

business insurance

Iran/Iraq

War risk rates rise as fighting continues

NEW YORK—War risk insurance rates are exploding for ships going to the Persian Gulf, where war rages between Iran and Iraq.

"Rates are varying moment by moment," said John Blackman, president of Mutual Marine Office here, a major hull insurer.

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Electronics firms lure staff with big benefits

By RHONDA L. RUNDLE

SILICON VALLEY, Calif.—Acute demand for computer programmers, engineers and assemblers is igniting a benefits bidding war among this region's highly competitive electronics companies.

Clustered together in sparkling new industrial parks scattered up and down the San Francisco peninsula, electronics firms complain that scarcity of human resources is the biggest brake on industry growth.

The scramble for qualified personnel—some straight out of school—has created a benefits bonanza for employees. Extraordinary options, such as four-day work weeks, paid sabbaticals, sports/recreation facilities and part-time employment benefits, are used to lure new staff.

Turnover is a personnel nightmare. Industry figures show that electronics workers change jobs every 18 to 36 months.

"This may be the only industry to give two-year service awards," quipped one administrator who grapples daily with the problem.

After recruiting people, employers fight to keep them with frequent salary reviews and ongoing benefits enrichment. News of improved benefits travels fast since employees move around. Nearly all Silicon Valley companies are related through former employment ties of founding engineers.

"A disgruntled employee can just walk across the

Rhonda L. Rundle and Carol G. Blitzer profile some California companies' benefit packages, beginning page 69.

street on his lunch hour and land a new job on the spot," sums up Sherril A. LaRocca, vice president of training and personnel services of the Electronics Assn. of California.

To keep abreast of benefits and personnel practices in the industry, EAC surveys its membership every year, reports Ms. LaRocca.

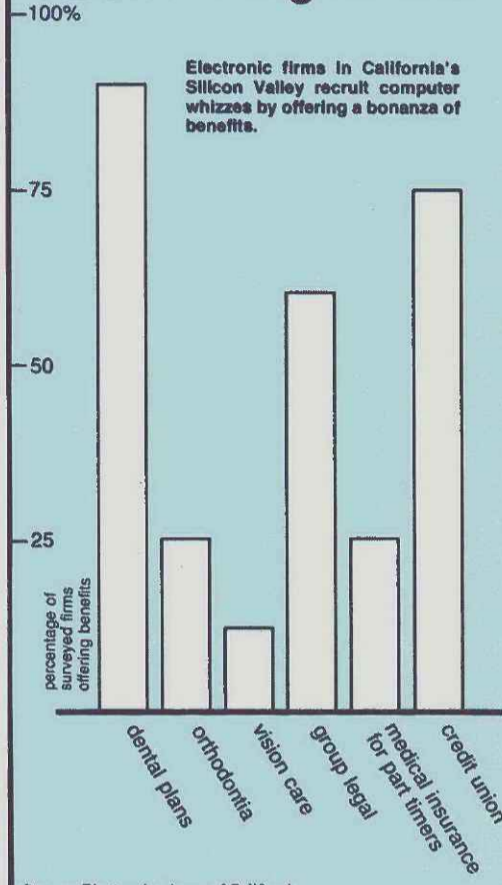
This year's survey shows that 90% of the state's electronics employers now provide dental plans, 60% offer group legal benefits and 25% have medical insurance for part-time workers. Vision care exists at 12% of the 173 companies who participated in the study.

There is a trend for firms to separate dental from medical coverage to provide richer benefits with lower deductibles, notes Ms. LaRocca. Employers are also lengthening eligibility periods for both dental and medical plans, she says. This may be a reaction to the administrative hassles posed by flexible enrollment start-up dates and high turnover, she suggests.

The phenomenal youth of California's infant electronics industry and its employee population has had a tremendous impact on shaping benefits, benefits managers agree. The age of the average industry worker,

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Benefit tug-of-war



Source: Electronics Assn. of California

Chart: Toby Roberts

Hospices seek insurer, buyer support

By JOANNE WOJCIK O'HARE

The survival of hospice care for the terminally ill in the United States depends on life support from the nation's insurers.

That support may depend on demand from corporate health care plan buyers. Already at least six major corporations offer this specialized health care benefit in their group plans.

Insurers, however, aren't ready to commit themselves yet to covering a program that replaces hospital care for a dying patient.

A hospice is a specialized health care program for terminally ill persons that emphasizes control of physical and psychological pain without attempting to cure the disease. It mainly involves home care, but many hospitals offer hospice care in specially designated wards.

Advocates say hospice care is less expensive and often more humane than traditional care for the terminally ill.

"The ability of the hospice program to survive economically is dependent on third-party payers recognizing and providing reimbursement for all hospice services, particularly home care," said Dennis Rezendes, director of Hospice in New Haven, Conn.

Hospice, which opened its doors to outpatients in February 1974, is the oldest member of the National Hospice Organization, an organization formed in Vienna, Va., in 1978 to create continuity among hospices.

But insurance coverage cannot be ensured for hospice care until experimental pilot programs provide evidence to support reimbursement, say spokesmen at Aetna Life & Casualty Co. in Hartford, Conn., and Blue Cross & Blue Shield Assn. in Chicago.

Aetna is awaiting results of a federal study on cost and quality of hospice care before offering coverage. Blue Cross is conducting its own experiment by providing the benefit free under 20 pilot programs before deciding if it will market it.

"It's sort of a two-edged sword," said David Ehrenfried, director of health policy and benefits implementation for BC & BS. Economists say delivery of service follows money, he says. But the hospices may need the insurance service first.

Their organizers say the programs cannot grow enough to significantly reflect lower health care costs if the cost of the care is not picked up by insurance. That is needed

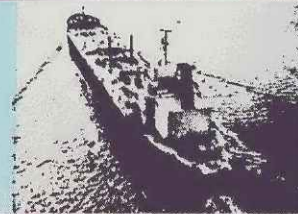
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Hospice staff members offer care for terminally ill patients that emphasizes control of physical and psychological pain.

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consultants conference
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update:

Mideast war risk rates explode

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"The rates fluctuate almost daily."
Hull rates at the end of last week were as high as 75 cents per \$100, up from 10 cents per \$100, Mr. Blackman said.

For trapping and blocking coverage, which is separate from war risk insurance, quoted rates are as high as \$1.50 per \$100, Mr. Blackman notes. Two weeks ago, he told participants at the Houston Marine Insurance Seminar that rates were \$2.5 per \$100 (see related story page 37).

If fighting centers on the two principal ports of Al Basrah in Iraq and Khorramshahr in Iran, rates would go through the roof, Mr. Blackman warns.

At Lloyd's of London, cargo underwriters quadrupled their rates to 50 cents per \$100. Hull underwriters were expected to follow the lead, but the exact increase was not known.

Some London underwriters were canceling existing war risk covers in the area to renew them at a higher rate, Mr. Blackman notes. War risk underwriters reserve this right and usually limit coverage in the Persian Gulf to seven or 14 days. Rates are normally fixed 48 hours before a ship's anticipated arrival.

U.S. ships have already been subject to specially negotiated rates at Lloyd's because of Iran's political attitude toward the United States.

Many captives whose ships are bound for Iraq and Iran probably will wait out the fighting at the entrance to the Persian Gulf rather than pay the increased war risk premiums, Mr. Blackman predicted.

GE to foot cleanup bill

ALBANY—General Electric will pay about \$30 million to clean up seven dump sites in upstate New York that contain polychlorinated biphenyls, a suspected cancer-causing agent.

The company and the New York Department of Environmental Conservation reached the agreement last week.

GE must pay the total cost for cleanup operations at four sites that contain waste generated only by GE. It must contribute to the cost of cleaning three other sites. GE also will monitor emissions from these sites for 30 years.

Work should be completed by 1984.
GE officials could not be reached for comment on whether the firm has environmental impairment insurance to cover the cleanup cost.

Agent Orange strategy plotted

CHICAGO—Agent Orange lawsuit advocates met over the weekend to share notes and plot new strategies against five manufacturers that produced the Vietnam War defoliant.

The 150 lawyers, representing more than 3,000 veterans who claim permanent injury from exposure to the defoliant, want to organize a unified method to handle the growing number of personal injury lawsuits. A class-action suit already has been filed.

"We hope our meeting will be a sign to the chemical companies that the plaintiffs are unified and that we are prepared for vigorous, perhaps bitter fights," hosting attorney L. Steven Platt of Sullivan & Associates Ltd. told *Business Insurance*.

"We have filed a motion with the Eastern District of New York courts indicating that we are ready to go to trial on some of the side issues, specific diseases we feel we can prove are caused by Agent Orange," he said.

The class-action suit names Dow Chemical Co., Monsanto Co., Thompson-Hayward Chemical Co., Hercules Inc. and Diamond Shamrock Corp. as defendants.

In a third-party action, the manufacturers charged the federal government with negligent misuse of the chemical and failure to inform servicemen of potential hazards.

Company insured for stock

NEW YORK—Moseley, Hallgarten, Estabrook & Weeden Inc. is totally insured for the estimated \$12 million in General Motors Corp. stock stolen from its vault, a spokesman said. He would not say who the insurer is.

The stock loss, which happened sometime this summer but was discovered only this month, is being investigated by the New York City Police and the Federal Bureau of Investigation. The probe is centered on Moseley employees who had access to the stock certificates.

A \$6 million block of the stock was purchased by the Swiss office of Merrill Lynch Pierce Fenner & Smith Inc. The rest has not surfaced, but is believed to be overseas.

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Include investments in ratemaking: Study

By LEN STRAZEWSKI

WASHINGTON—State regulators should analyze insurers' investment income before evaluating product liability rates, according to a long-awaited Commerce Department study of product liability insurance ratemaking practices.

The study, released last week, is designed to be an inclusive guide to factors that influence product liability insurance rates and a blueprint that buyers and regulators can use to check insurance rate fairness.

The study also offers 24 recommendations to the Insurance Services Office for improvement of its rating techniques and makes additional suggestions to insurers and state regulators.

Re-evaluation of investment income from product liability insurance premiums is just one of the recommendations that focus on extending and expanding the use of schedule loss experience rating of product risks.

The study is a follow-up of an earlier study by the Commerce Department's Task Force on Product Liability that pinned part of the blame for the high price of product liability insurance in the mid-1970s on "overly subjective ratemaking practices."

"All our recommendations can be accomplished within the present framework of state regulation," explained the task force's senior legal adviser George Neidich. "We think that ISO, the National Assn. of Insurance Commissioners

and state regulators could implement everything recommended in the study.

"But more important than any specific recommendation, we feel that the single biggest value of the study is in the clarifying of the manner in which rates are communicated to the buyer," he added.

Interested state regulators, too, could use the report "in making definitive and wholesale consideration of the ratemaking process," Mr. Neidich told *Business Insurance*.

The recommendation calling for increased evaluation of insurers' investment income, however, is particularly controversial since high interest rates have increased insurers' willingness to under-

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Limits on oil spill liability may spur cleanup policies

By ELLIS SIMON

WASHINGTON—Insurance guaranteeing payment of pollution liability claims is likely to be available thanks to a last-minute amendment to an oil spill "superfund" bill passed by the House of Representatives.

The House Sept. 19 accepted an amendment from Rep. Mario Biaggi (D-N.Y.), sponsor of the Comprehensive Oil and Chemical Spill Compensation and Liability Act. It limits liability of insurers and other guarantors to the amount that an owner or operator

of a ship, tanker truck or offshore oil facility shows he can pay.

Insurers said that without the provision, they could be subject to unlimited liability for pollution claims against owners and operators for whom they guarantee financial responsibility.

They refused to guarantee offshore operators who were required last year to demonstrate financial responsibility for \$35 million to \$50 million under Title III of the Outer Continental Shelf Lands Act (OI, Sept. 17, 1979).

The Coast Guard, which ad-

ministers the Title III program says offshore operators that purchase insurance but do not have the required guarantee are complying with the law in "good faith." (See related story on page 38.)

Congress never intended insurers to have unlimited liability under the Outer Continental Shelf Lands Act or the new superfund bill (H.R. 85), says Rudy Cassani, an aide to the House Coast Guard subcommittee, which is chaired by Rep. Biaggi. The amendment was offered to alleviate insurer fears over unlimited liability, he said.

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Toxic waste bill stalls in Senate

WASHINGTON—The push to establish a superfund to clean up the nation's abandoned toxic wastes sites may fall short this year.

A bill to set up a fund passed the U.S. House overwhelmingly last week, but a much more comprehensive and expensive bill is tied up in the Senate Finance Committee. It is not expected to reach the Senate before the fall session ends.

The House bill calls for a \$1.2 billion fund to start cleanup of thousands of dangerous dump sites. Money spent would be recovered from companies and individuals held responsible for the pollution.

The Senate bill, which already has passed the Environment and Public Works Committee, calls for a \$4.2 billion fund.

Some chemical manufacturers have been fighting this bill vigorously because it requires that industry pay 80% of the fund, regardless of the origin of the toxic sites.

Both bills also call for compensation for persons harmed by the toxic materials.

The push to establish funds to pay for cleaning up abandoned toxic waste sites follows publicity over the hazardous waste disaster in Love Canal, N.Y.

The EPA also is expected to require manufacturers to purchase for the first time nonsudden pollution insurance to cover waste site leaks.

Tampon manufacturers face more lawsuits

By RHONDA L. RUNDLE

SAN FRANCISCO—Several manufacturers of super-absorbent tampons, including Playtex International, Johnson & Johnson and Tampax Inc., will likely be joining Procter & Gamble as defendants in lawsuits filed by victims of toxic shock syndrome, says an attorney for some of those victims.

A class-action suit on behalf of victims was filed last week in U.S. District Court here against Procter & Gamble. Two other multimillion-dollar product liability suits have been filed against the company in Shasta County superior court by attorney Robert G. Schock.

Mr. Schock, of the Oakland law office of Kelley & Schock, expects to file six to eight additional cases in the next month, some of which will be against the other tampon manufacturers.

Procter & Gamble had not yet been served with any legal complaints last week and declined to discuss press reports of impending litigation.

"Several insurers are involved with various layers of coverage," said a P&G spokesman, who declined to discuss details of the company's product liability insurance.

The class-action lawsuit against Procter & Gamble seeks recovery of all revenues—not just profits—derived from the sale of Rely tampons to be returned to women who have suffered ill effects from using the product. The suit also seeks unspecified compensatory and punitive damages.

The complaint charges that the Department of Health and Human Services, the Food and Drug Administration and the Bureau of Medical Services were remiss in failing to carry out their duty to test the safety of the product, says Paul Bennett, attorney in the firm of David B. Gold, which filed the action.

"We don't know exactly what was done to test the product," Mr. Bennett said. "Since it was determined to be a device, it did not get the stringent scrutiny that would be accorded to a new drug."

In the meantime, retailers are emptying their shelves of Rely tampons, and Procter & Gamble voluntarily suspended production of the product two weeks ago.

The U.S. Center for Disease Control in Atlanta first identified toxic shock syndrome and linked the mysterious ailment to tam-

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Fewer employers turn to early retirement



Caterpillar Tractor Co. in Illinois is offering an early retirement option for some of its employees age 58 or older.

By MARGARET LeROUX

Trimming senior employees from the payroll early is not a popular cost-cutting tool this recession.

Its appeal has been diminished by employers worried about complying with federal pension laws and employees, worried about weathering the recession themselves, say leading benefit consultants. In an informal survey of corporations nationwide, *Business Insurance* found some early retirement plans:

- Sears, Roebuck & Co. in Chicago this month announced a one-time early retirement option for 2,200 executives who will be at least 55 years old with 20 years of service by Dec. 31. "The primary purpose is to provide an opportunity

to consolidate or eliminate jobs without having to lay off," said Charles Bacon, vp of personnel.

- B.F. Goodrich Co. will announce a voluntary separation program this fall for salaried staff in their 50s "employed in areas where there are poor business conditions or cost-reduction programs in effect," said a company spokesman.

- Caterpillar Tractor Co. recently added an early retirement option for management employees 58 years or older.

- Most of the auto manufacturers, especially hard hit by the faltering economy, offered early retirement incentives this year to management personnel approaching retirement age.

- Benefit managers at a wood products corporation on the West

Coast await chief executive approval of pension plan improvements including unreduced retirement benefits for employees with at least five years of service who retire at age 62.

But early retirement plans do not have the appeal they did in the recessionary years of 1971 or 1975.

"If anything, we're seeing fewer early retirement plans during this recessionary period than we have in the past," said Philip J. Alden Jr., vp at Towers, Perrin, Forster & Crosby in New York.

"Special incentives to retire early are pretty dormant" among cost-cutting clients at Kwasha Lip-ton in Englewood Cliffs, N.J., says partner Leonard Mactas.

"Though there is some interest in early retirement plans, mostly *Continued on page 78*

Asbestos firm says it has way to share liability

By ELLIS SIMON

KANSAS CITY, Mo.—An asbestos manufacturer here thinks it has found a way to transfer some of its product liability woes to the tobacco industry.

Standard Asbestos Manufacturing and Insulating Co. of Kansas City is the first known asbestos firm to seek in court to make tobacco companies codefendants in 900 suits pending against Standard. Most were filed by workers in industries that use asbestos in production.

Standard's attorneys say they have medical evidence that smok-

ing is the main cause of lung disease in workers exposed to asbestos. They say cancer rates for non-smoking asbestos workers are no higher than for the rest of the population.

Although there is a causal relationship between smoking and lung cancer in asbestos workers, there is no evidence that smoking causes asbestosis and mesothelioma, a cancer of tissue linings surrounding the lung, says Dr. Hans Falk, associate director of health hazard assessment for the National Institute on Environmental Health Sciences in Raleigh, N.C.

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Commercial, industrial bankruptcies increasing	
1980	10,900 projected
1979	7564
1978	6619
1977	7919

Bill offers safeguards for multiemployer plans

By STUART EMMRICH

WASHINGTON—Passage of the multiemployer pension plan bill by Congress should safeguard the benefits of plan participation, pension experts say.

The legislation should protect the stability of most existing plans and deter employers from pulling out, they say.

"This legislation is not exactly an inspiration for growth, but on the other hand, it will provide incentives for those already in there to stay," said one pension expert involved in the drafting of the bill passed by Congress Sept. 19. It is expected to be signed soon by President Carter.

Steve Rabinowitz, a pension

consultant with William Mercer Inc. in New York, said he expects the number of multiemployer pension plans to stay about the same over the next 10 years. "But without this legislation, the number would have shrunk considerably," he added.

Multiemployer plans are formed by companies that join together to provide retirement benefits.

Last month, the plans came under the jurisdiction of the 1974 Employee Retirement Income Security Act, which guarantees pension plan benefits.

Single-employer pension plans have been guaranteed under the act since 1975, but Congress has delayed extending the coverage to

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Credit insurance demand rises as economy slumps

By STUART EMMRICH

NEW YORK—Credit insurance is an industry paradox: The more companies want to purchase it, the harder it is to obtain.

This insurance, which protects manufacturers and retailers if their debtors or suppliers go bankrupt, is rarely considered during good economic times. But it suddenly looks golden to risk managers when a recession or economic slump hits.

Like now. "We have seen a peak of inquiries lately," said Peter Shaw, a director of brokerage Reed Stenhouse in London. "It is a hot insurance right now in Britain because of the recession."

"But it is ironic. Now is also the time when underwriters are more conservative about what risks they are willing to take. In a time of economic recession,

losses from bankruptcies go up, so underwriters are less willing to commit themselves to new business."

The market for credit insurance is a small and specialized one. Two American firms have the domestic market pretty much to themselves and only a handful of companies write the business in England.

"We've been selling credit insurance since 1893, but it just started booming seven years ago," said Robert Parmalee, senior vp of the Baltimore-based American Credit Indemnity Co. "We've increased our business two and a half times in that period. We have gotten more interest in it as the economy has become more unsettled."

The current economic slump should continue at least through the next year, experts say. Dun & Bradstreet estimates the number of U.S. commercial and industrial bankruptcies this year will jump 44 percent over the 7,564 recorded in

Continued on page 77

Work comp benefits rise in eight states

By DAVID SPERLING

Employers in eight states will have to budget more for workers compensation benefits, but their counterparts in Illinois and the District of Columbia might be able to save.

During the past legislative season, Arizona, Tennessee, Wisconsin, Missouri, Kentucky and California lawmakers raised the maximum weekly or monthly benefits for workers injured or killed on the job (see chart). In Hawaii and New Jersey, cost-of-living adjustments

were approved. But in Illinois and in the District of Columbia, caps were placed on rising costs when the lawmakers froze benefits at set rates (see chart).

In Kentucky, a lid was placed only on benefits for permanent partial disability.

Half the states made no major changes in laws protecting workers injured on the job, according to a survey of legislatures that adjourned during the summer.

But a breakdown of changes that

were approved shows:

- New occupational disease provisions in Kentucky, Maryland, North Carolina, Tennessee and Wisconsin.

- New hearing loss standards in Illinois, New York and Iowa.

- New rules requiring employers to post notices warning workers of carcinogens in the workplace in Delaware and Connecticut.

- New provisions to limit attorney fees in Florida and Illinois.

- The way cleared for group self-insurance for workers com-

pensation in Georgia, Maryland and Illinois.

Major changes in workers compensation laws were defeated in Michigan, Delaware and California.

Legislation defeated in Michigan would have lowered minimum weekly benefits but raised the maximum benefits to \$300 a week from \$200. A three-year limit would have been placed on filing claims.

Michigan businesses objected to the major benefit increase and la-

bor opposed giving up some of its rights.

Now Gov. William G. Milliken is pressing lawmakers this fall to end a 10-year stalemate and reform the compensation system that he says is keeping industry from the state.

Complaints are that the system's costs are too high and benefits too low.

In Delaware, wage-loss legislation patterned after Florida's was defeated.

The Florida plan, implemented last year, replaces permanent par- *Continued on page 82*

AMC workers concede pension hikes

UNITED AUTO WORKERS members at American Motors Corp. will receive fewer pension increases than their Big Three counterparts in the first two years of their new three-year contract, but will reach parity in the third year.

Pensions for the 11,000 workers will be adjusted Oct. 1 of 1980, 1981 and 1982 and April 1, 1983. Current retirees will receive a minimum of \$10.60 a month per year of service starting Oct. 1 and a minimum of \$13.90 by the end of the contract.

Current "30 and out" retirees will receive a maximum of \$865 a month by the end of the contract.

Future retirees under the basic program will receive \$14.50 as of Oct. 1 and \$18.25 to \$18.45 by the end of the contract. Future retirees under the "30 and out" plan will

benefit beat

receive \$750 as of Oct. 1 and \$935 by the end of the contract.

Other benefit provisions of the AMC contract resemble those in contracts with Ford, General Motors and Chrysler (BI, Oct. 1, Oct. 29, 1979).

Premiums paid

Members of the Philadelphia Federation of Teachers will have their health insurance premiums totally paid by the Philadelphia school board under provisions of a new contract that ended a 21-day walkout.

Beginning September 1981, the start of the second year of the con-

tract, the school board will contribute 100% of the premium for Blue Cross hospitalization coverage for the 23,000 teachers, teacher aides, child care workers and some administrative personnel. The board currently pays 60% of the premium.

Also beginning September 1981, the board will pay the entire premium for major medical and medical-surgical coverage from The Equitable Life Assurance Society.

Effective immediately, major medical coverage will be unlimited; the benefits previously were limited to \$25,000. The deductible structure also is changed to a \$400 lifetime deductible rather than

yearly deductibles of \$100 for an individual and \$150 for dependent coverage, said Mitch Rubin, strike coordinator for the teachers federation.

Layoff benefits

About 1,075 Peoria, Ill.-area employees of Caterpillar Tractor Co. will continue to receive medical and disability coverage for a year after they are laid off from their jobs Oct. 6.

The company will pay the full amount of the premiums for medical and disability as well as the first month of basic life insurance. The employees will pay the life premiums for the next 11 months, at a cost of 60 cents per \$1,000 of coverage, says Jack Ziegler, manager of employee benefits. Workers also

are eligible to continue their supplemental life insurance by making their regular contribution.

Metropolitan Life underwrites insurance coverages for Caterpillar.

In addition, laid-off workers will receive up to 11 months of credited service for calculating retirement benefits.

Dental plan

Stanford University in Stanford, Calif., is kicking off the school year with a new dental plan for 7,500 faculty and staff members.

The self-insured plan, with administrative services provided by California Dental Service, was arranged by William M. Mercer Inc. of San Francisco and initiated early this month. It is fully paid for full-time employees and dependents up to age 19 or age 23 if they are students. Part-time employees pay half the monthly premium.

The plan covers 80% of reasonable and customary fees for basic dental care including examinations, oral surgery and cleanings, and 50% for such other work as crowns, bridges and dentures. The maximum benefit is \$1,000 per person per year after a \$50 per person deductible and a \$150 family deductible.

Deferred comp

The city of Milwaukee has chosen Chicago-based Intangible Marketing Inc. to administer a deferred compensation plan for 10,000 city employees.

Milwaukee began a deferred compensation plan in 1975 for administrative level workers only. Under the plan, employees contribute a minimum of 1% of annual salary to a maximum of \$7,500 or 25% of salary, whichever is less, into a deferred compensation account. The new plan is open to all employees.

City officials will select the investment options after receiving bids from insurance companies and financial institutions. About \$1.25 million in contributions from the old plan will be turned over to the new accounts.

IM will handle the administration of the plan and counsel employees on choosing a deferred income option at no cost to the city. IM receives commission from the investment plans.

No deductibles

About 15,000 members of the Teamsters Local 251 in Rhode Island and their families will receive new health benefits Oct. 1.

All deductibles have been eliminated from the Teamsters' \$1 million major medical program, underwritten by Blue Cross & Blue Shield of Rhode Island. Hospitalization and inpatient medical coverage is expanded to 365 days from 120.

New benefits include chiropractic coverage; a fully paid prescription drug program with no out-of-pocket copayment, and dental coverage provided by Delta Dental, which includes all basic and routine dental care plus partial coverage for root canals, bridges, oral surgery, crowns, periodontics and orthodontics. Members and families also will be able to participate in a health education program.

The total cost of the complete benefit package "is in the millions," said Alexander J. Hylek, chief executive officer of the Local 251 Health and Welfare Fund.

Made any benefit changes? Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

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Mariel Coombes is president and CEO of Arizona Custom Manufacturing, Arizona Custom Steel, and Eagle Erectors... three mid-size firms busy growing in the fields of steel fabrication and low-structure erection. Like all presidents of successful firms, she faces a myriad of challenges every day. But she's found that a solid relationship with Wausau Insurance Companies can help her meet many challenges faster, better, more profitably.

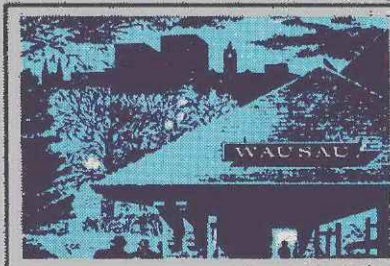
Mrs. Coombes says, "You must be able to count on an active 'partnership' effort with your insurance carrier—to cut your losses, control your costs, and keep your

safety record up. Otherwise, your insurance simply isn't working right. We've found Wausau works just fine throughout our broad range of coverages."

Dennis Miller, Wausau sales representative in Phoenix, says, "Sure, Mariel makes us work for a living. Justifiably so. Because questions and answers are continual in specialty businesses such as hers. But we give her one less thing to worry about because of Wausau's high level

of service, safety and health expertise, and underwriting flexibility."

Wausau makes business insurance *work*, like nobody else in the business.



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COMPANIES**

Employers Insurance of Wausau

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HMOs need employer support: Study

By MARY ANN MATLOCK

NEW YORK—Employer support, not employee enrollment, may be the key to health maintenance organization success, suggests a new survey by Louis Harris & Associates.

The study, released last week, revealed a link between HMO enrollment and employers' attitudes about communicating and offering the plans. It was conducted on behalf of the Kaiser Family Foundation.

For 58% of HMO members surveyed, first information on the prepaid plans came from employers. Only 15% were first informed by friends, 13% by spouses, 9% by parents and 7% by union representatives.

Conversely, of the nonmembers

Only a small percentage, 7% of HMO members, said they joined the plan as individuals without going through an employer or union invitation.

surveyed in areas served by HMOs, 52% said neither they nor family members had been told about the prepaid plans by employers.

The employer's attitude as reflected in its presentation of HMOs also played a key role in a worker's decision.

Of the 1,092 HMO members surveyed, 43% said their employer's or union's descriptions of the

plans were very appealing but only 11% of the 991 eligible nonmembers responded the same.

The impact of employer-supplied information is also revealed in the way most subscribers joined the HMOs. Only a small percentage, 7% of HMO members surveyed, said they joined the plan as individuals without going through an employer or union invitation. About 59% said they joined through their employer; 22%

through the employer of another family member and 12% through their own or a family member's union.

Eligible nonmembers (described by the survey as those living in the same locations as HMO members) most inclined to join HMOs eventually work for medium- or small-sized employers, according to the study.

Of nonmembers surveyed, the largest percentage, 45%, who said they were somewhat or very interested in joining a prepaid plan worked for a company with 1,001 to 5,000 employees.

The next most interested nonmembers work for firms employing 101 to 1,000 members. Those in companies with 100 or fewer workers were not far behind with

40% of those who were surveyed interested in joining.

Of large employer groups, those with 31,001 or more workers, only 26% expressed interest in the plans. The survey explained that extensive employee benefit programs offered at the firms helped limit interest.

The survey, titled "American Attitudes Toward Health Maintenance Organizations," did not poll employers' attitudes toward HMOs in the future. However, Mr. Harris promised another survey would answer that question. He expects it to be released next month.

In addition to HMO marketing issues, the survey pinpointed some trouble spots HMOs may have to watch to ensure stability. The lack of physician choice, cited as troublesome, may be inherent to the HMO concept. But consumer complaints about long waiting lines, impersonal service and perceptions of inferior doctors administering care should be addressed by HMO managers, Mr. Harris said.

Of members, 13% said long waiting were an HMO disadvantage, and nonmembers responded similarly. The next most important complaint, impersonal service, was noted by 12% of HMO members and nonmembers alike. A fear of inferior doctors at HMOs was expressed by 6% of members and 5% of nonmembers.

These complaints, however, contrast sharply with general satisfaction with the prepaid plans expressed in the survey by the HMO participants.

Of HMO members surveyed, 48% said they are very satisfied with the quality of their doctors and an additional 38% said they are somewhat satisfied. In contrast, 60% of eligible nonmembers said they were very satisfied with the quality of their doctors.

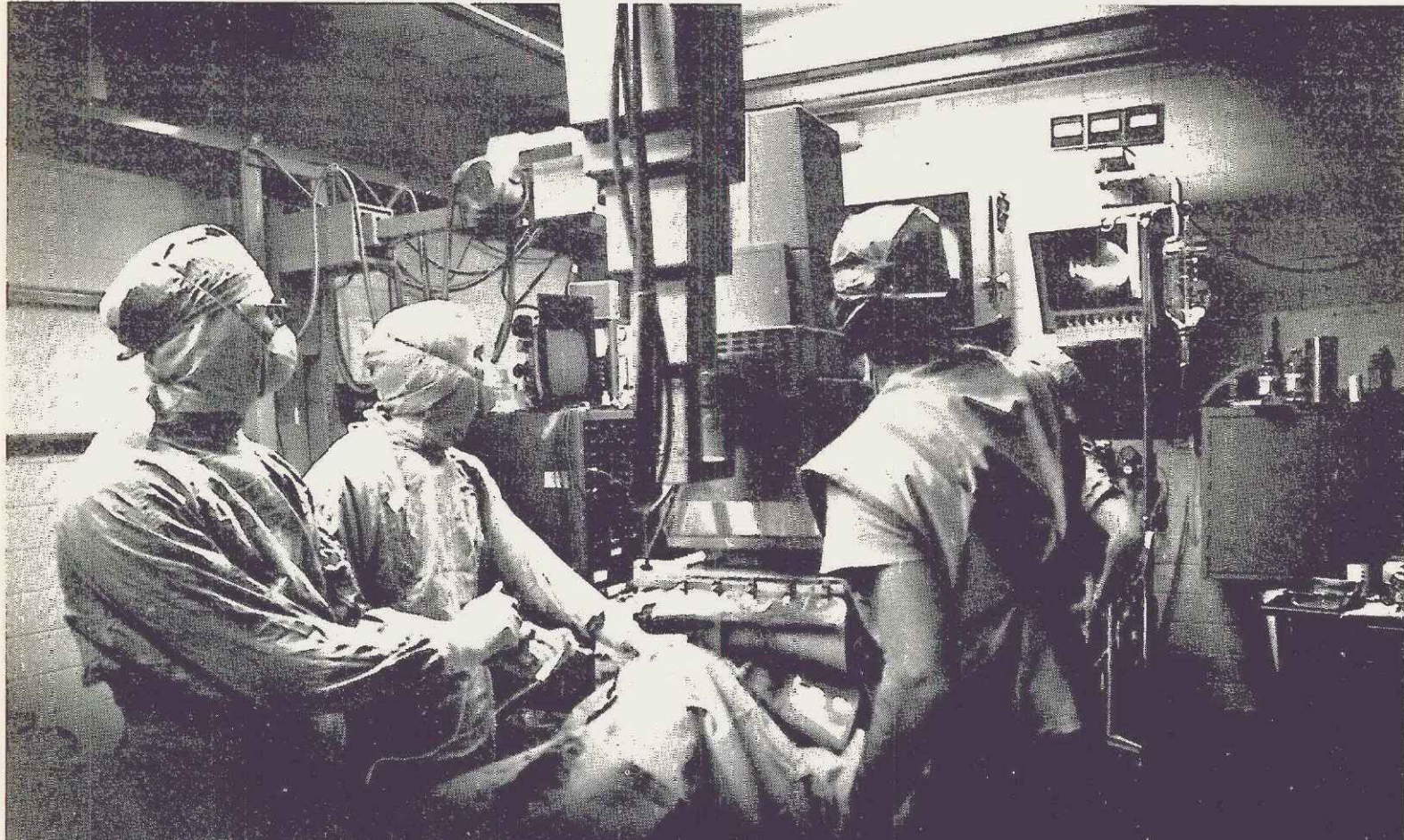
Those either very or somewhat dissatisfied with the quality of doctors providing care accounted for 12% of the HMO member group and 8% of the eligible nonmember group.

Mr. Harris emphasizes that the survey did not measure the quality of HMO physician care; therefore, the above criticisms are perceptions to be dealt with by HMO managers.

"If I have drawn your attention to these negative findings, it is because I believe they are the most serious criticisms we uncovered in this study. And, whatever the actual quality of HMO doctors, and however unfair the criticisms may be in fact, clearly the selection, training and quality control of physicians must be a very high priority of HMO managers, Mr. Harris emphasized.

"And because these criticisms of doctors must be added to factors which are inherently more difficult to deal with (the weaker doctor/patient relationship and the absence of freedom of choice), addressing them effectively will have a major impact on the future success and growth of HMOs," Mr. Harris said.

The Louis Harris & Associates research was based on three separate sample surveys. One was a representative national cross-section of 1,543 adults age 18 and older. The second was 1,092 members of HMOs. The third was 991 eligible nonmembers, those living in the same locations as HMO members. All of the interviews were conducted in person between Jan. 11 and June 2.



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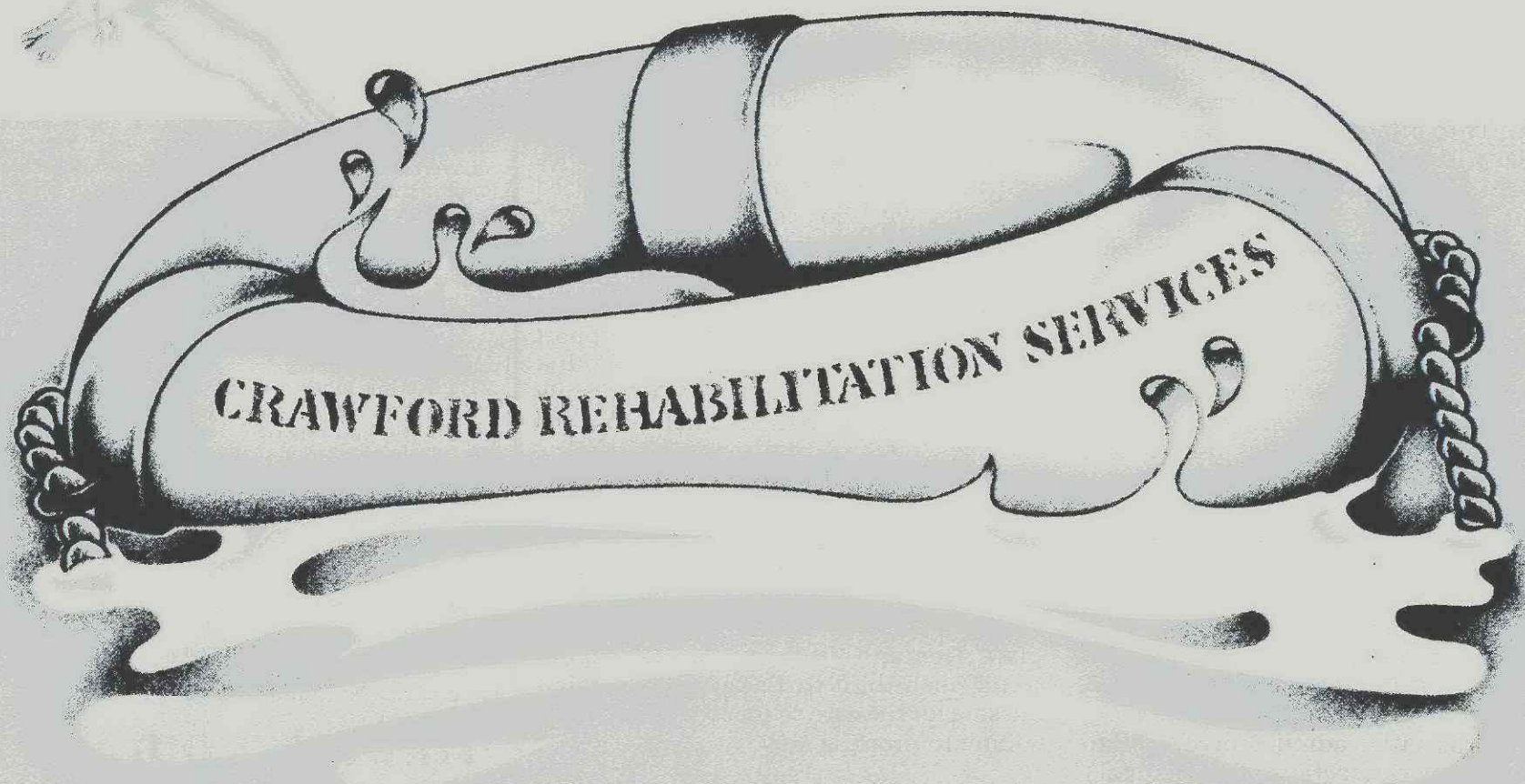
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editorial opinions

Support hospices

CORPORATE BUYERS of health insurance plans and health plan underwriters should support hospices for two reasons: They offer alternative care for the terminally ill who don't want to prolong a life tied to countless life-support systems, and they offer more economical care.

The first reason is most important; the second is a welcome benefit for companies trying to control the cost of health benefits for employees.

As a story in this issue points out, hospice care is a concept. It's a way of caring for the dying that doesn't employ the wonders of modern medicine. It's used when it's certain nothing can keep the patient alive and shortness of time is the only issue. Hospice care stresses helping people and their families meet death, easing the physical pain of dying for the patient and the psychological pain of both the patient and his or her family.

But health insurance policies routinely exclude reimbursement for hospice care because it is often administered in the home or in a special section of the hospital. The policies treat it as nursing home care rather than health care.

Insurers and Blue Cross say they are waiting to see the financial results of pilot programs to decide whether to add hospice care to their coverage. We can appreciate concerns that the extension of covered benefits could drive up costs, but all indications to date are that hospice care is less expensive than acute care in a hospital.

If third-party payers are so concerned about additional costs, the benefit could be added now with a set maximum benefit payable. It would at least open the way to coverage for hospice care.

Hospices need third-party payer support to develop and grow. A health care provider today can't survive, let alone expand services, without recognition from third-party payers of health care bills.

If third-party payers are concerned about the quality of care and approval of hospices, they can benefit from the work of Blue Cross and General Electric in establishing criteria for approving a hospice and the list they compiled of authorized hospices. We print them in this issue to help.

Some may argue that we should never give up on life, trying always to keep someone alive. But when the life-support is artificial and death imminent, we think it is up to the patient and his or her family to choose how the patient will live out the last days.

Employers self-funding health plans should take advantage of their control over benefits and immediately add hospice care to their plans.

Insured employers should push their underwriters to add the benefit to the plan. Demand from corporate buyers could push third-party payers into reimbursing for the care sooner than they seem willing to promise now.

Decision '80

AS MANY AMERICANS struggle to choose a candidate to support for president, we trust readers know we don't suggest they choose their candidate on the strength of the platforms as published in our last issue.

We don't advocate supporting a candidate on one issue, whether it's national health insurance, pension policy, Social Security or worker safety—as important as each of those issues is.

We presented the political platforms of the parties only to highlight for you where the candidates stand on issues important to you as risk and benefit managers. We know other issues are important to you as Americans, and they all will be weighed when you select your candidate.

letters

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

Longevity and layers

To the editor: Re: "Layered property plan helps company save" (Sept. 8).

Layering of insurance is a means for providing capacity on large valued risks. Astute brokers have used the concept of layering to lower the cost of insurance. Mathematically it is quite easy to reduce the overall cost by layering. One reason is that the approach is hardly scientific, nor has it any loss experience credibility.

There is one inherent factor that risk managers have to take into account. If the loss experience sours for the primary carrier, that carrier will either want to increase the premium or be replaced. Any replacement carrier will most likely want more premium. This disturbs the excess carriers since these carriers usually want a bigger share of the premium even if not exposed to any losses. If the loss experience penetrates into the excess layers, experience has shown that these insurers generally drop off the ac-

count quite fast.

Back around 1970 there was a loss in the area of \$35 million on a sprinklered warehouse for Stop & Shop. I was with an insurance group that took an extra \$5 million on one of the upper layers. The underwriter called it "the icing on the cake." Unfortunately, in a very short time he regretted being so bold.

The underwriters that go on excess layers for price rather than to provide adequately priced capacity are foolhardy. Unfortunately, the present day trend is not for the insurers to underwrite and sell insurance, but "buy" accounts.

The prudent risk manager is the one that will determine the longevity of the placement. Insurers like IRI and Factory Mutual member companies are used to \$5 million or more losses and do not panic.

Hermann P. Schlander
Vp-property department
Anderson & Murison Inc.
Pasadena, Calif.

'Throwing out the baby'

To the editor: I take exception to David Warren's demeaning letter (Sept. 8) about one of the three basic principles of risk management: "Don't risk a lot for a little."

The entire context is: "Don't risk more that you can afford to lose. Don't risk a lot for a little and consider the odds."

As with any principle or policy, definitions and procedures are needed by the user. Mehr & Hedges's whole textbook ("Risk Management: Concepts and Applications") defines how the three principles should be applied. Each business must determine what is "a lot," "a little" and a "risk" for it. This is why risk managers—and consultants—are needed.

To me this principle says it is better for the financial health of my company to use my insurance dollars for additional millions of umbrella liability than for physical

damage coverage on its vehicles.

The principle may tell me I should take a higher property insurance deductible and use the premium savings to purchase higher liability limits. It tells me to insure the catastrophic portion of the earthquake damage instead of the first \$100,000, \$500,000 or \$1 million.

In his example of the risk of a car accident in taking one's wife out to dinner, who but the individual can say whether the benefit is trivial? Taking the wife out to dinner may be a factor in saving a marriage.

At the risk of using another aphorism, Mr. Warren is "throwing out the baby with the bath water." I did not see a suggestion for a better way to state this principle.

Larry Bell, CPCU, ARM
Assistant vp-risk management
Revco D.S. Inc.
Twinsburg, Ohio

Scrapping the rules

To the editor: It is interesting to see David Warren's comments on the second rule of risk management, "Don't risk a lot for a little" (Letters, Sept. 8). If we are going to take it upon ourselves to eliminate "arrant nonsense" from the industry, then we should look at the other two rules of risk management to see if they too, fall into this category.

"Don't risk more than you can afford to lose" is touted as being the first rule of risk management. I contend that the first case cited by Mr. Warren applies to this situation as well. How much can you afford to lose? In the end, the last thing we can afford to lose is our life, yet we play silly games with that all the time including unhealthy lifestyles and driving on freeways.

The third rule of risk management, "consider the odds," is as nebulous and indeterminate as the other two. Consider what odds? No risk manager deals with odds any more. Its always probabilities. Then probability must be modified by severity.

Why don't we just scrap all three rules of risk management? In fact, why don't we scrap all risk management theory before 1980? Perhaps you, Mr. Warren, and myself

could get together and rewrite risk management completely. I am sure we could find some insurance company people and a couple of academics to help.

Martin Richards
International Risk Management
Institute Inc.
Dallas, Tex.

K.C. comments

To the editor: I would like to comment on some statements in your article on the liability coverage of the Kemper Arena (BI, Aug. 25). In addition to our self-insured liability program, we are covered by a comprehensive general auto policy in the amount of \$1 million written through Fireman's Fund. Reed Stenhouse of Missouri is the broker of record.

While we do require exhibitors to show liability coverage of \$1 million with the city as additional insured, there is no provision for them to show evidence of business interruption insurance.

We are now awaiting quotes for excess liability in layers up to \$100 million. There are no present plans to explore the London market.

Fred Dillon
City insurance administrator
Kansas City, Mo.

business insurance

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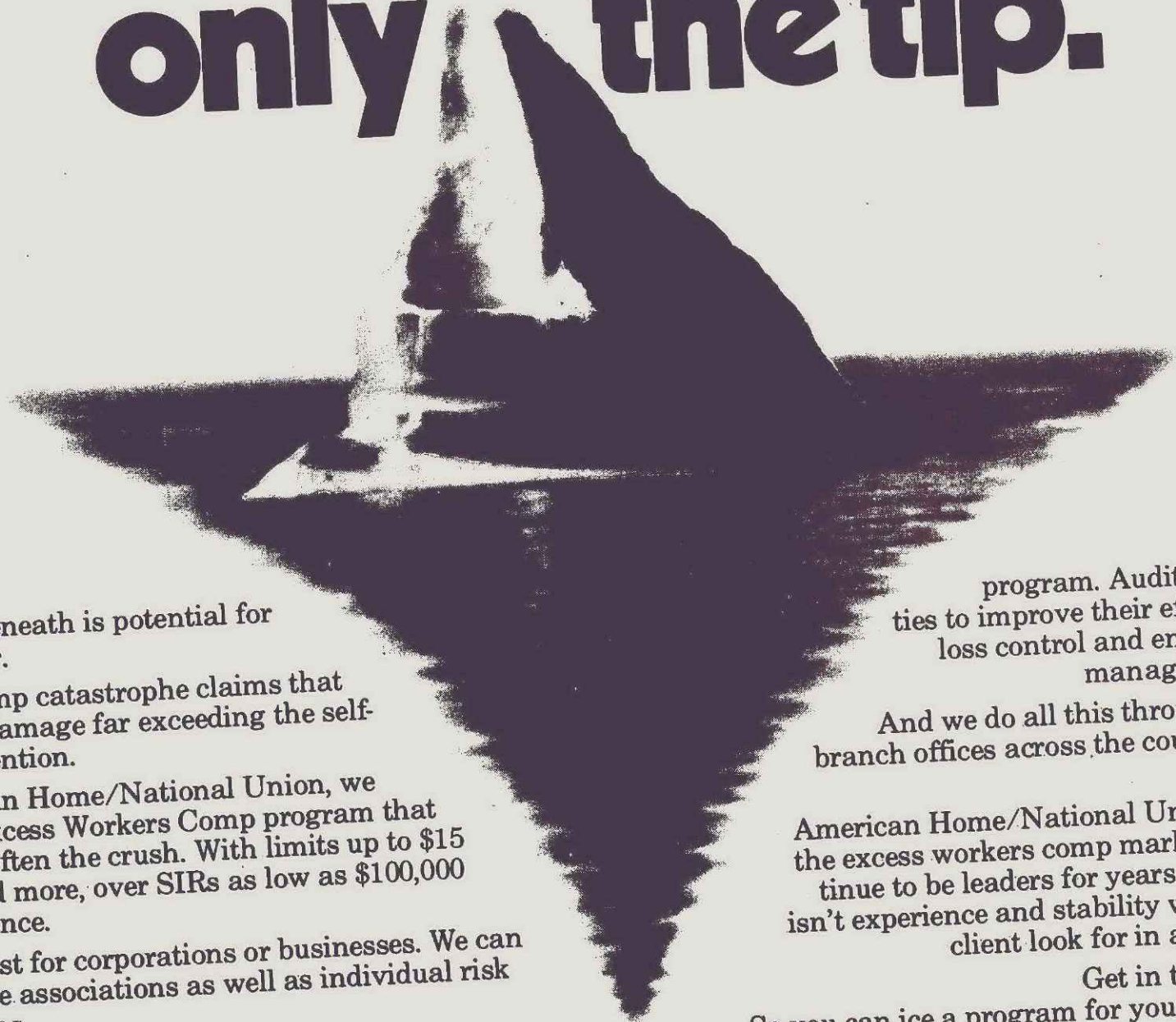
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Denial spares employers \$17.9 million

around the states

BATON ROUGE—Louisiana employers have been spared a 4.5% increase in workers compensation rates that would have cost them an extra \$17.9 million a year.

State insurance commissioner Sherman A. Bernard and the state insurance rating commission denied the National Council on Compensation Insurance request earlier this month.

But a 29.3% workers compensation rate hike affecting stevedores was approved after a representative of the New Orleans Steamship Assn. said the group had no objection. The increase will cost an extra \$2.9 million a year.

The commission will meet Oct. 14 to consider a request to increase commercial automobile assigned risk rates 40% more than those charged by members of the Insurance Services Office. The move would cost \$4 million. The panel also will meet Oct. 15 on a proposal by the Property Insurance Assn. of Louisiana to decrease fire and extended coverage rates an average of 1.4% across the state.

New chairman

JACKSON—Mississippi Gov. William Winter has appointed Marshall Bennett chairman of the state workers compensation commission.

Mr. Bennett, who assumes the post Oct. 1, replaces commission chairman J.T. Noblin, who is retiring to enter private law practice in Jackson. Mr. Noblin held the chairman position for 12 years.

Mr. Bennett, a former assistant attorney general for consumer protection, will complete the remaining three months of Mr. Noblin's unexpired term and begin his six-year tenure.

Hospital costs

BALTIMORE—Hospital costs in six states with mandatory rate regulation rose about 3% less from 1976 to 1978 than in other states, a private study here shows.

But despite a lowered rate of increase in costs for hospital stays in the six states, regulation has not been able to bring down the high charges used by hospitals in these states.

During the three-year period, hospital costs in the six regulated states rose an average of 11.2% while the cost increase in all other states averaged 14.3%, says the study made by researchers at Johns Hopkins Hospital and at the Maryland services cost review commission.

"We could effect substantial savings if other states adopted this program," said Dr. J. Graham Atkinson, chief rate analyst for the review commission.

During the period covered in the study, regulation may have saved \$167 million for Maryland hospitals and perhaps as much as \$2 billion to \$3.1 billion in the other five states, Dr. Atkinson said.

The savings is not always money that is passed on to patients and third-party insurers, however. A hospital is often allowed to use the savings for new equipment or a new service.

The effect of regulation on holding down Maryland hospital rates has been reported annually by the review commission, but other studies on the impact of hospital rate regulation have raised questions about the cost of regulation compared with results.

Loss of companion

BOSTON—An injured worker's spouse and children can sue for loss of companionship because of negligence or intentional wrong-

doing by an employer, the Massachusetts supreme court has ruled.

Previously only the injured person could sue for such a loss. The spouse and children can collect such awards even if the defendant were covered by workers compensation, the justices ruled.

The case involved a \$3 million damage suit filed by Judith Ferriter and her two children, Leah and Jason. Michael Ferriter, her husband, was struck by a wooden beam that fell from a crane at a construction site in May 1979.

Medical liability

ALBANY—New York physi-

cians and surgeons will be charged 24% higher rates for professional liability insurance from the Medical Liability Mutual Insurance Co., an organization formed by the Medical Society of New York.

The rate change is the company's first since July 1, 1977, when it was granted a 15.5% increase. About 17,500 physicians and surgeons are covered by the insurer.

Neurosurgeons, orthopedic surgeons, ophthalmologists, anesthesiologists, general surgeons and proctologists will see a 13.8% increase, with premium increases ranging from \$696 to \$4,131 a year. Obstetricians and gynecologists

will see a 36.3% increase, with premium increases of \$2,367 to \$6,351 a year. Pediatricians and psychiatrists will see a 29.8% hike, or \$506 to \$1,402 a year, and pathologists will see a 42.8% hike, or \$291 to \$647 a year.

Rate-making study

AUSTIN—A special advisory committee to the Texas insurance board will evaluate the state's procedures for evaluating workers compensation rates.

The members, appointed by the state board, include insurance executives, trial lawyers, businessman and representatives of the industrial accident board, the workers compensation assigned risk pool and the National Council on Compensation Insurance.

The panel will study the treatment of companies' investment in come in the rating process.

Public hearing

ATLANTA—A public hearing will be held Oct. 7 on amendments to update portions of the Georgia fire safety code pertaining to hazardous materials.

Other proposed changes include a provision to allow the state fire marshal's office to modify specific fire safety requirements in special cases, and a provision allowing the fire marshal to enter into reciprocal agreements with officials in other states concerning standards for racetrack firefighting personnel who travel to each race.

The hearing will begin at 10 a.m. in Room 238 of the state capitol.



Policies keep cameras rolling for 'Shogun'

HOLLYWOOD—No one can insure against loss of face, but Paramount Pictures was able to buy insurance against loss of film for its Japanese television series "Shogun."

As actors mocked suicides for the cameras, the master film negative was insured for \$22 million and the cast, including star Richard Chamberlain (at right), was insured for an additional \$22 million.

The policy, brokered by entertainment experts Albert J. Rubin Co., a division of Alexander & Alexander, was purchased from Fireman's Fund for an undisclosed premium. The

policy also included \$4 million in insurance for cameras, props, sets, wardrobes, third-party property damage and technical errors and omissions.

Though the exotic six-part series on Japanese culture cornered the market on viewers the week of Sept. 15, Edward Hamby, director of Fireman's Fund's entertainment department, said, "It was a relatively routine risk."

Fireman's Fund has also sold coverage for "Roots," "Apocalypse Now," "Superman" and most of the James Bond "007" films.

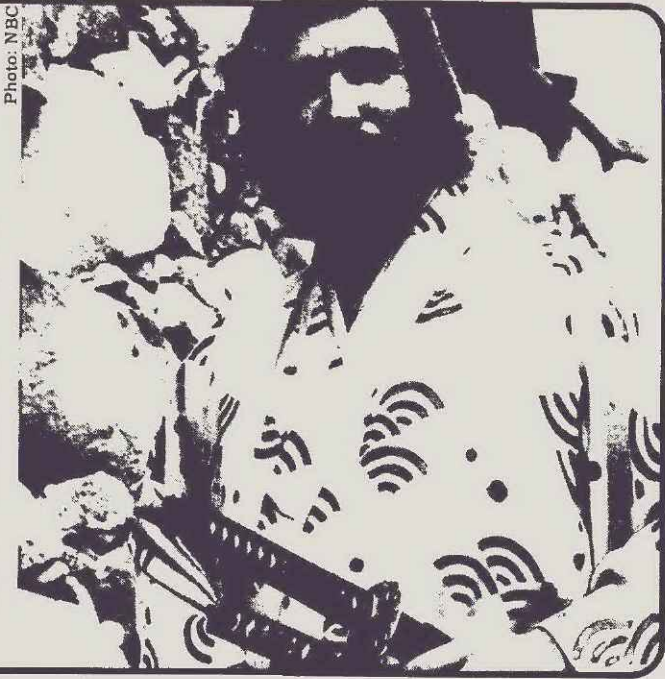


Photo: NBC

HMO gets second chance

LANSING, Mich.—Family Health Care Plan of Kalamazoo, a health maintenance organization offered by 35 to 40 area employers, has been given a new lease on life.

State officials have renewed the plan's license, which was allowed to lapse last spring, pending a reorganization of the HMO's administration and finances. Service was not disrupted during the lapsed period.

"The loss of the HMO would have had a devastating impact on the Kalamazoo community, and particularly the north side residents for whom the health center is the only source of care in the community," said acting state insurance commissioner E.C. Mackey.

Administrative and financial changes are already being implemented to ensure the financial solvency of the troubled plan over the next three licensing years.

HMO officials are taking over management of the health care

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There's more to the Armco story. Find out by contacting any one of the Armco insurance companies, or write: Scott R. Crawford, Armco Insurance Group, Dept. 230, 703 Curtis Street, Middletown, Ohio 45043.



Long-term loans and grants have been arranged.

clinic in which the prepaid plan operates. Previously, the clinic operated as a separate corporation serving the HMO and fee-for-service patients, said compliance-director Dhirha Shah.

With the bad debt rate in the fee-for-service program at almost 60%, the corporation was unable to pay the HMO, thereby causing severe cash-flow problems, Mr. Shah said.

Long-term loans and grants have been arranged to ease the HMO's financial woes caused by administrative problems.

Two hospitals, Borgess and Bronson, have accepted a long-term note for \$760,000 owed them for services rendered before July 31. In addition, the federal government has approved a \$400,000 grant for the plan because of its service to the poor and Medicaid recipients, Mr. Shah said.

The three-year-old prepaid plan, with 7,000 subscribers, has also applied to receive federal qualification. This would entitle the HMO to a \$1.2 million loan.

Company gets \$253,044 back

JENKINTOWN, Pa.—American Medical Affiliates Inc. has received a \$253,044 premium rebate from its workers compensation insurer, American Mutual Insurance Co.—more than 50% of the upfront premium paid under the first year of the firm's new retrospective rating plan.

"We have emphasized to our operational field people that workers compensation is a cost that is, to a great extent, a controllable expense," said treasurer Louis Greenberg. "The returned premium reflects the results of much effort and attention to this area and support for this statement."

American Medical is a health care management company that operates and owns about 35 nursing homes on the East coast. The retrospective plan covers operations in Pennsylvania, Connecticut, Alabama and Maryland.

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Get ready now for higher rates, underwriter says

By MARY ANN MATLOCK

NEW YORK—Buyers should build defenses now for offensive insurance prices coming in the next few years, an underwriter warns.

"If I were a buyer, I'd be drawing charts to show superiors how much money I saved during soft market conditions," William Munson, president of Commerce & Industry Insurance Co., told a College of Insurance audience.

During the upcoming cycle, "the buyer is going to cry. He's got a

real problem," Mr. Munson admitted. Rates will jump to at least their precompetitive market level in the next few years, he added.

Property lines will suffer the most. "In the next two to three years you will see a reversal of the property good, casualty bad philosophy," Mr. Munson said, and rate increases will be prompted by inflation and lax underwriting.

"Property, in theory, is written to take inflation into account by insuring to value. But it's not being done properly," he admitted.

In addition to ignoring the proper rate base, underwriters simply price rates too low, he said.

"Nobody is pricing for inflation. While inflation is 10% to 15% a year, you're talking a net growth of 7.5%. A gap of 5% to 10% a year has got to spell disaster and you don't have to wait for a hurricane to hit."

Escalating arson cases, lack of improvements in loss prevention programs and the use of construc-



'The buyer is going to cry,' says William Munson.

tion shortcuts to curb costs will erode property rates, too, he adds.

"We have no hedge and we will see a crunch," he warned.

Casualty insurance lines, however, are expected to fare better than property plans because their rating base is adjusted for inflation.

"In underwriting casualty, you look at payroll and annual reports to get the right rating base. Casualty coverage is better indexed," Mr. Munson said.

Despite this aid, some casualty coverages, such as workers compensation, still pose a problem. "Compensation experience is improved, but not good. We still have some serious problems, such as asbestosis and regulation," he said.

However, there are signs that states are beginning to deregulate workers compensation, allowing insurers to set their own rates. One such state is Georgia.

The trend may continue, Mr. Munson said, because "I don't sense a strong desire for government to get more involved in regulating the insurance business."

Mr. Munson foresees:

- Underwriters becoming decision makers rather than technicians. Underwriters will have access to a pool of technicians with ultimate decision resting with the underwriter.

- Less reliance on investment income to recover money lost by lowering rates.

- Increased deregulation.

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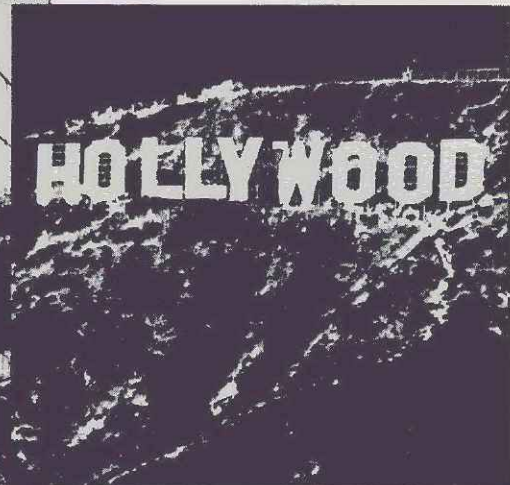
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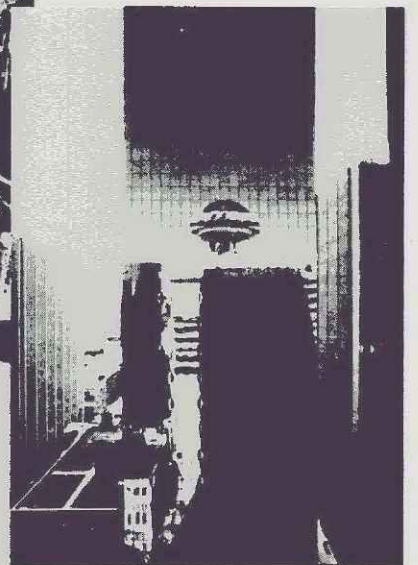
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NAIC model bill

Exec criticizes file-and-use comp rates

SAN DIEGO—If the National Assn. of Insurance Commissioners knocks workers compensation out of its proposed model bill on file-and-use rating, market competition will improve, a Fireman's Fund executive told a NAIC regional meeting here.

A competitive rating bill for other property/liability lines is long overdue, said executive vp James J. Meenaghan. "However, we believe the NAIC advisory committee is somewhat premature in recommending a file-and-use rating law for workers compensation."

He suggests the commissioners study workers compensation "separately, carefully and fully" to see what its impact on other insurance will be before deciding the rating system.

"Let's take a careful look at what competitive rating for workers compensation will do to the smaller risk, assigned risk plans, state funds, statistical and classification systems and experience rating plans," he said.

"Most of all, let's find out what competitive rating will do to incentives to reduce losses. Let's see what effect it will have on the injured worker."

There is ample precedent to handle workers compensation separately, Mr. Meenaghan said. "We do not know what effect it will have on work comp because there is no experience on which to base our judgment."

The insurance industry will oppose the NAIC model if workers compensation is included, he predicted. Its inclusion will diminish the possibility of competitive rating in other lines, he added.

"Aren't the biggest problems, and challenges, the need to better administer the current system and the need to be more efficient and less costly in the process?" he asked.

"If these are the real problems—and there seems to be widespread agreement that they are—are we diverting attention from them and creating the false impression that the problems with the work comp system center around our pricing of it?"

He defended the present experience rating system, saying it induces employers to improve workplace safety and reduce accidents and injuries.

If the rating procedure is changed, "it would only be a matter of time before the mandatory experience rating itself would disappear," Mr. Meenaghan said.

"Emphasis will shift. Rather than seeking to lower insurance costs by reducing losses, employers will seek to achieve the same end by shopping for front-end discounts."

Consistent statistics are also necessary, he noted.

Premium and loss statistics are "interchangeable from insurer to insurer," he said. "This makes possible the mandatory experience rating plan in workers comp. It is estimated that about 75% of the U.S. work force is covered by such plans."

"The experience rating plan is a powerful incentive for the reduction of work-related injuries in this country," Mr. Meenaghan said. "As an industry, we must be very careful that any shift in regulatory approach does not destroy that incentive."

Melvin B. Bradshaw, president of Liberty Mutual Insurance Co., echoed the Fireman's Fund executive in his address to the NAIC.

"I think we all agree that it is time to take a hard objective look at the source or sources of irritation which have caused people to be critical of the workers compensation pricing and rate regulation

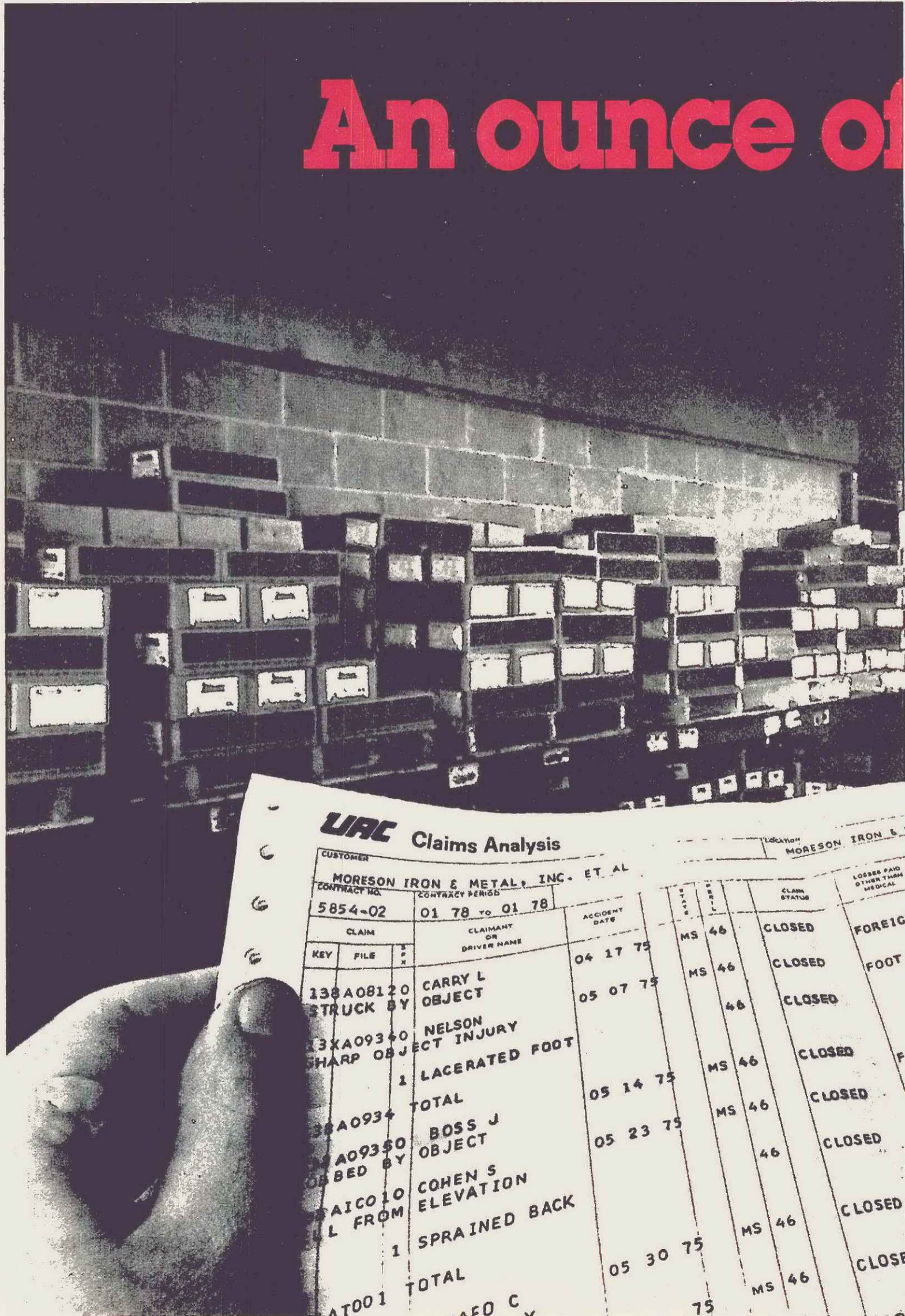
system," he said.

"In doing so we need to marshal the evidence to demonstrate that changes should be made or that some other system of rate regulation would be more efficacious."

Though the proposed changes in ratemaking could be handled by insurers, Mr. Bradshaw said the model bill might "set certain forces in motion that if carried to their ultimate conclusion, could

result in political repercussions which could adversely affect the insurance industry.

"Simply put, workers compensation benefits can be handled by other systems already in place." ■



An ounce of

Bill would expand federal crop cover

WASHINGTON—A bill to expand the federal crop insurance program would make farmers throughout the country eligible for government-subsidized insurance against weather-related crop losses.

The bill, which passed the House by a 235-150 vote and is expected

washington

to be signed by President Carter, would replace the existing system that provides coverage only in main crop-growing regions. It also would permit some underwriting

by private insurers.

Under the new program, scheduled to start during the 1981 crop year, the government will subsidize up to 30% of each farmer's pre-

mium. Each farmer would be covered for up to 65% of crops lost.

The program would cost an estimated \$43 million in the fiscal year beginning Oct. 1, but is expected to jump to \$695 million the following year.

Twenty-seven Southwest and Midwest states were struck by

drought during the early summer heat wave. The Federal Crop Insurance Corp., which provides almost all the insurance available to farmers, expects to pay out \$222 million in claims this year. The corporation estimates 75% of the payments are for crop damage caused by the drought.

States with the largest indemnity estimates include North Dakota, \$71.5 million; Texas, \$22.4 million; Iowa, \$21.6 million, and Minnesota, \$19.2 million.

Longshore reform

Restructuring of benefits paid and clarification of who is covered are needed to reform the Longshoremen's and Harbor Workers' Compensation Act, Alliance of American Insurers vp Andre Maisonpierre testified before the Senate Committee on Labor and Human Resources.

To help alleviate the financial burden the act has created for employers, the alliance is urging Congress to make the following legislative changes:

- Clearly define "maritime employment" and "adjoining area" in the longshore act to resolve the jurisdiction problems that have existed since the act was amended in 1972.
- Limit the annual increase in benefits to no more than 3% per year.
- Require actual loss of earnings before a permanent partial disability award is made.
- Eliminate a provision granting lifetime benefits for deaths unrelated to job injuries.
- Reinstate a provision of the original act requiring administrative supervision over physicians who give medical services.
- Allow legitimate settlements of fatal claims to be approved by deputy commissioners and administrative law judges.
- Set the same weekly maximum for survivors and disability benefits.

Mr. Maisonpierre suggested the committee model its revisions on a recent District of Columbia law that remedies some of the problems caused by the longshore compensation act.

Tax breaks

Congress should adopt tax breaks for individuals contributing to employee pension programs, said Jeanne Cullinan Ray, assistant general counsel of the Mutual Life Insurance Co. of New York.

She also called for increases in limits on tax-deductible contributions to Keogh plans and Individual Retirement Accounts to match the current inflation rate.

Ms. Ray appeared before the President's Commission on Pension Policy this month on behalf of the American Council of Life Insurance. The council represents 504 life insurance companies holding 99% of the reserves for insured pension plans.

Under limits set in 1974, a self-employed individual can only contribute 15% of his or her income or \$7,500 a year, whichever is less. Tax-deductible payments to IRAs are limited to 15% or \$1,500 a year for individual accounts and 15% or \$1,750 for accounts set up for both the employee and his or her spouse.

"We recommend that individuals be given the option of taking a credit against their tax liability equal to 30% of their allowable contributions to qualified pension plans and IRAs instead of deducting such contributions for tax purposes," Ms. Ray explained to the commission. ■

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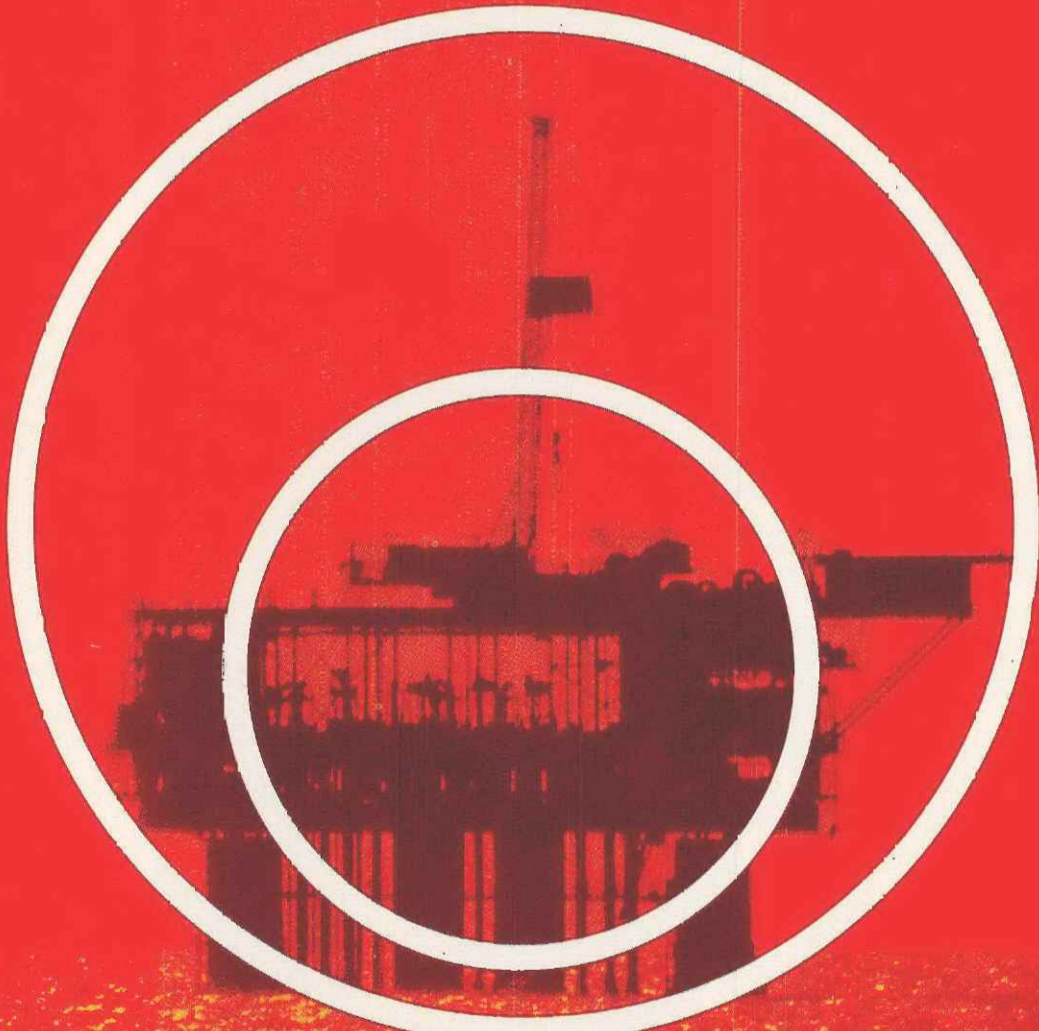
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markets

**Peking
approves
AIG office**

AMERICAN International Group has received approval from Peking authorities to establish a liaison office in the People's Republic of China next month.

Stephen Jen has been named manager of the office. He is presently in charge of American International Underwriters in Singapore.

The Peking office will act as liaison between the People's Insurance Co. of China and AIG, and will service AIG clients doing business in China. The office also will assist in placing insurance that is required to be written by the People's Insurance Co. on behalf of AIG clients.

Through the liaison office, AIG's global network will promote the development of insurance business in connection with China's world trade.

Risk services

Self-Insured Risk Services Inc. has been established as an independent claims, loss-control/safety engineering and administrative services company.

Michael P. Murawski is president of SIRS, which is at 24370 Northwestern Highway, Suite 102, Southfield, Mich. 48075; 313-354-9580.

Acquisitions

Alexander & Alexander Services Inc. acquired **Meyers-Samter Insurance Agency Inc.** of Oklahoma City, giving the international insurance brokerage firm entry into the capital and largest city of oil-rich Oklahoma. Meyers-Samter president Stewart E. Meyers Jr. was named a senior vp of Alexander & Alexander and J. Patrick Samter, vp with Meyers-Samter, will be a vp with A&A.

New offices

Lamorte, Burns & Co. Inc., marine protection and indemnity representative, opened an office at 200 Carondelet St., New Orleans.

Blue Cross & Blue Shield of Rhode Island has relocated its subscriber service office to 1 Weybosset Hill, Providence, R.I. 02901.

Scor Reinsurance Co. has opened a new headquarters at 500 E. John Carpenter Freeway, Irving, Tex.

**Ill. exchange
board OKs
five brokers**

CHICAGO—The interim board of directors of the Illinois Insurance Exchange has approved the application of five brokers to place risks on the exchange.

Applications approved at a Sept. 9 meeting of the board were: Stewart Smith Mid-America of Chicago; Thomas F. Sheehan of Park Ridge; Bowes & Co. Inc. and M.E. Pritikin, both of Chicago, and Morency & Associates of Hinsdale.

Also, Royal E. Gordon, a member of the interim board, is resigning his post because he is moving out of state. John Van Cleave, president of INAX, a subsidiary of North America, has been named to fill the vacancy by insurance director Philip O'Connor.

Nuclear plants to face annual hikes

HARTFORD—Owners of nuclear power plants can expect to be hit with annual increases in their liability insurance premiums.

American Nuclear Insurers, which provides up to \$500 million in liability coverage for each of the nation's nuclear plants, recently announced that it would increase by 10% base premiums on the first \$1 million coverage as of January 1981.

ANI officials said this is the first step in an annual review of premiums that is expected to tie future increases to rises in the Consumer Price Index.

An earlier 10% hike this year was instituted partly as a result of the record losses, still to be determined, from the Three Mile Island plant accident.

"Except for the increase earlier this year, this is the first time liability premiums have been raised in 25 years," said Charles Bardes, senior vp of ANI. "It came about as part of a review of the costs of providing coverage and how those costs are rising as inflation goes up."

Risk managers for utility companies are not happy about the increase but say it is realistic.

"With costs going up all the time, I guess this should come as no surprise," said John Freitag, insurance manager for Florida Power Corp. of St. Petersburg. "Everything else is going up because of inflation, why shouldn't our premiums? When you consider that this is just for the first \$1 million

'I guess this should come as no surprise,' says John Freitag.

layer, I guess it isn't too unreasonable."

Mr. Freitag added that utilities really didn't have much of a choice.

"Since there is no one else that writes this besides ANI, they have a monopoly and we are pretty much stuck with whatever they want to do," he said.

ANI said the premium increase was necessary because of the "erosion of the premium base" and inflated costs of claim defense and investigation.

The average base premium for a nuclear plant is between \$32,000

and \$35,000, Mr. Bardes said.

Earlier this year, ANI announced that premiums for the plants' property insurance would be going up an average of 36%.

In a related matter, Nuclear Electric Insurance Ltd., the newly

formed captive to provide replacement cost insurance for nuclear plants hit by a loss of power, held its first meeting in Bermuda earlier this month.

The captive established insurance and engineering committees

to explore services needed by the 25 utilities forming the captive.

NEIL members also elected Hubert H. Nexon, senior vp of Commonwealth Edison Co. of Chicago, president of the group.

Policies written by NEIL became effective Sept. 15 and cover 37 reactors owned by the 25 utilities. Initial premiums exceed \$58 million and are expected to grow "considerably" by the end of the year, NEIL officials said. ■

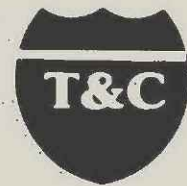


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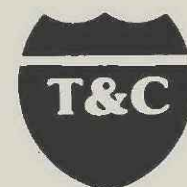


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Canada fund needs money

TORONTO—Canadian workers will have to dig twice as deep for contributions to the national pension plan over the next 10 years, according to a study by researchers at McMaster University.

The study, prepared for the Economic Council of Canada, says the current contribution rate of 3.6% of earnings will have to at least double and perhaps triple within the next 10 years.

Otherwise, the fund would go broke by the year 2010 and have a deficit of \$1.7 trillion within the next 70 years.

The study outlines five alternatives for raising the contribution rate. Among them are two pay-as-you-go schemes under which contributions would rise as high as 9% by 2030. The others involve flat-rate contributions ranging from 6.6% to 6.9%, but require repayment of borrowed amounts from the fund to keep it solvent. ■

RM consultants

New analytical approach helps pinpoint retention

By KATHRYN J. McINTYRE

WARREN, Vt.—Striking the right amount of risk retention by rule of thumb can be painfully imprecise, sending many risk managers in search of self-funding guidelines.

A new tool forged by decision analysis experts may be just what risk managers are looking for: an analytical approach to risk management.

The approach, which almost reduces to a formula all the subjective and objective considerations that go into selecting the amount of risk a firm should self-fund, calculates not only the probable cost of losses but also a corporation's attitude toward risk-taking. Combining the two, the approach points the way to either buying insurance, self-funding or assuming a certain deductible.

"The analytical approaches can be used to enrich the approach to decisions," says Kenneth R. Oppenheimer, manager of the executive education program of the decision and risk analysis group at SRI International in Menlo Park, Calif. He cautions, however, against considering the approach a fool-proof or purely mechanical formula for selecting risk retention levels.

Mr. Oppenheimer presented the analytical approach to risk management at the annual conference of the Institute of Risk Management Consultants in Warren, Vt., Sept. 15-16. The enthusiastic response of many in the audience suggests the tool could revolutionize risk retention analysis.

But so far the analytical approach described by Mr. Oppenheimer isn't being used by many risk managers. The biggest stumbling block to applying this approach may be the perceived attitudes among top corporate executives to risk more money when the company has a chance of gain as well as loss than will be risked on uninsured losses to reap premium savings.

For example, risk managers generally say that top management is more willing to invest \$3 million in a new product promotion that might fail but also might produce big profits than it is willing to take a risk of losing \$3 million on an uninsured loss to save a couple million in premium costs.

"A dollar is a dollar" is the maxim that must be learned, Mr.

Oppenheimer admits.

The analytical approach to risk management advocated by Mr. Oppenheimer examines the range and likelihood of loss exposures and quantifies corporate attitude toward risk-taking.

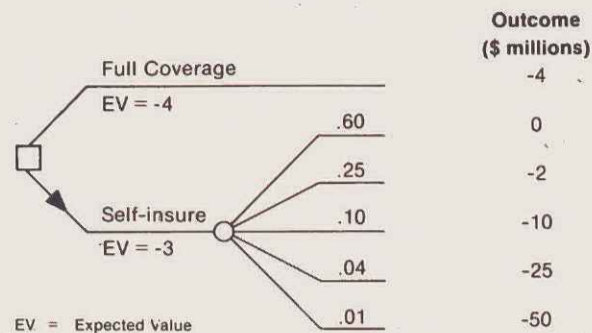
The first step is an assessment of the probability of losses, distributing the percent chance of loss over a range of amounts so that the per-

cents equal to 100.

It's not a simple task, however, to get an unbiased set of probabilities, from attorneys or engineers, Mr. Oppenheimer cautions. He suggests someone is needed to help establish the probabilities, who is aware of biases people bring to decisions and is trained in assessment techniques to over-

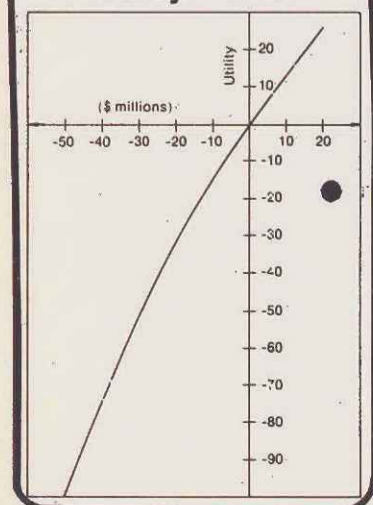
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Chart A
FULL COVERAGE vs. SELF-INSURE



Increase Your Employee Benefit Package Without Increasing Costs

Chart B
Utility Curve



Retention analysis

Continued from facing page come them.

This person could be a decision analyst or a risk management consultant trained in decision analysis.

Assuming that the insurance company and potential policyholder have the same view of potential losses, it always will look better to the policyholder who will play the odds to self-insure since insurers charge more for insurance than the cost of losses.

But a risk manager has to know how much his company is willing to play the odds.

Through a series of interviews with top management—asking a series of questions that draw out management's choice in a variety of uncertain situations involving gains and losses—a chart called a utility curve can be plotted.

In essence, the chart reflects management's aversion to risk in a variety of uncertain situations. It is used to compute "the certain equivalent" in any uncertain situation. "The certain equivalent is the amount of money which for certain is equivalent to the uncertain situation," Mr. Oppenheimer explains.

If the company always plays the odds, the chart would show a straight line extending from the top right to lower left quarters of the chart. But if the company is averse to taking risk, the curve bends away from the straight line as the size of losses gets larger.

The curve is used to compute what Mr. Oppenheimer calls the expected utility, which is easier to understand when put in the context of an example.

A pharmaceutical company expects to lose \$3 million on product liability claims in the coming year, but the losses could total \$50 million. The insurance company, using a 75% loss ratio, wants \$4 million to write a \$50 million policy.

The probability distribution on aggregate losses established by the engineers and attorneys is as follows:

Probability	Aggregate losses
.60	\$ 0
.25	\$ 2
.10	\$10 million
.04	\$25 million
.01	\$50 million

The expected \$3 million in losses is derived by multiplying the probability times the aggregate loss for each probability and adding.

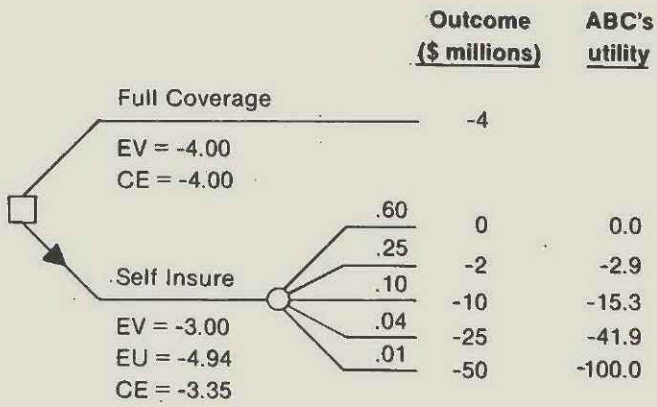
The risk manager using an analytical approach to risk management then constructs a decision tree of full coverage versus self-insurance. (See chart A.) Since he knows insurance will cost \$4 million, the expected value of insurance is -4. Since he expects the company to lose \$3 million the expected value of self-insurance is -3.

If his company always played the odds, the risk manager would choose to self-insure because the expected value of self-insurance is less than the expected value of insurance.

But since few executives always play the odds, the risk manager must pursue the "certain equivalent" of self-insurance. He will use the utility curve that has been structured about his company's aversion to risk to calculate the certain equivalent. (See chart B.) The certain equivalent of self-insurance will be compared with the certain equivalent of insurance, which is -4 because the insurance

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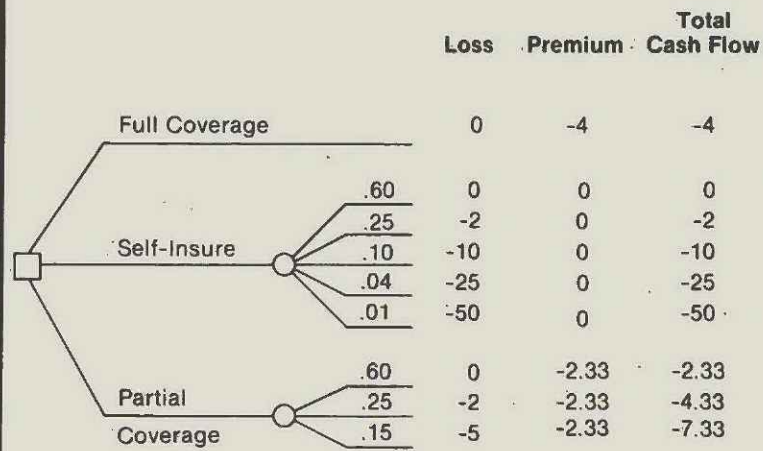
Chart C
FULL COVERAGE vs. SELF-INSURE



EV: Expected Value
EU: Expected Utility
CE: Certain Equivalent

ABC's Choice: SELF-INSURE

Chart D
THE \$5 MILLION DEDUCTIBLE POLICY



(all numbers in \$millions)

A voluntary employee-paid benefit program permits employees to complete their personal insurance programs by adding to basic employer-provided benefits.

Voluntary programs are important to employers because employers have become increasingly concerned about the eroding effect rising costs and inflation have had on employer-paid benefit programs. And they have turned to voluntary benefit programs to help their employees supplement their coverage.

And they can be important to employees because they provide an opportunity to customize employer-provided benefit packages at group rates.

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If you're current with the direction employee benefits have taken in the past few years, you know voluntary programs are now the trend. Chiefly because many employees want to customize their employer-provided benefit packages.

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Since we have been in the business of group voluntary benefits for over two decades, our advanced understanding of the technicalities of voluntary programs enables us to offer products, service and systems refined over our years of experience.

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are a worldwide Fortune 500 company with headquarters in St. Louis and variable benefit requirements in Tokyo, Paris, Rio or any other location in the world.

What This Means to Employees

Employers do an admirable job of providing benefits appropriate to basic needs. But the needs of a 26 year old secretary are quite different from those of a 51 year old sales executive with a wife and three children to care for.

Most employees are grateful for the opportunity to customize their individual insurance coverage to meet personal and family requirements. Especially at group rates made possible through their employer's volume purchasing power.

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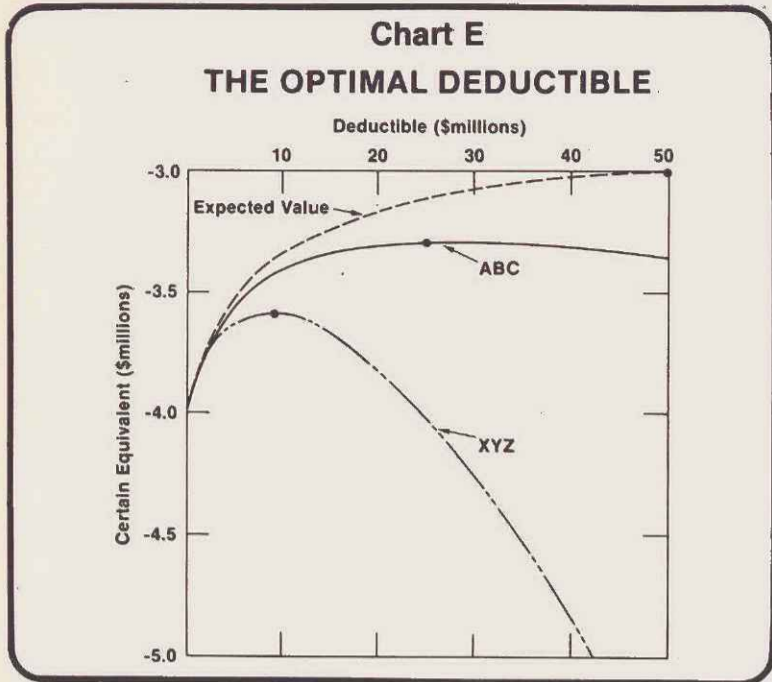
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Analysis fixes retention



Continued from previous page costs \$4 million.

The risk manager wants to choose the lowest certain equivalent. To begin the process, he sets up a new decision tree for full coverage versus self-insurance. (See chart C on previous page).

To establish the utility of each of the possible outcomes of loss based on the probabilities, the risk manager turns to the utility curve to pinpoint the utility of -2 (-2.9), -10 (-15.3), -25 (-41.9) and -50 (-100)—all the possible loss outcomes. He then multiplies the probability of each of the outcomes (as already known) times the utility he found for each. He adds the products and the total found (-4.94) is called the expected utility of self-insurance.

To find the certain equivalent of self-insurance, he uses the utility curve in reverse, looking to what

number on the curve corresponds with -4.94. He finds -3.35 is the certain equivalent of self-insurance.

Since -3.35 is lower than -4, the certain equivalent of buying insurance, the risk manager would recommend the company self-insure.

However, the insurance broker may still try to make a sale. The broker comes back with a quote of \$2.33 million for a \$50 million policy with \$5 million deductible. This sends the risk manager back to the analytical approach to risk management and a new decision tree (See chart D on previous page).

The self-insurance leg of this chart remains the same, but the probabilities of loss of up to \$5 million are established for the partial coverage leg. The premium for a \$5 million deductible policy (2.33) is then added to the cost of probable

losses to get the total cash flow under each of the probabilities.

The risk manager finds that if the company has no losses the total cash flow is \$2.33 million, the cost of the policy. At the 25% chance of a \$2 million loss, the total cash flow is -4.33, a \$2 million loss plus the cost of the policy. At the 15% chance of a \$5 million loss, the total cash flow is -7.33.

The risk manager again turns to the utility chart, finding the utility for each value of -2.33, -4.33 and -7.33. He again multiplies the probabilities times the utility values and adds the products. The result will be the expected utility.

Using the utility curve in reverse, he finds the expected utility yields the certain equivalent of a \$5 million deductible as -3.6, greater than -3.35 under self-insurance. He would still recommend self-insurance.

If, however, the utility curve for his corporation reflected a management attitude more averse to taking risk, the utility curve would yield a higher certain equivalent, perhaps suggesting the \$5 million deductible is best, or even full coverage if the company is very averse to taking risk.

This analytical approach to risk management can also yield a chart of the optimum deductible (see chart E). The chart is constructed by plotting the certain equivalents of different deductible levels. In the chart, ABC is less averse to taking risk than XYZ and would assume a larger deductible than XYZ even if all else was equal.

This approach also can be used to calculate the certain equivalent of loss control methods to help risk managers decide if loss control procedures will reduce the risk of loss enough to recommend a different funding procedure.

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Consultant work load increases

WARREN, Vt.—The recessionary squeeze isn't forcing risk managers to skimp on risk management consulting services.

Risk management consultants attending the Institute of Risk Management Consultants meeting here report increased business over last year.

But whether increased demand for consulting services is a result of the recession or in spite of it is debated.

And at least one consultant says the competitive insurance markets are spurring demand.

Bernard Salwen of S. B. Ackerman Associates in New York says, "We have more business than ever, but I don't know if you can relate it to the recession. But the recession should create more opportunities for business—the ways or means of saving money."

S.B. Ackerman's hospital clients, for example, are squeezed by the recession and politics to cut costs. And municipal clients which consider their taxing authority restrained by the recession are also looking to cut insurance costs.

Mary Coate Houtz of Insurance Audit & Inspection Co. in Indianapolis says her firm's business is still up over last year, but not increasing at the same fast pace. She sees less demand for funding and captive feasibility studies.

She recalled that her father, who founded the firm, said he didn't lose business in the Great Depres-

Continued on page 23

Don't overlook claims problems, consultants warn

WARREN, Vt.—Risk managers need to concentrate more on claims, according to risk management consultants.

Insurance company claim reserves need to be audited and claims should be handled on a decentralized basis, risk management consultants suggested in interviews with *Business Insurance*.

Asked the three most overlooked risk management problems, Bernard McGovern of Insurance Buyers Council Inc. in Baltimore, Md., put claims review at the top of the list. He says there is too much acceptance without question of insurance company reserving practices.

The amount of reserves an insurer establishes for claims affects the loss ratio of an account and, therefore, its future cost of insurance.

George Betterley of Betterley Consulting Group Inc. in Boston put claims control at the top of his list of the most overlooked risk



Claims control is overlooked, says George Betterley.

management problems.

The risk manager needs to take an interest in claims, he suggests. And the frequent claims need to be handled at the operating level, he suggests, by someone in personnel, for example, or even the plant nurse.

Mr. McGovern and Mr. Betterley had different views, however, on the second and third most overlooked risk management problems.

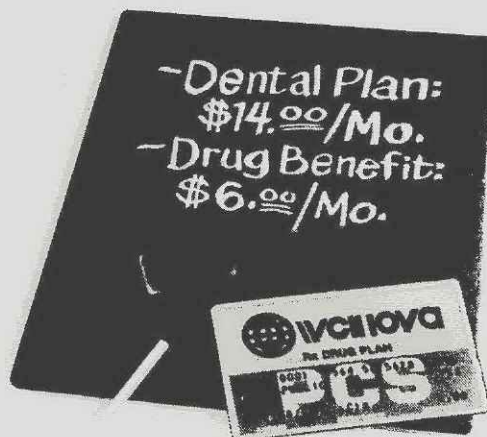
Verifying that all potential liability exposures have been addressed and that satisfactory limits of insurance have been purchased is the second most overlooked risk management problem, according to Mr. McGovern. Verifying limits entails making sure the limits aren't too high for the exposure as well as high enough, he noted.

Granting a knowledgeable and experienced risk manager enough authority and responsibility to perform the job is the third biggest overlooked problem in a corporate risk management department, Mr. McGovern says.

Mr. Betterley identifies communication with line and staff personnel on the what, why and how of risk management as the second most overlooked risk management problem. He suggests that risk managers must have a contact in every operating group. And then the risk manager has to "take the time and trouble to keep them informed."

Too many risk managers inform operating divisions, for example, that the charge for workers compensation insurance is going up 30% without explaining why, Mr. Betterley observed.

As a third point to tackle, Mr. Betterley suggests that risk management departments look at the tendency to be risk averters rather than risk takers. He sympathizes with the fear of having to defend large retentions of risk after a loss, but suggests risk managers have to improve the attitude of the risk management team on this score. ■



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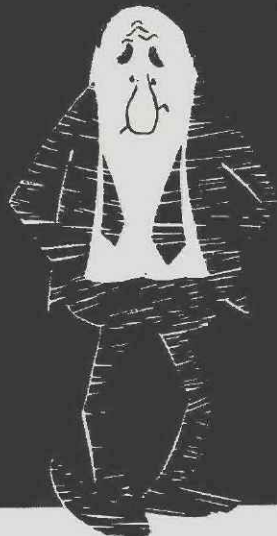
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Consultants expect to be in demand

Salwen to head IRMC

Bernard A. Salwen of S.B. Ackerman Associates in New York is the new president of the Institute of Risk Management Consultants.

New officers and directors were elected at the IRMC meeting in Warren, Vt., this month.

Also elected were H. Felix Kroman, president of Risk Planning Group in Darien, Conn., as vp; Tom Briggan of the San Francisco office of The Wyatt Co. as treasurer, and R. Maynard Toelle as executive secretary.

Elected directors were Peter Armour of Peter Armour Insurance Counselling Ltd. in Toronto; William J. Pinckney of Mund, McLaurin & Co. in Los Angeles; Mitchell Cole of Risk Planning Group, and Milton A. Sorrell Jr. of Insurance Buyers Council Inc. in Baltimore.

IRMC is a professional organization of independent risk management consultants. More information on the group can be obtained by contacting Mr. Toelle, 703 Thunderbird Ave., Sun City Center, Fla. 33570; (813) 634-4975.

WARREN, Vt.—Risk managers are likely to have risk management consultants poking around their programs more whether they want them or not.

Certified public accountants, who often have been easily snowed by stacks of insurance policies, are taking a bigger interest in corporate risk management programs. But instead of tackling risk management issues, the CPAs are starting to recommend that management hire a risk management consultant to audit the department.

Risk management consultants attending the annual conference of the Institute of Risk Management Consultants predicted that CPAs will spur more demand for the consultants' services in the next decade.



Photo: Kathryn J. McIntyre

Lenders of money and regulators concerned about compliance with statutes also will create more demand for risk management audits, suggested consultant

'The generalist is needed to find the questions and then to call in a specialist to find the answers,' says Erin Oberly.

George Betterley during a panel discussion on risk management consulting in the 1980s.

Mr. Betterley of Betterley Consulting Group Inc. in Boston also predicted:

- Today's more sophisticated risk managers will be looking for more special projects from consultants instead of full-scale audits, and as management demands grow will rely more on the expertise of consultants.

- Strapped by budget constraints, risk management departments will use consultants on a temporary-help basis, to supplement their staffs without having to bear the cost of adding a full-time person.

- Risk managers with large programs will tap consultants for help with strategic planning.

- New risks involving waste, political situations in foreign countries, carcinogens and occupational diseases will send risk managers scurrying to risk management consultants.

But the same new and more complicated risks pushing the risk manager to hire a consultant will work on risk management consultants, too, the consultants agree. The consultants will be forced more into generalist versus specialist roles.

Most of the IRMC members agreed they want to be generalists, knowing when to call in a specialist and having access to those specialists.

"The generalist is needed to find the questions and then to call in the specialist to find the answers," contended Erin Oberly, who is a consultant with Warren, McVeigh & Griffin in the San Francisco office.

She uses the services of an actuary in the Newport Beach office of WM&G whenever she thinks the expert analysis of numbers involved in a risk management consulting project would be useful, she noted.

Risk managers also will have a larger selection of consultants to choose from, Mr. Betterley predicted. He foresees that general management consultants and consultants who have specialized in benefit management may jump into the risk management consulting business. Mr. Betterley also predicts that more brokers and insurers will take this leap, too.

This development will reopen a sensitive issue for IRMC: How independent must a consultant be? IRMC bylaws preclude members from having any affiliation with an insurance company or brokerage firm.

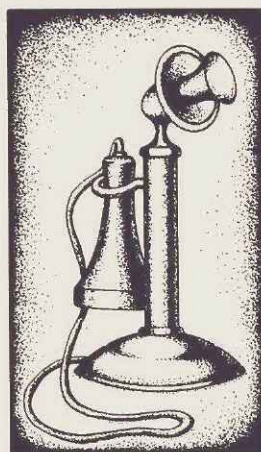
But what if Towers, Perrin, Forster & Crosby, for example, became a major force in the risk management consulting business? Would IRMC exclude TPF&C employees from membership because Towers; Perrin, Forster & Crosby also owns a reinsurance brokerage subsidiary?

The consultants, however, weren't prepared to debate the issue yet.

in-for-ma-tion (in'fər-mā'shən)

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Execs can arm against political, terrorism risks

WARREN, Vt.—As governments in foreign countries fall, political risks of doing business rise. But risk managers aren't unarmed against the growing danger of losses abroad, according to a panel discussion at the Institute of Risk Management Consultants' annual meeting here.

The risk of losses in war or civil war can be monitored and avoided and foreign government actions causing loss can be insured against, the speakers said.

The frightening prospect of terrorism can be both insured against and handled.

Oliver Wainwright, director of corporate security for SCM Corp. in New York, recommends risk and security managers monitor political developments in foreign countries.

The former Green Beret says a company has to be aware of the amount of unconventional warfare waged in foreign countries before establishing or expanding business there.

He recommends myriad sources of information on political activities abroad, including Frost & Sullivan reports published by Frost & Sullivan in New York, The Lipman Report published by security consultant Guardsmark of Memphis and unclassified area handbooks available from the Central Intelligence Agency.

Anyone with operations in Brazil would find the Bank of Boston helpful for background, Mr. Wainwright noted.

Security managers also should visit foreign business operations to analyze in person the political risks in each country.

Continued on next page

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Consultants' business up

Continued from page 20

sion. In good times people want help to be sure they have total protection and in bad times they want to be sure their insurance programs are as economical as possible, Ms. Houtz suggested.

Bernie McGovern at Insurance Buyers Council Inc. in Baltimore observes that his clients are concerned more than ever with cash flow and how to hold cost down. His firm is responding not only by helping the clients hold down insurance costs but also by trying to cut the cost of its own consulting service, he says.

George Betterley at Betterley Consulting Group Inc. in Boston maintains the recession isn't affecting risk management departments—except in possible personnel cutbacks—because the competitive markets are kind to budgets.

Instead of a cost-cutting focus, risk management departments are asking consultants more often to evaluate other service providers like claims servicers, captive managers and brokers.

Mr. Salwen of Ackerman Associates, however, contends the competitive insurance markets are creating more demand for consultants' services.

Even in a competitive market the brokers coming in with quotes are biased toward their favorite market, Mr. Salwen contends. And when a risk manager bids a program, he has to assign markets or some markets aren't covered. The consultant may also know which brokers have the best access to which markets, he added.

Competitive insurance markets don't mean the broker is always bringing in the best deal, agreed Mr. McGovern of Insurance Buyers Council. Among his clients, 60% to 70% of which are continuing clients, there are companies without full-time risk managers. The executive in charge of insurance doesn't realize insurance is selling cheaply now and the agent or broker doesn't volunteer the information, he observed. ■

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Kidnap risk needs more than insurance

WARREN, Vt.—Fears that the existence of kidnap and ransom insurance will make targets out of corporate executives and drive ransom demands higher may be ill-founded.

In the four years that consultant Control Risks Ltd. of London has handled 65 kidnap cases, only once have the kidnapers asked about the existence of insurance.

Bigger problems than the issue of insurance confront a corporation after a kidnaping, a presentation at the Institute of Risk Management Consultants annual conference suggested.

Lack of coordination and frustration can be the worst problems at a company whose executive has been kidnaped, said Simon Adams-Dale of the Bethesda, Md., office of Control Risks Ltd.

Control Risks specializes in helping corporations prevent kidnappings of their employees and advises them on coordinating their response when kidnappings occur. Lloyd's of London underwriters provide the services of Control Risks at no charge to buy-

ers of kidnap and ransom insurance. A company not insured can only buy the firm's services after an event, and then at a charge of \$900 a day, but services are not available to companies insured by underwriters in direct competition with Lloyd's.

Buyers of kidnap and ransom insurance at Lloyd's are under no obligation, however, to use Control Risks, Mr. Adams-Dale said.

A company faced with kidnapping must consider three key issues, Mr. Adams-Dale suggested: The financial damage to the corporation must be limited, the company's moral response must be evaluated and the response must be reconciled with the laws and regulations of the country in which the kidnaping has occurred.

This is no small task, considering all the people that must be involved.

The negotiations involve not only the victim, kidnapers and corporation but also the police, the victim's family and the press. The consequential costs of the negotiations can be staggering, Mr. Adams-Dale said. One

company spent \$1 million fulfilling the publicity demands of kidnapers, he recalled. There's also the cost of telexes, management time, salaries, provisions for the victim's family and travel.

The government's policy on negotiations with kidnapers, its attitude toward political demand and ransoms, its ability to impose restraints and the degree of assistance it will offer all affect the negotiations.

The actions and ability of the security forces in a country are also important, he said.

Control Risks consultants and other specialists in kidnap and ransom risks help the client identify the decisions that must be made on these multiple concerns. They act as advisers and help create the structure for implementing the decisions. And Control Risks can help a company find a negotiator, which should be a trustworthy national.

Exclusively for Lloyd's of London policyholders, the 60-person staff of Control Risks will help a company prevent kidnappings of its corporate executives.

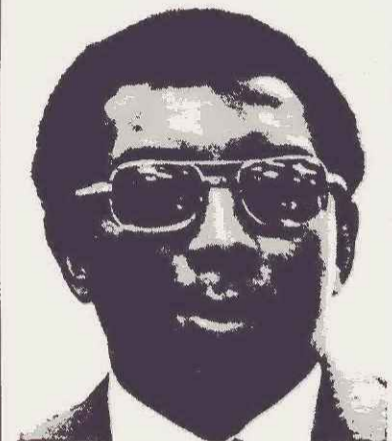
Consider political, war risks

Continued from previous page

Once the information is gathered, Mr. Wainwright suggested drawing a chart listing horizontally and vertically the chief factors that should be considered to analyze the political climate in a country.

Those considerations are government structure, national priorities, political action, psychological impact of actions, dissident forces, internal security and subversion.

The risk or security manager then gives a rating in each box created when reading the chart across and down. For example, one would assign a value to the effect of government structure on



A chart can rate political risks, says Oliver Wainwright.

national priorities, political action, dissident action, psychological operations, dissident forces, internal security and subversion. Doing this for each consideration will give the manager a better feel for the political risks in a given country, Mr. Wainwright suggested.

But actions of a very stable government in a foreign country can create losses for U.S. business, suggested Charles Berry of Lloyd's broker Investment Insurance International (Managers) Ltd.

Governments can nationalize, expropriate or confiscate property owned by a foreign company. Although the country is supposed to pay an adequate sum for the property taken, the rule isn't enforceable, Mr. Berry said.

The threat to corporate assets can be less overt, however, Mr. Berry noted. The host country could force sales of equity, embargo raw materials, revoke trade licenses, change tax laws or control prices.

Doing business with foreign governments can also be risky, Mr. Berry noted. A government can terminate a contract, not pay for goods and unfairly call "on-demand" performance bank guarantees.

Corporations can reduce their risk of loss abroad by reducing the amount of money involved in a project. They can finance business through a local bank or use local supplier credit, he noted.

On contracts abroad, the U.S. company can require conditional guarantees, advance payments and pass-backs to suppliers.

A company can also buy insurance to cover the risks. Mr. Berry identified the political risk insurance markets as Lloyd's, American International Underwriters, Insurance Co. of North America, Continental, Overseas Private Investment Corp. and the Foreign Credit Insurance Assn.

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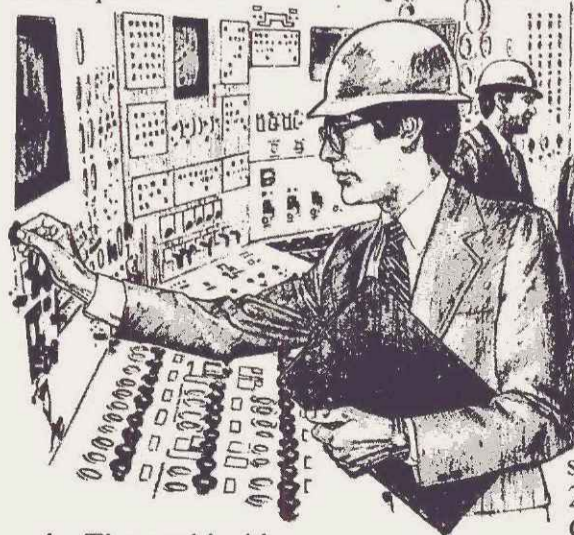
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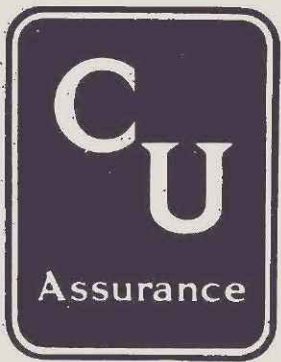


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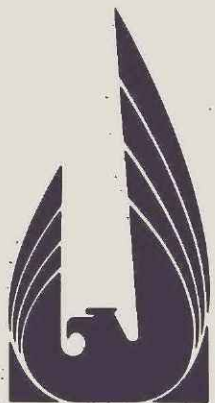
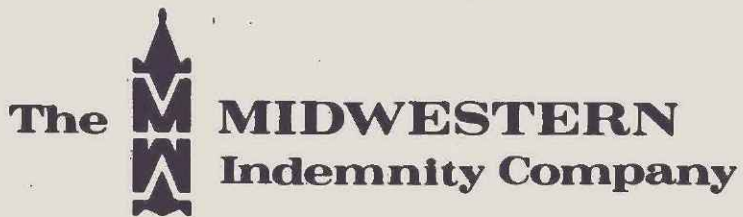
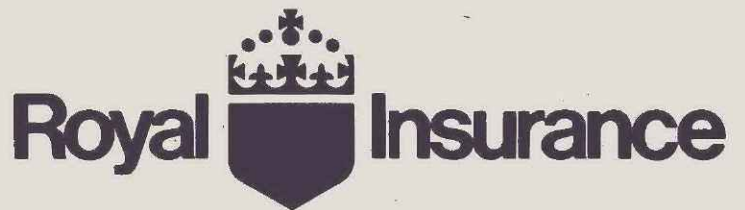
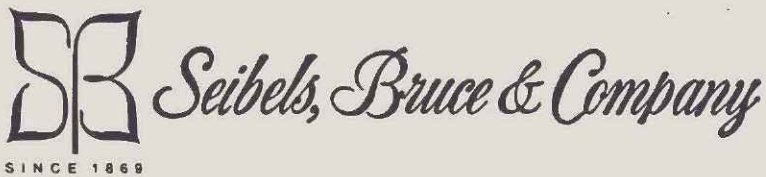
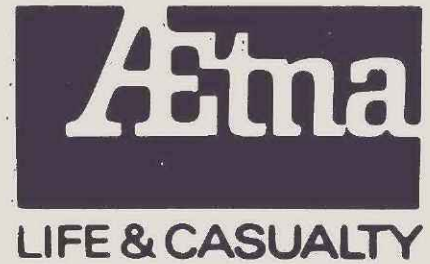
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Brokers test-market strike insurance

LONDON—Lloyd's brokers are test-marketing a limited strike insurance plan for corporations that want protection against the financial blows of plant disputes.

But before the brokers involved approach a Lloyd's underwriter, they're asking clients if they support the idea.

"We'll be tossing the idea around the country to see what the reaction is," said Anthony V. Alexander, a Sedgwick Group director involved in the marketing.

"It certainly will be available if necessary to U.S. multinationals with subsidiary industrial plants in Britain," he said.

If there is a positive response to the strike insurance from the Britons, Lloyd's will be asked to underwrite it on a reinsurance basis. Implementation isn't sched-

london line

uled for two to three years.

The new move comes after the Confederation of British Industry, which represents leading U.K. industrial firms, canceled any plan for mutual strike insurance (BI, Aug. 25).

"We felt the scheme would not suit Britain's industrial climate at this time, but we are happily leaving it to brokers to test it on their own if they wish," said CBI's president Raymond Pennock.

The new independent strike insurance plan has set no limit or capacity yet, but may parallel CBI's model plan, under which \$20 million to \$200 million in annual premium income would have been

paid to an offshore captive.

Paid losses under the CBI plan would have included loss of revenue from delay in delivery of products from a plant where workers are on strike.

Fault Armstrong Kemble, a medium-size broker, presented the new plan to other Lloyd's brokers including Sedgwick, C.T. Bowring, Hogg Robinson and Willis Faber. Stewart Wrightson, Bain Dawes and Reed Stenhouse have also been asked to participate in the test-marketing.

Fire losses

Fire damage in the United King-

dom has cost \$800 million in the first seven months this year, only \$50 million short of the total for last year, according to statistics issued by the British Insurance Assn.

The high losses are partly because of two heavy fires, one at the British Aerospace Weybridge (Surrey County) plant that cost \$170 million and another at North London's Alexandra Palace entertainment center that cost \$150 million.

But some insurers fear arson is on the increase and may grow worse because of economic depression.

The U.K. government's Home Office estimates arson and "unrecorded incidents" are responsible for 30% of the country's fire losses. Most malicious fires in the United

Kingdom are now caused through vandalism in run-down urban centers.

Chloroform ban

The U.K. government is planning to ban the use of chloroform in toothpaste on the ground it might cause cancer.

A Health Department committee has advised that existing levels of 4% of a chloroform base in toothpaste are unacceptable after its scientists completed tests on animals.

The highest chloroform level that will be accepted by the department is 0.05%.

Consumer Affairs Minister Sally Oppenheim, however, favors European proposals to ban chloroform altogether.

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Documentation, state of the art news keep you informed. In addition to HCMS documentation, a user news letter tells you about system enhancements and trends in health claims processing.

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worldwide

German insurers hike rates

WEST BERLIN—The German Assn. of Property Insurers has instituted several new rate increases for property and business interruption insurance, reports Johnson & Higgins International.

Effective Jan. 1, 1982, rates on property and business interruption risks covered for \$561,000 to \$28 million will increase 20% to 30% if loss ratio exceeds 150%.

Clients with \$28 million to \$561 million in combined property and business interruption coverage will face a 10% rate increase if their five-year loss ratio does not exceed 150%. For a higher loss ratio, the increase will be 20%.

Jumbo risks covered for more than \$561 million and petrochemical risks for \$140 million or more will not be affected by the increases and continue to be rated separately.

The association also is allowing new tariffs Jan. 1, 1983, and will abolish long-term contracts.

Intense competition, falling rates and heavy losses in Germany over the last several years have spurred the new measures, Johnson & Higgins said.

More insurance

PARIS—Premium volume for domestic insurance in France has jumped nearly 50% since 1976, but some lines, such as property and liability, lag behind that rate, according to Experiodica, published by North American Reinsurance Corp.

Life and health coverage rose 51% and accident insurance 65%, it said. Property and liability categories also rose, but to smaller extents. General liability rose 46.5%; motor, 43.4%; fire, 34.5%, and marine, 29.7%.

Canada critic

TORONTO—Robert Berthell, retiring chairman of the Canadian Insurance Bureau, has criticized the provincial government for excessive intervention in the nation's insurance business. He criticized "inflation-inducing policies" and the "regulatory political process."

He said the government is drafting legislation to set up an industry-run council to regulate brokers and agents, but the bill "goes far beyond what we have anticipated."



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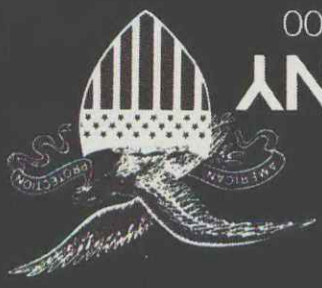
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Conference will teach expert communication

CHICAGO—You can learn first-hand what goes into making an employee communications program award-winning at the *Business Insurance* Communicating Employee Benefits Conference here Oct. 26-29.

Awards for the best employee benefit communications efforts will be presented at a dinner Oct.

28. Companies will be recognized for developing effective problem-solving techniques.

Awards will be presented in five categories: booklets, personalized correspondence, audiovisuals, special projects and total communications program.

The conference begins on Sunday evening Oct. 26 with the film

"MediSense," which will be discussed by Tylie Jones of Tylie Jones Communications. The film on health care costs is an example of how clear communications can translate a complex subject.

Kicking off the session Monday will be Alan Siegel, president of Siegel & Gale Inc., who will explain techniques for simplifying the benefit message.

Concurrent sessions given in the morning and after lunch are:

- Designing benefit programs to benefit employees, with William J. O'Connor, executive vp of Source/Inc., and David A. Williams, president of Williams Communications.
- Pacing your message, with John G. Willard, acting relocations administrator for Rockwell International.
- Tools, tactics and timing, with Terry T. Toth, director of communications services at Buck Consultants Inc.

Monday's luncheon will feature entries to the *BI* competition.

CPC International's use of an imaginative benefits story will be explained after the afternoon sessions by Richard T. Whitman, partner with Kwasha Lipton.

On Tuesday morning, Herbert Zeltner, group vp of Crain Communications, will lead the audience in judging the effectiveness of various programs.

Tuesday's luncheon features Thomas F. Masloski, director of communications for Source/Inc., examining the role of corporate advertising and public relations.

Kathy Groon, audiovisual training coordinator for Jewel Food Stores, begins the afternoon with an account of how Jewel's use of audiovisuals has affected claims.

Joseph Young, vp/manager of compensation and benefits for Bank of California, will demonstrate how to adapt communications to new employee needs.

Wednesday morning's program is on how and why to develop a total program, with Walter D. LeGrow, director of personnel services for Control Data of Canada.

How to deal with the legal department will be revealed by Robert W. Ridley, partner with Forster, Gemmill & Farmer.

A registration fee of \$385 includes admission to all sessions, materials, receptions, luncheons and the awards dinner. Hotel reservation forms listing preferred rates will be provided.

You may substitute the name of another person from the same company without penalty. A full refund is available if a cancellation is received in writing by Oct. 1. Persons canceling later will pay a \$100 service charge.

A 10% discount is offered for additional participants from a firm registered at the same time.

Make checks payable to Crain Educational Division. Send to Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611. Phone toll-free at 800-621-6468; in Illinois, 312-649-5242. ■

N.Y. department fines insurers

ALBANY—The New York insurance department has fined two insurance companies for violations of state law or department regulations.

The companies are:

- Amalgamated Life Insurance Co. of New York City, fined \$500.
- Ranger Insurance Co. of Houston, fined \$3,500. ■

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Marine builders risk plan covers variety of ships

HULL & CO. of California is offering a marine builders risk policy that can be written for an individual shipbuilding contract or as an open policy for all construction projects of an insured shipbuilder, said William Duncan, senior vp of Hull.

Coverage is available for all vessels including drilling rigs, barges and ships, refrigerated cargo vessels, container ships, passenger

liners, ferries, LASH vessels, liquid gas carriers, liquid sulphur carriers, hovercraft, submarines and yachts.

The policy is written on an all-risk basis, said Mr. Duncan, and can include replacement parts because of latent defects and faulty workmanship.

Customized policies including auxiliary machinery, electronic equipment and weaponry and extended coverage including transit from the subcontractor to the insured shipyard are also available from Hull.

Movement, delivery and sea trials also can be covered.

Cost of coverage is variable, says Mr. Duncan. It depends on location, type of vessel and extent of coverage.

Other risks that can be insured include loss of use or charter because of vessel damage from insured perils and protection from increased construction costs because of damage within the shipyard that extend or increase the value of the project.

The coverage is being written by Lloyd's of London.

Hull & Co. is at 1441 E. 17th St., Santa Ana, Calif. 92701; 714-547-0793 or 213-624-8622.

School E&O

A professional liability policy to protect school officials against errors and omissions claims and to provide coverage for related defense costs has been introduced by INAX Underwriters Agency Inc. of Philadelphia, an affiliate of Insurance Co. of North America.

The school officials policy is available in three basic forms:

- Broad form is the most extensive, covering the educational entity itself, all past, present and future employees.

- Standard form offers basic coverage, including the educational institution and all past, present and future school board members.

- Schedule form is a combination providing the same basic coverage as the standard form and allows additional positions to be covered.

The liability coverage is written by Pacific Employers Insurance Co., another member of the INAX Group.

Geothermal plan

INA Special Risk Facilities has introduced a policy that protects investments in geothermal energy projects.

INA's program offers investors protection against loss if a geothermal source fails before a project is completed. The program is underwritten by INA Underwriters Insurance Co.

The basic geothermal resource insurance policy may cover up to three years of development, followed by a guaranteed noncancellable term of up to seven years.

Corroon & Black of Philadelphia Inc. is managing agent.

For details of both plans, contact INA Corp., 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3671.



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"To improve the mind, we ought less to learn than to contemplate."
 — Descartes

This is a sample of the format and style of a significantly different risk management publication.

Following Descartes' dictum, it focuses more on issues and controversy than on techniques. Why do we do things the way we do? Are we directed by beliefs based more on custom than reason? Recall the early days of fire insurance, when there was no Extended Coverage endorsement. When proposed, it was ridiculed as radical and dangerous.

You may remember the fifties, when risk managers first came into their own. The big brokers strongly opposed this "needless" expense. And deductibles? Dangerous, if not downright un-American! Less than 20 years ago, Industrial Risk Insurers (then Factory Insurance Association) wouldn't write deductibles over \$500.

How times have changed. And they're still changing. But not all change is progress. "The Warren Report" looks at the future, at current trends, at practices which are questionable. It gives you a report — not necessarily conclusions — on what leaders in the field are thinking.

The author has unique qualifications: 14 years as risk management consultant to large and small organizations, 10 years in risk management department of a multi-national manufacturer, and 6 years with an insurer. He has written widely on risk management, including a pioneering piece in the Winter, 1962 "CPCU Annals" titled "The Developing Profession of Risk Management" (check it for predictions which have come about). He is the principal author of the professional's handbook: "Practical Risk Management."

The first issue came out April, 1980. Topics discussed to date have included:

- Think tanks for risk managers.
- The soft market.
- "Cost of risk" fallacies.
- Finding the right things to do.
- Brokers' code of ethics.
- How to pick a consultant.
- The case for lower limits.
- The case for higher limits.
- Misuse of the pollution exclusion.
- Pitfalls in quantification.
- Should agents interpret policies?
- "Don't risk a lot for a little" is nonsense.

"How the cards are stacked against the insurance buyer" is a series now running.

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Subaru places Vorel at wheel of new risk unit

SUBARU of America Inc. in Pennsauken, N.J., has named **Ann Vorel** to the newly created position of risk and insurance manager. Ms. Vorel, who reports to corporate counsel Phil Lustbader, was previously in the corporate risk management and marketing departments for Insurance Co. of North America in Philadelphia. She has a master's degree in risk management from the University of Wisconsin.

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Edward J. Hansen has been named risk manager for the Intergovernmental Risk Management Agency in Chicago to replace **Leonard J. LaCagnin**, who was named administrator of risk management for Newport News, Va., as reported. Mr. Hansen retired from Trans Union Corp. in Chicago as risk manager and attorney in April. He has a bachelor's degree from the University of Kansas, a law degree from the University of Missouri and has written the book "Reducing Insurance Costs Through Risk Management." He will be responsible for property and liability coverage for 22 Illinois towns.

H. Jay Varner has been named director of risk management at Hillenbrand Industries Inc. in Batesville, Ind. Mr. Varner, who reports to assistant controller David J. Wilkerson, is replacing **Thomas Ryker**, who left the company. Mr. Varner was director of general insurance at Clark Equipment Co. in Buchanan, Mich., where **Jerry Rossow** and **Steve Roberts** have been hired as treasury managers of general insurance in a company reorganization. Mr. Varner has a bachelor of science degree from Kansas State University. At Clark, Mr. Rossow will be responsible for the financial and statistical end of the insurance department while Mr. Roberts will handle claims and loss control. Mr. Rossow, who has bachelor's and master's degrees from Indiana University, previously worked in the general insurance department. Both men report to Larry Gabriel, treasury manager in charge of pensions,

OSHA fines lead firm

KELLOGG, Idaho—The Occupational Safety and Health Administration has assessed \$82,000 in fines against the Bunker Hill Co., a primary lead smelting firm here, for 108 alleged safety violations.

The federal agency has accused the firm of violating health and safety standards with a corporate policy requiring female employees to be sterilized before being allowed to work in areas where they are exposed to lead.

The firm also is charged with allowing lead exposure in eating areas, failure to comply with biological monitoring of lead and recordkeeping and violations of OSHA's arsenic standard.

Four of the alleged violations are considered willful and can carry a fine of \$10,000, the Labor Department said.

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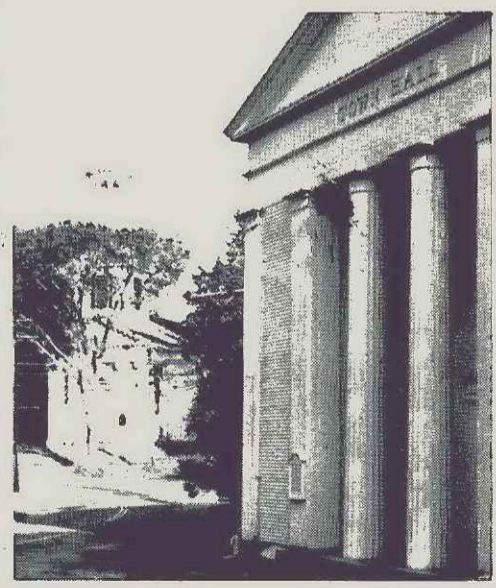
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Marine seminar

Ratecutting should subside soon: Execs

By ELLIS SIMON

HOUSTON—Ratecutting and market softness still dominate virtually all classes of marine insurance, but the competitive storms should subside soon, industry sources say.

"Competition has been absolutely disastrous," said John Blackman, president of Mutual Marine Office of New York. "On hull (insurance), we see some firming up (of rates), but wonder when we'll get prices up to levels we need."

Mr. Blackman's views were shared by insurers and brokers surveyed at the Houston Marine Insurance Seminar.

There has been overcapacity, but the market is starting to firm up, said Charles Acuff, a broker with Philadelphia-based H.C. Knight Co.

"London underwriters want mandatory increases in deductibles while U.S. underwriters look at each risk individually. I'm not sure how firm London will be," he said.

A foreign reinsurer that is seeking increases on all marine renewals confirmed this view.

The \$300 million Avondale shipyards loss, in which Lloyd's will pay El Paso Natural Gas for Avondale's failure to deliver three LNG carriers (BI, Aug. 11), is ex-

pected to contribute to the turn-about. However, industry experts do not expect the impact to be major.

"Avondale should have an impact, but it's spread around the world," said Joseph H. Blades, chairman of Houston-based J.H. Blades & Co. "If there's been any impact, we haven't seen it yet."

"Avondale's impact will be kept under control by the extended period in which the claim will be paid out," said Knight's Mr. Acuff. An initial payment of \$90 million is to be followed by three annual payments of \$70 million each.

Underwriters have not established the "date" the Avondale loss actually occurred, Mutual Marine's Mr. Blackman noted. How this is determined will affect reinsurers around the world.

Some underwriters will try to apply a "manifestation" approach, spreading the time of the loss over the duration of El Paso's policies, he said. Others will try to put a specific date on it.

The actual impact of the loss will not be determined until it has "crossed the Atlantic two or three times" under various reinsurance agreements, Mr. Blackman continued. "Hopefully, it will slow down the competition."

Competition remains the most severe for offshore risks, with London and U.S. underwriters blaming each other for "suicidal rate-cutting."

Ron Guidry, insurance manager for The Offshore Co. of Houston, said he received a rate reduction from London for his fleet's hull and machinery coverage despite a major loss earlier in the year.

"Insurers are still aggressively seeking offshore oil risks even though we lost \$65 million worth of rigs from Hurricane Allen," Mr. Blackman said.

All American Marine Slip and American International Group's

Lexington Insurance Co. are writing inland drilling risks for 50% less than existing rates, says Bob Daniels, vp of J.H. Blades, which places oil business in the London market.

Lexington is writing risks AIG Oil Rig declines, Mr. Daniels says.

An AIG official at the Houston conference pointed out that insurers within the AIG system operate as individual profit centers and reinsurance facilities could enable one company to write what another declines.

U.S. insurers are "buying busi-

ness" from London, Mr. Daniels says. But, he adds, they are taking low-limit risks and leaving London with high-value, high-risk North Sea platforms.

Not everyone believes the best rates are in the United States. Leonard D. Marks, a vp with Houston-based Resource Insurance Services who placed several major rig accounts in the U.S. market while with another agency (BI, July 24, 1978), says he now is placing offshore business mostly in the London market.

WHEN YOU START PINCHING PENNIES ON HEALTH CARE COVERAGE, MAKE SURE YOU PUT THE SQUEEZE ON THE RIGHT COSTS.



Avondale's impact should be spread, says Joseph Blades.

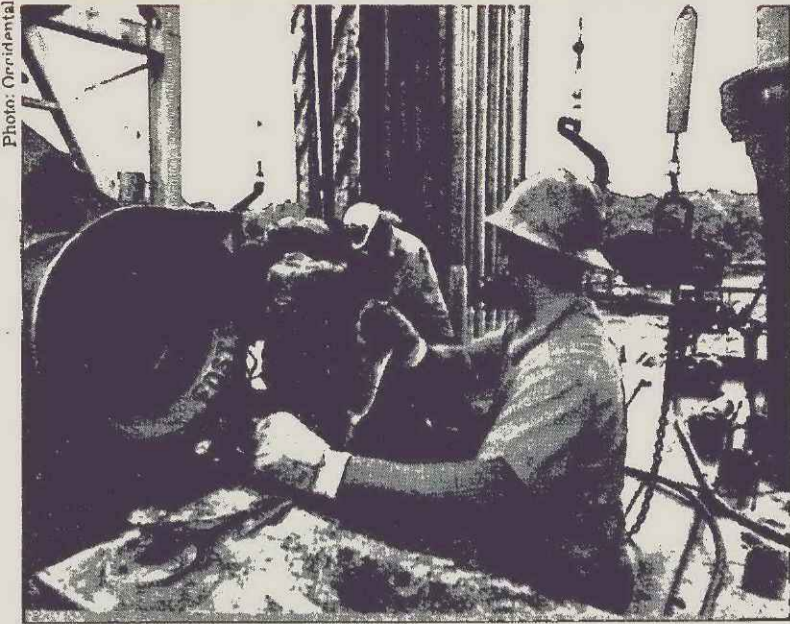
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Advances in drilling tow more challenges ashore

HOUSTON—New technology in offshore oil drilling is bringing ashore more challenges for marine underwriters.

The development of undersea construction and use of submarines in construction are on the horizon, Thomas S. McIntosh, president of Zapata Offshore Co., told participants in the Houston Marine Insurance Seminar.

Undiscovered sources of oil are expected to provide 25% of U.S. energy needs by 2000 and most of these sources will be offshore, Mr. McIntosh predicts.

Tapping these sources will require massive drilling and installation of production platforms far deeper in water, he said.

Offshore drilling rigs can operate in depths of more than 5,000 feet, but permanent production platforms have only been built to 1,000 feet, he said. Oil companies now are designing platforms to be built in 3,000 feet of water at a cost exceeding \$1.5 billion, he said.

The giant platforms could involve undersea construction and the use of submarines. Mobile production platforms that can pump oil from one well and then be towed to another are also being developed.

The insurance market for offshore risks will have to respond to the challenges this will create, Mr. McIntosh said. Currently, offshore

markets are extremely competitive despite several major losses this year and last.

Mr. McIntosh predicts drilling activity will remain strong the rest of the century because U.S. wells produce oil at a far slower rate than wells in Saudi Arabia, Iran and the North Sea.

To replace a daily production of one million barrels of oil from the United States would require 18,800 wells be drilled, he said. In the North Sea, only 118 new wells would be needed and in Saudi Arabia only 76.

Mr. McIntosh dismisses insurers' concerns that increased drilling activity will increase the frequency of accidents caused by inexperienced crews.

"The problem of inexperienced crews is behind us," he said, pointing out that the number of trained rig crews in the world is 12,000 today, up from 3,000 a decade ago. The current number will handle needs for years to come, he says.

He also advises underwriters assessing a drilling company's safety record to place greater emphasis on the firm's managerial strength and procedures than on its hardware.

War risks don't scare shipowners

HOUSTON—War risks in the Persian Gulf are not scaring owners of cargo and ships into buying more insurance.

Cargo owners have made virtually no requests for trapping and blocking coverage, and shipowners have requested it only to comply with chartering agreements, said John Blackman, president of Mutual Marine Office.

Focus on the coverage came when an article in an Arabian newspaper suggested terrorists could sink ships to block the Straits of Hormuz—the entrance to the Persian Gulf through which oil moving from the region must pass, Mr. Blackman said at the Houston Marine Insurance Seminar.

At the beginning of this year, political troubles in Iran and the occupation by revolutionaries of Moslem holy place in Saudi Arabia made underwriters nervous, Mr. Blackman said. Rates for trapping and blocking coverage rose as much as 50 cents per \$100.

Today the rate is back to 2.5 cents per \$100, but underwriters fix rates 48 hours before a vessel arrives in the Persian Gulf area and limit its stay to seven to 14 days, he continued. The coverage usually has a 12-month waiting period before claims can be filed.

In the past, war risk underwriters have questioned whether coverage for entrapment of vessels was applicable because delays and demurrage were excluded, Mr. Blackman noted. Recovery for constructive total losses was specifically limited to claims arising from physical damage.

During the 1967 Arab-Israeli War, underwriters settled claims from owners of ships and cargo stranded in the Suez Canal for 85% of the claimed amounts and allowed the owners to retain title to the goods and vessels, he recalled.

When the canal was reopened, some of the cargo had become worth as much as 10 times its insured values.

Drilling activity will remain strong the rest of this century, says Thomas McIntosh of the Zapata Offshore Co.

The cost of health care coverage is actually two costs. The retention costs (which cover everything from administrative costs to reserves). And the cost of benefits. All too often, only retention costs get much attention.

THE EXPENSIVE ASSUMPTION.

Some buyers make the assumption that the cost of benefits will always be the same. After all, the same people will get sick and incur the same costs, no matter who the carrier is. So how can there be a difference?

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Cleanup can't be insured: Coast Guard

HOUSTON—Offshore oil rig operators need to clean up spills immediately to avoid potentially unlimited liability. But they can't use insurance to pay for the cleanup.

U.S. Coast Guard Cmdr. Martin Lindahl says this is the correct interpretation of the 1978 amendments to the Outer Continental Shelf Lands Act. He believes this should alleviate fears of insurers who refuse to become guarantors for oil rig operators liability under the new law.

The act requires operators to show financial responsibility for \$35 million, their limit of liability for third-party claims.

They also are liable for an additional \$35 million in cleanup costs if they act voluntarily. But their liability becomes unlimited if they refuse to clean up and a govern-

Unlimited liability would not apply to oil rig operators who comply with the spirit of the Outer Continental Shelf Lands Act, Cmdr. Lindahl says.

mental agency has to take charge, Cmdr. Lindahl told participants in the Houston Marine Insurance Seminar.

This interpretation "substantially defuses the 'unlimited liability' time bomb frequently lamented by opponents of the act," he said.

Unlimited liability would not apply to operators complying with the spirit of the law, Cmdr. Lindahl points out.

Operators who voluntarily clean up oil spills can collect from the Offshore Oil Spill Pollution Fund to reimburse costs exceeding \$35 million, Cmdr. Lindahl said. The fund is financed by a 3-cents-per-barrel levy on oil produced on the Outer Continental Shelf.

Lloyd's of London and other insurers refuse to be certified as guarantors against third-party claims because they fear the language of the act could expose them

to unlimited liability. Their attorneys cite Congress's failure to include language in the act limiting insurers' liability to the face value of their policies.

The insurers fear a court could rule they have unlimited liability if they certify as guarantors.

The fund administrators maintain Congress never intended to subject insurers to unlimited liability, Cmdr. Lindahl said. Financial responsibility requirements apply to third-party claims, which are limited to \$35 million. Third-party claimants also can seek recovery from the oil spill pollution fund.

"It is of no use to debate the legal correctness of the insurance industry's analysis," he said.

Several amendments to the law

were presented to Congress after the insurers' concerns surfaced a year ago, but no action has been taken.

Insurance is one way an oil rig operator can show financial responsibility for his third-party liabilities. An operator also can self-insure, buy a surety bond or obtain an indemnification agreement.

Failure to show financial responsibility could result in an offshore facility being shut down by the Coast Guard.

A company that shows evidence of insurance is considered in compliance with the act even though its insurer will not certify as guarantor of financial responsibility, he adds.

Salvager rewards debated

HOUSTON—If salvage work after an oil spill saves a company a bundle in liability claim payments, that bundle should be paid to the successful salvage concern, some environmentalists say.

They reason that rewarding the salvager for preventing damage and thus liability losses will improve salvage efforts.

But attorney Edward Kalaidjian of New York, chairman of the Maritime Law Assn.'s salvage committee, disagrees. He says he doesn't see how rewarding the salvagers for prevented damages and thus liability losses will make them work harder for better results.

The sheer mechanics of determining the award would be based on speculation about how much would have been lost on awards to claimants, added attorney John W. Sims of New Orleans, president of the Maritime Law Assn.

The proposal was discussed at the Houston Marine Insurance Seminar.

But European environmentalists, angered by the extensive damage from the oil spilled in the Ameco Cadiz break-up, contend that better salvage efforts would have reduced the ultimate damage.

The proposal is now being considered by the Comite Maritime International, the international maritime organization. It is expected to be the main topic when the committee meets next year in Montreal, Mr. Sims says.

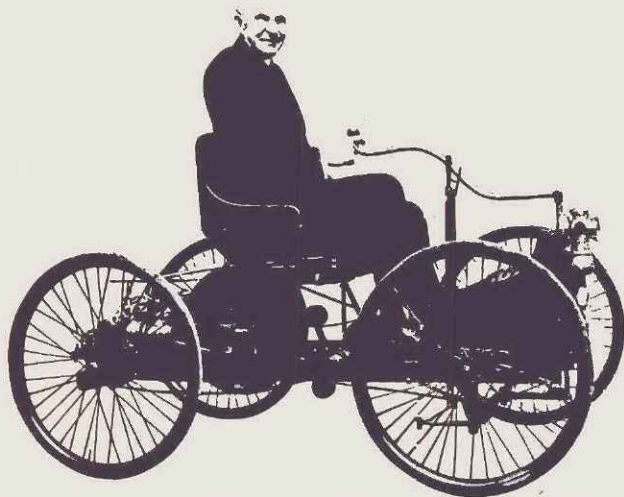
The U.S. shipping industry opposes the idea, Mr. Sims said, and the U.S. marine insurance industry hasn't taken a position.

Traditionally, salvagers are compensated based on several factors including the value of the vessel they saved, the degree of skill they applied to the salvage effort and the severity of the conditions in which they operated, Mr. Kalaidjian said. They haven't been paid when their efforts were unsuccessful.

But Lloyd's open hull form, implemented this year, guarantees salvagers of a tank vessel will be paid expenses plus a 15% profit, Mr. Sims said. This is paid even if they are unsuccessful or the size of their recovery is minimal.

The Maritime Law Assn. has not taken a position on rewarding salvagers for success and is currently studying the issue, Mr. Sims said.

Many concerned groups believe the Lloyd's open form should be given time to prove itself, Mr. Kalaidjian said.



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Space shuttle insurance may be left on the ground

WASHINGTON—The wrap-up liability insurance policy for space shuttle manufacturers, scheduled to fly with the craft in early 1981, may be left on the launching pad.

"It's almost a toss of the coin if it goes or not," said Robert E. Butler, corporate director of risk management for Lockheed Aircraft Corp., a manufacturer on the project.

"As far as exploring the policy, I don't think we've gotten it any further off the ground," said Mr. Butler, a member of a five-man committee exploring the program.

The wrap-up policy was first suggested to take the heat off the product liability policies of the shuttle's manufacturers (BI, May 12). But now the plan is holding.

Millions of dollars could be lost in space if parts of the craft malfunction, but the five manufacturers studying the policy can't agree that they need the coverage.

"Everybody relies on his own insurance," Mr. Butler said. "Do large manufacturers need such a policy?"

The biggest question, however, is how to allocate the premiums and insurance payouts.

"How do you divvy up among all participants?" Mr. Butler asked.

If there is one limit, say \$500 million, and 500 participants, it's "a pretty watered-down exposure,"

Frenkel officer dies at age 81

NEW YORK—George Plaut Frenkel, vice chairman and treasurer of Frenkel & Co. Inc., a New York-based brokerage firm, died Aug. 29 at 81.

Mr. Frenkel held numerous positions in the firm, which was founded by his father, Emil Frenkel, since joining in 1920. ■

he said.

And if the space shuttle lands off course and only one manufacturer is at fault, that company will get the entire \$500 million, Mr. Butler said. But if there are 100 members

responsible, they must split the payout.

The manufacturers committee will meet Oct. 1 in Washington, D.C., to discuss the wrap-up liability insurance. ■

Air safety system to get test

WASHINGTON—The Federal Aviation Administration has awarded a \$405,000 contract to ARINC Research Corp. of Annapolis, Md., to test a collision avoidance system on commercial airline flights beginning next summer.

The device, called the Active Beacon Collision Avoidance System, will be tested on two Pacific Southwest Airlines flights over

California, Arizona, Nevada and Utah. A report on the results will be issued in two years, but the equipment will be available for delivery to the airlines by next spring.

The device emits signals that can be picked up by air traffic control computers. The computers compile information on the plane's altitude and position. ■

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Liberty Life employees

Wellness project shows healthy result

By MARY ANN MATLOCK

GREENVILLE, S.C.—Liberty Life Insurance Co. already knows more about its 650 home office employees than most firms. Someday

soon, it may learn how to keep them healthier.

The insurer is compiling data on employee health from its own wellness program, now in its fifth year, for analysis by the University

of South Carolina. The preliminary results are encouraging, indicating the program of annual physicals, exercise and lifestyle changes may keep workers healthier.

"Nationally, 33% of the popula-

tion smokes, while we have 21% of our employees who smoke," said company medical director Dr. Henry Howe. Only 6% of Liberty home office workers have high blood pressure, compared with

11% to 12% of the national population.

Death rates among home office workers reinforce the positive results. Since the program started in November 1975, no active workers have died from cardiovascular disease. Three have died of cancer. One death was accidental, Dr. Howe said.

"We think it's going to be a significant study," Dr. Howe explained. "Research now is only on the first year. We've just received a computer printout on the second year."

"Even this is too superficial," he added. "It's going to take five years to come up with statistics for a significant conclusion."

However, the company believes the wellness program is worth expanding to 1,200 branch office workers.

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career professionals so nearby still lets you give your insureds personal claim service at a cost you can afford. **Why GAB People Are So Capable.**

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Aerobic dancing is offered at the insurer's home office.

"We need to expand the program," Dr. Howe said. Home office workers and branch employees show striking differences in health statistics.

For example, 58 branch employees are on long-term disability, compared with three from the home office.

Expanding the program will demand closer examination of employees around the country, but the plans are under consideration.

The program, part of a 10-year health study, demands an annual physical exam and data-gathering session with Dr. Howe. Blood chemistry tests, electrocardiograms, skin-fold measurement and X-rays are taken of the worker at no cost.

Employee health data includes personal habits in exercising, eating, drinking and dealing with stress.

After this annual session, Dr. Howe reviews each employee's risk factors and discusses an exercise program with the worker.

To encourage this wellness prescription, the company pays for employee entrance fees and equipment for city athletic leagues and offers programs on nutrition at the home office.

There is no cost to the employee unless the company must hire an instructor to teach a course. Then the company pays half the course entrance fee. Aerobic dancing is now offered at the home office; belly dancing is coming soon.

The program's average cost per worker is \$50 annually, or about \$30,000 total. Dr. Howe heads a medical staff of two laboratory technicians and one resident assistant.

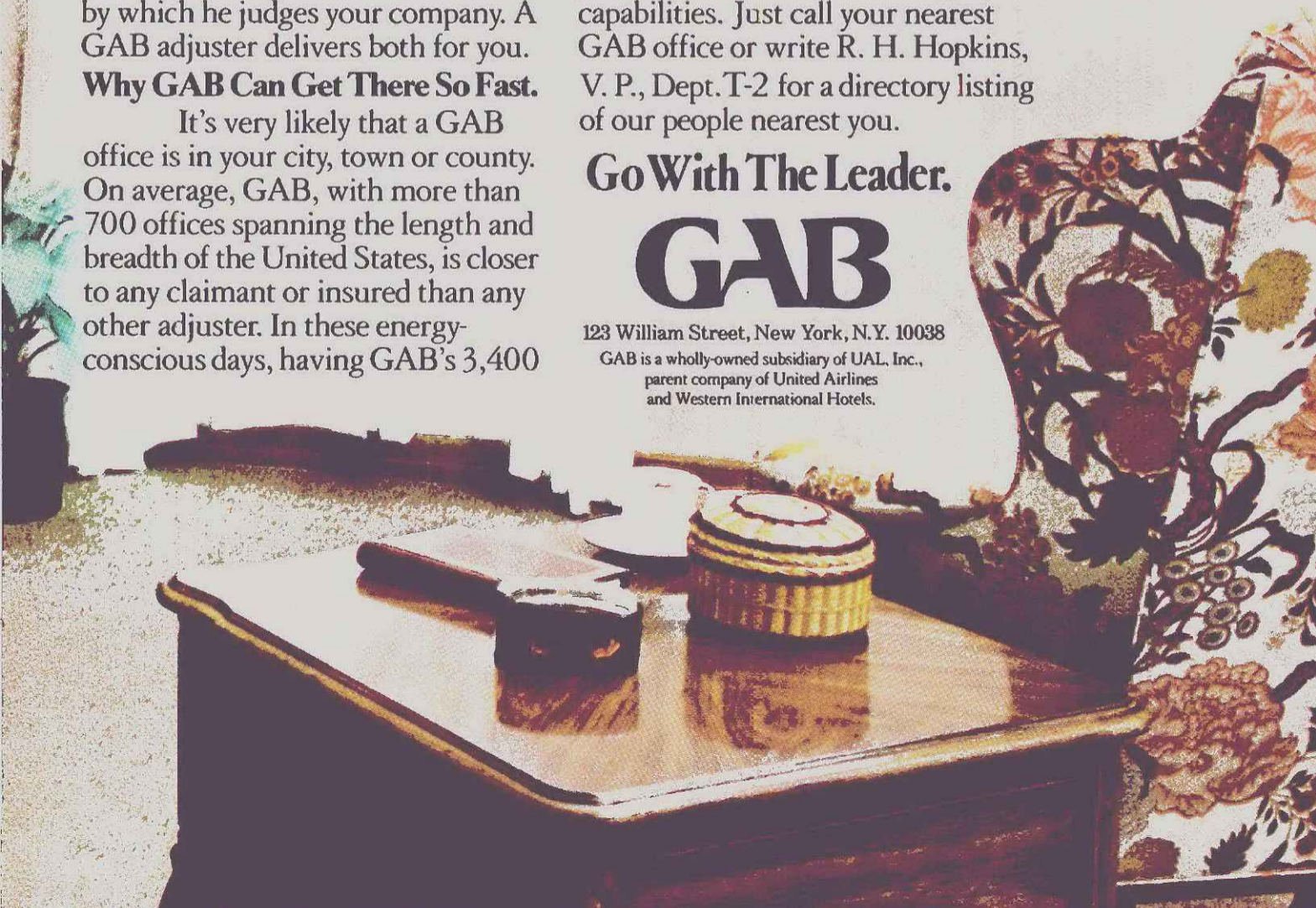


Photo: Liberty Life

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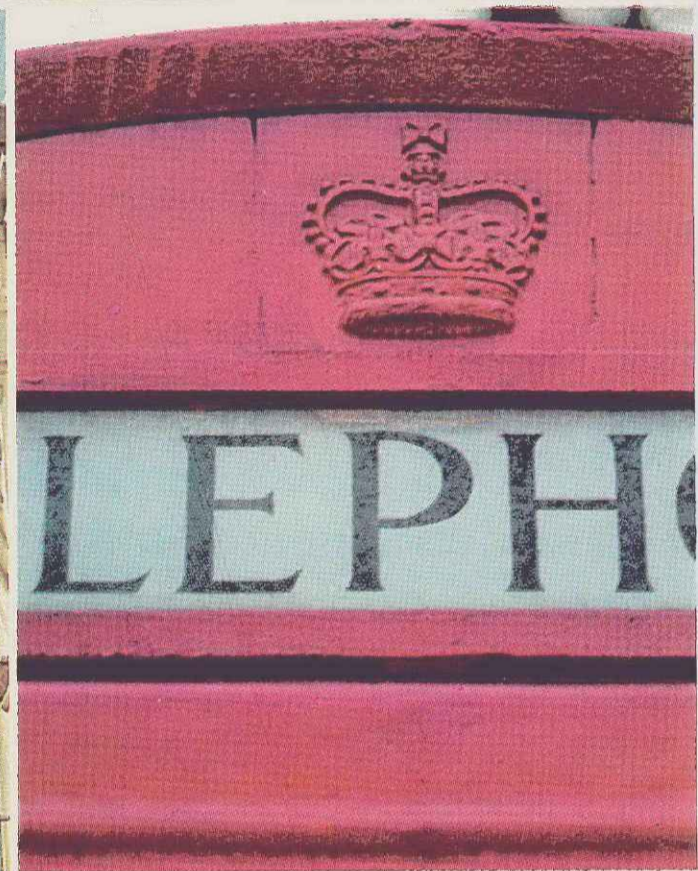
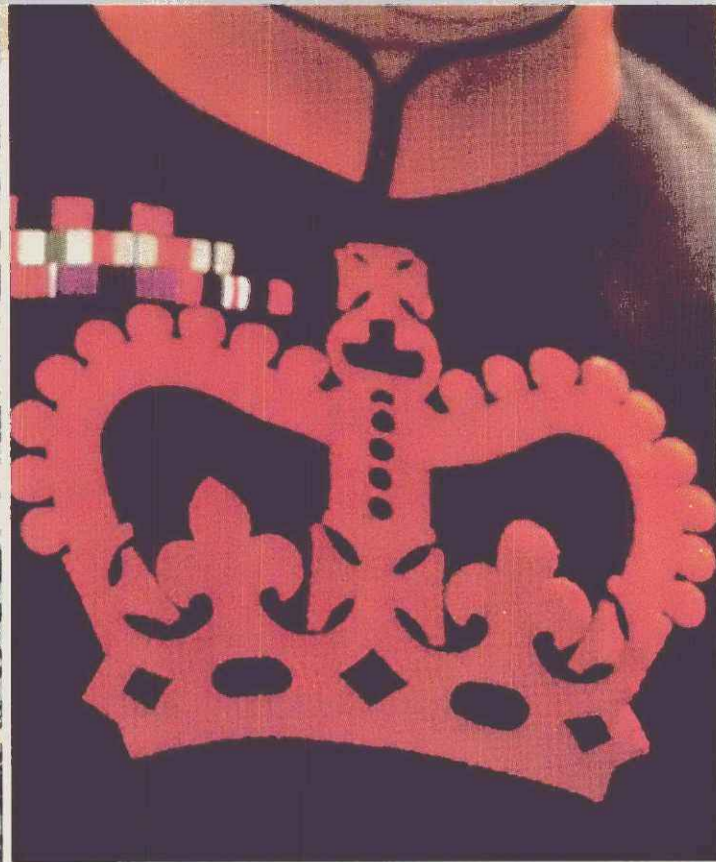
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State comp fund would save money

By Jim McPike

ONE OF THE MOST controversial subjects debated in the Illinois general assembly is workers compensation. Illinois law requires employers to insure employees for any work-related injury. The injured are entitled to free medical care, two-thirds of the salary while recuperating and a lump-sum payment for any partial disability. In exchange, the employees give up their right to sue the employer under common law, thus limiting the employer's liability to the schedule established by statute.

Employees, of course, want benefits to be as high as possible and employers want the cost of workers compensation to be as low as possible. These conflicting goals set the stage for much debate



Jim McPike is an Illinois state representative from Alton, and sponsor of legislation to create a state workers compensation fund.

in Springfield.

This year the general assembly passed H.B. 3250 to deal with fraud and inefficiency, put limits on attorneys' fees and freeze benefits for permanent partial disability at their current level for three years. It is hoped this will stabilize, if not reduce, costs to the employer.

A second proposal, H.B. 2705, failed to pass. This legislation would have established a quasi-public corporation to compete against private workers compensation insurers. The legislation was strongly opposed by the insurance industry.

The purpose of H.B. 2705 was to determine if costs could be reduced without reducing benefits. The conflicting goals of higher benefits and lower costs and the ability of either party to achieve these goals is strongly impaired if the insurer, seeking to maximize its own profit, enters into the equation. A quasi-public corporation that operated on a nonprofit basis could conceivably reduce costs while maintaining benefits.

A legislative subcommittee investigated this possibility at two hearings
Continued on page 49

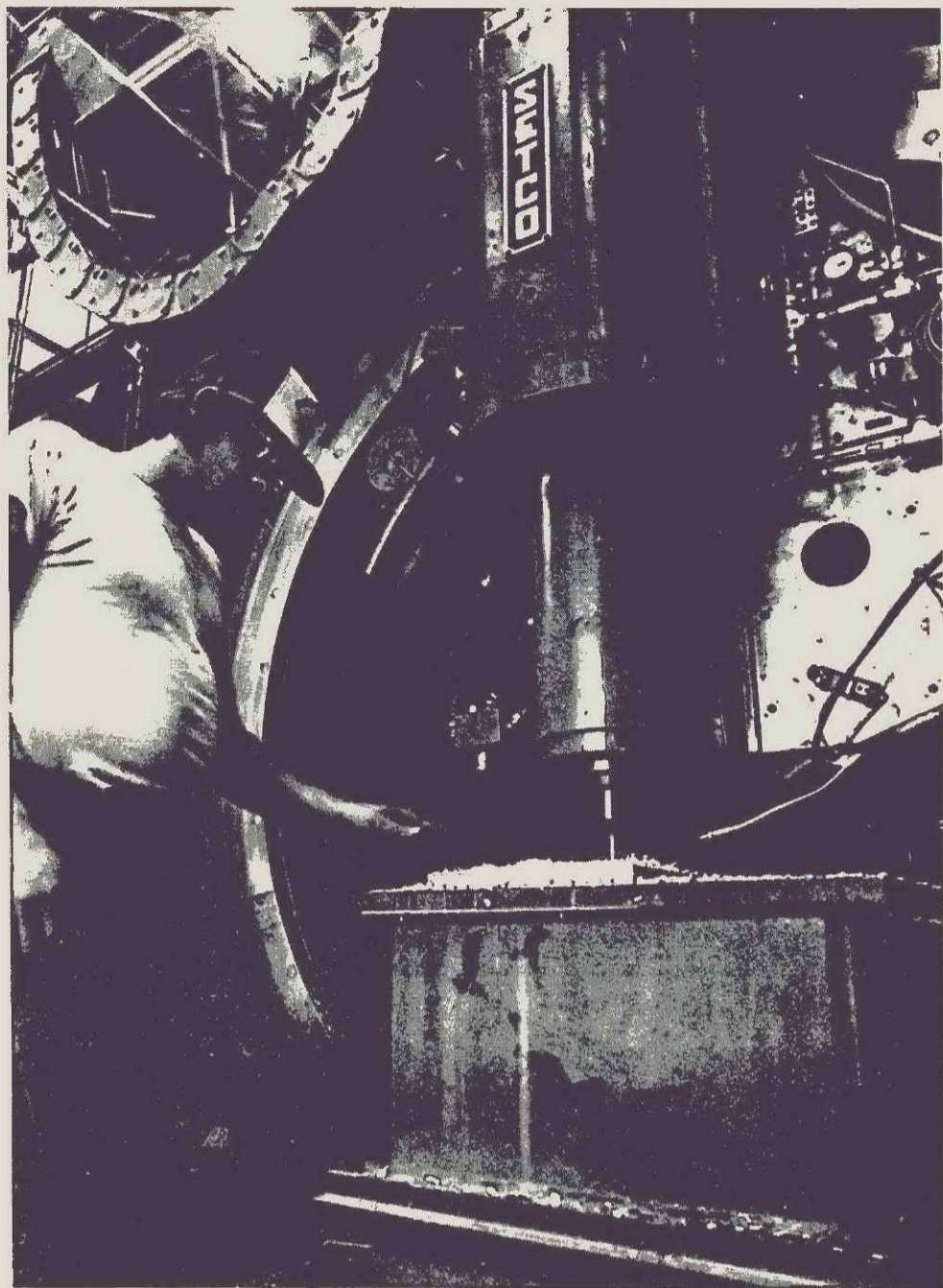


Photo: Mary Cairns

Employees want higher workers compensation benefits, employers want lower costs. The stage is set for debate in Illinois.

But probably not solve fundamental ills

THE FOLLOWING is a position paper by the Illinois Insurance Information Institute on a state workers compensation fund:

Some businesses are leaving Illinois because it is too expensive to do business here. Others can't afford to come—or stay.

Part of the expense is the high cost of workers compensation insurance—and the problem is serious enough that still other businesses are reluctant to move to Illinois.

State law requires businesses to buy workers compensation insurance or insure themselves. Private insurance companies provide most Illinois employers with this protection. This coverage includes death benefits, medical care, temporary replacement of wages while the injured worker is off the job, rehabilitation when needed and compensation for any permanent disability from a job-related injury.

In an effort to keep Illinois businesses and jobs at home while attracting new ones, the state legislature is considering proposals it hopes will solve the problems of the present system. One proposal, H.B. 2705, would establish a state fund for workers compensation.

What is a state fund? It is actually a government-operated insurance com-

pany subsidized by the taxpayers. It would put the state of Illinois in the workers compensation insurance business. And it would shift the cost of operating the system to the taxpayer on policies written by the state fund.

This shift would not cut the high cost of workers compensation because the fundamental problems of the system remain. Only new problems would arise.

For example:

- A state fund would have to be created from scratch—an expensive proposition for Illinois taxpayers. According to the bill, Illinois would require \$1.5 million from the state treasury for start-up funds. Don't be fooled by this. Millions more would be needed to ensure that injured workers will get their benefits for years to come.

For instance, if \$100 million were taken in by the state fund during the first year, an additional \$25 million

would have to be on hand. These additional dollars, which private insurers are required to maintain, are necessary to provide sufficient funds to protect against catastrophic or unanticipated losses.

- A state fund would produce untold hidden costs. These would include start-up and ongoing operating expenses such as the use of public buildings, state equipment and state personnel.

In addition, as workers compensation insurance business is shifted from private insurers to a state fund, hundreds of jobs inevitably would be removed from the private sector and placed on the public payroll, another hidden cost to the taxpayer.

- A state fund would not pay taxes as do private insurers. Significant losses in revenue would have to be made up by Illinois taxpayers.

- A state fund would have to provide

safety and accident prevention services, another hidden cost. Private insurers already have experienced safety engineers and inspectors to make the workplace safe. This service is provided at no additional cost above premiums.

- A state fund would eliminate the personal services provided by the insurance agent and the company representative. They not only help the employer place his business with an insurance company at a competitive price, but help with claims handling, safety programs, payroll audits and are readily available to serve the employer.

- A state fund would be unable to fully serve an employer that operates in more than one state. Unlike private insurers, a state fund cannot provide coverage across state lines under the laws of another state.

- If a state fund goes broke, it would have to be bailed out by the taxpayer. On the other hand, private insurers offer a vital safeguard to employers and workers. They guarantee that the industry will step in and pay benefits to any injured workers if an insurance company becomes insolvent.

These are just some of the reasons why a state fund is not the answer to workers compensation problems in Illinois.

A state fund would produce untold hidden costs, including start-up and operating expenses. Illinois would require \$1.5 million.

—Insurance Information Institute.

perspective

Grim fairy tale

Asscos make life miserable for manufs

By Roland Rueger

ONCE UPON A time there was a big country with a lot of people who did many different things. Quite a number of people made things and they were called manufs. Sometimes manufs would make things that didn't work well and even injured people who used them or caused damage. Occasionally people would ask the manufs to pay them for an injury or damage caused by things that didn't work well.

This was called liability for things that didn't work well and later on product liability. The manufs really didn't mind the liability too much, except they could never quite figure out when they had to pay and how much, and sometimes they had to pay when it was really quite inconvenient, and sometimes they had to pay so much they had hardly any money left to make new things, and sometimes they didn't even have enough money to pay for all the damages.

Things would have been quite bad if there hadn't been other people who got together and assured the manufs that if the manufs would pay them a little money every year, they would pay for all the injuries and damages from things that didn't work well. These people who formed companies and assured the manufs were called asscos.

Now things really went quite well for a long time. The manufs were happy making things, the asscos were happy collecting money from the manufs and became quite good at telling people it was really their fault if things made by the manufs hurt them or did damage.

However, after a while, people became rather tired of being told by the manufs and asscos how it was their own fault if things injured them, and they began fighting back. Some people specialized in making life miserable for the manufs and asscos and they were called trialatts.

The trialatts made the most preposterous argument that the manufs should make things that couldn't hurt stupid people and if they didn't, they should pay the stupid people who got hurt. The manufs and asscos were really quite surprised when judges and jurors agreed with the trialatts and ordered the asscos to pay a lot of money to a lot of stupid people.

The asscos did a lot of thinking, but having had things their own way for a long time, they had great difficulty thinking of something new; they had nostalgia sessions where they cried on

each others' shoulders. After much handwringing and meetings of asscos associations and alliances, they decided to do what they always had done. They told the manufs they needed a lot more money to assure them and they declared a crisis.

Unfortunately, some big manufs with plenty of money who made very few things that went wrong decided the money the asscos wanted was really quite unreasonable. So instead of giving the money to the ascco, they set up their own asscos and assured themselves.

The asscos warned the big manufs they were rather foolish to have their

didn't behave like asscos at all.

Things appeared rather quiet and the asscos felt they had things under control. However, some of the smaller manufs were rather unhappy that the asscos had a monopoly and could do whatever they wanted. They looked at the capcos of the big manufs and it occurred to them that if they could all get together and have their own capco, they could give the asscos some good competition and even make some money. So they went to the advisers of the ruler of the whole country and convinced them they should have a charter to organize their own capco.

The advisers started discussing the

lectured the small manufs how they could not be blackmailed into compromising their principles.

Meanwhile, the advisers remembered that local governments were already regulating the asscos' business. Therefore, if the small manufs could create a capco under local regulations and that capco was allowed to assure all small manufs in the land, the government would not get involved and the capco would be subject to the same rules as the asscos and everybody would be happy.

So ingenious was the idea of the advisers that it took the ascco alliance and association by surprise and they agreed.

Sad to say, the asscos soon recovered from the surprise and reappeared before the advisers, where they confessed their approval had been quite hasty and thoughtless. The capco proposal, they said, was really very dangerous because the government was allowing the capco chartered under local rule to operate throughout the land so that the local governments really wouldn't know whether they were allowed to regulate the capco. That would leave gray areas, and local governments could no more protect the legitimate rights and interests of the local citizens.

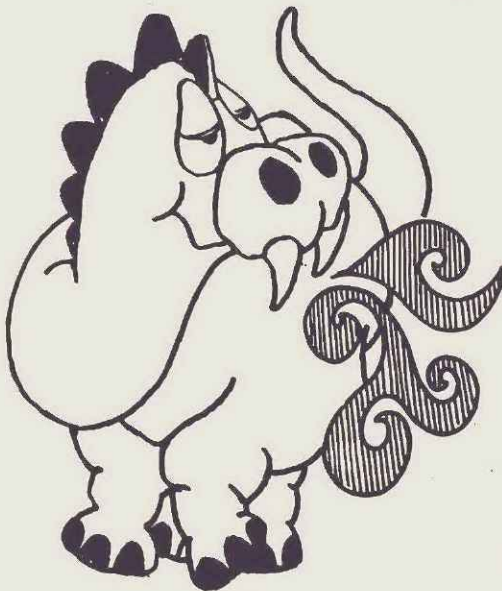
The small manufs are still recovering from the shock and talking to themselves. If they remembered correctly, the asscos either didn't want to assure them or wanted exorbitant amounts of money. The asscos didn't care at all that manufs had to go bare. Then the asscos objected to the small manufs having a capco, saying they were concerned about the small manufs going bankrupt and people not being protected and the government being involved. Now that the government had bowed out, the asscos were concerned about gray areas and protection of citizen interests.

The more the small manufs thought about it, the less sense the asscos' objections made. They also remembered that during the whole time, the asscos never did anything to solve the assurance crisis.

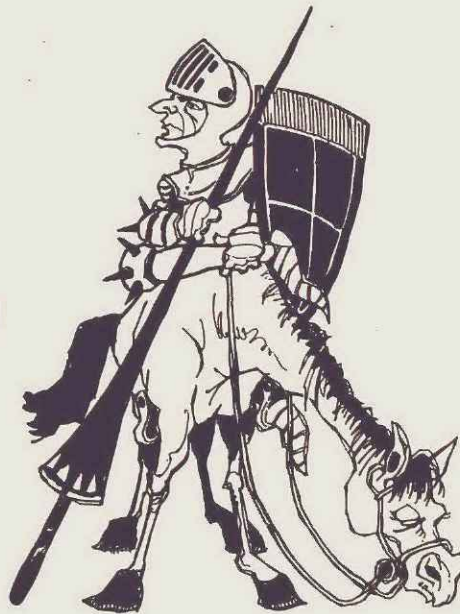
When last observed, the small manufs were very angry and thought of the asscos as pompous, overbearing, obnoxious, self-righteous, unimaginative and other even less friendly terms that today are expressed in bleeps.

There is some hope, foolish perhaps, that the asscos may mend their ways and cooperate with the advisers to improve the proposal and that some of the asscos will offer assistance to the small manufs and show them how to set up a capco, how to deal with claims, keep records and figure out what each manuf should pay the capco.

Maybe some asscos will even be nice enough and reassure the manufs' capco by helping pay big damages. ■



Assco



Manuf

Huffing and puffing smoke, the asscos threatened the unhappy small manufs.

own asscos and that they would lose a lot of money because they were new to the business. Some smaller manufs decided to pay the higher money and some simply couldn't afford the asscos' assurance anymore and went unassured. The latter really upset the trialatts because it was very hard to extract a lot of money from a small exposed or bare manuf.

Meanwhile, the asscos were quite happy. They received a lot more money from the manufs, they convinced many people there was a crisis and some even were sure it was all the trialatts' fault. In some parts of the country, the local rulers and their advisers even changed the rules so manufs weren't always liable if things went wrong.

The only disappointment was that the asscos belonging to the big manufs didn't go bankrupt—as a matter of fact, they did quite well, which was rather embarrassing for the asscos. They mumbled about long tails catching up with those asscos, which they started calling capcos because they only assured the manuf who owned them and

charter with many people, including people from the ascco alliance and associations who told them in no uncertain terms the charter idea was no good at all. There really was no crisis and the small manufs hardly had the competence to run their own capco. As a matter of fact, the ascco alliance and associations were quite concerned that the small manufs might go bankrupt.

And just in case the advisers should raise some eyebrows because of the sudden denial that there was a crisis and the instant concern for the small manufs, the ascco associations added that the government really shouldn't get involved in the asscos' business and create a new government agency that was very expensive and not necessary. The advisers were quite impressed with the last argument and said they would have to think about it.

The small manufs were upset and told the asscos they didn't appreciate their opposition. Maybe the government really should step in and regulate the asscos. The asscos then collectively huffed and puffed, and in their most paternalistic and pompous way



Roland Rueger is a claims manager for a large corporation (not a manuf) that uses several capcos to fund its risks.

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perspective

Offering advice

Managers must answer employees' queries

RAMPANT INFLATION has caused many corporate benefit managers to take a close look at the cost of employee benefits and what can be done to reduce costs. Business Insurance senior editor Len Strazewski moderated an American Management Assns. benefits panel that went in search of the answer to spiraling benefit costs.

The panel included Larry Carrington, manager of employee benefit planning for American Telephone & Telegraph Co.; Joseph Duva, director of employee benefits and compensation for SCM Corp.; Tom Freeman, a benefit consultant with Johnson & Higgins, and David Helman, director of employee benefits for Rapid American Corp.

Helman: I think the most important part of communicating with employees is to have somebody available to talk and consult with an employee when the employee needs consultation. We can spend thousands and thousands of dollars, which we all do, on the fanciest booklets and the fanciest benefit statements. We consult with our lawyers and our actuaries and everybody else in writing summary plan descriptions that we all feel are very clear and concise and understandable. We give it to the employees, who perhaps read them or look at them and put them away. But the real key to the problem is when an employee needs some advice.

When an employee has an illness in the family or when an employee has impending surgery or when an employee wants to know why this was not

Whether a worker is in a hazardous job . . .

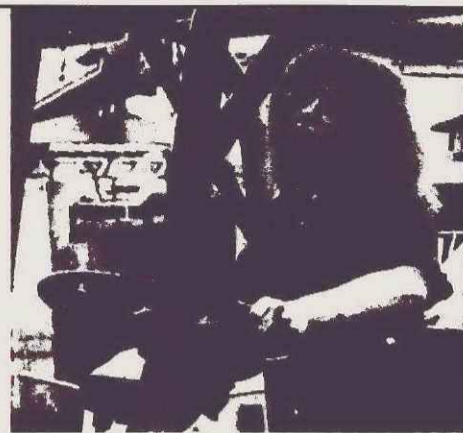


Photo: USE&G

. . . or just wants to ask a question, a hotline on employee benefits is a good idea.

covered under the plan, that's important. There must be somebody available who knows the plan to talk to the employees.

We have established a benefit hotline in our company. Any employee—and we're talking about thousands and thousands in almost all states—can get on the phone and say, "Why is this not covered?" or "Will this be covered?" in our medical plan, or "What about this situation with my child?" and get an answer. The answer will be, in part, referring to the proper part of the medical summary plan description where it's discussed.

In my experience—I've been very, very involved in claims administration—I think that this personal involvement is probably one of the key functions of a benefit manager.

The only area where 98% of the employees of the company deal with the benefit department is when they have a claim. I think it's very important to be available and to answer a specific problem on an employee-by-employee basis. It's very time-consuming. You have to have a person or two in your department who will take these calls, but that, I think, is where the perception of the benefit program, particu-

larly the medical program, comes from.

When I had a claim, how was the claim handled? Was it handled efficiently? Was it handled properly? Did I get courteous service? Was the benefit program adequate to take care of my problem? That I think is the key.

How many of you have ever dealt with the employee who comes to you and says, "My operation cost \$800 and the insurance company says that \$675 is reasonable and customary"? "I went to my doctor, discussed with him, he's not willing to take \$125 less, he wants the money. What kind of lousy plan do

Author analyzes health care competition

By Donald E. L. Johnson

Health Plan

By Alain C. Enthoven

Addison Wesley, Reading, Mass.
196 pp., \$12.95

BENEFIT MANAGERS may be trying to make up their minds about the merits of a new health care delivery system along the lines of the Gephardt-Stockman National Health Care Reform Act, but plenty of others seem to have decided already. They are against it.

Perhaps that's because they haven't taken the time to read the bill or the

books & ideas

articles of Alain C. Enthoven, Clark Havighurst and Cotton M. Lindsay that have popularized the health care competition concept. Also, it's hard for people without vision to imagine a major change in their lives that would put all they have worked for at risk. To them, change is a threat, not an opportunity.

The rules of the game certainly would change under the scheme envisioned by Mr. Enthoven and clearly outlined in his brilliant new book "Health Plan," "the only practical solution to the soaring cost of medical care."

It is must reading for anyone wanting to participate in the growing debate over the role of competition among health care providers and health insurers.

What's interesting is that the opponents of the use of controlled market forces to contain health care costs and allocate resources all seem to have turf

to protect from the changes outlined in "Health Plan."

Patricia Harris, secretary of the Department of Health and Human Services, is protecting the largest bureaucracy in the federal government. Health planners are afraid of what will happen to their mini-bureaucracies. Union leaders would lose control of important health benefits that might be offered to employees they want to organize. Employee benefit managers would finally have to clearly explain potential health benefits and keep employees informed of alternative health benefits offered by competing plans. Lots of paperwork.

HHealth insurers, commercial and nonprofit, suddenly would have to compete by offering plans with meaningful price differences, not just those generated by more efficient computer rooms and claims administration

departments.

Academic opponents such as Harvard's Marc Roberts and Columbia's Eli Ginzburg have never operated in competitive environments (except when seeking federal and Blue Cross grants) and can't seem to let go of theories they've championed during their entire careers.

They apparently think competition means maximizing profits and domination by the biggest players in the game and they warn that the poor and isolated will be left out of the system. Medical schools, they complain, won't be able to compete because their costs are higher and their missions are different from those of community hospitals. Such selfishness, myopia and paranoia you've never seen.

A few hours with "Health Plan" might not convince skeptics that economic competition between prepaid and fee-for-service health plans and among providers will contain the cost of health care. But they will put the book down knowing Mr. Enthoven is



Donald E. L. Johnson is editor of *Modern Healthcare* magazine, a Crain Communications publication.

we have?"

OK. All of a sudden, we who have always been saying we want an R&C plan, we don't want to pay anything and we want to control costs—all of a sudden we're yelling at the insurance company, "What do you mean, \$675 is reasonable and customary? How do you justify that? What is your data? How old is your data? Is your data one year old? Two years old?" When you're finished, you discover that maybe in the real world today, \$800 is a reasonable fee. You wind up getting the insurance company to pay the full \$800. Everybody thinks you're great, the employee's happy, and what have we accomplished?

Freeman: The costs go up.

BI: It's interesting that you juxtapose those two points. The way you described benefit communications, it's like emergency room benefit communications vs. preventive benefit communications.

Duva: Dave, from my viewpoint, communications of employee benefits and compensation is a broad task. Meetings are certainly important, but that's one piece of an overall program. You communicate many ways. You use booklets, you use audiovisuals, you use benefit statements, you have periodic meetings. You have to periodically provide information about something that's happening in the benefit programs to keep it going on a continuing basis.

BI: Can a broad form of benefit communications handle the kind of complaints Dave was pointing out? If you do your best to communicate to employees that you operate under a reasonable and customary set of guidelines, will they understand that they could have a rush emergency operation that your insurance plan may not want to cover?

Duva: I think if you're upfront with your statement, they may not like that they're not being paid, but they understand what your purpose is.

Freeman: It's the total package you're talking of, but not an individual



plan. But David is right. The most used benefit is hospitalization. Obviously, when a person has a need, they got a need. They're not going to remember negatives. The employees are not going to remember what reasonable and customary means.

They're heard it and heard it and heard it and heard it. They're still going to question where in the hell is my insurance?

Carrington: Reasonable and customary in the mind of the individual means whatever that doctor charges is reasonable and customary because I went to him and he is the doctor.

Freeman: That's right. And no matter what you communicate, you will never get any other thought across on a reasonable and customary plan.

Duva: I find, in a lot of cases, when I have these individual situations, I could sit down and tell somebody, "Look, this is the program we have designed."

Freeman: Joe, it's like raising children, you always remember the things they do bad, you never remember the things they do good.

Duva: But my point here is I think we can't be everything to everybody and run a program effectively. Communications is always a continuing effort, day-to-day, it's operation, it's claims handling, this is communications.

It isn't just a book. ■

basing his proposals on sound academic, economic and medical research at Stanford University and elsewhere.

Most important, the book is built around various experimental health care financing systems that have been operating for years, not ivory tower speculation, as some critics assert.

Indeed, Mr. Enthoven effectively demonstrates that competition between fee-for-service and prepaid health care providers is very likely to improve, rather than reduce, the quality of health care as it is perceived by consumers and health care professionals alike.

For example, 30 regional medical centers that annually perform 500 open-heart operations each will do better jobs as a result of the "experience effect" and they will do it for less than 90 underutilized open-heart surgery hospitals in the same state or market. The "experience effect" is the increased proficiency a surgeon and his team achieve as the number of times they perform a procedure in a given period increases. It not only improves skills, but also reduces operating room and equipment utilization times as

well, for cost savings.

Hospitals owned by health maintenance organizations build facilities that meet the predictable needs of well-defined cohorts, their enrollees. They have strong financial incentives to fully utilize their facilities, but not unnecessarily. In Minneapolis, where there are both health maintenance organizations and prepaid independent practice associations, the IPAs have reduced hospitalization almost as much as the HMOs have.

Thus, the economies of scale and principle of diminishing returns that guide other industries in their capital budgeting, staffing and pricing can reduce costs and improve quality in the health care industry as well as in any other, Mr. Enthoven contends.

He also effectively demolishes Ms. Harris's argument that people in communities too small to support HMOs couldn't benefit from competitive plans.

In addition to HMOs and IPAs, primary care networks are effective alternative health care delivery financing systems, such as the Wisconsin Physicians Service Health Maintenance Program. ■

State work comp fund would cut premiums for Illinois employers

Continued from page 45

held in Chicago in 1979-80 that produced more than 200 pages of testimony. Seventeen states have a state-operated workers compensation insurance corporation. Those states that compete with private insurers have been extremely successful in lowering costs to industry.

In Oklahoma, for example, the state fund is the insurer of last resort (identical to the Illinois assigned risk pool) and is in competition with private insurers for the regular risks. It now has 25% of the total market and is growing rapidly. Despite the fact that the state fund must insure all the poor risks, it was able to offer 22.5% discounts from National Council of Compensation Insurers rates for 1979.

Colorado was even more impressive. Total premiums for the state were nearly \$500 million. The state fund, with 52% of the premiums, discounted NCCI rates by 30% in 1979 and at the end of the year declared dividends of about 22% of the premiums collected. Thus, compared with private insurers, the state fund reduced cost by nearly half.

Both Colorado and Oklahoma have quasi-public funds. The directors are appointed by the governor, but they do not receive a penny of tax dollars. They have their own buildings, their own equipment and their own employees. They operate as a private insurer would, but they do not have to pay dividends to their stockholders.

Any profits are returned to employers. They provide all the services of private insurers. They have adjusters in the field and their own rehabilitation and safety people. Best of all, if employers are not content with their services, they are free to buy coverage from the private insurer.

It is obvious that this concept would save employers money in Illinois. Large corporations in Illinois self-insure because they know it is less expensive than private insurance. The Illinois Municipal League is forming its own insurance company because it has been advised that it would save small municipalities large amounts of money. We heard testimony in Springfield from a Central Illinois construction contractor who three years ago combined with a dozen other contractors to self-insure. He testified that in 1979 his company alone would face \$1 million less in costs than his insurance premiums would have been for the same year.

The private insurers have no facts to dispute this. There are no hidden costs to a state fund because the corporation would receive no tax dollars, no state equipment, buildings or state personnel.

Private insurers contend a state fund would pay no state taxes, which is true, but this is hardly a criticism. The taxes paid are coming out of the employer's pocket in the form of higher premiums. ■

Elimination of a tax on industry should be considered an advantage, not a disadvantage.

Private insurers have one legitimate point. A state fund would require a loan from the state treasury of approximately \$5 million to be set aside as reserves until the fund could establish its own reserve. This loan, under the provisions of H.B. 2705 would be paid back beginning in 1985.

It was conservatively estimated that the state fund could capture 25% of the market and offer discounts of nearly 25% within five years. This would result in premium savings of \$75 million to \$100 million. In light of this, a \$5 million loan seems a small price to pay.

Considering its previous statements, the current insurance industry opposition to H.B. 2705, is very ironic. For three years the industry complained that workers compensation insurance in Illinois was unprofitable and that many insurers had dropped it. This



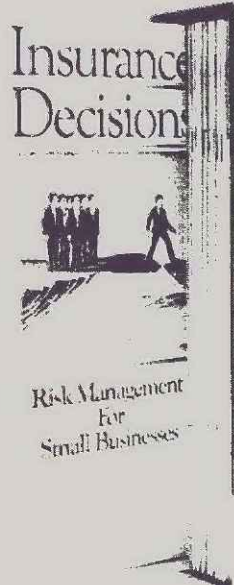
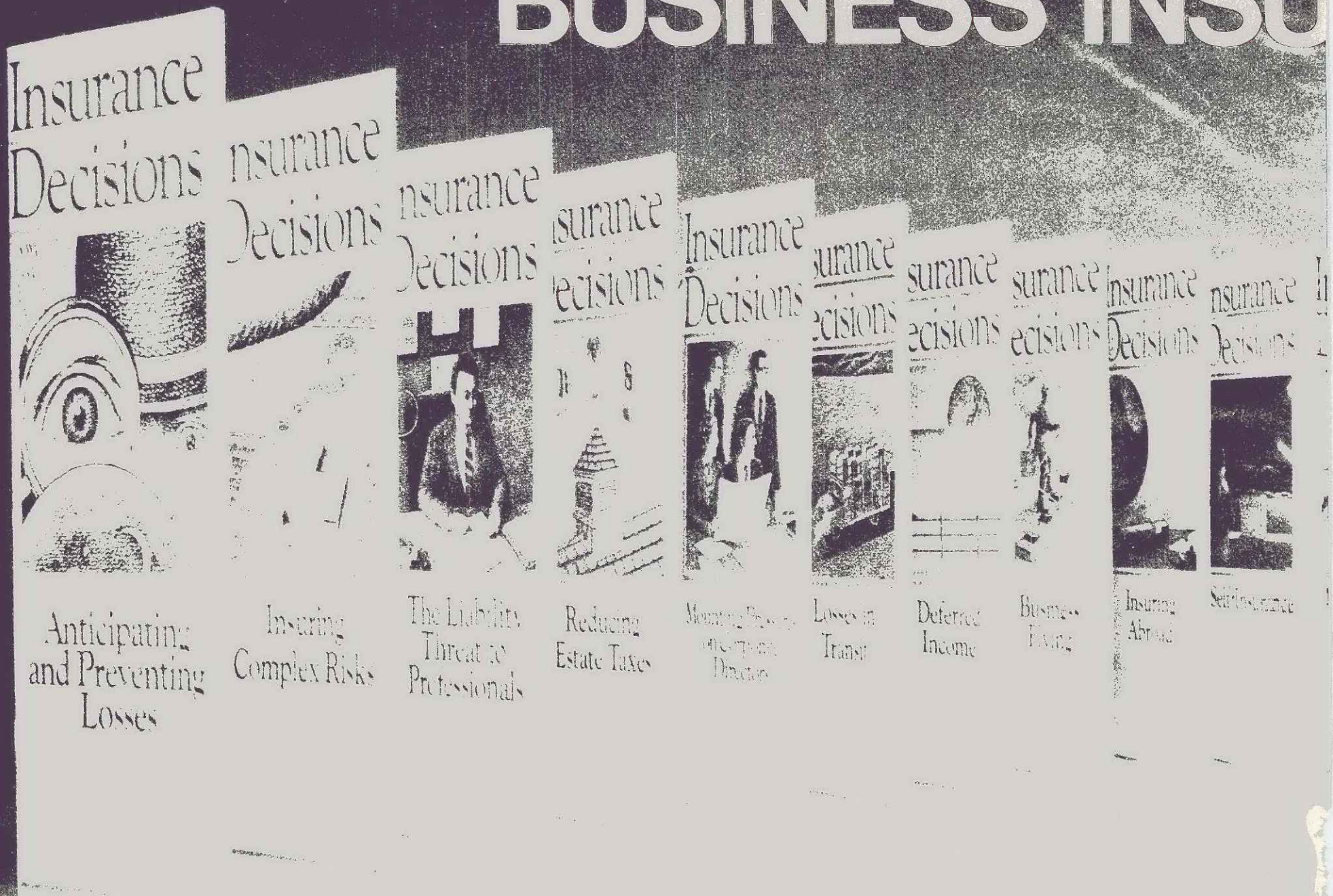
A state fund would pay no state taxes, but this is favorable, says Rep. McPike.

year when the legislature suggested a state fund to help relieve insurers of their burden, they lobbied heavily against it. One might suspect that they have made excessive profits at the expense of small business in Illinois while they were complaining.

One fact is clear. Premiums in fiscal 1980 will approach \$1 billion dollars. Income earned by private insurers by investing both these premiums and the reserves from prior years will undoubtedly exceed \$100 million. This \$100 million is not counted as profit when they file for a rate increase with the Illinois insurance department. When a state fund earns income on reserves, the money is used to decrease costs to employers. When insurers earn income on reserves, they file for rate increases without ever mentioning the \$100 million.

If Colorado shut down its state fund, the cry from small business in Colorado could be heard all the way to Illinois. Perhaps someday, small business in Illinois will be heard loud enough in Springfield to overcome the lobbying voice of the insurance industry. ■

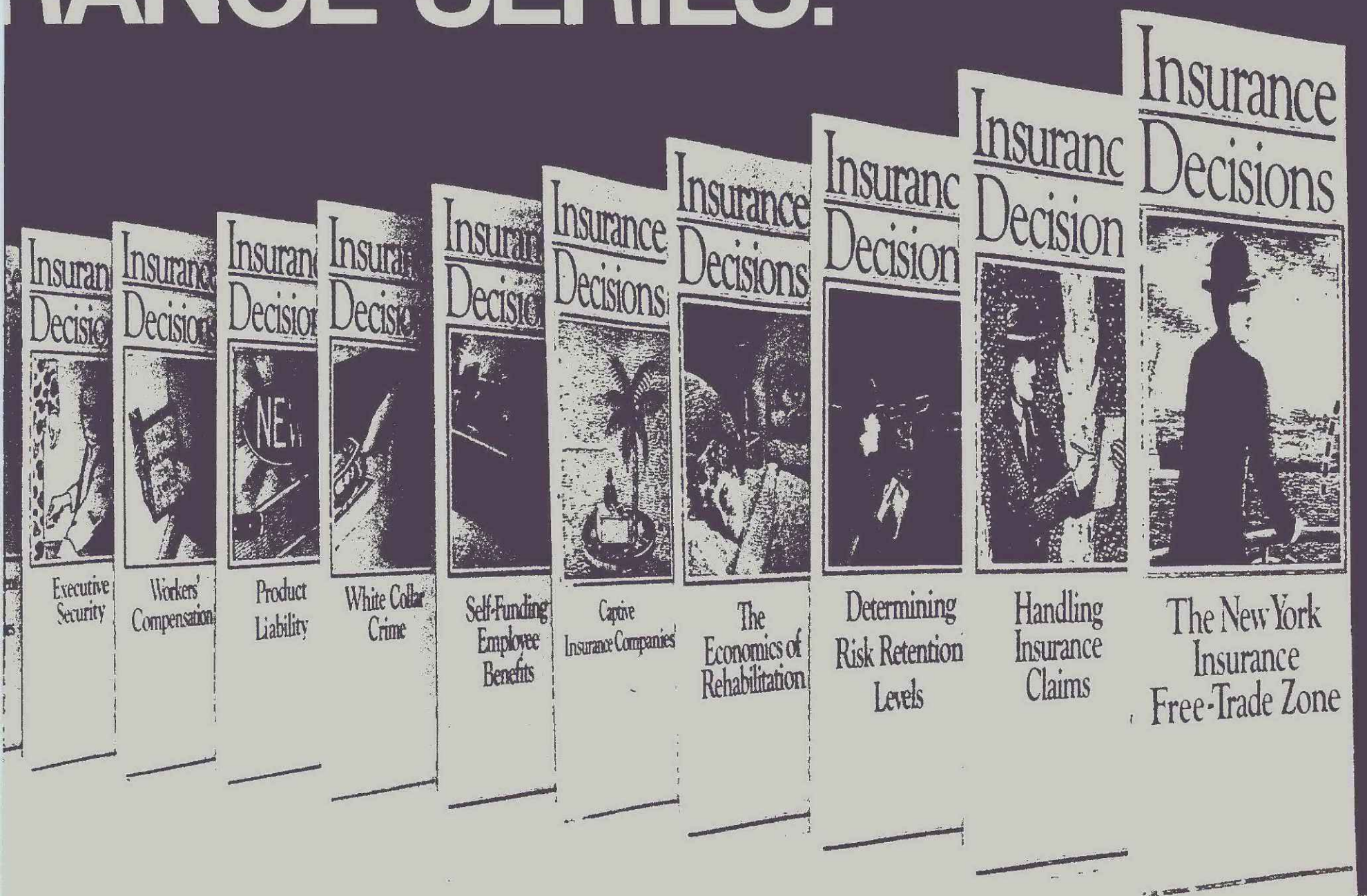
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OCT. 23-24. RIMS Midwest Regional Seminar in Rosemont, Ill., sponsored by the Midwest chapters of the Risk & Insurance Management Society; \$65, members only. Mildred Jackson, First National Bank of Chicago, 1 First National Plaza, Chicago, Ill. 60670; 312-732-4425.

OCT. 26-29. Communicating Employee Benefits Conference in Chicago, sponsored by *Business Insurance*; \$385. Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5242.

OCT. 28-31. Premium Audit Advisory Service Second Annual Meeting in Tucson, Ariz., sponsored by the American Insurance Assn. Faye E. Styles, PAAS director, 85 John St., New York, N.Y. 10038; 212-433-4408.

OCT. 29-31. Financial Analysis for Risk Management Decisions Course in Los Angeles, presented by the University of Pennsylvania's Wharton School; \$685 tuition per person plus \$50 registration fee per company. The Business Risk Education Center, Fourth Floor Vance Hall/CS, University of Pennsylvania, Philadelphia, Pa. 19104; 215-243-8230.

OCT. 31-NOV. 1. Arson Investigation and Arson and Electrical Fire Investigation Workshop in Springfield, Mo., sponsored by the National Fire Protection Assn.; \$30 for half day, \$50 for full day and \$90 for two days. Ina L. Miller, NFPA, division for continuing education, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

NOV. 3-6. The London Insurance Market Program in London, sponsored by the International Risk Management Institute; \$545. R. Martin Richards, IRMI, Building IV, Suite 208, 10300 North Central Expressway, Dallas, Tex. 75231; 214-363-9656.

NOV. 3-7. Basic Safety Management Seminar in Houston, sponsored by the International Safety Academy; \$465. ISA, P.O. Box 19600, Houston, Tex. 77024; 713-932-9400.

NOV. 5-6. Risk Management Accounting Seminar in New York, sponsored by Corporate Systems; \$345. Connie Oak, Corporate Systems, P.O. Box 31780, Amarillo, Tex. 79120; 806-376-4223.

NOV. 5-7. Advanced Employee Benefits Course in New York, sponsored by the American Management Assns.; \$555 for members, \$635 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020.

NOV. 5-7. Fundamentals of Marine Insurance Course in New York, sponsored by the American Management Assns.; \$555 for members, \$635 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020.

NOV. 5-7. Workers Compensation: Costs, Coverage and Problems Course in Atlanta, sponsored by the American Management Assns.; \$510 for members, \$585 for nonmembers. American Management Assns., 135 W. 50th St., New York, N.Y. 10020.

NOV. 6. Business Risk Management Workshop in Raleigh, N.C., sponsored by the Society of Chartered Property & Casualty Underwriters; \$70 for members, \$80 for nonmembers. Joan S. Keys, director of public relations, Society of CPCU, Kahler Hall, Providence Rd. (CB #9), Malvern, Pa. 19355; 215-648-0440.

NOV. 6-7. Captive Insurance Companies Course in London, sponsored by Risk Research Group Ltd.; RRG, Bridge House, 181 Queen Victoria St., London EC4V 4DD.

NOV. 6-7. "Defending Medical Malpractice—Hospital Liability Cases" Seminar in Orlando, Fla., sponsored by the Defense Research Institute; \$175 for members, \$200 for nonmembers. Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

NOV. 10-12. Insurance Loss Control Conference in Indianapolis, sponsored by the Alliance of American Insurers, the Insurance Loss Control Assn. and the National Assn. of Mutual Insurance Cos.; \$65 for members, \$75 for nonmembers. Alliance of American Insurers, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-558-3700.

NOV. 12-14. Self-Insurance and Risk Retention Course in Chicago, sponsored by the American Management Assns.; \$510 for members, \$585 for nonmembers. Also **Dec. 10-12** in New York. AMA, 135 W. 50th St., New York, N.Y. 10020.

NOV. 13-14. How to Analyze and

Forecast Insurance Risks Course in Chicago, sponsored by the American Management Assns.; \$435 for members; \$495 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020.

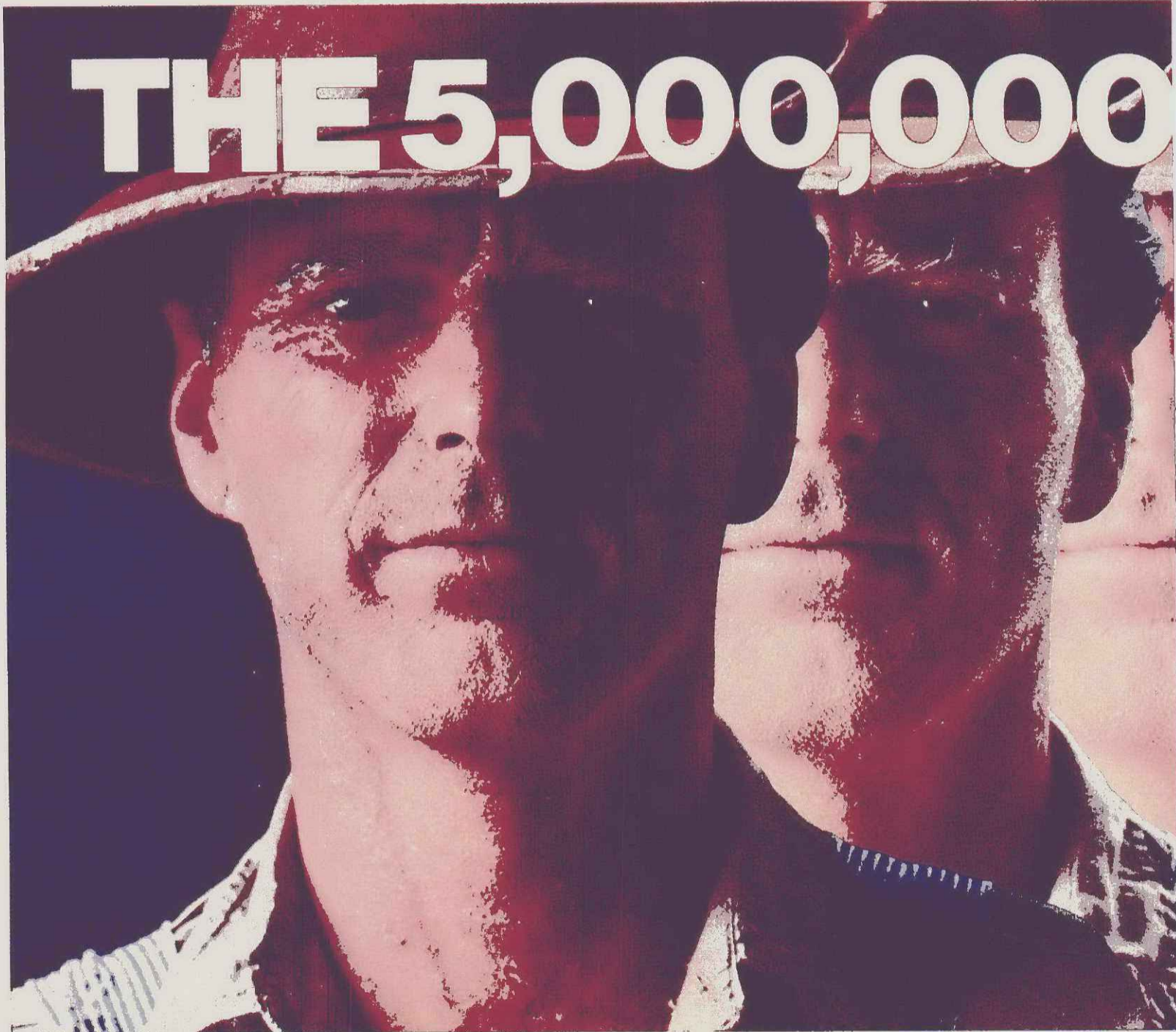
NOV. 13-14. Self-Funding Your Employee Benefits Course in Springfield, Va., sponsored by the American Management Assns.; \$435 for members, \$495 for nonmembers, AMA, 135 W. 50th St., New York, N.Y. 10020.

NOV. 17-18. How to Audit and Check Insurance Policy Costs and Coverages Course in Los Angeles, sponsored by the American Management Assns.; \$435 for mem-

bers, \$495 for nonmembers. American Management Assns., 135 W. 50th St., New York, N.Y. 10020.

NOV. 17-19. Fundamentals of Employee Benefits Course in Detroit, sponsored by the American Management Assns.; \$555 for members, \$635 for nonmembers. Also **Dec. 8-10** in Arlington, Virginia. AMA, 135 W. 50th St., New York, N.Y. 10020.

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Texas Coastal and Marine Council, P.O. Box 13407, Austin, Tex. 78711.

- A free booklet, **Workers Compensation—The System in Perspective**, is being offered by Liberty Mutual Insurance Co. The booklet highlights the strengths of the system and encourages its continued support. It also details the company's efforts in the areas of claims control, research, rehabilitation and loss prevention. For copies, write Public Relations Department, Liberty Mutual Insurance Co., 175 Berkeley St., Boston,

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- **Captive Insurers: Money Machines?**, the papers presented at the Fourth International Captive Insurance Co. conference held last March in Bermuda, is available from Risk Planning Group Inc. for \$35. Write Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820.

- **The Risk Manager's Liability Guide** reviews the agent/broker system, duties and obligations of agents and brokers and revision of improperly written policies. The book is available for \$14.77 from Frederick J. Fisher, Miller & Gilbert, 4340 Redwood Highway, #12, San Rafael, Calif. 94903; 415-499-8444.

- The September issue of the **Employers HMO Service Newsletter** presents more than 100 questions asked by employees about HMOs and the typical answers. The newsletter provides insight into how HMOs operate, how to communicate about HMOs and how to evaluate HMOs. *Business Insurance* readers may receive copies of the issue for \$3 prepaid. The regular price is \$5. Write Personnel Research Associates, 49 Oakridge Road, Verona, N.J. 07044; 201-239-6154.

- Two new **Hazardous Waste Management Guides** are available from J.J. Keller & Associates Inc. The publications provide information on compliance with the Environmental Protection Agency's Resource, Conservation and Recovery Act, which covers proper handling and disposal of hazardous wastes. The 800-page guide is available for \$69, the 600-page **Hazardous Waste Services Directory** is \$49. For more information, contact J.J. Keller & Associates Inc., 145 W. Wisconsin Ave., Neenah, Wis. 54956; 800-558-5011.

- The 1980 edition of the **Workman's Compensation Analysis** published by the U.S. Chamber of Commerce provides information on state workers compensation laws, including coverage of laws, benefits provided and administration of laws. The booklet is available for \$6 with reduced individual costs for bulk orders. Write for publication #6174, Chamber of Commerce of the United States, 1615 H St. N.W., Washington, D.C. 20062.

- Would you say that the reliability and productivity of **over-65 workers** are equal to that of younger workers? Yes, according to Bankers Life & Casualty, and sometimes better. The results of the company's study are contained in a 15-page booklet. For a free copy, write Robert P. Ewing, Bankers Life & Casualty Co., 4444 W. Lawrence Ave., Chicago, Ill. 60630.



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2 other appointments

Philly Manufacturers picks Cockley vp

VALLEY FORGE, Pa.—Robert R. Cockley has been named vp-underwriting at Philadelphia Manufacturers Mutual Insurance Co.; **C. Shreve Davis** promoted to vp-engineering; **John F. Faustman** appointed assistant vp-assured reinsurance.

Other insurer changes:

Richard E. Davis elected assistant corporate secretary of Reliance Risk Management Inc.

comings & goings: industry

Gordon W. McGill elected vp of claims for Unigard Insurance Group in Seattle. **Fred E. Nelson** appointed resident vp; **James C. Lett** named assistant vp-commercial property; **Roland D. Cranson** promoted to assistant vp-loss control; **Joe E. Dean** named assistant

vp-reinsurance and excess lines.

James M. Sweitzer promoted to second vp in the home office and **Thomas C. Jones** named assistant vp in the St. Paul office of General Reinsurance Corp., based in Greenwich, Conn.

Donald B. Peat placed in charge

of all treaty operations at Scor Reinsurance Co. of Dallas and acts as backup to the executive vp; **Roger P. Milbert** promoted to group head level in charge of treaty underwriting and services with the added responsibility of the claims and actuarial departments; **W.E. Gilson**, promoted to group head of all property and casualty facultative operations; **Gerald M. Olney**, promoted to head of the treaty

marketing department; **Robert W. Hessel**, **Pershing Berthelot** and **Marcus Corbally** elevated to heads of casualty facultative, property facultative and technical risk departments, respectively.

Joseph F. Kukla named director of industrial hygiene for Western Employers Insurance of Santa Anna, Calif.; **George R. Haswell** named branch claims manager in the Fullerton, Calif., office.



Kukla

William O. Lane elected secretary in the property/casualty underwriting department at The Hartford Insurance Group in Hartford; **Donald J. Denges** elected assistant secretary in the underwriting department.



Lane

James W. Sundquist named vp-underwriting at Bituminous Insurance Cos. in the Rock Island, Ill., home office.

James R. Neidermyer elected assistant vp at Reliance Insurance Co.

Patricia A. Furst appointed assistant secretary of the American Reinsurance Co. in New York.

Broker changes

Richard R. McKay elected chief executive officer of Adams & Porter Associates, a Houston-based insurance brokerage. Mr. McKay replaces Clyde Hanks, who remains chairman of the board.

Marvin J. Zmudzynski appointed marine and inland marine supervisor of Marketfinders Inc./Burns & Wilcox Ltd., managing general agents and excess/surplus brokers in Southfield, Mich.

John Ekberg named executive vp for Chancellor Ltd., a managing general agency for Beneficial Standard Life Insurance Co. in California.

John R. Dobbs named general agent in Fargo, N.D., for the Northwestern Mutual Life Insurance Co. in Milwaukee. Also **Edward A. Burch** named general agent in Memphis, Tenn., and **Thomas E. Goris** named general agent in Milwaukee.

Paul S. Kormanik named head of the Columbus agency of Provident Mutual Life Insurance Co. of Philadelphia. **Alvin W. Reitz II** appointed head of the greater Chicago agency of the same firm.

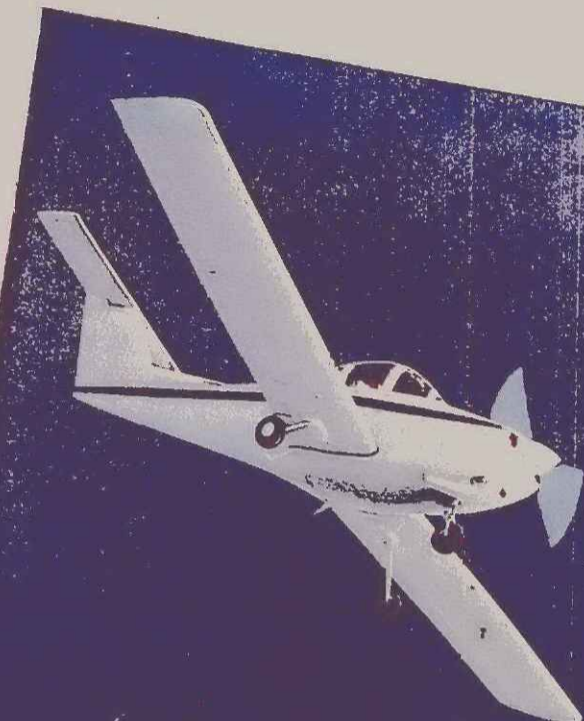
William F. Fairbanks named director of risk and financial services at Fred S. James & Co. of California in Los Angeles, responsible for risk analysis, program creation and implementation for larger commercial accounts.

Jack N. Abernathy named managing vp of the Charleston, S.C., office of Alexander & Alexander from a vp and manager of the production department of A&A's Atlanta office.

Other suppliers

John H. Walton appointed director and vp-underwriting for KCC Syndicate Managers Inc. of New York.

Douglas A. Palmer named professional loss-control counselor at the Florida Construction, Commerce & Industry Self-Insurers Fund of Sarasota.



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Contact counsel to speed Lloyd's claim payments

Peter Green, Lloyd's of London chairman, concerned about complaints of slow payment of claims, said in BI's August 18 issue that "the Committee of Lloyd's intends to look at this problem closely. I have ordered that all complaints of late payments of claims should be shown to me."

Since this remark, Business Insurance has received numerous complaints that Lloyd's is not really interested in hearing about late claim payments.

One reader said he called London at his own expense and was transferred to five different departments. When he was transferred to a sixth department, he hung up in disgust. Where, he asks BI, does one go exactly to inform Lloyd's of late payments?

Lloyd's official advice is to write to the manager of the advisory division, Lloyd's of London, Lime Street, London EC3M 7HA, England. But for those who believe this may be impersonal or time-consuming, here's a shortcut:

"The quickest, cheapest and most efficient way is to call us," said James A. Greere, partner at LeBoeuf, Lamb, Leiby & Macrae. Mr. Greere's law firm is the American general counsel for Lloyd's in New York.

If you write to London with a complaint or call London directly, Lloyd's will probably pass on your complaint to its American general counsel.

But Mr. Greere says a phone call will not be enough to take care of late payment complaints.

In most cases his firm will ask the policyholder to send a letter of complaint with documentation of the policy. This must include the name of the American broker handling the risk and the Lloyd's broker, he said.

"Not every complaint has its origins in London," Mr. Greere said. A company will make a claim to its American broker and be asked to sign a proof of loss. The broker then sends it to his Lloyd's broker, who takes it to the primary Lloyd's underwriter.

Then a loss adjuster reviews the loss. Then it is sent back to the underwriter, who arranges payment.

"A number of people are in the chain," Mr. Greere said. "It is possible to make a mistake."

LeBoeuf, Lamb, Leiby & Macrae will examine the delay of claims payment to see where the fault lies.

Sometimes it lies with the American broker or sometimes with Lloyd's. And sometimes the underwriter has a question or two about the loss.

"We try to move these things along as quickly as possible," he said, but that still may be awhile. "It depends on the source of the problem."

To contact Mr. Greere or one of the other partners in the firm, call LeBoeuf, Lamb, Leiby & Macrae, 140 Broadway, New York, N.Y. 10005; 212-269-1100. Ask for Mr. Greere, Donald J. Greene, Thomas E. Burke, Patrick Scognamiglio or the firm's head legal assistant Eileen Joyce.

If you just want to inform Lloyd's of London that you have had claims payments delayed, write to Peter Green, chairman of Lloyd's, or Lloyd's secretary gen-

eral J. Hodges. Their address is Lloyd's of London, Lime Street, London, EC3M 7HA, England.

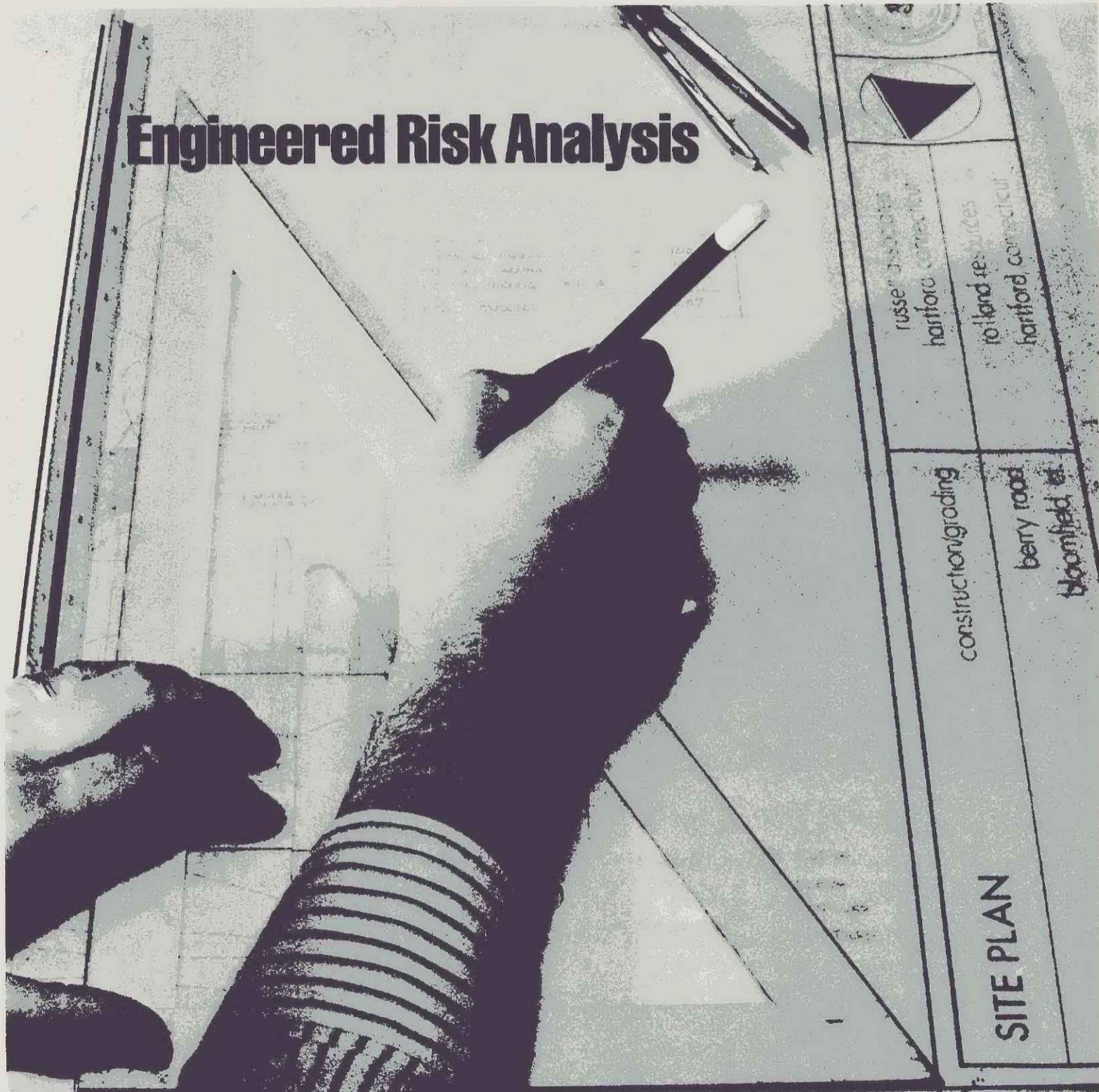
Action line will answer readers' requests for information. Have a question regarding insurance or your profession? Write Action line, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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'Senser' style reaps results: Broker

By MARY ANN MATLOCK

NEW YORK—Say it short. Write for results.

That's the best way for a risk manager to communicate with corporate superiors, advises Pamela J. Newman, Marsh & McLennan vp.

This style, known as "senser," is often especially effective when superiors are pragmatic, assertive, directional, results-oriented, skillful, objective and perfectionists, Mrs. Newman told a local RIMS chapter meeting.

"Risk management is very much a 'meet the deadline,' annual report situation," Mrs. Newman noted. "It tends to produce that (senser) type of mentality."

Other communication styles, according to studies of human be-

'No one style is better than any other, but some styles are more suitable,' says Pamela Newman.

havior based on psychologist Carl Jung's theories, are intuiitor, thinker and feeler. They may sometimes be appropriate.

An intuiitor often communicates in intellectual abstract terms. A thinker uses a well-organized, structured style. A feeler communicates in a highly personalized style.

"No one style is better than any other, but some styles are more suitable to the situation you're in," Mrs. Newman explained.

For risk managers she says, "you'll go further if you use the senser model," since superiors are often in finance.

To effectively use this communication style, Mrs. Newman offers recipes for two types of reports: analysis/evaluation and description.

When trying to show a superior how to cope with a current problem, she suggests the following topics: precise description of the

problem; cause or causes of the problem; alternative solutions or corrective actions that should be considered; recommended solution or courses of action; steps to take to get started, and people to put in charge.

Staff assignment descriptions at the beginning of a project should include goals and aims, steps and aspects of the engagement; staff assignments; deadlines and budgeted hours, and available resources.

"Sensers often like a brief overview, an oral presentation with slides or talk outlines," Mrs. Newman said. These types are usually concerned with the present. They want to focus on results.

Often the executives are inclined to read capsulized forms of information, such as the news briefs.

Professionals most likely to use this communication style are financial vps, bankers, sports coaches, accountants and stock-brokers.

If you think your boss is not a senser, Mrs. Newman suggests other styles:

- Intuitors are often best handled by preparing information that allows them to come to a conclusion themselves. Professionals who often use this style are in advertising, marketing or education.

- Thinkers, however, are best approached by historical style, which discusses all possible alternatives and precedents. These types work in law, accounting or insurance.

- Feelers are most often receptive to a personalized approach that allows room for individual recognition. Professionals who communicate this way are often in the clergy, social work or sales.

"Communications is a system, a set of behavior patterns which become habit. We've given you a system, you can pick which one to choose," Mrs. Newman said. ■

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Committee to study wastes

PHILADELPHIA—The American Society for Testing and Materials has formed a waste disposal committee to seek answers to hazardous waste disposal problems.

The panel will try to develop standards for industry for testing of waste and specifications for its disposal.

ASTM is a nonprofit organization that explores material and waste handling problems.

The committee will develop standards to ensure that companies will be in compliance with the 1976 Clean Air and Clean Water Act and the Resource Conservation and Recovery Act, said Dr. Harvey Yakowitz, an officer of the panel.

"Standards are needed in this area that would prove beneficial economically, sociologically and politically," he said.

"ASTM standards should provide the best possible measurement and testing basis for regulations developed to implement federal statutes," he said.

Besides mapping out guidelines for disposal, the committee will also promote research, ASTM said.

Tackling more detailed problems will be a subcommittee assigned to look into material sampling monitoring, extraction of toxic substances from other materials, testing for health and environmental effects, transportation and containerization of materials and evaluation of liner materials for waste containers.

Site selection also will be studied. The focus will be on how geographical features, landfill and incineration can be used effectively.

The full committee will have its first meeting Jan. 11-15 in Fort Lauderdale, Fla.

Other officers are: Charles Malloy, special assistant to the president of Engineering Science, a consulting firm in Berwyn, Pa.; William C. Webster, a private consultant in Morristown, Pa.; Larry P. Jackson of the U.S. Department of Energy; Jacqueline M. Rams, executive director of Waste Management Organization of Washington, D.C., and Gene Aleshin, a private consultant from Cincinnati. ■

Risk managers can help market risks: Brokers

LOS ANGELES—Risk managers with a knack for communicating their programs to underwriters can play an important role in marketing their risks, brokers say. Large line underwriters who scrutinize every risk individually may take a kinder view of a hazardous exposure if the risk manager impresses him or her with the attitude of management toward safety and product control, points out Larry Lawrence, president of Emmett & Chandler.

"My favorite risk manager to take before the underwriters is the person who has grown up with the company, knows the philosophy of management and all the technicalities of the risk," notes Robert Degner, executive vp of Fred S. James & Co. of California. "We don't risk any surprises in such meetings."

Only the risk manager has full recognition of all the exposures of his company, observes Don Huff,

Preparation, full disclosure and communication are important.

President of Rollins Burdick Hunter of Southern California. It's essential to preempt the underwriter with complete, organized loss data before going into the marketplace. Otherwise, the buyer may be forced into a defensive position."

The key to successful joint meetings among risk managers, brokers and underwriters is preparation, full disclosure of corporate exposures and effective communications, agreed top Los Angeles brokers at a recent local RIMS chapter meeting.

Theme for the evening's after-dinner speakers was the role risk managers can play in assisting brokers to present and sell the insured risk to underwriters. The session was attended by about 125 local RIMS members, including Paul H. Ozan, current national RIMS president, and Ron Judd, RIMS executive director.

Lack of full information makes underwriters more rigid, explained Mr. Huff.

Insurance companies have a very organized, systematic approach to collecting loss exposure data—the risk manager can help out by gathering and presenting that information in a way that is compatible.

Before a meeting with an underwriter, the risk manager should establish in his or her mind the scope of insurance coverage and service he seeks.

"These features should be understood as negotiable and outlined at the outset," said Mr. Huff. "Communications between risk manager, broker and underwriter must be extremely well planned out," cautioned Mr. Lawrence. They should not be too social—that can get you into trouble," he stressed.

But a risk manager can be extremely helpful in persuading the underwriter of his or her company's sincere efforts on the loss prevention front. There are times when it's appropriate to

bring in the company's technical staff, Mr. Lawrence added:

"The development of trust is an irreplaceable commodity in this business," Mr. Lawrence emphasized.

"But some risk managers should never meet underwriters," said Mr. Degner. They may lack the communication skills or the appropriate background.

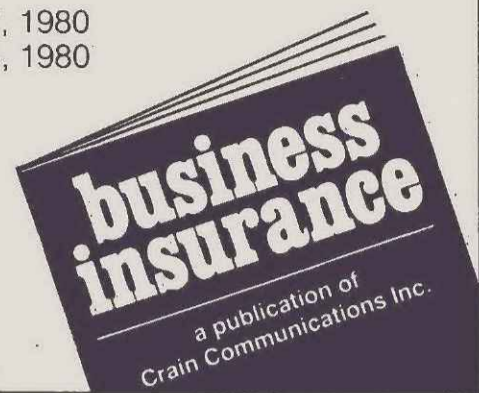
The broker must read these characteristics and decide whether a joint meeting with the underwriter would help or hinder his client's interests. ■

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7,000 study for CEBS

BROOKFIELD, Wis.—Enrollment in the Certified Employee Benefit Specialist program has reached the 7,000 mark, reports Helen K. Morton, president of the International Foundation of Employee Benefit Plans.

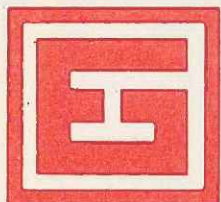
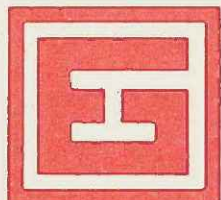
Developed by the Milwaukee area International Foundation and the Wharton School of the Univer-

sity of Pennsylvania, the CEBS program is designed to provide a thorough knowledge of employee benefit principles and concepts to those working in the benefit field.

The CEBS professional designation will be given to 167 graduates of the program for the first time in November at the foundation's 26th

annual educational conference in Honolulu.

Information on the benefit certification program may be obtained from the Certified Employee Benefit Specialist Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.



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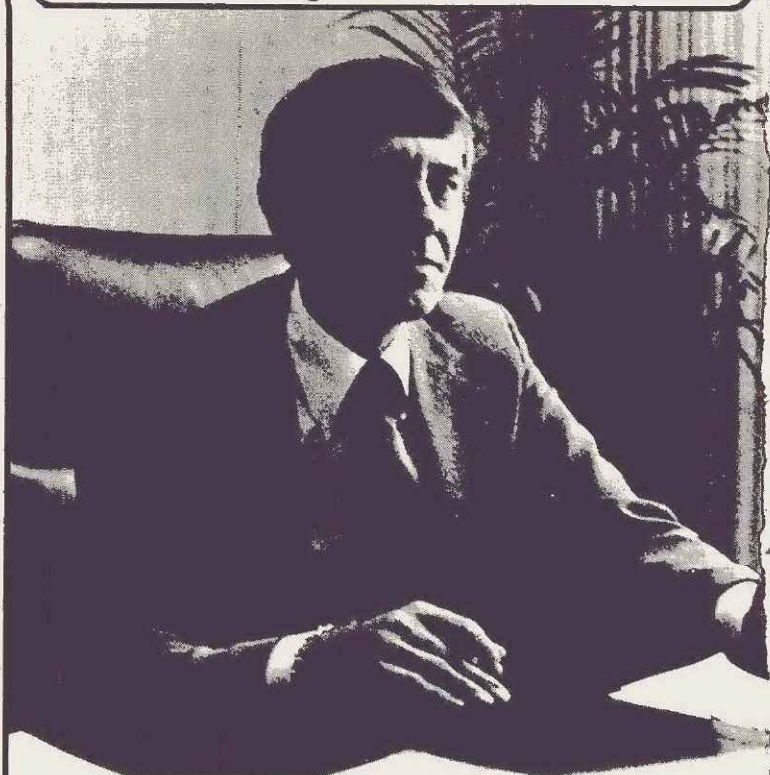


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someone you should know



Bob Keul

I would like
to stress that
we are brokers

By RHONDA L. RUNDLE

LOS ANGELES—"Our goal is to be the No. 1 excess/surplus lines broker in the United States by the end of the 1980s," said Bob Keul, president of Montgomery & Collins Inc. since Sept. 1.

That's a pretty tall order, considering M&C ranked sixth in this year's *Business Insurance* survey of E/S brokers. When figures are compared, the gap is even greater. In 1979, M&C chalked up \$7 million in gross revenues; frontrunner Sayre & Toso reported \$26 million.

But Mr. Keul insists his objective is realistic—not just corporate wishmongering. The company's expanding distribution system and access to myriad major U.S. and London markets are the key. He explains why:

"If there's anything I would like to stress, it's that we are brokers. That means we have the ability to place a risk in more than 40 markets. But we're getting the reputation of being exclusively an INA company."

"We are," Mr. Keul explained, but not in the sense that M&C conducts most of its business with its parent, the Philadelphia-based insurance giant. "The major source of our business is not INA agents and brokers," he added.

This broking emphasis distinguishes M&C from two competitors, Mr. Keul believes. Sayre & Toso channels a large portion of its risks into the insurance subsidiaries of its parent, the Mission Group. Swett & Crawford uses its special risks insurance unit, the Harbor Insurance Co.

The future of E/S lines is in forming strong ties with the regional agents and brokers, Mr. Keul says. "To serve them, we have to spread out. That means building a widespread distribution network—taking facilities to the local retail producers."

M&C believes that with 23 U.S. offices, it already has more branches than any other wholesale broker. New offices will open soon in Detroit and somewhere in the Midwest.

Traveling to many of these offices and getting to know the people who work in them has kept Mr. Keul very busy since he signed on with M&C last January. He joined the firm as one of four regional vps, leaving his post as Pacific Coast regional manager of Swett & Crawford.

"But he was really hired as the next president," said Joseph Graham, who will continue as M&C chairman until he retires at the end of the year. "It was all understood from the outset," he added.

The transition has gone very smoothly, both men agree. "I've had eight months to work side-by-side with my predecessor, both in the field and in the home office," Mr. Keul noted. "Sometimes these changes can be sticky, but this one has been ideal."

"My biggest frustration with the new job is finding time for a wide range of responsibilities," said Mr. Keul, after reflecting a minute or two. M&C has deliberately kept the

Continued on facing page

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

The traumatic ten: Your step-by-step guide to hiring new producers

By DAVE GALANTI

sultants, agents, brokers and specialists.

When to hire

When is it possible (or even advisable) for an agent or broker to add to his or her staff? Are there financial guidelines? Is the size of the agency a factor? Should an agency add staff for the sake of growth, or only to replace a producer who is leaving?

"It's really a personal decision—it depends on the agency and the principals involved," says Chuck Wright of Zillgitt & Wright in Marina del Rey, Calif. "We've looked for guidelines but have never found any because each agency is different."

"Principals have to decide whether they want to produce or manage. If they want to go out and sell, they may be better off hiring technical people to manage the agency. If they want to manage, then an added producer might solve their problems."

Hardy Payor, president of West Coast Insurers in St. Petersburg, Fla., believes in the paperwork theory.

"I think the time to hire someone new is when you find that your staff can no longer
Continued on next page

CHICAGO—Producers. You can't live with them, you can't live without them.

Unfortunately, when you must replace a retiring producer or add a new one, you might wish you could. Agents and brokers know how to handle risks. But few have lots of experience hiring.

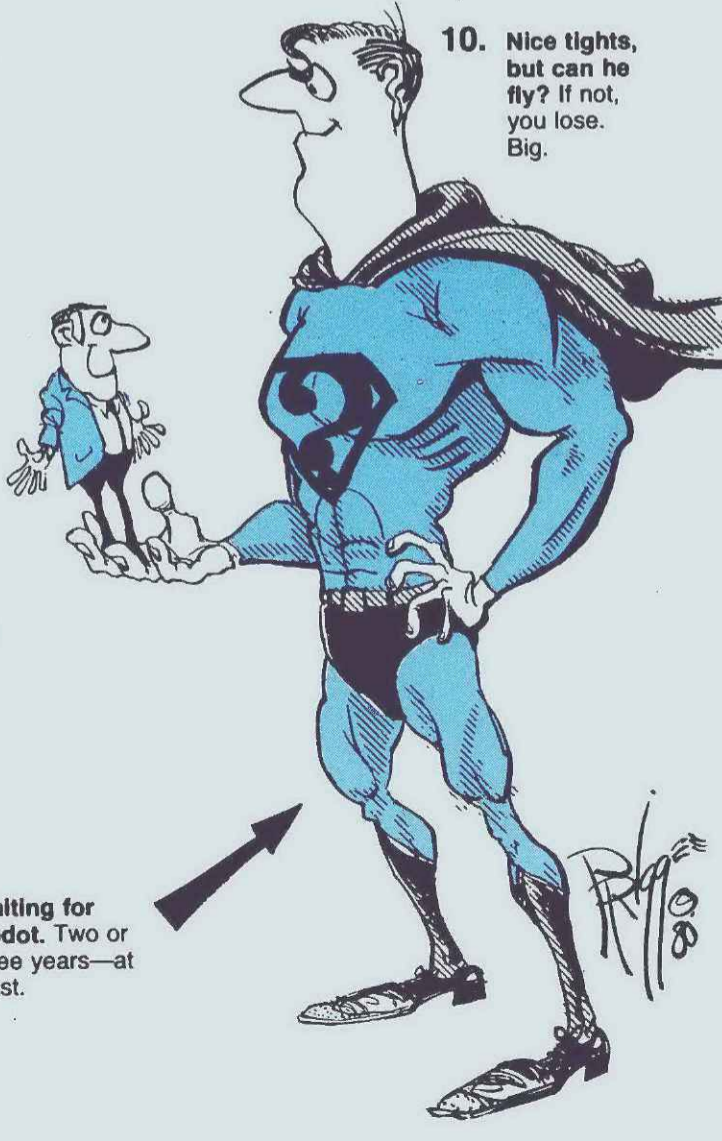
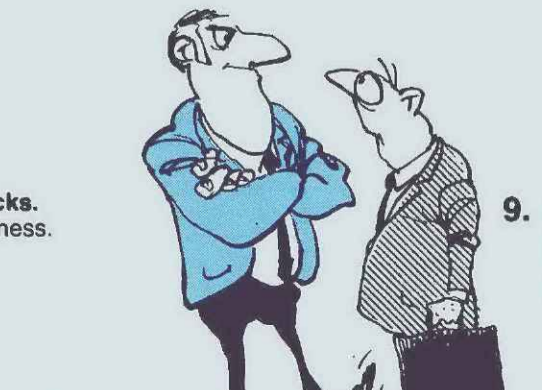
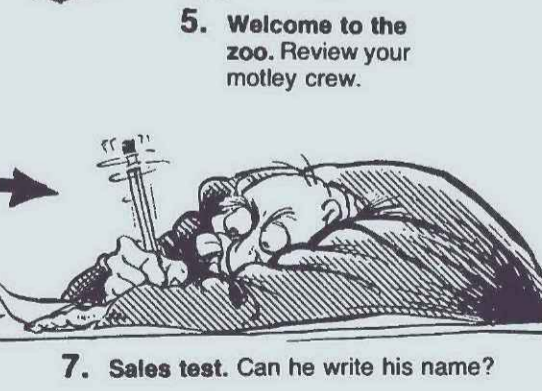
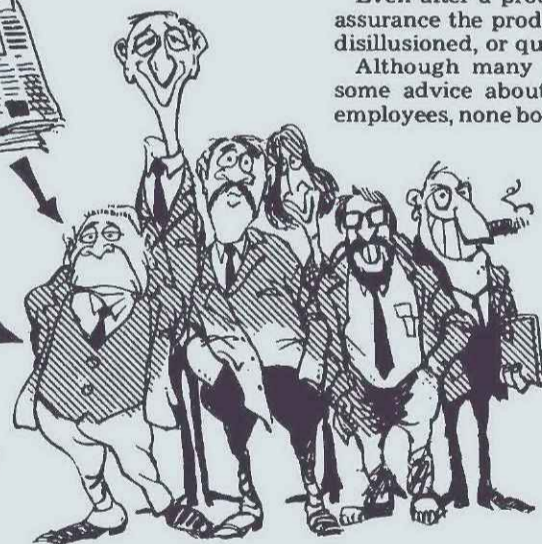
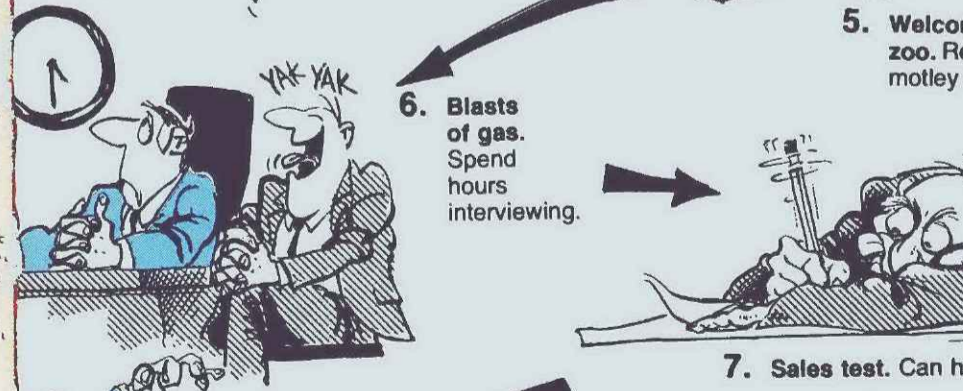
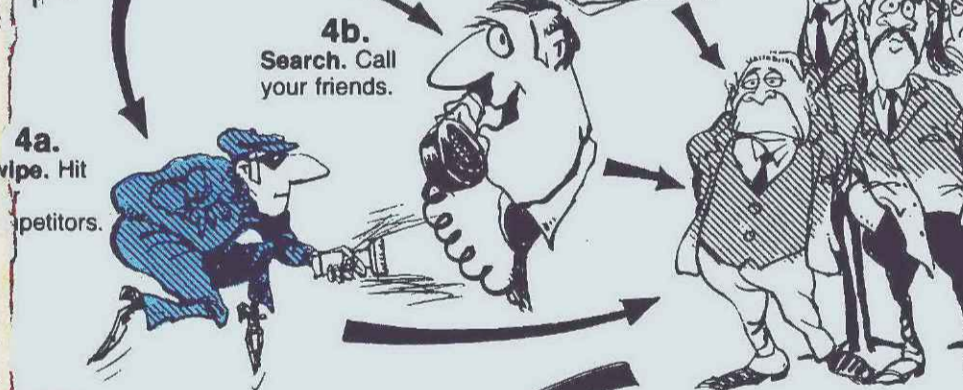
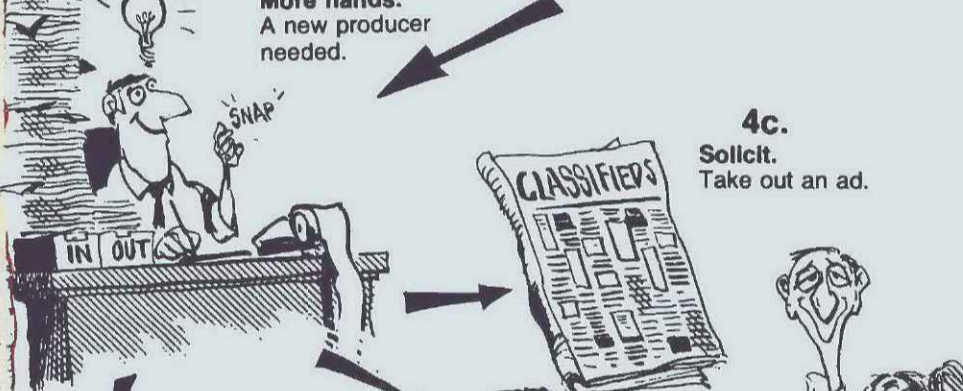
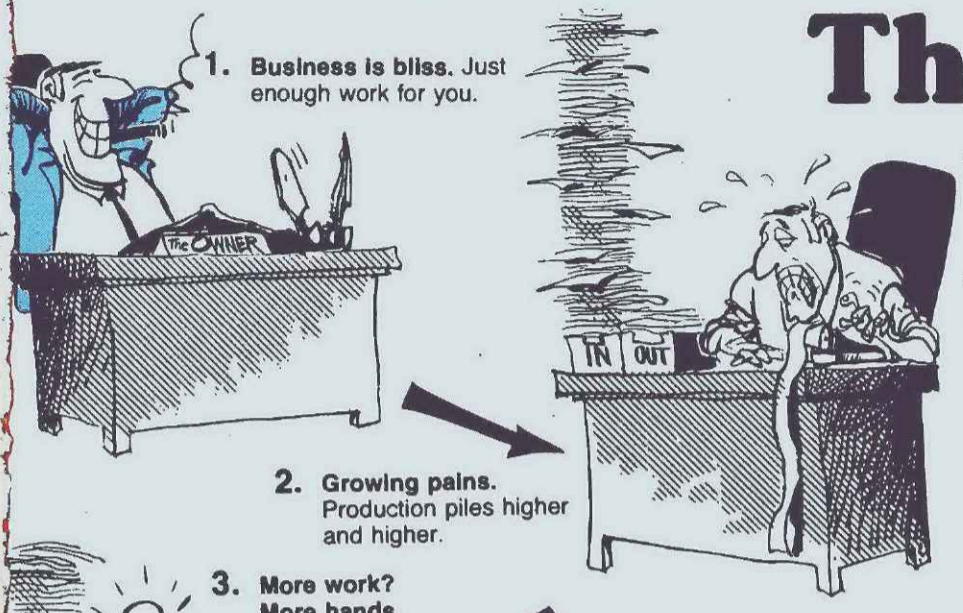
And no one is happy when the hiring process result is a lifeless account executive.

Hiring a producer is hard work. First you have to decide you need one. Then you have to decide where to find one.

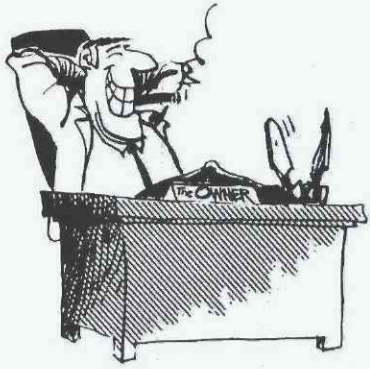
Then comes the search for Mr., or increasingly Ms., Right. After training, you watch and worry until the new salesman is fully ready to leave the crib. It could take up to three years.

Even after a productive year, there's no assurance the producer won't grow bored, disillusioned, or quit.

Although many industry experts have some advice about hiring these valuable employees, none boasts that he has the complete solution. But here's some of the best guesses of con-



Hiring new producers isn't easy



eds often grows older as the producers do," Mr. Goodfellow says. "You need that younger base of customers to perpetuate your business, so a new producer pays for himself sooner than many agency principals might think.

"And for the independent agents, at least, there is a severe need to grow so they can compete with the direct writers and large national brokers. An agency might have grown 300% in 10 years, but when you compare the growth to inflation, they really aren't making much more.

"They're going to need that extra income to finance the high overhead that will come with computerization," he adds. "Computer capacity is cheap once you get past the initial costs, and the more producers you have to pay the overhead, the better. Another reason to add producers is that if there is no second generation to replace the elder principals, those principals deny themselves the real benefits of an inside buy-out upon retirement."

However, Mr. Goodfellow says, there are also good reasons not to add on a producer.

"If an agency principal is satisfied with his income and has arranged a method of getting equity out of his agency, then there is no reason to expand," he says. "But sometimes you can use agency profits to hire someone and increase that equity later.

"Also, for the agency under

\$750,000 in premium volume, it would be very hard to support the salary of an added producer. I would guess you would have to increase that to about \$1 million before you could start considering an increase in producers. An agency that handles \$1 million can handle \$2 million in premium with the same overhead.

"I guess it would also be tough to hire someone in a tight market like we had in 1975, because it would be tough for the new producer to get enough business on the books. Today, however, volume requirements from insurers are up and agencies might have to bring on new people to keep pace."

To Russell Chaney, vp of the ISU Cos. franchise group, the decision-making process is simple.

"There has to be a commitment to spend more time and more money if an agency is to add a successful producer," Mr. Chaney says. "They might seem elementary, but that is the decision that is not being made today."

Where to look

The next step, experts say, is to determine where to look for a salesmanship wonder. You could find him or her anywhere—from an agency's own backyard or across the nation. From another agency or right out of school.

Some brokerage executives say they don't have time to train and so rely on experienced help—usually

swiped from the brokerage next door.

The nation's ninth largest broker, Arthur J. Gallagher & Co., is proud of its "recruiting" efforts that draw experienced staff from other brokers to its doors in search of personal growth. But others try to do the same.

"Our sources for new producers are insurance companies and more likely other agents and brokers," says Alexander Ellis, president of Fairfield & Ellis in Boston. "Once in a while from another town, but not often.

"We've been fortunate in attracting this type of seasoned help," Mr. Ellis adds. "There are many producers located elsewhere in the U.S. that sincerely want to return to New England to work. We can provide them that opportunity if they are good enough."

From his perspective at a larger firm, Marsh & McLennan, Tampa office manager Andre Paquet agrees. He looks at the insurance companies as a potential source of producer talent.

"A trainee would be a waste of time for us because in this office we're always trying to catch up with existing business," Mr. Paquet says.

"I prefer someone with a proven insurance sales background, and someone that has the technical backing that can be supplied by the insurance companies. They then have an idea of rating and what the underwriter wants.

"A couple of years of insurance company experience is good. It helped me when I started out," he adds. "Of course, it is harder to go to the insurers for people because they are moving to stop the flow of talent to the brokers. The easily available people around today in this area are usually the ones you don't want."

Some brokerages don't want experience. They would rather have ambition. They look in colleges or other sales fields. They talk to friends.

Emmett Vaughan, director of the Institute for Insurance Education and Research at the University of Iowa, says many agents and brokers come to his school looking for the cream of the crop.

"Our graduates don't have any problem finding jobs," he says. "I can't speak for other schools, but for us the insurance major is a boom field. We get a number of brokers that come here year after year looking for our best."

About one-third of the university's graduates enter jobs in agencies and brokerages, not all as producers. Those that do, Mr. Vaughan says, aid their new bosses by bypassing some of the basic training a new producer usually faces.

The FAIA's Mr. Goodfellow also recommends the college insurance major.

"I think those universities are some of the most fruitful places to look," he says. "Those are the stu-

Continued from previous page handle the load you are giving them. Then you can start the new producer off with a little business of his own," Mr. Payor says.

For a high-growth agency, there is the "we'll-consider-hiring-anytime because-you-can't-get-the-good-producer-when-you're-looking" philosophy. John Perkins, president of Corroon & Black of Massachusetts, says he is constantly interviewing potential producers in anticipation of future growth.

"On occasion, we hire someone at a time we normally wouldn't because we know we will keep growing," he says.

That's close to the view of Steven Goodfellow, management programs director of the Florida Assn. of Insurance Agents. The salaries of beginning producers, he says, are expensive because they come right off the profits on the balance sheet. But it is worth the expense because agencies need them to grow.

"First, an agency's base of insur-



Train or test?

Gallagher picks the cream of the crop while in college.

Jeanne and Herbert Greenberg's test measures personality.



Gallagher grows its own

ROLLING MEADOWS, Ill.—When it comes to grooming producers for the future, Arthur J. Gallagher & Co. believes in growing its own.

And if the picture above looks like a school graduation photo, it is. Gallagher believes in finding motivated people early, then nudging them along for two or three years until they blossom into insurance professionals at graduation.

Through their 18-year-old summer training program for college students, Gallagher officials try to keep a steady stream of dedicated, trained producers flowing into the nation's ninth-largest brokerage, says executive vp John Gallagher (A/BT, May 28, 1979).

This summer, 15 college students took part in the seminars, which include classroom seminars, field work and internships in all Gallagher departments. The program puts quite a financial drain on the organization, Mr. Gallagher says, but is worth it in the dividends paid by the youths later in their insur-

ance careers.

The program searches for aggressive youths right after their freshman year. Choosing which ones to participate isn't really difficult, he adds.

"We do have some testing and screening procedures we use, but you can't decide who to hire on testing alone," he says. "That is like judging whether to admit someone to college on the basis of SAT scores alone. We ask the student what he has done at school, whether they have had any experience selling and other questions on the student's background.

"Then we take the combined reactions of several of our people here and make a decision. The main question we ask is whether the student is the type of individual we would want to represent us in someone else's office," Mr. Gallagher says.

Starting the students off early in their careers allows them to become interested in Gallagher and vice versa, Mr. Gallagher says.

"We pay them, but not very much," he says. "But we get quite excited about

it. We find if a student stays with us for three summers, he or she is usually excited about us as well."

The program has been extremely successful, he says. Many program participants have become successful producers and have moved up the corporate ranks to branch manager or higher.

"There is no sure way of telling how these people perform against producers we hire from elsewhere, but I think they are better than the ones we recruit from other sales firms and about the same as a person who was in a non-sales position at another insurance firm," Mr. Gallagher says.

"But this program has its benefits," he adds. "If I hire a trainee and work with him for a six-month interval over a three-year period, I've seen him, he's seen me and we probably get along. Besides, it is rare that a trainee decides not to stay, and Gallagher & Co. would be foolish not to provide for its future."

Mr. Gallagher says he is looking at 10 participant applications for four new positions next summer.

Agent tests prospects

CHICAGO—Some agency principals try to reduce the uncertainty of hiring producers with personality testing.

"We use one to hire all our new people," says Herman Sorin, vp of the Sorin Insurance Agencies in Hollywood, Fla. "Through interviews, we come down to two or three candidates, then test the best one and hope to confirm our choice.

The test Mr. Sorin uses was developed by Herbert and Jeanne Greenberg, president and executive vp, respectively, of Personality Dynamics. The firm has conducted numerous job matching studies for both the government and private industry.

For about \$100, agencies can obtain a copy of the personality test from Personality Dynamics, test a potential producer and receive the results the same day the test is received in New Jersey. The test, Mr. Greenberg says, measures three qualities that are vital to producers: empathy, ego-drive and ego strength.

"The insurance industry has always had people that

are good at servicing business," he says. "Agents felt that if they serviced accounts well, business would come to them.

"But with increasing competition, selling has become more important," Mr. Greenberg adds. "Agencies are beginning to need straight sales people, people who can separate selling from the technical details. The direct writers know that. The Allstate person behind the desk at Sears is certainly not the underwriter or claims expert.

"You often hear that the old producer isn't as good as he used to be," he concludes. "That may be, but it really isn't him. The nature of the business has changed. He has to rely more on sales ability today, while 15 years ago he could get away with servicing well."

The answer, Mr. Greenberg says, is to test a potential producer's personality to make sure he has the qualities essential to a salesman. This determination has to be made immediately, he adds, because a mistake will cost an agency

about \$20,000 per person in lost time and effort.

Mr. Sorin says he has tested about 35 people in the last four years. About one-half turned out to be unsuitable for the job. He is very satisfied with the test's results, he says, and sees a strong correlation between the test results and job proficiency.

So he makes the test mandatory.

"If someone balked at taking the test, I'm not interested in hiring them," Mr. Sorin says. "We will not hire without it because the correlation is too high."

Mr. Greenberg cautions that this test is not the only aspect of the selection process, though it lends one piece of objective data that employers can use.

"The agency has to do a good job of determining what their needs are," he says. "Not every team drafts a quarterback every year.

You add staff where you are weak. Take those weaknesses, determine what qualities you need to fill them, then determine whether the applicant has those qualities."

Image helps, experience counts

Do all Marsh & McLennan account executives look like accountants? Do all Fred S. James producers blow-dry their hair? Do all independent agents wear leisure suits?

No, says recruiter Jim Gilbert, most brokerages don't choose their new producers by how they look, dress or talk. But in some parts of the country, an agency might want to find a very special person.

"In this part of the country," says Mr. Gilbert, president of Insurance Recruiters in Dallas, "a brokerage usually wants a good ole boy. In New York, they might want more of a fast talker."

Marsh & McLennan in Dallas, he adds, would most likely veto any producer looking to move from Los Angeles or New York, finding the styles of those cities incompatible with the Texas marketplace.

"E.H. Crump anywhere would ask for one of their own, no matter what office. They

want to hire Southerners," Mr. Gilbert says.

The large alphabet houses do have images, however. Johnson & Higgins account executives are known for conservative three-piece suits and Eastern accents. Marsh & McLennan producers dress conservatively in browns and blues, reflecting a relaxed sales approach.

"You can play the image game to some extent," Mr. Gilbert says.

"But you can't pin dress codes or styles on everyone. All the top 10 brokers are looking for producers who dress well. No one wants a salesman who is terrifically obese or very, very tall and skinny.

"Everyone is looking for a good key man and experience is going to be what counts."

The key man for many large brokers is the alternative funding specialist, notes Atlanta

recruiter Richard C. Gay. "The demand we see is for the claims, multiline and self-insurance specialist.

"There's always been a demand for good marketing and loss-prevention people who can also sell, but the demand seems to have shifted to risk management types," Mr. Gay explained.

Brokers are also looking for producers who know the market area, but not necessarily because buyers are choosy.

"The mortgage rates are so high, it is too expensive to relocate someone. Now the snift has been to producers who know the area and can get sales moving fast," says Mr. Gay, president of Insurance Personnel Resources Inc.

Though the personnel emphasis has shifted away from the hot sales-minded broker to the risk consultant, the executives share one quality. They all look alike in the agency's profit column.

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dents that are already committed to the industry. That leaves you only with the chore of finding out which ones are producer quality."

Another source of producers with experience in insurance, but not sales, are risk managers, some experts say. Many risk managers are skilled in the insurance technique, but are not satisfied with their opportunity to move up in power or salary. Mr. Perkins says Corroon & Black of Massachusetts has hired a risk manager for its own management team. He's not alone, says David Olsen of Johnson & Higgins of Texas.

"We don't have strictly salesman who sell upfront and disappear," Mr. Olsen says. "So we have to have a person who can handle accounts later and maybe market them at the same time. We look for a more rounded character. We have hired some risk managers who are terrific producers because they know the other side. After all, you can only steal so many people from your competitors."

Some agents and brokers don't want to go directly to the source. They may tap advertisements or headhunters to bring potential producers to their doors. Ken Cole, assistant vp, Marsh & McLennan's Denver office, believes ads work well.

"There are always people available out there," Mr. Cole says. "The best way to reach them is through a clear, direct ad in a newspaper telling who we are, the career opportunities available and other pertinent data. We get a good response to that."

That doesn't replace getting on the telephone and calling contacts and friends, he adds. Mr. Cole likes to get references, and references from people he knows in Denver are more valuable than ones from people he doesn't know elsewhere.

Other brokers, including Insurance Management Corp. Tampa office boss Thomas Gillingham, aren't that impressed by ad power. Mr. Gillingham says his agency is looking for a track record of proven sales ability, and the ads don't always draw those people.

"Last year we ran two ads and received a total of 124 resumes," Mr. Gillingham says. "Out of them three were worthwhile. The others wanted us to give them a book of business. We prefer to hire from the direct writers, because they are looking to represent varied companies and are salesman from the word go."

How about recruiters and employment agencies? Most large brokers say they don't use them. Anthony Jones of Fred S. James & Co.'s Denver office has.

"I don't know how many are hired through headhunters throughout the (James) corporation, but we have one producer who was hired that way," Mr. Jones says. "They (headhunters) are probably our last resort, although we let them know that we are always looking for good people."

Continued on page 60F



Photo: Dave Galanti



"If my son wants to do it and can cut it, why not give him the chance?" says J. David Rowland of CRB Insurance.

Producer's son follows in his father's footsteps

RACINE, Wis.—John Rowland II's friends and neighbors here always assumed he would join his father's insurance agency once he graduated from college.

They were right. However, it wasn't as easy a decision for John as those friends and neighbors thought. Until last year, John told himself he wasn't interested in insurance at all.

Although his father, J. David Rowland, is proud John chose to join the CRB Insurance agency, he is just as proud that he didn't push his son.

"I always knew that I probably could get a job at the agency if I

wanted, but I was very averse to working there until prior to my senior year in college," says John, who is now training with Commercial Union Insurance Cos. in its producer offspring program. The program teaches sons and daughters of agency principals the basics of insurance.

"Because it was a family business, people just assumed I would end up there," he says. "But to me, it sometimes seemed like a career cop-out, something I would do if I couldn't do anything else."

John went to Lawrence University and majored in anthropology.

During the summer, he worked in a factory on an assembly line.

"It was really unskilled labor, so it got to the point that doing it didn't excite me," John says. "I was also suffering from an allergy, so I began to look around for something I could do in an air-conditioned room. My father was in one of those businesses, so I thought I would ask him for a job."

"He told me he would think about it, and finally said I could have a job taking pictures of houses for use in his personal lines policyholder's files."

The job didn't have anything to do with insurance, although John was instructed by his father to introduce himself to the homeowner. He used his grandfather's business cards with the "chairman" line cut off.

"I really just thought of it as a summer job—nothing that would lead to anything," John says. "But as I met the people involved in insurance, I got more and more interested in it."

So when John surveyed the job opportunities once he graduated, he decided to give insurance a try. Like many producers, he was first sent to the personal lines department where he could learn the basics of the business.

"I tried to treat John like my dad did me," says J. David Rowland. "He never pushed me or took me by the hand and told me this would be all mine someday. I never felt groomed for the job, and I didn't want John to feel that way, either. Throughout school, John didn't have anything to do with the agency. The subject of him working here never came up. I wanted it to be his decision."

John says he thought "long and hard" before joining the agency, and is still concerned about how it is going to turn out. So far, so good, he says.

"You know, it was funny," he says. "When dad gave me over to the personal lines department manager, the manager was amazed that I didn't know anything about insurance. I guess he figured that since I was the fourth generation Rowland, insurance knowledge would be hereditary—passing through the genes. But dad didn't bring the business home, so we didn't discuss it."

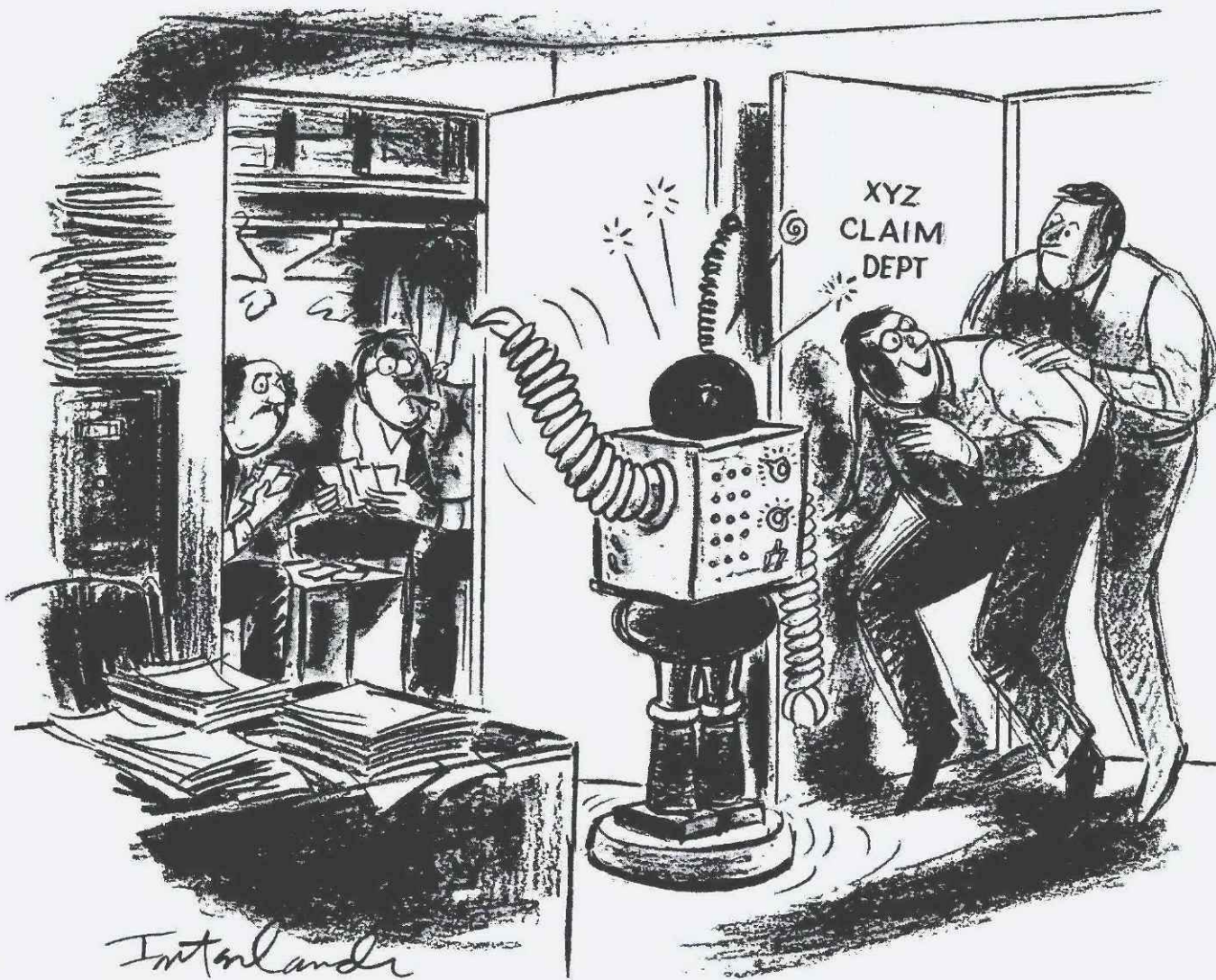
"Deciding to work in insurance has been a tremendous concern of mine," he adds. "I don't feel anymore that I am copping out by doing this, because I really want to. But I hope others don't see it that way."

"I am working harder at learning the business just because I am going into the family business," John says. "The pressure is on me to succeed because people have assumed that it has all been laid out."

"So far, I have taken one CPCU course, and I'm currently taking two others and an IIA underwriting course. I'll have three tests to take in January, plus my job learning the commercial business with CU here in Boston."

His father, J. David Rowland, says he also worried about what effect bringing his son into the agency would have on the 30 other employees there.

"I'm sure that with some situations, bringing a son or daughter into the agency would be a very bad idea," he says. "There's an awful lot of luck involved to make it go well. But if my son wants to do it and can cut it, why not give him the chance? He'll still have to pull his own weight."



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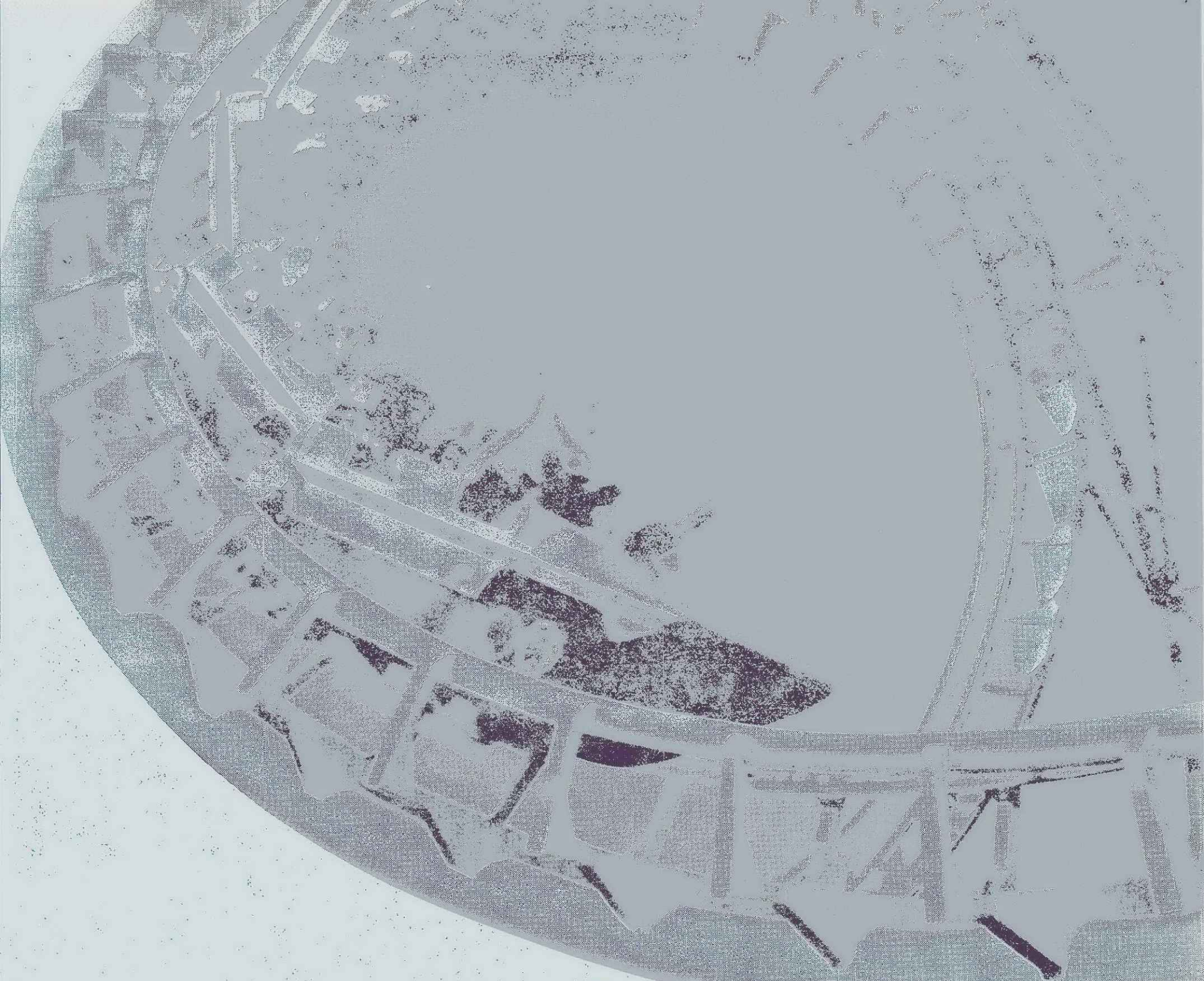
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Hiring trend may be changing

Continued from page 60C
ple to hire.

"The headhunter we use used to work for us," he adds. "She has only sent us two or three candidates, but they all have been good. The majority of headhunters only peddle flesh and don't know anything about the candidate beyond their resume. The one we use is an exception.

"In general, however, I'm wary of someone who needs to use a headhunter. If the applicant doesn't know who the big brokers are in town and how to reach them, he's not exactly full of experience."

Probably the worst way to find a producer is to hire only what comes in your front door, experts say.

"People do walk in here aimlessly once in a while, but those aren't the ones we want to hire," says West Coast Insurer's Mr. Payor.

M&M's Ken Cole agrees.

"Summer is the worst time for us," he says. "A lot of people come to Denver on vacation and stop by to talk. Most are just wasting their time and ours as well. Most just aren't talented enough to work here."

Whom to hire?

What qualities make up the super producer? Is raw sales talent enough, or do producers have to be qualified underwriters and claims representatives, too? Should the producer be right out of school or have experience in the business? If experience is necessary, should it come from an insurer, another agency or a direct writer?



The conventional wisdom says producers have to be super technicians, skilled in underwriting, claims and whatever else the agency prides itself on. M&M's Mr. Paquet says he still believes in that to an extent. Others believe that trend is changing.

"One of the worst favors the agents did for themselves was to hire all the underwriters to become producers," says the FAIA's Mr. Goodfellow. "We ended up with people with technical expertise who didn't sell well and at the same time lost all their proficiency at the underwriting end. But the tendency is to hire people you know, and agents and insurers are close."

One who concurs from experience is Chuck Nielson, a principal of Stevenson, Collinsworth, Nielson Inc.

"We found that the changeover from company to agency does not work well," Mr. Nielson says. "We would rather get someone from off the street or an experienced person with a book of business to bring along.

"You can't take a person who wants to be an underwriter and turn him into a producer," he adds. "Company people want security above freedom and that just

doesn't work. You get a surprise case once in a while, but in general technicians are the worst salesmen."

Fred S. James's Mr. Jones, however, believes producers he has hired away from direct writers have worked well. Direct writers are the source of many independent agency producers.

And women are not to be ignored, says Insurance Management's Tom Gillingham.

"When we talk about producers, we're talking about sales," Mr. Jones says.

"The direct writers are super in this regard. I can't understand why those companies don't work to protect their good employees more than they do."

"We've had superb luck with our female account execs," he says. "They get in the door, maybe because people want to see what a female salesman looks like. But they are doing extremely well—as

much as we would expect of any good producer. They do the job for us."

Male or female, there are certain qualities most principals look for.

"We look for the people who give us the right gut reaction," says M&M Denver's Mr. Cole. "Of course, the candidate has to be dedicated to sales. There has to be a willingness to adapt to change and ongoing education. We like our prospects to have communication skills so they can project them-



Are you digging in the right places for marine business?

selves as sincere to the buyers.

"Then there are the personal things that might be important to me alone, such as a sense of humor," Mr. Cole adds.

Jack Ryan, president of Robertson-Ryan Associates in Milwaukee, looks for "pizzazz."

"I look for a guy who wants to make dollars," Mr. Ryan says. "But it is difficult to find good young people today because there are so many careers available to them. Why should they struggle to

make \$10,000 or \$15,000 here when they could get \$22,500 in a 'nicer' profession in a bank?"

How much to pay?

Compensation for older, experienced producers may be easy to plan. But how does the agency principal know how to compensate the new producer who is untested?

Most agencies use one of two systems to pay their producers for

the one to three years it takes them to get on their feet from scratch: a draw against future earnings and straight salary.

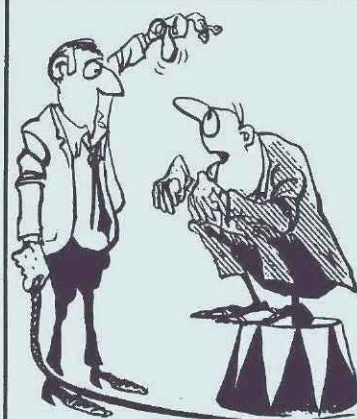
Mr. Nielson of Stevenson, Collinsworth, Nielson Inc. believes in the draw system.

"When we get a new producer, compensation is based on need and potential," he says. "We first determine how much it takes for that person to live. If you need a certain amount, you should get it. Maybe an older guy with a family

needs \$4,000 a month to live on. A younger guy with no ties may only require \$1,000. We give them that amount and wait until they have broken even."

ISU's Mr. Chaney disagrees.

"I think there needs to be a validation schedule so that you can let a guy go if things don't work out," Mr. Chaney says. "I like to pay a salary that must be validated in, say three years. Then you give the person a monthly scorecard to tell how they are doing." ■



What to do with new producer?

CHICAGO—Now that you have hired a new producer, what do you do?

Do you send the producer to an insurer or agency association school or do you push for sales immediately? Do you give the producer a book of business or let the person start from scratch?

"The most important aid to the new producer is a period of orientation to the agency and indoctrination to the job," says Russell Chaney, head of the education department for ISU Companies, formerly of Fireman's Fund.

"A lot of firms take the new employees, point them to their desk and think that they have done their orientation," Mr. Chaney says. "You can't do that. You need to completely familiarize the producer with the markets he will use and a complete description of his job. There also have to be sessions on errors and omissions, key accounts and the history of those accounts."

But experts debate the value of book learning.

"I don't think insurance company schools are necessary for this kind of training," Mr. Chaney says. "There are good ones and they serve a purpose. However, with the growing number of resources available to agencies, I think an agency can do it itself or nearby."

"Some agencies start by taking their producers and sending them out to get expiration dates," he adds. "They sell the agency first, not insurance. You don't need a license for that and it gets the salesperson out. A little later, send the new guy back out with an older mentor to get the sale."

Steven Goodfellow, head of management programs for the Florida Assn. of Insurance Agents, agrees.

"Some agencies use their new producers inside the agency for a year—reading rate manuals, etc.," Mr. Goodfellow says. "That's a sure way to turn off any aggressive salesperson and make them want to stay behind a desk for the rest of their careers."

"While we are boring our producers, State Farm is demanding 1,200 expiration dates in their producers' first months. We're sitting there, and they are taking away our business," he adds. "You don't have to give all the technical information at once. Let the new producer learn a little about a market that turns him on, then let him set a goal and meet it."



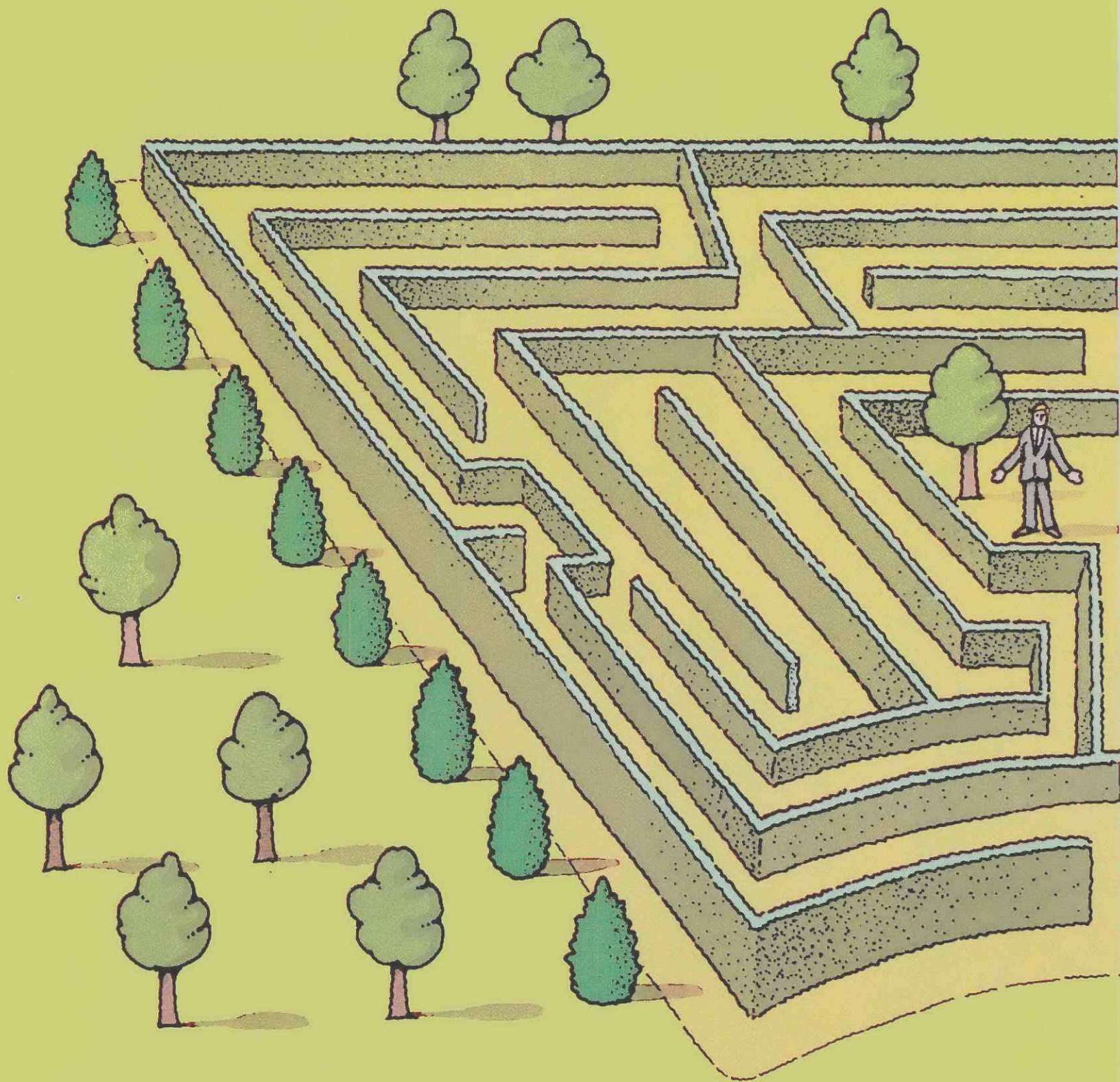
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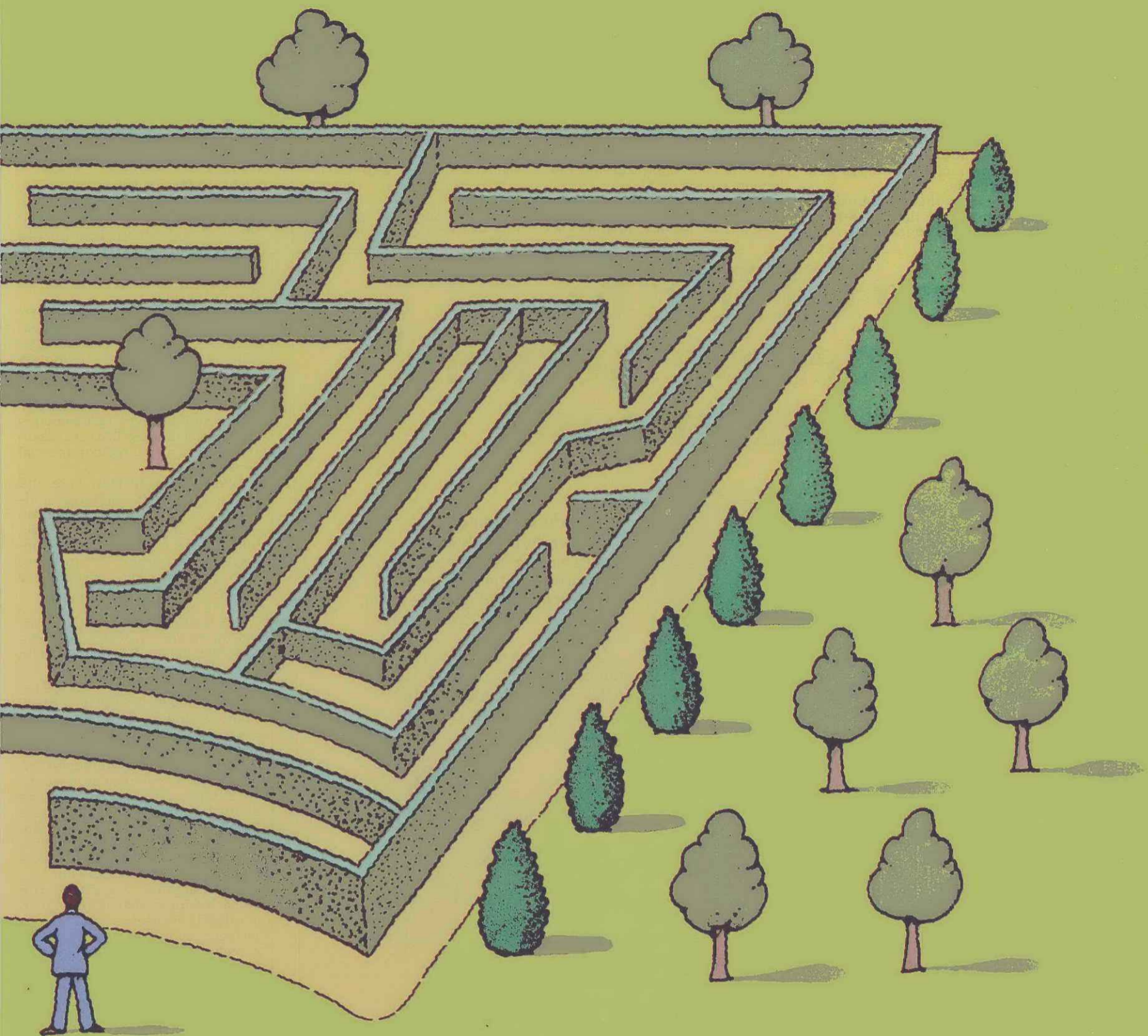
There are times, as you know, when a Group case can present all sorts of complexities.

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"What we have to change is our philosophy," says president Benjamin C. Neff.

Coldwell Banker shoots for No. 1

NEWPORT BEACH, Calif.—Coldwell Banker Insurance Services here would like to become the next Marsh & McLennan Inc.

Of course, Coldwell Banker has a little distance to go. In 1979, Marsh & McLennan reported revenues of \$530 million, Coldwell Banker only \$7 million. But in terms of hopes and dreams, new Coldwell Banker Insurance Services president Benjamin C. Neff is right up there with the big guys.

Five years ago, few buyers knew of Coldwell Banker's insurance division. But as the real estate firm made local real estate broker acquisitions, it often picked up tidbits of insurance business as well, Mr. Neff says.

"Primarily, this first business was in personal lines," he adds. "Eventually we added some small

commercial. Today we are getting into larger risks and run about 70% commercial lines, with our biggest offices here on the West Coast."

Mr. Neff says the future success of Coldwell Banker Insurance Services lies in separating the insurance accounts from the real estate operations, however. He wants to climb into the Top 20 brokers on the strength of an active acquisition plan.

"What we have to change is our philosophy," he says. "We have to make the change from being real estate professionals with a small insurance business to a nationally based professional insurance brokerage. We would like to be at \$30 million (in commissions) in five years.

"Some of this growth will come

A/BT

through internal expansion, but most of it will come through geographic expansion into markets we don't serve now, merging our small offices into larger additional acquisitions elsewhere."

This task may not be as difficult as it might seem, Mr. Neff says. He has the money from Coldwell that he believes he needs to make acquisitions. Also, he says he is getting a warm reception on acquisition plans from agencies he thought would be indifferent.

"What I have found so far is that many of the agencies with \$2 million or \$3 million in commissions that haven't formerly been recep-

tive to acquisition have entertained bids from me," he says.

"I don't know exactly why. Maybe they didn't want to be a small part of a larger big broker office already located in their hometown."

Mr. Neff left a larger organization, Bayly, Martin & Fay, for Coldwell Banker. He also has served as Nebraska state insurance director.

"I know from working with larger organizations that they often get interested in money and let people become slightly less important. We're still small, so we can spend time with people."

Mr. Neff's ambitious plans for Coldwell Banker insurance includes growing from its current West Coast base, developing strengths in property insurance, engineering and construction risks and pushing for energy industry business.

He also would like to add excess/surplus lines insurance sales, backed by a small underwriting facility. Also under consideration is a plan to break off the personal lines accounts into a separate division with underwriting authority.

Mr. Neff believes risk management and claims services are essential to running a large commercial brokerage.

"We're going to start here and move gradually eastward, although we're looking for a good acquisition anywhere in the U.S., whether it be a diversified property/casualty broker or an agent who specializes in construction or energy," he says.

"We'll also look to start at cities where the Coldwell Banker real estate operations are well known, because it will be easier for us to go in and explain who we are."

Mr. Neff says Los Angeles, Houston and New York are critical markets, and he hopes to expand soon in the latter two cities. He also would like to see all his offices producing more than \$1 million in revenues; only two do so at present.

"There's so much to think about," he says. "I really believe that the real estate services and insurance business should stay separate, but there are some things we can do to help each other out."

"For instance, we now write some business that is related to Coldwell Banker's real estate property management here in Los Angeles, but it isn't very substantial," he says. "Someday we'll have to make a big attack on that, but we don't have the people right now."

"Coldwell Banker also deals with shopping centers and other large commercial businesses that we could do business with. But that is in the future for us."

Personnel and offices are the major concern now.

"I'm serious when I say we want to be known as professionals," Mr. Neff insists. "We have to convince the buyers that we are serious about what we do and that we are willing to separate the insurance brokerage somewhat from the real estate aspect."

"But I am encouraged because people have been willing to talk to us," he adds. "We can tell people this is their opportunity to work with a growing operation. For me it means a bit of running around, since agents who run \$2 million operations want to talk to the top guy, but I'm not traveling as much as I have in other jobs."

Mr. Neff says his goals are within reach.

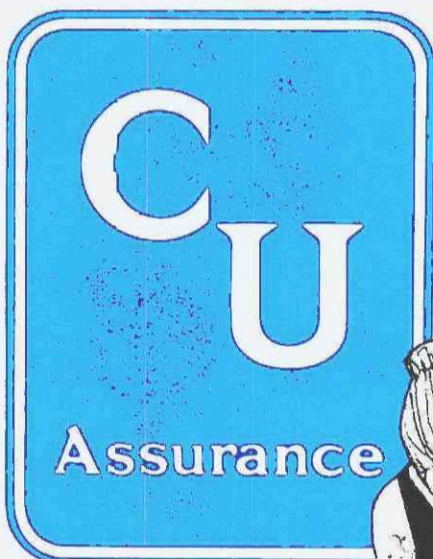
"We're really not going to grow at a pace we can't handle," he says. "I just worry about getting the good people."

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Spell out facts on real estate exposures

By JAMES L. FUEHRMEYER

HERE'S SOME basic insurance facts you should explain to your clients before they find out the hard way.

Commercial and industrial property owners and lessees may find it costly if they don't let their insurance agent know in advance they are planning to move, renew a lease, make structural or other physical changes or enter into any kind of contractual agreement relating to their property or operations. Agents should alert buyers to keep them aware of potential changes.

To ensure insurance coverages are updated and that proper protection is provided, it's vital that good communication is maintained at all times between the policyholder and the agent. It is especially important that the agent learn of all changes in legal and physical

James L. Fuehrmeyer is vp of Schwartz Bros. real estate and insurance brokerage in Chicago.

exposures that occur after the initial coverage was purchased.

Like other professionals and consultants—the attorney, tax specialist, accountant and others to whom the businessman turns for expert advice—the insurance adviser can provide valuable expertise and support in insurance matters in which he has the most knowledge.

Let's focus first on the legal changes that may take place and may directly affect insurance coverage. When an owner of commercial real estate or an industrial business is advised by his attorney and tax specialist to create a



new legal entity, such as a corporation, often the insurance agent is the last to learn about it.

This often happens because the owner knows there is an insurance policy covering the property whose ownership has been transferred and assumes the insurance policy that existed before the legal change is still valid.

The contrary is true, however. That policy no longer covers the property or operation of the business when a legal change of ownership is made. An insurance policy, you know, is an interest policy and it covers the interest of the named policyholder in that property or in that business. Once the legal title of the property or business is changed, the policy also must be changed to cover the new legal entity's interest.

Among other legal areas that can prove costly and troublesome to the owner of commercial or industrial property are contracts for maintenance, alterations, new construction, service or other written agreements relating to the property or business operation.

Frequently, the language of such a contract con-

tains insurance requirements and hold harmless agreements. It is critical that these contracts be referred to the insurance agent before they are signed. After the agent has had opportunity to review them to determine insurance requirements or exposures, he should recommend that steps are taken to protect the property owner.

Some seemingly innocuous hold harmless agreements can result in serious problems for the unsuspecting property owner. For example, when the latter rents equipment from a local rental agency to use in maintenance or service, he will be asked to sign a rental contract that will most likely include a hold harmless agreement.

This is common practice and usually doesn't concern the client unduly because his employees who are going to operate the rented piece of equipment for snow removal, landscaping, digging trenches, scaffolding, etc., are covered by workers compensation insurance.

But that lack of concern can have devastating consequences when an employee is seriously injured. An astute attorney representing the injured employee could decide it might be more lucrative to file suit against the rental agency and the manufacturer of the machinery that caused the accident, alleging the product was not safe to operate.

If the client signed that hold harmless agreement, he may find it comes back to haunt him because he will be required to pick up the tab for the judgment because he agreed to the hold harmless provision in the rental contract.

Hold harmless agreements also are common in other contracts and the property or business owner should be made aware of and take proper precautions to protect against loss or lawsuit wherever the contracts apply. For example, in this age of leasing computer equipment or, say, some sophisticated reproduction machinery, the insurance agent should consult with the owner to examine any clauses in the lease that may require physical damage insurance.

Another contract that may contain a hold harmless agreement is the one covering the hiring of security guards from an outside service organization. Good communication and perusal of the contract by the insurance agent before it is completed is vital to the owner because the security guard on duty will probably be patrolling the property carrying a gun. In the event of an accident or other use of the gun, the owner may very well be held liable under the hold harmless agreement.

The legal aspects of exposures in contracts to construct an addition

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to an owner's building or to remodel or install new equipment also should be brought to the attention of the professional insurance agent, because they certainly will include insurance clauses stipulated by the general contractor.

Moreover, the agent should review documents covering property or ground under long-term lease when the transaction is being negotiated because they, too, may include insurance requirements. Even after the lease arrangement is completed, it should be checked yearly to ascertain it is current.

Leases also may contain clauses or conditions that relate to changes in the use or operation of the premises that occurred during the past year or so and may necessitate revisions in insurance coverage.

In addition to the legal changes affecting the property and its insurance program, physical changes are equally important because they affect the rating within the commercial or industrial policy.

Any alterations, structural change or improvements made to the property can affect the insurance program regardless of whether it's written on an actual cash value or a replacement value basis.

For example, a coinsurance clause in a policy written on an actual cash value basis takes into consideration the depreciation aspect. If the owner remodels the building internally without notifying the insurance agent, he has eliminated a great deal of the depreciated material. And by installing new materials, the actual cash value is immediately affected. If the agent is not aware of this change, the owner becomes a coinsurer in the event of a loss.

If the owner is carrying full replacement coverage and is not concerned about depreciation, any new additions or installation of equipment could measurably throw off the total replacement cost value of the property and also result in a coinsurance problem.

The acquisition of new furnishings, the purchase of a computer and addition of any other sophisticated apparatus must be brought to the attention of the insurance agent whether the insured is the owner of that property and must directly insure it or is leasing the equipment.

Under the lease, the insured may still be required to insure the unit and if he does not report the addition of the leased equipment to the agent, the total values in the coinsurance clause will make him liable as a coinsurer.

So whenever the owner or lessee is anticipating any major additions, alterations or improvements to the property, the agent should be given an opportunity to review insurance because such changes can have a potential effect on his insurance rates—up or down. By allowing an agent to review such plans with the expert assistance of a fire engineer, quite often recommendations can be brought to the architect's attention before they are finalized. This precautionary step can measurably improve the potential rate of the proposed addition.

Here are several specific examples that point to the importance of good communication between the client and the agent:

• During the expansion of a large motel, the architect designed wooden beams in the ceilings of the units and throughout the interior of the building because he wanted to add the warmth of wood to the decor. But the use of real wood had a very adverse effect on the potential insurance rate.

Following consultation with the insurance agent and with engineering advice, precast concrete

beams were recommended in lieu of the wooden ones with the suggestion that they be laminated with a fireproof wood veneer. The latter would give the same desired decorative touch but would make a tremendous difference in the proposed insurance rate.

• A large shopping center outside the corporate limits of a major city had to rely on a secondary water supply for its sprinkler system, which was rated inadequate in providing the maximum insurance credits that might have been available for the center.

During the severe winter of 1979, some piping was damaged because of a freeze.

Later, when improvement of the system was brought to the agent's attention, he called for a rerating and testing of the system. The new system allowed for a reduction in the existing rate because the shopping center had improved the water pressure to the sprinkler network.

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California lobby group

Independent administrators find a voice

LOS ANGELES—Richard Biles says independent third-party administrators need a voice in Sacramento, California's capital.

With a little effort and some copy machine time, he is organizing a nonprofit lobby group to tell administrators about proposed state regulations and educate state regulators about the needs of his colleagues.

Biles & Cook Administrators and nearly 35 other similar organizations have banded together to hire a lobbying agency on a time-sharing basis. About 25 other organizations are interested, Mr. Biles says, and the information group members may someday reach 100.

"We're trying to get a statewide organization together," says Mr. Biles, president of Biles & Cook Administrators. "We need a presence in Sacramento that will screen bills that would potentially affect us."

Property/casualty agents speak to state and federal governments through association lobbyists, but administrators, including those owned by brokers, are often mute on bills that affect them.

Mr. Biles' brainchild could grant them a voice, too.

"The effort really began with the passage of S.B. 480, which has been called the medical privacy act," he says. "What that bill did

A/BT

was to require everyone to have a release signed by a patient before we could get information we needed to process claims. It can really bog down our system because we would have to get new forms signed before we could get anything done."

Mr. Biles says he and a few other administrators believed this kind of thing should not happen again—at least not without a good fight. So he researched who might want a lobbying group.

"I came up with about 60 names

by myself, and after consulting state records came up with quite a few more," he says. "Once we found that many of these administrators were interested, we began to look around for a group that could present our views to the legislators in Sacramento."

Biles' group finally chose a Sacramento organization that sold the group a kind of time-sharing arrangement. The lobbyists would screen all new bills and regulations for the administrators and send a summary to each member of Biles' group in return for a flat fee. Extra services will be paid for as needed.

"The whole idea is to find out about proposals before the deci-

sion makers make up their minds," Mr. Biles says. "We don't want to get caught napping again. We need an early warning system."

"We also need someone who is familiar with the way Sacramento works," he adds. "We know that there are a lot of bills that are dumped into the legislature that nobody really expects to get out of committee—they're just there to please a certain constituent. We need the type of screening that will tell us whether a bill is for real or just an accommodation."

"Insurance companies have representation, the property/casualty brokers have representation, as do the agents. Up to now, there has been nobody to tell our side of the story."

Although the exact communications flow hasn't been worked out, lobby group members will be initially responsible for voicing their concerns on any legislation referred to them by the part-time lobbyists. The organization will then decide whether to take the matter further.

"Our members will start paying fees in October, and we'll probably have our first membership meetings in November. Right now, the lawyers are putting the finishing touches on the paperwork. I was elected the first president, probably because we were using my copy paper to set this thing up," Mr. Biles says.

"We hope the group will play an education role for all involved," he adds. "We'll be able to learn what legislators are doing and also inform people in Sacramento about our business. I don't see our group as having to use high-pressure tactics. We just want to provide the information legislators might otherwise not have access to."

Mr. Biles adds he believes the time-sharing arrangement with the lobby organization will work out.

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New methods for Boston

To the editor: Your recent story (A/BT, Sept. 1) on Boston brokers failed to recognize that Schiff Terhune International targeted Boston as an area for expansion four years ago. Since then it has, through merger and in-house growth, assembled an experienced cadre of professionals, both generalists and specialists, well equipped to design programs and service the needs of insurance buyers.

Our client base now encompasses a cross-section of manufacturing, educational, distribution, R&D and service firms, many of which are leaders in their fields.

While the New England area may not have the dynamic growth of new business normally associated with other areas of the country, we find that the buyers and risk managers are receptive to innovative and challenging concepts to revitalize their insurance programs. By adapting the new methodology to the old established business, Schiff Terhune indeed envisions a positive growth in the New England area.

H. Curtiss Dietrich
President
Schiff Terhune
Boston, Mass.

Plugging into computer takes calculation

CHICAGO—Is setting up a computer system to handle your agency's needs confusing and a pain in the neck?

In so, you're not alone. Designing a computer system isn't a piece of cake even for a large organization like James S. Kemper & Co., the nation's 17th largest broker.

Kemper, under the guidance of James Orr, is re-evaluating its computer needs. The direction of the firm's planning depends on decisions made in the next few months, Mr. Orr says.

Kemper is buying software and hardware that will allow the firm to do its own accounting, saving the brokerage service bureau charges and granting corporate officials complete control over their data.

Eventually this system will be linked to Kemper's seven divisions, Mr. Orr adds. But just how to do this has not been decided. The broker also plans to take a hard look to determine how the computer can aid Kemper's employees in risk management services.

"Finding a computer system to meet all the needs of an agency as large as ours is an extremely complex task," Mr. Orr says. "You can find the hardware easily enough, but finding the software that can be adapted to our needs is difficult indeed."

Kemper has been farming out most of its accounting to a service bureau on a computer time-sharing basis. Although Kemper has been satisfied with the bureau, the time has come to bring the work in-house, he adds.

Kemper had two options: develop the computer programming with a staff of its own or buy a software system from an outside firm and adapt it to its own needs. Although the temptation is to try to do it yourself, Mr. Orr says it makes more sense to try to adapt an existing program.

"Only the very big firms can afford programming staffs to develop that kind of program in the time we need it done," he says. "Of course, buying a package has problems, too."

"It's easier for a smaller agency to buy a program because a limited number of agency employees can be taught to adapt to the particular quirks of the computer package," he says.

"Here we have many employees, and the need is for the program to adapt to the people instead of the other way around. We also need more checks on our accounting system, and that makes everything more complex."

What happens, therefore, is that both the computer software manufacturer and the company employees "give a little," Mr. Orr says. Kemper will use a software system developed for manufacturers and adapted to the needs of an insurance brokerage.

The system is expected to be up and operating soon, Mr. Orr says. Once it is running smoothly, his goal will change somewhat, he adds.

"The short-range goal is to get control of our accounting functions in-house," he says. "We want to own our own machines and hire our own people. The next step will be to figure out how to take this system and bring it to our regional offices outside of Chicago."

"It could be through terminals linked to this computer here, or a series of smaller computer systems located in each region. We're getting that information now, and we should make a decision on what to do in that area soon."

The hardest task for Kemper, as it is for a great deal of medium-to-

large-sized agencies and brokerages, is to determine ways to use the computer to help solve risk management or claims administration problems.

Unlike accounting, software programs for this type of work are hard to find because each firm has different needs and desires, Mr. Orr says. Developing such software, therefore, is time-consuming and costly.

"There are a lot of things that are possible with computers, and the competition in the business re-

A/B/T systems

quires that we upgrade our services all the time," Mr. Orr says.

"But you have to look at your pocketbook as well," he adds. "It seems that agencies, no matter what their size, seem to spend about 3% of their income on computers. At our size, we can afford to have a minimal programming staff, so we can handle some

things.

"But if the problem takes a lot of time to solve, or takes a heavy manpower commitment, we send it out."

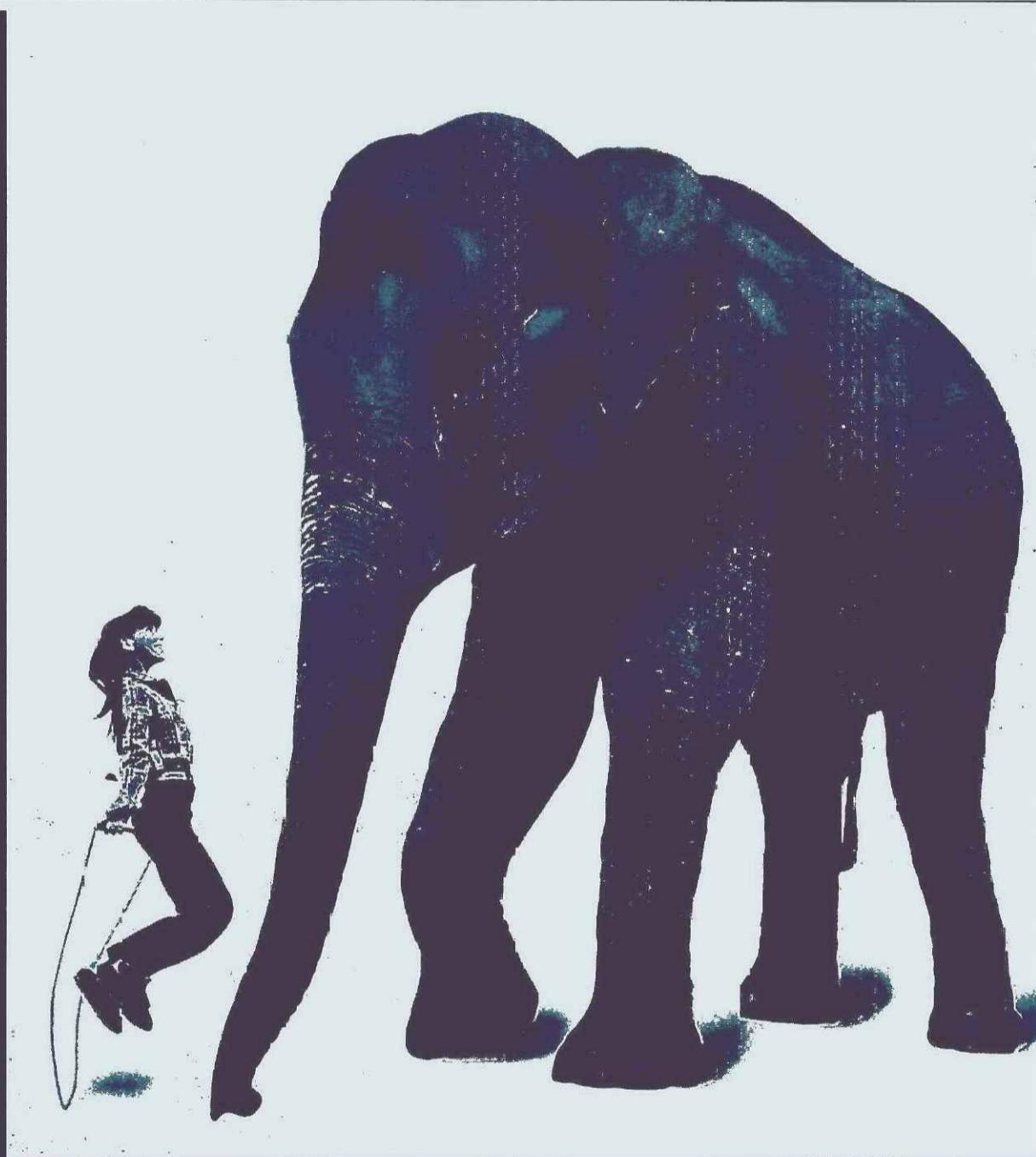
For computer services that are on the fringes of what is being offered today, however, Kemper will probably have to develop its own software.

"In five or 10 years there won't be any problem finding a good accounting package for any size agency," Mr. Orr says. "As far as

the other areas, we'll have to see. Either these risk management and claims packages offered by suppliers will get more sophisticated, or we'll have to do the development here."

"We are working to improve the computer services we can provide in this area," he says. "But we haven't defined what systems to use, whether we can use our present computers or buy others, or just exactly what to do."

"That's our challenge for the future."



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Photo: Dave Galant



"I'm really on my own now—not just producing business," says Dan Walker.

Agency owner learns humility

NORTHBROOK, Ill.—Dan Walker was working on setting up the annual carnival here, but his mind was on other issues: ordering stationery, returning phone calls, hiring part-time clerical help, fixing up his new office, purchasing staples and (finally) soliciting business.

Mr. Walker is one producer who has decided to start up his own small agency. He admits it takes different skills than those demanded by his former employers, which included regional agency Starkweather & Shepley and national broker Marsh & McLennan.

So even while he directed the various crews setting up carnival equipment and conferred with others in his civic group, his mind was on his empty office across the street.

A/B/T local leader

"I have a good book of commercial lines business that I was able to bring over with me from Starkweather & Shepley," Mr. Walker said. "Some of that is with my agency now. Others will come on as they reach their renewal dates."

"But moving that business hasn't been my biggest problem so far," he added. "I'm really on my own now—and not just in producing business. I haven't had any clerical help since I opened, so I have had to do everything myself."

"It's a lot more hectic, and you learn a lot of humility and patience. When I worked for the

larger firms, and even when I worked in a two-person office, I never appreciated all that went into it. When I run out of stationery now, for example, I have to order it."

A career salesman isn't used to this, Mr. Walker adds.

"I'm used to telling someone to do this or that and then running off to sell," he said. "I can't do that here."

Work has gone well, Mr. Walker says. Since he opened his doors this spring in a small office behind a storefront doctor's office, he has been able to enlist two markets, the Kemper Group and the Peerless Life & Casualty Co., plus the services of other local retail and surplus agents who will help him place business.

The size of risks he looks at varies, he says, but \$250,000 in premium is a rough ceiling. Currently, he draws business from throughout the Chicago area, but hopes to prospect more in the Northbrook-North Shore area in the future.

"When I decided to take this step, I had to decide whether to locate my office close to home here or stay downtown (Chicago)," he said. "I chose Northbrook because I found there are a lot of good, sizable risks in my own backyard. There is a list available that names at least 440 industrial accounts in this area, for example."

Mr. Walker will rely on many of the same sales pitches as other small agents: his past record and an ability to personally service his accounts. He says he doesn't worry about increasing competition from the bigger agents and brokers, even if the insurance markets tighten.

"If I let the thought that markets might tighten around me bother me, I wouldn't have opened up," he said. "In my experience, I have found that is hard to get accounts, but relatively easy to keep them once you get them."

"I feel I have control over my accounts and they have gone through good markets and bad with me. I've worked for the big brokers, and when the markets are bad for the smaller agent, they are bad for the big brokers as well. A Marsh & McLennan has more ammunition to battle the markets with, but they're begging like the rest of us."

Mr. Walker says he has a standing offer to return to a larger firm, but says he wants to give his present decision a chance. He is hiring a friend who knows the insurance business to do some part-time clerical work and is currently remodeling a larger storefront office himself to eventually move into.

He is also thinking about taking on more personal lines business, a weak item in his office.

"I have a friend that works for State Farm, and he opened an office in a gas station to solicit personal lines business," he said. "I don't know if a gas station is the best place to do that, but my friend tells me he makes enough on it to pay the rent. With my new office in the front of this building, perhaps I can make enough to pay my rent here."

And he will still go after manufacturers' property/casualty risks, which he considers his specialty.

"I want Walker & Co. to go," Mr. Walker said. "I think the independent agent can make a go of it. This is something I want to do and I am going to give it three swings of the bat."

He is finding he has less time to spend on carnivals, however.

"Right now if I leave the office or do something like spend time on this carnival, I have to put on my telephone answering machine to answer calls. I don't really like to do that, but I have no choice. In five years, however, I hope to be in a larger office with four or five persons working for me," Mr. Walker said.

"It's been a good challenge so far, though," he added. "I've had to learn such things as where you go to get a manual. For me, it's always been something on my desk. It took me 15 phone calls to locate the right place, but I did it. And I kind of enjoyed doing it, too." ■

IIAAW officer

Andrew Burkart has become president of the Independent Insurance Agents Assn. of Wisconsin.

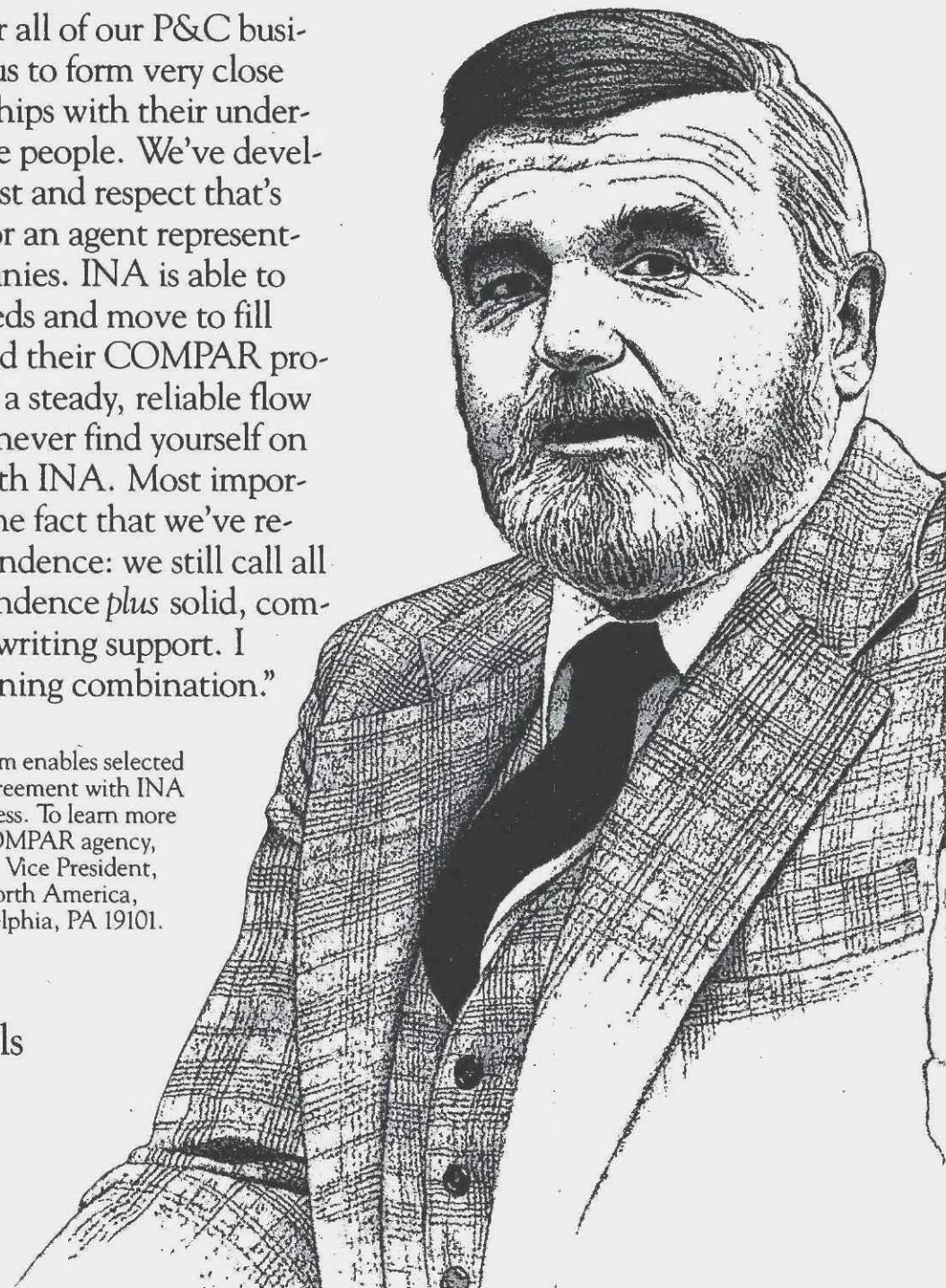
Why on earth would an independent agent tie himself down to one company?

INA's I-COMPAR agent Bob Wright speaks his mind:

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INA's I-COMPAR program enables selected agents to enter into an agreement with INA for all of their P&C business. To learn more about qualifying as a I-COMPAR agency, contact Richard B. Light, Vice President, Insurance Company of North America, 1600 Arch Street, Philadelphia, PA 19101.

INA
The Professionals



Bob Wright of the Wright-Curlley Agency, Trumbull, Connecticut.

M&C emphasizes its widespread broking network

Continued from previous page
home office staff very small—and that sometimes translates into a heavy load for everyone, especially the key person.

"There was a time in my career when I thought I had control over whatever was on my desk, but with all the dimensions of this job, that's hard to do," he said. "I don't want to keep my finger on everything, either. I want others to shoulder a lot of responsibility."

Building morale is very much on Mr. Keul's mind, too. "Many of our people have never worked in a good excess/surplus lines market," he said. "I reassure them we are building a strong base to cope with tight markets and recognize their efforts when I visit branch offices."

Despite today's tough climate for all wholesale brokers, M&C is satisfied with its performance this year. It's down from projections, but still running 16% ahead of 1979. M&C estimates total premium volume will top \$86 million in 1980, compared with \$72 million last year.

"Our renewals are bringing 30% premium reductions," Mr. Keul said. "To get ahead, we're making more production calls, attending more conventions, boosting advertising and working both harder and smarter."

"We're also concentrating on building a name for ourselves," he continues. "In some territories,

'Our renewals are bringing 30% reductions,' says Bob Keul.

we're still 'Montgomery & Who?' to a lot of people."

Traditionally, M&C's strength has been in its home state of California, and in Denver to a lesser extent. Now the broker is gathering momentum on the East Coast in Philadelphia and Boston. New offices in the Midwest and Southeast also are starting to shift into high gear.

Finding good people to staff new offices is never easy, Mr. Keul said. And as M&C grows in size and stature, it is more vulnerable to losing top producers to its competitors.

M&C was hurt earlier this year by spurious reports that it lost its license over a dispute with the California insurance department involving policy fees.

"It's impossible to figure how much we lost in premium from new and renewal business from producers who thought we were out of business," Mr. Keul said.

Actually, M&C is hoping for a resolution of its case before a San Francisco superior court judge within a few days. The firm spent

New officers

G. Kevin Greenwood, inland marine regional manager of Industrial Indemnity Co., has been appointed the chairman of the Pacific Coast advisory committee of the Inland Marine Underwriters Assn. Herbert O. Gordon of Great American Insurance Cos. is vice chairman and Byron F. Goodloe of Kemper is secretary.

"more than the fine"—about \$41,000—in legal costs.

M&C maintains it is legal and proper to apply a \$25 service fee to policies generating less than \$2,500 in premium. Without some fee, wholesale brokers cannot afford to service the small account, Mr. Keul says.

Indeed, M&C is carrying its industry's banner into this fight. NAPSLO, the national trade association of surplus lines brokers, is staunchly supporting M&C and has filed an amicus curiae brief in the case. ■

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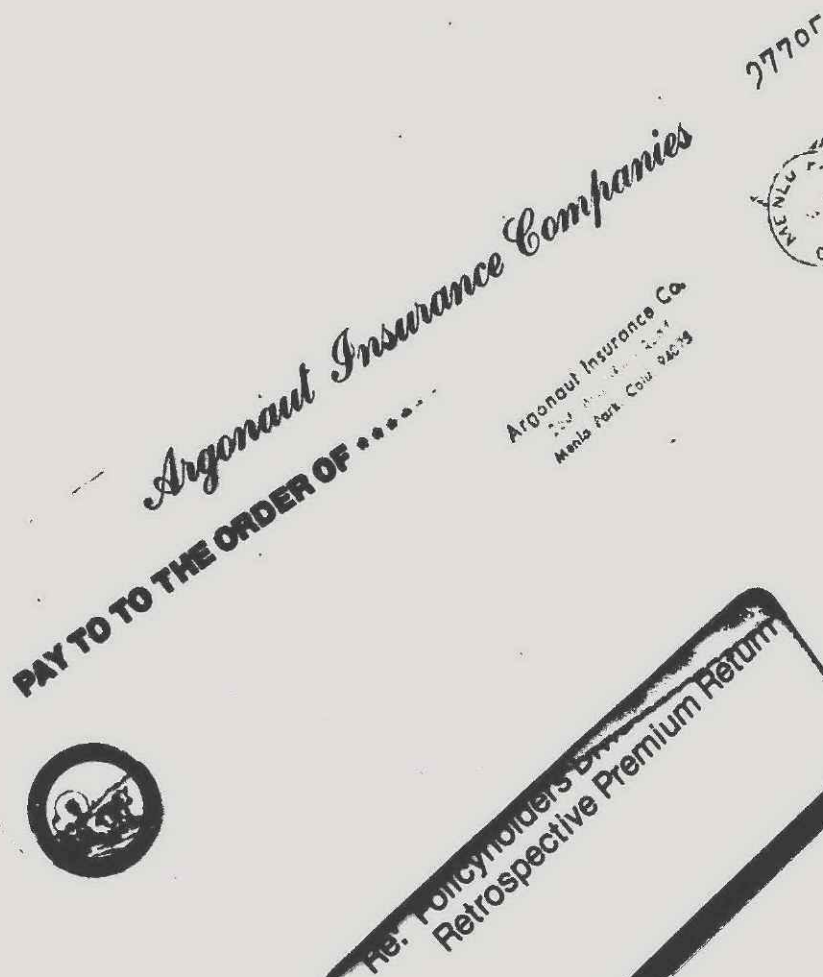
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Home-like hospices ease trauma of death

ST. LOUIS, Mo.—A roughly etched sign posted on the bulletin board in the hospice office at St. Luke's Hospital here reads:

"Death is not extinguishing the light—it is putting out the lamp because the dawn has come."

Through the doors and into the year-old, three-bed hospice unit, the atmosphere becomes less like a hospital and more like a home. Patients and their families gather to talk in a large community room. Children play pinochle and checkers with their grandparents. Nurses check on the patients constantly, making sure they are pain-free and comfortable. Clergy members are available for spiritual support.

If the home rather than the hospital is used as a hospice, a nurse and social worker visit the patient. In both settings, no effort is made to keep the patient from dying naturally.

"If a patient goes into cardiac arrest, we don't bring in the equipment to save him," said Ricki O'Meara, coordinator of St. Luke's hospice program. Instead, the patient is given painkillers and attention, easing the way.



The hospice's atmosphere is more like a home than a hospital.

Across town, Lutheran Medical Center's hospice program has been operating for almost three years. It is larger than St. Luke's, filling a 26-bed medical-surgery section on the first floor. Although no major redecorating has been done, rooms have been arranged to create a large activity room, three family rooms and accommodations for up to 12 patients; the hospice's home care program is unlimited.

Fifteen nurses are available to care for patients at the hospital. Other full-time personnel include two physicians, a nursing supervisor and the hospice director. A music therapist, registered psycholo-

Group life sales jump

WASHINGTON—New or revised group life insurance sales totaled nearly \$12.4 billion in July, according to the American Council of Life Insurance, about a 25% increase over the same period in 1979.

Group insurance purchases for August 1979 through July 1980 were \$176.7 billion, compared with \$132.2 billion in the comparable period a year earlier.

About \$1.4 billion in group policies were in force, compared with \$1.58 billion in ordinary life. ■

gist, chaplain and social worker are on call; other hospital workers and volunteers help.

The type of care and counseling offered to patients and their families depends on the individual situation. Lutheran hospice uses an "environmental kind of approach," said coordinator Ruth Riko.

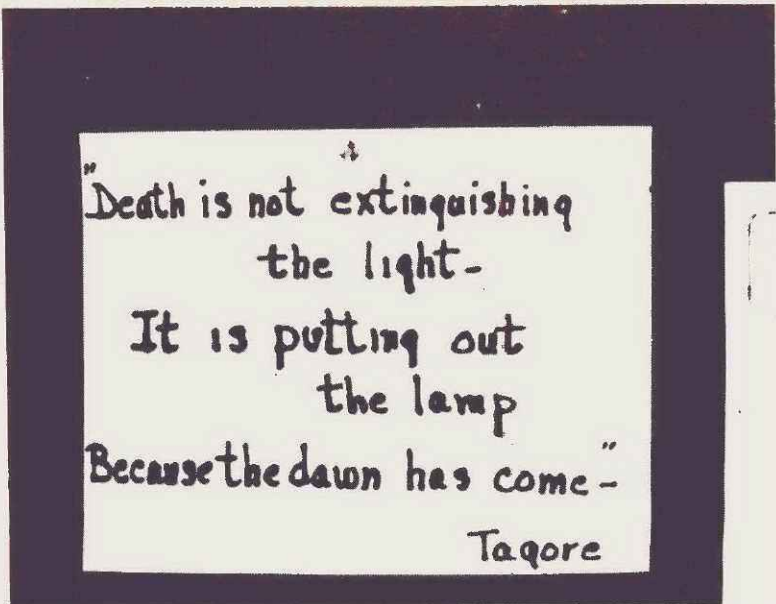
When Velva Green's husband was under hospice care at Lutheran, she was granted kitchen privileges and given a place to sleep.

"During the last nights, I never went home," she said.

For many hospices, family involvement doesn't always end with the death of the patient. Follow-up counseling continues sometimes for more than a year. And in many cases, family members are so enthusiastic about the care their loved ones receive, they become volunteers themselves.

Charles Hammer, whose wife died in Lutheran's hospice unit, meets monthly with others who have lost their spouses to share his experience and help them adjust.

"I'd do anything to help," he said, pleased with the unit's performance. "I'd recommend it to anyone." —Jeanne Wojcik O'Hare



A sign in the hospice office at St. Luke's Hospital in St. Louis sums up the philosophy of the hospice program.



Hospices seek insurer, business support

Photo: St. Luke's Hospitals



Hospice volunteers continue making follow-up visits to bereaved families to offer support.

Continued from page 1

to make hospices accessible to more consumers by making it possible for them to pay for the services provided.

In the last year, employee benefit managers for two large Blue Cross national accounts have helped the drive for hospice coverage.

New contracts

General Electric and Westinghouse have negotiated contracts with Blue Cross to include hospice reimbursement for employees and dependents at no extra cost.

More than 300,000 GE employees are included in the first national Blue Cross account to have the benefit, which became effective Jan. 1.

Home care

The coverage includes reimbursement for all necessary medical services, equipment and supplies provided at home or in the hospice and psychological, pastoral and bereavement counseling services. Although the program emphasizes home care, inpatient care is covered if care in the home is not feasible.

Before the introduction of hospice coverage, a "custodial care exclusion" omitted many elements of hospice care, such as social services, round-the-clock attention and bereavement counseling from most BC & BS policies.

A.J. Wheeler, manager of the GE account, says the Massachusetts Blue Cross plan now asks all group clients if they want the provision.

"We're going to go out to the groups and say, 'Would you like to include it?'" he said.

The unions at Westinghouse in Pittsburgh heard about the GE plan and asked their benefit department for the same. Now 125,000 employees are reimbursed for health care costs they or family members incur at a hospice. The coverage is similar to GE's.

Meanwhile, two other Blue Cross national accounts—General Motors and Ford—are looking at hospice care for their employees, too.

At GM, the benefit department is considering proposals from several hospices, said Thelma Lauderbaugh, senior staff member in employee benefits. Three to five programs will be chosen.

At Ford, company officials have agreed to a union request to study hospice reimbursement. Two pilot programs covered by Blue Cross have been proposed in southeastern Michigan and Cleveland. Because only a small number of workers would have access to these hospices, the experiment has not been publicized throughout the corporation.

All Blue Cross hospice coverage is free while the company is studying the concept, but may be sold later as an additional benefit.

Marketing coverage

The Travelers Group already is marketing hospice coverage. Four large accounts have purchased it and others have inquired about it, said John Crosby, assistant director of the group department. He would not name the four companies and said their cost was determined individually.

The Travelers reimburses hospice users for the same services as the Blue Cross plans.

For the last two years, Blue Cross has been experimenting with hospice coverage through more than 20 pilot programs for local accounts. One experiment is completed and more are planned:

- Blue Cross of Connecticut has agreed to reimburse 100% of hospice care costs incurred under group policies at Hospice in New Haven.

A state law passed in October 1978 made home care for the terminally ill a category to be covered by medical insurance.

- The St. Louis Blue Cross plan will use hospices at Lutheran Medical Center, St. Luke's Hospital
- Continued on next page

Why should a risk manager consider the Armco Insurance Group?

Bill Kucera, Engineering Supervisor, answers:

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Criteria for coverage

The following criteria were agreed upon by Blue Cross of Massachusetts, the national Blue Cross & Blue Shield Assn. and General Electric for hospice coverage. All Blue Cross plans have copies of the document that was effective Jan. 1, but it is up to the individual plans to use it or draw up their own guidelines.

The Massachusetts criteria are:

- The hospice program must deliver care that consists of a centrally coordinated program of medically necessary home health and inpatient services provided by an interdisciplinary team directed by a qualified licensed physician. The hospice care provided by the program must meet medically acceptable standards.
- The program must make hospice services available to terminally ill patients and their families on the basis of written, well-defined admission criteria that address a patient's medical condition, a patient's awareness of the nature of hospice care, the prognosis and the state of the patient's home and family conditions.
- Program services should be delivered under

the auspices of duly licensed or accredited hospitals, home health care programs, visiting nurses associations, nursing homes or free-standing hospice care programs. There must be formal arrangements for making alternate levels of care available.

- The program must make effective and efficient use of existing community resources. It is essential that programs make maximum use of well-trained lay and professional volunteers.
- The programs must have established guidelines and mechanisms for determining the continuing necessity and appropriateness of hospice care at all levels.
- The program must be capable of delivering and billing for the full range of services covered under the General Electric insurance plan, except as otherwise provided.
- The program should provide Blue Cross with the appropriate documentation of services so Blue Cross will be able to identify the services rendered.
- The program should agree to provide Blue Cross with information necessary to review and evaluate it.

Hospices seek insurer support

Continued from previous page

and Jewish Hospital in a two-year experiment to determine if hospice care cuts costs, said local Blue Cross president Robert E. Shelton.

All 10,000 group contracts in the St. Louis area, except national accounts, are eligible for the free coverage that began in June. However, St. Louis Blue Cross is not promoting the experiment because of the limited accessibility of hospices.

- In Michigan, a Blue Cross experiment will begin in late fall to assess the feasibility and cost effectiveness of hospice coverage. Impact on cost and quality of care will be evaluated during the pilot program.

- Starting Nov. 1, Massachusetts Blue Cross will begin a two-year pilot program to determine if there is a need for hospice care and if it should be an optional or standard benefit.

- The Indiana Blue Cross plans in 1981 will offer four licensed hospice providers a per-case reimbursement for each subscriber treated.

Pilot program

Mr. Ehrenfried in Chicago believes the pilot programs are the only way to feel out the market for coverage.

"I think the question is how many hospices do you need to have?" he said. "If you start paying without knowing what you're paying for, you're asking for a lot of trouble."

Although the pilot programs are offering more persons access to hospices, a benefit manager whose company is not in an experiment area would have a hard time getting coverage.

"If someone asked for (hospice) benefits, the claims persons would

A company not in a pilot area would have difficulty getting coverage.

have to tell him his particular benefits did not provide hospice coverage per se," explained Mr. Ehrenfried in Chicago.

If his insurance contract did not include home care provision with elements of hospice coverage, reimbursement might not be possible.

The Blue Cross association released a policy and reimbursement statement two years ago on hospice benefits. Although the statement made the individual plans aware of hospice coverage availability, each of the association's 69 plans will determine whether to offer it to local group accounts.

The decision on coverage will be based on community access to hospices, need and demand from consumers.

Cost also might affect the growth of hospices.

Future additions

Blue Cross & Blue Shield believes that as the popularity of hospices increases, additions will be made to the care they administer. This will push hospice costs closer to those costs of hospitalization or nursing home care, BC&BS officials say.

A study of hospice costs conducted last year by Norman T. Walter at Kaiser/ Permanente Medical Center in Hayward, Calif., showed a 17% reduction in costs for hospice patients compared with hospital patients.

Hospice patients were less likely to use expensive laboratory or operating room services, the report showed.

Hospice in New Haven says a hospice is a financially feasible alternative. Area hospitals charge more than \$500 a day for equally attentive care (i.e., intensive care), but Hospice charges only \$214 per day.

"If you put the whole package together in terms of inpatient and outpatient care, then we are cheaper," said Mr. Rezendes, director of Hospice.

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Here's a listing of approved hospices

Hospices have been approved for General Electric employees in: Alabama, Arizona, California, Connecticut, Florida, Georgia, Idaho, Illinois, Kentucky, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Washington and Wisconsin.

State by state they include:

Alabama: Villa Mercy Nursing Home, Daphne; Baptist Medical Center-Montclair Hospital, Jefferson County Home Health Hospice, Birmingham.

Arizona: Hospice of the Valley, Phoenix; Hill Haven Hospice, Tucson.

California: Hospice of Pasadena Inc.; Hospice at Parkwood Community Hospital, West Hills Hospital, Canoga Park; Inland Hospice Assn., Claremont; Acute Care Hospice Unit, El Cajon; Long Beach Community Hospital; Hospice of Los Angeles Inc., Beverly Hills; Mercy Hospice, Oxnard; Hospice Services of Solano Inc., Vallejo;

Also, Hospice of Camarillo; David M. Brotman Hospital, Culver City; Hospice of Orange County Inc., Laguna Hills; Palliative Treatment Program, Los Angeles; Kaiser Permanente Hospice, Norwalk; San Diego County Hospice, San Diego;

Also, Expanded Patient Care Hospice, College Park Hospital; Hospice of Santa Barbara County Inc., Santa Barbara VNA, Santa Barbara; Hospital/Home Health Care Agency, Torrance; National In-Home Health Services, Van Nuys; Palliative Care Service, Encino; Hospice of Marin, San Rafael; Hospice of San Luis Obispo; Hospice of the Conejo, Thousand Oaks; Hospice of Tulare; Hospice of Ventura, Ojai; San Pedro Peninsula Hospital, Hospice/Home Care.

Connecticut: The Connecticut Hospice Inc., New Haven.

Florida: Elizabeth Kubler-Ross Hospice Inc., Clearwater; Hospice of Palm Beach County, W. Palm Beach; Hospice Orlando; Hospice of Broward, Hollywood.

Georgia: St. Joseph's Home Health and Hospice Inc., Augusta; Hospice Atlanta Inc., St. Joseph's Hospital, Grady Hospice Inc., Atlanta; Hospice Savannah; Hospice of the Good Shepherd, Decatur.

Idaho: St. Luke's Hospital, Boise; Mercy Medical Center, Nampa.

Illinois: Evanston Visiting Nurses Assn.; Hospice of Madison County, Granite City; Lutheran General Hospital, Park Ridge; Mercy Hospital, Urbana; Highland Park Hospital; Illinois Masonic Hospital, Chicago; Memnonite Hospital/Bloomington, Normal; Decatur Memorial Hospital; St. John's Hospital, Springfield.

Kentucky: Hospice of Louisville.

Maryland: Holy Cross Hospital Hospice Program, Silver Spring; Church Hospital Inc., St. Agnes Hospital, Sacred Heart Hospital, Sinai Hospital of Baltimore Inc., Baltimore.

Massachusetts: Hospice of the Good Shepherd, Waban; University of Massachusetts Medical Center, Worcester; Rose Hawthorne Lathrop Home, Fall River.

Minnesota: St. Luke's Hospital Hospice Program, Duluth; St. John's Hospital, Hospice of St.

Paul/Bethesda Lutheran Medical Center, St. Joseph's Hospital Hospice Unit, St. Paul; St. Mary's Hospital, Fairview Community Hospital, North Memorial Medical Center, Minneapolis; Mercy-Unity Hospice/Mercy Medical Center, Coon Rapids; Divine Redeemer Memorial Hospital, South St. Paul.

Missouri: Hospice of Southwest Missouri, Springfield; Missouri Hospice of Southwest Missouri, Springfield; Lutheran Medical Center, St. Luke's Hospital-East, St. Louis.

New Jersey: Hackensack Hospice & N.W. Bergen Hospice, Bergen County; St. Barnabus Hospital, Livingston; Tri-Hospital Palliative Care, Passaic; Riverside Hospice, Boonton; Freehold Area Hospital, Freehold; Overlook Hos-

pice, Summit; St. Elizabeth Hospital, Elizabeth; Greater Paterson General Hospital, Paterson; Riverview Hospital, Red Bank; Bay Shore Community Hospital, Ocean County.

New Mexico: Hospital Home Health Care Program/St. Joseph's Hospital, Albuquerque.

New York: Capitol District Hospice, Schenectady; Home Care Assn., Rochester; St. Peter's Hospital, Albany; Hospice Care Inc., c/o The Presbyterian Nursing Home, New Hartford; New York Hospital/Cornell Medical Center, St. Luke's Hospital, Cabrini Medical Center, New York;

Also, United Hospital of Port Chester; Mercy Hospital, Rockville Center; Northshore University Hospital, Manhasset; Long Is-

land Jewish-Hillside Medical Center, New Hyde Park; Beth Abraham Hospital, Bronx; Metropolitan Jewish Geriatric Center, Brooklyn.

North Carolina: Hospice of Charlotte; Hospice of Winston-Salem.

Ohio: Hospice of Cincinnati Inc.; St. Joseph's Hospital, Lorain; Hospice of Dayton; Hospice Home Care Pilot Program, Toledo.

Oregon: Mercy Medical Center, Roseburg; Day Spring, Medford; Hospice of Benton County, Corallis; Hospice of Marion County, Salem.

Pennsylvania: Bryn Mawr Hospital; Forbes Hospice, Pittsburgh; Paoli Memorial Hospital.

South Carolina: South Carolina Baptist Hospital, Columbia; Greenville Hospital System.

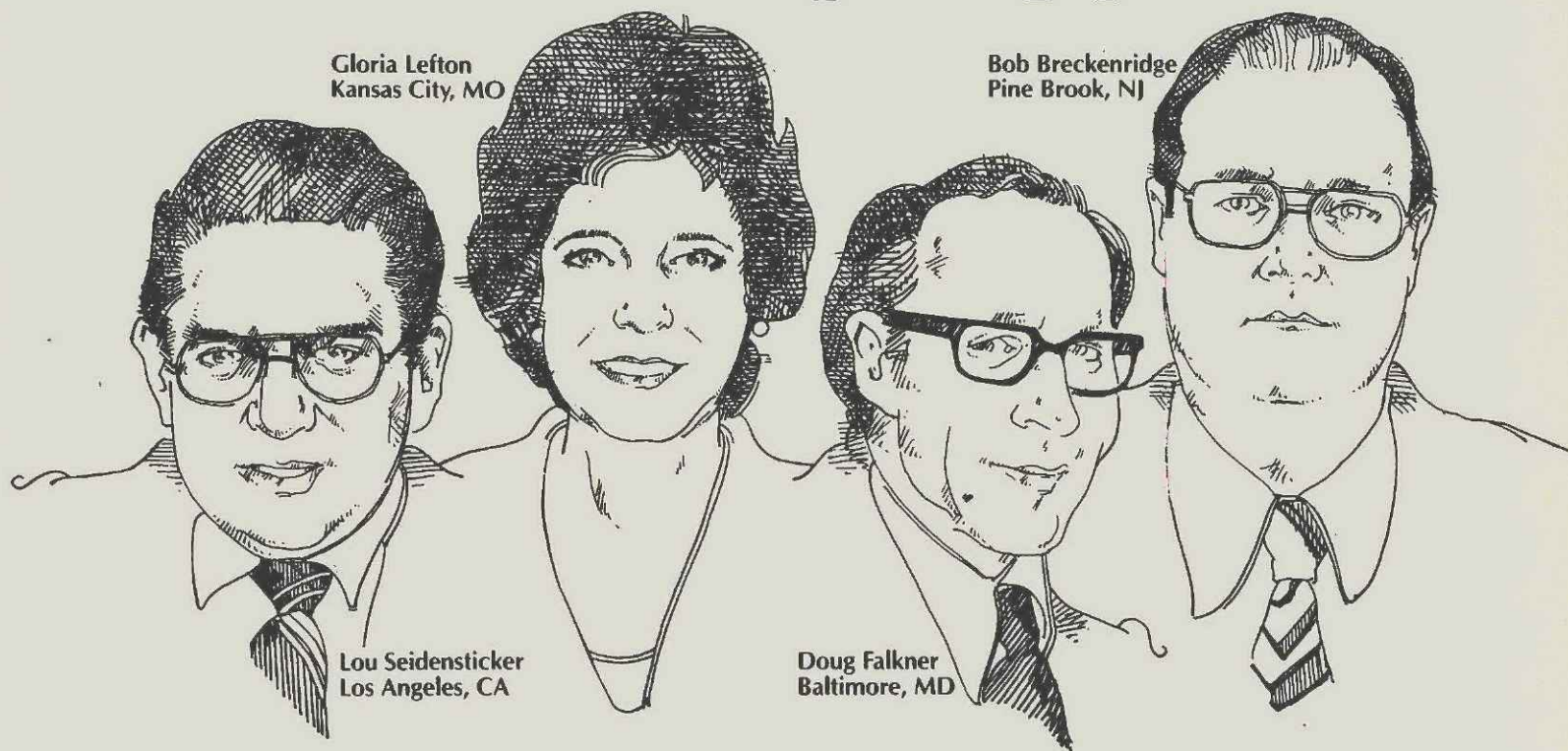
Tennessee: Fort Sanders Hospital, Knoxville.

Texas: Home Health-Home Care Inc., Southeast Texas Hospice, Orange; St. Benedict Hospital and Nursing Home, San Antonio; Hospice of North Texas Inc., Visiting Nurse Assn., Dallas.

Washington: Hospice of the Northwest, Hospice of Seattle, Seattle.

Wisconsin: Bellin Hospital Hospice, Green Bay; Rogers Memorial Hospital Hospice, Oconomowoc; Also, St. Joseph's Hospital Hospice, Milwaukee Hospice Inc., Milwaukee.

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Tanker deaths, spills drop; rates won't

Photo: Trans Union



NEW YORK—The number of fatalities and oil spills from tanker accidents at sea during the first half of this year is half what it was in the first half of 1979.

But this record is not expected to influence underwriters who are hoping to increase rates for tanker hull insurance. Rates have been low for several years, resulting in underwriting losses.

For the first half of 1980, there were 338 tanker accidents compared with 398 last year, according to figures compiled by the Tanker

Advisory Center of New York. Total losses of ships were 11, one higher than in the first half of 1979.

Fatalities dropped to 71 from 144 and oil spills numbered 15, compared with 39 a year ago. The amount of oil lost was 123,974 tons, down from 220,563 tons in 1979.

This year's experience is in line with experience for the past five years with the exception of 1979, says Arthur McKenzie, director of the Tanker Advisory Center. "1979 was a uniquely terrible year. We hope it is a record year that we'll never see again."

Cruising steady

The good safety record of tankers so far in 1980 is not likely to affect hull insurance rates, observers say.

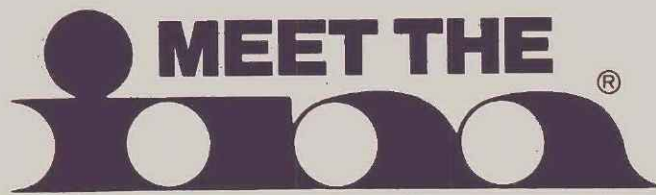
Fires and explosions during the first half of this year caused the greatest number of total losses—seven; the greatest number of fatalities—40, and the greatest loss of oil—101,690 tons.

London underwriters in May instituted a 25 cents per \$100 surcharge on ships not equipped with inert detection systems—devices used to reduce the risk of explosions in tanker holds (BI, May 5, 1980).

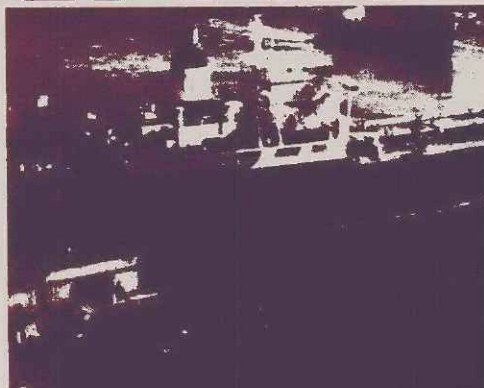
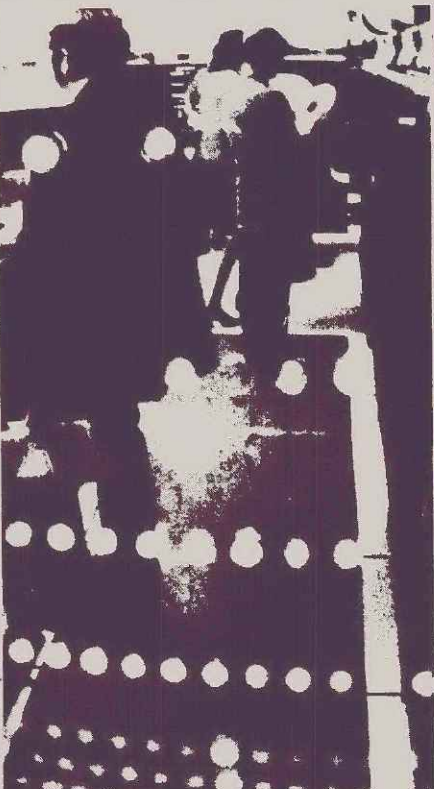
Weather damage caused two total losses of ships and two others resulted from causes not classified by the report. Collisions between two or more vessels claimed 23 lives. Eight crew members were killed in weather-related incidents.

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'1979 was a uniquely terrible year,' says Arthur McKenzie.

if losses continue at the same rate for the rest of 1980, 17.3% of the 3,900-vessel world tanker fleet would be affected. That would be the second best year since 1973 when the center began collecting statistics.

The industry's best experience came in 1978 when 16.6% of the world fleet of 4,100 vessels was affected.

While this year's improved record might give the tanker industry reason to cheer, Mr. McKenzie says studies warn of high losses for several more years. "The freight market has been so poor that owners are not generating sufficient cash to spend on sufficient maintenance," he says, citing the studies.

Although one would expect improved tanker loss experience to make it tougher for underwriters to obtain rate hikes, this might not be the case, says Bob Quinn, president of Houston-based J.H. Blades & Co.

Many insurers lump tankers with drilling rigs and other offshore oil and gas exposures when looking at overall experience, he explains. As offshore loss experience deteriorates, the impact is likely to be felt throughout the hull insurance market, he says.

Rates for offshore risks are currently soft, but they are on a "collision course with loss experience," Mr. Quinn warned, predicting a turnabout in pricing.

The improved loss experience is not likely to affect hull rates, says Marsh & McLennan senior vp John Buzbee. "Underwriters will have a hard time getting rates up regardless of the experience. I don't see much connection between the two."

Surcharges imposed earlier this year by the London market were a reaction to 1979's bad experience, he added.

Project enlists consumers' help to cap care cost

INDIANAPOLIS—A statewide campaign is under way here to get the consumer to help hold down skyrocketing health care costs.

The effort is spearheaded by the Indiana Voluntary Effort Task Force to Contain Health Care Costs, a cross section of health care providers, suppliers, insurers and business, labor and government.

"We've never had anything this widespread before," said Joanne Dringe, vp for public affairs for the Indiana Hospital Assn. and a coordinator of the program. "We've appealed to business and providers before, but there's only so much that can be done by them. The program needs everyone to understand that they are actually part of the picture, and they'll benefit from it too."

The program is being funded by an initial \$15,000 in grants from hospitals, insurers and other sources, including Blue Cross/

'We've never had anything this widespread,' says Joanne Dringe.

Blue Shield of Indiana.

The campaign includes a multimedia blitz of public service advertisements on radio and television, posters, countertop displays and a pamphlet trumpeting the message that the average consumer can help keep health care costs in check. This can be done by leading a healthy lifestyle, watching use of prescription drugs and not demanding treatment or hospitalization for minor disorders that don't require them, said Ms. Dringe.

One of the campaign's most enthusiastic supporters is Gov. Otis R. Bowen, who also is a doctor. The governor will appear in the first round of advertising.

During each month of the campaign, scheduled to run at least six months, a specific aspect of the war on health costs will be emphasized. Consumers will be shown how they can support the fight.

One message stresses that leading a healthy lifestyle, avoiding smoking and overeating and getting proper exercise can prolong life and diminish the possibility of illness. Another says people should not overuse physicians.

Hospital trustees can be liable, too

CHICAGO—The nation's more than 100,000 hospital trustees and directors may be held personally liable in medical malpractice suits, a Chicago attorney contends.

The liability of trustees and directors stems from several often-overlooked court decisions, notably the Corleto vs. Shore Memorial Hospital decision of 1975, says Thomas R. Mulroy in "Hospital Liability Revisited," a book published by Inquiry, a quarterly journal of the Blue Cross Assn.

In that decision, the court ruled for the first time in a malpractice proceeding that "not only may the negligent doctors and the hospital be named as defendants in a single suit, but also the president, each of the directors and, as a single entity, the entire professional staff."

"We want to tell the people that drugs and shots are not cure-alls," said Ms. Dringe. "When a doctor tells you that the best thing for a cold is rest and liquids, you should believe him."

Consumers also will be told how to save money on prescription drugs. They will be advised to evaluate their life and health insurance to see that it's adequate, but not more than is needed.

For a copy of the promotional brochure, write the Indiana Voluntary Effort, 3921 N. Meridian, Indianapolis, Ind. 46208.

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Of the surveyed workers who suffered head injuries, 55% said they were not required to wear protective helmets on the job.

Hatless workers suffer injuries, Labor Dept. says

WASHINGTON—More than eight out of 10 workers who suffered head injuries were not wearing head protection when the accident occurred, the Department of Labor reports.

Of those who were injured, 55% said their jobs did not require such protection. An equal proportion of

the 1,033 injured workers included in the survey said hard hats were not normally used or practical in the type of work they did.

Occupational Safety and Health Administration standards require that protective helmets meeting established strength specifications be worn by workers where there is danger of head injury from falling or flying objects or from electrical shocks or burns.

The survey showed:

- The typical head injury was caused by a falling object in 371 cases; by the head striking a stationary object in 299 cases; by being hit by a swinging object in 198 cases, and by being struck by flying objects in 120 cases.

- Men comprised 89% of the workers receiving head injuries; craft and kindred workers comprised 38%, laborers accounted for 29% and operatives 28%.

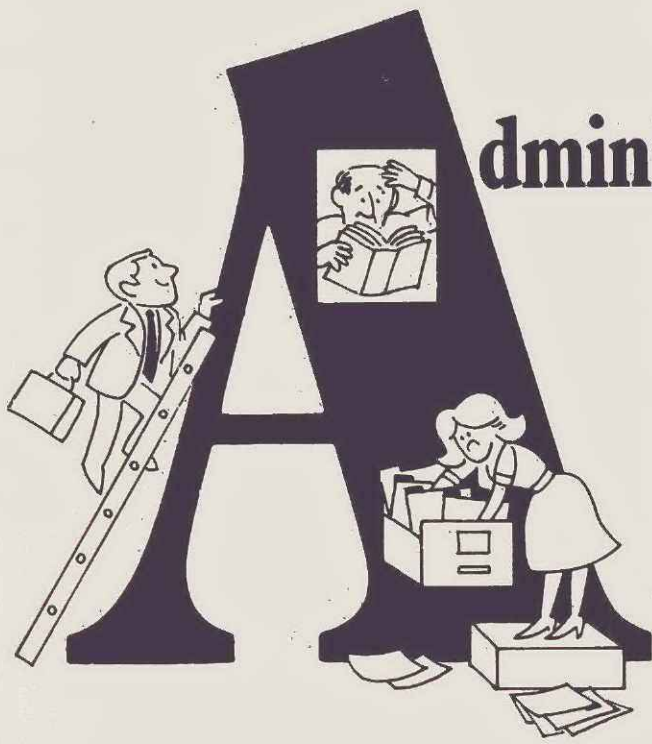
- Manufacturing firms employed 42% of those surveyed, construction firms 21%. The greatest proportion of accidents, 19%, occurred on construction sites; 14% on outdoor worksites other than construction; 10% on an assembly line or in a shop, and 15% in other production areas.

- More than half the workers were looking down when struck; about 30% were looking straight ahead. Most of the blows were to the top front of the head, usually the forehead, and to a lesser degree to the top center and the top side and back of the head.

- Scalp cuts and bruises were the prevalent injuries, 50%, with cuts and bruises of the forehead, 35%, followed by concussions, 25%, and neck sprains, 10%. Skull fractures resulted in 3%.

Of the workers wearing hard hats, more than half were furnished hard hats by their employer without cost; two-fifths said their firm required the wearing of hard hats for certain types of work at specific locations, and 12% said their employers did not require but encouraged the use of hard hats.

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Benefits battle:

ROLM Corp. workers exercise their options

By RHONDA L. RUNDLE

SANTA CLARA—ROLM Corp. president Ken Oshman is a marathon runner. Personnel administrator Ellen Kerner swims a half-mile a day before work. One Monday a month the two team up to talk with 40 to 50 new employees about benefits and other aspects of working for ROLM.

Always mentioned is ROLM's spectacular new \$1.2 million sports recreation complex, built smack in the middle of a large office park.

Employees enjoy free use of the facility, which includes a gymnasium, swimming pools, racquetball and tennis courts, saunas, an exercise center, a track and more. An eight-person staff supervises both team and individual sports activities.

"The owners believe strongly in the notion of exercise as part of health maintenance," says Ms. Kerner. But the sports center is promoted as an opportunity for fun, not as good medicine. There is no pressure to participate. And in fact she notes, utilization has been lower than expected.

Perhaps the most popular benefit plan at ROLM is the cash profit-sharing program, observes Ms. Kerner. The cash distributions are made twice a year to employees with at least six months' service, based on 7% of the company's pre-tax operating profits. During fiscal 1980, ROLM contributed \$2.6 million to its employee and executive compensation profit-sharing plans. ROLM Corp., a manufacturer of sophisticated telephone systems and military computers, boasts a history of high profitability and growth in excess of 50% every year since 1969 when it opened its doors for business.

"There are a lot of employees here who are getting rich through purchases of company stock," says Ms. Kerner, who includes herself in that group of enthusiastic ROLM investors.

The price of stock for employees is 85% of fair market value at either the beginning or end of each semi-annual offering. Employees can

purchase up to 10% of their base salary or wages through a payroll deduction.

In recent months, these investments have been making phenomenal gains. Since March, the security, which is listed on the New York Security Exchange, doubled in price before recently splitting 2 for 1.

"There is a strong emphasis at ROLM on delivering benefits employees want and not those that are convenient to the company or perceived by management to be what suits employee needs," explains Ms. Kerner.

Four years ago, she says, staffers were offered a choice between a cash profit-sharing plan and a pension plan. They opted for the former so ROLM does not have a pension plan.

"When new personnel ask why not, I tell them how the decision was made," says Ms. Kerner. "They seem satisfied and there are no further questions," she adds.

Recognizing the different health care needs of the more than 3,700 employees, ROLM this year expanded its employee options to include five medical and two dental plans.

Employees may select the ROLM/Prudential Health Plan paid entirely by the company, or authorize a small payroll deduction to join one of four prepaid health maintenance organizations including Kaiser Foundation, TakeCare, Lifeguard or Bay Pacific.

Besides the ROLM/Prudential dental plan, employees may make small copayments to join a prepaid dental program (Private Medical-Care Inc.) that includes an orthodontia benefit with a \$500 copayment.

"Vision care is probably the only health benefit we do not offer that I get inquiries about," reports Ms. Kerner. She says employees find the legal counseling available through the company's credit union sufficient; there is little interest in a full-scale prepaid group legal plan.

After six years of continuous full-time service and every seventh year thereafter, employees are eligible for a continuous service leave—along the lines of an academic sabbatical—of up to 12 weeks. The leave can be extended further by combining it with accrued vacation time.

There also are educational assistance benefits of up to \$2,500 for job-related courses and up to \$600 for outside-interest courses. And an attractive cafeteria with inside and outside seating serves three complete meals daily that are subsidized by the company.

Starting in January, ROLM will offer employees an adoption benefit. The self-administered plan will pay 80% of adoption agency fees and maternity fees of the natural mother up to a maximum of \$1,000.

Among the more conventional coverage provided through ROLM's comprehensive benefits package are life insurance, short- and long-term disability insurance and travel accident insurance. ■

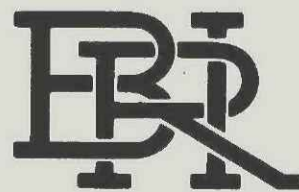


A swimming pool is only part of ROLM's \$1.2 million sports complex, which also includes a gym-

nasium, racquetball and tennis courts, saunas and a track—all free to employees.

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"The owners believe strongly in exercise," says Ellen Kerner.

Photo: ROLM Corp.



"We don't intend to convert to cafeteria benefits in the near future," says Art Young, Hewlett-Packard's benefit manager.

Flextime, housing cash head benefits package

By CAROL G. BLITZER

PALO ALTO, Calif.—Flexible work hours, housing expense bonuses and a strong profit-sharing plan headline Hewlett-Packard Co.'s benefits package valued at half of payroll for 43,000 domestic employees.

The 41-year-old computer designer/manufacturer is a granddaddy of the California electronics industry. Net sales last year topped \$2 billion with earnings over \$200 million, up \$50 million from 1973.

A recent survey indicates that employees like the company's

flexible work hours, which allow them to start work between 6 and 8:30 a.m. and leave between 3 and 5 p.m.

Art Young, benefits manager, believes Hewlett-Packard also comes out a winner with flextime. "You don't have people missing time to go to the dentist," he points out. Employees would like to have a 4-day work week, he notes.

Six months ago HP added a relocation bonus for employees transferred to areas where housing is considered high-priced, including Palo Alto. Employees are given moving expenses equal to several

months' pay plus a bonus based on prevailing mortgage rates and home costs in the relocation region.

Twelve percent of company profits are distributed to eligible employees each year, representing 7% to 8% of additional income to employees, says Mr. Young. Employees may participate in both a defined benefit plan with a guaranteed monthly pension check and a defined contribution plan, a form of deferred profit-sharing.

Employees also may contribute up to 10% of pay toward purchase of company stock. Hewlett-Packard pays 25% of the stock price.

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45.	NOV 10	Oct 29
46. Spotlight Report: Reinsurance	NOV 17	Nov 5
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Hewlett-Packard's medical and dental plans are self-insured through a 501(c)(9) trust, administered by Prudential Insurance Co. Highlights of the plan include:

- 100% coverage for inpatient hospitalization for sickness, accident or maternity.

- 80% coverage (after a \$50 deductible) for doctor's visits, surgery, prescriptions, nursing care, mental disorders (limited to \$16 per week).

- 80% coverage (after a \$50 deductible) for diagnostic, preventive and restorative dental treatment; oral surgery; crowns and caps; non-surgical periodontics; mouth prop devices; prescription drugs.

- 80% coverage (after a \$50 deductible) for endodontics, surgical periodontics, prosthodontics, root canals and crowns when asserted to affix bridges.

- 50% (after a \$50 deductible) of orthodontics with a life-time maximum benefit of \$1,000.

- 100% accident coverage for the first \$300, then 80% coverage.

- Maximum lifetime medical benefit of \$250,000 for employee and each dependent.

Besides its self-insured health plan, which covers some nontraditional treatment alternatives such as midwives and acupuncture when used as anesthesia or to relieve pain, HP offers a choice of four HMOs in the Palo Alto area and 30 others around the country.

Hewlett-Packard buys \$5,000 basic life insurance for each employee and offers a supplemental option of up to \$250,000. HP employees may contribute to an income protection plan (disability insurance) at a cost of 55 cents per \$100 of base salary, up to \$45.83 a month. Benefits payable are two-thirds of the first \$3,000 monthly earnings and 40% of the next \$5,333 up to a maximum \$4,133 a month.

The income protection plan is self-insured and administered by Equitable Life Assurance Society and Self-Insured Programs, Inc.

Packard is not formally subsidizing the establishment of child care centers, but one manager in San Jose is actively working with volunteers from nearby companies to form a center in his community.

Mr. Young has recommended that HP treat participation in child care projects like other community involvement activities in which employees are permitted company time for service.

Hewlett-Packard offers educational assistance to employees to enhance their job-related skills, Mr. Young reports.

"We don't intend to convert to cafeteria benefits in the near future," says Mr. Young. "We already have a lot of options."

Mr. Young says the company wants to keep the fundamental coverages strong.

Cafeteria plan follows four-day workweek trial

SUNNYVALE, Calif.—Following a successful 10-month trial, the "four-10 plan" is in full swing at Shugart Associates, a leading computer components manufacturer and Xerox Corp. subsidiary.

Most Shugart employees, including all on the day shift who do not have customer-contact jobs, work four-day weeks, 10 hours a day.

A pilot project and study in one Shugart manufacturing division earlier this year showed that the four-day week had no appreciable effect on absenteeism, quality of work or productivity, reports Chris Carlton, employee benefits manager. "The results were very positive," she said.

"We talk about benefits a lot and are always open to employee suggestions," continues Ms. Carlton. "That's what gave rise to flexible hours and the four-day work week."

Now Shugart is implementing flexible benefits.

A modified cafeteria-style approach to start in 1982 will provide a benefits core worth 75% of total benefits value; the remaining 25% will be built from benefits chosen by each employee.

"This tack is more responsive to our changing workforce since age,

"We are always open to employee suggestions," says Chris Carlton.

marital status, family obligations and other factors are vital in determining the value of benefits to the individual employees," points out Ms. Carlton.

Another advantage is that flexible benefits promote good benefits communication and encourage employees to know and understand costs, she says.

The biggest obstacle to such plans, she concedes, is their tremendous administrative complexity. The debate about relative cost is ongoing, she adds.

Over the past three years, Shugart's employee population has grown to 2,600 from 350, notes Ms. Carlton. The company was founded seven years ago by a group of 10 former IBM and Memorex engineers.

The SHARE plan is Shugart's reward to employees for profits generated through "teamwork and participative management," says a plan summary. Part-time, summer, temporary and permanent personnel participate in the cash profit-sharing plan after seven bi-weekly pay periods of service.

Next January, Shugart will introduce a cash accumulation and pension plan designed to mesh together. Both plans will feature 50% vesting after five years, 100% vesting after 10 years. An amount equal to 2% of each employee's salary will be paid into the cash accumulation plan with an employee option to contribute an additional 1% to 4% of pretax earnings.

The pension plan, designed by Hewitt Associates, will pay out up to 50% of final salary coordinated with Social Security. "The company has delayed on a pension plan up to now because studies

show that employees view them as security, not as benefits," Ms. Carlton explains.

Two years ago when Shugart polled employees about certain benefits, pensions ranked third in preference behind the company's profit-sharing and cash accumulation plans.

All employee benefits are paid in full by Shugart, including major medical, dental and life insurance for both employees and dependents from date of hire. Health programs are offered through Blue

Continued on page 74

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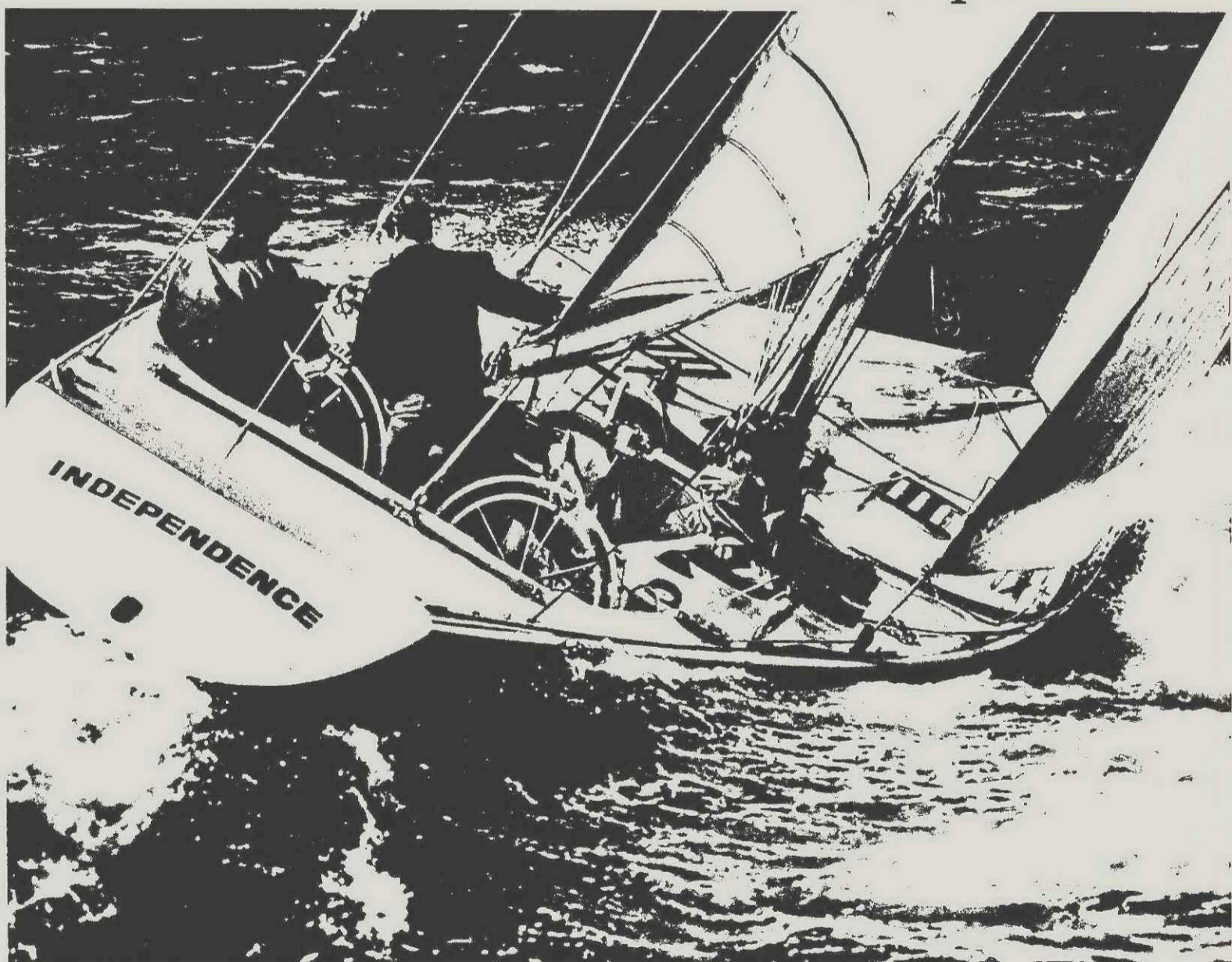
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Electronic workers bite at benefit bait

Continued from page 1
including managers and technical staff, is 32.7 years.

"Young employees seek good medical, dental and vision plans. They carefully check maternity benefits—and use them. They like flexible working hours with lots of time off and vacation. Credit unions are popular to provide easy access to loans for car purchases, travel and other personal needs."

Two-thirds of the electronics companies in California do not provide pension plans, points out Ms. LaRocca. This saves employers 7% to 8% of payroll in monies that can be applied to more visible cash-on-the-barrel profit-sharing plans.

Since many young employees do not expect to remain with a com-

pany more than a couple of years, such plans carry more appeal than pension plans with their long vesting schedules.

Companies such as Hewlett-Packard and Varian Associates that do offer pension plans tend to be older, more established firms where senior personnel is starting to think seriously about retirement. Seven-year-old Shugart Associates will install its first pension plan in January.

Benefits managers report good results with cash profit-sharing plans that give employees a direct stake in the performance of the company.

Says ROLM Corp.'s personnel administrator Ellen Kerner: "If employees think someone is ma-

lingering or not holding up their end, you'll hear them grumble that it's coming out of their profit-sharing."

Part-time benefits are becoming commonplace as a means of attracting students and women with young children into the job marketplace, especially at companies where work continues around-the-clock. Job-sharing and job-pairing are also growing in acceptance in Silicon Valley.

To attract employees from out-of-state, many electronics companies are offering or considering some form of housing subsidies. Middle managers and engineers are enthusiastic about relocating in Santa Clara until they get there and start scouting the local housing scene, say recruiters.

The average price of a house in California is about \$115,000, according to a recent Bank of America study. And figures run much higher in rarefied neighborhoods like Palo Alto, hometown for Hewlett-Packard, Varian Associates and Stanford University.

Many electronics companies, in fact, are planning, building or opening new facilities outside the Golden State where blue-collar workers can afford to live without ransoming their paychecks to a monthly mortgage payment.

Although low-interest home



The emphasis at the Electronics Assn. of California is on benefits not price, says Sherril A. LaRocca.

loans to employees seem to be more dream than reality, both Hewlett-Packard and Varian say they pay housing bonuses on a discretionary basis to new recruits and transfers.

At least one realty firm in the Silicon Valley, California Housing Properties, says it has had calls from major electronics firms interested in co-investing in homes with new employees.

Because it's a job seeker's market, benefits managers must keep an ear tuned to personnel preferences. Many companies report they have conducted formal preference polls to decide how benefits dollars should be spent. And regular meetings, orientation sessions and other communications about benefits take a high profile in the Valley's progressive electronics firms.

The Electronics Assn. of California offers its own benefits package to about 130 participating compa-

nies with 10 to 250 employees, says Ms. LaRocca.

Although not every company selects every benefit, the association offers health and dental care, life and disability, group legal, vision care, a credit union and comprehensive administrative services.

"The emphasis is on benefits, not price," says Ms. LaRocca, who believes that many aspects of the program make benefits available to small companies that they would not otherwise be able to obtain.

The cost savings they get through the pool typically is enough to cover their EAC membership dues, she adds.

EAC membership includes nearly 80% of the electronics firms in Northern California. A new membership drive is under way in Southern California where penetration is about 15%. Orange County is one of the country's fastest-growing electronics centers. ■



The gymnasium at ROLM Corp. in Palo Alto, Calif., is only one of several recreational facilities set up for employees.

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Company eases senior workers into retirement

PALO ALTO, Calif.—Despite the domination of the electronics industry by young engineers and entrepreneurs, senior personnel are not overlooked in benefits planning at Varian Associates.

To ease the transition into retirement, the Palo Alto-based electronics firm, with 11,000 employees nationwide, permits 55-year-olds with five years' service to gradually reduce their workloads to half-time before retirement.

During this period, employees continue to reap full company benefits, worth about 35% of payroll, estimates Floyd Langsev, manager of personnel policies and benefits.

And while they're still earning, Varian staffers are building sizeable savings through two different profit-sharing plans. One is part of the company's retirement package, the other is a lump-sum payment distributed annually out of 5% of various pretax profits.

"The retirement plan is extremely popular despite the fact that the average employe is 38 and getting younger," says Mr. Langsev.

An employee can opt for either a diversified retirement fund plan or a fixed income fund with a guaranteed return of 11%. Maximum employee contributions of 4% of salary are matched by Varian and immediately 100% vested.

Varian staffers also may contribute up to 10% of salary toward the purchase of company stock, offered at 85% of the market price.

Sensitive to the reality of uneven housing costs across the country, Varian also offers aid to its new recruits and transfers.

The company buys the homes of its relocating personnel to free up funds for new housing purchases.

Varian pays moving costs, a relocation allowance and other assistance on a discretionary basis.

Varian offers transfers help to free up housing funds

Varian holds monthly meetings in which company officers briefly talk about their jobs and then answer employee questions.

"We get a lot of feedback this way about employee wants and needs," notes Mr. Langsev. Good relations also are fostered by a non-discretionary benefits approach that does not favor high-ranking personnel.

"All employees participate on the same basis, from the president down to the janitors.

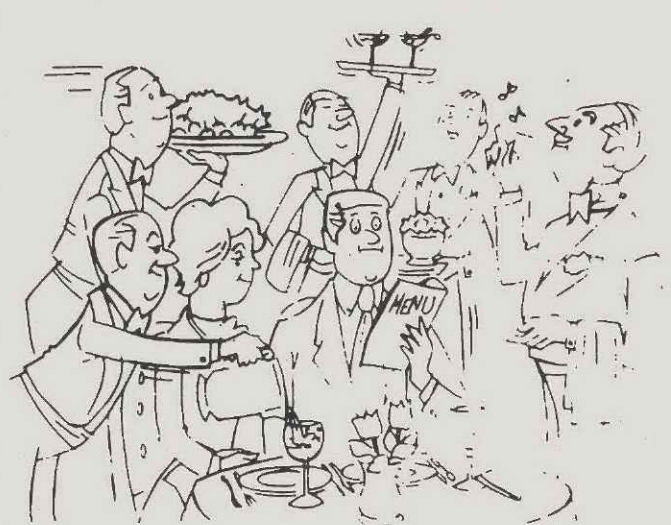
"We have a certain amount of flexibility in our program now," observes Mr. Langsev, who believes that the cafeteria-style approach would be very costly. He fears certain medical benefits would become extremely high-cost items if they were not spread across a large base of people.

Varian employees may choose from three local health maintenance organizations (Kaiser, Life-guard or Bay Pacific) or a comprehensive medical plan self-insured by Varian and administered through Equitable Life Assurance Society.

The comprehensive plan includes 100% of inpatient hospital care; 50% of outpatient mental and nervous treatment to a maximum of \$1,000; 80% of reasonable and customary charges up to \$2,500 per year (after a \$100 deductible per family), then 100% of covered charges for other medical expenses (doctor visits, lab tests, drugs, ambulance and others). The plan provides a maximum lifetime benefit of \$250,000 per participant.

Dental coverage is 80% of reasonable and customary charges


Continued on next page



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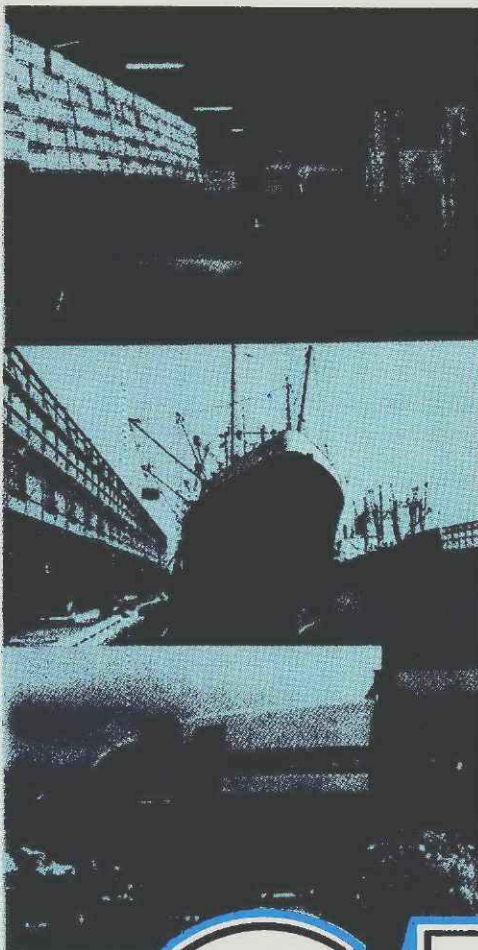
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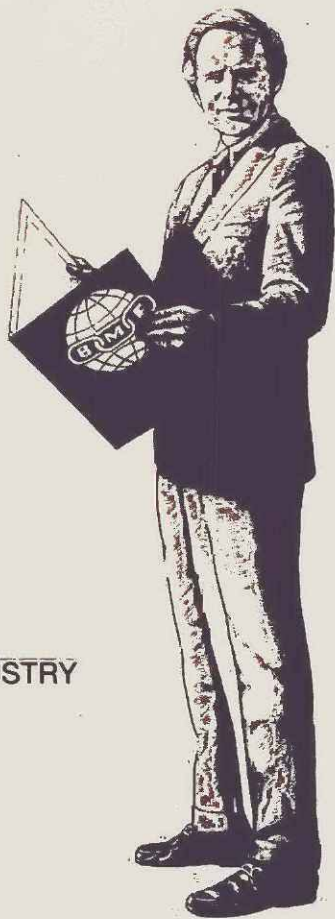
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ADMINISTRATION



"All employees participate on the same basis, from the president down to the janitors," says

Lloyd Langsev, manager of personnel policies and benefits.

Company eases workload

Continued from previous page
with a \$25 deductible for periodic dental exams, X-rays, cleanings, fillings, endodontics, periodontics and repair of bridges. The plan pays 50% for crowns, inlays and gold fillings after the \$25 deductible and 50% of orthodontia with a \$500 lifetime limit.

Special features of the medical

plan include nursery care for well newborn babies and coverage for dependent children regardless of age, notes Mr. Langsev.

Long-term disability, insured through Aetna, is 60% of basic monthly earnings beginning 90 days after start of disability with a maximum \$4,000 monthly benefit. Varian's short-term disability pro-

gram is self-insured.

A \$5,000 life and accidental death and dismemberment insurance policy is paid by Varian for each employee. Individuals may purchase supplemental coverage. Varian also supplies business travel accident insurance that includes war zone coverage.

—Carol G. Blitzer

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Flexible plan follows four-day workweek

Continued from page 71
Cross and Kaiser.

Blue Cross provides a \$300,000 lifetime coverage per person with an annual \$50 deductible per person up to a maximum of \$150 per family. Payment for costs (excluding hospitalization) in excess of the deductible are made for 80% of the charge of the first \$2,000 and 100% thereafter per person per calendar year.

One hundred percent of all hospital room and board charges (based on a 3-bed room) are covered by the plan up to 365 days of confinement per person. Doctor's fees, drugs, lab charges, X-rays and most other medical expenses are covered at 80% after the deductible.

The plan pays 50% of charges for psychiatric consultation for up to \$15 per visit with a maximum of 50 visits per year. There is also Blue Cross dental coverage with a yearly deductible of \$50 per person. Orthodontics are not covered.

A self-insured and administered vision care plan pays up to \$40 for an eye exam every two years, up to \$75 for eyeglass frames and lenses or \$75 for one pair of contact lenses to be used in lieu of glasses.

Group life insurance and accidental death and dismemberment are both paid at two times annual gross salary. AD&D is in addition to regular insurance benefits; thus death by accident pays double the normal amount.

Upon satisfactory completion of approved courses, Shugart pays 75% of costs for books, tuition and related fees to regular full-time employees. Courses must be approved in advance.

Shugart boasts a very liberal holiday and vacation schedule including a Christmas week plant shutdown plus 12 days of regular vacation. After one year of service, employees are eligible for an extra birthday holiday.

—Rhonda L. Rundle

School insurance company probed

AUGUSTA, Maine—State officials here are investigating the legality of a proposed new insurance company that would be owned and operated by local school systems.

The Maine School Management Assn. which represents most of the 284 school boards in the state, has proposed the new company has a means or providing low-cost insurance for Maine schools.

The school systems now buy insurance individually from private insurers. The proposed new firm would provide more comprehensive insurance for school systems and would save them "at least 17.5%" in rates, said MSMA executive director Paul Brunelle.

But insurance bureau chief Theodore Briggs this week ordered MSMA to stop sending out

mailings to school systems about the proposed new firm until the plan receives state approval.

MSMA filed its proposal with the state two weeks ago, but Mr. Briggs said the packet wasn't complete and that he was requesting more information. Once that information is received, the bureau will set up a hearing on the proposal, Mr. Briggs said.

The attorney general's office stepped into the issue at the request of state Rep. J.P. Norman LaPlante. The Maine insurance agents association also has registered a protest.

Rep. LaPlante, whose bill to set up a state school insurance pool was overwhelmingly killed by the legislature this winter, contends MSMA should not be getting into the insurance business.

Peter Downes knows his ABC's.

Peter Downes, a man of letters, is a regular contributor to the Perspective section of Business Insurance. Sometimes he writes with tongue in cheek, but the subjects he addresses are invariably of vital interest to the Business Insurance audience.

Since his first column in 1975, which dealt with big problems created by regulators under the guise of public protection, Peter's contributions have ranged from such diverse topics as illiteracy of insurance executives to how an insurance expert views health care as a patient, the justification for self-insurance, and his experiences with some of the Lloyd's characters who shaped that institution, to name only a few.

Peter Downes has brought a measure of literate rationality and balanced levity to many exasperating problems which have surfaced for corporate risk and financial executives in the seventies. And, in the eighties, he will continue his lively and readable contributions to the delight of thousands of Business Insurance readers.

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1979 Large-Loss Claims

Policyholder	# of Incidents	% of Incidents	% of Total Payments
Manufacturer—Finished Product	130	75.1%	68.7%
Manufacturer—Component	17	9.8	11.6
Wholesaler—Finished Product	1	0.6	0.2
Wholesaler—Component	0	0.0	0.0
Retailer—Finished Product	5	2.9	5.4
Retailer—Component	1	0.6	0.6
Lessor—Finished Product	0	0.0	0.0
Lessor—Component	0	0.0	0.0
Completed Operations	15	8.7	10.9
Other—Finished Product	4	2.3	2.6
Total Valid Responses	173	100.0%	100.0%

Large product claims get more expensive

CHICAGO—The average payment for bodily injuries in large product liability suits increased 68% since 1975, according to a new closed claims study by the Alliance of American Insurers.

Charting 174 incidents in which claims were closed in 1979, the alliance reports that large loss claims, each costing \$100,000 or more in payment and expenses, produced total payments of more than \$60 million.

The average payment per incident was \$346,587, compared with a \$264,120 average payment recorded in a similar study four years ago.

Though both studies ignored the small cases that make up 99% of closed product liability claims, the alliance reports the large cases "consume more than half of the total dollars paid out.

"Thus, our study focuses on the

most costly part of the product liability system," the report says.

Despite the 68% increase in average cost per claimant, 1979 claims were similar to the 1975 claims studied. According to the report:

- About 80% of the payments covered personal injuries and 20% paid for property damage.

- Two of every three injuries resulted from industrial products used in the workplace.

- Product liability insurers often were not notified promptly of accidents involving serious injuries. In 40% of the cases, claim reports to insurers were delayed more than a year.

- All but four of the incidents involved lawsuits, but about two-thirds were settled without trial. More than half of the cases that went to trial were settled before the trial was completed.

Settlements made for bodily injury provided injury victims and survivors with an average of \$6.45 in payments for every \$1 of past economic loss as calculated by the insurers. Estimating future economic losses, the insurers say claimants received about \$1.22 in payments for every \$1 of past and estimated future losses.

The new report says punitive damages were sought in 18% of the incidents—almost four times the proportion recorded in the 1975 study.

But the punitive damages, often cited as a reason for high product liability rates, were granted in only one of the 174 incidents. None of

the 1975 payments included punitive damages.

Insurer expenses for legal services, however, increased 26% from 1975. The defense cost to insurers for the 1979 claims was \$30,079 per incident, compared with \$23,844 average for the 1975 claims.

The alliance is expected to use the study results in its continuing support of tort law reform that would relieve manufacturers of some liability for misuse of products, delayed claims and some "state of the art" product incidents.

The study shows, for example, that misuse, damage or alteration of the product was the cause of injury in 32% of the large loss claims. The payments for these claims amounted to 39% of the \$60 million costs.

About 20% of the claims studied involved accidents that occurred more than six years after the product was first sold or delivered and 14% occurred more than 10 years after delivery. About 6% of the claims involved products that were up to state of the art standards at the time of the accident.

The study was based on all of the large loss claims of alliance members: Liberty Mutual, Employers Insurance of Wausau, Lumbermen's Mutual, American Mutual, American Motorists, Sentry Insurance, Utica Mutual, Federated Mutual, Employers Mutual Casualty Co., Employers Insurance of Texas and Michigan Mutual.

Bill allows 4-day workweek

WASHINGTON—The U.S. Chamber of Commerce will support a Senate bill that would give federal contractors and their workers the option of going to four-day, 10-hour workweeks.

The legislation, proposed by Sen. Henry Bellmon (R-Okla.), would amend sections of the Walsh-Healey Act and the Contract Work Hours and Safety Standards Act, which regulate pay standards for federal contracts and require payment of time and a half for work in excess of eight hours a day. The present standard calling for premium pay after 40 hours would remain unchanged.

"We support the concept because it gives employers the option of scheduling four-day, 10-hour workweeks if they wish, without a penalty," said David L. Shapiro, labor relations attorney for the chamber.

"The amendment would not mandate any change in work

schedules if the present five-day, eight-hour workweek is preferable to employers and workers."

The change would give federal contractors the same alternative workweek options enjoyed by employers in private industry and the government itself.

The Fair Labor Standards Act, which sets standards such as the minimum wage and overtime regulations, does not require overtime pay for work after eight hours, as does the Walsh-Healey Act.

The shorter workweek, according to the studies, has aided recruitment, particularly among those who prefer the longer week-ends; reduced absenteeism and overtime because of greater flexibility, improved productivity and enhanced workers' morale.

The chamber says that since many employers perform both government and private work, the amendment would reduce the payroll reporting burden.

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Rate investment income, study says

Continued from page 2

write high-risk coverage.

Some insurers already have begun to use the extra income as a factor in establishing rates for large commercial accounts. The Commerce Department study, however, suggests insurers make clear how much investment income is earned from product liability premiums and file that data with state insurance departments for evaluation.

"Insurers potentially earn substantial investment income from the writing of product liability insurance that is not reflected in product liability rates," the report explained. "The product liability losses (insurers) complained of may be significantly offset by the substantial amounts of investment income."

The study, therefore, recommends ISO calculate and distribute to its member insurers an estimated loss payout table that would allow insurers to estimate how much income they can attribute to invested product liability premiums.

The study further suggests the NAIC revise its model reporting regulation to include filing of product liability investment income compounded by the line's expected loss payout. States should then adopt the model.

This data could be used as fuel for buyers looking to negotiate lower rates that include the investment value of their premium. Regulators could use the clarified information to decide whether insurers are making too much or too little profit from product liability insurance sales.

"We express no opinion as to what an appropriate maximum rate of return should be for product liability insurance; however, we do recommend that investment income be taken into account by insurance regulators in determining rate adequacy," the report stated.

The Commerce Department also called for ISO to review about a

third of its rating classifications for product liability, the (a)-rates that provide a base on which individual underwriters build their rating judgment.

Though the ISO plots rates separately for bodily injury coverage and property damage insurance coverage, the study found enough similarity in ratemaking methods to discuss the techniques generally.

The task force analysis revealed "substantial indicators that (a)-rates have been established at a level in excess of that appropriate. We recommend that (a)-rates should be set at a level which balances projected premiums with projected losses among the (a)-rated classifications.

"This recommendation is not intended to derogate the insurer's ability to deviate from the published guide rates; it is directed at ISO to assure that its subscribing insurers have available an appropriate starting point in their rating of (a)-rated risks," the study explained.

"This suggestion, like most of the study's evaluations, expresses some confidence in the insurance industry's data-gathering ability, but asks that information used in establishing rate guidelines be filed and available to regulators.

Only one rate methodology, rule 24H rating, which permits the use of judgment rating instead of manual rates on some risks, is suggested for abolition.

The study supports forms of loss rating, experience rating and schedule adjustments to manual rates with some actuarial refinements.

"Experience rating should be mandatory when applicable and the credibility formula used should be made part of the experience rating plan," the study said.

Presently, risks paying at least \$2,500 of basic limit manual premiums may be experience rated at the insurer's discretion. The Commerce Department sugges-

counts that are most crucial to a business, the big ones that would really hurt—say the top 30 accounts," Mr. Parmalee explained. "If one of them folded, the company would be really hurt."

Companies usually pay premiums from 0.3% to 0.5% of annual sales covered, Mr. Parmalee said. Rates are similar for the other major domestic credit insurer, the New York-based London Guarantee & Accident Co.

Coverage can run up to an aggregate of \$5 million, but is often only \$50,000 to \$100,000 for each account covered under the policy. Deductibles are usually less than 1% of annual sales.

Domestic capacity is estimated at about \$35 million, with American Credit providing about 75% of that total, Mr. Parmalee said.

American Credit clients are often medium-sized textile and soft goods manufacturers with annual sales of \$3 million to \$75 million, he said.

"The huge companies are usually self-insured for something like this," Mr. Parmalee said.

Reed Stenhouse's Mr. Brett estimates almost 65,000 companies in England purchase credit insurance and pay about 0.5% of annual sales for the coverage. Annual premiums for the few companies that write it total about 90 million pounds sterling (\$217 million), he said.

Recommendations for ISO

The latest study of the Commerce Department's Task Force on Product Liability recommends a series of sweeping changes be tackled by the National Assn. of Insurance Commissioners, state regulators and insurers.

But it hits the Insurance Services Office hardest with 24 separate recommendations. The ISO should:

- Amend its present classification scheme to one using the standard industrial code methodology to five digits.
- Determine its (a)-rates actuarially, which in the aggregate reflect the projected loss experience of all (a)-rated classifications.
- Determine (a)-rates without regard to expense and profit loading.
- Provide for each classification a range of (a)-rates that represent the average rate for the average risk.
- Require that present ICC 37101 (manufacturers of autos, trucks and buses) not be included in the actuarial determination of (a)-rates, but be treated separately.
- Abolish Rule 24H rating.
- Continue experience rating at a \$2,500 threshold.
- Use experience rating to the extent credible for all risks presently eligible.
- Revise the present scheme of schedule rating to include categories more suitable for product liability insurance.
- Abolish the \$1,000 threshold presently in effect for schedule rating.
- Make all adjustments to manual rates (other

than experience rating) through the application of schedule modifications.

- Require the reporting of schedule modifications and periodically test them for actuarial accuracy.
- Collect and review detailed product liability data from large (a)-rated classifications and loss-rated classifications on an experimental basis.
- Investigate the feasibility of promulgating rates on an accident year basis or on the basis of half a policy year.
- Study the loss development procedure for basic limits rates to ascertain whether review on the basis of industry group, size or risk might yield more equitable results.
- Include in its claims counts those claims where allocated loss adjustment expenses only were incurred.
- Investigate more suitable mathematical functions regarding its basic limits trend factors.
- Evaluate such trend factors in light of expected future conditions.
- Remove all expense- and profit-loading provisions from their ratemaking analysis.
- Introduce severity considerations in the credibility analysis made at the sub-group level.
- Empirically validate the combining of (a)-rated experience and manually rated experience for purposes of the excess limits tables.
- In its derivation of the excess limits tables, stratify losses of more than \$300,001.
- Derive a trend factor applicable to fully developed losses.
- Collect data on the payout rate of claims.

tion would tie the rates of firms in that class more consistently to their past loss history.

"We also recommend the promulgation of schedule criteria to take into account product liability considerations including safety design, quality control and the extent of an individual insured's products previously sold and still in use and the nature of the product usage," the study said.

This expansion would most likely allow rate discounts for firms with respected safety and quality-control programs but increase rates for firms that do not carefully monitor their products' construction and use.

Excess coverage rates also came under fire as extending inequities in basic limit rates.

"One of the initial assumptions in constructing the excess limits factors tables is that basic limits are generating adequate premiums," the report explained. "To the extent that the rates are manually determined, this is a reasonable assumption.

"However, to the extent that basic limit rates are (a)-rates, the assumption appears unwarranted," the study continued. As our analysis indicates, (a)-rates are set at a level in which the aggregate will produce more premiums than nec-

essary. Excess limits factors as presently determined would exacerbate this inequity."

Demand for credit insurance rises

Continued from page 3

1979. In England, it is estimated the number of insolvencies is 30% higher than for the same period last year.

This has made some underwriters understandably skittish.

"Losses have gone up very high in the last couple of years," said Mr. Parmalee. "They are running about 20% higher this year than last."

"Everyone is getting very jittery," agreed Peter Brett, credit manager for Reed Stenhouse. "We are very much concerned about the larger risks."

This fear is not only leading underwriters to take a more jaundiced look at new business, but also to reconsider some of the risks they have been writing.

"One of the problems we have is that sometimes not all the client's accounts will be covered by the insurance policy, particularly if there looks like a particularly bad risk on the books," Mr. Brett said.

"For instance, British Leyland has such a bad rating, and the chances of the government continuing to bail it out so uncertain, that it would be struck from any policy covering its suppliers. You just can't find anyone to reinsure that."

Most policies, however, still cover the major accounts for any policyholder.

"We tend to cover credit ac-

Some consultants and insurance buyers, however, say coverage should not be picked up automatically at the first sign of a recession.

"This is something we take a pass at from time to time, but we continue to feel that we really don't need it," said Bruce Fowler, risk manager of the Ohio-based manufacturer A-T-O Co. "We feel that the cost of it is a bit too expensive for our risk."

Consultants say companies don't need credit insurance if they sell primarily to government entities or do most of their transactions on a cash basis.

Allowing credit to customers, but only on a tight rein, also is a way to avoid the exposure necessary to warrant credit insurance,

Plans granted rate increase

UTICA—Subscribers of Hospital Plan Inc., the Blue Cross plan serving Utica, N.Y., and surrounding counties, are paying higher premiums under two contracts after the plan was granted a rate increase.

Individuals under Plan S group remittance will pay \$11.45 a month, up from \$10, and families will pay \$24.15, up from \$21.30. Individuals under Plan PB group remittance will pay \$13 a month, up from \$11.60, and families will pay \$28.40, up from \$26.60.

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Few offer early retirement programs

Continued from page 3

it's in the discussion stage," said consultant Ken James at Hewitt Associates in Deerfield, Ill.

The reason for the lack of enthusiasm about early retirement plans is twofold, says TPF&C's Mr. Alden. Uncertainties brought about by the Employee Retirement Income Security Act and precautions caused by the Age Discrimination in Employment Act have made companies more hesitant, he says.

Since passage of ERISA in 1974, many incentives to early retirement are considered pension plans and are subject to plan requirements, Mr. Alden explained. "Most employers are loathe to deal with additional ERISA provisions."

Programs suspect

The age discrimination act of 1978 has made early retirement programs suspect, he continued. "Any special retirement programs must be entirely voluntary; there can be no arm twisting on the part of the employer."

Retirement and benefit managers surveyed were reluctant to disclose details of early retirement incentives. All stressed the voluntary nature of their programs.

"Our plan is an option," stressed a spokesman for Caterpillar Tractor Co. in Peoria, Ill. "It's there if people want to use it, but there's no pressure from the company for them to do so."

The Caterpillar plan allows management employees to retire as early as age 58 with a supplement to the regular company pension plan that takes effect at age 62.

At B.F. Goodrich, retirement as early as age 55 has been a pension plan option for 25 years. The voluntary separation program to be announced this fall will be available to employees age 55 with 10 years of service and to employees 50 to 54 who have longer service.

Little liberalization

NEW YORK—Not only is corporate interest in special early retirement plans fading, but early retirement provisions of qualified pension plans are suffering from lack of attention, says Philip J. Alden Jr., vp at Towers, Perrin, Forster & Crosby benefit consultants in New York.

"There's almost nothing going on in terms of liberalizing early retirement provisions," Mr. Alden said.

"ERISA, rapid inflation and the Age Discrimination in Employment Act have had the effect of moving employers away from making improvements in pension plans," he continued.

"ERISA didn't directly put the kibosh on early retirement improvement, but the additional cost of vesting, administration and plan termination that are involved in early retirement provisions had the same effect," he said.

Social factors, too, have affected both employers' and employees' attitudes toward early retirement, Mr. Alden adds. Today a fairly significant number plan to work beyond retirement age.

"It used to be a matter of social status to be able to retire early," the consultant observed. "Now it's more of a status thing to continue to work beyond retirement age."

The program, which will offer certain pay and benefit incentives, is not a supplement to the regular pension plan, a Goodrich spokesman said.

"Under the voluntary separation program a Goodrich employee can leave the company, but not retire," the spokesman said.

Standard Oil of California and IBM, two corporations cited as pioneers in early retirement plans, are not offering the incentive now.

In 1971 and 1975, IBM offered employees with 25 years or more service a chance to retire early with two years' pay spread out over four years.

The program was promoted by poor business conditions during those years, says Don Whalen, who heads retirement plans at IBM. "There are no plans to implement such a program this year," he added.

"We did not try to make the special early retirement plans attractive to employees, though the net effect was that a lot of people who

were eligible to retire took advantage of the offer," he explained.

IBM employees who accepted the special arrangements were entitled to vested retirement income, but not the medical benefits included in the regular retirement plan.

IBM routinely offers early retirement to any employee with 30 years of service regardless of age or at age 55 with 15 years service.

Manpower reduction

Employees who retire before age 60 take a 3% annual reduction in the level of benefits. For an employee retiring at age 55, that means a 15% cut in benefits.

Employees retiring between 60 and 65 do not lose benefits.

At Standard Oil of California, "manpower reduction" is the term applied to "special programs for special situations," says Robert Maggy, benefit manager.

"These special retirement programs have been one-shot deals to

cover specific situations," Mr. Maggy explained, citing as an example the reorganization that resulted in establishment of Chevron USA in 1977.

Standard Oil management personnel who were near retirement age and employed in areas affected by reorganization were offered a lump-sum payment if they retired early, Mr. Maggy said. "There was no formal change in the benefit program."

For other companies, such as Sears, special early retirement plans offer a chance to infuse young blood into middle and upper management positions.

Sliding scale

The Sears plan offers early retirement benefits and financial incentives on a sliding scale, depending on how close the individual is to having earned full pension benefits. The maximum benefit is half pay for three years. The company expects 500 to 600 executives to opt for the plan.

The benefit director for a Northern California company that is considering implementing an early retirement program described it as a solution to "a stagnant upper and middle management workforce."

"People in middle and upper management who have been on the same job for 10 years or more are likely to be stale because of the system that hasn't allowed them to move freely," the benefit director said.

"We have a work force that tends toward long service and, as a result, a number of areas are plugged," he continued. "People may want to retire but are prevented from doing so because they don't want to lose their retirement benefits."

The benefit director is proposing lowering the required age for unreduced benefits to 62 with five years

of service from 65 and recommending a 3% annual reduction in retirement benefits for employees with at least five years of service who want to retire at 55.

The cost of making these changes "isn't significant," the benefit director said. The domino effect of senior executives retiring and being replaced by younger (and lower-salaried) employees would offset the cost, he added.

The effects of inflation and recession that prompt special early retirement plans are the very factors that prevent employees from taking advantage of them, some benefit managers say.

At American Motors Corp. in Detroit, only a third of the employees offered a special early retirement plan took advantage of it, said Joseph L. Fromm, assistant treasurer and director of employee benefits and risk management.

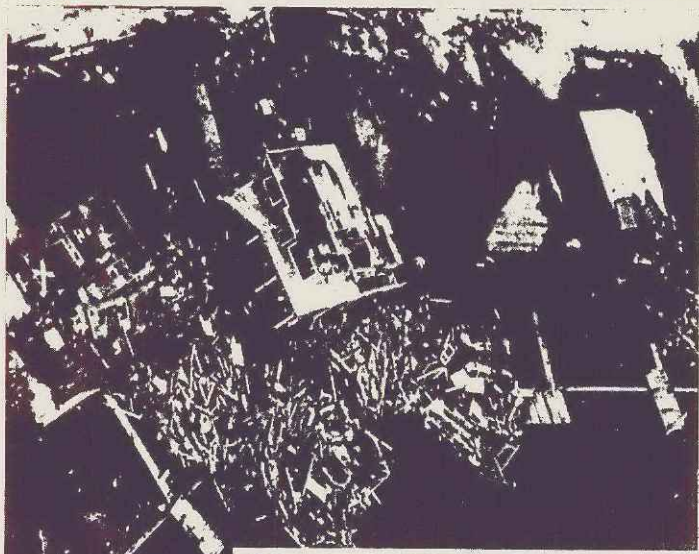
Ford Motor Co. offered early retirement incentives to some salaried employees based on age and years of service this spring, but the response was not enthusiastic.

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Multiemployer plans regulated

COLUMBIA—Self-insured multiemployer benefit plans and trusts are not exempt from regulation under South Carolina insurance laws, state insurance commissioner John W. Lindsay says.

Only single-employer benefit plans, which fall under the jurisdiction of the federal Employee Retirement Income Security Act, are exempt from state laws, he says.

The commissioner's notice follows an opinion issued by the state attorney general.

Companies planning to establish a self-insured plan should contact the insurance department or an attorney about the plans exempt status, Mr. Lindsay said.

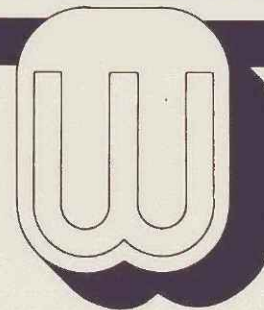
The insurance department will "attempt to resolve other questions on an individual basis."

State fund

A joint Georgia state legislative committee studying workers compensation is considering proposals to establish a state-operated workers compensation system. After listening to testimony from officials of two states that operate workers compensation funds, Sen. Don Ballard and Rep. Ed Mullinax said they thought the approach has merits. The Ballard-Mullinax panel was set up earlier this year to study the Georgia system and make recommendations during the next session of the legislature. The study was prompted by rising rates and allegations that Georgia's benefits are low. The maximum weekly benefit is \$110. ■

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Early retirement plans: Business boon or bane?

CHICAGO—Early retirement may not be a boon to industry during recessionary times because those retirements could strain a plan's resources, according to a study by Chicago Title & Trust.

But not all corporate pension sponsors agree with that assessment.

Although Inland Steel has not actively been encouraging early retirement because of the recession, early retirement would not compromise its \$582 million pension fund, says Robert Greenbaugh, treasurer of Inland Steel of Chicago.

"If a plan is properly funded and actuarially sound, there should be little or no problem. Even though it may mean a more immediate expense to the plan, that expense is amortized over several years," Mr. Greenbaugh said.

"Those taking the early retirement are doing so at reduced benefits—therefore it is a plan saving in the long run."

Robert Krogman, vp in the trust division of CTT, says the move to reduce payroll costs through early retirement could hurt a pension plan because even though the employee may take reduced benefits, the company often makes up the difference to induce the retirement.

"By taking the early retirement, even at the reduced benefits, the employee is putting an unforeseen strain on the pension plan's resources, especially if there are a lot of employees doing it, Mr. Krogman said.

"At the same time, the employer who already is feeling the effects of reduced profits may be less able to make the necessary additional contributions to maintain the benefits," he said.

Fund officials at one mid-sized Midwest pension fund said they have thought about the early retirement question in depth. In the past few months the company has encouraged a substantial number of employees to take early retirement benefits.

Under its early retirement plan, the company made up the difference between the present benefit and the amount Social Security eventually would add to the company's pension payments.

"For us it was a benefit for several reasons," he said.

"Those who elected to take the early retirement stopped accruing further benefits immediately. We are able to pay out at smaller levels than we would have had they gone full term—and their immediate payouts are amortized over 15 years.

"Of course, the benefit to the company is obvious. There has been a strain eliminated on the payroll. We still are paying out monies, but we can spread it out over a longer period of time."

Lawrence O'Brien, manager of financial analysis at AMF Inc. in White Plains, N.Y., disagrees with the premise that early retirement is more of a problem during a recession than any other time.

"I would doubt if in a recession period people would opt for early retirement without some inducements," he said.

John Bivens, director of employee benefits at Nabisco Inc. in East Hanover, N.J., said he would encourage early retirement even during a recession because he believes the benefits far outweigh any liabilities.

Multiemployer pension bill offers benefit protection

Continued from page 3
the 2,000 U.S. multiemployer pension plans.

It was feared that companies would pull out of financially strapped multiemployer pension plans and they would fold once benefits were guaranteed by the federal government, leaving the government to pick up the tab.

The new law is designed to penalize employers who pull out, and therefore protect retirees' benefits. It also offers incentives to those who stay in.

"This bill resolves a difficult and dangerous impasse that threatened the pension benefits of many thousands of workers," said Sen. Harrison Williams (D-N.J.), a cosponsor of the bill.

"In effect, this bill was passed simply because Congress made a mistake with ERISA" when it broadened the pension guarantee of that law to multiemployer plans, Mr. Rabinowitz said.

But some pension experts say that while the bill will keep present employers in the plans, it will discourage other companies from joining. This will lead to the ultimate extinction of multiemployer pension plans, they warn.

"It is a compromise, no doubt about that," said Mr. Rabinowitz. "But it also is a solution that should work. There will probably be some complications, but not major ones."

"We think we have done what needed to be done," said a senate aide close to the bill. "It is certainly not designed as a halfway measure. It definitely clears up some of the uncertainty of these plans."

"It takes away destructive measures written into ERISA," the aide explained. "It makes it not more attractive to bail out of a plan than to stay in. It also offers more flexibility to those plans that enter financial difficulty."

The new legislation will:

- Impose a stiff penalty on most employers that abandon multiemployer pension plans. This liability, based on the employer's share of the plan's unfunded vested benefits, would equal the departing employer's current annual obligation up to 20 years.

- Increase multiemployer pension plan payments to the Pension Benefit Guaranty Corp., the federal agency that insures the plans. Under the bill, insurance premiums will increase to \$1.40 for each plan participant from the current 50 cents. The premiums could ultimately reach a maximum of \$2.60.

- Allow plans in financial trouble to scale back benefits to levels provided five years earlier.

- Allow guaranteed-benefit levels to be scaled back by the Pension Benefit Guaranty Corp. The PBGC will guarantee 100% of the first \$5 of monthly benefits per year of an employee's service. The next \$15 per year of service will be guaranteed at 75% for strong plans and 65% for weaker ones.

- Set higher standards for determining the unfunded liability of employers in the plan.

Most crucial to the the plan's future is the provision requiring individual employers to remain responsible for their liabilities, say supporters.

"Every employer is now responsible for itself," the Senate aide explained. "Part of the problem with these plans was a worry among employers that they would be responsible, not only for their own liabilities, but also the liabilities of other employers in the group. If

one dropped out, the others had to share that burden. That is no longer the case under this new bill.

"If you leave, you have to pay your share, but if someone else leaves, you don't have to pay that," he added.

"This bill offers protection," Mr. Rabinowitz agreed. "That is why some companies were very much in favor of this bill. Anything that would prevent the smaller companies from pulling out is helpful.

"This bill is a bit of mixed bag," he added. "If companies perceive their withdrawal liability as a problem that is not going to grow, then I believe the bill offers them an incentive to stay in the plans. But for those employers that are worried about a lack of control over their liabilities, the bill probably won't convince them to stay in."

One provision in the bill that is expected to make multiemployer plans more attractive to some employers is a "free look" guarantee.

Employers can join a plan for up to six years without incurring major liability and then drop out if they decide it isn't working.

"The difficulty in multiemployer pensions is that they tend to cover a single industry and that as that industry declines, the plans suffer. It happened in the milk industry, for instance, as that industry fell on hard times," the aide said. ■

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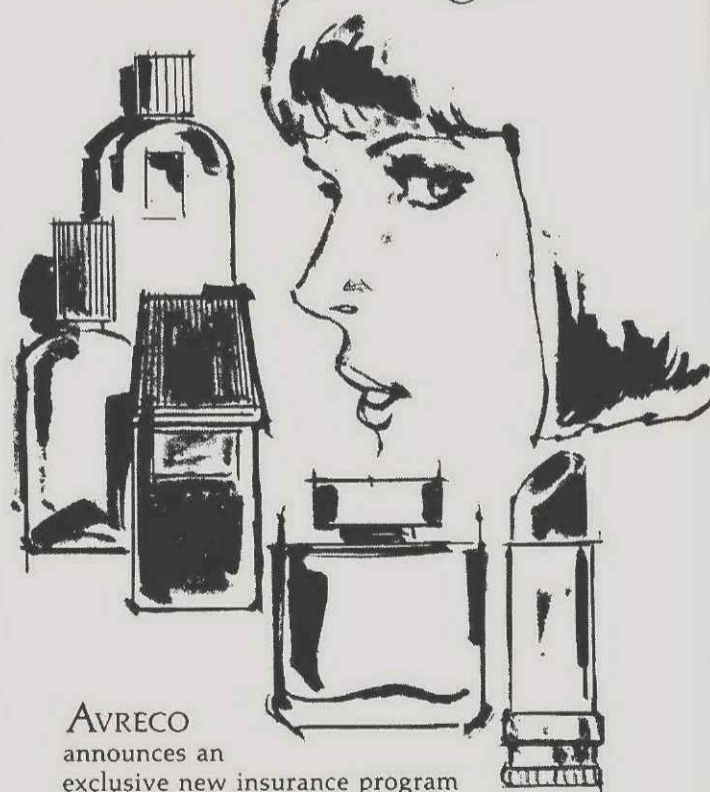
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Amendment threatens risk pooling act

WASHINGTON—A presidential veto now threatens passage of the Risk Retention Act.

A National Tourism Policy Act was tacked onto the Risk Retention Act by Sen. Howard A. Cannon, who wants the tourism law passed to aid his home state of Nevada.

The Carter administration opposes the tourism measure, which would create a quasi-public company to promote foreign travel to

the United States. The new company would replace a Commerce Department office.

Sen. Cannon (D-Nev.) combined the risk bill and tourism bill in the Senate Commerce Committee to force the administration to approve the tourism act or lose the risk-pooling legislation it favors.

The combined bills passed the Commerce Committee and now are up for action in the Senate.

The administration remains op-

posed to the tourism measure, said a federal budget office spokesman.

He would not say whether President Carter would veto a combined bill, but the administration threatened to veto the tourism bill if approved alone.

The administration, however, hopes to get the two measures separated on the Senate floor or in a conference committee, he added.

The Risk Retention Act would permit manufacturers to pool their

product liability risks and insure each others' losses. The bill would aid small firms that have limited clout in the market and are not large enough to form captives.

The House passed the measure, but called for regulation of the pools by the Commerce Department. The Senate commerce committee bill eliminates federal regulation in favor of control by the state or country where the pool is domiciled. The Carter administra-

tion supports the Senate version.

Lobbyists supporting the Risk Retention Act say they expect the House to adopt the Senate bill and that a Carter veto would be a "serious error."

"To see the bill go down over \$8 million for tourism would be totally misguided in terms of recognition of small businesses in this country," said Dirk Van Dongen, executive vp of the National Assn. of Wholesaler-Distributors.

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Tampon manufacturers face more lawsuits

Continued from page 2

pon use in a report issued June 27. The disease is believed to have killed 25 women out of 272 cases reviewed by the CDC.

The center is still studying the correlation between the disease and the use of tampons during menstruation. The combination of tampons, menstruation and staphylococcus infections creates a toxin that invades the rest of the body, the CDC says.

Symptoms of TSS include sudden high fever, vomiting, rash, peeling skin on the hands and feet, blurred vision, nausea and a rapid plunge in blood pressure causing shock. Some of the victims also have reported liver and heart complications.

According to recently released CDC findings, more than 70% of TSS victims who contracted the disease in July and August used Rely tampons. Procter & Gamble contends the CDC study was based on limited and fragmentary evidence.

The new generation of super-absorbent tampons, led by Procter & Gamble's highly successful Rely, are to blame, Mr. Schock contends. The abrasiveness of these tampons cause ulcerations of the vaginal wall that allow bacteria into the bloodstream, he says.

Mr. Schock filed the first toxic shock lawsuit against Procter & Gamble on behalf of his client, Linda Imboden. She is perhaps the most seriously injured surviving victim of the disease, says her attorney.

The 27-year-old mother of three contracted TSS last May. The disease left her with hands curved like claws and gangrene that has cut off sensation in her toes and fingertips. She also has lost most of her hair.

Ms. Imboden is seeking \$5 million in punitive damages plus an unspecified amount for pain and suffering.

Another client has lost most of her hair and suffered serious fingernail problems, Mr. Schock said.

The San Francisco class-action suit names two women who were also hospitalized for treatment: Carol A. Thompson of Union City and Barbara Lee of Woodland, said their attorney Mr. Bennett.

House passes oil spill bill

Continued from page 2

Robert Faron, an attorney with LeBoeuf, Lamb, Leiby & Macrae's Washington office, said the language of the Biaggi amendment should allay insurer fears. However, he said he could not speak directly for his client, Lloyd's of London.

The superfund bill established two \$75 million industry-funded compensation funds to pay for cleanup of oil and toxic chemical spills and for third-party damage claims in excess of the limits of liability the bill mandates.

The limits of liability are:

- The greater of \$150,000 or \$150 per gross ton for inland oil barges.
- The greater of \$250,000 or \$300 per ton up to a maximum of \$30 million for ocean-going ships.
- \$150 per ton for other ships.
- \$50 million for deepwater ports.
- \$35 million to \$50 million plus cleanup costs for offshore oil facilities now covered by the Outer Continental Shelf Lands Act. The limit of liability varies with the size of the facility.
- \$2 million for tank trucks.
- \$50 million for onshore oil facilities.

Each owner or operator would be required to show that it could meet its liability limits by purchasing insurance or a surety bond, showing proof of indemnification or demonstrating that it can afford

to self-insure.

The two funds would be endowed by levies of 1.3 cents per barrel on crude oil received at U.S. refineries and other petroleum products entering the country;

\$1.18 per ton on petrochemical feedstocks, and 31 cents per ton on specified inorganic substances.

The comprehensive Oil Pollution Liability and Compensation Act now goes to the Senate.

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Asbestos firm sues cigarette companies

Continued from page 3

But based on their evidence that cigarette smoking causes asbestosis, Standard's lawyers plan to use a recent California court decision to show how the tobacco industry should share the liability of asbestos claims according to their share of the tobacco market.

In March the California supreme court ruled that women who have developed cancer because their mothers took the anti-miscarriage drug DES while pregnant with them can sue for damages even if they cannot name the specific manufacturer of the drug their mothers took (BI, March 31).

Referred to as the Sindell decision, the case reinforces the concept of assigning liability for hazardous products according to a manufacturer's share of the market when the specific manufacturer cannot be identified.

Attorneys for Standard Asbestos say this concept, which was specially applied by the court to DES cases, would make it possible to assign liability to the tobacco industry for asbestosis even if victims can't recall what brand of cigarettes they smoked when they contracted the disease.

Standard attorney John LaFollette also pointed out that courts traditionally have said that smokers assumed the risks associated with tobacco use and, therefore, could not sue for damages. However, another California court in 1975 eliminated assumption of risk as a liability defense.

This, combined with the market share concept, removes the tobacco industry's immunity to liability, he says.

Standard filed cross-complaints Sept. 17 in Los Angeles County and San Francisco superior courts against six cigarette manufacturers and three holding companies: the American Tobacco Co. and its parent Standard Brands Inc., Philip Morris Inc., R.J. Reynolds Tobacco Co. Inc., Brown & Williamson Tobacco Corp., Liggett

& Myers Tobacco Co. Inc. and its parent Liggett Group Inc., and Lorillard and its parent Loews Inc.

A spokesman for Johns-Manville Corp., the nation's largest asbestos producer, said countersuing the tobacco industry is not part of his firm's defense strategy, but did not rule out suits in the future.

Jerry Passman, asbestos claims manager for The Travelers Insurance Cos., which insures Johns-Manville, agreed.

Aetna Life & Casualty Cos., another insurer with major asbestos exposure, would not comment.

The action, however, is supported by Commercial Union Insurance Cos., Standard Asbestos's product liability insurer.

The cross-claim against the tobacco industry is necessary if Commercial Union is to give Standard Asbestos a proper defense, says William Bailey, senior vp-claims. Without the action, Standard's liability limits would be exhausted more quickly.

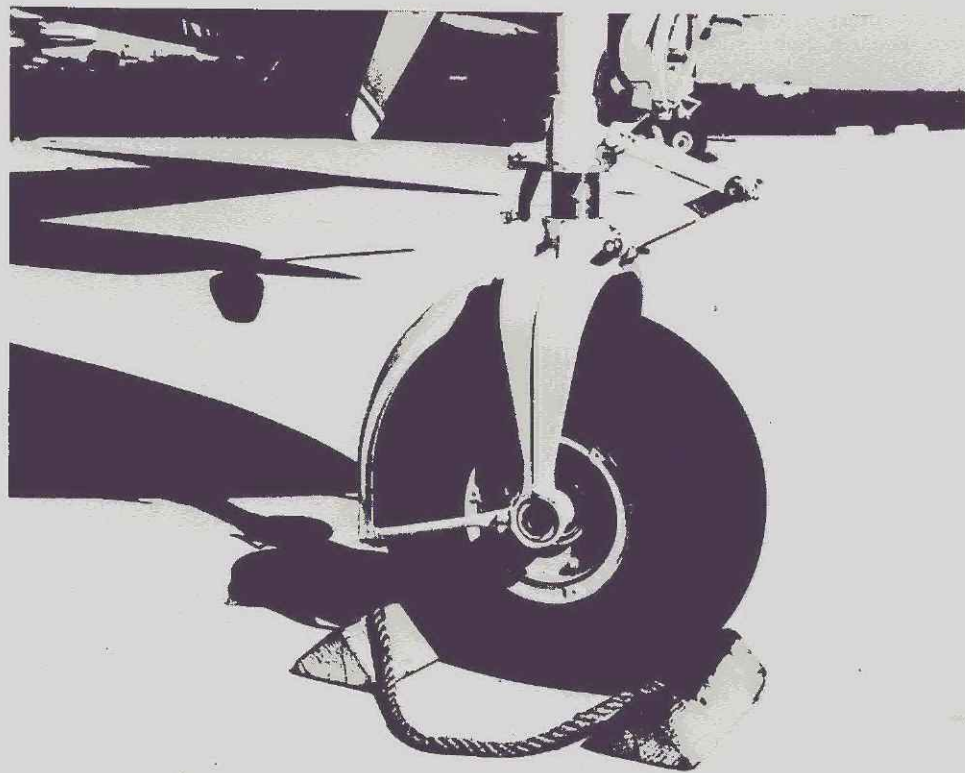
Primary insurers that fail to seek recovery from the tobacco industry could be negligent in their duty to excess insurers because policy limits would be prematurely extinguished, he adds.

It is difficult to determine who insures the tobacco industry. Risk managers for tobacco firms declined to discuss their coverage.

Insurance experts say most tobacco firms self-insure and that available coverage is limited.

However, this does not rule out attempts by the tobacco industry to test liability insurance policies written during the 1950s and 1960s before the hazards of smoking were documented. Cigarette manufacturers could seek defense from policies written on an occurrence basis, claiming the theory of exposure makes insurers liable.

The exposure theory in liability cases maintains an injury took place when a person came in contact with the harmful substance, not when the injury becomes manifest.



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States increase, freeze comp benefits

Continued from page 3

tial disability benefits, except for extreme impairments, with awards only for wages proven lost after a workplace injury.

The system brought an immediate 15% across-the-board cut in workers compensation premiums and drastically reduced the number of new claims to 15,700 from 24,400.

The legislation died in Delaware largely because labor unions objected to the claimant losing his right to challenge an injury award. Trial attorneys and physicians also lobbied against the legislation, which would have limited litigation and medical fees.

While workers compensation benefits were increased in California, the final legislation was much weaker than expected. Amendments took the teeth out of reforms designed to reduce the state system's dependence on attorneys and physicians. Also, a boost in permanent partial disability benefits was not approved.

Key legislation

Key legislation was adopted in Illinois, Kentucky and the District of Columbia.

Highlights include:

Illinois—Maximum weekly benefit allowance, now based on 100% of state average weekly wage, frozen for three years after Jan. 1. Standards for hearing loss adopted. Injuries resulting from voluntary recreational activities excluded from workers compensation coverage. Fees in death and permanent total disability cases limited to 20% of seven years' benefits. Group self-insurance under certain circumstances authorized. Attorney fees limited to conform to legislative intent of reducing expenses to claimants.

Kentucky—Maximum benefits for totally disabled workers increased to 100% from 60% for statewide average weekly wage. Benefits for partially disabled to 75% from 60%. Maximum benefits increased for coal miners totally disabled with black lung to 75% from 60% of state's average weekly wage. Benefits capped for permanent partial disability at 425 weeks or retirement age, whichever comes first. A 27% reduction in workers compensation rates mandated for at least one year.

District of Columbia—Maximum weekly benefits frozen at \$396 until they equal 100% of average weekly wage in the District. Wage replacement set at 80% of spendable income or 66% of gross income, whichever is less. Coverage extended to domestic

workers. New legislation replaces the Longshoremen's and Harbor Workers' Act.

The skyrocketing cost of workers compensation has been a major catalyst in the demand for reform.

In Illinois, reform advocates warned that the escalating cost of workers compensation was driving business out of the state. A survey conducted by the Michigan Chamber of Commerce revealed that the most common complaint mentioned by businesses in the state was the high cost of workers compensation.

According to the U.S. Chamber of Commerce, the cost of workers compensation nationwide is increasing twice as fast as inflation. By 1977, employers were spending more than \$14 billion to insure or self-insure their work injury risks. This was nearly \$3 billion, or 27% higher than 1976 costs. Business blames the soaring rates on rapidly expanding medical costs and increased benefit levels, which in some cases provide a disincentive to return to work.

"When workers comp was started, income taxes were miniscule," explained Eric Oxfeld, editor of the chamber's 1980 Analysis of Workers Compensation Laws. "The two-thirds wage replacement formula provided a satisfactory portion of wages, but it was no incentive to stay out of work. But now a disabled worker is still getting at least two-thirds tax free, which in some cases amounts to more than his previous take-home pay."

Current laws, he said, provide an incentive for the disabled worker to misrepresent the severity of his injury to collect more benefits and stay out of work longer.

Reform reaction

Current attempts at workers compensation reform are a reaction against the "excesses of the past" said Robert Collyer, spokesman for UBA, a business lobby group that monitors workers compensation legislation.

Mr. Collyer singled out the National Commission on State Workmen's Compensation's 1972 report for much of the blame. The report, which includes "19 essential recommendations" for improving the state systems, suggests benefits that in some cases amount to 200% of the average statewide weekly wage.

Forty states and the District of Columbia now provide for the automatic annual adjustment of maximum benefits. In 43 states and the District of Columbia,

and the Tool & Die Institute.

"At least we made some headway for the first time in years," Mr. Noonan said.

The 40% success rate was coined by Marvin R. Wortell, president of Triton Metal Products Co., a stalwart in both the Chicago-based T&DI and related national associations of tool and die shops and contract metal stampers. William E. Dart, director of governmental affairs for the IMA in Springfield, seconded the assessment.

Business' success has been rare in Springfield and other state capitals. The manufacturers were helped this year by a rising tide of complaints and new coverage about abuses in the Illinois workers compensation system.

Some businesses even threatened to leave the state, but

Workers compensation scorecard

Benefits increased

Arizona	Maximum monthly benefit payable in death, permanent total and temporary partial cases increased to \$883.25 from \$833.25.
California	Temporary and permanent total disability benefits raised to \$175 from \$154 weekly. Death benefits increased to \$75,000 from \$55,000 for two or more surviving dependents.
Kentucky	Maximum benefits for totally disabled workers increased to 100% from 60% of state average weekly wage; for partially disabled increased to 75% from 60%.
Missouri	Maximum weekly benefits for total disability and death increased to \$150, effective Aug. 13, 1980; and on Aug. 13, 1981, benefits will change from a statutory amount to 66.6% of 60% of state average weekly wage. Maximum weekly benefit for permanent partial disability will be limited to 66.6% of 60% of state average weekly wage, effective Jan. 1, 1981; maximum disfigurement award for head, neck, hands or arms increased to \$4,000 from \$2,000.
Tennessee	Maximum weekly benefit payable in death and disability cases increased to \$119 from \$107; \$10,000 death benefit added for deceased employee with no dependents.
Wisconsin	Maximum benefit for temporary total and permanent total disability increased to \$233 a week from \$218; maximum benefit for permanent partial to \$70 a week from \$65.

Benefits Frozen

District of Columbia	Effective Oct. 1, 1981, maximum weekly benefit frozen at \$396 until it equals 100% of average weekly wage; wage replacement set at 80% of spendable income or 66.6% of gross income, whichever is less.
Illinois	Maximum weekly benefit allowance, now based on 100% of state average weekly wage, frozen for three years after Jan. 1.
Kentucky	Capped benefits for permanent partial disability at 425 weeks or retirement age, whichever comes first.



weekly maximum benefits total 66.6% or more of the state's average weekly wage. Of these, 30 pay 100% or more.

The drive for workers compensation reform this year also resulted in the growing popularity of alternate means of insuring work injury risks. Inspired by the self-

insurance programs of larger industries, smaller businesses are banding to pool their risks.

Georgia, Maryland and Illinois approved legislation to clear the way for group self-insurance. Other states, such as Maine, replaced or amended existing legislation that required employers

who self-insure as a group to be of a similar or homogeneous nature.

Group self-insurance is "definitely on the upswing" across the nation, says Gil Waters, administrator of the Florida Construction, Commerce and Industry Self-Insurers, the largest private group self-insurance program. ■

Illinois manufacturers win 40% victory

By JACK THORNTON

CHICAGO—Illinois manufacturers say they won about 40% of what they wanted in Illinois' new workers compensation law.

And they say chances are good that they will win the rest from lawmakers in 1981 and 1982.

This year's bitter fight—wrapped up in the early morning hours of July 1—is the first victory in years for business and insurers over labor and legal interests that have sought to expand benefits.

Gov. James Thompson signed the bill Sept. 16. "We didn't get everything we wanted, but we are pleased with what we did get," said Robert L. Noonan, president of Noonan Machinery Co. here. Mr. Noonan lobbied for the workers compensation measures on behalf of the Illinois Manufacturers Assn.

the public and the legislators paid little attention. Then the state's biggest private employer, Caterpillar Tractor Co. of Peoria, put its four newest plants just outside Illinois borders in Iowa, Wisconsin and Indiana.

Caterpillar laid the groundwork. The lobbying success of small business groups in Washington in the past two years convinced manufacturers and trade associations they could influence a change. Stiff increases in Illinois workers compensation manual rates provided the spark.

"Our manual rate went up this year to \$5.10 per \$100 of compensation from \$4.01," Mr. Noonan said, "and that doesn't count (any higher premium for loss) experience either."

"I honestly don't believe it (the new law) is going to make any dif-

ference in our premiums," Mr. Noonan said.

"But maybe the inflationary spiral will be held back. Maybe we can turn it around."

"Maybe three years from now we'll be able to see some reduction in premiums because the new rules will discourage filing some claims," added F. Neal Meredith, manager of general services for the tool and die group.

Mr. Wortell cited one potential premium cutter, the three-year freeze in increased payments for permanent partial disability. Those claims are the most abused, he said.

Illinois business won a raft of points in the new law but lost three decisions by a narrow margin.

The 60% that Illinois business failed to win in the legislature still

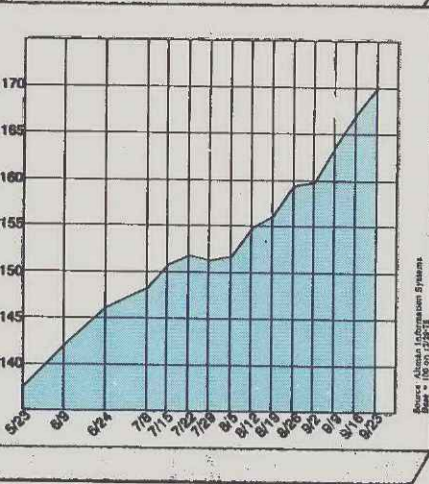
bothers the businesses:

- There was no demand that the Illinois industrial commission draft standards, the biggest legislative loss for businessmen this year. It will be a target next year. The loss was by one vote in the house and three in the senate, Mr. Dart said.

- Control of awards for pre-existing injuries was not passed: diabetes, high blood pressure, heart conditions and partial deafness among others. That proposal passed the house but failed by three votes in the senate, Mr. Dart said.

- Reducing payments on partial permanent disability failed. Business groups wanted to cut that to two-thirds of the Illinois weekly average wage from 100%. They had to settle for the three-year freeze at 100%. ■

BI Insurance Index



Grown-up Kraft captive looks for new challenge

By **STUART EMMRICH**

IDEAL MUTUAL Insurance Co., the former Kraft Inc. captive insurer, is again looking for new lands to conquer in the property/casualty insurance market.

The New York-based insurer, which in eight years has grown from a captive controlled by Kraft to a respected insurer with more than 50 major corporate accounts, is selling common stock for a newly formed holding company. Its goal is capital for another burst of expansion.

The Optimum Holding Corp. stock, which went on sale July 1, is planned to generate funds for a new subsidiary in California and general expansion of the insurance operations. The sale of 650,000 shares will net the firm about \$4.9 million, Ideal executives say.

If the company's plans prove successful, it will be just one more step up the ladder for Ideal and its president, Ed Lalley.

In 1972, Ideal broke away from Kraft to become a third-party insurer. Although the company still counts on Kraft for much of its annual business—\$7.4 million in net premium last year, 19% of its total—large accounts from Philip Morris, Quaker Oats and Evan Products—provided a large chunk of the company's 1979 business.

Premiums last year totaled \$38 million. Workers compensation insurance provided most of those premiums last year, \$25 million or 67% of the total. General liability coverage brought in \$7 million or 18.5% and commercial policies accounted for 13% or \$4.8 million.

Net income reached \$1.7 million last year, a 41% increase from \$1.2 million in 1978. In the first quarter of 1980, income rose 50%, to \$382,000 from \$258,000 for the first three months of 1979. Investment income jumped 53% last year, to \$3.5 million from \$1.5 million.

Expenses also continue to grow, partly because Ideal increased its reserves for incurred but not reported losses. In 1977, these reserves were increased approximately \$1 million to \$5.9 million as a result of new policies sold in 1976 and 1977. In

BI ticker

1978, the reserves were again increased to \$8.5 million and in 1979 pushed to \$12 million. This resulted in a 45% jump in losses, claims and adjustment expenses to 74% of total revenues. No reserve increases were made in the first quarter of 1980.

Under Optimum Holding Co., most business will be conducted through a new insurer recently set up in Illinois, Optimum Illinois, and the California subsidiary. The two companies are expected to maintain the same business mix as Ideal, which will retain 51% of the holding company's stock.

Ideal sells most of its insurance directly through risk managers, often referred by independent agents or managing general agents. Almost all of its clients are large commercial and industrial entities, although intense competition for this business is leading Ideal to explore trade association plans, company officials say. It is also considering strengthening its ties with managing general agents.

Ideal's marketing efforts emphasize the development of business with customers who have a pre-existing relationship with a reinsurer, mostly captives. Ideal generally retains a small percentage of the risk and a larger percentage of the premium, a portion of which pays commissions.

In 1979, approximately 41% of Ideal's premiums volume, \$29 million, was derived this way. Commissions totaled \$2.1 million.

Ideal also offers some of its customers a "cash-flow compensating balance program." The insurer deposits a portion of premium not immediately needed for the payment of losses in a non-interest-bearing account. Although the money belongs to Ideal, the policyholders can use it to satisfy a balance requirement with the depositing bank.

For the five years ending December 1979, direct premium derived from this arrangement represented 0%, 10%, 19%, 27% and 24% respectively. At year-end, Ideal had

\$14.2 million in these accounts. Although the company foregoes investment income on these accounts, Ideal officials maintain it is a significant aid in retaining firms as clients.

Because of its heavy reliance on large accounts, company officials agree Ideal can be vulnerable to losing one or more of them in a given year.

For instance, Philip Morris, which represented \$6 million in net premiums for 1979, or 15% of the company's total, did not renew its contract for 1980, and National Convenience Stores Inc., with \$2 million in net premium, terminated its coverage as of this July.

The number of large clients also accounts for the high number of retrospectively rated policies issued by Ideal: 82% of all policies sold last year.

The use of retrospective rating and low retentions through reinsurance is one reason the company differs from the standard industry practice of maintaining a 3-1 ratio of net premiums written to surplus. In the past five years, that ratio has fluctuated between 2.1-1 and 4.8-1.

At year-end 1979, if the proceeds of the common stock offering are added to the company's surplus, the ratio would have been about 2.5-1.

Like all insurers, Ideal thinks it has several advantages that give it a competitive edge in a fiercely competitive market. It does not maintain a nationwide agency force to which commissions must be paid, resulting, it says, in lower pricing and minimized expenses.

Ideal gets a B + rating from Best in its 1980 evaluation.

Insurance stocks hit an all-time high, climbing 3.3 points to 170, according to the BI Insurance index. The base of 100 was at year-end 1978. The 2% index jump was on target with the New York Stock Exchange and just below Standard & Poor's 2.1% increase. It surpassed the Dow Jones Industrial Average of 1.7%. The biggest gainers were by: Employers Casualty Co., up 15.3%; Carolina Casualty Insurance Co., 14.5% and Rollins Burdick Hunter Co., 14.1%. Biggest declines were by: Aneco Reinsurance Ltd., down 9.4% and MGIC Investment Corp., 8.1%. Forty-one of the stocks increased, 19 declined and 12 remained unchanged.

British Issues

9/23 Companies	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	176	8.8	14.63	8.3	190-176
Eagle Star	253	8.4	12.86	5.1	270-253
Genl Accident	358	8.9	18.24	5.1	370-358
Gdn Royal Exch	358	9.4	20.71	5.8	370-358
Phoenix	306	8.5	20.00	6.5	318-306
Royal	472	10.0	32.17	6.8	480-472
Sun Alliance	800	10.2	42.14	5.3	808-800

Brokers	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
CE Heath	213	9.5	13.80	6.5	222-213
Hogg Robinson	130	9.6	8.14	6.3	140-130
Alex Howden	103	7.5	10.00	9.7	106-102
JH Minet	106	12.2	6.38	6.0	117-106
Sedg Grp	127	11.6	7.14	5.6	136-127
Stenhouse Hldg	91	8.3	6.46	7.1	96-91
Stew Wrightson	218	9.1	17.14	7.9	242-218
Wills Faber	258	11.5	16.14	6.2	269-257

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

SEPT. 23, 1980 9/17/80 THRU 9/23/80

SEPT. 23, 1980 9/17/80 THRU 9/23/80

Insurance Cos.	Price	% Chg	P.E.	\$ Div.	% Yld.	High	Low	Vol (000)	
Aetna Life & Cas Co	NYSE	39.75	5.3	5.6	2.12	5.3	39.88*	38.50	533.3
American Bankers Ins Co Fla	OTC	7.75	-4.6	5.2	0.44	5.7	8.00	7.75	59.7
American Fint Corp Ohio	OTC	25.50	-0.5	6.9	0.50	2.0	25.75	25.50	19.7
American Gen Ins Co	NYSE	37.12	-2.3	5.8	1.00	2.7	39.25*	37.13	226.7
American Indty Fint Corp	OTC	19.25	6.2*	5.8	1.12	5.8	19.50*	19.13	52.0
American Intl Group Inc	OTC	80.00	6.7	11.8	0.50	0.6	80.00*	75.50	146.8
American Natl Ins Co	OTC	15.75	-0.8	6.3	0.62	3.9	16.00	15.75	101.4
American Sts Life Ins Co	OTC	18.50	0.0	7.7	0.64	3.5	19.00	18.50	1.8
Aneco Reins Ltd	OTC	6.00	-9.4	0.0	0.00	0.0	6.50	6.00	91.3
Appalachian Natl Corp	OTC	2.12	6.2	6.1	0.05	2.4	2.13	2.13	0.3
Avesco Corp	AMEX	11.38	-5.2	8.1	0.50	4.4	12.00	11.38	27.6
Banks Iowa Inc	OTC	27.25	3.8	4.3	1.32	4.8	27.25	26.75	4.2
Bitco Corp	OTC	38.00	-5.0	5.7	1.68	4.4	40.00	38.00	14.7
Carolina Cas Ins Co	OTC	8.87	14.5	3.2	0.32	3.6	8.88*	7.75	3.4
Central Natl Fint Corp	OTC	11.25	0.0	4.6	0.50	4.4	11.25	11.25	0.8
Chubb Corp	OTC	44.75	-1.9	5.9	2.40	5.4	45.50	44.50	208.1
Combined Intl Corp	NYSE	19.25	-1.9	5.5	1.40	7.3	19.50	19.13	101.4
Connecticut Gen Ins Corp	NYSE	47.75	2.4	7.2	1.52	3.2	50.50*	47.63	231.0
Continental Corp	NYSE	31.13	6.9	6.0	2.20	7.1	31.25*	29.50	840.3
Crawford & Co	OTC	19.00	0.0	16.3	0.54	2.8	19.00	19.00	5.5
Crown Life Ins Co	OTC	89.75	8.8	65.0	2.40	2.7	89.75*	83.00	14.0
Cruz & Forster	NYSE	34.00	0.7	5.9	1.44	4.2	34.63*	34.00	162.4
Employers Cas Co	OTC	39.50	15.3	6.5	1.20	3.0	39.50*	35.25	12.2
Exc Corp	OTC	93.50	0.0	10.5	1.40	1.5	93.50	93.50	1.3
Equifax Inc	NYSE	23.00	4.0	7.9	2.40	10.4	23.25	22.38	7.9
Farmers Group Inc	OTC	31.25	2.5	10.0	1.00	3.2	31.50	30.88	304.3
First Colony Life Ins Co	OTC	15.50	0.7	12.2	0.80	2.3	36.00*	35.25	6.5
Foremost Corp Amer	OTC	21.37	4.3	8.1	0.60	2.8	21.38*	20.50	16.1
General Reins Corp Dal	OTC	60.75	0.8	9.2	1.40	2.3	61.25*	60.50	149.3
Great West Life Assur Co	OTC	176.00	0.0	8.7	8.00	4.5	176.00	176.00	0.0
Hanover Ins Co	OTC	47.50	1.6	4.5	0.72	1.5	48.75*	46.50	172.4
Bartford Steam Boiler Insprtn	OTC	35.00	10.2	7.5	2.20	6.3	35.00	33.00	25.9
Integon Corp	NYSE	28.88	13.8	10.5	0.48	1.7	28.88	26.50	206.4
Jefferson Natl Life Ins Co	OTC	43.00	-3.4	12.8	0.64	1.5	46.50	43.00	15.0
Kemper Corp	OTC	34.25	2.6	4.8	1.40	4.1	34.25*	33.63	54.4
Lincoln Natl Corp Ind	NYSE	42.50	0.3	5.9	3.00	7.1	42.75	42.00	165.0
Mgic Invrt Corp	NYSE	28.38	-8.1	8.2	1.12	3.9	31.00	28.38	318.4
Mission Ins Group Inc	NYSE	39.63	3.3	8.5	0.80	2.0	39.63*	39.00	24.3
Nationwide Corp Ohio	OTC	20.00	1.3	5.3	0.66	3.3	20.00	19.75	3.0
Nn Corp	OTC	47.13	2.4	10.7	2.00	4.2	47.13*	46.25	107.0
Northwestern Natl Life Ins	OTC	29.75	-3.3	5.6	1.25	4.2	30.50	29.63	41.7
Ohio Cas Corp	OTC	40.50	5.9	6.2	1.76	4.3	40.50*	38.50	86.1
Old Rep Intl Corp	OTC	18.13	0.0	4.4	0.92	5.1	18.13	17.75	63.5
Pinebarst Corp	OTC	7.25	-6.5	10.8	0.00	0.0	7.63	7.25	22.4
Preferred Risk Life Ins Co	OTC	20.00	0.0	6.9	0.64	3.2	20.25*	20.00	4.2
Provident Life & Acc Ins Co	OTC	50.00	1.0	6.3	1.88	3.8	51.00*	50.00	19.4
Republic Natl Life Ins Co	OTC	21.37	4.0	13.2	0.70	3.3	21.63	21.38	236.9
Ryan Ins Group Inc	OTC	24.00	3.3	7.1	0.12	0.5	24.00	23.00	2.0
St Paul Cos Inc	OTC	40.12	1.3	5.5	2.00	5.0	40.13	39.75	191.4
Safeco Corp	OTC	40.00	0.0	5.8	1.80	4.5	40.13	40.00	94.3

	Price	% Chg	P.E.	\$ Div.	% Yld.	High	Low	Vol (000)	
Sri Corp	OTC	26.25	0.0	5.1	1.00	3.8	26.50*	26.25	46.7
Selbels Bruce Group Inc	OTC	25.00	26.6	10.2	0.80	3.2	25.00*	20.25	267.6
Statesman Group Inc	OTC	6.25	11.1	4.9	1.15	2.4	6.38*	6.00	30.1
Tokio Marine & Fire Ins Co	OTC	149.00	-4.9	16.5	1.03	0.7	156.50	149.00	5.4
Travelers Corp	NYSE	43.63	0.0	4.8	2.48	5.7	43.75	42.88	293.0
United Fire & Cas Co	OTC	27.25	0.0	7.4	0.90	3.3	27.25	27.25	0.5
United States Fid & Cty Co	NYSE	44.75	-1.6	5.3	2.80	6.3	45.38	44.63	84.2
United Svcs Life Ins Co	OTC	17.25	3.8	6.1	0.96	5.6	17.25	16.63	35.5
UsLife Corp	NYSE	22.25	2.9	5.6	0.76	3.1	22.25	21.88	520.2
Washington Natl Corp	NYSE	34.25	-3.9	6.9	1.50	4.4	35.25	34.00	44.3
Zenith Natl Ins Corp	OTC	18.00	9.1	10.2	0.50	2.8	18.00	16.75	53.0
INSURANCE COMPANIES	AVERAGE		7.6		3.5				
Agents/Brokers									
Alexander & Alexander Svcs	OTC	36.00	3.6	11.8	1.64	4.6	36.00	35.00	136.5
Baldwin & Lyons Inc	OTC	31.00	0.8	5.7	0.80	2.6	31.50*	30.75	11.9
Corroon & Black Corp	NYSE	30.00	11.1	12.1	1.72	5.7	30.00*	27.25	45.5
Crump E H Cos Inc	OTC	12.87	0.0	11.5	0.36	2.8	12.88	12.88	11.4
Ball Frank B & Co Inc	NYSE	30.13	1.7	9.9	1.54	5.1	31.00*	30.00	152.2
Integrated Res Inc	AMEX	18.50	-0.7	10.2	0.00	0.0	20.63*	18.50	365.2
James Fred S & Co Inc	NYSE	28.62	1.3	10.4	1.60	5.6	29.50*	28.63	27.1
Marsh & McLennan Cos Inc	NYSE	67.50	-1.1	10.7	3.60	5.3	68.88	67.50	123.2
Penncorp Fintl Inc	NYSE	9.00	5.9	5.8	0.16	1.8	9.50*	8.50	445.2
Reed Stenhouse Cos Ltd	OTC	11.25	1.1	9.5	0.56	5.0	11.25	11.13	7.1
Rollins Burdick Hunter Co	OTC	28.25	14.1	12.4	1.24	4.4	28.50*	25.75	63.9
AGENTS/BROKERS	AVERAGE		9.8		4.4				
Conglomerates/Holding Cos.									
American Express (Fireman's Fd)	NYSE	39.63	11.6	8.0	2.00	5.0	39.63*	37.38	685.7
Anderson Clayton (Ranger/PanAm)	NYSE	26.63	3.4	6.7	1.20	4.5	27.13*	26.13	134.7
Chry Financial Co. (Home Ins.)	NYSE	27.50	6.3	5.6	1.50	5.5	27.75	25.88	1,202.9
CNA Intl Corp (CNA)	NYSE	17.00	-0.7	4.2	0.00	0.0	17.13	16.75	79.0
Control Data (Comm. Credit)	NYSE	74.00	4.2	9.8	0.60	0.8	75.50*	71.13	559.7
INA Corp (Ins. Co. of NY)	NYSE	42.37	4.0	6.2	2.20	5.2	42.50*	41.00	587.3
ITT (Bartford Group)	NYSE	32.62	4.8	11.3	2.40	7.4	33.50*	32.63	2,505.6
Reliance Group Inc	NYSE	78.62	5.7	3.2	3.00	3.8	78.63*	78.13	955.2
Sears Roebuck & Co. (Allstate)	NYSE	17.50	0.7	8.4	1.36	7.8	17.63	17.25	1,967.2
S & H Co. (Bayly Martin & Pay)	NYSE	18.13	-1.4	7.6	1.00	5.5	18.63	18.13	8.0
Teledyne Inc (Argonaut)	NYSE	199.50	7.0	8.6	0.00	0.0	204.75*	199.50	431.5
Transamerica Corp (Occidental)	NYSE	19.50	7.6	5.3	1.28	6.6	19.88*	19.00	521.7
CONGLOMERATES/HOLDING COS.	AVERAGE								

How A&A views a growing company



Potato chip quality control inspection at Jays Foods, Inc., in Chicago.

For an expanding business like a potato chip manufacturer, Alexander & Alexander experts look at operations through an owner's eye. We study the insurance costs of crispness and the effects of the money crunch. Probe for risks in delivery routes and avenues for new plant financing.

It's not the focus you usually get on snacks. Unless, of course, you're one of the food firms on A&A's client roster.

Personalized risk management

But these inside vantage points give A&A the best view of how to protect a business built with an entrepreneur's dreams and drive. It's the frame of reference that enables us to assume the function of risk manager for any medium-sized or small business. We eyeball every pitfall, any opportunity — protect against an owner's personal liabilities; plan the funding of workers' compensation, profit sharing, pensions; deal with life insurance, acquisi-

tions, OSHA requirements; and handle claims as if they were our own.

Every industry is unique. Each has different needs. For insurance, for risk management, for human resources management, for financial services. That's why A&A works from a client's point of view. Only by working as partners, solving business problems together, can we be sure a company gets the most comprehensive, cost-efficient programs possible.

We think our dedication to forming a close alliance with our clients is a big reason why A&A has become one of the biggest and most trusted insurance brokers worldwide. Each of our 120 offices here and overseas offers the facilities, expertise and strength to meet the needs of any company, large or small, in any industry. Because we work the same way with every client. From the client's point of view.

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From the client's point of view.