.

The broker may even have paid some small claims out of his own pocket. Mr. Kubovchik gave Associated officials a written concession in May and turned over records and about \$500,000 in cash assets of E&S Agency to cover

Continued on page 108

Marine now 2nd at Lloyd's

By JOHN H. MILLER

LONDON—By a margin smaller than a single underwriting slip, non-marine property and liability business at Lloyd's now exceeds combined marine and aviation insurance for the first time.

The \$20 million gap between the two sections of the market was revealed as Lloyd's announced record profits of \$250 million for the 1975 trading year. Premium income totaled \$3 billion and profits rose to 8.5% of premium against 5.3% for 1974.

Non-marine lines reported \$1.41 billion in premium and profits of \$54 million. Marine and aviation lines had premiums of \$1.39 billion and profits of \$165 million. Domestic auto insurance reached \$20 million.

Although this is the first time non-marine business has overtaken the joint marine and aviation sector, non-marine business has exceeded the marine area alone for several years.

Disclosing good results in general business, Murray Lawrence, chairman of Lloyd's Non-Marine Assn., said, "The non-marine account for 1975 is back into profit after including investment earnings, but the underwriting result on its own still showed a loss. Trends for 1975 and 1977 still look

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Week of September 18, 1978

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Trade zone regulations adopted, few objections

By ELLIS SIMON

NEW YORK—Criticism of Regulation 86, the New York insurance department's rules for that state's free trade zone, has been mute, even though controversial provisions contained in a draft version were, for the most part, retained.

The regulation was promulgated Sept. 1, start-up day for the free trade zone. The free zone will allow specially licensed companies to write unusual or hard-to-place risks and risks with premiums exceeding \$100,000 for a single coverage without prior approval from the insurance department on rates

and policy form.

Excerpts from the regulations establishing the free trade zone and a list of eligible risks are on pages 101 to 105.

Harold A. Eckmann, chairman of The Atlantic Cos., called the regulation "reasonably responsive. We never expected it to be as free as some people hoped." The regulation is a plateau to build on and is likely to be changed over time, he added.

Both the Atlantic Mutual and Centennial Insurance Cos. have been approved for free zone li-

censes.

"We feel (Regulation 86) is a constructive start for the free trade zone," said Robert Eisenstadt, regional counsel for INA, another company that has had its free zone application approved.

However, Mr. Eisenstadt took a markedly different tone at a hearing prior to promulgation of the regulation. He and AIG counsel Patrick Foley attacked provisions in the regulation requiring that free zone insurers meet minimum policy standards and rate standards.

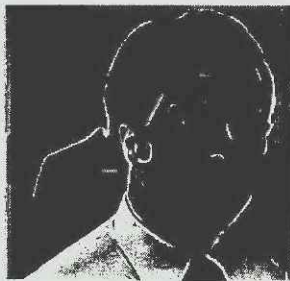
Others who testified were criti-

Continued on page 111

The inside story

A quantitative approach

Like most risk managers, Ernest Liebre of FMC Corp. goes into renewal negotiations with the goal of getting the broadest program at the lowest price. But unlike most of his colleagues, Mr. Liebre is armed with a quantitative analysis of the optimum deductible. Editor Susan Alt explains on page 71.



To do or not to do

The trend for captives to underwrite non-parent company risks has immersed an estimated 100 U.S. risk managers in a dilemma: How to find out whether it is the correct route. Answers from risk managers who decided for and against are provided in the riskWatch column, page 74.

Self-insurance

Thousands of firms in recent years have jumped on the self-insurance bandwagon for workers compensation. After Gold Kist's Robert Rich convinced his management that self-insurance was better than more insurance rate hikes, it took only two months to institute the program. Associate editor Jerry Geisel went to Atlanta to learn how it was done. His report is on page 83.

PBB liability

A court will rule next month whether farmers should be compensated for lower real estate values as a result of the now infamous PBB mixup in Michigan. The result could double the liability for the Farm Bureau Services Inc. and for the Michigan Chemical Co. Page 82.



Service-tied pension plans yield higher pay, study says

NEW YORK—A study of 86 pension plans conducted by Bankers Trust Co. shows that median pension benefits have dramatically increased under pattern plans, which tie benefits only to years of service rather than to compensation and Social Security benefits. The median benefit for pattern plans for 1978 is \$134 annually for

each year of service, a 24% increase over three years ago. Compared to the 1975 median benefit of \$66, the increase is even more dramatic, the study said.

But benefit levels for conventional plans, which link pension benefits to compensation and deduct for Social Security benefits, differed only slightly from three

years ago.

Workers whose final year's pay was \$9,000, however, received a median benefit of 34% of final pay for 1978, an increase from 29% in 1975.

Interestingly, the survey found that the median benefit level for the \$9,000 individual was higher than that paid those earning \$15,000 and equal to the benefit for those who were paid \$25,000.

Comparing conventional plans to pattern plans, the survey found that benefit levels are more equal among four different compensation levels in conventional plans than in pattern plans.

The study noted that the trend of eliminating plan maximums is continuing as well as the trend of increasingly providing dollar-per-year-of-service minimums.

The Bankers Trust study found that 29% of plans had dollar-per-year-of-service minimums in 1975 compared to 40% of the plans this year.

The percent of companies eliminating plan maximums has increased to 83% in 1978 from 72% in 1970.

Also cited was the trend of using a worker's final compensation rather than his average compensation throughout his career in determining benefits in conventional plans.

In determining benefits based on final compensation, the most common period used is the last five years. But the study said a gradual trend of using a three-year period appears to be developing.

The trend toward benefits based on final pay is emerging, the study said, because final-pay-plans normally provide higher benefit levels than career-average plans and are easier to administer. ■



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House, Senate conferees remain deadlocked on pregnancy measure

WASHINGTON—House and Senate conferees still are deadlocked trying to resolve differences in legislation passed by each house that would require employers to provide full medical and disability benefits to pregnant employees.

Staff members said both sides are currently "poles apart," making a compromise very difficult to reach. Despite these differences, a staff member of the Senate Human Resources Committee predicted that the deadlock will be resolved just before the current session ends later this year.

The stumbling block is that House conferees insist that employers not be required to pay benefits to a pregnant employee who decides to have an abortion. Senate conferees oppose such a restriction.

A possible solution to this impasse is clarifying language that would allow employers with "moral objections," such as Catholic hospitals, not to pay for employee abortions, one source said.

Another conference meeting is expected to be held later this month, but it is unlikely that the deadlock will be resolved then, a staff member said.

Culver introduces carryback plan

WASHINGTON—Sen. John Culver (D-Iowa) has introduced legislation (S. 3489) that would permit businesses to carryback product liability losses for up to 10 years.

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

The legislation, which was drafted by the Treasury and Commerce Departments, has the backing of the Carter Administration. Sen. Culver is considering attaching the carryback legislation to the Administration's tax bill, according to a staff aide.

Automatic restraints cut fatalities

WASHINGTON—Automatic safety restraints in automobiles can severely slash the driving fatality rate, the Department of Transportation says.

According to a DOT study, the fatality rate for Volkswagen Rabbits equipped with automatic safety belts was less than one-third the death rate for Rabbits equipped with conventional safety belts.

The study found that the fatality rate was .78 per 100 million miles for Rabbits with the automatic belts that had been driven a total of 1 billion miles. That compares with a fatality rate of 2.34 per 100 million miles for Rabbits with the conventional belts.

Javits backs national health plan

WASHINGTON—Sen. Jacob Javits (R-N.Y.) said this month that he supports the Administration's plan to phase-in a national health insurance program.

Sen. Javits said the first stage of the program should offer comprehensive coverage for pregnant mothers and children.

Sen. Javits also said that he hopes the next session of Congress will become known as the "national health insurance Congress."

Many cancer deaths work-related

WASHINGTON—As many as 20% of cancer cases in the U.S. may be work-related, Health, Education and Welfare secretary Joseph Califano told a labor conference here.

Citing a recent study by the National Cancer Institute, Mr. Califano said 10% to 15% of cancer deaths may be related to exposure to asbestos.

House okays tough tanker law

WASHINGTON—The House this month passed legislation that sets tough new safety standards for oil tankers.

The legislation requires oil tankers of more than 20,000 deadweight tons be equipped with a dual radar system, a long range navigation aid, a fathometer and a gyrocompass by June 30, 1979.

The bill now goes to a conference committee to clear up differences with a Senate-passed version of the legislation.

Product liability debate expected

COLUMBUS—An intense debate is expected this month as the Ohio senate takes up a House-passed bill that would give manufacturers key defenses in product liability lawsuits.

The legislation calls for a 10-year statute of limitation on filing suits and provides a defense against liability in cases in which the product was altered or manufactured in compliance with safety standards existing at the time.

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the benefit beat

GM benefits cost record \$3.2 billion last year

General Motors' contributions for employe benefit programs in the U.S. totaled a record \$3.2 billion in 1977, up from the previous high of \$2.4 billion in 1976. Of that total, pension plan contributions amounted to \$1.1 billion, while the cost of providing health care coverages reached \$1.2 billion. The cost of other benefit programs such as life insurance, sickness and accident, supplemental unemployment benefits and savings-stock purchase program amounted to \$900 million. Of GM's \$12.50 average hourly labor cost in 1977, benefits amounted to \$2.86, while wages, including holiday and vacation pay, averaged \$9.64 per hour worked.

will increase from \$17.24 per hour now to \$20.70 per hour in 1981.

Postal benefits

Postal Workers, who last month rejected a new three-year contract, are not seeking benefit changes. The current impasse centers on wages. The rejected contract would have given the nation's 550,000 postal employes a 19.5% pay increase, including cost-of-living adjustments, over the three year period. This would be considerably less than the increases won recently by other major unions. Postal workers also have been objecting to attempts to permit lay-

offs of employes. All independent mediator is attempting to work out a compromise contract that both the Postal Service and its three big unions can accept.

Health care costs

Health care cost the nation \$163 billion in fiscal year 1977, according to preliminary figures released by the Health Care Financing Administration. Health expenditures jumped 12% over the last 12 months compared with a 10.2% increase in the gross national product. Health care costs comprised 8.8% of the GNP last year, compared to 8.7% in 1976.

ESOPs urged

Offering corporations even more of a tax incentive to form ESOPs than already exists should ultimately improve the disappointing productivity of American workers, claims Sen. Russell Long (D-La.). The sponsor of legislation that would provide a tax credit of 2% of qualified capital investment or 1% of compensation of employes participating in an employe stock ownership plan recently argued for his bill on the Senate floor by comparing the gain in U.S. productivity to other countries. The U.S. gain over the last 10 years is no better than Great Britain's gain of

27%, he complained, and far below that of Japan with 107%, France with 72% and West Germany with a 70% gain in productivity.

More ESOPs would improve productivity, he argued, because "employe stock ownership results almost invariably in better attitudes toward the job." Sen. Long's bill is pending before the Senate Finance Committee, of which he is chairman.

Second opinion plans

Twenty-seven Blue Cross and Blue Shield plans now offer 9 million subscribers the benefit of se-

Continued on following page

4As disability plan

Maximum monthly long term disability benefits available through a program sponsored by the American Assn. of Advertising Agencies have been increased from \$3,000 to \$5,000 as a result of a change in insurers. Unionmutual Life Insurance Co. has replaced the Reliance Life Insurance Co. as underwriter on the program.

The new coverage, available to 4As member agencies and their employes at slightly lower premiums, provide 60% of monthly salary up to \$5,000 and 40% of monthly salary from \$5,001 to \$10,000. The old program provided only the 60% benefit on the first \$5,000, according to Walter Haase, 4As vp and administrator of group plans.

Currently 110 agencies with 7,500 employes participate in the program. Agencies can elect a 90-day or 180-day waiting period before coverage begins and the program can be offered to employes on a contributory or non-contributory basis. However, non-contributory programs must make coverage available to all employes and contributory programs must have participation by at least 75% of an agency's employes.

N.Y. Teamsters fund

The New York General Contractors Assn. has agreed to increase contributions to the Teamster Local 282 pension fund by 75 cents per man-hour and to the welfare fund by 50 cents per man-hour between now and 1980 as part of a settlement ending a one-month walkout. Pension fund contributions will rise by 40 cents per man-hour retroactive to July 1, 1978, and by 35 cents on July 1, 1979. Welfare fund contributions will increase by 10 cents per man-hour retroactive to July 1, 1978, 10 cents per man-hour on Jan. 1, 1979, 15 cents per man-hour on July 1, 1979, and 15 cents per man-hour on July 1, 1980. By mid-1980 contributions to the pension fund will total \$2.60 per man-hour and contributions to the welfare fund will be \$1.61 per man-hour. Wages for chauffeurs will rise from \$8.92 to \$10.07 by 1980.

The contractors group, which represents firms involved in high-way work and other heavy construction, also reached agreements settling two-month old strikes by Locals 14 and 15 of the International Union of Operating Engineers. Local 15 received no new contributions to its pension and welfare funds between now and 1980. Total compensation for its highest paid members will rise from \$15.64 per hour to \$18.78. Local 14 received a 15 cents per man-hour increase in contributions to its pension fund. Total compensation for its highest paid members



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ASSUREX INTERNATIONAL

the benefit beat

Continued from preceding page
curing a second opinion on the need for non-emergency surgery. Just two years ago, only nine BC/BS plans offered the benefit.

Under full scale and experimental programs, all charges related to the second opinion are paid, including the consulting specialist's fee and the cost of X-rays and laboratory tests. If the second opinion differs with the first, some plans pay for a third opinion. Subscribers are not obliged to abide by the opinions of the consultants and their operations will be paid for even if they are performed against the consultants' advice. However, the specialists rendering the second and third opinions are precluded from performing the surgery.

Though maintaining that they

offer the second opinion benefit to try to reduce the amount of surgery performed and its cost, the BC/BS plans admit "relatively few patients have taken advantage of the free second opinion." Blue Cross & Blue Shield Assns. suggest the low utilization could reflect the confidence most people have in their physicians and the general lack of awareness by the public of the benefit despite heavy promotion of it.

The effectiveness of the benefit also is not certain yet. But preliminary statistics show that in the Greater New York Plan, for example, second opinions did not confirm the initial recommendation for surgery in one out of four cases, with disagreements most often concerning orthopedic surgery and least often over tonsilectomies and abdominal and obstetrical-

gynecological cases.

Sex change covered

Sex-change surgery is covered by an employee health plan, an arbitrator ruled in a controversy at an Ohio steel-tube company. The Wall Street Journal reported that the company had denied medical benefits to an employee treated for a diagnosed case of "gender dysphoria syndrome." The company maintained the surgery changing the worker's sex to male from female was medically unnecessary and that the employee's condition wasn't an illness as the term was understood in the union contract.

The arbitrator, however, cited medical testimony that the operation was a medical necessity and noted that the term illness wasn't specifically defined in the contract. Observing that the contract provides coverage for "mental and nervous problems," the arbitrator characterized the company's de-

nial of insurance coverage for the operation as "a refusal to recognize the relationship between mind and body."

Benefit reports

A director's or officer's estimated annual retirement benefit will no longer have to be disclosed in a company's proxy statement under new disclosure requirements for management compensation proposed by the Securities & Exchange Commission. However, under the new rules to take effect in the 1979 proxy filing season, companies would still have to disclose the amount accrued for an individual through a pension/retirement plan, profit sharing plan or saving plan as well as any annuity, employment contract or deferred compensation plan.

Life insurance premiums paid by the company must be disclosed as well, unless the company is the sole beneficiary.

Injury panel urges changes in work comp

WASHINGTON—A federal task force recommends that the current system of workers compensation rating be revamped so that premiums reflect the injury rates of individual companies rather than industries.

An increase in direct rating would give employers a greater financial stake in preventing workplace injuries, the task force concluded.

Adjusting workers compensation costs to more accurately reflect a firm's injury experience is one of the hundreds of suggestions the Interagency Task Force on Workplace Safety and Health made in its preliminary report released this month.

Other suggestions include requiring publicly held firms to disclose their injury records to the Securities & Exchange Commission as well as providing businesses with more tax credits to encourage investment in safety technology.

The task force was formed in August 1977 by President Carter to explore possible incentives to supplement workplace safety regulations. Members of the task force represent seven federal or executive agencies.

The suggestions in the report are only preliminary and are not considered recommendations. However, recommendations will be included in the task force's final report. It is not known when the final report will be completed.

In one of its more controversial suggestions, the task force urged consideration for eliminating the tax deductions corporations are given for their workers compensation premiums.

Under the proposal, companies would not be able to deduct as a business expense the portion of their workers compensation premium that represents a penalty for excess injuries.

This suggestion only would apply to large corporations whose premiums are retrospectively rated.

The task force also suggests that the government consider approving tax credits to encourage employers to beef up accident prevention measures.

"Proposed tax subsidies under consideration would particularly benefit small businesses, who often face greater financial obstacles than larger firms in eliminating workplace hazards," the report said.

In another controversial recommendation, the report suggests that the Justice Department be asked to investigate antitrust implications of allowing corporations to pool their research and development activities to come up with more effective accident prevention technology.

However, the report recognized that even the toughest government safety regulations can go only so far in reducing the number of workplace accidents.

Up to 50% of workplace fatalities may be beyond control due to the circumstances in which the accidents occur: heart attacks, employee altercations and motor vehicle accidents.

errors & omissions

• Dan Huggins, quoted in a Sept. 4 story on the tax implication of self-insured workers compensation programs, is regional vp of R.L. Kautz, not president.

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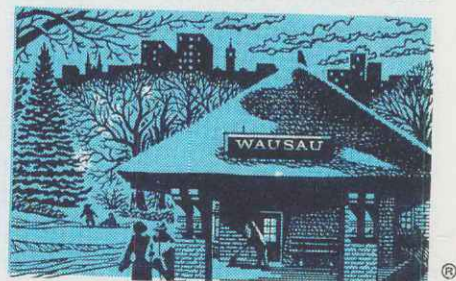
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We want business insurance to work for a living. That's the Wausau story.

Come to the source



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Wausau, Wisconsin

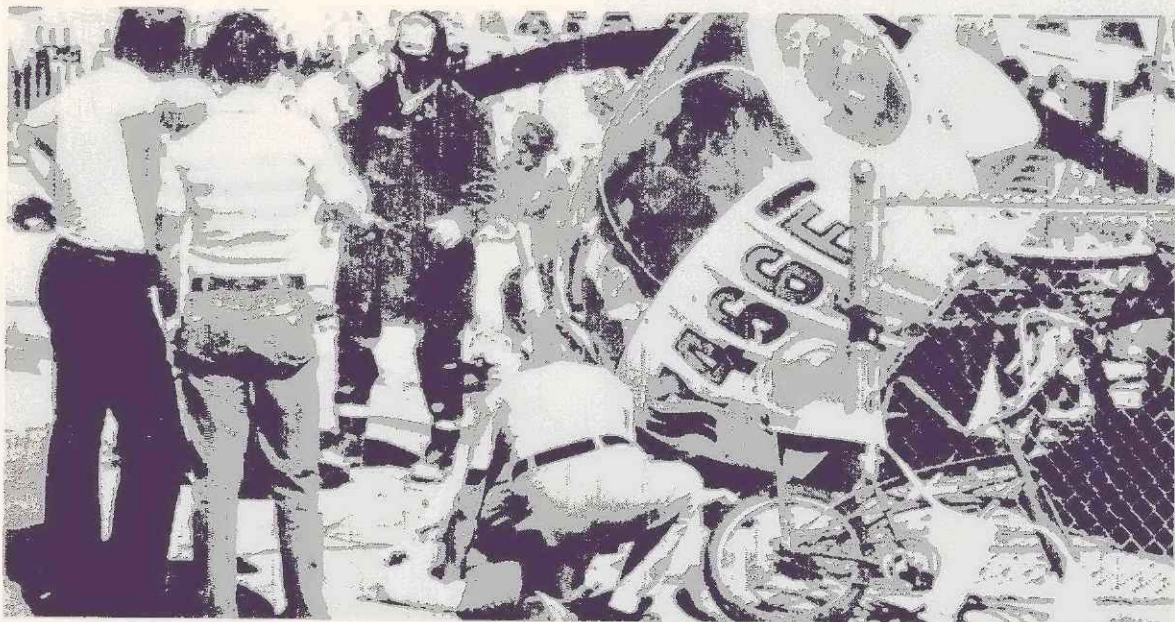


Photo: Wide World

A good Samaritan aids a ground victim of the tragic helicopter crash while the curious just watch.

7 persons killed

Pilot's rating endangers copter crash insurance

By ELLIS SIMON

DERRY, Pa.—Insurance for liability claims against Nelson Helicopters, operators of a Hughes 269C that crashed into a crowded church fair killing seven persons this month, may be denied by Lloyd's of London because the pilot did not have a professional license, according to industry sources.

The three-passenger craft was chartered to fly over a Labor Day festival at St. Joseph's Catholic Church here and drop ping pong balls numbered for prizes to the crowd below. According to news-

paper reports, Pam Nelson, wife of the owner of the firm and pilot of the craft, had only a private pilot's license and had less than 50 hours flying time in the helicopter. She escaped the crash unhurt.

Liability coverage for Nelson had been placed in the London market through Omni Aviation Managers' Birmingham, Ala., office. Arnold Ross, the attorney for Omni, said, "The company has not made any determination as to whether there exists any policy violations which obviate coverage."

Company policy prohibited him from making any further comment until the incident was fully reviewed, he said.

William C. Hanley Associates of Pittsburgh brokered the policy.

Crash witnesses gave conflicting reports to federal investigators over whether the helicopter's engine failed while hovering at 200 feet above the crowd. The engine was not damaged in the crash and the National Transportation Safety Board had it taken to a testing facility at Hagerstown, Md.

However, Vernon Taylor, chief of the NTSB's New York field office, said preliminary investigation found no trace of excessive carbon buildup on the sparkplugs.

Product liability coverage for the Hughes helicopter division was placed in the London market, according to risk manager Mitchell Cohen. Mr. Cohen was uncertain whether the engine used on the 269C was manufactured by General Motors or Avco, but added that indemnification agreements vary among the subcontractors involved in the helicopter's production.

If the NTSB finds that the crash resulted from product failure, litigation is likely to be complex since it could involve any or several of the subcontractors involved in the aircraft's construction, Mr. Taylor said. Typically, as many as 30 firms might participate in building such a craft, he added.

AIG plan offers equal pension pay

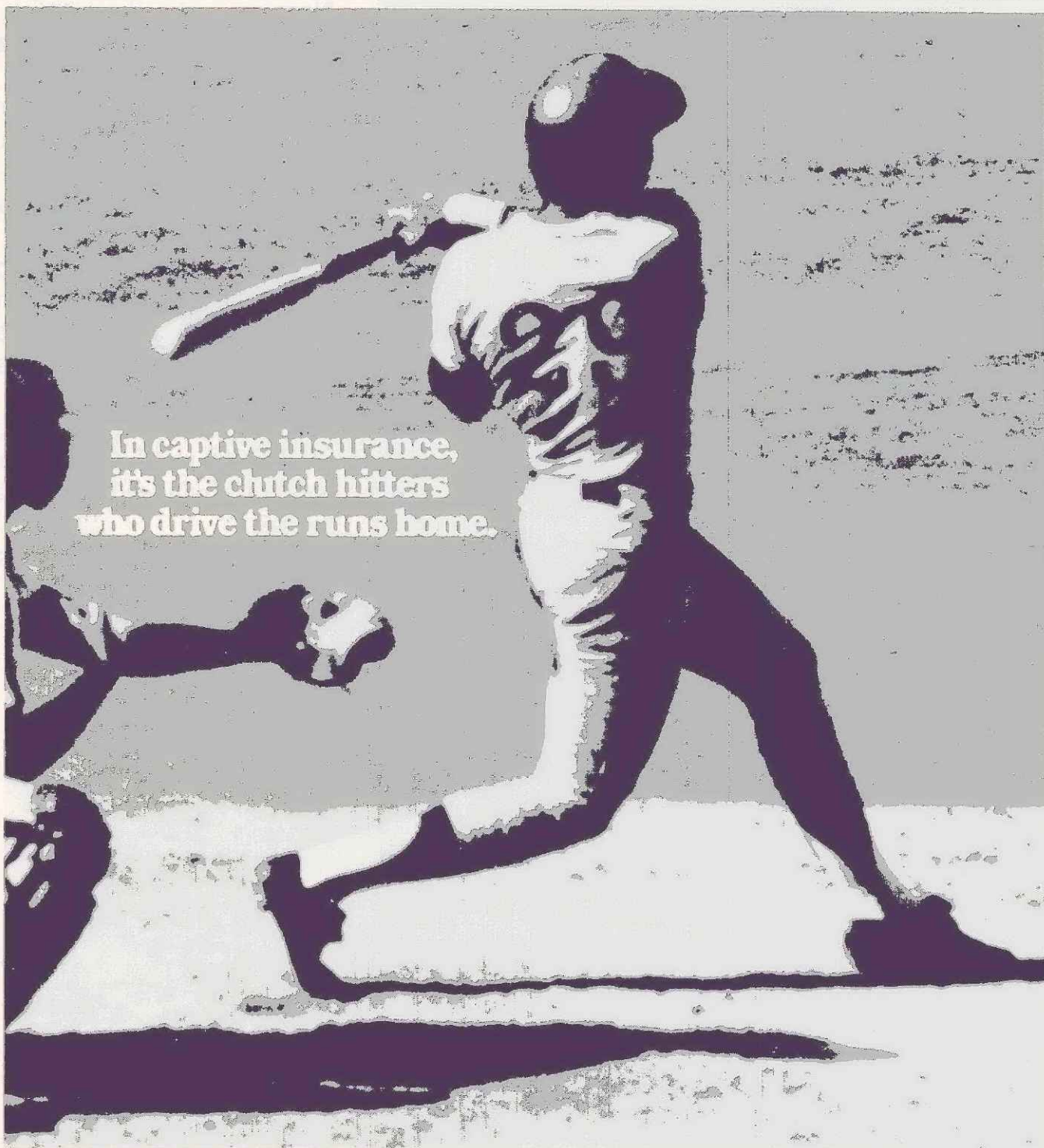
NEW YORK—Several multinational companies have turned the management of their expatriate pension plans over to American Life Insurance Co., whose plan allows expatriate employees to receive the same benefits as domestic employees.

Another key advantage of the plan offered by the AIG company is its flexibility in moving with the employee from country to country, the insurer says.

Employers or employees can elect to contribute to the plan, in increments of at least \$500. The initial deposit is \$2,000.

American Life guarantees security of principle and a minimum rate of return on paid-in principal. Current rates, for example, are set at 7%. Additional interest the plan earns from favorable investment experience is shared among plan members.

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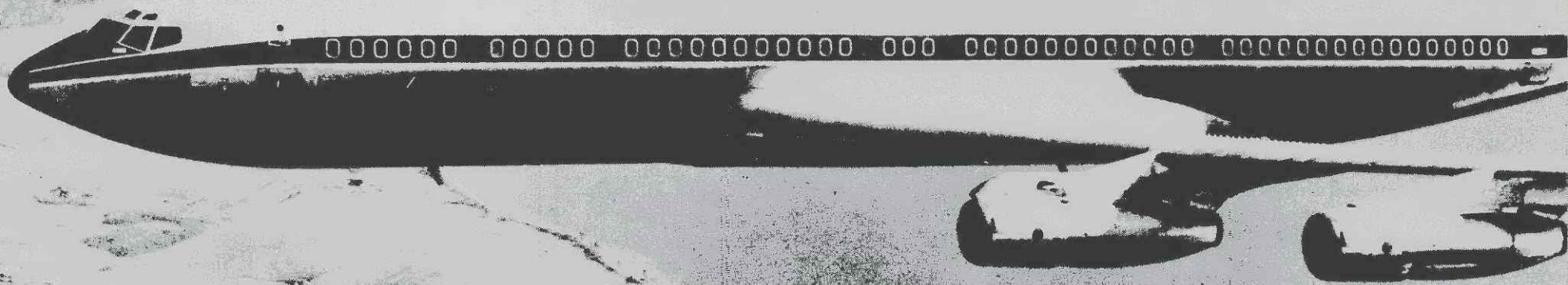
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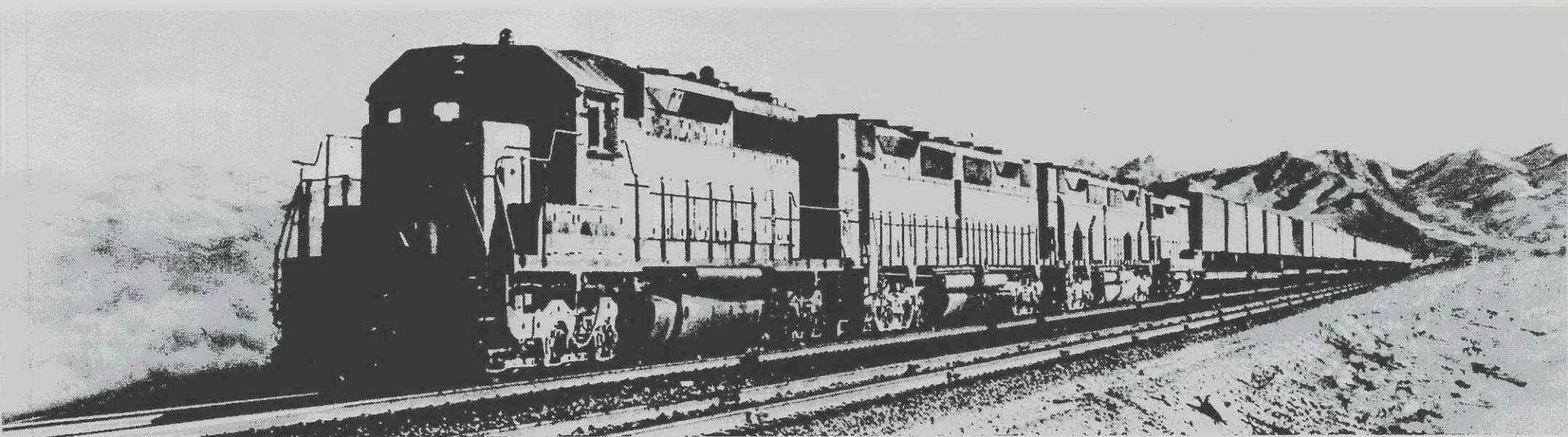
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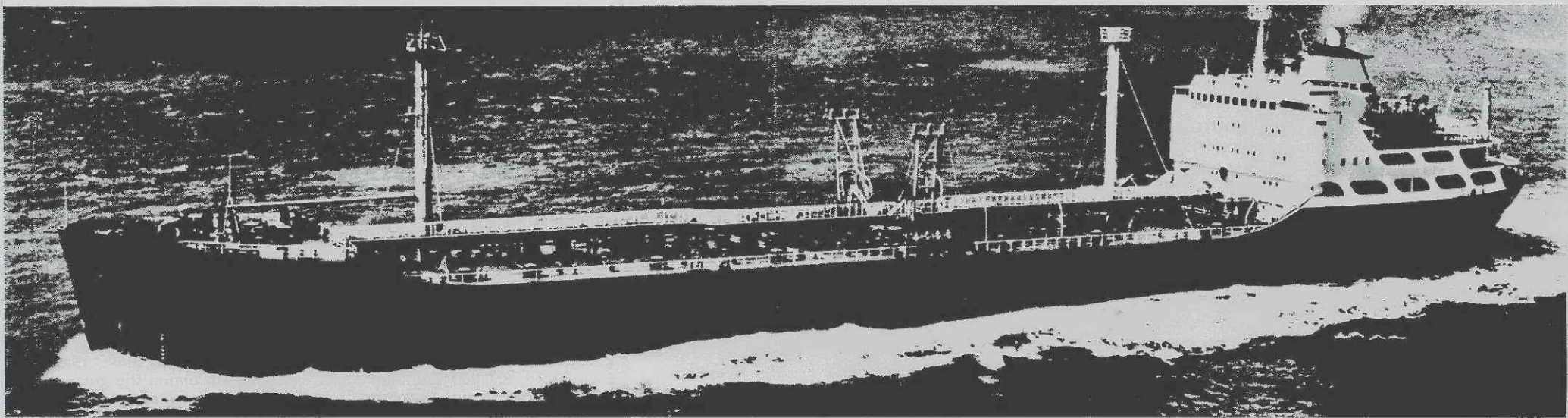
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editorial opinions

FASB rule 5

THE FINANCIAL ACCOUNTING Standards Board, in a commendable move, re-opened the subject of its rule #5, inviting comments on the impact of this standard. With that, the FASB held out the possibility that it could be influenced enough by the comments it received to change its mind on accounting for future losses and even alter the rule.

We've read all 44 of the letters the FASB received on rule #5 and concluded that a caution is in order. Without naming any names, we would suggest that all of you who choose to respond to the FASB should take the time to carefully review the standards themselves before firing off your letters. It appears that some people still don't realize what relationship a captive insurance company has to accruals for self-insured losses and that a captive by itself doesn't automatically get a company around the standard. (Sections 44 and 45 of the standard address this specific issue.)

■ It's safe to assume that the FASB is already prejudiced in favor of its original decision. Thus, any letters from individuals critical of the standards that aren't well-reasoned might just indicate to the FASB it should reiterate—not alter—its position.

Changing times

OPINIONS MAY DIFFER about whether the buffer layer markets are dead, dying or merely not growing, but there's no doubt that change is in the air.

At the same time, some observers believe there's a storm of competition brewing—while others say it'll dissipate before it gets very far. It's fair to say, though, that *BI's* editors clearly found that conditions can no longer be characterized as a seller's market.

In all seriousness, we worry that buyers and brokers and insurers will go overboard again trying to meet everybody else's prices, doing themselves in all the while. But on a less serious note, we

couldn't help but chuckle at a few of the anecdotes given to our editors about what's happening in the insurance marketplace. Listen to this one: "Sighing, one E&S underwriter spoke fondly of last year's conditions. 'It used to be such fun to watch the brokers queue up,' he said. 'Now they're really hitting the market hard.'"

Sorry, fellas, you can't have it your way all the time.

And surely the brokers are a bit happier now, with insurers responding to brokers' submissions within two or three days. It's all a matter of your point of view whether you lament the passing of "the good old days."

Who says nothing ever changes in the insurance business?

In one respect, we're glad to see a better balance in the relationship between insurance buyer and seller. Several of our stories indicate that insurers aren't feeling so panicky about liability risks; maybe they'll try to be more reasonable in their assessment of the risks presented by firms with excellent loss ratios, not arbitrarily slapping all policyholders with high premiums because of risks being thrown into a bad class.

Risk managers surveyed sound pretty calm about what's happening. . . . unlike a few years ago when most buyers were literally rubbing their hands together gleefully and getting very greedy looks in their eyes anticipating the big premium savings they could engineer by exploiting the market's softness.

■ There may not be that many new risks flowing to the excess/surplus markets and there may not be increasing demand for buffer layers, but it looks to us as if the E&S markets are going to do pretty well despite the comeback of the primary insurers. For one thing, buyers, brokers and traditional underwriters alike have learned that the E&S markets function pretty well in time of need. Buyers who want underwriters to assess their risks using good judgment may well keep on using the excess/surplus markets, where judgmental underwriting is more a way of life.

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Hazards, risks, culprits

From Time Magazine, Aug. 28

This Time essay is reprinted by permission of Time Inc. Our regular letters column, preempted by the Time essay, will return to its regular place in the next issue.

LIGHTNING STRUCK two young men visiting Sequoia National Park in 1975, killing one and damaging the other's nervous system. The tragedy would seem to be an ugly triumph of miscreant weather and bad luck, yet a pending lawsuit against the National Park Service demands "no less than a million" for the disabled survivor and \$1,606,645 for his late companion's family. The plaintiffs' argument: the park management negligently failed to warn the victims against standing where lightning might strike. The most amazing thing about the plaintiffs' position is that it is not at all unusual.

Today any mishap, no matter how fluky, can wind up in court. Take the case of the woman who collected \$50,000 damages from San Francisco with the contention that her fall against a pole in a run-away cable car transformed her into a nymphomaniac. Or the pedestrian who, as she crossed Chicago's Sears Tower plaza, suffered a broken jaw when the wind toppled her against a guard rail. She recently filed a \$250,000 suit against the architects and manager of the building. Her argument: the structure's design increased wind velocities in the area; moreover, the management was negligent in failing, in a period of hazardous winds, to prohibit her from crossing the plaza.

The attitude that gave rise to these suits is showing itself more and more wherever Americans venture risks. That means everywhere because the world remains strewn with invisible banana peels and eldritch hazards. "People now feel they have the right to legal redress if anyone or anything imposes upon them and interferes with their ability to enjoy life," says Chicago lawyer Philip Corboy, whose firm is prosecuting the case against Sears. This "I'm entitled" spirit is spreading so that it


is time to wonder: Is there any limit at all to the world's liability for an individual's risk? Can there be a really risk-free society?

Humans, true, have tried to evade or minimize risk ever since man first ducked into a cave to elude the sabertooth. Ancient Babylonia invented marine insurance, but notoriously litigious Americans have always wanted more than mere insurance. As soon as the automobile became popular, the motoring public began to develop what San Francisco liability lawyer Scott Conley calls the belief that "there must be a pot of gold at the end of every whiplash." Now the old litigious spirit has become almost a reflex. Malpractice suits against doctors are epidemic. The volume of damage suits has doubled in some jurisdictions in the past 10 to 15 years.

It is the *avant-garde* of the litigant spirit that is most unsettling. If one can blame the government for a lightning strike and a corporation for a wind gust, it is easy to imagine tracking almost any mishap to some distant agency. Should owners of property on which there is a public passageway prohibit barefoot pedestrians or else assume liability for every stubbed toe? Must the manufacturer of a knife clearly label it as dangerous or else be vulnerable to damages for a kitchen worker's sliced finger? Could the designer of a dam be blamed if a voluntary swimmer drowned in a lake thus created?

The sue-if-possible attitude seems oddest when it crops up among those who freely—and deliberately—take risks. Surely the thrill of skiing is provided partly by the possibility of a spill. Just as certainly, the wilderness camper who beds down in grizzly-bear country is not expecting wall-to-wall safety. Yet skiers who fall have tried to hold slope owners liable for their injuries (a verdict awarding \$1.5 million to a Vermont skier was upheld by the State Supreme Court), and outdoorsmen who camp in the vicinity of Yel-

Continued on page 10



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If you'd like to know more about how the Free Trade Zone Bill can affect your business, please send us the coupon. Or call the AIG representative at (212) 770-6173 or 770-6175.

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Time essay . . .

Continued from preceding page
lowstone National Park's bears are, when attacked, trying to lay the rap on the Park Service. A camper received leg wounds from one of the bears against which the park constantly warns with signs, brochures and general publicity; the victim argued that the Park Service was negligent not to warn more sternly, more thoroughly, more precisely. The government won that case, but an \$87,417 judgment to another victim was set aside only on appeal.

The increased tendency of injured parties to sue somebody—anybody—has several roots. One is a heightened public awareness that government agencies, private companies and individuals are vulnerable to lawsuits, and that juries too often are overly generous. The publicity given to big awards

awakens greed. Says Colorado state senator Ray Kogovsek: "People read about these enormous settlements and they think, 'If this person got so much, maybe I have a right to that much too.'" Years of activist consumerism have also made people more alert to possible claims against institutional America. The act of suing, in short, has become less personal, and when the defendant is an institution, people do not suppose anybody is getting hurt. But as high insurance rates and doctors' bills attest, a damage payment that hurts nobody is as rare as a truly free lunch.

The modern welfare-state is a monument to man's flight from risk. Yet even its considerable list of assurances—against unemployment, disability, blindness, lost bank funds, starvation—amounts to only a fraction of the protections available to Americans. Courts in California have held not only barkeeps but party hosts liable for injuries caused by drunken customers or guests. In the light of an abundance of other social cautions, one can almost imagine that the Oklahoma legislator was serious in proposing the bill, happily defeated last winter, that would have required a woman to obtain a written agreement as a legal precondition for sexual intercourse.

In both its public and private spheres, the nation is rightly acting to reduce many of the risks that people have no choice but to hazard—on the road, in factories, in the natural environment, even in the field of speculative finance. But plainly, the spreading eagerness to avoid all risks and to find culprits for all injuries is going too far. The attitude rests on a refusal to accept fate or personal folly as the real source of many of life's bumps. It is as if society is beset by the utopian dream of a world that is free, if not of risks, then of all individual responsibility for those taken and lost.

The sort of world in which some vague higher authority is expected to prohibit individuals from going any place where they might get blown by the wind or struck by lightning would be a world bereft of true freedom. If it could be contrived, such a world would be fraught with severe risks for the human spirit. For, as psychologist William James said at the turn of the century: "It is only by risking our persons from one hour to another that we live at all."

—Frank Trippett



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We look, but do we see?

At first glance, the photo at the left may appear to be an abstract form. Actually, it's an aerial photo depicting a portion of the open pit at Texasgulf's Kidd Creek mine in Timmins, Ontario.

Yet, even a less puzzling view would still be deceptive, since the mine actually descends more than one mile into the earth. Among the most ambitious extraction efforts ever.

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If you'd like to arrange to view *We look, but do we see?*, telephone your nearest Allendale representative or Michael C. McIntyre at (401) 275-4035.



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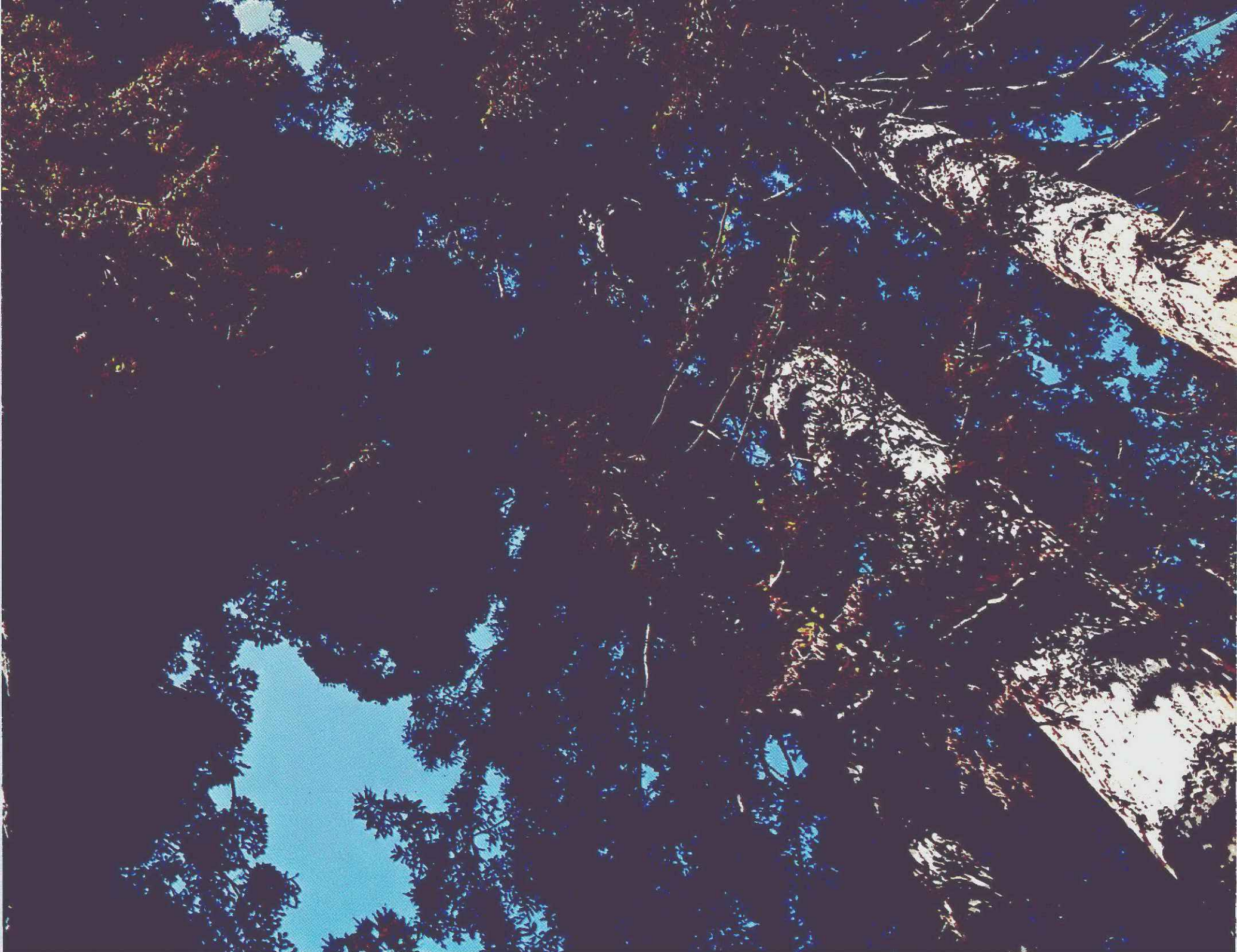
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*Employee Benefit Plan Review April 1978

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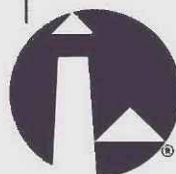
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Insurer chooses to avoid litigation

Crum & Forster agrees a second time to stop tort ad

By JERRY GEISEL

HARTFORD—For the second time in a month, Crum & Forster Insurance Cos. settled charges that it ran deceptive and misleading product liability ads by agreeing to a Connecticut insurance department order that prevents the company from making similar claims in the future.

Crum & Forster agreed last month to a virtually identical cease

and desist order issued by the Kansas insurance department involving the same advertising claims.

Meanwhile, *Business Insurance* learned the Kansas department and Aetna Life & Casualty Co. reportedly are close to an agreement on settling charges that its extensive product liability ad campaign is deceptive.

The Connecticut insurance department has also held hearings on Aetna's advertising campaign, but

no action has been taken. Another hearing is expected, but no final date has been set.

In New York, a trial is set to begin this month on whether Aetna's ads advocating tort reform as a solution to insurance problems tampered with prospective jurors and interfered with a plaintiff's 6th Amendment right to a fair trial.

Crum & Forster admitted that it could not prove that one million

product liability claims were filed in 1976 as it has asserted in its ads.

The insurance company also said it could not substantiate a claim made in the ad that a man who was injured using a lawn mower as a hedge clipper successfully sued the manufacturer.

That there was no evidence to support either the one million claims figure or lawn mower story was first revealed in a *Business Insurance* story in October 1977.

"We recognize that an insurer has the right to promote its views on matters of public importance," said Connecticut counsel Peter Boucher. "But we are going to insist that the facts insurers present are accurate."

As in Kansas, the state insurance department began an investigation after trial attorneys complained about Crum & Forster's advertising campaign.

One of the attorneys who complained, Richard Bieder of Bridgeport, said the cease and desist order was a "slap on the wrist," adding that Crum & Forster should have been hit with a stiff fine.

Crum & Forster attorney Ralph C. Dixon said the insurer agreed to the Connecticut order to avoid "considerable litigation."

If Crum & Forster had not agreed to the order it would have faced additional hearings before the state insurance department and it "didn't make sense for us to continue since the ads had been stopped," Mr. Dixon said.

Mr. Dixon observed that Crum & Forster had acted in good faith in running the ad and had believed at the time the ad was published that the lawn mower story and the one million claims figure were accurate.

On the upsurge: Cal Union's capacity in tough-risk coverage.



Proven financial capacity to handle today's increasingly complex needs in excess/surplus coverage is only part of the Cal Union story.

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IRA cutoff plan opposed

WASHINGTON—The Treasury Department is opposed to suggestions that the cutoff date for contributions to Individual Retirement Accounts (IRAs) be raised from the current age 70 and six months.

Some congressmen have suggested that since the mandatory retirement age has been raised to 70, contributions to IRAs should be allowed past age 70.

But Donald C. Lubick, assistant secretary for tax policy, said 70 and six months is an appropriate cutoff date. "To raise the cutoff date would transform IRAs from a retirement savings medium into an estate planning vehicle as well as a method to obtain tax deductions for savings not related to retirement," Mr. Lubick said.

Under current law, tax deductions up to an annual maximum of \$1,500 are permitted for contributions to IRAs.



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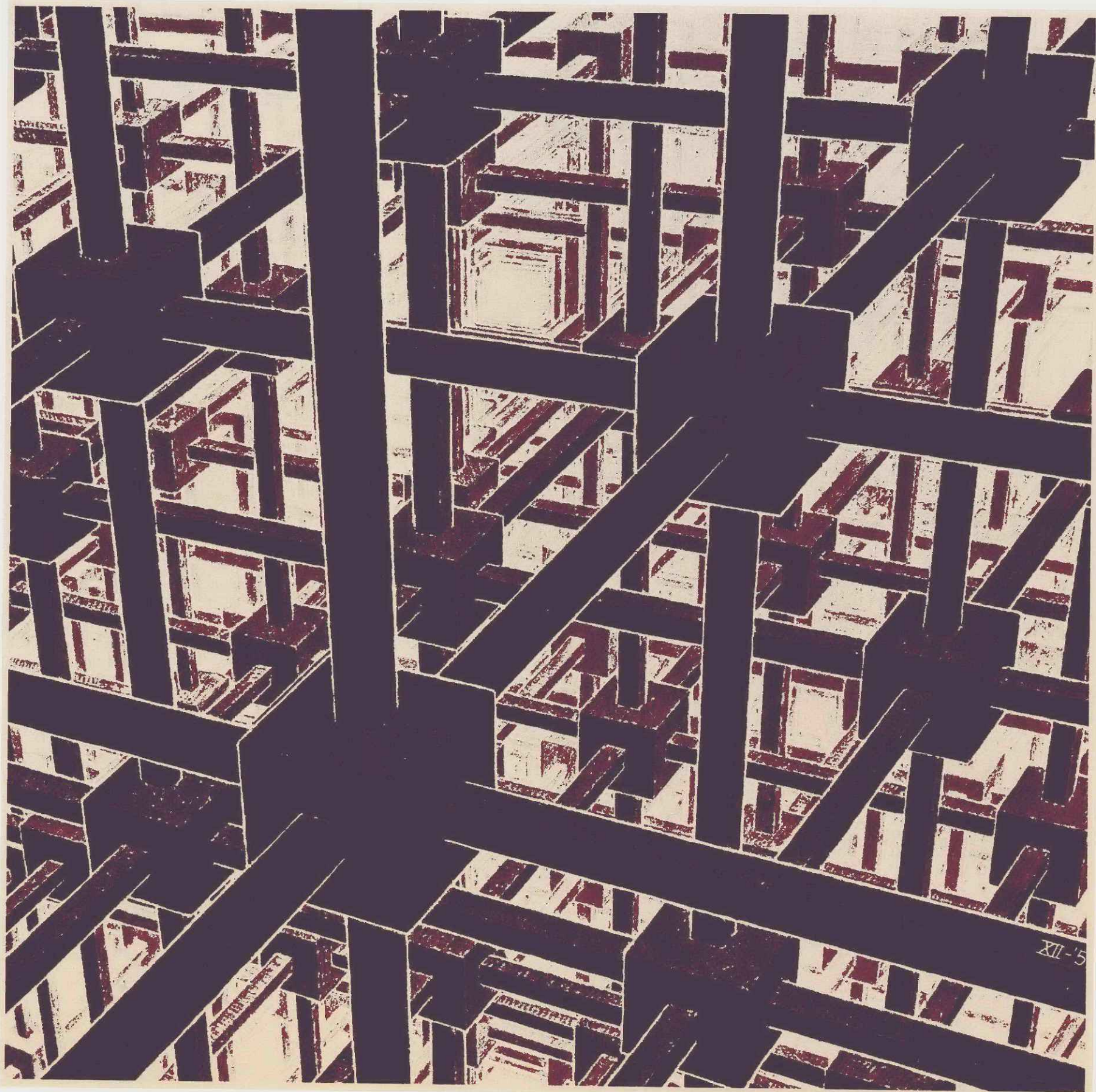
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Congressional okay sought

Pension regulation plan will slash red tape: Aide

WASHINGTON—A top Carter Administration official told a Senate committee that the government's pension regulation reorganization plan would sharply cut red tape and vastly improve enforcement of the pension reform law.

Harrison Wellford, executive associate director of the Office of Management and Budget, told the Senate Government Affairs Committee that ERISA reorganization "can be implemented immediately and will have tangible results."

Under the reorganization plan, ERISA enforcement and regula-

tory functions would be clearly divided between the Labor and Treasury Departments, replacing the current situation of dual jurisdiction.

Normally, the reorganization plan would automatically become law if Congress does not reject it within 60 legislative days. However, since 60 legislative days probably are not left in the current session, the plan needs the approval of Congress.

The Treasury Department would be given most of the responsibilities for setting minimum standards for funding, participation and vesting of benefits. These standards ensure that pension plans are adequately funded and the rights of beneficiaries are protected.

On the other hand, the Labor Department would be given authority for fiduciary standards and the power to issue exemptions from transactions that are now prohibited by ERISA.

By eliminating the dual jurisdiction of issuing exemptions and giving Labor exclusive control, Mr. Wellford believes the processing time for granting exemptions can be sliced in half.

Currently, there are substantial delays in approving exemptions due to dual jurisdiction, Mr. Wellford said. Of the 955 applications for exemptions, only 485 final decisions have been made. The average length for processing an application is 15 months and is increasing.

Mr. Wellford also said that dual jurisdiction is partly to blame for the lag in issuing important regulations. Less than half of the 215 regulations required by ERISA have been issued.

Mr. Wellford added that the Administration's ERISA reorganization plan is only an interim measure. By April 30, 1980, the Administration will submit to Congress proposals to establish a long-term administrative structure for ERISA.

In the meantime, the Administration intends to study other ERISA reorganization proposals such as legislation introduced by Sen. Harrison Williams (D-N.J.) and Sen. Jacob Javits (R-N.Y.) which would create a new federal agency to administer ERISA.

House hearings are also planned on the Administration's reorganization plan.

5 union plans in receivership

CLEVELAND—A U.S. district court here has ordered the appointment of an independent receiver to take over the operations of five employee benefit plans sponsored by a Youngstown, Ohio, trades and crafts union.

The trustees of the five plans, sponsored by the Associated Trades and Crafts National Union and its Local No. 2, are defendants in a lawsuit brought by the Department of Labor.

The trustees have been charged with misusing the assets of the plans to benefit the unions or other parties, as well as failing to keep adequate records or file reports required by the 1974 pension reform law.

The five benefit plans include pension, health and welfare, pre-paid services, apprenticeship and vacation plans.

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Facultative Reinsurance Questions & Answers

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

Q: What kinds of coverages does Prudential Re provide?

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



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

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

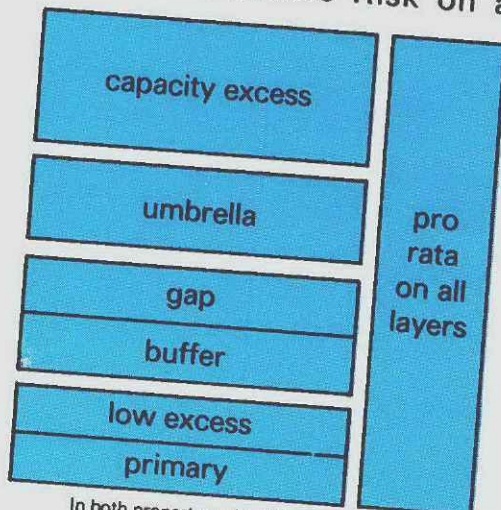
A: Depending on your insurance commitment and our analysis of the risk involved, our capacity can be as high as \$12 million. And we are looking for opportunities to use a substantial portion of our capacity or all of it wherever feasible.

Q: What kind of risks does Prudential Re write?

A: Our experience has given us more confidence in certain

classes of risks than in others but we do write everything from shoe stores to chemical companies.

For example, we have written All-Risks Builders Risk on a



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

nuclear power plant and Excess Liability on many ski areas throughout the U.S.

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

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

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

A: In most cases, our response is immediate. This is possible be-

cause Prudential Re operates regional offices throughout the United States and in Canada. In all cases, Prudential Re provides prompt written confirmation of quotes and binders.

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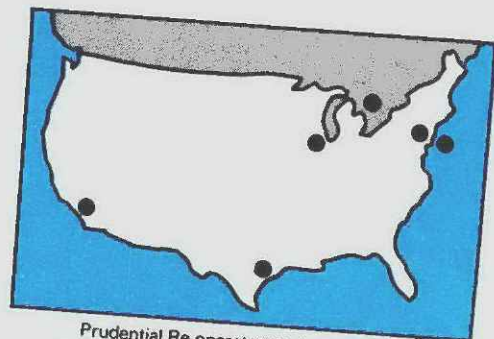
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4 new Colorado captives boost state total to 29

DENVER—Four new captives have been formed in Colorado since the end of March and three more insurance subsidiaries are now in the final stages of receiving approval.

The incorporations boost to 29 the number of captives domiciled in Colorado under the state's innovative captive law.

The parent companies of the four new captives are Elixir Industries of Gardena, Calif.; Crawford Fitting Co., an Ohio-based firm; Sisters of Charity of Cincinnati, Mount St. Joseph, Ohio, and Empire Gas Corp. of Lebanon, Mo. The Colorado insurance department would not identify the three companies awaiting approval of incorporation

of their subsidiary insurance companies.

Elixir's new captive, Gardenia Insurance Co., was incorporated April 6 with a capital of \$400,000 and a paid-in surplus of \$600,000. Gardenia is expected to be used to reinsure product liability risks. It is being managed by Glendale Risk Management Inc.

Crawford Fitting Co.'s captive, Constance Insurance Co., received permission to operate in Colorado on May 5. Constance was incorporated with a capital of \$400,000 and a paid-in surplus of \$600,000. The captive is expected to be used to underwrite product liability risks. Constance is being managed by

Anistics of Denver, Colo.

Sisters of Charity of Cincinnati's new captive is M.S.J. Insurance Co. M.S.J. received its license to operate June 21 and will be used to provide medical malpractice coverage. It was incorporated with a capital of \$400,000 and a paid-in surplus of \$600,000. It is being managed by M & M Risk Management Services.

Empire Gas Corp.'s new captive, United Insurance Corp., received its license to operate June 30. United was incorporated with a capital of \$400,000 and paid-in surplus of \$1.1 million. The captive is expected to insure against a broad-range of liability risks. It is being managed by Frank B. Hall Management Co.

The Colorado captive law requires, among other things, capital and surplus in the captive of at least \$750,000 and that the parent company show that the insurance to be written by the captive is not otherwise reasonably available. ■

Insurers won't oppose Texas self-insurance bill

AUSTIN, Tex.—Proponents of workers compensation self-insurance in Texas will no longer face opposition from insurance companies in the state if they and the underwriters can draft a compromise bill that satisfies objections previously raised by insurers.

Dallas attorney Richard Geiger has prepared a draft on behalf of the Assn. of Fire and Casualty Cos. in Texas for presentation to the Texas Assn. of Business, the main proponents of a self-insurance measure.

"The insurance industry asked to have the opportunity to draft the proposed legislation so it would contain features so we wouldn't oppose it," Mr. Geiger said. The

Texas insurance industry intends to take a neutral posture, neither opposing nor endorsing the proposal, when a bill comes up before the Texas legislature in 1979, he said.

However, considerable opposition to the bill is expected to come from the state's trial lawyers and Mr. Geiger said he believes they will be able to prevent passage of a bill. He added that John Hill, a former president of the plaintiff's bar group, has a good chance of being elected governor in November.

Mr. Geiger said the trial lawyers' position is that self-insurance provides no guarantee of an employer's ability to meet claim costs. However, some observers said the trial lawyers believe it is easier to collect on claims from the insurance companies.

The proposal drafted by Mr. Geiger contains some provisions that would counter arguments about the lack of a guarantee to meet claim costs. They include establishment of a separate guaranty fund for self-insurers and other solvency measures to insure that a self-insured employer is just as able to protect his workers as an employer who purchases conventional coverage.

However, Mr. Geiger's draft also contains a provision that would require self-insurers to share in the losses of the state's assigned risk pool. He admitted that businesses are likely to oppose that provision, but added that it was negotiable. ■

Traffic fatalities up 2% this year

WASHINGTON—Traffic fatalities during the first seven months of 1978 are up more than 2% over the same period last year, the Department of Transportation says.

National Highway Traffic Safety Administration administrator Joan Claybrook said if the present trend continues, the death count could top 50,000 by the end of year. That is something that hasn't happened since 1973.

Last year traffic deaths totaled 47,671, a 4% increase over 1976. DOT blames motorists' failure to observe the 55 miles per hour speed limit for the rising fatality rate. ■



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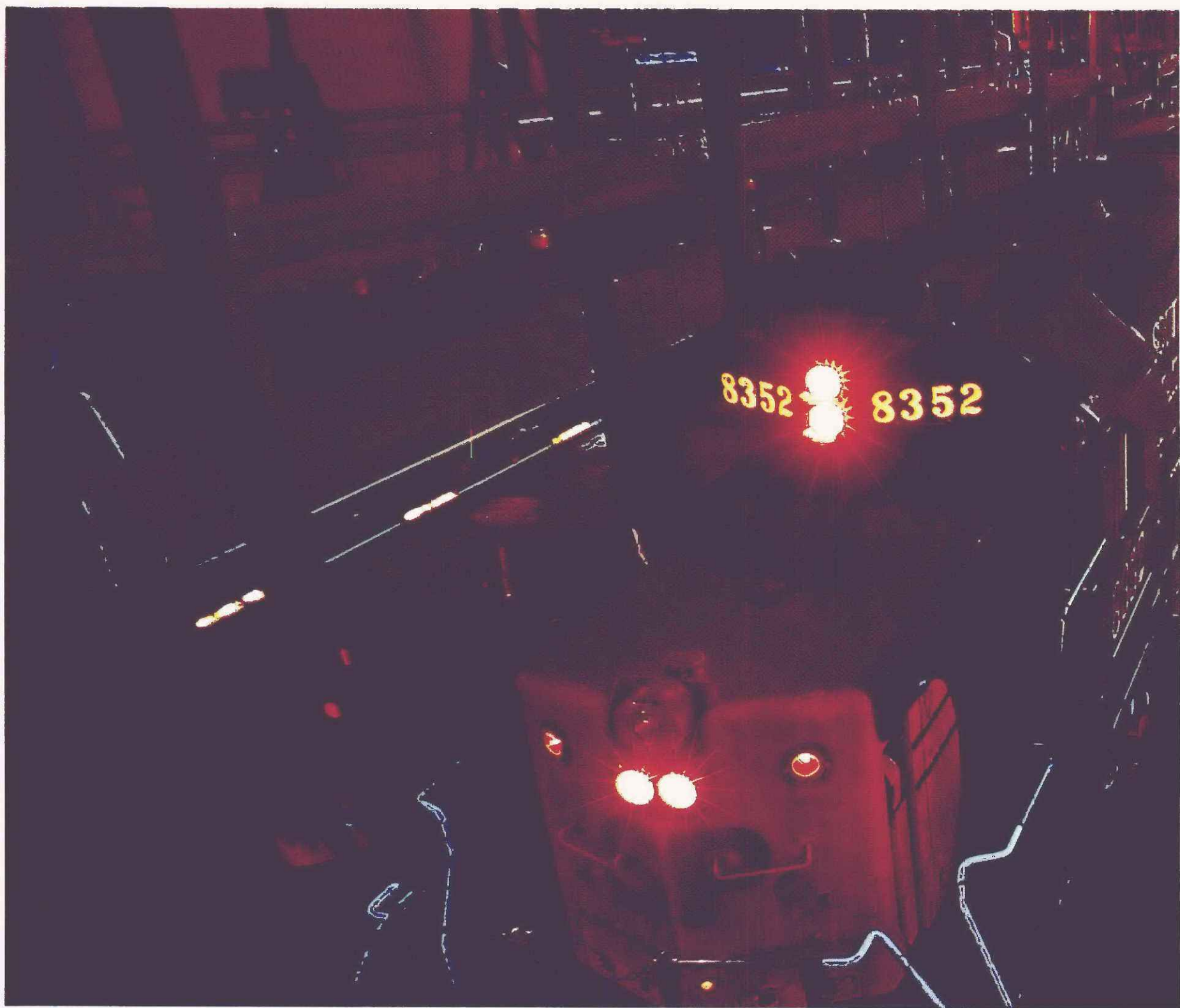
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Fewer accidents?

Chase study forecasts work comp profit ahead

BALA CYNWYD, Pa.—Workers compensation, a perennial loser for insurers, is expected to return to profitability over the long run, according to a study on the future of the insurance industry released by Chase Econometric Associates.

The 225-page report, entitled "The Next Ten Years for the Insurance Industry," cites the changing nature of the American workforce as the main reason for the anticipated shift from red ink to black on workers compensation.

The American labor force is getting older, and as people grow older they are more careful at their

jobs. Therefore, they are less likely to have accidents, said David D. Hemley, Chase Econometrics director of insurance forecasting and author of the study.

In addition, the shift from a manufacturing to a service economy means there will be fewer people working in high risk, blue-collar jobs, he explained.

While increased medical expenses and higher wages are likely to bring inflationary pressures to bear on workers compensation expenses, Mr. Hemley said these would be offset by the changing workforce and expected lower incident rates and severity of incidents.

Adoption of a uniform benefit level based on payments made under the U.S. Longshoremen and Harbor Workers Act would have an adverse short-term effect upon insurers as they adjust to higher costs, but would have a long-term positive effect upon profitability, Mr. Hemley said.

While adoption of federal benefit levels would mean higher costs, insurers would benefit from a uniform payment schedule, he believes. Right now, insurers must deal with the uncertainty of differing regulation from state to state and the prospect of changes in those regulations, Mr. Hemley said.

Commercial multiperil and inland marine lines are likely to remain profitable and commercial fire insurance should benefit from a proposed national clearinghouse on arson that would cut down fire losses from that source, he said.

The Chase study did not include any prognostications on the long-run outlook for product and general liability because social inflation and jury verdicts cannot be quantified, Mr. Hemley noted.

However, personal auto lines are expected to take a turn for the worse over the next three to four years, the study noted. Mr. Hemley attributed this to increasing use of smaller cars, in which accident victims are more likely to suffer severe injuries and repair costs are about the same as for larger vehicles.

Nationally advertised auto insurers will be hardest hit because political pressure will force them to continue writing in marginal and unprofitable states while smaller firms will be able to pick and choose where they want to insure automobiles, the study said.

As a result, the national companies will charge higher rates in the profitable states to subsidize losses elsewhere while regional insurers will undercut their rates in the high profit states.

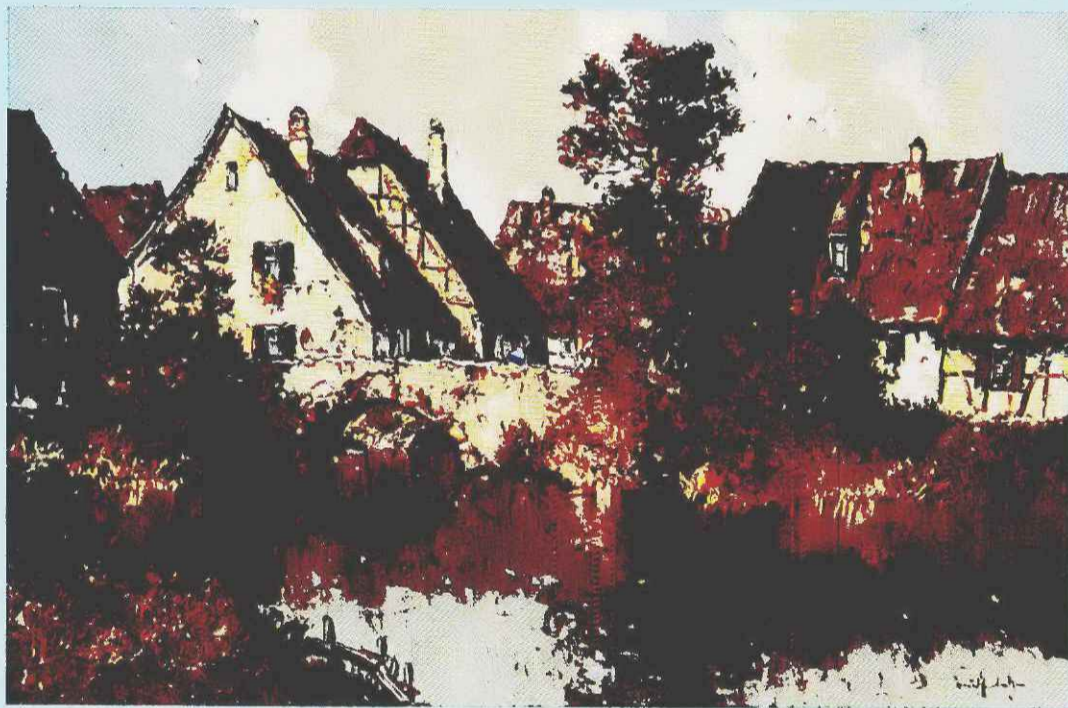
Oil tanker ban eyed for Puget

WASHINGTON—The Department of Transportation has proposed a temporary rule that would ban oil tankers over 125,000 deadweight tons from entering Puget Sound in the state of Washington.

The rule is designed to give the Coast Guard the time it needs to develop procedures to control the big tanker operations in Puget Sound.

The state of Washington previously had banned the tankers, but the Supreme Court ruled last March that the ban was unconstitutional because of federal preemption of state law.

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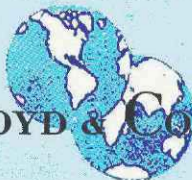
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Eastern insurers drive boom into caution signs

By REBECCA A. FANNIN

NEW YORK—The green, go-ahead lights that excess and surplus insurers on the East Coast saw last year have switched to yellow, caution signs.

An aggressive standard insurance market is pinching the specialty risk insurers. Boosted by recent profitable years that increased capacity, primary insurance companies have begun to underwrite the harder-to-place risks that were reserved for excess and surplus lines, excess insurers say.

Competition from the standard insurance markets has also helped to lower insurance rates, especially in property insurance where excess insurers report reductions as large as 20% to 30%. Casualty insurance rates are leveling off and may drop 5%, the insurers said.

In another indication of improved standard insurance markets, the demand for buffer layers is slowing down. Demand for buffers, layers of coverage that pick up the difference between primary policies and excess coverage, is dropping off as primary underwriters write higher limits of coverage, eliminating the need for a buffer.

Demand for buffers in auto and product liability insurance, however, remains strong, East Coast excess insurers reported.

Excess insurers also have to reckon with increased competition from a new marketplace, the Insurance Exchange, an underwriting facility that will be set up in April in New York to write reinsurance, non-U.S. risks and surplus risks.

"The Insurance Exchange will mean taking business out of our marketplace," said Alvin B. Moss, president of LMG Excess Ltd. in New York. "More will go into the standard companies" participating in the exchange.

The excess insurers do not seem particularly worried about the potential loss of business. First State Insurance Co. in Boston, for one, said it is not worried about the Insurance Exchange.

EXCESS/SURPLUS

But, the pressure to retain business in the excess and surplus markets is already keen.

William Goldman, president of Horan Goldman & Co. in Philadelphia, said he plans to spend twice as much on advertising this year just to maintain the 25% growth rate he has achieved every year during the past three years.

"I'm spoiled by those good years," he said. "I have to work that much harder to continue increasing volume."

Excess insurers are also "reducing premiums just to keep business," noted Bernard C. Brook, assistant vp of special risks at Seaboard Underwriters' office in Burlington, N.C.

Property insurance risks are especially prone to price reductions since standard insurance companies are competing strongly for them in order to balance their business more toward the less risky property coverages.

"The property market is extremely soft. You can almost name your own price because of the absence of catastrophes," said Daniel F. Maher, executive vp of Capacity Managers International in New York.

At Markel Services in Richmond, W. Bruce Pennington, regional excess and surplus manager, noted the large rate reductions for property risks. He said the premium for a fairly large property risk for a race track operation was reduced to \$60,000 from \$100,000 with a reduced deductible.

While competition is strong in less risky lines, Charles Ellman, vp of Delaware Valley Underwriters in Wyncote, Pa., said risks in machinery, manufacturing and chemical industries remain in the excess and surplus markets.

Specialty risk insurers characterize the market changes as just another of the inevitable cycles.

"What happens in our marketplace (excess and surplus) is just a product of what's happening in the

primary markets," Mr. Goldman said.

"We are subject to the whims of the standard insurance companies but we are a legitimate end of the business," he added.

"We saw the change coming, but it happened more quickly than we anticipated," said Markel Services' Mr. Pennington.

Mr. Maher at Capacity Managers reminisced about the excess market's good years in 1976 and 1977.

"I doubt if we'll ever see a greater time in excess and surplus than during 1976 and 1977," Mr. Maher said. "Everyone was just so happy to find a home for a risk in those tight market years."

But the cycles may again run in favor of the excess insurers. Mr. Maher noted that as the primary markets become softer, they will again overreact by cutting prices too drastically. "They just haven't learned a lesson" from the earlier price-cutting years, he said.

Also voicing this concern was Mr. Pennington, who noted that "standard companies are writing so much business, that their writings to surplus will be in a precarious position."

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Business Insurance reporters talked to insurance company executives, managing general agents, brokers and risk managers to compile this issue's special report on excess and surplus markets. Among the stories in this issue are:

- **Not all Midwest** underwriters are slashing prices to remain competitive. Page 26.
- **West Coast underwriters** sketch the beginnings of an all-out price war. Page 29.
- **After a roller coaster** ride few will forget, risk managers have found the straightaway. Page 32.
- **Insurance departments** in Michigan and Missouri update excess/surplus regulations. Page 35.
- **Despite softer markets**, brokers report continued, if slower growth. Page 40.
- **The largest U.S.** excess insurer loses 2 key executives. Page 43.
- **Even municipalities** find the new excess/surplus markets less taxing. Page 44.
- **When E/S underwriters** complain about competition, they probably mean INAX. Page 47.
- **Excess/surplus** brokers in a BI directory average \$1.4 million in revenues. Page 48.
- **BI directory lists** vital information on 64 excess/surplus brokers. Pages 50 to 61.

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Some different approaches to lumber exposures.

Midwest underwriters insure less business by holding prices firm

By KATHRYN J. McINTYRE

CHICAGO—Premium volume at Columbia Casualty, CNA Insurance Co.'s excess and surplus lines facility, is expected to plummet \$24 million this year to \$50 million from \$74 million in 1977.

This astounding slump in business for the Chicago-based underwriter with \$15 million in surplus is a clear reflection of the startling changes that have occurred in the insurance marketplace in the last year, explained Columbia Casualty president Wayne Prather.

EXCESS/SURPLUS

The changes identified by Mr. Prather and other Midwest excess and surplus lines underwriters are creating more responsive and better priced standard and surplus markets for the insurance buyer.

The standard insurance markets, sitting on healthier surpluses that were bolstered by higher premiums in the last few years, are now writing risks they had thrown to the surplus markets in capacity-tough times. The standard markets are now even competing for excess and umbrella business, breaking the price acceleration of recent years. Furthermore, they are writing primary policies to higher limits, banishing the buffer layer from insurance programs.

That last development has been the most painful rub at Columbia Casualty. "Forty percent of our business last year was in buffer layers," Mr. Prather said, referring to the highly profitable policies that filled the gap in insurance programs between the top limit primary insurers were willing to write and the bottom limit excess underwriters were willing to pick up. "But that business is simply evaporating; the majority of it is gone," Mr. Prather lamented.

The company has cut staff to 44 now from 52 at the end of '77. Three underwriters were among the eliminated jobs.

The buffer business started falling off in late 1977 at Columbia Casualty, hurting the company's premium volume sooner than other excess and surplus underwriters started feeling the pinch of changing conditions. "Other companies up until June were not experiencing the same loss of business we were. Now they say they are beginning to see their volume decline, losing business strictly to competition," Mr. Prather said.

Watching risks rush the now open doors of the standard market—Columbia Casualty's submissions are down 30% from last year—doesn't seem to disturb Mr. Prather. "It's the normal cyclic thing to happen," he explained. "An enormous amount of business moved into the surplus market two and three years ago that normally is not our business—anything with some tough exposure to it."

But the excess and surplus lines company president doesn't like the kind of "very, very stiff price competition," he sees mostly from the standard markets. There are also new excess and surplus markets searching for new business, he noted, but the competition among the surplus underwriters isn't as keen.

"We're keeping our renewal prices at either last year's level or slightly lower," Mr. Prather said. Even so, Columbia Casualty is holding on to the more difficult risk and high premium accounts, doubling its average premium on an account to \$52,300 this year from \$26,029 in 1977.

Holding prices and tough accounts is the stance other excess as well as surplus underwriters say they are maintaining.

"We're trying to be consistent in prices during tough and good times," said Russell N. Gilmore, director of umbrella business for Great American Insurance Co. Exclusive of three-year policies renewing this year, rate increases on

Continued on page 28

Self-funding a health plan is serious business



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Continued from page 26
renewal business range from "zero to 25% with some rate reductions," he said.

Mr. Gilmore characterizes current umbrella policy pricing as "crazy, but not as crazy as I had expected." As a market for umbrellas written by an admitted insurer, Great American is retaining 75% to 80% of its accounts. "But we are seeing attrition in new business," Mr. Gilmore admitted. The company has 6,000 policies in force and expects to grow 10% to 15% over last year.

Zurich American Insurance Co. of Illinois, the developing surplus lines facility of Chicago-based Zurich American, is also maintaining its prices, said vp Herbert F. Baker. However, with only \$1.7 million in surplus business premiums in 1977 compared to a projected \$5 million in 1978, Zurich American of Illinois is primarily quoting new business this year. Mr. Baker maintained the renewal business it is losing is because the risks are being written in the standard markets, not by other surplus underwriters for less premium.

But Thomas F. Sheehan, sole managing general agent for Imperial Casualty & Indemnity Co., ad-

Realizing that the agents and brokers are testing the newly softened standard markets to the last minute before turning to their wholesalers for placements in the surplus markets, Zurich American of Illinois is trying to respond to the time-pressed wholesalers in "a couple of days," said Mr. Baker. "If you don't, the attachment date will have already passed."

Perhaps the excess and surplus

underwriters aren't fretting over the current lapse in business as one might expect they would because they don't fear a dearth of business opportunities or a lasting state of current conditions.

"I don't know how much more the standard markets can absorb," said Mr. Baker. "They won't go back to the heydays of six and seven years ago that caused the problems," he believes, "so there's enough business for everyone."

"There probably won't be as much of a business shift back to the standard markets as existed

prior to two and three years ago," suggested Mr. Prather.

The cyclical nature of the insurance industry can also be depended upon to turn the business back over to the surplus markets, it's agreed. The earliest Mr. Prather expects to see the shift is 1980. Mr. Gilmore at Great American expects umbrella markets to tighten in late 1979.

In the meantime, Columbia Casualty, for one, is looking for some new business. "Like any market faced with losing volume, we in-

tend to start some things—getting into things we haven't done before, classes we haven't written or two or three specialized coverages," said Mr. Prather.

He denied, however, reports that Columbia Casualty is again writing excess insurance for self-insured workers compensation programs, though the decision not to write workers compensation is up for review. The company is expanding the amount of first layer excess insurance it will write for self-insured programs for other risks, he noted.



Columbia Casualty president Wayne Prather says, "Like any market faced with losing volume, we intend to start some things."

mits to losing umbrella business on prices he refuses to slash. "When the umbrella market is soft, we pull in our horns. We'll let those making the market soft cut their own throats again."

"We aren't losing any significant umbrellas," Mr. Sheehan stressed, defining significant as umbrellas that generate premiums of \$200,000 a year. "That's where you get loyalty. They know we'll be around. It's the \$20,000 to \$50,000 annual premium that will move for a price reduction."

The newly independent errors and omissions underwriter also emphasizes that his E&O business is booming, with prices still climbing in that highly specialized and difficult risk business. "We estimate we'll do \$15 million for the 12 months March through February," he cheered.

Other excess and surplus underwriters are enjoying the break from the boom days that they agree started slowing down earlier this year. While enjoying the respite from an overload of submissions, the underwriters are concentrating on improving their service.

Columbia Casualty, for example, is now consistently responding to submissions in three and four days instead of taking three weeks to provide an answer as last year. To maintain that kind of responsiveness, the company reduced the number of wholesalers it will do business with to 73 from 122 at the beginning of the year.

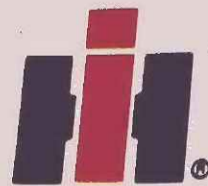
"We want to provide the best service to the maximum number of producers," Mr. Prather explained.

Increasingly active Zurich American of Illinois is also emphasizing service to its wholesalers.

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West Coast insurers sketch emerging price war

By MARGARET LeROUX

SAN FRANCISCO—Softened. Loose. Fluid. Unsettled. All are terms excess and surplus lines underwriters use to describe the market on the West Coast.

Competition has returned to the market here, as last year's profits added capacity to both primary and excess underwriters. Underwriters are now scrambling for

risks they wouldn't even look at a year ago.

"The market has softened considerably," said Robert Reynolds, vp, marketing, Aetna/Cravens Dargan. "We're seeing 15% to 30% erosion on liability premiums."

The volume in California's excess and surplus market has been described as "phenomenal." Within the last two years, total premium volume has more than

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tripled, from \$76.2 million in 1975 to \$257.1 million in 1977.

"We're seeing competition from stock companies on product liability risks they wouldn't touch three years ago," Mr. Reynolds continued. "Now they're including product liability in a package at 50% of

what we quote."

Aetna/Cravens Dargan is considered the most active underwriter in the excess and surplus market on the West Coast. Both Aetna Insurance Co. and Cravens Dargan & Co. are subsidiaries of Connecticut General Life Insurance Co. Cravens Dargan does E&S underwriting for Aetna as well as Central National Insurance Group of Omaha, Highlands Insurance Co. and Mo-

tor Vehicle Casualty Co.

"Coverages are broader and premiums are being renewed at decreases in the range of 20% or more," said Bruce MacCready, a partner in MacCready & Gutmann Insurance Services Inc., managing general agents for Proprietor's Insurance Co.

"A lot of risks, particularly product liability risks, really suffered in the last few years," he added. "Now most of them are getting premium reductions."

Noel Higgitt, senior vp of Baccala & Shoop Insurance Services, another major E&S underwriter on the West Coast, characterized the market as "confusing."

"Prices are certainly more competitive," he said, "but at the same time volume is up. Our gross written premiums are up considerably over last year's."

Baccala & Shoop is underwriting manager for several excess companies, among them Puritan Insurance Co., Pinetop Insurance

How hungry?

The standard insurance companies are so hungry for property premiums that "they're giving credits where we would surcharge," said Herbert F. Baker of Zurich American Insurance Co. of Illinois.

"They appear to be giving up their cushion on property," the excess and surplus lines company vp observed. "And giving up their property profit points will leave them with smaller earned premiums."

Competition is so keen, he suggested, that in order for the surplus markets to get any significant property business "we'd need several hurricanes and for California to fall into the Pacific," he exclaimed.

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"For the buyers, the market is the best it's been in five years," said another E&S underwriter who requested anonymity. "Last year the buyers went begging, but today, with a bit of luck, a buyer may even get an invitation to lunch."

One E&S underwriter noted that "while we're not exactly wining and dining risk managers, we have made the corporate condominium in Hawaii available for a good customer."

Continued on following page

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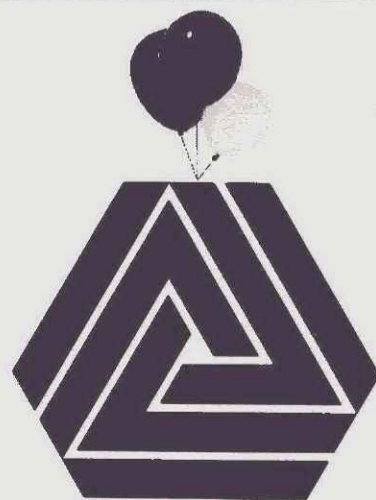


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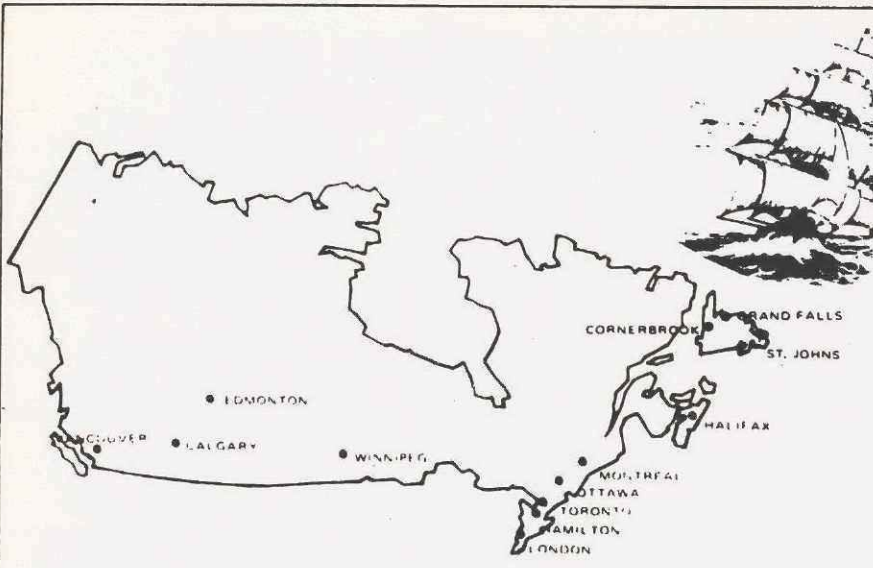
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West Coast . . .

Continued from preceding page tomer.

But better prices, especially for product liability insurance, are the rewards many West Coast risk managers are reaping. Another anonymous E&S underwriter told of a \$750,000 gap layer for a product liability risk that received a first quote of \$225,000, but was sold to an Eastern underwriter for \$125,000.

A \$5 million umbrella for another product liability risk that cost \$350,000 last year was snapped up by a competing E&S underwriter this year for \$165,000, according to the underwriter who lost the business.

And yet another example: on a "difficult product line, the quote for \$5 million excess of \$5 million was \$14,000, but the risk was ultimately written for \$7,500."

EXCESS/SURPLUS

The product liability problem seems to be declining, several industry sources said. One observer compared it to the malpractice crisis. "It seems to have run its course," he said. "We're now seeing quotes at more reasonable levels."

A source at another major West Coast E&S underwriting firm cited one cause for the increase in competition in the market here. "Greed, pure and simple. A lot of folks see an opportunity to make more money and underwriting standards go out the window," he complained.

Some E&S underwriters predicted this new flexible cycle will last through 1979 before the market again tightens. "You don't think any of us have learned from past experience do you?" one asked.

The losers in the battle for new business among E&S and primary underwriters seem to be the buffer layer companies. "The market for buffer layers has pretty much ceased to exist," according to Bacala & Shoop's Mr. Higgit. "The primary companies are raising their limits and have pretty much eliminated the need for them."

"The facultative reinsurance market is wide open," another E&S underwriter said, "and a few umbrella underwriters are coming down. As a result, the buffer market is practically dead."

Another E&S underwriter predicted the buffer layer market "will atrophy, not grow. It will become the place for the really tough product or pharmaceutical risks. Some umbrella underwriters still want distance between them and the primary underwriter."

According to other sources in the E&S market, the buffer layer companies are not seeing "widespread daily use as in the past year," but "there's still a lot of money to be made in this area and new markets are opening up." Recent entries into the buffer layer market on the West Coast include First State Insurance Co. and Crum & Forster.

Although the competition is hot and heavy on the West Coast, underwriters say the effect has not been felt in the E&S market in other areas of the country.

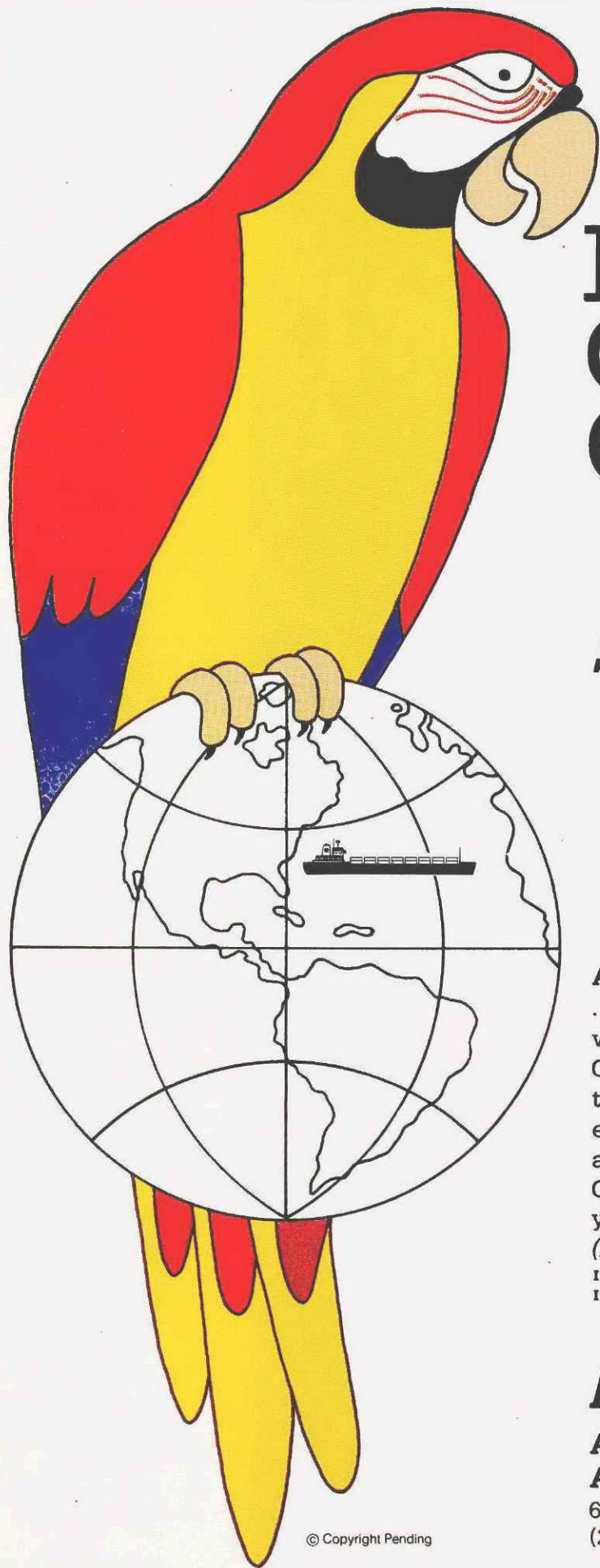
"What happens here is an indicator for the rest of the country," one E&S underwriter said. "This may not hit Boise for some time."

Another source in the E&S market here said the loosening trend is starting on the West Coast and moving East. "Companies back there like Columbia Casualty are still hanging on to last year's terms. They aren't competitive out here."

For one new insurer in the E&S market, there doesn't seem to be much regional difference. At Fireman's Fund, where an E&S department was opened earlier this year, a spokesman said, "We haven't found the market much different here than in the rest of the country. We certainly don't plan any premium reduction. We're rolling right along as we have been."

But the majority of E&S underwriters in California would not agree with the market assessment of the Fireman's Fund spokesman. "It's frantic and crazy and if I could predict when it's all going to calm down, I wouldn't be in this business," one West Coast E&S underwriter said.

Sighing, he spoke fondly of last year's market conditions that were ruled by the sellers. "It used to be such fun to watch the brokers queue up," he said. "Now they're really hitting the market hard." ■



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Stable markets calm excess market chaos

By JERRY GEISEL

WASHINGTON—After a roller coaster ride none of them will forget, risk managers have finally reached the smooth straightaway of the excess and surplus markets.

Stability is the word that comes up again and again when corporate buyers are asked to evaluate the market. The price increases and decreases that have occurred rarely have been more than 15% in either direction.

"Basically, we've seen somewhat of a return to normalcy either by a hold-the-line attitude or in slight price reductions," said Norman Chanzis of American Standard Inc. in New York.

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"We had absolutely no problem in the excess market," said Jerry Lane, insurance manager of McDonald's Corp. "Insignificant" premium increases accompanied recent policy renewals, he added.

The relative stability in the excess/surplus market stands in sharp contrast to the chaotic situation of two and three years ago when premiums, particularly for product liability coverage, jumped anywhere from 100% to 500% in a single year.

Edith Lichota, assistant treasurer of the Carborundum Corp. in Niagara Falls, N.Y., believes huge price increases have slackened because the "excess casualty markets are a little less panicky now since the extraordinary losses that many of the carriers were afraid of don't seem to have materialized."

Some risk managers feel the most stunning change in the market has been the surge in the number of companies willing to supply excess/surplus coverages. "Possi-

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Edith Lichota of Carborundum says "excess casualty markets are a little less panicky now."

bly one of the reasons prices are easing is that there are a lot of new faces in the market," said J. Al Friday, vp-insurance administration of Colonial Stores Inc.

One corporate risk director of a huge Midwestern company said last year he contacted 49 different insurers from Japan to London in an unsuccessful effort to obtain \$20 million of coverage excess of a \$5 million primary layer. This year, with the restoration of strong competition, he expects to secure that coverage in the U.S. market.

One factor in the softening of the market has been absorption of risks into the primary market. For example, some markets will now take \$2 million of a liability risk while a year ago a buyer might only be able to secure \$1 million of coverage and be forced to go to Lloyd's of London for the next \$1 million, noted Robert Abrahamson, manager of risk management and corporate insurance for Control Data Corp. in Minneapolis.

Other risk managers also discovered that the primary casualty market has been able to take a little more at the lower end of the excess/surplus market. With the primary market expanding, companies have been able to reduce their need for buffer layer fill-ins, added Mr. Chanzis of American Standard.

At a time when the excess market has become more favorable to the buyer, some risk and insurance managers said they will be using the opportunity to improve the

Continued on page 34

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Risk managers . . .

Continued from page 32
product they have been purchasing.

For example, umbrella underwriters a few years ago began to exclude many risks, sharply reducing the shield of coverage. Control Data's Mr. Abrahamson, for example, was forced to go from a very broad umbrella form to a quite re-

EXCESS/SURPLUS

tain higher liability limits. With an increasingly litigious society, a prudent company needs higher coverages to protect against higher exposures, he added.

Another insurance director observed that he recently paid \$5,000 for a \$5 million excess policy above a \$3 million retention. "You can't beat \$1,000 per \$1 million of coverage," he said. He noted that similar coverage was available during the

crunch, but he would have had to pay much more for such a policy.

Just what prices are doing, of course, varies on the type of coverage a company is buying. Mr. Abrahamson said while there has been overall softening in the market, professional liability is one excess line where competition has been lacking.

"When you are referring to a situation in which there is no competition for the business, you never are talking about a lowering of premiums," he said.

There is some disagreement, though, on how long the favorable market conditions will prevail. Mr. Lane of McDonald's believes that "right now we are in an excellent

position," but the market could begin to tighten as soon as mid-1979.

Robert Spencer, vp of risk and insurance for Fuqua Industries in Atlanta, believes that as long as underwriters are making money they are going to be out looking for premium dollars. But their profitability could decline in about a year, resulting in a gradual tightening of conditions.

Currently, Mr. Spencer doesn't expect much further softening in the excess property coverages since that market has been fairly soft in recent years. The price cutting that lies ahead will be in the excess casualty area, he said.

Mr. Friday of Colonial Stores

doubts if excess/surplus coverage prices are going to drop any lower. Prices are bound to rise, though at a stable rate, due to inflationary pressures, he said.

Despite all the talk of price cutting, Mr. Friday points out that for most lines of coverage, prices still are substantially higher than five years ago, though down in many cases from two years ago.

Other risk managers said they couldn't comment on prices since their excess policies had not come up for renewal. "I'm leaving for London today," said Norman Hoffman, director of insurance for Kane-Miller Co. in Tarrytown, N.Y. "Call me in a month and I'll let you know how we came out."



Robert Abrahamson of Control Data says there still isn't much competition in the professional liability markets.

strictive policy that "we weren't used to."

With the improvement in the market, Mr. Abrahamson said he is going to try to put more exposures fessional liability, when renewal time for Control Data rolls around next month.

Demand for excess/surplus coverages appears likely to be stable in the next year, with few risk managers planning to substantially change their levels of coverage.

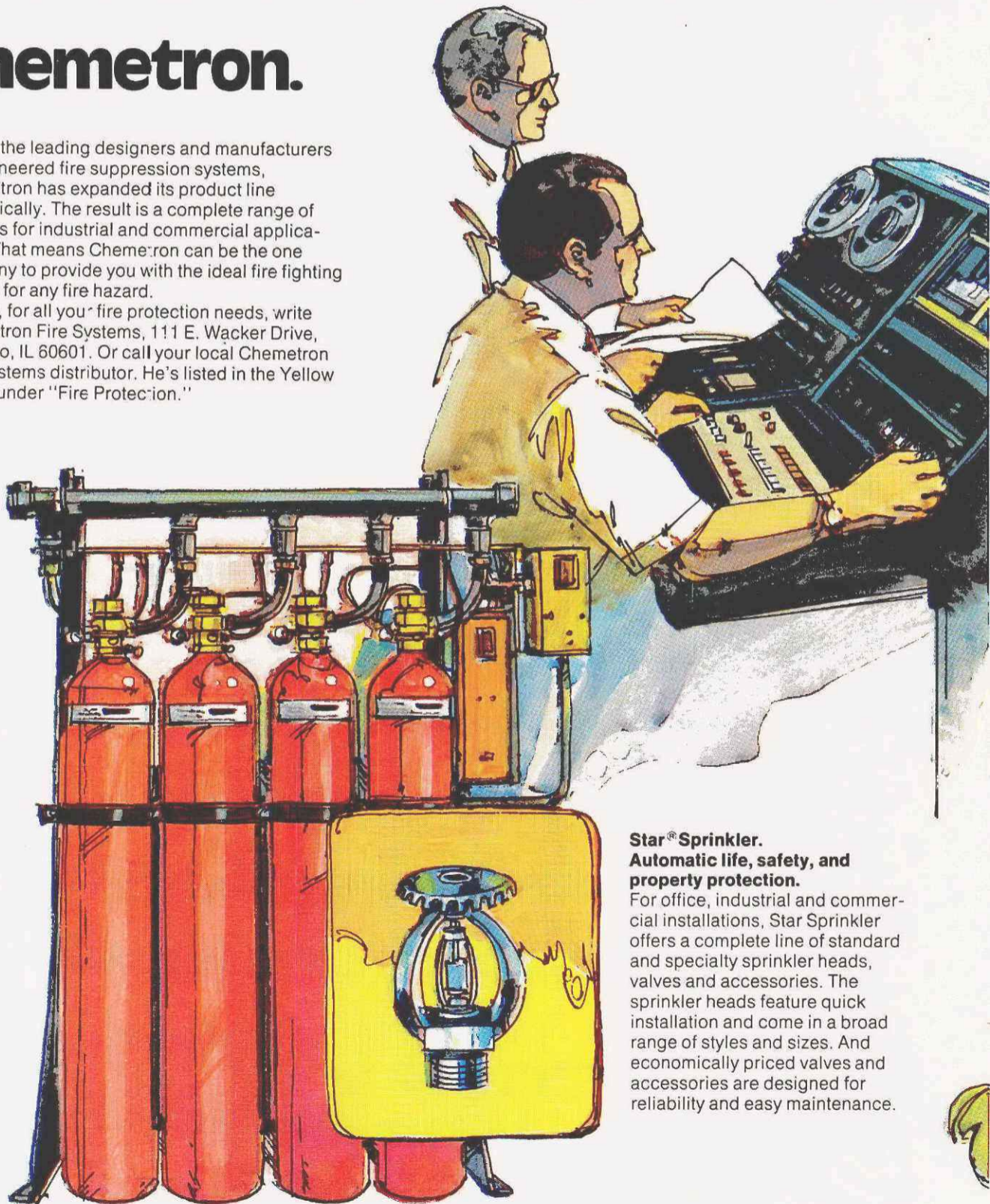
"We're up to where we feel we should be," said Charles Revie, director of risk management and insurance of Bucyrus-Erie Co. in Milwaukee. "We're just going to try to hold our own, though we'd like to improve the product we're buying."

McDonald's Mr. Lane said he probably would be aiming to ob-

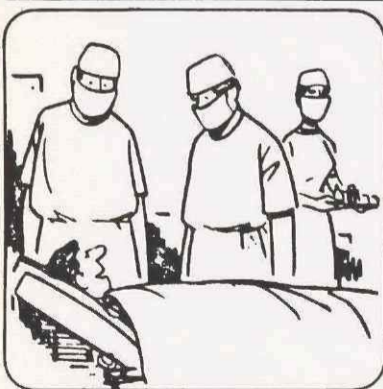
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States update rules to keep pace with market

By REBECCA A. FANNIN

NEW YORK—Insurance departments in Missouri and Michigan have updated their regulations of the excess and surplus markets, prompted not by troublesome abuses but by the need to keep pace with the growth of this specialty insurers market.

In another change, the National Assn. of Insurance Commissioners has upgraded the criteria it uses for determining whether an alien or foreign insurer will be listed by the association as acceptable.

To be named on the NAIC accepted list, which many states refer to when checking an alien insurer's reputation and financial solvency, alien insurers must meet a new requirement of maintaining a trust account worth \$1 million over five years rather than the former \$500,000 without a time stipulation.

The NAIC has retained its criteria that an alien company have capital and surplus amounting to \$1.5 million and continues to examine loss reserves, premium reserves, premium/surplus ratio and the

EXCESS/SURPLUS

company's reputation.

The effect of the NAIC's change is that it requires excess and surplus carriers to "make a substantial commitment to the marketplace and tends to discourage fly-by-nights," said James Ryan, head of the non-admitted insurance office of the NAIC.

"States have also had to give their regulations more scrutiny because of the increased business in

the excess and surplus lines," Mr. Ryan said.

In Missouri, the insurance department is proposing that the excess and surplus statutes be "re-written in entirety," according to Glenn R. Jourdon, Missouri's chief examiner.

"Our old section was very antiquated and it was virtually impossible to regulate the surplus lines brokers," Mr. Jourdon said.

The department's only current requirement is that excess insurers maintain a trust account worth

\$500,000.

The proposed regulations would require that excess and surplus insurers have \$1.6 million in surplus and be in business for three years. The insurance carrier would be regulated as to the type of business it underwrites.

Another regulation would require brokers to reside in the state before placing business with excess insurers.

Michigan, on the other hand, has eased its traditional conservative approach to regulating excess and surplus insurers in the hopes of expanding excess business in the state.

Lloyd's of London is the only alien carrier in the state and admitted excess and surplus carriers number only 20.

"The Michigan department has learned that if you overregulate, which we did, then the risks just go to Chicago," said Michael D. Markman, assistant commissioner of the office of policy and compliance.

The Michigan department requires that excess and surplus carriers put up deposits in relation to the size of their liabilities in the state.

But the Michigan department has proposed that admitted carriers need only post a \$75,000 bond in Michigan or a \$750,000 trust account in the U.S.

The department is also planning to create an insolvency fund of not more than 1% of the premium to take care of liquidations.

Several other states, however, including Illinois, Texas and California, are satisfied with their current regulation and foresee no new regulatory problems.

In both California and Texas, insurance departments are relying on strong surplus lines associations to effectively advise brokers of any financial problems with excess insurers.

"We're just not going in the particular direction of more regulation," said Phelps Cole, director of the excess and surplus department in Texas.

The Texas insurance department makes brokers bear the responsibility for placing risks in an excess insurer and takes comfort in doing so.

Mr. Cole noted that most of the surplus lines brokers belong to the state surplus lines association, which he said keeps the brokers abreast of problems with excess insurers.

But the Texas department does discourage the use of excess carriers and will cancel a policy if it is in competition with the admitted market, Mr. Cole said.

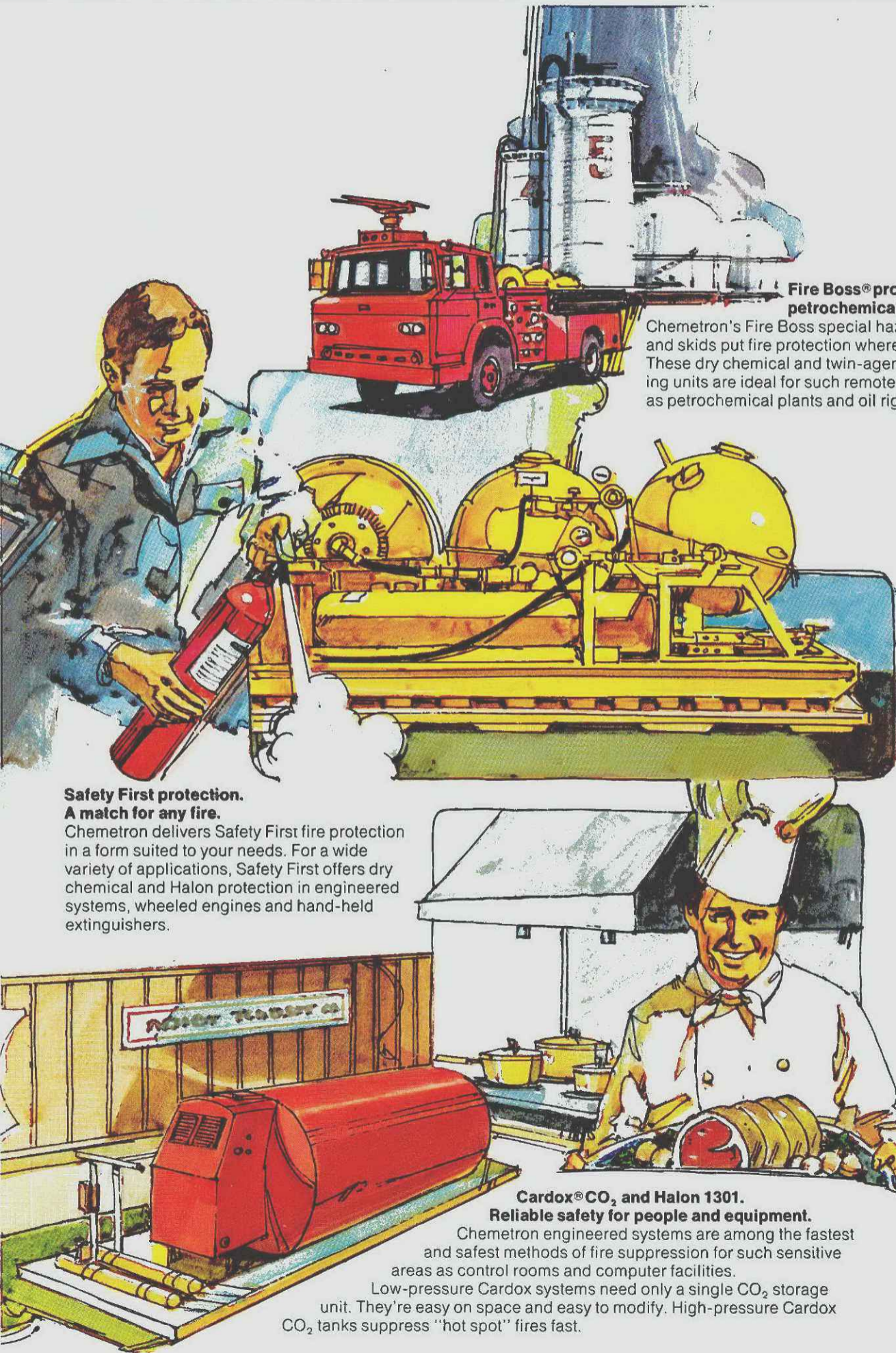
The Illinois insurance department is also satisfied that its regulations are adequate, according to Etta Credi, supervisor of the financial regulatory division.

Illinois requires that an excess insurer have surplus of \$1.5 million and a trust account of \$300,000. A surplus lines broker must have a risk declined three times by admitted carriers before placing a risk in the non-admitted market.

The Illinois department maintains a list of acceptable carriers similar to the NAIC list. If a broker places a risk with a company not on the list, the insured must sign a statement that he knows the company isn't on the qualified list. ■

August storm loss

The American Insurance Assn. says a late August storm that struck parts of Colorado, Mississippi and Tennessee caused an estimated \$6.3 million in insured losses. The most extensive damage, estimated at \$3.7 million, occurred in Tennessee.



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Cities now can insure tax revenues

CHICAGO—Municipalities can now insure their tax revenues against drastic declines resulting from the physical destruction of property and loss of business in the community.

A small town with one major source of tax revenues, such as a racetrack, can insure against losing the tax revenues if it is destroyed by purchasing a specific tax interruption policy. Or a town can buy a blanket policy to insure against the loss of revenue resulting from the destruction of a large portion of property in its district.

NAS Ltd., a Chicago-based excess and surplus lines broker, designed the new policy in response to requests from municipalities, said NAS president Thomas Cath. Municipalities and school districts need to protect the continuation of tax income on which their budgets are based, he explained.

The destruction of a booming racetrack in a small town, for example, could result in such a loss of real estate and sales tax income that the town would be forced to float a bond to make up for loss of anticipated income— income which the town had already committed if not spent.

That's bad enough, Mr. Cath continued, but for communities whose tax levying authority is limited by such laws as California's Proposition 13, the additional cost of floating a bond would require cuts in the budget.

The tax interruption policy, underwritten by Admiral Insurance Co. and available only through NAS since Sept. 1, is written on an all-risk basis. The standard property exclusions are contained in the policy, subject to either dele-

EXCESS/SURPLUS

tion for additional premium or further exclusion depending on the exposure. Towns in California, especially those along the San Andreas fault, will probably not be able to buy earthquake coverage.

Not only direct tax revenues but also indirect tax revenues are insured, Mr. Cath said. Referring to the racetrack again, the sales taxes collected at other businesses frequented by racetrack attendees, such as restaurants, would be covered as well as real estate and sales taxes collected from the track. A claim under the policy will be adjusted by comparing tax revenues after a loss with revenues collected in previous years, he explained.

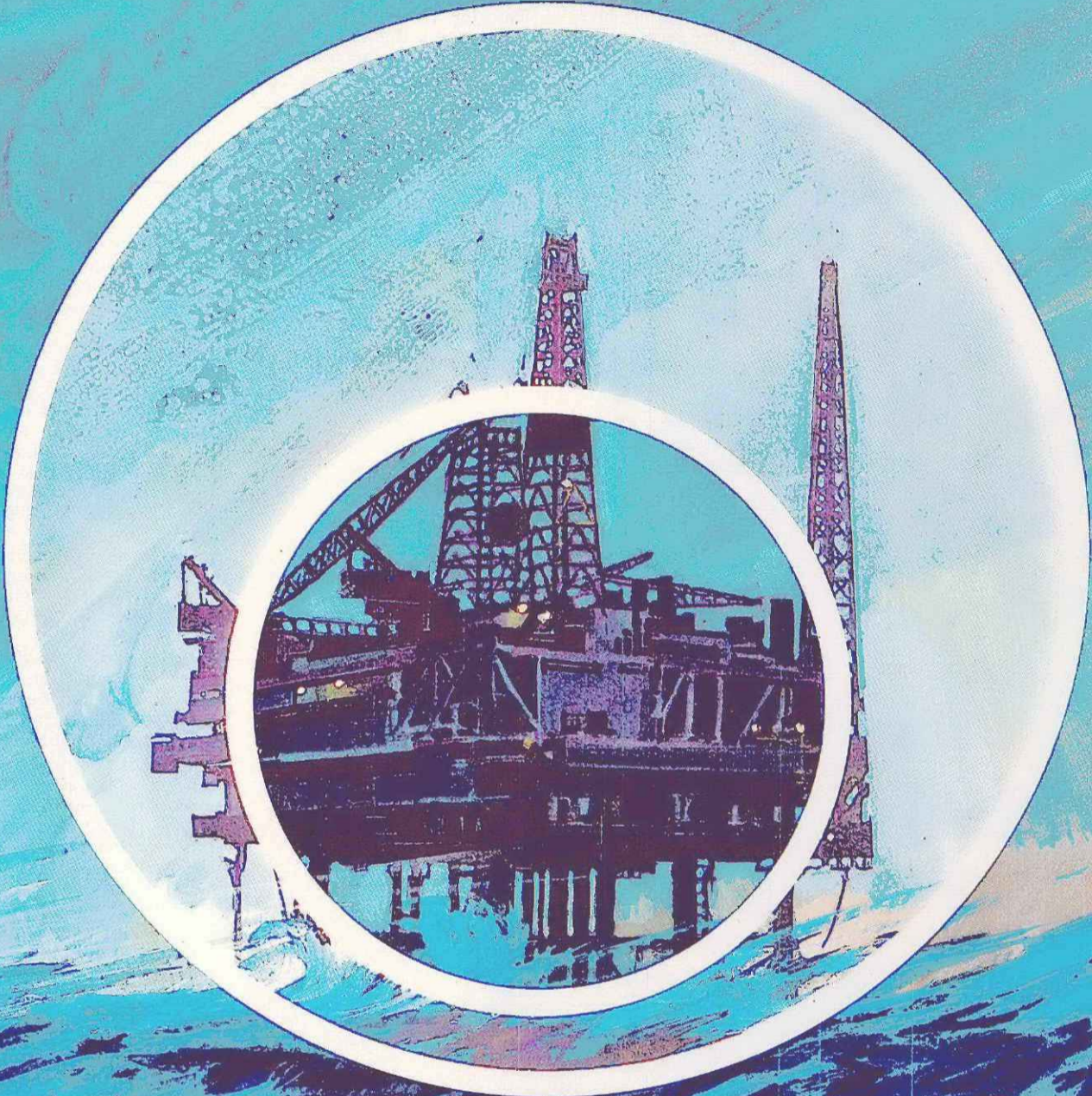
The policy addresses only the destruction of a tax source, not the loss of revenue suffered if the one major attraction or industry in town just packs up and leaves.

Mr. Cath estimated the cost of the insurance at 1% of insured limits, though the rate will vary with the exposure.

The policy is not designed for cities as large as Chicago, but is intended for cities such as Orlando, Fla., where Disneyworld is a major contributor and generator of tax revenues, Mr. Cath added.

This is the first venture into municipal risks for NAS, a wholesaler which deals only with agents and brokers. But Admiral is a major casualty insurer of municipalities.

Dennis Tweedale, Madison, Wis., risk manager and president of the fledgling Public Risk Managers Assn., said the new policy "sounds interesting, especially for a town of 2,000 or 3,000 with one major employer."



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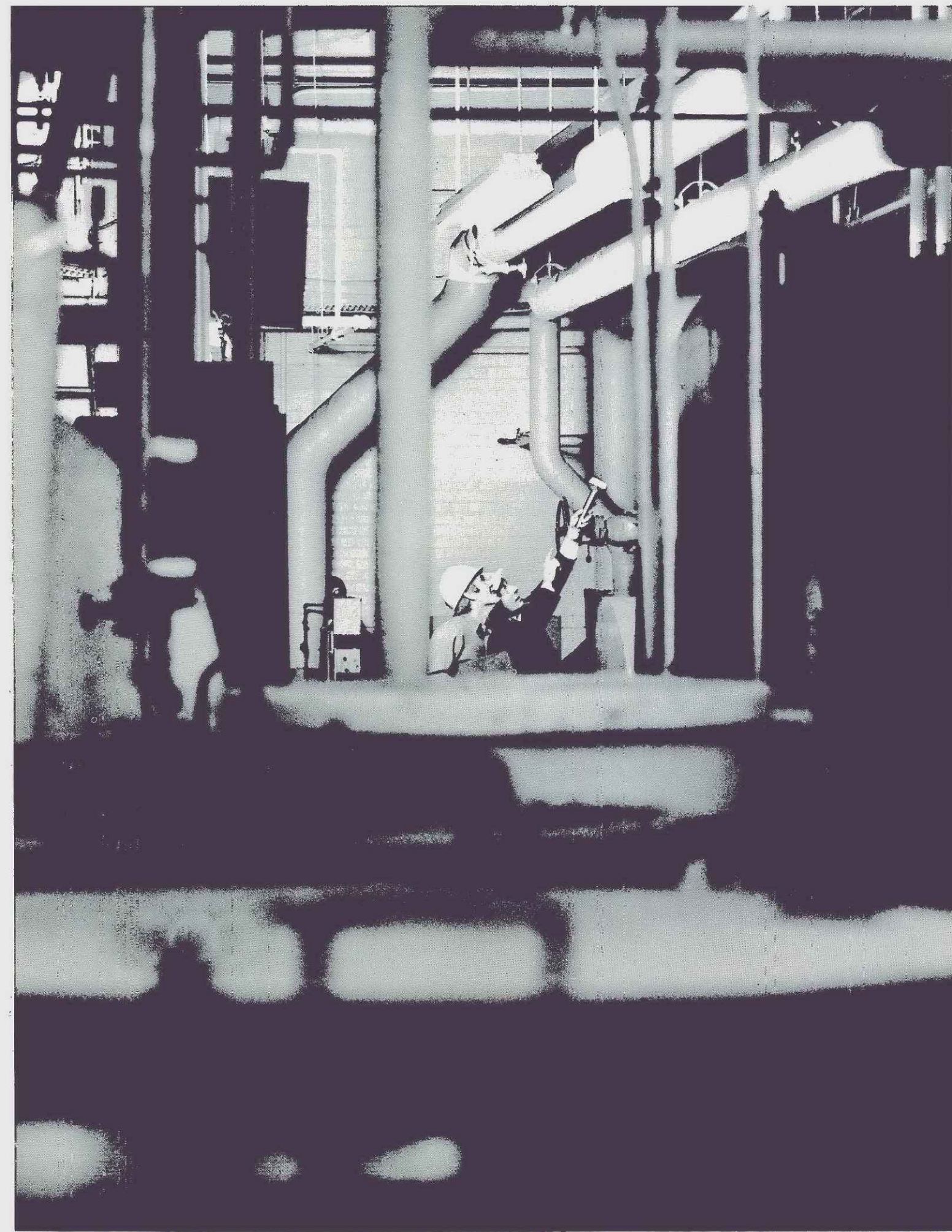
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'Main Street' risks decline

**Brokers report growth
despite softer markets**

By ELLIS SIMON

NEW YORK—Excess and surplus brokers say their business has been affected by the softening of standard property and casualty business, but report continued if slower growth.

"The business that never belonged in the excess/surplus market is going out," said Donald Gaddis, vp at Chicago-based George F. Brown & Sons. "The business we're seeing now is truly tough business that requires more than a standard market."

The "Main Street-type" busi-

EXCESS/SURPLUS

ness, such as small commercial umbrellas in the \$5 million to \$10 million range, has gone back to the standard markets, noted Swett & Crawford senior vp Roy Oddy. However, he agreed with Mr. Gaddis that the more hazardous risks are remaining in the surplus markets.

In the buffer layer area, there has been a "very noticeable shift" away from the excess/surplus markets, reported William M. Fall, a vp at National Brokerage Agency, a Marsh & McLennan subsidiary.

When the standard casualty markets were extremely tight, insureds came to the excess markets for buffer coverage between the upper limits of their general liability policy and the lower limits of their umbrella coverage. Up to a year ago, buffer business accounted for about 10% of a normal excess and surplus lines broker's book of business, Mr. Hall said.

The last buffer layer policy handled by Mr. Hall was on a product liability risk four months ago. He does not expect to see another buffer layer until the market tightens again.

On the property side, there no longer is any true excess/surplus business, according to Geoff Nicholls, vp-marketing at Sayre & Toso. Some property business does approach the excess markets, he said, but to write it "we have to match the standard companies toe to toe."

Despite the shift of some classes of business away from the excess/surplus market, E&S brokers are not lacking business. At worst, their growth rates have slowed.

"Any good surplus broker is going to hold his own," said the vice president of one national firm. He said his company expected a 15% growth rate for 1978, down from the 20% rate enjoyed in previous years.

Donald V. Organ, president of Mid-Continent Underwriters, said his firm's growth rate would also be slower but added he still expected a 10% to 12% gain.

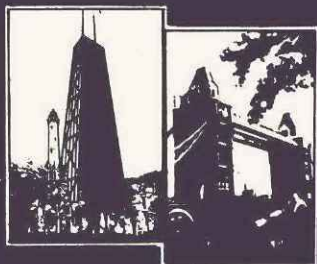
"Business continues to be strong in all lines, but we're not seeing as much new business," said Joseph H. Blades, chairman of J.H. Blades & Co. Mr. Blades also reported a reduced growth, but declined to say by how much.

However, some firms are continuing to enjoy rapid expansion. George F. Brown expects a 40% gain while Sayre & Toso's volume is expected to increase by 50%.

At Sayre & Toso, which like many of the excess and surplus brokers acts also as a managing general agent, most of the growth is coming from new business that has resulted from an expansion program, said Mr. Nicholls. New offices have been opened in Minneapolis, Boston and Philadelphia; elsewhere Sayre & Toso people have been added to offices of its parent firm, Mission Insurance Co.

National Brokerage's Mr. Hall said that whatever new business his firm attracts will come as the result of "beating on doors." Mr. Gaddis of George F. Brown agreed that stronger sales efforts directed at retail brokers is the key to growth.

Not only are excess and surplus
Continued on page 42



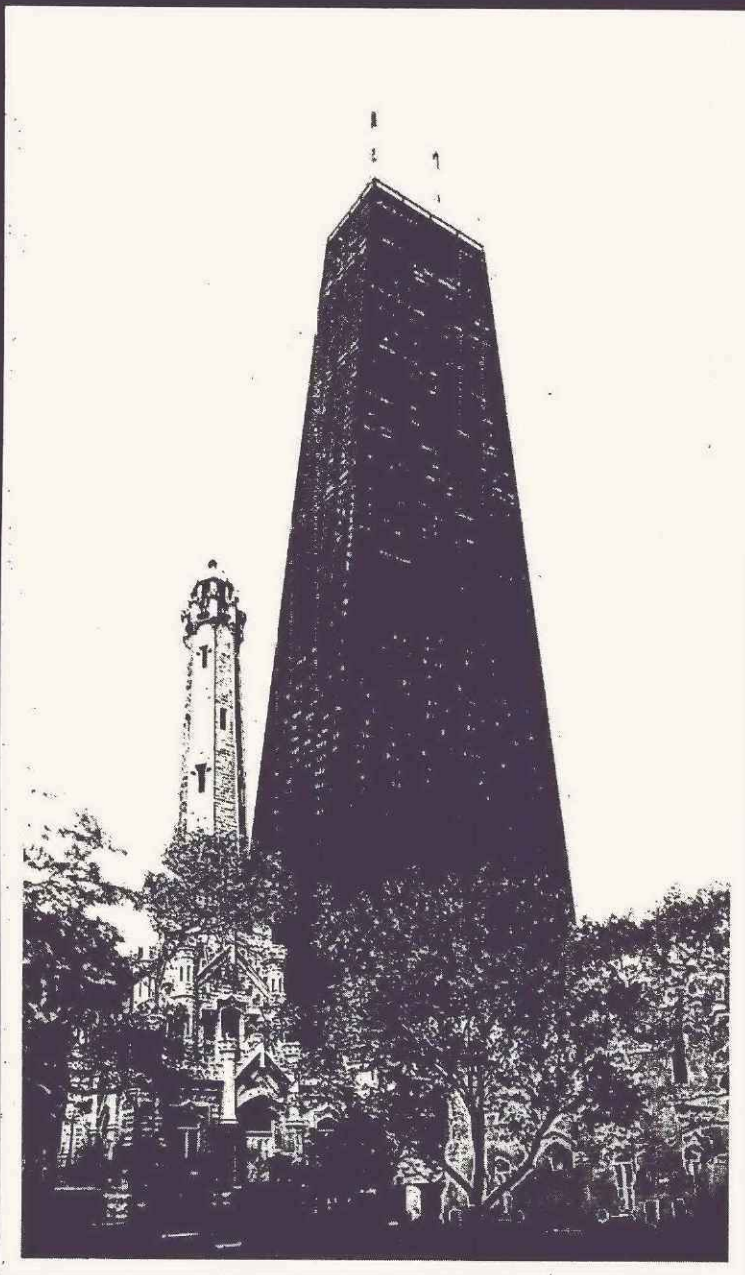
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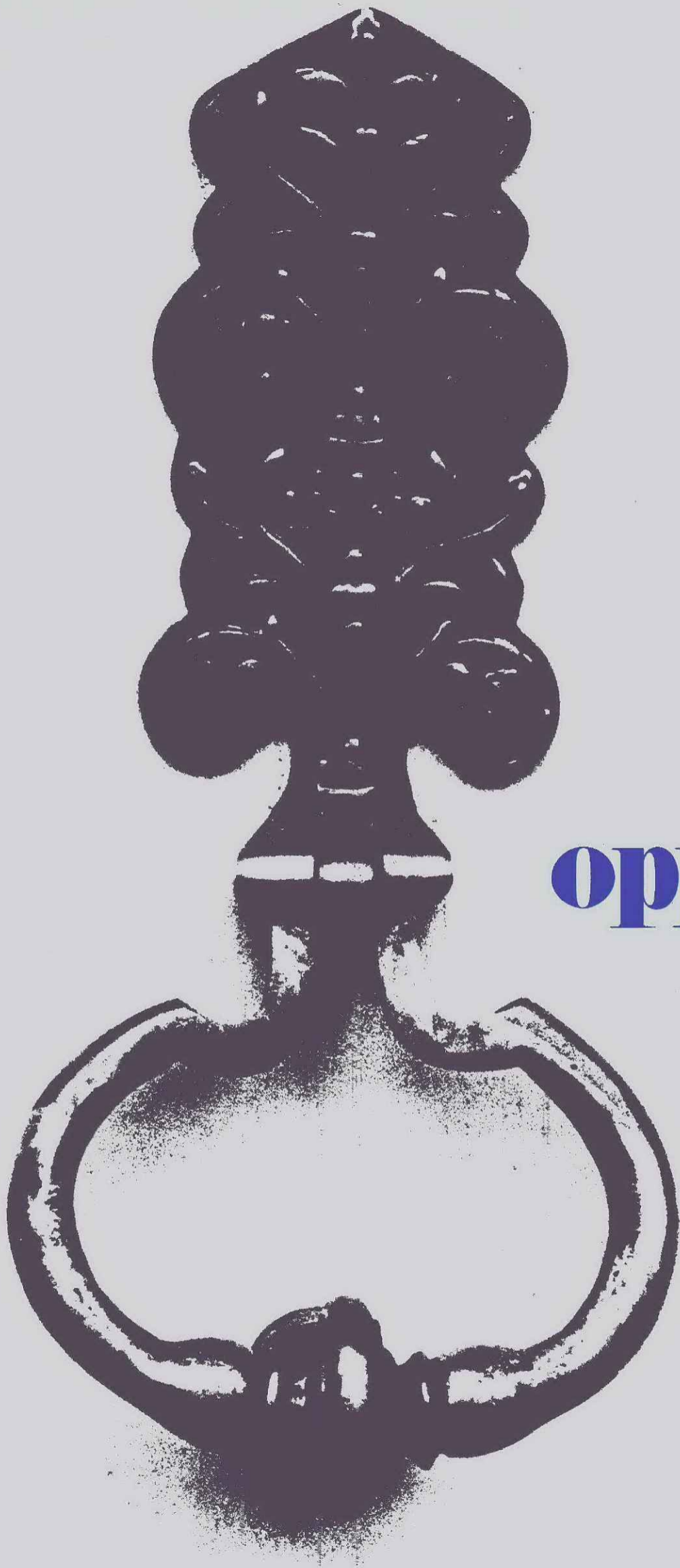
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Continued from page 40

lines brokers contending with soft conditions in the standard markets, but the national brokerage firms are increasingly placing a larger part of their excess and surplus business direct, noted Swett & Crawford's Mr. Oddy.

Excess and surplus brokers must be recognized by both the retail broker and excess and surplus insurer as the experts if they are to retain their hold on the business, he said. The wholesaler must have

EXCESS/SURPLUS

underwriters are trained as judgment underwriters. Rather, they are looking at obsolete rating manuals and quoting substantial premium reductions.

Brokers did not report a uniform

response among excess and surplus lines insurers to the stronger competitive position of the standard companies. While Mr. Nicholls said there was some price cutting to meet the admitted markets on property lines, Mr. Gaddis said rate cutting was the last thing the excess and surplus companies were willing to do.

"They're not anxious to give away price, but they're not willing to lose good business," he said. Rather, the excess and surplus

companies were offering extensions and giving more credit for higher deductibles.

In some markets, notably oil patch coverages, the excess and surplus companies have not responded to changing conditions and capacity remains tight, said Mid-Continental Underwriter's Mr. Organ.

In that area, insureds have responded to conditions with improved loss control and communi-

cation with underwriters to achieve savings.

However, the most prestigious excess and surplus market is still increasing capacity. To date this year, some 3,600 new members have been elected to Lloyd's of London, noted Mr. Oddy.

Although that means an increase in capacity, Lloyd's must be certain there will be enough business to fill that capacity, he said. Otherwise, London will be imposing limitation of future expansion. ■



Joseph Blades, chairman of J.H. Blades & Co., says that few primary insurance company underwriters are trained to handle special risks.

complete knowledge of the excess and surplus markets and provide the fastest possible service, Mr. Oddy added.

The shift in business away from the excess and surplus lines companies has been tempered by caution among underwriters for the standard companies, several brokers said.

"The standard companies seem to be more selective this time around," said Mr. Gaddis. "They are not quite as quick to give away premium as they were in 1974."

However, Mr. Blades remarked that few of the standard company

Minn. RIMS

The Minnesota chapter of the Risk & Insurance Management Society elected Barry R. Glaser as president. Other officers include Myrna B. Fallon of the Toro Co. as vp, Robert B. Oster of Investors Diversified Services as secretary and David R. Evert of Control Data Corp., as treasurer.



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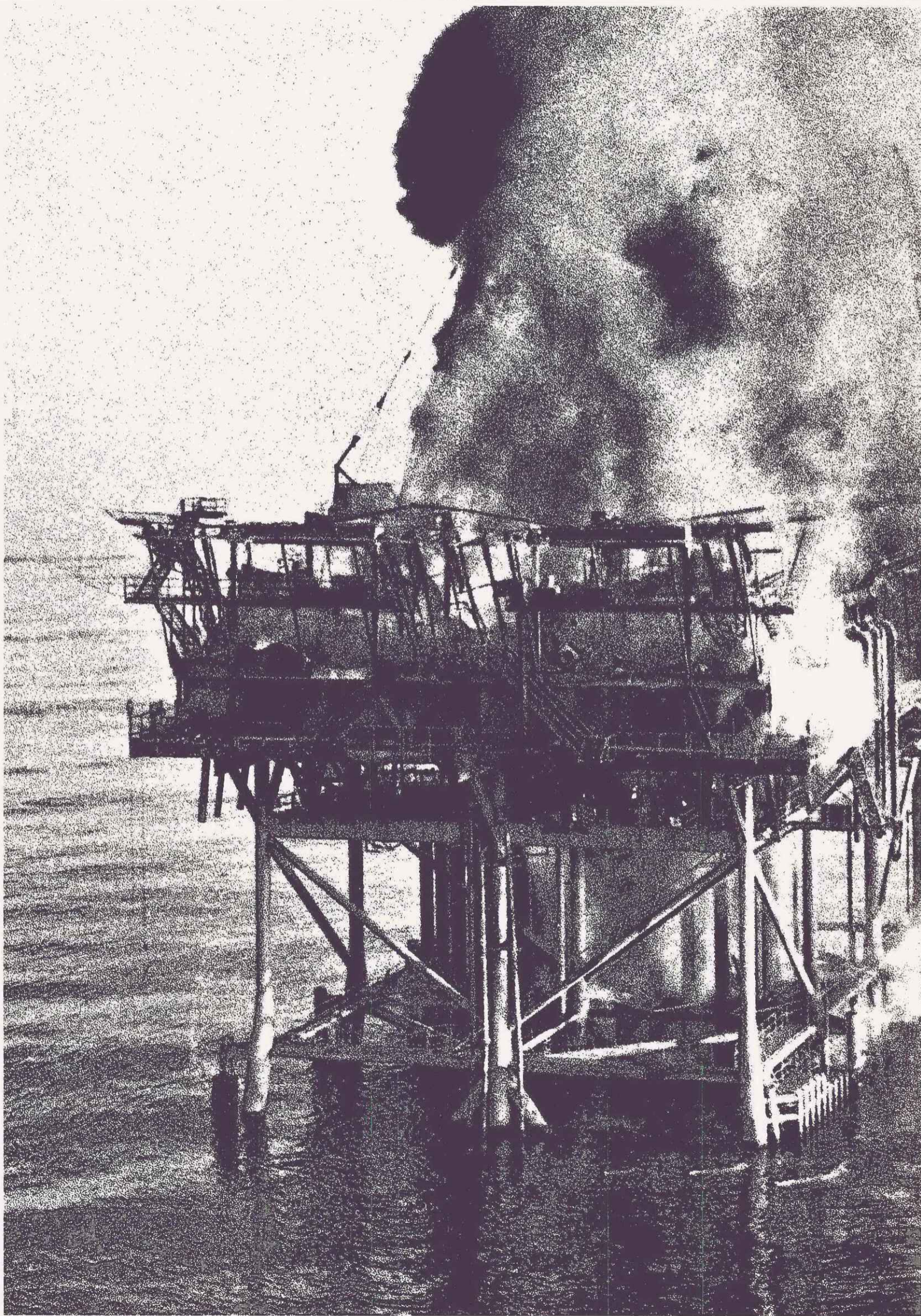
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SEE OUR AD ON PAGE 3



Biggest U.S. excess insurer loses key executives

CHICAGO—Two highly respected underwriting experts have left Northbrook Insurance Co.—the nation's largest E&S insurer—to start new business ventures that apparently will open more excess and surplus insurance markets.

Northbrook president Frank J. Fischer, 63, retired last month from the Allstate Insurance Co. subsidi-

ary he co-founded six years ago and is joining the wholesale broker of Sherwood Insurance Services in San Francisco. Richard E. Foss, head of casualty underwriting at Northbrook, resigned last month to start his own insurance business in Chicago.

As executive vp of Sherwood Insurance Services, Mr. Fischer will

EXCESS/SURPLUS

develop and manage an underwriting facility for the fledgling agency. Just six months old, Sherwood Insurance Services has already placed \$4 million in insurance on large property and casu-

alty risks. Its president, Don Sherwood, formerly was senior vp and regional manager for Swett & Crawford in San Francisco.

With the widely known Mr. Fischer directing the new underwriting facility of the agency, Sherwood Insurance Services hopes to solidify a position as a producer for

excess and surplus underwriters, the company says.

Though Mr. Foss was not available for comment on his plans, *Business Insurance* learned he has rented office space in Chicago from the Excess Underwriters Inc.

Reliable sources say Mr. Foss is definitely going to act as an underwriter in his new business, but they are uncertain for whom. However, *Business Insurance* learned

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Frank Fischer joined Sherwood Insurance Services, a six-month old firm that has placed \$4 million of insurance.

that Mr. Foss is in London this month on business.

Reports circulated in insurance circles in Chicago that Mr. Foss's new venture is likely to involve Peter Wilson, the respected underwriter with the Weavers Group.

Meanwhile, Northbrook moved quickly to fill the vacancies. Robert Agnew, formerly a vp at MONY Re, has been named president of Northbrook effective Sept. 25. Jerome O. Crowley has been promoted to assistant vp to take over casualty underwriting from Mr. Foss.

Growth of premium volume at the largest U.S. excess and surplus lines company, which concentrates on umbrella insurance, has yet to show any signs of being slowed by the changing market conditions that are pinching other excess and surplus underwriters.

Northbrook continued in 1978 to produce the fantastic growth record it has shown since its inception in 1972, with earned premiums climbing to \$300 million this year from \$210.6 million in 1977.

Chairman Jorgen Ravn-Hansen was overseas on business and unavailable for comment on the developments at Northbrook.



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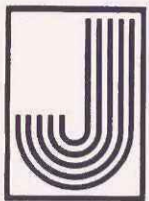
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Even municipal risks find excess markets are now less taxing

MADISON, Wis.—Dane County risk manager Robert Tieman is anxiously awaiting the final word that a \$5 million insurance program for automobile and general liability above a \$250,000 self-insured retention has been placed in the market.

If the placement goes through, as wholesale broker Flamer & Co. of San Francisco says it should, it will confirm observations of industry observers that the excess and surplus markets are softening even for tough municipal risks.

"I went out in the markets for the last three years and couldn't find

anything," complained Mr. Tieman, who has been eager to replace a \$1 million policy the county has with The Hartford Insurance Cos.

"What's a risk manager doing keeping first dollar coverage at a \$340,000 premium with an 8% loss ratio?" he asked in disbelief of his own risk management program. Adding insult to injury, the policy even excludes all law enforcement liability, so the county has had to self-insure that, he noted.

James R. McLees, risk manager for the state of Washington, is also waiting for news from his broker, Marsh & McLennan, on the availability of \$100 million of excess liability insurance over a \$5 million retention.

Reluctant to blow the whistle on a developing program, Mr. McLees would only say that the glut of capacity in the marine market at Lloyd's is opening the door there

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Photo: Kathryn J. McIntyre

"During the past year the market has improved for municipalities. No question about it," says consultant Bud Griffin.

for municipalities with a marine exposure.

"During the past year, the market has improved for municipalities. No question about it," asserted consultant C.C. "Bud" Griffin of Warren, McVeigh & Griffin in Newport Beach, Calif. "There are some new excess markets for municipalities," he said, "and prices are becoming more reasonable."

Cal Union, for example, has recently started quoting on excess insurance for municipalities "and Bellefonte is reportedly interested," Mr. Griffin said. Meanwhile, Admiral and First State remain strong municipal excess insurance underwriters in California.

Though prices are "more reasonable, there's not a price war," Mr. Griffin said. It's just that premium increases now reflect inflation instead of underwriters' fears of municipal risks. "Prices are still higher than two and three years ago, though, when there was competition for business," he added.

The municipal liability pools that Warren, McVeigh & Griffin has consulted on are also finding the excess insurance they need, he noted. Of course, the pools were formed out of desperation with the lack of available insurance coverage for individual towns. Pooling their risks provides the municipalities with enough of a financing base to send them into the markets looking for excess above the working layers of their insurance programs, he explained.

Warren G. Van der Voort, vp of
Continued on page 46



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Hefty increases in '77

Excess brokers average \$1.4 million in revenues

By BARBARA JEAN GRAY

CHICAGO—Fifty-four excess/surplus brokers providing information for a new *Business Insurance* directory generated \$77 million in commissions and fees in 1977, an average of \$1.4 million per firm.

Four other firms providing information on their operations opened shop sometime in 1977. They generated a total of \$1.4 million in income for an average of \$355,700.

Eight firms listed began operations during 1978.

The directory (pages 50 to 61)

lists 64 excess and surplus lines brokers across the country who broker property and casualty line coverages plus a diverse assortment of specialty markets, ranging from air-supported structures to drive-it-yourself auto rentals.

It's designed to help detail those brokers who find coverages for those risks that go beyond the standard markets.

The 50 firms operating in both 1977 and 1976 scored a hefty 32.5% increase in 1977 revenues. These 50 brokers garnered \$75.6 million or an average \$1.5 million per firm.

That compares to a total of \$56.9 million for 1976, when the average was \$1.1 million.

Although many of the brokerage firms listed deal exclusively in excess and surplus markets, many also broker business in the standard markets. In 1977 excess and surplus lines accounted for 67.3% of the revenues of our participants up from 62.5% for 1976.

Excess and surplus revenues therefore meant 8% more to the overall revenue mix of our average participant in 1977 compared to 1976.

Commercial lines, rather than personal lines, accounted for 90% of the total revenues of the directory brokers, a slight increase from the 1976 average of 87%.

As a group, the 64 excess and surplus lines brokers employ 2,323 people for an average payroll of 36.5, operating with an average of 1.4 branch offices.

The directory participants hail from 19 states plus Puerto Rico. New York is the best represented state with 24 broker listings, California has seven and Texas six.

Fifty percent of the firms listed are also managing general agents and eight have some affiliation with Lloyd's.

Most of the firms listed are independently owned although several are subsidiaries of larger corporations. Crum & Forster's J.H. Blades is represented as is The Continental Corp.'s Swett & Crawford. A newcomer is Fireman's Fund Cos.' Excess & Special Risk Market Inc. And of course the largest firm listed, Wohlreich & Anderson, is owned by Howden Swann, the U.S. subsidiary of London-based Alexander Howden Group.

Another handful of the directory listings are subsidiaries of larger brokerage firms.



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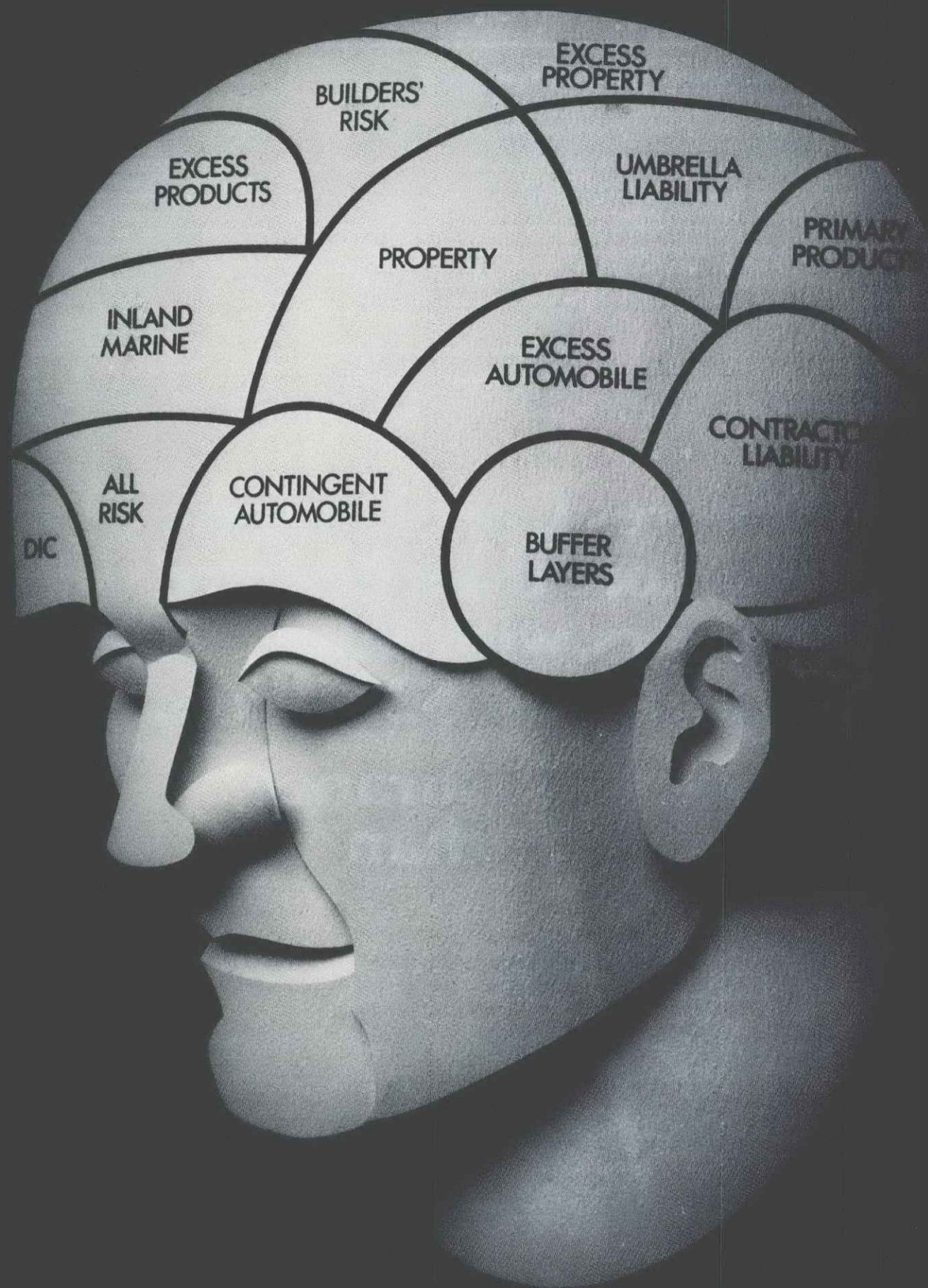
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The people who deliver these answers — fast — are savvy excess and surplus professionals. People who have the authority to make decisions and who are not afraid to use it. People with imagination who act rapidly and decisively.

And they serve you and your business quickly from seven offices across the country, including Hawaii.

Business is accepted through E & S brokers. If you place these lines only occasionally we can direct you to a nearby wholesaler. For more information from the thoughtful answers people, write Bob Hutchins, Executive Vice President, American Reserve Insurance Brokers, 55 East Monroe, Chicago, Illinois 60603.

**American
Reserve**™
The Uncommon Market

Excess and surplus lines

BI directory lists key information on 64 brokers

S.L. Alexander Insurance Services

3435 Wilshire Blvd., Los Angeles, Calif. 90010; (213) 385-7182

| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 300,000 | \$ 220,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 95% | 95% |
| Employees | 12 | |

Principal officers: Samuel Alexander, president.

Branch offices: Mammoth Lakes, Calif.

Lines of specialty insurance: product liability, directors and officers liability, oilwell, errors and omissions, workers compensation.

American Foreign Facilities Ltd.

About this directory

This directory of excess/surplus brokers was compiled by *Business Insurance* associate editor Barbara Jean Gray from information supplied by the E/S brokers. Although the information is correct to our knowledge, *Business Insurance* cannot guarantee the accuracy of the information.

16 So. Central Avenue, Valley Stream, N.Y. 11580; (516) 872-6006

| | 1977 | 1976 |
|----------------------|------------|------|
| Gross rev. | \$ 30,000* | N/A |
| Commercial bus. | 100% | N/A |
| E/S lines | 100% | N/A |
| Employees | 5 | |

*firm established 9/77

Principal officers: Dave Haimson, president; George Schulz, vp;

Rhoda Haimson, secretary.

Lines of specialty insurance: product liability, restaurants, motels, supermarkets; fine arts and auto body shops.

America's Insurance Center

562 Boulevard, Kenilworth, N.J. 07033; (201) 272-6300

| | 1977 | 1976 |
|----------------------|--------------|------------|
| Gross rev. | \$ 1,107,102 | \$ 813,971 |
| Commercial bus. | 85% | 82% |
| E/S lines | 40% | 25% |
| Employees | 25 | |

Principal officers: Raymond R. Kravetz, president; Marko Popin, vp; Arthur F. Kravetz, secretary; Sylvia Kravetz, treasurer.

Lines of specialty insurance: coin-op laundry package policy, dry cleaners package policy, automatic car wash package policy, condominium directors and officers liability, clinical laboratory malpractice, taxi fleets physical damage.

Managing general agent for: G.S.W., Ambassador, Guaranty National Insurance Co.

Arrow Excess & Surplus

Ltd.

11 Sunrise Plaza, Valley Stream, N.Y. 11581; (516) 825-8188

| | 1977 | 1976 |
|----------------------|------------|-----------|
| Gross rev. | \$ 110,000 | \$ 96,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 50% | 50% |
| Employees | 6 | |

Principal officers: Norman R. Cohen, president.

Subsidiaries: Budget Installment Corp.

B&F Special Risks Inc.

One Shell Square, Suite 4620, New Orleans, La. 70139; (504) 566-0141

| | 1977 | 1976 |
|----------------------|-------------|------|
| Gross rev. | \$ 130,000* | N/A |
| Commercial bus. | 100% | N/A |
| E/S lines | 100% | N/A |
| Employees | 7 | |

*firm established 5/77

Principal officers: J. Pat Berry, president; Wayne G. Forest, executive vp.

Lines of specialty insurance: umbrellas and primary general liability for oil patch companies.

Bila/Rigg Inc.

3233 Wesleyan, Suite 132, P.O. Box 22956, Houston, Texas 77027; (713) 626-3220

| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 500,000 | \$ 450,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 9 | |

Principal officers: Charles W. Bila, president; Marcus D. Jensvo'd, vp.

Lines of specialty insurance: oil. Managing general agent for: Northeastern Fire, National Security, Lloyd's and companies, Dcran Excess Underwriters.

J.H. Blades & Co. Inc.

P.O. Box 22003, 3100 Eastside, Houston, Texas 77027; (713) 526-6551

| | 1977 | 1976 |
|----------------------|--------------|--------------|
| Gross rev. | \$ 3,000,000 | \$ 1,700,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 95% | 95% |
| Employees | 120 | |

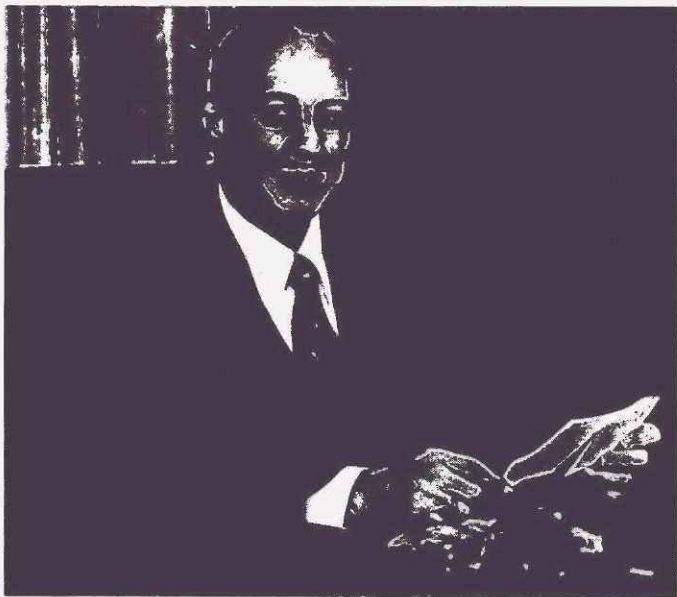
Principal officers: J.H. Blades, chairman and chief executive officer; R.P. Quinn, president; J.W. Page Jr., senior vp; John N. Molbeck Jr., vp; David L. Mayer Jr., vp; John E. Fox, vp; G.F. Burke, vp; Bill E. Shaw, vp.

Branch offices: San Antonio, Texas; Tulsa, Okla.; Bermuda.

Parent company: Crum & Forster.

Lines of specialty insurance: oil.

“Allied Stores Corporation’s profits have more than doubled in just five years, with sales increasing to almost \$2 billion. But our Property Insurance rates are now lower than ever before.”



THOMAS M. MACIOCE

President, Chief Executive Officer, and Director of Allied Stores Corporation.

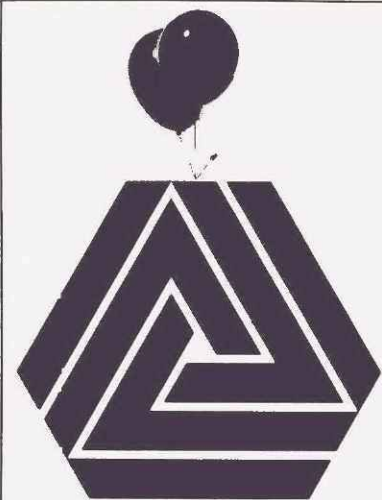
Who are Allied's insurance brokers?

Schiff Terhune.

Schiff Terhune provides service nationally for Allied's stores in 27 states.

Our advanced programs of insurance coverage and Loss Control Services are available to all our 3,000 corporate clients coast-to-coast.

Call or write any of our offices or contact Frank Schiff, Chairman, at Schiff Terhune International, 100 William Street, New York, NY 10038. 212/425-3010.



The people who can always find a way in

COLUMBUS, OHIO

are

THE McELROY-MINISTER COMPANY

141 East Town Street

228-5565

SEE OUR AD ON PAGE 3.

related risks.

Managing general agent for: Continental Insurance Co.; Bellefonte Insurance Co.; Eagle Star Insurance Co.; Albany Insurance Co.; INA; others.

Blakely General Agency Inc.

4100 West 33rd, P.O. Box 5148, Topeka, Kan. 66605; (913) 267-1222 (Kansas WATS 800-432-2488)

| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 511,000 | \$ 376,539 |
| Commercial bus. | 39% | 38% |
| E/S lines | 25% | 21% |
| Employees | 14 | |

Principal officers: Victor D. Blakely, president; Paul A. Flaherty, executive vp; Romaine Clark, vp.

Subsidiaries: West General Insurance Co.

Lines of specialty insurance: liquid propane gas, anhydrous ammonia, long haul trucking, directors and officers (banks), SMP, homeowners.

Managing general agent for: National American; National Indemnity; Minnehoma Insurance Co.; MGIC, South Carolina Insurance Co.; Ranger Insurance.

Brokers' Marketplace Inc.

68 Broadway, Buffalo, N.Y. 14203; (716) 842-0502

| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 540,000 | \$ 425,000 |
| Commercial bus. | 40% | 42% |
| E/S lines | 51% | 52% |
| Employees | 12 | |

Principal officers: Gary L. Hoffman, president.

Lines of specialty insurance: motorcycle and non-standard homeowners.

Managing general agent for: Integrity Insurance Co.

Brokers' Risk Placement Service Inc.

875 North Michigan Ave., Suite 3760; Chicago, Ill. 60611; (312) 787-1200

| | 1977 | 1976 |
|----------------------|-----------|------|
| Gross rev. | \$14,000* | N/A |
| Commercial bus. | 100% | N/A |
| E/S lines | 100% | N/A |
| Employees | 7 | |

*firm established 5/77

Principal officers: James L. Sandner, president; Howard J. Lesch, secretary/treasurer; Douglas B. Rutherford, vp-marketing.

Parent company: Harold F. Hinz Co.

Lines of specialty insurance: specific and aggregate excess in A & H, workers compensation and unemployment compensation.

Geo. F. Brown & Sons Inc.

55 E. Monroe St., Chicago, Ill. 60603; (312) 346-6400

| | 1977 | 1976 |
|----------------------|--------------|--------------|
| Gross rev. | \$ 5,250,000 | \$ 4,375,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 60 | |

Principal officers: Donald E. Jeffers, chairman; Robert W. Bird, president.

Branch offices: Boston, New York, St. Petersburg, Houston, Minneapolis, Kansas City, Los Angeles, San Francisco, New Orleans, Philadelphia.

Parent company: Interstate National Corp.

Managing general agent for: CNA (Ill. liquor law liability); Lloyd's; Jefferson Insurance Co.; others.

Carnegie Insurance Service Corp.

17700 Broadway, Cleveland, Ohio 44146; (216) 439-5555 (Ohio 800-362-2411; elsewhere 800-321-9202)

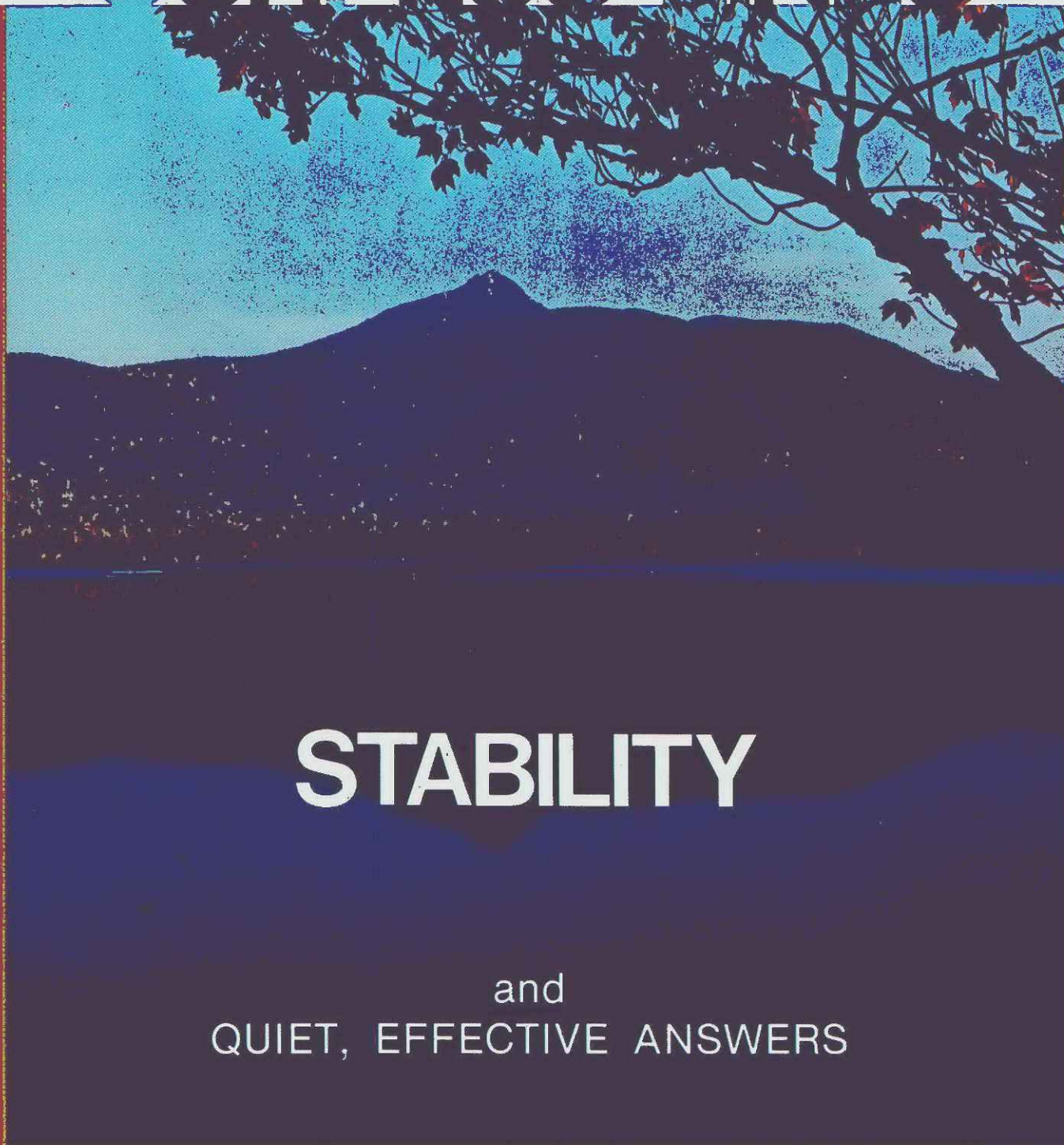
| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 561,797 | \$ 508,340 |
| Commercial bus. | 55% | 35% |
| E/S lines | 25% | 10% |
| Employees | 13 | |

Principal officers: Alan S. Rubin, president; Jeffrey J. Howe, vp.

Subsidiaries: Carnegie Insur-

Continued on following page

SURPLUS LINES



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and
QUIET, EFFECTIVE ANSWERS

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A + :CLASS XII - A.M. Best Co.

MULTINATIONAL, PROPERTY and LIABILITY,
MULTILINE THROUGH AGENTS AND BROKERS

FIRST STATE

INSURANCE COMPANY

a CAMERON and COLBY activity

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CHICAGO, Hartford Plaza Building, 312/782-5921
ATLANTA, 3340 Peachtree Road N.E., 404/266-1480

E/S directory . . .

Continued from preceding page
ance Budget Co.

Lines of specialty insurance:
truck, fire.

Colonial Excess Ltd.

55 Northern Blvd., Greenvale,
N.Y. 11548; (516) 621-6550

| | 1977 | 1976 |
|---------------------|-----------|-----------|
| Gross rev. | \$ 72,000 | \$ 50,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 6 | |

Principal officers: Charles M. Tarone, president; Kay Tarone, vp and secretary.

Managing general agent for: Lloyd's of London and other companies.

Connecticut Underwriters Inc.

329 Main Street, Portland, Conn.
06480; (203) 342-0713

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 900,000 | \$ 800,000 |
| Commercial bus . | 90% | 90% |
| E/S lines | 50% | 50% |
| Employees | 11 | |

Principal officers: H.J. Stone Jr., president and treasurer.

Managing general agent for: North East Fire, Western World Insurance Co.

Crump-Babcock Underwriters Inc.

11128 John Galt Blvd., Omaha,
Neb. 68137; (402) 592-2200 or (800) 228-2603

| | 1977 | 1976 |
|---------------------|------------------|------|
| Gross rev. | under \$500,000* | N/A |
| Commercial bus . | 100% | N/A |
| E/S lines | 75% | N/A |
| Employees | 8 | |

*firm established 1/77

Principal officers: George Babcock, president; Kenneth Coon, underwriting manager; Susan Matousek, asst. underwriting manager.

Managing general agent for: Great Southwest, Western World, Lloyd's.

Frank Crystal & Associates Inc.

61 Broadway, New York, N.Y.
10006; (212) 344-2444

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 610,000 | \$ 285,000 |
| Commercial bus . | 98% | 90% |
| E/S lines | 98% | 90% |
| Employees | 9 | |

Principal officers: I. Frank Crystal, chairman; James W. Crystal, president and chief executive officer; Jerome D. Lubin, vp; Steven L. Grossberg, vp.

Parent company: Frank Crystal & Co. Inc.

Lines of specialty insurance: layered property programs.

Day, Webb & Taylor Inc.

1017 S. Gaylord St., Denver, Colo.
80209; (303) 778-0100

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 1,456,000 | \$ 1,150,000 |
| Commercial bus . | 70% | 70% |
| E/S lines | 20% | 15% |
| Employees | 37 | |

Principal officers: Robert W. Webb, president; H. Howell Taylor, vp; J. Emmett Taylor, secretary-treasurer.

Branch offices: Los Angeles,

Seattle.

Lines of specialty insurance: auto rental, mortgage company forced order.

Managing general agent for: various.

Delta Special Risks Agency

4801 Woodway, P.O. Box 2045,
Houston, Tex. 77001; (713) 621-8650

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 1,850,000 | \$ 1,575,000 |
| Commercial bus . | 75% | 75% |
| E/S lines | 10% | 5% |
| Employees | 27 | |

Principal officers: Avrohm I. Wisenberg, president; Donald A. King, executive vp; Richard C. Cantella, vp; Irving Pozmantier,

secretary-treasurer.

Parent company: Delta General Agency Corp.

Lines of specialty insurance: jewelers' block, umbrellas.

Managing general agent for: Delta Lloyds Insurance Co.; Jefferson Insurance Co. of N.Y.; National Union Fire Ins. Co.; Great Southwest Fire Insurance Co.; Lincoln Insurance Co.

Eastern Excess & Surplus Ltd.

515 Rockaway Ave., Valley Stream, N.Y. 11581; (212) 276-3880 or (516) 825-2256

| | 1977 | 1976 |
|-----------------|-----------|-----------|
| Gross rev. | \$ 35,000 | \$ 25,000 |

| | 1977 | 1976 |
|---------------------|------|------|
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 3 | |

Principal officers: Seymour Berk, president.

Eastern Risk Managers Ltd.

127 John St., New York, N.Y.
10038; (212) 425-3100

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 688,800 | \$ 260,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 90% | 90% |
| Employees | 6 | |

Principal officers: Alan R. Ruf, president; John J. Vogel, vp.

The Excess & Special Risk Market Inc.

Introducing the ALL-CLEAR 360°

**Clearly written in everyday English.
Clearly broadened all-around coverage.**

That's the revolutionary approach USAIG has taken with our all-new, ALL-CLEAR 360° aircraft insurance policy. It spells out—in plain English—exactly what coverage you have and gives you more coverage than ever before.

Here is an actual example, taken intact from our printed policy:

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"If you have this coverage, we'll cover you against risk of physical loss or damage to your aircraft both while it's on the ground and while it's in flight. A fixed wing aircraft is in flight from the time it moves forward for takeoff and until it completes its landing run. A rotorcraft is

in flight while its rotors are in motion as a result of engine power or autorotation."

What we'll pay

"If your aircraft is a total loss we'll pay you the amount shown on the Coverage Summary page for your Aircraft Physical Damage Limit, less any deductible that applies."

Your Liability Coverage

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



The people who can always find a way in

SEATTLE

are

LA BOW, HAYNES COMPANY, INC.

2500 Seattle First
National Bank Building
233-1400

SEE OUR AD ON PAGE 3

3333 California St., San Francisco, Calif. 94119; (415) 929-2548

| | 1977 | 1976 |
|---------------------|------|------|
| Gross rev. | N/A* | N/A |
| Commercial bus . | N/A | N/A |
| E/S lines | N/A | N/A |
| Employees | 11 | |

*firm established 11/77
Principal officers: Myron Du Bain, chairman and chief executive officer; Robert P.J. Cooney, senior vp and secretary; Bartlett T. Grimes, senior vp and treasurer.

Branch offices: Los Angeles, Chicago, San Francisco and North Jersey.

Parent company: Fireman's Fund Insurance Co.

Managing general agent for: Hannover Reinsurance and A.G. Belge.

Excess and Surplus Lines Insurance Brokers Inc.

3440 Wilshire Blvd., Suite 615, Los Angeles, Calif. 90010; (213) 487-4545

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 190,000 | \$ 100,000 |
| Commercial bus . | 22% | 25% |
| E/S lines | 78% | 75% |
| Employees | 6 | |

Principal officers: Douglas E. DeLano, chairman, vp and secretary; Jerry C. Boyer, president and treasurer.

Lines of specialty insurance: umbrellas.

EXSURE Inc.

100 Constitution Plaza, Suite 364;

EXCESS/SURPLUS

Hartford, Conn. 06103; (203) 525-6636

| | 1977 | 1976 |
|---------------------|------|------|
| Gross rev. | N/A* | N/A |
| Commercial bus . | N/A | N/A |
| E/S lines | N/A | N/A |
| Employees | 6 | |

*firm established after 1/78

Principal officers: M. Norman Kemp, president; David Huit, secretary.

Parent company: The Plaza Corp.

Managing general agent for: Bellefonte Insurance Co.

Fenchurch Risk Managers

Ltd.

Wall Street Plaza, New York, N.Y. 10005; (212) 425-7788

| | 1977 | 1976 |
|---------------------|------|------|
| Gross rev. | N/A* | N/A |
| Commercial bus . | N/A | N/A |
| E/S lines | N/A | N/A |
| Employees | 9 | |

*firm established after 1/78

Principal officers: Joseph M. Steinberg, president; Robert J. Wasserman, vp.

Branch offices: Rahway, N.J.

Arnold J. Flegenheimer Inc.

275 Warner Ave., Box 1367, Roslyn Heights, N.Y. 11577; (212) 762-5580 or (516) 621-4115

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 250,000 | \$ 220,000 |
| Commercial bus . | 90% | 90% |
| E/S lines | 10% | 10% |
| Employees | 6 | |

Principal officers: Arnold J. Flegenheimer, president; Amalie M. Flegenheimer, secretary-treasurer.

Lines of specialty insurance: errors and omissions, product liability.

Forest Products Agency Co. Inc. (For Pac)

88 Palmer St., Norwich, Conn. 06360; (203) 889-2686

| | 1977 | 1976 |
|---------------------|-----------|-----------|
| Gross rev. | \$ 58,000 | \$ 48,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 80% | 25% |
| Employees | 8 | |

Principal officers: Ernest E. Poore, president; Leslie H. Young, vp; R. Gary Young, secretary-treasurer.

Lines of specialty insurance: forest products.

Gross Excess Lines Ltd.

580 Fifth Avenue, New York, N.Y. 10036; (212) 757-7040

| | 1977 | 1976 |
|---------------------|------------|------|
| Gross rev. | \$ 50,000* | N/A |
| Commercial bus . | 100% | N/A |
| E/S lines | 100% | N/A |
| Employees | 1 | |

*firm established 4/76

Principal officers: Jack M. Gross, chief operating officer.

Lines of specialty insurance: financial, including bonds, and full services to lenders.

H&W Insurance Services

16255 Ventura Blvd., Encino, Calif. 91436; (213) 990-3040

| | 1977 | 1976 |
|---------------------|--------------|------------|
| Gross rev. | \$ 2,400,000 | \$ 960,000 |
| Commercial bus . | 99% | 99% |
| E/S lines | 100% | 100% |
| Employees | 59 | |

Principal officers: Joseph F. Weckerle, president; David R. Hoskins, executive vp.

Branch offices: Atlanta, Chicago, Los Angeles, Philadelphia, Miami, Pittsburgh, San Francisco.

Parent company: Hoskins & Weckerle.

L.E. Harris Agency Inc.

1511 K Street, N.W., Washington, D.C. 20005; (202) 393-4200

| | 1977 | 1976 |
|---------------------|--------------|------------|
| Gross rev. | \$ 1,574,493 | \$ 486,488 |
| Commercial bus . | 100% | 100% |
| E/S lines | 95% | 90% |
| Employees | 17 | |

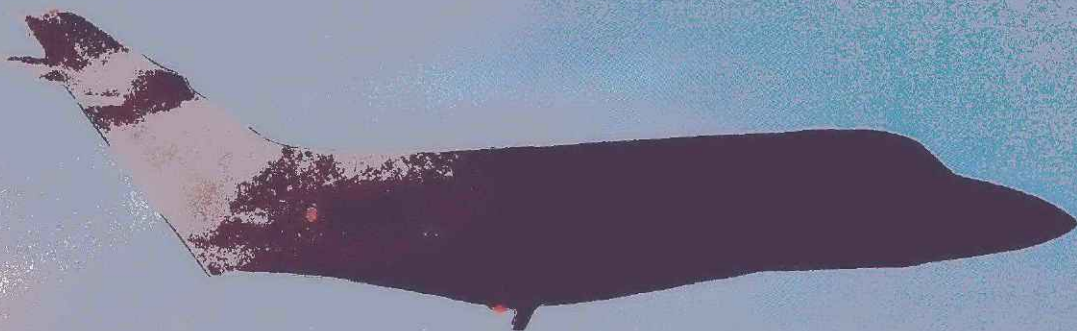
Principal officers: David A. Riffert, executive vp; J.J. Harris, secretary-treasurer; Nicholas Taube, vp.

Branch offices: Baltimore.

Lines of specialty insurance: product liability, professional, di-

Continued on following page

USAIG Aircraft Policy



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Address _____

City/State/Zip _____

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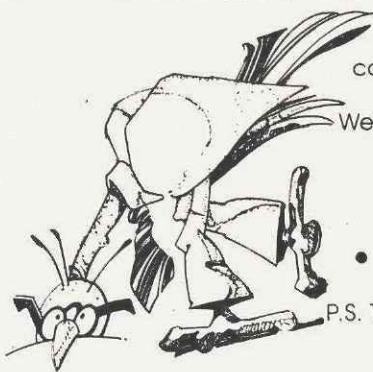
CHICAGO

are
MACK & PARKER, INC.

209 South LaSalle Street
346-1221

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Tough markets—unrealistic pricing and complete withdrawal from the market by many insurance companies have caused a lot of agents to look like the "Osterclix" that just lost his largest account! We'd like to work on your major accounts with you to determine the feasibility of:

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- Captive Insurance Company
- Participating Retro Programs
- Layered and other high value property insurance programs

P.S. These are for the biggies. For instance, a minimum deductible of \$100,000 is normally involved.

Call Eob Gruwell

Beech Street Insurance Services

BEECH STREET AT 6TH AVENUE, SAN DIEGO, CA 92101
TELEPHONE: 800-854-2234 OR 800-854-2294
CALIFORNIA: 800-522-1533

E/S directory . . .

Continued from preceding page
rectors and officers liability, umbrella.

Managing general agent for: Jefferson of New York; National Indemnity; North East; U.S. Liability; Lloyd's correspondent.

High Risk Excess Corp.

Empire State Building, Suite 1302, New York, N.Y. 10001; (212) 736-3638

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 430,000 | \$ 345,000 |
| Commercial bus . | 98% | 98% |
| E/S lines | 50% | 60% |
| Employees | 8 | |

Principal officers: L.F. Gershuny, president; L. McGettigan, secretary and treasurer.

Branch offices: Valley Stream, N.Y.

Subsidiaries: Maguire Agency Inc.

Lines of specialty insurance: leased and rented fleets.

Horan, Goldman Companies Inc.

Two Bryn Mawr Ave., Bryn Mawr, Pa. 19010; (215) 527-4400

| | 1977 | 1976 |
|---------------------|--------------|------------|
| Gross rev. | \$ 1,240,000 | \$ 950,000 |
| Commercial bus . | 97% | 95% |
| E/S lines | 100% | 100% |
| Employees | 42 | |

Principal officers: William Goldman, president; Victor D. Giordano, executive vp; Stanley Pustilnick, vp and treasurer; Mary Marines, vp and secretary; John W. McCabe, vp; Sally McCosker, vp; Thurston (Joe) Millett, vp.

Branch offices: Cherry Hill, N.J.; Baltimore, Md.; Concord, N.H.; New York City.

Subsidiaries: H.G. Managers Inc.

Managing general agent for: Jefferson Insurance Co.; U.S. Liability Insurance Co.; Cal-Union Insurance Co.; Excess Insurance Co. Ltd.; National Indemnity Co.

IWest Insurance Managers Inc.

P.O. Box 1651, Stockton, Calif. 95201; (209) 948-0555

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 2,250,000 | \$ 1,500,000 |
| Commercial bus . | 90% | 90% |
| E/S lines | 100% | 100% |
| Employees | 60 | |

Principal officers: Bob Stahl, president; Jim Bradley, executive vp; Warren Stanley, vp; Howard Brown, chief financial officer; M. Horrigan, secretary.

Branch offices: Portland, Ore.; San Francisco, Encino, Fresno and San Diego, Calif.; Denver; Seattle.

Lines of specialty insurance: product liability, aviation.

Managing general agent for: Covenant Mutual Insurance Co.; Western World Insurance Co.; Lloyd's Binding Contract; Illinois Employers of Wausau; Lincoln; Chicago; Great American Surplus Lines; St. Paul Surplus Lines and others.

Jaquin Excess Inc.

614 South Salina St., Syracuse, N.Y. 13202; (315) 471-8329

| | 1977 | 1976 |
|---------------------|------------|------------|
| Gross rev. | \$ 114,295 | \$ 102,459 |
| Commercial bus . | 99% | 99% |
| E/S lines | 10% | 10% |
| Employees | 3 | |

Principal officers: Robert F. Jaquin Jr., president and treasurer; Robert F. Jaquin, vp; Louisa Morgan, secretary.

Lines of specialty insurance: commercial physical damage, architects professional liability.

Walter Kaye Associates Inc.

122 East 42nd Street, New York, N.Y. 10017; (212) 867-0012

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 5,600,000 | \$ 4,600,000 |
| Commercial bus . | 95% | 95% |
| E/S lines | 22% | 18% |
| Employees | 138 | |

Principal officers: Walter Kaye, president; Lawrence Greenfield, executive vp; Howard Kaye, senior vp; Marc Silverman, senior vp.

Branch offices: Beverly Hills, Calif.; Chicago.

Subsidiaries: Walter Kaye Corp. of California; American Administrators Corp.

Parent company: The Kaye Group Inc.

Lines of specialty insurance: medical malpractice, product liability and aggregate deductible programs.

Managing general agent for: U.S. Life Insurance Co.; Kemper Insurance Cos.

Landmark Management Corp.

1515 Calssen Blvd., Box 676, Okla.
Continued on page 56

How to shop for self insurance

Arthur J. Gallagher & Co., for more than 20 years the leading specialist in self insurance administration, presents a brief guide.

Look For:

- Experience in placing the excess insurance package in the World Markets. All excess writers aren't the same; carriers change regularly.
- A claim service organization capable of handling all lines, *casualty and property*.
- A Broker and Service Organization who can install and service a *Self Funded Employee Benefit* program.
- A Broker who can qualify you as a self insurer in the various states in which you operate. It's not easy; there is no simple form. Using a beginner can be costly and waste time.
- Total E.D.P. flexibility to fit your needs. After all, you are the customer. You want to diagnose your costs, not add to them. You should be able to design what you want.
- A Broker who has worked with *Captives* and who can help you establish yours.
- Experienced one-source accountability for all self insurance functions.

Look Out For:

- "Canned" self insurance plans that do not fully meet your requirements.
- A Service Fee based on the dollar amount of the claims *incurred*.
- A Service Fee that doesn't provide for the *Run Off* if you should choose to leave.
- Inspection Service masquerading as loss control service. There is a big difference.
- Adjusters with heavy case loads.
- A Service Fee based on the number of claim files opened.
- Late and untimely E.D.P. reports.
- A Service Organization with experience in only one line of coverage.

One final suggestion. When you investigate self insurance in depth, include the counsel of Arthur J. Gallagher & Co. In 1977, we handled more than 59,000 losses for our self insured clients and administered claim funds in excess of \$44 million.

Arthur J. Gallagher & Co. invites you to call for further information about self insurance.



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- An International Organization Providing Excess Coverages and All Related Services for Self Insurers
- Brokers for Commercial, Industrial and Institutional Insurance Programs

For more facts circle 30 on reply card

Endorse your U.S. policy at your own risk.

If you have exposures abroad and are endorsing your U.S. domestic policies, you're taking an unnecessary risk. Here's why.

Example: Assume a manufacturer wanted to sell his product in Europe but manufacture it in the U.S. and planned to endorse the domestic product liability policy for worldwide coverage. Should the product's failure be the cause of a lawsuit, the foreign country's non-admitted laws, which may call for insurance, would be violated and the company could be in danger of losing an important market, the suit, or both.

Example: Or assume a U.S. manufacturer wanted his domestic general liability policy endorsed worldwide. And assume his salesman was demonstrating the product in a remote factory in the Far East and inadvertently injured an employee. Without having local facilities, it would take several days before a bond could be posted and the salesman be permitted to leave.

Example: Or suppose a U.S. manufacturer was covered by the workmen's compensation laws of his state and sent one of his able

executives to the Middle East. While there a plant accident hospitalized the executive. Who would he turn to for help who knew the language, the doctors, or could provide needed services immediately?

Example: One last example. In South America, a consumer brings a complaint against a U.S. company which has its

domestic liability policy endorsed. Obviously it would take some time for the insurer to locate facilities, to investigate the claim, obtain legal counsel and protect the insured. In the meantime, the consumer's attorney, noting the company was foreign and could walk away from the case, could obtain a court order to impound the company's merchandise until the claim was settled.

You can avoid these hazards by doing what

90 of the top 100 U.S. companies operating abroad do. Insure with AFIA.

AFIA has offices and claims facilities in every part of the world because in foreign insurance, there's more to protection than endorsing a U.S. domestic policy.



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U.S. branch offices: New York • Chicago • Cleveland • Dallas • Houston • Los Angeles • Miami • San Francisco • Seattle • Wash., D.C.

For more facts circle 1 on reply card

E/S directory . . .

Continued from page 54
homa City, Okla. 73101; (405) 521-9911

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 1,400,000 | \$ 1,100,000 |
| Commercial bus . | 80% | 80% |
| E/S lines | 100% | 100% |
| Employees | 45 | |

Principal officers: William E. Thompson, president; Charles C. Caldwell, executive vp; Marilyn M. Thompson, secretary.

Branch offices: Wichita, Kan.; Scottsdale, Ariz.; Helena, Ark.; Dallas, Tex.

Subsidiaries: Joe B. Fears General Agency Inc.; Landmark Management Corp. of Arizona.

Parent company: Landmark Insurance Group Inc.

Lines of specialty insurance: long haul truck and non-standard property and casualty.

Managing general agent for: Na-

tional American Insurance Co.; Southeastern Fire Insurance Co.; Landmark American.

Lawrence Excess Ltd.

8 Freer St., Lynbrook, N.Y. 11563; (212) 961-8600 or (516) 887-7600

| | 1977 | 1976 |
|---------------------|--------------|------------|
| Gross rev. | \$ 1,350,000 | \$ 850,000 |
| Commercial bus . | 65% | 35% |
| E/S lines | 55% | 40% |
| Employees | 55 | |

Principal officers: Richard L. Wolf, president; Walter S. Groden, executive vp; Helen S. Wolf, secretary-treasurer.

Subsidiaries: David C. White Agency Inc.; BVI Insurance Ltd.

Parent company: Wolf, Wolf, Groden Ltd.

Lines of specialty insurance: auto, garage, buffers.

Managing general agent for: Guaranty National Insurance Co.;

Northeastern Fire Insurance Co.

Bernard W. Levmore Co. Inc.

2 W. 46th St., New York, N.Y. 10036; (212) 840-2280

| | 1977 | 1976 |
|---------------------|---------------|---------------|
| Gross rev. | \$ 1,000,000+ | \$ 1,000,000+ |
| Commercial bus . | 95% | 95% |
| E/S lines | 70% | 65% |
| Employees | 7 | |

Principal officers: Bernard W. Levmore, president.

Lines of specialty insurance: jewelers and furriers block; antique dealers; shipments of high value; cargo.

McAlear Associates Inc.

2610 Buchanan S.W., Wyoming, Mich. 49509; (616) 247-0561

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 1,809,000 | \$ 1,055,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 19 | |

Principal officers: Charles A. McAlear, president; James F.

Langan, vp; Thomas Bloom, vp; Ralph Leistner, vp; Peter S. Damon, vp.

Robert Mack United Inc.

124 East 39 St., New York, N.Y. 10016; (212) 725-0505

| | 1977 | 1976 |
|---------------------|------------|------|
| Gross rev. | \$550,000* | N/A |
| Commercial bus . | 100% | N/A |
| E/S lines | 10% | N/A |
| Employees | 10 | |

*firm established after 12/76

Principal officers: Philip M. Schlüssel, chairman and president; Alan M. Mack, executive vp. Parent company: United Coverage Consultants Inc.

Lines of specialty insurance: long haul truck.

Michelotti Facilities Inc.

277 Broadway, New York, N.Y. 10007; (212) 233-2667

| | 1977 | 1976 |
|---------------------|-------------|-------------|
| Gross rev. | \$ 100,000+ | \$ 100,000+ |
| Commercial bus . | 100% | 100% |
| E/S lines | 30% | 30% |

Employees 3

Principal officers: Thomas Michelotti, president.

Lines of specialty insurance: primary container insurance, workers compensation, buffer layers.

Managing general agent for: National Union Insurance Co.; Colonial Assurance Co.

Mid-Continent Underwriters Inc.

700 Whitney Building, New Orleans, La. 70130; (504) 581-5597

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 3,049,643 | \$ 1,828,207 |
| Commercial bus . | 100% | 100% |
| E/S lines | 50% | 50% |
| Employees | 36 | |

Principal officers: Dorothy S. Hirsch, chairman; Donald V. Organ, president; Robert J. Ewart, vp; James C. Farrell, vp.

Lines of specialty insurance: package programs, marine.

Managing general agent for: North-West Insurance Co.

Midtown Risk Specialists Inc.

1230 Avenue of the Americas, New York, N.Y. 10020; (212) 975-0975

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 1,450,000 | \$ 1,000,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 20 | |

Principal officers: Warren C. Benn, president; Patrick Whalen, vp; Ed Ilic, asst. vp; Stanley Kulesa, asst. vp.

Branch offices: Rochester, N.Y. Parent company: National Union Insurance Co.

Montgomery & Montgomery Inc.

111 Fulton St., New York, N.Y. 10038; (212) 285-0600

| | 1977 | 1976 |
|---------------------|--------------|--------------|
| Gross rev. | \$ 1,207,744 | \$ 1,179,599 |
| Commercial bus . | 80% | 80% |
| E/S lines | 5% | 5% |
| Employees | 30 | |

Principal officers: David B. Montgomery, president; Lawrence E. Brown, Robert A. Nolan, Howard E. Smith, vps; Ruthwin Samuels Jr. and Luis Valves, asst. vps.

Branch offices: Los Angeles. Lines of specialty insurance: product liability, bankers blanket bond.

North Island Excess & Surplus Corp.

1295 Northern Blvd., Manhasset, N.Y. 11030; (516) 365-7440

| | 1977 | 1976 |
|---------------------|-------------|------|
| Gross rev. | \$ 323,000* | N/A |
| Commercial bus . | 95% | N/A |
| E/S lines | 100% | N/A |
| Employees | 8 | |

*firm established 12/76

Principal officers: Michael A. Orlando, president; John M. Pidoto,

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 277-5703

SEE OUR AD ON PAGE 3

vp; Shirly Chadwick, asst. secretary.

Frank Perfetti Inc.

1544 Union St., Schenectady, N.Y. 12309; (518) 393-2124

| | | |
|---------------------|--------------|------------|
| | 1977 | 1976 |
| Gross rev. | \$ 1,250,000 | \$ 575,000 |
| Commercial bus . | 98% | 95% |
| E/S lines | 40% | 10% |
| Employees | 4 | |

Principal officers: Frank Perfetti, president.

Branch offices: Troy and Syracuse, N.Y.

Lines of specialty insurance: restaurants and taverns.

Managing general agent for: Great Atlantic.

Pike Incorporated

7011 Harwin, Suite 190, Houston, Texas 77036; (713) 781-9090

| | | |
|---------------------|------------|------------|
| | 1977 | 1976 |
| Gross rev. | \$ 345,000 | \$ 307,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 8 | |

Principal officers: John Van Osdall, president; Anthony Koppel, senior vp; Ron Price, vp.

Parent company: ANCO Corp.

Managing general agent for: Sphere Insurance Co.

R R S Associates Inc.

18 John St., New York, N.Y. 10038; (212) 233-4243

| | | |
|---------------------|-----------|-----------|
| | 1977 | 1976 |
| Gross rev. | \$ 85,000 | \$ 65,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 4 | |

Principal officers: Robert R. Spring, president.

Branch offices: Middletown, N.J.

Lines of specialty insurance: buffers.

Rhulen Special Risks Inc.

217 Broadway, Monticello, N.Y. 12701; (914) 794-8000 or WATS 800-431-1270

| | | |
|---------------------|------|------|
| | 1977 | 1976 |
| Gross rev. | N/A* | N/A |
| Commercial bus . | N/A | N/A |
| E/S lines | N/A | N/A |
| Employees | 5 | |

*firm established 1/78

Principal officers: Jesse M. Farrow, president; Edmund L. Bartholomew, executive vp; Peter L. Rhulen, secretary-treasurer.

Parent company: Rhulen Agency Inc.

Lines of specialty insurance: unprotected fire.

Mark Robis Surplus Line Broker

220 Bush St. #552, San Francisco, Calif. 94104; (415) 434-3937

| | | |
|---------------------|-----------|------------|
| | 1977 | 1976 |
| Gross rev. | \$ 90,000 | \$ 120,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 2 | |

Principal officers: Mark Robis, president.

Lines of specialty insurance: workers compensation, medical.

Scarborough and Company

222 N. Dearborn St., Chicago, Ill. 60601; (312) 855-3110

| | | |
|---------------------|--------------|--------------|
| | 1977 | 1976 |
| Gross rev. | \$ 4,300,000 | \$ 3,300,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 10% | 10% |
| Employees | 70 | |

Principal officers: Edward N. Murray, president; Warren Geary, vp special risks; Robert Marshman, vp marketing; Robert Stearns, vp claims; Michael Arnow, treasurer.

Parent company: Ryan Insurance Group Inc.

Lines of specialty insurance: financial institution insurance.

Managing general agent for: Employers Mutual Liability Insurance Co. of Wausau.

Ralph Schram Inc.

P.O. Box 5228, 4435 "Q" Street, Lincoln, Neb. 68505; (402) 483-2991 Telex 48-4363

| | | |
|---------------------|------------|------------|
| | 1977 | 1976 |
| Gross rev. | \$ 510,000 | \$ 300,000 |
| Commercial bus . | 95% | 95% |
| E/S lines | 85% | 85% |
| Employees | 12 | |

Principal officers: Ralph Schram, president; Gloria J. Nelson, vp; Fred L. Bovee, treasurer; Kenneth R. Baker, asst. vp; Karen J. Metzger, asst. vp.

Subsidiaries: Lincoln Insurance Center Inc.

Lines of specialty insurance: malpractice, professional liability, product liability.

Managing general agent for: Guaranty National, Union Insurance Co.; Casualty Indemnity Exchange; Northeastern Fire Ins.

Seaboard Underwriters Inc.

262 E. Morehead St., Burlington, N.C. 27215; (919) 226-4422

| | | |
|---------------------|--------------|--------------|
| | 1977 | 1976 |
| Gross rev. | \$ 2,230,000 | \$ 1,763,000 |
| Commercial bus . | 100% | 100% |
| E/S lines | 27% | 20% |
| Employees | 48 | |

Principal officers: Donald R.

EXCESS/SURPLUS

Sandgren, president; J. Phillip Hogan, executive vp and treasurer; Joe Simnor, vp underwriting; Bernard Brooks, e/s (Burlington).

Branch offices: Chicago, Houston.

Subsidiaries: Seaboard Underwriters Agency Inc.

Parent company: Penn General Agencies Inc.

Lines of specialty insurance: long haul truck.

Managing general agent for: Bankers & Shippers Insurance Co.; First State Insurance Co.; Firemen's Fund Insurance Co.; Lloyd's contract holder.

Thomas F. Sheehan Inc.

460 South Northwest Highway, Park Ridge, Ill. 60068; (312) 696-3366

| | | |
|---------------------|------|------|
| | 1977 | 1976 |
| Gross rev. | N/A* | N/A |
| Commercial bus . | N/A | N/A |
| E/S lines | N/A | N/A |
| Employees | 16 | |

*firm established 2/78

Principal officers: Thomas F. Sheehan, president; R.H. Chandarana, executive vp; J.F. Whitaker, vp and treasurer.

Lines of specialty insurance: errors and omissions.

Managing general agent for: Imperial Casualty & Indemnity; Pine Top Insurance.

Skanco International Ltd.

8100 East Indian School Road, Scottsdale, Ariz. 85251; (602) 994-0440

| | | |
|---------------------|------|------|
| | 1977 | 1976 |
| Gross rev. | N/A* | N/A |
| Commercial bus . | N/A | N/A |
| E/S lines | N/A | N/A |
| Employees | 6 | |

*firm established 9/77

Principal officers: T.C. Anderson, president; Andrew M. Berry, vp; T. Curtis Anderson III, vp.

Lines of specialty insurance: commercial auto and professional liability.

Managing general agent for: Paxton National; Commercial Standard; Bankers Standard; Jefferson.

South Continental Insurance Agency Inc.

P.O. Box 2992, Old San Juan, Puerto Rico 00903; (809) 723-1279

| | | |
|---------------------|--------------|--------------|
| | 1977 | 1976 |
| Gross rev. | \$ 1,500,000 | \$ 1,250,000 |
| Commercial bus . | 85% | 85% |
| E/S lines | 23% | 20% |
| Employees | 63 | |

Principal officers: Walter Fournier, chairman; Frank W. Fournier, president; Charles C. Carr, vp.

Lines of specialty insurance: errors and omissions, directors and officers liability, events and amusements.

Southwest Surplus Agency

Continued on page 60

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In excess and surplus lines, commitment is the necessary ingredient for successful performance.
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515/243-1221

Omaha
402/393-2040

Sioux Falls
605/336-0960

Bismarck
701/223-1112

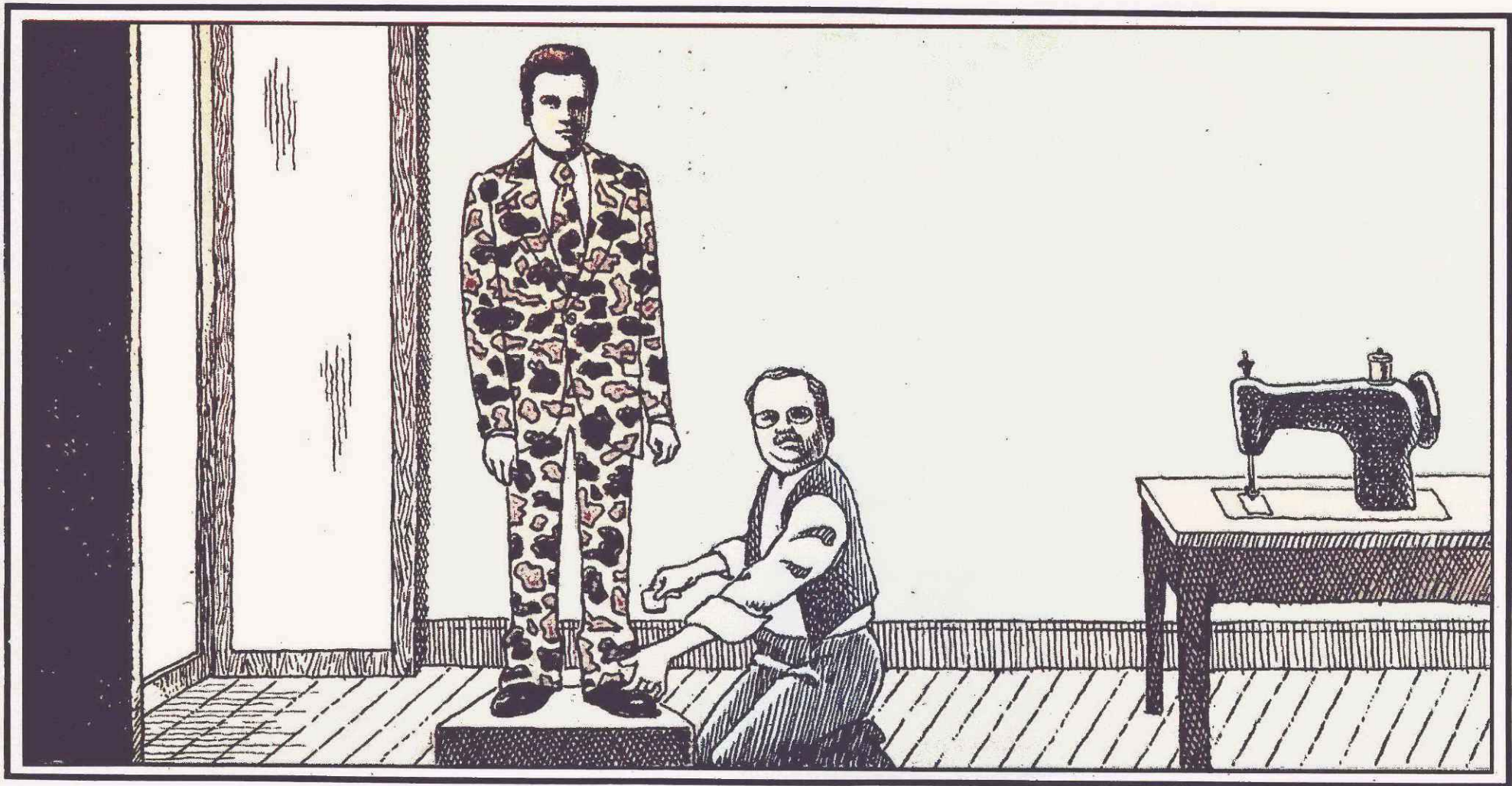
Billings
406/248-7183

Boise
208/336-7131

Madison
608/271-6500

For more facts circle 20 on reply card

Strategies for Exe



Kidnap attempts on corporate executives are increasing abroad and are causing growing concern in the United States. Under some circumstances, defensive measures may be required.

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

With kidnapping and extortion on the rise around the world, American executives have become frequent targets of this form of violence. Some attempts are made by groups seeking social upheaval, while others are purely and simply the work of criminals.

According to the CIA, more than 40% of the 232 terrorist-connected kidnappings reported since 1970 have involved businessmen. Almost all of them have taken place in Europe and Latin

America, with one out of five of the businessmen being Americans. Ransom demands may be for millions of dollars—in a recent year in Argentina alone, U.S. business is believed to have paid over \$90 million to kidnappers. In Italy and Argentina, kidnapping has reached epidemic proportions and it has become a growing problem in many other countries.

Although the rash of kidnappings has not yet spread to the

United States itself, U.S. firms are increasingly being forced to confront this possibility. American companies now spend \$7.1 billion annually on security at home and abroad—more than double the amount spent five years ago. One specialist in the field estimates that 80% of large U.S. firms have either started executive protection programs or are considering doing so. And makers of armored vehicles and surveillance systems, as well as schools teaching evasive driving (to foil kidnappers) are also experiencing a small boom.

Exposed plant managers

Of all executives, the manager of an overseas plant of a U.S. based company is one of the most susceptible to kidnap attempts. That's because he is a convenient on-the-spot symbol of the company. However, the executive who

Executive Security

is traveling can also be a tempting target, particularly if he publicizes his travel plans and leads a too-visible lifestyle.

But businessmen generally, both in this country and abroad, can apply defensive measures to protect themselves. The key prescription is: keep a low profile and avoid a set routine. A low profile involves staying out of the limelight to the degree practicable; avoiding the use of conspicuous limousines and easily identified company planes at remote airports; being uncommunicative about personal and family affairs (for example, in publicity interviews).

If an executive has reason to think he may be under surveillance, he should contact law enforcement officials. In addition, he should employ such tactics as going to work by different routes each morning and varying the times at which he leaves the office each day. He should avoid dining out on the same night every week, particularly at the same restau-

rant, and should otherwise resist familiar patterns of behavior. And at all times he should keep in close touch with his business associates and family.

Training for crisis

Beyond this, some security officials recommend that a company create a crisis management team consisting of up to ten executives from different parts of the company.

The team would study all aspects—legal, financial, security, personnel and public relations—of kidnap and terrorists attacks and would formulate detailed plans for handling them. The objective is to prepare the company to employ management skills in such situations, rather than relying on intuition or emotional responses.

In addition to defensive measures, most companies should probably consider insurance against this multimillion-dollar threat.

Broad insurance coverage

against kidnap and extortion threats is available to business—in fact, kidnap insurance has been written since the Lindbergh abduction in 1932. Coverage can include directors, officers and all employees worldwide, together with members of their families, and can provide indemnity for both corporate and personal assets. Cooperation with the police is a condition of the insurance and its existence must be kept secret.

The Insurance Company of North America, one of the INA companies, is among the insurers providing kidnap and ransom coverage and counsel.

* * *

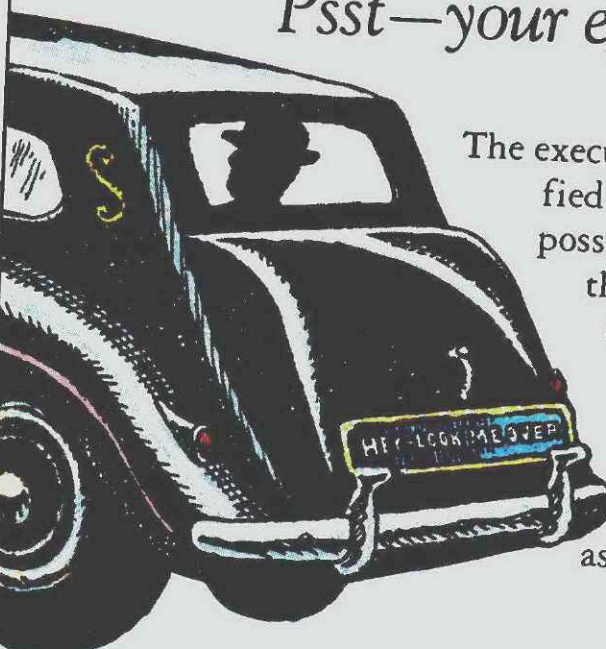
The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance and financial services companies. In property and casualty insurance and risk management services, life and group insurance,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

INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in executive security, write INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

INA

The Professionals

Psst—your ego is showing



The executive who sports an easily identified "prestige" license plate may just possibly be getting more recognition than he bargained for. Such plates can serve the purposes of ransom artists admirably.

And corporate parking spaces emblazoned with an executive's name can also provide a tipoff as to the whereabouts of Mr. Big.

E/S directory . . .

Continued from page 57
**6044 Gateway East, P.O. Box 9187,
 El Paso, Tex. 79983; (915) 779-3651**

| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 650,000 | \$ 505,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 71% | 69% |
| Employees | 10 | |

Principal officers: Don Litchfield and Jim Driscoll, partners.

Lines of specialty insurance: recreational vehicles, Texas standard private passenger auto, long haul truck.

Managing general agent for: Great Southwestern Fire; Guaranty National Insurance Co.; Foremost Insurance Co.; Northeastern Fire Insurance Co.; Lloyd's correspondent.

Special Underwriters Agency Inc.

**122 Main Building, Milford, Ohio
 45150; (513) 831-7475**

| | 1977 | 1976 |
|----------------------|------------|------------|
| Gross rev. | \$ 452,000 | \$ 399,000 |
| Commercial bus. | 99% | 68% |
| E/S lines | 65% | 40% |
| Employees | 9 | |

Principal officers: James D. Williams, chairman; George L. Garlesky, president; John C. Daugherty, vp.

Subsidiaries: Specialty Underwriters Agency Inc. (of Kentucky).

Lines of specialty insurance: trucks and miscellaneous professional liability.

Managing general agent for: Jefferson of N.Y.; Western World Insurance Co.; Great American Surplus Lines; London companies.

Swett & Crawford

**4201 Wilshire Blvd., Los Angeles,
 Calif. 90010; (213) 937-5411**

| | 1977 | 1976 |
|----------------------|---------------|---------------|
| Gross rev. | \$ 5,000,000+ | \$ 5,000,000+ |
| Commercial bus. | 100% | 100% |
| E/S lines | 98% | 90% |
| Employees | 850+ | |

Principal officers: W.F.W. Fellows, president; T. Carey, LA; Roy Oddy, Dallas; Don Munson, LA; R.P. Keul, SF; Lita Cromer, Chicago; R.B. Angle, Greenwich; all senior vps.

Branch offices: Atlanta, Chicago, Columbus, Dallas, Greensboro, Greenwich, Honolulu, Houston, Los Angeles, New Orleans, Portland, San Diego, San Francisco, Seattle, Toronto, London.

Subsidiaries: Leslie H. Cook, Inc.; Harbor Insurance Co.; Buffalo Reinsurance Company; RFC Intermediaries Inc.; Surplus Line Adjusting Co.

Parent company: The Continental Corp.

Lines of specialty insurance: di-

EXCESS/SURPLUS

Directors and officers liability.

Managing general agent for: in-house company only, Harbor Insurance Co.

Tolley of America Inc.

**3901 North Meridian St., Suite
 200, Indianapolis, Ind. 46208; (317)
 923-2356**

| | 1977 | 1976 |
|----------------------|-------------|-------------|
| Gross rev. | \$1,800,000 | \$1,300,000 |
| Commercial bus. | 60% | 40% |
| E/S lines | 40% | 20% |
| Employees | 40 | |

Principal officers: Russell M. Tolley, chairman and president; Jay C. Cart, vp-marketing; Ronald L. Taylor, vp-administration; Blanche A. Suiter, secretary/treasurer; Myron L. Klapper, asst.

vp.

Lines of specialty insurance: stop loss, malpractice, fiduciary liability

United Excess & Surplus Corp.

220 Westchester Avenue, White Plains, N.Y. 10604; (914) 946-5775

| | 1977 | 1976 |
|----------------------|------------|------|
| Gross rev. | \$ 25,000* | N/A |
| Commercial bus. | 85% | N/A |
| E/S lines | 100% | N/A |
| Employees | 4 | |

*firm established 6/77

Principal officers: Joseph M. Munoz, vp.

Lines of specialty insurance: air supported structures and apartment buildings.

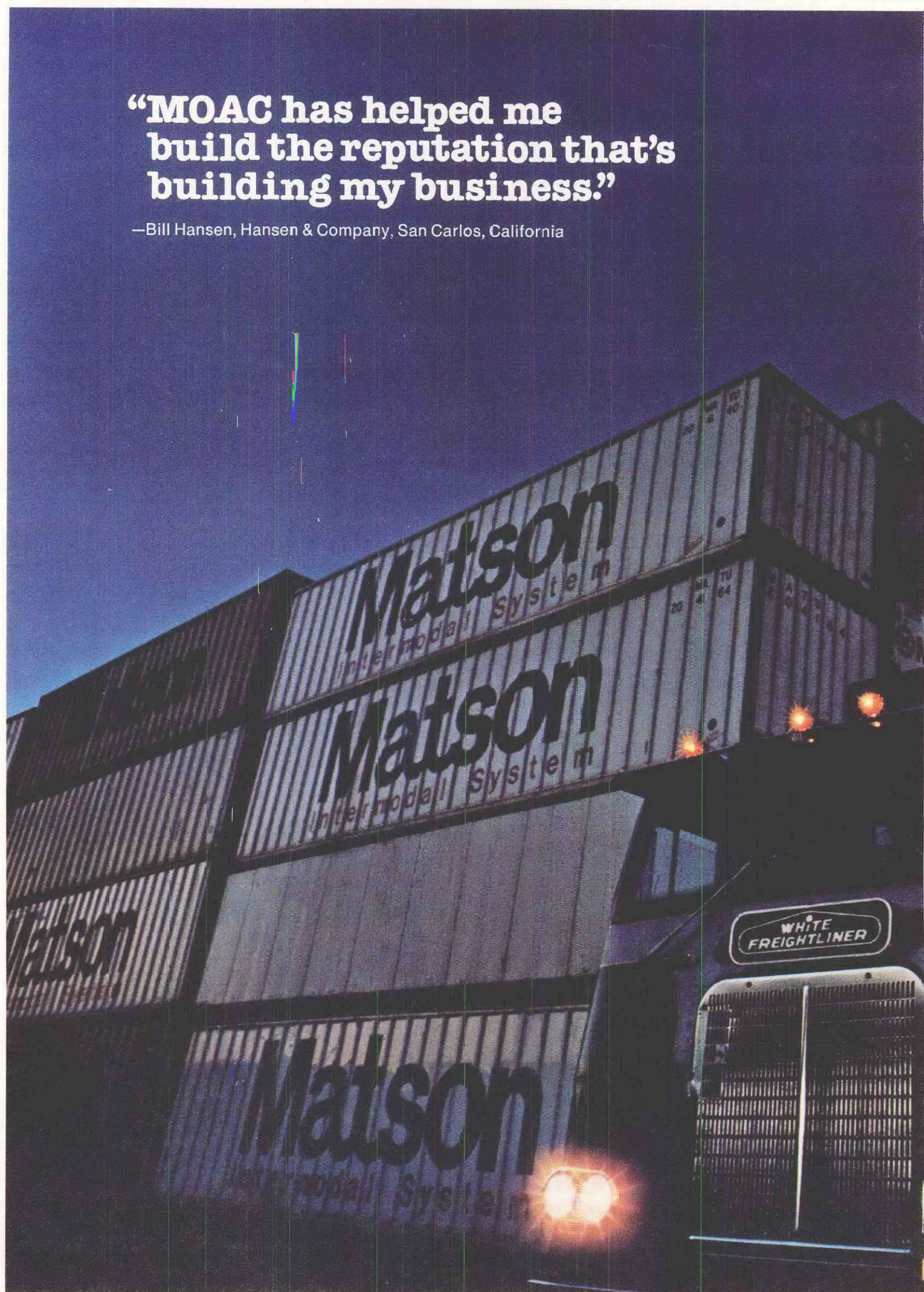
Waltery Insurance Brokers

**4273 Branch Avenue, Suite 214,
 Marlow Heights, Md. 20031; (301)
 423-4370**

| | 1977 | 1976 |
|-----------------|------------|------------|
| Gross rev. | \$ 874,000 | \$ 411,218 |

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 build the reputation that’s
 building my business.”**

—Bill Hansen, Hansen & Company, San Carlos, California



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SEE OUR AD ON PAGE 3

| | | |
|----------------|-----|-----|
| Commercial bus | 80% | 79% |
| E/S lines | 32% | 27% |
| Employees | 4 | |

Principal officers: Walter J. Coady Jr., president.
Parent company: Waltery Inc.
Lines of specialty insurance: bowling centers.

Weghorn International Inc.
156 William St., New York, N.Y. 10038; (212) 227-4600

| | | |
|-----------------|------------|------------|
| | 1977 | 1976 |
| Gross rev. | \$ 346,000 | \$ 133,000 |
| Commercial bus. | 100% | 100% |
| E/S lines | 60% | 60 |
| Employees | 6 | |

Principal officers: Richard J. Weghorn, president; Michael L. Himewitz, vp; Joseph W. Pettit, vp.
Branch offices: Morristown, N.J.
Parent company: John C. Weghorn Agency Inc.

The Wetzell Company Inc.
2000 South Post Oak, Suite 2400;

EXCESS/SURPLUS

Houston, Texas 77056; P.O. Box 66452, Houston, Texas 77006; (713) 626-3240

| | | |
|-----------------|-------------|-------------|
| | 1977 | 1976 |
| Gross rev. | \$2,775,314 | \$2,034,188 |
| Commercial bus. | 100% | 100% |
| E/S lines | 100% | 100% |
| Employees | 22 | |

Principal officers: F.J. Wetzell, president; B.D. Wilcox, vp-oil; R.

Lannin, vp-oil; R.E. Hess, vp-casualty; J.C. Jones, asst. vp-property.

Lines of specialty insurance: oil/gas energy.
Managing general agent for: Commodore Insurance Co.

Wohlreich & Anderson Group Ltd.

6 Commerce Drive, Cranford, N.J. 07016; (201) 272-2500

| | | |
|-----------------|---------------|--------------|
| | 1977 | 1976 |
| Gross rev. | \$ 10,400,000 | \$ 9,000,000 |
| Commercial bus. | 98% | 98% |
| E/S lines | 100% | 100% |
| Employees | 130 | |

Principal officers: Bernard J. Daenzer, president; Bob Clay, senior vp; Peter Wilkens, vp marketing.

Branch offices: Los Angeles; San Francisco; West Hartford, Conn.; Chicago; Indianapolis; Columbia, Md.; Boston; Southfield, Mich; Livingston, N.J.; New York; Garden City, N.Y.; Cleveland; Portland, Ore.; King of Prussia, Pa; Seattle.

Parent Company: Howden Swann Ltd.

Managing general agent for: Various.

"My motor truck cargo business has grown dramatically in the last 5 years.

"The secret is my reputation for dependable service. MOAC has helped me build that reputation by providing underwriting capacity and claims handling second to none.

"Many of my customers handle container cargo and must carry high limits of cargo insurance to cover the cost of goods they're hauling. MOAC comes through promptly and professionally with the coverage they need.

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"They have helped me earn the trust of truckers in this area. And this trust is building my business."

Underwriting support you can grow on. That's what you can expect from MOAC.

Marine Office of America Corporation
a subsidiary of The Continental Corporation
80 Maiden Lane, New York, N.Y. 10038



The marine office.

A&A acquires Michigan firm for services

DETROIT—Fast growing Alexander & Alexander has acquired Corporate Service Inc., a leading administrator of self-insurance programs.

Corporate Service employs more than 110 persons in its main office here and a branch office in Grand Rapids. It provides administrative services for self-insured workers compensation and group insurance programs for employers in Michigan and Indiana.

A&A, now the nation's second largest brokerage firm, said Corporate Service would operate as an independent subsidiary. A&A president John A. Bogardus said the acquisition is "a further example of A&A's commitment to providing a full line of fee-based services to major companies."

Group life tops \$118 billion

WASHINGTON—Group life insurance purchases totaled \$118 billion in 1977, an increase of \$13.3 billion over a year earlier, reports the American Council of Life Insurance.

About two-fifths of the group life insurance purchased last year were under new "master" contracts issued chiefly to employers for their workers. The remaining three-fifths were under existing contracts broadened to include additional categories of workers or to increase overall levels of coverage.

Last year's purchases included some \$4 billion of group coverage for employees' dependents, the Council says.



The people who can always find a way in

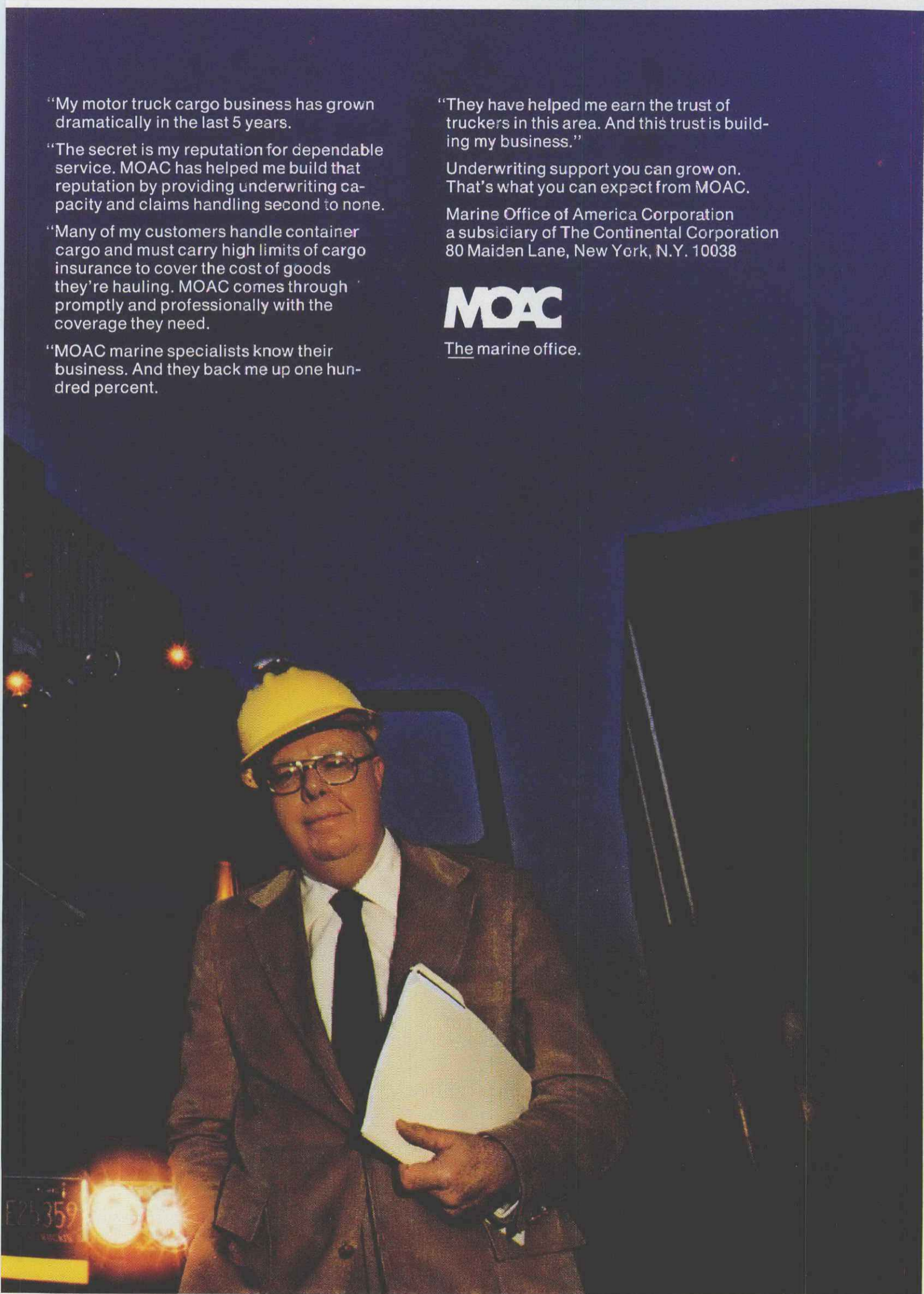
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SEE OUR AD ON PAGE 3





ESIS Profiles: Risk management's new breed.

Russell A. Drake, Jr.
Director, Corporate Risk Management,
Borden, Inc.

“At Borden, our commitment to safety and loss control saved \$4,000,000 last year.”

“Over the past few years, management has become painfully aware of our rising insurance and claims costs, and is anxious to control them. So we’ve expanded our self-insurance program to the point where we self-insure 99% of our claims.

“Naturally, higher deductibles have meant even greater attention to safety and loss control, and this is one of the areas where ESIS is helping. We use their International Safety Academy for training, and a variety of ESIS statistical reports to track our loss experience and alert us to problem areas.

“Indirectly, we are saving much

more than \$4,000,000, because our improved safety record is keeping our insurance premiums down and our employee productivity up.”

More and more risk managers like Russ Drake are turning to ESIS. Why? ESIS is the leading administrator of self-insurance programs in the U.S. ESIS provides all of the administrative, claims handling, loss control and statistical reporting functions normally performed by an insurance carrier. To find out how ESIS can help your company’s self-insurance program, write to us or contact your insurance agent or broker.

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Courts taxed to decide consequences of payments on behalf of directors

By Alvin C. Warren Jr.

CONSIDER THE CORPORATE director or officer charged with committing unlawful actions in the pursuit of his corporate duties. What are the federal income tax consequences if the corporation pays or reimburses his legal expenses (or liability or fine, if any)?

Two questions are raised by such a payment: Is the expenditure deductible by the corporation? Does the director or officer have taxable income by reason of the corporate payment?

At the extremes these questions can be answered with some certainty, but the amount of certainty diminishes rapidly as the circumstances of payment become less familiar.

The Internal Revenue Code allows a deduction for "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business." The Supreme Court has determined that the character of such expenses is to be decided by inquiring into their origin.

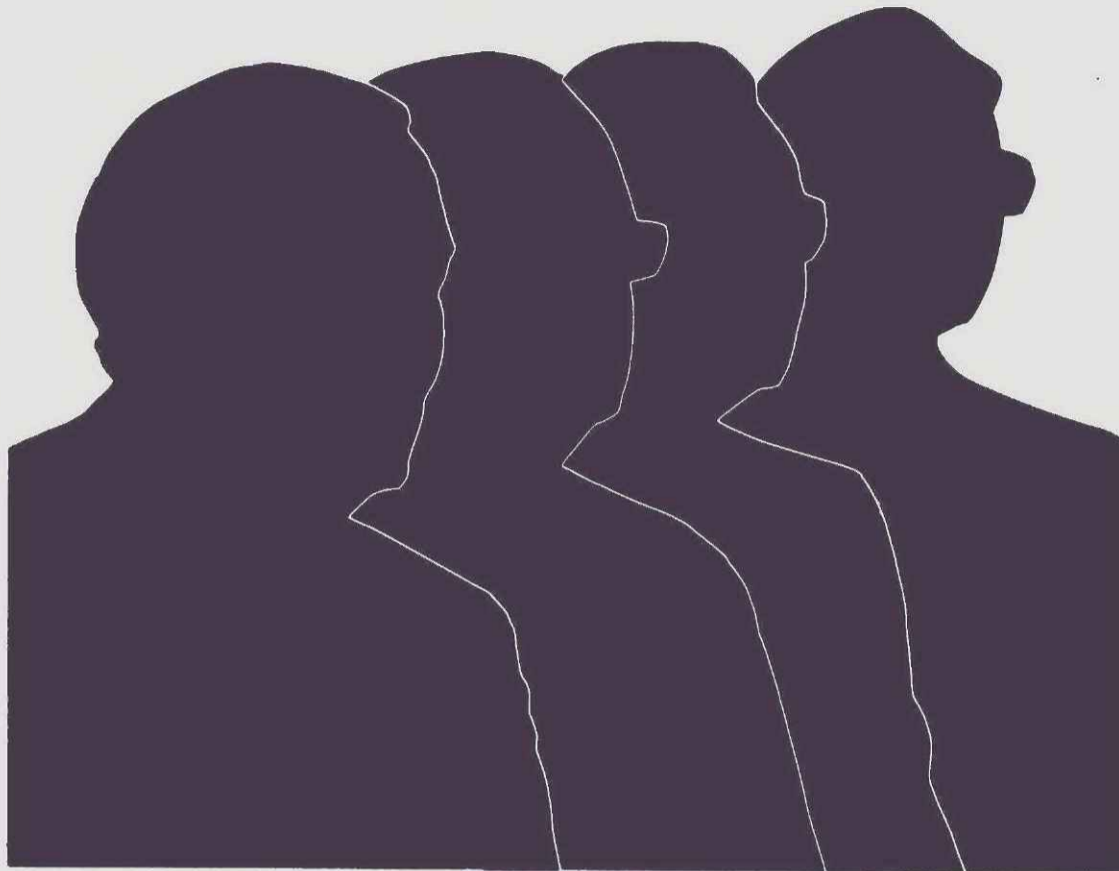
Thus, if the expenses did not originate in a claim involving the acquisition or retention of an asset (that is, if the expenditures are not capital in nature), one might logically be entitled to conclude that they are deductible. Corporations are, after all, incapable of personal expenses—the other major category of nondeductible expenditures.

IRS position

Even if not otherwise deductible, expenditures for the legal fees or fines of a corporate director or officer could sensibly be characterized as additional compensation paid for the benefit of the affected director or officer. Compensation is deductible as a business expense under the Internal Revenue Code as long as it is "reasonable."

Logic, alas, goes only so far in taxation. The Internal Revenue Code now explicitly denies a deduction "for any fine or similar penalty paid to a government for the violation of any law," a result generally reached

Alvin C. Warren Jr. is professor of law at the University of Pennsylvania. This article is reprinted with permission from Counsel, a publication of MGIC Indemnity Corp. of Milwaukee.



Although payments to a director for legal fees or fines incurred on behalf of the corporation could sensibly be characterized as additional compensation, logic goes only so far in taxation.

by the courts on grounds of "public policy" even before congressional enactment of the specific prohibition.

Even as to legal fees, the courts, have not automatically permitted a deduction, requiring instead that the expense bear a proximate relationship to the business of the corporation. Related to this requirement is the oft-repeated maxim that one taxpayer may not deduct the legal expenses of another. Some of the cases in which these doctrines have actually been applied to deny deductibility have been extreme, if not bizarre, as where business associates have been shot or robbed and kidnaped, albeit for allegedly business reasons.

Other cases in which the government has prevailed on these grounds have involved attempts to deduct what might be better characterized as payments of corporate divi-

dends. Consider Charles A. Weil, sole shareholder and president of Edmond Weil Inc. While driving to his golf club for a game with a corporate customer, Mr. Weil was arrested for speeding. The corporation paid its president and sole shareholder's litigation expenses and deducted them as a business expense, although Mr. Weil had known his golfing partner for years and had even recommended him for membership in the club. Not surprisingly, the Tax Court held the payment nondeductible because it was unrelated to the corporation's business and, in reality, constituted a dividend.

'Proximate relation'

A careful reading of cases relying on the proximate relation of the litigated activity to the corporation's business might thus lead

to the conclusion that many, if not all, such cases can be explained on other grounds, such as patently criminal behavior or a clear dividend equivalence. That reading is undercut, however, by the constant repetition of the requirement of a proximate relation by the courts, even in decisions which find that the disputed expenses are deductible. On a verbal level, at least, the doctrine is therefore a force to be reckoned with.

What sort of activities qualify as proximately related to a corporation's business? Sam Spatt and the corporation of which he was president were indicted for violations of the Sherman Antitrust Act. Applying the origin analysis mentioned above, the court found Mr. Spatt's activities to be proximately related to the corporation's business.

Similarly, a corporate finance company

Continued on page 66

Speaking Out

Risk managers malign their own profession

By I. Racam

RISK MANAGEMENT IS A TERM which can probably claim to be among the most talked about and most abused phrases in business life. More harm has been done to this animal than to most others. By whom? Believe it or not, by the so-called risk managers.

The term risk management itself is the easiest to understand out of the numerous concepts that have mushroomed in the age of catch-phrases and "new" management techniques. At least there is no sign of the dreaded "ism" or "ology" so prevalent in other spheres (e.g. tribology, terotechnology, consumerism, etc.). Why then, is risk management being brought into disrepute?

The answer is easy to find. Ask anyone for their understanding of risk management and you will get answers ranging from

I. Racam is a pseudonym chosen to protect the identity of an insurance manager/author with some unpopular ideas.

"something to do with insurance" to "the scientific analysis and treatment of risk." Most people tend to explain their idea of the function rather than the concept. The functions vary tremendously from the jumped-up insurance clerk who has merely been renamed to the extremely rare, true risk manager. What a misnomer this term is! You do meet the occasional risk manager who is foolish enough to declare to the world "I manage the risks that my company runs."

The day we ban the term risk manager the better will be the understanding and acceptance of the need for a service function to advise, coordinate and police the company's approach to risk. There is something about the title "manager." To some it depicts responsibility to be jealously guarded. Introduce to this category of person a risk manager and you might as well show a red rag to a bull!

Any manager worthy of the position should see his role as embracing the management of risk along with production schedules, industrial relations, training, etc.

Risk manager is synonymous with manager of risk—you can almost hear the alarm bells ringing now! To combat this problem some people have dropped the term manager, preferring adviser, coordinator, etc. For those who really need an ego trip, how about manager (or director), risk management department or even risk management executive.

What is in a title? Everything and nothing! A title can be the difference between a good or bad first impression—on which many management programs have fundered. The insurance manager who starts taking a few deductibles and even venturing into the captive insurance company field often overnight becomes a self-styled risk manager.

Other more practical people doing exactly the same thing remain mere insurance managers. How do they view their compatriots? With respect? Dare I say with contempt?

The credibility gap begins here, but is stretched into a chasm by further misuse of the term risk management by some—not all—insurance brokers, consultants and captive management companies. A large

proportion of these organizations are concerned almost exclusively with insurance management.

Employees are among the major assets any company has, but many so-called risk managers have no involvement in the health and safety of their employees. How can limited resources of finance, manpower and management time be efficiently allocated unless priorities are established across the broad spectrum of risks from quality control to environmental impairment; from property risks to employ health and safety; from marketing risks to financial risks; from public relations to social accountability?

No definition of risk management is necessary, using the umbrella technique. It is only when it comes to the function and application of the techniques that we need to stand up and be counted. Those who profess to be involved in risk management should engage in a little soul-searching. For the sake of risk management let us be honest with ourselves and start to close the credibility gap.

PERSPECTIVE

Managing benefits . . .

Continued from page 64

claim. For example, the odds of individual claims in excess of \$25,000 are remote. However, a common accident of several employees not covered by workers compensation, or perhaps one or two claims involving sophisticated medical procedures, could leave you with an unusually heavy claim burden on only a few claimants.

A huge premium risk can afford to absorb this situation, but more of you with \$500,000 or less in premium are involved in stop loss programs. It may be wise for you to look into covering this contingency. The cost involved should be minimal.

Tiering

Tiering is rather common in property and liability programs but I see none of it in the benefits area. At its most rudimentary, you might consider insuring the first \$10,000 of any medical claim, self-insuring the next \$10,000 to \$20,000 and then buying excess over the "buffer" layer.

LTD options

Your long term disability plans are an area which you might want to self-insure a number of years in excess of a basic term and then buy some type of stop-loss coverage over your self-funded area. For example, benefits payable after 2 or 5 years of disability could be self-insured.

Medical reserves

As you all know, medical reserves are established for one purpose only and that is to

pay claim liabilities incurred but not yet reported or paid. At any given date this liability will normally last no longer than one year. With today's data processing sophistication, it is easy for any insurance company to do highly accurate "lag studies" so that they are reserving as close as possible to the actual run-outs.

Unfortunately, many carriers do not operate with this type of accuracy. Frequently reserves are handled as a percentage of premium or with an inflated formula being applied to the lag study. Get details on how your reserves are established. If your medical care reserves exceed 35% of claims paid, push to find out why they are that high. Swollen reserves sometimes indicate sluggish administration.

Federal taxation

Federal taxation of life insurance companies is very complicated. Basically, however, some companies are taxed on their investment income while others are taxed on their gain from operations. For any coverage which tends to build up large reserves over time, you should try to find a carrier which is taxed on its gain from operations. Once large reserves are accumulated, taxes on investment should exceed taxes on gain.

State insurance regulatory laws, as well as the nature of the insured guarantee, limit the extent to which any insurance company can invest in high risk/high yield instruments. Thus, an 8% rate of return after expenses is quite good even today, but a life company earning that rate could credit only 4% to reserves.

Consider "borrowing" against your reserves by a 90-day premium payment lag.

Your cost of money should be only 5%. If you are now paying after the traditional 31 days, you can purchase the next sixty-day float for about 0.7% added to your retention.

Shifting retentions

Many have expressed a concern on what appears to be "shifting" retentions in your life/medical program. Ask for very specific information as to each of the components of that reduction.

Find out the percentage of change you can expect to see in the claim cost area with a significant change in paid claims either up or down. Find out about interest credited. Ask for detail on reductions in "risk charges" with the implementation of more pooling, retros, or stop loss provisions. Be certain the premium taxes are calculated on a net rather than gross premium basis except in those states where taxes must be paid on gross.

Finally, take a look at the commissions being paid. Keep in mind the commissions are not a gift from the insurance company to the broker. They are a fee being paid by you for work that has and ostensibly will continue to be done. If you think commissions are excessive, ask your broker for an accounting on an hourly basis.

Coping with inflation

For medical care, inflation is the long term villain. Don't help it along by agreeing to price increase expectations. Use a retro agreement approach of at least the insurer's trend factor and minimize cash flow.

Have your deductibles kept pace with inflation or are you still cost-sharing at a 1962 level of \$100 per calendar year? Orient your plan to come in late—after \$200 per person—but come in with reduced coinsurance. Why make the ill carry the load alone?

Rising claims incidence

Coupled with a slowdown in recovery rates is a general rise in the incidence of claims. There is a strong link between our nation's economic conditions and the claim rate. The 1970-71 slump, for example, saw an increase of 47% from a 1965-69 base period rate of 2.76 claims per 1,000 insureds to 4.05 in 1971.

You're the payer

Finally, understand that ultimately you pay your own way. You are not "laying off" claims on an insurance company. You might consider shifting carriers but, ultimately, your experience catches up.

Over the past 10 years a considerably tougher attitude regarding possible overpayment of claims has developed. Many of you feel coordination of benefits is simply not being policed properly. I would encourage you to get specific with your own underwriter on the job he is doing on claim control and, if not satisfied, investigate the market.

Start with the type of claims control an insurance company or third-party administrator has available rather than simply price. It is very likely that a company or service organization that charges you somewhat more for services than their competition may just win hands down on a net basis when claims control becomes more than just lip service.

There is a lot going on today in the benefit area. As risk managers have struggled to achieve what is now a significant recognition in industry, benefit managers are just beginning that fight. However, when one considers the relative percentage of benefits to payroll and that the consumer price index for medical care is greater than all other industries, it makes sense to regard your benefits with the same intensity that you "risk manage" property and liability programs. ■

Payments to directors . . .

Continued from page 63

was permitted to deduct the legal expenses of successfully defending an officer against charges of corrupting state legislators because "the disbursements made were proximately and directly connected with a taxpayer's business."

At one time it seemed to be true that indemnification was deductible only if the legal defense in a criminal action was successful. But a Supreme Court decision that business-related legal fees paid by the defendant are deductible whether the defense succeeds or not would seem to make that fact also irrelevant in cases of indemnification.

In addition to the proximate relationship of the litigated activity to the corporation's legitimate business, the decisions permitting deductibility have also often relied on the presence of an indemnity agreement to support the conclusion that the legal expenses were "ordinary and necessary." The relevance of an indemnity agreement is not obvious, other than as evidence that the indemnified expenses were related to the corporation's business, but some courts seem to treat it as an independent factor to be weighed on the taxpayer's side.

There is no apparent reason why an otherwise non-deductible expense should become deductible simply because it is subject to an indemnification agreement, but that is apparently what happened in *Larchfield Corporation v. U.S.* In that case, the corporation paid legal fees relating to a shareholder's derivative suit which alleged that a shareholder/director had insufficiently compensated the corporation for shares received.

Indemnification pact

Conceding that the fees would have been capital rather than deductible if paid by the shareholder/director (presumably because related to the purchase or retention of an asset), the court went on to state that it did not follow that the expenses had the same character for tax purposes when made by the corporation under a pre-existing contract of indemnification. It pointed out that payment of such fees has been reasonably characterized as a fringe benefit necessary to induce officers and directors to serve.

This, of course, brings us back to the view put forth above. Any of these payments should be deductible as compensation, even if not otherwise properly characterized as "ordinary and necessary" business expenses.

Why the presence of an indemnification agreement should make the payments look more like salary is unexplained. In any event, the compensation approach is subject to the caveat that only "reasonable" salaries are deductible for federal income tax purposes, a requirement no less amorphous than the expression "ordinary and necessary."

Purchasing insurance

If a pre-existing indemnity obligation strengthens the corporation's claim for a deduction, purchase of insurance to fulfill that obligation may assure it. In revenue ruling 69-491, the Internal Revenue Service considered the purchase of a policy which indemnified officers and directors for their expenses arising from wrongful acts committed or alleged to have been committed in those capacities. The "wrongful acts" were specified in the policy as "any error or mistake or wrongful act or omission or neglect or breach of duty by the officers and directors, or any matter claimed against them in their individual or collective capacities as directors or officers of the corporation." The premiums were ruled deductible by the government because they were "paid to meet an obligation of the employer on account of the employment of its officers and directors and thus are incurred in connection with the employer's trade or business."

Thus, deductibility seems assured in cases of appropriate insurance and likely where the indemnified activities are proximately related to the corporation's business. Considerations militating against deductibility include the absence of an indemnification agreement and the similarity of the payment to a dividend. Fines and penalties are not deductible, even if incurred in pursuit of business, and even if the state's indemnification statute allows indemnification.

The Internal Revenue Code includes in income "all income from whatever source

derived," so employer payments of what would be nondeductible expenses by the employee should theoretically always constitute income.

James J. Matles, a union official who successfully resisted denaturalization proceedings for fraudulent procurement of citizenship, had to include in income the legal fees reimbursed by his employer. The Tax Court thought the facts leading to the denaturalization proceeding not "proximately related" to the business of his employer. Nor were these facts related sufficiently to the taxpayer's own business to give him a deduction for the "ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business."

Glimco v. U.S. is a similar case involving a union official indicted for unlawfully collecting money from poultry merchants "through actual and threatened force, violence and fear." Again, the legal fees for his successful defense were paid by his employer. And again the court's decision was that the payment was to be included in his taxable income and that he was to be permitted no business expense deduction for the fees.

Cryptic reasoning

The expenditures were held to relate neither to his employer's business nor to any profit-making activities of his own because no evidence was offered of those relationships. (The taxpayer apparently did not report as income any receipts from the poultry merchants.) Therefore, the court concluded, the expenditures could be considered as personal rather than business expenses.

The reasoning in these cases is cryptic at best. Presumably the relevance of the relationship of the expenditure to the employer's business is that if such a relationship exists, indemnification payments are nontaxable conditions of employment.

In any event, if the activity involved is proximately related to the corporation's business, the possibility of indemnification payments being taxed as income to the recipient lessens considerably. Consider Merle E. Parker, the founder, director and prime functionary of an entity styled the Foundation for Divine Meditation (F.D.M.). When Mr. Parker was charged with contributing to the delinquency of a minor, F.D.M. paid his legal fees in both the criminal action and the subsequent slander action he

brought.

2 rulings compared

No income was found to have been received by Mr. Parker, apparently because of his close identity with F.D.M., which would not have been able to function had he suffered the moral condemnation of the community. Moreover, the court thought it noteworthy that the acts leading to the criminal charge allegedly occurred on F.D.M.'s premises and in pursuit of Mr. Parker's duties as director of F.D.M.

Even if a corporate payment is included in an officer's income, it has no effect on his tax liability if the payment is also deductible by the officer as a business expense. In Revenue Ruling 68-662, the IRS considered such a deduction by a corporate secretary-treasurer who diverted substantial corporate funds to his personal use without reporting the funds on either the corporation's or his own tax return. The IRS ruled that the officer could deduct legal fees incurred in a criminal charge for filing a false and fraudulent corporate tax return. Since his duties included filling out the corporate tax return, the charge grew out of his trade or business.

That ruling should be compared to the case of Irving Sachs, a corporate shareholder/officer who was fined \$40,000 for willfully attempting to evade a part of the income tax due from the corporation. When the corporation paid the fine, Mr. Sachs was held to have dividend income in that amount, since the liability satisfied was his.

As in the case of corporate deductions, the IRS has ruled that premiums paid for insurance such as described above do not give rise to income to directors.

Thus, the likelihood of income to the director or officer involves essentially the same considerations which account for the likelihood of a deduction to the corporation. Premiums on appropriate insurance do not give rise to income, and the prospect of income otherwise decreases as the proximate relation of the activity to the employer's business increases. This is not to say that the results at the corporate and individual levels will always be the same—they clearly will diverge in the case of compensation used to pay legal expenses for personal activities—but that the strongest cases for corporate deduction are also the strongest for exclusion of a payment from income by the indemnified director or officer. ■

43% outside business

Gulf captive reports \$54 million in premiums

HAMILTON, Bermuda—Gulf Oil Corp.'s Insko Ltd. subsidiary reported gross earned premiums, net of reinsurance cessions, of \$54 million for the first six months of 1978, says Leslie R. Dew.

Twenty-three million dollars, or 43%, of the Insko business was from non-Gulf sources.

Gulf Oil's Insko is a visible leader in the trend for captives to write non-parent company business and lured powerful Leslie Dew from Lloyd's last year in that pursuit.

These results are the first public mention Gulf has made of Insko's performance to date.

For the full year, Mr. Dew estimated that Insko will have earned premiums after reinsurance of \$83 million "split equally between Gulf and non-Gulf business." By 1983, he revealed, Insko's gross earned premiums should hit \$155 million based on present line limits. He told *Business Insurance* that the plan calls for Gulf-generated business to increase about 8% a year, while the non-Gulf portion of the business underwritten through its underwriting arm, Britamco, will double in that same period.

Insko automatically cedes 25% of all casualty business to Munich Re under a reinsurance treaty, although Mr. Dew declined to comment on what the average reinsurance cessions are for all business underwritten.

Insko has allocated \$23 million in dividends against its \$10 million



Leslie Dew says Insko has written about 1,850 policies through Britamco since Jan. 1.

capitalization, while Insko's assets have risen to \$124 million and shareholders' equity is up to \$60 million.

Insko's profit ratio is reportedly running between 20% and 24%, although Mr. Dew declined to confirm or deny that figure. Insko will operate for the first five years, he noted, on a ratio of 1-to-1 earned premiums to surplus, allowing the ratio to rise gradually after that period to 2-to-1 or 2.5-to-1.

Insko has underwritten approximately 1,850 different policies through Britamco since Jan. 1, Mr. Dew said. Although Mr. Dew says the minimum premium is \$5,000 for a purchaser to be able to get a risk underwritten by Insko, he says that is flexible depending on the total business a broker is presenting. "We'll go down to \$3,500 premium on some business, of course," he acknowledged.

Insko is continuing to retain 100% of Gulf's own risks, while other business is shared between Insko (50%) and three other insurers represented by Britamco. Mr. Dew said he is presently talking with several other insurance companies that may participate in Britamco business. His goal is to sign on four more insurers.

Mr. Dew is hopeful, and anxious, that more groups will become established in Bermuda to provide a more workable market there. He is discussing Insko's operations widely in the hope that Insko and Britamco will provide a model for the five or six other syndicates he would like to see formed "to provide us with some competition."

He is convinced "it could easily be done," and has had conversations with people involved in captive insurance operations indicating there may be several other large corporations with captives thinking of doing what Gulf has done. ■

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Conference to dissect benefit communications

CHICAGO—Would you like to have your benefit communication program critiqued by a group of your peers?

You can get your chance at the second annual *Business Insurance* Employee Benefit Communication Conference to be held here Nov. 13 and 14.

Participants in the seminar will be able to submit their program ahead of time. Programs from corporations of similar size will be analyzed in concurrent sessions.

Overall, a roster of 22 experts in the benefit communication field will lead sessions. The experts include benefit consultants, communication specialists and corporate benefit managers.

The conference is designed to provide those involved in benefit communications with working

sessions and problem-solving meetings on the latest communication techniques being used to convey employee benefit messages to workers. It will also help managers take home ideas useful in tackling their own benefit communications problems.

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

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

Registrants will be invited to

participate in two audio-visual screening and critique sessions where they will judge the effectiveness of several audio-visual communications programs. Discussion will be led by Herbert Zeltner, a New York City-based communications expert who heads his own consulting company in the marketing and communications field.

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

Presenting and discussing their

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

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

Clay Hurst of Olanie Hurst & Hemrich will be joined by Kelly Coy of that same firm to discuss techniques of communicating with supervisors and encouraging communications between employees on benefits. John Kerney Jr. of Kwasha Lip-

ton will present alternative approaches to surveying employees on their attitudes and knowledge about benefits. He'll discuss the importance of getting accurate feedback from the workforce.

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

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

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

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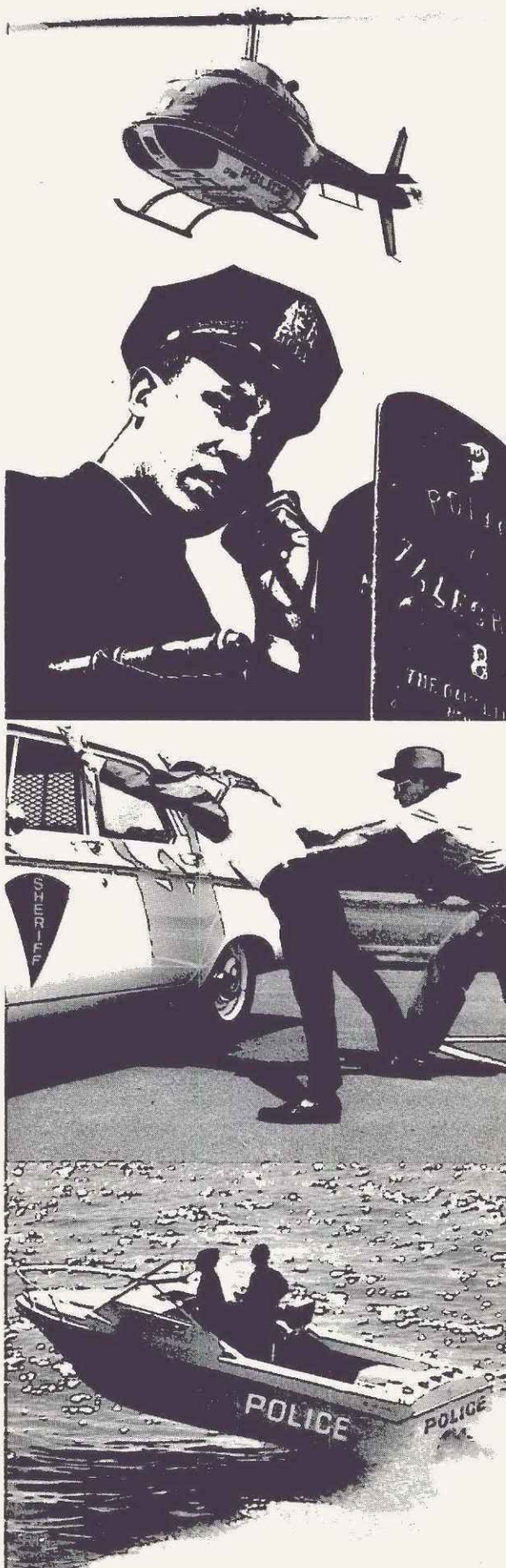
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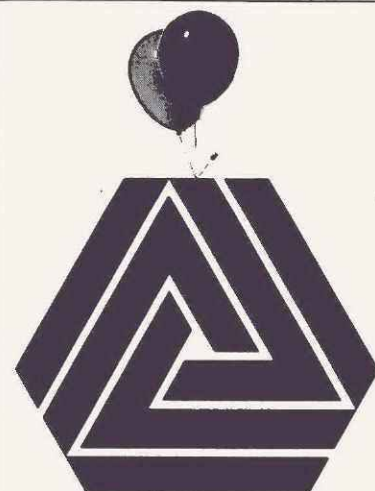
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Firms recruit attorneys to quench product suits

By RICHARD MARINI

NEW YORK—It used to be that only those large corporations with a high product liability exposure found it economical to hire attorneys whose sole function was to handle product liability lawsuits.

But now, due to the alarming increase in product liability litigation, more and more companies are discovering a need for in-house attorneys who specialize in the field.

"I most definitely see a trend in this direction," agreed Richard Steinmetz, house counsel for the Allen-Bradley Co. of Milwaukee.

A major corporation "can't afford not to be knowledgeable in the field," added Paul Nelson, senior counsel for product litigation at International Harvester, the giant Chicago-based farm machinery manufacturer.

"You need someone who knows your products and their possible problems and is able to cut through the technical jargon and explain it in easy-to-understand terms," Mr. Nelson said. Just the increase in government regulatory agencies alone makes it necessary to have someone who can interpret new laws."

Ruth Miles, president of Ruth Miles Associates, a recruiting firm, agreed: "With your own in-house attorney, you have a captive audience—someone who is only watching one client, you, and can specialize in your products exclusively."

Robert Murphy, president of Robert Murphy Associates, also sees a "major trend" in the direction of liability specialists. "Through mergers and acquisitions, many corporations are getting into products with which they've never had experience," he said. "So they need the specialist who can warn them about possible problems in the future."

The trend for corporations to hire staff attorneys and specialists has grown to the point where the Machinery & Allied Products Institute (MAPI) in Washington is considering whether to establish for its corporate members some kind of satellite program for their product liability attorneys and legal specialists who concentrate on defending product cases.

An indication of the effort being made by companies to get better internal control over product claims and defense is evident in the growing number of personnel ads placed in major metropolitan newspapers and in the Wall Street Journal seeking product liability lawyers.

Generally, product liability attorneys are being hired for the general counsel's office, rather than for corporate risk management or insurance departments, though the working relationship of the product liability specialist will usually involve close liaison with risk management.

In some cases, though, even risk management departments are hiring product liability attorneys to fill newly created positions, noted Don Delaney of Dallas-based Insurance Recruiters Inc., who's had two requests in the last few months for trained lawyers to work for corporate risk managers at Fortune 500 companies in the consumer products field.

Meyer Haberman, who specializes in recruiting corporate lawyers for Interquest Inc. in New York, confirms a major trend toward corporations handling their own litigation, generally, using in-house lawyers. "We see a big trend over the last five years toward in-house litigation staffs, with product liability being a major subsection of that," he commented. In the last five years, he estimates about

'With your own in-house attorney, you have a captive audience—someone who is watching one client . . .'

—Recruiter Ruth Miles

50% of Interquest's big corporate retainer clients have shifted to in-house litigation staffs.

Moreover, even some of the largest corporations that have tra-

ditionally had in-house litigation staffs are now beefing up those operations, he says. A Fortune 50 Interquest client in the consumer products field is "right now setting

up a product liability task force, hiring six attorneys in addition to the substantial number of product liability specialists on staff already."

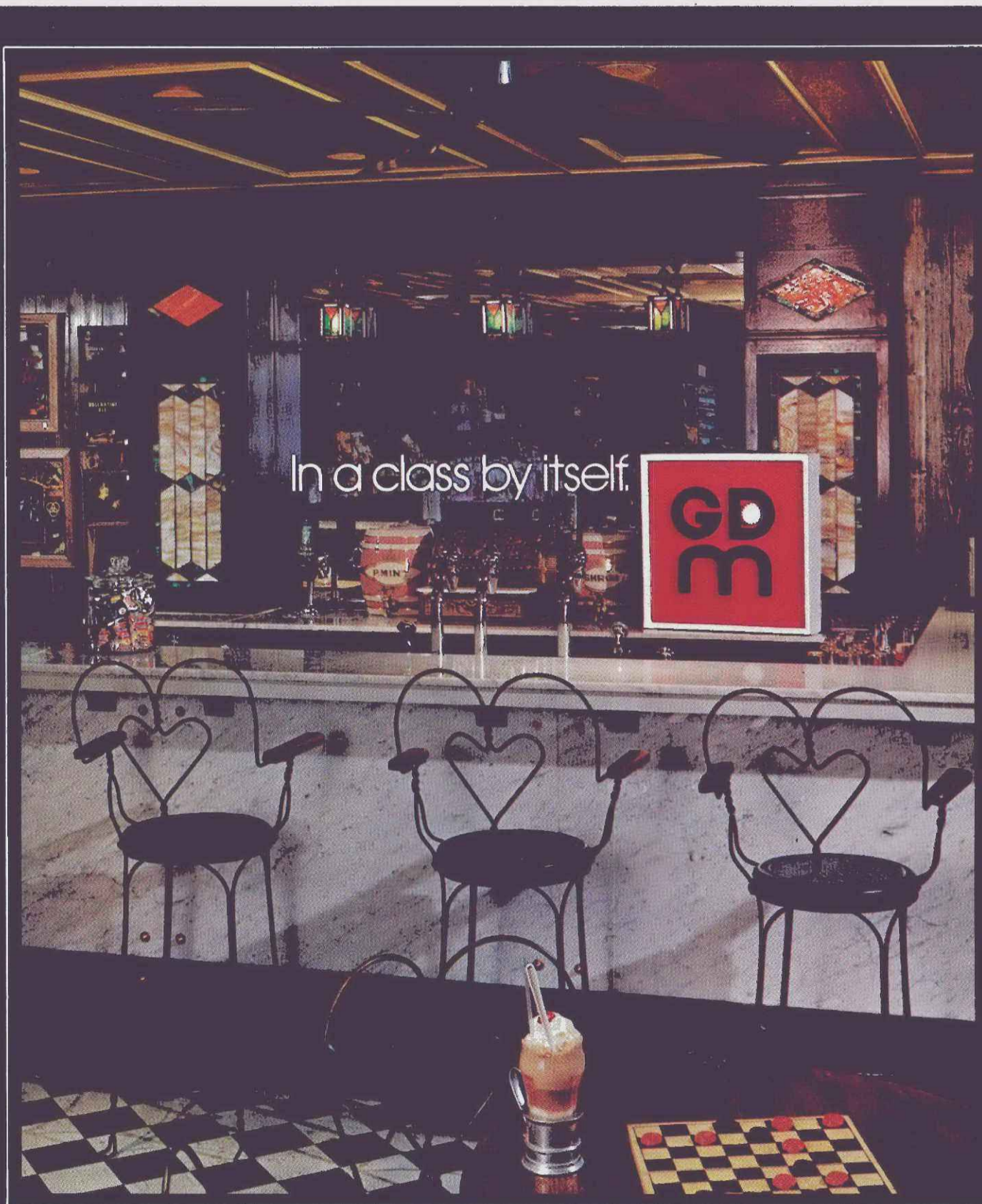
While it is not unheard of, few liability specialists spend much time actually in the courtroom. Many corporations have found it more economical to retain their in-house attorneys as advisers to local lawyers from the area or specialists in the specific field of liability who are hired just for the duration of a trial.

Russel Drake, director of corporate risk management for Borden Inc., explained: "It's difficult for a large, multi-national company to get by with only five or 10 lawyers because claims will be coming in from all 50 states and around the world. Staff attorneys alone would not be able to handle the load."

"We've had success in hiring local attorneys who know the courts in their area and can use our in-house lawyers for assistance and guidance," Mr. Drake continued.

"This way we have the added bene-

Continued on following page



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In-house lawyers . . .

Continued from preceding page
fit of being able to consolidate our information and defense material should another, similar claim arise somewhere else."

Mr. Drake added that Borden's staff attorneys will go into the courtroom if an especially large claim goes to trial.

Most liability attorneys also act as a clearinghouse, or information center, for the various developments in product litigation that occur within a company.

Such responsibilities require adeptness not only in corporate law but in engineering as well. For this reason, many companies look for experience in both these areas when hiring a liability specialist.

Although this trend may be new to most, it is a stale topic for big manufacturers such as General Motors. Automobile makers, drug companies, food processors—any company whose products can be easily misused—long ago hired teams of liability specialists to protect themselves.

A GM spokesman said that there hasn't been any major growth in the company's product liability staff in recent years. "Compared to 25 years ago, yes, the staff has expanded, but not in the last five or 10," he said.

The spokesman went on to say that the big legal growth area for GM has been in keeping track of recent government regulations. "With fuel emission standards, OSHA, automobile safety requirements, etc., we've got more than we can handle," he said.

"Our product liability claims amount to a very small number," said Mr. Drake of Borden. He explained that while at any one time Borden might have as many as 10 billion individual items on the market, the company receives only about 1,000 claims per year.

"And most of the claims are nominal," he continued. "They involve someone spraying an aerosol can in the wrong direction and getting hit in the face. Or someone will

AIA taps three

The American Insurance Assn. has named George M. Mulligan vp and associate general counsel. Mr. Mulligan was formerly vp for government affairs in New York. The trade association of property/casualty insurers has also appointed Geoffrey G. Petersen vp for federal affairs in Washington and Paul G. O' Friel vp for government affairs in New England.

chip a tooth on a shell in a walnut cake. Simple run-of-the-mill cases like those are handled by our staff attorneys. Anything major will go to a qualified law firm hired for that specific case."

While the number of corporations choosing to go the liability specialist route is definitely on the rise, there are still many companies that find they can do very well without hiring a staff lawyer and by relying solely on outside law firms to supply their legal needs. New Jersey's Butler International is one such company.

"We have a Chicago law firm that we deal with exclusively," said Dominick A. Dattilo, vp and general counsel for Butler. "So they're almost in-house. But they're not on salary or anything like that. We only go to them when we need le-

gal help."

Mr. Dattilo explained that although at one time Butler manufactured such items as aircraft and electric motors, the company has since sold these interests and is now mainly a service corporation.

"The volume of product liability claims no longer warrants our having a liability expert on staff," he said, although the company is still liable for aging machinery.

"We got out of the manufacturing of electric motors in 1966 and were just recently sued for the failure of one such motor that injured a worker. Now, the engine was built over 25 years ago and had been rebuilt and incorporated into a drawbridge—a use it was not originally designed for.

"Fortunately, we won the case, but not because we were able to prove that the engine was being misused. We won because we proved that the accident was not caused by the failure of the engine."

Mich. court expands benefits under no-fault

LANSING, Mich.—Two rulings expanding interpretations of the Michigan no-fault insurance law have been issued by the state court of appeals.

Ruling on an Ingham County circuit court case, the three judge panel said Elmer P. Arnold was entitled to insurance benefits for an injury incurred while unloading a parked truck.

In reversing the lower court, the judges said no-fault auto insurers are liable when an injury was a direct result of physical contact with equipment permanently mounted on a vehicle if property was being lifted onto the vehicle in the loading process.

The other case involved a Minot

girl injured when her bicycle collided with an automobile.

The car was insured by a company not licensed to do business in Michigan. The parents of Michelle Bierbusse were therefore required to seek compensation from their own insurer.

However, Lapeer County circuit Judge Martin E. Clements said the girl was not living with her father at the time of the accident.

In reversing the decision, the court of appeals said when a couple is separated pending a divorce and one spouse's name appears on a no-fault policy, the other spouse and the children are covered even though they are living in separate households.

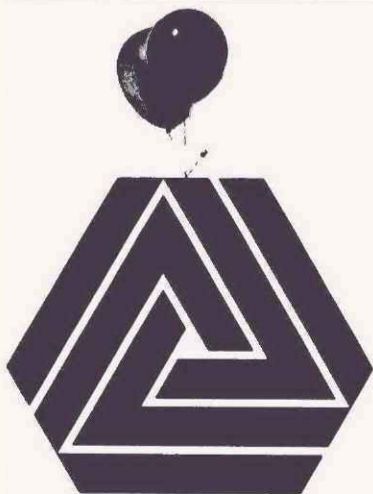
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Photo: Mary Cairns

FMC risk manager Ernest Liebre points to two old Lloyd's slips on his office walls.

Financial tools, 5-year analysis calculates best FMC deductible

By SUSAN ALT

CHICAGO—Ernest Liebre of FMC Corp. is in the position a lot of risk managers find themselves in. He reports to the treasurer of the company and finds it essential to "talk finance" with his boss, translating all his insurance-related problems and activities into the jargon his superior understands.

He doesn't have much trouble doing this because, unlike many risk and insurance managers, Ernest Liebre considers himself a financial manager first and a risk manager second.

"I relate the whole risk manage-

ment operation to increasing the wealth of the shareholder," says Mr. Liebre. To do this, he plunges eagerly into the operating statistics of FMC, drawing on his actuarial background and master's degree in economics to come up with risk management solutions his superiors will grasp.

To this end, he goes into renewal negotiations with the same goals most insurance purchasers establish: Achieve the lowest cost program and get the broadest possible coverage. Like his counterparts in other corporations, he evaluates quotes from insurance companies on the basis of insurance coverage,

engineering services, premium cost, deductible levels, transition costs if coverage is to be shifted from one insurer to another, loss adjustment services and underwriting services.

What Mr. Liebre does from then on, however, departs from the practices of many insurance buyers. He goes through a series of quantitative steps to analyze the optimum deductible level relative to the costs of insurance.

He explained his approach to risk financing to a group of risk managers attending a special seminar here on internal financial control sponsored by the Chicago chapter of RIMS, using all the same procedures he would use for FMC but illustrating his techniques by plugging in fictitious figures.

His first step is to go back through five years of his company's own loss history for the line of insurance being analyzed, which in this case is fire coverage for owned property. (For the example, he went back five years, but for FMC he went back much further.)

Each loss was brought forward to reflect today's dollars, in order to find those losses that would exceed a certain deductible today but which might not have exceeded the deductible in past years. FMC wanted to scrutinize only the losses over a certain level; for the example, Mr. Liebre took all losses over \$1 million.

Whatever figure is chosen as a cutoff point, there must be enough actual losses over that amount to develop a trend, he noted. Taking the average loss, he determines an annual expected loss, which indicates what the insurance company will have to pay out during the policy term.

In his example, the mutual insurance company quoting on the coverage wanted a bulk premium up front from the first day in the form of a five-year deposit premium. For the fire insurance portion of the coverage being quoted, only 18.6% of the premium would be absorbed by losses each year, while on the boiler portion of the coverage, the premium would be 84% absorbed by losses per year.

The stock company, on the other hand, was asking for an annual installment premium for both fire

Continued on following page

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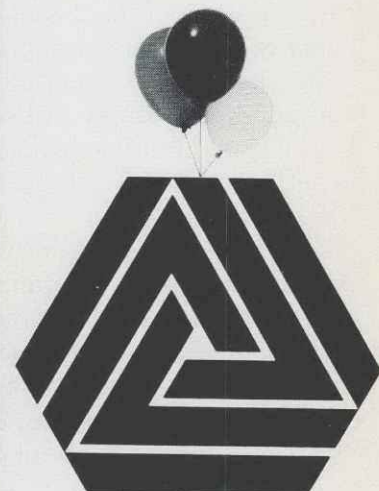
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What if you're wrong?

What if, the year after doing a complicated regression analysis and cash flow analysis of risk funding programs, you find that you came out with the wrong answers?

"Do I care whether I'm right or wrong?" asks Ernest Liebre, assistant treasurer of FMC Corp. "Not really, mainly because nobody before me was ever able to do these calculations and come up with some judgments about the best way for us to self-insure and insure. At least I took a shot at the target."

Moreover, he concedes that doing such an analysis isn't a one-time thing. With the vari-

abies changing, a new analysis is required.

"At least if I'm wrong, I'll know where my unfunded liability is," he says.

Sometimes the process of adjusting your calculations so you feel comfortable with them is the result of subjective judgments. "I had a gut feeling that the 1979 projected loss that we came up with for workers comp was incorrect, that we'd given too much emphasis to our earlier experience. So to correct that we factored in the judgment that our most recent experience was more accurate and meant more than the losses from 1973 through 1975."

FMC's Liebre . . .

Continued from preceding page and boiler coverage to be 100% absorbed each year.

"We looked at these upfront prepayments relative to the increases in property values each year to establish how much money would be excess (non-absorbed) at the end of five years," he said, noting that he was assuming a 10% annual appreciation in property values.

The total five-year cost was then discounted to today's dollars using three different interest rates. Asked how he determined what discount rates to use, Mr. Liebre

said he "found out the discount rate that our management was using" to evaluate acquisitions and other operating returns. In the end, he added, "management chose to go with my middle figure." Illustrating this concept, he showed how in his example he used discount rates of 12%, 7% and 4% to bring the five-year losses under the deductible coupled with the premium costs back to today's dollars.

On this basis, he's able to pick the most advantageous plan for FMC, in terms of cash flow.

Does he go through this tedious process for each quote he's obtaining on the fire program? "I chose to go through the process with only two insurers rather than a whole bunch of companies," he stated. "You have to narrow down the range of choices. I picked the two that we considered the best and evaluated them."

Is that adequate for top management to make an educated choice of programs and retentions? "I balk when management wants to see a whole wide range of programs," he maintains. "I tell them that I'm the expert and I explain my reasons" for narrowing down the choices and for choosing the two firms. In so doing, he has confidence that his superiors will rely on his expertise to know which programs to choose for the final analysis.

Not only does Mr. Liebre feel free to narrow down the number of companies to be analyzed to two or so, but he also feels free to pick the best of the proposals in terms of coverage and deductibles. This way he restricts his ultimate cash flow analysis to a few plans instead of going through the entire process with, say, eight proposals from four different insurers.

To determine optimum deductibles, Mr. Liebre conceded that there's difficulty in dealing with judgmental areas of management. "You have to decide how much your company is willing to lose. You have to estimate the expected value of your losses. And you have to be guided by the general management philosophy of your company," he said. "Our philosophy at FMC is to take the losses rather than to insure them."

Figuring out what deductible to take, he conceded, "is hard, it varies, it's subjective. There's no easy way to define what the formula is for the best deductible. In fact, you really can't evaluate a deductible level until you have the different quotes."

How involved does he become in trying to influence the insurance company on its assessment of the risk of loss? "On primary coverage, we pretty much let the insurance company decide for itself what the probability of loss is. But on umbrella, we work very directly with the markets. If we're able to tell the insurer that the probability of loss is point-zero-zero-zero-zero-something, then we're more in control of the underwriting."

Workers compensation, comprehensive general liability and auto liability all require this same kind of regression analysis and cash flow analysis. When doing the workers compensation analysis, Mr. Liebre took five years of incurred and paid losses and used a development factor reflecting monetary inflation and social inflation to adjust the losses to today's dollars. ■

INA office

The Insurance Co. of North America has established a new service office in Portland, Ore., to serve producers and policyholders in Oregon and southwest Washington.

Hugo Lieuw used to wonder how his employee benefits were adding up.

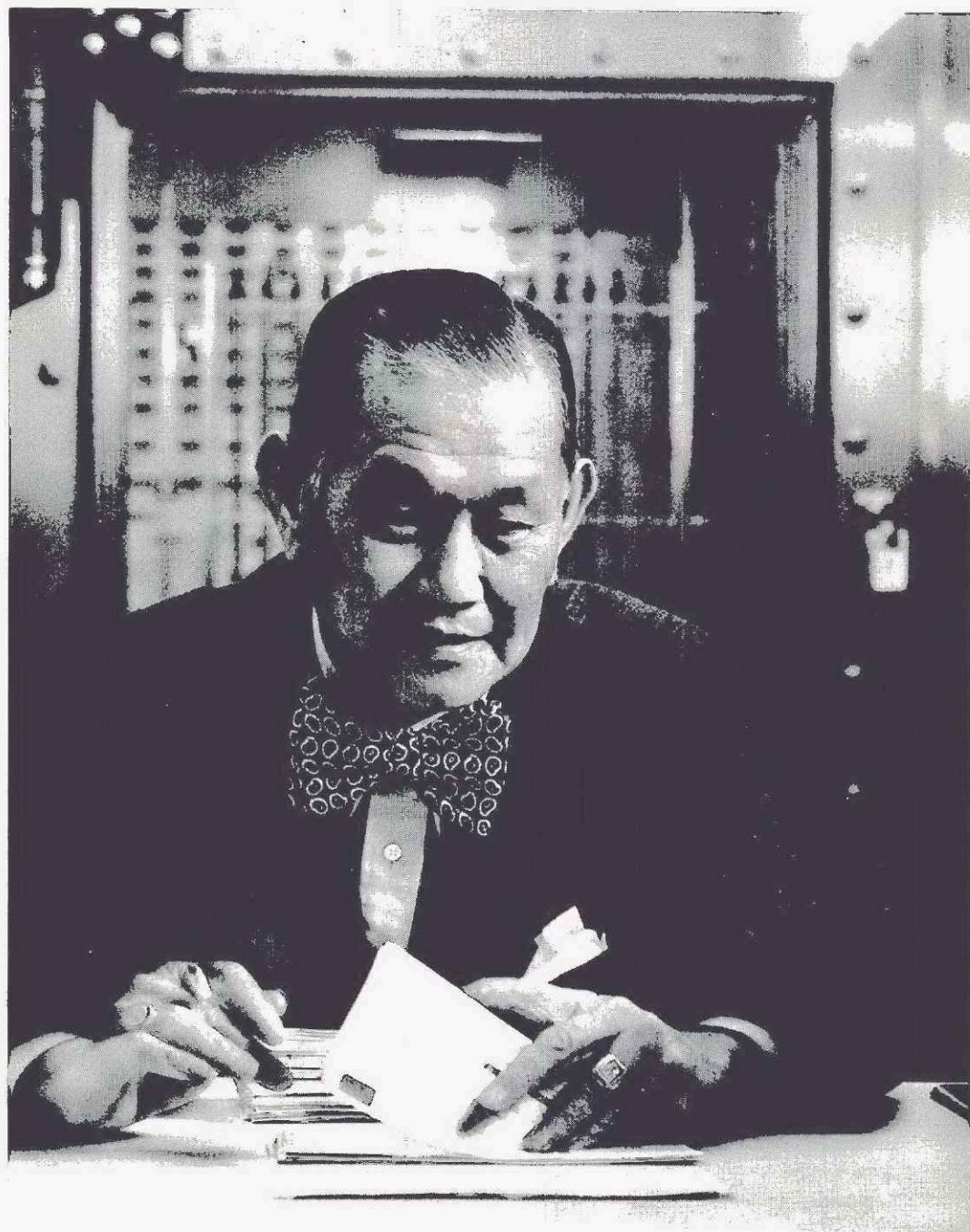
Here's how Benefacts creates and produces personal benefit reports that help the employees of Crocker National Bank understand what their bank is doing for them.

As an employee of one of California's largest banks, Hugo Lieuw is fully aware of all the services his bank provides its customers. He and the bank's other 13,000 employees also know exactly what the bank is providing them.

About 10 years ago, Crocker Bank recognized its employees' need and asked Benefacts to create and produce personal annual benefit reports to let its employees know that they were just as important to the bank as its customers. According to John Working, Vice President of Employee Benefits at Crocker Bank, the Benefacts reports have met with "resounding success" and have become "a cornerstone in Crocker's benefits communication program."

From the bank's point of view, "Benefacts was able to custom-design a successful benefits communication program because they combine computer technology skills with a broad knowledge of benefit programs," stated Mr. Working.

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Scor Re

French reinsurer sees captive as new market

DALLAS—"Our philosophy is to use the captive to the hilt," says Robert Godfrey, assistant vp and head of Scor Reinsurance Co.'s risk management services department.

The words may sound strange coming from an insurance company official. However, Scor Re, a reinsurer owned by the French government, sees captives not only as a source of new premium but as a market in which to reinsure its own book of business.

"We see the captive market as a good market to be respected and employed in the growth of the worldwide insurance market," said Mr. Godfrey.

Scor Re Risk Management Inc., currently the firm's Dallas-based risk management services department, is being chartered for this purpose. The fledgling department was set up July 1 and is functioning under the direction of Mr. Godfrey and an accountant.

The risk management department primarily provides captive feasibility studies, organizational and managerial services. "Where a captive is feasible, we'll recommend it, establish it and manage it," said Mr. Godfrey. But, "if the program (a client has) is already the best, we'll tell them it's the best."

However, Scor Re goes one step beyond by offering its captives access to its reinsurance market. "We can sell the client retrocession reinsurance of our reinsurance," Mr. Godfrey explained.

"Our main selling point is our being in the business ourselves and we're established in the world market and can develop an outside volume of a diversified nature."

He believes this will put Scor Re at an advantage over brokers trying to place business in captives since most financial officers are not interested in taking business from a broker having no underwriting involvement, Mr. Godfrey explained.

Scor Re manages a reinsurance pool of Western European firms participating on U.S. risks and has a 50% participation in reinsurance ceded to the captives, he said.

The captive program would benefit Scor Re since "it expands our capacity and benefits (the captive) by getting profitable business." Mr. Godfrey added Scor Re hopes to develop captive clients who want to take advantage of the capacity crunch some expect for the early 1980s and take advantage of the "windfall profits people supposedly enjoyed."

Since Scor Re has previously provided reinsurance for both group and individual captives, it has access to several firms that are considering its risk exchange program. However, no clients for the program have been signed up.

Marketing efforts are being concentrated in the Southeast and will expand outward from there. Target clients are firms paying annual premiums of over \$1.5 million, although Mr. Godfrey says programs can be worked out for firms smaller than that. But he says there are

N.Y. inspections

NEW YORK—Industrial commissioner Philip Ross says 3,400 on-site occupational safety and health consultations requested by New York business firms were conducted in 1977 by the state department of labor's safety and health division.

about 2,000 prospects in the middle tier of companies, with annual premiums of between \$2 million and \$3.5 million. Mr. Godfrey is certain he will be able to attract at least four a year to make the venture profitable. He also hopes to be able to double his staff from six to 12 within a year's time.

Mr. Godfrey said he wouldn't be surprised to see other insurance companies starting similar ventures in the future. He said some primary and some excess insurers have considered such an operation as a means of expanding capacity and gaining new business.

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riskWatch

Outside business dilemma: Is it worthwhile?

By JOANNE GAMLIN

The trend for captive insurance companies to underwrite non-parent company reinsurance business has immersed an estimated 100 U.S. corporate risk managers and financial officers with captives in deciding whether they'll go the same route.

It's not an easy decision and months of tedious study by different individuals will (and indeed has) led them to opposite conclusions.

IRS ruling 77-316 provided impetus for captives to go into third-party business. In fact, it almost pushed them to do it, by barring deductions for premiums paid to subsidiary insurers controlled by the parent firm. "The ruling said, in effect, that you're not an insurance company unless you write outside

business," says Michael Bott, president of Risk Treatment Services in Hamilton, Bermuda.

Almost a year later in June another ruling, Revenue Ruling 78-277, which reiterated the point by saying the 4% federal excise tax insurers pay when placing risks with non-U.S. underwriters (excluding Lloyd's) doesn't apply to captives. "In other words, if you don't pay the 4% excise tax, you're conceding that you are not a real insurance company," says Mr. Bott.

Another factor motivating captives to venture into broader insurance business is the rapid escalation in casualty premiums, enticing captive owners to look seriously at what might be an attractive profit opportunity.

Therein lies the rub. Researching the profits and

losses of reinsurance companies over any historical period of time is almost impossible because there's a paucity of reliable information and what there is can't be found in any centralized place.

Thus, the project of arming oneself with enough data to present to a corporate board of directors can consume from three months to three years. Most risk managers embarking on the task set out to do long interviews with those who've gained experience in reinsurance, which is commonly described as very risky and requiring a commitment for the long term. One person everybody seems to be interviewing is Bob Lee, president of Bellefonte Insurance Co. of Middletown, Ohio, the insurance and reinsurance division of Armco Inc.

Aside from the formidable job of informing them-

Fire chief gets benefits

HARRISBURG—A Pennsylvania commonwealth court has upheld a decision that a former Hazleton fire chief is entitled to workers compensation benefits for heart and lung disease allegedly caused by his firefighting activities.

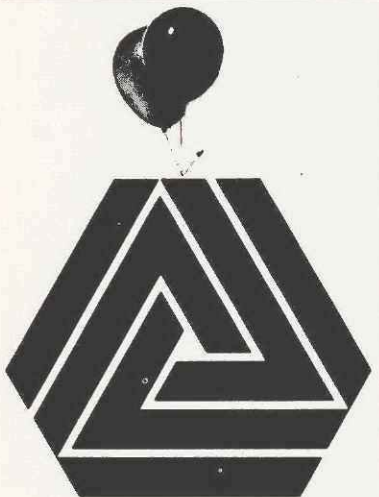
The court rejected arguments by the city that the workers compensation board didn't follow an earlier court order in the case and that the compensation referee had arbitrarily considered medical testimony.

Anthony DeCusatis, who worked for the city fire department for 21 years and served 14 months as fire chief, claimed shortly after he resigned in January 1974 that he was totally disabled by emphysema.

When the city appealed the decision in 1975, the court said the compensation referee and the board had improperly awarded workers compensation.

The case was sent back to the board, which resubmitted it to the referee. He allowed Mr. DeCusatis to refile.

The court said it had no power to impose its will on the referee who decided to accept the medical testimony of Mr. DeCusatis' family physician and reject that of the heart and lung specialist hired by the city. The family physician said Mr. DeCusatis was suffering from lung disease while the specialist said he wasn't.



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How can you be sure of doing that? Well, there's no foolproof way, but the following guidelines can help.

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The simple fact is that self-insurance has become so complex that only the most

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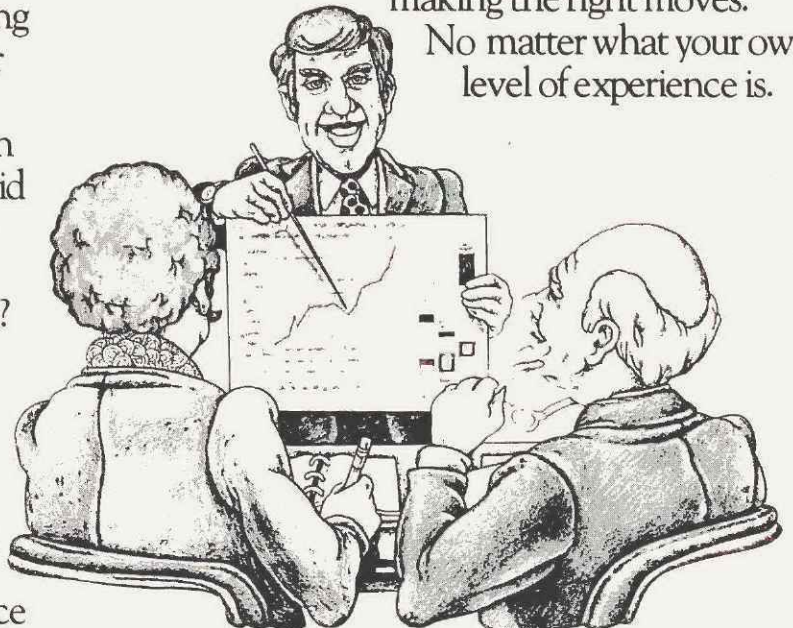
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selves about the methods, the jargon and the modus operandi of the reinsurance business, much of the final decision a company makes seems to be based upon whether the potential return on third-party business is good enough.

One risk manager whose company recently decided it wasn't is Alan M. Pearce, director of risk management for San Francisco-based Foremost-McKesson Inc. He turned to the San Francisco public library for help on his research to determine whether the firm's Bermuda captive, Golden State Insurance Co. Ltd., should become a serious reinsurer. Standard & Poor's provided some information. Then he obtained a copy of a study prepared by Constellation Reinsurance Co. for the Reinsurance Committee of the Society of Insurance Accountants scrutinizing 33 reinsurance companies and 12 general insurers for the five-year period from 1973 to 1977.

Mr. Pearce learned from a study of the five largest companies in the group—American Re, Employers Re, General Re/North Star Re, North American Re/Swiss Re and Prudential Re—that their net return was only 5% for every premium dollar written. The return was 12% based on surplus if the surplus were written on a 2.5-to-1 ratio.

His conclusion: Foremost-McKesson shouldn't expand Golden State into third-party reinsurance business beyond the small amount it now does. A 12% return just isn't compatible with the organization's profit goals, he says.

Whether the 12% figure is even a good ballpark average of reinsurance rates of return, as well as whether it is adequate or not, raises some hackles among people involved in the reinsurance business. One of these is Edward J. Mallozzi, a principal with Andrew Edwards & Co.

"Assuming 12% is a realistic number, tell me one other business which has gone through the worst five-year cycle in its history and emerged with a downside risk of a 12% return," he challenged. Moreover, he adds, 1974 and 1975 were the two worst years the industry ever experienced.

He criticized the entire study for mixing treaty and facultative reinsurance. He said part of the attractiveness of the reinsurance business lies in its freedom from capital expenditures that other ventures require. For example, a captive with \$5 million capital can utilize it to write \$1.5 million in reinsurance or it can choose simply to leave the \$5 million alone.

For his part, Mr. Bott of Risk Treatment Services feels the question of whether a 12% return is good enough can only open up "a Talmudic debate." He hedges by saying it all depends on the regular business of the parent company as to what is a proper internal rate of

return.

Like Mr. Mallozzi, Mr. Bott thinks an important point is that a captive already has covered most of its administrative expenses and doesn't have to do much else to enter the reinsurance business except hire an underwriter or get hooked up with an outfit like Britamco Ltd., the underwriting arm of Gulf Oil's INSCO.

Hiring an underwriter, an essential element if a captive decides to broaden its business, isn't cheap. Because good underwriters are so scarce, participation in Britamco to get ex-Lloyd's expertise via Leslie Dew or hiring an expert often costs a pretty penny. Bellefonte's Bob Lee advocates that captives cultivate their own in-house underwriting staffs, even if the third-party business is placed in the hands of a management firm.

A good way for a captive to take its first steps in the third-party reinsurance business, says a New

York City risk manager whose company has a captive writing outside business, is to go to a large company like Prudential Re, which "has a treaty open to captives. This is an excellent way for a captive to get started."

George D. Kahlert, Mead Corp's manager of risk and insurance services, has had Mead's captive in third-party business since 1971 (the year it was formed) and is very positive about the result. He, too, had trouble learning about the business before broadening Bermuda-based Westbury Enterprises Ltd.'s base and ended up putting a lot of personal time into the project. The best information he found was a series of publications by Munich Re located in the Library of Congress.

He also spent many hours combing through the 1964 Fundamentals of Insurance by Edgar Werner, located in the stacks at the College of Insurance. All in all, after doing research and a lot of personal interviews, Mr. Kahlert spent about 15 months putting together a plan for Westbury.

Bellefonte's Mr. Lee doesn't advise a risk manager to use information supplied by captive management companies when investigating third-party business for captives "because most of (the captive managers) are too new to have a track record."

Panel slashes copper firm's OPIC claim

WASHINGTON—A panel of arbitrators has severely slashed a claim made by a copper producing company against the Overseas Private Investment Corp. (OPIC) involving a takeover of the firm's Jamaican mining operations.

By a two to one vote, the panel awarded Revere Copper and Brass Inc. \$1,131,144 on a \$90 million claim against OPIC.

Revere had argued that the imposition of a new tax on the production of bauxite had the effect of an indirect expropriation, a risk covered under its expropriation insurance policy purchased from OPIC.

But OPIC contended that Revere ceased its Jamaican operations due to heavy financial losses that were independent of the bauxite levy.

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around the states

Tort reforms not needed, panel says

AUGUSTA—A special task force in Maine says that state government can do little to lower the cost of product liability insurance for manufacturers.

Gov. James B. Longley's task force on product liability said that since most insurance rates are set by national experience, changes in Maine's laws would have little impact.

The panel, headed by attorney Martin K. Wilk, said that any tightening of Maine's laws could hurt consumers harmed by a product made in another state without providing a corresponding benefit to Maine businesses.

The task force report said that

while insurance premiums have climbed sharply, coverage is readily obtainable and the problems related to high premium prices "has not reached crisis proportions."

But, the task force said there was "no evidence presented that any Maine firm has yet been required to curtail its production or reduce its work force as a result of increased product liability costs."

Liability expanded

LANSING—The Michigan supreme court in two recent decisions has widened the right of citizens to sue the state government for damages.

The court ruled that "intentional" nuisances by government left it open to suits from citizens, although there remains a question whether the "intentional" part must be proved.

In one case, the court said the lower courts should try a case involving a 19-month-old Lansing child who tumbled into an uncovered drain and drowned. In another, it ruled the state should pay for the deaths of three persons who drowned in an Anreac County "borrow pit" lake near Standish.

Judge John Fitzgerald, who wrote the majority opinions, said it was not even necessary to show that the nuisance was "inten-

tional" to make the government liable.

He was supported in both cases by Chief Justice Thomas Kavanagh and Justice Charles Levin. Justices James Ryan and Mary Coleman dissented, contending that when the legislature adopted a 1961 law detailing areas in which the government was liable, it was an effort to codify existing immunity and that included case law immunity involving nuisances.

Mich. tort bill

LANSING—The Michigan senate will begin hearings this month

on whether state manufacturers should be given specific defenses in product liability cases.

At issue is whether compliance with industry and government safety standards and alteration of the product should be defenses against liability. The bill also would allow the court to award costs and reasonable attorneys' fees to the winning party if a case were judged to be frivolous.

The legislation (Substitute HB 5689) previously cleared the house. An uphill battle is expected in the senate, according to backers of the bill.

Flexibility on claims

TRENTON—A unanimous opinion by the appellate division of the New Jersey superior court urged judges to be more flexible in determining whether an employee injured while traveling to or from a job qualifies for workers compensation benefits.

The decision said judges do not have to adhere to the overly formalistic approach of determining whether an employee was traveling along a "permissible route" when the accident occurred.

Cases involving workers hurt while going to a job or returning home, the unsigned opinion said, "must be approached on an ad hoc basis instead of being fashioned by resort to inflexible rules."

The court said that deciding whether such a person should receive benefits is "an essentially policy-oriented problem" of whether an accident is "sufficiently work-connected to justify regarding the resulting injury as compensable."

5 physician rule

HARRISBURG—Gov. Milton Shapp of Pennsylvania has signed into law legislation amending the state workers compensation law on the listing of five physicians by the employer.

Under the revisions, if the employer lists five designated physicians, the employee will be required to visit one of them for at least a period of 14 days before he can visit a physician of his own choice and be reimbursed for the medical treatment by the employer. It also imposes duties on physicians with respect to filing periodic reports with the employer.

Employer liability

CHARLESTON—The West Virginia supreme court ruled that a fired employee may recover damages from his employer if the dismissal was motivated by the employer's desire to contradict or violate public policy.

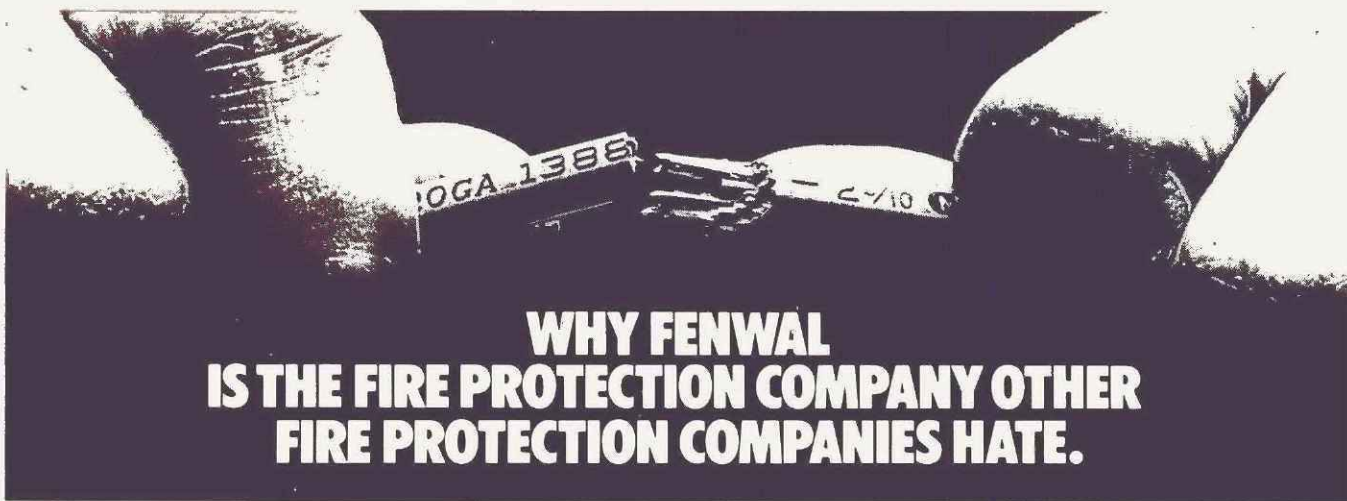
The 4-0 opinion overturned a Marion County circuit court ruling that John C. Harless had no cause of action to file suit against the first National Bank in Fairmont.

Mr. Harless claimed he was dismissed in retaliation for his efforts to bring the bank into compliance with state and federal consumer credit and protection laws. He sought damages for severe emotional distress he said he suffered due to the intentional, malicious and outrageous conduct that led up to his dismissal.

The bank claimed Mr. Harless's employment was for no fixed term and could therefore be terminated at the will of either party, with or without cause.

Life sales up

Group life insurance contracts set up under new or revised contracts during June totaled \$12.5 billion, up from \$9.83 billion for the same month in 1977. Total purchases in June, based on face amounts, was \$37.1 billion, up from \$31.7 billion.



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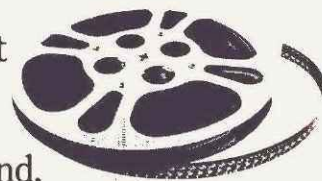
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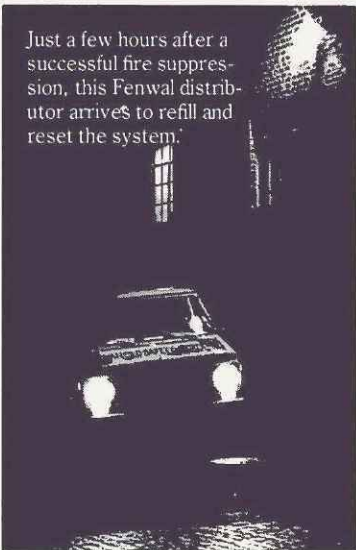
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California stats show

Worker rehabilitation cheaper than expected

LOS ANGELES—Preliminary research by the California Workers' Compensation Institute (CWCI) indicates that the cost of returning a rehabilitated worker to the job is about \$4,200, a lot lower than a lot of knowledgeable people had assumed.

Sara E. Cory, chief of ancillary services of the division of industrial accidents, in San Francisco, told a seminar sponsored by the California Self-Insurers Assn. that preliminary figures from the CWCI also indicate that the average cost is much higher for an employee who desires rehabilitation but for whom the process does return to the job. That average is about \$7,000.

Ms. Cory, the lead speaker at the seminar which focused on California's nearly four-year-old law mandating vocational rehabilitation, broke down the total cost of returning a worker to the job as 49.3% for maintenance, 29.7% for vendor costs and 21% for other costs. Doing the same thing for the worker who underwent rehabilitation but did not return to work, she said that the figures are 59.5%, 21.2% and 19.3%, respectively.

The highest cost in a rehab plan is that for formal retraining, she said, while direct placement or having the worker place himself by following up job listings in local newspapers is obviously the lowest.

Barry Satzman, an applicant's attorney with the law firm of Geffner & Satzman in Los Angeles, however, said that direct job placement is good in theory but often does not work in actual experience.

He said that self-insured employers demonstrate more eagerness to become involved in the rehabilitation process than insurers.

To point up some of his problems with insurance companies, Mr. Satzman told of a millwright's apprentice who suffered a severe back injury on the job. Commencing a rehabilitation program, the worker decided that for a second career he would like to become an inhalation specialist.

But after a few days in training school, he underwent a nervous breakdown and was placed in an institution.

"The carrier then had the audacity to suspend rehabilitation benefits on grounds that the man was not going to school. Yet he was in an institution," said the attorney. He also criticized the rehabilitation vendor for not informing the worker that his selected second career demanded skill in mathematics, an aptitude which the injured worker lacked.

Similarly, spokesmen for the rehabilitation bureau said that a common problem is that vendors and even self-insured employers are directing rehabilitated workers into job lines they are ill equipped to fill.

Another attorney, David Ford of the firm of Jones, Nelson, Endres & Sisk in Encino, Calif., said one of the most important cases decided by the workers compensation appeals board requires that "maintenance and temporary disability benefits should be continued until the applicant is medically and rehabilitatively permanent and stationary."

"This would seem to indicate that in all cases from the date of injury to the date of the termination of the rehabilitation program, benefits must be provided," said the defense attorney.

Linda Abernathy, director of Diversified Vocational Services, warned that premiums for workers compensation in California could go through the ceiling "to a point where small businesses are a thing of the past" unless there is more common sense and less hostile reaction to the state's vocational rehabilitation law.

Calling the law a "fiasco," Ms. Abernathy pointed out that she sees 12-month or longer retraining plans for workers who have only subjective complaints and workers who demand and receive "unrealistic" vocational choices. ■

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Lloyd's suspends broker with U.S. risks

By JOHN H. MILLER

LONDON—D.O. Howell & Co., a medium-sized Lloyd's broker with fairly substantial U.S. interests, has been suspended by the Committee of Lloyd's from taking on new business.

The action follows the discovery of irregularities in the operation of Howell's U.K. subsidiary.

David Howell, its chairman, told *Business Insurance*, "We're still able to service existing business and our U.S. clients are fully protected. There is no problem at all over their risks, which are fully insured, and cover fire, casualty and aviation lines.

"The problem in the U.K. concerns purely a domestic line of business where one of our subsidiaries failed to insure certain risks for commercial auto users that were supposed to have been completed in the Lloyd's or the company market.

"But until this local affair has been cleared up we are suspended at Lloyd's and naturally hope that this suspension will be lifted as soon as possible. We've been insuring surplus lines business from the U.S. at Lloyd's for about 10 years and this is still fully covered. We've had a broad spread of business right across the U.S. on our books in this way through the usual

agency network."

About 50 U.K. commercial firms are believed to have been left without theft, fire and damage coverage for their vehicles as a result of irregularities in the subsidiary, D.O. Howell (U.K.) which had arranged basic personal liability coverage but failed to complete extensions to policies for additional risks.

U.K. insurance companies are so far refusing to honor these risks, but Lloyd's made it clear that all its syndicates will meet any clients' claims in accordance with its traditional practice of retaining their goodwill.

It took the action to suspend D.O. Howell & Co. in line with its

internal monitoring code after discovering the irregularities. "It is doubtful whether proper insurance cover exists for these extensions, but where an endorsement has been issued in conjunction with a Lloyd's policy the policyholder will be safeguarded," Lloyd's announced.

D.O. Howell & Co. is one of Lloyd's medium-sized brokers with an earned brokerage income in the last financial year of about \$500,000 from all sources.

It will not say how the irregularities arose except to admit that responsibility seems to rest on one director of the U.K. subsidiary who has now left the group.

It is the second suspension of a Lloyd's broker this year. Five months ago Armour Hick & Parker was suspended with debts of more than \$2 million after facing solvency problems through currency changes and high costs on its European business activities.

A Lloyd's spokesman pointed out that the suspension of these two brokers did not reflect on the brokerage community at Lloyd's, but rather emphasized the close watch which is kept on member firms at all times to ensure that clients are not adversely affected.

Marine competition

U.K. marine insurers departing for Vienna for the annual conference of the International Union of Marine Insurance speak of growing competition from U.S. and other markets for shipping business.

They are hoping to stabilize rates before they become unprofitable, but accept that this might be difficult with many other insurers scrambling for new customers.

It appears that Singapore and Hong Kong are emerging as potential marine insurance centers, in addition to the traditional ones like the U.S., Germany and Japan.

Olympic watching

Insurers at Lloyd's are busily watching the "ups and downs" of Soviet politics as the controversy over the 1980 Olympic Games mounts.

Lloyd's has \$40 million at risk or the games through coverage which the Merrett syndicate has led for the National Broadcasting Company against cancellation by participating nations.

It is now learned in London that about \$10 million in additional coverage has been obtained for NBC in other insurance markets outside the U.K.

This follows the initiative of the Merrett group, in association with other Lloyd's syndicates, in working out coverage for a \$2 million premium on the initial \$40 million exposure.

Several months of "Herculean negotiations" between Stephen Merrett and his Lloyd's colleagues on the one hand and experts from Lloyd's brokers C.T. Bowring, who were acting at the request of Marsh & McLennan for NBC on the other hand, preceded the deal.

The project has aroused considerable attention in the U.K. Foreign Secretary David Owen is under attack for not taking more positive action against Russia on human rights issues.

Signposts toward future developments have come from amateur international golfer Laddie Lucas, who has played for Britain against the U.S. in Walker Cup matches.

He wants the issue of Soviet involvement to be debated by the U.K. government-backed sports council so that Britain can consult with other nations, such as those in NATO or in the European Common Market, on possible withdrawal from the Olympics. ■

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C. Peter McColough

Xerox chairman heads new retirement panel

Crain News Service

WASHINGTON—C. Peter McColough, the man chosen to head President Carter's retirement commission, is not a well known figure in the pension field. But his professional career at Xerox Corp. shows him to be an extremely capable businessman running a progressive, efficient company.

The 56-year-old Canadian born executive was named to the commission originally announced by President Carter over a year ago. Although the commission's scope is not completely defined, one subject of study is to be the relationship of the private and public pension programs.

No other commissioners or staff members had been named. But it was learned that John Palmer, an economist with Brookings Institute and former deputy assistant director of the Department of Health, Education and Welfare for income security policy, had turned down the \$47,500 post of executive staff director for "personal professional" reasons.

One source said "the best way to ensure a good selection is to pick a person who's busy." Mr. McColough would seem to fit that bill. A three-page biography of the Xerox chairman provided by the company lists eight paragraphs of organizations and activities that feature Mr. McColough.

Among his titles are director of Citibank, member of the Business Committee for the Arts, the National Urban League's finance campaign committee, the national corporations committee of the United Negro College Fund, the steering committee of the National Committee for Full Employment and the board of governors of United Way of America.

Not included in the biography was the fact that Mr. McColough was treasurer of the Democratic Party from February 1973 until October 1974 when Robert Strauss, now President Carter's chief inflation adviser, was chairman of the party.

Several pension experts said either they didn't know anything about Mr. McColough, or that the appointment was a good one. Karen Ferguson of the Pension Rights Center, however, said she had hoped "a representative of employee interests" would have been chosen.

Approval even came from members in the public employment sector. Carmen Elio, chairman of the Massachusetts Retirement Law Commission, said, "I'm impressed. He seems to have all the tools."

Mr. Elio said that a person with experience in the private sector was needed to chair the commission. "A person who has the responsibility of heading a corporation the size of Xerox is obviously someone who can handle this job."

Robert Kalman of the American Federation of State, County and Municipal Employees was not as strong in his endorsement, but said Mr. McColough appeared to be someone "who would respond with regard to public policies."

Preston Bassett, from Towers, Perrin, Forster and Crosby and a person who has been mentioned as a possible member of the commission, said he didn't know Mr. McColough, but indicated that being from a large corporation puts him "on the right side of the fence. I think he'll look at the soundness of

Mr. McColough's 'broad scope' marked him as the man to head the retirement commission. Page 80.

the whole program," Mr. Bassett said.

One person familiar with Mr. McColough is George Lingua, senior vp at Citibank and vice chairman of the ERISA Industry Committee. He said the selection was a "terrific choice," which emphasized the practical side of the retirement issue.

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For more facts circle 18 on reply card.

McColough's wide scope marked him as man for retirement commission

WASHINGTON—C. Peter McColough was chosen to head the President's retirement commission because he has the ability to think in broad terms without a lot of preconceptions, according to Dave Mathiasen, a staffer at the Office of Management and Budget.

"He has to worry about anything from the concerns of public plans to the concerns of the private sector, with the ultimate concern of the shifting ratio between the working and nonworking population," he said.

He said the administration had received a number of unsolicited suggestions of likely candidates, and everybody who was suggested was considered to some degree.

He added, though, that because of the commission's "broad mandate," somebody who might be good technically in one area was not the type of person finally considered for the top post.

Mr. Mathiasen said the final decision was made by President Carter. He said he did not know if anybody else was offered the position before Mr. McColough.

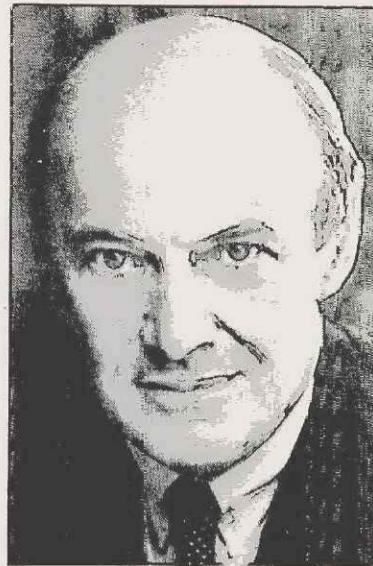
Ever since President Carter announced his intention in June 1977 to have a retirement commission, most speculators believed that the President's close friend, Atlanta attorney Charles Kirbo, would be named chairman. But in the last few months it became increasingly

apparent that Mr. Kirbo would not be selected.

"I don't understand what went on with Mr. Kirbo," Mr. Mathiasen said. "I know there were discussions with him. At one point it just became clear he was not going to be the director."

One reason it took so long to name the chairman (nobody else has been named) was because the retirement commission was not an urgent matter, he said.

Another reason for the delay, he said, was that when the commission was announced there were "relatively few guidelines" and a great deal of time and thought went into determining what scope the commission would have. ■



The final decision to offer the retirement panel post to Xerox chairman Peter McColough was made by President Carter.

U.K. plans probe of strict liability

LONDON—Detailed talks are to take place in the U.K. on the principle of strict liability for product defects, according to the government's consumer protection department.

It is seeking the views of more than 400 organizations in commerce, industry, consumer groups and the trade union movement.

Recent trends have inclined legal experts toward the view that product liability compensation ought to be simplified, partly by means of a no-fault system, if the present Labor government can find time to develop legislation.

Roy Hattersley, prices and consumer protection minister, told Parliament: "Proposals to make producers strictly liable will be an important and widely welcomed reform in civil law. Discussions are now ready to start with major trade associations and other representative bodies in sectors most likely to be affected. These will include pharmaceuticals and foodstuffs."

Substantial moves have been taking place in Western Europe in recent years, especially after the effects of the thalidomide tragedy became known, to introduce a no-fault system for personal injury—and possibly even for damage to personal property—caused by defective products.

But the Confederation of British Industry has warned that insurance costs might rise if strict liability is suddenly introduced and the U.K.'s ability to compete with other industrial markets might be prejudiced if there are no moves in other countries to introduce no-fault laws. ■

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Malpractice: A cat's meow

MARTINEZ, Calif.—The County of Contra Costa lost a malpractice lawsuit recently; the victim, a black cat named Ophelia.

It seems that an operation performed on Ophelia at the county's low-cost spay clinic in May 1977 was unsuccessful. A municipal court judge ruled that the county was liable for the cost of a second operation.

Ophelia's owner testified that after the first operation the neighborhood male cats continued to court her, so he took the amorous feline to a private veterinarian who confirmed she was, indeed, in heat.

A second operation was performed and Ophelia's owner offered as evidence the feline's ovaries, preserved in formaldehyde.

The cost of the second operation, \$65, plus court costs of \$10.50, came out of the county's self-insurance fund, according to a spokesman for the county administrator's office.

Anderson dies

Harry C. Anderson, 66, died in Arizona at his residence of leukemia. Mr. Anderson had retired to Arizona last year after spending 35 years as a risk management consultant with Chicago-based Corporate Policyholders Council.

Teamsters fund settles suit, liberalizes rules

SAN FRANCISCO—The Western Pension Conference of Teamsters has liberalized its eligibility rules for pension and disability benefits to settle a four-year-old lawsuit.

The suit was originally brought by seven cannery workers, including Amelia Martinez, a veteran cannery worker in Sacramento. Ms. Martinez was struck by a car and disabled in 1973, but was denied disability benefits despite 33 years on the job.

The Western Pension Conference of Teamsters, headquartered in Seattle, runs one of the largest Teamsters benefit plans.

In the settlement, the fund's rules for break-in-service were liberalized retrospectively and its rules for disability benefits were liberalized for both past and future claims, according to Jeffrey Lewis, an attorney for the Senior Citizens Law Program in San Francisco.

A legal team from the federally funded law program acted as counsel for the plaintiffs in the lawsuit.

The cost of the settlement to the fund was estimated by Mr. Lewis to be several million dollars. A trust fund lawyer is understood to believe that the cost of the settlement will depend on how many people come forward to present claims.

Under the agreement, the claims are retroactive to Dec. 31, 1971, a date which reflects the four-year statute of limitation on the filing of pension claims.

Mr. Lewis explained that under the old eligibility rules a cannery worker who wanted to avoid a break-in-service and not lose all the money accrued to his account would have had to work 600 hours every two years. With the settlement, Mr. Lewis said the worker must work only 450 hours every three years in order to maintain his or her benefit status.

"Cannery workers have very erratic work patterns, perhaps working 100 hours in one year, 700 in the next and nothing in the third year," Mr. Lewis said.

He emphasized, however, that the change in break-in-service rules is purely retrospective be-

cause "the trustees liberalized the rules for break-in-service following the passage of ERISA."

The liberalization of the disability benefits under the settlement is both retrospective and prospective, however. In the past, to be eligible for disability benefits, a cannery worker had to be both fully vested and have worked 3,000 hours over the prior four years.

"Our statistics showed that 80% of the workers could not meet that standard," he revealed.

Under the settlement rules, the 3,000 hour requirement has been reduced to 1,000 hours, a change the attorney said should make many more cannery workers eligible for disability benefits. ■



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Mutual captive ups capacity

HAMILTON, Bermuda—Nuclear Mutual Ltd., a group captive writing property coverage for nuclear power plants, raised its limits on available coverage from \$175 million to \$225 million.

The higher limits, which went into effect this summer, reflect continued escalation of construction costs, the insurer said. Nuclear Mutual's limit of coverage has risen from \$100 million since 1973 and higher limits are expected in the future to keep pace with inflation, said John Dobbs, assistant general manager.

Member insureds will continue to be able to select coverage limits ranging from \$100 million to \$225 million on operating plants and from \$50 million to \$225 million on plants under construction.

Nuclear Mutual also released its 1977 financial statement, reporting net premiums of \$18.1 million compared with \$14.2 million in 1976 and earnings from insurance operations of \$16.1 million, up from \$12.9 million the previous year. Through March 31, 1978, losses incurred represented 6.8% of total premiums earned. ■

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For more facts circle 24 on reply card

Land values in question

Liability for Michigan feed poisoning could double

By ELLIS SIMON

LANSING, Mich.—A ruling by a Michigan judge next month could greatly increase the total liability of Farm Bureau Services Inc. and Michigan Chemical Co., the two firms principally involved in the accidental introduction of polybrominated biphenyl (PBB) into the food cycle of Michigan dairy cattle.

Michigan Chemical Co., a subsidiary of Northwest Industries, mistakenly shipped to Farm Bureau Services PBB-laden fire retardant in place of a feed additive. The toxic chemical was mixed into feed distributed to dairy farmers over a three-year period.

Judge William Peterson is expected to decide by mid-October whether Missaukee County farmer Roy Tacoma is entitled to compensation for reduced real estate value as a result of the poisonings, which occurred from 1971 to 1974. The case has been before the court since October 1977 and went to the judge last month.

According to Kenneth McIntyre, an attorney for Farm Bureau Services, estimates on the damage to the Tacoma property range from \$60,000 to \$155,000. If Judge Peterson rules that lowered real estate values are compensable, plaintiffs are likely to ask that the ruling be transferred to other cases.

Estimates on the number of outstanding lawsuits brought by farmers in the PBB incident range from 160 to 200. Gary Schenk, attorney for Mr. Tacoma and 80 other plaintiffs, said maximum exposure on these claims totaled between \$40 million and \$50 million, excluding real estate values.

Adding real estate value would increase that liability by two to three times, he said. Mr. Schenk is seeking compensation for land value loss on behalf of all of his clients.

A broad ruling in favor of recovery on real estate value loss could induce farmers who previously settled with Farm Bureau and Michigan Chemical on loss of livestock to file additional claims for the value of their land, said Mr. McIntyre. The standard releases for those earlier settlements contained exclusions for bodily injury and damage to real estate, he explained.

To date, Farm Bureau and Michigan Chemical have paid over \$40 million on almost 800 claims already settled. The liability has been split evenly by the two firms, although Farm Bureau has exceeded the limits of its liability coverage.

Farm Bureau liability coverage totaled \$8.6 million placed with Auto-Owners Insurance Co., Firemen's Fund Insurance Co. and the New Hampshire Insurance Group. Northwest Industries, parent of Michigan Chemical, was insured for \$28 million with Travelers Insurance Co., Lloyd's of London, American Home Assurance, INA and Aetna Casualty & Surety.

One farmer who settled previously has filed suit for damage to real estate, according to Mr. McIntyre. He is Frederic Halbert Jr. of Battle Creek, who was the first to discover PBB in his dairy cattle in 1974.

Mr. Halbert was one of about a

dozen farmers who received settlements, restocked their herds and later found their new livestock were also contaminated, according to Kenneth Van Patten, head of the Michigan Department of Agriculture's special PBB unit.

Liability problems for Farm Bureau and Michigan Chemical have been compounded by a \$119 million lawsuit filed by the state in February. The suit seeks \$59 million in compensatory damages to cover the costs of identifying and destroying contaminated livestock through 1982 and \$60 million in punitive damages for "willful and grossly negligent" conduct on behalf of the defendants.

A hearing has been scheduled

for mid-October on whether a three-year statute of limitation for bodily injury or a six-year statute of limitation for property damage should apply in this case. Should the three-year rule be applicable, the state's case could be thrown out, said assistant attorney general David Kutinsky.

The state's PBB elimination program went into effect in October 1977. First year appropriations totaled \$16.3 million including \$15.2 million to the Department of Agriculture for identification and removal of contaminated livestock and compensation to farmers. Also included was \$1.2 million to the Department of Natural Resources for the destruction and burial of the ill-fated animals.

Approximately 1,300 head of cattle and 500 head of sheep have been destroyed to date, according to Mr. Van Patten. While the agriculture department's program has remained within budget, the Department of Natural Resources required additional money as the result of litigation concerning the suitability of a proposed burial site.

Mr. McIntyre noted that only dairy cattle whose milk exceeds the state PBB concentration limit of 20 parts per billion were destroyed immediately. Cattle exceeding the limit in their body tissue but not in their milk were destroyed at the end of their productive lives, he said.

How long it will be before the

Michigan environment is rid of PBBs and liability woes end for Farm Bureau and Michigan Chemical cannot be determined. PBBs and polychlorinated biphenyls (PCBs) a coolant oil used in transformers, were developed for their extreme chemical stability, noted EPA toxicologist Lyman Condie.

The only way to dispose of PBBs is in a landfill or through incineration, he said. PBBs decompose only at high temperatures, he added.

PBBs can only be removed from the farms by carrying away all contaminated soil and farm buildings. Mr. Condie said, although it is possible to remove enough material so that PBB concentrations are below state limits.



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In the area of crime losses alone, many financial institutions have had difficulty obtaining adequate amounts of insurance and some even operate without coverage. In newer

RBH acquisition

Rollins Burdick Hunter, the nation's seventh largest insurance broker, has merged with the Houston brokerage firm George V. Kane & Co.

Gold Kist sows golden harvest by self-insuring workers comp

By JERRY GEISEL

ATLANTA—When Gold Kist Inc. received word that average workers compensation rates in Georgia were expected to go up 20% this year on top of a 53% increase since 1975, Robert E. Rich decided it was time to try something new.

What the director of insurance and risk management did was to switch Gold Kist to the ranks of the self-insured.

Corporate self-insurance of workers compensation, of course, is not exactly a new concept. Thousands of firms in recent years have jumped on the workers compensa-

tion self-insurance bandwagon.

But several factors make Gold Kist's switch stand out as a case study in how to implement and operate a self-insured program.

Unlike other companies in which top management can take a year or longer to approve a major change in the method of risk assumption, Mr. Rich's self-insurance program got the go-ahead from the Gold Kist executive committee a bare six weeks after the plan was formally presented to them.

"Once we got the go-ahead we moved 90 miles-an-hour," said the 42-year-old risk manager.

Mr. Rich and his risk manage-

ment department needed only two more months to implement the program. Those eight weeks were used to hire additional staff, work out final details for excess coverage and obtain needed state approvals for the program.

In planning its workers compensation program, Gold Kist did not rely on the advice of brokers or consultants. Similarly, the administration of the plan is almost entirely handled in-house by Mr. Rich and his eight-person staff.

Last, but certainly not least, Mr. Rich expects the self-insured program, which covers 10,500 employees in nine states, to save Gold Kist a pot of gold. He puts the savings, including the costs of running the program and paying claims, at \$1.3 million annually.

Under the program, Gold Kist self-insures the first \$100,000 of losses on an occurrence basis in most states. In several states, the self-insured retention is \$200,000.

Above that, Gold Kist covers aggregate losses up to \$1.6 million. Aetna Life & Casualty Co. is the excess carrier, paying losses on an aggregate basis from \$1.6 million to \$5 million.

While Gold Kist didn't begin to self-insure until this year, the roots of the workers compensation program go back years. Mr. Rich, claims manager Guy Storey and insurance manager Dennis McGovern had been carefully tracking premiums paid and actual losses.

In the last fiscal year, paid and reserved losses were less than 20% of standard premium. Insurance manager Mr. McGovern estimated at one Florida plant that Gold Kist would have to pay \$500,000 in premiums even though claims at the facility were expected to be only \$35,000.

With these figures at hand and facing a workers compensation bill that was climbing toward the \$3 million mark, Mr. Rich presented his case for self-insurance to the executive board.

At the same time, Mr. Rich lobbied for self-administration of the program in which nearly all loss prevention services and claims adjusting would be handled by an expanded staff.

Mr. Rich was particularly adamant about keeping the purchase of outside services to a minimum. By adding experts to the staff, Mr. Rich believed he could significantly reduce the cost of claims handling.

In May, the self-insured program received board approval. Mr. Rich received permission to expand his staff by five, adding two risk analysts, a compensation claims clerk and a claims supervisor. The program was to begin July 1.

The key to any successful self-insurance program is a clear line of communication and an effective loss prevention program, Mr. Rich said. These factors are especially important at Gold Kist due to the firm's diversification. Gold Kist's operations include soybean processing plants, feed mills, a pesticide plant, poultry processing, peanut processing as well as 142 retail farm centers which supply farmers with a wide range of agricultural products.

All these facilities present many potential hazards to workers. Employees for example can become ill if they fail to don protective gear before handling pesticides.

The job of loss prevention rests on the shoulders of Gold Kist's

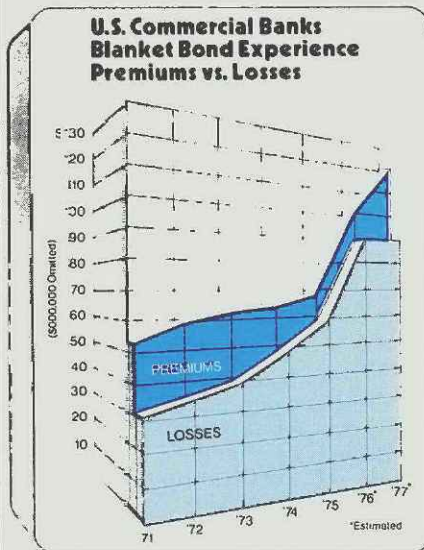
Continued on following page



Veteran claims manager Guy Storey on the telephone checks a figure as the Gold Kist staff plunges into the self-insurance switch.

areas of insurance coverage—such as liability under ERISA, Electronic Fund Transfer, Automated Teller, and Debit Card—underwriters have granted insurance either sparingly or not at all.

Overall, insurance coverage in



this field has undergone several rounds of policy restrictions and substantial increases in deductibles in recent years.

Two factors compound the situation.

First of all, the insurance market for most coverages purchased by financial institutions is served by a limited number of insurance companies, few of size, and several offering only specialized lines of coverage.

Second, in the category of crime insurance coverage, the insurance industry has paid out tremendous sums of money over the past five years, resulting in large operating deficits even after taking into account investment income.

Consequently, there is a crucial shortage of the capital and surplus necessary to provide

for the insurance requirements of the financial community. Paradoxically, these factors have converged at a time when the risks of loss confronting financial institutions have increased many times because of new technologies and business expansion, coupled with changes in the social and legal environment in which financial institutions operate.

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This group is actively engaged in an attempt to ease the pressure on financial institutions by increasing the underwriting capacity available to them, and by seeking widespread industry support for these efforts.

Further, in the area of crime claims, difficulty in establishing and proving losses is one of the most troublesome and frustrating aspects of this type of insurance. Marsh & McLennan, by concentrating the skills of its people in this field is thoroughly knowledgeable in the details necessary to establish claims properly with insurers. Also, we offer specific experience in the mechanics of documenting proof that losses were insured in those

cases where discovery of the losses was made long after the crimes had been committed.

Most of all, Marsh & McLennan has learned through specialization that standards for loss prevention, consistently applied are the best way to prevent or to reduce losses, and in turn, to reduce premiums.

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Gold Kist plan . . .

Continued from preceding page two new risk analysts, William Ethridge and Gregg Gill, both recent graduates of the University of Georgia's risk management program.

Calling themselves Mr. Rich's ears and eyes, Mr. Ethridge and Mr. Gill inspect Gold Kist's scattered operations not only to investigate claims, but also to recommend what can be done to prevent those losses from occurring again.

Mr. Ethridge describes himself as a diplomat as well as a risk analyst. "You don't tell a field manager, 'Do this. Don't do that.' That won't work in South Georgia," he said. A carefully worded suggestion often reaps far greater results than a terse order.

Every Friday Mr. Ethridge and Mr. Gill report to insurance man-

ager Mr. McGovern on loss control or risk management problems that need immediate attention at each facility.

For example, the two risk analysts may find that an extraordinary number of minor injuries at a chicken processing plant are due to a lack of safety shields on cutting devices. Mr. McGovern will call the plant's manager to explain how "\$600 invested in safety equipment might save \$12,000 in claims. When you explain the situation in those kind of terms, people do understand and the corrections are made," Mr. McGovern said.

Aside from investigating losses, Mr. Ethridge and Mr. Gill keep tabs on new exposures at locations so Mr. McGovern can keep underwriting files up-to-date. For example, a retail store may have

added grain silos, increasing the location's exposure level.

Gold Kist employs a team of industrial nurses at its poultry processing plants to keep minor injuries from becoming severe losses. A certain number of injuries are inevitable since employees use razor sharp knives in cutting the chickens.

But by employing the nurses at the processing plants, immediate first aid can be applied to the cuts, preventing later infections. "By having industrial nurses, we are going to prevent 99.5% of injuries from becoming severe losses," Mr. Rich said.

At each Gold Kist location, an employee is responsible for filing the first injury report form with the Atlanta office. In Atlanta, the injury report form goes straight to the comp claims desk where it is classified by severity.

Comp claims clerk Kim Melton

processes routine medical claims. Joy Cook, workers comp claim supervisor, handles more severe medical and time loss claims.

It is up to Mrs. Cook, who joined Gold Kist in June after being a claims adjuster at Chubb & Son, to establish reserves for claims and recommend possible rehabilitation services.

Mrs. Cook reports to veteran claims manager Guy Storey, who ran a claims adjusting office for Employers of Wausau for four years before joining Gold Kist in 1974.

Mr. Storey reviews the reserves Mrs. Cook establishes. As claims manager, Mr. Storey also may take a role in supervising problem cases. "A plant manager may not

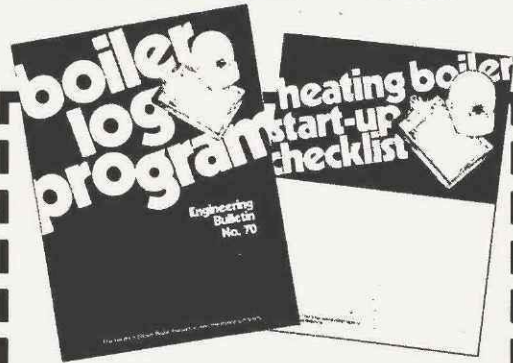
Gold Kist

Big and diversified is the best way to describe Gold Kist, a farmers' cooperative. Organized in 1933 in Carrollton, Ga., as a small cooperative to market cotton, Gold Kist has grown to an industrial and agricultural company with operations in 16 states and sales last fiscal year of \$1.4 billion. Gold Kist operates 142 retail farm centers that supply farmers with feed, seed, plant food and agricultural chemicals; runs soybean and pork processing plants, and is the largest processor of peanuts in the world. The cooperative has 11,000 employees.



Risk manager Robert Rich insisted that the best way to self-insure for workers compensation was also to self-administer the program.

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respond to Joy's concern that an injured employee is not receiving proper medical care," Mr. Storey said. "I'll go to the group vice president or someone else to see that the problem is resolved right away."

Mr. Storey cites better corporate control as a key advantage to self-administering claims. "Previously, little could be done if the carrier over-reserved claims, resulting in higher premiums," he said.

Mr. McGovern pointed out that on occasion Gold Kist may hire an outside adjusting firm to handle a claim at a location far from Gold Kist's Atlanta headquarters. But in 99% of workers compensation cases the law is so clearly spelled out that an in-house staff can handle it if a company employs top-notch claims talent, he said.

One unexpected benefit of the self-insured program has been greater recognition and improved status of the risk management department.

Before the self-insurance program began some employees had questioned the need for and cost of the risk management department, Mr. Storey explained.

"There were those who were saying: 'Why do we have to spend this kind of money on staff just to buy insurance,' " he said. "Now we are showing them what we can do. It is no longer a buy-buy department, but a save-save department."

Openly loyal to his employer—"my professional life is Gold Kist"—Mr. Rich said he always has been able to obtain top management support because Gold Kist is the kind of company where good performance is rewarded.

Avoiding the communications gap that exists in some firms between the insurance department and senior management, Mr. Rich keeps top corporate officers informed of Gold Kist's insurance costs and programs as well as industry trends through periodic risk management seminars.

Mr. Rich isn't done by any means. His next project is adding computer capability so trends in claims can be quickly spotted and action taken to reduce those claims.

Unions must okay changes in administrators, board rules

WASHINGTON—A corporation may be required to gain union approval before it changes the administrator of its employee benefits plan, a federal mediation board ruled last month.

The National Labor Relations Board said changing benefit administrators is a mandatory subject of bargaining if the switch significantly affects employment terms and conditions.

The board ruling involved Keystone Steel & Wire and its hospital, medical and surgical benefit plan which was administered by Blue Cross.

Under the plan, Blue Cross processed claims, determined the appropriate benefit to be paid to a claimant and paid the benefit. Keystone then reimbursed Blue Cross and paid a fee for handling the claim.

In late 1976, Keystone's parent company, Keystone Consolidated Industries Inc. of Bartonville, Ill., became concerned over the constantly increasing charges its divisions were paying for administration of their different benefits programs.

Keystone had 35 plans which were administered by various insurance companies. In some cases, the plans were insured and other cases, such as the Keystone Steel & Wire plan, the insurer only provided administrative services.

To cope with these rising administrative costs, Keystone decided to consolidate all the benefit plans with one insurance company that would only provide administrative services.

Keystone advised its union about the pending change in administrators and said the best administrative companies were Prudential and Metropolitan.

Joe Ziegele, Keystone's industrial relations manager, told the union that Blue Cross was not being asked to bid on the contract because Keystone felt the insurer could not provide the types of national service needed to administer the 35 different plans.

On Nov. 1, 1977, Keystone switched its benefit plan administration from Blue Cross to Metropolitan. While Keystone discussed the change with its union, the Independent Steel Worker's Alliance, it did not gain the union's consent.

The federal board found that the change from Blue Cross to Metropolitan did affect employees and as a result union approval was necessary under a section of the National Labor Relations Act.

Keystone officials declined to comment on the board's decision saying only that "our industrial relations and insurance people are reviewing the decision with our attorneys."

The federal board said there were several key differences affecting employees.

Blue Cross provided employees with a labor consultant, available twice a month at a union hall, to provide information and handle claims problems. Metropolitan

lacked a similar service.

The board also found that Metropolitan's procedure for filing surgical claims required more effort and more paperwork from claimants.

Metropolitan, however, was much faster than Blue Cross in paying charges on a major medical claim. Keystone's insurance clerk testified that Blue Cross took between six weeks and eight months to pay charges on a claim that Metropolitan needed only two-and-a-half weeks to pay.

Metropolitan's performance as an administrator may have been better in some cases than Blue

Cross, such as paying claims quicker, but superior performance was not at issue, the board concluded.

What was at issue is whether there were significant differences in methods of administration that would affect employees. Since several differences were found, Keystone was in violation of the law by not winning union consent before going ahead with the change.

Keystone said it has not decided what it plans to do in response to the National Labor Relations Board decision, which requires Keystone to reinstate Blue Cross as the administrator of the plan if the union requests such a step.



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Life insurers pay \$74 million daily

WASHINGTON—Life insurance companies pay more than \$72 million daily to American families, reports the American Council of Life Insurance.

Less than half of this money goes to families as a result of death. The larger part is paid to living policyholders in the form of annuity and endowment payments.

N.C. finds it appealing

State cuts police liability insurance cost

By REBECCA A. FANNIN

CHARLOTTE, N.C.—The state of North Carolina plans to revamp its coverage for police professional liability, following the lead of neighboring South Carolina, which premiered a uniquely comprehensive and reasonably priced professional liability program.

Insurance for police professional liability has become more restrictive with the increase in lawsuits against police and with the decision of the Factory Mutual System to withdraw from the market in November 1977. Factory Mutual had written a large percentage of police professional liability.

While buyers of police professional liability have resorted to

more restrictive coverage and paid higher premiums, South Carolina has reduced premiums while broadening coverages for police liability.

This savings was accomplished by joining high-hazard police coverages with lower-risk coverages for other public officials, who previously weren't insured for professional liability.

Police insurance premiums fell from \$188 yearly per individual to \$7.50 yearly, a single rate for all public officials including police.

The program was set up by Paul V. Hawkins, chief of insurance for the state of South Carolina. Mr. Hawkins said he knows of no other state that provides such broad cov-

erage for public officials as his state.

The policy, underwritten by Michigan Mutual Insurance Co., joins professional and general liability insurance in what Mr. Hawkins describes as a general liability in manuscript form. It covers bodily injury, property damage and includes a personal injury endorsement that covers libel, slander and false arrests. Discrimination suits are also provided as an insured peril under personal injury.

The policy additionally insures errors and omissions, covering wrongful acts.

Limits per occurrence are \$300,000 with no aggregate limit, according to Mr. Hawkins. The

only deductible is \$100 for property damage.

The insurance program is offered voluntarily to all political subdivisions of the state and to state-owned hospitals. It covers approximately 100,000 public officials in South Carolina.

North Carolina plans to offer a similar program to its 60,000 municipal and county employees, 65,000 state employees and 25,000 school board members if the state can obtain the coverage at approximately the same price as its southern neighbor.

The more northern state has sent out specifications to 200 casualty insurers licensed in North Carolina and hopes to establish coverage by

January, according to C. J. Spivey, director of the Charlotte-Mecklenburg insurance advisory committee.

The revamped program would reduce police insurance premiums, but the total savings for the state would be minimal since more public officials would be insured, Mr. Spivey said.

Policemen in North Carolina currently are insured in a variety of ways. In Charlotte, approximately 600 police are covered through a funded reserve set aside in a trust fund.

The state earns interest from the trust but the fund is committed to one use, which is a disadvantage in an era increasingly prone to revolts by taxpayers, Mr. Spivey said.

Other police departments have purchased less comprehensive coverages for little cost saving from such companies as Northeastern Fire Insurance Co. or the Jefferson Insurance Co., which offers a policy that only insures against libel, slander and false arrest.

Mr. Spivey said others have decided not to insure their police for professional liability. The remaining departments, he said, have purchased insurance from Law Enforcement Insurance Co., a captive formed to fill the gap when the Factory Mutual pulled out of the market.

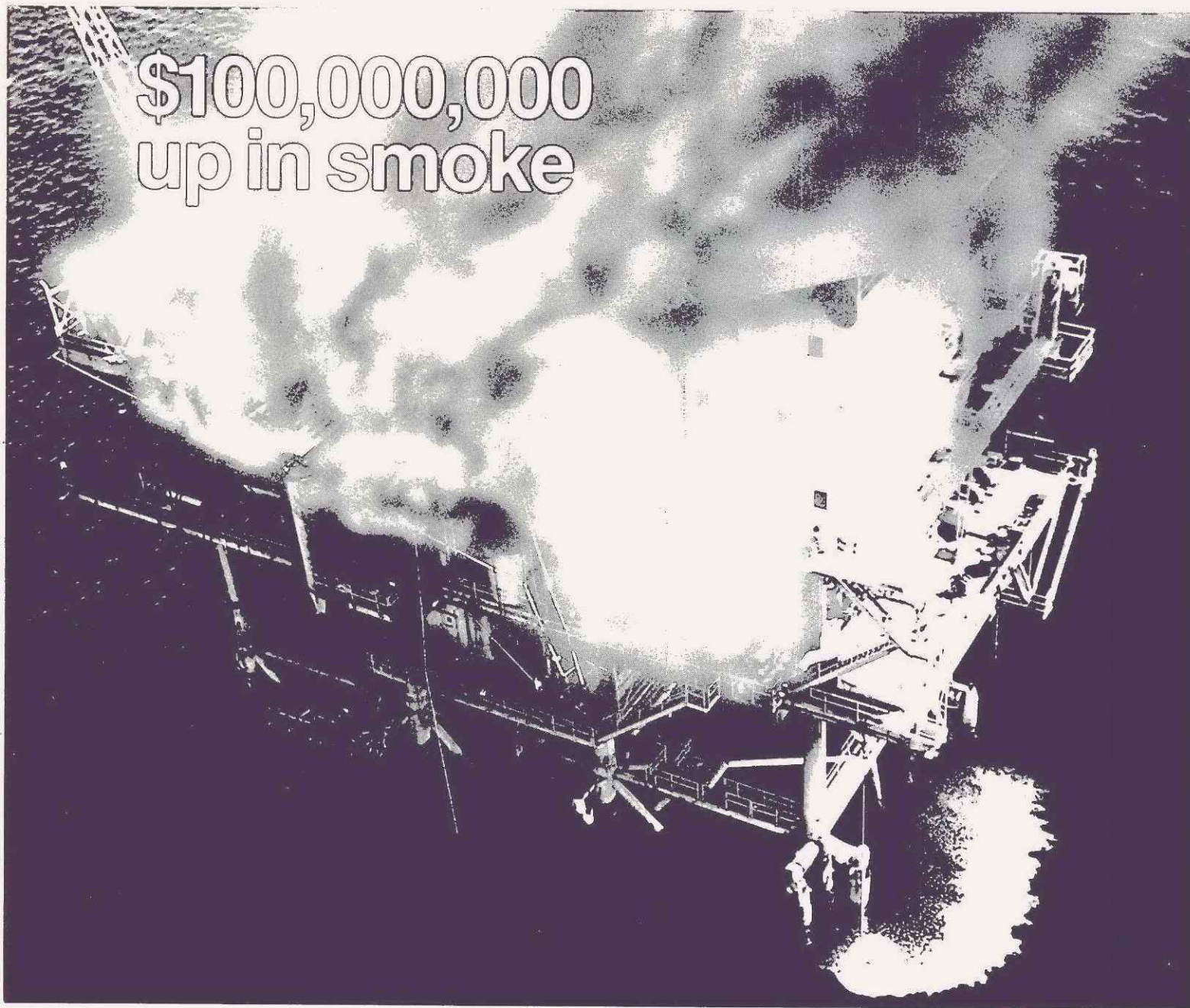
A special study committee appointed by the governor of North Carolina had examined ways of insuring the police for a year before deciding to use the South Carolina program as a model. Mr. Spivey was an adviser to the group. ■

Police officers plan unveiled

NEW YORK—A new program offering professional liability coverage for law enforcement agencies has been announced by Stewart Smith. The coverage, written by Insurance Co. of the State of Pennsylvania, an AIG subsidiary, provides protection of \$250,000 per person and \$500,000 per incident plus defense costs.

According to Stewart Smith vp Fred Palm, the program is available to state, county, town and municipalities with population under 200,000. The coverage is on a claims-made basis with an exclusion for incidents occurring prior to the effective date of the first policy.

Availability of coverage under the law enforcement facility is subject to state regulatory approvals. ■



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Colleges to offer 5 courses for benefit specialist program

BROOKFIELD, Wis.—Colleges and universities around the nation will be offering the first five courses in the 10-course program leading to the designation of a "certified employe benefit specialist."

The program is sponsored by the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania. Course V, "Life, Health and Other Group Benefit Programs," will be offered for the first time this fall.

Course VI, "Accounting and Information Systems," and Course VII "Asset Management," will be offered for the first time in the spring of 1979.

The courses are designed for home study as well as classroom instruction.

Course I, "Contemporary Legal Environment of Employee Benefit Plans," provides a general review of the legal system and basic legal rights and responsibilities. It serves as a foundation for the other courses in the program, but is not a prerequisite.

Course II, "Pension Plans," focuses on the basic features of corporate and multiemployer pension plans. It includes plan design, funding instruments, actuarial cost factors and methods, retirement benefit alternatives, tax considerations and government regulation.

Course III, "Social Security, Savings Plans and Other Retirement Arrangements," discusses the impact of the Social Security Act on all types of employe benefit plans. It also analyzes savings plans in terms of contribution basis, allocation formulas, investment procedures, etc.

Course IV, "Management Principles," covers management theory and functions, and explains policies, procedures and methods. Personnel administration, supervisor-subordinate relationships, effective supervision, communication, human behavior and decision making are examined. Case studies also are included, illustrating the application of the principles studied to employe benefit plans.

Course V, "Life, Health and Other Group Benefit Programs," analyzes how protection against financial hazards resulting from disability, unemployment and premature death is provided through private sector institutional arrangements using the group concept.

The following is a list of universities and colleges offering one or

more CEBS courses this fall. It includes the name of the school, the local coordinator, local telephone number and a class schedule if determined.

University of Minnesota, Minneapolis, David Ordos, (612) 373-5167; Course II, Sept. 26-Dec. 5, 6:30-9 p.m. (Tuesdays); Course III, Sept. 28-Dec. 7, 6:30-9 p.m. (Thursdays).

Northeastern University, Boston, Edward Czarnowski or Peggy Woollette, (617) 437-2506; Course I, Sept. 13-Jan. 10, 6-8 p.m. (Wednesdays); Course IV, Sept. 12-Jan. 9, 6-8 p.m. (Tuesdays).

U.C.L.A. Extension, Los Angeles, Charles Coleman, (213)

825-7031, ext. 226; Course III, Sept. 18-Dec. 4, 6:30-9:30 p.m. (Mondays); Course IV, Sept. 19-Dec. 5, 6:30-9:30 p.m. (Tuesdays).

U.C.S.D. Extension, San Diego, registration office, (714) 452-3400, Course III, starting Sept. 25, 7-10 p.m. (Mondays).

U.C. Berkeley Extension, San Francisco, Rae Jean Breckenridge, (415) 642-4237, Course I, Sept. 7-Dec. 21, 6:30-8:30 p.m. (Thursdays). Course II, Sept. 5-Dec. 12, 6:30-8:30 p.m. (Tuesdays); Course IV, Sept. 6-Dec. 13, 6:30-8:30 p.m. (Wednesdays).

University of Bridgeport, Bridgeport, Connecticut, Salvatore
Continued on following page

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Course schedules . . .

Continued from preceding page
 tore Curiale, (203) 576-4538; Course I, Sept. 11-Dec. 18, 7:30-9:30 p.m. (Mondays); Course II, Sept. 5-Dec. 19, 7:30-9:30 p.m. (Tuesdays); Course III, Sept. 6-Dec. 13, 7:30-9:30 p.m. (Wednesdays).

University of Connecticut, Hartford, Dr. William Fisher, (203) 527-2149; Course I, starting Sept. 14, 5-7 p.m. (Thursdays); Course II, starting Sept. 12, 5-7 p.m. (Tuesdays); Course III, starting Sept. 12, 5-7 p.m. (Tuesdays); Course IV, starting Sept. 13, 5-7 p.m. (Wednesdays); Course V, starting Sept. 13, 5-7 p.m. (Wednesdays).

Samford University, Birmingham, Mrs. Anderson, (205) 870-2935; Course III, starting Sept. 18, 6-8:30 p.m. (Mondays).

American University, Washington, D.C., Michelle McTamney, (202) 686-2518; Course II, Sept.

23-Jan. 13, 9:30 a.m.-12 noon (Saturdays); Course V, Sept. 18-Dec. 18, 5:30-8 p.m. (Mondays). American University, Baltimore; Course I, Oct. 3-Jan. 9, 5:30-8 p.m. (Tuesdays). American University, Oakton, Virginia, Course II, Sept. 27-Jan. 10, 5:30-8 p.m. (Wednesdays).

Florida International University, Miami, Irene Hodes, (305) 552-2371; Course I, North Miami campus, Sept. 18-Dec. 4, 6:30-8:30 p.m. (Mondays); Course II, Tamiami campus, Sept. 18-Dec. 4, 6:30-8:30 p.m. (Mondays); Course III, Tamiami campus, Sept. 19-Dec. 5, 6:30-8:30 p.m. (Tuesdays).

Georgia State University, Atlanta, Irene Cook, (404) 658-2725; Course I, starting Oct. 2, 5:30-7:30 p.m. (Mondays); Course II, starting Oct. 4, 5:30-7:30 p.m. (Wednes-

days); Course III, starting Oct. 4, 5:30-7:30 p.m. (Wednesdays); Course IV, starting Oct. 5, 5:30-7:30 p.m. (Thursdays); Course V, starting Oct. 3, 5:30-7:30 p.m. (Tuesdays).

Washington University, St. Louis, Joseph Movshin, (314) 889-6739; Course I, Aug. 28-Dec. 18, 7-9:30 p.m. (Mondays); Course II, Aug. 30-Dec. 20, 7-9:30 p.m. (Wednesdays); Course III, Aug. 31-Dec. 21, 7-9 p.m. (Thursdays); Course IV, Aug. 29-Dec. 19, 7-9:30 p.m. (Tuesdays).

Rutgers University, New Brunswick, New Jersey, Charline Russo, (201) 932-9836; Course II, Sept. 12-Dec. 12, 7-9:30 p.m. (Tuesdays); Course III, Sept. 13-Dec. 13, 7-9:30 p.m. (Wednesdays); Course V, Sept. 21-Dec. 14, 7-9:30 p.m. (Thursdays).

Hofstra University, Hempstead, New York, Dr. Leona Seldow, (516) 560-3393/3313; Course I, starting Sept. 19, 8-10 p.m. (Tuesdays); Course II, starting Sept. 21, 8-10

p.m. (Thursdays); Course V, starting Sept. 21, 5:45-7:45 p.m. (Thursdays).

College of Insurance, New York City, Harold Luckstone, (212) 962-4111; Course I, Sept. 26-Jan. 9, 5:15-7:45 p.m. (Tuesdays); Course II, Sept. 27-Jan. 3, 5:15-7:45 p.m. (Wednesdays); Course V, Sept. 28-Jan. 4, 5:15-7:45 p.m. (Thursdays).

New York University, New York City, Stuart Fink (212) 598-2101; Course I, Sept. 27-Dec. 20, 6-8:30 p.m. (Wednesdays); Course II, Sept. 28-Dec. 21, 6-8:30 p.m. (Thursdays); Course III, Sept. 25-Jan. 8, 6-8:30 p.m. (Mondays); Course IV, Sept. 26-Jan. 2, 6-8:30 p.m. (Tuesdays); Course V, Sept. 27-Dec. 20, 6-8:30 p.m. (Wednesdays).

Rockland Community College, Suffern, New York, Ms. Laudelina Martinez, (914) 356-1527, 8 or 9; Course I, Oct. 17-Jan. 9, 7:30-10:30 p.m. (Tuesdays); Course II, Oct.

18-Jan. 10 (Wednesdays); Course V, Oct. 19-Jan. 11, 7:30-10:30 p.m. (Thursdays).

University of North Carolina, Charlotte, John Moore, (704) 597-2424; Course I, Sept. 19-Jan. 9, 7:30-9:30 p.m. (Tuesdays); Course II, Sept. 21-Jan. 11, 7:30-9:30 p.m. (Thursdays).

Miami University, Hamilton, Ohio, Harry Brooks, (513) 529-4129; Course III, Sept. 19-Nov. 21, 7-10 p.m. (Tuesdays).

Community College of Allegheny County, Pittsburgh, Dan Batenburg, (412) 366-7000, Ext. 58; Course I, Aug. 28-Dec. 11, 6:30-9:30 p.m. (Mondays); Course IV, Aug. 30-Dec. 6, 6:30-9:30 p.m. (Wednesdays).

University of Pennsylvania, Philadelphia, Donna Shelton, (215) 243-4560; Course II, Sept. 25-Jan. 8, 4:45-6:30 p.m. (Mondays); Course IV, Sept. 27-Jan. 10, 4:45-6:30 p.m. (Wednesdays); Course V, Oct. 10-Jan. 9, 4:45-6:30 p.m. (Tuesdays).

University of Scranton, Scranton, Pennsylvania, Victor DeSantis, (717) 961-7582; Course II, Oct. 3-Dec. 19, 6:30-9 p.m. (Tuesdays); Course V, Oct. 3-Dec. 19, 6:30-9 p.m. (Tuesdays).

University of Dallas, Irving, Texas; courses, dates and times to be announced. Fred Asher, (214) 438-1123, ext. 254.

Marquette University, Milwaukee, Ermon D. Clough, (414) 224-7118; Course I, Sept. 11-Dec. 18, 7-9 p.m. (Mondays); Course IV, Sept. 12-Dec. 19, 7-9 p.m. (Tuesdays); Course V, Sept. 14-Dec. 21, 7-9 p.m. (Thursdays).

For further details on courses offered through these colleges and universities, call or write to the local coordinator. For information on the CEBS program regarding individual or informal group study programs, contact Patricia Cauley, International Foundation of Employee Benefit Plans, P. O. Box 69, Brookfield, Wis. 53005, (414) 786-6700.

3 insurers cover claim

READING, Pa.—Lloyd's of London, Unigard Insurance Co. and C.V. Starr & Co., an AIG affiliate, were joint underwriters on a professional liability policy for Gilbert Associates Inc., the Reading architectural and engineering firm that recently agreed to pay \$3.6 million to settle a lawsuit brought by Florida Power Corp.

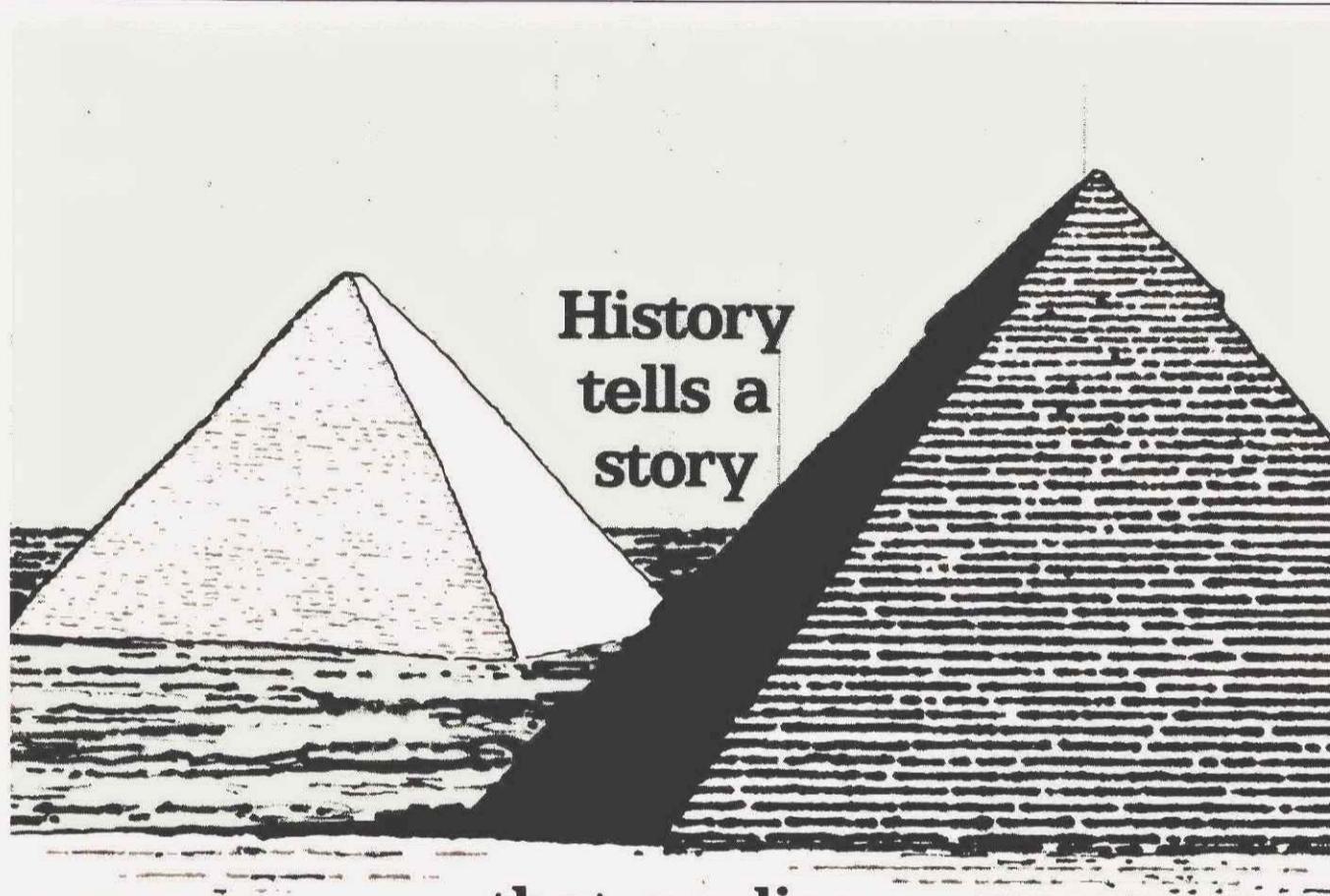
Sources close to the case said Lloyd's was lead underwriter on the program and had assumed 34% of the risk. It could not be learned what share of the claim was born by Unigard and C.V. Starr. J.H. Minet of Montreal brokered the coverage.

Gilbert Associates was architect-engineer on a nuclear power station put into operation last year by Florida Power Corp. It was discovered that an extensive air pocket, ranging in thickness from one to six inches, was lodged in a three-foot thick concrete dome covering the reactor building and the utility filed suit.

A spokesman for Gilbert Associates said its insurance program would cover "substantially all" of the claim.

Dates changed

Because of heavy advance registration, dates for the multiple line working clinic have been moved back to Nov. 13 and 14. The clinic, sponsored by Marine Insurance Handbook Inc., will be held at King of Prussia, Pa. Avoiding ambiguities in insurance policies and concern about Congressional proposals to amend bankruptcy laws will be discussed.



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New bill eyed to exempt public pension plans

Crain News Service

WASHINGTON—A new version of a bill that would exempt public pension plans from qualifying with the Internal Revenue Service is being prepared for inclusion in the tax bill currently before the Senate Finance Committee.

Three members of the Senate, including two members of the committee, have been meeting with the Department of Treasury in order to come up with a suitable version of a bill (S.1587) which was introduced early this year by Sen. Richard Stone (D-Fla.).

A companion bill introduced by Rep. John Cunningham, (R-Wash.), is pending in the House of Representatives.

The original bill would merely amend the Internal Revenue Code to exempt public plans and grant public plans automatic qualifications. But Sens. Lloyd Bentsen (D-Tex.), and John Danforth (R-Mo.), members of the Finance Committee whose support is needed, want disclosure and fiduciary provisions added.

John Hamm, an aide to Sen. Danforth, said the senator wants to make sure some information is made available to all employees and the general public. He said the information could be sent to the state or local government or to another source. Trustees would be personally liable for not abiding by these rules, he said.

In addition, Sen. Bentsen, who is regarded as the key person in this matter, wants to include certain fiduciary provisions in the bill. David Allen, an aide to Sen. Bentsen, said the senator wants "to prevent abuses."

Mr. Allen said Sen. Bentsen believes if the fiduciaries violate certain standards, they should be personally liable, but the fund itself shouldn't be taxed.

At Treasury, Daniel Halperin, acting deputy assistant secretary for tax policy, re-espoused the department's support for the policy of nontaxation. But in a letter to James Martin of the National Governors Assn., he said the Treasury couldn't support a proposed amended version of the bill which had been considered previously.

"It is our belief that a retirement plan should meet some type of discrimination in coverage standards and should be subject to some prohibited transactions requirements

Malpractice plan offered MDs

RENO, Nev.—The Doctors' Co., one of California's major physician-owned mutual insurance companies, will now offer malpractice coverage to doctors in Nevada.

The Doctors' Co. policy will be non-assessible claims-made insurance with limits of \$500,000 and \$1.5 million.

in order for the participants to receive special tax treatment," the letter said.

The letter also points out that the lack of any standards for the information to be disclosed would be of "limited value."

The letter also notes Treasury opposition to the filing of the annual report to a state or other political subdivision or by making copies available to the public.

"The complete removal of the responsibility of state and local plans to report to the federal government is, of course, inconsistent with administration concern about the structure of these plans and the transactions in which they engage," the letter says.

Mr. Halperin, however, said that if this were the only point of dispute between Treasury and the

senators, something could probably be worked out.

Opposition to the original bill was also voiced by Reps. John Dent (D-Pa.) and John Erlenborn (R-Ill.), chairman and ranking member of the labor standards subcommittee of the House Education and Labor Committee.

The representatives sent copies of the House Pension Task Force report on public plans to members of the Finance Committee, as well as members of the Senate Human Resources Committee and House Ways and Means Committee.

They also sent a letter to Sen. Russell Long, (D-La.), chairman of the Senate Finance Committee, expressing concern that removal of reporting, disclosure and fiduciary provisions of the Internal Revenue Code for public plans

would be "extremely inappropriate."

However, an aide with the task force said the representatives could support a bill with proper fiduciary and disclosure provisions, but they would have to see the specific proposals first.

cific proposals first.

He said if they approved of the provisions, it could eliminate the need for a "PERISA" bill: On the other hand, he said, if the provisions don't go far enough, the representatives won't support it.

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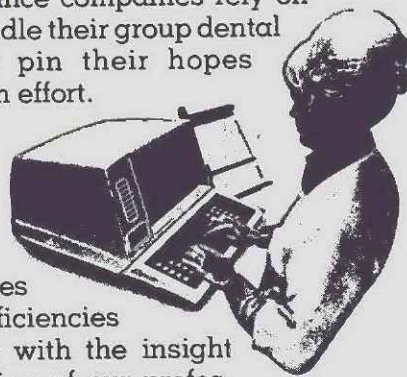
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Perhaps our system is the reason last year we were the number one group dental insurance company—both in number of cases written and in employees covered. Or, maybe it's our 116 field offices across the country, staffed with the best group people in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



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dates for buyers

SEPT. 24-26. The **Houston Marine Insurance Seminar** will be sponsored by the Houston Mariners Club for the thirteenth time. Among the topics to be considered will be marine reinsurance, the Hamburg rules, regulated towage and carriage—characteristics and liabilities, marine salvage, international marine developments, claims and the changing American marine insurance market. Cost: \$75. Contact John T. Cook, Johnson & Higgins of Texas Inc.

SEPT. 25-27. The Risk Studies Foundation presents a three-day seminar on the **Future of Risk** featuring an interdisciplinary approach. Registration for the seminar to be held at the Waldorf-Astoria Hotel in New York City is \$295 and attendance will be limited

to 55 delegates. Contact Risk Studies Foundation, 205 East 42nd St., New York, N.Y. 10017.

SEPT. 27-DEC. 6. Oregon chapter of RIMS is sponsoring **Risk Management 56**, a course to be held Wednesdays from 4 to 6:45 p.m. at Cramer Hall, Portland State University, Portland, Ore. The instructor will be Ray Sommers, CPCU with Rollins Burdick Hunter. Contact Cynthia Rimkus, RIMS educational chairman, 503-228-2141 or Dale Walhood, Portland State University, 503-229-4838.

OCT. 5. Los Angeles chapter of RIMS to hold its annual conference at the Sheraton Universal Hotel in Universal City. Cost is \$30 for members; \$35 for nonmembers. Contact Wendy Hamilton, Newhall

Land & Farming Co., 23823 N. Valencia Boulevard, Valencia, Calif. 91355; phone 805-255-4000. Or contact Barbara Fein, R & B Development Co., 2222 Corinth Ave., Los Angeles, Calif. 90064; phone 213-478-1021.

OCT. 5-6. The Piedmont and Carolinas chapters of RIMS will sponsor their ninth annual education seminar at Myrtle Beach, S.C. Property, casualty and employe benefit subjects will be discussed. Cost: \$30. Contact Howard Partin, Liggett Group Inc., Durham, N.C. 27702; phone 919-471-7336.

OCT. 8-11. The annual meeting of **University Risk Management and Insurance Assn.** to be held in Atlanta. Topics particular to university risk management will include liability insurance, special liability risks, remedies for the present liability problems, property and allied lines and remedies, insurance markets, benefits man-

agement and marketing. Cost: \$50. Contact Charles M. Hundley, benefits coordinator, University of Illinois, Room 132 Administration, Urbana, Ill. 61801; phone 217-333-7338.

OCT. 10-11. Working at Staying Well: Staying Well at Work is the title of an **occupational health seminar** to be held in Milwaukee. Co-sponsored by the University of Wisconsin—Milwaukee School of Nursing and Employers of Wausau, it will feature speakers from the medical profession, representatives of industry and labor, a syndicated columnist and an occupational health consultant. Five workshops will deal with back problems, cardiac rehabilitation, promotion of wellness in industry and pulmonary hazards in industry. Cost is \$100. Contact Occupational Health Seminar, Suite 2000, 777 E. Wisconsin Ave., Milwaukee, Wis. 53202; phone Employers of Wausau 715-842-6092.

OCT. 11-13. In Chicago American Management Assns. will sponsor a course on **self-insurance and risk retention**. The course will be repeated in Atlanta on **Oct. 16-18**. Though not intended for anyone interested in self-funding of employe benefits, the program will cover insurance costs, method of funding and how to develop a self-insurance program. The meeting is designed with those involved in property and casualty insurance in mind. Cost: AMA members, \$400; non-AMA members, \$460; team fees available. Contact American Management Assns., 135 W. 50th St., New York, N.Y. 10020; phone 212-246-0800.

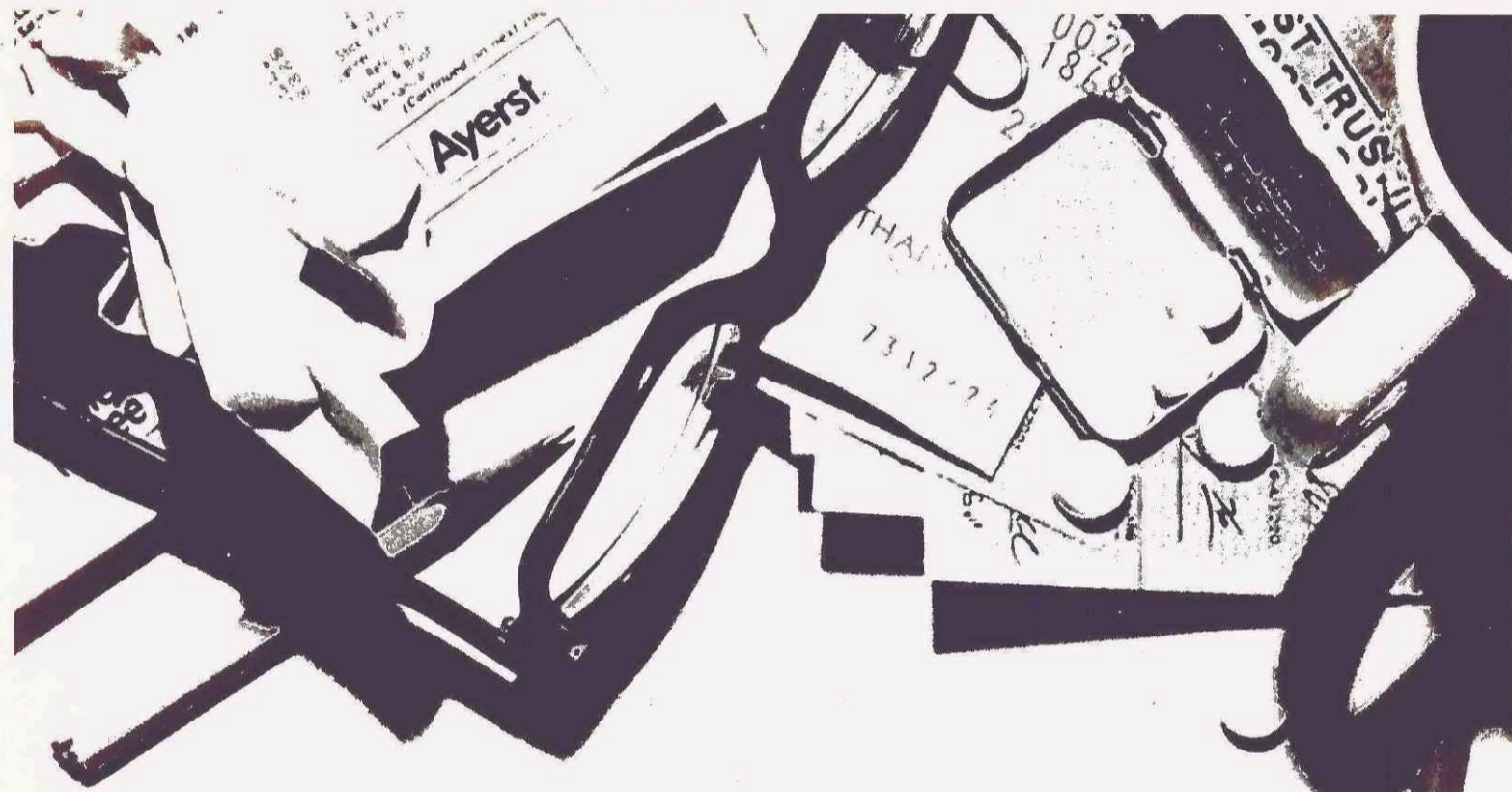
OCT. 15-18. **Offshore Oil Drilling and Insurance** is topic of a seminar to be offered by The College of Insurance in McAfee, N.J. Risk and insurance implications, hazards, exposures, related problems, market capacity and property, liability and workers compensation forms will be explored. Cost: \$375. Contact The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111.

OCT. 18-20. The first **New England Workshop for Risk Managers** will be held in South Egremont, Mass., and will focus on everyday risk and management problems. Cost: \$40. Contact A. David Heilemann, Rogers Corp., Rogers, Conn. 06263; phone 203-774-9605.

OCT. 19-21. Annual Meeting of the **Profit Sharing Council of America** to be held in New Orleans. The highlight session will be devoted to the economic effects of mandatory retirement legislation on contributions to retirement plans. Cost: \$200. Contact Neil Regan, Profit Sharing Council of America, 20 N. Wacker Dr., Suite 722, Chicago, Ill. 60606; phone 312-372-3411.

OCT. 24-26. Effective **risk management** course to be held in Copenhagen. Sponsored by Risk Research Group (London), the course has been updated to reflect current developments. There will be workshop discussions about case studies. Cost: \$494. Contact Gillian Morley, Risk Research Group (London) Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; phone 01-236-2175.

OCT. 25-27. The **State Insurance Funds Managers Assn.**, an organization of government risk managers, will hold its annual meeting in Orlando, Fla. Contact Betty Ryals, Florida Dept. of Insurance, Tallahassee, Fla. 32304 or call 904-488-5073.



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legal brief

Liquor storage room isn't a safe, Georgia court decides

THIS WAS A SUIT on a mercantile robbery and safe burglary policy. At issue was whether the insured had, in fact, a safe as required by the policy. A Georgia appellate court held that it "would strain reasonable construction to hold that the liquor storage room involved in this case was a safe."

W. H. Waite was covered under the policy issued by the Zurich Insurance Co. The policy declarations expressly designated coverage for a "manual classification C" safe without defining such. Mr. Waite's business establishment was broken into and a strongbox located in a liquor storage room, containing in excess of \$3,000, was removed. Mr. Waite filed a claim but Zurich denied coverage. Mr. Waite sued and won in the trial court.

On this appeal, Mr. Waite asserted that it was his understanding that the liquor storage room with its burglar alarm qualified as a safe. He also argued that the liquor room constituted a vault within the meaning of the policy.

The court disagreed. Referring to the policy, the court concluded that it was clear that it was contemplated that some type of safe would be on the premises but that the li-

The abstracts published in this column were prepared by Cases Unlimited Inc., based in Evanston, Ill.

quor room was not one. Nor did the court believe that the policy could be construed to provide coverage for a "vault," even if the liquor room was a vault within the meaning of the policy.

Thus, the court decided that the policy did not provide coverage against Mr. Waite's loss here. *Zurich Ins. Co. v. Waite*, Court of Appeals of Georgia, Dec. 5, 1977. (BI/01/Jy.-\$4).

Concubine benefits

May a dependent concubine (a common law wife) of a workman fatally injured at work recover workers compensation benefits on the basis that she is a dependent member of his family? The Louisiana supreme court, reversing its former position, ruled that benefits were payable when it would not infringe upon any share of compensation benefits to which statutorily entitled claimants are preferentially entitled.

It was undisputed here that George Henderson died as the result of a work-related accident in 1971. At the time of his death, Mr. Henderson had lived with Rose Henderson as man and wife for 11 years in a stable, loving relationship. There were no children of this relationship and Mr. Henderson, who was not married, had no children and was survived by no dependent parents or siblings.

Rose Henderson filed for benefits and received them until 1974 when the insurer terminated payments upon finding reason to doubt the validity of a claimed but unproven Mississippi marriage or common-law marriage.

The lower court rejected Rose Henderson's claim for benefits as an "other dependent" "member of the family."

The appellate court noted that, except for a concubine, Louisiana law was well-settled that a member of a decedent's family household,

if dependent, was entitled to recover workers compensation benefits under the facts of this case "regardless of blood relationship or the technicalities of inheritance law."

The court concluded that it had erred in a previous decision "in importing moral unworthiness as a criterion for eligibility for compensation benefits and in thus excluding dependent concubines alone from compensation benefits which all dependent members of the de-

ceased wage earner's family household are entitled by statute." *Henderson v. Travelers Ins. Co.*, Supreme Court of Louisiana, Jan. 30, 1978. (BI/02/S.-\$4).

All risks policy

In a case of first impression, the U.S. Court of Appeals for the First Circuit ruled that predictable consequences of an obvious physical condition was not deemed a physical change within the meaning of a

Massachusetts law, permitting an insurance company to cancel a policy after it was in effect for 60 days.

Roxse Homes Inc. (Roxse) purchased an "all risks" coverage insurance policy from Commerce & Industry Insurance Co. (Commerce) effective June 6, 1974. The policy covered a newly constructed apartment complex. Certain buildings settled, causing sev-

eral apartments to become uninhabitable. Roxse filed a claim in February 1975.

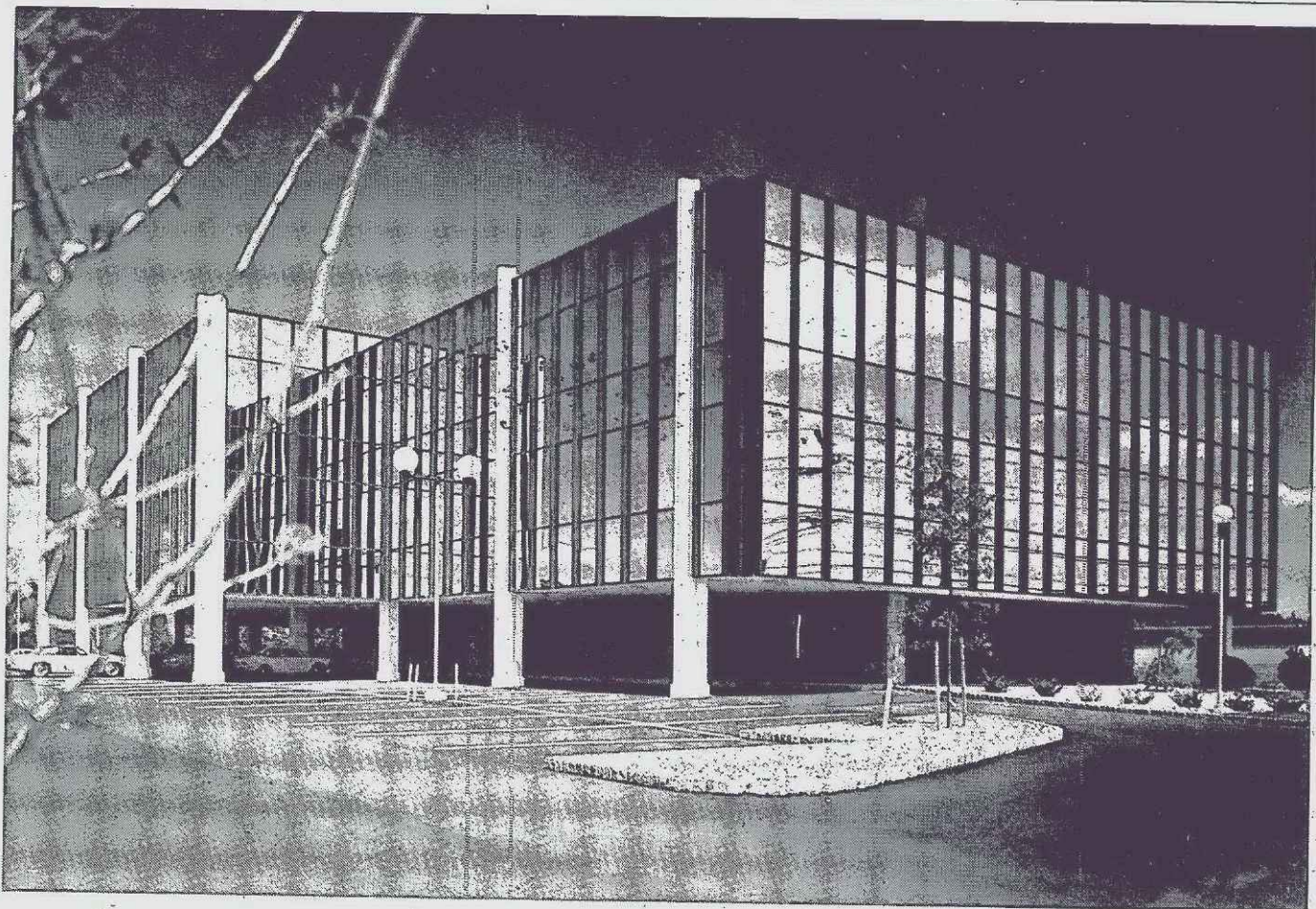
Commerce refused to pay on the grounds that the settling occurred before the policy became effective. Commerce had not inspected the property prior to issuance of the policy. The policy was cancelled by Commerce on April 7, 1975, pursuant to certain buildings settled, causing sev-

Continued on following page

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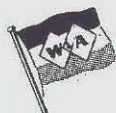


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legal brief

Continued from preceding page
suant to a Massachusetts law that allowed an insurance company to cancel after a policy was in effect for 60 days on the basis of one or more occurrences, one of which was "physical changes in the property insured which result in the property becoming uninsurable."

Roxse sued Commerce for the difference in the insurance premiums it had to pay for replacement insurance. The lower court ruled in favor of Roxse.

On appeal, Roxse argued that the continued settling and resultant damages were a predictable result stemming from the original settling and that Commerce's failure to inspect and to cancel within the 60-day statutory period prohibited cancellation.

The court agreed, observing that

it "seems clear that an insurer should not be allowed to cancel under the physical changes clause for physical changes that could readily have been predicted from the obvious condition of the property at the time the insurance attached." *Roxse Homes Inc. v. Commerce & Industry Insurance Co.*, U.S. Court of Appeals for the First Circuit, Feb. 3, 1978. (BI/03/S.-\$4).

Executive officers

Is an "employe exclusion" clause in a comprehensive general liability policy issued to a corporation applicable to the corporation's executive officers? The Iowa supreme court ruled that a severability-of-interests clause inserted in the policy was intended to make it clear that the employe

exclusion was applicable only when the person claiming coverage as an insured was the employer. Thus, the court held that the employe exclusion was not applicable to the executive officers.

The Venetian Iron Works Inc. (Venetian) was covered by a workers compensation policy and the comprehensive general liability policy, both issued by the Home Insurance Company (Home). An employe of Venetian, who was injured during the course of employment, filed a claim and received benefits under the workers compensation policy.

Subsequently, the employe filed a suit against three persons, two of whom were officers of Venetian. In this suit the employe asked for \$250,000, claiming the negligence of these individuals caused his injuries. The officers called upon Home to defend them under the comprehensive liability policy. Home denied coverage contending that the injured employe was an

employe of the officers and thus the employe exclusion applied under the policy. The clause in question excluded coverage for injuries to any "employe of the insured."

The trial court ordered Home to defend the officers.

On appeal, the officers contended that the exclusion was to be applied only against the insured for whom workers compensation coverage was sought. The appellate court noted that this case presented an issue of first impression in Iowa. The court reviewed the decisions of other jurisdictions which construed such "employe exclusion" clauses in insurance policies with severability-of-interests clauses and agreed that such clauses were intended to establish that the employe exclusion applied only where the person claiming coverage was the employe.

The court held that Home was obligated to defend the officers. *Zenti v. Home Ins. Co.*, Supreme

Court of Iowa, Feb. 22, 1978. (BI/04/S.-\$4).

"Whiskey" care

The sole issue presented in this claim for workers compensation was whether a hearing officer had abused his discretion in denying an employe's claim for one pint of whiskey a day as "supportive care." An Arizona appellate court ruled that supportive care payments were not a matter of right but within the sound discretion of the industrial commission.

The employe here was injured in the course of his employment with Western Greyhound Lines. He was awarded unscheduled permanent partial disability. Thereafter, the employe filed a petition for supportive care. The medical testimony at the hearing was in conflict.

One physician testified that the employe was allergic to prescribed pain killers and so was advised to drink one pint of whiskey per day to reduce his pain. Another physician, while not disputing that alcohol has some benefits as a pain reliever, concluded that other drugs for control of pain had not been tested by the employe. The request for supportive care (reimbursement for the whiskey) was denied.

Noting that supportive care payments were discretionary, the appellate court believed that in light of the conflicting medical testimony, it could not be said that the hearing officer had acted unreasonably in resolving the conflict.

However, the court emphasized that by its decision it was "not precluding the use of alcohol as a pain reliever in the proper situation." *Bergstresser v. Industrial Commission*, Court of Appeals of Arizona, Jan. 5, 1978. (BI/02/Jy.-\$4).

Reimbursement by infant

Must an infant who has received benefits under a parent's group medical policy reimburse the insurer from a settlement received in a later action against a third party? An Indiana appellate court ruled that the infant was liable under the policy subrogation clause.

Derrick Hagerman, who was an eligible dependent under his mother's group insurance policy, was injured in an automobile accident. Medical bills totaling \$1,542 were incurred. The insurer, Blue Cross/Blue Shield, promptly paid the bills. Later, Derrick sued a third party for his injuries and settled for \$14,500. The insurer requested reimbursement from the settlement because of a subrogation clause in the group policy. Derrick refused and the insurer sued him. The trial court ruled in favor of Blue Cross/Blue Shield.

On this appeal, Derrick contended that because of his infancy, he was contractually incompetent at the time the insurer paid the benefits under the insurance policy. Therefore, Derrick argued that he was not liable.

The court rejected his argument emphasizing that an insurer's right of subrogation has long been upheld in Indiana. The wisdom of the rule, according to the court, was to prevent an insured from securing double compensation for his loss.

Because a parent is also liable for support of his minor child, the court concluded that, as a matter of equity and public policy, a parent can bind the minor to a subrogation clause. *Hagerman v. Mutual Hospital Ins. Inc.*, Court of Appeals of Indiana, Jan. 12, 1978. (BI/04/Jy.-\$4).

(Copies of the entire decision of cases described may be obtained by sending a check for \$4 made out to Cases Unlimited to Legal Briefs, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion requested.)



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• **Motor Fleet Safety**, the fourth in a series of loss control brochures published by The Continental Insurance Co., is designed to familiarize the corporate policyholder with the loss control concept and how procedures can reduce premiums by minimizing hazards. Other booklets in this series are: Product Safety Control; Loss Control (a basic primer); and Environmental Health. Collectively, these publications outline the elements basic to a loss control program and describe the types of service that Continental can provide its insureds—from initial inspection through ongoing review. A fifth brochure, detailing the company's hearing conservation program, was expected to be released in early August. To obtain the entire series circle 203 on the reader service card.

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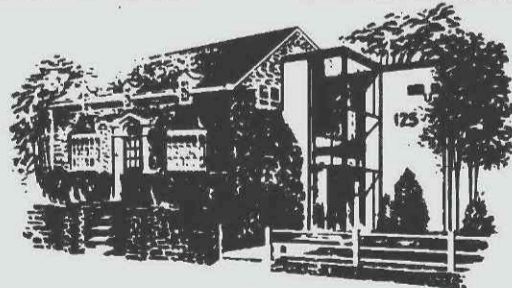
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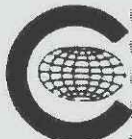
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info for buyers

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from a total risk management point of view. The review is presented in outline form and costs \$11.95. Write David Marceau, G. David Marceau and Associates, 8294 Gould Ave., Los Angeles, Calif. 90046.

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benefit tax slants

IRS explains how to value lump sum payments

By JOSEPH S. ROBINSON
Attorney-at-Law

IN A QUALIFIED defined benefit plan, an employee's rights to accrued benefits attributable to his own contributions must be nonforfeitable at all times and the benefits traced to employer contributions must be vested according to IRS schedules (Reg. Sec. 1.411(a)-1(a)).

When benefits are received, only the portion attributable to employer pay-ins is subject to income tax. If the employee-derived benefit is payable in a lump sum, its value is the actuarial equivalent of a single life annuity commencing at normal retirement age.

IRS has come out with guidelines for valuing lump-sum benefits paid before normal retirement age (See Rev. Rul. 78-202).

Example: Mr. Jones makes mandatory employee contributions of \$1,000 a year for five years and terminates employment at age 55 with an accrued benefit equal to a single life annuity of \$2,000 a year beginning at age 65. The value of mandatory employee contributions accumulated at 5% interest to age 55 is \$5,526; to age 65 it is \$9,000. The employee contribution portion of the accrued benefit at age 65 is \$900—10% (because of the 10-year period) of \$9,000. This is smaller than \$2,000 so the limitation of Sec. 411(c) (2) (E) of the Internal Revenue Code does not come into play.

Therefore, if Jones receives a lump-sum payment derived from mandatory employee contributions when he is 55, the appropriate sum is \$5,526—the present value of \$9,000 at 5% interest.

Taking compensation

Many executives feel they cannot afford the tax consequences of a big salary. Instead, they often prefer other channels to get money from their companies. One such method is the deferred compensation route which tax shelters income to a later date when presumably the executive will be retired and in a lower tax bracket. Other executives conclude that it is better to take the entire salary now and invest a portion in tax-free bonds or other tax shelters.

Let's assume that an executive could defer compensation which would earn a 7% tax-deferred increase. Here is how the deferment would compare with a non-deferment if he were to stay in a 50% bracket:

Deferred compensation of \$50,000 would build up to \$98,000 after 10 years at 7%. If then paid out, the after-tax amount would be \$49,000.

If the compensation were taken when earned, he would have \$25,000 after-tax to invest. If he invested it at 6% tax-free, compounded tax-free, at the end of 10 years, he would have \$44,750, or only \$4,250 less than he'd have under the deferred method.

Group term life

The tax advantages of group term life insurance are well known—particularly the deductibility of premiums by the employer and the tax-free coverage to the employee up to \$50,000. An employee who receives more than \$50,000 of such coverage must include the value of the excess in his taxable income, reduced by any contributions the worker makes toward the purchase of group life insurance.

Here's a point that should not be

overlooked. Employees who continue to receive coverage after retirement are not taxed on that coverage even if it exceeds \$50,000. Moreover, if an employee continues to work past age 64, the premium to be used to compute his taxable income will be frozen to that applicable at age 64.

Disability income

No medical insurance deduction is available for premiums on a policy that protects against loss of income in the event of disability, as opposed to reimbursement of medical expenses. (Weber, T.C. Memo. 1978-110).

IRA alternative

The ERISA restrictions on pension plans for employees have created difficulties for companies who are not inclined to establish full-fledged qualified pension plans, but who still wish to provide a significant retirement benefit to an employee who retires after many years' loyal service.

One suggested alternative is to create an employer-sponsored IRA plan for selected employees well in advance of their retirements. While such IRA plans will be considered ERISA pension plans since contributions obviously would have to be made by the employer, these plans are not subject to the partici-

pation and funding rules of ERISA, although the employees would be 100% vested in their IRAs. (See ERISA sections 201(6) and 301 (a) (7).) Furthermore, an employer-sponsored IRA plan funded solely by insurance need not have a trust. (ERISA Sec. 403 (b) (1).)

Consequently, the regulatory restrictions such plans must observe are essentially only having the plan in writing and observing the reporting and disclosure rules to a limited degree, filing a plan description (the EBS-1), filing an annual report (Form 5500) and supplying a summary plan description to participants.

These regulatory restrictions should be not so onerous as to offset the employer and employee tax benefits of IRAs and the ability of the employer to pick participants at will.

Legal malpractice

Forty percent of the malpractice suits brought against attorneys in Colorado are counterclaims made by disgruntled clients who have been sued for fees by their attorneys. The statistic was reported in the August/September issue of Legal Malpractice Review, published by The St. Paul Fire & Marine Insurance Co.

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A.—XIII—A.M. Best Co.

U.K. risk managers beef insurers won't respond . . .

By JOHN H. MILLER

LONDON—The ripples caused by a lighthearted quip by a top U.K. risk manager are still spreading through the London insurance market.

Everyone is now trying to decide what he really meant and whether he truly feels that British underwriters are so far behind the times that some of them ought to be put away for a spell of convalescence.

In a mood of dignified rebuff, Lloyd's has made no official com-

ment. But all its members—and there are many of them energetic enough to jet around the world thousands of miles at a time of new challenges—are anxious to assure their U.S. clients that the London market is alive and well and quite ready to welcome all their business.

In a different mood, the big U.K. insurance companies are nursing their wounds, their pride hurt at accusations that they are unable to provide the breadth of coverage which leading multinationals want

for their worldwide operations.

At a risk managers' conference on international needs, Terry Sharpe, insurance manager of the state-supported British Leyland auto group, complained that he had been forced to place a large slice of coverage in the U.S. because London wouldn't take it.

He'd hardly ended his criticism before Michael C. Faiers, risk management head of the engineering group Guest Keen Nettlefolds, charged, "London's become the geriatric ward of world insurance."

No one had singled out Lloyd's of London for complaint and everyone felt that it was the U.K. company market, which tends to be very conservative, that was under heavy fire.

Some coverage undoubtedly has moved out of London to the dismay of underwriting experts. Nonetheless, it seems to be restricted to limited types of risk where U.S. insurers have been able to offer better servicing or deductibles.

The defense of the British Insurance Assn. is that it is not prudent to engage in loss-making business. Lloyd's—which is largely exempted from criticism—is still prepared to take risks in its traditional way and there are certain enterprising underwriters with the companies who feel the same.

Setting the scene for clarification of the controversy, A.P. "Tony" Benson, risk management chief for the well-known Glaxo pharmaceutical and food group, told *Business Insurance*:

"The criticism was largely directed at the London company market, which has failed to keep up with the needs of big multinational companies in the way it should do. People have been complaining for some time of the inadequacy of this side of the London market in meeting global requirements.

"There are less complaints about

'London's become the geriatric ward of world insurance.'

—Michael C. Faiers,

Guest Keen Nettlefolds risk manager

Lloyd's, which still retains substantial flexibility. But its capacity is not infinite, so corporates have to turn to other markets as well for cover for large risks," he continued.

"It is quite frequent these days for U.K.-based multinationals to require cover for losses up to \$100 million or more and the U.S. market seems more prepared to provide this on the basis the companies want.

"It would be foolish for leading British insurance companies to disregard the clear discontent which is simmering in so many insurance buyers. The so-called 'tariff' insurers in the U.K. seem unable or unwilling to provide the forms of cover that major industry wants, quite regardless of the secondary problem of the correct pricing of cover.

"For example, they're reluctant to accept aggregate global deductibles, or to give reasonable discounts for them. Glaxo sells more than \$1 billion in products a year, operates in 100 different countries and makes an annual profit of over \$150 million. Our safety and liability loss is excellent, so we're a good bet for insurance coverage," Mr. Benson said.

"But the London company market doesn't generally seem able to accept that because we can fund quite a large amount of potential loss ourselves we don't need full ground-floor-up insurance coverage for all our risks," he continued.

"We want a strong London market and would like it to recognize the current insurance needs of top U.K. industry in a much more effective way. It sometimes seems as if some of the larger U.K. insurance companies are more concerned with money management than with their basic role as risk-

distributors."

The same attitude was reflected in the views of Dennis J. Farthing, risk manager of Rank-Xerox, who agrees that in certain cases the U.S. market serves him better.

"We've had to leave the U.K. market in the last two to three years to get the cover we want for our fire and perils, material damage and business interruption coverage," he said. "We were looking for a layered combined cover for such risks, with a large deductible, up to a capacity of around \$150 million.

"This turned out to be a situation which we couldn't get the U.K. company market to handle satisfactorily for us. So we went to the U.S. to AIG, who have been able to offer us many benefits in the form of servicing and other facilities that we couldn't get in Britain.

"We've no complaints about Lloyd's—it's their sort of approach we're looking for—and Lloyd's has in fact participated in top layers of the risk, which AIG is leading. Other insurers elsewhere in the world are also involved in the layers, but not the traditional U.K. company market I'm sorry to say.

"We're sad to have had to leave the U.K. company market for this particular type of risk, as a large part of our insurance, such as liability, auto and accident, is certainly still held in London.

"It's probably correct that only 25% of our world cover is bought in Britain. But you must remember this is nothing new, as for many years we've had to place large amounts of our cover in domestic markets abroad because of strict local requirements over insurance cover."

Mr. Faiers, who agrees that the U.S. insurance market is trying to gain deeper involvement in European industry, is now reluctant to over-emphasize his allusions to his own domestic insurance companies.

He said: "U.K. companies are not impressing with their efforts and are failing to provide full world coverage."

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Senate bill targets D.C. claim abuses

WASHINGTON—The Senate has passed legislation designed to crack down on disability retirement abuses by District of Columbia law enforcement officers and firefighters.

In recent years, up to 88% of police officers and 86% of firefighters have retired on disability, a far higher percentage than in any other U.S. city. Disability benefits are tax-free while regular retirements are subject to taxes.

In some cases, police officers and firefighters have been found working at strenuous second jobs after retiring on full disability.

To curb these abuses, the legislation would require city employees to obtain yearly medical statements from the District of Columbia Board of Surgeons certifying that they still are disabled.

The board of surgeons also would be required to determine the percentage of impairment at the time of retirement. For example, an injured employee who was 40% disabled might receive only 40% of salary.

The legislation now goes to a conference committee to reconcile differences with a House-passed version of the bill.



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. . .British Leyland buys product protection in U.S.

LONDON—British Leyland, the huge British government auto group, is unable to obtain all the insurance it wants in the U.K. market, says insurance manager Terry Sharpe.

Mr. Sharpe outlined British Leyland's problems before a conference on multinational insurance problems sponsored by the Assn. of Insurance and Risk Managers in Industry and Commerce (AIRMIC).

Delegates from several European countries, including Germany, France, Switzerland, Holland and Scandinavia, attended the conference where the future of various classes of international risk were explored.

Mr. Sharpe told the conference that he was concerned with four classes of insurance—property damage, business interruption, public liability and product liability. He prefaced his remarks by saying, "We have the advantage of direct access to the London market, which in my view is the most effective insurance market in the world. In using this term I include the company network, Lloyd's and of course the brokers' network."

After indicating that property damage and business interruption needs of his company are still placed with more than \$10 billion coverage in London, he startled delegates with the controversial disclosure:

"Let me deal with global public liability and product liability insurance, for which our obvious requirement—and the requirement of all large buyers—is a global policy.

"Last year British Leyland sold 800,000 vehicles worldwide, with a sales turnover of \$5.2 billion and there are millions of the company's vehicles being operated throughout the world from previous transactions in the past 10 years.

"Its activities may not be readily acceptable to some underwriters as a type of business, but with our exports running at this level we felt the U.K. insurance market would be able to give us the required cover," he continued.

"We found it couldn't respond to this requirement. When we examined the position two years ago and made an in-depth study, it was established that no U.K. insurance company was prepared to submit even outline proposals, let alone discuss the cost.

"I hasten to add that our difficulties were not due to an unsatisfactory loss experience, or to unacceptable premiums being quoted, as we never reached that stage of detail in our discussions.

"There was a suggestion of a consortium being formed by U.K. insurance companies, but they could not guarantee local service to our overseas companies and we felt we were being used to some extent as an experiment in this instance. The situation was totally unacceptable to us in the U.K. and overseas," he said.

"As a result, we had to look to a U.S. company to partially solve the problem. We have a global policy placed in London with this company which does not include our activities in North America, but covers all our operations in other countries throughout the world.

"Local service is provided by the insurers and they also deal with the claims, including those within the substantial deductible. This meets our U.K. requirements and those of local management.

"This doesn't completely satisfy our requirements, as it's been necessary to make separate arrangements in North America. This is on the basis of substantial self-

funding in the primary areas and various levels of excess cover.

"I realize some people might say that the U.K. market was not interested because we sell cars in the U.S., where there have been awards like the recent damages case against Ford, but our efforts were made in 1976 when the expression 'punitive damages' was nowhere so well known.

"In any case, only 8% of our sales are in the U.S. Half of them are in the U.K., with the rest elsewhere, so the cover ought to have been forthcoming without difficulty from London."

Mr. Sharpe contended that his auto group's requirements were simple, though the U.S. risk factor might call for a special premium rating within the package and be subjected to substantial risk participation for which there ought to

'I believe there should be a greater incentive for investing in a higher standard of fire protection.'

—Terry Sharpe

be a realistic premium discount.

He admitted that property damage and business interruption is still placed in the U.K. market, with \$6 billion property coverage and \$4.8 billion business interruption insurance.

But he believes it was a very restricted market in terms of capacity and estimated maximum losses and he still suffered the effects of "tariff control."

Some large buyers, he agreed, had negotiated special terms, but

the tariff rate, which the U.K. monopolies commission had criticized, ought to be broken.

"I want to see a change of attitude toward risk improvement programs by the insurance companies. My company has a five-year risk program of \$16 million in hand to install additional fire protection, but it is viewed unfavorably by our financial experts because of the inadequate return it will get.

"I believe there should be greater incentive for investing in a

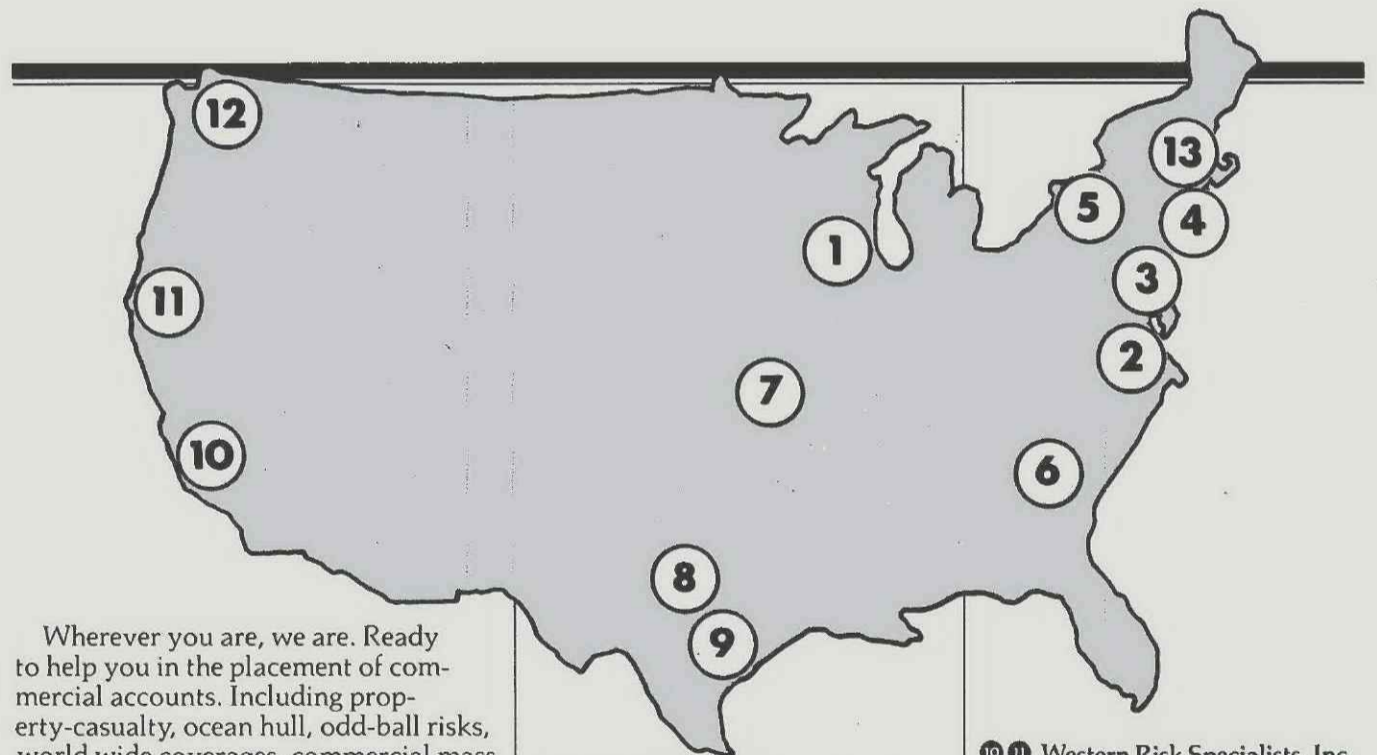
higher standard of fire protection, especially since more generous premium discounts are given in the U.S. market for highly protected risks," he added.

"There ought to be a change of mind too over premium discounts for major risk participation. When a large insurance buyer is prepared to accept a \$1 million deductible and to invest in fire protection, he should get an acceptable level of premium savings.

"This particularly applies to business interruption cover, where the discounts are derisory."

Mr. Sharpe said, however, that his firm's global business interruption cover was still placed in the U.K. market and extended to many countries that would not have been looked at 10 years ago. The product liability line of business is reported to have gone to AIU in the U.S. ■

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Calif. plea rejected

U.S. court rules states must file ERISA forms

By JOANNE GAMLIN

SACRAMENTO—A federal district court says the reporting requirements of the pension reform law apply to government pension plans.

Judge William L. Schwarzer of the federal court for Northern California rejected a suit brought by the state of California. The state said that it should not have to file form 5500 with the federal government.

Bill Powers, the deputy attorney general for the state who appeared before Judge Schwarzer, said an appeal was unlikely in view of the court's total rejection of the state's arguments. He noted that before further legal action can be taken the board of administration of the four state plans would have to be consulted.

In his ruling, Judge Schwarzer said section 6058A of ERISA applies to government retirement plans because "Congress made it very clear that when they meant to exclude a governmental plan from a particular requirement, they said so specifically.

"And the legislative history, to

the extent that it indicates anything at all, indicates that Congress was very much concerned about how far they should go in imposing requirements on governmental plans. And with that preoccupation manifest, one cannot say that 6058 was left ambiguous. Quite the contrary. I think the failure to exempt governmental plans from the requirements must indicate a clear intention to subject them to that requirement."

The federal judge also turned down the state's argument that the 10th Amendment precludes the federal government from requiring the state to file information returns.

In its action, California not only asked for declaratory and injunctive relief from the reporting requirements of ERISA, it also asked for a preliminary injunction prohibiting the U.S. Treasury from fining the state for refusing to file the annual report form (Form 5500) with the IRS.

The state plans have never filed 5500 forms.

RBH buys benefit firm

CHICAGO, Ill.—To strengthen its services in employe benefit communications, Rollins Burdick Hunter has acquired Synerconsultants Inc. of Nashville.

Synerconsultants specializes in computer services that tailor benefit information booklets for each employe and allow individual formatting designed for each client. The firm, which services employes in 23 states and the District of Columbia, also provides audio/visual and other employe benefits communications programs.

Synerconsultants will become a wholly owned subsidiary of Chicago-based Rollins Burdick Hunter, with J. Frank Swygert continuing as president. Terms of the transaction were not disclosed.

Clients of Rollins Burdick in 24 U.S. offices will be offered Synerconsultants' benefits reporting services. Synerconsultants' own clients range in size from 30 to 30,000 employees.

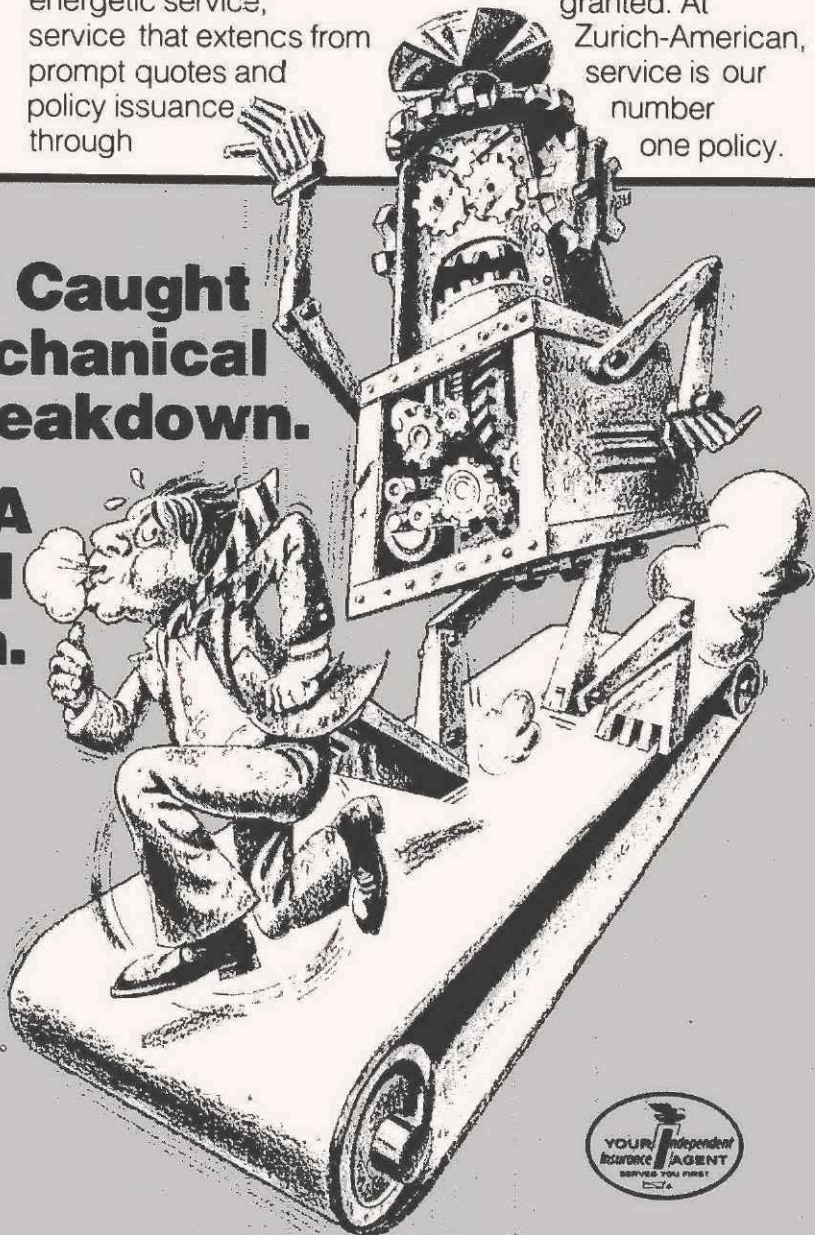
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Excerpts of rules, list of risks for N.Y. trade zone

The following are excerpts from the regulations establishing the N.Y. free trade zone. A list of the risks eligible for free trade zone treatment is also included.

16.1 Definitions

(b) For the purpose of this Regulation the term "special risk" shall mean:

(1) Class One. That which is all or part of the insured's business operations for which coverage for the kind of insurance defined in Section 46 of the Insurance Law (except those kinds set fourth in subdivisions one, two, three, fifteen, eighteen and twenty-three) is provided in a single policy written in accordance with Section 168-d of the Insurance Law, and which is written with or is reasonably expected to produce a minimum annual premium of \$100,000 for at least one kind of such insurance or \$200,000 in a situation where the premium for any one kind does not exceed \$100,000. Coverages may be provided only to a single entity or two or more related entities in each of which the same person, or group of persons, or corporation owns a majority interest; or

(2) Class Two. That which is of an unusual nature, a high loss hazard or difficult to place, as listed in subdivision (b) of Section 16.11 of this Regulation. Additions or deletions to the list may be made by the Superintendent. For the purpose of this Regulation special risks classified under Class Two which generate a premium in the amount indicated in Class One shall be for reporting purposes designated as Class Two risks.

(d) "Net premiums written" shall mean gross premiums (direct and assumed premiums including policy and membership fees, less return premiums and premiums for policies not taken) less reinsurance ceded. Provided, however, that for the purposes of section 16.2 of this Regulation no reinsurance credit shall be granted for special risk business ceded to companies not licensed pursuant to Section 168-d of the Insurance Law.

16.2 Limitation of Transactions

(a) Applicable to Property Insurance Companies. The net premiums written pursuant to Section 168-d of the Insurance Law during any twelve month period shall not exceed the greater of:

(1) twenty percent of the surplus as regards policyholders at the beginning of such period; or

(2) such an amount which when added to all other net premiums written during such period produces a sum which shall not exceed two hundred percent of the surplus as regards policyholders at the beginning of such period. In no event, however, shall an insurer's net premiums written pursuant to Section 168-d in any twelve month period exceed twenty-five percent of the insurer's total net premiums written during such period, unless the insurer has received prior written approval from the Superintendent to exceed the twenty-five percent limitation.

16.3 Disclosure to Insureds

The following wording shall appear on the front page of each binder, policy, contract, rider, endorsement, billing and/or invoice issued pursuant to the provisions of Section 168-d of the Insurance Law:

WARNING: NOT SUBJECT TO THE FILING AND/OR APPROVAL REQUIREMENTS OF NEW YORK STATE INSURANCE LAW AND REGULATIONS WITH RESPECT TO POLICY AND/OR CONTRACT FORMS AND RATES.

The words of the warning shall be in bold capital letters, each of

which shall be no less than three-eighths of an inch in height. The words of the warning shall be enclosed in a border.

16.4 Minimum Policy Provisions

All policies issued pursuant to the provisions of Section 168-d of the Insurance Law on special risks located or resident in New York State shall comply with minimum standard policy provisions of the Insurance Law and Insurance Department Regulations. Medical malpractice insurance coverage may not be written on a "claims made" form.

16.5 Standards for Rates

The rates applied to policies issued pursuant to the provisions of Section 168-d of the Insurance Law shall not be excessive, inadequate, unfairly discriminatory, destruc-

tive of competition or detrimental to the solvency of insurers. Each insurer shall maintain in its files the premium charged for each risk and the basis for the rate or premium.

Risks eligible for trade zone

Abstractors liability
Accountants professional liability
Actuaries errors & omissions
Advertisers & ad agency liability
Advertisers, broadcasters, publishers errors & omissions
Air bag repacking
Air conditioning equipment breakdown
Aircraft—turbine cover
Aircraft—waiver of subrogation and deductible
Alarm system contractual—watchman service—contractual liability
Alarm systems failure liability
Anhydrous ammonia dealers and haulers
Animal bailee coverage
Animal rides
Antiques shows
Appraisers errors & omissions
Architects professional liability
Artificial limb fitters malpractice
Audiologist professional liability
Automobile auction—check and title coverage
Automobile auction dealers—physical damage
Automobile—collision—coverage of deductible
Auto collision—loss of use for commercial risks

Automobile—diagnostic service
Auto dismantling
Automobile—"do-it-yourself" service centers
Automobile—emergency travel expense
Automobile—excess tow & labor
Automobile finance master policy
Automobile—loss of use for commercial risks
Automobile physical damage—all risk coverage
Automobile racing liability
Automobile racing—claims from participants
Auto twilight zone coverage
Bad check coverage
Bailee all risks form (open end)—laundries & drycleaners

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N.Y. regulations . . .

Continued from preceding page

Bailee customers—processing damage

Bankruptcy—property damage coverage

Banks—cash letter policy

Bankers indemnity

Banks—financial institutions—contingent lawyer's errors & omissions

Banks—mortgage interest—all risks

Beauty school liability

Boiler & machinery—excess

Boiler & machinery—special risks—chemical plants, greenhouses, petrochemical plants, schools, public utilities

Bonds—fidelity—rehabilitated ex-convict as principal

Broker-dealer bond

Bumper cars—liability

Business interruption—bomb threat

Business interruption—dairy farms

Business interruption—fishing lakes

Business interruption—theft

Canine corps liability

Carnival equipment floater

Catfish farms—"crop" insurance

Ceiling coverage—package policy including difference in conditions, umbrella liability, catastrophe crime and catastrophe care, custody or control coverages.

Cemeteries—all risk physical damage on tombstones

Charter flights—high limit (\$500,000 or over) accidental death and dismemberment

Chronological stabilization

Clinical evaluation professional liability

Clinical laboratory malpractice

Coin dealers—all risks

Coin-operated devices liability

Coin-operated devices physical

damage

Coinsurance deficiency

Collapse—special risk

Collection agencies errors & omissions

Commercial credit ("bad debt") insurance

Community antenna television (CATV) liability

Community antenna television (CATV) all risks package

Computer "burglary"

Computer equipment lease indemnity

Concrete contractors ripping & tearing liability

Condominiums—interval ownership—property

Condominiums—interval ownership—liability

Confiscation

Contact lenses

Contact lenses technicians malpractice

Contamination

Contamination—boiler & machinery

Contests managers errors & omissions

Contingency insurance—no show

Contractors equipment floater—retrospective rating

Contractors liability—turnkey operators

Contract—cancellation

Corporate trustees errors & omissions

County officials errors & omissions

Credit bureau errors and omissions

Credit card companies—errors & omissions

Credit card companies—issuers indemnity

Credit union errors & omissions

Credit union single interest property floater

Creditors impairment protection

Crime insurance excess

Crop dusting—not by aircraft

Custom harvesters—physical damage and liability insurance

Data processing companies product liability

Data processing equipment—electrical disturbance

Data processors—programmers and analysts errors & omissions

Deductible clause variations

Demolition contractors liability

Depreciation insurance

Diagnosticians professional liability

Difference in conditions—excess

Directors & officers—board of education indemnity

Directors & officers—middle management

Directors & officers—public officials

Directors & officers—union officials

Drought insurance

Dune buggies—liability & physical damage

Ear piercing liability

Earthquake—mortgage interest only

Electrical breakdown

Electrical disturbance—provides coverage customarily excluded under fire policies

Electrologists liability

Employee benefit trustee errors & omissions

Employers liability—special

Employment agencies & counsellors errors & omissions

Engineers professional liability

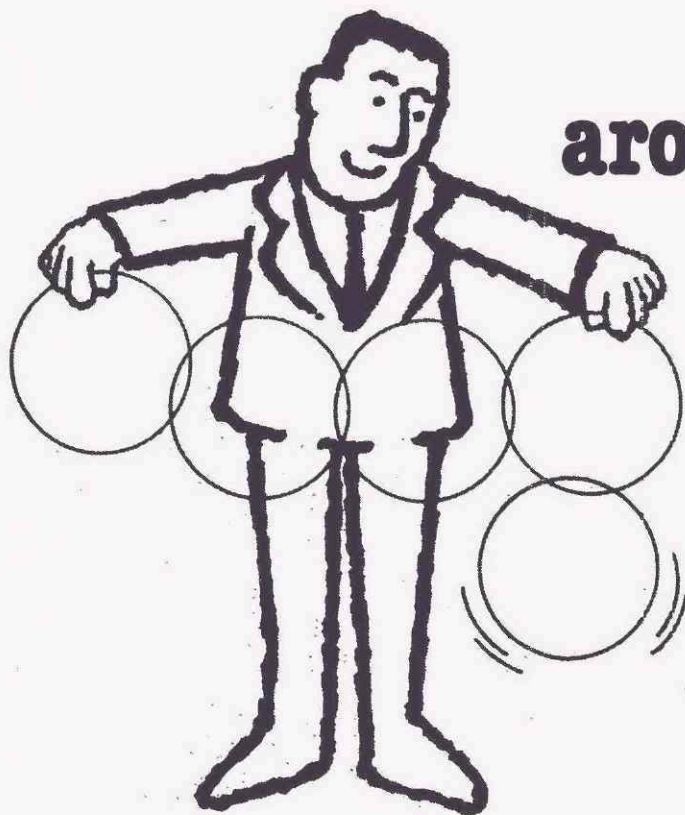
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- Oil—value business interruption on drilling operations
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- Oil wells general liability
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Photo: Terry King

Malcom Nichols of the Oregon State Action Insurance Fund (right) discusses the Portland program with loss control officer William Todd.

Liability self-insurance saves, so Portland adds work comp

By HARRIET KING

PORTLAND, Ore.—Despite an enviable record of few insurance losses, the city of Portland shared the fate of other municipalities in the mid-1970s as insurance premiums soared.

Consequently, two years ago city managers were impelled to self-insurance for general comprehensive liability and liability on their 1,500 vehicle fleet. This spring, they added workers compensation for the city's 3,500 employees to their self-insurance portfolio.

Now, the city's coverage and attention to insurance matters is stronger than ever and is substan-

tially less costly, contend those in the city's risk management division.

"We made our decision to self-insure as far back as 1975. We had no alternative on comprehensive general liability. If we could have found carriers, there would have been more exclusions than inclusions," says Donald W. Eckton, insurance and claims administrator.

"If we could have purchased this coverage, it would have cost us \$2 million," says Mr. Eckton. "Our last quotes were \$600,000 in fleet alone and \$1.4 million on general liability." Those combined quotes would be well over \$2.5 million to-

day, he estimates, by contrast with the late 1960s when both could be purchased for slightly over \$200,000.

So city officials put a plan in motion leading to a self-funded and self-administered insurance program. First, the city's brokers did an in-depth search of various markets "and provided us with all the alternatives possible," says Mr. Eckton.

Next, the Portland residents approved a change in the city's charter to make self-insurance possible. Then, the city hired a risk manager. By August 1976, the program for self-insuring general compre-

Continued on following page

Regs . . .

Continued from facing page
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- Trade show sponsors liability
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- Truckmen—fleet owners excess actual cash value
- Truckmen—non-trucking use—bobtail liability—deadhead coverage
- Truckmen—motor truck cargo—excess-hazardous cargo
- Truckmen terminal catastrophe protection
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- Trustees and fiduciaries statutory liability
- Trustees—trust department errors and omissions
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New disease?

Because nearly 37,000 deaths in the U. S. over a six-year period were blamed on a 1% increase in unemployment, the UAW says job loss should be considered an occupational disease. The union urged passage of legislation to provide additional benefits in the event of plant shutdowns. A bill to provide such benefits is now pending before Congress.

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Portland self-insures . . .

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hensive and fleet liability was in operation.

"In that first fiscal year, the city only paid out \$96,000 in liability claims. The payments were spread out through the year," says Mr. Eckton. "If we had been able to acquire liability insurance, we would have had to pay out a \$2 million deposit for premiums on day one. So the potential cash flow advantage is terrific." The city handles claims up to \$250,000.

The people in the city's risk management division are determined to make the new program work. They include not only Mr. Eckton (who is also current president of Oregon Risk & Insurance Management Society) but also William G. Todd, loss control officer, and Jan DeWeese, workers compensation officer. A risk manager's position,

initially filled by Mike Lewis, is now vacant.

Co-workers refer to Bill Todd, who previously was the city's safety officer, as "the man of the hour" because loss control is a key to the success of the new program.

Mr. Todd has put emphasis on decentralizing loss control among the city's 90 departments. He has also emphasized making each department responsible for a certain portion of the insurance budget. But this was also the area where insurance administrators ran into their biggest hurdles—making city managers accountable for their departments' losses.

"The toughest thing has been to get a total recognition by upper management that this is a real need and that to affect real savings we need a continuing program to reduce losses," says Mr. Todd. "But

we feel that the city is developing the management techniques to hold each unit accountable to reduce loss and exposure."

To determine the rate at which each department contributes to the overall budget, the city has developed its own computerized loss runs. These will depict on a monthly basis each type of loss and break down losses for each reporting unit in the city.

"As time progresses, if a department has reduced claims, then their costs will go down," says Mr. Eckton. "If their claims increase, their costs will go up on a pro rata basis."

"So we have developed a program, set up loss experience for each department and created a \$1 million loss reserve fund, funded annually. That figure can be increased, depending on needs as projected," he says.

Some loss control measures include defensive driver training to

stem losses among fleet vehicles as well as supervisory and employee training and education seminars.

Mr. Eckton contends that his risk management division can do a more efficient job in projecting losses than commercial insurers. "Whenever we made changes in carriers or in our program, we found we had inaccuracies in our loss runs," he says.

The city's current loss runs were created by Mr. Eckton, former risk manager Mike Lewis and their staff. "We also sought outside expertise and looked at the loss runs from various sources. Now, we've got our own experience to rely on," says Mr. Eckton.

The city also has a commercial policy which covers some 4,000 part time, federal government program employees and summer workers. "Our commercial policy covers one-time activities like running four or five buses for human resources programs, especially those for youth and the elderly," says Mr. Eckton. This is because the program might just be operable for eight to 10 weeks but could potentially hurt our self-insurance program too bad—they're a higher risk for a small time," he says.

The self-administered and self-insured workers compensation program was added on Jan. 1, 1978. Oregon, through its State Action Insurance Fund (SAIF), had previously had a monopoly on workers compensation and excluded outside carriers. But the law was changed on Jan. 1 to provide that cities with premiums greater than \$200,000 a year could self-insure.

Only three cities qualify for self-insurance—Portland, Salem and Eugene. To develop the expertise to carry out the program, Jan DeWeese was hired as workers compensation officer.

Malcom C. Nichols, director of SAIF self-insurance services, worked closely with the city risk management team and with the city council in setting up the self-insured worker compensation program.

"We all worked carefully together with the basic ingredients to launch this program," says Mr. Nichols. "SAIF set up an agreement with the city where SAIF would set up services, draw upon various members of our organization and provide outside resource people such as loss control experts, doctors, attorneys, etc. We also made a lot of claims history available," says Mr. Nichols.

Mr. Eckton feels that their current workers comp program is better than what was available from the state.

"Under the state coverage, we were limited to coverage under the tort claims act. This did not include our people when they were under different jurisdictions other than the city of Portland. But, for instance, we send people all over the country for training. And the state coverage wouldn't be applicable while our employees were in federal court. There were also a whole lot of other exclusions," says Mr. Eckton.

Jan DeWeese and others on the city's risk management staff are making a study to determine what type of savings could be realized in workers comp losses if the city approves a progressive, light-to-full-duty, back-to-work policy.

"We pulled out 50 claims and analyzed them," says Mrs. DeWeese. She discovered that 10 to 12 months elapsed on the average from the time a doctor said the claimant was eligible to progress from light-duty to full-duty jobs.

"The city paid \$224 a week average—or about \$1,000 a month—for a total of about \$10,000 per claim during that time," says Mrs. DeWeese. "Multiply that by 50 persons and you have a half million



Photo: Terry King

Jan DeWeese is studying whether a progressive back-to-work policy could reduce work comp claims.

dollars in premiums right there.

"But Oregon has a complex law so our workers compensation costs are high. Our state is not like many others where there is a maximum payment allowed per claim—ours is open ended. You can never close a claim, yet labor is strong here and benefits are scaring."

Notes Mr. Nichols: "The average disability claim is \$148,000 and it is getting closer to \$200,000."

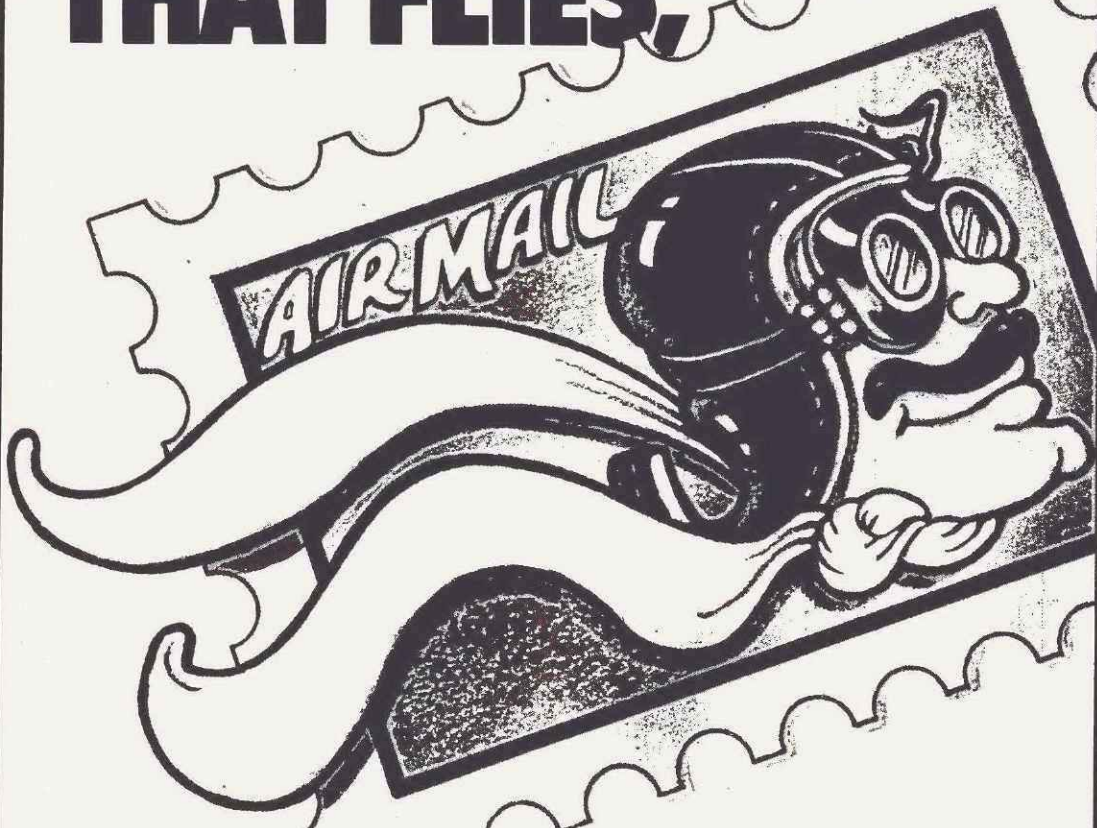
"We must start with the rules and try to be as creative as possible," says Mrs. DeWeese. "We've taken this data before the city council."

It is still too early to tell first-year results, says Mr. Nichols. "We at SAIF do, however, have an agreement to evaluate the city's program from a commercial standpoint in two years. So then we'll provide a management information report to the risk management division and to the city council."

The city has an "excellent rapport" with Multnomah County, says Mr. Eckton. "We cooperate with mutual exposures and we have all kinds of those exposures. For instance, consider police coverage. City policemen arrest and the county incarcerates because we have farmed the city's jail facilities out to the county."

The city has an advantage with its self-insurance program that it could not find if the coverage were placed elsewhere, contends Mrs. DeWeese. "It's nice to have all the claims in just one office. For instance, I get the claim from the employee involved in a fleet vehicle accident and Don Eckton has the vehicle coverage. So we have just one office that handles it all."

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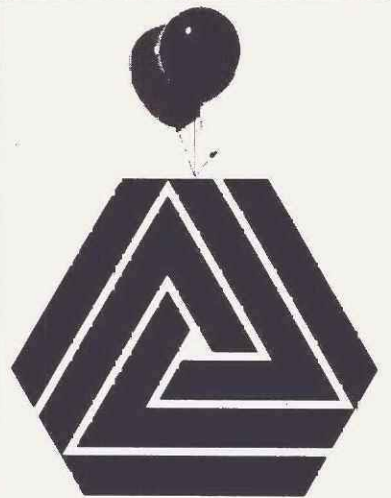
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Excess brokers . . .

Continued from page 1

and Alexander & Alexander each ranked among the leaders in three states. Stewart Smith ranked second in Illinois, fourth in California and seventh in New York with premium from those states totaling \$21.3 million.

Swett & Crawford ranked second in California, fifth in Texas and eighth in Louisiana with those states producing \$23.3 million in premium for the firm. A&A ranked fifth in Illinois, seventh in Texas and eighth in Florida with combined premium from those states being equal to \$12.3 million.

Other firms ranking among the top 10 in more than one state were: Wohlreich & Anderson, New York (1) and Illinois (4), \$21.7 million; Cravens, Dargan & Co., Texas (1) and California (7), \$16.4 million; National Brokerage Agency, Illinois (1) and New York (6), \$15 million, and Marsh & McLennan, California (9) and Texas (10), \$9.6 million.

However, Marsh & McLennan combined with its subsidiary, National Brokerage, would rank among the leaders in four states. Premiums produced in those states totaled \$24.6 million.

Several national brokerage firms in addition to A&A and M&M placed in the top 10 in one state. They were: Fred S. James & Co., eighth in New York; Frank B. Hall, sixth in Louisiana; R.B. Jones, sixth in Illinois, and Rollins Burdick Hunter, seventh in Illinois.

California, Texas and Illinois each have five multi-state leaders ranking among their top 10. Four multi-state leaders rank in the top 10 in New York, two in Florida and one in Louisiana:

State premium figures cannot be used to accurately portray which firms are the largest producers in the nation, however. The figures reflect premium only on risks located within the respective states.

Thus, while Houston-based J.H. Blades ranks third in Texas with \$7.4 million in premium, the firm's total placement exceeds \$50 million, according to chairman Joseph Blades, who explained that much of that business comes from offshore or other states.

Similarly, a Stewart Smith executive said his firm's premium volume ran about \$60 million while business from the three states where it ranks among the leaders totaled just over \$21 million. Again, the difference is out-of-state business not reported in insurance department figures investigated by *Business Insurance*.

In addition, many of those reporting figures as excess and surplus brokers act as managing general agents. Gray & Co. of Metairie, which led Louisiana with \$10.2 million premium volume, acts only as a managing general agency writing excess lines over self-insured retentions.

Here is a list of the leading brokers in six states:

| California | |
|---------------------------|----------------|
| 1. Walker, Sullivan & Co. | \$21.3 million |
| 2. Swett & Crawford | \$14.0 million |
| 3. H&W Insurance Services | \$13.1 million |
| 4. Stewart Smith | \$10.0 million |
| 5. George F. Brown & Sons | \$10.0 million |
| 6. Voit, Walker & Co. | \$8.4 million |
| 7. Cravens, Dargan & Co. | \$8.0 million |
| 8. Worldwide Facilities | \$6.9 million |
| 9. Marsh & McLennan | \$6.5 million |
| 10. L. W. Biegler Inc. | \$6.1 million |

*Figures supplied by California Surplus Lines Association

New York*

| | |
|--------------------------------|----------------|
| 1. Wohlreich & Anderson | \$15.6 million |
| 2. George F. Brown & Sons | \$6.7 million |
| 3. Feit & Drexler | \$5.4 million |
| 4. Sixty-Seven Brokerage Corp. | \$5.0 million |
| 5. Lumley Dennant & Co. | \$4.4 million |
| 6. National Brokerage Agency | \$4.3 million |
| 7. Stewart Smith | \$4.2 million |
| 8. Fred S. James & Co. | \$3.6 million |
| 9. Osborne, Post & Kurtz | \$2.9 million |
| 10. Brokerage Surplus Corp. | \$2.9 million |

* 1976 figures

Texas

| | |
|--------------------|--|
| 1. Cravens, Dargan | |
|--------------------|--|

| & Co. | \$8.4 million |
|-------------------------------|----------------|
| 2. Myron F. Steves & Co. | \$7.8 million |
| 3. J.H. Blades & Co. | \$7.4 million |
| 4. George F. Brown & Sons | \$6.0 million |
| 5. Swett & Crawford | \$5.1 million |
| 6. Dub Martin & Co. | \$4.9 million |
| 7. Alexander & Alexander | \$4.7 million |
| 8. Sayre & Toso | \$4.5 million |
| 9. Courtesy Insurance Agency | \$3.6 million |
| 10. Marsh & McLennan | \$3.1 million |
| Louisiana | |
| 1. Gray & Co. | \$10.2 million |
| 2. Mid-Continent Underwriters | \$9.3 million |
| 3. Mid-South Underwriters | \$8.9 million |
| 4. Southern Marine | |

| | |
|------------------------------------|---------------|
| & Aviation General Agency | \$5.4 million |
| 5. Southern States General Agency | \$4.8 million |
| 6. Frank B. Hall | \$4.5 million |
| 7. Agency Management Corp. | \$4.5 million |
| 8. Swett & Crawford | \$4.1 million |
| 9. Interstate Surplus Underwriters | \$3.4 million |
| 10. Tri-State General Agency | \$3.4 million |

Illinois

| | |
|------------------------------|----------------|
| 1. National Brokerage Agency | \$10.7 million |
| 2. Stewart Smith | \$7.1 million |
| 3. Shand Morahan | \$6.3 million |
| 4. Wohlreich & Anderson | \$6.1 million |
| 5. Alexander & Alexander | \$5.7 million |
| 6. R.B. Jones | \$4.3 million |
| 7. Rollins Burdick | |

| | |
|---------------------------|---------------|
| Hunter | \$4.1 million |
| 8. Bowes & Co. | \$2.3 million |
| 9. George F. Brown & Sons | \$2.1 million |
| 10. R.E. Potter | \$1.7 million |

Florida*

| | |
|---------------------------------|---------------|
| 1. The London Agency | \$5.6 million |
| 2. Dana Roehrig & Associates | \$4.7 million |
| 3. Hull & Co. | \$4.3 million |
| 4. George F. Brown & Sons | \$3.6 million |
| 5. I. Arthur Yanoff | \$2.6 million |
| 6. Risk Management Service Inc. | \$2.3 million |
| 7. Empex Agency | \$1.8 million |
| 8. Alexander & Alexander | \$1.8 million |
| 9. Gordon B. Phillips | \$1.7 million |
| 10. Cover-All Underwriters | \$1.7 million |

*1976 figures



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Seattle policy . . .

Continued from page 1
clients who it appears had been uninsured.

Associated turned the evidence over to Commissioner Buxton. At one time, Mr. Kubovchik was manager of the agency's excess and surplus lines and was considered an expert in placing difficult-to-market risks.

Many of the details surrounding

the matter are still unclear as Missouri officials try to determine how much premium money may have been diverted. Commissioner Buxton and Nevada officials said they intentionally delayed turning over evidence to state and federal prosecutors until all clients allegedly duped in the scheme were properly insured.

Associated apparently is secur-

ing a \$1 million policy to cover any claims stemming from any incidents that might have occurred while the allegedly bogus policies were in effect.

An Associated officer met with Nevada insurance commissioner James Wadhams in early September, but the outcome of that meeting has not been revealed.

Many of the policyholders in question are municipalities, which have recently experienced difficulty placing liability insurance because of the number and size of lawsuits brought in recent years against cities nationwide.

King County's quandary is typical of those in question. And although Frank Baxendale, executive vp of Associated, declined to comment on the matter, he did note that "the King County policy was among those that Mr. Kubovchik issued through his own 'private company.'"

King County

King County risk management officer Joseph M. Gaidys still hopes that the coverage is valid in the event that liability claims should arise from the 15 months in doubt.

King County, the most populous county in the state with sizeable risks such as the Kingdome stadium, is self-insured for claims up to \$300,000. It buys \$700,000 additional liability coverage from private carriers plus a third, \$4 million catastrophe layer of coverage—the one that is in doubt. The county's broker is Fred S. James & Co.

In 1977, the county authorized James to pay \$143,000 in premiums for its catastrophe coverage from April 1977 to April 1978. The policy later was renewed for three months for \$36,000. James had placed the policy with Public Entity Underwriters Ltd. of Denver, which in turn placed it with Associated Underwriters. Associated then acted as primary carrier.

"There is a limited insurance market for public bodies. Their premium quote was the best offer we received and it was a competitive price," said Mr. Gaidys. "It was an open and above-board operation all the way around."

Policy cancelled

Donald Frederickson, vp of Fred S. James & Co. in Seattle, said the next best quote was \$200,000 and he adds that the carrier involved—Public Entity—had been used before by surplus line brokers. At Associated Underwriters, Mr. Kubovchik handled the account. Supposedly Lexington Insurance Co. took \$1 million of the risk from Associated and the remaining \$3 million of the coverage was split among eight different insurance companies.

Lloyd's of London supposedly took 20% of that latter figure and the rest was divided among companies in Canada, London and Japan.

Subsequently, Mr. Gaidys received notice that Associated wanted to cancel the policy effective July 21, 1978. Mr. Frederickson of James recalled, "They wanted to cancel in 30 days. In a letter, we pointed out that their contract had a 60-day cancellation clause, so they rescinded the 30-day notice and gave us 60 days."

The letter was signed by Donald Fanetti Sr., Associated's marketing manager. "When I asked why we were being cancelled, the question was ignored," says Mr. Frederickson. By Aug. 1, 1978, the county had placed the coverage with another firm. The county had filed no claims since April 1977.

Because of such correspondence, King County officials contend that the county did indeed have a valid policy. "Our Denver people say it is legitimate," contends Mr. Frederickson. "Without question, we want the coverage. You never know when in the future a claim might be submitted."

Mr. Gaidys cited several other examples as proof of the policy. "When we received our policy, even the changes we had requested were underlined," he said. "We had no reason to believe it was not legitimate. If it wasn't legitimate, why would Associated have tried to cancel it? In July of 1977, too, just three months after that policy was in operation, we were notified that one underwriter had withdrawn and had been replaced with another."

County's position

"We are also on a payment plan and made a total of five payments over the year and a quarter," said Mr. Gaidys.

"Mr. Kubovchik is one of the company officers, not a secretary opening the mail. Payments are normally handled internally and go through trust accounts," he observed. He contends that he paid Associated rather than the allegedly fictitious E&S Insurance Agency.

"I still feel that we have the coverage, whether Associated is guaranteeing it or whether the carriers involved are 'bound,' regardless of whether they got the money

U.S. judge okays pregnant flying

RICHMOND—A U.S. district court here ruled that Eastern Airlines is guilty of "invidious sex discrimination" by requiring its stewardesses to take unpaid leaves when they know they are pregnant.

Judge Robert R. Merhige Jr. imposed temporary maternity leave rules on Eastern that will require the airline to permit flight attendants to continue flying in some instances through the first 28 weeks of pregnancy.



Photo: Terry King

"We had no reason to believe (the policy) was not legitimate. If it wasn't legitimate, why would Associated have tried to cancel it?" asks Joseph Gaidys.

or not. We especially look to Associated, since Mr. Kubovchik was a board member and that company was responsible for his actions," Mr. Gaidys added.

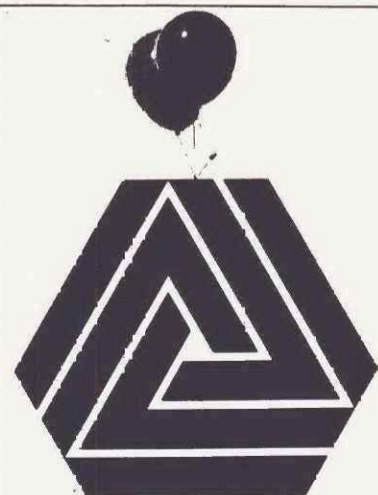
He is now waiting for an investigation conducted by the office of Washington state insurance commissioner Dick Marquardt. In that office, spokesman Whittier Johnson comments: "We are chipping away at it and have three staff people working on the case. We generally have good rapport with other state insurance commissioners, although Missouri is pretty far away. "I am not sure this matter is a 'scandal,' but it is a situation where we possibly have criminal behavior on the part of one individual," said Mr. Johnson.

Blue Cross offers maternity cover

PHILADELPHIA—The Blue Cross Plan of Greater Philadelphia has approved maternity coverage for individual female subscribers at an additional cost of \$5.50 a month per contract.

"For many years Blue Cross, Blue Shield and the commercial insurance carriers have been paying for abortion for single subscribers. I could never accept the fact that they would turn around and deny coverage for live births," said insurance commissioner William J. Sheppard.

Commissioner Shepard said he is calling upon all insurance companies, Blue Cross plans in other state areas and Pennsylvania Blue Shield to follow suit. He added that he has indications that Blue Cross of Northeastern Pennsylvania and Pennsylvania Blue Shield will provide similar coverage shortly.



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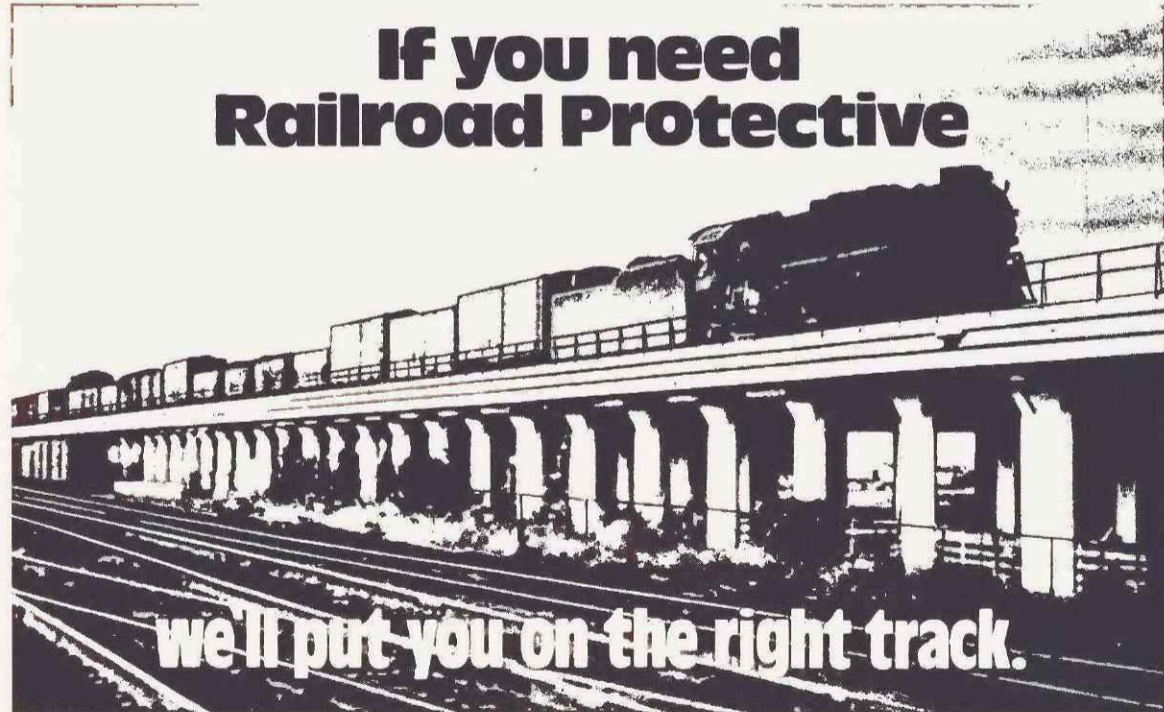
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A&A merger . . .

Continued from page 1

filed with the FTC and the Justice Department to assure there are no objections under federal antitrust laws.

An FTC spokesman said the agency will review the filing under its new pre-merger notification rules, which require more detailed reporting. Although the spokesman said there is "always a possibility there will be problems," he noted that the check is routine.

Not only did the size of the acquisition surprise insurance brokers and industry observers, but the purchase price also raised eyebrows.

Leonard M. Wilson, a vp and stock analyst with Drexel Burnham & Co. in New York, said, "It's a very handsome price, 17 to 18 times current fiscal earnings for the end of Oct. 31, 1978." Although Jones' performance has been lower than other brokers, Mr. Wilson noted that Jones' profitability during the last nine months has been "very strong."

Move expected

A&A's move was expected by Russell R. Miller, president of a consulting firm in San Francisco specializing in insurance broker mergers. "As an outside observer, I've been expecting this and some others," Mr. Miller said, adding that future mergers in the industry will probably reduce the three tiers among the larger brokers to two tiers.

Mr. Miller also predicted that if A&A continues its tremendous internal growth and acquisitions, the firm will surpass first-ranked Marsh & McLennan, at least in terms of property and casualty revenues. Marsh & McLennan derives approximately 45% of its revenues from brokerage operations while the remaining business is comprised of reinsurance, employee benefits and international operations.

Marsh & McLennan reported total gross revenues of \$415 million for all subsidiaries in 1977 while A&A reported approximately \$219 million for 1977 gross revenues. A&A and Jones combined would have generated \$245 million in revenues.

A&A's Mr. Bogardus maintained that surpassing M&M in property and casualty business is not a goal. "We're not trying to be the largest, just the best," he said. "Because of the increased sophistication in the brokerage field, large firms can afford the higher specialties that a small firm would be hard-pressed to obtain."

Mr. Bogardus noted that A&A will continue seeking to acquire smaller firms that complement its operations but won't seek "many the size of Jones."

A&A will gain four new offices from the merger: Kansas City, Wichita, Chattanooga, Tenn., and Waterloo, Iowa.

New arrangements

In cities where both brokers have operations—such as St. Louis, Tulsa, New York and Chicago—the office managers of both firms will jointly reorganize the office. Reorganization plans will be submitted to both Mr. Tucker and Mr. Bogardus for approval.

In St. Louis, it is expected that Jones office manager rather than A&A's will become the manager of the joint office since the Jones operation is the larger operation of the two.

The St. Louis office will become one of A&A's largest offices, Mr. Bogardus said. Tulsa will also be a strong office.

Illinois R.B. Jones, the large excess and surplus operation in Chicago, will remain a separate entity.

Noting that the proposed merger was "met with great enthusiasm" at Jones, Mr. Tucker said its association with A&A will bring Jones clients enhanced services in engineering, reinsurance and employee benefits. Geographically, Jones will become international and will broaden its offices to cities where some of its clients are located.

In lines of insurance, Jones will gain strength in airline underwriting. In exchange, A&A will gain Jones expertise in writing harbor and river marine, construction, mining and agriculture, Mr. Tucker noted.

But perhaps more important to Jones is that its stock, most of which is closely held in an employee stock ownership trust, will become

more marketable: Jones stockholders were anxious for that development since they want to sell the stock as they retire, Mr. Tucker said.

To make its stock more marketable, Jones could have chosen to merge or make another public issue of stock, said H.B. Ingebretsen, former general counsel at Jones and a practicing attorney at H.B. Ingebretsen & Associates Inc., a merger consulting firm in Denver.

A&A the best

Mr. Tucker said Jones has talked casually with several brokerage firms about merging, but said the talks never reached a formal stage.

"Not to belittle our competitors, but A&A has led the parade in the last 10 years in acquisitions, earnings per share and growth rate. It's just a premiere broker," Mr. Tucker said.

Midwestern brokers greeted the announcement with surprise but

"It's a very handsome price, 17 to 18 times current fiscal earnings for the end of Oct. 31, 1978."

—Leonard Wilson,
stock analyst

were cautious in predicting whether competition in the Midwest will deepen.

"The competition may increase but Jones was always a strong competitor. We will view them as a friendly competitor," said John D. Nordstrom, president of Nordstrom Agency Inc. in Minneapolis.

"It was a little bit of a surprise. They kept it under cover so well," Mr. Nordstrom added.

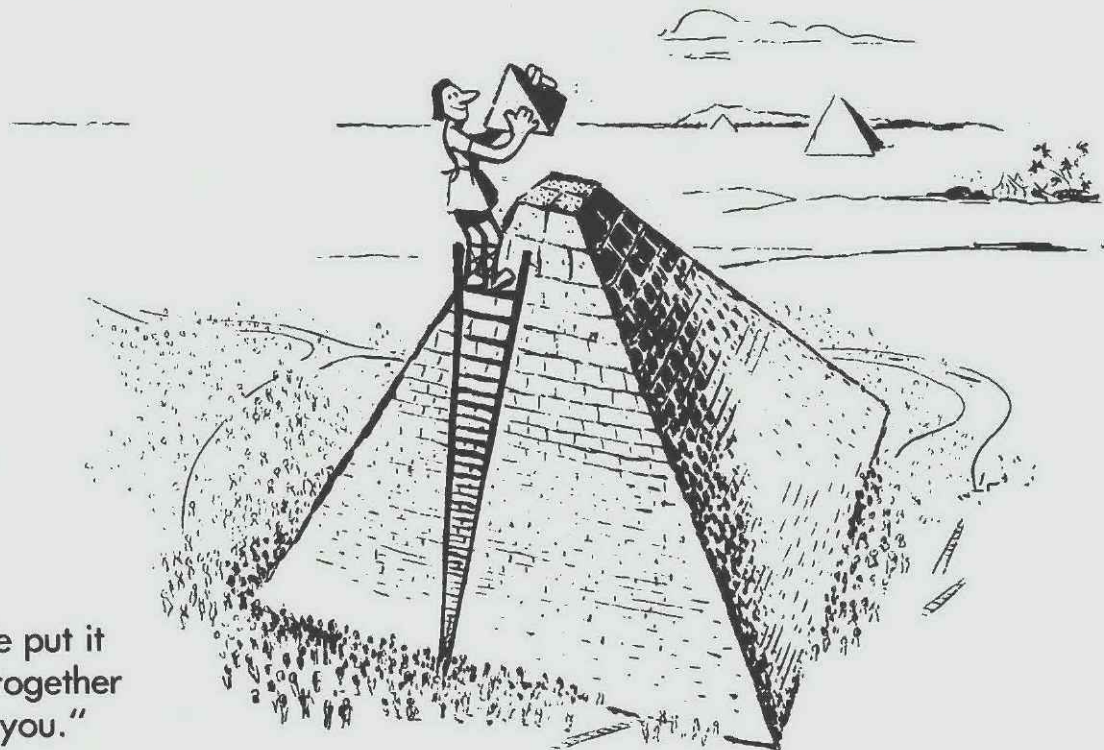
Robert E. Gallagher, president of Arthur J. Gallagher & Co., said it was a surprise "because we

planned on overtaking Jones in revenues next year."

"Jones is gaining many strengths. A&A is one of the most prestigious, well-managed, international brokers," Mr. Gallagher remarked.

"It's a very fine deal for Jones," agreed Lee Beets, chairman of the board and chief executive officer for Financial Guardian Insurance Group. Discounting the possibility of increased Midwest competition, Mr. Beets said, "Jones is already
Continued on following page

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A&A merger . . .

Continued from preceding page large and whether we're competing against A&A or Jones doesn't make a difference."

A sore point for both brokers, however, is that Jones faces a class action lawsuit brought in 1974 by stockholders claiming they were wrongly forced to sell their stock when Jones attempted to go private.

The lawsuit claims that Jones defrauded the public by offering stockholders the choice of selling their stock at \$6 a share or facing reduced earnings.

According to plaintiff lawyer Kent E. Whittaker, stockholders were told that their earnings would be reduced because the company had to borrow large sums of money in an attempt to buy enough Jones

public stock to become a private firm.

Mr. Whittaker said Jones used scare tactics to begin forcing stockholders to sell in the hopes that the remaining stockholders would follow. Jones, however, was unable to reduce the number of holders below 300, necessary for becoming a private firm.

The lawsuit asks for damages equal to the current market value of the stock. If the former stockholders win the suit, which is currently in discovery stages, they would be awarded \$15 million or in other words \$42 a share, based on the amount that A&A is offering for Jones stock.

Mr. Tucker declined to discuss the class action lawsuit, saying it does not relate to the proposed A&A merger. ■

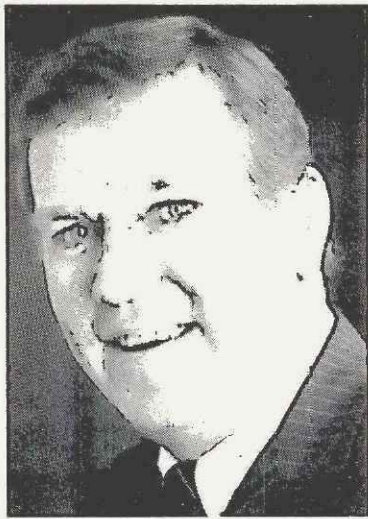


Photo: Kathryn J. McIntyre

Robert Gallagher, president of Arthur Gallagher, says, "We planned on overtaking Jones in revenues next year."

Lloyd's results . . .

Continued from page 1

good and the overall picture is healthy for us," he added, "But we are moving rapidly towards next year's account and I'm feeling very cautious. World capacity in non-marine has shot up after dramatic improvements in other markets such as the U.S. Capacity is now outstripping demand so here at Lloyd's we will all have to work skillfully to avoid any pitfalls."

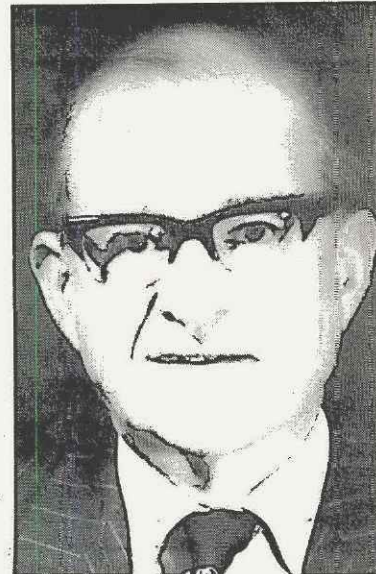
Lloyds chairman Ian Findlay said, "I've always felt confidence in the amount of experienced people at Lloyd's and that they will see us through any difficult times ahead for there's no feeling of complacency in London these days."

Aviation chairman Neil Hill said airline losses this year might exceed last year's. Marine chairman Mike Oliver believes trading results were better than expected considering the worldwide depression in oil tankers.

Chairman Findlay emphasized that although the profits were a volume record, the percentage against premium trailed successful years like 1972 and 1973 when margins topped 9%.

Mr. Findlay also said Lloyd's is watching the development of the new New York markets, but that "it is too early to say how it will affect insurance."

"Lloyd's is different than any other insurance institution because it deals in large risks which other markets do not always accept," he added.



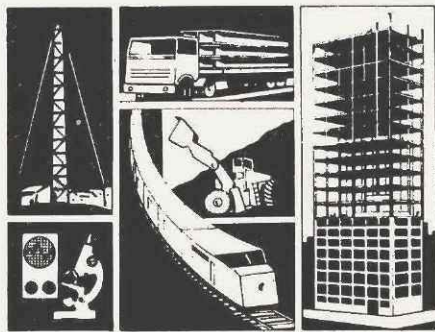
"Lloyd's is different than any other insurance institution because it deals in large risks," says Chairman Ian Findlay.

Mr. Findlay took note of the large increase in members at Lloyd's and the increased capacity. "We will be watching the future situation very carefully so that we do not overstretch capacity, but at the same time are prepared for the needs that might arise," he said.

The chairman said again that Lloyd's officials feel the need to preserve its basic principles and are studying ways to accommodate increased interest by U.S. concerns in becoming brokers. ■



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New surplus lines firms boast of steady growth

CINCINNATI—Great American Insurance Co. is the latest insurance company to move into the excess/surplus area by forming a non-admitted excess lines subsidiary.

The wholly-owned subsidiary, Great American Surplus Lines Insurance Co., began operations last December with capital and paid-in surplus of \$8 million. Since then, the firm has been approved to do business in 47 states.

Great American Surplus Lines president Ray Johnson said the firm was started because the admitted market was not providing the capacity consumers needed.

Mr. Johnson described Great American Surplus as your "classic excess and surplus lines" firm since it doesn't specialize in coverages for any particular risk, but provides a broad range of coverages in the commercial property and casualty business.

Although Mr. Johnson declined to reveal the premiums the company has written until its first full year has ended, he said the volume of the business "is right on target" with original projections.

With the improvement in the primary market, Mr. Johnson said he doesn't expect the rate of increase of business for non-admitted companies to match the increases of the last three years due to the willingness of the admitted carriers to underwrite many risks.

"But there always is going to be a need for surplus lines writing to tackle problems that can't be solved in the admitted market," he said.

Great American Surplus Lines expects to have 17 employees by the end of the year, one-third of whom will be underwriters, Mr. Johnson said.

Elsewhere, St. Paul Surplus Lines Insurance Co., a wholly-owned subsidiary of the St. Paul

Cos. of St. Paul, is another example of a large primary company forming an excess unit.

"The company (St. Paul) felt that in order to move into the growing surplus market the only way to do it was to form a non-admitted subsidiary to deal with production sources that had market contact," said Richard L. Smith, underwriting officer.

St. Paul Surplus Lines reports that premium volume has jumped from \$350,000 in 1975, the first full year of business, to \$2.7 million in 1977.

Premiums written this year may reach \$4 million, Mr. Smith said. ■



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Trade zone rules . . .

Continued from page 1

cal of requirements that only reinsurance ceded to companies licensed in the free zone could be credited in determining the amount of free zone business an insurer could write and of the limitation on free zone business itself.

The minimum policy and rate standard provisions were left intact. However, "claims made" medical malpractice coverage, which was outlawed by other regulations, became expressly prohibited in the free trade zone. The reinsurance and limitation on transactions provisions were reworded for clarification purposes.

A controversial \$250,000 threshold on free zone policies involving two or more kinds of insurance where no single premium exceeded \$100,000 was lowered to \$200,000.

Insurance superintendent Albert B. Lewis responded to criticisms raised at the hearing by saying, "The statute only exempts free zone transactions from filing requirements with respect to rates and policy forms. Operating in the free zone does not release insurers from their responsibility to the public by removing those sections of the insurance law enacted to protect the public, the insured and the claimant."

He explained that limitations on free zone transactions were needed to prevent insurers from building free zone capacity at the expense of personal lines and that the minimum policy standards clause prevented insurers from writing policies containing "onerous" and "abhorrent" provisions that would exclude insurance protection.

No negative impact

Deputy superintendent Michael Curan told *Business Insurance* that insurers could not identify any minimum policy standards that would have a negative impact upon their ability to do free zone business when the regulation was explained.

Much of the explanation was done at meetings between insurers and department personnel that took place following the hearing. Apparently what went on at those meetings muted the insurers' objections.

After the final regulation was issued, AIG's Mr. Foley said the limited list of unusual and hard-to-place risks that could be written in the free zone was his only problem with the final regulation.

At the hearing, Mr. Foley submitted a list of over 100 classes for which rates had been filed with the department but no New York companies were writing business. Few

of them were added to the final list.

Six of the AIG companies, American Home Assurance, Commerce & Industry, American International Underwriters, Insurance Co. of the State of Pennsylvania, Birmingham Fire and National Union Fire, have had their free zone applications approved. Other approved free zone insurers are Commercial Union and Employers' Fire of the Commercial Union Group and the United States branch of Tokyo Fire & Marine.

Unregulated market?

Not everyone was pleased with the final regulation, however. Edith Lichota, RIMS legislative representative, said the regulation was so extensive as to make the free zone "one of the more regulated non-regulated markets in the

world."

If the free zone fails to become a successful market, insurers are likely to cite Regulation 86 as another example of why it is hard to do business in New York, she said.

Ms. Lichota said she would have preferred a broad definition of unusual and hard-to-place risks eligible for the free zone, rather than the list of specific risk classes.

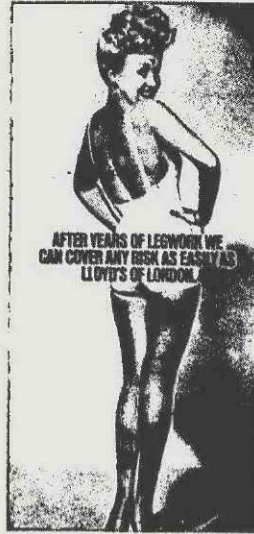
As to whether the free zone would be effective in preventing business from moving to the London market, she said the free zone could be an attractive market for risks on the list, but the competitiveness of free zone insurers will determine in the long run whether buyers will prefer it over London.

Meanwhile, the committee of 13 that is drafting a constitution and by-laws for the New York Insurance Exchange has reportedly made progress toward preparing a rough draft for the document. Subcommittees on membership, a guaranty fund and operations are

expected to make reports to the committee-at-large at the next meeting in mid-September.

The insurance exchange, which would be comprised of underwrit-

ing syndicates writing reinsurance, foreign risks and lines surplus to the free zone, was approved in the same piece of legislation that created the free trade zone.

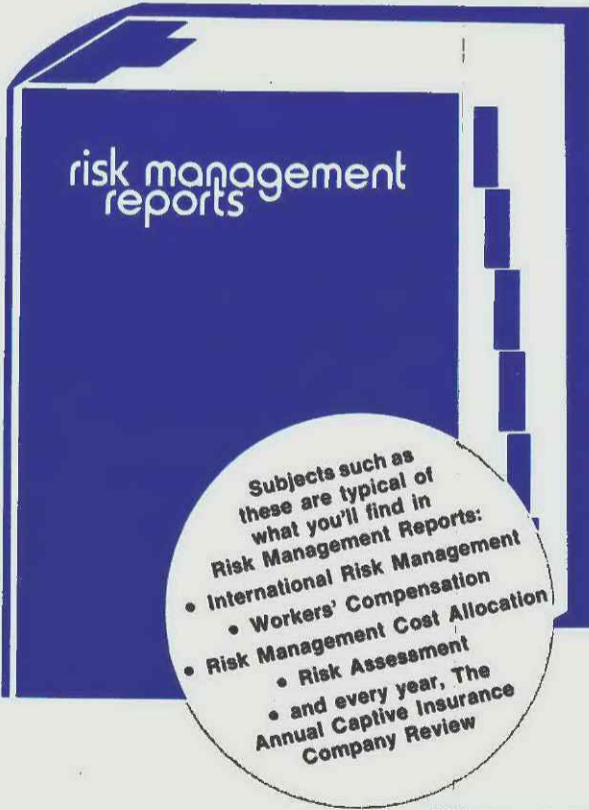


AIG has been running this advertisement in newspapers and magazines to promote its access to the N.Y. free trade zone.

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Most property loss payments acceptable, insurer study says

NEW YORK—Slightly over half the companies in a survey of property loss claims conducted for Zurich-American Insurance Cos. received 100% recovery on losses from their insurers. Few companies reported that they perceived gaps in their coverage.

The study, conducted by Kapuler & Associates Inc., a Chicago

marketing research firm, was based on telephone interviews with 213 businesses that suffered property losses in excess of \$5,000 within the past two years. The respondents included firms insured by Zurich-American as well as other firms.

While 47% of those interviewed recovered less than 100% of their

losses, 85% of the respondents perceived no gaps in their levels of coverage. "This indicates that many businesses must expect that their coverage will not be complete," according to the study.

A deductible accounted for 24% of the instances in which insured did not have full coverage, the study found. Underinsurance accounted for 23% of the instances, depreciation for 13% and lack of business interruption coverage for 4%.

Herbert Young, Zurich-American senior vp-claims, noted the use of deductibles and perception that loss coverage will be for less than 100% indicates some degree of sophistication on the part of the buyer. Most of the firms interviewed had sales volume ranging between \$1 million and \$100 million.

As a result of property losses, 47% of the respondents said they had already made a change or plan to make future changes in their insurance coverage. Increased and updated coverage and selection of a new insurer were the most frequently mentioned changes. However, 90% of those polled said they intended to stay with their insurer.

Zurich-American's Robert Coyne noted that business interruption coverage has been a "very undersold line" and one that agents should stress the need for their clients to buy. Of those responding to the study, 46% suffered partial or total closing of between one week and six months, while 11% of the respondents were affected for longer periods.

The survey also found that 68% of the respondents were very satisfied with the claims handling process, although 54% said settlement took too long. Agents received high marks for their service with 74% of the respondents rating agents' service as very satisfactory.

Speed of processing claims, assistance from the insurer's representative and promptness in settling claims were "areas of concern."



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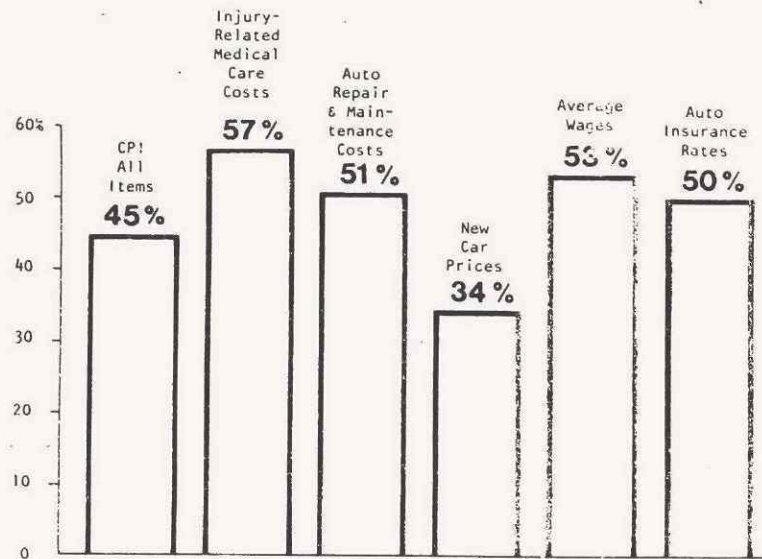


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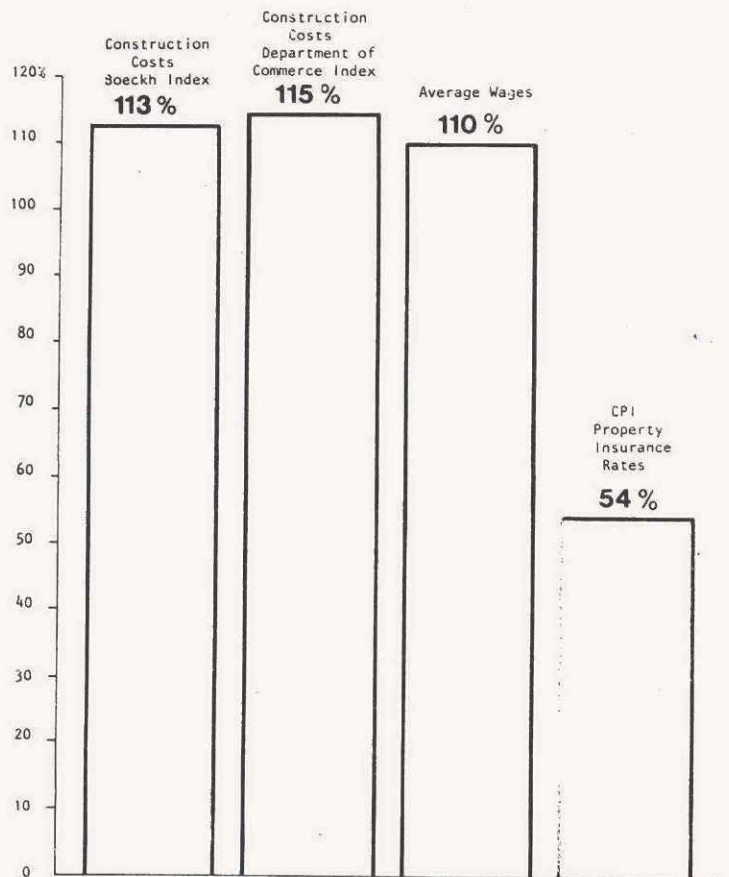
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Auto Insurance Rates Have Moved in Tandem With Wages, Medical And Auto Repair Costs Since 1972.



All figures are for the period 1972-1977
Sources: Consumer Price Index, U.S. Department of Commerce
Economic Consequences of Automobile Accidents, U.S. Department of Transportation

Property Insurance Premiums Have Increased Less Than Half As Much As Construction Costs Since 1967.



All figures are for the period 1967-1977.
Sources: Boeckh Index (Residences), American Appraisal Company
Construction Cost Index, U.S. Department of Commerce Composite
Consumer Price Index, U.S. Department of Commerce,
U.S. Department of Labor, Bureau of Labor Statistics

How today's inflation affects insurance costs

Just how much does inflation affect insurance costs?

The Alliance of American Insurers developed the two charts above to illustrate the relationship between inflation and the cost of insurance. The top chart shows that auto insurance prices have increased in tandem with the upward movement in wages, medical expenses and auto repair costs for the five-year period beginning in 1972. The second chart shows that property insurance costs have moved up less than half the rise in construction costs over the last 10 years.

The Alliance says that not all the upward pressure on auto insurance comes from inflation. "Violations of the 55-mph speed limit cannot help but lead to more serious accidents which mean greater expense to repair the damage of people and vehicles," the Alliance noted.

Benefits not ERISA-induced

Chicago's biggest and brightest profit sharers

Crain News Service

CHICAGO—Eight Chicago companies with exemplary profit sharing programs have improved their pension and profit sharing plans since the Employee Retirement Income Security Act (ERISA) was enacted four years ago, but their spokesmen say the new law did not prompt the changes.

"It's meant nothing but boilerplate changes for us," said Robert Zimmerman, manager of profit sharing and benefits planning for Zenith Radio Corp. Zenith was "for the most part (already) beyond ERISA minimums, even in its provisions for joint and survivor annuities," Mr. Zimmerman said.

"Our implementation of ERISA has increased the cost for us of reporting to the government, but hasn't changed our reporting to employees or our benefits one iota," said Horace J. Schwartz, manager of employee benefits at Bell & Howell Co.

Motorola Inc.'s considerable improvements have "nothing to do with ERISA," said William F. Badgett, manager of employee benefits planning.

A national expert on profit sharing said ERISA was not intended to alter the system except to push companies to lower eligibility requirements. Bert Metzger, president of the Evanston-based Profit Sharing Research Foundation, said the law pressured some firms to make changes, but many plans already met such ERISA requirements as early vesting.

He added that the law had no impact on funding requirements because profit sharing plans are always fully funded since contributions are made the year the money is earned and then allocated to participants who have become vested. In general, ERISA regulations affecting defined benefit plans were much more wide ranging and substantial than changes required in profit sharing plans.

Mr. Metzger has recently completed a study of 38 U.S. firms with profit sharing plans. The research covers eight companies from the Chicago area. Besides the three already mentioned, they are Sears, Roebuck & Co., Signode Corp., Walgreen Co., Jewel Cos. and McGraw-Edison Co.

While the meaning and impact of ERISA remained unclear during its early years, relatively more plans were terminated, especially by smaller companies, and fewer inaugurated than previously. But since early 1977—after regulations clarifying ERISA had been issued—relatively more plans were instituted and fewer discontinued than in the past, indicating managers had entered a post-ERISA era of "learning to cope," Mr. Metzger explained.

ERISA-motivated or not, improvements in pension and profit

sharing plans have been substantial in virtually all of the eight Chicago companies, which reflects a national trend toward renewed support for profit sharing, making them more meaningful to participants.

Motorola, for example, raised the amount of before-tax profits contributed to its profit sharing fund to 24% from 20%. It shifted its allocation from equal rewards to all to a distribution system based on longevity of service and pay, the latter up to a maximum of \$60,000. Motorola also increased the maximum annual employee contribution to \$1,200 from \$200.

Motorola made the changes to stay competitive with other companies, said employee benefits man-

ager Mr. Badgett. At the same time, the company changed the pension plan in order to make profit sharing more important to employees.

Why? Because, Mr. Badgett answered, profit sharing "has increased efficiency in the past." Its piece-of-the-action philosophy apparently seems to serve both company and employees well.

Motorola has had a profit sharing plan since 1947 and there have been no big changes in the plan since then. But before the recent upgrading, Mr. Badgett said, it had lost some of its original punch—especially for higher-paid employees whose out-of-pocket contributions were limited.

The recent changes in the plan addressed that problem. Although the new, fully paid pension pays about 30% less in benefits, it automatically covers all employees, whereas the old plan covered only about one-third of Motorola workers. These, plus the profit sharing changes, received the required employee approval by a three-to-one margin.

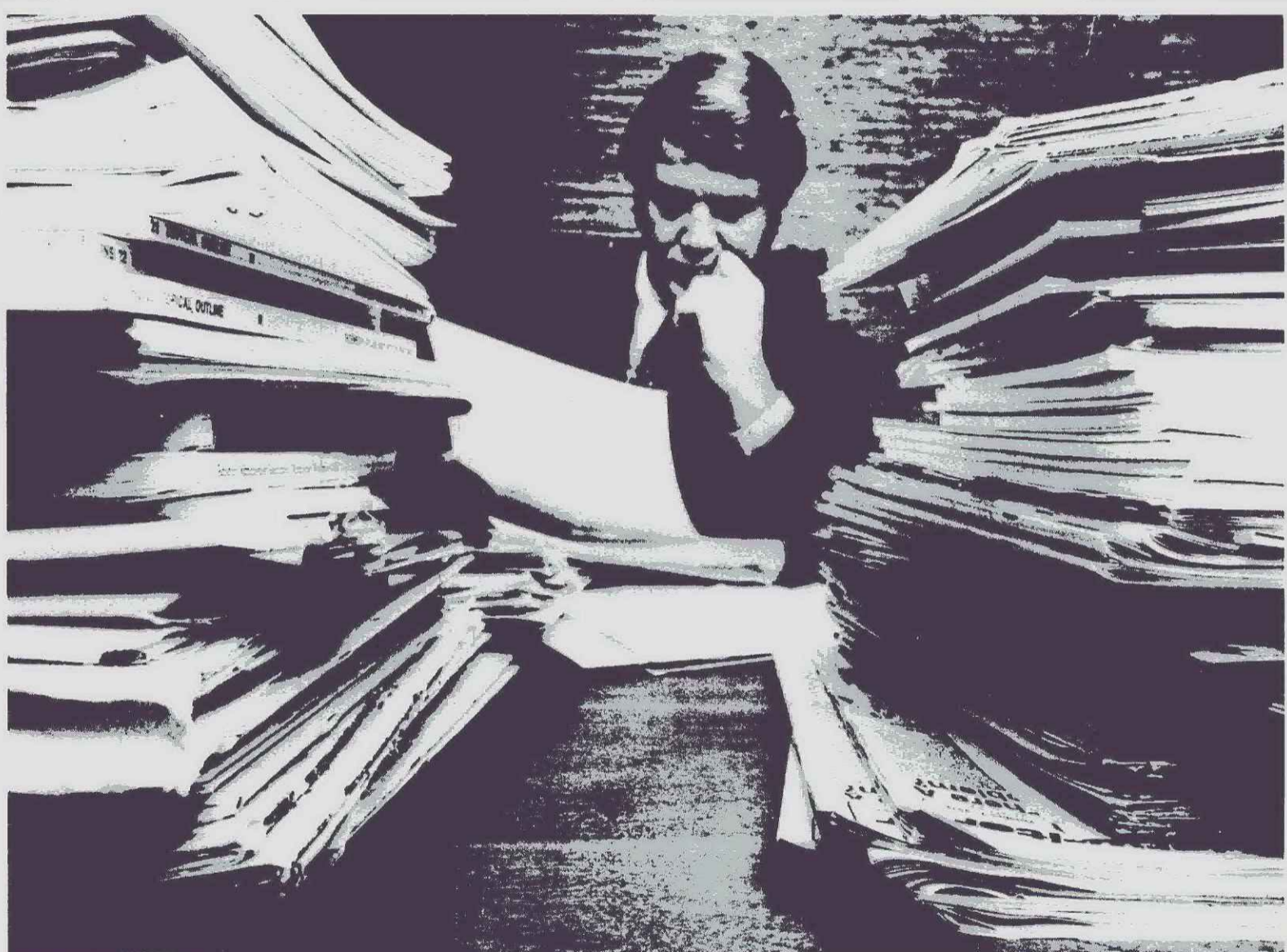
At Signode Corp., employee salaries—not individual contributions, as was once the case—are the basis for allocating profit shares. The current system thus rewards each worker's productive role rather than his ability to save and contribute part of his paycheck.

Still, one-third of Signode's participants make the 10% out-of-

salary maximum contribution and few contribute nothing, said Roger Cushman, profit sharing director

Continued on page 115

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Profit Sharing at Eight Chicago Cos.

| Company | Profit sharing benefit as % of pension std.* | % employee contribution | pension? |
|----------------------|--|-------------------------|----------|
| Sears, Roebuck & Co. | 598% | 4% | yes |
| Signode Corp. | 233% | 4% | no |
| Jewel Cos. | 231% | 17% | no |
| Zenith Radio Corp. | 173% | — | no |
| McGraw-Edison Co. | 154% | 17% | no |
| Motorola Inc. | 127% | 11% | yes |
| Walgreen Co. | 106% | 21% | no |
| Bell & Howell Co. | 102% | 20% | no |

* annual income generated by profit sharing divided by annual income generated by the pension standard (1.3% of final average pay times years of participation/credited services, with no offset for social security benefits)

Source: Metzger, Bert L., Profit Sharing in 38 Large Companies: Piece of the Action for 1 Million Participants, vol II, due 9/78 from Profit Sharing Research Foundation

Employees satisfied

Religious convictions inspire Flick benefits

Crain News Service

BENSENVILLE, Ill.—With fishing lagoons and tennis courts, a swimming pool and auditorium, a chapel and a library, who needs to work?

The employees at Flick-Reedy Corp. do, because without their efforts, such fringe benefits could not be maintained.

The suburban Chicago manufacturer of air and hydraulic power cylinders augments the straight wages of its 700 workers with 38% more in non-monetary compensation. In addition to the physical facilities and a self-insured health plan, Flick-Reedy supports a deferred profit sharing program for retirees with about one-quarter of its annual gross profits. For the fiscal year ended June 30, Flick-Reedy earned an estimated \$800,000.

Experts have long pondered whether a country club environment and monetary incentives actually motivate workers. But president Frank Flick insists his policies are not prompted by such concerns.

"We think we get that much more in productivity, but it's hard to know," said the 73-year-old executive who is also an engineer, an inventor with 43 patents to his credit and a committed Catholic. "We do it because this is the way a Christian oriented company should treat employees."

Other executives of the \$40 million company, which also operates a publishing division, health, education and management services, and a small supplier of its own component parts, suggest that profit sharing, at least, is significant. Vp Arthur Conrad says the glass partitions in the clerical and

administrative departments and daily postings of outgoing shipments in the factory that remind workers they are responsible for the others' future well-being spur them on to greater glory.

But despite all the tangible benefits, plus the once-a-week summer day camp for the employees' kids, the company-supplied white work shirts, the company-supported cafeteria and the wages that average 5% above local competitors, Flick-Reedy attracts its share of employee gripes.

Mr. Flick says that strong loyalty prevails among some workers and "not so much" among others. The company averages a 2% monthly turnover and hires about 175 people a year for replacement and expansion needs.

A couple of years ago, the company conducted a survey soliciting employees' likes and dislikes regarding the organization. The results, which were reprinted in installment-form in the weekly newsletter, showed workers were satisfied with wages, fringes and working conditions, but were somewhat disgruntled about labor-management relations.

Specifically, employees complained that supervision was good on technical matters but could be improved in "human relations."

Top Flick-Reedy executives are proud of the doors that never close their offices off from employees.

Thinking of the time when a new generation will take control at Flick-Reedy, there has been some discussion about buying the corporation with the profit sharing fund. "We don't want to think of being bought out by a conglomerate," said one vp. "We'd like to perpetuate our philosophy."

Pa. rate hike okayed

HARRISBURG Pa.—Member insurers of the Pennsylvania workers compensation rating bureau were granted a 25.9% or \$183 million rate hike effective Oct. 1 by the state insurance department.

The bureau, which represents 240 workers compensation insurers in the state, had sought a 34.9% increase or \$244.9 million. How-

ever, the insurance department refused to accept a 25% annual loss experience trend factor cited by the insurers. Commissioner William J. Sheppard capped the trend factor at 16.4%.

The rating bureau's overall proposal is still being contested and could be amended after further hearings which were scheduled for early September.

Chicago's biggest . . .

Continued from page 113 at Signode. "Even the newcomers get the feeling it's worth putting as much as possible into the plan," said Mr. Cushman.

Walgreen chose the guaranteed-investment route, which assures employees a retirement income, "after the market broke" in 1973 and 1974, said Edward J. Roubik, trustee of the Walgreen profit sharing retirement trust. The company offers employees nearing retirement their choice of 10 top insurance companies with which to sign annuity contracts. The arrangement, said Mr. Roubik, "saved them from the fluctuation of the market."

An additional benefit, he noted, is that Walgreen's VIP (voluntary investment plan) makes VIPs (very important people) out of "the little guys" by giving them the chance to make a tax-deferred investment for as little as \$2.50 a week—the kind of opportunity usually available only to investors who can afford municipal bonds and other high-priced tax-free investments, Mr. Roubik observed.

Taking the opposite tack, Sears, Roebuck de-emphasized its profit sharing and upgraded its defined benefit pension at the beginning of 1978, which produced "a rather severe revision" of the oldest U.S. profit sharing plan (dating to 1916), said Merl Douglas, executive director of Sears' savings and profit sharing fund.

The revision was "no outgrowth of ERISA," Mr. Douglas hastened to add, but rather, as then-Sears Chairman Arthur Wood explained, a move to protect employees' retirement security from a stock market whose fluctuations are sometimes "beyond control of the corporation."

In addition, since ERISA, Sears became the first company to issue a summary plan description—"a massive undertaking," Mr. Douglas said—for its 300,000 plan members.

The big, sometimes unanswered, question about profit sharing is: Does it increase efficiency? Company officials here give mixed responses.

With all of Signode's belief that the profit sharing plan is an incen-

tive that "inspires our people to do a better job," profit-sharing chief Mr. Cushman concedes it is "hard to claim it increases efficiency. One hopes it does."

Mr. Schwartz of Bell & Howell simply says he doesn't know if profit sharing improves productivity.

On the other hand, Mr. Zimmerman at Zenith says, "There is more awareness that employees' actions can increase profits. There is increased efficiency and less waste," he said.

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Walters leaves San Diego county for city post

Robert Walters has been named risk manager for the county of San Diego after spending several years as risk manager for the city. He replaces **Barbara Akk**, who resigned last spring to join consultants Ebasco in Newport Beach. Mr. Walters, who is known for moving San Diego county to a completely

self-insured posture, will assume his new post at the end of the month.

"The goal I have on my new job is to bring the various insurance coverages together," he said. He will report to the office of management and budget and the chief administrative office. The city of San Diego

plans to replace him despite budget constraints due to Proposition 13.

Mallinckrodt Inc. of St. Louis has expanded its insurance department to envelop pensions and employe benefits. With the change, former corporate insurance manager **Bruce E. Beeler**, 37, has been promoted to director of risk management. Mr. Beeler reports to vice chairman of the board Harold Brinner. He assumes duties in pensions and employe benefits as well as keeping his former responsibilities for property and casualty insurance. The transfer of the pension department has moved **Joseph Kraft**, manager of treasury operations, to the insurance department with pension duties. **Donald Spurlock**, the third member of the insurance staff, remains as insurance analyst.

Tenneco Inc. in Houston has announced a number of promotions. In the parent company, **Robert A. Stubblefield**, 42, has been promoted to senior administrator of property insurance from senior administrator of loss control. Joining Mr. Stubblefield in property insurance is **Allan D. Cooper**, 24, as a property analyst. Mr. Cooper previously was an accountant in the Gulf Coast oil division. **Larry M. Riggs**, 45, has become risk manager of the oil division moving from the parent company as senior administrator of property insurance. **G. Milton Benson**, 47, has also joined the oil division's insurance department as senior insurance administrator from his previous position as an accountant in the same division.

Stuart J. Tuchman, 33, has been named manager of corporate risks at Texas International Airlines in Houston. He reports to director of financial planning Richard H. Shuyler. Mr. Tuchman replaces **Gary G. Beck**, who moved to Management Systems Inc. in Houston, where he brokers the Texas International account. Previously, Mr.



Robert K. Dreher joins Western Publishing Co. Inc. in Racine, Wis., as a risk manager.

Tuchman was a senior financial analyst at Ingalls Ship Building Co. in Pascagoula, Miss.

Robert K. Dreher, 33, has joined Western Publishing Co. Inc. in Racine, Wis., as a risk manager. He reports to treasurer Gary Long. Mr. Dreher previously was a risk manager for Terra Chemicals International in Sioux City, Iowa, where he's been replaced by **William M. Scott**, as previously reported.

Bruce E. Woodcock, 33 has joined Intermedics Inc. in Freeport, Tex., as the company's first insurance manager. Mr. Woodcock is evaluating the company's insurance coverages and plans to consolidate property insurance coverages, expand employe benefit programs and establish a safety program. Previously, Mr. Woodcock was insurance supervisor for Brown & Root in Houston. **Ronald E. Meek**, 23, has been promoted to replace Mr. Woodcock at Brown & Root reporting to assistant insurance manager George Ben's. Mr. Meek has been an accountant with Brown & Root for three years.

Roy L. Vickrey, 41, has been named director of insurance and safety at Fleming Cos. Inc. in Oklahoma City. He has full responsibility for risk management relating to corporate and retail insurance as well as safety and loss control. Mr.

Vickrey reports to P.R. Bauer, senior vp of finance and administration. He replaces Harold Fieszel, who left to manage his real estate investments. Prior to joining Fleming, Mr. Vickrey was risk and insurance manager for Hallmark Cards Inc. in Kansas City, Mo. Hallmark hasn't hired a replacement.

Effective Sept. 29, **Gary Y. Little** will join Carolina Power & Light Co. in Raleigh, N.C., in a new position as corporate insurance specialist. Reporting to corporate insurance administrator John Senter, Mr. Little will handle administrative functions, insurance inspections, claims investigations, processing and documentation. Mr. Little previously worked at Employers Insurance of Wausau for five years.

Richard D. Quinn, 35, has been promoted to principal benefits administrator at Public Service Electric & Gas Co. in Newark, N.J. He is responsible for benefit research and plan development as well as corporate coordinator for the company's health maintenance organizations. Mr. Quinn also is in charge of health care cost containment and benefit communication programs. Previously, Mr. Quinn was a senior personnel specialist in the same company. He has worked in employe benefits for the past 17 years.

Cristina D. Haley, has joined Levi Strauss & Co., San Francisco; as assistant director, risk and insurance management. She was assistant risk manager/risk management specialist at The Clorox Co. in Oakland. No replacement for her has yet been named. At Levi Strauss, Ms. Haley reports to Richard Soper, director, risk and insurance management; she replaces Erin Oberly, CPCU who joined the consulting firm of Warren, McVeigh & Griffin.

We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Rebecca A. Fannin, Business Insurance, 708 Third Ave., N.Y., N.Y. 10017 or call 212-986-5050. We'd also like to receive photographs of those persons involved in changes in your risk management and employe benefit departments.

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Florida fire rates cut

TALLAHASSEE—Fire insurance rates for many Dade County businesses have been lowered by as much as 51% following a reevaluation of fire protection services in communities comprising the Metropolitan Dade County Urban Fire Protection District by the Insurance Services Office.

The rate reduction reflects improved fire fighting facilities resulting from combination of separate fire districts that served the communities, said Mr. Gunter. Affected communities include Bal Harbor, Bay Harbor Islands, Biscayne Park, El Portal, Florida City, Golden Beach, Hialeah Gardens, Indian Creek, Medley, Miami Shores, North Bay Village, North Miami, North Miami Beach, Opa-Locka, Pennsuko, South Miami, Surfside, Sweetwater and Virginia Gardens.

Premiums for 80% to 85% of the businesses in the communities will

drop by 4% to 51%, depending on construction of the building, occupancy, location of fire hydrants and insurance policy.

Dinner Levison opens 1st branch

NEWPORT BEACH, Calif.—Dinner Levison Co. opened a branch office here last month, the first branch office for the 63-year-old San Francisco brokerage firm.

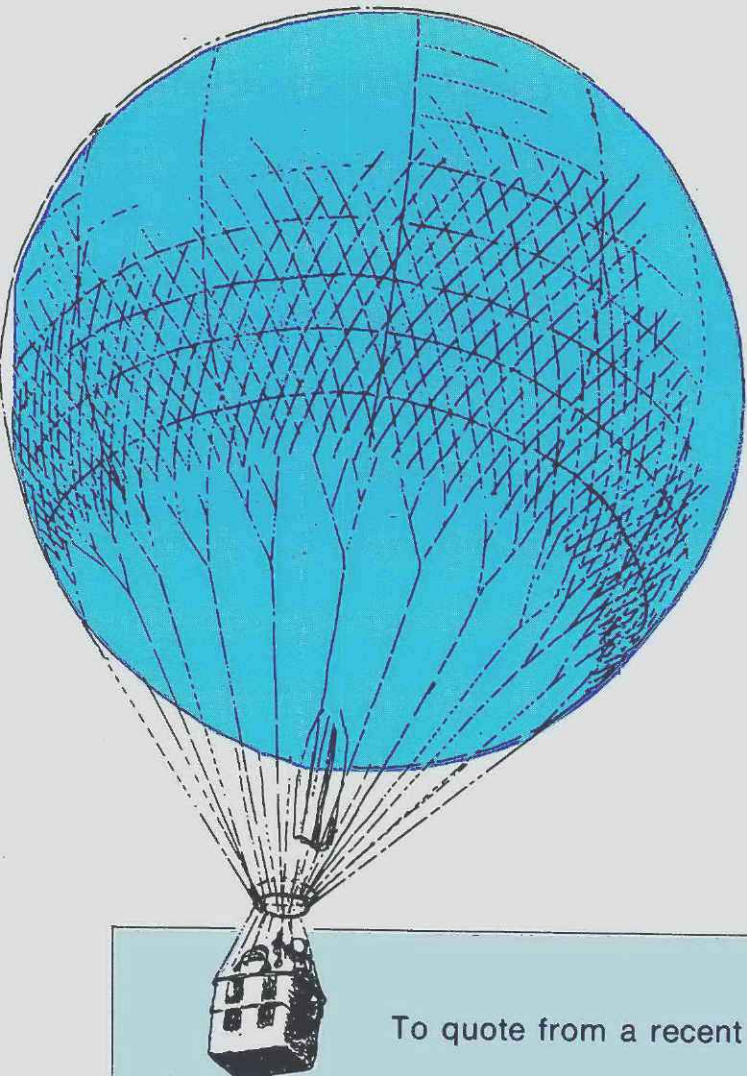
The new office's two producers, Mike Kane and Hobie Harper, were formerly with Coldwell Banker & Co.

The move is Dinner Levison's first into southern California where it plans to become a major factor in the brokerage industry, managing partner Robert C. Nevins said. Three other southern California locations are also being studied.

SPECIALTY RISKS ISSUE OCTOBER 30, 1978

What are Specialty Risks

and why will **Business Insurance**
publish a new highlights
issue about them?



To quote from a recent editorial in *Business Insurance*:

"Insuring superstar Pele's ability to play soccer and tennis champ Bjorn Borg's appearance at a championship match, requires the special knowledge and skill of people who've dealt with unusual risks. Similarly, race horses, racing cars and America's Cup sailboats pose a problem demanding tailored insurance policies for events that are riskier and characters a whole lot more valuable than the usual man-in-the-street . . ."

Many businesses are faced with Specialty Risks situations, requiring extraordinary risk management expertise and insurance coverages. There are such Specialty Risks as discotheques, rock concerts, skateboard parks, amusement parks, theatrical and concert enterprises and sports events to name but a few.

B.I.'s readers are in the business of preventing losses, managing risks and financing insurance programs. Executives in over 17,000 corporations and business enterprises look to B.I. for the latest news and trends about risk management and insurance. The Specialty Risks market is an area of importance and interest to the almost 100,000 *Business Insurance* readers who work in corporations, insurance agencies and brokerages, insurance companies and related service organizations.

If you are a supplier of Specialty Risks expertise and insurance coverages you should benefit greatly from having your advertising message appear in this new highlights issue.

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Advertising closing is October 17. For additional information call or write Don Walsh, Advertising Sales Director, 708 Third Avenue, New York, N.Y. 10017, (212) 986-5050. Or, contact any of the sales offices listed below.

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Don Bell, vice president, tells how A&A works from a client's point of view:

**"With Alexis, clients have total flexibility
in funding Workers' Compensation."**

"Workers' Compensation is a sore spot with a lot of clients. It's one form of insurance they feel they have no control over, because of its statutory nature. What's more, Workers' Compensation insurance services traditionally have been bundled; you couldn't separate them. But our Alexis concept unbundles them and gives clients an entire menu of services, so they can choose and buy all, some or none — insured, self-insured, captives or any combination. Alexis provides the expertise, arranges the services the client

may need — feasibility analysis, program design, qualification assistance, claims handling, loss control consulting, computerized claims data management and excess insurance. We'll do whatever makes sense for the client."

Working from a client's point of view is our way. That means working as allies, solving business problems together. On Long Island, New York, where Don Bell heads up our Alexis operation. And in over 110 cities here and overseas, where clients can take advantage of the computer-based techniques

and the total flexibility that Alexis provides in self-insurance services.

We think our dedication to acting as an ally of the clients we represent is a big reason why A&A has become a worldwide leader in the insurance brokerage and financial services business. We have the facilities, expertise and strength to act as effective allies. We work from the client's point of view, whether the corporation is large or small.

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