

business insurance

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update: Illinois court to review work comp refund order

CHICAGO—The Illinois Supreme Court will hear an appeal of a lower court decision directing workers compensation insurers in the state to refund \$1.1 billion in premiums to employers (BI, June 29).

But, the appeal to the state's highest court is not expected to be heard until after the first of the year at the very earliest, said
Continued on next page

Cashing in on wellness

Companies discovering that fitness can trim soaring health care costs

By MARGARET LeROUX

Wellness programs can mean healthier corporate budgets as well as healthier employees.

At least, that is what the first studies on the cost effectiveness of wellness programs show: Health promotion and disease prevention can save millions of dollars in health care costs.

At New York Telephone Co., nine of its wellness programs saved the company \$2.7 million last year in absence and treatment costs, "and that's an extremely conservative figure," said Dr. Loring W. Wood, the company's medical director for research and development.

"A liberal projection of the annual savings of our Health Care Management system would be as much as \$55 million," he said.

The conservative estimates by New York Telephone do not include money saved by increased well-being, improved work attitude and better family relations leading to increased productivity among workers, savings in employee replacement costs or dollar figures for lives saved.

At Canada Life Assurance Co. in Toronto, a study showed a fitness program saved the company \$36,975 in health care costs the first year. The program was so popular with employees that turnover costs also were reduced at an annual rate of \$231,000.

The two studies are the first to give dollar-and-cents validity to the overall health benefits of wellness programs.

The Health Care Management system

has been available to New York Telephone Co.'s 80,000 employees for eight years. The cost of the nine health care and disease prevention programs located throughout the state was \$2.84 million in 1980, while the savings in employee absence and treatment costs was \$5.54 million, a net gain of \$2.7 million, the company says.

The biggest savings were realized in the smoking cessation program where the company uses community programs. It pays the cost of organizing and publicizing them. Employees who stopped smoking saved the company \$645,000 in the cost of treating coronary disease and the work absences it causes and \$1.4 million in lung disease treatment and lost work time (see chart on page 36).

A hypertension program saved \$663,000 and in-house use of the YMCA healthy back program saved \$302,000 in treatment and employee absence costs.

Nutrition sessions that teach cholesterol reduction saved the company \$240,000 in time off work and

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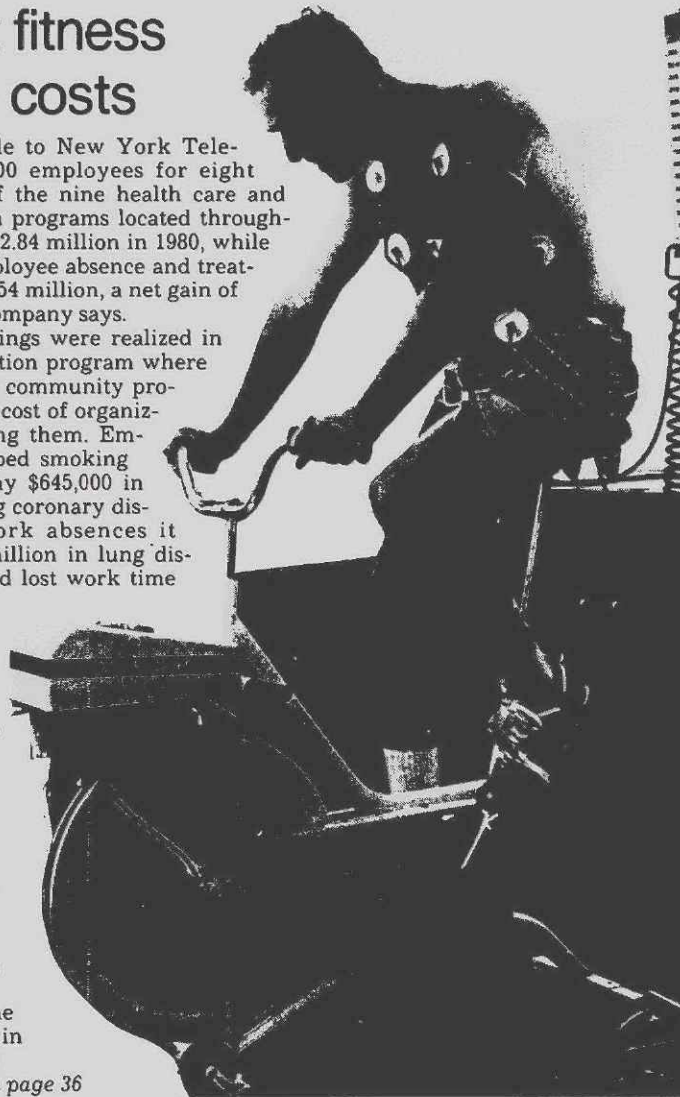


Photo: R. Bruce Dold

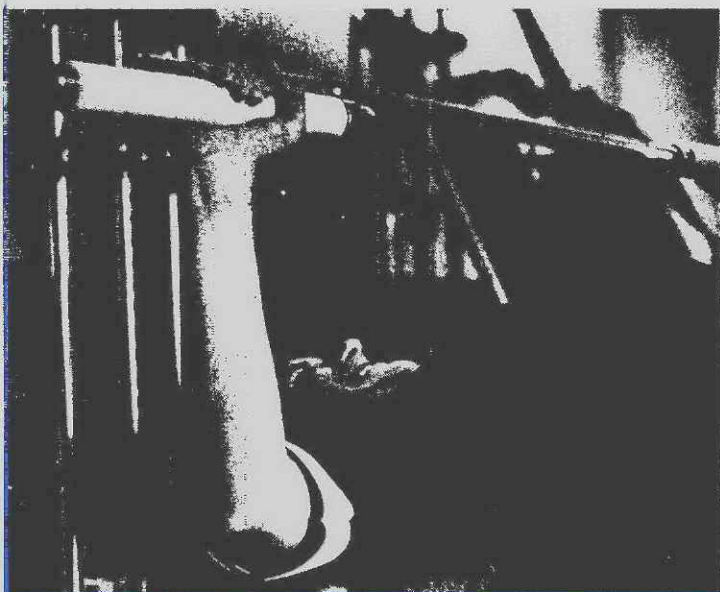
Wellness movement continues to grow

Despite a tighter economy, interest in wellness programs is continuing to grow among corporations.

Some are starting extensive inhouse programs complete with sophisticated equipment and full-time fitness directors to monitor activities, while others are following a more moderate approach: Participating in community health awareness programs to stop smoking or lose weight or sponsoring disease screening programs.

Still others send their executives to specialized clinics to test their fitness...and as BI Associate Editor Eileen Norris (at left) shows groan a little.

For Ms. Norris' personal report on fitness testing and a look at what companies are doing to promote wellness among employees see pages 38-43.



Buyers, insurers debate effect of Risk Retention

By STEPHEN TARNOFF

Manufacturers and their product liability underwriters applaud the approval of the Risk Retention Act by Congress, but they are split on the ultimate effect of the long-expected federal legislation.

Manufacturers believe the bill, which allows them to self-fund their product liability risks in groups exempt from most state regulation or purchase insurance as a group, would provide more competition, more accurate ratemaking and possibly reduce some manufacturers' insurance rates.

On the other hand, insurers say few risk retention groups will be established and the impact on insurance rates will be insignificant.

Both groups agree, however, that the new law is not the solution to product liability problems that will require reform of tort laws.

The legislation, which was passed by the House of Representatives in July, received Senate approval Sept. 11. It is expected to be signed by President Reagan this month.

"It's the first step for product sellers and insurers to work together to solve the product liability problem," said Victor Schwartz, a Washington attorney who formerly headed the Commerce Department's Task Force on Product Liability and Accident Compensation, which developed the legislation.

"The passage of Risk Retention means the insurance ratemaking aspect of the product liability problem will be resolved," he said. "It resolves that part of the product liability problem now and forever."

The new law will allow businesses to set up groups to self-insure their product liability risks without meeting
Continued on page 50

Court will consider malpractice awards

By RHONDA L. RUNDLE

SAN FRANCISCO—The California Supreme Court will review a recent appellate decision that upholds the constitutionality of major portions of the state's Medical Injury Compensation Reform Act.

The law was enacted in 1975 during a special legislative session called to grapple with skyrocketing medical malpractice insurance premiums that threatened a breakdown in the health care delivery system.

Assembly Bill 1, now called MICRA, sets limits of \$250,000 on pain and suffering damages arising out of medical malpractice lawsuits. The act permits evidence at trial showing collateral sources of plaintiff compensation and empowers the court to structure future damages over time instead of awarding

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In New York, a consultant's report to the Insurance Department recommends malpractice insurance rates be increased 107% this year. Story on page 2.

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**Maine asbestos trials
could set precedents**
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Court to rule on premium refund

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Robert Coleman, an attorney representing Illinois' employers.

In the meantime, workers compensation insurance companies operating in the state will be allowed to continue using the disputed increased rates if they meet certain conditions.

Some 80% of the state's 250 insurance companies have agreed to attach an endorsement to policies agreeing to refund any excess premiums, plus 9% interest, should the high court agree with the lower court's reversal of the 23.8% increase that was approved by the insurance director in 1979.

They also had to file an "undertaking" with the insurance director to establish a separate fund that would be used to return the excess premium of any insurance company that becomes insolvent.

About 20% of the insurers elected to use lower rates rather than comply with the conditions for using the higher rate.

About 170,000 employers stand to benefit from the refund ordered in a June 23 ruling by Circuit Court Judge James C. Murray.

The National Council on Compensation Insurance, which files rate hike requests on behalf of workers compensation insurers in 32 states, appealed the ruling, saying its intent was unclear.

Florida comp rates cut 15.6%

TALLAHASSEE, Fla.—A 15.6% workers compensation rate reduction for Florida employers is now official.

Florida Insurance Commissioner Bill Gunter recently approved a rate request refiled by the National Council on Compensation Insurance. Mr. Gunter ordered the refiled July 28 after rejecting the rating bureau's proposed 2.8% rate cut. He gave the NCCI 30 days to comply or to withdraw its rate decrease request altogether.

The 30-day deadline was met, a state spokesman said.

Retroactive to July 1, the rate cut will reduce rates an average of 15.6%, with receiving less and some more. For example, contractors will get a 6.9% rate cut and manufacturers, 22.7%.

The refiled did not expand the state's workers compensation premium discount program as earlier proposed. Under the proposal, employers who pay at least \$1,000 in premiums a year would have received discounts. The cutoff point will remain at \$5,000.

Cash-flow plan data sought

SAN FRANCISCO—Insurance Commissioner Robert C. Quinn is ordering all workers compensation insurers in California to submit information on cash-flow plans written during 1980 and 1981.

The order specifically asks for the number of policies written, terms and conditions, premium collected and interest charged on promissory notes.

The data must be submitted before Sept. 25 and will be used to evaluate rule changes on cash-flow plans recently proposed by the Workers Compensation Inspection Rating Bureau (BI, July 20).

Delay sought in captive case

LOS ANGELES—The U.S. solicitor general has asked the Supreme Court for a delay until Oct. 9 to file the government's response to Carnation's request for a review of an appeals court decision in its captive insurance company tax case (BI, March 16).

The response had been due Sept. 11. The delay was requested to edit and print the response, the government said.

Carnation has asked the court to review the decision of the 9th Circuit Court of Appeals that upheld a Tax Court decision in favor of the Internal Revenue Service's position on the tax implications of Carnation's use of a captive insurer. The Tax Court ruled that Carnation's dealings with its captive did not constitute insurance for tax purposes, denying Carnation any tax advantages to using its Bermuda-based captive for insuring its domestic property risks.

Rockwell fined for deaths

CAPE CANAVERAL, Fla.—The Occupational Safety and Health Administration has fined Rockwell International Corp. \$420 for safety violations that led to the death of two space shuttle workers.

Two Rockwell technicians were asphyxiated last spring when they entered a nitrogen-filled compartment of the space shuttle Columbia during a practice countdown.

The settlement pinned the blame for the deaths on Rockwell and the National Aeronautics and Space Administration for not preventing employees from entering the unsafe compartment. Rockwell would not comment on the violations that led to the deaths.

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Survivors of collapse asking for \$72 million

By JOHN W. MILLIGAN

NEW YORK—Two survivors of the fatal collapse of two buildings on Manhattan's west side are suing six companies and the Port Authority for \$72 million, claiming their negligence led to the accident.

Two old buildings, located at 569 and 571 Ninth Ave. in an area once known as Hell's Kitchen, collapsed Aug. 31 in a crushing heap that killed one man and hospitalized several others. The structures were reported to be about 140 years old.

Rosie Luciano, 24, and Jose Cepeda, 30, both tenants at 569 Ninth Ave., escaped from the falling building and have filed suit in the Supreme Court of New York County.

Dead is 59-year-old Ahmed Thabet Nasser, whose body was found under rubble and debris outside of 569 Ninth Ave. Mr. Nasser apparently was killed when he rushed out of a delicatessen operated by his son on the ground floor of that building.

Harry Lipsig, a New York attorney representing both plaintiffs, said he also will file a complaint on behalf of Morril A. Haber and his wife, Pitima, who were residents of 567 Ninth Ave., which is in the building at 569 Ninth Ave.

Mr. Haber, who Mr. Lipsig said fell two floors when the building collapsed, sustained brain injuries and will seek damages "in proportion to the damage done."

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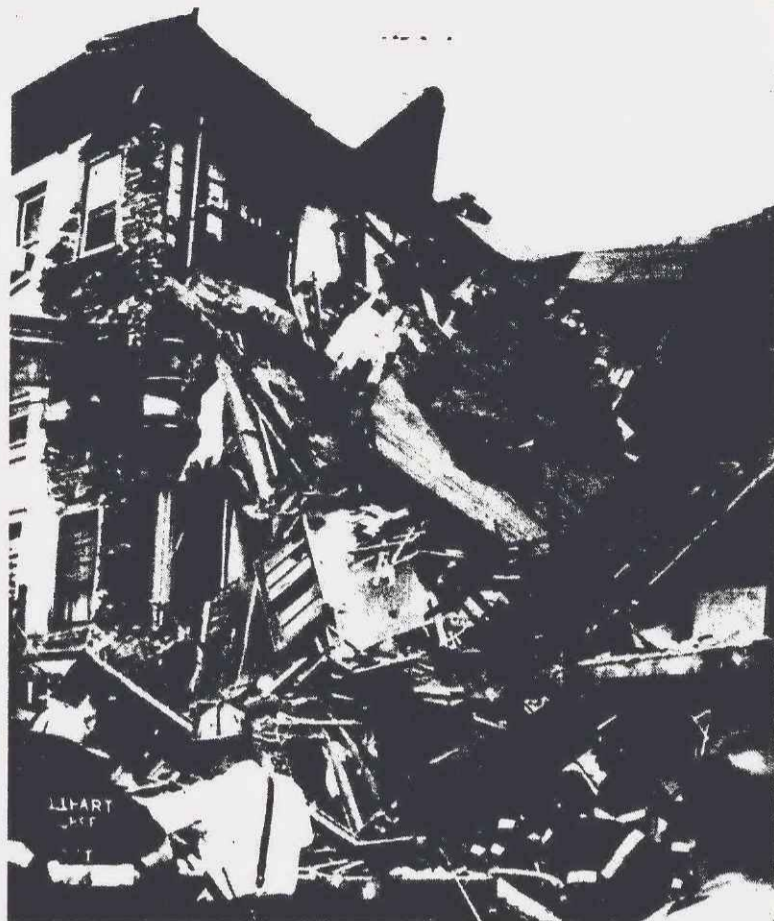


Photo: Wide World

Officials sift through the rubble of two Manhattan buildings that collapsed, killing one man.

Wording of comp ballot criticized

By EILEEN NORRIS

COLUMBUS, Ohio—Supporters of an amendment to allow private insurers to write workers compensation coverage have filed suit in the state Supreme Court, charging the wording on the November ballot is biased.

The Ohio Committee for Free Enterprise Competition, the chief backer of competition for workers compensation insurance in Ohio, filed directly with the high court because the issue is to be decided by voters Nov. 3.

Ohio is the only industrial state where the mandated workers compensation coverage is exclusively underwritten by a state fund. Opponents of the proposed change to open competition, chiefly the AFL-CIO and

the Ohio Manufacturers' Assn., fear competition will force rates to go up and that the claims process might be more strictly monitored.

The language on the ballot was worded by the state's Ballot Board, which consists of five "politicians," charged Fred Roberts, campaign manager of the Ohio Committee for Free Enterprise.

It reads, in part: "Presently, protection is afforded injured workers through the Bureau of Workers Compensation and the Industrial Commission, at no cost to the Ohio taxpayers."

The committee disagrees and says the state's many school districts and other government units are forced to pay millions of dollars each year for workers com-

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N.Y. malpractice rates may be hiked 107%

By JAMES LAWSON

NEW YORK—Physicians in New York state, already paying high malpractice insurance premiums, may be in for another large rate increase this year.

The New York Insurance Department, the state's two largest underwriters of medical malpractice insurance and a cadre of upset physicians are preparing to debate a proposed 107% rate increase. Public hearings are scheduled for Sept. 24 and 25 in New York City. Another round of hearings on the controversial proposal is scheduled for Oct. 1 in Albany.

Higher rates are needed, insur-

ance industry officials say, because the cost of medical care has been driven up by inflation, the frequency and size of claims have increased drastically and the cost of defending against the claims has risen.

The proposal, recommended to the state Insurance Department by Presley & Associates, an independent actuary consultant, exceeds a 52% rate increase sought by the Medical Liability Mutual Insurance Co., the state's largest malpractice insurance underwriter.

Medical Liability Mutual is a physician-owned company representing about 18,000 doctors in the state. It originally had requested a 71% rate increase.

However, the consultant's recommendation is much less than the 357.8% increase requested by the Medical Malpractice Insurance Assn., which insures about 3,500 practicing physicians in the state.

If the consultant's proposed increase is approved, it will be the second rate increase in a little more than a year for Medical Liability

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Ship fire liability not known

GARDENIA, Calif.—The origin of a Sept. 12 fire aboard a freighter loaded with 5,138 Honda automobiles will determine what insurer pays for the estimated \$25 million loss.

Honda Motor Co., the manufacturer of the popular Japanese cars, has insurance to cover the loss of the cars aboard the freighter Blue Hawk, but it doesn't know if it's liable for the damages.

If the fire started in the hull of the ship, the owner of the vessel would be liable for the cargo loss, a Honda spokesman said.

But, if investigators from the Coast Guard and insurance companies find the cargo was responsible for touching off the blaze, one of Honda's two marine cargo insurers—Taisho Marine & Fire Insurance Co. Ltd. and The Yashuda Fire and Marine Insurance Co.

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errors & omissions

•Lloyd's of London has paid \$235 million on computer leasing claims incurred in the mid-1970s, not 235 million pounds as reported in the Sept. 7 issue.

Executives receive catastrophe cover as added benefit

By STEPHEN TARNOFF

CHICAGO—Corporate executives, growing targets for lawsuits and higher jury awards, in many companies are getting additional group catastrophe insurance from their employers as an employee benefit.

If they fall into the right position and income level, these select employees can get as much as \$1 million to \$5 million of catastrophe coverage over their auto, home and various other personal liability policies at no extra cost to them.

For the companies purchasing this personal catastrophe liability insurance in the form of a blanket group umbrella, there can be lower premium costs and a significantly reduced administrative burden.

"It's one more form they (participants) don't have to fill out," said David Bauer, administrator for the Glen Ellyn Clinic Service Corp., a Chicago-area group of physicians that recently purchased such a plan from the Kemper Group.

The employee gets an adequate amount of insurance in the face of substantially higher jury awards that often reach beyond the amount of liability coverage an individual might carry.

Personal catastrophe liability insurance on an individual basis has been around for a long time, but until recently companies could purchase it only on a per-employee basis, according to Michael J. McGee, manager of the Kemper Group's mass merchandising department.

Previously, policies were processed and priced individually, based on the number of cars, boats, and homes an employee possessed. Separate ratings and underwriting often meant headaches for the employee, employer, broker and insurer.

Now coverage for all employees within the group can be included on one policy at one price with the insurer using past experience to come up with an average premium. For companies with a large number of executives, it can lead to a tremendous decrease in paperwork and significant reduction in cost, Mr. McGee said.

Premiums charged by Kemper average \$75 to \$150 per person per year depending on the coverage, the limit of liability, occupation, salary range and location.

On \$1 million coverage, the premium range might be \$75 to \$95, with the premium going up as the coverage increases, he said.

Detroit Edison purchased the insurance from Kemper for 47 people on its "management council," those the company felt are more susceptible to suits and higher judgments, according to Jim Cooper, the company's insurance director.

The utility purchased \$5 million of coverage for each of the executives above their individual coverage at a premium of less than \$150 per person per year. The premium, Mr. Cooper said, is generally lower than

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If Bacchus frowns . . .

California vineyards use loss control, risk financing to protect their wine

By KATHRYN J. McINTYRE

NAPA, Calif.—It's the most risky time of year for the California wine business: crushing season.

Anything that goes wrong now—a busted crusher or a broken tank—could cost a winery its 1981 vintage.

A winery has only about eight hours between harvest and crushing before the grapes start to dry out and deteriorate. If crushing is delayed much beyond eight hours, the winery might as well spread the old grapes for fertilizer for the 1982 grapes.

And sources in the Napa Valley, California's most prestigious wine region, predict the 1981 harvest generally will be smaller in quantity than in 1980, but the grapes promise a wine of finer quality than last year's vintage.

Wine makers guard against a disaster during crushing season with a combination of loss-prevention and loss-financing techniques.

Most wineries keep a good supply of spare parts to fix a crusher crippled by a broken part. And the equipment is well insured under boiler and machinery insurance. With extra expense insurance included, the winery is covered for the cost of using another crusher if the winery's crusher can't be fixed in time.

"Crushing's the biggest problem, so

anyone with a large crushing exposure has coverage for the crushing equipment and extra expense coverage," says Jim Capponi, a partner with Mayfield-Malloy & Vasconi Insurance Agents & Brokers in St. Helena, Calif. The office brokers insurance for about 40 area wineries, about half of the Napa Valley market that encompasses 110 to 115 wineries of varying sizes.

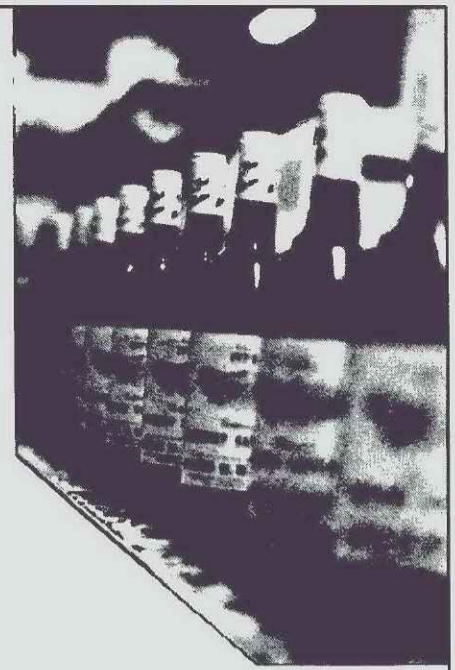
The extra expense insurance would cover the cost of renting crushing time from another winery and paying employees overtime to custom crush the grapes. It also would cover the cost of trucking the grapes to the borrowed crusher and bringing the crushed grapes home to age.

Many of the larger wineries have two crushers, one for white grapes and one for red. If one crusher broke, the other could be used for both red and white.

Adding to the risk during crushing season is the value of refrigerant used in the crushing equipment. At \$8,000 a ton, 10 tons of refrigerant is a large investment that also is covered under the boiler and machinery policy, Mr. Capponi notes.

If a winery lost needed storage space because a tank broke, it could find coverage somewhere else, he said.

After the risky crushing season, the aging wine is exposed to a continual ex-



posure to loss during the aging process: leaking.

"Leakage is a winery's biggest exposure," Mr. Capponi says.

Indeed, every winery has its tale of losing wine.

At Louis M. Martini in the Napa Valley, Carolyn Martini recalls a \$15,000 loss of the winery's special desert wine, Moscato Amabile, about seven years ago.

The bubbly and sweet wine, developed by accident by her grandfather, ferments in a cold room. When the tank sprang a leak, the drippings froze on the floor unnoticed until at last someone realized the ice was growing too quickly. By that time, two-thirds of the 10,000 gallons had been lost and a \$15,000 claim filed. Martini had a \$1,000 deductible on its insurance policy.

Leakage losses usually are covered under an endorsement to the package multiple peril policies assembled for the wineries, such as the package policy purchased by Martini from The Hartford through Mr. Capponi.

Mayfield-Malloy & Vasconi just won the entire Martini account, with its 800,000 gallon annual production. It had placed Martini's liability insurance and picked up the property risks this year from Johnson & Higgins and The St. Paul Cos.

"Vasconi came in at half the rate," Ms. Martini recalled, explaining the change in broker and insurer. The savings helped, even though two-thirds of the winery's \$90,000 insurance bill is for workers compensation and medical in-

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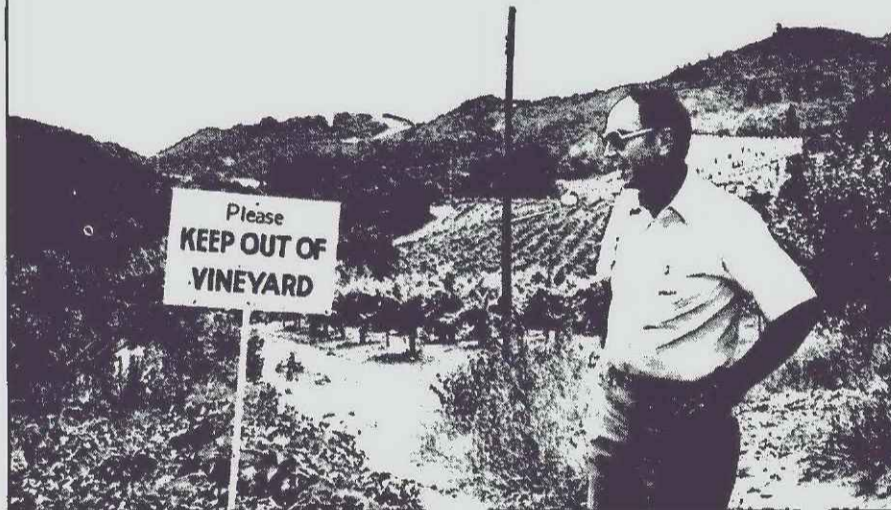


Photo: Kathryn J. McIntyre

Keeping visitors out of vineyards reduces the wineries' exposures.

Precedents may be set in Maine asbestos trials

By RHONDA L. RUNDLE

PORTLAND, Maine—The next big battle for asbestos makers will be waged in U.S. District Court in Portland next month when four of more than 140 pending suits brought by local shipyard workers go to trial.

Barred from suing their employers under state and federal law, asbestos victims and their families are seeking millions of dollars in damages from 22 defendants who made or distributed asbestos to two nearby shipyards.

A private shipyard in Portland called Bath Iron Works and the Portsmouth Naval Shipyard in Kittery employed the injured workers and have been sued by the other defendants. There are fewer suits against Bath Iron Works but they will be tried first.

The asbestos cases form the largest mass of lawsuits ever filed in Maine and fill two tall filing cabinets at the federal courthouse in Portland. But most of the thousands of pages of pretrial testimony and other documents are in the "asbestos library" housed in the offices of a local law firm representing defendant Armstrong-Cork Co.

Primary defendants in the suits include Johns-Manville Sales Corp., Unarco Industries Inc., Raybestos-Manhattan Inc., Pittsburgh-Corning Corp. and Owens-Corning Fiberglas Corp., attorneys in the litigation agree.

Asbestos makers who are defending thousands of shipyard worker suits around the country believe the federal government should share liability for damages. Asbestos products blamed for workers' injuries were used as insulation material aboard ships

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Photo: Maine Sunday Telegram

A federal court clerk examines the files full of asbestos documents.

Battle over McDonald's could mean rate hikes

By LEN STRAZEWSKI and KATHRYN J. McINTYRE

CHICAGO—The sizzle of competition may be taking the meat out of the McDonald's Corp.'s franchise insurance program.

Further splintering of the hotly competitive multi-peril insurance program could mean higher premiums for restaurants in urban high-risk areas as the premium volume and loss history base gets chopped to bits, competing brokers say.

Franchise operators with good loss experience, however, could win even smaller premiums, the brokers contend, though no one agrees on who has the best data and technique for re-rating the franchises.

McDonald's risk manager Jerry Lane would not return calls to confirm that usually desirable insurance industry competition could hurt the stability of his program. He also ordered McDonald's broker and insurer not to discuss program, but questions about rating drew immediate response from everyone.

"The McDonald's franchises are used to buying their insurance in volume," explained John Pacholick, senior vp of Marsh & McLennan and account executive for McDonald's. "In the long run, dilution of the program could cause rates to go up."

Marsh & McLennan, which bumped out Frank B. Hall as McDonald's broker of record last year, recently moved the corporation-endorsed plan from American International Group to Insurance Co. of North America for an estimated \$4 million savings, according to industry sources.

Although INA denied underbidding its competitor by that much, the insurer switch rekindled one of the insurance industry's hottest competitive battles involving several angry broker and insurer contenders (BI, Sept. 14).

Frank B. Hall had refused to back down from the business last year when it ceased being broker of record for the corporation and quickly

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Continental employees still trying to fly ESOP

Despite numerous setbacks, efforts of the Continental Airlines' Employee Assn. to take control of the company—and block an outside takeover attempt in the process—have not died.

Continental employees have attempted to set up an Employee Stock Ownership Plan to give themselves 51% control of the company's stock in an effort to thwart the acquisition of Continental by Texas Air Corp. (BI, Aug. 17).

The association is sweating out a decision from President Reagan on

benefit beat

whether Texas Air, the parent of Texas International Airlines, may conclude the acquisition. Texas Air was given the go-ahead last month by the Civil Aeronautics Board.

Mr. Reagan must confirm the CAB's ruling since international routes are involved. The deadline for a ruling is Oct. 18.

A Continental spokesman said the president has four options:

- Approve the acquisition by Texas Air.
- Take no action, in which case the acquisition takes effect.
- Remand the issue to the CAB for further study.
- Deny the acquisition.

Another factor involved in the president's decision, according to employee association board member Bill Miles, is the White House's

apparent displeasure that the CAB allowed Texas Air to purchase an additional 465,000 shares of Continental stock before Mr. Reagan could make his decision.

That stock purchase gave Texas Air just more than 50% of Continental's stock.

"I don't think that made too many friends in Washington," Mr. Miles said.

While he does not expect the president to deny Texas Air's bid, Mr. Miles says the president could send the issue back to the CAB for

further consideration. This would require further hearings and another 60-day comment period, giving the employee association more time, he said.

Buying more time is critical since the association is putting together a new financial deal to purchase the necessary stock.

An earlier deal, in which a consortium of nine banks had pledged up to \$185 million for the association to purchase 15.4 million shares of Continental stock, fell through after a four-month delay.

New financing is the association's "primary objective," Mr. Miles said, adding that it is very optimistic that a new deal can be arranged.

It also is awaiting the decision of a federal judge in California on its appeal of a ruling by state Commissioner of Corporations Geraldine Green that Continental could not issue new stock in that state without a shareholder vote.

The new issue—15.4 million shares—was to have been purchased by the association.

Profit-sharing plan

The Chrysler Loan Guarantee Board has approved a revised profit-sharing plan for Chrysler employees.

The only major change in the plan is a reduction in length of the plan from four to two years, a Treasury Department spokesman said.

The plan affects an estimated 68,000 union employees and will give them either shares of Chrysler common stock or credit toward the purchase of a new car based on 1982 and 1983 profits (BI, July 13).

The employees will share 15% of any Chrysler profits in excess of 10% of the company's net worth.

Employees also will receive a \$50 bonus Oct. 16 as part of the plan.

The plan had been scheduled to run until September 1985, but the loan board moved the termination date forward to September 1983 because it was uncomfortable with projections of the plan's impact that far in advance.

Chrysler also has received clearance from the Internal Revenue Service to defer a \$187 million pension plan payment due last week, a company spokesman said.

The United Auto Workers Union said it would agree with the payment deferral on the condition that Chrysler's profit-sharing plan received federal approval.

Legal benefit

Medical Park Nursing Center in Mount Olive, N.C., has become the first nursing facility in the United States to offer its employees prepaid legal services as a benefit.

The center's 96 employees will receive this coverage, at no cost to them, through a program provided by North Carolina Prepaid Legal Services, a non-profit organization.

The plan offers coverage to employees and their families for advice, letter writing, document preparation in the office, negotiations and in-court representation for both civil and criminal matters.

Employees may select their own attorney anywhere in the United States or Canada.

The Medical Park plan offers \$2,800 per year in coverage to the employees and costs the center \$4.60 a month per family.

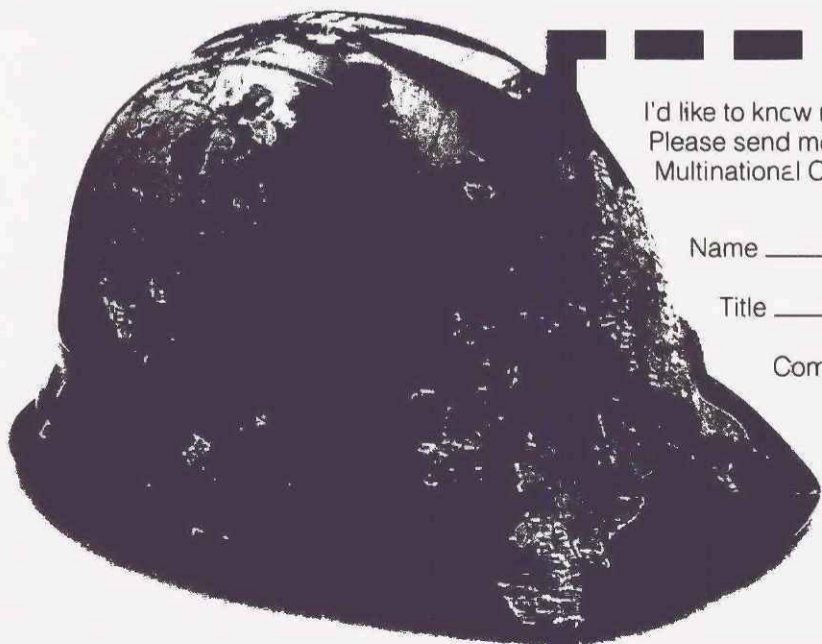
The NCPLS plan offers coverage up to \$3,200 a year at a cost to the employer of \$8.60 a month per family.

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ployed at lighter duty."

Bette De Luca, Plant Nurse, says, "We do this as much to *prevent* more serious injury as to cut down on lost time."

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PBGC says it's satisfied with AlloyTek settlement

washington

WASHINGTON—The Pension Benefit Guaranty Corp. agreed to take over AlloyTek Inc.'s troubled defined benefit pension plan—and some \$4.5 million in unfunded liabilities—because the Michigan aerospace firm pledged not to start a new defined contribution plan, an agency spokesman said (BI, Sept. 14).

"The settlement meets our concerns in this particular instance about employers terminating a plan and at the same time starting up a new replacement plan," the spokesman said.

The settlement also saved the agency the costs of protracted litigation, the spokesman added.

AlloyTek's chairman, Hilary Miller, said the tentative settlement

of his company's suit against the PBGC was an economic victory for the firm.

He said the settlement did not financially hurt the Michigan aerospace firm or its employees nor was it a deterrent to other employers who might seek a similar method of shifting pension liabilities to the PBGC.

"Settlement is always better than litigation," he said when asked why the company settled. "We're extremely pleased. We hope the union goes along with it."

Mr. Miller speculated that pending legislation that would close a loophole permitting companies to shift pension liabilities to the PBGC with a relatively minor penalty was the reason the PBGC settled.

Approval by the approximately 430 members of the International Union of United Automobile, Aerospace & Agricultural Implementation Workers is required for the agreement to become final.

Under the agreement, the PBGC will take over the company's defined benefit plan and its unfunded liabilities if certain concessions involving future benefits to employees are approved by the union.

AlloyTek will have to eliminate a defined contribution plan it recently established and must distribute to employees an amount equal to 107% of the money set aside for that plan.

Employees next year could presumably start Individual Retirement Accounts with the money.

Although employees were not hurt economically by the agreement, Mr. Miller said that by not allowing the company to set up a defined contribution plan, the employees are deprived of the opportunity of having it professionally administered.

"We have agreed in principle with the approach worked out between AlloyTek and the PBGC," Karl Mantyla, a union spokesman said. "But we still have to negotiate details as to how it will be worked out."

The company and the union have 60 days from Sept. 3 to comply with the conditions contained in the agreement. Five days after receiving notice that the union has agreed, the PBGC would become trustee of the plan.

Arbitration rules

The International Foundation of Employee Benefit Plans and the American Arbitration Assn. have agreed on a set of rules to be used in arbitration clauses of multiemployer pension plan contracts.

Under the plan, when a dispute arises the parties will choose an arbitrator from a panel maintained by the AAA. If the parties cannot agree on an arbitrator, the AAA will appoint one. The arbitrator's decision will be binding upon the parties, and he will decide which side should pay for the costs of the arbitration proceeding.

Hearings will not necessarily be open to the public, but "any person having a direct interest in the arbitration shall be entitled to attend hearings," according to the rules.

The arbitrator will be able to subpoena documents and witnesses from the parties. Witnesses may be required to testify under oath, and they may be excluded from the hearing room during the testimony of other witnesses.

Finally, any party or individual may choose to be represented by counsel.

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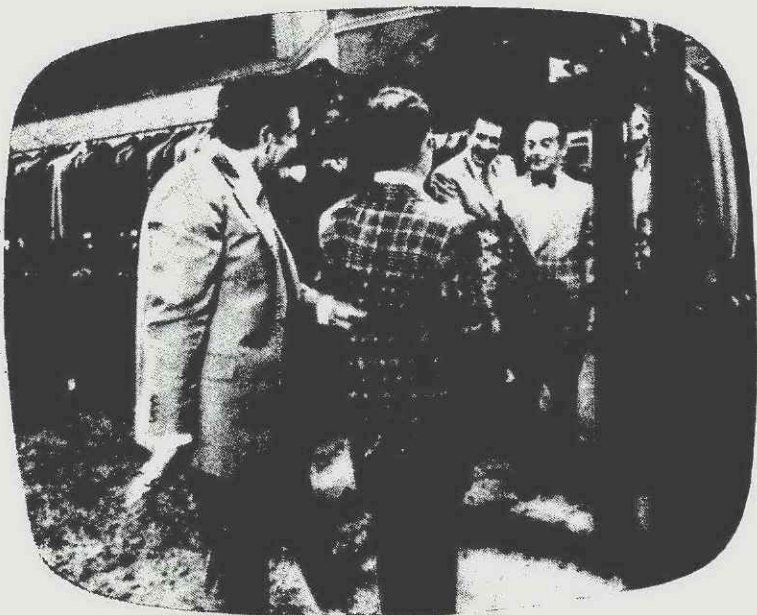
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editorial opinions

Look for the best

NOMINATING A CANDIDATE to become the *Business Insurance* Risk Manager of the Year is to do your part to bring recognition to risk management as a profession and to help the professional development of risk management.

The annual award brings the winner recognition not only in the pages of *BI* and among its readers, but also among the winner's superiors.

A boss can know an employee is doing an excellent job, but nothing helps reinforce that perception like outside recognition of exemplary performance. A risk manager's selection as Risk Manager of the Year by a panel of 10 eminent judges announced in last week's issue is a compliment from outside that impresses the employer.

And don't think only risk managers for Fortune 500 companies should be nominated. We created the Risk Manager Honor Roll last year to be sure that risk managers facing different types of challenges would be recognized for their achievements.

After the judges' scores are compiled and the candidate with the highest score is selected the Risk Manager of the Year, all the nominations are separated into four employment categories: corporations with more than \$300 million in sales and more than 1,000 employees; corporations with less than \$300 million in

sales and fewer than 1,000 employees; not-for-profit institutions; and government entities. The highest scoring candidates in each of the three categories not represented by the Risk Manager of the Year are named to the Risk Manager Honor Roll.

We admit we were disappointed last year when not a single person handling risk management for a small corporation under our definition was nominated. Don't let that happen this year. If you know a company treasurer, attorney, president or anyone who has done a professional job of risk management for a small company, nominate the person. These risk management professionals, although devoting only part of their time to the job, deserve recognition for a job well-done, too.

The government entity and not-for-profit institution categories were well represented last year as were large corporations. We expect the same will be true this year with your help.

Take the time to request the nominating form and full nomination instructions by writing Risk Manager of the Year Competition, *Business Insurance*, 740 N. Rush, Chicago, Ill. 60611.

We, and the 10 judges who have generously agreed to donate their time to this competition, await your nomination—almost as eagerly as the risk manager who deserves to be nominated.

It's worth the price

AS THE FIRST cost-savings figures come in, it looks like an ounce of prevention might be worth a lot more than a pound of cure—even at today's inflated prices.

As the story on page 1 points out, New York Telephone Co. and Canada Life Assurance Co. have documented actual savings in employee absenteeism and turnover rates and health care costs since the two companies began wellness programs to encourage employees to take preventive measures to protect their health.

Benefit managers can hardly ignore the savings they tout: \$2.7 million last year at New York Telephone and \$231,000 at Canada Life.

And the figures they could not document—the money saved or earned by workers who are more productive because they feel good and the actual lives saved by early detection of health problems—are even better reasons to consider implementing a health education or fitness program at your company.

That combined with the actual savings re-

corded for fewer absences and fewer medical claims might be enough to convince upper management that a few laps around a jogging track might trim more than the employees' waists.

But even if money is no object—and we doubt that any firm is immune to rising health costs—what type of price tag can you put on an employee who appreciates his company because he believes it cares about his well-being?

It doesn't have to be an elaborate fitness program incorporating expensive physical fitness equipment or a wellness program demanding a large experienced health staff. Your company's program could start this year with the company helping support a community smoking cessation or blood pressure screening program. Then it can be expanded.

Because employees are only human, they may need this nudge from you to take care of themselves, but in the long run it could mean a healthier employee and healthier company.

letters

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

Was 'royal treatment' wrong?

To the editor: I could not believe that a municipal risk manager named to the *Business Insurance* 1981 Risk Manager Honor Roll could be so naive as to believe that he got the "royal treatment" from an insurance company simply because the insurer wanted to make a nice gesture, as Robert Bieber said in his letter (*BI*, Aug. 31).

Many companies, including my own, have ethics policies that forbid the acceptance of lavish entertainment and favors like free rides on corporate jets from suppliers, and rightly so.

However, even without the formality of such an ethics policy, I would hope that a risk manager charged with the distribution of hundreds of thousands of the taxpayers' dollars would strike for at least an image of impartiality and not allow himself to be seduced by the people competing for those dol-

lars. Have we really deluded ourselves into thinking that favors are bestowed upon us because we are such competent and personable risk managers?

Even the Risk & Insurance Management Society has fostered this belief by encouraging brokers and insurers to compete with one another in showering lavish entertainment and "goodies" upon risk managers during its annual conference. Unfortunately, I have yet to note any mention of business ethics at a RIMS seminar or conference.

Perhaps I am out of tune with today's view of business ethics, but I still believe there is no such thing as a free lunch.

John Kiefer Jr.
Assistant treasurer and
director of insurance
Akzona Inc.
Asheville, N.C.

Brilliant, but is it backdating?

To the editor: Being in the business more than 35 years, I'm in conflict with the principle of backdated insurance as pointed out in the story, "Hotel says backdated cover has been placed" (*BI*, Aug. 24).

It is recognized insurance companies can and often do what they well please. There is no mystery here. What we have here is the 10 a.m. fire, with the insurance being placed at 2 p.m.

Please correct me if I'm wrong, but I think we have a money management situation. For example, we know insurance companies can handle losses better than MGM: That's their business.

We know, too, insurance companies can invest funds better than most business enterprises. We know the losses will take a long time to settle.

It is also possible the backdated insurance action will cause the limit of the MGM's Grand Hotels liability to be set at the collectible limit of liability insurance in force.

So it is possible to conclude that for a fee, the companies have backdated and provided a larger limit of liability than what was provided for at the time of loss. For this service the claims will be handled in a timely manner. The funds will be invested for a long period. MGM is no doubt holding the companies harmless, above the limits originally carried, and MGM has the benefit of putting a lid on its liability.

Brilliant it is, but backdating I'm not so sure.

Charles P. Phelan
Silver Spring, Md.

■ You are correct in all your assumptions and analysis of the MGM backdated liability insurance as far as we know, except for one point. To our knowledge, there is no agreement under which MGM is holding the insurance companies harmless for losses exceeding the limits that were originally purchased.

Open comp rating reasoning flawed

To the editor: The "free market" rhetoric supporting competitive pricing of workers compensation premiums (*BI*, Sept. 7) has a flaw. It is free only to the sellers, not the buyers. State law compels the buyer to buy.

So, the free market is not elastic but rigid. If there is a surplus of insurance companies competing for the available business, it may work out well for the employer. If there are fewer insurance companies, competitive pricing may prove much more expensive.

This is not to justify the existing structure, either. But competitive pricing is not any panacea, and some of the rhetoric supporting the idea of competitive pricing for workers compensation is faulty.

Douglas F. Stevenson
Attorney
Rooks, Pitts, Fullagar & Pous
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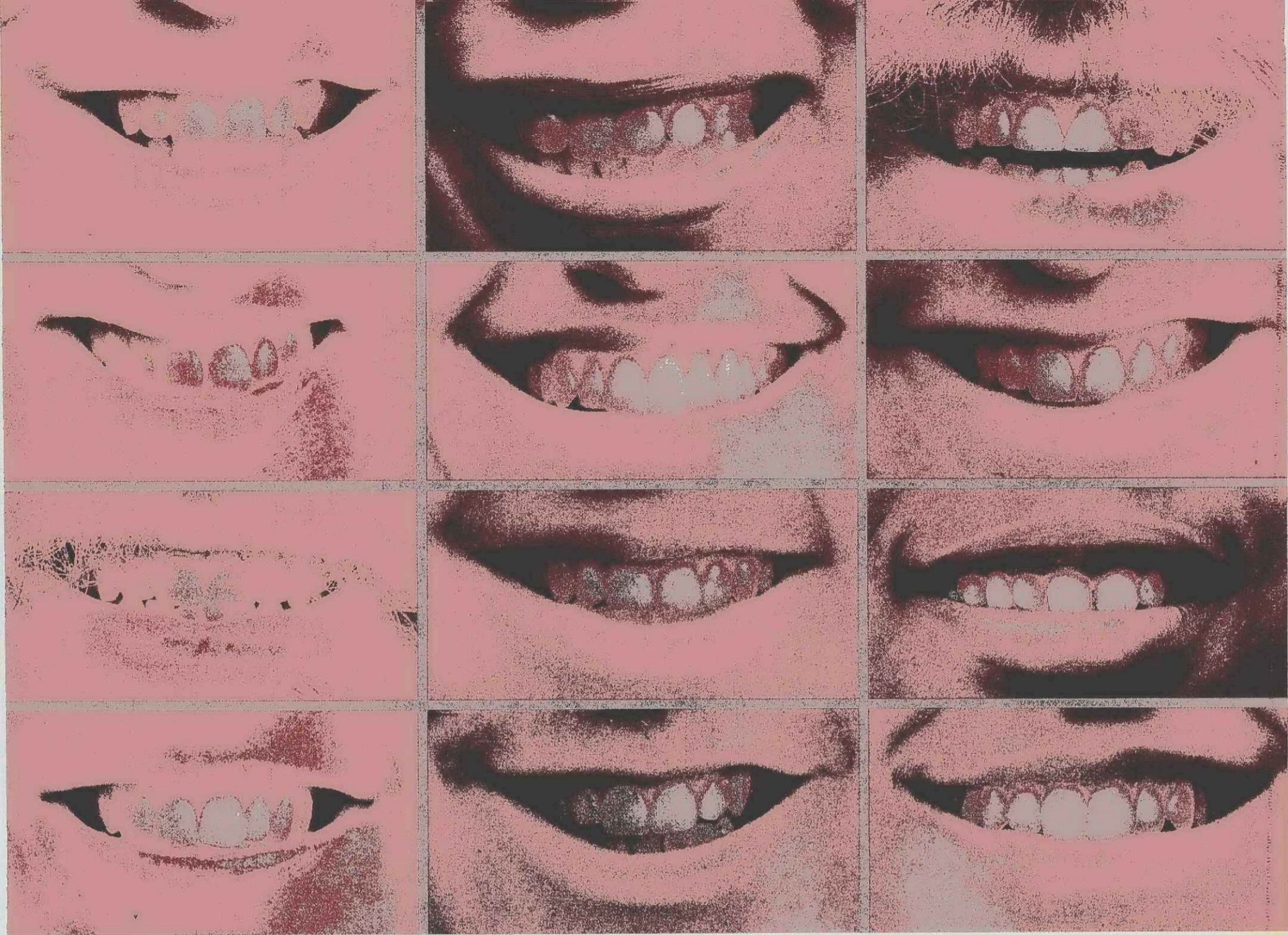
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Solar heating unit backed by warranty cover

By JOHN W. MILLIGAN

MELVILLE, N.Y.—When a homeowner plunks down \$3,200 for a solar heating system from LILCO Energy Systems Inc., he is no doubt pleased with its five-year warranty

backed by an insurance policy.

And Energy Systems, a wholly-owned subsidiary of the Long Island Lighting Co., has the security of knowing it can survive any costly maintenance or equipment problems that could arise.

The company has been marketing a solar heating system to residential customers on Long Island since June of this year.

It is an outgrowth of a solar demonstration program that the utility operated on Long Island for three

years. The company projects solid future growth for energy conservation equipment like solar heating.

The company also markets a high-efficiency gas heating system.

Manufactured by Daystar Inc. of Burlington, Mass., the two-collector

solar system sells for \$3,200 to \$3,800 installed and is backed by a full five-year guarantee.

Energy Systems is reimbursed for "every dollar" it spends on parts and service, said L.R. Cianciulli, vp of marketing, with labor charges on major parts covered under the manufacturer's warranty.

The warranty insurance is provided for Energy Systems by American Solar King of Dallas, Daystar's parent company. The coverage was placed with the Aetna Casualty & Surety Co. by William M. Mercer Co. in Chicago, said Mercer account executive James C. Wilson.

Mercer, known primarily as a benefit consulting firm, also has a substantial warranty insurance program, much of it in the energy field.

The company has sold warranty insurance for solar units since February 1978, Mr. Wilson says.

The value of an insured warranty for a company like Energy Systems is two-fold, Mr. Cianciulli says.

First, accurately predicting equipment and servicing costs is critical for a new company that is marketing an expensive product. The warranty insurance "protects us from some unexpected cost that might effect us," he says, and enables the company to project a cost figure that it knows won't change.

Small companies like Energy Systems have failed when major servicing or developmental problems arise, Mr. Cianciulli adds. Warranty insurance gives them a wide measure of protection that it otherwise would not have.

The payoff for the buyer is security since he knows that the company will stay in business if serious problems do surface.

"The customer is assured that he has that protection for five years," he says.

American Solar King likes the coverage since it gives the company an extra sales weapon in a field that is becoming increasingly more competitive.

"The advantage to us is that it's a good sales tool for our dealers and distributors," says Charles Cagle, Solar King's vp of sales.

Mr. Wilson at Mercer, who said the insurance is written as an endorsement to an owners, landlords and tenants policy, said it is not unusual for companies to insure their warranties. This is widely done by manufacturers of air conditioners and refrigeration units, he says, and the practice has simply expanded to the solar field.

Mercer is both the administrator and broker for the plan, and it handles all claim processing, applications and paper work for Aetna Casualty & Surety.

Aetna's engineering department did a complete evaluation of the Solar King system before accepting the risk, Mr. Wilson says.

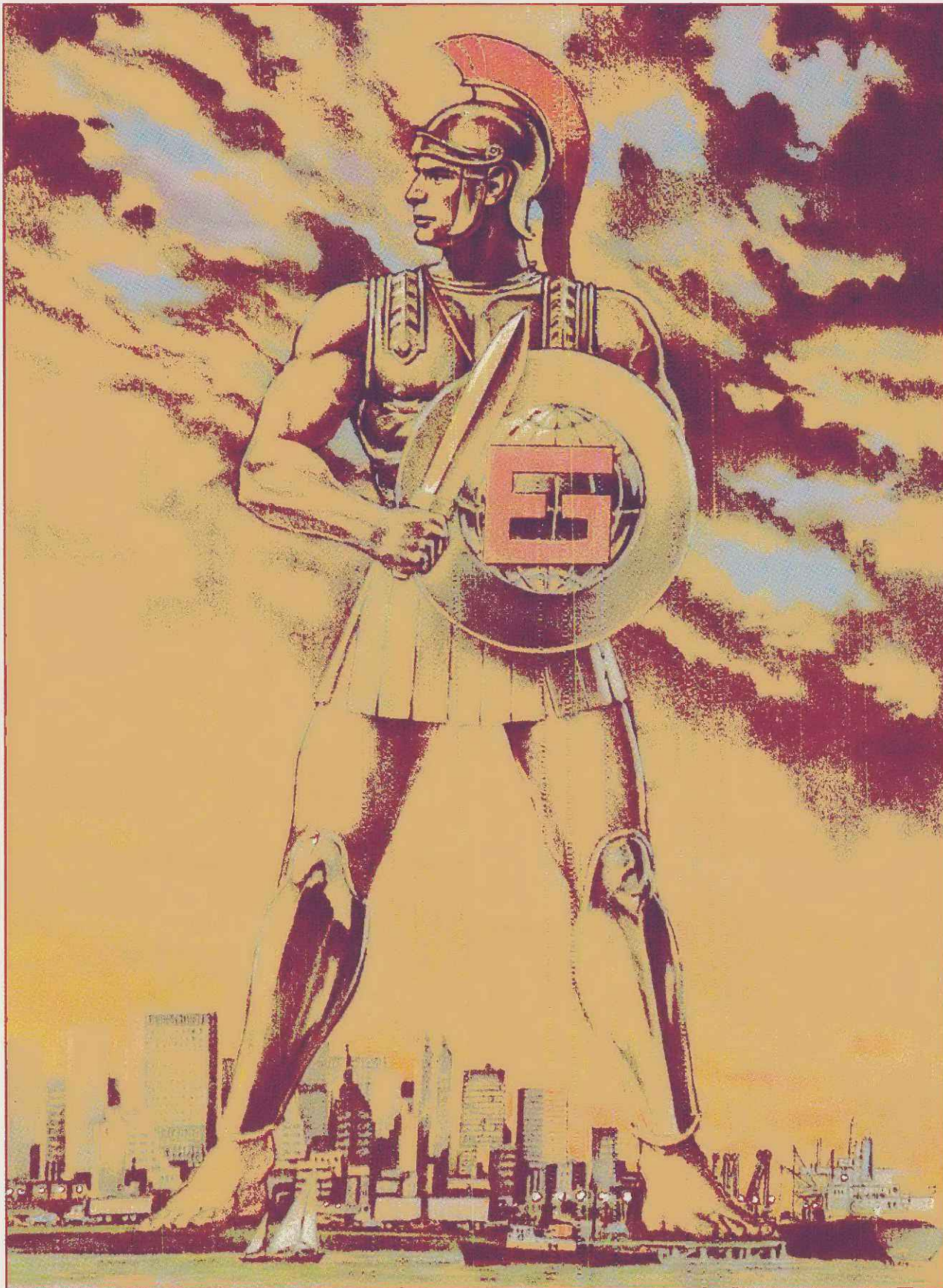
And should Energy Systems close its doors for any reason, he adds, Mercer would find another company to perform all of the servicing obligations under the warranty. ■

Retiree to head Blue Shield plan

SAN FRANCISCO—Robert W. Walker, a retired San Francisco business executive, has been elected chairman of the board of Blue Shield of California.

Mr. Walker is the first non-physician ever to be elected to the top corporate post in Blue Shield's 42-year history.

Mr. Walker, 68, retired as a vp from the Santa Fe Railway Co. in 1979. ■



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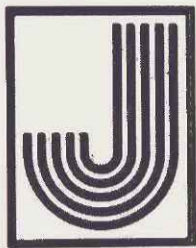
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American Can Co. promotes Inserra

Richard M. Inserra, 33, has been appointed director of insurance and risk management at American Can Co. in Greenwich, Conn. He will replace **Edmund C. Alheit**, who has retired. Mr. Inserra has been with American Can for one year as special projects manager. Before that, he was insurance manager at NL Industries in New York. Mr. Inserra has a bachelor of arts degree from Fordham University and a master of business administration in marketing management and management science from Iona University in New Rochelle, N.Y.

Richard F. Grennan, 42, has joined ConAgra Inc. in Omaha,

comings & goings: buyers

Neb., as corporate manager of insurable risks. He served in a similar capacity with Nebraska Public Power District for the past 13 years. A native of Kansas, Mr. Grennan is a graduate of Benedictine College in Atchison, Kan., and did graduate work at the University of Nebraska. He has served as president of the Great Plains Chapter of Risk & Insurance Management Society. Mr. Grennan also was chairman of the Risk Management and Insurance Committee of the American Public Power Assn., which represents more than 1,500 utilities across the country. In 1980, he served as president of the American Power Insurance Corp., which provides certain insurance coverages to utilities. Mr. Grennan replaces **James Goodrich**, who has retired. He will report to L.B. Thomas, vp of finance, treasurer and secretary.

Barry Rudkin, 32, has joined Wang Laboratories Inc. in Lowell, Mass., as corporate risk manager. Mr. Rudkin will be responsible for the company's domestic and international property/casualty and loss-prevention programs.

Before joining Wang, Mr. Rudkin was with Public Service Co. of New Hampshire. He is a 1972 graduate of Northeastern University in Boston and has held several positions in the insurance industry. Mr. Rudkin replaces **Deborah Myers**, who has left the company. He will report to Martin A. Miller, assistant treasurer.

Lee Baldwin has been named corporate risk manager of Anderson, Clayton & Co. in Houston. He will replace **Larry B. Cox**, who was named assistant treasurer for banking relations. Mr. Baldwin was previously director of risk management for Zapata Corp. He has a bachelor's degree from Baylor University, an MBA degree from Southern Methodist University and a doctorate from North Texas State University. He also holds CPCU and ARM designations.

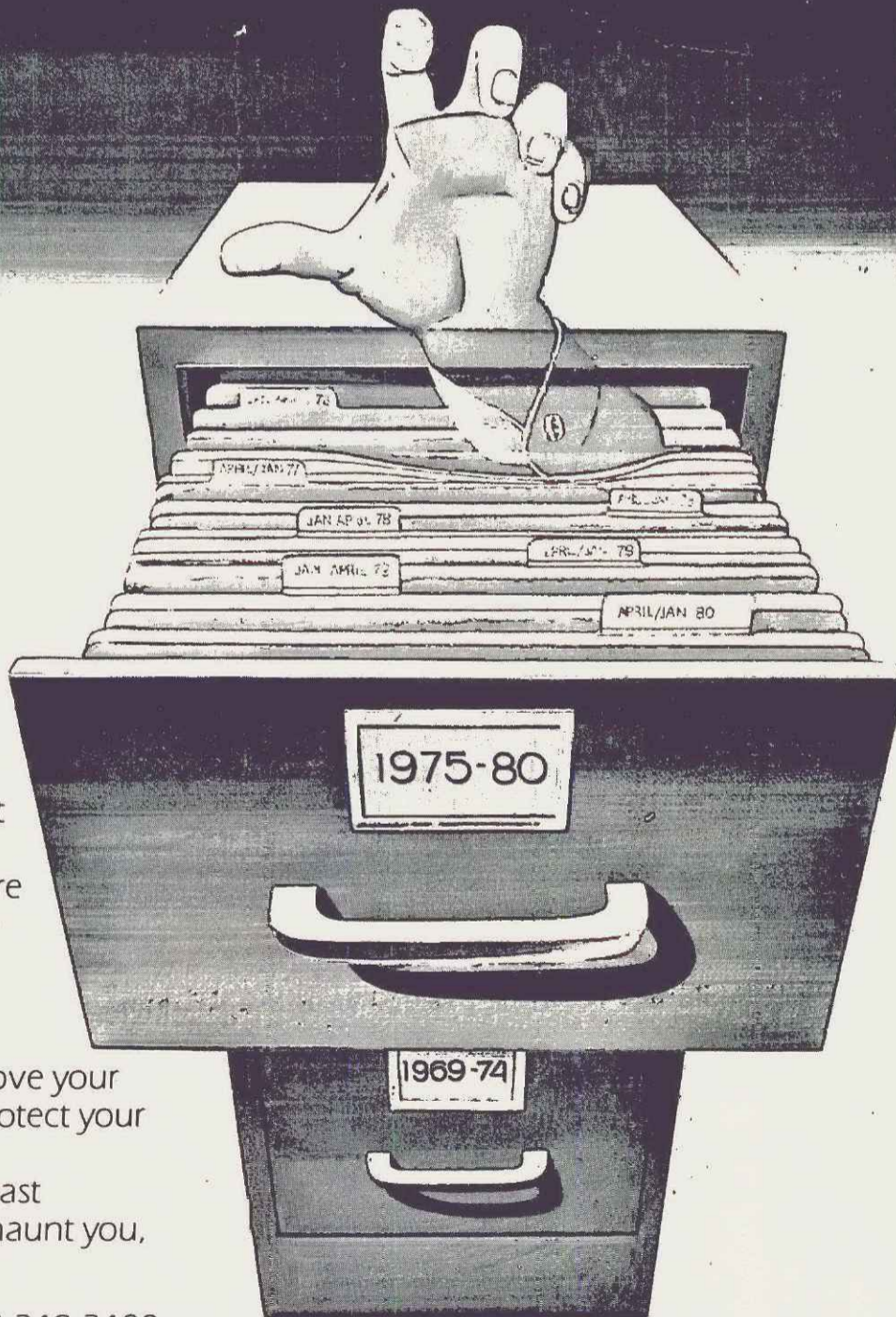
We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stephen Tarnoff, Associate Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5482.

Court date is set in animal feed case

BILLINGS, Mont.—District Court Judge James F. Battin has set Nov. 1 as the trial date to determine liability in a chain of suits involving chemically contaminated animal feed (BI, April 27).

Hundreds of poultry farmers and other growers who used the poisoned feed are suing Pierce Packing Co., whose leaking transformer in a supply room caused the contamination. Pierce is, in turn, bringing product liability actions against a second layer of defendants.

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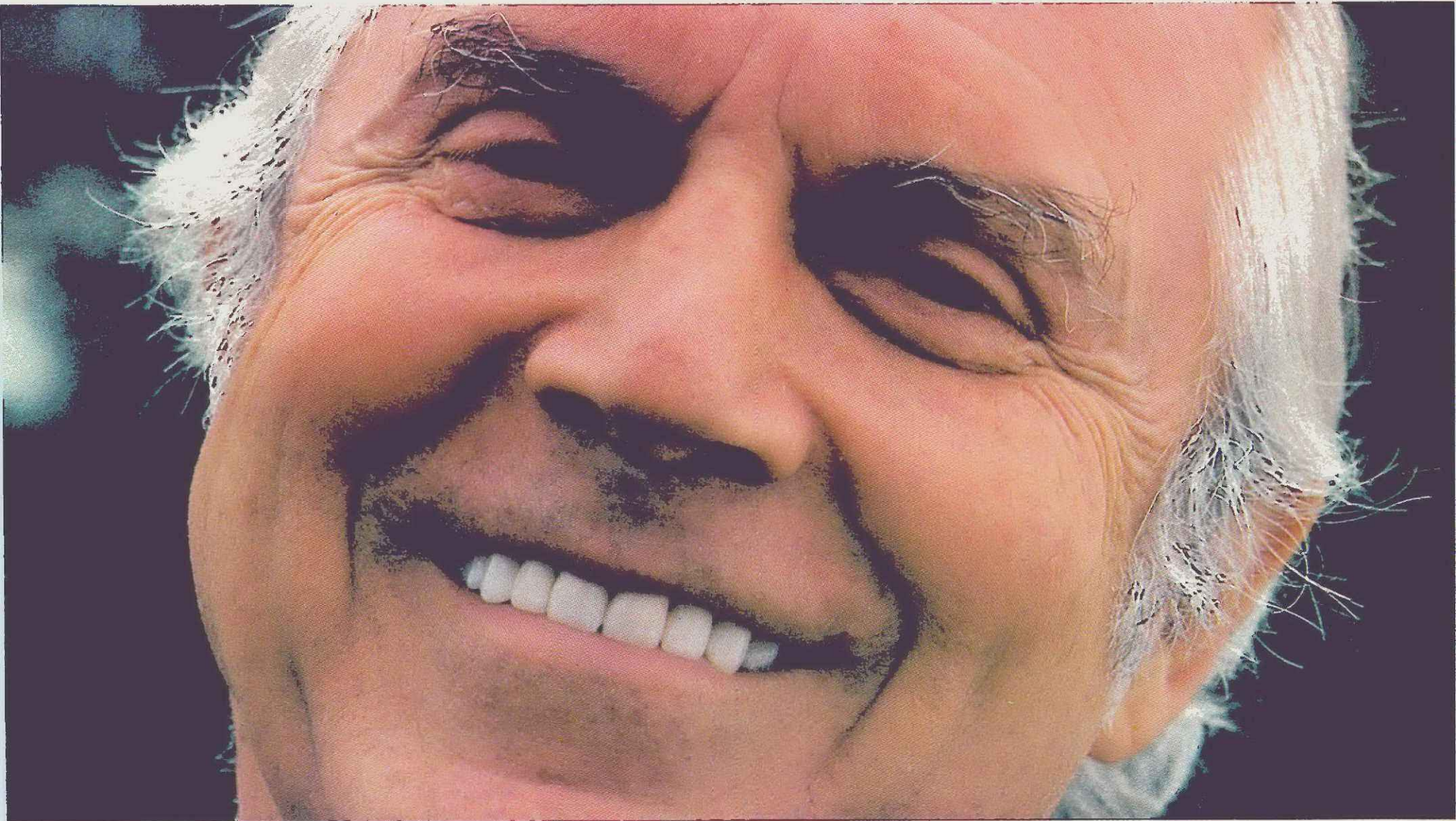
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Insurance commissioner in South Carolina resigns

around the states

COLUMBIA, S.C.—Chief Insurance Commissioner John W. Lindsay has resigned, effective Sept. 3, to become senior vp and chief operating officer of Companion Life Insurance Co. Mr. Lindsay had been chief commissioner since 1975. He also held the post between 1970 and 1972.

The state Insurance Commission is searching for a replacement and is soliciting applications from quali-

fied people. They should be sent by Oct. 1.

Before joining the state Department of Insurance, Mr. Lindsay was president of Investors Heritage Life Insurance Co. of the South. Before that, he was vp of Liberty Life Insurance Co. in Greenville,

S.C., and assistant vp of Liberty Life's parent company, the Liberty Corp.

He also has been actively involved in the National Assn. of Insurance Commissioners and played an instrumental role in the development of the NAIC's "financial early warning system." He is currently vp and chairman of the NAIC executive committee.

Companion Life is a wholly-owned subsidiary of Blue Cross/Blue Shield of South Carolina.

Workers comp rates

DOVER, Del.—State businesses will not have to pay a higher overall rate for workers compensation coverage this year following withdrawal of an application for a \$3.5 million rate hike by state insurers.

The Delaware Compensation Rating Bureau, an association of insurance companies selling workers compensation, withdrew the application last week in part because of objections from the state Insurance Commission and businessmen.

The rate hike would have raised rates an average of 6.7% for the 240 job classifications under workers compensation.

There will be increases of up to 25% in 104 of the job classifications following approval by the Insurance Commission after recent public hearings. The overall rate will stay the same, however, because of decreases in 117 categories.

Rate changes will go into effect Oct. 1 instead of Sept. 1, the date the \$3.5 million increase would have gone into effect.

Commissioner dies

SALEM, Ore.—State Insurance Commissioner Wilfred W. Fritz, 66, died on Sept. 9.

Mr. Fritz became Oregon's executive assistant commissioner in 1976 and became commissioner in 1978.

Before coming to Oregon, Mr. Fritz was director of insurance in Alaska for four years.

He was born in Chicago and received bachelor's and law degrees from Valparaiso University in Indiana. He served in military intelligence during World War II.

Mr. Fritz is survived by his wife, Connie, and four children.

Jo Discoll, the state's deputy insurance commissioner, will fill Mr. Fritz's post until a permanent appointment is made.

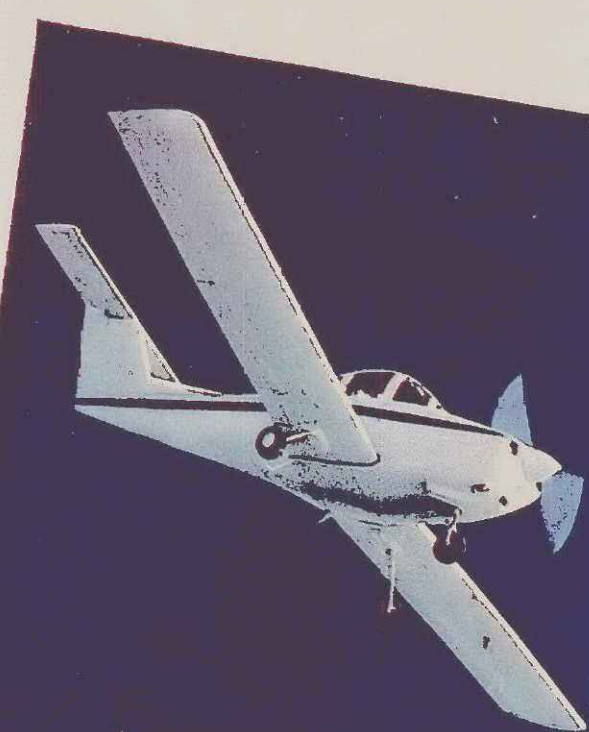
Insurers in Britain report 1980 assets

Insurance companies in the United Kingdom, besides Lloyd's of London, reported 49.9 billion pounds in total assets in 1980, according to an annual report on insurance companies that has been published by the British Department of Trade.

Premiums received by the 848 companies authorized to conduct insurance activities totaled 5.9 billion pounds for property/casualty insurance business and 6.57 billion pounds for health and life business, the department's report said.

The companies also earned 4.3 billion in investment income, according to the report.

Claims for property/casualty insurance totaled 2.97 billion pounds last year, the report said. Claims for health and life business amounted to 3.59 billion pounds in 1980.



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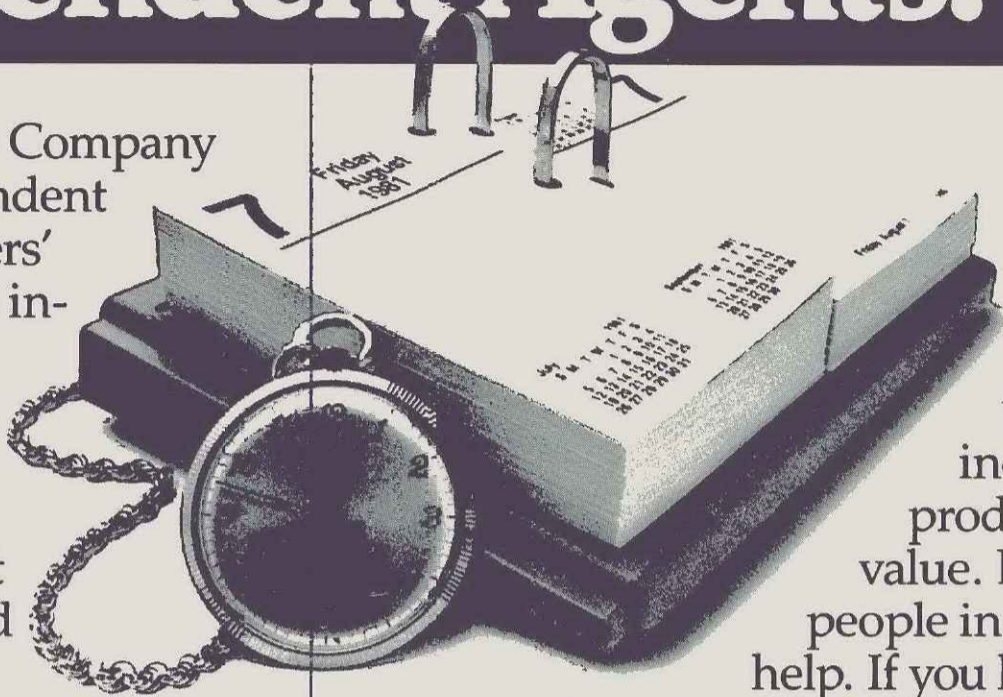
Our computer systems are state-of-the-art, developed and designed by EBI. It gives you something few other workers' comp insurers can: access to a system that retrieves information in seconds. It all means you get what you need in a matter of minutes or hours instead of days.

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Companies offering counseling to workers

WILLOW GROVE, Pa.—Many companies provide an array of counseling services to their employees, but very few offer day-care benefits, according to a recent survey.

Some 53% of the 500 companies surveyed by the Administrative Management Society offer pre-retirement counseling to their employees, while 48% offer alcohol abuse counseling. About 47% of the companies polled offered career advice.

Many companies reported that they offer counseling in one or more of the following areas: emotional, legal, financial and marital. Many companies also said they offered advice to employees who are laid off.

Twenty-eight percent of the companies surveyed offered no counseling programs, the AMS reported.

Less than 1% of the companies polled offered day care for employees' preschool children. Of the few companies that did support such a program, most use facilities at the workplace.

None of the surveyed companies shouldered the entire cost of a day-care program.

The survey also reported that less than 20% of the companies that were studied offered physical fitness programs. Only half of those companies paid the entire cost of such a program.

Seventeen percent of the companies sponsored employee memberships in health or other recreational clubs. Some 15% sponsored employee attendance at sporting events.

Other recreational activities supported by the companies polled included sponsorship of attendance at cultural events, 12%; company-sponsored social events, 5%; and sponsorship of leisure-time events, 4%. More than a third of the employers surveyed did not sponsor any recreational or leisure-time events.

However, more than half the companies polled by the AMS sponsored athletic teams, with a third providing full monetary support.

The AMS conducted the employee benefits study through its Committee of 500 survey group, which is composed of small, medium and large companies in the United States and Canada.

The Administrative Management Society is a professional management association with more than 12,000 members in 140 chapters throughout North America.

For a copy of the report, send a self-addressed, stamped business envelope to Support Services, Administrative Management Society, 2360 Maryland Road, Willow Grove, Pa. 19090.

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CEBS society established

SAN FRANCISCO—Employee benefit managers and others in the benefits field now have their own professional society.

The International Society of Certified Employee Benefit Specialists has been formed for those who have completed the Certified Employee Benefit Specialist program and have earned the CEBS designation.

The ISCEBS will operate as an independent, non-profit educational association. It was formed by the Wisconsin-based International Foundation of Employee Benefit Plans.

Membership services will include a journal addressing important employee benefit issues; a newsletter highlighting topics of current interest to society members, regional meetings and seminars and use of the IFEBP's information center.

The CEBS program, a series of 10 college-level employee benefit-related courses is co-sponsored by the IFEBP and the University of Pennsylvania's Wharton School. It is taught at more than 35 colleges and universities and is also provided on a self-study basis.

So far, 329 people have earned the CEBS designation.

More information about the new society can be obtained by writing ISCEBS, P.O. Box 209, Brookfield, Wis. 53005.

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**HARTFORD
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Wineries insure product throughout aging process

Continued from page 3

insurance for the 50 full-time employees.

Special valuation endorsements developed for the expensive and popular reds like cabernet and zinfandel that grow in flavor and price with the years protect the wineries against the loss of a great wine at midlife.

Most wineries insure their aging wine for its wholesale, aged price so if it is lost a few years into the aging, the winery is covered for the price the wine ultimately would have brought.

"This protects them from a business interruption loss," notes Mr. Capponi.

The economics of insurance and wine making prevent wineries from inflating the ultimate value of their wines and dumping wine to collect the insurance. The cost of the policy depends on the values reported so wineries keep them in check. And no Napa Valley wine maker would dump a vintage for the insurance proceeds. The ultimate loss in market share and prestige by losing a vintage would be far greater than any insurance proceeds, Mr. Capponi explains.

The largest leakage loss Mr. Capponi recalls was a \$50,000 loss suffered by a winery when the straps on a 25,000 gallon broke and the contents were lost.

In this case, the insurer could hardly subrogate against the makers of the old tank. But if a brand new stainless steel tank spills its contents because of a defect, the insurer can sue the tankmaker.

At Christian Brothers, Secretary-Trea-

surer R.H. Stebleton pointed out that wine makers guard against big-cost leaks by storing the more valuable \$10-a-gallon chardonnay wine in smaller barrels and the less expensive \$2- to \$5-a-gallon wine in the 2,000 to 3,000 gallon tanks. A chardonnay fan, however, will add that it is stored in small oak barrels to develop the distinctive taste.

Despite frequent inspections, a winery can expect to lose part of a tank of wine once a year to a leak, Mr. Stebleton noted. The largest leakage loss at Christian Brothers was \$20,000—half covered by insurance after a \$10,000 deductible.

Christian Brothers, the largest privately owned winery in the valley, buys its insurance policies through broker Marsh & McLennan.

Christian Brothers' blanket coverage on buildings and equipment for their appraised value is underwritten by Kemper's Lumbermens Mutual on an all-risk form with a 90% coinsurance clause and a \$25,000 deductible. Business interruption coverage is included. The stock insurance and general liability insurance is underwritten by Fireman's Fund.

Inventory and valuation are very important to proper insurance levels on aging wine, Mr. Stebleton said. The federal government helps here, he noted, since it is determined to get its fair share of taxes on the alcoholic beverage.

The peril feared by many a manufacturer—fire—is a small exposure for most wineries and their insurance rates reflect that, broker

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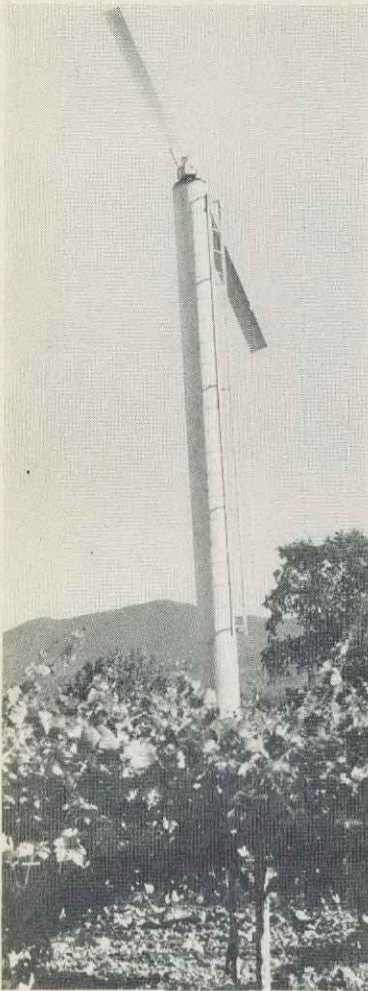


Photo: Kathryn J. McIntyre
Wind machines like this one protect grapes from frost damage.

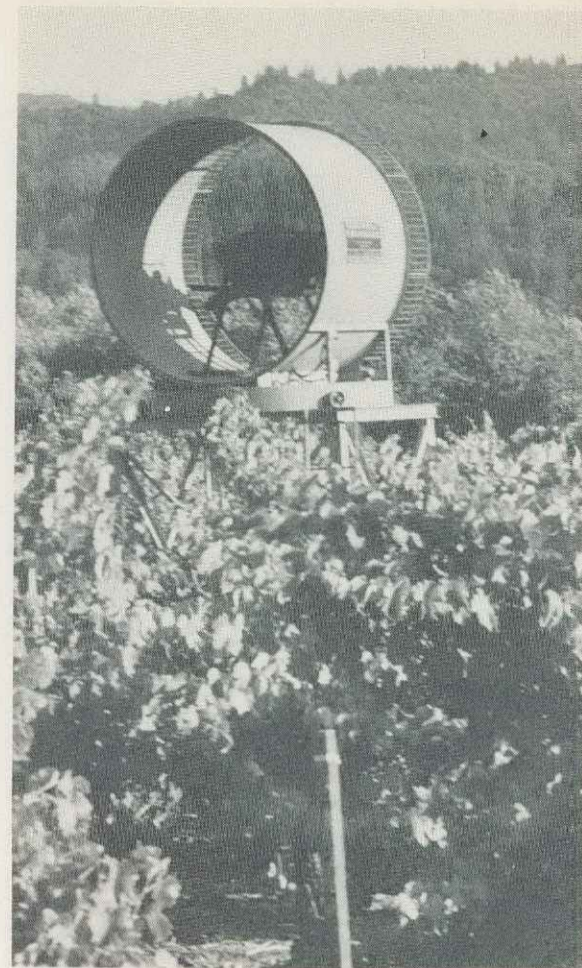
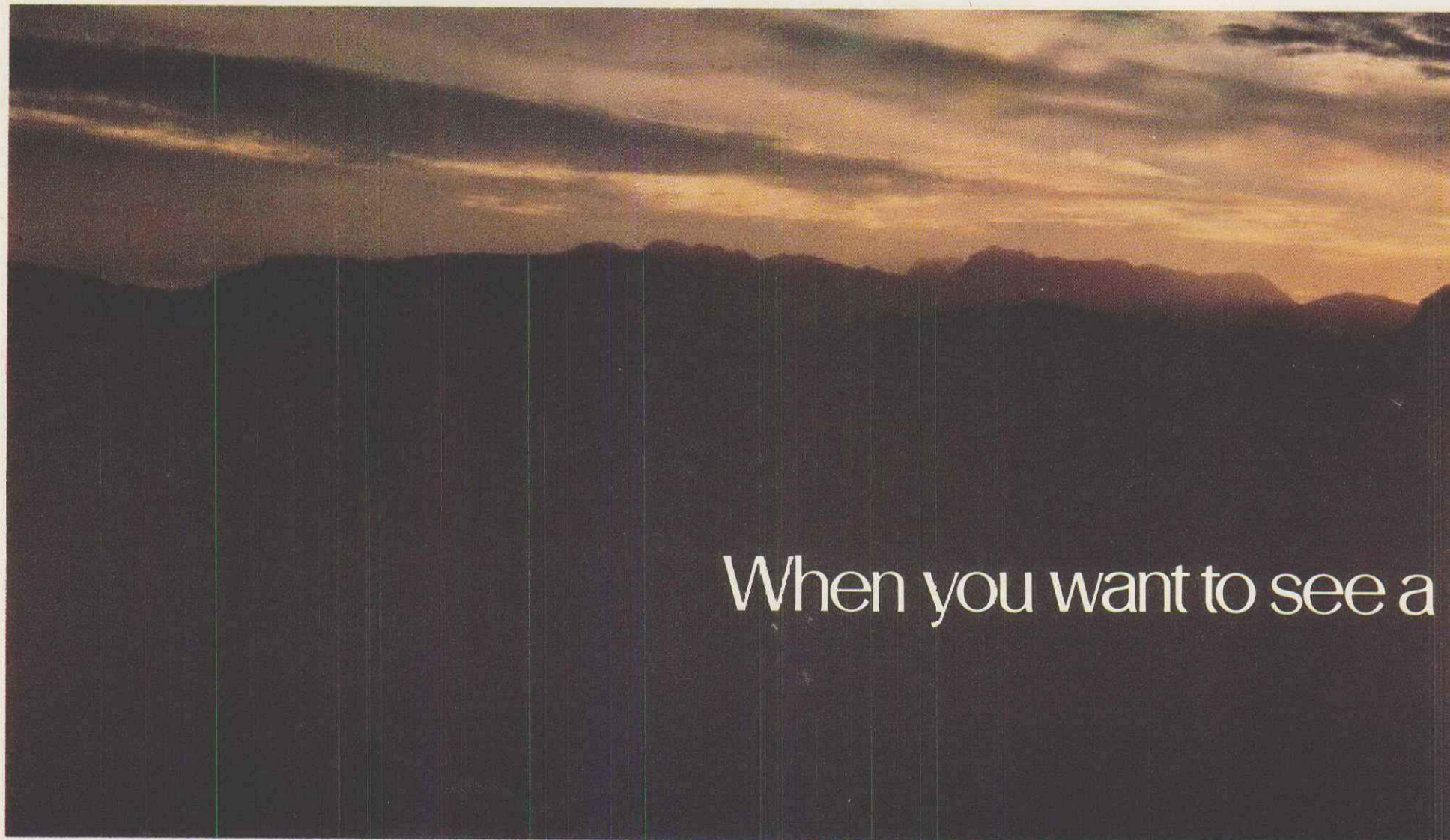


Photo: Kathryn J. McIntyre
Vineyards in California's Napa Valley use machinery to protect fruit from weather damage, but most do not insure grapes on the vine.



When you want to see a

World leader in loss prevention engineering for commercial and industrial properties, and member of

Continued from facing page
Mr. Capponi notes.

"There is so much water, those places just won't burn," he says. With credits and rate deviations, some wineries pay rates of a few pennies, while others with larger exposures could pay up to 50 cents to 60 cents per \$100 of value. But 75% and more off manual rates is possible, Mr. Capponi added.

Price and a winery's heritage usually determine if it buys earthquake insurance, Mr. Capponi noted.

The price varies depending upon the structure of the building, with



Photo: Kathryn J. McIntyre

Wineries use forklifts to store cases of wine.

the big old stone buildings that are so beautiful to look at and tour the most expensive to insure against earthquakes.

Ms. Martini says that using wood tanks is good protection against earthquake losses. History proves that a tremor damaging to a steel tank doesn't hurt a wooden tank, she said.

Martini buys \$6 million of earthquake insurance. Christian Brothers, however, under the ownership of Christian Brothers of California, only buys protection against earthquake damage to its sprinkler system.

The Christian Brothers, who use the business profits to run their schools, elected to take the risk against an earthquake causing further damage to their seven wine-making installations.

The Christian Brothers are also big brandy makers—a venture more risky for them than making wine, Mr. Stebleton explains.

"Our stills are very complicated and there are not that many around," he said. "It would be a minimum of 18 months to replace a damaged still and the loss of a crushing season or two depending upon when it happened." The direct damage and business interruption insurance on the Christian Brothers' stills is underwritten by Royal Insurance Co.

Mayfield-Malloy & Vasconi has cultivated a few choice insurance markets for the wineries' package policy. Mr. Capponi declined to reveal them, but confirmed that The

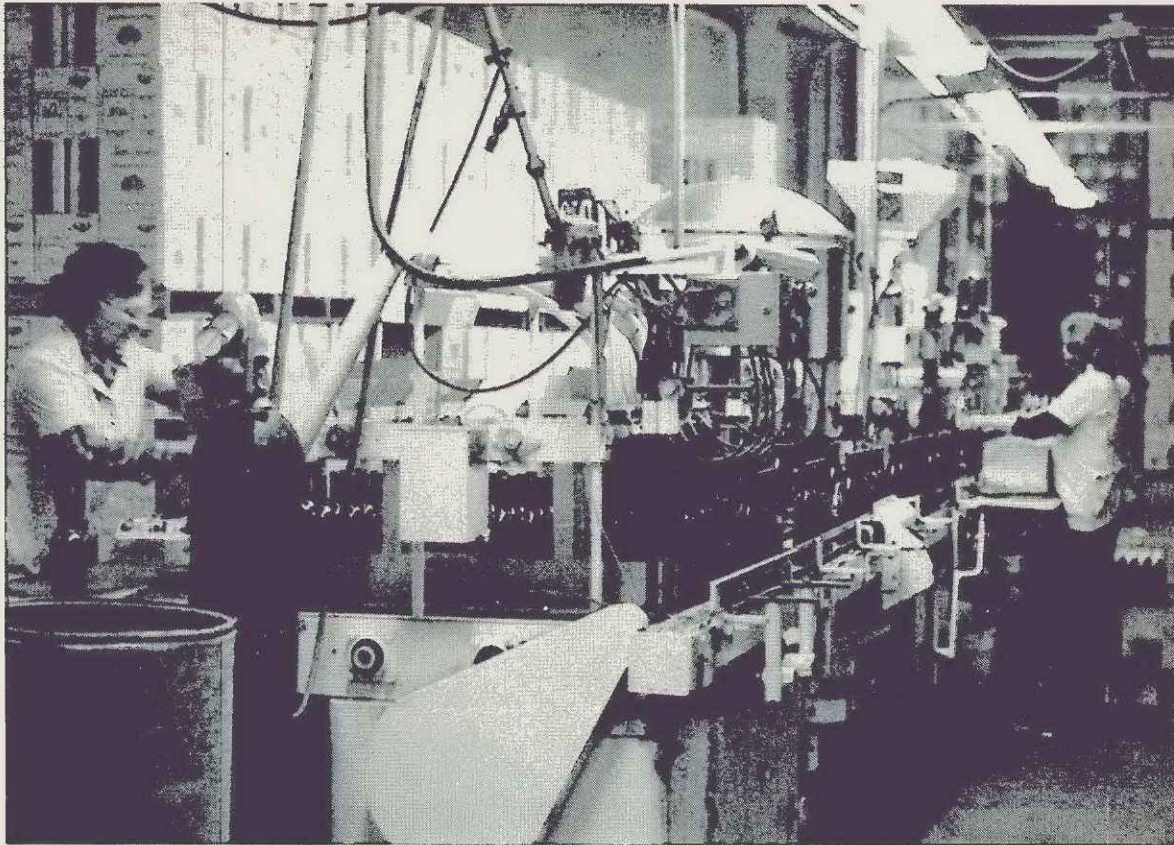


Photo: Louis M. Martini

Complicated machinery is used to bottle the wine after the aging process.

Hartford, the underwriter for Martini's insurance package, is among them. The Zenith Insurance Co. in California also provides a group insurance program for smaller wineries.

Although well-protected by insurance from crushing through bottling and shipping, California wineries emphasize loss prevention and don't insure the grapes while they are growing.

To protect against frost damage to grapes, the growers rely on a combination of methods to raise the temperature above the danger point: wind machines that churn

Continued on next page

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Insurance important to California wineries



Source: Louis A. Martini

Carolyn Martini says wooden barrels prevent quake damage.

Continued from previous page
the air, sprinklers that spew out water and orchard heaters.

Mr. Capponi says he could line up insurance on the grapes on the vine, but there isn't enough demand in response to the insurers' terms.

The insurers interested in writing such coverage would want the grapes insured to their full value. "There are tremendous values of \$20 million to \$30 million so even at a 5-cent rate, that's a big premium," Mr. Capponi conceded.

Vandalism—especially destruction caused by an out-of-control car careening through the vineyards—is an ever present danger. A neighbor of Mr. Cappoini estimates his uninsured loss after a hit-and-run escapade through his vineyard at \$14,000. The components of the loss: \$1,500 a ton for destroyed chardonnay grapes, \$200 a vine to replant and a three-year wait for any grapes and another two years before the vines are back at their peak production.

The recent explosion in the popularity of California wines, bringing throngs of tourists to the wineries each year, is among the smallest of a winery's risk management problems.

Wineries limit the amount of wine they allow a visitor to taste, not only to control expenses but also to keep the visitors relatively sober. At Christian Brothers, a visitor has to take the tour to taste the wine—a rule that eliminated those passing through for a free nip.

A visitor to Christian Brothers also will find all the vineyards posted with "Keep Out" signs. But rather than to protect the vines as one might expect, they were posted after one visitor lost his footing on the steep hillside, hurting himself and running up a medical bill for Christian Brothers.

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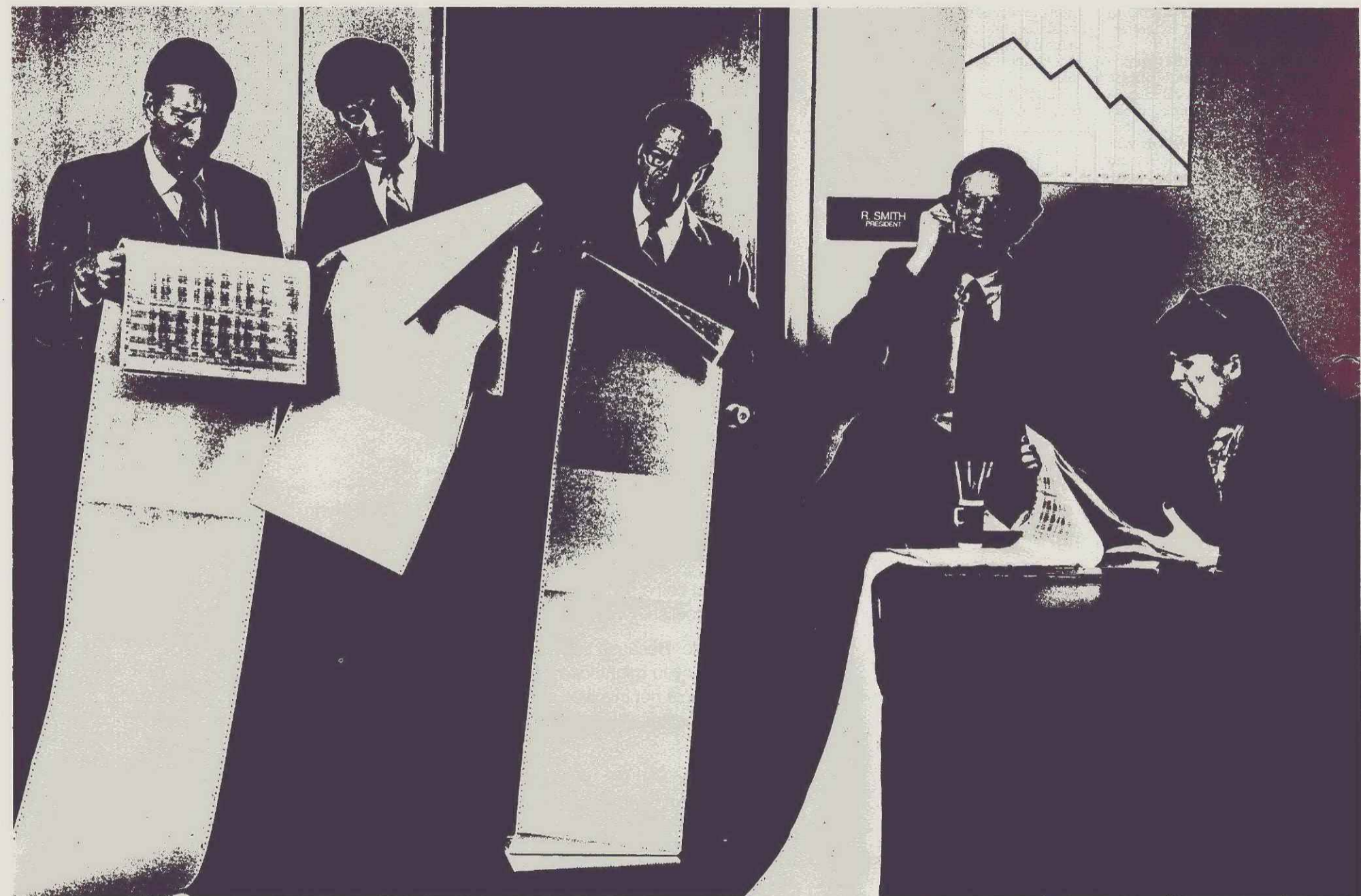
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Or suppose a client's new software package loses track of a manufacturer's parts inventory... and the manufacturer sues for \$750,000 in damages?

Some service companies may attempt to reduce their liability to customers through contractual "hold harmless" provisions in their supplier's agreement. The chance of eliminating responsibility entirely seems rather remote. Not to mention the

time and money required to defend a suit, whether well-founded or not.

That's why National Union created The EDP Policy. It's a policy that protects EDP service firms from financial loss incurred as a result of errors and omissions in performing data processing services for others. It's available in most states.

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BI-9-21

PIA wants minimum truck liability levels retained

WASHINGTON—The Department of Transportation should retain minimum levels of required liability insurance coverage for motor carriers, the National Assn. of Professional Insurance Agents says.

The department recently announced minimum financial responsibility levels for trucking companies affected by the Motor Carrier Act of 1980.

In a letter to Transportation Secretary Drew Lewis, the agents' association recommended that the department deny a petition filed by the American Truckers Assns. to impose maximum statutory coverage limits.

The ATA contends that maximum limits will promote public safety by forcing motor carriers to maintain and operate their trucks more safely. But the PIA said that carriers with poor loss records will be forced to pay high premiums no matter what level of coverage is required.

"Consequently, adoption of the ATA proposal would have little impact on public safety and would only increase insurance costs for all carriers covered by the act."

The agents also challenged the ATA's contention that higher coverage requirements would not disrupt cargo service. The PIA said that thousands of small trucking firms are being subjected to federally mandated insurance requirements for the first time under

POSA of N.Y., Adas sever ties

NEW YORK—Promotora De Occidente (New York) Ltd., the service firm running off the business of Promotora De Occidente de Panama, S.A., a managing general agency tied to a variety of tangled reinsurance agreements, has severed ties with Administratia Asigurarilor De Stat (Adas) of Romania.

Adas, a former POSA front accepting reinsurance for high-limit-liability risks during the insurance capacity crunch of the mid-1970s, is a named reinsurer on about 1,000 international treaty and facultative agreements and has liability for an average of one-third of each of 3,000 risks accepted by the POSA group of retrocessionaires, according to Maurice Newman, vp of Promotora De Occidente (New York) Ltd.

Only "a trivial number of agreements," or fewer than 100, affect risks in the United States, Mr. Newman explained.

POSA of New York publicized the separation of interests with an advertisement in the Sept. 7 *Business Insurance* and other business publications, noting that "proposals that have been exchanged between Adas and ourselves for the continued handling of the run-off for their account have not resulted in a working agreement."

The ad listed a New York attorney, Bernard Hubscher, as representing Adas in the United States, but listed an outdated address and telephone number.

Mr. Hubscher, contacted at new offices at 67 Wall St., said Adas would honor all of its legal responsibilities pending an investigation of the legal aspects of the POSA-made reinsurance agreements.

The pending New York grand jury and New York Insurance Department investigations of POSA contributed to the Adas decision to remain separate from Promotora De Occidente (New York) Ltd., he said (*BI*, Aug. 31).

Mr. Hubscher's new telephone number in New York is 212-785-1240.

the 1980 law and that newly covered carriers "will place a considerable burden on the capacity of automotive insurers to meet the increased aggregate demand for insurance required by the act."

The PIA said the insurance industry is willing to provide the coverage mandated by the act, but it said that meeting the increased demand will require development of new underwriting programs and personnel training programs that can best be accomplished through lower coverage requirement levels.

"The sudden shift to higher limits that is advocated by the ATA would complicate the situation and place a tremendous burden on auto insurance capacity," the agents said.

The PIA also noted that imposing higher limits at this time would

contradict the broad purpose of the law, which is to encourage new trucking firms of all sizes to compete for cargo business.

"High insurance premiums may help deter some individuals from buying a truck and getting into the business," the PIA said. "Such a result certainly would not be consistent with the competitive purposes of the act."

The PIA also has called on the Interstate Commerce Commission to eliminate "conflicting and confusing rules" that have been issued by the commission and the Transportation Department in connection with the act's insurance requirements.

In a letter to the ICC, the PIA identified five areas where it said changes "will ease the burden that has been placed on the insurance

industry in general and insurance agents in particular."

The agents asked the ICC to:

- Allow a policyholder that is subject to ICC regulation to meet the commission-required coverage minimum of \$500,000 through aggregate layering of multiple policies.

- Adoption of such a regulation, the agents said, will make required coverage more readily available and allow insurers to limit their risks to an acceptable level.

- Such a rule also would bring the ICC regulations in line with Transportation Department rules and promote consistency in insurance requirements between the two agencies.

- Abandon the list of "approved" insurers, which the PIA said would ease the burden on new

trucking companies by expanding the availability of insurance.

- Make it clear that the responsibility for obtaining proper insurance coverage to comply with ICC rules rests with the trucker, not with the insurer or the insurance agent. The PIA emphasized that the Motor Carrier Act was designed to regulate the trucking industry, not the insurance industry.

- Eliminate differences between the ICC's and the Transportation Department's coverage terminology to protect insurance agents from lawsuits.

- Accept the Transportation Department's MCS-90 endorsement form as evidence of financial responsibility.

The agents said that this move could eliminate many of the other problems.



Bill Flynn, CLU,
Senior Vice President

"If you don't group life Manhattan the

Some people might call a statement like this over-confident. Or foolish. Or sheer puffery.

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But low rates are just the icing

If low rates were all we offered, we wouldn't be as successful as we are. But low rates are just the icing. Our product is the cake.

After all, we were the company that wrote what many people consider to be the first group policy in the United States back in 1854. So being innovative is a natural state of affairs for us. Which explains why we have such unusual features in the program we call the Affiliated Employers Group Life Insurance Trust (AEGLI).

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Included in the 10+ lives package is up to \$500,000 in AD&D benefits. Which probably makes this the least expensive form of travel accident insurance anywhere.

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We may be the only company writing spouse-only insurance nationally for amounts up to the face amount carried on the employee. If there are 100 insured spouses in the group, we will even consider guaranteed issue. This is a huge market and is popular with employers because it is usually sold on an employee-pay-all basis.

* Each case subject to home office acceptance of application. Benefits may be limited by law in certain states.

Tale of MET victim: \$10,000 goes unpaid

(Editor's note: In the last two issues of *Business Insurance*, reporters Jerry Geisel and Steve Sherwood have reported on multiple employer trusts in Idaho and Texas that have filed for bankruptcy and left behind unpaid medical claims. This week, Mr. Geisel interviews one of these policyholders for a first-person account of what a failing MET can mean for the policyholder who used it for health insurance.)

By JERRY GEISEL

ELGIN, Ill.—It was a promise almost too good to believe: comprehensive health insurance coverage at an affordable price.

The promise seemed golden to Joan Williams and her family. Like about 20% of the population, the

Williamses were not covered by an employer-sponsored group health insurance plan, and they found the cost of individual health insurance prohibitive.

So when Ms. Williams' insurance agent described a plan sponsored by the Northwest Federation of Independent Businesses in Idaho that offered excellent benefits for a premium of only \$75 a month—about \$50 a month less than the premium for an Illinois Blue Cross/Blue Shield plan—the Elgin, Ill., family of three quickly enrolled.

Almost three years later, Joan Williams and her family have discovered that the promise was too good to be true. The Northwest Federation, later known as the Northwest Assn. of Independent Businesses, has filled a bankruptcy petition and Ms. Williams has

\$10,000 in medical and hospital bills that Northwest didn't pay.

Ms. Williams has joined a growing list of thousands of people stuck with enormous medical bills after the multiple employer trusts in which they enrolled went out of business.

But Ms. Williams is more than a statistic. Her plight illustrates serious shortcomings in the regulation of health insurance, observers say.

When Joan Williams joined the Northwest plan in July 1978, her agent, who agreed to talk to a *Business Insurance* reporter on the condition that he wouldn't be identified, thought he was placing the Williams family in a sound program.

Northwest enjoyed a good reputation in the agent community. The MET paid claims promptly and was

recommended by the Idaho Chamber of Commerce, the agent said.

Like other METs, Northwest filed with the Department of Labor as an employee benefit plan covered by the Employee Retirement Income Security Act. The agent thought the plan's ERISA status, prominently displayed on a Northwest benefit schedule, meant the department approved the plan.

In fact, the department never recognized Northwest as a benefit plan; the mere filing of papers with the Labor Department doesn't automatically confer benefit status on a plan anymore than filing a tax return guarantees Internal Revenue Service approval of the return.

The state of Idaho had attempted since 1977 to close down Northwest as an unauthorized insurer—something Ms. Williams' agent was not

aware of. The move had gotten bogged down in the courts, according to an Idaho Insurance Department official.

In December 1980, Ms. Williams was admitted to a St. Charles, Ill., hospital. She later underwent a hysterectomy. When she was released after 17 days, her medical and hospital bill came to \$8,568.78.

In January, Ms. Williams filed a claim with Northwest. When a month had gone by with no response from Northwest, she asked her agent to call Northwest. On Feb. 19, the agent called and a person associated with Northwest said the claim had been received and would be paid.

A month later, the agent called again and was told that the check already had been made out, he said.

In April, Ms. Williams called Northwest to find out why the January claim still had not been paid and to also inquire about a \$1,600 claim she filed in March after she was hospitalized for hepatitis.

Ms. Williams said she talked to a person associated with the plan and asked: "Is Northwest going to go broke?" She said she was told that plan participants were going to be covered by a master policy issued by American Western Life Insurance Co. of Boise and that Northwest was not going broke.

On July 21, Northwest filed petition for bankruptcy in U.S. Bankruptcy Court. Before then, Northwest canceled its American Western master policy, and Ms. Williams' claim of more than \$10,000 still was not paid.

No one knows for sure why Northwest collapsed. Ms. Williams' agent believes the MET charged inadequate rates and later got swamped by claims. It also may have been hurt by adverse publicity after the Labor Department in October 1980 ruled that Northwest was not an employee benefit plan.

Illinois Department of Insurance officials are now doing all they can to help Ms. Williams get her claim paid. She has filed a claim with the bankruptcy court in Boise, but it's not clear now if Northwest has enough assets to pay all the claims.

"They (Northwest) were there to collect," says Ms. Williams. "They collected about \$4,000 in premiums from us. But we didn't get anything in return."

Texas storm damage

NEW YORK—Windstorms, tornadoes and flooding that affected portions of Texas from Aug 29 to Sept. 1 caused an estimated \$8.9 million of insured property damage, said W.D. Swift, vp of property claim services of the American Insurance Assn.

The storm was assigned Catastrophe No. 39 by the Insurance Services Office.

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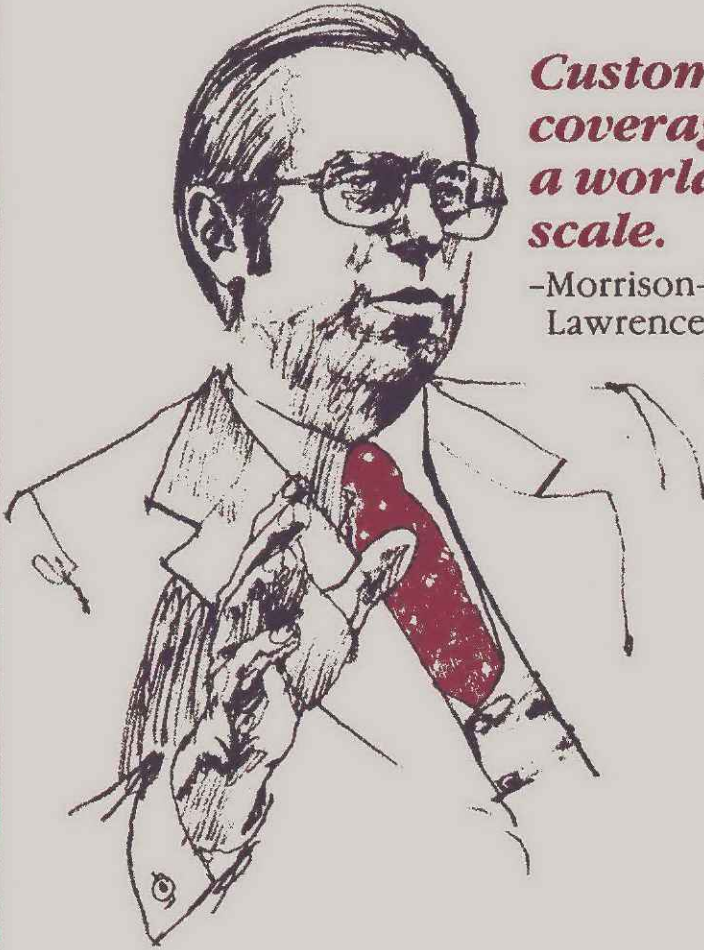
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Lawrence Parberry

As one of the world's premier engineering and construction firms, Morrison-Knudsen is involved in large scale projects that range from designing and building dams, tunnels and pipelines, to overseeing contract mining operations.

"Many years ago, we purchased much of our insurance on a project-by-project basis," says Lawrence Parberry, M-K's director of risk management. "This ad hoc approach often left us with dozens of policies in place at one time, so gaps and overlaps in coverage were unavoidable."


M-K's rapid worldwide growth eventually necessitated a more coherent, centralized insurance program. Working with its broker, Marsh & McLennan, the company began to put together a specially-designed package covering virtually all of its activities anywhere in the world.

As the package exists today, INA and other insurance companies participate in the full spectrum of M-K's worldwide property and excess casualty risks. One unique feature of the program: all of the carriers provide both marine and non-marine coverages, combined under a master policy.

"Besides giving us blanket protection for corporate assets," notes Parberry, "the package streamlines the preparation of bids and assures our clients that all contractual insurance requirements will be fulfilled. And, despite its complex structure, the program is actually quite simple to administer."

"The insurance requirements of international contractors and engineers are often unusual," comments Lawrence Drake, senior vice president of Marsh & McLennan. "This can sometimes make coverage prohibitively expensive—or even unavailable in the standard market." In the case of Morrison-Knudsen, the broker's solution to this problem was development of a worldwide marine/non-marine insurance package.

In Marsh & McLennan's view, this strategy has created significant benefits for client



Breathing life into a remarkable concept.

—Marsh & McLennan's
Lawrence Drake

and underwriters alike. "M-K now has broad-based protection, the cost of which is not affected by the cyclical shifts and limitations of the conventional insurance marketplace," says Drake.

The underwriters, on the other hand, enjoy a long-term account relationship with a widely diversified client. "We've given the underwriters an attractive spread of risk," Drake notes. "Establishing this balanced set of exposures has been the key to making the M-K program viable."

In addition to the day-to-day monitoring and adjustment of the program to accommodate M-K's dynamic slate of activities, Marsh & McLennan provides in-depth claims data to its client.

"We're able to keep M-K abreast of claims trends on the casualty side using special computer programs we've developed in-house," explains Drake. "This helps enhance M-K's own extensive safety efforts. And, on the property side of the program, we rely heavily on Montgomery & Collins for engineering risk analysis. It's a team effort all the way."

"Our function is really twofold," says Michio Nekota, branch manager of Montgomery & Collins, a leading excess and surplus lines broker. "We coordinate the E&S placement of Morrison-Knudsen's coverage, and we act as engineering consultants for INA and the other underwriters involved."

When a large, unique construction project is to be incorporated into the program, Montgomery & Collins' engineering expertise comes into play. "M-K often takes on projects that are unusual in their scope or in the methodology called for," remarks Nekota, "and which are therefore unfamiliar to underwriters. We help M-K put highly technical engineering considerations into terms that the underwriters can use to evaluate exposures and determine premium rates."

A recent example was an M-K project involving construction of a pipeline through a heavy surf zone in Hawaii. This type of operation is usually a high-risk undertaking; but, after discussing the plans with M-K's engineers, Nekota was able to explain to the underwriters why the client's proposed methods had a higher-than-average probability of success—and thus why lower-than-average rates were appropriate.

Similarly, Montgomery & Collins assists M-K and Marsh & McLennan assess any engineering claims that arise out of a heavy construction job.

"We bring our resources to bear along with those of the principal broker," comments Nekota. "The result for M-K is effective communication with the underwriters, which translates into reasonable premiums and prompt claims settlement."

***We look at
a risk from
both sides.***

-Montgomery & Collins'
Michio Nekota




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Disability

Key employees' lives and health are insured, but are you really prepared for their disability?

By Allan B. Checkoway

A RECENT STUDY made by the marketing department of U.S. News and World Report revealed that most U.S. businesses are not adequately insured against the risk of the disability of a key employee.

Of the 3.5 million small businesses with an annual volume exceeding \$500,000 surveyed:

- 89% have no group temporary disability insurance.
- 92% have no group long-term disability insurance.
- 75% have no disability coverage whatsoever.

While it would be rare for a business owner to open his doors without fire or liability insurance, can he or she afford to be without some kind of salary continuation program in the event of a total disability?

The chances of a 40-year-old male business owner becoming disabled, for at least a 90-day period, before age 65 are 47.7%. If there were four principals managing a business, with an average age of 40, chances of a total disability would increase to 92.5%.

Moreover, the possibility of becoming disabled is three times more likely than was death for the executive in the 1930s and '40s, according to the 1964 Commissioners Disability Table.

People buy life insurance because death is unavoidable. It would appear that, since disabilities seem to be only a remote possibility, the disability risk has been sorely overlooked.

Although the disability risk is always there—and underinsured—many business owners indicate they would continue "some" salary for "some period of time" to a key employee.

Let's review the problems such informal plans create when a business continues to pay a non-productive disabled employee.

The Internal Revenue Service tells us that salary is paid for performing employment duties. Hence, can the business deduct, as a business expense, salary payments to a non-productive employee? I think not. This could result in a loss in excess of \$1,000 per month, tax-free income.

Further, the employee will still be paying Social Security taxes, though unable to collect Social Security disability benefits. How many of us would knowingly pay an insurance premium for a plan that paid no benefit?

Lastly, let's assume that a key employee has his salary continued for a three-month

Group LTD benefits							
60% of salary including social security benefits: \$2,500 per month							
Key man	Monthly salary	60% of salary	Primary social security*	Insurance co. benefit	Insurance co. benefit as % of salary	Insurance benefit + social security - total mo. benefit	Total monthly benefit as % of salary
A	\$3,000	\$1,800	\$500	\$1,300	43%	\$1,800	60%
B	6,000	3,600	500	2,000	33%	2,500	42%

Making a choice		
Group vs. Individual Disability Plans		
	Group LTD	Individual
Definition of total disability	Two-year own occupation coverage	Own occupation coverage for the benefit period of the contract
Cancellable?	Yes	No, to age 65 (and guaranteed renewable to age 75)
Premium rate guaranteed?	No	Yes, to age 65
Benefit offsets? (Social Security etc.)	Yes	No
Maximum monthly benefit available	\$4,000/month	\$6,000/month
Optional benefits offered	None	<ul style="list-style-type: none"> • Residual (long-term partial) • Guaranteed insurability • Lifetime sickness and accident • Cost of living adjustments
Can profit sharing, bonus, deferred compensation etc. be insured?	No	Yes
Portability?	No	Yes

disability and recovers. Then, another employee, possibly not even a key employee in the management of the business, becomes disabled and is expected to remain so for the rest of his life. How does the business stop paying his salary after three months? What does one say to the attorney that calls, mentioning that another previous employee's salary stopped after three months because he recovered from his disability?

The logical solution is to establish a formal, written, insured wage-continuation program for key employees. There are many advantages of such a program:

- Disability benefits are paid directly to employees with premiums deductible as an ordinary and necessary business expense (and the employee does not have to pay federal taxes on the benefit).
- A formal sick-pay program will earn the good will of the employee and his or her family.
- It reflects good business management and, hence, will attract and retain higher-caliber employees.
- An insured wage-continuation program will add to the employee's peace

of mind. He will know that his earning capacity will not be terminated by a total disability and guaranteed predictable benefits are available through a contractual obligation.

The most common choice for providing disability coverage for groups of people is group long-term disability coverage. It's the logical choice for many reasons:

- It's the cheapest way to provide salary continuation for a large group of people. It is inexpensive because the business is insuring large numbers, plus insurance benefits are often "offset" by other benefits such as Social Security, workers' compensation, state cash sickness programs, other group insurance, etc.
- It's easy to administer. A master contract is issued to the employer with individual certificates given to the employees. New employees and salary increases are covered automatically with little effort on the part of the employer.
- It's uncomplicated and easy to communicate to employees. Typical plans provide 60% to 70% of earnings, benefits to age 65, with monthly maximums available from \$1,000 to \$4,000 per month.
- It's "guaranteed issue." It is

commonly written without evidence of insurability and is the only way to offer standard coverage to every employee.

Hence, group long-term disability does an excellent job in providing disability protection in the best interest of an entire group.

However, let's review group LTD and how it effects key executives in a "typical" group. A "typical" or representative group might consist of the following: five executives with yearly incomes averaging \$50,000, with 25 employees averaging \$15,000 a year. All are covered by a \$2,500 per month group LTD plan.

IN THIS EXAMPLE, 16% of the employees, or five, are earning 44% of the company's total payroll.

Let's look at the actual dollar benefits in a group LTD program at various salary levels (see group LTD chart).

When key man A becomes disabled, he receives \$1,300 a month, after Social Security of \$500 a month, which represents 43% of monthly salary.

When key man B becomes disabled, his \$2,000 a month, after Social Security of \$500 a month, represents only 33% of salary.

Therefore, key man B earns 100% more than key man A—\$6,000 vs. \$3,000—but his insurance company benefit is 10% less.

Considering key man B's total monthly benefits, insurance company payment plus Social Security, key man B actually receives 18% less than key man A—60% vs. 42%.

Hence, due to the built-in, fixed maximum monthly benefits under group LTD programs, combined with Social Security as an "offset," there is clearly a discriminatory effect against higher paid people.

Hence, I recommend that top management give consideration to the purchase of non-cancelable individual contracts as an alternative to group LTD (see chart).

Individual non-cancelable disability is more expensive than group LTD, but there are clearly several key reasons warranting the additional expense:

- Flexibility. One "boiler plate" plan can be established by the business, then the employees can individually select optional benefits contingent upon their needs.
- Higher amounts of coverage can be issued based on total W-2 income, whereas group LTD only covers payroll, not bonuses, deferred compensation, etc.
- Portability. Since the individual employee owns his or her contract for their entire career, it can't be terminated upon leaving a group. If the next employer does not offer disability coverage, the client doesn't have to worry about requalifying for new coverage should changes in medical insurability occur.

perspective

A vote for claims-made

By Sol Kroll

Policies have distinct advantages for both the insurers and buyers

"CLAIMS-MADE WORRIES" by Kenneth S. Wollner (*BI*, July 6) casts a shadow on the subject. I had long thought it had been exposed to the brightest light of scrutiny both from an industry and judicial viewpoint and had been given the seal of approval with the standard of acceptability.

The major distinction between the occurrence policy and the claims-made policy constitutes the difference between the risks insured.

In the occurrence policy, the risk insured is the occurrence itself. Once the occurrence takes place, coverage attaches even though the claim may not be made for some time.

In the claims-made policy, it is the making of the claim that is the event and peril being insured. Subject to policy language, it does not matter when the occurrence took place.

In terms of rationalizing the needs of professional, commercial and industrial segments of society, a claims-made system constitutes a realistic insurance measurement.

We all know that the mere happening or occurrence, the negligent act, error or omission itself does not have all the elements of an actionable claim.

Many such acts can be remedied upon being discovered and eliminated as a potential claim. There are many that do not mature into a claim for years. Even these types of claims can involve equitable relief. If they cannot be remedied, it is at that point in time when the claim is made. That point is also the time of attachment, with the measure of damages more equitably reflecting the true values of the economy.

How better to measure client expectations than at the time the claim is made, the time when the insurance is needed, the time coverage is in hand? This is when the policyholder can arrange needed limits.

The significance of inflation in the development of loss histories for occurrence coverages cannot be ignored. During the past several decades, it has become virtually unfair to offer only limits the buyer contemplated at the time of the purchase. It was not uncommon in the 1950s to purchase liability policies with limits of \$50,000 or \$100,000 per occurrence and \$300,000 for all occurrences during the policy period.

Indeed, many professionals with significant foresight did purchase higher limit policies.

But today, of course, such limits are inappropriate and inadequate since claims made today against professionals arising from their activities in the 1950s or 1960s would be subject to the limits of that era if an occurrence insurance policy had been

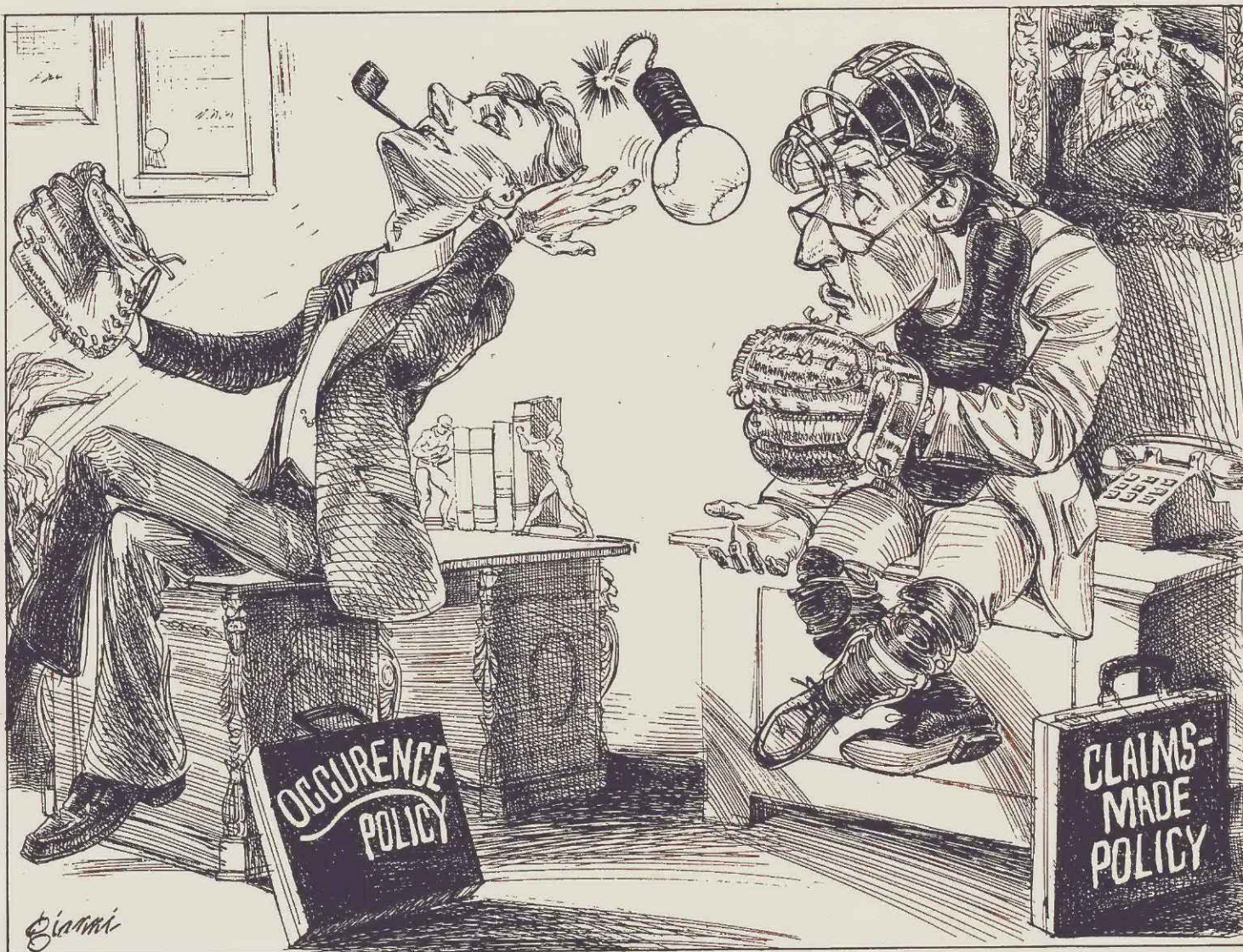


Illustration: Gary Gianni

purchased during that period.

When insuring on the occurrence basis, an insurer is not required to estimate the number of claims or the potential exposure to damage for many years beyond its expiration.

As expert as these underwriters may be, they cannot predict the inflation rate over a period of decades, and sometimes these policies could extend their liabilities that far.

It could not reasonably have been assumed in the 1950s that juries in the 1960s would be awarding six-figure verdicts to individual claimants. Nevertheless, in determining the rating of an occurrence policy, the insurer would provide its best "guesstimate" as to future trends and fix premiums accordingly.

In contrast to the basic focus of the occurrence policy, claims-made is not written with a view as to when an act of negligence may have occurred. The coverage is provided in the year when the claim is made.

Thus, where an insured is covered for claims during a given year, the insurer, at year's end, can tell whether it has had a good or a bad year with that particular policy or with similar policies written in that year.

It may therefore be postulated that such coverage may be more fairly and less speculatively priced, and, if more accurate rating results, an immediate reduction in premium is to be expected. The longer tail of the occurrence policy is eliminated, and benefits accrue to both the industry and the insured.

The use of the claims-made form can correct inflation-caused imbalance or rates on future recoveries by allowing the insured to have current limits available to meet current claims. The policyholder can more accurately judge the limits needed for the coming year, based upon the size of business, its values and the current state of the economy.

Similarly, the claims-made form allows the insurer to have present-day premium dollars available to pay related claims. It is as difficult for an insurer to predict what premiums must be charged today for tomorrow's claims as it is for an insured to try to guess what limits to have five years from now for today's risks.

The insurer, through the use of the claims-made form, is able to calculate premiums accurately, properly set aside reserves for the forthcoming year and, most importantly, enable the insurer to write certain classes of business that might

otherwise have gone uninsured due to the tail of an occurrence policy. When this is considered in a global manner, it is clear that the claims-made insurance policy not only fulfills the reasonable expectations of the insured and the insurer, but also protects society.

The problem of informing the consumer has been solved and generally adopted as a guide in most claims-made policies to the apparent satisfaction of the California Legislature by its statutory provision. It states that each claims-made policy shall contain prominently placed information that coverage is limited generally to liability for only those claims that are first made against the policyholder while the policy is in force.

Claims-made liability insurance provides a reasonable alternative for many risks. It affords both the buyer and seller an opportunity to make a rational judgment about the risks presently being underwritten, the present potential exposure to liability and the terms, conditions and exclusions reasonably required.

The use of claims-made policies will further allow review of current claims experience in determining renewal premium.

Sol Kroll is a senior partner with the law firm of Kroll, Killarney, Pomerantz & Cameron in New York and a specialist in insurance law.



Safety teacher's latest book is a must for safety managers and investigators

By Jack B. ReVelle

"Modern Accident Investigation and Analysis—An Executive Guide"

By Ted S. Ferry
John Wiley & Sons,
Somerset, N.J. 08873
\$27.95

WHETHER FOR analyzing a major aircraft accident, an automobile "fender bender" or an industrial injury, for knowledge of mishap investigation or for background to better review investigative reports—thus ensuring proper corrective actions—this important new book should become part of your reference library.

It is no surprise this easy-to-read, ready-to-use book meets its stated objective so smoothly.

The author, Ted S. Ferry, is a long-time safety professional with a string of related credits, including two other books on safety and frequent journal articles on accident investigation.

Dr. Ferry is the former chairman of the safety department at the University of Southern California where he currently is teaching a variety of safety courses.

Divided into four logical parts and 18 chapters, the book leads the reader through a succession of interrelated topics that have been arranged to facilitate the learning process.

In Part One, Dr. Ferry discusses the need for investigations; preparing for mishaps and getting the investigation under way. Then in Part Two, the author presents his views on human aspects, the environment, materials and systems investigation.

After that solid foundation, Part Three reviews basic analytical techniques, change analysis, management oversight and risk tree (MORT), multilinear events sequencing and technique of operations review.

Three case studies are presented as a part of the discussion management failures. The section then concludes with a chapter on fire investigation.

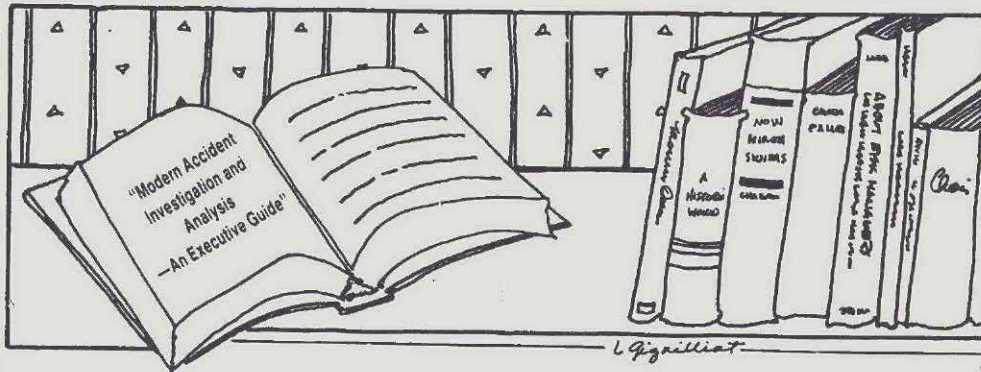
Part Four puts the final touches on this comprehensive treatise, including a look at the mishap report and legal aspects of investigation.

In conclusion, Dr. Ferry looks to the future by addressing the difficult question: What's ahead for investigation?

Each chapter finishes with a summary of the materials discussed in that chapter, followed by a dozen or more thought-provoking questions and a listing of pertinent references for the reader who wishes to learn even more about a specific topic.

The seven-part appendix offers the reader a valuable array of investigation-related technical

books & ideas



information. Appendix A lists 80 separate hazard sources in two major categories: inherent (chemical, electrical, radiation, mechanical and miscellaneous) and human (personal, human errors and environmental).

Appendix B identifies five classes of mood-changing drugs along with specific examples and their major effects on users. Appendix C offers a concise listing of the nine MORT symbols.

Appendix D contains more than 160 energy sources in 16 major categories including electrical; nuclear; kinetic/linear, both in-plant and vehicle; kinetic/rotational PV-KD (pressure, tension); MGH (falls, drops, cranes and lifts); flammable materials; radiation; thermal radiation; corrosive; explosive pyrophoric; and toxic/pathogenic.

Appendices E and F also deal with MORT topics. Appendix E is a six-page detailed MORT outline while Appendix F contains 10 pages of questions for MORT

analysts.

Both of the appendices are excellent, quick references for users or reviewers of MORT.

Appendix G lists more than 30 common substances with their melting and flash points, along with related remarks.

This book, clearly a must for the serious accident investigator or report recipient, like any other literary effort has both highs and lows. But while the highs far outweigh the lows, it is appropriate to point out some examples of each.

The author brings together a section called "Analytical Techniques" that provides basic definitions as well as discussions on the technique of human error rate prediction, the change analysis process, multilinear event sequencing and the technique of operations review. It concludes with Dr. Ferry's all-too-brief review of the failings of management, which leaves the reader wondering why the book's subtitle is "An Executive

Guide."

The chapter on fire investigation provides an excellent synopsis of what is really a world of its own.

The last three chapters clarify the real justification for the use of the subtitle. Looking first at reports and the reporting process, then at the legal aspects of investigation and finally at what is ahead for investigation, Dr. Ferry reaffirms himself as a leading expert in the safety field.

Before concluding that his book is without competition, the reader should be aware that this is a generic effort not intended to substitute for existing publications in highly-specialized areas such as traffic or aviation safety. When this book is used in conjunction with such more narrowly-focused efforts, it should make an especially appealing combination to both beginning and experienced investigators.

Some inconsistencies found in Dr. Ferry's latest and perhaps best effort to date include tables on design deficiencies related to human error, earmarks of mental fatigue and management failure, which should be in the appendix.

While the author refers the reader to "Safety Management" by Grimaldi and Simonds in the set of questions that follows the first chapter, this book is not included in the accompanying references until Chapter Five.

No book I've read (including both of my own) can claim to meet the needs of all its readers. However, Ted Ferry has come as close as anyone I've read to achieving this literary goal with this important new book.

legal briefs

Completed operations exclusion legal

The Supreme Court of Nebraska ruled that although there was complexity involved in the provisions of a manufacturers' liability policy, there was no ambiguity. It said a completed operations hazard exclusion denying coverage was legal.

Wayne Lavalleur owned a welding and repair business. He was insured under the policy in question issued by State Automobile & Casualty Underwriters. The policy excluded coverage for completed operations hazard, when all contracted operations had been completed.

Mr. Lavalleur was engaged to repair a backhoe owned by A&A Equipment Co. Twenty minutes after he completed the welding and left, taking his tools, the backhoe was severely damaged by fire. State Underwriters denied coverage.

On appeal, it was argued that Mr. Lavalleur was obligated to inspect and extinguish any spark or flames; that the fire that damaged the backhoe was already ignited at the time he left; and that the operation was not completed because of his failure to inspect. The court

concluded that an operation could be considered completed notwithstanding that some part of the work, including inspection, had not been performed at the time of the injury. *Lavalleur vs. State Automobile & Casualty*, Supreme Court of Nebraska, Feb. 20, 1981 (BI/04/S.-\$5).

Penalty provisions

Delay in payment of benefits under a group program was unreasonable and unjustified, a Louisiana appellate court said.

George Blewer was a covered dependent under his wife's group insurance underwritten by the Continental Assurance Co. On Sept. 1, 1979, Mr. Blewer was injured when a shotgun accidentally discharged. He was hospitalized and treated. No benefits were payable under the plan for intentional self-inflicted injuries, injuries sustained in an aggressor role or any attempt at suicide. No police report was filed.

Mr. Blewer began submitting claim forms on Sept. 27, 1979. Under the policy, claims were to be paid within 30 days of a written claim. Continental responded to a demand made by Mr. Blewer's attorney in

a letter dated Jan. 16, 1980, that a letter would be mailed within two days. However, Mr. Blewer's wife later received a letter from Continental dated Jan. 21 stating that no benefits were payable. Mr. Blewer sued and recovered penalties of \$9,136 and \$1,000 in attorney's fees.

On appeal, Continental argued that the facts of this case were such as to put a reasonable and prudent businessman on his guard concerning whether Mr. Blewer was injured in such a way as to justify delay in payment. But the court said that as Mr. Blewer's initial statement of claim stated the cause of injury was from a hunting accident, it would have been simple for the insurer to confirm its circumstances. Thus, the court concluded the insurer was unreasonable and unjust in its handling of this major claim. *Blewer vs. Continental Assurance Co.*, Court of Appeals of Louisiana, Feb. 6, 1981 (BI/05/S.-\$5).

A copy of an entire decision may be obtained by sending \$5 to Cases Unlimited in care of Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the case number.



Jack B. ReVelle is a technical specialist in production research and development for McDonnell Douglas Astronautics Co. He is the author of "Safety Training Methods."

Stewart Smith offers new pollution cover

products & services

Stewart Smith is offering an expanded environmental impairment liability program.

This program, which can be written worldwide, features limits up to \$20 million per occurrence and \$40 million aggregate. Excess limits over existing insurance are available.

There are no exclusions for genetic or teratogenic damage, product liability or for equipment like vehicles and watercraft. There is also no mandatory engineering requirement for light or moderate risks.

Sudden and accidental occurrences can be covered, with excess limits available over programs in force.

For more details contact Stewart Smith East Inc., 212-964-2929; Stewart Smith Michigan Inc., 313-963-7084; Stewart Smith Mid-America Inc., 312-236-7333; Stewart Smith Southwest Inc., 214-688-1051; or Stewart Smith West Inc., 213-382-6201.

chanical breakdown and rust. Owned, leased or rented equipment also can be insured.

The policy also covers building collapse from the weight of ice, snow or sleet.

Limits written depend on the client and the risks. For further information contact Samuel Byron Jr., Senior vp, Marine Office of America Corp., 80 Maiden Lane, New York, N.Y. 10038; 212-440-2601.

Trustee E&O policy

Sam Chapin Insurance Services Inc. has announced it is offering a new type of coverage for

non-profit corporations and associations—trustees errors and omissions insurance.

This policy protects all duly elected or appointed members of the policyholder's board. The policy features first-dollar defense costs in addition to low deductibles and a broad definition of "wrongful acts."

The trustee E&O policy is available for one or three years on a prepaid basis. Limits up to \$5 million are available.

For more information on the policy contact Sam Chapin Insurance Services Inc., 369 Pine St., Suite 720, San Francisco, Calif. 94104; 415-391-5790.

Liability manual

The International Risk Management Institute Inc. is again offering its General Liability Manual. The two-volume reference set was researched and written by the staff of the institute and RIMCO Risk Management Inc.

Volume I contains rules, classifications and interpretations of general liability. Volume II has forms, endorsements and interpretations. Inserts with updated information are sent to buyers quarterly for the first year. Thereafter, updates are available at a reasonable charge.

The cost per volume is \$95, and the complete set costs \$155. To order write International Risk Management Institute Inc., Suite 208, Building IV, 10300 N. Central Expressway, Dallas, Texas 75231;

214-363-9656. Orders from foreign nations must be paid in advance with a 50% postage and handling surcharge added.

Consulting service

Diversified Risk Consulting Services introduces a full set of services for risk identification and management, loss control and claim administration.

Diversified Risk Consulting Services offers such services as insurance surveys, claim audits and reserve analysis, self-insurance feasibility studies, litigation support, safety management and toxic waste disposal programs.

For further information contact Diversified Risk Consulting Services, 330 Distel Circle, Los Altos, Calif. 94022; 415-969-2388.

Security system

Honeywell Inc. has introduced a new security alarm management system.

The Honeywell Security Link uses microcomputer controls, a computerized central monitoring station and the Dataphone Select-A-Station transmission method.

The Security Link features four Honeywell microcomputers that are used in conjunction with the Honeywell central station. The HSL 7709/7719 alarm transponders provide multiple-zone monitoring with fire, sprinkler and burglary alarms in one device. The HSL 7703 security control is a standard burglar alarm. The HSL 7707 access terminal features keyless operation, employee identification, zone shunting and remote arming. Finally, the HSL 7701 slave transmitter is a signaling device that adapts alarm systems to new transmission methods.

Subscribers to the Honeywell Security Link receive customized security systems, designed for their individual security needs, the company says.

For additional details contact Nancy E. Kays, Honeywell Inc., Protection Services Division, Honeywell Plaza, Minneapolis, Minn. 55408; 612-870-5310.

Fire extinguisher

Justrite Manufacturing Co. has introduced a temperature-activated fire extinguisher, Model 25981, for safety cabinets containing flammable liquids.

The extinguisher discharges 1½ pounds of Halon 1301 when temperatures in a safety cabinet exceed 212 degrees and melt the fusible link.

The extinguisher effectively covers up to 75 cubic feet and prevents ignition of materials, regardless of temperature, as long as the Halon concentration is intact. It can be installed horizontally or vertically with its own stainless steel mounting bracket and has a three-year warranty.

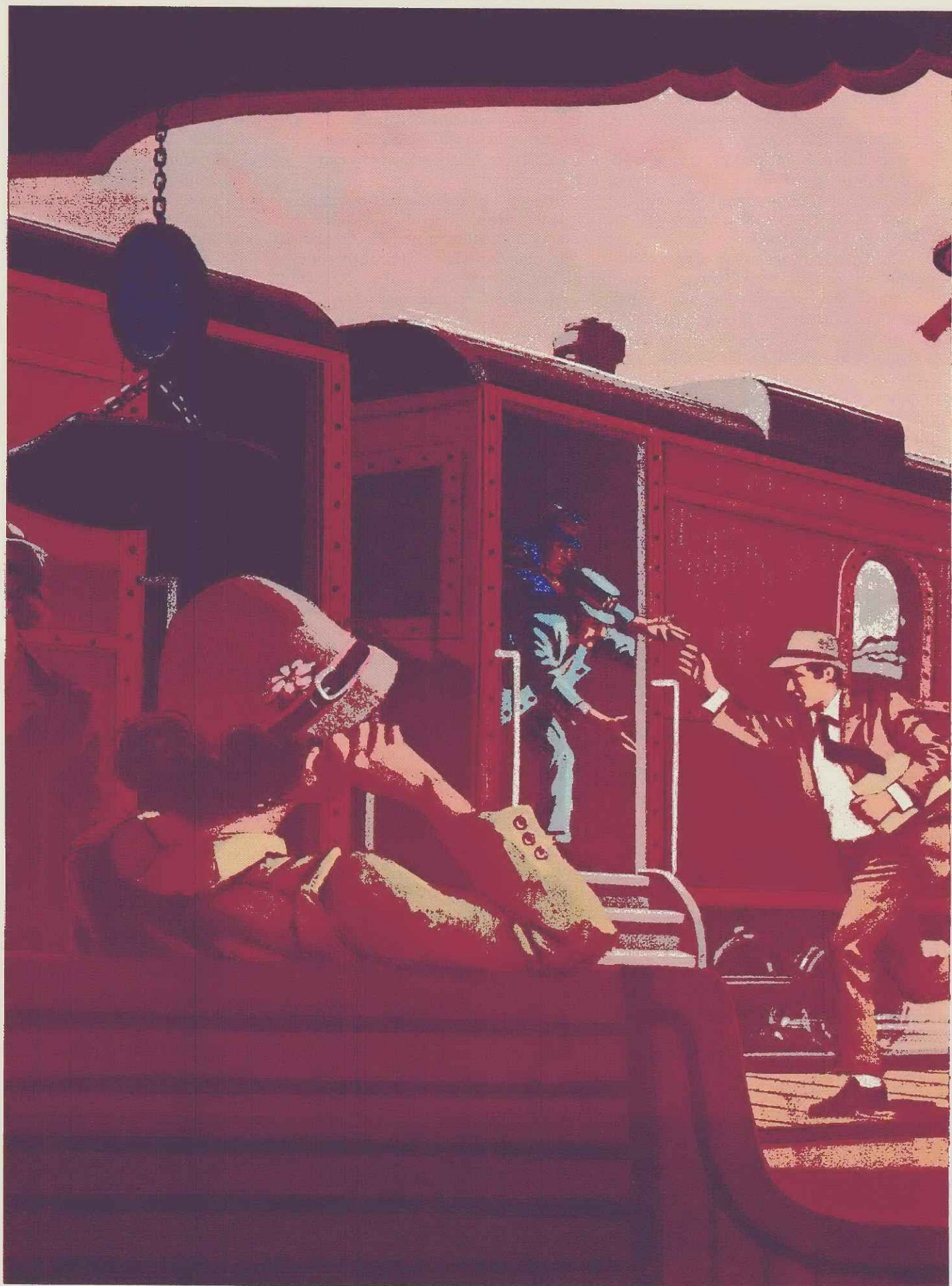
For more information contact Justrite Manufacturing Co., 2454 Dempster St., Des Plaines, Ill. 60016; 312-298-9250.

Builders coverage

The Marine Office of America Corp. has introduced two easy-to-read policies that offer builders and contractors broad insurance coverage.

The MOAC builders and contractors "all-risk" policy covers property on-site, off-site and in transit. Equipment is covered for wear and tear, gradual deterioration, me-

LANDMARK DECISIONS...One of a series



datebook

SEPT. 30-OCT. 2. Risk Management conference in Lake Tahoe, Nev., sponsored by Touro College; \$600. Ms. J.K. Van Wycks, Seminar Division Office, Touro College, 5th Floor, 1120 20th St. N.W., Washington, D.C. 20036; 202-337-7000.

SEPT. 30-OCT. 2. 12th Annual Educational RIMS conference in Myrtle Beach, S.C., sponsored by the Carolinas Chapter of the Risk & Insurance Management Society; members, \$45; non-members, \$50. Donald Duncan, Collins & Aikman Corp., Box 32663, Charlotte, N.C. 28232.

OCT. 1. A New Look at CGL and Products Liability workshop in Saddle Brook, N.J., sponsored by the Society of CPCU; members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 1-2. Risk Management Techniques for Municipalities seminar in Atlanta, sponsored by the Society of CPCU; \$250. Also Oct. 28-29 in Merrimack, N.H. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 1-2. First Self Insurance Institute of America conference in New Orleans; theme: "Self-insurance, Sensible Innovative Insurance Alternative"; members, \$225; non-members, \$300. SIIA, 1700 E. Dyer Road, Suite 165, Santa Ana, Calif. 92705; 714-979-6218.

OCT. 2. Conference on Second Surgical Opinions in New York, sponsored by Second Surgical Opinions Conferences; \$150. Also Nov. 1 in Los Angeles. Second Surgical Opinions Conferences, 411 E. 69th St., Room 305, New York, N.Y. 20021; 212-472-6393.

OCT. 7-8. Western Regional conference in Phoenix, Ariz., sponsored by the Risk & Insurance Management Society; \$175. Jim Mullen, Arizona Public Service, Box 2:666, Phoenix, Ariz. 85036; 602-271-2806.

OCT. 9. Controlling Accident Costs and Workers Compensation conference in New Carrollton, Md., sponsored by the International Institute of Safety & Health; \$175. Three or more from same firm, \$165 each. International Institute of Safety and Health, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 9. Actuaries' 14th Annual Meeting in Tarrytown, N.Y., sponsored by the New York Actuaries Club; \$50. Charles Carroll, Ernst & Whinney, 153 E. 53rd St., New York, N.Y. 10022; 212-888-9100.

OCT. 9. Risk Management & Hazard Control in the Public Sector seminar in Washington, D.C., sponsored by the International Institute of Safety & Health and Safety Management Associ-

ates; \$175. Neil R. Temple, Safety Management Associates, 5010-A Nicholson Lane, Suite A, Rockville, Md. 20852; 301-984-8969.

OCT. 11-13. 1981 Semi-Annual National Council of Self-Insurers meeting in Des Moines, Iowa, sponsored by the National Council of Self-Insurers; \$75. Mary Ann De Santo, The National Council of Self-Insurers, Room 2910, 420 Lexington Ave., New York, N.Y. 10017; 212-867-9200.

OCT. 11-14. Health Care Cost Containment seminar in Palm Springs, Calif., sponsored by the International Foundation of Employee Benefit Plans; \$360. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wisconsin 53005; 414-786-6700.

OCT. 12-13. Professional Liability—The Liability of Insurance Defense Counsel seminar sponsored by the Defense Research Institute; members, \$235; non-members, \$270. Anthony K. Karpowitz, Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

OCT. 12-14. International Risk Management conference in Monte Carlo, Monaco, sponsored by the Risk & Insurance Management Society and the Association Europeenne des Assure de L'Industrie. Risk managers, \$675; other insurance industry personnel, \$775. Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 15. Hazardous Materials, Substances & Wastes Training & Compliance seminar in South Bend, Ind., sponsored by Transportation

Skills Programs; \$135. Also Oct. 27 in Kansas City, Mo., and Nov. 16 in Cleveland. Jessie Sterner, Transportation Skills Programs, 320 W. Main St., Kutztown, Pa. 19530; 215-683-5098.

OCT. 15. Insurance in the '80s seminar in Dallas, sponsored by the Dallas-Fort Worth Chapter of the Risk & Insurance Management Society; \$70. Don Hairston, Lone Star Steel Co., P.O. Box 35888, Dallas, Texas 75235; 214-352-3981.

OCT. 15-16. Insider and Employee Thefts seminar in New York, sponsored by the Practising Law Institute; \$275, including handbook. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

OCT. 18-23. Reinsurance Practice course in Warwick, Bermuda, sponsored by Risk Research Group Ltd.; 595 pounds (approximately \$1,190). Also Nov. 1-6 in London. Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

OCT. 19-21. The Improvement of Product Safety course in Cambridge, England, sponsored by Product Liability International; 180 pounds (approximately \$360). Also Oct. 29-30 in London. Lesley Parkinson, Product Liability International, Lloyd's of London Press Ltd., Sheepen Place, Colchester, Essex CO3 3LP, England; 01-206-69222.

OCT. 19-22. 69th National Safety Congress in Chicago, sponsored by the National Safety Council; members, \$60; non-members, \$90, \$80 in advance. Congress Planning, National Safety Coun-

cil, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

OCT. 20. Legal Trends and Their Impact on Products Liability, Bodily Injury, Workers Compensation and E&O workshop in Norfolk, Va., sponsored by the Society of CPCU; members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pennsylvania 19355.

OCT. 20. Business Interruption/Time Element Coverages workshop in Grand Rapids, Mich., sponsored by the Society of CPCU; members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 20-22. Financial Analysis for Risk Management Decisions seminar in New York, presented by Dr. John Cuzzolino; \$685 per person, plus \$50 registration fee per company, which includes workbook and calculator. Also Nov. 17-19 in San Francisco. Cuzzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

OCT. 21. 25th Annual Risk Management Conference in North Hollywood, Calif., sponsored by the Los Angeles Chapter of the Risk & Insurance Management Society; members, \$45; non-members, \$55. Donald A. Craft, Ticor, 6300 Wilshire Boulevard, Los Angeles, California 90048; 213-852-6203.

OCT. 22-23. Aviation Law/Insurance Symposium in Orlando, Fla., sponsored by Embry-Riddle Aeronautical University; \$225. Bob Whempner, Director of Professional Programs, Embry-Riddle Aeronautical University, Star Route Box 540, Bunnell, Fla. 32010; 904-672-3439.

OCT. 22-23. Human Error Reduction Techniques course in Chicago, sponsored by Don Petersen, management consultant; \$275. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

OCT. 22-24. International Benefits Seminar in Montreal, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.

OCT. 23-24. Hospital Liability and Risk Management seminar in New York, sponsored by the Practising Law Institute; \$275. Also Nov. 20-21 in Miami. Practising Law Institute, Department SWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

OCT. 25-28. 1981 Corporate Benefits Management conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 25-29. Washington Insight on Employee Benefits program in Washington, D.C., sponsored by the U.S. Chamber of Commerce; \$825. Nancy Turnbull or Suzanne Lulewicz, U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 202-659-6138.

OCT. 26-27. Eighth Annual Environment and Safety Briefing sessions in Washington, sponsored by BNA Education Systems; \$250. Environment Conference Secretary, BNA Education Systems, Suite S-602, 1231 25th St. N.W., Washington, D.C. 20037; 800-424-9890; 202-452-4420.

OCT. 26-27. Industrial Hygiene for Managers of Hazardous Activities seminar in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 26-28. Product Safety Engineering course in Baltimore, sponsored by the Institute of Product Assurance; \$450. IPA, 9811 Mallard Drive, Suite 213, Laurel, Md. 20811; 301-792-0710.

OCT. 26-29. Loss Control Management seminar in Cleveland, sponsored by Factory Mutual Engineering & Research. Open to Factory Mutual-insured members only, \$495. Also Nov. 16-19 in San Francisco and Nov. 30-Dec. 4 in Dallas. Training Resource Center for Loss Control Management Factory Mutual Engineering Corp., 1151 Boston-Providence Turnpike, Norwood, Mass. 02062; 617-762-4300.

OCT. 28. Business Interruption Insurance conference in New York, sponsored by Grower Conferences; \$165. Grower Conferences, 20 Endell St. London WC2H 9BD; 01-240-5931.

OCT. 28-30. Techniques of Loss Control course in Chicago, sponsored by the Risk & Insurance Management Society; members, \$295; non-members, \$395. Also Dec. 2-4 in New York. Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 212-286-9292.

OCT. 29-30. Radiation Protection of the Public in a Nuclear Accident course in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 29-31. Longshoremen's & Harbor Workers' Act Outlook '81 seminar in San Francisco, sponsored by the Industrial Claims Assn. in cooperation with the U.S. Department of Labor; \$250. Jon W. Challoner, Seminar Chairman, Industrial Claims Assn., 582 Market St., Suite 1909, San Francisco, Calif. 94104.

NOV. 1-4. Benefits Processing Institute program in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 2-4. 36th Annual Meeting in Honolulu, sponsored by the National Assn. of Independent Insurers; members, \$175; non-members, \$275. NAII Convention Office, Suite 1632, 333 N. Michigan Ave., Chicago, Ill. 60601.

The Case of the Innocent Bystander

Palsgraf vs. LIRR

On a warm morning in 1924, a young man was hurrying to catch a train. He jumped aboard as the train began to move and seemed about to fall. Two railroad employees tried to help. In their haste, they knocked a wrapped package out of the man's arms.

Unfortunately, the package contained fireworks. When it hit the tracks, it exploded with some violence. Or certainly enough violence to shake the entire railroad platform.

At the other end of the platform, a set of hanging scales started to sway with the impact. The chain connecting them to the rafters snapped and the scales fell. Right on an innocent bystander waiting for another train.

The innocent, and injured, bystander was Mrs. Palsgraf. She held the Long Island Railroad Co. responsible for the accident and sued claiming negligence. Sparking a famous courtroom battle about the extension of duty and liability where actions result in "unforeseeable" consequences.

In this Landmark Decision Judge Cardozo, in a 4-3 majority, ruled that no risk to Mrs. Palsgraf could reasonably have been foreseen. Therefore, the Railroad had no duty—nor negligence—toward her. In effect, this precedent restricted responsibility to "foreseeable" or predictable events rather than the unpredictable.

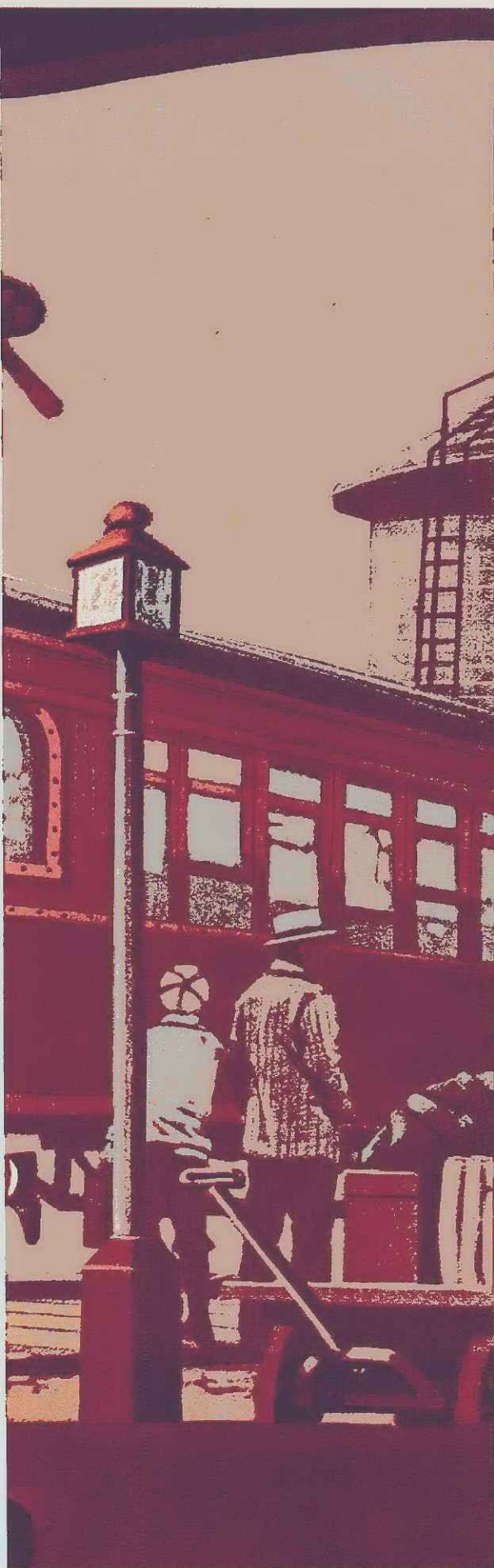
However, this opinion still generates controversy. It has been cited no less than 367 times in subsequent cases and continues to be cited in current ones. Which is why this case is as relevant today as it was in 1924.

At GAB, legal precedents form the basis of what we do. Landmark Decisions like Palsgraf vs. LIRR have taught us there are often gray areas in cases that appear to be black and white. And these gray areas, brought out by a thorough investigation, can make the critical difference in the successful conclusion of any claim.

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info

- The Bureau of National Affairs Inc. has published "**Tax Act of 1981**," a 400-page book containing the full text and a summary of the Economic Recovery Tax Act of 1981. Included in the book are the legislative history of the act and its effects on individual tax rates, depreciation requirements, estate and gift taxes, energy-related enterprises, Incentive Stock Options, savings incentives, commodity tax straddles and tax administration. The eight titles of the act, the text of the conference committee's explanatory statement and a summary of the original legislation are also included. The cost is \$12.50 per copy. For a copy of the book, write Bureau of National Affairs Education Systems, BNA Distribution & Customer Service Center, 9401 Decoverly Hall Road, Rockville, Md. 20850.

- A summary of the new tax act and its application to defined contribution plans is also available from Kwasha Lipton, consulting actuaries and employee benefit services. The booklet is called "**Effects and Implications of the Economic Recovery Tax Act of 1981 on Defined Contribution Plans.**" For a free copy write Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

- INA Corp. reviews prepaid health care in a 12-page booklet, "**Insurance Decisions: A New Option in Health Care.**" For a free copy write INA, Department R, 1600 Arch St., Philadelphia, Pa. 19101.

- The summer 1981 edition of *Poster*, the group client publication of State Mutual Life Assurance Co. of America, looks at four cost-cutting group insurance alternative programs. The issue is subtitled "**Creative Approaches to the Rising Cost of Group Insurance.**" The publication explains what the alternatives are, describes how they work and compares their strengths and weaknesses. For a free copy write *Poster*, Group Marketing, State Mutual Life Assurance Co. of America, 440 Lincoln St., Worcester, Mass. 01605.

- An eight-page, full-color booklet describing integrated security system capabilities is available from Johnson Controls Inc. Called "**Security Systems**," it provides answers to the need for controlling access, maintaining surveillance, detecting intrusion and maintaining the security system after it is installed. To obtain a copy write Johnson Controls Inc., Marketing Communications, Box 423, Milwaukee, Wis. 53201. Ask for publication 2105.

- The Government Printing Office has increased the price of a domestic subscription to OSHA's **General Industry Safety and Health Standards** to \$60. A foreign subscription is now \$75. The general industry standards is Volume I of six volumes offered through the printing office's subscription service. Subscribers receive the basic manual and any changes to the regulations until the printing costs of the updates exceed the subscription price. Current domestic subscribers will be charged \$55 to renew their subscription. Foreigners will be charged \$68.75. The price increase affects only the volume on general industry standards. For information on ordering the publication or other OSHA volumes that cover maritime standards, construction standards and other regulations and procedures, write Superintendent of Documents, Government Printing Office, Washington, D.C. 20402; 202-783-3228.

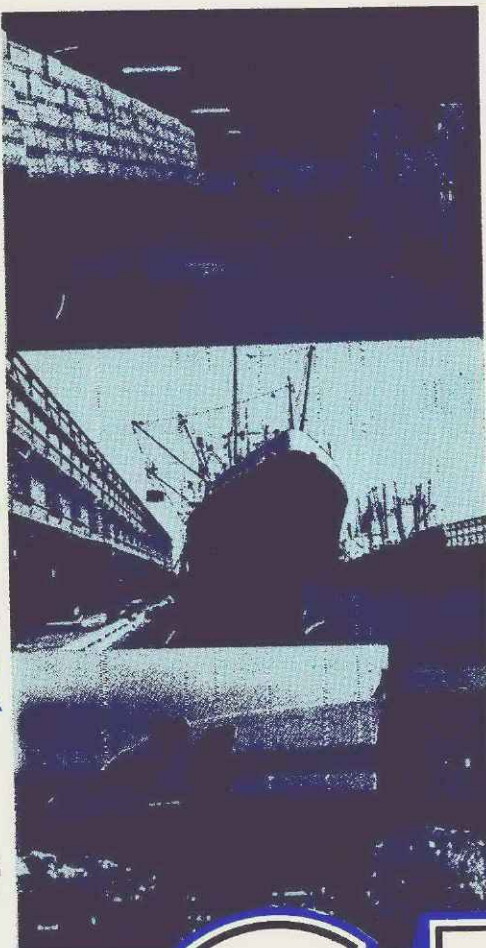
- Industrial Risk Insurers has published "**How to Prevent Winter Fires**," a booklet designed to help identify and correct any conditions that could impair a plant's fire protection systems and result in a loss during the winter. For a free copy write Communications Department, Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? *Business Insurance* will describe your material as an editorial service in the weekly *Info for Buyers* column. Simply send us a short description of the material to be offered, along with a cost and a mailing address. Address all contributions to *Info for Buyers*, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

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Correspondents throughout the World

John Fisher named Nationwide chairman

John E. Fisher will become general chairman and chief executive officer of Nationwide Insurance on Oct. 1.

Mr. Fisher will succeed **Dean W. Jeffers**, who is retiring.

Nationwide also announced the following appointments: **Peter F. Frenzer** named executive vp of investments; **Jack A. Baughn** named senior vp of marketing; **C.E. Lacey** named senior vp of finance; **Robert H. Ourant** named senior vp of corporate services; **Wendell D. Turner** and **Edmond Coughlin** named senior vps for field operations; **Ohmer O. Crowell** named senior vp for business operations; and **James A. Taylor** named vp for western development.

Other insurer changes:
Great American Insurance Co. named **William G. Bryant** head of the special risk department in its San Francisco office.

Irvin G. Wilmot named executive vp for health affairs of Blue Cross & Blue Shield of Greater New York.

Reinsurers

Donald F. Merkel Jr. promoted to manager of the treaty retrocessional underwriting department of American Re-Insurance Co. in New York.

North American Reinsurance Corp. announced several promotions: **Martin R. Brady Jr.** named secretary and manager of bond marketing and underwriting; **Richard M. Young** named secretary for bond marketing and underwriting; **Stephen F. Patterson** named vp of treaty marketing; **Darrius G. Baker** named New York City branch manager; **James G. McDonald** named San Francisco branch manager; **Cal B. Rees** named Seattle branch manager and assistant secretary; **James R. Williams** named resident manager of the Denver branch; and **William A. Hodges** named Kansas City branch manager.

Agents/brokers

Frank House Jr. promoted to president and chief executive officer of Corroon & Black, Engel-House Insurance Inc. of Birmingham, Ala.

Leo M. Schroeder joined Frank B. Hall & Co. of Minnesota Inc. as senior vp. **Alan R. Diamond** also promoted to senior vp at Hall of Minnesota.

Other suppliers

James E. Buncher named president of INA Health Care Group Inc. and INA Healthplan Inc. Both are based in Dallas.

Roy Erwin named president and chief executive officer of Beech Street Insurance Services, a wholesale insurance and risk management consulting firm in San Diego, Calif.

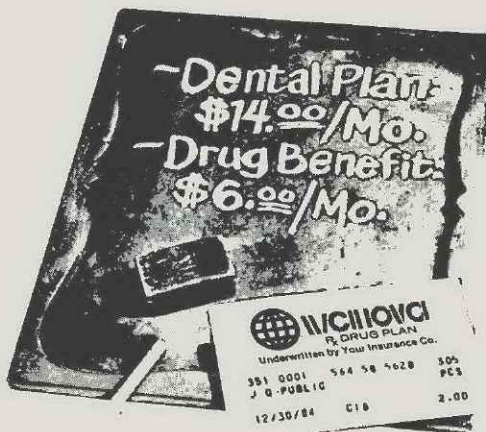
Several promotions were announced at A.S. Hansen Inc. **Craig A. Olney** named consulting principal in the Chicago office. **Carl Bruno**, **Joseph J. Rosmann** and **Richard T. Tani** promoted to senior consultants in Chicago. **Hoyt W. Doyel** and **Thomas M. Riley** named consulting principals and **Richard L. Doherty** named senior consultant at the Dallas office. **John K. Ware** promoted to consulting principal in the Larkspur Landing, Calif., office. **Deborah Armstrong** named assistant consultant in the Toronto office. **Stevie Walters** named consultant in the Houston office. **Thomas E. Shea** named consultant in the New York office.

comings & goings: industry

Excess/surplus

Peter L. Johnson named president of Texas Marine Underwriters Agency Inc. of Houston.

Three people were promoted at Universal Security Insurance Co.: **Beverly Corbin** named senior casualty underwriter in the San Francisco office; and **Tom Dean** named casualty underwriter in the Los Angeles office.



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Wellness program paying dividends

Continued from page 1

treatment of cardiovascular diseases. A breast cancer screening program of 23,492 female employees identified 42 breast cancers in the past five years, representing a savings of \$269,000, while a colon-rectal cancer screening program saved \$85,000.

Teaching employees meditation techniques to modify symptoms related to stress saved the company \$268,000. A fitness program of stress testing, exercises to do at home, group reinforcement sessions and periodic re-testing has lured 100 participants and saves the company \$103,000 annually in the treatment of cardiovascular diseases.

New York Telephone's alcoholism program has an 85% rehabilitation rate and saved \$1.56 million in 1980, Dr. Wood said. The company averaged 300 cases of alcoholism each year for the past seven years; the savings assume an average 60-day absence and \$2,000 treatment cost per alcoholic annually.

The dollar savings of Health Care Management programs do not include improved productivity nor the 15 lives saved annually from lung disease through the smoking cessation program; six lives saved through the breast cancer screening program and four lives saved each year from cancer through the colon-rectal screening program, Dr. Wood said.

Tempering the savings from the health care programs is last year's bill for employee health care at New York Telephone Co.: \$187 billion. That figure represents 12% of the company's total wage payments and is an 11% increase over 1979. But Dr. Wood said the Health Care Management programs are slowing the upward spiral of the company's health care costs.

In the Canada Life survey, University of Toronto researchers documented the company's savings of \$36,975 in health care costs and \$231,000 in employee turnovers the first year. They compared the Canada Life figures to health care and turnover costs of another Canadian insurance company that had no fitness program.

The study of Canada Life's fitness program in 1978 shows health care cost savings of \$85 for each of the 435 participants in an exercise program. They represented 20% of the total employees at the insurance company.

In a closely matched control group at North American Life Insurance Co., annual health care costs for the same period were \$113.70 per employee. Based on the experience at Canada Life, North American Life has since introduced a fitness program.

The study also noted "considerable economic impact" of the reduction in employee turnover at Canada Life from 15% to 1.5% when the fitness program was introduced. A 22% reduction in absenteeism was also recorded.

The cost of hiring and training a new employee averaged \$6,250, ranging from \$4,000 for clerical employees to \$8,500 for executive-level employees.

The combined lower turnover and reduced absenteeism minus an estimated \$50,000 annual cost of running the fitness program show a net savings to Canada Life of \$231,000, the study concluded.

"The fitness program was a success from the word go," said Veronica Marsden, an administrator for the Canada Life program. "We've had tremendous support from senior management; 80% of them are taking fitness classes."

Now more than 500 Canada Life employees are taking the half-hour exercise classes that are booked solid during midday. Classes are also offered in the morning before work and in the late afternoon.

New York Telephone Co.'s experience was highlighted in a study of savings from wellness programs around the country by Dr. Charles A. Berry, former chief medical director of the U.S. space program who was commissioned to conduct the survey by the Health Insurance Assn. of America last October.

Based on information: employees supplied to Dr. Berry, the association's 300 member health insurance companies will urge their group

Continued on facing page

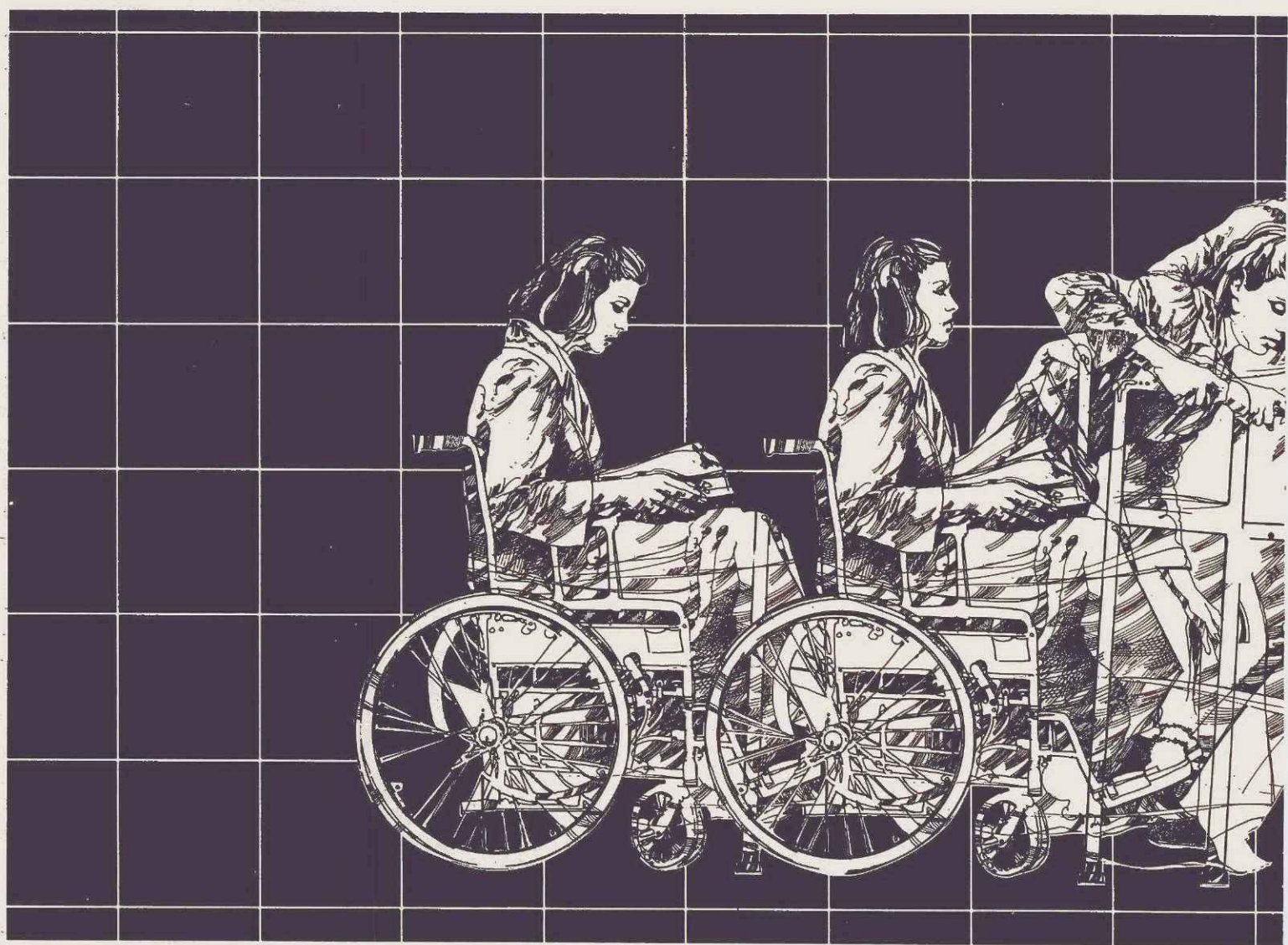
Estimated cost savings by N.Y. Telephone health promotion programs

Dollar savings in absence & treatment costs per year

Health Promotion Program	Coronary Heart Disease	Lung Disease	Cancer	Stress	Low Back Disability	Alcohol-related Disability
Smoking cessation ¹	\$645,000	\$1,400,000*				
Cholesterol reduction ²	240,000					
Hypertension control ³	663,000					
Fitness training	103,000					
Stress management				\$268,000		
Alcohol abuse control ⁴						\$1,565,000
Colon-rectal cancer screening			\$ 85,000 ⁵			
Breast cancer screening			269,000*			
Healthy back ⁶					\$302,000	

¹157% quit rate. ²16% screened had cholesterol values > 300 mg./dl. 9% reduction in cholesterol achieved by nutrition program.
³5,200 hypertensive employees. Demonstrated 79% brought to normotension.
⁴300 new cases per year. Consistent 85% rehabilitation rate. Assumption: 60 days absence annually plus \$2,000 treatment costs saved for 85% cases annually.
⁵Annual cost for back disability at outset was \$5,600,000 per year.
⁶Plus 15 lives saved annually. ⁷Plus 4 lives saved annually. ⁸Plus 6 lives saved annually.

Source: Health Insurance Assn. of America



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dollars saved for each dollar spent on rehabilitation.

A number of inter-related factors account for this record of achievement. Overall, they stem from IRA's unique ability to act in an open and cooperative manner with all parties... plus the company's keen awareness of the needs, pressures and concerns that enter into liability situations.

One of IRA's primary goals, when it enters the picture, is to assess the injured party's

Continued from facing page health insurance policyholders to introduce major-disease prevention programs for their employees.

In his report, Dr. Berry stressed that the savings cited are conservative. "It is difficult, if not impossible, to place a dollar figure on improved performance of those who, while physically present, are really 50% absent due to alcohol, mental stress or other problems . . . Attempts will be made to obtain these data as we go forward."

While the savings estimates of New York Telephone were the most extensive, Dr. Berry's report also cites other examples of savings through wellness programs:

- At General Motors, it is estimated that its Employee Assistance Program, which began in 1972 as a way to assist employees who, for whatever reason, exhibited deteriorating job performance, produced at least a 3-1 return on dollars invested.

Formally called GM's Substance

Abuse Program, its director, Roland Austin, said about 60% of the employees referred to the program are alcoholics while the rest have personal problems and need to be referred for help in the community.

During the first year of the program, costs decreased in these areas: lost time was down 40%; sickness and accident benefit payments were down 60%; grievances were down 50%; and on-the-job accidents declined 50%.

The Pontiac Division's rehabilitation of 25 alcoholics saved the company 10,850 lost work hours and \$9,878 in disability insurance benefit payments.

Oldsmobile's program, involving 117 hourly workers and costing \$11,114, produced a 49% decrease in lost hours; a 29% decrease in disability benefit payments; and a 56% decrease in leaves of absence.

- At Campbell Soup Co. in Camden, N.J., a colon-rectal cancer screening program saved \$245,000

over 10 years. The company estimated that each case of colon-rectal cancer costs \$66,000 in medical fees covered by insurance and lost time and replacement costs if a new employee must be trained.

According to Campbell's figures, 6.5 cases of the cancer could have been expected. But through the screening, 4.5 cases were prevented for a savings of \$297,000 (4.5 cancers at \$66,000 each). The program costs \$52,000 so the actual savings was \$245,000.

- Under a stop-smoking program at Dow Chemical Co.'s Texas Division, one quarter of the 33% of employees who smoked quit. Smokers there averaged 5.5 days more absenteeism, 7.7 days more disability and 12% more illnesses per year than non-smokers.

Cost is a big concern to companies that are considering adding health programs to their benefit packages. Economic problems last year resulted in curtailment of one company's primary health re-

source, a swimming pool (see related article).

Other companies are using community resources to bring health awareness to employees instead of paying for an in-house program.

IBM, for example, introduced health education to 25,000 employees a year ago with seminars on exercise, smoking cessation, stress management, weight management, healthy back, first aid and cardiopulmonary resuscitation, offered through community groups.

A typical program is one sponsored by IBM for its facility in Research Triangle Park, N.C. Some 1,400 of the 7,500 employees there took part in classes taught by instructors from organizations like the YMCA, American Cancer Society and American Heart Assn.

"The courses were received very positively with the enrollment this fall 77% higher than the number who took classes last spring," said John Bono, who is in charge of the

health education program at Research Triangle Park.

Other corporations with wellness programs, like Control Data Corp., Chase Manhattan Bank and Hospital Corp. of America, are still monitoring them to determine if they save money.

"It looks very positive so far," said C.R. (Dick) Sommerstad, marketing manager of Control Data's StayWell program, as he evaluated the company's experience in health assessment, education and individual and group activities in health management.

StayWell has been part of the Control Data employee benefit program since 1978, and the company is now marketing it to other corporations. The program includes screening for potential medical risks, courses in health education and lifestyle changes, activities such as support groups for people trying to lose weight and stop-smoking groups.

Chase Manhattan Bank has had an executive fitness program for six years. "It's a tough program, rigidly structured and administered," said Medical Director Dr. Granville Walker, "but there is a waiting list to get into it among the 600 vp-level employees who are eligible."

"Participants in the program have told me it's the one employee benefit that's not for the ultimate benefit of their spouse's second husband or wife," he said.

Participants in the Chase Manhattan program are screened before starting, given a personalized set of exercises that require them to report to the fitness laboratory—staffed by exercise physiologists—two or three times a week.

"As they move through the program, we give them more challenging exercises," Dr. Walker said. "If they don't maintain attendance, we drop them from the program and send their track shoes back through the interoffice mail—the ultimate indignity."

At Hospital Corp. of America fitness means more pay for employees through an incentive plan that pays them to jog, walk, bicycle and swim.

The 2-year-old plan currently pays 96 cents per mile for swimming a minimum of 7.5 miles per month; 24 cents a mile for jogging and walking a minimum of 30 miles a month and six cents a mile for biking a minimum of 120 miles a month.

HCA has spent \$13,089.68 for fitness incentives since the program started. Although there are fewer employees in it now than when it began—126 compared to 161 at the outset—they are more actively participating, a company spokesman said.

"We're trying to determine whether the program has been cost effective," the spokesman continued, "but our study isn't completed."

While cost effectiveness is a strong incentive for some companies to start a wellness program, more than one health consultant questioned the wisdom of measuring benefits with dollars and cents.

"Expensive programs dealing with large numbers of employees are just frosting on the cake," Chase Manhattan's Dr. Walker said. "The important tool I've found is teaching people to take care of themselves."

Dr. Jerome Zuckerman, an exercise physiologist and president of Cardio-Fitness Systems Inc., executive fitness centers in New York, says, "There's no question that people who are fit are more productive; they enjoy their work more and accomplish more."

He doesn't believe that cost effectiveness should be the biggest measure of the programs' worth. "I point out that no one's come up with a good cost-effective rationale for corporate dining rooms or limousines."



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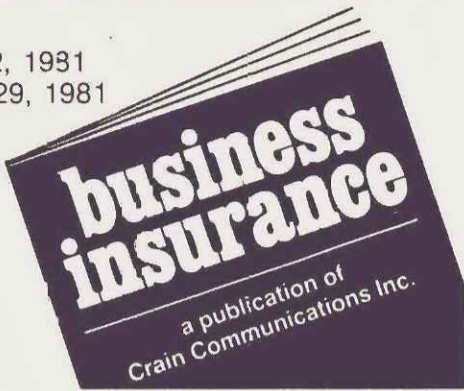
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Interest growing in wellness plans

Corporate interest in wellness programs is booming, health consultants say.

They point to the growing number of corporate fitness directors and increasing requests for information on lifestyle management classes for employees as proof.

"The interest in wellness is there, despite economic problems some companies are facing," said Ann Kieshaber, manager of wellness and cost management information for the Washington Business Group on Health.

"Companies are finding the benefits far outweigh the relatively small cost of wellness programs," Ms. Kieshaber said. "They don't have to make a million-dollar in-

vestment; a physical fitness room could be set up and equipped for less than \$2,000."

There's much more to wellness than physical fitness, Ms. Kieshaber pointed out.

"Companies are looking at environmental changes—no-smoking-on-the-job policies, for example," she said. "We're also seeing a big rise in interest in stress management programs."

Dr. Dennis Colacino, fitness director at PepsiCo Inc. in Purchase, N.Y., and head of the American Assn. of Fitness Directors, said: "We're getting 20 new members a week with a surge of interest in employee fitness programs from hospitals."

Dr. Jerome Zuckerman, an exercise physiologist, heads Cardio-Fitness Systems Inc. in New York, one of the most sophisticated approaches to executive fitness.

(Fitness Monitoring has opened a similar center in the Chicago area. See related story on page 40.)

With two locations in midtown Manhattan and 2,600 clients, Cardio-Fitness draws executives from corporations such as Time Inc., McGraw-Hill, Simon & Schuster, Pfizer and Bristol-Myers. They receive a personalized exercise program that includes a workout with a variety of machines, weights and treadmills for running.

The annual cost is \$650 per executive and as one corporate client noted, "We can't say we've saved a specific amount of dollars by sending executives to Cardio-Fitness, but an informal survey showed they consider it one of the most important benefits they have."

"The people in our program have shown a significant decrease in coronary risk factors including hypertension, cholesterol and triglycerides and the percentage of body fat to body weight," Dr. Zuckerman said.

While some corporations send their executives to exercise centers, others provide health education programs and let their employees work out their own approach to wellness.

At General Mills Inc. in Minneapolis, "We have all the components of a wellness program, but not under one umbrella," said Emily McClellan, head of employee health education.

The company has been involved in a number of health programs, from a pilot program for breast self-examination for 1,100 female employees with the assistance of the American Cancer Society and United Way to a stop-smoking program through community groups.

A year and a half after the first group of General Mills employees graduated from the smoking cessation program, 50% of them are still not smoking, Ms. McClellan said.

At IBM, a health education pro-

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gram is available for all 25,000 employees throughout the nation, but it's strictly voluntary.

IBM divisions offer classes taught by community health groups; the classes are not offered during work hours.

"The classes have a how-to approach," said John Bono, head of the health education program at IBM's Research Triangle Park, N.C., facility. "We shy away from making them mandatory."

At Flick Reedy Corp. in Bensonville, Ill., fitness has had to take a back seat to the economy.

"When the economic crunch came and we were considering laying off employees, it was going to be awfully hard to tell them that we could still afford to maintain a swimming pool," said Robert Stein, Flick Reedy's director of administrative services. The company suspended its fitness efforts by closing the company pool last year.

Flick Reedy's swimming pool was included when the plant was built in the early 1960s. "Until last year, the pool was constantly in use, not only by employees and their families, but we also allowed community and church groups to use it," Mr. Stein said.

The pool was hooked up to the company's fire-fighting system, giving the Flick Reedy a slight advantage in fire insurance premiums, Mr. Stein added.

"But in 1980 we were hit with hard times, economically," he continued, "so we closed the pool. It reopened this summer, but without heat. The cost of heating the pool was about \$5,000 to \$6,000 per month, so we're getting a savings there."

The pool is no longer open to community groups but enjoys "moderate" use by the most hardy of Flick Reedy's 800 employees, the ones who don't mind swimming laps in 65 degree weather.

"We'll keep the pool open through the winter," Mr. Stein said, "and we may do some heating of it. It depends on the economy."

"Whether the pool has been a cost-effective benefit is something I've tried my best to nail down," he continued. "But it's difficult to figure; there are so many variables."

What it all boils down to is "management's belief that the pool is worthwhile," he concluded. "But if it comes down to a choice between the pool being open and employee layoffs, the pool will be closed."

At New York Telephone Co., an in-house gym was closed because employees were using it to "beat the system designed to graduate them to a program of home exercises," said Dr. Loring W. Wood, medical director/research and development.

The gym was available to employees who were judged to be high risks for developing coronary disease, he said. "As they reached their optimum level of fitness, we would graduate them to a home program so the training facility could be used to reach more people."

The gym was so popular, however, participants in the program didn't want to graduate. Their reluctance to leave it and the projected cost of building gyms to reach the majority of New York Telephone's 80,000 employees caused the gym's demise.

"The cost of more gyms would have been in the range of \$6 million," Dr. Wood said, "while the annual cost to the company in lost time and hospitalization from coronary diseases was \$4 million."

New York Telephone scrapped the in-house exercise facility approach and substituted a program of at-home exercises for the high risk people. It may not be as attractive as the gym, but the company realized savings of \$103,000 last year from the exercise program.

Politics played an indirect role in the fizzling of a fitness program at General Mills.

The program, begun two years ago, offered a variety of prizes as incentives for employees to complete levels of exercise in a program endorsed by the President's Council on Fitness. The grand prize was a trip to the Moscow Olympics.

"It was a noble effort but the follow-through wasn't good," a company spokesman said. "In order for it to be successful, it would require a much more structured organization than we are."

The program required employees to carry out the exercises on their own and enthusiasm for the program waned.

With the cancellation of U.S. participation in the Moscow Olympics, the grand prize was changed, too. The winner got a vacation in the Virgin Islands.

The exercise program was discontinued after a year. "In the view of management," the General Mills spokesman said, "it didn't reach enough people to warrant the cost."

—By Margaret LeRoux

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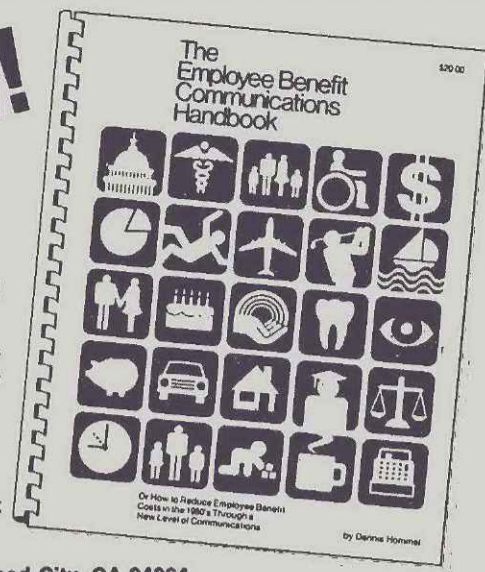
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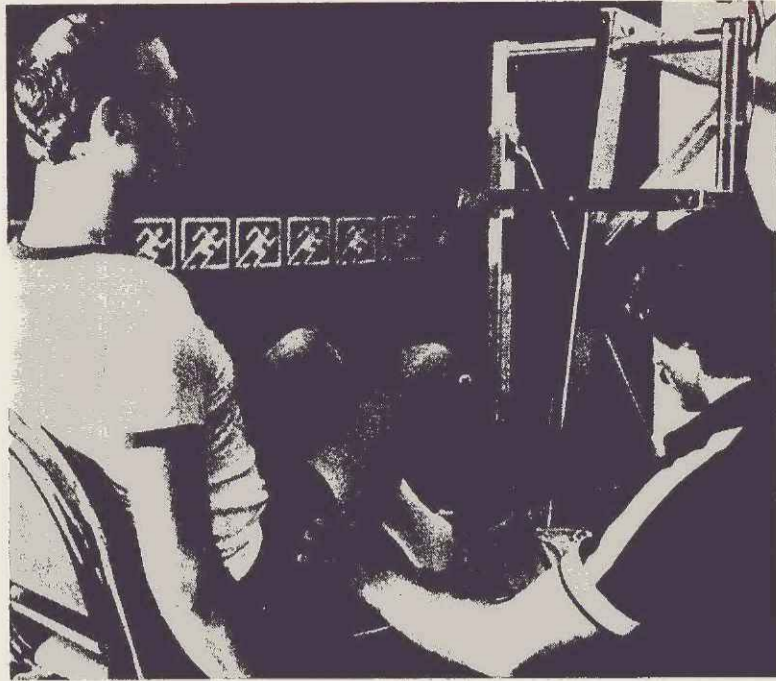


Photo: R. Bruce Dold

The Fitness Monitoring program evaluates a person's strength.

Risk factors reveal truth about health

By EILEEN NORRIS

LAKE GENEVA, Ill.—At Fitness Monitoring, they size up your health, plug in your risk factors and have a computer spit out a damage estimate of your body.

Few people come into the clinic fine-tuned and damage-free. Most need at least some work, whether it be a complete overhaul or just a minor tuneup.

But, no matter what the shape, everyone leaves the clinic with a do-it-yourself kit for a low-risk lifestyle. It's individually tailored, of course, for different makes and years.

This preventive health business is geared toward assessing an individual's health or the fitness of an entire company.

For the latter, Fitness Monitoring has an on-site screening program, where they bring the health hazard appraisal program to the worker.

Each employee fills out a health history questionnaire and then a

blood chemistry analysis, a blood pressure reading and a body composition test are taken.

The tests, which cost \$60 per employee, help to evaluate which employees might be candidates for heart disease within the next five years.

For example, if 300 workers are evaluated, 40 might be deemed high-risk clients and recommended to go through Fitness Monitoring's complete cardiovascular stress test, says Dr. LaVon Johnson, technical director of the clinic.

Normally, though, when companies send their upper-management and executive employees for testing in place of a yearly physical exam, the process begins at home. The employee fills out a 10-page health questionnaire designed to reveal and pinpoint medical problems and lifestyle habits.

When the client arrives at the monitoring clinic to be tested, the subject has fasted for 12 hours so that the blood sample will be accurate.

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It's a quick change, then, into the shorts and warm-up jacket provided to begin the series of tests and measurements. The climax is a stress test.

The clinic charges \$230 for the testing, which takes about one hour and 40 minutes, says Dr. Johnson, who is one of only two full-time staff members employed by the clinic. For another \$100, Fitness Monitoring will give clients a head-to-toe physical exam.

"The company and our insurer pay for a yearly physical, so a lot of the guys come here," says Dan Feinsinger, industrial relations manager at Jos. Schlitz Brewing Co. of Milwaukee, Wis. Other large employers who have used the Fitness Monitoring system include General Motors and the Federal Bureau of Investigation.

"The company gets the bill, but it doesn't get the results of your tests," Mr. Feinsinger adds.

Many employers and insurance companies have recognized the testing as reimbursable, says Dr. Johnson. Half of the clients come in on their own while the remaining half are referred by their employer.

Blue Cross/Blue Shield pays 100% of the cost of the stress test, while many other insurance companies are willing to pay up to 80% of the cost. "We have yet to have a claim denied," says Buck Carper, sales director.

The company is hoping executives that go through the testing will realize how cost-efficient it would be to pay for all its workers to be evaluated for their fitness. But so far, it's usually upper-management types that make their way to the clinic, Mr. Carper says.

The tests are designed to do two things: predict one's chance of coronary disease and tell a patient his or her current level of fitness.

The warm, cozy environment of the clinic, which opened in June 1980, sits in sharp contrast to the Playboy Club resort across the parking lot, a resort that peddles the kind of fast lifestyle Fitness Monitoring might discourage—at least as a steady diet.

The kelly green and rust furnishings serve as a relaxing background for a medical testing facility that looks nothing at all like "hospital whites" or the ice-cold metal furnishings of a doctor's office.

Several part-time nurses and coronary specialists from neighboring hospitals moonlight at the clinic two days a week when the testing is done.

In the first test station, a blood sample is taken and the client's posture is photographed while standing in front of a mirror that reflects three different angles. This determines if the person's posture is in line.

Then, at a series of stations, tests are run for various forms of muscular strength, lung function, body flexibility, percentage of body fat and reaction time.

The grand finale is the cardiovascular stress test, where doctors monitor the patient's heart rate on an electrocardiogram as the person peddles a stationary bicycle until near exhaustion.

This shows the heart at its maximum rate and gives doctors a good idea of what kind of shape the heart is in; it also figures into the person's coronary risk profile.

At midday, the battery of tests are over and the 15 or so individuals that have gone through the testing are individually counseled and given their test results.

Staff members stressed that most risk factors have one thing in common: They are potentially reversible. The two factors that cannot be reversed are age and family history of heart disease.

Information that comes from the tests and the health questionnaire is fed into a computer that lists and ranks 15 factors that contribute to

or prevent coronary heart disease including blood pressure, levels of cholesterol and sugar in the blood, smoking, tension, job stress and family history of heart disease.

Doctors then sit down with each patient and explain how many risk points they tallied during the day's testing and what they can do to lessen those numbers and their chance of heart disease.

Other weaknesses, such as poor abdominal strength or slow reaction time, are also listed on the printout that is given to the patient. Dr. Johnson says.

Most patients are urged to quit smoking. Many are told they need to lose weight—to lessen their body fat composition. More exercise and

better eating habits are stressed for others.

So far, the results have been encouraging, with about 80% of the clinic's clients reporting they've made lifestyle changes after going through the testing.

"If people walk out of here and don't change, then we've failed," says Dr. Johnson.

"Fitness Monitoring is centered on the notion that every person has a unique starting point for improvement. It is our task to identify that point and provide you with a recommended lifestyle change program. It will be your task to start the process toward a healthier life," clients are told.

When patients arrive for the

testing, it's not unusual to hear "I don't want to know (what's wrong) with me."

But no one seems to complain about the good or bad news they're dealt at the clinic. Instead, it's nothing but praise and thanks for the clinic's staff members.

In some cases, it can be a last chance at a healthier level of fitness, but whatever it is, it's a starting point, says Dr. Johnson.

Some people never get a second try at changing the way they live. In 1979, over half of all deaths in the United States were caused by heart disease.

Compare that to 1930, when coronary heart disease was a rarity—only 7.9 deaths per 100,000—and

today's experience borders on epidemic proportions.

Now, fitness experts and doctors are agreeing that the next major advance in health will come from what people are willing to do for themselves.

Fitness Monitoring agrees with that philosophy.

The company is planning to open up one or two new facilities within the next year. Chicago, its northwest suburbs and Milwaukee have been pegged as possible sites.

"I want these clinics to be all over the place," says Dr. Johnson, "like McDonald's. Future clinics will be exactly like the original, so you'll be able to go to any one and get the same hamburger." ■



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'Plump' assignment leaves little to lose

By EILEEN NORRIS

LAKE GENEVA, Ill.—Everyone on the staff was jealous of this assignment. They considered it a plum, a perk, a thrill. I thought so, too.

But now that I'm back—all stress-tested out—with my good and mostly bad points staring me in the face, I've reconsidered: It was a plump assignment.

This stuffed turkey has got to shake a few feathers loose to

lighten up her load.

When I arrived at the Fitness Monitoring clinic, I was glad to see others about to be tested felt as apprehensive as I did. Who wants to be told what they already know?

You see, besides being an asthmatic, graying brunette who has a strong distaste for formal exercise, I am also a slight hypochondriac.

Do I want to find out what is really wrong with my body, I asked myself. A quick look in the two-way mirror during pre-bathing suit

season usually sends me into a fit of depression beyond belief.

But, here I was, ready to be pinched, pricked and prodded for a BI story.

It had been the required 12 hours since I last ate food or drank any liquid so it was time to get the blood drawn. That went okay.

My posture was analyzed next. I had been at the fitness center a maximum of 10 minutes and already I'm told I have a slight droop in my right shoulder.

I pulled myself together and made a quick lunge for the fresh fruit and juice that was laid out to replenish the system. On to the second station.

It was at this station that I proved to myself what I've been led to believe all of my 28 years—women are weak.

Let's just say my upper and lower body and abdominal strength were in the low category. My grip strength was surprisingly high—no doubt a testimonial to my grocery bag-carrying ability.

At the same station, I was tested for flexibility in my hip and trunk, which was moderate, and shoulder girdle, where I scored high.

I am thrilled to know my shoulders are flexible, but I'm having trouble figuring out how they got that way.

It was at the third station where things really went downhill. The woman working the pulmonary function machine glared at my chart and laughed, "Oh no—asthma," when I walked into her cubicle.

She pulled herself together and told me how to take a deep breath



Photo: R. Bruce Dold

BI Associate Editor Eileen Norris consults Fitness Monitoring staffer before one of her tests.

and exhale into a tube that measures windpipe capacity. She even gave me a few extra tries, but I let her down.

Station 4 was kind of fun. I got to sit in a little booth and press a lever every time I heard a tone. My reaction time wasn't very good—only moderate.

Next, my body fat composition was measured by a little machine that resembled a meat thermometer. How appropriate for me, the turkey, I thought.

Three skin-fold measurements were taken, supposedly to determine my ideal weight and how much body fat I have.

The results on this test were not available at press time.

The cardiovascular stress test was next—this is the biggie that caused me a lot of personal distress. They glue electrodes on your chest and plug in wires so that the heart-beat functions are played in stereo and simultaneously transmitted onto a graph machine.

I found it very stressful to hear my heart skip a beat now and then, but the nurse told me it was because I kept moving and jiggling the wires around.

After they listened and watched the zig-zag machine draw a picture of my resting heart and found my EKG normal, I was deemed ready for the bike ride.

Let me say up front that it's hard to bicycle when you know you're not going anywhere. And I would have done better if they hadn't increased the pedaling force every

few minutes, but the idea is to test one to his or her maximum strength—until the body can do no more.

The average time on the bike is 7 to 12 minutes and I did 9 minutes, 50 seconds: not bad for someone who hadn't exactly won blue ribbons on the other tests.

I felt a little lightheaded when I got off the bike, but I came to when they brought me a glass of freshly squeezed orange juice.

Later, Dr. LaVon Johnson, the technical director, would tell me it looked like I had more gum than stamina to go for as long as I did on the bike.

In the afternoon counseling session, I was diagnosed.

I received 1.4 risk points for body fat, 1 point for tension and stress (a reporter's life), 2 points for family history of a heart attack and a few fractions here and there to add up to a grand total of 7.5 risk points.

Translation: My chances of coronary heart disease in the next five years are low. To have a "very low" chance of heart disease requires a score of 0 to 4.9 points.

Dr. Johnson told me I should lose six pounds and gain two pounds of muscle tissue in my upper body.

He told me to get three vigorous workouts a week and to consider buying a stationary bike.

Then he told me not to feel bad. Of the 17 people who were tested that day, only three were certified as "real fit."

Can you guess who wasn't in that group?

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Checklist for establishing a company wellness plan

For companies considering a health care or wellness program, the Blue Cross/Blue Shield Assns. recommends the following steps:

- Investigate. Talk to companies that already have programs. Ask about cost, employee participation and things they would change if they had it to do over.
- Set up a task force and draft a proposal for your own program. Include a cross-section of employees, define their needs and preferences, map out the scope of the program and how it will be promoted and set a timetable for implementation.
- Set a budget. Include capital expense and personnel costs for the first year. Keep financial guidelines realistic. An incremental approach might be better than an overly ambitious new program at the start.

• Canvass employees for talent and expertise. Groundskeepers, building engineers, maintenance employees, electricians and carpenters know your facility's features and deficiencies.

• Take advantage of in-house expertise or outside health professionals. Medical directors, visiting physicians, occupational health nurses and employees trained in cardiopulmonary resuscitation and emergency medical techniques are essential to the success of your program. Use them as teachers for health classes.

• Publicize your efforts. For the program to succeed it has to have the interest and enthusiasm of employees. Use company newsletters and magazines for articles about the program and use posters and announcements on public address systems to build interest.

• Include employees' families whenever possible. This will generate more interest in weekend or after-hours exercise. Since most family members participate in your company's group health plan, their improved health may have a favorable impact on the group's claims experience.

• Demonstrate top-level commitment to the success of the program. If your company's executives are enthusiastic promoters of the program, middle management and hourly employees will as a rule follow their example.

N.C. to judge best programs

RALEIGH, N.C.—The best corporate wellness program in North Carolina will receive an award from the governor later this year in a competition sponsored by Blue Cross/Blue Shield of North Carolina.

The Governor's Award for Fitness and Health in Business and Industry will go to the employer judged to be most actively promoting employee fitness at the worksite.

Eligible are programs sponsored by an employer in North Carolina that emphasize wellness, such as classes in nutrition, fitness or stress management; projects that reduce the need for health care services; elimination of health hazards from the worksite; or cost-containment efforts aimed at health care costs.

To be eligible, the program has to be in progress during the period of Sept. 30, 1980, through Oct. 1, 1981. The program also must involve a financial commitment by the employer.

Seven health and fitness experts will judge entries and select the winner, who will receive the award from North Carolina Gov. James B. Hunt Jr. at a banquet in November.

• Evaluate the program periodically and change it if it's not meeting the company's needs. Even well-designed programs for health promotion need an occasional breath of fresh air. Critical reassessment of the programs will ensure they're reflecting the priorities of employees and management.

• Use community resources whenever possible. Health promotion programs don't have to be expensive or in-house. The local YMCA and high school or university physical education departments often have the resources and facilities to instruct employees. Local chapters of the American Cancer Society, American Heart Assn. and Red Cross are other valuable resources.

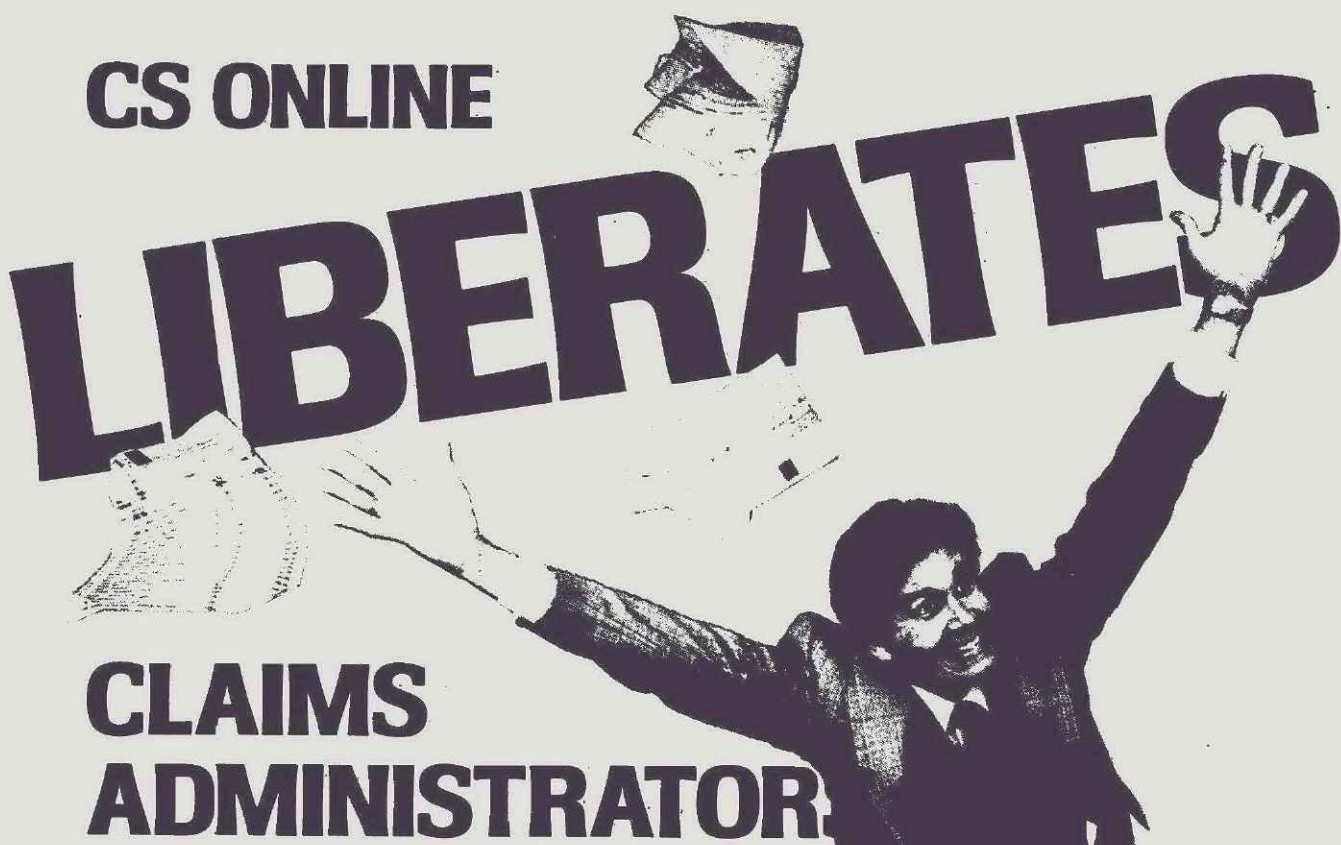
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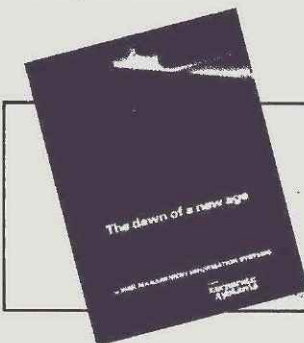
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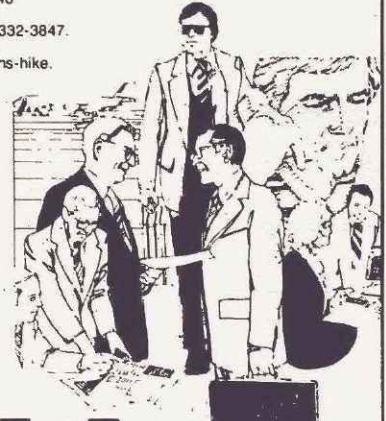
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Six companies plan to pour \$250 million into HMOs: Study

Crain News Service

A handful of large tax-exempt and investor-owned national companies will dominate the health maintenance organization industry in the 1990s as a consequence of the federal cutoff of HMO funds, a craft report prepared for the government concludes.

While future investment plans are incomplete, a survey of six prominent firms by InterStudy of Excelsior, Minn., indicates some \$250 million will be invested in HMOs during the next five years. After allowing for inflation, this indicates an investment trend equal to or greater than investment by the same firms over the past five years, InterStudy found.

The firms surveyed are Kaiser Foundation Health Plan, Oakland, Calif.; Blue Cross/Blue Shield Assns., Chicago; CNA Financial Corp., Chicago; Charter Medical Corp., Macon, Ga.; with limited responses from INA Corp., Philadelphia; and Prudential Insurance Co., Newark, N.J.

Companies that own or operate at least two HMOs in non-contiguous states plan to develop at least 40 HMOs, almost a 50% increase over the 88 HMOs they now operate or own, Dr. Michael J. Goran of Ernst & Whinney in San Francisco told a Group Health Assn. of America institute on finance and marketing in Washington, D.C.

Private investment in HMOs						
Name	Active ^a HMOs	(Type) ^b	Number acquired	Number started	Membership	Growth projection
Blue Cross & Blue Shield Chicago (INA Health Plans, Inc.)	44	(21 G) (9 IPA) (14 Net)	3	41	903,944	25 New plans in development
Prudential Insurance Co. (Newark, NJ)	7	(5 G) (2 IPA) (1 Net) (7 G)	6	2	475,000	acquisitions and 1 new start-per year
Charter Medical Corporation (Macon, GA)	4	(4 IPA)	4	0	50,000	Seeking additional mgmt cont
CNA (Intergroup) Chicago	4	(4 IPA)	0	4	61,500	4-5 new states in development
Connecticut General Hartford, CT	2	(2 G)	0	2	92,000	No plans
Wausau (WI) Insurance Co	8	(8 IPA)	0	8	75,000	No plans
Safeco Seattle	4	(4 IPA)	0	4	41,000	No plans
Medserco St. Louis	2	(2 IPA)	0	2	55,000	3 in development/2 per year
Metropolitan Insurance New York City	1	(1 G)	0	1	20,769	No plans
Health Plans Inc Nashville, TN	2	(2 G)	2	0	38,000	Mgmt contract with option/2 under agreement
John Deere Moline, IL	1	(1 IPA)	0	1	11,000	2 plans in development
R.J. Reynolds Winston-Salem, NC	1	(1 G)	0	1	34,000	No plans
Total	85	(39 G) (34 IPA) (15 Net)	16	72	1,973,213	

^aNationwide General Insurance Co., Columbus, OH, and American Medical International, Beverly Hills, CA, have minimal investments in HMOs. National Medical Enterprises Inc., Los Angeles, has expressed interest in investing in HMOs. Humana Inc., Louisville, KY, looked at but rejected the idea of operating HMOs.
^bKey to type of HMO: G-group practice, IPA-independent practice association, Net-network
 Source: Ernst & Whinney MODERN HEALTHCARE/September 1981

HMOs will need close to \$1 billion in new capital during the 1980s, Dr. Goran predicted. This would be more than was privately invested during the 1970s.

Close to 500 new prepaid plans will be developed by 1990, the Department of Health and Human Services projects.

Since 1974, operating HMOs have attracted more than \$700 million in start-up capital. Some 55% of those funds were from private sources, Dr. Goran told the GHAA. But this data excludes the Kaiser Foundation, which invested at least another \$700 million.

The non-government capital came from a relatively small group. Almost \$120 million was invested by participating physicians and other staff members, and more than \$270 million was invested by national firms, Dr. Goran explained.

Details given to InterStudy by 73 of the 167 plans that have operated since 1974 reveal that \$151.5 million, or an average of \$2.1 million

per plan, was invested before the plans reached the break-even point. The amount varied by plan.

Since 1974, the federal government has awarded \$130.4 million in 626 grants to 309 HMOs. Of the 309 that received grants, 92 are operating and nine have passed the break-even point. Ninety-nine others are still surviving on grant money.

With no additional federal funds budgeted for new HMOs, the government should expand the markets available to HMOs, InterStudy advises.

This can be done by creating financial incentives for HMOs to enroll Medicare, and possibly, Medicaid beneficiaries. InterStudy and HHS experiments to expand the market are well under way.

"Most national HMO firm (survey) respondents and potential HMO investors also suggested that community rating, benefit levels and organizational requirements be relaxed or eliminated," InterStudy says.

London market leads coverage on treasure

LONDON—Divers are searching for 5½ tons of gold bullion belonging to the British and Soviet governments that went down with the HMS Edinburgh during World War II.

When the treasure is found, its safety is well insured. The ship now rests in 800 feet of water in Barents Sea, north of Norway.

A salvage consortium, Jessop Marine Recoveries Ltd., has made a deal with the British and Soviet governments to salvage the gold, worth 75 million pounds. The consortium, led by Keith Jessop, will retain 45% of the gold while the Soviets will get two-thirds of the remainder. The British will get the rest.

After the gold is brought to the surface, it will be insured by the Lloyd's and London markets for its whole value.

"We've been appointed by Jessop

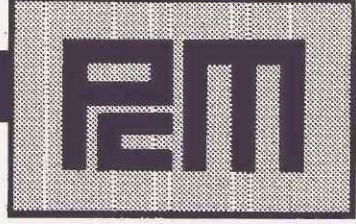
Marine Ltd. to insure the gold bars from the moment they arrive on the vessel," said David Hardwicke, director of Lloyd's broker Colburn, French & Kneen. The insurance for the gold remains in effect until the Soviet portion is shipped to the port of Murmansk and the remainder arrives in Aberdeen, Scotland.

The British government's and the salvor's portion also will be insured when it is transported by armored car to the Bank of England in London.

The Merrett Syndicates at Lloyd's led the gold policy with 5 million pounds of the 75% Lloyd's is insuring, Mr. Hardwicke said. Twenty percent is insured in the London market and 5% is placed with the Japanese.

The premium for the coverage is about 40,000 pounds.

Insurance for the diving expedition is covered by the consortium's in-house policy.



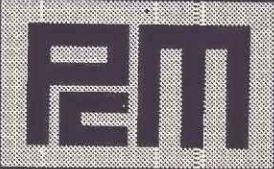
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Survivors want \$72 million

Continued from page 2
tion" to those sought by Ms. Luciano and Mr. Cepeda.

Mr. Cepeda is seeking \$50 million in punitive damages, \$2 million for personal injuries and \$15,000 for loss of personal belongings.

Ms. Luciano has asked for \$20 million in punitive damages and \$20,000 for loss of personal belongings.

At least one insurer of a defendant has been identified. The Insurance Co. of North America has confirmed that it is the insurer for Washington Beef Co., owner of the building at 571 Ninth Ave.

A second insurer appears to be the U.S. Insurance Group, which apparently wrote a policy on five of the defendants.

Named in the plaintiffs' suit are the Port Authority of New York & New Jersey; Fanberg Realty Co., owners of the building at 569 Ninth Ave.; Washington Beef Co.; and the construction firms of Delma Engineering Corp., Leon DeMatteis & Sons, Coppola Construction Corp. and DeSimone Excavation & Foundation Corp.

Mr. Lipsig said the Port Authority and the four construction firms are at fault since they were involved in an earlier construction project nearby that "damaged and weakened" the buildings' foundations.

In support of his action, Mr. Lipsig referred to an earlier lawsuit filed by Fanberg Realty that makes the same charge against the Port Authority.

"All parties knew" of the buildings' condition, he claims, and "allowed the condition to continue."

Hal J. McLaughlin, a retired New York Supreme Court judge who now is representing Fanberg Realty, confirmed that his client sued the Port Authority and the four construction firms about two years ago in state court.

The suit alleges that the buildings' foundations were damaged during construction of a new garage for the Port Authority and a bus ramp for Lincoln Tunnel.

The project involved extensive blasting operations, he said. The terminal and ramp are only a block away from the buildings that collapsed.

Judge McLaughlin, who also is a licensed engineer, said one must be "very gentle" when blasting around old buildings that have foundation blocks laid up with lime cement.

"High-powered dynamite" was used at this project rather than less powerful "blasting powder," Judge McLaughlin charged. "If there's any blame, it's the contractors who are to blame."

Judge McLaughlin also said that construction was going on in the building at 571 Ninth Ave. Wooden structural supports were being replaced with steel, but he would not say whether this work could have caused the accident.

The Fanberg suit, which he said is close to trial in the Supreme Court of Kings County, asks for \$1.75 million in damages.

The Haber suit also names the Manhattan contracting firm of Smith-Globe-Schreckinger, charging that the company was working close to the collapsed building and contributed to the accident.

While company sources refused to confirm its involvement, the U.S. Insurance Group appears to have insured the Port Authority and several construction firms on the bus terminal project.

Robert Maurer of the authority's legal division said it did not self-insure the project, but rather secured coverage for the authority and several construction companies from an insurance company.

Mr. Maurer did not identify the insurer but did give *Business Insurance* the name of an attorney he said was handling the case.

The attorney, William Claire, works at the U.S. Insurance Group's New York office. Mr. Claire refused to discuss the case or confirm the company's involvement.

Delma Engineering, the only construction company that could be reached for comment, confirmed that it did do some blasting in the area when building the ramp approaches.

Yet a Delma official, who asked not to be identified, denied that the firm is in any way responsible for the collapse.

The company is covered by insurance, the official said, although the company or details of coverage were not revealed.

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Insurers, brokers battle for McDonald's risks

Continued from page 3

designed a program with Fireman's Fund that is still aggressively pursuing franchises. Other brokers, including Financial Guardian and Corroon & Black, followed suit with programs of their own, creating a whopper of a battle for this year's policy renewals.

Then McDonald's put extra spice into the competition when it fired AIG from the program this year, leaving the insurer with an established package plan and an experience-rating technique designed specifically for McDonald's restaurants, but no broker to sell the coverage.

AIG responded with an unprecedented public appeal to 35,000 agents and brokers, promising 24-hour service for quotes on individ-

ual McDonald's restaurants facing an Oct. 1 renewal. Mailgrams were sent to agents and brokers of all sizes, including brokers already competing against AIG with their own markets.

At least six Marsh & McLennan offices received the AIG appeal, and several William M. Mercer employee benefit consulting offices received the mailgrams.

Other brokers reported that AIG mailgrams "were coming out of our ears."

But by noon Sept. 15, only five days after the mailgram attack began, AIG had received nearly 2,000 calls from producers and had quoted more than 400 of the estimated 4,000 McDonald's franchises.

AIG claims it has "computer runs with individual loss data for McDonald's franchises accumu-

lated over the last four years," according to Joseph Smetana, president of AIG Risk Management.

Applying the individual rating plan, AIG is not quoting similar premiums, but producing quotes ranging "all over the lot," he explained.

"From what the brokers are telling us, our quotes for operators with good loss experience are favorable," Mr. Smetana said. "But our quotes for operators with a bad loss history are very unfavorable. We are seeing other insurers coming in surprisingly low for what look like bad risks."

Other firms, however, are saying that they have better loss data and can take advantage of program confusion.

"All this competition could ac-

tually help us sell the INA program," M&M's Mr. Pacholick remarked.

"The competition is confusing the hell out of the buyer. I don't know what kind of rating system AIG has, but it never got any individual loss data from us, just bulk experience for the whole program," he said.

John McCaffrey, executive vp at Frank B. Hall & Co., confirmed that Hall kept about 40% of the franchises last fall with its multi-peril and then workers compensation programs with Fireman's Fund.

Mr. McCaffrey attributed Hall's success last year to using 20 years of loss data it had accumulated as broker for the program. The loss data allowed Hall to quote very competitive rates for the good risks and

not mourn the loss of bad risks.

"We think some large blocks will come back to us," Mr. McCaffrey said. "We are perceived as the stability."

Hall's share of the McDonald's franchise market is "pretty well evenly distributed around the country," said Mr. McCaffrey, who predicted the AIG marketing effort "will be very disruptive" to the other insurance programs.

Mr. McCaffrey lamented further splintering of a program that he contends had more than 95% participation among all the franchises.

"They will end up with a pool of people who are uninsurable," he said, referring to the McDonald's operators in high-loss areas of the country.

AIG had considered trying to retain its McDonald's franchise business by patching up the former relationship with Hall as broker.

"They came to us and we said 'Maybe you shouldn't have accepted those agent of record letters last year,'" Mr. McCaffrey said.

AIG had accepted M&M as the agent of record last year when McDonald's franchisees filled out agent of record letters for M&M on the advice of McDonald's Corp.'s risk management department.

"We're happy with Fireman's Fund," Mr. McCaffrey added, explaining why Hall couldn't accommodate AIG's offer.

Financial Guardian, the brokerage with the next largest slice of the McDonald's bun, also fears damage to the rates franchise operators have come to expect.

"In competing for these similar risks, I have seen premiums as low as \$1,600 for restaurants in Florida and as high as \$12,000 for franchises in high-risk areas. Previously, these premiums were leveled out by the packages," explained Financial Guardian President Donald Weber.

"Certainly, all this competition could work against the franchise operator—especially those who in the past may have abused the insurance privilege by filing excessive claims. Franchises with good experience still get good rates, but franchises in high-risk areas with a bad loss history can expect much higher costs," Mr. Weber explained.

Financial Guardian brokers insurance for about 600 McDonald's franchises and is moving those and other fast-food franchise risks to Great American Insurance Co. from the St. Paul Insurance Cos.

"We have been working for more than a year to develop a package plan with Great American and we finally have it ready. We still find St. Paul a fine market and have a lot of business with it, but the Great American plan offers us some additional options," he said.

Under the Great American franchise package, Financial Guardian is offering safety groups for fast-food store operators that would allow local restaurateurs to pool loss experience for better rates.

Higher rates are inevitable for some operators, agrees Ron O'Nan, senior vp of risk management for brokers Corroon & Black. C&B has about 300 McDonald's franchise clients in the Northeast placed with Employers of Wausau.

"We competed with Marsh & McLennan for the original broker of record agreement last year and based on the data McDonald's gave us, the rates were entirely too low considering the loss history of some of the franchises.

"Fragmenting the program will just open the operators up to wild price variations and as a general rule, prices will start to rise for all of them," he said.

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42.		OCT 19	Oct 7
43.		OCT 26	Oct 14
44.	REINSURANCE	NOV 2	Oct 20
45.		NOV 9	Oct 28
46.		NOV 16	Nov 4
47.	CANADA MARKET REPORT	NOV 23	Nov 11
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Maine asbestos trials ready to begin

Continued from page 3

built for the government according to its specifications, they argue.

The United States cannot act as a guarantor of independent contractors who build its ships and furnish many other products and services for various programs, countered Peter Nowinski, lead counsel on the asbestos litigation for the federal government.

He will present the government's case on its merits and will not seek to dispose of complaints through pretrial motions in order to set a precedent in the Maine cases. "These are the first asbestos cases to go to trial involving the government as an independent contractor at a private shipyard," he added.

The Portsmouth Naval Shipyard is immune from suits brought by employees under exclusive remedy provisions of the Federal Employees Compensation Act, which is comparable to state workers compensation statutes. Medical, maintenance and death benefits are paid to Bath Iron Works employees and their survivors under provisions of the federal Longshoremen's and Harbor Workers' Act.

"The government has strong defenses," sums up Mr. Nowinski. "But the issues are so complex and

Supporters blast wording of ballot issue

Continued from page 2

pensation insurance through the state fund, which gets its funds from taxpayers, Mr. Roberts said.

The state is not allowed to self-insure its risks for workers compensation so it has no other choice but to buy it through the state fund.

The wording goes on to say, "This proposed amendment would change the existing non-profit Ohio workers compensation system ..."

"That implies the amendment would switch the system to a for-profit-only system," said Mr. Roberts, who added that approving the issue would not change the current state workers compensation system.

The language on the ballot goes on to say that if the measure is approved, insurance companies would be allowed to determine rates.

The committee for Free Enterprise objects to that because any ground rules for rates would be determined by the Ohio General Assembly, Mr. Roberts said.

But the Ohio AFL-CIO is confident the language of the amendment is accurate and correct, a spokesman said, adding that the labor group had no input into the wording of the ballot.

"It is deceitful and fraudulent," Mr. Roberts said of the three paragraphs on the ballot.

He hopes the Supreme Court will rule on the lawsuit soon because absentee ballots were to be available to Ohio voters by Sept. 19. ■

Group life sales increase in July

WASHINGTON—July purchases of group life insurance set up under new or revised group contracts totaled \$16.7 billion in July, compared with \$12.2 billion a year earlier, according to the Life Insurance Marketing & Research Assn.

Group life purchases for the 12-month period ending in July totaled \$224.1 billion.

The figures represent face amounts of insurance purchases. ■

the theories of liability under which we can be sued are limited only by the imagination of lawyers defending the industry."

Although the defendants have formed a group for administrative purposes and plaintiff's attorneys are also cooperating to gather pre-trial testimony, each case will be tried individually.

However, the first trial, set to begin Oct. 19, is expected to establish important legal precedents for the cases that follow. The widow of deceased shipyard painter Blaine L. Austin is seeking \$9.25 million in damages from 12 companies that furnished asbestos to the Bath Iron Works.

Her suit claims that her husband "was not properly warned or safeguarded from the injurious effects of its asbestos-containing prod-

ucts."

More than a dozen Maine cases have been filed by survivors of workers whose deaths were allegedly caused by asbestos-related diseases. Plans already have been made to perform autopsies on other plaintiffs who may die before the litigation is resolved.

As the trials approach, many cases may be settled out of court. At least 50 workers already have settled with defendants Pittsburgh-Corning Corp. and Unarco Industries for small sums averaging less than \$10,000.

Plaintiff attorneys in the cases have not sought discovery of defendants' available insurance coverage, said an attorney for Unarco Industries.

Other defendants not already

mentioned include: Amatex Corp., The Celotex Corp., Combustion Engineering Inc., Eagle-Picher Industries Inc., Fibreboard Corp., 48 Insulations Inc., GAF Corp., Garlock Inc., Keene Building Products, Ni-

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Court to rule on malpractice award limits

Continued from page 1
a lump-sum payment.

This will be MICRA's first test before the Supreme Court, although opponents have been calling the statute unconstitutional since its inception. There are now two divergent appellate court rulings on the law that have been granted review by the state high court.

California's 3rd Appellate Court upheld major provisions of the reform act June 30 in *Fein vs. Permanente Medical Group*.

The 1st Appellate Court overturned MICRA's periodic payment section in *American Bank & Trust Co. vs. Community Hospital of Los Gatos-Saratoga Inc.* in May 1980.

Five years ago, legislative reforms were touted as solutions to the medical malpractice crisis, but state high courts have rescinded many of these reforms. Physicians' groups believe that such laws control soaring professional liability insurance costs, but data to support this belief are unavailable, according to the California Medical Assn.

"We are only beginning to see cases from the period dating from the mid-'70s when these laws went on the books," a CMA spokesman said.

Despite restraints on medical malpractice litigation in effect in most states, recent reports of hefty insurance rate increases raise fears that another medical malpractice insurance crisis may be in the offing (*BI*, May 25). A report prepared by independent consultants in New York recommends a 107% rate increase for medical malpractice insurance in that state this year (story on page 2).

If MICRA is overturned, the impact will reverberate throughout the personal injury field, where the statute has been viewed as a model for future tort reform. Validation

by the state Supreme Court would encourage proponents of wider legislative action, the CMA spokesman said.

Oral arguments in the *American Bank & Trust Co.* case were heard by the Supreme Court earlier this year before the death of Justice Wiley Manuel and the departure of Justice William P. Clark to Washington to join the Reagan administration.

No decision has been rendered in the case, and two new justices are now sitting on the state Supreme Court.

"There have been inexplicable delays in reaching a decision in the *American Bank & Trust Co.* vs. *Community Hospital of Los Gatos* case," said Thomas Fellows, a San Jose attorney representing the hospital. The case may have to be re-argued before the new court, he said.

"This is such a hot issue, the first and third appellate cases could be heard together," suggested Curtis A. Cole, a Los Angeles attorney for Permanente Medical Group. The earliest hearing could come next January, according to information from the court clerk's office, Mr. Cole said.

MICRA supporters were extremely pleased with the Fein decision authored by Judge Cruz Reynoso. He upheld the constitutionality of MICRA, declaring the power to legislate is in the Legislature, not the courts.

"Subject to specific constitutional limitations, when the Legislature has spoken, the public interest has been declared in terms well-nigh conclusive," he wrote in a lengthy opinion.

Judge Reynoso also rejected plaintiff arguments that the medical malpractice insurance crisis is past and that the legislation, therefore, is no longer valid.

But he reversed the trial court's verdict on the basis of a jury selection error. The trial judge excluded

40% of the potential jurors because of their participation in the Kaiser health plan. The plaintiff was denied the right to a constitutionally selected jury panel, Judge Reynoso ruled.

If the Supreme Court affirms Judge Reynoso's decision, the case will be retried.

Plaintiff Lawrence Fein is an attorney employed by the California Legislature. Complaining of chest pains, he visited Kaiser twice before an examining physician ordered an electrocardiogram that revealed the 34-year-old patient was suffering a heart attack.

Mr. Fein subsequently filed a lawsuit against Kaiser alleging that his heart condition should have been diagnosed earlier and treatment should have been given to prevent his heart attack or lessen its residual effects.

The jury found in favor of the plaintiff and awarded pain and suffering and other non-economic damages of \$500,000.

Additional damages included lost wages until the time of trial in the sum of \$24,733 present cash value of future lost wages as a result of the reduction of plaintiff's life expectancy totaling \$700,000; and future value of future medical expenses amounting to \$63,000.

Citing provisions of the Medical Injury Compensation Reform Act, the trial court judge ordered that the damage award for non-economic losses be reduced to \$250,000 from \$500,000 and that the award for lost wages be reduced by other disability payments.

The court further ordered that the defendant pay future medical expenses up to \$63,000 that are not covered by medical insurance provided by the plaintiff's employer. The court declined to order that future lost wages and general damages be paid periodically.

Report recommends malpractice rate hike

Continued from page 2

Mutual and the second in less than a year for the Medical Malpractice Insurance Assn.

Last July, the Insurance Department approved a 24% rate increase for Medical Liability Mutual; this year it approved the same rate increase for the Medical Malpractice Insurance Assn., retroactive to July 1, 1981.

A decision on the 107% increase is expected by Nov. 1. Some insurance industry sources believe a rate increase, possibly not as high as the proposed 107%, will be approved. A few, on the other hand, think 107% may "not be enough."

Some also hope for additional medical malpractice legislation to ease the premium crunch.

The proposed increase, says Dr. Arthur J. Mannix Jr., president of Medical Liability Mutual, could have doctors in high-risk specialties, like orthopedic surgery and neurosurgery, paying as much as \$60,000 annually for the proposed \$1 million of insurance.

Under the proposed rate increase, an average doctor in New York state would pay at least \$14,400 annually for \$1 million of medical malpractice insurance. A doctor in Massachusetts presently pays only \$2,300 annually for the same coverage, according to Philip O. Presley, president of Presley & Associates.

Last year insurance companies operating in the state paid on 1,132 medical malpractice claims worth about \$82 million, the New York Medical Society reports. That's a considerable jump compared to the \$30 million paid on 767 claims in 1975.

"I anticipate some doctors will be disturbed by the report," said Donald Gabay, the Insurance Department's first deputy superintendent. "But based upon the actuarial view and inflationary trends, an increase of 107% appears to be a reasonable increase."

"Inflation," adds Mr. Gabay, "has driven up costs tremendously."

Claim frequency and size of claims have both increased by about 20% to 25% annually, Mr. Presley says. That means one claim is filed for every four doctors, he says.

Claims, Mr. Presley adds, are projected to cost \$300,000 to \$500,000 each by next year.

The actuarial report, Dr. Mannix says, confirms the company's position that there is a malpractice insurance crisis endangering the state's health care system that can only be relieved by legislative action.

While applauding the state Insurance Department for commissioning the report, Dr. Mannix suggests that "the greatest urgency at this time is not a premium increase, but rather a real tort reform to expunge the obscene annual premium increases."

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Commercial Consumers Sub-total 22,034

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Group catastrophe coverage bought for corporate officers

Continued from page 3
when the insurance was purchased under individual policies.

It has also reduced the administrative burden on each executive, who previously had to fill out an application annually, and has lessened executives' worries about being a target for lawsuits and large jury awards.

"But the proof of the pudding lies in the coverage and handling of claims. We haven't had any experience with that yet," Mr. Cooper added. "But I think they (executives) are satisfied and impressed with what they have."

Mr. Bauer of the Glen Ellyn Clinic said costs have "decreased a little bit," but cost was never really a big issue for the approximately 50 physicians covered. The group policy has, however, simplified administration and reduced the 12 inches of forms member physicians had to fill out.

"We got it because it's easier to administer," a spokesman for the San Francisco law firm of McCutchen, Doyle, Brown & Enersen said. "It doesn't have to be updated annually. We can just add names to the list as the partners increase."

The spokesman added that purchased as a group, catastrophe coverage is less expensive and estimated a 25% reduction in the cost of premiums.

Other companies that have purchased the coverage indicated there was some savings but that administrative relief is the most significant.

Dart Industries Inc. in Los Angeles, now part of Dart & Kraft Inc., purchased the policy in June to cover its executives. A spokesman indicated that the program appeared to live up to the promises of reduced costs and simplified administration. "It's been such a short time," since the company purchased it, he noted.

Among others buying the policy from Kemper are Arthur Andersen & Co., Smith Barney, Harris Upham & Co. Inc. and several law firms.

Kemper's catastrophe policy will

cover automobile liabilities only when the individual already has auto coverage of not less than \$100,000 per person and \$300,000 per occurrence for bodily injury and \$25,000 for each occurrence for property damage.

A combined single limit of not less than \$300,000 for each occurrence is also acceptable in most states.

A policyholder is required also to have an underlying policy of at least \$50,000 of coverage for each occurrence on other insurance policies that can be met through either a personal liability or a homeowners policy.

In addition to Kemper, Shand, Morahan & Co. Inc. of Evanston, Ill., offers the coverage at a similar price and form. Each instituted the group approach within the past year.

The underlying policy requirements are somewhat different at Shand, which, like Kemper, offers a \$5 million limit. Shand now is testing the new offering, which is currently available in Illinois only, according to program development coordinator Mike Brittenback.

Unlike the Kemper plan, which requires the employer to pay the premium, Shand allows the company to work out a method of payment between employer and employee.

A spokesman for Aetna Life & Casualty Co. said it offers a similar coverage in the form of a "building block" approach, where a company's liability policy can be expanded to include the personal liability of top management. It does not offer a specific policy, however.

Most personal liability policies also provide coverage for watercraft, personal accident, fire, water damage and personal liabilities. Personal liability coverage protects against suits for slander, libel, false arrest and a number of other problems that a policyholder might encounter.

Under any of the group programs, the employer defines the group to be covered. This might include all employees, those earning

over a certain amount, all officers or executives on incentive bonuses.

There must be at least 25 people included in the policy in the Kemper plan. The Shand policy currently has no minimum, Mr. Brittenback said.

Why hasn't such a group plan been developed sooner? "Too many people were frightened of it," Mr. McGee said. "It's a frightening thing to offer \$1 million or \$5 million coverage."

Kemper began writing it when approached by a broker looking for a program for a large company. When asked if they would do it, Kemper agreed, Mr. McGee added.

Bob Liston, vp for underwriting at Shand, Morahan, said that some companies have been reluctant to write the individual policies and have been hit hard, particularly in the automobile area.

"Firms are also looking for a way to build up their benefit package," he added. "It really is another benefit" for the employee. ■

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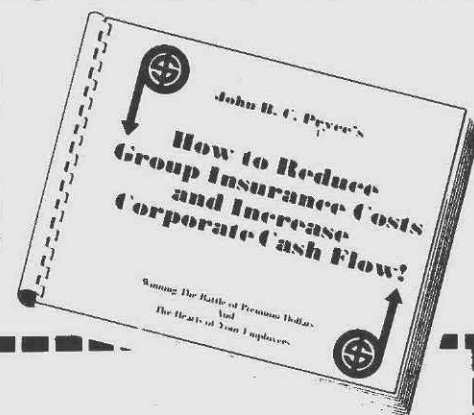
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INA plans to withdraw from marine groups

Insurance Co. of North America is pulling out of the American Hull Syndicate and the Cargo War Risk Reinsurance Exchange.

Charles W. Barnard, senior vp of INA, said the insurer is pulling out of the two syndicates because "we want to write this business in the U.S."

In addition to price considerations, INA wants the freedom to incorporate the marine coverages within its global account underwriting.

"Too much of marine business has been lost to London," he said.

Claims processing

Structured Systems Inc. has formed to provide management consulting services and packaged software for medical and dental claims processing.

The new company is located at 264 Cypress Creek Road, Severna Park, Md. 21146; 301-544-4122.

Acquisitions

Poe & Associates Inc. has purchased a majority interest in Pan American Insurance Management Corp. of Charlotte, N.C. Pan American is an insurance holding

markets

company with offices in North Carolina, South Carolina, Maryland, Virginia, Florida and Texas. The firm specializes in insurance and risk management services.

Special Insurance Services Inc. of Springfield, Ill., has acquired **FFI Corp.** of Chicago, a holding company that owned **First Financial Insurance Co.** and **First Illinois Reinsurance Corp.** FFI Corp. will be dissolved and First Financial and First Illinois will become subsidiaries of Special Insurance Services Inc. First Financial is licensed to operate in 28 states.

New offices

Bierly & Associates, self-insurance administrators, has opened a new office at 7750 Dagget St., Suite 206, San Diego, Calif. 92111.

The Federated Brokerage Group has moved their offices to 1625 Lemoine Ave., Ft. Lee, N.J. 07024; 201-592-0800.

Fireman's Fund Insurance Cos. has moved its Pittsburgh office to Two Chatham Center, P.O. Box 888, Pittsburgh, Pa. 15230. ■

Buyers, insurers debate effects of act

Continued from page 1

all state insurance regulations. The group only needs an insurance charter from one state or, until 1985, from Bermuda or Cayman Islands.

At the same time, unrelated companies will be able to collectively purchase product liability insurance on a group basis, pre-empting state laws which generally prohibit group insurance buying.

The purchasing groups will offer their members economies of scale in buying insurance and the buying clout of a larger premium volume that they would not have individually.

Some observers consider the group purchasing provision more significant than the risk retention group provision that entails the cost of forming an insurance company.

Mr. Schwartz called the bill a "key market event" that should cause risk managers to rethink how to purchase insurance. "They should want to look at the bill very carefully to see if they can provide better insurance for their companies."

"We're very pleased with the Senate's action," said Les Cheek, vp for federal affairs at Crum & Forster and a key negotiator who brought the manufacturers and insurance companies together on risk retention.

"The bill will provide a marketplace solution to the product availability problem and also a competitive alternative to commercial insurance," he said. "We welcome the competition and the stimulus the bill will provide us to make sure our prices are competitive and accurate."

However, Mr. Cheek said the provisions of the law that allow self-funding of pooled product liability risks will be less significant than the provisions that allow group purchasing of insurance. He said it was unlikely that many risk retention groups would form, particularly in industries with severe product liability problems.

"It's unlikely that competitors in high-risk industries will want to share each other's risk," he said, adding that groups will be better able to use "joint economic power" to obtain pricing concessions.

But a spokesman for the National Assn. of Wholesaler-Distributors, a major backer of the legisla-

tion, said that risk retention groups would likely be formed as a result of the legislation.

"We're taking a very serious look at this," said Dirk Van Dongen, association president. "It's not just an academic exercise."

Mr. Van Dongen said his group has been involved in discussions with underwriters for several weeks to address members' insurance needs.

He is "extremely pleased" with the legislation and said it will help solve the problems of insurance being unavailable and the "tremendous variations" in product liability premiums that companies with similar risks and experience have faced.

It provides a "marketplace option" to those needing product liability insurance, he said. "They have an option other than going bare."

James Mack, public affairs director for the National Machine Tool Builders Assn., agreed that groups will form to pool companies' insurance needs.

"I would anticipate that many of our members will certainly look toward participating in or forming risk retention or purchasing groups," he said.

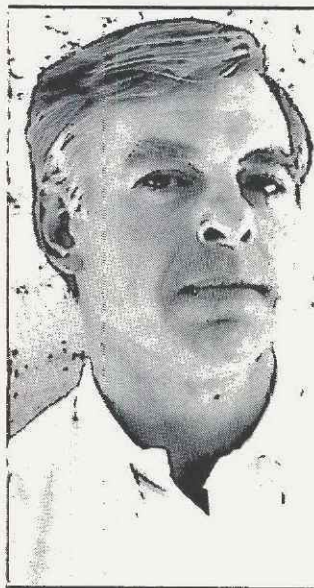
Mr. Mack said passage of the Risk Retention Act is the first step on the road to tort reform that would solve product liability problems of unavailability and high cost.

"It (the Risk Retention Act) alone will not solve the problem," he said, "but it is a major contribution toward resolving the problem and a necessary predicate for achievement of the other half of the equation."

"It is a free-market mechanism now available to American industry to both assure that insurers accurately rate their risks and that when tort legislation is adopted, those reforms will result in a stable and an affordable product liability insurance market."

Tom O'Day, government relations officer at the Alliance of American Insurers, said the legislation "did the least possible damage" to the insurance industry and was a "far cry from what the House passed last year."

That legislation would have also allowed creation of risk retention groups, but the groups would have



'The bill will provide a marketplace solution to the product availability problem,' according to Les Cheek.

'(Risk managers) should look at the bill to see if they can provide better insurance,' Victor Schwartz says.



been federally chartered under the aegis of the Commerce Department. Insurers opposed this federal regulation, saying it could be the first step toward federal regulation of the insurance industry.

The Alliance dropped its opposition when the federal charter provision was removed. It took a "neutral position" this session, recognizing that it was important to the business community to have the legislation, Mr. O'Day said.

But he also emphasized that the legislation is not a solution to product liability problems in the United States.

"We want no one to be deceived," he said. "This is not, in any form, a solution to the product liability problem. The real solution lies with product liability tort reform."

Mr. O'Day predicted the legislation most likely will not contribute to lower premiums and under present competitive market conditions probably will not be used much. "We do not anticipate a great rush to them," he said.

But Mr. O'Day added that the bill might prevent "panic pricing" by insurers that occurred during the product liability crisis of the mid-1970s that prompted the call for a Risk Retention Act to offer buyers some options.

Under the new legislation, companies that receive an insurance charter in any state, Bermuda or the Cayman Islands can qualify as risk retention groups if they meet

certain requirements. As risk retention groups, these companies could serve members in all states without being licensed in each state or using a fronting insurer to avoid run-ins with state regulators.

The proposal does not permit these groups to underwrite any risk other than product liability and completed operations insurance of member-owners. The groups may not write insurance for outside risks. Policyholders must be owners of the pools or members of associations that form the pools.

Some group-owned captives already formed can qualify as risk retention groups, if they underwrite only product liability risks.

The advantage to limiting the captive's business to product liability risks and qualifying as a risk retention group is that members can conduct their business in any state without running afoul of state insurance laws. Currently, group-owned captives pay a licensed insurer a fronting fee to issue policies and reinsure risks with the captive to avoid any run-ins with state insurance departments.

Except for the money saved on the fronting fee, which can be as low as 3% of premiums but as high as 10%, businesses forming insurance companies or captives to qualify as risk retention groups will have to shell out for the same start-up expenses as any group forming an insurance company: a feasibility study fee, organization and capita-

lization costs and management fees. These expenses will limit the number of risk retention groups formed, said one spokesman for the insurance industry.

Although a risk retention group can secure a charter in any state, it is expected that most groups will form under state captive insurance company laws, which set lower capitalization requirements and offer other regulatory advantages over forming an insurer under traditional insurance laws. The four states with captive insurance company laws are Colorado, Tennessee, Vermont and Virginia.

In passing the legislation, several amendments were added by the Senate.

Risk retention groups set up in Bermuda or the Cayman Islands will have to meet the insurance capitalization requirement of at least one state before they can operate in the United States. Such groups will also be prohibited from being established offshore after Jan. 1, 1985.

Another amendment subjects risk retention groups to the anti-fraud provisions of federal securities laws.

The legislation was introduced about two years ago. It came about following the product liability crisis of the mid-'70s when insurance was scarce and costs skyrocketed.

Last year, the legislation passed the House but died in the Senate after an unrelated bill was attached to it.

Liability in doubt for fire on freighter

Continued from page 2

Ltd., both of Japan—will pay the losses, said Penn Lenson, national distribution manager for Honda Motor Co. Inc. of California.

And if the fire did start in one of the automobiles through the manufacturer's fault, the port that car was destined for will determine which of Honda's cargo insurers will pay for the losses, he explained.

The ship was under contract to American Honda Motors Inc. with

cars enroute to Jacksonville, Fla., Portsmouth, Va., and Newark, N.J.

The Blue Hawk is owned by Giant Shipping Co. and was operated by Nippon Yusen Kabushiki Yaisha (NYK) of Tokyo. The ship was registered by Giant Shipping in the United Kingdom Mutual Steamship Assurance Assn. (Bermuda) Ltd., a P&I club that would cover any liability the shipowner incurred.

However, a spokesman said many different rules of cargo

would come into play before it would be determined if the shipowner were liable and the P&I club at risk.

He said each risk is individually contracted with the club and the liability might fall to the company that chartered the ship instead of the owner.

He said it was unclear if Nippon Yusen Kabushiki Yaisha or Ameri-

can Honda Motors would be considered the charterer.

The jurisdiction of any lawsuits filed also might determine whether the shipowner, operator or Honda were liable.

The fire aboard the Blue Hawk, a 570-foot ship, doesn't represent a huge loss for Honda—considering that some 30,000 cars are delivered every month from Tokyo, said Mr.

Lenson.

The extent of damage to the cars is not certain, but it's estimated that more than half of the cars are damaged beyond repair. Another 25% to 30% have some damage.

The fire started when the ship was about 700 miles from San Francisco. Seventeen crewmen had to evacuate the burning ship, but no one was hurt.

Firms unprepared for computer fraud: Article

WILLOW GROVE, Pa.—Many employers are not prepared for a computer system's vulnerability to fraud, warns Dr. Michael A. Pearson of Kent State University in Ohio.

Computer crime losses are estimated at between \$100 million and \$15 billion annually, mainly because of inadequate computer security programs, Dr. Pearson says in the August issue of Management World magazine.

Employers, especially small ones, can take certain precautions, but no system can be risk-free, he says.

Employers should analyze possi-

ble risks and then address the problems with a comprehensive security program, including personnel training and organization, documentation, contingency planning, physical security, application controls, signal scrambling, computer consultants and security awareness.

Of course, it's important that the computer be placed in a secure location, he said, adding that access to the computer must be restricted.

With the ever increasing variety of systems on the market, buying a computer becomes a problem in itself for a small company, said Tim-

othy J. Hentz, an associate professor of management at Marquette University in Milwaukee, Wis.

Dr. Hentz offers basic computer definitions to help management determine the proper equipment for their needs in another article in the magazine.

"The method of acquiring a computer should be considered as carefully as the type of computer chosen," according to Mr. Hentz.

He recommends asking for a proposal from several vendors to give the user the advantage of competitive bidding and to force evaluation of the employer's needs.

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Colonial Penn is still holding on despite loss of retirees' business

By LEN STRAZEWSKI

WHAT HAPPENS to the loser of a major insurance competition? Colonial Penn Group Inc. is finding out the hard way.

Still reeling from the loss of two major association-sponsored health insurance programs, the specialist in direct-marketed personal lines policies for the elderly is laying off staff, preparing new insurance products and looking hard at its future while the rest of the insurance industry watches.

Whatever plans Colonial Penn executives prepare, the insurer will never be the same.

For most of 1980, Colonial Penn was a successful and somewhat flush personal lines insurer that watched steady premium volume roll in from group health plans, automobile, homeowners and life insurance policies. The company also was growing in expanded services for older people, including travel tours, temporary employment services, a retirement community and a real estate information service.

Though the profit margins on the association business were shrinking, steady growth in other lines eliminated worry.

Consolidated revenues for 1980 reached nearly \$800 million, up from \$751.8 million in 1979. Health insurance premiums had grown to nearly \$300 million from about \$297 million 1979, which was a small drop from 1978.

Life insurance premiums grew to \$66 million from about \$58.4 million in 1979, and property/liability insurance premiums (automobile and homeowners insurance) had reached \$263.6 million, up from \$244.7 million in 1979. The combined ratio for 1980 dropped a bit from the previous year to 97.4.

Colonial Penn was having a pretty good year.

But in early 1980 after the television news program "60 Minutes" raised questions about the profitability and organization of two giant association health plans for older people—the National Retired Teachers Assn. and the American Assn. of Retired Persons—Colonial Penn came under fire for its long-standing relationship with the groups, which represent about 12.5 million people and meant \$276 million in health insurance premium for the insurance company.

The associations, preparing for policy renewals, then solicited bids and program de-

BI ticker

signs from 68 insurers before narrowing down the search to four: the incumbent Colonial Penn, Allstate, Metropolitan Life Insurance Co. and Prudential Insurance Co. of America.

When the dust cleared, Colonial Penn had lost the associations' endorsement to Prudential, along with an estimated 25%, or \$200 million of its revenues for the last half of 1981.

The prospects for 1981 began to look less positive and the strain on what could have been a very successful 1980 began to appear. Shareholders, not expecting such a major loss, filed suit against the firm and its officers, charging them with not properly informing them about the potential long-term damage to stock value. The suit is still in the discovery stages and is unresolved.

As part of the phase-out of the association business, the insurer was given permission to solicit its current association policyholders before the policies came up for renewal at the end of June 1981. Colonial Penn started an ambitious plan to rework its program and retain association members.

The plan cost Colonial Penn net income gains and generated a pretax income loss of about \$30 million in 1980. Net income declined 27% to \$52.6 million or \$3.26 per share, compared with \$4.45 per share in 1979. Losses in 1981 were expected to cost another \$6 million in write-offs from the health insurance plan efforts.

"We did what we could," remarked James E. Brennan, Colonial Penn's executive vp and chief financial officer. "We got down to the finals. Then, during the period in which we were allowed to continue to solicit association members, we managed to hold onto about 26% of our old book, even without the endorsement."

"That's pretty good, but clearly we have to reduce our expense overhead to our new premium size and make some product decisions about the future," he added.

The Colonial Penn of the future will be a smaller, more compact insurance company, he noted, still selling personal insurance policies through the mails, but leaning more

strongly into the term life insurance, automobile and homeowners coverages that had been growing rapidly for the insurer.

Colonial Penn already has begun a renewed personal lines sales effort, including a new health insurance trust for older people called "The 50 Group Insurance Trust." It has also made plans to reduce its workforce from a peak of about 4,800 in 1979 to about 2,800 by 1982 to match the needs of a smaller premium volume.

The results for the first half of 1981 showed some improvement in non-health insurance lines, bolstered by expanded life and health reinsurance premiums. In the final six months as an endorsed NRTA/AARP insurer, consolidated revenues grew to \$641 million including life and health reinsurance premiums of just under \$251 million—a significant increase from 1979 revenues of \$387.3 million including only about \$16 million in reinsurance premiums.

Life insurance premiums rose to about \$41.4 million in the first half of 1981, compared to \$36.4 million for the same period in 1980. Automobile and homeowners insurance premium rose to nearly \$150 million from about \$140 million during the first half of 1980.

"We already have proved that we can write satisfactory volumes of life, accident, auto and travel without the benefit of product endorsements we had in the past from associations," Chairman John J. MacWilliams told shareholders in a report on the first half of 1981, which announced a formal commitment to other non-group insurance products.

Financial analysts agreed with an optimistic interpretation and avoided an obvious opportunity to criticize the firm as net income for the first six months of 1981 dropped to only \$837,000, or five cents a share, from \$33.9 million, or \$2.11 a share, in 1979.

A bath in the tax-exempt bond market, a problem shared with the rest of the insurance industry, contributed to the demise of the net income. Income before net realized investment losses dropped to \$1 million from \$34 million the previous year.

"Obviously, they have had some losses," noted senior analyst Robert Brokaw of Mayborn, Nugent & Co. in New York. "But they have developed some special skills in the direct marketing of other insurance products that will sustain it. The automobile will play a big part in its future, as will supplemental health insurance products."

Mr. Brokaw also said that he expected Colonial Penn to enter the commercial insurance marketplace with an excess/surplus lines subsidiary that would sell insurance through brokers. But Mr. Brennan, the company's executive vp, denies that commercial lines are in Colonial Penn's future.

"I think we will have to stick with what we know: individual term life insurance, including some plans for the under-50 market, automobile and homeowners coverages and supplemental health insurance for older persons to fill some of the widening gaps that Reagan cutbacks are creating," he said.

"Our next half results will show the first period without the NRTA/AARP premium. By then we will know what we have to do," he said.

General Re

General Re Corp. has declared a quarterly dividend of 44 cents per share of common stock, payable Sept. 30 to shareholders of record Sept. 21.

Nationale-Nederlanden

Nationale-Nederlanden, the largest insurance company in the Netherlands, has reported increased premium revenue and net income for the first half of 1981.

The insurer reported premium income of 3.6 billion guilders (\$1.4 billion) in the first half of this year, compared with 2.9 billion guilders (\$1.1 billion) in the first six months of 1980.

Net income increased to \$65.2 million from \$57.8 million.

BI Insurance Index



Insurance industry stocks reversed a five-week trend, and the *Business Insurance* stock index rose 2.5 points to 169.6 from 167.1. Forty-one stocks posted gains, 16 stocks suffered declines and another 16 issues were unchanged. Stocks posting the largest gains included Banks Iowa Inc., 12.9%; Frank B. Hall & Co. Inc., 11.8%; MGIC Investment Corp., 11.6%; USLife Corp., 11.1%; and Foremost Corp. American, 9.4%. The biggest losses were suffered by Aneco Reinsurance Ltd., 17.4%; Appalachian National Corp., 11.1%; Reed Stenhouse Cos. Ltd., 6.0%; CNA Financial Corp., 4.5%; and American General Corp., 3.8%. The 1.5% index rise was greater than the increase in the Dow Jones 30 Industrials.

British Issues

9/15 Companies	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	159	10.6	16.07	10.1	162-158
Eagle Star	300	10.0	21.43	7.1	305-300
Genl Accident	352	8.2	21.07	6.0	368-352
Gdn Royal Exch	332	8.6	23.21	7.0	346-332
Phoenix	282	9.2	22.43	7.9	296-282
Royal	383	9.8	35.00	9.1	400-382
Sun Alliance	950	9.5	53.57	5.6	992-945

Brokers	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
CE Heath	287	11.2	15.00	5.2	295-287
Hogg Robinson	109	8.7	8.57	7.9	113-109
Alex Howden	139	9.0	10.00	7.2	142-137
JH Minet	137	12.4	6.50	4.7	141-135
Sedg Grp	153	11.2	7.50	4.9	159-151
Stenhouse Hldg	95	8.7	6.64	7.0	98-95
Stew Wrightson	230	11.5	17.14	7.4	235-230
Willis Faber	395	13.2	17.85	4.5	400-395

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

SEPT. 15, 1981							9/9/81 THRU 9/15/81							SEPT. 15, 1981							9/9/81 THRU 9/15/81						
Insurance Cos.	Price	Chg	P/E	S Div	% Yld	High	Low	Vol (000)	Agents/Brokers	Price	% Chg	P/E	S Div	% Yld	High	Low	Vol (000)	Agents/Brokers	Price	% Chg	P/E	S Div	% Yld	High	Low	Vol (000)	
Aetna Life & Cas Co	NYSE	36.75	2.8	6.5	2.32	6.3	37.38	36.13	337.2	Travelers Corp	NYSE	43.38	5.2	5.0	2.88	6.6	48.13	41.63	124.8								
American Bankers Ins Group	OTC	5.63	0.0	10.6	0.44	7.8	5.75	5.63	84.2	United Fire & Cas Co	OTC	33.50	0.0	8.7	1.00	3.0	33.50	33.50	0.1								
American Gen Ins Co	NYSE	37.50	-3.8	5.9	2.00	5.3	38.75	37.50	151.1	United States Fid & Cty Co	OTC	40.63	1.6	6.0	3.20	7.9	41.63	40.63	49.3								
American Intl Finl Corp	OTC	13.50	0.0	5.4	1.12	8.3	13.50	13.38	7.9	United Svcs Life Ins Co	NYSE	13.88	4.7	5.7	1.00	7.2	13.88	13.38	20.8								
American Intl Group Inc	OTC	56.00	0.0	10.2	0.40	0.7	56.75	56.00	217.2	USLife Corp	NYSE	23.75	11.1	5.0	0.76	3.2	23.75	22.13	151.4								
American Natl Ins Co	OTC	12.75	-1.0	5.8	0.68	5.3	12.75	12.75	57.3	Washington Natl Corp	NYSE	21.25	3.7	6.3	1.08	5.1	22.25	20.63	59.8								
American Sta Life Ins Co	OTC	19.00	-2.6	6.1	0.72	3.8	19.00	19.00	0.5	Zenith Natl Ins Corp	OTC	15.25	0.0	8.5	0.60	3.9	15.25	15.25	12.3								
Aneco Reins Ltd	OTC	2.38	-17.4	0.0	0.00	0.0	2.88	2.38*	13.0	INSURANCE COMPANIES	AVERAGE				7.5		4.2										
Appalachian Natl Corp	OTC	2.00	-11.1	5.7	0.00	0.0	2.13	2.00*	3.7	AGENTS/BROKERS	AVERAGE																
Aveco Corp	AMEX	8.75	-2.8	7.2	0.50	5.7	9.00	8.75	6.4																		
Banks Iowa Inc	OTC	39.50	12.9	6.3	1.44	3.6	39.50	35.00	7.5	Alexander & Alexander Svcs	OTC	31.25	4.2	10.8	1.84	5.9	31.25	30.13	74.9								
Bitco Corp	OTC	37.75	-1.9	5.3	2.16	5.7	38.00	37.50	1.9	Baldwin & Lyons Inc	OTC	34.50	0.7	5.8	0.80	2.3	34.50	34.50	0.5								
Carolina Cas Ins Co	OTC	6.75	0.0	6.8	0.32	4.7	6.75	6.75	9.8	Corroon & Black Corp	NYSE	19.00	-0.7	10.0	1.76	9.3	19.25	18.50*	29.8								
Central Natl Finl Corp	OTC	11.75	-2.1	3.8	0.65	5.5	11.75	11.75	3.1	Crump E H Coa Inc	OTC	10.13	1.2	11.4	0.40	8.0	10.25	10.13	19.0								
Chubb Corp	OTC	44.25	-0.3	5.4	2.68	6.1	44.88	44.13	52.6	Hall Frank B & Co Inc	NYSE	27.25	11.8	10.2	1.66	6.1	27.63	25.13	298.7								
Combined Intl Corp	NYSE	20.25	5.9	5.5	1.60	7.9	20.50	19.50	66.9	Integrated Res Inc	AMEX	18.00	7.7	6.1	0.00	0.0	18.13	13.25	24.8								
Connecticut Gen Ins Corp	NYSE	47.38	-5.9	6.2	1.76	3.7	48.00	45.13	491.3	James Fred S & Co Inc	NYSE	25.50	7.4	11.8	1.60	6.3	29.75*	25.50	405.7								
Continental Corp	NYSE	25.13	1.6	7.6	2.10	9.9	26.88	23.75	156.3	Marsh & McLennan Cos Inc	NYSE	34.50	1.5	11.4	2.00	5.8	34.63	34.50	53.6								
Crawford & Co	OTC	15.25	-1.6	11.7	0.52	3.4	15.50	15.25*	14.8	PennCorp Finl Inc	NYSE	5.75	7.0	10.3	0.16	2.8	6.00	5.50	114.2								
Crown Life Ins Co	OTC	101.00	-1.0	11.0	2.80	2.8	102.00	101.00	1.6	Poe & Assoc Inc	OTC	11.25	0.0	9.8	0.80	7.1	11.25	11.25	0.0								
Crum & Forster	NYSE	30.25	4.8	5.3	1.64	5.4	30.63	29.00	282.4	Reed Stenhouse Cos Ltd	OTC	9.88	-6.0	7.8	0.60	6.1	10.75	9.50*	3.7								
Employers Cas Co	OTC	33.00	3.1	5.4	1.20	3.6	33.00	32.00	2.2	Rollins Burdick Hunter Co	OTC	23.00	0.0	12.8	1.24	5.4	23.00	22.75	3.8								
Equifax Inc	NYSE	22.75	-1.1	5.2	2.40	10.5	23.13	22.63	8.6	AGENTS/BROKERS	AVERAGE					9.3		5.2									
Excelsior Ins Co	OTC	16.50	0.0	17.6	0.70	4.2	16.50	16.50	1.0																		
Farmers Group Inc	OTC	27.00	5.4	8.3	1.12	4.1	27.00	25.25*	135.5	Conglomerates/Holding Cos.																	
First Colony Life Ins Co	OTC	61.00	0.0	18.6	0.80	1.3	61.00	60.00	5.6	American Express(Fireman's Fd)	NYSE	42.38	5.6	7.7	2.00	4.7	43.13	41.25	727.1								
Foremost Corp Amer	OTC	26.00	9.5	7.7	0.80	3.1	26.00	24.00	10.1	Anderson Clayton(Ranger/PanAm)	NYSE	23.00	-0.5	5.6	1.20	5.2	23.00	22.75	16.1								
Great West Life Assurn Co	OTC	249.00	-1.2	10.1	10.00	4.0	252.00	249.00	0.0	Arco Inc	NYSE	31.25	1.6	7.2	1.80	5.8	31.50	30.63*	230.3								
Hanover Ins Co	OTC	28.25	3.7	3.8	0.72	2.5	28.25	27.00*	17.1	City Investing Co. (Home Ins.)	NYSE	24.25	2.6	7.0	1.60	6.6	24.38	23.88	147.0								
Hartford Steam Boiler Insprnt	OTC	42.00	0.0	7.5	2.60	6.2	42.00	42.00	0.9	CNA Finl Corp (CNA)	NYSE	13.13	-4.5	5.2	0.00	0.0	13.25	13.13*	40.7								

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