

Insuring income

More underwriters may take the risk

By STUART EMMRICH

NEW YORK—At Lloyd's of London, the name Harrison is still remembered with a slight shudder of embarrassment.

The financial collapse more than 50 years ago of the small Harrison syndicate due to huge losses on policies guaranteeing income from automobile-leasing contracts ultimately led to the London insurance exchange banning its members from writing any financial guarantee insurance.

The experience of that ill-fated syndicate is recalled by observers reflecting on the latest controversy at Lloyd's: the computer-leasing risk. They say the underwriters involved in computer-leasing policies, which stand to cause the largest losses in Lloyd's history, should have learned a lesson from history long ago.

Underwriters now being chastized for taking on computer-leasing risks, however, are hardly

alone in the soup. Others at Lloyd's and some insurance companies worldwide are profitably writing insurance on similar kinds of business risks even today. The prediction, in fact, is that the insurance industry will be underwriting more of this type of guarantee coverage in the future.

Although the problems in the 1921 Harrison collapse were caused by fraud and the ones in the

computer-leasing experience are the result of underwriters miscalculating the seriousness of the risk, the two situations are related because they involve risks beyond what's considered the traditional realms of insurance. Rather than insuring against a fortuitous loss or an act of nature, they came close to insuring a business investment, guaranteeing the continued value of a volatile class of business

equipment and the stream of income that equipment was expected to produce.

Lloyd's tried in 1936 to prevent members from getting involved in this class of business when it passed a rule some 15 years after the Harrison fiasco prohibiting financial guarantees. But critics of the computer-leasing policies say Lloyd's underwriters closed their eyes to that rule when they jumped

into this business risk market in 1973.

"Traditionally, it is not the purpose of insurance to cover a strictly business risk, which is what happened with these computer leases," says one influential U.S. broker.

"That is not to say it hasn't been done before. But I think you get into trouble when you go outside the traditional bounds of insurance," he added.

Even Lloyd's chairman Ian Findley acknowledges that some underwriters might be crossing over into this taboo area. He told a government committee last November Lloyd's has been known to write some variations of financial guarantee insurance, although only in a "very restricted manner," such as contingency risks in trade or currency fluctuations. He added, however, that "some of them are getting a bit close to financial guarantees."

Lloyd's contests computer-lease suit

BALTIMORE—Lloyd's of London is trying to avoid paying a disputed computer-leasing policy claim of \$27 million to Federal Leasing Corp. by charging that the McLean, Va., firm did not do enough to protect against losses on the controversial risk.

In an answer to a suit filed against 55 Lloyd's underwriters for alleged non-payment of claims, lawyers for Lloyd's contend the

leasing firm "failed to use due diligence...to avoid or diminish any loss" covered by the policy. The original suit filed by Federal Leasing in July asks for payment of the \$27 million, plus \$600 million in damages.

The countersuit filed by Lloyd's in federal court here Aug. 13 also charges Federal Leasing violated an agreement that it would "use its best efforts" to refinance any

computer leasing contracts canceled by clients before filing a claim with Lloyd's.

The policies promised to pay losses suffered by the computer leasing firm when customers canceled rental agreements before the term of the agreements had ended and the sale of the equipment didn't produce the revenues expected. It is estimated that Lloyd's

Continued on page 66

Continued on page 65

Wash. investigators charge broker stole policy premiums

By LEN STRAZEWSKI

TACOMA, Wash.—Phony account numbers on excess/surplus insurance policies allegedly let a broker here bilk agents and insurers of nearly \$500,000 in premiums, according to the Washington insurance department.

H. Martyn Hall, former principal of the excess/surplus brokerage firm H&A Associates, has pleaded not guilty to charges that he pocketed premiums on a variety of high-risk, small commercial policies. He did business with up to 350 small commercial agents in Washington and Oregon.

The insurance department hasn't determined how many bogus insurance policies may have been issued by H&A Associates. So far the department has found only one outstanding claim—for \$50,000 to \$60,000—filed under the policies.

A department spokesman acknowledged, however, "We're not real sure if more claims were filed with Hall." Most of the unauthorized policies have expired, he noted.

The insurance department began investigating Mr. Hall's business,

which employed more than 30 people, after receiving complaints from domestic insurers and local agents. At the same time, Golding Adams Brothers Ltd., a Lloyd's of London brokerage firm, initiated an audit of H&A Associates by the accounting firm of Ernst & Ernst.

"It appears Mr. Hall had a billing system that listed an account number for each insurer he dealt with," explained David Rogers, chief deputy insurance commissioner in Washington. "We think there were three or four numbers that did not lead to the insurers, but rather wound up right back with him," he said.

The bogus policies, made out for a range of risks including loggers, property damage, liquor liability, construction bonds, marine and some umbrella coverages, listed Lloyd's of London and "20 to 30" domestic companies as insurers, including Empire Insurance Co. and National Security Insurance Co.

"We think he started out small a few years ago and then the thing just kind of snowballed," Mr.

Continued on page 63

business insurance

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Carter's support revives product risk pools plan

By JERRY GEISEL

WASHINGTON—An unusual alliance of business, consumers and trial attorneys may propel through Congress the Administration-backed proposal allowing companies to pool their product liability risks through federally chartered insurance cooperatives.

The much-heralded concept of federally approved risk retention pools became moribund when the Office of Management and Budget recently refused to approve the idea, but was revived three weeks ago when, in a stunning reversal, the Carter Administration decided to endorse the pools. Enabling legislation is expected to be introduced in Congress imminently.

"We believe that the act should reduce insurance costs for some business, particularly small firms which have had good claims experience, but do not benefit from this experience," said Commerce Department general counsel C.L. Haslam.

Powerful business groups including the National Assn. of Wholesaler-Distributors and the National Machine Tool Builders Assn. enthusiastically endorse the plan, saying it will provide a new competitive alternative to product liability insurance, and will lobby vigorously for its passage.

The National Consumers League and the Assn. of Trial Lawyers of America support the proposal because they believe it would offer greater assurance that accident victims would receive compensation from companies which may now lack product liability insurance because of its high cost.

But three major insurance trade associations—the Alliance of American Insurers, the American Insurance Assn. and the Reinsurance Assn. of America—along with several individual insurance companies have denounced the proposal. Their opposition could spell trouble when congressional hearings on the measure begin later this fall.

"There are elements in the insurance industry who will oppose the plan and who have substantial influence on Capitol Hill," warned James Mack, public affairs director of the machine tool builders. "That certainly is an obstacle."

Drafted by the Commerce Department and endorsed by 11 federal agencies, the proposal would allow firms to band together as insurance cooperatives or "risk retention groups," pooling all or a portion of the participants' product liability exposures.

These risk retention groups would be exempt from state insurance regulations and instead



Product liability risk pools may cut insurance costs, says C. L. Haslam, general counsel of the Commerce Department.

would be regulated by the Commerce Department.

Before deciding whether to allow a risk retention group to operate, the Commerce Department would review the group's assets, reserves, loss prevention efforts and management expertise.

Premiums paid into the risk retention groups would be tax deductible if spreading and sharing of risk satisfies Internal Revenue Service requirements. Based on a recent IRS private letter ruling, a participating company could con-

Continued on page 64

The inside story

GM gets tough

In contract negotiations with the United Auto Workers, General Motors calls for a freeze on health benefits. **Page 10.**

Washington preview

Efforts to enact federal standards for workers compensation and a health insurance plan aren't likely to pass in Congress this year. **Page 11.**

The people column page 67

Absent bolts may pin liability on contractors in roof collapse

By MARY ELLEN McKEE

ROSEMONT, Ill.—Missing connection bolts may have caused the collapse of the roof of a suburban Chicago sports stadium under construction here, say some investigators looking into the accident.

If the roof collapsed because of missing bolts, liability for the accident could fall on CST Construction Co. of Schiller Park, Ill., the contractor building the roof, and the Village of Rosemont, acting as general contractor for the project.

Meanwhile, Chicago plaintiffs' attorney Philip Corboy has filed four lawsuits against the stadium's architect, Anthony M. Rossi of Addison, on behalf of the widow of one of the workers killed in the accident and three workers who were seriously injured. Five workers were killed and 15 were injured in the accident (BI, Aug. 20).

All of the lawsuits charge the architectural firm with failing to erect a roof that gave adequate protection to the workers.

Valerie Gieb, the widow of one of the dead workers, is seeking \$5 million from Rossi. Robert Cebra is seeking more than \$15,000, Miguel A. Marin is seeking \$5 million and Herbert Drummond \$10 million. All three men suffered compound fractures to the left and right leg, broken ribs and concussions.

Mr. Rossi refused to comment on the lawsuits or respond to sugges-

tions by knowledgeable insurance industry sources that he hasn't any errors and omissions insurance.

CNA Insurance Co., which insures 60% of the architectural associations-sponsored errors and omissions plans, and Northbrook Excess & Surplus Insurance Co., which handles most of the remainder, say they do not underwrite errors and omissions for the Rosemont stadium's architect.

Four of the five workers killed were employed by CST Construction. Other contractors for the project are Korndorfer Construction Co., Contemporary Pre-Cast Products, Dover Elevator Co., O'Brien Electric Co. and Lentin Lumber Warehouse Co.

Each of the contractors was required to purchase its own workers compensation insurance. Only the electrical contractor, O'Brien, would reveal its workers compensation insurer, which is Bituminous Casualty Corp. of Rock Island, Ill. One O'Brien worker was seriously injured in the accident.

The other contractors refused to reveal the name of their workers compensation insurer, saying they believed it would be "injudicious" because of the pending lawsuits.

Since the Village of Rosemont, a government entity, is the general contractor for the stadium, *Business Insurance* attempted to see the public records which would in-

clude the certificates of insurance, but a village official refused to allow access to these records because of the litigation resulting from the roof collapse.

The Illinois attorney general's office endorsed the action by the village saying that once litigation begins, certificates of insurance or any other items in public records become confidential.

The Village of Rosemont, developer of the stadium, has \$6 million of insurance on the project under a builders risk policy underwritten by Birmingham Insurance Co. of Pennsylvania and \$2 million under an umbrella policy underwritten by Holland-America Insurance Co. of Los Angeles. The builders risk policy has a \$5,000 deductible.

Rosemont is protected from liability under broad, all-encompassing hold harmless agreements with the contractors.

The village's comprehensive general liability insurer is Aetna Insurance Co. The package policy for \$1 million of coverage was brokered by Arthur J. Gallagher & Co.

Several parties are investigating the collapse, including: engineering consultants Wiss, Janney, Elstner & Associates, working for the Village of Rosemont; OSHA; Weyerhaeuser Co. of Tacoma, Wash., which supplied the big arches, and CST.

Investigators say there is a "great possibility" the missing bolts were a major factor in the collapse. The bolts in question connected the laminated wood roof arches to perpendicular cross girders.

CST intentionally left out two of the three bolts on most connections as approved by inspecting engineer Erich Mees, who works for Mr. Rossi, according to *Engineering News Record*, a weekly engineering publication.

Mr. Mees said one bolt was sufficient until the horizontal purlins and deck load were on, *Engineering News Record* reported. One-third of the roof deck was in place when the roof fell in.

Mr. Rossi also refused to confirm or deny this statement despite repeated phone calls.

Asbestos product firm faces suits, damages

LAS VEGAS—Johns-Manville Corp., which is defending more than 1,000 product liability cases involving its asbestos products used in the workplace, faces another legal mess as a result of a building product it sold from 1972 to 1974.

A state court here recently ordered the firm to pay compensatory damages of \$4.6 million and punitive damages of \$10 million to the MGM Grand Hotel as the result of failure of the product Rescom, a wallboard material intended for exterior use.

At least 40 projects built in the San Diego area—including a 180-unit condominium structure and private homes—also used Rescom and two class action suits are pending there. An attorney close to these cases said their value in compensatory damages is likely to run more than \$5 million. Punitive damages are being sought in San Diego, as well.

A spokesman for Johns-Manville said the company's attorneys had not yet determined its total exposure in Rescom-related cases.

In the Las Vegas case, Rescom used in the construction of the MGM Grand Hotel began to deteriorate following its installation in 1973. The hotel was forced to replace the outer wall surfaces.

Johns-Manville said it intends to appeal the case to the Nevada supreme court. A spokesman for the company said the compensatory damages are covered by insurance but the punitive damages are not.

Travelers Insurance Co. wrote the primary coverage, but the spokesman said the loss was likely to tap the company's excess coverages.

Arguments for punitive damages submitted in one of the San Diego class action suits charge Johns-Manville knew the product Rescom was deficient when it placed it on the market. Problems with the

product included joint deformation, joint cracking, lack of moisture resistance and lack of weatherability.

The suit cites internal Johns-Manville memorandums which cited the need for several improvements, including elimination of asbestos fibers and improved water resistance. However, attorneys in the San Diego and Las Vegas cases said the asbestos content was not a factor in the suits.

errors & omissions

- A story in the Aug. 20 issue on structured settlements of liability cases incorrectly referred to a trust of more than \$2 million established for the survivors of a victim of the recent DC10 American Airlines crash in Chicago, to settle a claim from that disaster. The trust was actually in settlement of a claim arising out of the Pacific Southwest Airways crash in San Diego last Sept. 25, which killed 144 people.

- Corroon & Black hasn't gone into the reinsurance or insurance underwriting business, as was indicated in an Aug. 6 story. Reinsurance Group Inc. is a reinsurance brokerage operation in Boston, not an underwriter. Corroon & Black has established an insurance company by the name of National Excess Insurance Co., but it remains inactive. The name of this insurance company originally was American Excess Insurance Co., but was changed about a year ago. American Excess Insurance Co. is a subsidiary of American Reinsurance Corp.

- James S. Kemper & Co., the 16th largest broker on the *Business Insurance* listing of the top 20 U.S.

brokers, notes that since the interview was conducted for the company profile in the Aug. 6 issue, M. Zanotti has been named manager of its central division and executive vp of James S. Kemper Agency Inc. In addition, Ray Hayes was appointed vp and manager of the national account and market development department of James S. Kemper & Co.

- A story in the Aug. 6 issue about staff cutbacks and corporate realignments at Allendale Mutual Insurance Co. inadvertently indicated that a company official had referred to the company as financially troubled. In fact, Allendale officials do not agree with that assessment and adamantly insist that Allendale isn't in any financial trouble at all, despite losses last year of more than \$20 million. George West, president and CEO of Allendale, acknowledges the company has an operating problem which he expects will be solved in the near future, but says Allendale is in excellent financial condition by any measure. The phrase describing Allendale as financially troubled was inserted by *Business Insurance* editors but wasn't used by anyone at Allendale.

for your information

Property/casualty firms report \$985 million underwriting loss

NEW YORK—U.S. property and casualty insurance companies reported a net underwriting operations loss of about \$985 million in the first half of 1979, according to Insurance Information Institute estimates.

The net underwriting operations loss looms large compared to a net underwriting gain of \$260 million for the first half of 1978, according to the I.I.I.

Investment income, however, used to offset underwriting losses, was estimated at \$4.3 billion, a \$2.2 billion increase over last year, and combined net income after taxes was estimated at \$3.09 billion.

Net income was 6.4% of total revenues, which consisted of \$44.13 billion in premiums and \$4.3 billion investment income estimate.

The nearly \$100 million underwriting loss, noted the institute, reflected a statutory underwriting loss of approximately \$356 million and policyholder dividends of about \$629 million.

DES victim awarded \$800,000

CHICAGO—A federal jury here awarded \$800,000 in damages to a woman who claimed she has vaginal cancer because her mother took the drug DES to prevent a miscarriage.

Anne Needham had originally filed a \$1 million suit against White Laboratories of Kenilworth, N.J., which is now part of the Schering-Plough Corp. White was one of several manufacturers of the drug diethylstilbestrol, which was prescribed for pregnant women in the 1950s to prevent miscarriages (BI, May 30, 1977).

A spokesman for Schering-Plough said the company is insured for the liability but would not elaborate.

Thomas Bleakley, an attorney in the Detroit law firm of Charfoos & Charfoos, said the firm is handling 315 suits in 15 states for women who claim to have suffered injuries from the drug. In New York City last month, a jury awarded a 25-year-old woman \$500,000 stemming from a similar lawsuit against Eli Lilly & Co.

Mr. Bleakley estimated there are currently some 400 lawsuits before U.S. courts over use of DES. The attorney said his firm alone files a DES suit every two or three weeks.

PBGC names new director

WASHINGTON—Robert E. Nagle has been appointed the new executive director of the Pension Benefit Guaranty Corp., the federal agency whose insurance program guarantees workers' pensions.

Mr. Nagle, a Washington attorney, was heavily involved in the drafting of the pension reform law during the early 1970s when he was general counsel for the Senate Labor and Public Welfare Committee.

Mr. Nagle replaces Matthew Lind, who left the federal agency in June to become a vp in charge of corporate planning at The Travelers.

NAIC creates task forces

INDIANAPOLIS, Ind.—The National Association of Insurance Commissioners has appointed four regulatory task forces to focus on ways to increase open competition in the property/casualty insurance business.

The task force to develop a model alternative open competition rating law is being chaired by Indiana insurance commissioner Pete Hudson, president of the NAIC. The task force on rating bureaus, chaired by California insurance commissioner Wes Kinder, will research the appropriate role of rating bureaus under an open compensation law.

The task force on consumer information, chaired by Kansas commissioner Fletcher Bell, will develop a consumer information system for personal lines. The fourth task force on monitoring competition, chaired by Wisconsin commissioner Susan Mitchell, will continue development of the NAIC monitoring competition program, according to the association.

Lloyd's covers Brink's losses

NEW YORK—Brink's Inc. is insured by Lloyd's of London for a \$2.2 million loss suffered in the recent holdup of a Brink's armored truck at the headquarters of Chase Manhattan Bank.

The truck had been making a pickup Aug. 21 at a loading bay in the basement of the bank's Lower Manhattan headquarters when three gunmen came out of a truck parked at an adjacent bay, jumped the sole guard and made off with the Brink's truck and the money.

Brink's theft coverage with Lloyd's reportedly is in excess of \$75 million.

Lloyd's syndicate fears trouble

LONDON—A Lloyd's underwriting agency, Ashby & Co., which runs five syndicates, fears it has overwritten its premium limits on U.S. business. It has asked Anthony M. Lanzzone, a New York attorney, to make an immediate investigation.

index

Editorial opinions	14
Perspectives	39
Info for buyers	48
Dates for buyers	48
Around the states	50
London line	54
riskWatch	70

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Arbitration process draws few takers

By MARY ELLEN McKEE

extended coverage

CHICAGO—More accurate decisions, lower litigation costs and quicker settlements could be achieved if product liability claims were submitted to compulsory, non-binding arbitration, the Commerce Department says.

But the sketchy track record of arbitration for medical malpractice claims hardly supports that contention.

The process of presenting medical malpractice claims to a panel for a decision is available in more than 40 states, with the method varying from voluntary, binding arbitration to pre-trial screening. Currently about 30 states use some form of pre-trial screening, 13 states allow voluntary, binding arbitration and Puerto Rico has a mandatory arbitration system.

But only in Pennsylvania with

voluntary, non-binding arbitration does the concept appear to be catching on among claimants and defendants, with 22,078 cases filed for arbitration since 1976.

Medical experts and insurance industry executives say it's too early to tell whether arbitration—signed into law in more than 40 states between 1975 and 1977 as a way to curb medical malpractice litigation—leads to more accurate decisions.

In Michigan, where only 122 cases filed for arbitration hearings between September 1975 and June 1979, Arthur Young & Co. was hired to review the system and report on its results. But the consult-



The use of arbitration to settle malpractice claims is not new, but it still is revolutionary, says John Pecorino, left, Aetna's manager of educational programs. The process could lead to more accurate settlement of product liability claims, says Victor Schwartz of the Commerce Department's task force on product liability.



Photo: Mary Ellen McKee

ing firm concluded there were not enough claims filed to present a good overview and the report has been postponed for two years.

Observers suggest that claimants and defendants don't know

enough about arbitration to be drawn into the process.

"Arbitration is one of the least understood concepts around," laments Joel Solomon, an attorney

with the American Arbitration Assn. "If arbitration is to have any success in other problem areas such as product liability, then states will have to launch effective
Continued on next page

Arbitration often misunderstood, proponent says

CHICAGO—Joel Solomon of the American Arbitration Assn. cringes whenever he hears the word arbitration. It's a concept used, but nine out of 10 times misunderstood, by the people it's designed to help, he says.

"Voluntary, binding arbitration is the only 'pure' process of arbitration. Any other kind of system is, admittedly, a screening process, but it's definitely not arbitration—it's a misuse of terms," Mr. Solomon said.

Voluntary, binding arbitration is simply a process, subject to law, where parties are allowed to agree

among themselves to submit controversies to a neutral person or panel for a final decision. The arbitrator's decision has the same legal weight as a court judgment.

Currently only 13 states authorize voluntary, binding arbitration: Alabama, Alaska, California, Georgia, Illinois, Louisiana, Maine, Michigan, North Dakota, Ohio, South Dakota, Vermont and Virginia. Puerto Rico is the only jurisdiction where a mandatory, binding arbitration program has been enacted.

Decisions handed down by an arbitrator or review panel using a vol-

untary, non-binding arbitration procedure aren't final and can be appealed in court. Pennsylvania, New York, New Jersey, New Mexico, Colorado, Connecticut, Maryland, Massachusetts and Wyoming authorize voluntary, non-binding arbitration.

The American Arbitration Assn., which administers various kinds of arbitration programs in 21 states, admits that many malpractice reform laws authorizing or requiring screening of all damage claims have the same objective as the "pure" arbitration laws. But

screening, at best, is considered only preliminary to a trial.

Some screening statutes, such as the Wisconsin Patient Compensation Law, allow for non-binding arbitration when claims are reviewed, but the basic thrust of these laws is toward screening out frivolous claims rather than to make final determinations.

The remaining states may arbitrate medical malpractice claims under the federal Uniform Arbitration Act of 1978. Under the act, a person may decide to arbitrate a dispute either before or after filing a claim. Under statutes authorizing

voluntary, binding or non-binding arbitration, a person may seek arbitration only after filing a claim.

The Uniform Arbitration Act, a model law, recognizes arbitration agreements between parties on any subject "with respect to any controversies thereafter arising between the parties."

In effect, the Uniform Act establishes binding arbitration without the right of appeal on the merits of the case. Rejection of the arbitrator's decision, under this act, is possible only if defects in procedure or a failure of due process can be found. —MEM

the benefit beat

Shipbuilders win increased pension benefits

About 1,400 members of Local 18 of the Industrial Union of Marine & Shipbuilding Workers of America in Mobile, Ala., won an increase in pension benefits in a new three-year contract with Alabama Dry Dock & Shipbuilding Co.

Pension benefits were raised to a minimum of \$7 per month per year of service for workers with up to 25 years with the company and to \$8.50 per month per year of service for workers with over 25 years.

The employees' pension contribution was increased to 10 cents per hour worked and the company's to 41 cents per hour.

The new contract immediately boosts accident and sickness benefits \$5 to \$105 a week and another \$5 on July 26, 1980, and July 26, 1981. The employer pays for the coverage underwritten by Prudential Insurance Co. of America.

Under the contract, employees are allowed to pay a life insurance premium of 60 cents per \$1,000 for a period of up to six months while on temporary layoff. Employees previously were allowed to pay premiums for only six months. Prudential also writes the life insurance coverage.

Westinghouse submits

Trying to hasten the settlement of a strike that has stretched over eight weeks, Westinghouse has agreed to union demands to scratch a contributory pension plan proposal and keep a non-contributory plan.

The non-contributory plan will pay significantly lower benefits to 37,400 workers than the contributory plan would have, a company official says. He declined to detail the benefit levels because the strike is continuing.

The pension plan has been the primary issue in the strike by three unions: International Brotherhood of Electrical Workers, United Electrical Workers and the International Union of Electrical Workers. The unions rejected the contributory pension plan as a "takeaway" item (BI, Aug. 20).

Fireman's fined

Fireman's Fund American Life Insurance Co. of New York has been fined \$15,000 by the New York insurance department for several violations of the state insurance law between 1973 and 1975.

According to insurance department records, Fireman's did not submit its group life insurance plan to the superintendent of insurance for approval and acted as an agent for an unauthorized insurer by collecting employee contributions for its group life insurance plan underwritten by that insurer.

The unauthorized insurer is Fireman's Fund American Life Insurance Co. of San Rafael, Calif., which is the parent company of Fireman's of New York.

Fireman's said it did not submit the life insurance plan for approval because it believed state law only required approval of pension or retirement plans. The firm also said it believed it acted as an agent of the policyholder, not the unauthorized insurer, in collecting employee contributions toward the plan.

HMOs gain favor

The rising cost of employee health care benefits may convince companies to sponsor their own health maintenance organizations, according to an Arthur D. Little Impact Services report.

Companies employing more than 25 people now are required to offer an HMO plan if a federally certified HMO is available. In 1978 nearly 200 HMOs served 7.4 million people, or 3.5% of the population. The report predicts that by 1983, 20 million people will be using either government or privately sponsored HMOs.

Companies with HMOs are quick to see the cost savings in these fixed fee packages, the study found. One firm found that after its plan was initiated, the average number of hospital admissions for its employees dropped 10% and the average length of hospital stays decreased 39%. The company estimated that the HMO cost the company 21% less than its former health care plan.

Impact Services, which studies the business outlook for various industries, also cites indirect benefits of HMOs, including improved employee morale, less absenteeism and lower sick pay expenses.

Benefits bargained

Benefits were negotiated in 78% of the collective bargaining agreements reached during the first six months of 1979, according to a survey published by the Bureau of National Affairs. Pension plan revisions were made in 150 of 321 manufacturing settlements and in 218 of 473 non-manufacturing settlements.

Second opinions added

Pennsylvania's approximately five million group and non-group Blue Shield subscribers can be covered for a second opinion on elective surgery.

The benefit, which was recently approved by state insur-

ance commissioner Harvey Bartle II, is provided at no additional cost to subscribers, although deductibles and limits on claims vary according to individual plans.

Included in the plan are costs for consultation and any necessary diagnostic services, such as x-ray, electrocardiogram and lab tests. If the two opinions differ, then Blue Shield will also pay for a third opinion if the subscriber requests it.

Tax break proposed

Rep. Peter Peyser (D-N.Y.) wants to give retirees a tax break.

The New York Democrat, along with Rep. Frank Annunzio (D-Ill.), has introduced legislation (H.R. 109) that would exclude \$5,000 from gross taxable income for annuity, pension and other retirement benefits. The \$5,000 maximum exclusion would apply to the combined total of all retirement benefits for an individual or couple.

"This bill will help retirees who have long been faced with the problem of paying income taxes on all their pension benefits," Rep. Peyser said.

HMO rates up

A 9% increase in rates charged to subscribers under age 65 by Health Insurance Plan of Greater New York (HIP), a certified health maintenance organization, has been approved by the New York Department of Insurance. The insurance department also approved a 14.3% hike in rates charged to persons over age 65 for supplemental Medicare coverage.

The increase for subscribers under age 65 became effective July 1; the hike for supplemental Medicare subscribers becomes effective Jan. 1, 1980. HIP has sought to implement both increases retroactive to April 1, 1979.

Annual group enrollment rates for member-only coverage on persons under 65 will increase to \$130.68 from \$119.88. For two persons covered, the rate will rise to \$320.64 from \$294 and for three or more persons to \$480.96 from \$441. On group enrollment for persons over 65, annual supplemental coverage rates will increase to \$42 from \$36.

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

Arbitration process . . .

Continued from previous page and aggressive educational campaigns."

Even in California, whose arbitration system was a model for other states that authorized the process in the heat of the medical malpractice crisis, only slightly more than 150 cases have been filed for arbitration since the 1976 law took effect.

"This is an extremely light case-load, especially when one considers that most of the physicians in Southern California, more than 200 hospitals around the state and the Kaiser Permanente Health Care Plan participate in the arbitration system," Mr. Solomon said.

Although Alabama and South Dakota have offered arbitration as a means of settling medical malpractice cases, since 1975 not a single case has been filed for arbitra-

tion.

And even in Pennsylvania where arbitration is widely utilized, there are administration problems. Of the 22,078 cases that have been filed for arbitration since 1975, nearly 1,800 cases have neither been settled nor completed the arbitration process.

Too large a panel and the long and drawn out process of selecting the panel members are to blame for the extreme backlog, says Peter Erickson, assistant administrator for the Office of Arbitration Panels for Health Care.

In response to the backlog problem, the Pennsylvania senate recently unanimously passed legislation cutting the size of a malpractice arbitration panel from seven to three. Also, parties in a malpractice arbitration case will now have to choose panel members from a list

of arbitrators compiled by the administrator of the Office of Arbitration Panels for Health Care. Currently, some cases are held up for as long as 18 months before each party agrees on a panel.

"Arbitration for malpractice is not a new concept, but it's still revolutionary," said John Pecorino, manager of the educational programs for Aetna Life & Casualty. "Arbitration takes tort action completely out of the court system and transfers it to a much more informal setting for negotiating a settlement on a claim."

Patients resist signing an arbitration agreement because they are afraid of getting a settlement lower than the huge court settlements they read about in the papers, Aetna's educational manager noted. "And they don't understand what it means or how it works in their interest," he said.

And doctors and lawyers hold off on committing themselves to arbitra-

tion because they tend to be slow in picking up on virtually untried approaches in any field, he remarked. "They're waiting to see what the next guy does while they could be spending that time refining the arbitration system so it works in the patient's and physician's interest," Mr. Pecorino said with a sigh.

Advocates of arbitration, however, steadfastly defend it, citing its advantages. Members of the medical profession and insurance company executives who have followed the development of arbitration over the last five years say it offers these advantages:

- Once a decision to arbitrate is made, a hearing can begin immediately. Cases that are initially channeled through the court system can wait up to two years before any definitive hearing is set.

- Duration of the actual hearing is brief because the patient and physician meet on a one-to-one basis. Arbitration hearings can last from

one hour to six months compared with the years medical malpractice cases are held up in courts.

- With the absence of the rules of evidence necessary in the courts, an arbitration hearing is much more informal, allowing the patient and physician to openly discuss whether or not the suit resulted from negligence on the part of the health care provider.

- Because the hearings are conducted privately, the entire arbitration process is much less expensive than if the case were to go through the courts. Costs for arbitrators for medical malpractice range from \$300 to \$1,000.

More important than cost and duration, however, is that arbitrating product liability claims could lead to more accurate decisions, suggests Victor Schwartz, the chairman of the Commerce Department's interagency task force on product liability.

A smaller group, with at least one expert on the panel able to grapple with the complexities of the subject, increases the chance for an accurate, on-the-mark decision, Mr. Schwartz maintains.

The presence of the expert who can sort through the technical details is especially important in product liability cases, Mr. Schwartz emphasized. He cited the recent product liability lawsuits generated by the recent crash of the American Airlines DC10 in Chicago to illustrate his point.

"There's been quite a lot of talk of pylon fittings on the DC10, but I'm quite sure there are very few people who really understand anything about pylon fittings, much less how a pylon fitting actually works," Mr. Schwartz noted.

Seasoned arbitrators with knowledge of the subject should be less affected by a case's emotional aspects, especially by the claimant with the broken leg or severed limb, he said. The panel of experienced arbitrators also should be less likely swayed by the attorneys' artistry, remarked Mr. Schwartz, who before joining the Commerce Department served as a law professor and trial lawyer.

Speaking from experience, Mr. Schwartz said a problem with product liability cases being heard in the courts is that words are often used to persuade and are not always based on fact. "You need a person making a decision on a product liability case that can pierce through the artistry more quickly and make an informed decision," he noted adamantly.

The informality of arbitration may lead to more informed decisions, Mr. Schwartz said. "Since an arbitration hearing is privately held, manufacturers might discuss design processes and manufacturing processes more freely," he added. "This alone can lead to the real facts."

But arbitration, in the eyes of the Commerce Department as well as in the eyes of those who have been involved in medical malpractice arbitration, has its shortcomings.

In the case of product liability arbitration, the Commerce Department fears that numerous appeals could be filed on decisions reached in non-binding arbitration. A succession of appeals could mean that ultimately arbitration could be more expensive than if the case had gone directly through the courts, Mr. Schwartz explained.

The Commerce Department thinks it has devised a method of preventing the frivolous appeal. In the revised version of the model product liability bill to be released shortly, the Commerce Department again proposes that the person filing the appeal bear the cost. Another safeguard in the revised model bill is that a jury hearing an appeal can be told the decision reached by the arbitration panel, which is not currently the case in arbitration.

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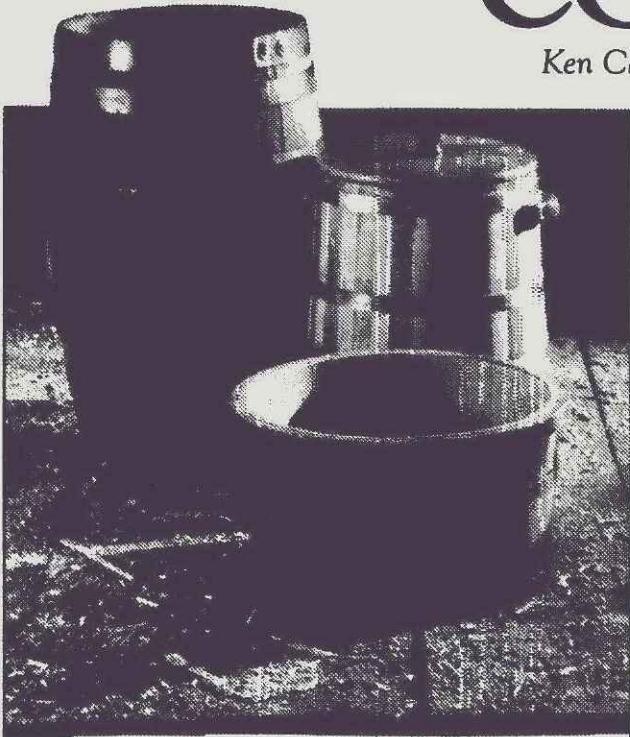


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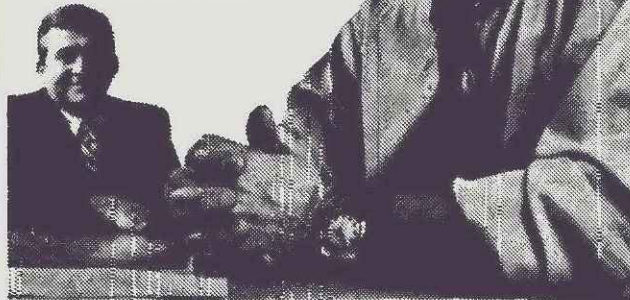
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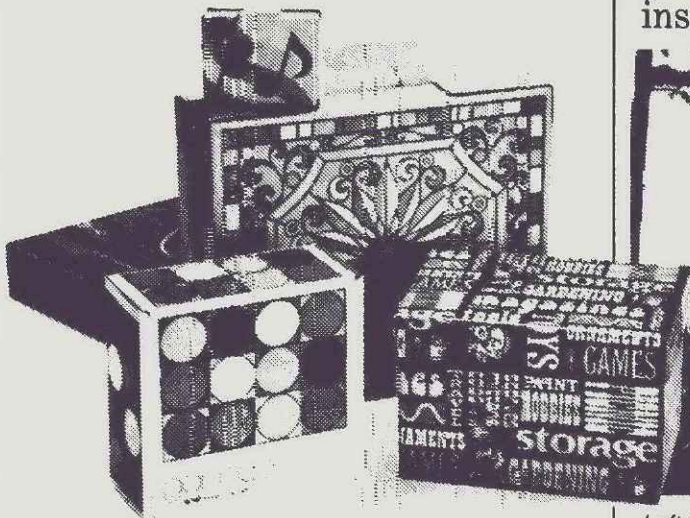
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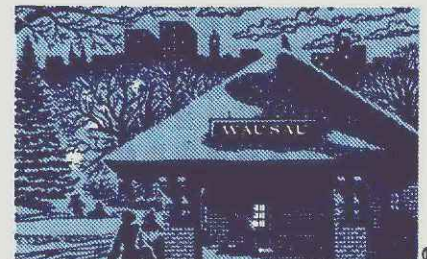


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Left to right: Don Ryder, Safety Consultant, Employers Insurance and Allan Stinchfield, Vice President, Land and Timber, Menasha Corporation, on policyholder's land near North Bend, Oregon.

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Wausau Insurance Companies

Pension fund reporting rules to cloud assets: Consultants

By ELLIS SIMON

NEW YORK—The Financial Accounting Standards Board has made significant improvements in the proposed rules governing accounting for pension and benefit plans over the initial draft, say employe benefit consultants who still find serious shortcomings with what the FASB wants to mandate.

The chief criticism is that the methods the FASB suggests for disclosing pension assets available to pay promised benefits will be utterly confusing to creditors, investors and plan beneficiaries.

The whole purpose of issuing rules on disclosure and accounting for benefit plan assets is to make

better uniform information available on the levels of funding of pension plans, which now use a wide variety of different bookkeeping and actuarial methods to determine funded and unfunded liabilities.

Whatever the FASB ultimately comes up with isn't likely to affect pension plan funding or design, however, consultants conclude.

The FASB's revised proposals would require annual financial statements of pension plans to include information on assets available for benefits, changes in those asset levels during the year, the actuarial present value of accumulated plan benefits and the impact on

those values of factors affecting year-to-year changes.

Revised proposed rules were released by the FASB in late July. If approved, they would be effective in fiscal years beginning after Dec. 15, 1979 (BI, Aug. 6). The accounting body is accepting written comments on the proposals through Sept. 21.

"They've come a long way from the original draft in producing a statement of substance that stands the best chance of being meaningful," said Leonard Mactas, a partner with Kwasha Lipton of Englewood Cliffs, N.J.

Annual changes in benefit valuations, however, which the FASB appears to require if the proposals

are interpreted strictly, would only confuse anyone analyzing a pension plan's ability to pay benefits, he believes.

The FASB thinks pension plan assets should be stated at current market value, but fluctuations in the market value of investments from year to year hide the actual growth in assets over the long term, Mr. Mactas contends. He prefers to work on the basis of a five-year market average, while other actuaries use book value of investments as the basis for determining a plan's ability to pay future benefits.

If the FASB's market value basis prevails, it will defeat the objective of having the plan statement reflect the overall ability of a plan to pay future benefits, Mr. Mactas worries.

Another objection consultants have is that the FASB wants pension plan sponsors to value assets at the end of each year to reflect interest rates at that time, rather than use a long term assumption of interest rates like they usually do now.

Interest rate variations from year to year could result in a "roller coaster" effect, said Barnet N. Berin, director of professional standards at William M. Mercer Inc. in New York.

"One year, unfunded liabilities would look as if they're in control," said Johnson & Higgins senior vp Kenneth H. Keene. "The next year, a change in interest rates could result in unfunded liabilities appearing to be skyrocketing."

FASB should permit use of the same interest rate as the assumption used by actuaries to calculate contributions needed to meet a pension plan's obligations, Mr. Keene added. Actuaries rarely change their interest rate assumptions and do so only to reflect changes in long term trends, he said.

Although it is possible for a plan statement to use the actuary's assumed interest rate, it could be challenged by an accountant. The accountant has the weapon of qualifying his approval of the plan report, Mr. Keene continued.

But not all actuaries interpret the proposed FASB rules to require use of current interest rates in evaluating plan assets. If a plan is to be evaluated as an ongoing entity, it should be possible to use long term interest rate assumptions that are consistent with the way the plan is being appraised, said Ron Brannock, vp at Atlanta-based Tillinghast, Nelson & Warren.

Use of current interest rates would apply only if the valuation of assets is being made for a plan termination, he thinks.

Although consultants don't expect FASB rules to influence pension plan funding or design, they will help plan statement readers to obtain a "picture over a given period of time of how much progress is being made toward funding plan benefits," Mr. Mactas said.

A single year's statement won't be of great value, but by looking at the statements from year to year, one can gauge whether assets are growing faster or slower than anticipated benefits, he explained.

Uniform reporting rules will result in a method for companies to compare their levels of unfunded liabilities, Tillinghast's Mr. Brannock said.

Not all consultants see value in the new rules. Mr. Keene called them "one additional layer of paperwork that seems unnecessary and uncalled for."

The FASB requires little more than what's already included in the actuary's asset and liability valuations in the 5500 reports filed annually with the Internal Revenue Service and Department of Labor, contends Evan Inhis, vp at Towers, Perrin Forster & Crosby.



FASB reporting rules for pension plans will create "uncalled for" paperwork, argues Ken Keene of Johnson & Higgins.

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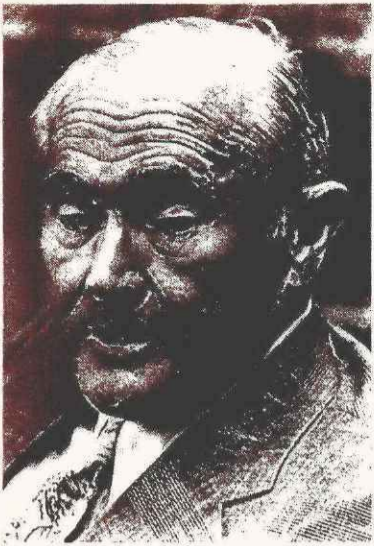
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Proposed guidelines would hurt both the N.Y. Free Trade Zone and exchange, says John B. Ricker of Continental Insurance Cos.

Insurers dispute rules to limit direct risks to N.Y. exchange

By ELLIS SIMON

NEW YORK—At least three insurance companies as well as brokers object to a proposed regulation detailing the free trade zone rejection process for risks before the risks may be submitted to the New York Insurance Exchange.

John B. Ricker, chairman of The Continental Cos., and John Cox, president of Insurance Co. of North America, charged the proposed regulation on interface between the exchange and New York Free Trade Zone would harm both markets. They made the charge in letters addressed to Debra Klugman, an attorney with American International Group which

was instrumental in preparing the proposal regulation.

Allianz Insurance Co. president Frank J. Raab told *Business Insurance* he also opposes the regulation as proposed by an ad hoc committee of free trade zone insurers. The committee was chaired by AIG vp and general counsel Patrick J. Foley.

The proposal creates different rejection procedures for the two classes of risks eligible to be written in the free trade zone: risks generating premium in excess of \$100,000 for one class of insurance and those included in a list of unusual risks contained in state insurance department regulation 86.

For the large premium risks, the committee's majority position calls for the risk to be rejected by five free zone companies and three additional companies recommended by a committee of free trade zone insurers. Unusual risks rejected by three free trade zone insurers would be eligible to market with the exchange.

A minority position included in the ad hoc committee's report submitted to the insurance department suggested five or three rejections on large premium risks and five rejections on unusual risks.

Brokers opposed the proposed measure, saying it would make placement of risks in the insurance exchange more difficult than in

Lloyd's or other excess/surplus markets (*BI*, Aug. 20).

The proposed regulation "appears to be a hindrance to the exchange and the free flow of direct business," said Mr. Ricker of The Continental Cos. "Many of the same companies are in the free zone as well as the exchange so it seems duplication of effort, which means extra expense."

"For New York to be a viable insurance center and international market, there should be a free flow of business in and out of the market and let the business go to the insurer of choice rather than forcing it into certain channels."

The proposed regulations are "a disservice to the zone" that "ultimately will harm both the zone and the exchange rather than promote those markets as intended," contended Mr. Cox of the Insurance Co. of North America.

"Since there are no forms of insurance which can be written exclusively in the zone and not outside, business which should be the subject of the zone can easily find its way into the exchange via reinsurance without ever being seen by the zone companies. This was not the intent of the legislation."

Mr. Cox also noted that his company and AIG are the only markets for several coverages written in the free trade zone and the requirement of five rejections from unaffiliated companies "makes little sense."

The New York Department of Insurance hasn't taken a position on the regulation proposed by the ad hoc committee. A department spokeswoman said the proposal was still under study, acknowledging the department has no schedule for releasing a proposed regulation or conducting hearings.

Insurers reported to support the regulation as proposed by the ad hoc committee include AIG, Atlantic Cos., Utica Mutual, American Reinsurance Co. and Crum & Forster, according to one source on the ad hoc committee.

Crum & Forster assistant vp Robert Sullivan, a member of the ad hoc committee, said the proposed regulation would make placement of the unusual risk class easier in the exchange than the excess/surplus markets since it would require only three rejections rather than the five required under New York's excess/surplus law.

The proposed regulation intends to give free trade zone companies a look at the business and makes the zone more viable as a market for direct business, he maintained. ■

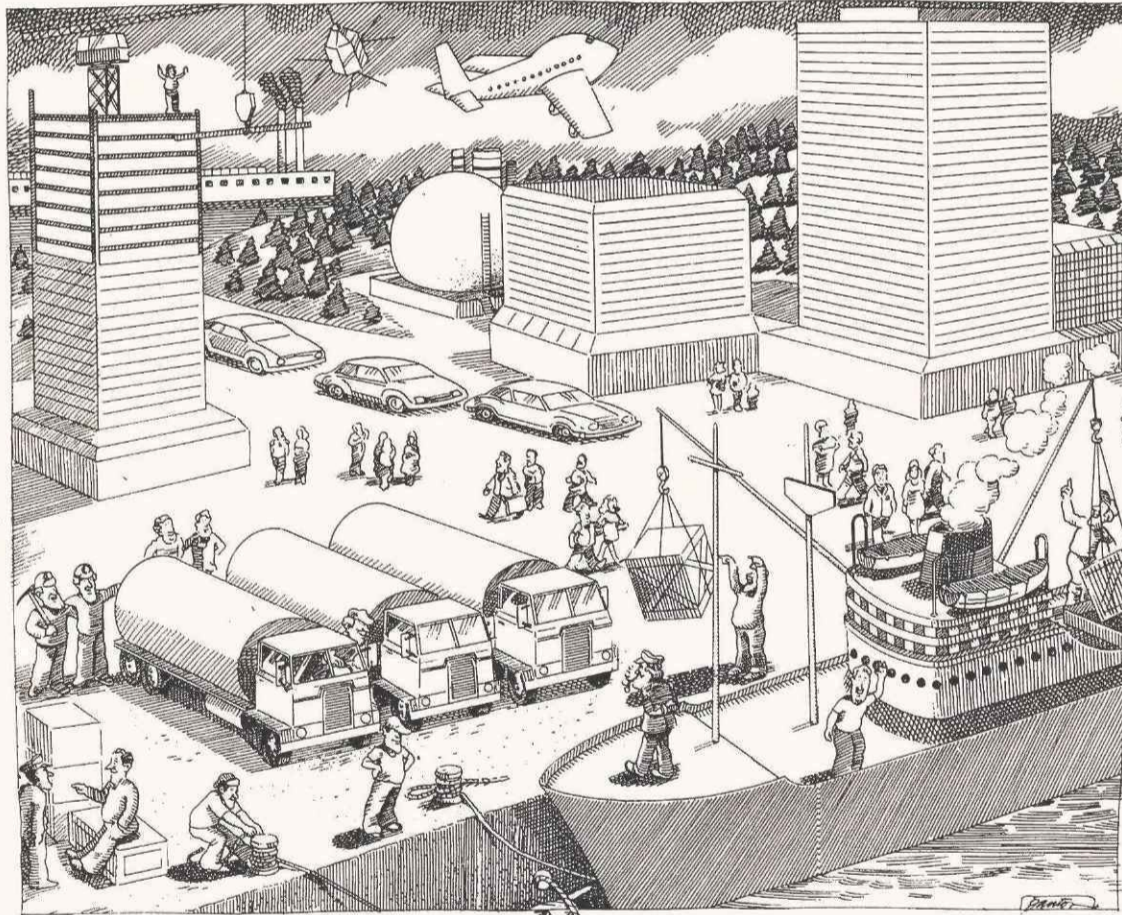
Security group elects directors

WASHINGTON—The American Society for Industrial Security has elected seven directors for three-year terms beginning Jan. 1, 1980:

John V. Clark, director of security and fire prevention with the Boeing Co. in Seattle; Robert H. Cobbs, manager of industrial security for Aerojet Manufacturing Co. in Fullerton, Calif.; Gordon W. Kettler, associate director for plant security activities for General Motors in Detroit; Dennis A. Noggle, director of corporate security for Kimberly-Clark Corp. in Neenah, Wis.; Alexander Smart, security consultant for Royal Dutch Shell Group in London; John J. Thompson, plant protection division of Lockheed Georgia Co. in Marietta, Ga., and Louis A. Tyska, corporate security manager for Times Corp. in Waterbury, Conn.

ASIS, whose members are professional security managers, is the largest organized group in the security profession. Its members are primarily responsible for the development of systems and measures to prevent unlawful acts against information, persons and property of their organizations. ■

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GM's tough proposal to UAW asks health benefits freeze

By JOHN MAES

DETROIT—General Motors Corp. has proposed a freeze on new health care benefits and a delay in benefit eligibility in a tough stance on the United Auto Workers' contract demands.

The firm told the union the benefit freeze, along with economy measures targeting health care costs, is vital, indicating that GM will take a hard line on bargaining items this year.

UAW vp Irving Bluestone responded that GM was not fulfilling its obligations in the collective bargaining process with the statement because it didn't contain economic proposals.

Contracts won by the auto workers frequently set the pace for demands by other unions. So, too, GM's stance in this year's bargaining indicates growing concern in corporations over benefit inflation and the need for cost controls.

GM pointed out in its 22-page statement that controlling benefit plan costs is a "critical issue" that must be addressed in this year's contract talks. The costs of pensions, insurance and supplemental unemployment funds alone have more than doubled every five years since 1963, the statement said.

Benefit costs in 1978 were more than \$2.4 billion, an all-time record, GM noted. "The cost per employee for these benefits alone has increased from about \$675 in 1963 to more than \$5,100 in 1978," GM said. "Employees make no contributions for these benefits."

GM proposed a moratorium on new health care benefits until current costs are brought under control, adding that both sides should explore "all approaches" that may prove effective in holding down costs without detracting from the quality of benefits.

GM proposed:

- Exploring "redesigning" plans so the most effective and least expensive health care services are utilized.
- Reevaluating specific benefits in terms of "cost and quality."
- Expanding studies on benefit plan usage, pre-admission testing, areawide health care planning and second opinions for elective surgery.
- Increased promotion by both automakers and the union of health maintenance organizations and similar health care organizations.

At GM, health insurance costs per hourly employee have jumped to \$2,210 annually in 1978, from \$1,038 in 1973, reflecting higher prices for health care services and increases in the number of retirees. But the jump of more than 100% in five years is also because of plan improvements such as dental and vision care.

GM did not request that the auto workers consider cost-sharing in benefit items. At a collective bargaining conference here in April, union president Douglas A. Fraser said the Big Three auto companies would risk a strike if they made such a demand.

GM, however, wants to eliminate what it considers duplication of benefits in group life and disability insurance it says contributed to high costs. The company proposed that sickness and accident benefits be cut in half when a worker's disability insurance benefits are in effect.

"When a GM assembler receives sickness and accident benefits and (disability insurance benefits) at the same time, the total exceeds his straight time take home pay while

working, thereby creating an economic disincentive for the employee to return to work," GM said.

Life insurance payouts for total disability should also be eliminated because they duplicate costs for the company, considering that a permanently disabled GM employee already receives Social Security benefits, disability insurance benefits and GM disability pension and extended disability benefits, according to the company.

In another benefit issue, GM suggested that the full range of employee benefits be extended only to longer-service workers and that full programs not be made operational until an employee has been on the job for a "reasonable period."

Of 63,000 employees with GM during 1978, more than 18,000 were no longer on the payroll by year's end, according to the statement. Still, the company is forced to pay a "high cost" for wages and benefits for such workers, "over one-fourth of whom do not remain with GM for even a year," GM said.

To counter the problem, GM said eligibility for sickness and accident benefits should be delayed and held to a lower level than for long-term employees for a "reasonable period thereafter." In addition, eligibility for hospital, surgical, medical and drug coverages should be delayed, then phased in for new employees. Dental and vi-

sion coverage should be provided only after the full range of hospital, surgical, medical and drug benefits are in effect.

On pensions, GM said it recognizes the UAW's intent to receive inflation protection for retired workers and indicated it hopes to reach a "fair and reasonable" settlement of the issue. But GM also pointed out that the union should realize that auto industry employees "have been virtually without peer" in plan improvements since pensions were first won by the union in 1950.

Many employees are collecting workers compensation and full pension benefits at the same time and this cost duplication should be eliminated, GM said. During the first five years of the current six-year pension agreement, GM alone has paid more than \$68 million in workers compensation to its Michigan retirees who were also receiving full pensions each month. At present, GM pays almost half of its

workers compensation to Michigan retirees as compared with 1961, when it paid only 4%.

Courts are ruling such pension offsets are illegal (BI, Aug. 20).

"The duplication of workers compensation and GM pension benefits should be of equal concern to the union because it represents improper use of benefit dollars," GM said. "Pension benefits are intended to provide income for employees who no longer work because they have retired from the work force. Workers compensation benefits are intended to replace wages lost as a result of an occupational disability. The employee should not receive payment from GM twice for the same absence."

Cost problems with supplemental unemployment benefits should also be addressed during negotiations, GM said. Among its proposals to deal with the problem were modifying credit union cancellation table levels so the SUB fund would be protected.



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Congress unlikely to act on insurance bills

By JERRY GEISEL

WASHINGTON—Efforts to enact a national health insurance plan, revamp the pension reform law, impose new reporting and disclosure standards for public pension plans and require the states to adopt minimum federal standards for workers compensation programs will be the likely victims of a Congressional time crunch, most Washington observers agree.

A Congress preoccupied by the upcoming presidential conventions and national election is unlikely to enact any comprehensive benefits or insurance-related legislation before year-end, they say.

The time pressures resulting from an abbreviated session of Congress "pose some serious con-

siderations as to whether time will permit for the passage of any comprehensive legislation," noted George Pantos, counsel for ERIC, a benefits lobbying group representing most of the nation's 100 largest corporations.

However, less controversial legislation—removing the burden on small employers of Occupational Safety and Health Administration inspections, permitting tax deductions for employe contributions to corporate pension plans and changing the federal benefit guarantees for multiemployer pension plans—stands a much better chance for passage.

The first session of the 96th congress was characterized by what seemed like almost weekly introductions of new national health insurance plans—the most signifi-

cant being proposals by Sen. Edward Kennedy (D-Mass.) and President Carter. But the lack of a consensus on what is the best approach to national health insurance makes it doubtful that any of the NHI proposals will pass Congress, says Mike Romig, director of employe benefits at the U.S. Chamber of Commerce.

Pension plan sponsors have been closely watching the progress of Sen. Harrison Williams (D-N.J.) and Sen. Jacob Javits's bill (S.209) to overhaul ERISA. The bill, which would drop some reporting requirements, establish a single federal pension agency and give tax credits for small employers who start new pension plans, easily cleared the Senate Labor and Human Resources Committee.

But the bill now seems dead. "By and large I don't think there is widespread, broadly based support from various groups for all the provisions in the bill," says ERIC's Mr. Pantos. "There is more of a disposition to wait and see what President Carter's commission on pension policy will come up with in the way of a comprehensive look rather than amending this and amending that."

Instead of passing sweeping pension reform legislation, Congress is more favorably disposed to enacting measures that would permit employe tax deductions for their contributions to corporate pension plans.

In the Senate, two key employe tax deductions for pension plan contributions have been introduced. One bill, proposed by Sen.

Williams and Javits, would allow employes to deduct up to \$1,000 annually for pension plan contributions, while another bill by Sen. Lloyd Bentsen (D-Texas) would permit employe annual tax deductions of up to \$1,500.

While the tax deductions measures enjoy support from business as well as employe lobbying groups, the proposals probably lack enough support to pass as separate legislation, observers say. As a result, a pension tax deduction measure would probably have to be tacked onto the tax cut bill Congress may consider in order for it to have a chance at passage, observes David Allen, Sen. Bentsen's aide.

Also this fall, Rep. John Erlenborn (R-Ill.) and Rep. Frank Thompson (D-N.J.) will introduce legislation to establish reporting, disclosure and fiduciary guidelines for the nation's 7,000 state and local pension plans.

Unlike ERISA, which only covers private plans, the public plans bill (PERISA) will not set vesting and participation standards for pension plans. Instead an advisory council most likely would be set up to hammer out voluntary guidelines for vesting and participation.

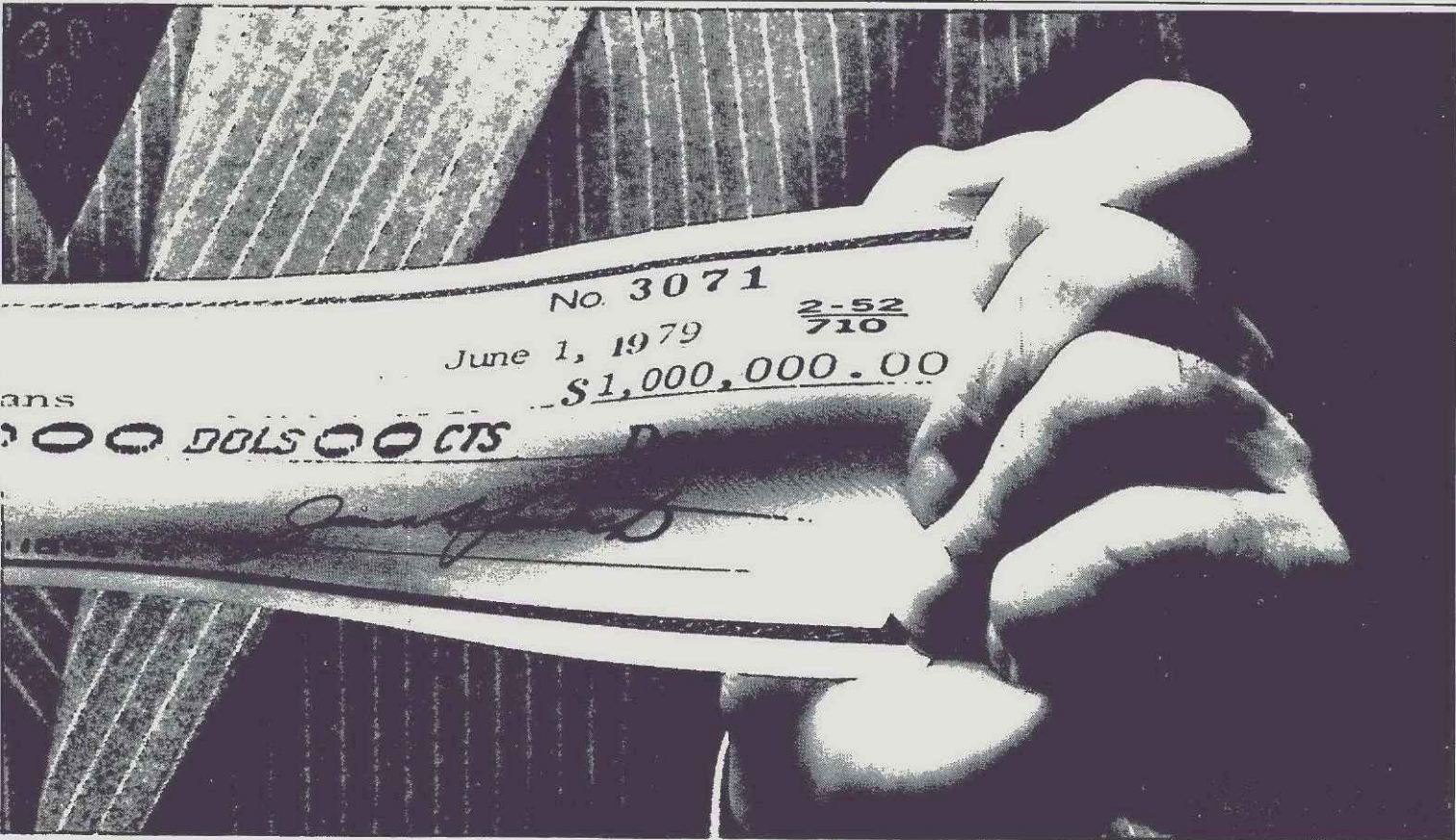
PERISA, though, will establish reporting and disclosure standards. Plans in states that adopt these federal standards only would be required to file their annual reports with the appropriate state agency. However, public plans in states that lack reporting and disclosure requirements would have to file annual reports with the federal government.

A similar bill introduced late last year drew fire from some public officials who fear the measure would raise their pension costs. In view of this opposition, the new PERISA bill faces an uncertain future. Aides who are working on the bill back off from making predictions about the measure's chances.

In the fall, four House and Senate committees will resume consideration of the Pension Benefit Guaranty Corp.'s long term solution for guaranteeing benefits of collapsing multiemployer pension plans.

Under PBGC's proposal, premiums the agency charges for termination insurance for multiemployer plans would be boosted gradually over a five-year period until they hit \$2.60 per participant annually. The current premium is \$1 per participant.

In addition, participants of ter-
Continued on next page



In reviewing health care coverage, a lot of executives make a false assumption—that health care costs will be the same no matter who the carrier is. After all, the same people will get sick and incur the same costs. The only variable is what the carrier charges for administering the program.

THE EXPENSIVE ASSUMPTION.

That kind of thinking can be very expensive. Because health care costs are not a fixed amount.

If a carrier simply assumes risk and pays bills, there's no control over the really big part of your cost: the benefit costs. You see, the cost of health care coverage is actually two costs. The cost of benefits. And the retention costs (everything from risk charges and administrative costs to reserves). By controlling your major health care expense, the cost of benefits, you can get more for your health care dollar.

PENNY WISE, POUND WISE.

Benefit costs continue to rise. They're where most of your health care coverage dollar goes. Controlling benefit costs can have a real impact on your bottom line. Which is why Blue Cross and Blue Shield Plans are so committed to containing them.



LESS THAN 10% OF YOUR HEALTH CARE DOLLAR GOES TO RETENTION COSTS.

THE MAJOR PART COVERS BENEFIT COSTS.

And they're the only ones whose scope and method of operations are broad enough to deal with the problem effectively.

IT'S ALREADY WORKING.

For example, Blue Cross and Blue Shield Plans often set up special arrangements with hospitals and physician agreements that establish rates that are actually lower than those paid by other carriers.

Programs like out-patient diagnostic, same-day surgery, and extended home care have helped cut the average hospital stay of our subscribers by as much as one full day. And saved \$1,250,000,000 last year alone.

So before you make a decision about your group's coverage, contact your Blue Cross and Blue Shield Plan Marketing Representative. Or write Blue Cross and Blue Shield Associations, Box 8008, Chicago, IL 60680, for the free booklet: "The Most Effective Health Care Protection For Your Employees."

Otherwise, saving a little money could end up being very expensive.



HELPING CONTROL ALL YOUR COSTS.

The \$55.8 million difference in Texas workers' comp coverage.

\$55.8 million — that's how much we returned to our workers' compensation policyholders in 1978 alone through dividends, premium discounts, and retrospective returns. Those savings have convinced many companies to separate their Texas coverage from their national workers' compensation plans. It's worth a phone call to learn about the \$55.8 million difference in Texas workers' comp coverage. Call us at 214/653-8100. Ask for National Accounts.

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HANSTAR: SEEING IS BELIEVING.



HANSTAR is John Hancock's computerized group accident and health claim payment system. A proven system that's so advanced, you need to see it in action to understand all it can do for you.

First, you'll see how HANSTAR saves your company time. With our national on-line system, we can answer policy and claim questions immediately, even if your company has regional divisions. Second, HANSTAR is accurate. It has built-in controls that reject invalid information and claims duplication. And it automatically calculates benefits, including reasonable and customary charges, and assures uniformity of contract application with maximum claim cost containment effectiveness.

Popularity with employees is another key HANSTAR feature. Employees appreciate the fast response and the complete Explanation of Benefits, or HANSTAR-generated letter, clearly detailing the disposition of the claim.

Reports on claim frequency, utilization and plan adequacy are available to assist you in considering appropriate plan revisions.

HANSTAR's flexibility in claim administration extends to the full spectrum of fully insured, MPA and ASO plans.

See what HANSTAR can do for you. Call Paul H. Gregg, Vice President, at (617) 421-6205 and ask for a HANSTAR demonstration. Seeing is believing.

John Hancock

Mutual
Life Insurance
Company
Boston, Mass.

Insurance bills . . .

Continued from previous page
minating multiemployer plans would be guaranteed 100% of the first \$5 per month per year in vested benefits and 60% of the next \$15 per month per year in vested benefits. Currently, the PBGC has discretionary authority to pay monthly benefits of up to \$1,076.83 to participants of a folded multiemployer plan.

The new benefit guarantees would effectively limit PBGC's maximum monthly payout to between \$500 and \$600, though most payouts would be expected to be much lower.

For example, under the service-related formula, PBGC would provide a benefit of \$350 per month for a participant with 25 years of service and \$462 per month for a participant with 33 years of service.

The rate hike and the reduction

in guaranteed benefits are part of an effort to ensure the PBGC has sufficient assets to pay benefits for the expected rash of terminations of multiemployer pension plans.

A PBGC study found that about 2% of all multiemployer plans are experiencing "extreme financial hardship" and have a "high potential" for termination in the next five years.

How fast Congress will act on the PBGC's recommendations is unclear. The sheer complexity of the proposals rules out quick action, says Mr. Romig of the U.S. Chamber of Commerce. If the proposals get bottled up in committee, Congress could approve yet another delay for the time PBGC must begin to guarantee benefits of multiemployer plans. Mandatory coverage is now set to begin May 1, 1980.

Last spring, the Carter Administration, with much fanfare, said it supported federal minimum standards for state workers compensation programs, an idea that Sens. Williams and Javits proposed earlier this year (S. 420).

At congressional hearings on the Williams-Javits bill (BI, April 16), Secretary of Labor Ray Marshall said representatives from his department and the Labor and Human Resources Committee would meet to hammer out a federal minimum standards bill the Administration could endorse.

But the negotiations collapsed this spring and further progress seems unlikely. "The Administration does not consider federal minimum standards for workers compensation a high priority issue," a government source told *Business Insurance*.

In an issue important to small business, the Senate is expected to approve House-backed legislation that would shield 90% of employers with less than 11 employees from safety inspections by OSHA.

Elsewhere, a U.S. district court here this fall is expected to hear arguments in a lawsuit filed by two major Catholic organizations, who contend the new pregnancy benefits law is unconstitutional by requiring employers to provide sick leave for employees who have abortions and to pay the costs of some of those abortions.

The U.S. Catholic Conference and the National Conference of Catholic Bishops argue in their suit that the pregnancy law violates the "free exercise rights" of employers who object to abortion by compelling them to pay for a practice in which they have a "grave and profound abhorrence."

Arguments in the case had been set for an Aug. 13 hearing in U.S. district court Judge John Pratt's chambers, but the hearing was postponed to give the government more time to prepare its case. A new hearing probably will be held later in the fall, a spokesman for Judge Pratt said.

Oil pollution policy offered

DALLAS—A new third-party liability policy covering pollution, seepage and containment of accidents is being offered to petroleum firms by Swett & Crawford here.

The policy, developed in cooperation with London underwriters, insures up to a \$50 million limit with a \$50,000 deductible. It covers bodily injury and property damage; the cost of removing, cleaning or nullifying contaminating substances, and defense costs.

The firm also offers a cost-of-control policy which reimburses policyholders for expenses incurred in regaining control of oil or gas wells out of control.

WE'RE GROWING BIGGER TO SERVE YOU BETTER.

We're Crawford and Company.

And in case you haven't noticed, we've grown quite a bit over the years.

Today we have over 4,000 highly trained employees keeping the lines of communication open to all our clients. So we can immediately respond to their varied self-insured or insured needs with efficiency and dispatch.

And we've kept up with the complexities of today's Risk Managers' world. Our expertly programmed computers, for example, are kept constantly at work handling such things as sophisticated Loss Runs, Trust Fund Recaps, and Loss Cause Analysis Reports plus continuously monitoring accounts.

This is just one valuable supplement to expert account supervision and literally thousands of adjusters handling claims.

No doubt about it. We're well equipped to serve you. And you'll

find us at your service in our brand new 87,000 square foot office building here in Atlanta.

But that's not the only place you'll find us. In fact, we may be a lot bigger than you think we are. Because over the years we've added luster to our name with expansion to over 700 offices nationwide.

Contact C.C. Lefler, Senior Vice President—Marketing. Call 1-800-241-2541 or write Crawford and Company, P.O. Box 5047, Atlanta, Georgia 30302.



editorial opinions

Insurers' free speech

FORTUNATELY, the liability insurance industry is being vindicated. Several attempts by trial lawyers to muzzle insurers have failed.

We've been as outspoken as anybody about some of the opinions being disseminated by insurers fearful of trends in personal injury litigation, particularly when stories about "the lawn mower case" were spread far and wide. Indeed, that illustration of the miscarriage of tort liability justice never occurred, and we said so.

Nonetheless, insurance companies launched some extremely worthwhile advertising campaigns at the height of what were being termed at the time the product liability and the medical malpractice crises. The ads have run almost continuously in the major national media for well over a year now. They've been eye-catching, hard hitting and have attempted to educate the public about the costs of litigation, the costs to society of enormous personal injury awards and the economics of how the costs of rising insurance rates are spread over the entire consuming public.

The ads drew blood almost instantly. Personal injury trial lawyers, positioning themselves for some great publicity and trying to fuel the fires over consumer product safety even more, jumped into the fray charging the entire liability insurance industry—most prominently Aetna Life & Casualty, Travelers Insurance Co., Crum & Forster, Employers of Wausau and St. Paul Fire & Marine Insurance Co.—with illegal jury tampering.

William P. Rutledge, a trial lawyer, filed the first such suit in Lafayette, La., to restrain insurers from running ads aimed at influencing public opinion. The federal district court dismissed the case June 8 in favor of all the defendants, noting that some ads Mr. Rutledge objected to didn't even come close to appealing to juries. Moreover, said the court, insurers have the right of free speech, which extends to paid ads voicing the concerns and opinions of commercial enterprises the same as it pro-

jects the rights of individuals. Even the ads appealing to juries contain valuable statements on matters of public interest, the court said.

A second case came to a similar close in early July when a suit entitled Quinn vs. Aetna Life & Casualty was thrown out on the grounds there wasn't a valid cause of action. A New York federal district court judge said the jury tampering charge in this case was "highly speculative" and that Aetna's advocacy campaign discussing problems with the U.S.'s tort liability system doesn't deprive anyone of a fair trial.

Three cases are still pending in which Aetna is involved—one in Connecticut superior court against Crum & Forster in which Aetna is also a defendant, one in superior court in Rowan County, N.C., and the third in federal district court in Grand Rapids, Mich. All three are personal injury cases in which the plaintiffs contend their chances of fair trials are diminished by the impact of the ad campaigns.

People are surely better informed as a result of the insurers' ad campaigns. Let's hope they realize clearly that the costs of lawsuits and million-dollar awards are going to come right back home to roost. Let's hope, too, that the tendency of the past 10 years to sue everybody in sight for every one of life's unpredictable injuries is on its way to extinction.

Thank goodness for First Amendment protection against restraint of free speech. Usually the news media appeal for protection, and the issue of whether or not we like the news being printed shapes our views of whether or not reporters should be shielded from assaults launched by those who don't want opposing views or bad news in the news. This time, the tables are turned, as business seeks protection of its right to speak out.

It matters not whether we agree with corporations. But we wouldn't deny them the right to say what they want. In the long run we'll all make better choices as business people and consumers, and be better informed citizens.

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.

Management problem

To the editor: Your editorial in the Aug. 6 issue on the role of the risk manager, "Title without Teeth," bears on a serious management problem.

In an organization, there should be an executive with responsibility for systems safety analyses and with concomitant authority for implementing the findings of the analyses. Striking examples of the lack of authoritative safety management can be found in the wreckage of the DC10 and at Three Mile Island.

When the engine tore from the left wing upon takeoff at Chicago, control lines were severed and the slats on the left wing retracted. With unbalanced lift on the right wing, the airplane went into an extreme left bank and crashed. The two other wide-body designs have safety elements designed into them preventing asymmetrical slat configuration.

At the design firm for the Three Mile Island reactor, two engineers warned management well before the accident that certain procedures, if not corrected, would lead to just such an event as took place. Management did not act on the warning.

In the investigations and hearings under way for these two disasters, federal standards and regulations are oft-mentioned. It is interesting to note that while standards and regulations take responsibility from the designer, litigation arising out of claims goes straight to target the designer's corporation.

Alan D. Morris, Dr. Eng., P.E.
Morris & Ward, Washington, D.C.

A/B addendum

To the editor: Lamb, Little & Co. did not appear in the Aug. 6 Agent/Broker Profiles issue because I did not receive a form to complete for updating the information I have supplied every other year.

Compared with your Aug. 7, 1978, issue on page 80, the information for 1978 would have been premium value of \$13,200,000, gross revenue of \$1,925,000, 31 employees and 92% commercial business. (1977 premiums were \$12 million, with gross revenues of \$1.8 million, 31 employees and 91% commercial business.)

Under principal officers, all of the previously named parties would have appeared but additionally we would also show Ken McVickers and Tom Threlkeld as vps.

We are one of Chicago's larger independent offices and our revenues per employee are greater than any of the 20 largest brokers shown on your list, since our average revenue per employee runs over \$60,000.

Frank L. Hoffeller
Executive vp/treasurer, Lamb, Little & Co., Chicago

Injustice done

To the editor: All of our employees and clients have been done an extreme injustice by your editorial comments in the Aug. 6 issue of *Business Insurance*.

The editorial serves to make us look avaricious and self-serving. However, our success over many years of head-to-head competition belies the fact.

Most new clients were previously someone else's! Obviously, then, our remarkable 10-year compound average annual growth rate of 35.9%, perhaps the best internal growth record of the major national brokers, confirms we compete most effectively.

Arthur J. Gallagher & Co. has been in the forefront of self-insurance, self-funded employee benefits, negotiated commissions and broker services on a fee basis alone. Winning in keen competition with our peers is incontrovertible proof that in addition to our innovations, performance and professionalism, the price is also right!

If we know our business, if we understand risk-taking, if we have done our homework, it is correct that we can, and frequently do, propose a price to underwriters—usually lower than our competition, frequently less than the underwriter's own price.

Only occasionally—anticipating a difficult next year for a hard-to-place risk—may we contribute to the budgetary management of a customer, by keeping his insurance expense manageable and avoiding volatile price swings through leveling the ongoing costs.

In such circumstance, negotiating for a slightly higher current price to ameliorate or avoid a later catastrophic one is, of course, in our client's best interest... and always with his full knowledge.

Robert E. Gallagher
President, Arthur J. Gallagher & Co., Rolling Meadows, Ill.

Late profile

To the editor: For whatever reason, we did not submit figures to you for the Agent/Broker Profiles issue Aug. 6. We would appreciate if you would include our figures in your next issue since we were quite pleased with our progress.

	1978	1979
Premium vol.	\$9,000,000	\$11,000,000
Gross rev.	1,362,844	1,660,470
Employees.	32	35
Rev/employee....	42,589	47,442
Offices	2	2

Henry J. Bodenheimer
Executive vp, Kessler-Bodenheimer Inc., New Orleans

More figures

To the editor: We have read your Aug. 6 issue and were surprised to find that our agency was not profiled.

We were even more surprised to read your article on page 112 and to find our agency listed as one electing not to profile. We particularly did not care for your speculation that some agencies did not reveal volume figures because their business has turned sour.

For your information, here are our results:

	1978	1977
Premium vol.	\$2,495,249	\$1,875,387
Gross rev.	446,116	351,982
Employees.	6	5
Commercial business	95%	95%

Principal officers: Homer M. Conley, president; T.A. Drawert, vp; A.C. Tinch Jr., vp-secretary.

Homer M. Conley
President, Harding-Conley-Drawert-Tinch Insurance Agency Inc., San Antonio

Shocked response

To the editor: I was shocked to see our agency listed on page 112 of your Aug. 6 issue as a "Dropout for 1979."

Your sixth paragraph implies that our agency's business has "turned sour." I resent this very much and could cite 1978 figures that would show an increase in premium volume and gross revenue over that reported for 1977 in your "Agent/Broker Profiles" for our agency, while maintaining the same number of employees and increasing our commercial percent-

Continued on page 70

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loss prevention, risk financing and
employee benefit management

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age you need when writing new lines of business. Or main-

taining an existing one.

facilities.

Give us a call, or write for more information on all our

country. Such as the one near you, listed below.

Our Risk Specialists Companies are located across the

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And let you know, too. With personal service and quick-quote

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As "The Multi-Market Professionals" we have access to

**"Let's see how
you handle
our Widgets...
then we'll
talk about the
rest of the
account."**



Lawyers start Cardinal Casualty Co.

New insurer cuts product liability rates

By JACK THORNTON

CLEVELAND—Cardinal Casualty Co., a new insurance company with two lawyers among its founders, has opened in suburban Beachwood to write product liability coverage for manufacturers and distributors.

It is the first casualty insurer founded in Ohio in about 20 years, say principals of Cardinal, and it is offering product liability coverage at lower-than-usual rates.

Although the company intends to also write comprehensive and general liability coverage, about 90% of Cardinal's business since the firm began attracting clients in April has been product liability. Most of it has been written for machine tool builders and distributors, two businesses that were among the hardest hit by skyrocketing product liability premiums in the mid-1970s.

Cardinal is offering coverage for machine tool companies at \$3.50 to \$5.50 per \$1,000 of annual sales. Many tool companies have paid \$6 to \$10 per \$1,000 and some builders and sellers of used machinery have been unable to get coverage at any price and have "gone bare."

The firm's prospectus says rates and plans will be based on those of the Insurance Services Office, the largest rate-making organization in the country. However, Cardinal will adjust its premiums as much as 25% more or less depending on an applicant's prior loss experience and the size of the deductible, and as much as 10% more or less for product quality control and company loss programs.

Cardinal is seeking companies whose premiums will total \$5,000 to \$500,000 annually. Its principals declined to discuss how much insurance the company has underwritten.

According to the prospectus, Cardinal will limit loss for any sin-

Poll to study pension plan, savings link

WASHINGTON—President Carter's commission on pension policy, mapping out a blueprint for policymakers on pension and retirement issues, has awarded an \$890,000 contract to a Chicago research firm to investigate and analyze the effect of Social Security, pensions and other retirement plans on private savings behavior.

Market Facts Inc. will conduct a nationwide survey of 5,000 households linking work history, participation in pension plans and Social Security, earnings, net worth and family composition with personal savings.

Information expected to be pinpointed by the household survey data includes:

- A wide-ranging description of pension coverage, plan characteristics and their incidence in the general population.
- A description of the composition of the population not covered by pensions.
- The frequency of multi-pension plan coverage.
- An analysis of the savings behavior of households covered by pension plans and Social Security.
- The effects of higher pension benefits on early retirement and a measure of whether earlier planned retirement encourages more savings.

The survey is expected to be completed by late next year. ■

gle policyholder to a combined \$1 million for personal injury and property damage liability. Any loss of more than \$50,000 will be covered by reinsurance.

"Cardinal has automatic treaty insurance with a limit of liability of \$1 million," said J. Patrick Phelan, president of Cardinal's corporate parent, Cardinal Investment Corp. In addition, Cardinal Excess Inc., a related firm, can provide excess umbrella coverage above Cardinal's \$1 million limit.

Mr. Phelan said Cardinal is handling its own underwriting and has reinsured "heavily" with the "leading reinsurance companies." He declined to name them.

Although Ohio is one of the few

industrialized states that so far have not passed legislation to reform product liability laws, "The product liability business isn't all that bad," said Cleveland attorney Richard T. Reminger, one of Cardinal's founders and secretary of the parent company. His law firm, Reminger & Reminger, is active in defending corporations in product liability suits.

"We saw an opportunity" because of the premium increases and coverage cancellations, he said. Ohio also is the third largest market for product liability insurance in the United States.

Cardinal so far has no competition, independent agents say, because no major insurance company is willing to write product liability

coverage at anywhere near Cardinal's rates. The new company's success, however, may change the big insurers' minds or spur the formation of other specialized insurers.

One Cardinal agent, who requested anonymity, added that setting up shop in Ohio has an advantage: the state has a monopoly on workers compensation coverage, so Cardinal doesn't have to offer it. In any other state the company would be expected to.

Cardinal Investment Corp. was incorporated in September by Mr. Reminger, Mr. Phelan and attorney Joseph D. Sullivan of Calfee, Halter & Griswold of Cleveland. They incorporated the insurance com-

pany in December and sold 47,000 shares of stock early this year at \$50 a share.

Mr. Reminger and Mr. Sullivan own 6,000 shares of the parent company's stock, Mr. Phelan owns 3,000 shares and the remainder was sold to Ohio investors.

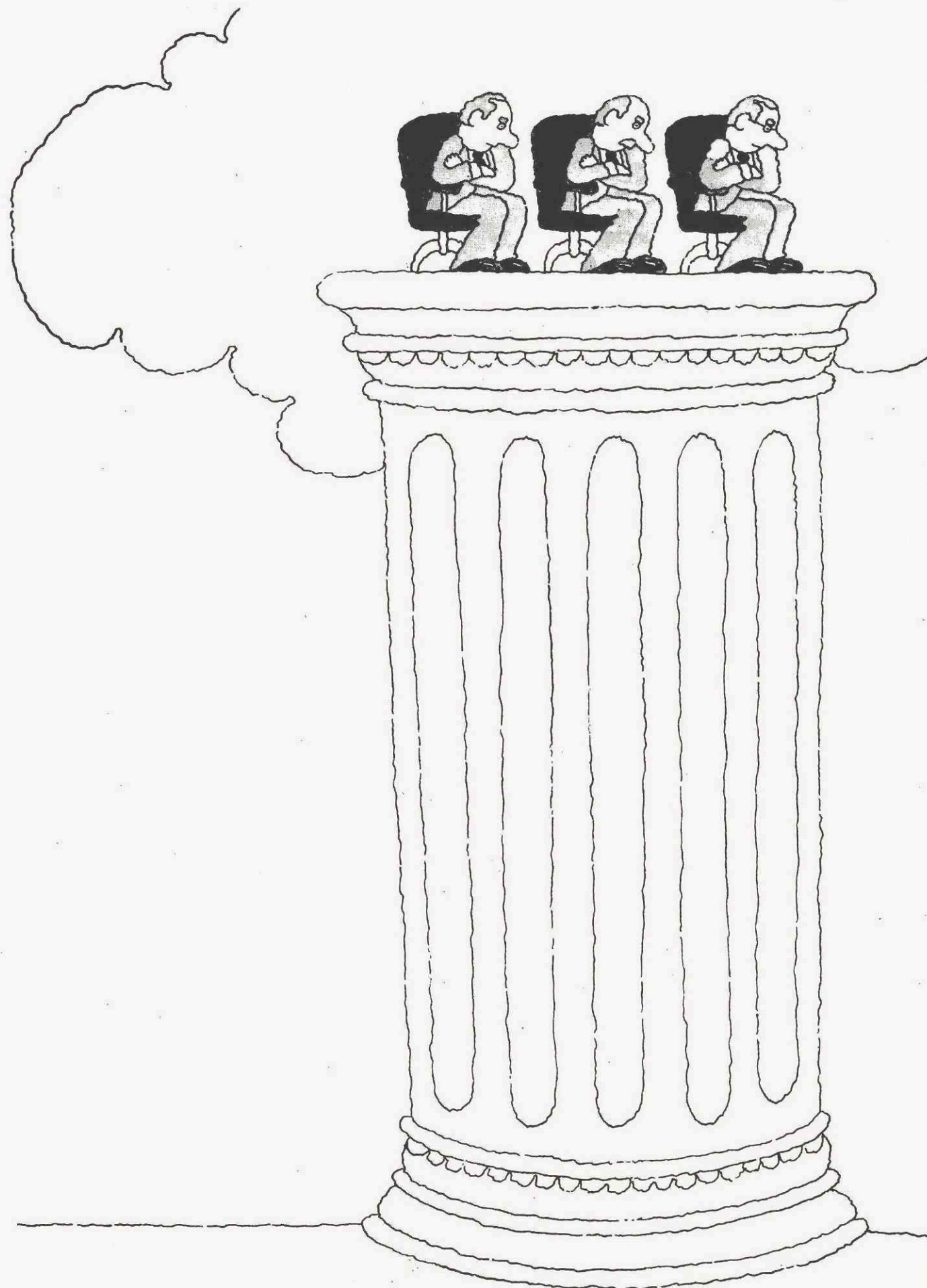
Mr. Phelan formerly was executive vp of Johnson & Higgins of Ohio Inc. J&H's clients included the Motch & Merryweather Machinery Co., a machine tool builder and the nation's largest machine tool distributor. Motch & Merryweather has not purchased insurance from Cardinal.

Also on Cardinal's payroll are:

- Allan B. Palmer, vp, former vp of casualty underwriting at J&H of Ohio.

- Harold M. Richter, recently retired regional manager in Cleveland for Aetna Casualty & Surety Co.

- J. David Gillock, an eight-year veteran of Aetna's Cleveland engineering department. ■



Schools' risk pool aims for loss control

By CLIVE HALLETT

LOS ANGELES—When schools were plagued by a rash of arsons, the Schools Insurance Authority in Sacramento quickly and methodically dug to the root of the problem.

Its loss control committee recommended that the 17 member school districts install intrusion sensors, smoke and heat detectors and other technical safeguards by July 1980 to make their 300 buildings as arson-proof as possible.

All the districts are complying. Some even arranged for live-in loss prevention, offering low rents and some free amenities to trailer dwellers who would live on the school sites and deter prospective firebugs.

"We're not going to eliminate

losses but we can try to minimize them," says Don Johnson, assistant vp in Marsh & McLennan's Northern California office and managing broker for the joint powers group. When the protection system is in place, the group can consider substantially raising its self-insured retention for fire risk, he says.

The response to the arson threat is characteristic of the SIA, a Sacramento county school districts' pool which has grown carefully yet solidly since it was launched with five members in 1974.

Now responsible for a combined property insurance risk of \$700 million for buildings and equipment and a total annual risk management and insurance budget of \$5.4 million, the SIA has been cau-

tious in expanding coverage, selective about new members and professional in loss control.

The SIA is also saving its Northern California school district members a bundle on insurance costs and providing some small districts with insurance they could not otherwise find in the commercial market or couldn't afford at commercial market prices.

While proud of its achievements for its members, the SIA doesn't harbor visions of big is necessarily better.

"We don't want to grow too fast or get too big without a good foundation," says Joe Farrell, risk manager of the Sacramento City Unified School District who is this year's SIA president.

The group, which encompasses school districts with enrollments

ranging from less than 200 to 45,000, is only now about to advertise for its first full-time executive director.

The idea for the SIA was sparked—as with other public agency pools—by the high premiums and restricted coverages of a tight insurance market.

Unlike most of the other joint authorities of schools which have mushroomed throughout the state in recent years, the Sacramento pool initially insured only property. It added auto and general liability in 1975, moved into workers compensation in 1977 and is contemplating insuring employe benefits.

Other groups of school districts tended to concentrate solely on workers compensation or make it a

first building block toward a larger program.

The SIA appears to be approaching employe benefits as if it were picking its way through a minefield. Mr. Johnson says the group probably will consider health care, group life, vision and other plans, choosing one or two areas as experiments before expanding fully into employe benefits.

SIA school districts spend an average of more than \$1,000 annually per employe on employe benefits for the 18,000 in the combined work force.

The pool has crossed Sacramento county lines to recruit some members and may still add more nearby districts to its ranks. But it is reluctant to accept adherents from too far afield, partly because the distance would hinder communications.

The SIA could have doubled membership from its 17 had it accepted all those who have applied since it began. Some were rejected because of poor loss records. "It was amazing to find the school district representatives becoming as selective as underwriters," Mr. Johnson says.

The loss control committee tries to be a rigorous risk manager. The committee—made up of representatives from each district and reporting to the SIA's governing board—regularly sleuths through school buildings to check that as little as possible is left to chance.

To ensure the process doesn't get too cozy, no inspector is responsible for scrutinizing his or her home school district. A list of recommended safety changes in any potential hazard area—from the electrical layout to the instructions on fire extinguishers—is sent to the principal of each inspected school.

The districts were too "complacent" before the SIA, Mr. Farrell says. "Now we are more aware of every dollar spent and all of the problems involved."

Major risks for the authority are fires and vandalism, liability lawsuits and property thefts.

The school districts pool their risks and buy commercial insurance for the pool to varying levels depending on the risk.

The pool self-insures property losses up to \$100,000, over a \$5,000 deductible for each district. Southern Insurance Co. underwrites the policy covering losses between \$100,000 and \$2.5 million. Bellefonte Insurance Co. provides excess insurance to \$10 million.

The pool also self-insures workers compensation losses up to \$100,000. It buys an insurance policy from Employers Reinsurance Corp. for losses of up to \$5 million and another excess policy from Associated International Insurance Co. for losses over \$5 million to \$10 million.

The pool buys first dollar general liability insurance. Farmers Insur-

Continued on next page

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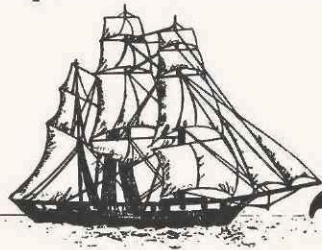
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Schools' risk pool . . .

Continued from previous page
ance Group is the primary insurer to \$500,000 and Granite State Insurance Co., a member of the American International Group, is the excess insurer to \$25 million.

There are also variations on the insurance arrangement for individual districts with poor loss experience. Three districts assume extra deductibles before property insurance written by Southern Insurance Co. comes into play. One district, for example, takes another \$200,000 deductible over the pool's \$100,000 self-insured retention. These extra deductibles will be removed when the districts implement loss prevention systems recommended by the loss control committee.

The greatest savings on premiums and improved services are enjoyed by the personnel-starved

small districts with limited resources. But even the largest districts have significantly whittled down costs.

Mr. Johnson estimates that overall property and liability insurance savings attributable to the SIA stand at 30% or more. The workers compensation plan is probably trimming costs by more than 40%, he says. And after receiving preliminary figures, the SIA board is hoping to declare a dividend soon from the \$500,000 workers compensation fund.

Mr. Farrell proudly points to the Natomas district in Sacramento County, the authority's smallest. "Now where could they, or any small business for that matter, buy \$25 million worth of liability insurance for under \$1,000?" he asks.

Mr. Farrell says SIA districts keep such minor standard business as a boiler policy and fidelity bonds with local brokers despite the "tremendous amount of opposition" many of the brokers had mounted against the pool.

"I think the major brokers got the jump on the little local brokers," Mr. Farrell says. "The locals could have put together a pool and managed it along with the majors, but instead they fought the idea."

The SIA has not self-insured liability risks because commercial insurance is currently available to the pool at an attractive rate because of its large size. The group's attitude will change if the figures fluctuate to the pool's disadvantage.

"We will change as the markets develop and as the insurance industry changes," Mr. Farrell says. "We hope we are going to continue to be progressive."

"By now, the pool is a first-layer insurance company in every sense of the word."

Many member districts are suffering declining enrollments like institutions across the country as the school-age population shrinks. There are pressures to retrench by cutting overhead, selling or leasing buildings.

The SIA's Hayward district in Alameda County will have 19,000 students next year compared with 30,000 in its peak attendance year of 1965-66. "The reduction of certain operating costs made possible through the SIA has helped us survive," says Esmond Carey, Hayward's business manager.

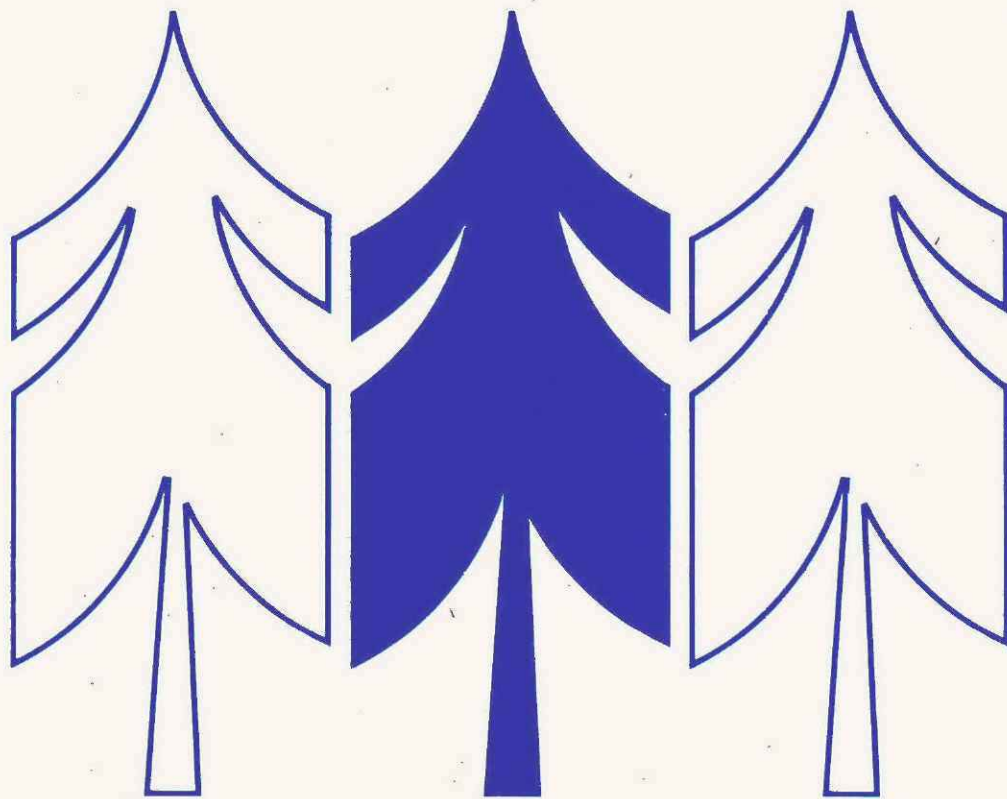
Hayward is one of the districts arsonists have struck in the last two years. Three fires caused between \$38,000 and \$160,000 in damage and the SIA imposed an extra deductible of \$85,000 over a \$100,000 insured layer. Losses over \$185,000 are covered by the pool's excess insurance.

Hayward's arson-protection system will be linked to a central computer staffed around the clock. It will track prowlers or respond to fires before the flames get out of hand. When the system is operating, hopefully by fall, the extra \$85,000 deductible will be dropped.

Mr. Carey estimates Hayward is saving 50% on its liability coverage and 25% on workers compensation because of the pool. Property insurance has not generated savings because costs have climbed steeply to keep pace with inflation in property values.

The Natomas district does even better, although its figures are atypical because it is so small. District superintendent Myron Cross says savings on property and liability insurance could run as high as 90%. And he doubts the district could have obtained workers compensation at all without the SIA.

Natomas' property losses are also now paid according to replacement value.



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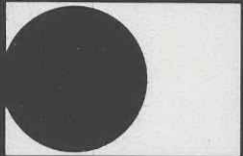
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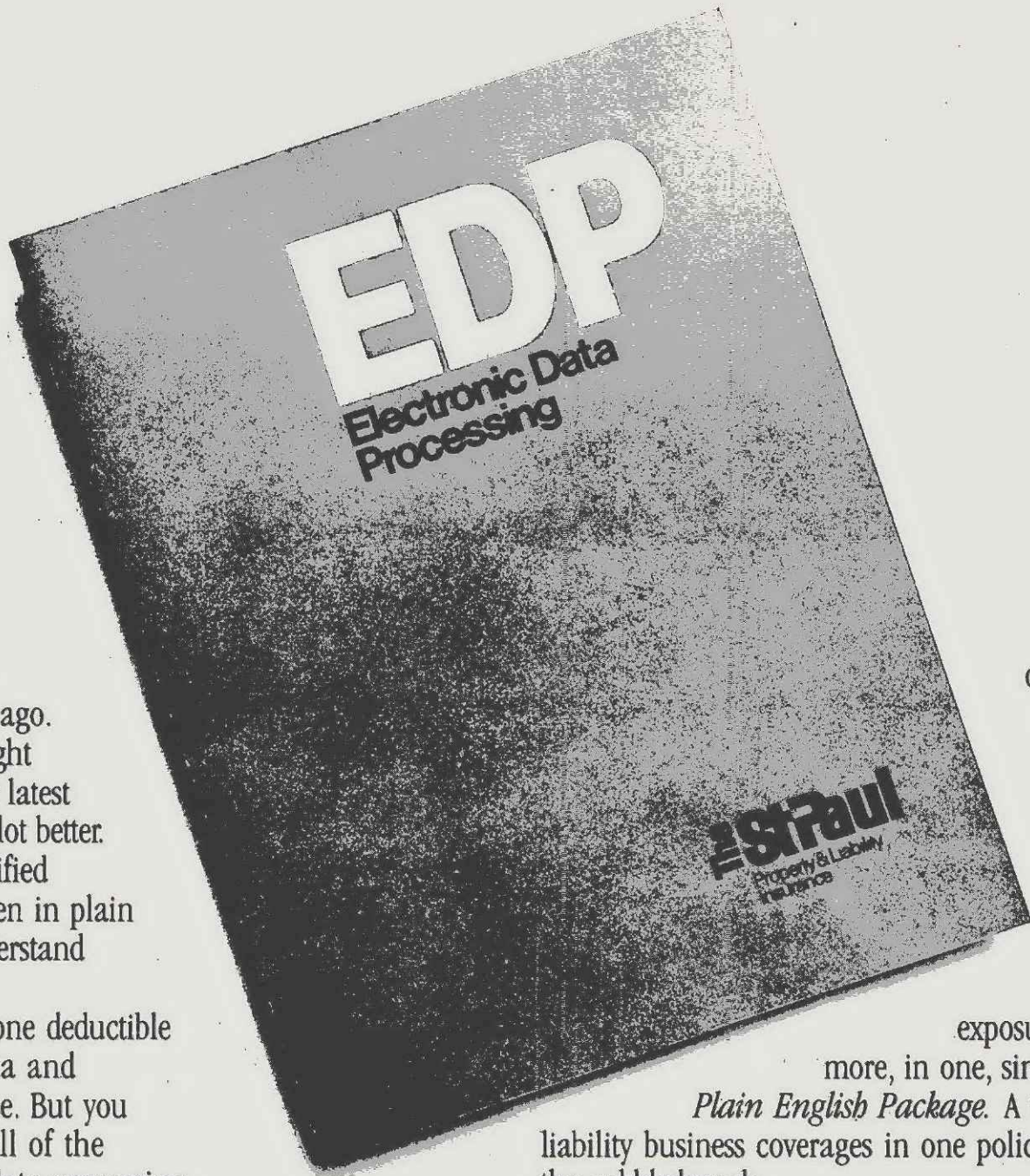


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Work comp payments swell \$1 billion: HEW

WASHINGTON—Cash and medical payments under U.S. workers compensation programs increased in 1977 by almost \$1 billion or 13%, according to the Department of Health, Education and Welfare.

The total cost to employers was estimated at \$14.03 billion, 27% more than in 1976.

The 13% increase was somewhat smaller than in 1976, but still among the larger rates of growth in the past 30 years. An estimated \$8.57 billion was paid in 1977, including \$7.05 billion in benefits under state programs and \$1.52 billion under federal programs.

The report cites wage and price inflation as the major cause of increase in benefits paid. Average

wages rose 8% in 1977, a slightly higher rate than in 1975 and 1976 and the medical component of the Consumer Price Index reached 202.4 in 1977, almost 10% higher than in 1976.

For the second year in a row, the number of employees covered by workers compensation programs increased by 2.5 million, corresponding to a similar growth in employment. A total of 71.8 million to 72.4 million workers were covered in a single month in 1977.

Benefits under workers compensation programs increased 15%, excluding the federal black lung benefits program for miners and their survivors. Payments in the black lung program, which accounted for 11% of all workers compensation payments in 1977, declined by 1%, falling to \$967 million.

Forty-six states increased maximum weekly benefits an average of 9% for temporary totally disabled workers. Thirty-nine of these resulted from laws providing automatic increases as wages rise.

Cash payments comprised about \$5.83 billion, 68% of all workers comp payments in 1977. The remaining \$2.74 billion covered medical and hospital care expenses.

The proportions of medical and cash benefits and disability and survivor benefits have remained stable throughout the years, with survivor benefits about 7% of the 1977 total. In the black lung program, however, survivor benefits have accounted for 11% to 13% of workers comp benefits since 1972.

Excluding the black lung program, private insurers paid 61% of workers compensation benefits, government funds paid 23% and self-insurers paid 16%. Private insurers' payments are reduced to 54% when black lung figures are included.

Costs in terms of aggregate payrolls jumped to \$1.71 per \$100, a 16% increase, the largest annual increase since 1940. Since 1975 the workers compensation program has cost employers nearly 2% of covered payroll.

In 1977, an estimated \$9.92 billion in premiums was paid to private insurers and \$2.81 billion was paid to the government. Self-insurers spent \$1.30 billion on benefits and administrative costs. ■

CGL covers nuclear loss

TUCSON, Ariz.—Any claims by the public against American Atomic Corp. here claiming damages from exposure to radioactive tritium released by the company will be covered by the company's comprehensive general liability insurance policy, according to a spokesman for Tucson Realty & Trust Co., brokers for the watch and sign maker.

The Atomic Energy Commission shut down operations at American Atomic after high levels of radioactivity were found in Tucson residential areas and schools.

American Atomic bought radioactive tritium from the U.S. Government for use in manufacturing glow-in-the-dark digital watches and self-illuminating signs.

"The company is not deemed a nuclear facility and it's not involved in storage of nuclear material," according to a Tucson Realty broker.

There is no deductible included in that policy and no liability claims have been filed yet. A workers compensation claim, however, has been filed. ■

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way. And those views were reflected in our excess quotes. Instead of an increase of 20%, our costs *dropped* just over 20%, giving us an actual cost more than 40% below forecast.”

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The determination of a property insurance company to adapt its skills to changing conditions could, likewise, lead it down a path where few dare to tread. To walk such a line would take a great deal of flexibility. It would take the ability to provide coverage in situations that don't lend themselves to rule-book solutions. It would take the ability to be consistent whether the market was hard or soft. It would take, no less than it would to adapt to a career at 1000 feet above the street level, a specialist.

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Manufacturer, airline to pay DC10 loss

By JOHN MAES

CHICAGO—American Airlines and McDonnell Douglas Corp. have agreed not to contest liability and will pay claims from the May 25 crash of a DC10 jetliner here, but debate persists over whether the victims' survivors will be justly compensated for the catastrophe that took 273 lives.

Lawyers for the airline and the aircraft builder, and their claims adjusters, have said they expect the claims settlement process to move along swiftly. All cases could

be settled within two years, they expect. Surviving families will be offered reasonable compensation based on a fair assessment of their losses, they say.

That view is still contested by plaintiffs attorneys handling 34 suits in the aftermath of the crash. One Chicago attorney, air crash litigation specialist John J. Kennelly, contends many of the uncontested settlements will be for a "lot less than the cases are worth," which he alleges ultimately will cause many of the surviving families difficulty in meeting their financial obliga-

tions. Mr. Kennelly has filed 23 lawsuits for victims' survivors in the case.

Attorneys for the two primary defendants told a federal judge here recently they would not contest liability but only the amount of compensation awarded by the court. In return, plaintiffs will waive their rights to claim punitive damages.

The move is important because it saves months of possible litigation on the question of liability alone and could save the defendants a

substantial amount of money, say attorneys Thomas Allen for American and Norman Barry representing McDonnell Douglas.

Claims payments, it is estimated, could reach \$150 million to \$200 million, the highest in U.S. history.

The lawyers say the move is not an admission of liability but is only a decision to not contest the plaintiffs' right to collect compensatory damages.

So far, about \$30 million has been offered to the survivors of 112 victims. The average offer has been approximately \$267,000 but that

figure is "strictly ballpark," Mr. Allen said. Six of the offers have been accepted, two or three rejected and the remainder are still pending a decision, the lawyers said.

Average offers fall far short of what Chicago-based Mr. Kennelly thinks would adequately compensate surviving families for their losses. The ill-fated Los Angeles-bound flight carried a large number of business travelers who had families and dependents at home. "Some of those families with four children that lost a father earning \$30,000 a year should get at least \$1 million," he believes.

There have been individual verdicts as high as \$5 million and several that have reached \$2 million stemming from past air crashes, he said.

Even plaintiffs who go to trial in quest of a higher award will lose in the long run because inflation will devalue the amount of any settlement over the time it takes to try the case and the inevitable appeal, he said.

In addition, the federal courts are strapped with a shortage of judges and with the precedence of criminal cases over civil ones because of the federal Speedy Trial Act, the court system is "logistically unequipped" to handle all the trials that will be demanded in the American-McDonnell Douglas case, Mr. Kennelly said.

"If you have a two-and-a-half year wait before you collect your settlement, you could be losing \$200,000," Mr. Kennelly said.

For example, cases arising from the crash of a Pan American Airways jetliner in Pago Pago, Samoa, five years ago, are still in appeals courts. Plaintiffs have collected nothing yet in those cases, he said.

In an effort to counter this problem, Mr. Kennelly has a motion pending before the court to require American and McDonnell Douglas to pay pre-judgment interest of 10% retroactive to the date of the crash on all court settlements.

Claims adjusters, however, are convinced that compensation offers are fair and that a lawsuit often will not only yield little additional return, but can cause the plaintiff to lose money.

Such was the experience of the survivors of several victims of the Tenerife air disaster in the Canary Islands which killed 583 persons in 1977, said Robert Alpert, vp for U.S. Aviation Underwriters Inc.

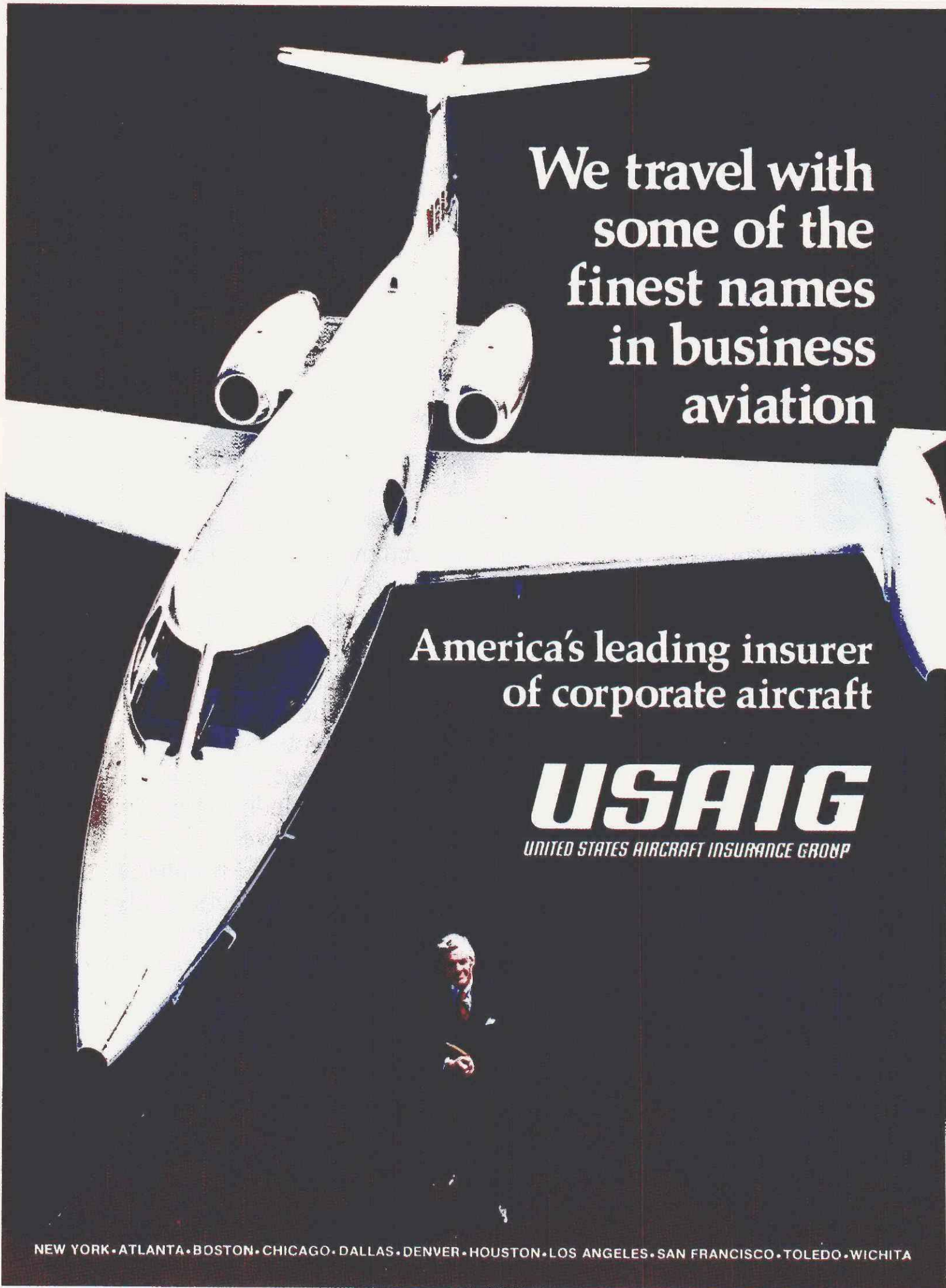
Of the eight cases involving Pan American Airways victims that went to trial after the crash, only one yielded a substantially higher judgment, \$90,000, than the \$70,000 offer made by the insurers and that person lost money when legal fees and loss of interest were calculated, he said.

One other case resulted in a higher verdict of \$60,000 as opposed to an offer of \$55,000, but four litigants lost sizable sums, said Mr. Alpert. Of the four, one claimant was offered \$80,000 but the court later awarded nothing and the matter was eventually settled for \$25,000.

In two others tried together, the court awarded a total payment of \$450,000 to claimants who were originally offered \$250,000 each. Another case ended in an \$82,000 verdict for a person who turned down a \$115,000 offer by the insurers.

The seventh and eighth suits resulted in verdicts identical to rejected offers of \$375,000 and \$200,000.

However, New York attorney Lee S. Krendler contended he was able to obtain one settlement for the life of a Dutch executive of more than \$675,000, when the original offer to survivors of victims of the KLM jet was \$58,000. The \$675,000 settlement was obtained without a trial.



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BI conference

Communications seminar to focus on creativity

CHICAGO—"Creativity in Communications" is the theme of *Business Insurance's* third annual Employee Benefit Communications Conference to be held here Dec. 3-5 at the Ritz-Carlton Hotel.

The two-and-a-half day conference, which attracts several hundred registrants from among the ranks of employee communications specialists and benefit managers, will feature the creative director of a leading advertising agency as the keynote speaker, as well as 12 other faculty members who are experts in communications, graphic design and marketing.

Keith L. Reinhard, executive vp and director of creative services for Needham, Harper & Steers Advertising Inc., will set the pace for the conference with his discussion of emotion in communications, the pulse beneath the message.

The conference will include more opportunities than in past years for participants to glean benefit communications ideas from programs used by other companies. The opening session offers an audio-visual presentation showing different kinds of approaches that have been used by employers to communicate with their workers. There will be two lunchtime screenings of communications programs submitted to *Business Insurance* this year for its annual benefit communications competition. And finally, there will be a half-day of audio-visual screenings and critiques with analysis of communications efforts used by corporations around the country.

Again this year, Herb Zeltner, a marketing communications expert and group vp of Crain Communications Inc., will lead a discussion of the effectiveness of these audio-visual efforts, with the audience participating in the evaluation and judging.

Two sets of concurrent sessions have been scheduled, with speakers addressing issues including packaging of communications, the legal ramifications of communications and generic communications (discussing issues such as HMOs, retirement planning and inflation).

The experts tackling these subjects are Judith Karam of Karam & Versch in New York; Robert Ridley, a lawyer with a Los Angeles law firm, and two consultants specializing in communications: John Kerney Jr. of Emcom Group Inc. in Newtown, Pa., and Robert J. Ellis of William M. Mercer Inc. in Hartford, Conn.

Two communications specialists with the Pension Benefit Guaranty Corp. in Washington—Audrey Cramer and Sarah Casseday—will discuss the importance of daring *not* to communicate all of the technical details often jammed into benefit information brochures and films, sometimes garbling the message.

John Connellan, founder and president of The Executive Technique, will discuss the use of benefit communications as sales tools to convince employees—the "customers"—what a good company they work for. The art of making an effective sales presentation is also the art of communicating such things as employee benefits, he believes.

An afternoon will be spent on graphic design and the vital problem of selecting a graphic ap-

proach to communications, adapting the approach to a company's size and needs and carrying out the ideas. Speakers on these topics are Peter Iversen, chief executive officer of Iversen Associates, one of the leading graphic designers in the benefit communications business; Philip Murphy and William S. Miller of the Emcom Group in Newport Beach, Calif., and Curtis Snodgrass with Towers, Perrin, Forster & Crosby in Chicago.

The cost of the conference is \$310 per person, with a 10% discount for additional registrants from the same company who register at the same time. For further information, contact Sari Lipshultz, Crain Educational Division, 740 N. Rush, Chicago, Ill. 60611; 312-649-5246. ■

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24-hour risk exec checks Nashville losses

By JOHN MAES

NASHVILLE—Even with his risk management program for the city well into its second year, Robert L. Sinclair is a risk manager on call 24 hours a day.

That's how he attacks the challenge of safety and loss control management for this city of 475,000 where new risk funding programs—including substantial self-insurance—have saved \$1.4 million since 1978.

Effective safety and loss control "ultimately will be the success or failure of the program," says the 49-year-old risk manager who works around the clock at risk management. "You just can't leave these things to chance, particularly when the law of averages says it's going to catch up with you. If you don't have loss control, sooner or later losses will kill you."

Safety programs designed to minimize liability risks include vehicle safety training, which has been completed by 3,000 of 8,000 city employees.

A uniform contract drawn up for everyone doing business or performing work for the city requires contractors be properly insured before they take on municipal business.

But he doesn't stop there. So active is Mr. Sinclair in his role that even a drive down the street or a daydream can be translated into a risk management or loss prevention project.

By keeping his ears open, Mr. Sinclair pinpointed an uninsured vehicle liability which led to a dictum by Mayor Richard Fulton that metropolitan-owned vehicles were not to be driven from the state.

Mr. Sinclair was talking casually to a city department head who mentioned he was taking an out-of-state trip. "But government tort liability doesn't protect our vehicles out of state," said Mr. Sinclair, who then brought the matter to the attention of the mayor. The ban on taking city vehicles from Tennessee will remain while Mr. Sinclair tries to obtain trip insurance at high limits. "But it's kind of hard to get," he said.

By keeping his eyes open Mr. Sinclair identified an exposure at the city motorpool repair facility where the vehicle storage lot was unfenced. "The vehicles were unguarded and wide open to theft and vandalism," he said. Unrestricted access to the area also left the city open to a liability suit if someone were hurt.

A fence has since been installed around the lot. "I can't even remember how much the fence cost," Mr. Sinclair said, but the prevention of a theft or one liability case will make the fence pay for itself, he adds.

Mr. Sinclair normally carries a notepad and hard hat in his automobile. If he spots a hazard or potential liability on any city property, he makes a note of its location and turns the information over to the proper department for corrective action.

Since losses and accidents are not always obliging of Mr. Sinclair's office schedule, the risk manager has put himself on 24-hour call. He's notified by the police of all major accidents involving municipal vehicles and he rushes to the accident scene to size up the extent of municipal liability.

"I feel like the quicker I'm on the spot, the better off we're going to be," he said. Quickly gathering information and interviewing witnesses can turn potential losses into recoveries because witnesses are more prone to change their accounts of an accident if not interviewed right away, he said.

Visiting an accident scene also can speed the claim payment process when the city is liable, he said. Once, when a city bus carrying 14 elderly persons was involved in a minor mishap, Mr. Sinclair was paying claims within 24 hours.

"It was the Thursday before Christmas and I knew these people would want money, so I got a handful of \$50 bills and went to the center where they lived with releases for them to sign," he said. "There were only minor injuries and one woman said she broke her eyeglasses. So we gave her \$50 and bought her a new pair of glasses." Only one of the 14 claims is still outstanding.

One of the beauties of the risk management program, Mr. Sinclair says, is the complete backing of

By having a fence installed around the city's vehicle storage lot, Robert L. Sinclair, risk manager of Nashville, may have prevented a theft or liability case.

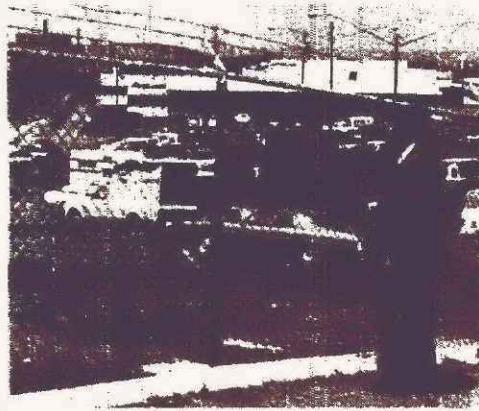


Photo: John Maes

Mr. Fulton, who is largely responsible for its being. It was Mr. Fulton, along with the Nashville metropolitan council, who acted on a consultant's report and hired Mr.

Sinclair to set up the risk management and self-insurance program in early 1977, hoping to cut inefficient spending.

Before 1977, all insurance was

purchased by a municipal purchasing agent. The consolidation of policies and self-insuring risks under Mr. Sinclair's direction has saved Nashville and surrounding Davidson County some \$1.4 million.

Although each municipal department has its own safety director as mandated by the federal Occupational Safety and Health Administration, Mr. Fulton conducts monthly meetings with department heads and Mr. Sinclair attends. Safety problems and potential liability risks, among other things, are discussed at these sessions. Mr. Sinclair is sent reports of individual committee meetings if the department head thinks there's an insurance problem the risk manager should know about.

At first, some department heads may have considered Mr. Sinclair



meddlesome in his interest in their operations, "But we just said to them, 'We're here to make your job easier, not for personal gratification or for a power grab. Now everybody appears to be thinking safety,'" Mr. Sinclair said. He frequently gets memos on even the most inconsequential of insurance matters. "I'd rather have them call and nitpick than not call at all," he noted.

The backing of the mayor's office also extends to the hard-nosed stance on paying claims. "The mayor feels that if we owe it, we should pay it, but if we don't owe it, we should fight it.

"If we're not liable, no matter how small the claim is, we'll violently fight it simply because of the precedent that would be involved," he said. "If it happens again, the next person will expect that much and the whole thing would steamroll."

The city is also hard-nosed about

collecting its claims against others. Between February and June of this year alone, the metropolitan government collected \$65,196 in claims.

When not managing insurance for Nashville, Mr. Sinclair is a consultant to the University of Tennessee municipal technical advisory service. There he is helping develop a risk management manual for small town governments that do not have insurance departments.

Another place where Mr. Sinclair may be found in his off hours is in class, as a full-time student at a local YMCA law school.

With an ARM and CPCU degree, he's spent more than 25 years in the insurance industry, with several different firms.

He wouldn't trade his \$30,000-a-year post for another shot at the private insurance sector even though the opportunity is there. "I enjoy saving the taxpayers money," he said.

Nashville skyline

Nashville, the capital of Tennessee and the home of the Grand Ole Opry, is a metropolitan area of about 475,000 persons along the historic Cumberland River.

In 1963, Nashville and surrounding Davidson County, with voter approval, made the transition to the regional city-county form of government. It was under this regional governmental umbrella that Nashville began setting up its self-insurance and risk management program in 1977.

Before 1977, municipal risks were covered under 300 policies which paid \$400,000 in commissions to 59 different agencies, five of which collected the bulk of those commissions, said risk manager Robert L. Sinclair.

Now, some \$600 million in property values are insured under one comprehensive master policy. Municipal general liability and the school system's vehicle liability are self-insured.

Approximately 8,000 metropolitan employees and seven different government agencies fall under the risk management program. Included are municipal administration and service agencies, the state fair board, the airport authority, electrical services, board of education, mass transit and metropolitan housing and development agencies.

2 agencies donate to mayor race

NASHVILLE—More than one-third of the \$56,000 campaign chest of Dan Power, the mayoral candidate who lost to incumbent Richard Fulton in city elections last month, was contributed by officials of two insurance agencies that did substantial business with the city in the days before the metropolitan self-insurance program was established.

A report of Mr. Power's campaign receipts and expenditures from Feb. 8, 1978, to July 21 of this year shows that \$20,000 of the \$56,745 contributed between those dates came from the insurance agency executives.

The largest contributor was Ira Heckman, president of Martin Hayes & Co., who donated \$11,000 in three separate payments to the Power campaign. Robert Barry, manager of property insurance for the agency, donated \$4,000. A \$5,000 contribution was made by William H. Crawford, corporate secretary for Gale Smith & Co., another local agency.

Mr. Power and the insurance executives said, however, that the self-insurance program was not an issue in the campaign and that the contributions were not designed to influence Mr. Power's attitude toward the self-insurance program, had he been elected.

Metropolitan officials say the agencies were two of the biggest suppliers of municipal insurance before Nashville set up its self-insurance and risk management program in 1978. Mr. Fulton, re-elected by a slim 10,000-vote margin, initiated the self-insurance effort by hiring Robert L. Sinclair as risk manager. Municipal officials contend the move saved \$1.4 million in the first year of operation.

City officials say the two agencies collected a total of \$100,000 in commissions yearly from municipal insurance.

Mr. Crawford said his contribution was nothing more than an expression of support for Mr. Power.

He said the city business his agency once handled was done mostly as a "public service" for little profit and his business has suffered no ill effects from losing it. "I'm really not sorry it's gone," he said.

Mr. Heckman also said "not one word was ever spoken" between himself and Mr. Power about the insurance program. He declined further comment, saying, "The election's over."

Mr. Power said he had no immediate plans to change the insurance program had he been elected because he did not know very much about it. He said he had planned to look into the cost-effectiveness of a variety of municipal operations and would have taken action only where he found fiscal inefficiency.

"If it was saving money, I would have definitely kept the program," he said.

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Clive Himsworth,
General Manager,
answers:

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Hospital liability has reached crisis proportions because of the increasing tendency toward malpractice litigation. Everywhere, insurance plans and policies are surfacing, aiming to protect hospitals from the huge losses now possible. But the problem is, the crisis developed so quickly that hospital administrators haven't had a chance to gain enough experience to evaluate insurance proposals thoroughly. It's hard to know what to look for, especially with the pressure of getting *some* form of protection together.

Everyone wonders: What *are* those standards?

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The Schinnerer Plan consists of a self-insured trust, locally administered claims management, patient safety programs and an excess insurance policy for protection against catastrophic events. It is an integrated program that can be structured to the needs of the hospital, rather than a package the hospital must accept as a whole. As a custom-made program, it saves the hospital from paying big premiums based on sharing risks and losses with dissimilar hospitals.

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It's a logical follow-through to the total program approach. The Schinnerer Plan, once designed for a particular hospital, becomes an efficiently administered, closely watched and constantly evaluated program. We provide the participating hospital with an independent overview of the system's components: the actuarial adequacy of the primary funding program; the incident reporting, patient

safety control and claims management systems; the attorneys' handling of claims defense; the trust documents and fiduciary. What's more, with Schinnerer's extensive experience and data resources, we can help build the hospital's loss prevention system with valuable information for employee education and defense of claims.

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Our excess policy provides occurrence coverage, because it is more sensitive to cash flow than claims-made coverage. With claims-made coverage, a hospital can experience a tremendous deferral of liability, since many claims are not reported during the policy period in which the occurrence took place. As a result, claims-made policy premiums do not fund fully the occurrences of the present period. So reimbursement for the unfunded liability is postponed. For a claims-made contract that's been in effect for 4 years, this unfunded liability could amount to a full year's premium!

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Lloyd's rival may seek seat on N.Y. exchange

By JOHN H. MILLER

LONDON—A Lloyd's competitor wants in on the New York Insurance Exchange if the new U.S. market attracts buyers.

"If it's going to produce business, we'll want to be there," said C.R. "Ronnie" Driver, chief executive officer of the parent company of H.S. Weavers underwriting group here.

Peter Wilson and his underwriting team at Weavers have developed strong connections in property and casualty lines on a highly competitive basis with Lloyd's syndicates.

Weavers is awaiting further details of New York's requirements for membership in the exchange

before making a decision, said Mr. Driver, chief executive officer of London United Investments. The firm's net profits from insurance and other activities rose to a record breaking sum of nearly \$4 million and it is preparing for further expansion as soon as necessary.

"We're certainly considering the possibility of membership of the New York Exchange," Mr. Driver told *Business Insurance*. "But nothing conclusive has yet been finalized, as we're still waiting for the N.Y. committee to set guidelines on many items.

"Classes of business to be handled, management fees and syndicate expenses will all have to be taken into account before any decision is made.

"If it's going to produce business we'll want to be there, for the U.S. is a world market we can't afford to ignore. But conflicting reports about the future of the New York market keep coming through to us, so we're not making any decision in a hurry," he continued.

"The REX computer system for placing reinsurance business looks particularly interesting to my mind, and talk of setting up insurance exchanges in Illinois and Florida is also being watched. I suppose Texas will want to come into the scene, and I imagine Gov. Jerry Brown in California won't want to be left out of the action. So plenty of things can happen in the U.S. insurance scene in the next two to three years in which we may be interested," Mr. Driver added.

If Gov. Brown can see the prospects of an insurance exchange working effectively in New York, U.K. sources contend there is little doubt that he will endeavor to set up something similar in California.

Just what will happen if the H.S. Weavers group comes into the New York Exchange remains to be seen. Certainly Mr. Driver feels that Lloyd's itself must now begin thinking ahead in various ways to its role in the 21st century, especially in regard to its historic stance over the maintenance of private membership, which excludes commercial syndicates under its present constitution.

Mr. Driver's group currently represents various insurance companies recently formed as wholly-owned subsidiaries of industrial corporations.

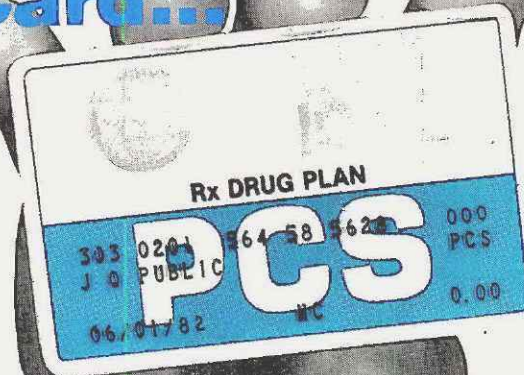
"It's fascinating to go back in one's mind to the report on the possible future of Lloyd's, which was prepared for it by the commission under Lord Cromer a few years back. This report reflected the view that Lloyd's ought to consider admitting commercial syndicates," Mr. Driver said.

"Commercial syndicates are here to stay. So I'd like to see people start exploring once again the idea of admitting such syndicates to Lloyd's."

His own group, which has been operating as an underwriting agency since 1963, now has nine companies in membership, including two which joined last year. It also expanded in the U.S. in a joint venture with Transit Casualty Insurance Co. to form the Chicago-based National Underwriting Agency Inc. This has already negotiated successful agency affiliations in Seattle, Dallas and Boston.

Most of the gross operating profit of the parent corporation, London United Investments, came from insurance interests, which contributed pretax profits of approximately \$6.6 million last year, compared with \$5.2 million in 1977, a rise of 27%. ■

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Citibank gives help with claims

By STUART EMMRICH

NEW YORK—Recognizing the boom in self-insurance might provide a lucrative source of new customers, New York's Citibank is starting to woo self-insurance administrators and their clients by offering specialized banking programs.

The administrators, the target of this first marketing campaign, are told they can improve both their accounting and service operations—and so heighten their attractiveness to potential clients—through a centralized claims payment and fund transfer service developed by the bank. Citibank claims to be the first bank to mass market such a service.

For a fee averaging about 25 cents per claim, Citibank will coordinate all the financial transactions involved in paying the claim, provide detailed accounting information and track both the administrators' and the self-insurers' claims experience each month.

SIMMS—Self-Insurance Money Management Services—is Citibank's first step into the self-insurance services field, say bank officials. They are looking at ways to adapt the program for individual self-insurers and exploring services for captives and captive management companies, says Tereze Gluck, assistant vp of the bank's insurance services department.

The SIMMS program's selling points are that claims are handled daily, administrators get daily records and self-insurers need keep on deposit just enough money to pay three days' worth of anticipated claims, as opposed to the estimated 30 to 90 days required by some administrators.

The basis of the program is a "zero balance" account opened at Citibank by the administrator. The account has no money on deposit, but provides a disbursement center for the self-insurer's funds. Each self-insurer also opens an account at Citibank with funds to pay claims for three days.

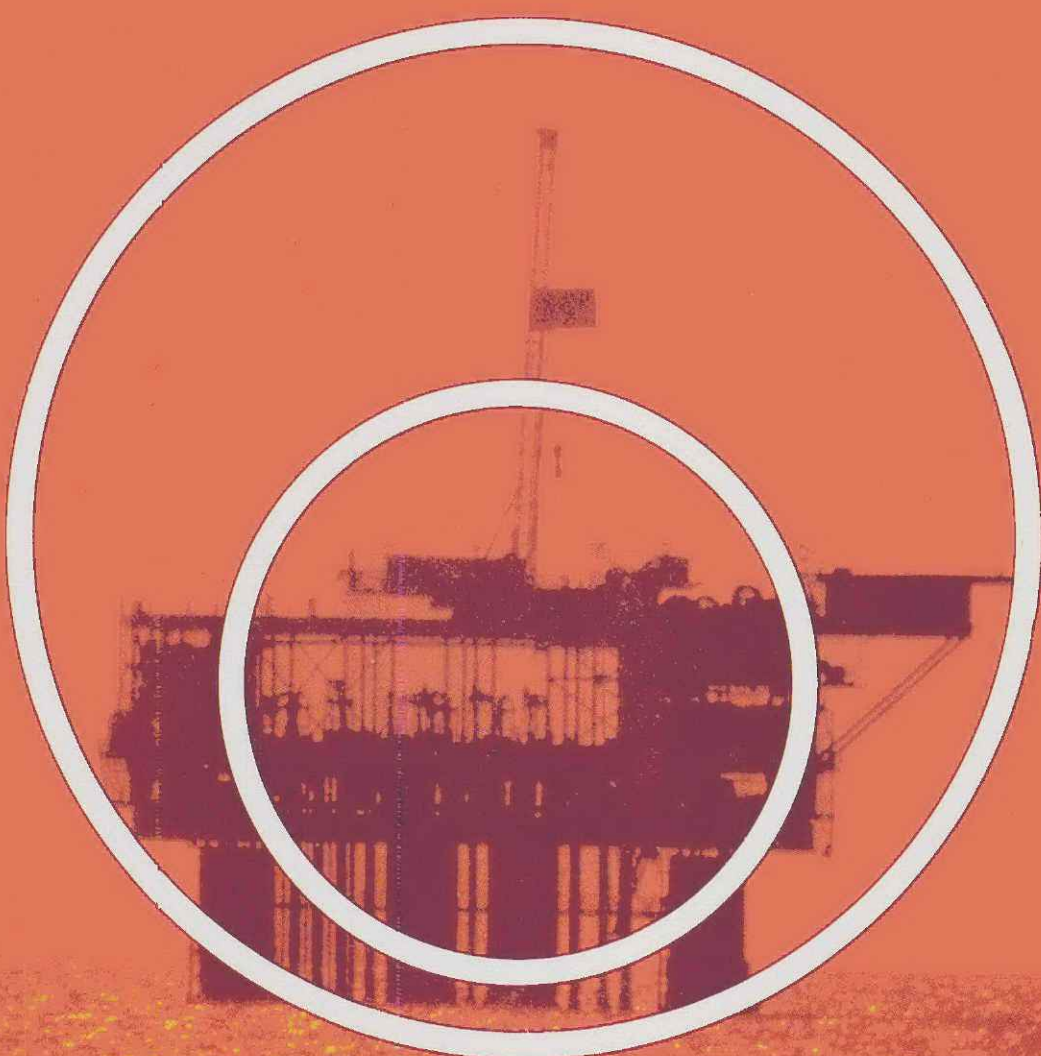
As a claim comes into the administrator's account, Citibank determines which client it should be charged to. The amount of the claim is withdrawn from the self-insurer's account, transferred to the administrator's zero balance account and then paid out. The next morning, Citibank goes to the client's home bank and has the amount of that claim transferred to the three days claims account so it is replenished.

Throughout the month, Citibank keeps track of the payments and provides records to the administrator and self-insurers. Everything is handled through a mini-computer system in the bank's insurance services office, which officials say is the key to the operation.


The SIMMS program, which was first designed in late 1976 for Connecticut General Life Insurance Co., now has two administrators as customers. Two more are expected to join by the end of the year. Citibank handles the transactions for 26 self-insurers, with that number expected to grow to 40 when two new administrators sign up.

About 60,000 checks are now written by Citibank every month under this program.

Citibank officials say they think the cost of the program is not prohibitive, pointing out the average 25 cents per claim can be recovered by the administrator from the estimated \$3 to \$6 per claim that self-insurers may be charged. ■

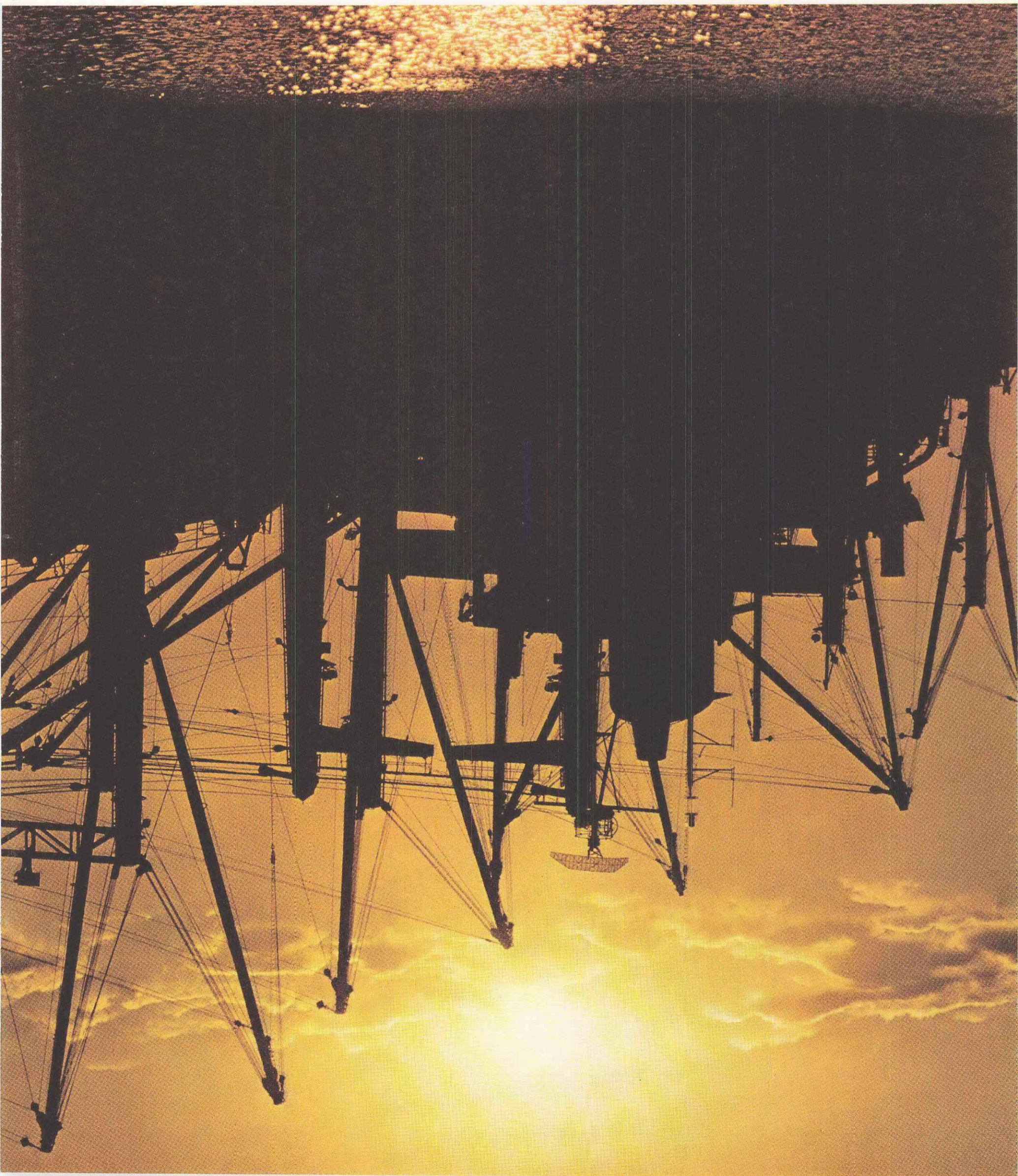


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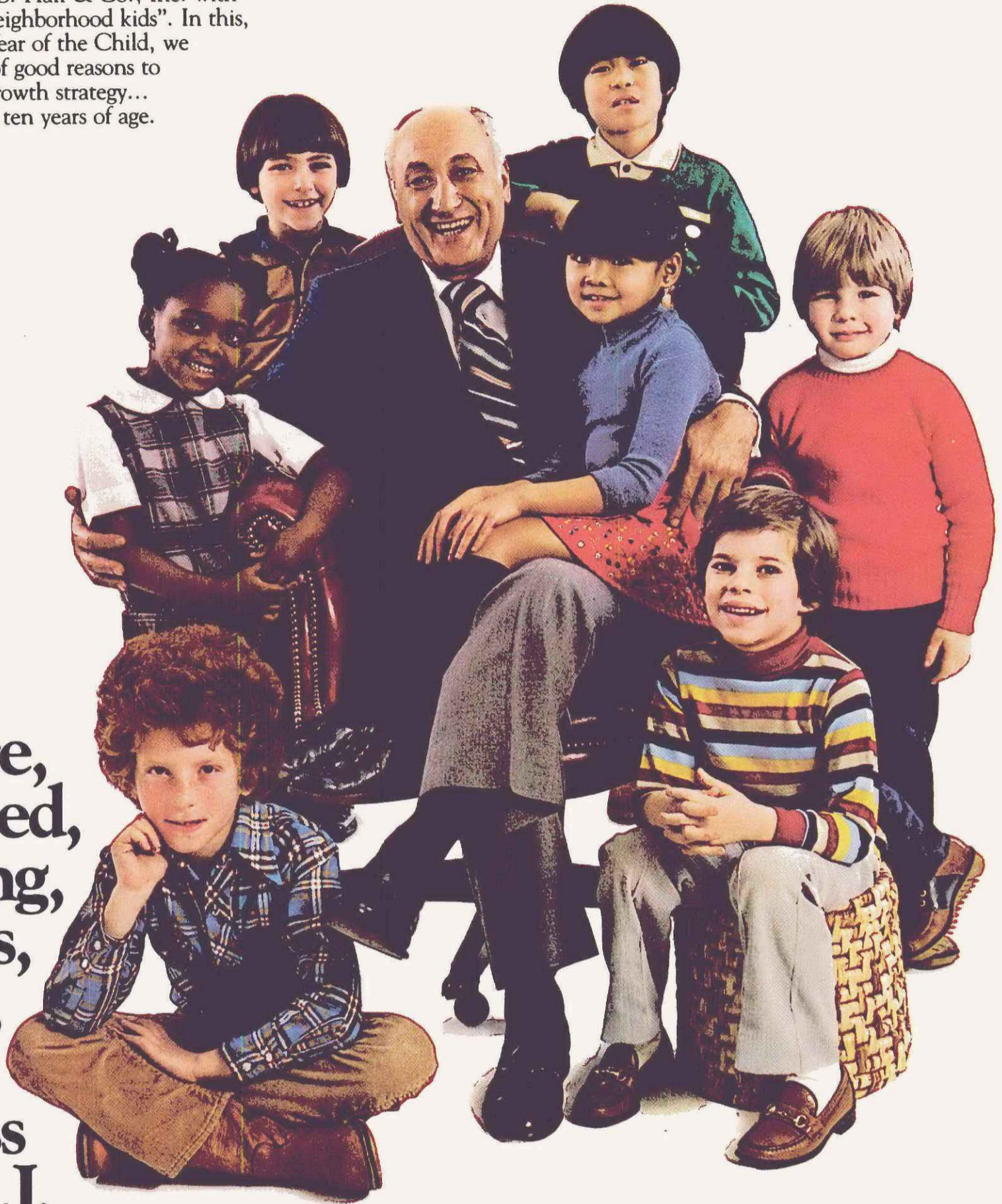
INA International, whose network of worldwide facilities is the largest of any single U.S.-based insurance company, has developed a number of operating standards that should prove of interest and benefit to agents and brokers.

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PERSPECTIVE

Costly workers comp hampered by weight of excess litigation

By Paul Merrion

Crain News Service

NOW THAT A standoff between business and labor has sent the Illinois legislature home without any serious consideration of workers compensation reform, it is time to rethink the state's situation in hopes of putting a meaningful overhaul bill before the special legislative session expected this fall.

With a 23.8% premium hike taking effect Sept. 1 on top of increases totaling an average of 65% since the legislature put injured workers' benefits in Illinois among the highest in the nation in 1975, business has the most incentive to seek a compromise to control costs.

But rather than focusing on the level of benefits, from which labor is extremely unlikely to retreat despite repeated warnings that jobs are going elsewhere, some business strategists are concentrating on administrative reforms that will both cut costs and meet labor's concern about delays in benefit payments.

Both labor and business—as well as the people of Illinois in general—stand to gain from improvements in a system that is staggering under excessive litigation.

Disputes costly

In comparison with many other states, Illinois has a much higher number of disputed claims and appeals. An injured worker in Illinois may enjoy some of the highest benefits in the country, but it is at a cost of months and sometimes years before payments are made.

The key to the problem is that Illinois has developed a system in which the Illinois Industrial Commission has neither the manpower nor the authority to act as more than a referee between lawyers for management and labor, in contrast to many states that keep litigation down by actively pursuing cases on behalf of workers.

"If I got injured in Illinois I'd go hire a good attorney before the blood was dry—it would be the only way to protect my rights," said Monroe Berkowitz, professor of economics at Rutgers University and a nationally recognized expert on workers compensation. "But I wouldn't do it in Wisconsin, where the insurance companies know someone will be on their tail."

But there is "no way I can forecast in Illinois—if I'm an insurance company—

what I should pay this guy without going to litigation," Mr. Berkowitz said.

"I wouldn't pay a goddamn penny if I were a carrier in Illinois," he continued. "What's the point of being a good guy if you have to go through all this litigation anyway?"

Statistics lacking

In contrast to states like Wisconsin and New York, which actively pursue cases as soon as an injury report is filed, the Illinois Industrial Commission piles the accident reports it receives in boxes in the corridor. "We don't do anything with it," admitted Rebecca Schneiderman, chairman of the IIC.

Furthermore, any debate over the cost of workers compensation in Illinois is practically meaningless because the IIC's antiquated record-keeping system provides no statistics other than the total number of claims. "There is no way to say whether accident awards are going up, down or staying

the same," Ms. Schneiderman said.

The IIC does not know how many cases are pending before its arbitrators and before the full commission itself; it does not have aggregate figures on what kinds of injuries are resulting in what kinds of awards and it does not even know how long it typically takes a case to get through the system, the IIC chairman said.

More importantly, especially in light of complaints from business about capricious awards, the commission does not know whether "similar cases might be treated differently," Ms. Schneiderman said.

The first step in solving the workers compensation problem, experts agree, must be to move the commission out of the green eyeshade era into the computer age.

Illinois comp report

Illinois, a state with some of the most liberal workers compensation benefits, provides an interesting subject for analyzing the reasons for increased workers compensation costs.

Crain's Chicago Business, a sister publication of *Business Insurance*, focused on the state's workers compensation system in a series of articles reprinted here. Some of the issues raised by the Crain's Chicago Business editors are being addressed by the Illinois insurance department.

In approving the latest rate hike of 23.8%, the department reminded insurers that consideration of future rate increases will include analysis of how the insurance industry and employers are trying to contain medical and administrative costs. Improved rehabilitation programs are also being encouraged.

A joint task force of the Illinois insurance department and the Illinois Industrial Commission has been appointed to develop a program for monitoring the performance of insurers, especially in claims payment standards and measures to reduce costly litigation and delays.

Gov. James R. Thompson, who has pledged administrative reforms at the IIC, budgeted a 34% increase in the agency's funding for the 1980 fiscal year which began July 1, the bulk of which would be used to establish a modern data processing system.

The legislature refused to go along, however, saying it wanted the IIC to first develop a plan for implementing the system. Ms. Schneiderman said the plan will be ready by the fall session. One hopeful sign is that a delegation of IIC staffers visited the Wisconsin system in June to see how claims are processed there.

But other reforms appear to be needed if Illinois is to get control of unnecessary workers compensation costs.

The real fault of the system may be not so much that business is paying excessively for industrial accidents, but rather that too much of the money is going to lawyers instead of injured workers.

Lawyers profit

Illinois seems to have lost track of the original idea that workers compensation is supposed to stifle litigation in return for prompt, adequate payment of legitimate claims.

Rising benefit levels have created more of an incentive for lawyers to get involved, usually for a 20% contingency fee, creating more and more disputed claims each year.

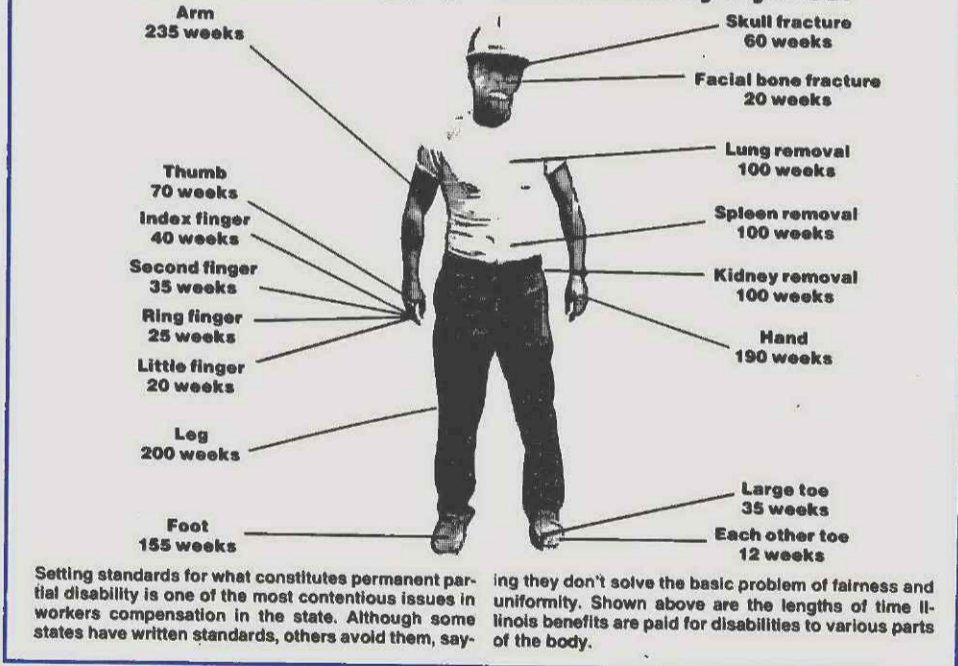
The number of disputed claims has shot up more than 77.5% since the 1975 liberalization in benefits. The IIC faced 40,000 claims in fiscal 1975, while in the first 11 months of the current fiscal year there have been 71,000 claims.

In this litigation-oriented atmosphere, dubious cases aggravate an already severe problem. An Illinois Supreme Court case in 1977 awarded additional compensation for back pains first reported 10 months after the accident. Last year the high court upheld an award to a worker who fell and fractured his skull while leaving an after-hours, company-sponsored Christmas party.

It is these kinds of abuses, more-so than the payment of legitimate claims, that are driving business up the wall.

But despite widespread warnings, there is
Continued on next page

How long Illinois pays Length of permanent partial disability payments for bodily injuries.



Court rulings make way for more claims

By B.G. Yovovich

Crain News Service

WHILE THE GENERAL Assembly failed to make substantive changes in the state's workers compensation law, several recent court cases have expanded the scope of the Illinois system.

Among the Supreme Court rulings cited by labor and management attorneys as having a major impact on how the system is administered under existing laws are:

- **Gunthorp-Warren Printing Co. vs. Industrial Commission.** This case involves a laid-off employee who was killed while picking up his paycheck. Employees at the company generally were paid the Wednesday following the end of the work week, and the decedent, who had been laid off the previous Friday, had come back to the plant to collect his paycheck. While he was on the premises, a robbery occurred and the claim-

ant was shot and killed. Since the employee had been laid off, the company contended the relationship was that of debtor/creditor rather than employer/employee, and that the claimant had no right to workers compensation.

The Industrial Commission did not accept the reasoning and was upheld by the Supreme Court, which ruled that "for purposes of workers compensation coverage, the employer-employee relationship may persist for a reasonable time after a layoff to enable the employee to collect his pay, particularly when the employer has not made it available on the final day of work."

- **Mid-Central Tool Co. vs. Industrial Commission.** This case reaffirmed that any social or recreational activity sponsored by the employer is subject to the Workmen's Compensation Act for any accidents that may occur. The company had sponsored a Christmas party for employees and their spouses. As the claimant was leaving the party and crossing the street to his car, he

slipped, fractured his skull and suffered further complications. The arbitrator denied compensation, but the Industrial Commission and circuit court reversed the ruling, and the Supreme Court affirmed the award.

Workers compensation specialists say there is no liability if the employer merely makes a contribution to an employee event, such as an employee-organized softball team or company picnic.

- **Fefferman, et al. vs. Industrial Commission.** The claimant in this case got dermatitis from working with dry cleaning solutions, and after attempting to return to her job, found she had become sensitive to any contact with bleaches and detergents.

With her doctor testifying that there were very few jobs that she could handle without risk to her health, the Industrial Commission awarded her permanent total disability.

After a reversal by the circuit court, the Supreme Court upheld the commission's award, maintaining the claimant "does not

have to be reduced to a state of total physical and mental incapability before a permanent total disability can be awarded." In particular, the court ruled it is the responsibility of the employer to show the claimant is capable of "some type of regular and continuous employment" and that "such employment is reasonably available."

Though the Industrial Commission's ruling may not have the immediate impact of the Supreme Court decisions, the commission's policies are also important.

"About 150 to 160 cases a week are decided at the commission," chairman Rebecca Schneiderman said. "That makes it hard to isolate particular cases as being important, but there have been some trends."

Ms. Schneiderman said that during her 18-month term the commission has taken a much closer look at how great the disability in a particular case actually is, has done a lot more questioning of whether the injury actually occurred on the job and has reaffirmed the principle that not every compensable injury is permanent.

PERSPECTIVE

Labor wields its clout to stop reform

By Marcia Stepanek
Crain News Service

AS ONE BUSINESS lobbyist put it, the war over workers compensation in Illinois is a five-year-old political battle that labor keeps winning through sheer legislative clout.

A top-ranking executive at Peoria-based Caterpillar Tractor Co. put it differently. 'Mark Twain had it partly wrong when he said, 'No one is safe when the legislature is in session.' It's not that no one is safe. We're the only ones who aren't safe when the Illinois legislature is in session. They've reamed us on workers compensation laws.'

The Nebraska Public Power District is attempting to capitalize on that by writing to many Illinois employers bragging that Illinois manufacturers can save up to \$66,700 per million dollars of payroll in workers comp premiums by locating in Nebraska.

Labor also boasts. Work on the \$400 million Alton Locks and Dam Project will be divided in half between members of unions from Missouri and Illinois. But union representatives have agreed Illinois labor unions will serve as hiring agencies because of more liberal workers comp and unemploy-

ment insurance benefits in this state.

For the past five years, dozens of plans to reform the state's workers comp laws—what most business leaders point to as the leading cause for Illinois's deteriorating business climate—have been offered to legislators in Springfield.

But for the past five years, most of these plans have gone nowhere.

Why? Politics, pure and simple.

Democratic comeback

If remembered at all, the 1975 legislative session is recalled as the year labor scored its biggest statehouse comeback in more than a decade—or, in the view of the employer, the year business took its toughest beating since the 1920s.

It was not an end to business. It was, rather, the start of a new era of Democratic control of the Illinois legislature.

Ever since legislation to dramatically increase workers compensation was passed during the spring of 1975—just several months after pro-labor Democrats were elected to majorities in the legislature and to the governor's chair—labor and business have been at odds over soaring workers

compensation rates.

Labor had sought benefit increases before the 1975 hikes. But Republican pro-business interests had the upper hand and proposals to increase compensation were kept off the floor. Since the Democrats have taken control, the tables have turned.

"All hell broke loose in 1975," said Leonard Day of the Illinois State Chamber of Commerce. "Prior to 1975, there was an unwritten rule that an agreed bill process—compromise legislation—was to be used to hammer out unemployment insurance and work comp legislation. All of this broke down completely in 1975 when Democrats and labor refused to engage in compromise talks."

Last spring, Republicans tried to pass several bills to cut back on some of the 1975 gains. But labor was able to flex its muscles with the help of House and Senate Labor and Commerce committees, which are controlled by Chicago Democrats and screen all workers compensation legislation.

It's the strict adherence to the wishes of labor by Democrats and the party line approach on the Republican side of the aisle that is frustrating meaningful workers compensation legislation.

Legislators disagree

For example, it wasn't uncommon for several Democratic members of the House or Senate Labor committees to request the chairman to record their party-line vote and leave the meeting room for indefinite periods of time this session.

On one occasion, the day of the annual House-Senate softball game, Chicago Sen. John D'Arco requested Chairman Samuel

Maragos of Chicago to record him "yes" on the next four bills scheduled to be heard by the committee. Mr. D'Arco, a Democrat, said he had to leave the meeting "to bone up on my pitching." When Mr. Maragos, also a Chicago Democrat, asked Mr. D'Arco to specify which four bills he meant, Mr. D'Arco replied, "You know, Sam. The ones the Democrats want."

Republican members of the committee, still smarting from an early attempt during the session by Democrats to shrink the GOP's power on committees, protested to deaf ears.

There was no agreed bill during the 1977-78 session. And because GOP Gov. James R. Thompson's revival of the agreed bill process last spring reaped nothing but impasse between labor and business representatives, there wasn't one this year.

"All we could do was agree to disagree," said workers comp panel member Thomas Nyhan, an attorney with the Chicago-based Pope, Ballard, Shephard and Fowle law firm.

As a result of that disagreement, Democrats easily were able to shelve most workers comp measures until next spring.

Next year is anybody's guess. Although Gov. Thompson's resurrection of an agreed bill process for unemployment insurance proved highly successful this year, both business and labor came out of negotiations angered by the fact workers compensation legislation was apparently dead for the session.

In the end, the politics of workers compensation in Illinois rest on one basic truth: Labor has the troops and any reform legislation, until the political lineup changes, will have to come with its blessing. ■

Administrative changes mean hope for system

By Dan Miller

TRYING TO DEVELOP solutions to Illinois' workers compensation morass is like nailing Jell-O to the wall.

As associate editor Paul Merrion lays it out in a hard-hitting analysis, it's nearly impossible to determine the extent of the problem, let alone a solution.

Unopened boxes of accident reports litter the corridors of the Illinois Industrial Commission and no records exist to show what kinds of claims are filed, how many cases are pending or what awards are made.

What it comes down to is this: Illinois doesn't have a workers comp program. Instead it has a bounty system that identifies what parts of an employee's body are worth the most money and encourages lawyers and doctors of dubious professional integrity to grab for all they can.

Consider the case of a worker who fractures his thumb. Lawyers for the company and worker each drag a doctor before the IIC arbitrator, one arguing the thumb healed perfectly, the other that the worker is crippled. The arbitrator guesses between them, setting, say a 25% permanent partial disability. He multiplies that by 70 weeks—the bounty set by state law—plus a few other computations. The lawyer takes his 20% cut of the award, the doctor gets his fee, and the worker what's left.

The weakness in this system—and the source of escalating workers comp premiums—is right at the beginning, when the arbitrator judges the extent of the injury. Different arbitrators can and do make different assessments of identical injuries, and no record exists of past awards to guide conscientious arbitrators. Needless to say, relying on the clouded judgments of doctors representing a company or injured employee is useless.

The best opportunity for reining in galloping workers comp premiums lies in administrative reforms by the IIC that don't require legislative approval.

Foremost among these should be abolishing the repugnant system of competing medical opinions on injuries. A panel of physicians acting as independent evaluators, not advocates, could eliminate some of the worst abuses in the system and assure that companies are paying and workers are receiving just compensation for injuries.

Second, the IIC should set aside its timidity and establish written standards for the amount of disability stemming from an injury. For example, loss of 40 degrees of internal rotation of the arm equals a 10% impairment. Companies and insurers could predict the size of workers comp awards, and employees wouldn't need lawyers or doctors to argue their cases.

Finally, a more aggressive stance by the IIC on advising injured workers of their rights—even a pamphlet would help—and pressuring insurance companies to pay legitimate awards before a case needs arbitration would reduce costs and the amount of time between injury and award.

So far the workers comp system has benefitted few besides a lot of lawyers and some doctors. It hasn't aided injured workers and it has harmed Illinois business. Why preserve it?



Dan Miller is editor of Crain's Chicago Business. This article originally appeared on the editorial page of CCB in the Viewpoint column.

Workers compensation . . .

Continued from previous page

no known case of a company leaving Illinois solely because of workers compensation costs. Many firms have shifted parts of their operations to the Sunbelt, but there are many other factors involved, including lower wages and a lesser degree of unionization there.

As Ray Coyne, director of the Illinois Economic and Fiscal Commission, said, "It's a total package of benefits and burdens on business" that is important. One of the things that attracts business is "a happy work force that is well-trained and productive. You might be better able to get good workers if they know they'll be taken care of" if they are injured.

Illinois seems to share problems that are endemic to many other major industrial states. While business rightly complains, for example, about the high percentage of permanent partial disability awards (35.5% of all claims in 1976, according to a study by Mr. Berkowitz), the situation is even worse in New Jersey, where 45% of the claims involved such awards.

On the other hand, Wisconsin had only 10% of such claims, which may be partially attributable to the lesser degree of industry there, but New York kept its permanent partial awards to 22.8% of all cases.

Sharp increases

Both Wisconsin and New York are known for actively pursuing cases and keeping litigation to a minimum. Harry Benkert, head of legal services for the Wisconsin workers compensation agency, estimated there are eight to 10 attorneys in the state who specialize full-time in workers compensation. That compares with at least 500 in Illinois.

As long as business concentrates on efforts to reduce the overall cost for workers compensation, which in any case is difficult to pin down, the debate between labor and management is unlikely to shift off center. It would be much more productive to concentrate on administrative reforms in order to squeeze abuses out of the system, at the same time assuring prompt payments of legitimate claims.

Figures from the National Council on Compensation, the insurance industry's

data-gathering and ratemaking agency, show that while workers compensation premiums in Illinois have more than doubled over most of the last decade, other states have seen even sharper increases.

Between 1969 and the last rate increase in 1977, average workers compensation premiums in Illinois increased 105% across all job classifications, according to the council.

Compromise fails

But several other states have seen average premiums going up much more. In Michigan, premiums have gone up 142.9%; Minnesota is up 140.5%; in Florida, reputed to have a workers compensation bar similar to Illinois, premiums are up 222.2%, although recent reforms there mandated a 15% decrease; and Pennsylvania is up 259%. Each state, however, starts from a different base.

The point is not that Illinois companies should take comfort in these statistics. Rather, the point is that success in legislating reform is more likely to come from attention to the tangible shortcomings of the Illinois system rather than a constant chorus of complaints about costs.

In several meetings during May, a labor-management committee appointed by Gov. Thompson attempted to negotiate a compromise bill that would clear the legislature.

But after management presented its proposals, "Labor indicated there was nothing to discuss," said panel member Thomas Nyhan, a Chicago attorney and executive secretary of the Illinois Self-Insurers Assn.

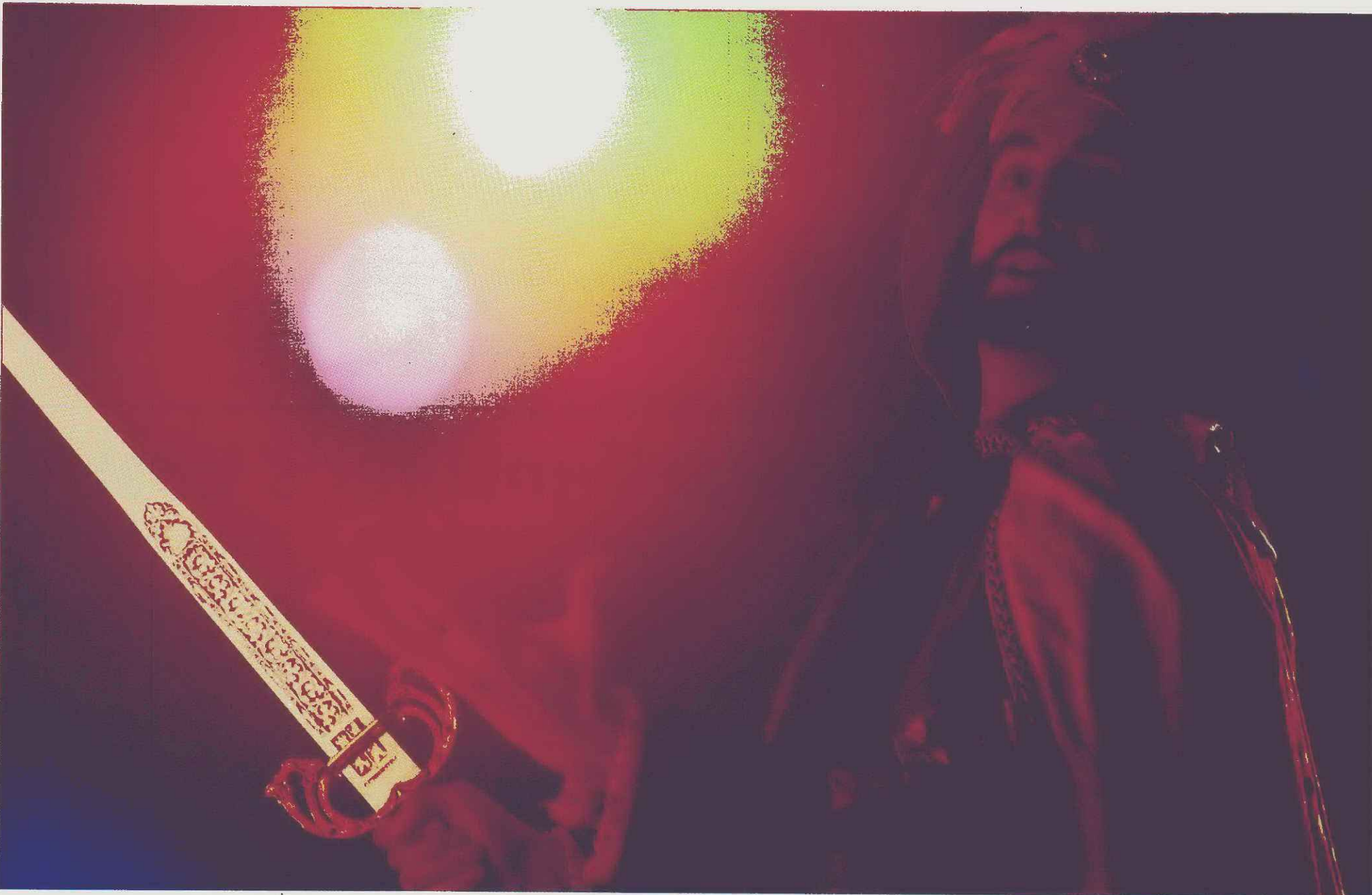
Although the committee agreed to keep the proposals secret, sources said management was generally seeking the institution of standards for evaluating disability, while labor was mainly after penalties on insurance companies for tardy payments of benefits.

Using written standards for evaluating disability would do much to tighten up procedures at the IIC, but it is an area strewn with controversy and not all states follow this practice.

Written standards would allow companies and insurers to predict the size of awards in particular accidents, and it would presumably eliminate variations in awards by dif-

Continued on page 42

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PERSPECTIVE

Workers compensation . . .

Continued from page 40

ferent arbitrators for similar injuries. For instance, a standard might state that if a person has lost 40 degrees of internal rotation of the arm, it amounts to a 10% impairment. Several states use a detailed guidebook, published by the American Medical Assn., for evaluating injuries while other states have written their own standards.

Although written standards would bring rationality to the process and help insurance companies know what kind of payments to make, "they might be less costly or more costly, depending on how they are written," said Ms. Schneiderman, who is opposed to imposing written standards on the IIC.

In the year and a half she has headed the IIC, Ms. Schneiderman has taken steps to rationalize the process and eliminate widely varying awards by different arbitrators for the same injury.

Mr. Nyhan of the Self-Insurers Assn. agreed employers are "having more success at the commission level," but he said that

standards are needed nevertheless because "even if they do (use unwritten standards for evaluating disability), the next commission still won't have any guidelines."

Wisconsin has used published standards since the 1920s, while New York issues confidential guidelines to doctors certified to handle workers compensation claims. Many other states avoid them as Illinois does. "So many things come into play; it's a question of weighing the evidence," said Robert McNevin, chairman of the Indiana Industrial Board, which has a good reputation for strong administration.

Issuing opinions

One way to bypass the standards issue would be to start requiring IIC arbitrators and the commission to issue decisions that spell out the facts of a case and the reasons for an award.

Currently, the commission writes opinions only in a few special cases. The reason

is simply a lack of manpower: "It would grind us down to a halt," Ms. Schneiderman said.

Another means of hacking away at the underbrush of litigation would be to start using physicians as independent evaluators rather than advocates in the system.

In Illinois, where employees choose their own physicians, "we get some doctors who could find spasms in a billiard ball," Mr. Nyhan said. Insurance companies usually have their own doctors evaluate injuries, and the result is that arbitrators often have to choose between widely varying medical opinions.

While many states require that the employer choose the physician—on the theory that a firm's chief goal is getting an injured worker back on the job as soon as possible—one state administrator noted that it is "a bone of contention with labor."

While it is unlikely that labor in Illinois would stand for a change in that kind of system, a possible compromise might be modeled on the New York Workers Compensation Board, which employs 52 full-time doctors to advise its arbitrators. The claimant still has the right to choose his own physician from a list of those who have signed an agreement to use the New York guidelines for evaluating disability and to submit hon-

est reports.

Many other administrative reforms are possible, and a formal study of other states' industrial commissions probably would produce a number of good ideas.

Improvement possible

Missouri, for example, has nine full-time attorneys to provide free legal advice to injured workers, a practice going back to 1947. Last year, out of 147,000 injury reports filed with the state, arbitrators heard 30,000 claims and only 137 cases went to a full hearing before the Missouri workers compensation board. In Illinois last year, about 8%—or nearly 5,000—of the 62,000 claims were appealed to the IIC, Ms. Schneiderman said.

There are doubtless many other ways in which the administration of the IIC can be improved, given the backing of business and labor for the necessary funding and reform of its statutory authority. Until then, it will continue to be like every other system that is top-heavy with litigation.

It is, as a Wisconsin workers compensation official put it, a system in which "every infected hangnail has its value, while the person with a serious disability ends up getting screwed."

book reviews

Claims data cuts self-insurer's cost

By John Maes

Containing Health Benefit Costs: The Self-Insurance Option
By Dr. Richard H. Egdahl and
Diana Chapman Walsh
Springer-Verlag—181 pp.

THE TREND for corporations to self-insure employe benefit plans stops only slightly short of a mad rush.

Trying to counteract health care costs, some companies have been astonished to find self-insurance cut their costs by 10%, 15% and 20%. These stories of success with self-insurance have prompted many other firms to look into self-insuring in hopes of achieving the same savings.

But companies are confronted with questions as they examine the merits and pitfalls of self-funding. What types of plans are possible? What effect would the imposition of national health insurance have on self-insured programs? How do other plans work? What legal issues could arise?

These questions and others are answered objectively and thoroughly in "Containing Health Benefit Costs: The Self-Insurance Option," a book that anyone considering self-insuring a benefit plan could benefit from reading.

Edited by Richard H. Egdahl, M.D., and Diana Chapman Walsh, both of the Boston University Center for Industry and Health Care, the book is the sixth in a series of vol-

umes on industry and health.

The first part of the 180-page volume presents the editors' analysis sprinkled with comments from industry and health care experts on the issues surrounding the self-insurance of benefits as an alternative to conventional insurance plans.

The second part is a collection of essays by corporate benefit managers whose firms have self-administered and self-funded benefit plans and adopted innovative cost-control methods.

Various views on self-insurance and an action plan on how corporations can intervene in the health care problem are also included.

National health plan

Early on the book addresses the issue of national health insurance and the possible effects on self-funding. "The prospect of some form of a national health insurance plan certainly clouds the carriers' crystal ball, but also that of corporate financial and risk managers who wonder whether it is worth their time and effort to restructure the financing of the private health benefit plan that may shortly be discontinued or profoundly altered," according to the editors.

The complete spectrum of mechanisms for funding employe health plans is cited, from conventional full insurance to minimum premiums plans, self-funding with administrative services contracts and stop-loss

coverage to full self-funding and self-administration. The authors assert there is evidence of movement away from the "conventional funding arrangements" to one of the alternative forms.

There is increasing interest among self-insurers in using claims data to help control costs; the problem is how.

Using the classic tip-of-the-iceberg analogy, the editors suggest there is a wealth of potential cost-saving data below the surface of claims figures. The trick is in finding the right data to tell where there is misuse and inefficiency in a plan and where corrective measures should be taken.

Deere & Co. has been self-insuring and self-administering its employe health benefits for the past eight years and reports an overall success. Short of providing the actual figures, the company says, "The savings which have accrued to the company since 1971 via the avoidance of premium taxes and the interest credits on reserves have in themselves been very significant and have proven the decision to go self-insurance to have been correct."

The Deere & Co. essay is interesting in one other respect. The company relates how it directly intervened in the health care system by setting up a corporate health care department to plan and develop cost control measures and check overutilization.

Polaroid Corp. has assumed as much risk as "economically feasible" in employe benefits and has set up a benefits committee to

administer retirement, death, disability and medical claims.

A self-insurer for health and retirement benefits since 1947, the United Mine Workers of America maintains an automated claims review system. Under the system, the union can detect unusual service charges for medical care and doctors operating out of their areas of expertise.

Action plan

But, the system faces cutbacks under a 1978 contract agreement with the major mining companies, even though it has cut the cost per beneficiary to an average \$360 in 1977 compared with \$551 in 1976.

The final two sections of the book are particularly worthy of study because they lay out an "action plan" for determining which insurance options would deliver the biggest payoff to the corporation.

Companies should analyze several kinds of data: costs, population, plan utilization and resources, it's recommended. Cash flow management must be studied and the overall desirability of self-insurance must be weighed, it's suggested. Just bidding an insurance policy could produce savings, the authors note.

A firm should be aware of the legal issues involved so that any self-insurance package doesn't conflict with ERISA or anti-trust law, the authors caution, pointing out the pitfalls.

Hospitals fuel cost inflation: Professor

By Donald E.L. Johnson

The Economic Foundations of National Health Policy
By Allan S. Detsky, MD, PhD
Ballinger, 256 pp.

HARVARD'S PROFESSOR Martin Feldstein recently won the hearts of hospital industry leaders with his spirited denunciation of the Carter Administration's cost containment legislation. But, one of his former students says his economic model for hospitals is sadly lacking, because it focuses on the demand for healthcare and ignores all other factors.

In an important new book, *The Economic Foundations of National Health Policy*, Allan S. Detsky, MD, PhD (Ballinger, Cambridge, Mass., \$20) explains the causes of hospital inefficiency and attributes hospital cost inflation to expanding supplies of doctors, hospital beds and new technology.

The problem of physician shortages in rural areas, he says, can't be solved by offering cash incentives or fancy medical education loans. What's needed is an increase in the

proportion of medical students with rural backgrounds and a change in medical school role models, who are mostly researchers and specialists.

During his studies at Harvard Medical School, where he also taught medical economics, Dr. Detsky participated in Prof. Feldstein's healthcare economics seminars. In his March appearance before Sen. Kennedy's hearings on proposed cost containment legislation (his testimony was excerpted in the April 12 Wall Street Journal), Prof. Feldstein declared, "The primary reason for the increasing demand for expensive care has been the growth of insurance."

Models criticized

Dr. Detsky agrees that the growth of health insurance programs, which virtually insulate consumers from healthcare costs, are important and have been an important cause of hospital cost inflation. And he agrees with Prof. Feldstein's proposal that employer-paid health insurance premiums should be treated, at least in part, as taxable income. Dr. Detsky is critical, however, of

Prof. Feldstein's economic model of the hospital. "... because its description of the hospital operation is so simplified that it is not useful as an instrument for understanding how to intervene on the supply side to decrease hospital inflation. The model does not adequately deal with the issues of quality, of control of hospital production, of the physician's role and of the interaction between the third party payers and the hospital. As a result, the paper leaves the impression that the way to handle the problem of hospital cost inflation is to roll back insurance coverage."

The author is also critical of several other economic models of the hospital that are based on the quantity and quality of services produced. He dismisses a profit maximization model of Karen Davis, PhD, now assistant secretary of HEW, because nonprofit institutions' profits don't accrue to groups of individuals. Thus, "one has a difficult time understanding why profits are pursued." In another model, economists Pauly and Redisch assume physicians control the hospital operations and seek to maximize their net income.

Moratorium advocate

Dr. Detsky's basic assumption is that healthcare is a merit good, especially when a life is in jeopardy. Similarly, he recognizes that, "The public places a great deal of trust and confidence in the physician and expects that the physician will act not as a profit or income maximizer and not as an agent for society as a whole (which is tax averse), but rather as an advocate for doing everything possible for the welfare of each individual patient."

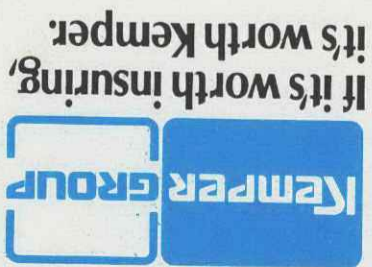
His key conclusion and the theme of his book, however, is that the increasing supply of physicians and medical facilities and equipment are causing hospital costs to soar, or, "supply creates its own demand." Therefore, while Dr. Detsky, who is now a resident in internal medicine at Massachusetts General Hospital in Boston, has little hope that proposed federal hospital cost controls or national health insurance will contain costs, he is a strong advocate of a moratorium on new hospital construction and regulation of innovations in medical technology.

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Risk exec must set staff goals: Report

LOS ANGELES—Risk managers should carve a niche in the corporate hierarchy by aggressively redefining their authority and clarifying their responsibilities, suggests Felix Kloman in the latest issue of Risk Management Reports. The profession should also concentrate on building a solid administrative framework, which is often lacking, Mr. Kloman says.

The report describes what Mr. Kloman considers the "cornerstones of a sound and effective risk management function."

It stresses the importance of establishing both a commitment to and understanding of risk management by possibly skeptical senior management as an essential first step to success. Then there should be a clearly defined risk management structure affording sufficient responsibility and authority.

The risk manager is also advised to draw up explicit long term goals and annually set short term objectives. These can be used to measure achievement, the report suggests.

Fluid, two-way communication with all other executive levels is seen as the lifeblood of healthy risk management.

A written statement of risk management policy can be a great help in showing the board of directors that the "new boy" in the corporation is much more than an obscure clerk who shuffles insurance policies all day, the report counsels. But the definition of the new discipline can be especially delicate because it transcends traditional organizational divisions, the report notes. Some executives resent what they see as a brash newcomer

meddling with their fiefdoms.

Should the risk manager handle employee benefit funding or leave it to the employee relations department? How much should the risk manager be involved in implementing programs that could cause friction because they require other departments to change their plans or budgets? Mr. Kloman doesn't answer these questions, but throws them out for the readers' consideration.

And there's the question of where the risk manager should report in the organization. Mr. Kloman favors finance or treasury not only because of the risk manager's purchasing and funding roles but also because this route will allow the risk manager more opportunities to create reward and penalty incentives for risk control.

Mr. Kloman also advises the risk

manager to tread carefully in unraveling the staff and line functions of the job and in working with all the other branches of the organization.

The report points out that risk managers will have to follow the general trend of management toward decentralization over the next 10 years. Spreading the risk management message over such an evolving corporate structure could be helped by establishing properly led committees or selecting "unit risk managers" within each of the scattered operating units.

Mr. Kloman portrays communication as one of the weakest areas of administration, with senior executives scratching their heads over the requirements of risk management programs or complaining that an insurance strategy is being

inflicted rather than administered.

The risk manager is urged to be a good listener so he can learn the problems and requirements of other managers and consider them in his/her programs.

The effective communicator also should make full use of the risk management annual report, supplemented by periodic reports as required by experience and events. The risk management manual, interviews with other managers and inspections of their departments, cost allocations and external communications, especially with the press, are also helpful.

Mr. Kloman regards the absence of a risk management manual as unforgivable. The manual should be brief yet tell other managers everything they wanted to know or didn't think of asking about risk management.

Other corporate executives often criticize management centers for the perceived failure to allocate costs equitably. Computer-backed cost allocations reflecting a consensus on problems and priorities "can be one of the most effective communication tools" by building in loss-limitation incentives.

Mr. Kloman advises proper budgeting so division managers don't get hit with retrospective adjustments and revisions after they have drawn up their own budgets.

For evaluating the risk manager on the job, Mr. Kloman prefers a mix of three approaches: measurement against a set of guiding principles; use of a management-by-objectives plan, and the more quantitative, cost-of-risk auditing by which combined loss and insurance costs are compared against some base line.

His guiding principles revolve around the essential elements of risk management: exposure identification, risk evaluation, control and financing, together with the administrative framework.

In using management by objective, the goals against which to measure performance should be specific and clear, he says. Discussing the aims of departments and the individuals working within them should cut across divisional barriers and be meshed into the organization's overall objectives.

What kind of professional fits the bill? Mr. Kloman opts for a good communicator and effective manager of people who knows what makes the organization tick and what it is seeking to do.

The risk manager may well need a broad insurance background or experience with loss prevention engineering and safety systems, but because the management element is being increasingly emphasized, Mr. Kloman welcomes the trend of more MBA graduates coming into the field.

Risk Management Reports is published by *Business Insurance*. ■

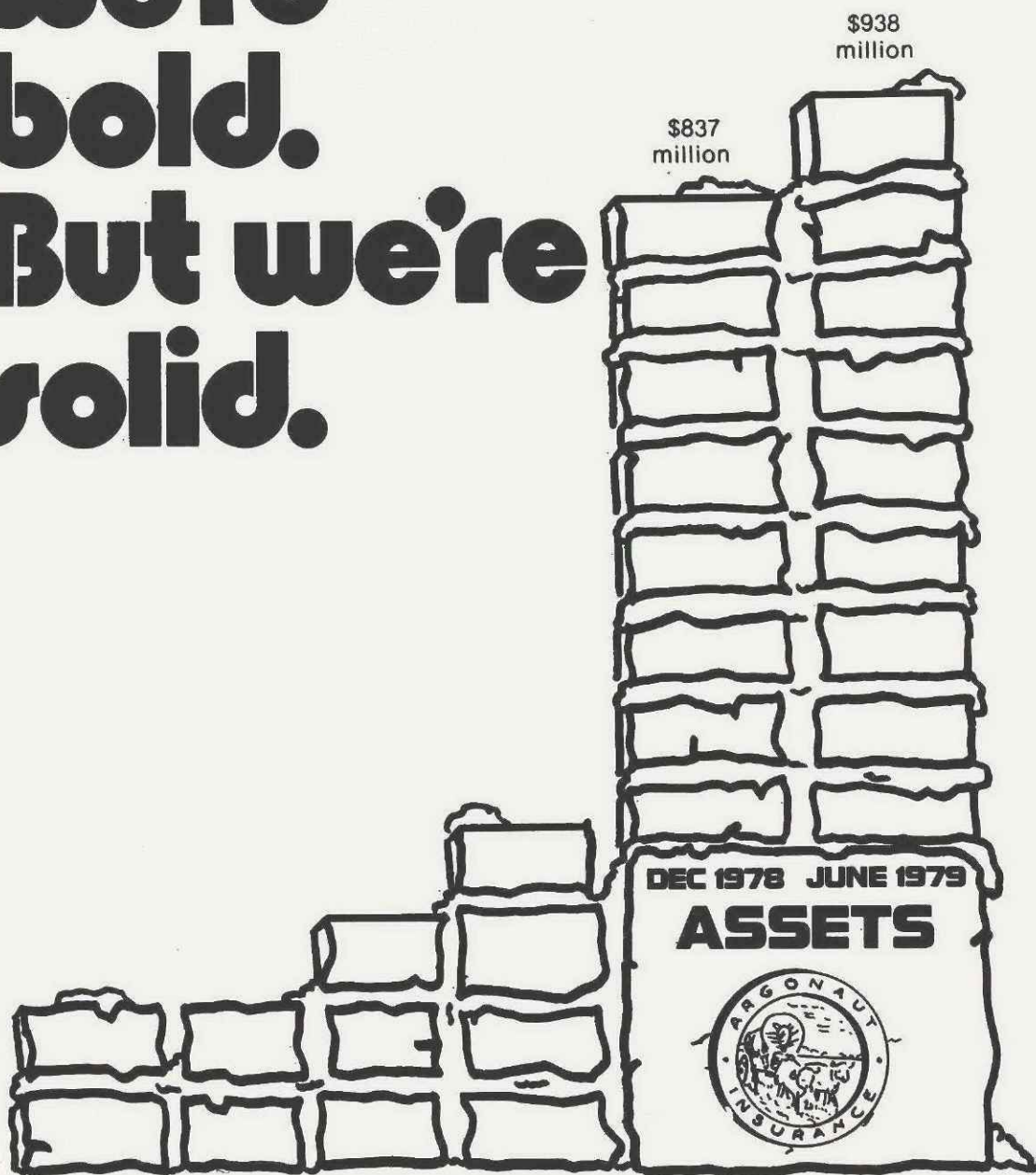
New publication about liability

SAN RAFAEL, Calif.—The increasing number of nationally significant decisions dealing with the liability of insurance carriers, agents and brokers in "bad faith" situations and related fields has led to the birth of a new legal periodical here.

Insurance Liability Reporter will deal comprehensively with "bad faith" and related areas such as conflicts of interest, fiduciary relationships, problems resulting from advice to policyholders, the duty to defend and approval of policy applications.

Insurance Liability Reporter will be produced by the staff of Professional Liability Reporter and will be published 10 times a year. Professional Liability Reporter will limit its coverage of insurance matters to cases directly involving professional liability policies. ■

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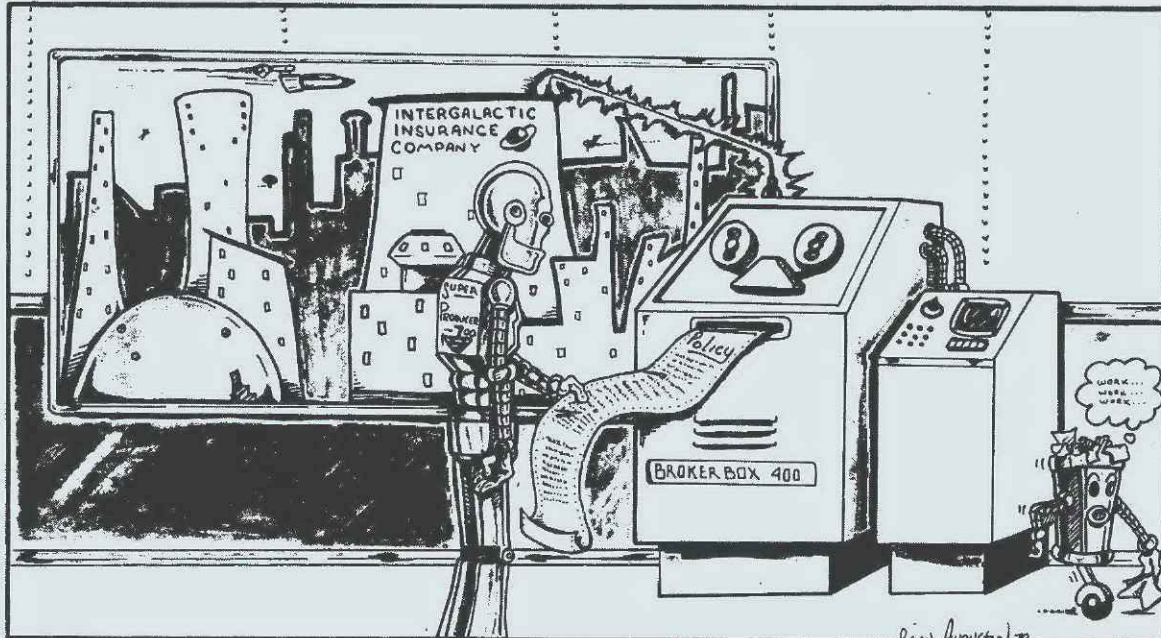
agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

Delphi foretells less agents...

By LEN STRAZEWSKI

CLOSER ENCOUNTERS OF 2004



said. "Second, there was agreement expressed that insurers would cease to allow an agent-producer to represent a large number of carriers."

Captive trend

The panel expected a strong trend to a captive agency system, with producers representing only one or two insurers who may return the commitment with market guarantees or priority placement.

It is possible, individual panelists say, that insurers may put themselves in the front lines of sales and go around agents for some kinds of business.

"Insurers will develop more marketing systems and these systems will be competitive within a single company," one panelist noted.

A colleague on the panel seconded his analysis. "I do anticipate fewer agency companies and increase in direct writing by the present agency companies. For large volume lines, this may become nearly exclusive," he explained.

The panel did not agree, however, that a new surge of direct writing by companies or captive agents would push independent agents out of the insurance sales scene.

"While I may agree that there will
Continued on next page

TALLAHASSEE, Fla.—Don't expect robot salesmen in the year 2004, but do expect fewer and larger agencies, fewer and larger insurers and more pressure to maintain a high business volume.

Spurred by this Florida Assn. of Insurance Agents forecast of the insurance industry in the 21st century, producer organizations around the country are diving into long-range planning with heightened interest.

The FAIA Delphi study, which tapped the expertise of 43 panelists from the insurance industry, government and press, indicated the agency way of selling commercial insurance will survive the end of the century but will change radically.

"Based on both qualitative and quantitative responses, there is a strong belief on the part of the panel that the system currently known as the American agency system will undergo relatively substantial modification during the next 25 years," said the recently published study.

Fewer independents

"First, the panelists expressed a very strong generalized perception that the number of independent agents would decline. These were clear indications that the independent agent is considered to be an expensive approach to marketing insurance and that a part of the decline in the number of independent agents would be a result of their inability to control expenses related to sales service and overhead."

Pressured by inflation to expand business and meet expenses, producers will be put under the gun by insurers looking to increase business, according to the study. Insurers may even create new kinds of sales competition for the traditional brokers and agents.

Delphi panelists anticipated "desire on the part of the insurers to control to a much greater extent than currently, their marketing outlets..." in at least two ways.

"First, there was a strong consensus expressed that insurers will seek to control producers by reducing to a considerable extent the numbers of agencies associated with a given insurer," the report

pressured by inflation to expand

control to a much greater extent than currently, their marketing outlets..." in at least two ways.

... more computerized sales

LINCOLNSHIRE, Ill.—The agency of the future will let computers handle most personal lines and small commercial package plans, but will tap experts to handle big commercial risks.

A good, medium size commercial agency also will have to solve loss control, risk management and self-insurance problems, provide claims service for self-insuring clients and still keep a close esprit de corps among employees.

These predictions were brainstormed by Webb Follin, Corroon & Black vice chairman, and Warren Levy, a director of the Florida Assn. of Insurance Agents Delphi study, at a forum here of Chartered Property and Casualty Underwriters Assn.

Their goal was to create from scratch the efficient agency of the future.

"We should start with a small personal lines operation, both mass merchandising and directly selling," Mr. Levy said, "and we need a small commercial lines operation—computerized."

Mr. Levy predicted a separate service profit center would be needed to process claims for the booming number of self-insurers and a consulting operation that "has no sales, just experts available for a fee.

"We best look to the expertise to

compete with the alphabet houses, because I expect they will be competing with us," he said. "We should gear up to see what we can do with bigger risks."

Shared expertise

One way of achieving big broker expertise is "to look to find colleagues willing to found a marketing co-op to share markets and expertise," Mr. Levy said. "We might be able to score some employee benefits through the national network."

Mr. Follin echoed Mr. Levy's plan, noting that he'd "also like a little benefits. And maybe we should get into some insurance related areas like broad loss control, rehabilitation and loss control engineering." He agreed to plans for an adjusting and inspection division.

The final 10-year plan for the imaginary agency would include a prospects profile, "some thought about where you'd like to live" and people requirements, Mr. Follin noted.

In personal lines, the agency would require a computer and operator who likes detail work to support the salesman.

"In mass marketing, we could use people who like handling large accounts," Mr. Follin said. "In

commercial lines we need someone who knows about small businesses. We could also use some bright people as consultants or hook into one of those franchise deals.

"I like the idea of life and benefits, so we need to get someone for that, too," he explained.

Small commercial lines would be handled mostly through package plans, the partners agreed, and would require some special expertise "because we won't be talking to people with a lot of sophistication in that area."

Commercial packages would handle risks of up to \$25,000 in premiums with forms and rates on the computer, much the way direct writers are beginning to sell commercial policies now, the partners noted.

Separate divisions

"In dealing with large risks, we will be making a home for the true professional, a producer who can handle risks of \$300,000 in premiums and up," Mr. Follin said.

Claims management, however,

would be covered by a separate division and maybe a separately incorporated company, Mr. Follin said, to "maintain a separate esprit de corps. We cannot let anyone feel like they are the small end of the thing. Life and benefits producers should work alongside the property/casualty boys, but not reporting to each other.

"They should be separate, even though companies like to sell both."

Capital needs for the agency of the future were calculated on a
Continued on next page

INSIDE

Plan job training for efficiency

Required training and planned motivation can ease the problems of being big and efficient, according to Allstate manpower manager Ray Normann. **Page 44D.**

Soft sell wins complex accounts

Hard sell monologues lose to Socratic style when producers pitch to sophisticated insurance buyers, says Ryan Agency group sales trainer Lester T. Shapiro. **Page 44E.**

Score profits on workers comp

Workers comp, a neglected line, can be made profitable with a little effort and education, say brokers who have found the secret. **Page 44K.**



Lester T. Shapiro

Delphi foretells . . .

Continued from previous page . . . be a greater use of 'company to insured' operations and that there will be a substantial increase in group insurance, I do feel that there is a resurgence in the desire of people to deal with a small store rather than a faceless supermarket or discount store," one panelist argued.

"The independent agent and small producer will benefit from the side effects of that, if I am correct. Also, it is possible that companies now not utilizing the independent agency system will begin to open new outlets for independent agents."

More competition

More competition could come from outside the insurance industry, according to the Delphi study, notably from the government and financial institutions. State and federal government are expected to play a greater role as an insurer (BI, July 9) perhaps taking as much as 20% of the insurance market, according to the study.

Government involvement is likely to be heavily rooted in personal lines, through national health insurance, disaster and personal property insurance and may provide some benefit to producers as an additional product.

The study cited the Insurance Corp. of British Columbia, a Canadian government sponsored insurer that markets through licensed producers for a flat fee. The fee, however, is small and the insurer deals almost exclusively in personal lines.

The possibility of banks and bank-holding companies entering the property/liability scene also was cited by several panelists, but

few panelists actually expected banks to be serious competition for agents and brokers in the next 25 years.

Neutral panel responses, indicating a split among individual panelists, reveal additional predictions about the changing roles of agents and brokers.

Sales, for example, may be a declining function of the producer and service may become paramount as direct billing becomes more widespread.

"A moderate number of panel members apparently believe that other factors are at work that will cause a producer of 25 years hence to develop a character essentially that of a service-oriented entity," the report noted.

"This group pointed out that many of the buyers of insurance will be purchasers of group and association coverage. A significant part of the insurance market would be served directly from insurer to customer and the producer service person will be involved with a small group of clients in an intensive manner," the report stated.

Negative response

Interpreting individual responses, the report stated that "it is clear . . . there will be a substantial shift toward sales and services of commercial lines and, to a lesser extent, toward a broader range of financial services."

An FAIA follow-up study of agent attitudes indicates independent agents may be unwilling to accept the role cast for them by Delphi panelists.

Randomly selected Florida and Arkansas agency principals were asked whether they would be willing to trade some of their tradi-

tional independence in placing insurance for various market guarantees from insurers. Arkansas and Florida were sampled because direct writer competition has emphasized a need for "stronger competitive efforts," according to the follow-up report, and therefore changes are likely soon.

Agents were most interested in actively seeking new business in return for a guarantee, explained Warren Levy, one of the FAIA directors of the study. The principals were least interested in representing the company exclusively.

The Florida and Arkansas agents vehemently, but not completely, supported the idea of minimum

volume guarantees in return for market promises, a commitment to more automation and a willingness to accept some direct billing while representing fewer insurers.

The agents strongly vetoed lower commissions and exclusive agent status in return for market guarantees from an insurer.

Most of the unacceptable trades were forecast by Delphi panelists.

Lack of trust between agents and insurers may account for the negative response, Mr. Levy noted. "Agents and companies suspect each other's motives. They're fearful, for instance, that the other will fail to keep promises made or seek profit at the other's expense." ■

New risks will figure in future: Panelists

TALLAHASSEE, Fla.—New kinds of risks, better ways of recording losses and social changes also may need analysis to complete the picture of the future of the insurance business in 2004, noted some of the Delphi panelists.

"I strongly feel that new and emerging risks produced by modern technology will be a dominant factor," one panelist said. "These risks include jumbo risks (nuclear plants, jumbo jets, supertankers), long-term cancers, cumulative trauma, hazardous materials, pollution and others. Right now I think we are just seeing the tip of the iceberg. . . asbestos workers in World War II are just getting cancer. Maybe this is the reason that others in the group did not raise this point."

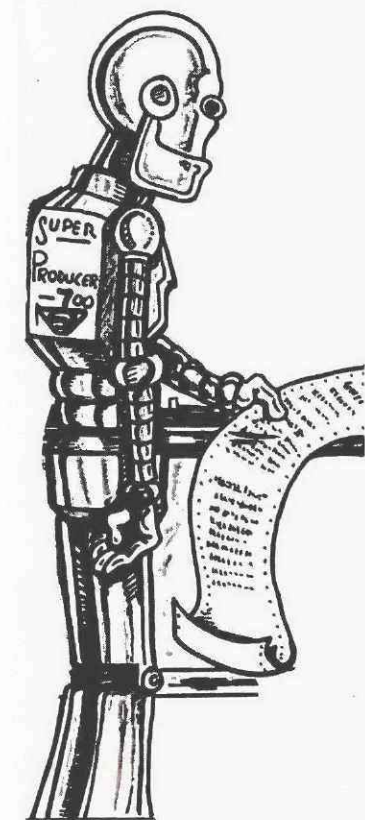
Losses preoccupied another panelist. "Very little attention has flowed toward losses," he said. "I think it inevitable that much more concern will then apply to who is

exhausting the pool of funds for any major coverage.

"On the average, businesses will be larger and the capacity of computers enormous. It seems obvious that this configuration, coupled with inflationary pressures, will produce a dossier system of some kind of recording losses by business and individuals on some lines. If not used for future entitlement to continued coverage, this record will almost certainly be used in arriving at rating."

One panelist lamented the study's lack of social analysis relating to future business and culture.

"Did we ever talk about morality? Lawlessness? National pride? Worker productivity? The status of families? The role of church in society? Ethics? Professionalism? If more and more insurance is inescapably interlinked with social concerns, shouldn't we be very nervous about what is happening?" he asked. ■



Agents are unhappy: survey

STEVENS POINT, Wis.—Relationships between insurance companies and independent agents in Texas have deteriorated over the past few years, but could be improved through better communications and increased confidence, according to a survey commissioned by an insurance company. The survey was commissioned by Sentry Insurance of Stevens Point, Wis., and conducted in March by McBain Research Inc., an international research firm.

By a 58 to 41 margin, independent agents in Texas agreed relations between carriers and agents have deteriorated. However, 46% believe the problem can be remedied.

John W. Joanis, president of Sentry Insurance, said that "according to the agent, the carriers have been guilty of 'dehumanizing' the insurance business over the years. Carriers must establish a mechanism for listening to and reacting to agents' needs."

The study revealed that:

- 88% of the agents are concerned about the amount of office paperwork.

- 78% worry about the ability to get documentation quickly, such as policies, from insurers.

- 73% worry about recruiting qualified people at the staff and clerical levels.

- 65% registered concern over proposals to repeal the McCarran-Ferguson Act and the antitrust immunity it grants the insurance industry.

Regarding the amount of paperwork, 48% of the respondents favored insurers sending computerized bills directly to the client and 46% favored insurers sending computerized bills to the agent for forwarding to the client. A standardized application form for all insurers found favor with 95%.

Respondents agreed the solution to the problem of delays in documentation is to upgrade personnel in the insurance companies.

The low status of staff and clerical positions was cited by some agents as contributing to the recruitment problem. Other agents suggested establishing intensive insurance career preparation courses in public schools. ■

Computerized sales . . .

Continued from previous page 10-year growth plan. In the first year, the agency would seek \$500,000 in commissions. By the end of five years, the partners planned for \$3.5 million to \$4 million in premiums. At the end of 10 years, the agency should be worth a full \$1 million in revenues.

Incorporating the firm would offer tax benefits and limit individuals' errors and omissions exposure, Mr. Levy said. The company would sell a small amount of stock to get capital.

"We ought to look at what we can expect to make out of this," Mr. Follin told the forum. "I think our goal ought to be 25% of that \$500,000 as free bonus the first year."

Division of labor

For employees, Mr. Follin recommended a conservative salary but a liberal incentive plan. About 15 employees would be needed, including three—"the producers, two principals and one other male."

"Then we would have about 12

female support staff because we can pay them less," he said.

The blueprint for the hypothetical agency was presented to two hypothetical boardmembers, Robert J. Gallagher Sr., president of Arthur J. Gallagher & Co. of Rolling Meadows, Ill., and Virginia Cummings, commercial lines product director for CNA Insurance Co. in Chicago.

People problem

Mr. Gallagher opposed plans for personal lines, mass merchandising and consulting divisions, calling brokering "a pure professional job. You can't mix consulting with brokering."

"People is the next most important problem," he said, noting that his own firm will need more than 4,000 employees after the 1980s.

"Once you have qualified people, don't be too quick to give them part of the ownership," Mr. Gallagher cautioned. "That is a mistake we made with our own firm. We had some very bright young producers who were rewarded for their efforts with parts of the business and



Incorporating an agency would offer tax benefits and limit individuals' errors and omissions exposure, says Warren Levy of the Florida Assn. of Insurance Agents.

now at 34 or 35 they feel like they have nowhere to go."

Healthy bonus plans using cash rewards would better maintain producer incentive, he suggested.

Continuing education

Ms. Cummings, the only woman on the panel, immediately asked for the remaining male job in the agency, expressing displeasure at the traditional sexual division of insurance agency labor. She also

pushed for life insurance sales separate from the commercial and casualty insurance marketing.

Continuing education would be an agency requirement, at least one course a year, concluded Mr. Follin, and community involvement "through scouting, the Salvation Army, whatever," would be important and necessary for any planned agency.

"And I won't put up with people who don't want to work," he said. ■

Expenses grew faster than income, IIAA says

SYRACUSE, N.Y.—Though New York state agents generated more income in 1977 than 1975, expenses grew faster than revenues, according to a new study by the Independent Insurance Agents Assn. of New York.

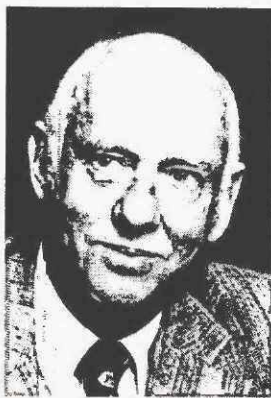
Salaries and benefits for agency employees showed a large increase, said John LaValle, IIAANY assistant executive vp, but remuneration of agency principals grew slower than revenues.

"It is apparent," explained Robert J. Taylor, remuneration com-

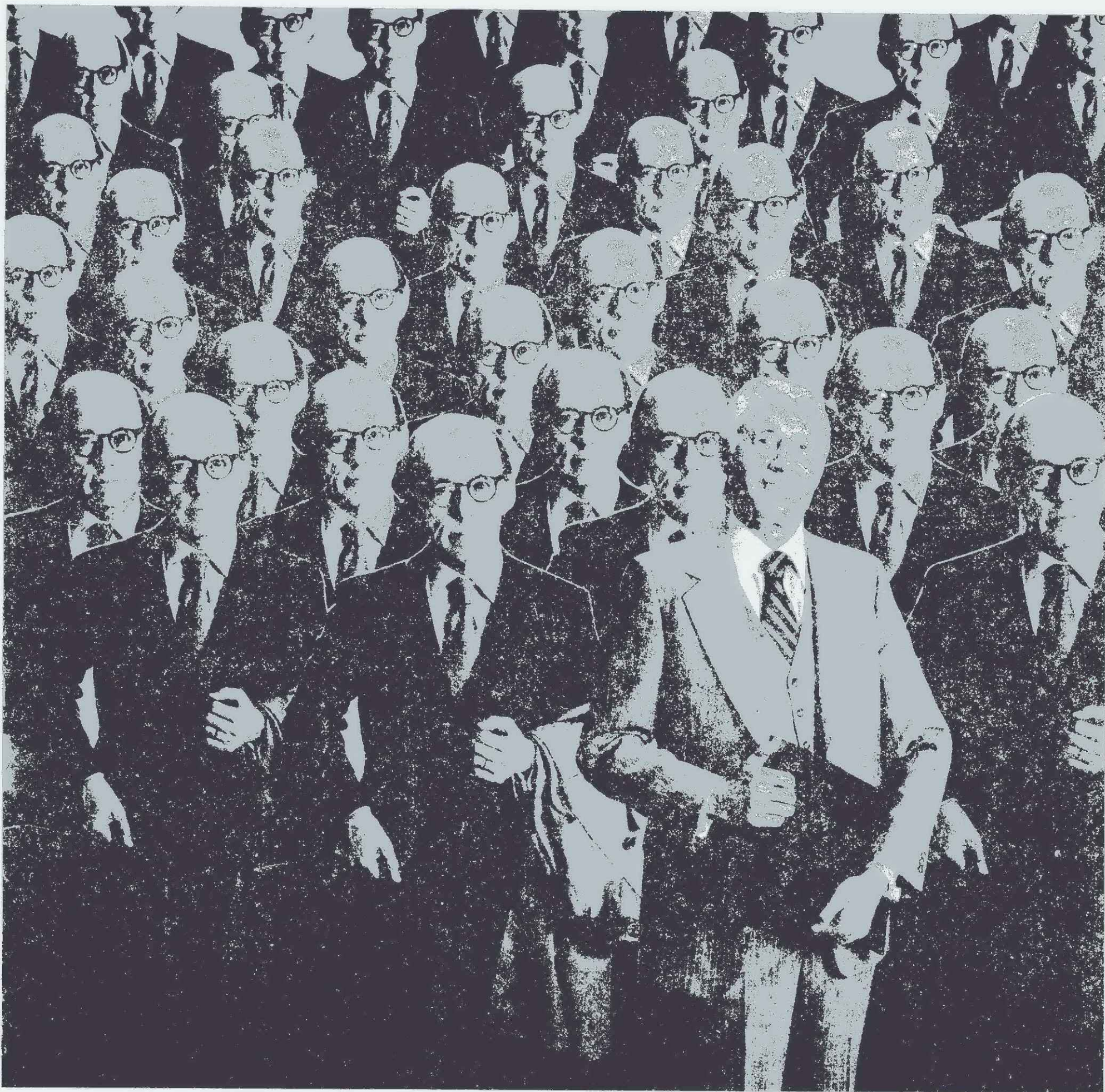
mittee chairman, "that agency principals passed on a greater percentage of the increase in agency income to their employees than they retained for themselves."

The study also revealed 48% of the surveyed agencies' revenues came from personal lines, 39% from commercial lines, 4% from life, accident and health plans and 9% from other sources.

The survey, to be released later this month, polled 415 state agents and selected 40 from that group for the final sample, taking 2½ years. ■



About 15 employees would be needed in a future agency, including three producers and "about 12 female support staff because we can pay them less," said Webb Follin of C&B.

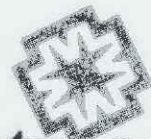


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Training beats efficiency blues: Direct writer

NORTHBROOK, Ill.—Commercial agents fear competition from direct writers, but they admit respecting the speed and efficiency of the direct writing system.

Personnel management and training requirements help boost efficiency, says Ray Normann, commercial manpower development manager at Allstate Insurance Co.

But there are many stumbling blocks to productivity that have to be avoided, he says, including insufficient training, lack of motivation and plain boredom.

"Education levels are increasing," Mr. Normann noted, "and people who have a good education want to use it or make better use of it. If not, they get demotivated."

Unlike small local brokers who usually have more work than personnel, Allstate has a large centra-

lized and specialized staff. The organization can produce a "factory syndrome," a feeling among employees of being just another cog in the machinery, Mr. Normann says.

As brokers continue to grow, they may experience the same problem in the future.

Intensified training and selective job placement help beat the blues, he explained. Allstate places employees in jobs not only on the basis of talent, but also on an evaluation of an employee's education, experience and ability to perform with additional training.

"Some kind of training is required for all Allstate employees, from basic typing for clerks to management training for potential managers," Mr. Normann said. As the firm expands commercial lines sales, specific training in commer-

A/BT

cial insurance has been a requirement for many employees.

"Proper training of an employee needs some analysis," he said. "The goal is to fill the gap between an employee's performance level, how he should be doing on his job and his talent level. To do this right we try to make his training as specific as possible and make our line supervisors more aware of training needs."

Training plans also must cope with contemporary changes in the insurance work force: more minorities, women and permanent part-time employees.

"Permanent part-time employees are definitely the wave of the fu-

ture," Mr. Normann remarked. "The new retirement laws which virtually eliminate mandatory retirement have created a problem. We are getting many older folks as well as women who want to work regular half-days or parts of a day during the week."

To accommodate part-timers, Allstate had to redesign jobs so the work could be completed or continued smoothly through an employee's work period. In some departments, two part-timers have to be trained to do one job to keep work flowing throughout the day.

Many required traditional jobs are just too boring for modern workers and women especially find it difficult to get fired up and motivated for being a secretary or clerk. The office "gal" who types letters and makes coffee is becom-

ing an anachronism in many large firms.

"Some of the boring jobs have gone to computers, but many other boring jobs that people don't want are still around and need doing," Mr. Normann noted. "No one wants to be a secretary."

The answer may be to automate as many dull jobs as possible and enlarge and enrich the remaining work to challenge employees, he says. But managers hold back progress.

"There's still an attitude problem among managers everywhere," he explained, "because managers in general have been so task oriented, not people oriented. So a good personnel manager must change the focus of managing and get supervisors and executives more aware of the potentials of their employees. You have to train the executives to ask themselves, 'How do I tap that resource that is my assistant?'"

Automation, however, is not the savior; it creates its own problems, Mr. Normann observed. People have to be trained to operate the machines and then get better at handling machines. Courses in improving keypunch speed are requirements in most heavily computerized firms.

If staff training and motivation problems aren't difficult enough problems for growing agencies to handle, managers and future managers are also presenting new personnel planning problems.

"Simply, some people do not want to be managers or supervisors. We have to learn to deal with new breed values and acknowledge that some people value leisure and the good life over job and career. They just don't see any payoff from being chairman of the board," Mr. Normann said.

Experience with quality personnel who have no drive to be boss led Allstate to develop alternate career paths for employees based on training programs that can lead to either supervisory and management positions or technical careers that demand complete expertise.

Rewards for continuing education likewise can bolster the motivation of employees, he said.

In spite of good planning and enlightened personnel management, motivating the work force of the future is no easy task. It may be just plain impossible to force motivation at all, Mr. Normann said.

"Frankly, I cannot motivate anyone but myself, but I can provide the atmosphere to motivate yourself. I can discuss with employees what they want and then work with them to get what they want and motivate themselves. Whips and bucks just don't work anymore. It really takes some personal counseling."

What a boss can do, Mr. Normann says is be aware of his employees' needs and changes in values. He can be aware of conflict between corporate and personal goals and manage the conflict so it's out in the open and settled.

"You've got to get the garbage out. You don't want to hurt egos, but you do want to be honest and build a relationship with your staff," he explained.

In any big operation, however, the threat of factory syndrome still looms strongly as the result of specialization. Without a feeling of sharing and teamwork, an employee can feel abandoned.

"The best answer to that is the unit manager," Mr. Normann said. "He may not be able to put positions together to create a team, but he may be able to create the feeling of a team—some smallness with the bigness. The trouble is that most people are promoted up to manager and still must learn people skills to make this happen." ■

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Hard sell loses out: Agency sales trainer

CHICAGO—The growing sophistication of insurance buyers is making salesmanship a necessity, but the hard sell won't win clients, says Patrick Ryan, president of Ryan Services Corp. here.

Growing competition from the large sales staffs of direct writers and jumbo brokers also heightens the competition and allows the insurance buyer to be more choosy about whom he does business with.

Personality and the ability to inquire and communicate are joining knowledge as producer sales keys, he says.

"The more informed the buyer, the more he demands from the seller," Mr. Ryan explained. "And in the future it will take a well-trained and articulate salesman to communicate a sophisticated program to a sophisticated buyer."

Ryan Service Group acquired four commercial agencies last year and has started two of them on the firm's sales training program originally designed to train sellers of credit life and auto insurance.

The personal lines sales skills are needed in commercial selling, Mr. Ryan said, because "the ability to sell one's self is critical to a client. It is important for an account executive to establish some consistency in his role."

Ryan's commercial agencies in Chicago—Youngberg-Carlson, a general commercial lines house, and Scarborough Agency, a banking specialist—have picked up several commercial accounts "from firms who have experienced revolving account executives," and wanted to move the business to a more stable operation, he said.

The secret is producers who are more than "students of insurance," but also communicators with the ability to convince clients of the coverage they need and the quality of the insurer.

Instead of teaching producers to overpower buyers with a hard sell monologue, the Ryan sales training teaches sellers how to ask questions, says Lester T. Shapiro, assistant director of the training program.

"Most people are familiar with a conventional autocratic monologue kind of selling, what people call the hard sell. What we do is reverse the communication to show that we are concerned about what the customer needs. A good salesman must know what questions to ask."

The goal is to get the client involved in his own buying and "critical to this is being a good listener," Mr. Shapiro explained. "Of course, the producer must have a depth of knowledge, but to be truly successful he must be able to present his information in a way a client can easily understand."

The commercial selling program should take about six months, with the producer graduating to working with an experienced account executive on existing accounts at that time.

Ryan teaches product knowledge first, giving salesmen the depth to ask the right questions. In training Scarborough personnel, the job was simple. Scarborough producers only deal with a limited package plan for banks. Training account executives for Youngberg-Carlson will take extra time as the firm works out an efficient general commercial lines class, Mr. Ryan said.

After building technical know-how, the Ryan system moves into sales technique, stressing presentation skills and using video and audio cassette recorders.

"Talking about something is not nearly as effective as doing it. So we use a variety of role-playing

A/B/T systems

techniques and have trainees make presentations, playing roles as salesman and client," Mr. Shapiro explained. "We try to keep presentations short and almost always record them for discussion."

Criticism is a problem. Salesmen don't usually take it well, said Mr. Shapiro, so the instructor must work hard at creating a "non-threatening environment."

"The only time when a student is not directly involved in participation is when he is making the presentation," Mr. Shapiro noted. "We use a lot of self-evaluation, too, so that people often find themselves critiquing their own work on vi-

deotape."

Instructors, like the salesmen, are trained to ask students questions, being careful to quiz them on what they have done well in addition to what they need to do better. Skills taught range from answering insurance questions to the most basic communications skills, including how to completely answer questions and how to talk to everyone in a committee.

"It's the fundamental communications skills that people most often are missing," Mr. Ryan remarked. "For example, we had a trainee do a fine presentation with just one flaw: he spent the whole time talking directly to the number one man on a committee, ignoring the rest. You never know when one person will take offense and kill the deal."

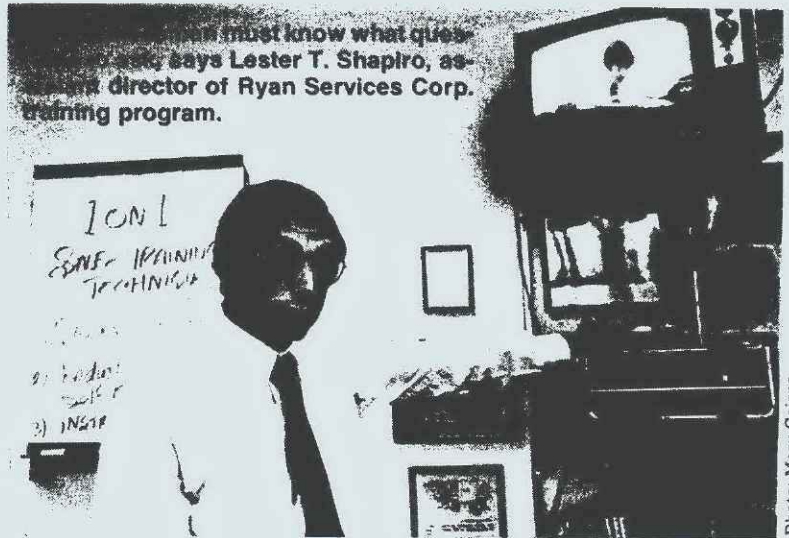


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Grass roots politics reap rewards for agents

By Roger L. Duerksen

THE INSURANCE INDUSTRY, from agents in the most rural of America's small towns to glass and steel corporate headquarters in urban financial centers, is affected daily by the regulatory enthusiasm of politicians and government agencies.

Any realistic look at the insurance industry's future cannot ignore the reality that increasingly rigorous regulation of its activity by both politicians and bureaucrats will be a fact of life. To fail to respond aggressively and with foresight is to fail to protect this industry's future.

The best defense against government encroachment into the free enterprise of the insurance business is a good political offense. The public policy

Roger L. Duerksen is a political consultant based in Sacramento, Calif. He organized the Independent Insurance Agents Assn. of California's political group that helped override Gov. Brown's veto of a bill prohibiting bank holding firms to sell insurance.

articulated by politicians as they enact laws to govern the insurance industry has been influenced with varying degrees of success by politically active insurance agents and brokers. Now is an opportune time for a review of past political practices and an assessment of new political resources that may be utilized on behalf of an industry known for its innovation and creativity.

Current industry programs to influence the activities of legislatures rely principally on professional legislative advocates. Although this method has proven its worth and should not be abandoned, it's instructive to look at the effectiveness of the



grass roots legislative strategies employed in recent years, mostly by non-traditional "cause" groups such as environmentalists and nuclear power foes. Although these groups rely on confrontation tactics atypical of most business people, they nonetheless have shown the political influence that can be wielded by a small number of coordinated vocal constituents in key legislative districts.

The success of California insurance agents in obtaining a permanent law against bank holding company intrusion into the sale of insurance offers a current case study. This success was largely because of a strategy that aggressively deployed trained agents to enlist their own legislators' support in a carefully coordinated program complementing the work of their legislative advocate.

The California agents faced staggering odds. The state's four largest banks, among them some of the largest in the world, had as many as seven lobbyists working against the agents' bill. The agents had one legislative advocate.

After the agents' bill was passed by the legislature, Gov. Jerry Brown vetoed it at the request of the banks. A legislative override of his veto was needed, requiring a two-thirds vote in each House. Before the agents' bill, there had been only three governor's vetoes overridden in California in 30 years.

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There is little question, then, that the grass roots of the insurance business—its retailers—potentially form the most effective political resource on the contemporary American business-political scene. Insurance industry leaders will need to make a serious commitment of time, energy and money to be able to affect the way their industry is governed in the future.

This is not, however, to suggest that such an endeavor should supplant existing traditional lobbying programs. Rather, it should become a forceful corroboration from every legislator's home district.

Any program to develop grass roots involvement should contain at least four key elements if it is to be effective:

- Participants should be organized by their home addresses into units consistent with the political subdivisions of the officeholders targeted. If members of the lower house of a state legislature are the focus, then participants should be organized into units based on the house's districts.

- Extensive training should be provided in the process of influencing a legislator's thinking. Special attention should be given to the very different dynamics that operate between a legislator and his constituent and those that operate between a lobbyist and a legislator.

- A means of coordinating this network of skilled and well informed participants must be developed so legislators can be appropriately contacted about their positions on industry issues. Local agents and brokers who will be contacting the legislator should be told why an issue is viewed as it is by any given legislator.

- "Grass-roots" participants must be supported and recognized for their efforts. Regular opportunities to utilize, but not overwork, their new knowledge and skills should be designed into the program.

An additional political resource that can both enhance and be enhanced by such a program is a political action committee or similar campaign contribution plan. When the contribution guidelines for a PAC are coordinated with a grass roots program, mutual benefits can be realized, such as heightened political visibility for local agents and brokers and their increased willingness to contribute to the fund.

Political activism may have been a luxury in the past, but it is now a necessity—and part of being in the insurance business. ■

Computerized policies arrive in '81: ISO

NEW YORK—Brokers can expect immediate policy turnaround, instant rate adjustment and readable policies from the Insurance Services Office—and sooner than 2004.

Pipe dreams? Not so, says ISO executive vp Fred Marcon. Change for the better is already in the works, he says, and the first major signs should appear in 1981.

"By 1981, we are committed to having all of our state offices on line with our New York computer for all property insurance rates," he explained. "We already have nearly all U.S. property rating information stored in New York. With that information available to our offices, we should be able to guarantee more prompt turnaround, accurate rate data and instant rate adjustment."

ISO has a reputation among brokers for being inaccessible to producers, slow to update coverage forms and rates and for unintelligible policy forms.

"I am the first person to admit that we have dropped the ball on many occasions," Mr. Marcon said. "We definitely did not handle well our shop owners form and punitive damages plans."

ISO's shop owners form is virtually neglected by brokers.

Perhaps most embarrassing for ISO recently was the fiasco in the last two years over punitive damages. After arguing for a clear exclusion of punitive damages in liability insurance policies and filing comprehensive general liability forms with the exclusion around the country, ISO was forced by a consumer revolt and some regulator opposition to kill the exclusion.

But a more informed and responsive era is coming, Mr. Marcon said, supported by increased feedback from producers to balance the orders issued by insurers who own and operate the rating bureau.

"To the extent that we implement a program, brush off our trousers and walk away from it, we are wrong," Mr. Marcon said. "Sure, we are responsible to our insurers to create the best available product, but if it doesn't stand the test of the marketplace, we have failed."

In the beginning, policies were thrown into the marketplace to sink or swim on the strength of internal analysis, but new policies are now being reviewed by producer liaison committees, an innovation only two years old.

The committee, however, came under fire at a recent Chartered Property and Casualty Underwriters Assn. forum where agents charged that ISO was not really interested in what the marketers had to say.

"ISO cannot do its job in a vacuum," Mr. Marcon said, "and we are trying to encourage more producer input. But we are just now putting flesh on the bones of the program."

Though producers' opinions have been solicited, some agents charge that they receive information and sample forms too late to analyze them properly.

The program, in its beginning stages, "has had a tendency to create hard feelings," Mr. Marcon admits, "but it is incumbent upon ISO to recognize the need for this input and encourage it."

C&B subsidiary

Corroon & Black of St. Louis, a new subsidiary of Corroon & Black Corp., has opened offices at 7701 Clayton Rd., St. Louis. The property and casualty insurance brokerage firm will be managed by Timothy J. Davis, president, and Thomas P. Danis and Christopher R. Reither, executive vps.

A/BT

More meetings will be needed as ISO continues its complete review and simplification of policies, a project in response to a legislative and consumer mandate, Mr. Marcon said.

The review should help update coverage and put policies into English rather than "traditional wording that requires an agent to explain the policy to the consumer," he said. Some projects may take years.

Work on updating the comprehensive general liability form, for example, is not expected to be complete until 1984 and the producer liaison committee has al-

ready met four times on that issue alone, Mr. Marcon noted.

"These reviews can't necessarily be done quickly. Our analysis of the boiler and machinery form may take quite a while. Less complex forms can be handled faster."

Brokers can expect package policies geared to larger risks in the near future, a need predicted by insurance experts polled by the Florida Assn. of Insurance Agents.

"We are planning broader use of packages aimed toward larger risks," Mr. Marcon said. "There's no potential problems in getting this together—mostly we can use the standard forms and increase the insurance."

"But the biggest problem we will be facing may not be packaging insurance," he continued, "but the

overall problem of affordability that has hit personal lines with life and auto insurance and will soon hit commercial lines."

ISO will play a greater role in simple loss prevention for smaller companies, he predicted, and will invest more time and money in communicating loss prevention techniques to producers through seminars and fliers.

"There is no doubt that the cost of insurance is going to generate changes and if self-insurance and high deductibles fail, we are going to need to rely on risk-sharing and old-fashioned loss prevention to keep rates down. ISO, through our communications department, will have to help with the education of producers in those techniques and in proper use of our products," he said.



"We have dropped the ball on many occasions," says ISO executive vp Fred Marcon.

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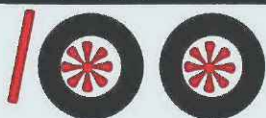


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Minneapolis brokers fight tough but fair

By LEN STRAZEWSKI

MINNEAPOLIS, Minn.— Alexander & Alexander, Marsh & McLennan and Johnson & Higgins are fighting their big broker battles in the arena of metropolitan Minneapolis, but they play by Marquis de Queensbury rules.

Competition, like the futuristic and spotless downtown business district, is scrupulously clean but very intense among the brokers competing for the business of the many international corporations based here.

Alexander & Alexander is the biggest broker in town with 228 people and a book of business that touches nearly half of the roughly 25 Fortune 1,000 firms located in the area. The A&A office has doubled in size over the past three years, says president Jerry Creedon, and will continue to grow by at least 15% a year.

"That's a rather conservative estimate," he said. "But remember, there's really not a meaningful influx of new capital into Minneapolis. Still, I think there's plenty of business to enable a good agent to grow."

Few small agents experience sharp growth. This is a big broker town with a crowd of smaller agencies that become ripe for acquisition when they get more than 20 employees and a sharp reputation.

The three leaders have stronghold on total commission and fee volume thought to be over \$16.5 million with A&A raking in an estimated \$7 million, M&M close behind with an estimated \$6 million and J&H coming in third with esti-



mated revenues of nearly \$3.5 million.

A&A, though it hasn't made a local acquisition since 1974, created its Minneapolis office out of a series of acquisitions beginning in the 1960s with Charles W. Sexton, a Minneapolis fixture since 1893.

Competitors point to A&A's acquisitions, much like the record of the broker nationally, and charge that the office "doesn't really grow—it buys."

Mr. Creedon denies the charges with a smile and points out that only 20% of the office's employees came with mergers. More acquisitions are possible but "not merely to add size. We want to try to add talent and profit potential," he said.

A&A's Minneapolis office is reportedly one of the parent's most successful operations, ranking behind only the A&A Dallas office in income. And like A&A nationally, it has a large book of medium size risks, accounts that pay less than \$500,000 in premiums.

This puts the office in direct competition with many smaller agents looking to add business as well as with the big broker competition which is trying to maintain growth rates in a tough inflation period.

"Competition is very clean and very honest," Mr. Creedon remarked. "We're really a small community in many ways. We know each other very well."

Though casualty rate-cutting has

been severe, he said, "we haven't had to get cut-throat. But we do compete on a pretty ethical basis. There are many good insurance people in town—probably more than any other area of the country. I don't know how the community supports us all."

Loyalty is one way the community works. Corporations like to work with local brokers, so much so that Minneapolis corporations don't like to use St. Paul brokers and vice versa. Clients are loyal, local brokers say, and the bigger they are, the less they like to shift business.

Rates are another advantage, Mr. Creedon said. "Though price cutting has been significant, I don't think it has really reached the high level of the two coasts. The cycles here are just not as severe."

Marsh & McLennan knows quite a bit about client loyalty. Opened in 1910, the Minneapolis M&M office was established to service the Peavey Co. account—business the office still has—in addition to Republic Airways and Northwest Orient Airlines, the leading air carriers to the city.

Jumbo accounts are the office specialty, a reputation shared with its parent and about 7% of revenues are derived from fees paid by big clients which self-insure some risks. The big accounts are so stable, however, that many brokers in town say M&M has become paunchy about new business.

"Markets are demanding new business," said George C. Wright, head of the M&M office. "We have many of the real giants, it's true, but the thrust to keep up our 15%

Minneapolis has two seasons: winter and construction. When the snow finally melts from downtown streets, the jackhammers and riveters start. This half of the Twin Cities has done what many urban centers are failing to do: It's bringing development back to the city. Though suburban development is still strong, with industrial parks like the Shelard Plaza where Alexander & Alexander has moved its offices, downtown this year has surpassed its neighbors in growth on the strength of five new development projects: Pillsbury Center, BANCO, Northwest National Bank, Lutheran Brotherhood and the new Hyatt Hotel. Many of the projects are funded by the jumbo corporations in town whose economic roots lie in food processing and computers. The big accounts in town are Pillsbury, General Mills, International Multifoods, Honeywell and Control Data. Tenants for the buildings are ready; only the domed stadium being built for the Viking football team and the Twins baseball team is considered a white elephant. It's not air-conditioned, and Minneapolis summers, when they finally arrive, are hot and humid.

growth rate is making us look to smaller-than-jumbo business."

With 80% of its business in property and casualty and 153 employees excluding benefit consultants, the M&M office performs additional services including claims management and investigation and loss prevention.

Despite a new business punch that is changing the M&M reputation in town, some growth hopes are pinned on service. Growth is harder to come by, a product of having "too much market share," Mr. Wright said.

Construction performance bonds are providing a burst of new business for the office, resulting

from the booming downtown development that is taking cash out of the coffers of the big corporations and putting it into office buildings.

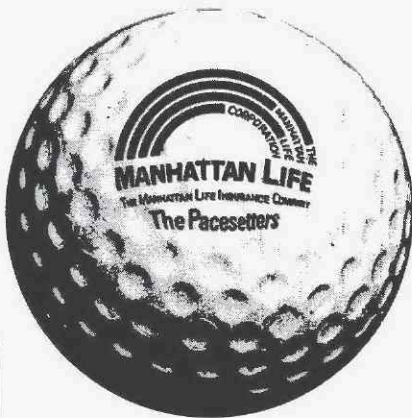
Tapping the corporate business is a tactical problem for any broker in any business community, but unlike more political towns, new business prospecting depends more on presentation than a broker's social standing.

"The country club style is over. If we didn't perform, we'd be out on our ear," Mr. Wright explained. "Account executives we have are getting accounts only by convincing the risk manager that he knows his business."

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mount in the minds of Minneapolis buyers, noted Mark Michel, president of the Johnson & Higgins office. But simple quotation is not the usual J&H procedure of seeking a new account.

"There are lots of sophisticated buyers here. We have an active RIMS chapter but also many small buyers had to expand their knowledge of insurance," he said.

Mr. Michel sees more aggressive loss control planning by "senior executives," and expanded use of the J&H loss control engineering staff. Pension planning and employe benefit business is significant in the Minneapolis office, he said.

The Johnson & Higgins office ranks third according to local estimates, with about 55 employes and estimated revenues of nearly \$3.5 million. J&H would not confirm the figures.

Coming up behind Johnson & Higgins is the Nordstrom Agency with about \$3 million in local revenues, according to its own estimates. Though the firm is based in Minneapolis it has 15 offices nationally and is ranked 18th in the *Business Insurance* list of the 20 largest U.S. agents/brokers.

Nordstrom's local presence is a puzzle to its competition. One large competitor said the last time he actually saw a Nordstrom producer was "four or five years ago."

The low profile reputation did not surprise executive vp Stephen Nordstrom, "because everybody here has their niche. Ours is in the Minneapolis investment community and income producing property—shopping centers, hotels and offices."

Nordstrom "goes up against A&A" and spars often with M&M, Mr. Nordstrom said. But the firm's niche is out of the mainstream and competition for the big risks, say competitors.

The Midwest is more the Nordstrom marketplace and the agency has an armlock on associations. Organizers of shared risk pools for farm equipment manufacturers and non-profit religious organizations, the Nordstrom Group parent organization also is working to establish a risk pool for the League of Municipalities, an association of governments based in Minneapolis.

"Minneapolis has watched us grow," Mr. Nordstrom remarked, "but now the focus of attention is on our national accounts. We tend not to deal with the giants, but pursue more the middle size accounts of \$100,000 to \$300,000 in premiums and who don't employ professional risk managers."

Unlike bigger brokers, Nordstrom "definitely feels the impact of soft markets," said Mr. Nordstrom. "We are reviewing more frequently and more in advance of expiration. There has been an increase in risk-trading among brokers, but basically there are pretty stable client-broker relations here."

Employe benefits is still a small part of the Nordstrom business, about 1% of its revenues, "but we are gaining moderately in this area," he said. The Nordstrom-Worth division, an employe benefit consulting operation, "someday will be a factor," he said.

Below the top four brokers, a new world begins, and the assured knowledge of the competition expressed by the big brokers disappears. Three brokers of roughly the same size enter the competition, but Brandow, Howard Kohler and Rosenbloom most often comes out ahead of the Frank B. Hall & Co. office and the Bockman-Anderson Agency.

Brandow, Howard Kohler & Rosenbloom is at the ripe-for-acquisition size, but remains independent despite acquisition offers, says managing partner John Kohler. The partnership is limited

to 10 full-time employes and principals turning 65 must resell stock to the others and leave front-lines management.

The goal, Mr. Kohler notes, is to involve young producers in the agency management. Often, the "old heads"—Mr. Kohler, outgoing chairman William Brandow, incoming chairman Frank Howard and partner Amos Rosenbloom—team up with young producers on new business calls and visits to long-standing clients.

The agency intentionally steers away from the meaty jumbo accounts the bigger brokers prefer "because one of our premises is to never let one account dominate our business," Mr. Rosenbloom explained.

The agency aggressively targets smaller accounts that lack professional risk management, Mr. Kohler says, ignoring "accounts of \$1 million in premiums, but up to that size we definitely think we can do a good job. There's so many

good middle size accounts here we couldn't begin to call on them all."

Middle sized accounts have fed the firm's growth from \$500,000 in revenues in 1963 to a premium volume of more than \$20 million this year, bolstered by a loss prevention consulting division called "Attitude Adjustors" headed by Mr. Rosenbloom.

The partners project growth goals of more than 20% this year.

Security Underwriters, nearly the same size as BHK&R, took one of the acquisition offers that came its way, becoming Frank B. Hall & Co. of Minnesota this year. The firm expects advantages from being a small "big broker" office and will begin an advertising campaign in the fall. This will be an innovation in the Minneapolis market because few commercial brokers tap media promotion.

"Since we became Hall we added lots of new business in Minnesota and eastern Wisconsin," said execu-

Butler Square Mall, in downtown Minneapolis is a product of the city's building boom. Construction performance bonds are providing a burst of new business for local brokers.

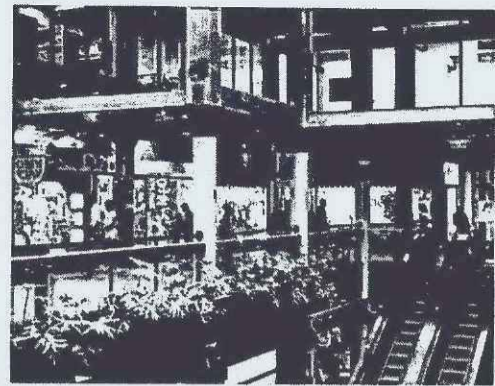


Photo: Len Strazewski

utive vp Al Diamond.

Competition among the smaller Minneapolis brokers is far from intimate. The agents feel "tremendous pressure from carriers for new business," Mr. Diamond notes.

Below-the-belt pricing and fast rate changes, however, do not often happen.

"Markets pretty much come to

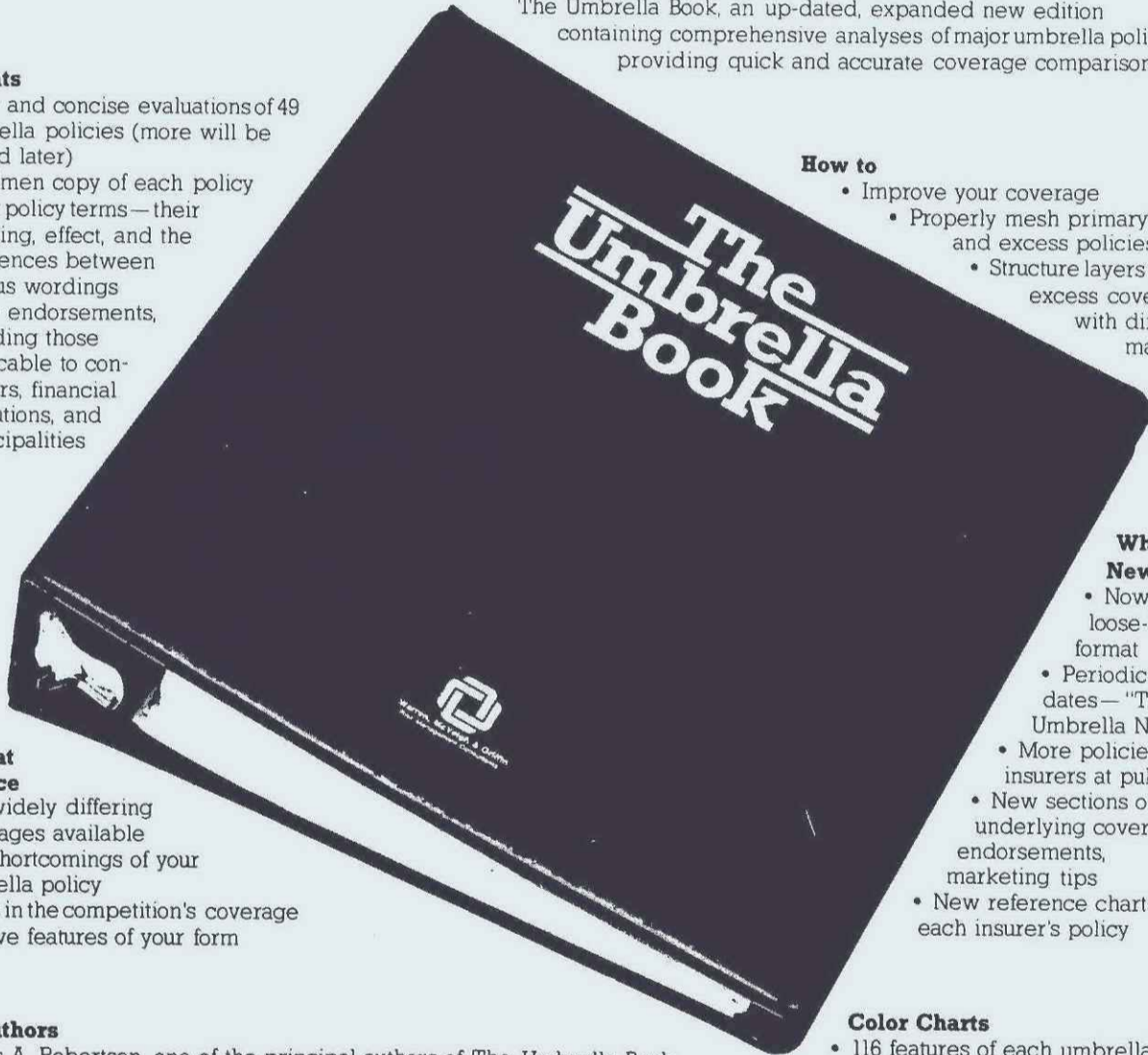
us with their best shot the first time," Mr. Diamond explained.

But more competitors come out fighting.

Fred S. James & Co., another large national brokerage house, recently opened a small office and small agents armed with strong market connections, are constantly threatening to climb into the ring with the big guys.

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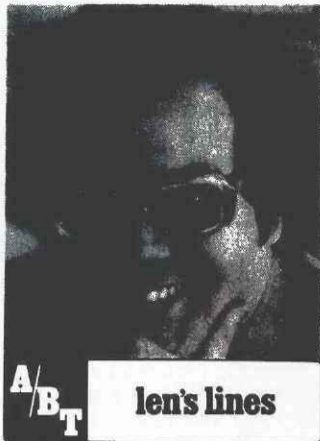
'Office girls' deserve more prestige, pay

By Len Strazewski

THE agent/broker industry won't ever be ready for automation as long as it's still 50 years behind society in equal rights for women employees.

Before you leap into a long lip service about how valuable the "gals" are to your business, let me agree. Women are important to your business, just as once upon a time three servants were thought necessary to administer the life of one true gentleman.

You have heard the arguments before and, with minor exception, ignored them. More often than not,



women employees take on more responsibilities than agency principals are willing to admit—everything from answering minor questions of your most important clients when you are out of the office to actually preparing policy forms for your approval. Few agents ever bother to read what the "gals" put in front of them because while women, they say, are too irresponsible to be given better salaries and job titles, they seem responsible enough to do an agent's work.

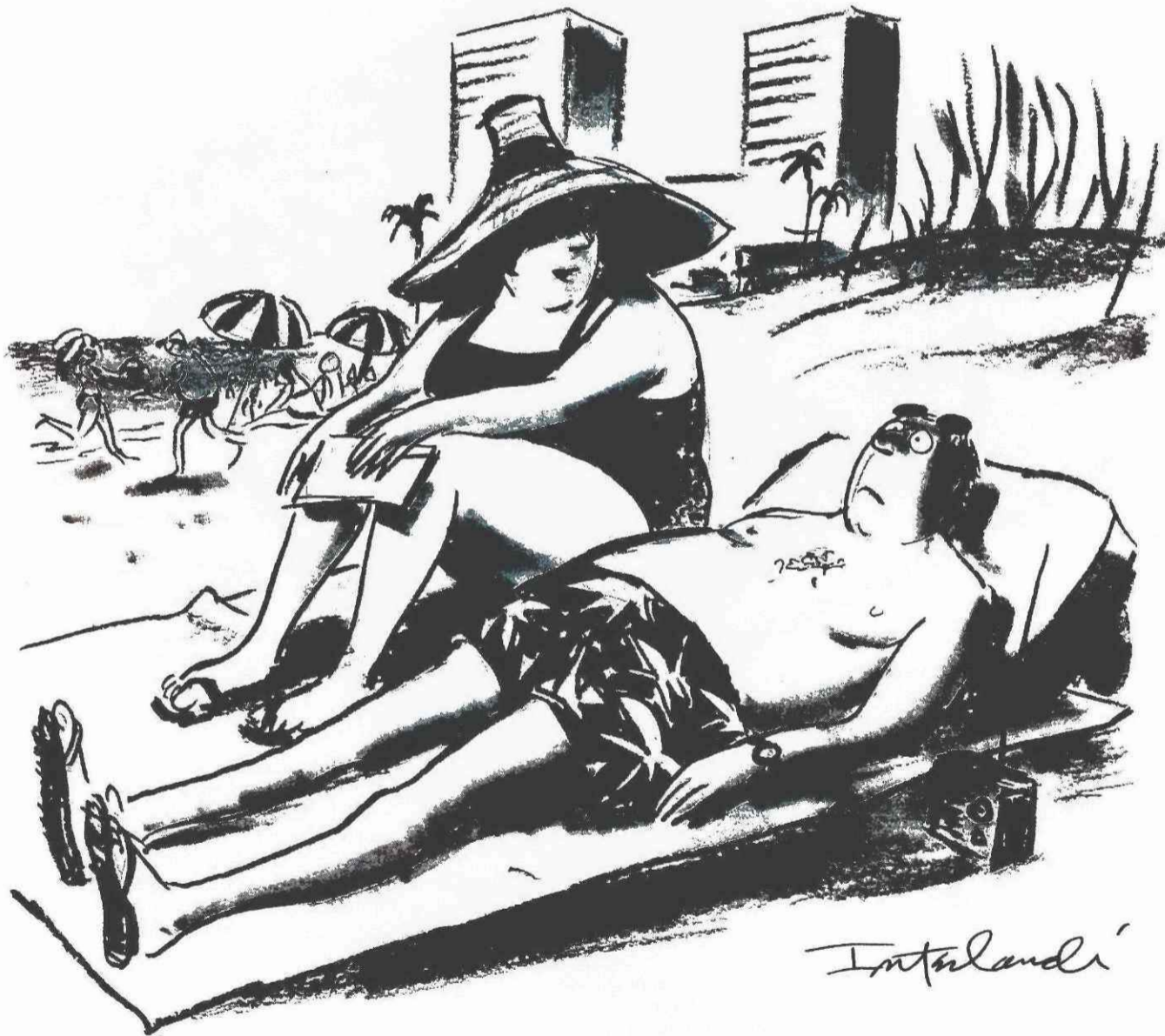
Business Insurance is reprinting below a statement sponsored by United Technologies that ran as a paid advertisement in the Wall Street Journal. It is designed to remind you that like many other businessmen, you have grown to ignore an essential segment of your work force. It is there to remind you that an important business resource has become as faceless as a computer to you—just an object to type up and fill out forms.

I agree with the ad and so does the rest of the *Business Insurance* editorial staff, but I think you should take it a step further. As Ray Normann of Allstate

Let's Get Rid Of "The Girl"

Wouldn't 1979 be a great year to take one giant step forward for womankind and get rid of "the girl"?
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The purchasing agent says, "Drop off your bid with the girl."
A manager says, "My girl will get back to your girl."
What girl?
Do they mean Miss Rose?
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Do they mean Mrs. McCullough?
Do they mean Joy Jackson?
"The girl" is certainly a woman when she's out of her teens. Like you, she has a name. Use it.

indicates in this magazine, women employees are important personnel resources whose skills should be tapped and encouraged and whose jobs should be enlarged and enriched for pay equal to that of any man doing the same job. "Executive" should stop being a male term.



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An "executive" once pointed out to me not long ago that although "women might be as smart as men, they just aren't tough enough to be in the front lines of the business world."

I don't agree but you might, and you may want to stop by the office to tell me so. Good. If I am not in, though, you may have the opportunity to chat with either of my bosses, Susan Alt, the editor of *BI*, or Kathryn McIntyre, managing editor.

If you have that opportunity, don't expect sweetie-pie flunkies.

On second thought, do expect it. I like to see heads roll.

Reprints of the United Technologies ad above are available from: Harry J. Gray, chairman, United Technologies, P.O. Box 360, Hartford, Conn. 06114

Know firm's value, says consultant

HOUSTON, Tex.—Agency future planning, legal matters and growth make it necessary for agents and brokers to know the fair market value of their firms, says a financial consultant.

"Most agency principals do not have adequate knowledge of the value of their firms simply because they have not adequately addressed the reasons for knowing the firm's value," said Russell R. Miller, president of a brokerage consulting firm in San Francisco.

Planning buy-sell agreements, internal organization, perpetuation and employe stock option plans make audits necessary, he said.

Mr. Miller warned that placing a fair market value on an agency is not simple and requires knowledge of the current market.

"A buy/sell agreement price arbitrarily set at 1.25 or 1.5 times commissions is just not realistic in today's world," he said.

"The old rule-of-thumb value formula completely ignores the profitability of the firm and passes over many qualitative agency factors such as agency management, competency of personnel, mix of business, special lines of agency expertise, growth history, stability and broadness of the market base."

All accurate and IRS-accepted methods base agency value on the firm's earnings, not revenues, Miller said.

"In most cases, however, the earnings figure used to value the firm will not necessarily be the agency's reported earnings. Instead, the agency's income statement is restructured to reflect what the earnings of the agency would be if it were operated by non-ownership management."

Brokers turn workers comp pest to profit

By MARY ELLEN McKEE

CHICAGO—Workers compensation, neglected by brokers, can be a money-maker, say brokers who have discovered the secret of profits in this business.

Two jumbo brokers and several midsized agencies that recently have plunged into the workers compensation arena are proving that rethinking, reorganizing and broadening their approach to workers compensation pays off.

"Most agents and brokers are much too willing to echo the 'crying wolf' of the insurance companies about the unprofitability of workers compensation without really knowing much about how it works," maintained Richard V. Stewart, vp of client development for Louisville-based brokers Nahm, Turner, Vaughan & Landrum. "Whenever I hear a broker cry wolf, I know it's simply not authentic and that the broker has not approached his workers compensation business with the right perspective."

Recently, NTVL put together a self-insurance group program on workers compensation for the Kentucky State school board. When the school board first put the workers compensation business out to bid, the local agents moaned that they were doing the school board a favor by writing the business.

As soon as the school board started considering group self-insurance, the brokers' tone changed, Mr. Stewart said. "Every local agent, who formerly wrote workers compensation as a big favor to the school board, was fighting to grab the business."

In order to squeeze workers compensation of its profit potential, the agent or broker will have to take a more active role in areas that traditionally were left to the employer and the insurance company, caution the brokers now enjoying profits from workers compensation business.

"Just a few steps and a lot of re-education are the ingredients necessary to transform workers compensation from a business you take only if you get the general liability, auto or property—all safer and historically more profitable—to a business you're fighting with your competitors to get," Mr. Stewart said.

Each broker has his own approach to workers compensation, but the brokers contacted by *Business Insurance* agree on some initial steps a broker must take to start turning a profit on workers compensation.

"There's no magic formula to success with workers compensation, just some helpful hints to bring the broker along," admitted Donald Bell, head of Alexsis, the risk management services subsidiary of Alexander & Alexander and a strong proponent of "the workers compensation is profitable" theory.

Before making any headway in workers compensation profitability, brokers must first become familiar with experience rating, the brokers advise. "If the broker understands that aspect of workers compensation then he can do a great deal to mitigate costs for the employer and grab more business for himself," Mr. Bell said.

State rating boards, say many brokers, are notorious for supplying inaccurate experience modifications for employers and getting experience data to the employer as much as six months behind schedule. Equipped with knowledge of the rating system, the broker can correct the inaccuracies and delays generated by the rating boards by computing the client's experience

A/B/T door-openers

modification himself, Mr. Bell suggests.

Leaving out an entire year's payroll, charging one employer with the claims of another and listing a claim against an employer twice are some of the errors Alexsis employees have found after sorting through the new data used by rating boards, Mr. Bell noted.

"These mistakes can skew the client's loss experience ratio entirely the wrong way and costs him more money," he explained.

By weeding out those errors, computing an experience modification based on the corrected data and getting the experience data out

to the client before the next quarter begins, a broker can produce a ratio that more closely reflects the actual loss history of his client and can reduce premiums as much as 15% before alternative funding plans are even applied, Mr. Bell said.

This action has a ripple effect on the business, he continued. "Even though you reduce the premiums of your client and consequently your own commission, you can pick up a negotiated fee or commission for your work on the loss experience data.

"You can also pick up more clients when the word gets around that you have enough know-how to help the employer reduce his workers compensation costs or premiums. This line is often heard



Most agents and brokers are too willing to echo the cries of the insurance companies about the unprofitability of workers compensation without knowing much about how it works, says Richard V. Stewart, vp of Nahm, Turner, Vaughan & Landrum.

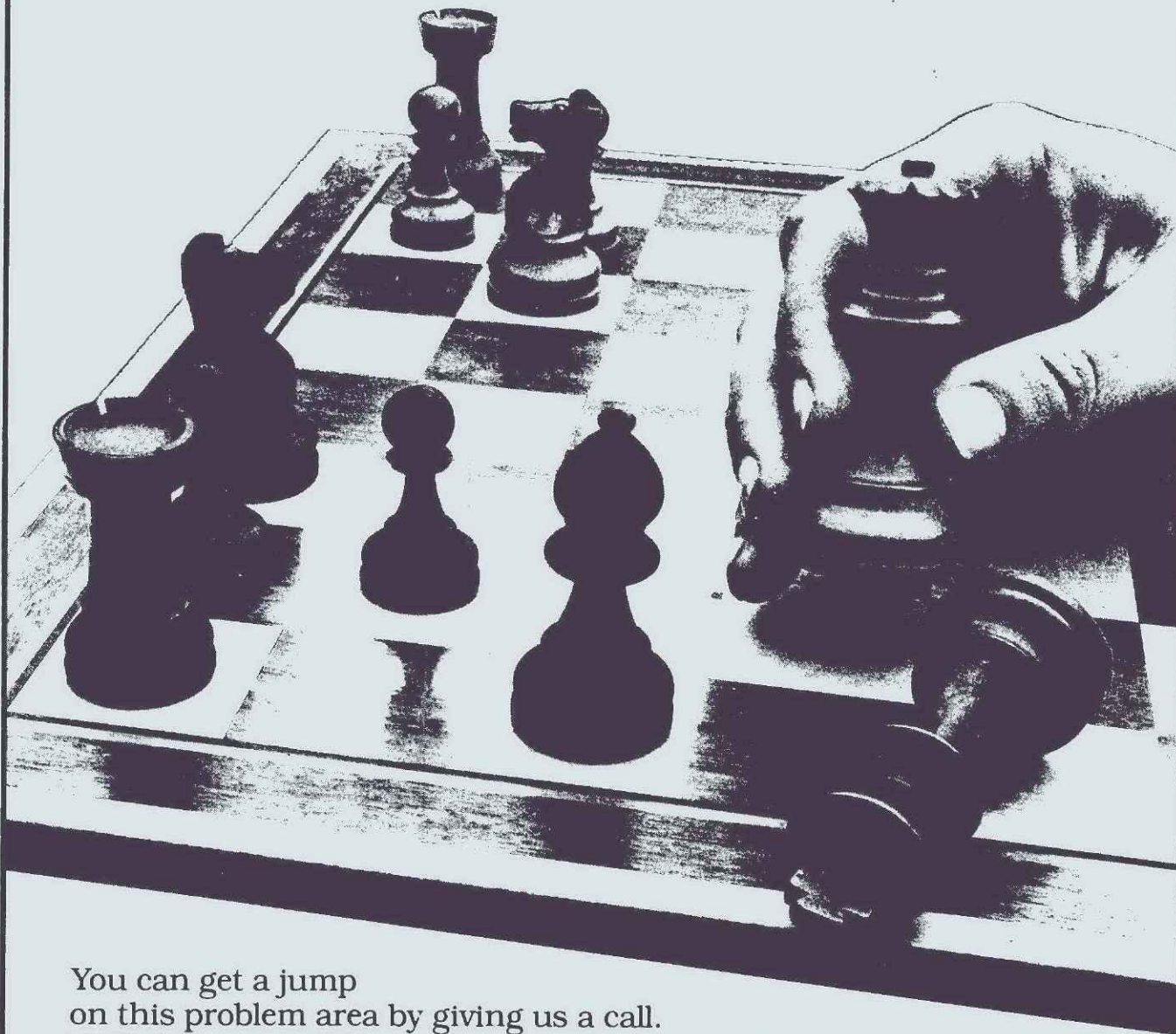
in this business but very seldom delivered," Mr. Bell remarked.

Another practice strongly recommended by the brokers success-

ful in workers compensation is pre-screening all claims from the employer before they reach the insurer.

Continued on next page

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Fred S. James names international vps

Several personnel changes have been announced by Fred S. James & Co. Inc. **Peter A. Rodaway** was appointed a vp of the international branch and will be responsible for the development and servicing of multinational accounts. He will work in the New York City office. The British-born Mr. Rodaway was formerly vp-international for another major N.Y. insurance broker and directed its Middle Eastern operations. **Gerard A. Welker**, 33, was appointed vp of the international branch and will manage the firm's new Paris office, where he will be responsible for developing and servicing international accounts. Mr. Welker previously was vp of the international division of a major French firm. **C. Richard Peterson** was appointed executive vp of James and manager of the Philadelphia office. He recently joined the company as vp of financial services for the Boston office.

William L. Hill of the North American Insurance Agency has been elected president of the Independent Insurance Agents of Dallas. Other new officers are **W.R. Rucker**, vp of Rucker & Associates, and **Jim Strange**, treasurer of Jim Strange & Associates. New members of the board of directors are **R.E. Bibby**, Bibby Insurance Agency; **Kim Carpenter**, Kim Carpenter Insurance Managers Inc.; **Earl Sewell**, Sleeper Swell & Co., and **Donald L. Wolf**, Wolf-Larkin & Associates Inc.

Harry A. Kearney has been appointed senior vp and manager of the Fort Lauderdale office of Reed Shaw Stenhouse Inc. of Florida, where he has been senior account manager. Mr. Kearney, a graduate of the Georgetown University School of Foreign Service, entered the insurance field with the Fidelity & Deposit Co. and operated his own agency before joining Frank B. Hall & Co. in New York. He is a CPCU and has lectured at the College of Insurance in New York and the University of Miami. He is past director of the National Assn. of Insurance Brokers.

A/B/T people

Tom Petway, executive vp of Kramer, Wurn, Gay & Petway Insurance, Jacksonville, will take over this month as president of the Florida Assn. of Insurance Agents. Other officers elected are **Payne Midyette Jr.**, president of Midyette-Moor Insurance, Tallahassee, as president-elect, and **Herbert Traweek**, CPCU, vp of Cannon-Traweek Insurance, Gainesville, as vp. New directors are **Harvey L. Brown**, president of the Harvey L. Brown Agency, Delray Beach; **James A. Leigh**, owner of Trout & Leigh Insurance, Bradenton; and **Jerry L. Parker**, owner and president of Okaloosa Insurance, Crestview.

L. Richard Hudson, a vp of The Travelers Insurance Cos., has been named to a newly created position in the corporate research and planning department, where he will be responsible for agency-company relations and agency development activities for all lines of business. Mr. Hudson who formerly headed the field division of the company's casualty-property lines department, is on the board of directors of ACORD and served as vice chairman until recently. He is a graduate of Central Missouri State University.

Kindler & Laucci, a California insurance brokerage, has named **W.F. Williams** to its board of directors. He recently retired as executive vp of the Insurance Services Office. Mr. Williams also will serve as a consultant in public and trade relations. He began his career with the California Assn. of Insurance Agents and has worked for the National Board of Fire Underwriters and the Pacific Fire Rating Bureau. He is a graduate of the University of California at Berkeley.

Charles L. Robson has been promoted to vp and manager of the McKearin Agency of Ter Bush & Powell Inc. in Hoosick Falls, N.Y.



Robson

Rand

Mr. Robson has worked with Ter Bush & Powell since 1973 as assistant manager of the McKearin Agency, a marketing representative in the Schenectady office and manager of the McKearin agency. He is a graduate of Norwich University with a BA degree in economics.

Alonzo C. Rand Jr., senior vp and director of Marsh & McLennan Inc., has been elected president of the N.Y. chapter of the New York State Society of Professional Engineers for 1979-80. He has served as an officer and director of the society for 10 years. Mr. Rand heads M&M's technical services loss control division. A graduate of Northeastern University with a degree in mechanical engineering, Mr. Rand joined M&M in 1966 after working for Brookhaven Laboratory and Massachusetts Institute of Technology.

Marsh & McLennan Inc. announces the election of **Clifford D. Bovee**, **Kendel J. Lyman** and **M. Steven Sadler** as assistant vps. All are based in the Seattle office.

Charles L. French and **Ralph S. Brainard** have been named to the newly created positions of underwriting supervisors in the Harleyville, Pa., office of Harleyville Insurance Cos. Mr. French, previously employed by the Atlantic Cos., joined the company as an underwriter in the Harleyville office in 1975. Mr. Brainard joined the firm in 1965 as an underwriter in the home office. Both men are graduates of Penn State University.

David B. Adams, executive vp of Adams & Porter Inc., has been named a director of the National Assn. of Insurance Brokers to complete the unexpired term of **Russell H. Miles**, who has retired from the board of directors. Mr. Miles, chairman emeritus of Corroon & Black-Bennett & Edwards, relinquished the post after retiring from the brokerage firm. Mr. Adams began his insurance career with Adams & Porter in 1964 and was named executive vp in 1978. He serves on NAIB's marine insurance committee.

The board of directors of Markel Service Inc. has approved several staff changes. **Stanley B. Markel**, former president of the firm, was named vice chairman of the board. **Alan I. Kirshner** was named president and chief executive officer and will be responsible for the overall operations of the corporation. He is a graduate of Vanderbilt University. **Anthony F. Markel** becomes executive vp and continues



Markel

Kirshner

as chief operating officer of Markel's insurance division. He is a graduate of the University of Virginia. **Ronald G. McElyea** was elected resident vice president for the Dallas region of Markel's insurance division. He is a graduate of Texas Technical University.

We'd like to report on staff changes. Just drop a note to Len Strazewski, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5393. We'd also like to receive pictures of those involved.

N.J. agents criticize Kemper cancellations

TRENTON, N.J.—Kemper Group's cancellation of New Jersey agency contracts is just a way for the insurer to bail out of personal lines in the state but save profitable commercial business, according to the Professional Insurance Agents of N.J.

"This is a great shock to the insurance climate in New Jersey and a slap in the face to the insurance-buying public," PIA president Willard Young said. "Kemper is apparently trying to circumvent existing insurance laws and regulations with these cancellations so that it can keep profitable, commercial insurance business and sharply reduce its commitment to personal lines."

Kemper has not denied it plans to sharply reduce personal lines business in the state, but notes that auto, homeowners and commercial

policyholders will not be affected for at least a year.

"We've lost money here for five straight years," explained James Wilson Jr., president of Kemper's Mid-Atlantic division. "We've shown a loss, in fact, for 15 out of the last 20 years. The assigned risk plan alone cost us \$1.5 million last year."

"In New Jersey, insurance regulation has become exploitation," he said, referring to Kemper's failure to win rate auto increases.

Kemper still will accept business through brokers and through agents who are also licensed as brokers, the insurer said.

Commercial business is not expected to be curtailed because most New Jersey commercial agents also are licensed brokers, said Kemper Mid-Atlantic marketing manager Gerald Carmondy.

Workers comp . . .

Continued from previous page

This allows the broker to do several things at once: weed out cases that shouldn't be reported, monitor the frequency and severity of certain kinds of injuries, set more sensible reserves based on the monitored claims of the previous year and closely watch to see if the employer has been misclassified.

Even small brokers can pre-screen claims, Mr. Stewart of NTVL insists.

"A good broker, large or small, should never loosen his control of an account, especially in workers compensation," warned a West Coast broker who handles nothing but workers compensation accounts for an agency where one-third of the gross revenue is generated by workers compensation business.

Also, a broker should never rely on the loss prevention services provided by the insurance company, brokers maintain. "If you truly want to keep the employer's costs down, you have to go the extra distance with him," Mr. Stewart of NTVL emphasized. Insurance companies don't always do the best job of loss prevention engineering, so the broker's extra touch is needed, the brokers adamantly agree.

"Loss prevention efforts of the brokers should go beyond the traditional pre-underwriting loss control survey and recommendations of the insurance company," said James Kammerer, vp of the Chicago operation of Alexis. At Alexis, a loss control representative will spend as much as eight hours a month at a plant conducting inspections and meeting with key management people to devise innovative safety and loss prevention programs.

Last year, for example, an insurance company conducted its pre-underwriting loss control survey of

a plant with 1,300 employees which had bad loss experience. The insurance company made very few recommendations and none of them dealt with the company's area of vulnerability—forklift driving.

After its loss control survey, Alexis recommend the company attack this area. Top management in the company, at the suggestion of Alexis, started requiring drivers to periodically go through forklift driving training sessions. Alexis also suggested the client enlarge the license number on the forklifts and print a number on the hardhat of the drivers.

This allows the employer to immediately spot the careless driver or a forklift that doesn't appear to be functioning properly, Mr. Kam-

merrer explained. "This one step made the employer intensely aware that these losses eat up his dollars."

A few such simple procedures can bring down the rates to \$5 per \$100 worth of payroll from \$7.50 per \$100—a substantial savings for the employer, Mr. Kammerer noted.

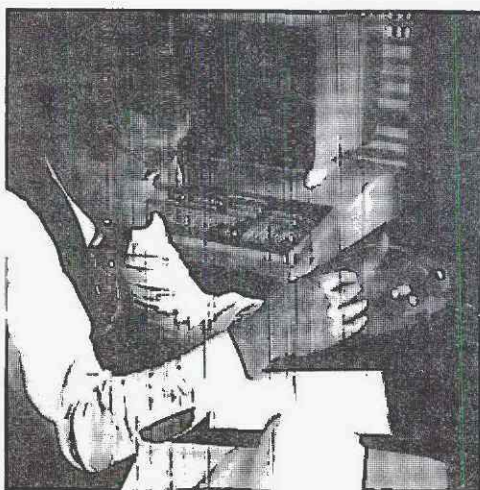
"Brokers have to break away from the traditional methods of handling workers compensation business," says Myra L. Tobin vp and senior casualty officer for Marsh & McLennan. "The market and the problems are not the same as they were five years ago when workers compensation was a lucrative business for a broker to handle."

"Innovation is the only thing that will keep the brokers alive in the workers compensation market."

Marsh & McLennan will suggest alternative funding methods for its clients such as retro plans and self-retentions, not afraid of losing that extra bit of commission, Ms. Tobin noted.

Suggesting a different way to fund a difficult line of business is not taking money from the broker's pockets, Ms. Tobin said, hoping to convince numerous brokers she has heard over the past two years complain that funding plans mean less money for them. "You'll pick up money with fees and negotiated commissions for other services that are required

The broker's loss prevention efforts should go beyond the pre-underwriting loss control survey and the insurance company's recommendations, says James Kammerer, vp of the Chicago operation of Alexis. His firm helps clients devise safety and loss control programs.



Innovation will keep brokers alive in the workers compensation market, says Myra L. Tobin of M&M.

with funding alternatives," she remarked.

Bucking tradition has worked for NTVL. When insurance companies were reviewing the previous year's results on NTVL's workers compensation business, they admitted the brokerage firm's tight control on claims administration and loss prevention resulted in a loss ratio of 45%, hardly a troubled line, Mr. Stewart said.

"The broker with imagination is sure to succeed in workers compensation," Mr. Bell noted. "Contrary to the way insurance companies handle the business, it's not a sterile formula type of line."

Four brokers will bid on Olympics' coverage

LAKE PLACID—Four brokers are expected to submit bids Sept. 4 in a second effort to obtain a new insurance program for the 1980 Winter Olympics.

Industry sources have identified the four firms as Frank B. Hall & Co., Lawrence-VanVost Co. of Schenectady, National Preferred Risks of Great Neck and Placid Management Co. in Lake Placid, the current broker.

A previous effort in March, which involved solicitation of hundreds of agents and brokers throughout New York state, yielded eight bids, none of which met the desired specifications (BI, May 14, 1979).

Specifications for the new insurance program call for a wrapup policy including builders risk, workers compensation, inland marine, primary and umbrella liability, property and spectators liability coverages, said William Kissell,

attorney with the Lake Placid Olympic Committee.

Property coverage and spectators liability insurance are not included in the existing wrapup program, placed with Aetna Life & Casualty Co. When complete, the new construction will be worth around \$70 million.

Changes in the new program are "not substantive" but involve technical revisions and updating of loss record information, Mr. Kissell said. The only serious problem with the first attempt to remarket the coverage was the inadequate amount of time allowed to complete the program, he added.

The first attempt to remarket the

program came after federal officials involved in the construction and other local brokers charged nepotism in the selection of the broker, Placid Management, on the \$800,000-plus policy. The firm's principal, Robert Damp, is related to Jack Wilkins, a member of the Olympic Committee.

Following that attempt, the Olympic committee retained John Liner Associates of Boston as consultant to conduct a risk analysis survey, evaluate the previous bidding attempt and revise specifications for the proposed program.

At the time of the original remarketing effort, federal engineers involved with the project charged that structural deficiencies existed in a 10,000-seat fieldhouse being built. However, a report by the New York engineering firm of Skilling, Helle, Christiansen & Robertson said any structural deficiencies would be corrected by the start of the games next February.

Race loss is \$2 million

LONDON—The freak storm that plagued the Fastnet ocean yacht race off the coast of England last month cost at least seven vessels, 18 lives and close to \$2 million in insured losses.

"Claims for losses and severe damage plus salvage costs will probably reach \$1 million and there will be another million for lesser repairs" such as damaged masts and rudders, said Peter Coucher, a Lloyd's underwriter.

"We are lucky to get off so lightly as far as major casualties are concerned, for losses were small when you consider there were more than 300 yachts from 18 nations in the race," he said.

Mr. Coucher said yacht premiums will not be affected too severely because risks were extensively reinsured through world marine markets. Lloyd's probably will

be directly responsible for \$1 million in losses, with the remaining \$1 million spread in the U.S., Germany and France.

Some yachts were insured for more than \$200,000, but those that sank were valued at less than \$90,000, most of them around \$50,000.

All but three American entrants finished the race safely. Capt. F.H. Ferris, an American living in London, died along with his three crew members on the Ariadne. The boat, valued at \$90,000, later was towed to northern France for repairs. Robert H. Robie and David Dicks were the other Americans who perished.

Most U.S. entrants were insured in the U.S., Mr. Coucher said, and Lloyd's had rejected some U.S. applications for special coverage for the race.

PSA liable, judge says

SAN DIEGO—A Superior Court judge has opened the door to damages claims against Pacific Southwest Airlines stemming from last year's mid-air crash over San Diego that claimed 144 lives.

Judge Jack R. Levitt ruled there is no longer an issue of liability between the airline and relatives of the 135 passengers aboard PSA's jet, which collided with a Cessna 172 last Sept. 25, killing everyone on both planes and seven persons on the ground.

"They can now make their damages claims against PSA and if they can prove damages, they collect," Judge Levitt told *Business Insurance*.

The court didn't consider any allegation of liability on the part of air traffic controllers monitoring the flight paths of the two aircraft or the Cessna's operator.

PSA attorney Robert Kern said, "There is ample insurance coverage to handle this entire matter."

He said all the coverage was written "vertically on one policy," but would not divulge details.

Broker is Marsh & McLennan and the carrier is Southeastern Aviation California Inc., a member of the Alexander Hamilton Group of London. The insurance was placed with a consortium of companies and underwriters at Lloyd's. One of the leading companies in that group is Aviation and General Insurance Co.

Southeastern's president, William Brown, said the coverage was "certainly adequate" and that it "provided limits which are typical in airline insurance."

Attorney Kern said the airline was "disappointed" with the judge's ruling and plans to appeal it. He emphasized that the ruling, however, does not "place sole responsibility" on the airline.

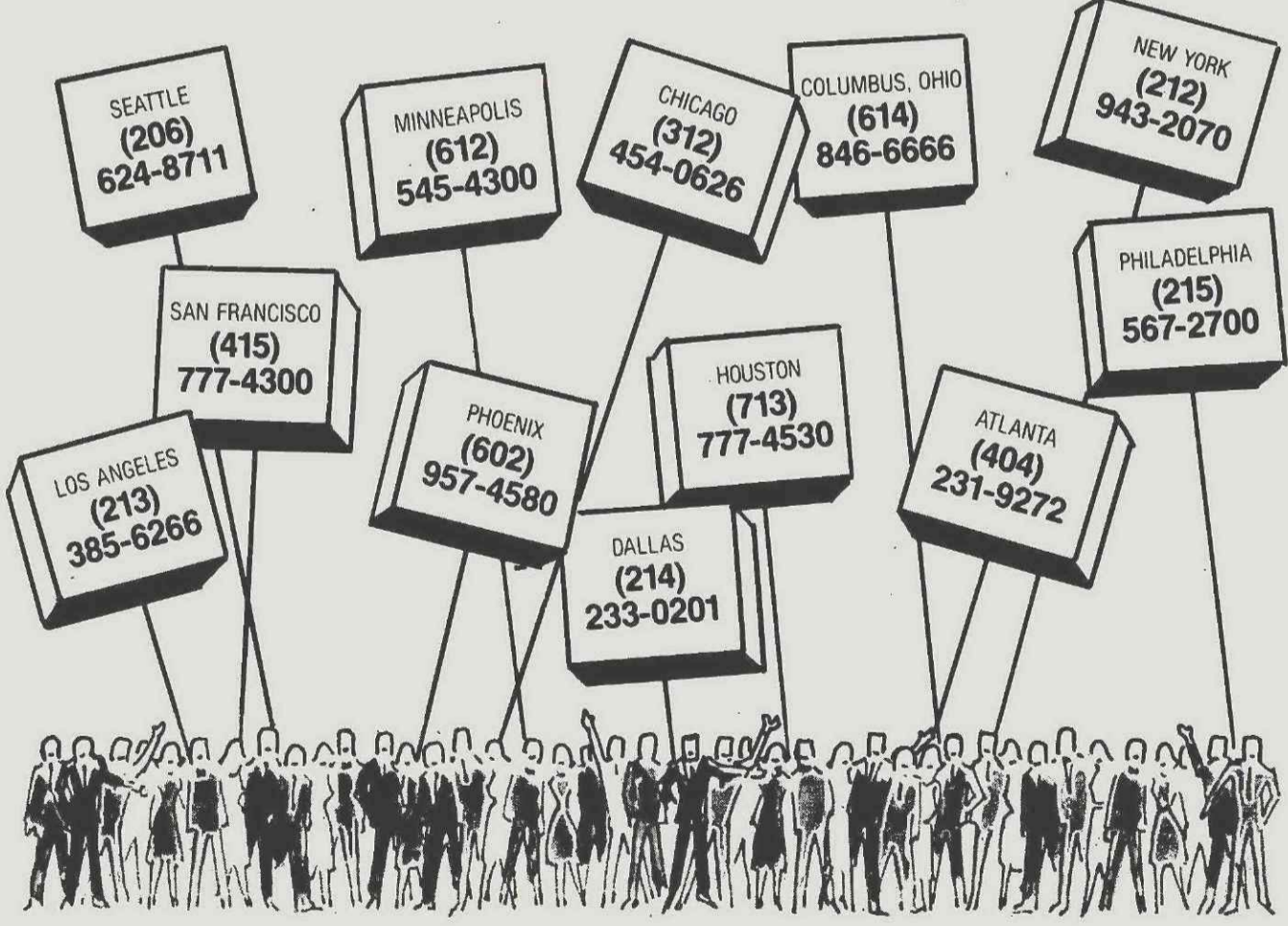
Shortly after the crash, wrongful death claims against PSA and numerous other defendants connected with the aircraft's machinery, maintenance and guidance were filed, most in California.

PSA, while not admitting liability, has settled out of court more than half of the damages claims filed against it.

The National Transportation Safety Board ruled April 20 that the PSA crew was to blame for the disaster.

Other claims may be filed up to Sept. 25.

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info for buyers

• **Know Your Pension Plan** is a 16-page booklet published by the Labor Department, explaining how the Employee Retirement Income Security Act protects pension plan participants and their beneficiaries. For a free copy write Pensions, Consumer Information Center, Pueblo, Colo. 81009.

• Diebold Inc. describes its entire security products line and outlines how its services can help a com-

pany protect against arson, burglary, holdups, attacks on employees and fire. For a free copy of this brochure write Diebold Inc., Public Relations Dept., Canton, Ohio 44711.

• Underwriters Adjusting Co. is offering a brochure describing its services to self-insurers. Sample computer reports also are provided in the brochure. For a free copy write Underwriters Adjusting Co., Marketing Dept., 83 Maiden Ln., New York, N.Y. 10038.

• The Ansul Co. has developed a manual outlining how companies using off-road vehicles can choose the most effective fire protection system. For a free copy write The Ansul Co., Marketing Communica-

tions, Marinette, Wis. 54143.

• Of interest to truck operators is a new promotional kit from Markel Service Inc. It describes the only nationwide safety patrol service available to commercial fleets. For a free copy write Earl D. Moore, vp, Markel Service Inc., 5310 Market Rd., P.O. Box 6614, Richmond, Va. 23230.

• **School Board Liability and You** is the name of a brochure outlining steps school board members can take to avoid litigation. Sample cases of actions taken against various school boards recently are also included. For a free copy write Stewart Smith, 125 S. Wacker Dr., Chicago, Ill. 60604.

• Unionmutual is offering a bulletin explaining the new **Age Discrimination Act** and how it will affect employee benefit plans. For a free copy write Gail M. Acroyd, Unionmutual, Portland, Maine 04112.

• An Insurance Buyers' Checklist for **Petroleum Products** Distributors is a new RIMCO Inc booklet providing guidelines for purchasing petroleum distributor's insurance. Cost is \$10. Write RIMCO

Inc., 10300 N. Central Expressway, Suite 350, Dallas, Tex. 75231.

• The third edition of **The Liabilities of Directors and Officers: With Practical Solution for Their Discharge** is available from Directors Press. The 153-page book updates information on each state's statutes concerning directors and officers indemnification. Cost is \$7. Write Directors Press, 460 S. Northwest Highway, Park Ridge, Ill. 60068.

• **Self Insurance: An Effective Way To Control Increasing Workers Compensation Costs** discusses the advantages and disadvantages of choosing self-insurance over conventional insurance. For a free copy write Laura Bergstrom, Self-Insurers Services Inc., 55 E. Monroe, St., Chicago, Ill. 60603.

• **Pay Plus** is a program developed by Pension Planning Co. Inc. to give client company employees a complete individual summary annually of dollars and cents spent on employee benefits. The program is described in a free promotional brochure. Write Communications Dept., Pension Planning Co. Inc., 355 Lexington Ave., New York, N.Y. 10017.

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dates for buyers

SEPT. 10-14. Basic Management Safety, the first course of the International Safety Academy's loss control management series, will be held in Houston. The course will be repeated in Houston **Oct. 8-12, Nov. 5-9, Dec. 3-7**. Cost is \$440 or \$400 each for three or more people from the same company. Contact Director of Conferences, ISA, 16575 Katy Freeway, Houston, Tex. 77024; phone 713-932-9403.

SEPT. 13-14. Directors and officers liability is the topic of a Wyatt Co. seminar to be held in Boston. Recent developments in legal liability, types of claims, defenses, policy analysis, limits, trends, deductibles and retentions and loss control will be discussed. The seminar will be repeated **Oct. 4-5** in Cleveland and **Oct. 15-16** in San Francisco. Cost is \$375 per person and \$325 for each additional participant from the same firm. Contact Warren G. Brockmeier, The Wyatt Co., Suite 5600 Sears Tower, 233 S. Wacker Dr., Chicago, Ill. 60606; phone 312-876-1616.

SEPT. 17-20. A University of Dallas-sponsored seminar on the **fundamentals of reinsurance** will

be held on the university's campus. The seminar will focus on non-life reinsurance essentials. Cost is \$375. Contact Bruce Evans, Risk Management Institute, University of Dallas, Irving, Tex. 75061; phone 214-438-1123.

SEPT. 24-25. An employe benefits management conference sponsored by the International Foundation of Employe Benefit Plans will be held in Monterey, Calif. The conference will examine the amendments to the Age Discrimination in Employment Act, sex discrimination decisions, qualified pension plan alternatives, Social Security integration and changes in reporting requirements. The conference will be repeated **Nov. 19-21** in Miami. Cost is \$350 for members. Contact International Foundation of Employe Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005; phone 414-786-6700.

SEPT. 26-27. Professional liability for design/build contractors and construction managers is the subject of an International Risk Management Institute Inc. seminar to be held in New York City. Handling errors and omissions claims, broadening coverage, reducing costs and securing modifications between professional and non-professional liability are some issues the seminar will address. Seminars will be repeated **Oct. 24-25** in Chicago, **Nov. 28-29** in Las Vegas and **Dec. 11-12** in Dallas. Cost is \$435. Contact RCI Communications Inc., 10300 N. Central Expressway, Suite 350, Dallas, Tex. 75231; phone 214-363-9656.

DEC. 3-5. Creativity in Communications is the theme of *Business Insurance's* third annual Employe Benefit Communications Conference at the Ritz-Carlton Hotel in Chicago. The conference will examine and critique various corporate communication approaches and investigate generic communications, choosing the right graphic approach, adapting a communication effort to the size and needs of a company and the packaging and legal ramifications of communications. Cost is \$310 with a 10% discount for additional registrants from the same company who register at the same time. Contact Sari Lipschultz, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; phone 312-649-5246.

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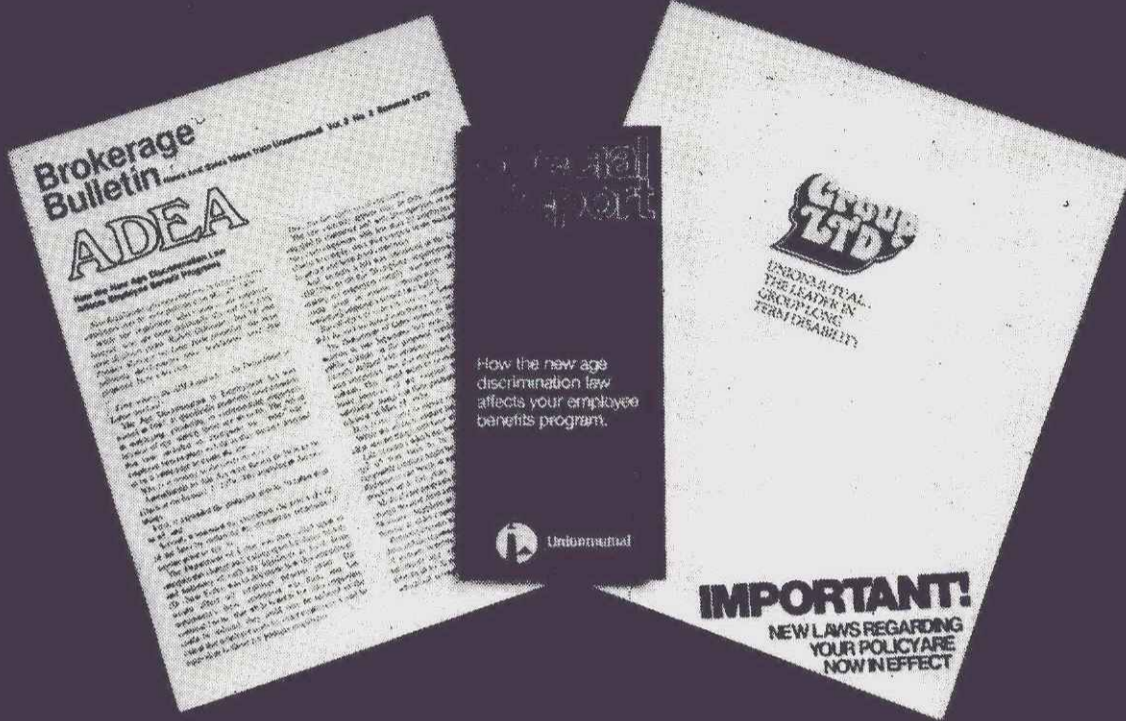
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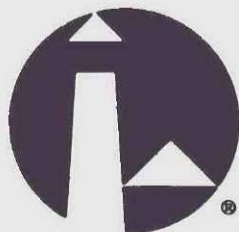
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around the states

Texas requires public pension review

AUSTIN—A new Texas state law, which took effect Sept. 1 requires that all proposed legislation affecting benefit levels for public retirement systems be accompanied by an actuarial analysis of the bill's economic effects.

A second law which took effect the same day establishes a pension board to review public retirement systems in the state.

"It's a strong reaction against any threat of PERISA" said Leonard Pruitt, executive secretary for the \$4.4 billion Teachers Retirement System of Texas. (A federal law to govern public pension plans as ERISA governs private pensions is being considered

in Congress.)

The actuarial analysis must include the effects of the proposed legislation on the public retirement system's liability and a 10-year projection of the annual cost of implementing the legislation.

N.J. negligence

TRENTON—The New Jersey Supreme Court has given greater protection to factory workers injured while using a machine found to be unsafe in design.

The court upheld the award of \$25,000 to a sheet metal machine operator after the worker lost the tips of three fingers in a 1974 accident.

A jury had found the man and the manufacturer were equally responsible for the accident. Applying the state's 1973 comparative negligence law, the judge cut in half the jury's award of \$25,000 to Mr. Sutter.

Under comparative negligence, an accident victim's award is reduced to the extent he was "contributorily negligent."

A state appeals court awarded the man the full \$25,000. In upholding the appeal, the supreme court said a worker who uses a machine in a "reasonably foreseeable manner" and is injured because of a safety defect in the machine cannot be "contributorily negligent."

Penn. work comp

HARRISBURG—A 14.2% workers compensation insurance increase has been requested by the Pennsylvania Compensation Rating Bureau.

The proposed rate increase, filed with the state insurance department, would generate \$138 million in additional premiums. Workers compensation rates were last increased in December 1978.

Hearings on the request are being held.

Malpractice in Texas

AUSTIN—The Texas Supreme

Court declined to review lower court decisions that limit cross actions by doctors sued for medical malpractice.

A physician sued a patient and her attorney after they filed a malpractice suit against him. The doctor's suit charged the attorney was negligent in suing without properly investigating whether the suit was justified and had filed the suit "wantonly and with malice aforethought."

The district and appeals courts ruled against the physician's suit, saying he did not show that the patient had attempted to profit at his expense by coercing a settlement. In addition, the courts said the doctor did not suffer "interference" with his person or property, which is a requirement for a damage suit for malicious prosecution.

Fla. orders refund

TALLAHASSEE—Federal Insurance Co., a member of the Chubb group, was ordered to refund a total of \$206,256 to 176 umbrella liability policyholders in Florida.

The refunds stemmed from a routine audit of Federal's Florida operations by the state insurance department, which revealed the company failed to file with the department its commercial umbrella rates, which have been in effect since 1976.

Refund in Conn.

HARTFORD—Blue Cross & Blue Shield of Connecticut Inc. has been ordered by the Connecticut state insurance commissioner to return \$6.2 million to its more than one million Century Contract subscribers and to readjust its contingency reserves according to regulations.

The order came in response to a petition filed by the Connecticut Conference of Municipalities, a Century Contract subscriber, seeking a reduction in the insurer's \$61 million contingency reserve. The commissioner said that under regulations, the company's maximum allowable reserve is \$35 million plus "permissible additions."

Blue Cross/Blue Shield must either return a portion of the surplus reserves to subscribers or seek approval to add to the reserves.

Mass. limits liability

BOSTON—Massachusetts has passed a law limiting the liability of a municipality to \$100,000 in cases where a public employe negligently or wrongly causes "injury or loss of property or personal injury or death."

However, if the employe is held liable to the aggrieved party, the public entity may opt to indemnify up to \$1 million. All claims must be submitted within two years of the accident.

Public bodies can buy insurance for payment of damages.

Work comp changes

PIERRE, S.D.—The South Dakota Department of Labor has changed its weekly workers compensation rates from \$175 maximum to \$88 minimum. If the employe earns less than the minimum, the amount of compensation is the employe's weekly wage.

Other changes include:

- A first report of injury must be filed on every injury, regardless of whether there is a claim.
- Use of Form 8, "Final Receipt"

Continued on facing page



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Medical insurers boost rising hospital costs: Study

CHICAGO—Medical plan insurers must share part of the blame for the continuing escalation of hospital costs, a report by a national research group located here charges.

The report by the American Enterprises Institute for Public Policy Research says that the attractiveness of sophisticated new hospital equipment and the unstinting willingness of insurance companies to pay claims combined just about wreck efforts by the states to impose cost-containment restrictions on hospitals.

The report, "Hospital Certificate-Of-Need Controls" by David S. Salkever and Thomas W. Bice, complains that requiring hospitals to obtain advance autho-

rization for new capital investments has cut down the number of excess beds, but has been futile in stopping inflation of medical bills.

Health care costs in the country rose to \$114.7 billion in 1975 from \$35.7 billion in 1965 with the percentage of the bill belonging to hospital costs rising to 42.3% from 36.9%, the authors say.

Insurance companies, which provide about 90% of a hospital's revenues, impose "virtually no restraint" on how economical hospitals have to be in their practices, the report notes.

Insurance payments even encourage hospitals to invest in more expensive and sophisticated equipment, because hospital officials know that the insurance companies will continue to pay the costs. "The growth of insurance increases hospital per diem costs by causing hospitals to upgrade styles of care," the report contends.

Although 36 states now enforce certificate-of-need laws, first adopted by New York in 1964, the growth of medical costs has gone unchecked. Only the way hos-

pitals spend money is supervised, the report explains. Even so, hospitals have been free to put their money into new, advanced, expensive equipment which they might not always need because knowledge about this new equipment might be sketchy and "as a result, consistent standards for reviewing expenditure plans are virtually non-existent," the report says.

The report doesn't suggest sacrificing technology and possible breakthroughs in medical care just to lower costs, however. It sug-

gests that tighter controls be placed on hospitals to ensure that they don't go overboard in stocking up on new equipment.

The authors compiled their research for the Washington, D.C.-based group between 1968-72, with an update added just before publication last month.

Mr. Salkever is an associate professor of health services administration and political economy at Johns Hopkins University and Mr. Bice is a professor of health services at the University of Michigan.

States . . .

Continued from facing page and Release," will be discontinued, as the files must remain open for future medicals.

- Agreements for permanent disability compensation must be submitted for approval of Form 10 or a similar form. If the insurer wants to administratively close its file after payment of permanent disability, a request should be made by letter.

- Requests for lump sum payments must be made on Form 10 and be accompanied by a letter showing it is in the best interest of the employe to receive a lump sum payment.

- The insurer should not file a copy of medical bills; it is only necessary to file the surgeon's preliminary and final reports.

Ore. limits damages

SALEM—The Oregon legislature has approved a bill restricting punitive damage awards for product liability to cases where willful and wanton disregard for health, safety and welfare of others is proven. The bill will take effect Oct. 2.

The new law also provides strict reporting requirements for insurers notifying the state insurance department of products claims. Oregon insurers will be notified of the requirements soon.

Conn. risk pools

HARTFORD—Gov. Ella Grasso has signed into law a bill permitting the creation of municipal risk management pools.

The law, effective immediately, permits the formation of such pools as long as they have received at least \$1 million in contributions from members before commencing.

Del. work comp

DOVER—Delaware needs to hire a panel of experts to study the state's workers compensation law, a 20-member volunteer panel charged with the assignment has recommended.

Insurance commissioner David H. Elliott, head of the volunteer group, said, "The problems were so numerous and complex that any comprehensive review and revision of the system was simply beyond the capability of any volunteer commission."

Compensation time set

TRENTON—The surviving spouse of a worker who dies from a job-related condition has two years from the date of the death to file for workers compensation benefits, a New Jersey state appeals court ruled.

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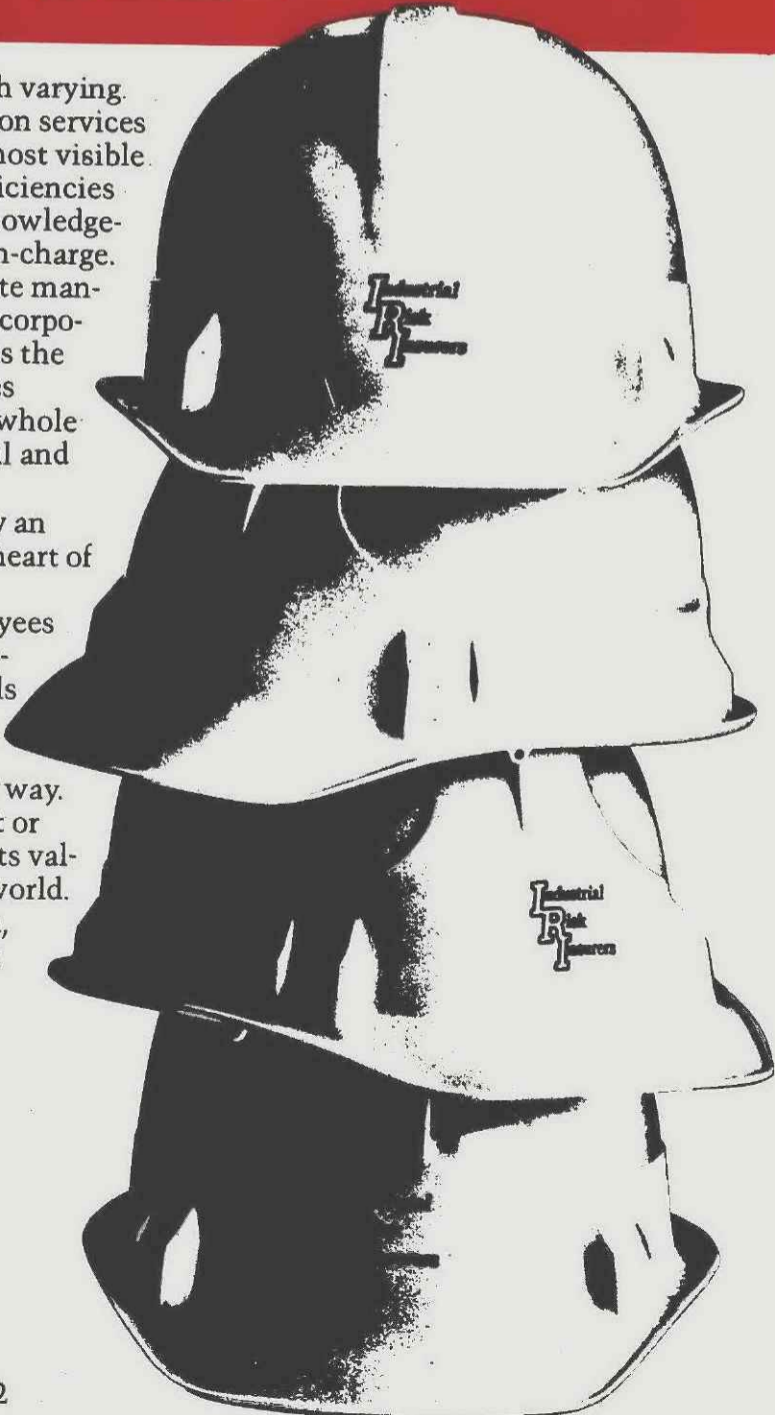
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Expect tighter markets by late 1980: Broker

By SUSAN ALT

TORONTO—The price competition now under way in the property-casualty insurance business is likely to continue well into next year, but buyers can look for higher premiums and restricted availability of coverage starting in late 1980 or early 1981.

Harold H. Hines, president of Marsh & McLennan Inc., made these predictions as part of a presentation to members of the American Risk & Insurance Assn., a group consisting mostly of members of the academic community, at its annual meeting here last month.

Though the insurance industry's most vocal leaders resolved several

years ago never to let "rapid, volatile price reductions happen again," they have been repudiated by the cost-cutting now under way, Mr. Hines said. "All the vital signs of the industry confirm that price reductions in almost all lines of coverage are likely to continue until emerging loss ratios compel adjustments. Lloyd's submissions are down 25%, surplus lines business is less robust, most carriers are cutting prices for old and new customers in order to meet budget growth goals," he said.

Moreover, the competition and price cutting, he insisted, amount to "more than sellers wish or buyers need."

At the same time, an economic decline may play more havoc with insurance prices, perhaps offsetting some of the price competition, Mr. Hines indicated. "During periods of rising unemployment, property and workers compensation claims frequency and severity increase. These statistically verifiable facts, plus less noticeable accelerations in crime and liability claims, produce insurance price changes in periods of growing unemployment," particularly when insurers "legitimately" hike their expected loss costs, he said.

Inflation adds to the price cycle difficulties in which insurers now find themselves, he said, pointing out that for every 1% increase in economic inflation, there is a .8% increase in carrier costs for losses plus all other expenses.

Price cycles, despite what insurers would like to think, are an inherent part of the insurance business, Mr. Hines said, likening the insurance market to other "commodity" markets where free market forces are at work. "During the past 25 years, with one minor variation, three years of underwriting gains have been followed precisely by three years of underwriting losses," he noted. Thus, free market mechanisms and competition in the insurance industry have produced cyclical but highly predictable insurance prices for most buyers, he believes.

Not only are price cycles in the insurance business inevitable, but they are also desirable, Mr. Hines said, "for their alternative would subvert market freedom and therefore increase costs" in the long run.

Overall demand for insurance is relatively predictable and will continue to increase along with inflation and along with the process of spreading higher loss costs over society via the mechanism of insurance, Mr. Hines believes. This is in spite of the increase in corporate self-insurance programs, he observed.

"In spite of buyers' efforts," he asserted, "demand conditions are static, predictable and don't affect prices very much, particularly in comparison to surges and constrictions of supply."

Volatile price swings frequently reflect an overreaction by underwriters to the possibilities of larger losses, Mr. Hines thinks. "During the malpractice and product liability crises of recent years, draconian price increases were imposed because of enormous claims expectations. Usually, judgments about anticipated losses overstate reality when they result in very large and rapid overall price escalations."

A period of healthy underwriting profits generally follows these huge premium hikes, he indicated.

If the New York Insurance Exchange operates as intended, it is likely to result in "relatively lower (insurance prices) in all phases of the underwriting cycle," he added. ■

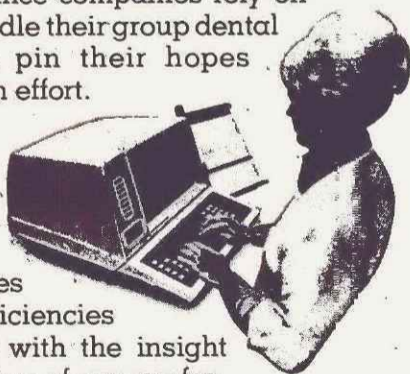
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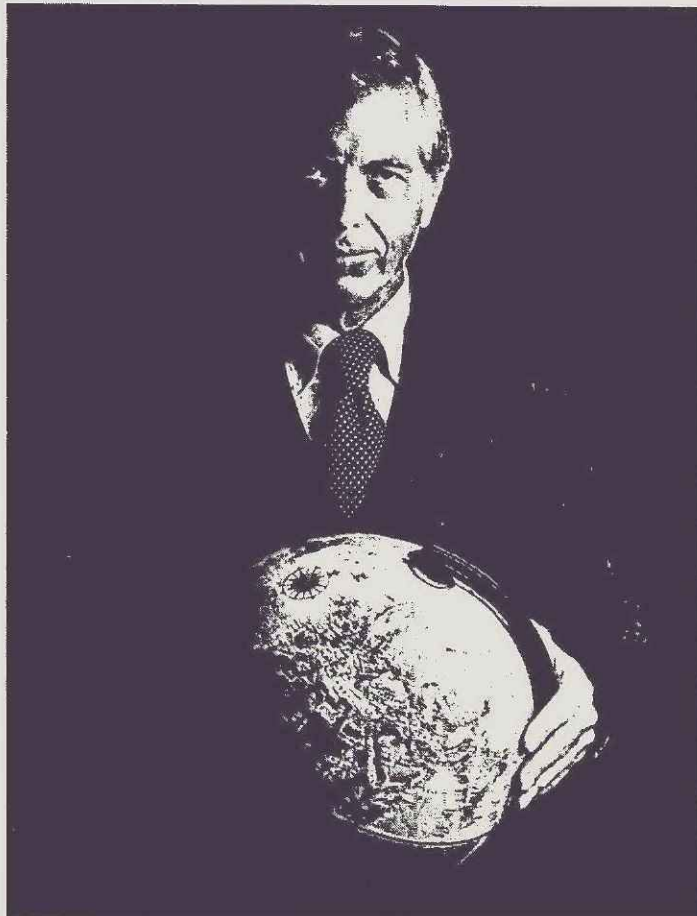
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London line

Arab insurers threaten Lloyd's boycott

By JOHN H. MILLER

LONDON—Insurance companies in Kuwait and Bahrain are threatening to boycott Lloyd's because marine underwriters have declared that the Persian Gulf should be treated as a war risk zone for tankers and other shipping activity.

But the U.K. market is taking the protests quite calmly. A comparatively small part of its business comes directly from companies in that area. Shipping insurers are satisfied they have taken the right step as a precaution against tankers being laid up in the Gulf if extremist actions block the tiny exit

through the Strait of Hormuz.

They deny any political plot is involved and point to the U.S. State Department as the source of rumors that a Palestinian terrorist group might try to hijack a tanker in the Gulf in order to draw attention to world attitudes about Israel.

Rumors of possible guerrilla action reached Lloyd's last month, and marine underwriters gave notice that the Gulf would be treated as a war risk zone as of Aug. 14. This means extra premiums can be charged for hull risks on merchant vessels going to that area, but there has been no change in cargo coverage.

Business leaders in Kuwait as-

serted that this step has created an "unnecessary atmosphere of fear." Bahrain joined the move to get insurers in other Gulf States to protest to Lloyd's. Marine insurers in London contend they have merely taken a prudent step in reassessing war risks, including, guerrilla action, in those areas and say their attitude is no different from that adopted for the troubled area in the eastern Mediterranean Sea near Egypt and Israel, which also requires special war risk coverage.

Reinsurers dispute loss

Reinsurance claims totaling nearly \$10 million are causing a dis-

pute over liability coverage placed by a Toronto insurance firm with the French insurance company Groupe Sprinks.

Frank Elger & Co. of Toronto in 1974 sought substantial quota-share reinsurance for the first \$100,000 of each claim on a large line of commercial liability risks.

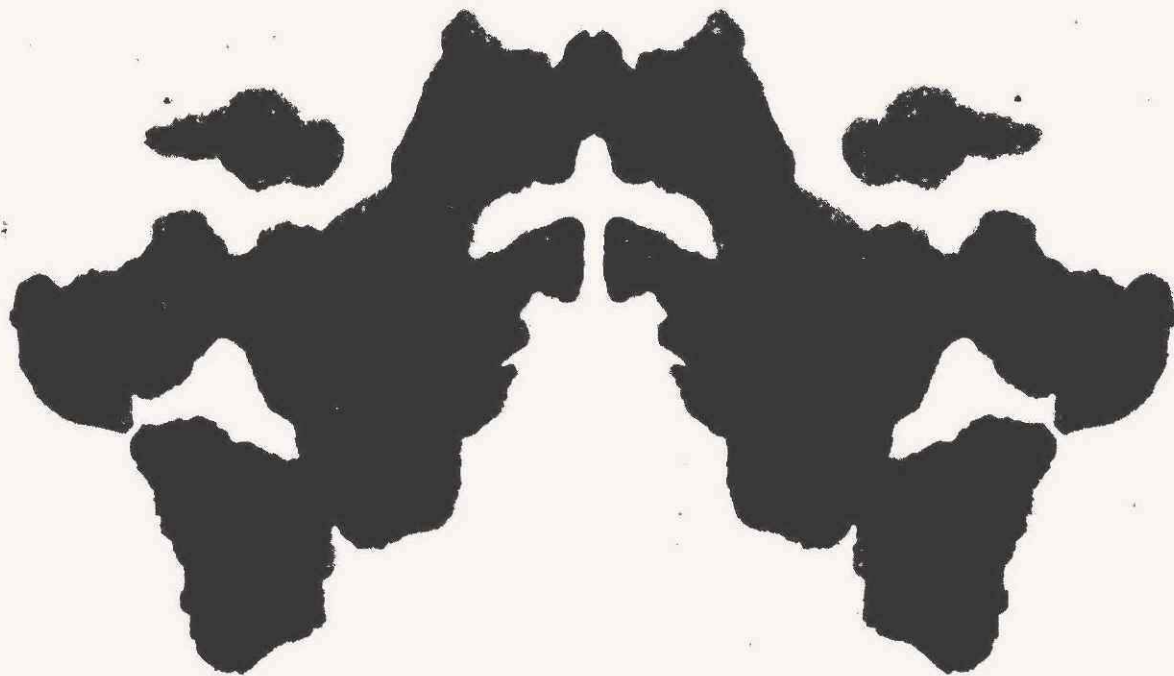
A large part of the risk was placed with Groupe Sprinks, which further reinsured the risks elsewhere. Later, however, the Canadian firm desired still greater coverage and arranged an additional line through Commonwealth Insurance Co. of Winnipeg, which also reinsured some of those risks.

Claims have now reached a high enough level to trigger debate among reinsurers over who will finally pay for losses. Consultations are being carried out to try and settle the problem, according to U.K. market reports.

Arrangements for some reinsurance facilities were made by Bowes & Co., New York-based subsidiary of Lloyd's brokers J.H. Minet, and also by C.E. Heath, another Lloyd's brokerage firm, which bought 80% of Groupe Sprinks last year. Both brokers reportedly believe the reinsurance is outside the U.K. market and that Frank Elger & Co. likely will determine the outcome of the liability question.

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Rules affect Lloyd's

Solvency rules that cover most insurance companies in Western Europe are now being applied to Lloyd's of London in order to meet the legal requirements of the European Economic Community for countries under its jurisdiction.

The aim is to ensure that world premium income is enough to meet claims, especially in the event of catastrophes. U.K. government authorities are satisfied that Lloyd's falls within the financial safety limits. Lloyd's isn't expected to have any difficulty complying with the new provisions.

Since Lloyd's assumes ultimate responsibility for the liabilities of any of its members, there is no danger of any non-payment of claims, the government reasons.

Estimates by U.K. government officials put Lloyd's 1977 net premium income at more than \$3 billion, the latest year available for complete returns, indicating a solvency margin of \$300 million to comply with the European trading requirements. Lloyd's has assets in the form of its own holdings and those of its 17,000 members totaling \$1.5 billion, in addition to sums set aside to meet current liabilities. Thus, Lloyd's probably has about five times the legal margin laid down by the E.E.C., observers calculate.

Lloyd's is treasure trove

Souvenir hunters are busy at Lloyd's as it begins to rebuild its former underwriting room at a \$100 million cost.

Collectors already have offered more than \$200,000 for historic items like marble plaques and urns which stood in the room for many years until 1958, when it was replaced by the present Lime Street building.

Stained glass windows are going for \$2,000 each, copper screens for \$400 and lighting fixtures for about \$100. Chandeliers and doors are available, together with 80 typically English mahogany toilet seats valued at \$10 each.

Lloyd's staff has priority to buy their own mementos of the building, which was operational headquarters for 30 years until the more modern building was constructed.

Lloyd's modernization and expansion program is intended to provide adequate space for the next 20 years, requiring double the underwriting space now available.

Brokers seek approval

Insurance brokers in the U.K. are now being approved by a government-created body, the Insurance Brokers Registration Council, to make sure they are qualified to give proper service to clients.

The registrations will take at

least another 18 months to two years to complete, as there are estimated to be at least 16,000 brokers or agents and 6,000 brokerage firms to deal with.

Most of them are already members of professional organizations like the British Insurance Brokers Assn., which represents Lloyd's brokers. Thus, it's expected that brokers' qualifications can be processed quite speedily.

To comply with broker legislation adopted by the U.K. government two years ago, there must be formal approval of broker qualifications. This is now being completed.

Material written recently by a London-based risk management consultant, Jim Bannister of Risk Research Group, indicated the council had refused to authorize at least one brokerage firm that was a captive of a larger corporation. Mr. Bannister declined to disclose the identity of the firm.

"We're not aware of anybody being excluded if they have the proper qualifications and can comply with the financial requirements needed to protect the public," an officer of the Registration Council explained. "But in any case, many people have yet to be registered, and there is the right of appeal to the council if an applicant is refused approval. There is plenty of opportunity for any problems to be discussed."

Brokers who are members of captive brokerage firms are fully entitled to registration, like those of other brokerage operations, if

they meet the necessary qualifications. But if they have no professional experience and are merely directors or executives of a brokerage firm for other business reasons, they might have difficulty getting approval to call themselves insurance brokers.

"We don't know of any captive broker executive having registration queried, but if this is so, then there are facilities for pursuing the matter if details of any refusal are provided to us," the officer added.

Suit filed

American International Group is suing the Bank of England to remove the words "American International" from one of their subsidiary financial corporations, London American International Corp. Ltd.

The suit, filed in London's High Court and the Southern District Court of New York, contends there may be confusion between the two companies even though LAICL does not deal directly in insurance. If U.K. banking corporations refuse to remove the words, lawsuits may be filed in other countries.

The Midland Bank of London has a 75% stake in LAICL and the Bank of England also holds shares in the company. The case will not come to trial in London for at least a year and the U.S. case probably will be heard first.

Captives' potential

Captives will gain as much as

40% of the commercial insurance market by 1990, predicts Robert A. Baker, president of Skandia Corp.'s newly formed Bermuda subsidiary, Hudson Underwriting Ltd.

Insurance companies may dislike that development, but they must look forward to a continuing loss of business to captives because captives have direct access to reinsurance cover, he warned at a conference organized by the U.K. Reinsurance Offices Assn.

Close observers of the captive scene currently estimate captives are responsible for 7% to 10% of commercial risk premiums, but it's estimated this will rise to between 20% and 40% in the next 10 years, Mr. Baker added.

"Captives are representing the largest and best risks, the kind the primary companies don't like to lose," he said. "Some insurance companies have made a virtue out of necessity by entering the risk management business or managing captives, but for reinsurers the outlook is much happier."

"Captives often provide the most profitable kind of reinsurance as they have studied their risk position and are well aware of the economic effects of losses," he explained.

"They are interested in loss prevention and do something about it. Because they tend to be formed by the larger corporations, they often have the best physical plant."

The only problem facing reinsurance companies is the possible expansion of captives' reinsurance

underwriting, he said. "Ten years ago their capacity would have been welcomed as an adjunct to strengthen the market, but now the reinsurance market suffers from a surfeit of capacity and any extra capacity will now make its position worse."

Fire protection

F.W. Woolworth in the U.K. is banning customers from smoking in any of its 1,020 department stores and is installing new fire alarms and sprinkler systems.

An F.W. Woolworth store in Manchester suffered a \$6 million blaze this year which engulfed its furniture store and spread toxic fumes from burning polyurethane foam.

The U.K.'s minister for consumer affairs, meanwhile, is consulting manufacturers to be sure furniture made out of the foam is protected from customers smoking or lighting matches.

There are fears that fumes from burning plastic in furniture store fires could kill people, recalling such fumes from a fire in the sleeping compartments of an English train last year killed nine people.

There is no proof that fumes from burning plastic killed the nine people who died in the Manchester Woolworth's fire.

U.K. insurers' profits

Foreign earnings by the British insurance industry last year are likely to put record profits of \$2 billion into the nation's economy,

says the U.K. government's trade department in a survey of 1978 business returns.

But "protectionist tendencies" in some parts of the world, as well as harder competition for business in markets still open to international insurers, make the outlook for 1979 uncertain.

French links

Lloyd's broker Bain Dawes is breaking away from U.S. link-ups by arranging for the French financial company, Worms Group, to buy a 20% stake in its activities for \$10 million.

Lloyd's has agreed to the deal, which will help Bain Dawes expand in Europe. Chairman Robin Warrender pointed out that many brokers had been falling over themselves to create trans-Atlantic links but seemed to have ignored European opportunities.

Industrial safety

The U.K. Health and Safety Commission, which supervises many British industrial operations, is compiling statistics to improve industrial safety.

The commission has produced a catalog of 1,500 national reports and regulations which employers may buy from government offices.

Bill Simpson, commission chairman, said, "The statistics... will be a true picture which will enable safety facilities and resources to be properly allocated so as to prevent many workplace accidents." ■

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Pinto suits charge Ford with homicide

By ROGER ROWAND
Crain News Service

WINAMAC, Ind.—In just about 60 days a jury in conservative, agricultural Polaski County, population 12,500 will begin to hear prosecutors build their case of homicide against Ford Motor Co.

Homicide.

That a company is charged with such a criminal offense is unusual, of course, and Ford attorneys have called the matter bizarre. The prosecution, on the other hand, says there is plenty of precedent.

Either way, there is no doubt the trial is one a broad spectrum of the automotive world will find fascinating. It should prove to be dramatic and precedent-setting.

The case listed as No. 11-431 began Aug. 10, 1978, when a Chevrolet van rammed hard into the rear of a 1973 Ford Pinto and the Pinto caught fire. The Pinto was occupied by teen sisters, Judith A., Donna M. and Lynn M. Ulrich. The car was stopped on U.S.-33 near Elkhart so the girls could check to see if the gas cap had been replaced after a self-service fill-up. Two of the girls died in the crash; the third lived for eight hours.

The facts of the car crash have faded in importance. Now it's a case of homicide with the car's maker as the defendant. The van driver is out of the picture.

In February 1979 Ford pleaded innocent.

Though words such as homicide and recklessness are used, the Elkhart Pinto case plainly is one of product liability.

When the Elkhart County grand jury in September 1978 handed down its indictment of the No. 2 automaker it listed four counts: three of reckless homicide and one of criminal recklessness.

The panel said Ford "did recklessly authorize and approve the design and did recklessly design and manufacture a certain 1973 Pinto in such a manner as would likely cause said automobile to flame and burn upon rear-end impact." It said Ford allowed the car to remain on the roads of Indiana after it was aware of hazards.

It was immediately clear that if the case went to trial it would be a matter of expert witnesses and documents, not one of witnesses, hardware evidence and courtroom histrionics.

First, however, there had to come the technicalities of criminal defense. Men representing Ford poked at the indictment's wording, slashed at its constitutionality and persistently said federal automobile laws and interstate commerce laws preempted Indiana laws.

They cited what they called sparse wording and vague allegations and said the indictment was defective.

Ford said it designed and built the Pinto in 1973 and wasn't indicted until 1979 under a statute effective in October 1977, more than four years after the conduct Indiana calls reckless. That's ex post facto in courthouse circles.

There was no way Ford could have known it was subject to Indiana criminal statutes because the statutes are vague as to whether they apply to corporations and as to what a corporation's duties are, the company said.

Also, Indiana laws are preempted by federal law. "Congress considered and rejected the imposition of criminal penalties for misconduct in the design, manufacture and modification of automobiles," Ford said.

And if state laws covered such matters, there would be an unreasonable burden on interstate commerce, it said.

Product liability impact

Ford Motor Co. is embroiled in one of the more interesting and unusual product liability cases in years over the deaths and injuries that have occurred to Pinto owners and passengers. The article reprinted on these pages is taken from *BI's* sister publication, *Automotive News*, with permission. It sheds worthwhile light on the legal proceedings surrounding suits filed against Ford, now in court, which undoubtedly will have significant impact on the liability environment in which corporations operate.

The trial starts Nov. 5 in the large, three-story stone courthouse here. It is aged but recently was remodeled with new floors and seating. Judge Harold Stafelt will preside and Sheriff Paul Schultz will handle protocol and the trial's 50 or so

spectators.

Facing the company will be a 42-year-old Republican part-time county prosecuting attorney, Michael A. Cosentino. He works from a small storefront office suite in downtown Elkhart, 80 miles from

here. He's been with the prosecutor's office as deputy and chief deputy and prosecutor since 1963. He was first elected in November 1974 and last November was re-elected without opposition. His staff is small, partially volunteer and extremely gung-ho.

Mr. Cosentino has requested reams of documents from Ford and, at this stage of the game, is verifying documents—making sure they're what they are purported to be.

"I believe we have enough," he said. "I don't have to go fishing. I'm all set to go to trial."

Pintos and Ford have been involved in recent years in several big-buck personal injury and wrongful death cases across the country. Plaintiffs' lawyers in

some cases have been loud in their castigation of Ford. They have accused it of hiding evidence, for example.

Mr. Cosentino is cautious and alert. He asked a reporter for two pieces of identification. Once he had his office swept electronically for bugs. But he is not taking any swings at the company.

"I have had no indication Ford is going to do anything but play straight down the line," he said. "I've seen no cause for any alarm at all. They have a job to do and they're doing it."

The prosecutor disagrees with the company on most points.

"This case is not about big business," he said. "It is about homicide."

"Ford has systematically tried to
Continued on next page

Why employee benefit communications don't always communicate.

J&H points out some expensive mistakes.

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A group of J&H Communications Consultants at a videotape facility. Seated: Dennis McKay, Vice President; Agnes Gioconda. Standing: Thomas Loughrey, Joan Korn and Robert Lang.

Pinto suits . . .

Continued from previous page
make this case what it is not. But the state has responded in a traditional manner to three local deaths it claims resulted from criminal misconduct," Mr. Cosentino said.

The state doesn't want to "chill" manufacturing generally, but "it does desire to deter outrageous decisions to sacrifice human life for profit."

The prosecutor said there are more than a million Pintos on the road known by Ford "to possess an intolerably unsafe design which would predictably and unnecessarily take human life."

Ford's position as a member of the auto industry does not grant it exemption from those laws which every member of society is expected to observe, the court was

told.

Prosecutors said there is plenty of precedent for charging a corporation as they have. They cited cases going back to 1855 that involve railroad and ship passengers, victims of household gas, an improperly maintained bridge and hazards of a dam construction site.

Prosecutors said Indiana law says, "A person who recklessly kills another human being commits reckless homicide."

Ford attacks the words and says use of "person" to describe potential criminals—rapists, for instance—cannot seriously be taken to embrace corporations.

"This argument patently exploits the corporate fiction," prosecutors argued in their filings.

The duty of a manufacturer regarding the design and placement of fuel tanks has been the subject of seven appeals of court decisions and seven have been decided against Ford, the court was informed.

Prosecutors also pointed to the recent expansion of the product liability concept. They pointed to a 1967 General Motors case which they said requires reasonable design to protect the driver in collisions over which the manufacturer has no control.

They cited a 1968 case that led to a well-known second-collision ruling requiring protection for occupants colliding with the interior of a crashing car.

In citing past cases involving Ford and rear-enders with fire, prosecutors said that in 1978 the Illinois Supreme Court rebuked Ford for "falsifying answers to interrogatories and secreting evidence damaging to its case."

They said in 1978 a federal court "chastised Ford for falsifying discovery by withholding a key document."

Ford has lost four cases in fire deaths or serious injury with the losses based in defective design, manufacturing and marketing of Pinto.

Indiana prosecutors minimize effectiveness of Ford efforts to warn people of Pinto fire hazards. They said Ford's attempts to warn the Ulrich family consisted of a press release dated June 9, 1978. The first

Pinto recall letter on tanks was sent Aug. 22, 1978. That was 12 days after the deaths.

They also said punitive damages are neither unusual nor new in product liability cases. In citations they included an Orange County, Calif., case in which a jury awarded \$125 million in punitive damages. That case involved a man severely injured in a 1972 Pinto fire. The damages later were cut to \$3.5 million. Before that case, the record for similar punitive damages was \$6 million.

There are some idiosyncracies in Indiana law that pertain to this case.

For instance, Hoosier law limits compensation in wrongful death cases to reimbursing the family for expenses incurred because of the deaths. That's all, just expenses.

The state's penal code recently underwent a massive overhaul and the reckless homicide statute had an effective date in 1977. There is the contention no crime was committed with the Pinto because it was designed, built and sold long before the law went into force. That's the ex post facto element.

Prosecutors compared this with other laws, including those covering habitual offenders, however, and said Ford's argument is ineffective.

Ford said the National Traffic and Motor Vehicle Safety Act of 1966 took jurisdiction over such cases out of state hands. Indiana replied that police powers lie with the state—especially highway police powers. Too, the reckless homicide statute is a law, not a regulation, they said.

They also said meeting federal standards, which are minimums, has no bearing on this case or in product liability cases.

Court files grow thicker, crammed with motions, answers, appeals and denials.

Ford early on was allowed to take the case to the Indiana Court of Appeals even though there has been no final judgment. That was because the fiery Pinto case involves substantial questions of law.

The case was moved from Elkhart to Winamac, one county removed, because it was apparent—through polls—that most people in

Elkhart County and environs believed they couldn't give the state, or Ford, a fair trial.

Since 1969, Indiana has been in the forefront of liberalization of discovery in criminal cases. That means many facts can be unearthed before trial.

There are no 5th or 14th Amendment safeguards against self-incrimination, but the trial court, in advance, sets down discovery guidelines.

In outlining its discovery needs, the prosecution said: "The legal, investigative and manpower resources of Ford Motor Co. are comparable to those of the prosecution."

"Alleged criminality of this defendant, due to the nature of its enterprise, is locked within its organization," they said.

Requests under discovery rules clearly give a look at which way the wind blows. This is what Indiana is after:

- Names of members of engineering product planning committee, Product Development Group, 1966 through 1967.

- Attendees at product review meetings regarding fuel tank integrity standards on dates from March 11, 1970, through April 22, 1971.

- The date the "clay point" and "hard point" approval were reached during the course of the 1971 Pinto development program.

- The names of engineers responsible for determining design alterations on '71-'78 Pinto filler pipe connections, frame rail support and other fuel tank integrity material.

- Results of crash tests prior to the sale of 1971, '72 and '73 Pintos and information on all Ford fuel tank litigation.

- Results, film and still photos of 34 crash tests by date and vehicle. Those include crashes of a 1966 Rover 2000, a 1969 Toyota, a 1970 Maverick and, of course, Pintos.

Among information sought:
All data relative to critical product problem procedure system; fuel system integrity financial review, April 22, 1971; confidential cost engineering report; fuel tank proposals, and one two-page document called "overaxle tank design."

Results of three test crashes already are in the files here.

One was run Oct. 10, 1970. A 1971 Pinto two-door sedan was towed backward to crash at 21.5 miles per hour.

The report shows the filler pipe pulled out. There was a puncture of the upper right front surface of the tank caused by a bolt on the differential housing.

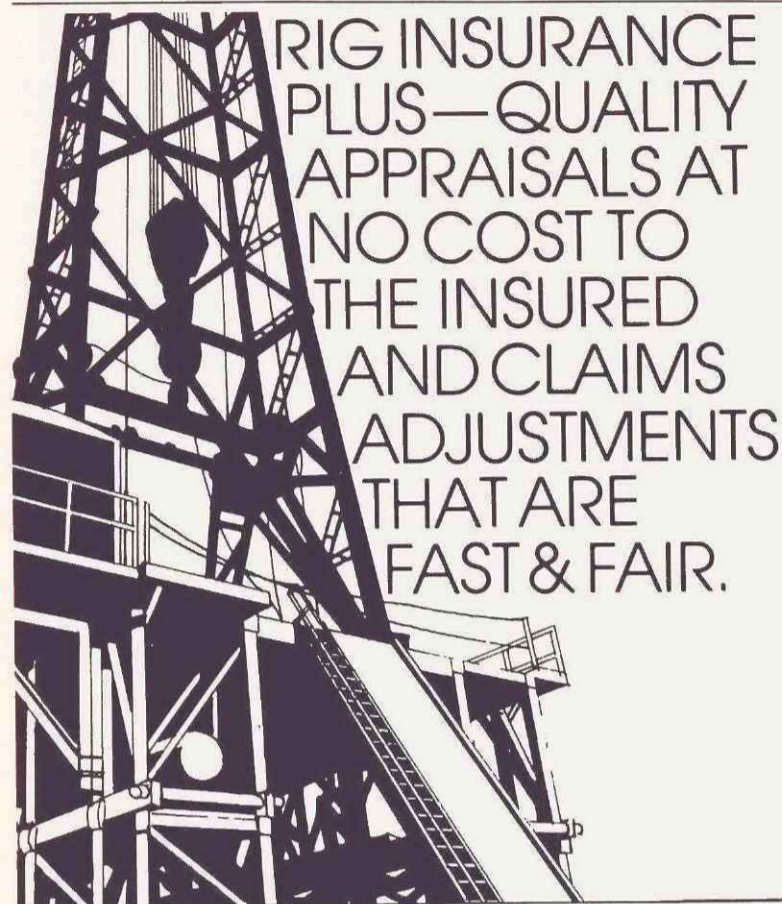
On Jan. 1, 1971, a '71 Pinto was crashed at 26.3 mph. That car had been fitted with a nylon-reinforced rubber bladder fuel cell in a vented, production steel tank.

After the crash, the liquid used to simulate fuel in such tests leaked profusely from the filler pipe where it was punctured by the spring shackle housing. The tank was deformed but there was no bladder leak.

On Sept. 26, 1973, a 1974 Pinto prototype was hit at 30.9 mph in a fuel system and rear structure test. There was immediate leakage.

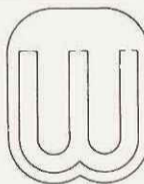
"During impact, the fuel tank mounting straps disengaged from their rear anchorages and the fuel tank dropped to the ground, slipping off the filler pipe and causing the evaporation system check valve on the top of the tank to pull off, resulting in subsequent leakage," the report said.

Also in that test, the fuel tank was deformed by the rear underbody structure, the differential housing and the rear axle.



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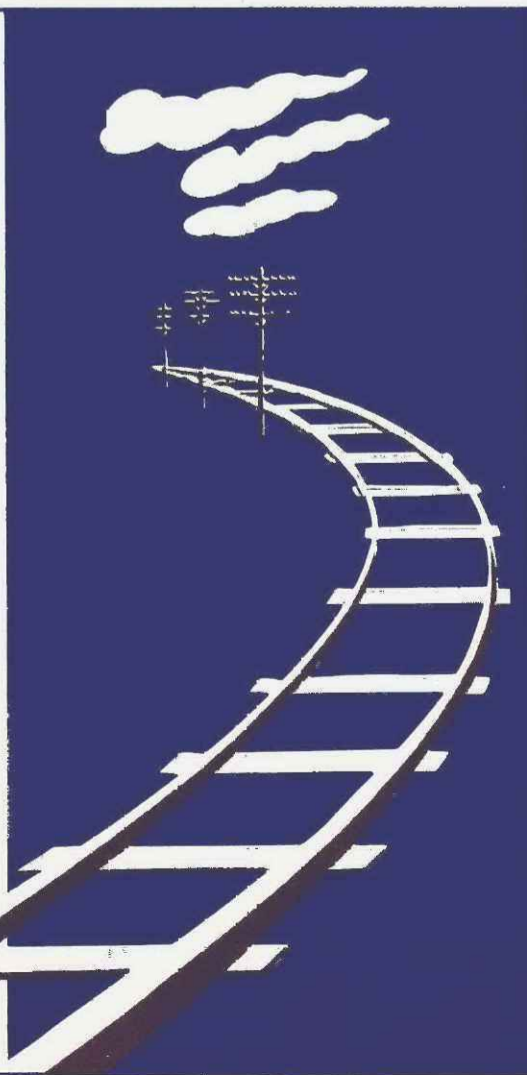
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La. self-insured health plans disputed

BATON ROUGE, La.—The separate self-insured health insurance programs for Louisiana state employees and city of New Orleans workers are embroiled in charges of mismanagement.

Administrators of the state program have been accused of mismanagement and wrongdoing and the city plan is in the courts because an administrative services contract was awarded without competitive bids.

At the state capitol, a special legislative subcommittee has been conducting hearings on the state employees' health insurance plan after charges of poor administration and illegal activities were leveled in May at program administrators. Three former state employees charged that the 80,000 state workers covered under the plan were being "ripped-off" under the plan. So far the committee has taken no action.

Meanwhile, New Orleans Mayor Ernest N. Morial is appealing a civil

Continental buys interest in Stenhouse

NEW YORK—Continental Corp., holding company for Continental Insurance Co. and wholesale broker Swett & Crawford, has acquired a 20% interest in United Kingdom-based Stenhouse Holdings.

The Continental purchase of 7.6 million shares for approximately \$18 million puts the firm into the United States retail brokerage business through the 21 Reed Shaw Stenhouse offices in the United States and also provides a financial interest in two Lloyd's of London brokers owned by Stenhouse.

The two insurance groups are likely to collaborate on future insurance ventures including self-insurance services and projects for the New York Insurance Exchange, though ideas are still under discussion, said a Continental spokesman.

"The acquisition was designed mainly to contribute to the diversity of our insurance holdings," he said.

This is the first time a U.S. insurer has purchased an interest in a firm owning a Lloyd's broker, though broker Swett & Crawford purchased an interest in Harris & Dickson late last year.

The U.S. division of Reed Stenhouse (owned by Stenhouse Holdings) has discussed a merger with Pinehurst Corp., a diversified insurance services corporation, but broke off talks when Pinehurst became dissatisfied with potential impact on its stock. Reed Stenhouse had been seeking U.S. expansion capital at that time.

Meanwhile, another U.S. insurer, Reliance Group Inc., is planning a similar move through acquisition of 20.1% of Rothschild Investment Trust Ltd., a U.K. holding company for the majority of the Leslie & Godwin Lloyd's of London brokerage.

Reliance, a property/casualty insurer, is offering Rothschild nearly \$36 million for about 5.4 million shares of stock. Rothschild's \$275 million assets do not include the Leslie & Godwin U.K. retail insurance brokerage that is owned by U.S. broker Frank B. Hall.

Hall was prevented from purchasing all of the Lloyd's brokerage by a Lloyd's committee ruling last year barring more than 20% foreign ownership of a Lloyd's admitted broker.

district court judge's ruling that an administrative services contract for the health insurance plan covering 12,000 city workers should have been put out for public bids rather than unilaterally awarded to a private agency.

The city council sued the mayor last March after Mr. Morial placed the administrative services contract with a local agency, moving the business away from Louisiana Health & Indemnity Co., a Blue Cross-Blue Shield affiliate that had been the city's health insurer for 37 years. New Orleans started self-funding health insurance benefits in January 1978.

The state controversy surfaced in late May and early June when a former director of the program, Robert Dornblaser, told a state appropriations committee that the assis-

tant commissioner of administration, Joseph Terrell, ordered some administrative expenses for the program to be hidden under miscellaneous categories rather than itemized to the committee.

House speaker E. L. Henry then appointed the special investigative panel which heard further testimony from two other disgruntled state employees. The testimony implicated Mr. Terrell and Charles E. Roemer, chief of the division of administration, in the alleged hiring of costly, politically connected consultants and illegally splitting agent's fees. There were also allegations that the program was being so badly mismanaged that there was a backlog of between 10,000 and 12,000 unsettled claims.

Mr. Roemer and Mr. Terrell later

denied all charges against them. They acknowledged there was a backlog of claims cases but said it was small and had been virtually eliminated. Mr. Roemer said claims are nearly current and the program is even ready to absorb 30,000 state teachers as had been previously proposed.

"There has been no finding of any wrongdoing and there isn't going to be any," Mr. Terrell said. He and Mr. Roemer said they consider the investigation to be politically motivated by state representatives seeking re-election later this year.

The program has saved an average of \$2.5 million per year since the state went self-insured for health insurance in 1974, Mr. Roemer said.

The state has just recently expanded benefits to include full ma-

ternity benefits for women employees while catastrophic coverage is being increased to an unlimited maximum from \$50,000. Semi-private hospital room benefits are being increased to \$70 per day from \$45.

In the New Orleans case, Jack A. Parker & Associates, the firm awarded the contract by Mr. Morial, will be allowed to handle the administration of the city's health insurance plan pending the outcome of the mayor's appeal.

The contract pays the Parker firm 3% of all hospital charges and 5% of all other benefits payments.

In appealing the civil district court ruling, Mr. Morial argued he was entitled to grant a contract for professional services to any qualified person or firm without the bidding process.

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Directors battle at ailing California Life

LOS ANGELES—Directors at the financially ailing California Life Corp. are struggling for control of the company which recently posted a \$3.2 million loss for 1978, casting doubts about its ability to survive.

Former chief executive officer and current shareholder, Harry H. Mitchell, who was ousted in a management shake-up last May, said he wants to replace current chief executive Joseph P. Monge with an unidentified "healer of distressed companies," to elect a new slate of shareholder-oriented directors and attract fresh venture capital.

The major subsidiary of the troubled holding company is California Life Insurance Co., which writes group and ordinary life, group health and dental/vision policies as well as group and individual pension plans. At the end of 1978,

the company had 125 group life, group accident and health policies in force covering about 290,000 persons.

Total insurance in force at the end of 1978 included 50,481 policies with an aggregate face value of \$1.008 billion. At the end of 1977, 44,916 policies were in force with an aggregate face value of \$705 million. About 23% of the insurance has been reinsured or reinsured with other carriers.

Mr. Mitchell has been trying to sell shareholders on the idea of a shareholders' protection committee to help reorganize the ailing company. The company's largest shareholder with about 10% of voting stock, Mr. Mitchell said he did not want a proxy fight but would resort to one if necessary to turn the company around.

Current chief executive Mr.

Monge has been liberally wielding a financial scalpel since spring. But Mr. Mitchell charges that operations had not been slashed "far enough and fast enough" to enable the company to restore preferred dividend payments and revive investor confidence. He said still more capital is needed and called for a substantial reduction of cash-draining, high commission insurance policies. Many of the policies had lapsed before the company had fully capitalized acquisition costs.

He said the basic strengths of California Life still could be marshaled but time was running out. "The situation is worsening on almost a daily basis," he said.

Mr. Monge, who had agreed to serve only temporarily, says Mr. Mitchell hasn't been able in the

past to gather support for his proposed organizational changes. The latest attempt, reflects Mr. Mitchell's "continuing inability to face the facts" which led to the May ouster, Mr. Monge said.

The company has already moved to eliminate or reduce business with little long term earning potential and staying power, primarily personal lines products. It plans to test market new lines of insurance in coming months and implement new accounting controls, but Mr. Monge would not elaborate.

Marketing cutbacks have resulted in staff terminations and remaining employees have less breathing space since surplus offices have been leased out. "We've just sublet the 17th floor here," Mr. Monge told *Business Insurance* in his 18th-floor office atop the California Life home office. "And we'll

use the whole bag of tricks, major and minor, to cut expenses and reduce overhead."

He attributed the company's problems to its "very costly acquisitions trail," its marketing program by which first-year costs of new policies dangerously exceeded likely premium revenue and the establishment of an ill-starred computer service center which had caused a hemorrhage of cash.

"We feel confident we are doing the best job we can and we are already beginning to feel a turnaround (in the company's fortunes)," he said.

Although the company enjoyed a marked increase in 1978 sales, the new policies were not "strongly persistent," he said, indicating the policies were money losers. An effort is under way to substantially reduce underwriting of such soft business by the end of the year.

It has discontinued the Double Protector, its principal individual life product whose profitability has been questioned by the state's insurance department because both first-year acquisition costs and the rate of lapses were exceptionally high.

It also modified the commission and premium-rate structures of its Vari-Plan life policy to discourage agents who have been seeking quick commissions by selling the policy to people likely to default on premium payments.

Mr. Mitchell says, however, that sales for the year will still generate very high first-year premiums and he predicts substantial losses for 1979, "undoubtedly much higher than in 1978."

The company's computer service center, World Network Systems Inc., which serves the basic data processing needs of California Life Insurance Co., has found itself all dressed up with nowhere to go in its attempts to lease surplus capacity.

Revenues from leases have fallen far short of the figures needed to offset high equipment and facilities costs, creating a cash problem which Mr. Monge acknowledges is severe.

Last month the troubled company filed its 10K statement with the Securities and Exchange Commission four and a half months late.

The statement said the company's survival will depend on its ability to generate enough cash flow to meet its obligations and its compliance with the terms of financing agreements.

The company's auditors, Deloitte, Haskins and Sells, had been embroiled in a dispute with the company over a new auditing approach to the capitalization of selling which culminated in the May shake-up. The auditors would not comment on the 1978 figures. The auditors said in a letter: "There are conditions which may indicate the company will be unable to continue as a going concern."

The 10K statement said the 1978 loss was less than the \$3.8 million projected by current management but far from the profit expected by the previous team. The company had earned \$2.1 million in 1977.

The company was unable to say when it might resume payment of preferred dividends on its three loan issues of preferred stock.

Several lawsuits alleging misleading financial statements have been filed by stockholders against the company and its subsidiaries. Three of the suits were filed in federal courts in Los Angeles and New York.

All the directors of California Life Corp. are named in the suits seeking an undetermined amount of damages. The company said it has \$3 million of directors and officers insurance but would not divulge the insurer.

Facultative Reinsurance Questions & Answers #2

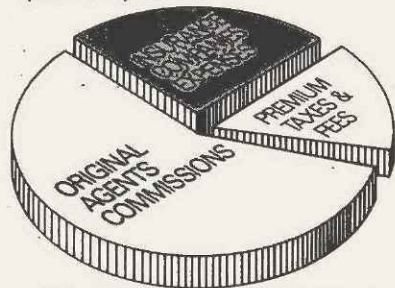
A conversation with Pete Greene, Manager of the Prudential Reinsurance Company's Facultative Regional Office in Houston.

Q: Do you write so-called "tough risks"?

A: Yes. Prudential Re is not shy about writing the tough ones. Right here in Houston, we cover most phases of the oil industry, including the particularly difficult liability coverage required under the U.S. Longshoreman and Harbor Workers Act. We also use our capacity to cover the property exposures, like builder's risks on offshore pipelines, and operating risks for inland drilling rigs. Prudential Re also covers a variety of risks on other energy-related projects. Of course, we welcome a wide range of normal risks, too.

Q: What ceding commission does Prudential Re pay on reinsurance premiums?

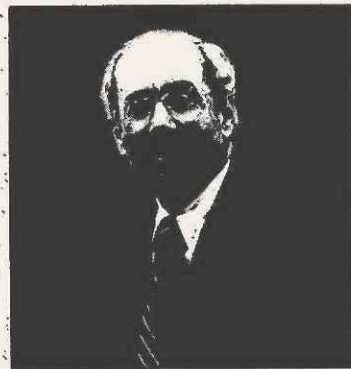
A: We pay an amount to cover our share of premium taxes and fees, the commission paid to the original agent or broker, and the insurance company's operating expenses. Naturally, all subject to a reasonable maximum. This should allow fair costs for the insurance company so they can offer a policy to their client at the most reasonable premium possible.



Q: You do business directly with insurance companies. Do you also work with reinsurance brokers?

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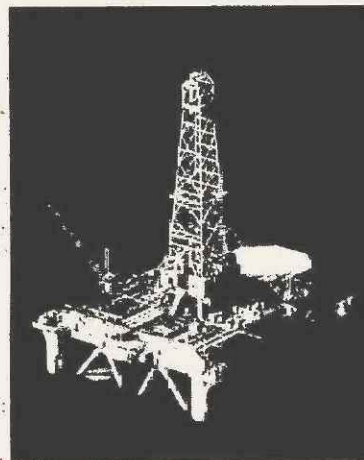
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Offshore drilling rigs are an example of some of the "tough risks" covered by Pru Re.

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Bedpan mutuals deny crunch is coming

By CLIVE HALLETT

LOS ANGELES—Doctor-owned insurance companies in California aren't anticipating another medical malpractice crisis, but they consider themselves well-prepared should the weather turn stormy.

Most people close to the doctor-owned insurers started during the past five years tend to agree. But the "bedpan mutuals," as they've often been termed by the critics, stand to suffer the same pains from price competition as traditional insurers who underwrote malpractice insurance for years before the malpractice crisis hit in the early 1970s, warn some observers.

Critics of the newcomers to the malpractice field contend that losses will soon pile up, causing financial difficulties and even bankruptcies among the ranks of the inexperienced insurers, even though times are still fairly rosy for the neophytes.

"There could be a deterioration in our loss experience but not a crunch as there was earlier in the 1970s," says Stuart Menist, president of Norcal Mutual Trust in San Francisco. And he points to such positive vital signs as plump loss reserves, lean expense ratios, tough underwriting and streamlined claims control and handling which, he says, would help his company withstand any rough passages.

His assessment was similar to that of other spokesmen for doctor-owned companies and malpractice insurance experts.

Less sanguine is James Ludlam, attorney for the California Hospi-

Group plans hit new peak at Travelers

HARTFORD—Travelers Corp. continued its aggressive drive in the first half of this year to win new group benefits business, increasing the number of group insurance cases on its rolls by 2,400 in the period.

Group life, health and pension business are "excellent," said the company, reporting a revenue gain on this part of the business of 8% in the first half accompanied by a 5% gain in operating income after taxes.

The increases in group business in the first half exceeded last year's record results, Travelers said. The number of new group cases added to the books represents a new record for the period and indicates improved market penetration, Travelers told shareholders. "The small case market has particularly contributed to this result," the firm said.

Property-casualty premiums rose 12% in the second quarter, but profits fell 18%. For the six months, however, Travelers' profits on property-casualty business remained up from a year ago, though by a marginal 1.7%. Claim reserves for workers compensation and surety lines had to be increased, Travelers said.

Travelers paid about \$250,000 of losses on the aircraft hull and liability claims following the American Airlines DC10 crash in Chicago May 25. Claims on individual life and group coverages resulting from that accident were \$1.2 million, the company said.

Travelers had a loss ratio of 74.9% in the first half and 76.4% in the second quarter. Both figures are up from 73.4% ratios in both periods a year ago. The combined ratio in the second quarter was 107.1%. ■

'There could be a deterioration in our loss experience, but not a crunch as there was earlier in the 1970s.'

—Stuart Menist,
Nordical Mutual Trust

tals Assn., who warns that these new companies will have to raise premiums steeply to handle what he sees as a rising tide of malpractice lawsuits in coming years.

They will be reluctant to do so, he contends, because sharply increased costs will cause doctors to

drop their coverage and leave insurers scavenging for fewer premium dollars. Should the upheaval become severe, some of the new insurance vehicles could be filing for bankruptcy.

He agrees the medical profession generally is more aware of claims

prevention procedures than it was in the past and that the new insurers are stringent underwriters with adequate reserves and currently sensible rates—all of which could help defuse a developing crisis.

Don Zuk, vp for professional liability with Johnson & Higgins, which provides services for both the Southern California Physicians Insurance Exchange and Continental National American, says SCPIE will certainly raise rates in line with any rising frequency.

The company has access to data covering 10 years of malpractice loss experience and is geared to early sensing of rising frequency in malpractice claims.

He believes it likely that other doctor-owned companies will listen to their actuaries who "are

watching this very, very closely and will be screaming and yelling for rate increases when the trend starts to take off."

"It's hard to see a crisis coming when the frequency of claims is down," Mr. Zuk says, a remark echoed by other spokesmen for the doctor-owned companies. "If it's just a lull, it has been holding for two or three years now."

Robert Westin, attorney for the Physicians and Surgeons Insurance Exchange, newest of the doctor-owned companies, places great faith in the claims-made budgeting concept to combat increased litigation and fiercer inflation of claims.

In claims-made budgeting, rates set at the end of each year need reflect only the claims made in that
Continued on following page

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Bedpan mutuals . . .

Continued from previous page year, with reserves set according to current knowledge of inflation.

"We feel we can take on virtually any kind of change that happens because we are only looking a year at a time into the future," Mr. Westin says.

"With the claims-occurrence concept used by the traditional carriers, however, companies have no way of knowing what inflation or litigation will look like down the road," he says.

"They've got to collect enough money today to pay the claims that occur in this policy year in which-ever future year they are reported. And that is impossible."

Claims-made budgeting also gives the insurer valuable breathing space, he says.

"If we should get a bad run this year and have an adverse loss ratio,

we are not going to pay out those claims for four or even five years.

"The average payout time from date of report is 42 months, so we've got lots of time to accumulate the funds—to build investments, play catch-up with our rates or stop paying dividends—so it's just an entirely different game than the occurrence concept."

Mr. Zuk at Johnson & Higgins sees claims-made budgeting as an "accounting tool which lets you take your losses a lot quicker, but it's not a panacea."

"If in 1980, circumstances require a 300% increase in premiums, have you solved the malpractice problem with claims-made?" Mr. Zuk wondered.

"Of course not. It just means that at the end of 1980 you know you have to charge 300% more for rates,

whereas if you have the occurrence form it could be 1990 before you find you lost so much money back in 1980."

Dr. David Rubsamen, a doctor and lawyer who writes a professional liability newsletter from San Francisco, says: "I don't see anything like a repeat of the 1974-75 crisis." He sees the new carriers as financially stable, with healthy surplus-to-earned premium figures providing "superb cushions" if the going gets rough.

They also appear to have learned that potential liability cases have to be speedily identified and settled quickly and aggressively, out of court, if possible.

"In the past there have been appalling delays in cases of very likely liability—a reluctance on the part of commercial carriers to bite the bullet"—and pay the losses, which ended up costing more in the long run, he added.

Gerald Milton, president of the Doctors' Co., underscored this

point. "It's even wrong to go to the courthouse steps and settle, because by then everyone's fees have been set in concrete."

Dr. Rubsamen is confident that any increasing frequency of lawsuits can be offset somewhat by ruthlessly selective underwriting. He is also hopeful that courts will more forcefully weed out baseless or malicious claims, which would "cut the heart out of rising frequency."

Doctor-owned companies have largely avoided the pitfall of investing in volatile common stocks, he says, a practice that left some of the more speculative insurance companies with ravaged reserves when the market became jagged a few years ago.

Norcal's Mr. Menist says underwriters at doctor-owned companies are helped considerably by the greater input of doctors and county medical societies in screening and reviewing applications to ferret out

bad risks and accurately evaluate premium structures.

The state's Medical Quality Assurance Board is also doing a much more effective job of investigating bad risks than it was before the last malpractice crunch, he says.

At least one of the doctor-owned companies believes being narrowly specialized might prove to be a disadvantage. Mr. Milton at Doctors' Co. says the firm is looking into the possibility of expanding into life and casualty coverage "so we have a less volatile area for our financial well-being."

Norcal also is interested in nibbling at other insurance areas which are consistently predictable, but only if this can be achieved without hindering its primary purpose of providing insurance for the medical profession.

Several doctor-owned companies welcomed recent tort reform legislation which took some of the sting out of malpractice suits while introducing new ways of compensating malpractice victims. But some agreed with James Ludlam that its impact is being gradually lessened. They would like to see further reform in key areas.

Lawyers have challenged either the constitutionality or the methodology of certain reforms, especially those setting limits on legal fees and structuring compensation to meet victims' proven long-term needs, says Mr. Ludlam. The state bar associations, for example, are not enforcing the requirement that lawyers calculate fees so they receive a decreasing percentage of larger malpractice awards.

Try trusts to pay life plan: Consultant

NEW YORK—Employers may want to examine the usefulness of 501(c)(9) trusts to fund life insurance benefits, suggests William M. Mercer Inc.

The consulting subsidiary of Marsh & McLennan Cos. notes in a bulletin to clients that a court decision and memorandum from the Internal Revenue Service suggest it is possible death benefits paid by insurance and from a self-insured trust could be treated the same under the tax code.

Such is not considered the case, Mercer notes. While death benefits payable under a life insurance contract are not subject to income tax under section 101(b) of the Internal Revenue Code, the section would exclude from taxable income only the first \$5,000 of other death benefits.

But the 5th Circuit court held in *Ross v. Odom* in 1968 that payments under Georgia's state survivors benefit program would be free from income tax. The court reasoned that if the arrangement had the characteristics of a life insurance contract, payments would be taxed as if they emanated from a life insurance contract.

As a result, an actuarially sound program designed solely to provide death benefits, having the characteristics of a life insurance program, could be treated as such for tax purposes.

A similar conclusion was presented in a technical advice memorandum to a regional Internal Revenue Service office.

Together, these developments indicate "it is possible to obtain the same tax treatment for death benefit payments, regardless of the source," says Mercer. "It appears feasible for employers to examine the potential advantages of a 501(c)(9) trust for funding lump sum or installments payment death benefits," as the method has been attractive for several years for long term disability plans.

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Broker charged . . .

Continued from page 1
Rodgers remarked.

The account books Mr. Hall left behind indicate the phantom billings began "about three years ago and definitely got worse as it went along," explained Margo Orona, manager of broker Jones Northwest. The firm bought the renewal and servicing of H&A accounts when Mr. Hall's license was revoked after complaints were filed about his activities.

"The books looked like a mess when we first started trying to

make sense of them," she said, "but now that I've been around them for a while, they're really not that bad."

"He wasn't writing legal certificates and he did not have binding authority for the companies he was listing," she explained. "In some cases he was practically giving coverage away. Some rates he charged were pretty normal, but on others he looked like he just made up the prices."

Most of the local agents, including large broker LeBow-Haynes, "have already replaced the missing coverages," Ms. Orona said. H&A stopped writing business July 18.

"The coverages were not that hard to replace," she explained, "and the agents have responded really well, though they had to place at higher rates of course. The funny

thing is that H&A doesn't seem to have been in financial trouble at all. Everyone says Mr. Hall was in financial trouble, but the books don't show it."

The Pierce County prosecuting attorney has charged Mr. Hall and his former company with two counts of first degree theft and one count of second degree theft. Additional charges against Mr. Hall, who is free on \$10,000 bond pending trial on Sept. 24, may be made after the insurance department and auditors conclude their investigation.

The insurance department is holding the assets of the brokerage "to make sure all the people involved get a fair shake," a spokesman said. H&A's assets haven't been determined yet.

Jones Northwest, an affiliate of Portland firm J.K.S. Inc., is not picking up H&A liabilities or guaranteeing coverage, but is assisting in placing any outstanding risks, Ms. Orona said. ■

St. Louis broker serves jail term for policy fraud

Another broker caught just over a year ago pocketing premiums on excess/surplus insurance is now serving a 10-year prison term for his activities.

Donald J. Kubovchik, who pocketed nearly \$1.2 million in insurance premiums for policies he said he placed with Lloyd's and other London insurers, was convicted earlier this year in federal court in St. Louis of three counts of mail fraud.

In charge of excess/surplus lines for the St. Louis insurance agency of Associated Underwriters, Mr. Kubovchik was able to pocket insurance premiums by telling principals of the firm that the business was being placed by E&S Insurance Agency. E&S was just a post office box in Memphis where Mr. Kubovchik mailed the premiums and later collected them (BI, Oct 2).

Among the 114 insurance-buyer victims of his scheme were the St. Louis Cardinals football team, the cities of Las Vegas and Reno, Nev., and gambling casinos.

Lessor asks for insurance of its risks

By JOHN H. MILLER

LONDON—Computer leasing losses at Lloyd's could have been avoided if warnings about the perils of this business had been heeded in its early days, contends Parry Mitchell, head of one of Britain's independent leasing operations.

There are still opportunities for enterprising firms to buy coverage on other forms of equipment leasing involving aircraft, ships and construction equipment, he says.

His firm, United Leasing, runs a business which currently leases equipment worth \$20 million and plans further expansion in the future.

"The only thing lacking with the Lloyd's computer leasing coverage was foresight," he told *Business Insurance*. "When we went to see one prominent broker with our views we were told to 'get lost.' This cool reception surprised us, but there was nothing we could do about it."

"However, I still think the market for various kinds of leasing coverage can be easily adapted to modern circumstances, provided care is taken with the nature of the business."

"The Lloyd's computer leasing insurance began to go wrong when leasing companies which had been relying on equity financing to fund any residual value shortfalls were offered another 'bite at the cherry' without incurring any appreciable extra risk."

"It gave them a false type of equity funding and helped them to contract for a vast amount of leasing business which they'd been turning away."

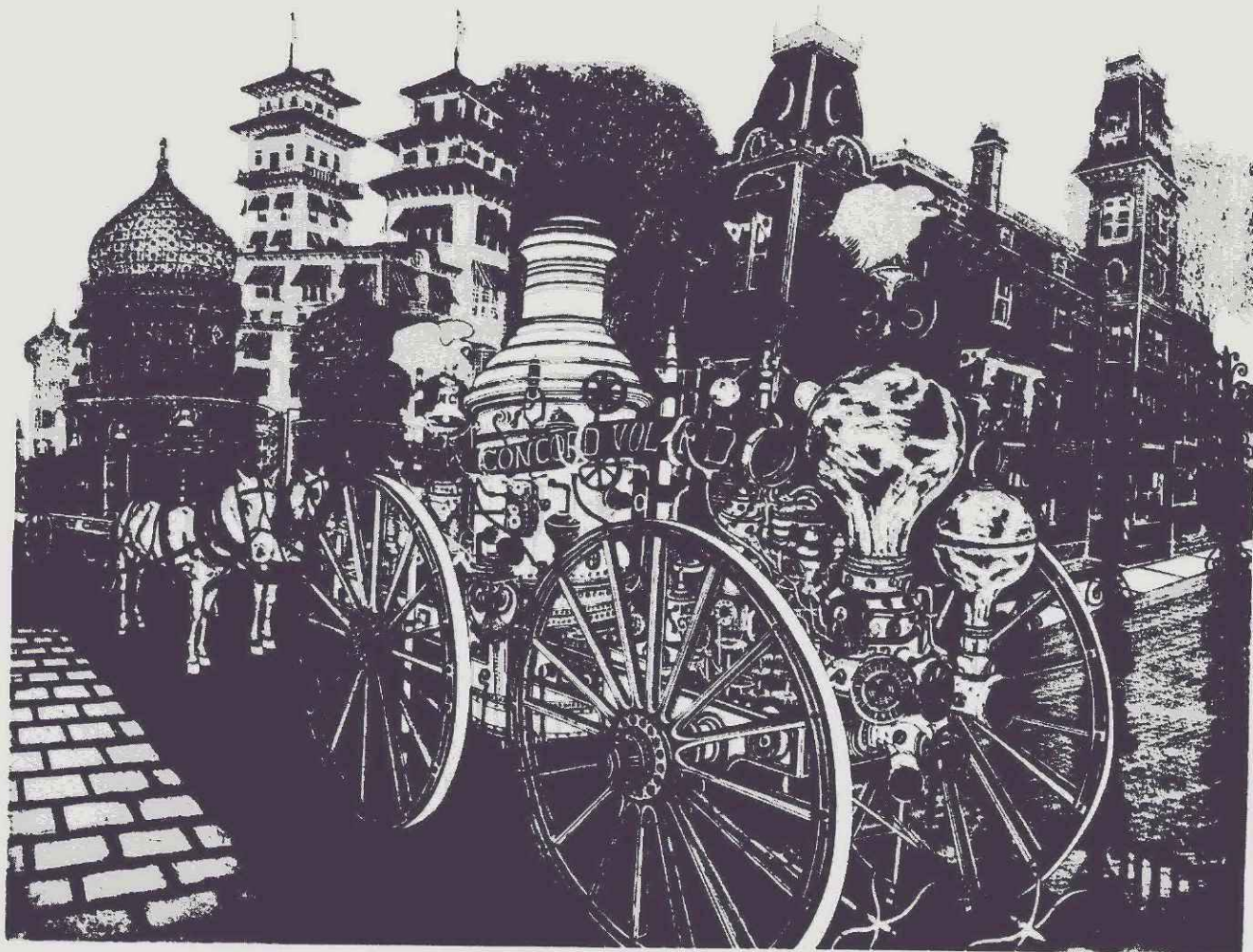
"This wasn't an unpredictable catastrophe. It's not a Hurricane Betsy or Darwin cyclone syndrome. The facts were known within predictable limits, and the only uncertainty was the amount of final loss."

Lloyd's weakness in this respect, Mr. Mitchell believes, is that its dealing with insurance buyers is only through insurance brokers, so underwriters are often kept from having direct knowledge of risks.

"The policy of never dealing directly with the public stops bearers of bad tidings from passing on their knowledge to underwriters at times," he concludes. "There can be a conflict of views if you have to approach them through brokers, who are naturally trying to promote insurance deals. But I'd certainly like to see Lloyd's having a try at other types of leasing coverage, for there's still a lot of industrial equipment such as plant machinery, commercial autos and office machinery that is now part of industry."

In the U.K. alone, members of the Equipment Leasing Assn. completed leases having a capital value of more than \$2.5 billion last year, double the 1977 figure. ■

Protection



"New Concord Volunteer, 1896". Etching by Bruce McComb, 1976.

Excess and Surplus Lines

McAlear Associates Inc.
Grand Rapids, Michigan

Carter's support . . .

Continued from page 1
 trol no more than 5% of the group's business in order to be eligible for premium tax deductions.

The Commerce Department contends state regulation, with its high capitalization requirements, has blocked businesses from pooling their product liability risks.

By tailoring insurance regulations to meet the needs of businesses forming their own insurance cooperatives and allowing them the same tax deductions companies are given for purchasing insurance from commercial insurers, more competition will be injected into the insurance market, the department believes.

The risk retention proposal, which is expected to be introduced officially this month in Congress by Sen. John Culver (D-Iowa) and Rep. John LaFalce (D-N.Y.), repre-

sents the Commerce Department's solution to a major factor—panic pricing by insurers—contributing to the nation's product liability problems.

Another solution, creating a model product liability law to end the current uncertainties in the tort law—another factor in high liability insurance premiums—was unveiled last January (BI, Jan. 22).

Business groups backing the proposal argue that pooling arrangements are necessary because the insurance industry is not giving the buying public a fair shake regarding product liability insurance.

"We've found that Company A may have had a product liability insurance premium of \$5,000 and Company B for essentially identical coverage and a similar loss history would have a premium of

\$50,000," said Dirk Van Dongen, executive vp of the 45,000-member NAW. "That kind of disparity suggests very strongly to us that the insurance community is not doing the job it should be doing . . . in pricing product liability insurance in some logical way," he added.

Price effects

Commerce Department officials could not estimate precisely how many risk retention groups eventually would be established. Mr. Haslam thinks possibly 30 to 40 groups might be set up following the bill's passage.

One group, the Scientific Apparatus Makers Assn., already has informed the Commerce Department that 40% of surveyed members would either like to participate in a federally chartered risk retention group or purchase insurance on a group basis, which also would be permitted under the Commerce proposal.

Utilization of the risk retention groups will depend on the pricing behavior of insurers, says Mr. Van Dongen of the NAW. "To the extent that the insurance industry is either overpricing or mispricing product liability insurance, use of risk retention will be enhanced. To the extent that insurers are doing a good job with regard to pricing product liability insurance, risk retention groups will receive minimal use."

Congressional debate on the risk pool proposal is likely to spark new controversy on product liability insurance prices. American Insurance Assn. counsel Dennis Connelly argues that the "commercial liability lines, of which product liability is one, are certainly in an intensely competitive area. . . . In the absence of a very strong finding that there is a lack of competition in this area, it would be economically unsound to create a federal alternate mechanism.

"As it has been said, 'If it ain't

broke don't fix it.'"

Although business groups generally concede that prices have held stable or even declined during the recent softness in the market, they argue that a risk sharing mechanism is needed to cover the very high deductibles with which their members have been saddled.

For example, deductibles for some members of the Sporting Goods Manufacturers Assn. have leaped more than 500% in one year, climbing as high as \$500,000 per loss. Companies slapped with these high deductibles could face economic disaster if they were hit with a high loss, worries the association. Pooling arrangements to cover deductibles would offer new protection not now offered.

Other business groups, such as the Risk & Insurance Management Society, favor the federally chartered pools because they would "promote an element of competition in the marketplace which would be beneficial to all commercial buyers of insurance," said Edith Lichota, RIMS vp for government affairs.

Pooling arrangements at the state level have in some cases forced insurers to become more competitive. For example, California water districts, shunned by insurers, suddenly found underwriters slashing rates after the districts formed a pool to cover most of their liability risks (BI, Aug. 20).

Although insurance trade groups seem united in their opposition to the federally chartered pools, individual insurers are divided. Aetna Life & Casualty is undecided, but Kemper believes "there is no need at this time for any federal legislation. The problem (product liability) has been handled fairly well at the state level."

Commerce lobbied

But Continental Insurance Co. is "sort of leaning toward support" of the proposal, said William Gibson, vp-general counsel in New York. Insurers should not necessarily view the proposal as a threat, but as an opportunity, Mr. Gibson observed. "These groups will need claims, management, engineering and safety and loss prevention services which the insurance industry can provide."

Endorsement of the proposal by the Carter Administration came as a stunning surprise, especially after the Office of Management and Budget refused to approve it (BI, July 9).

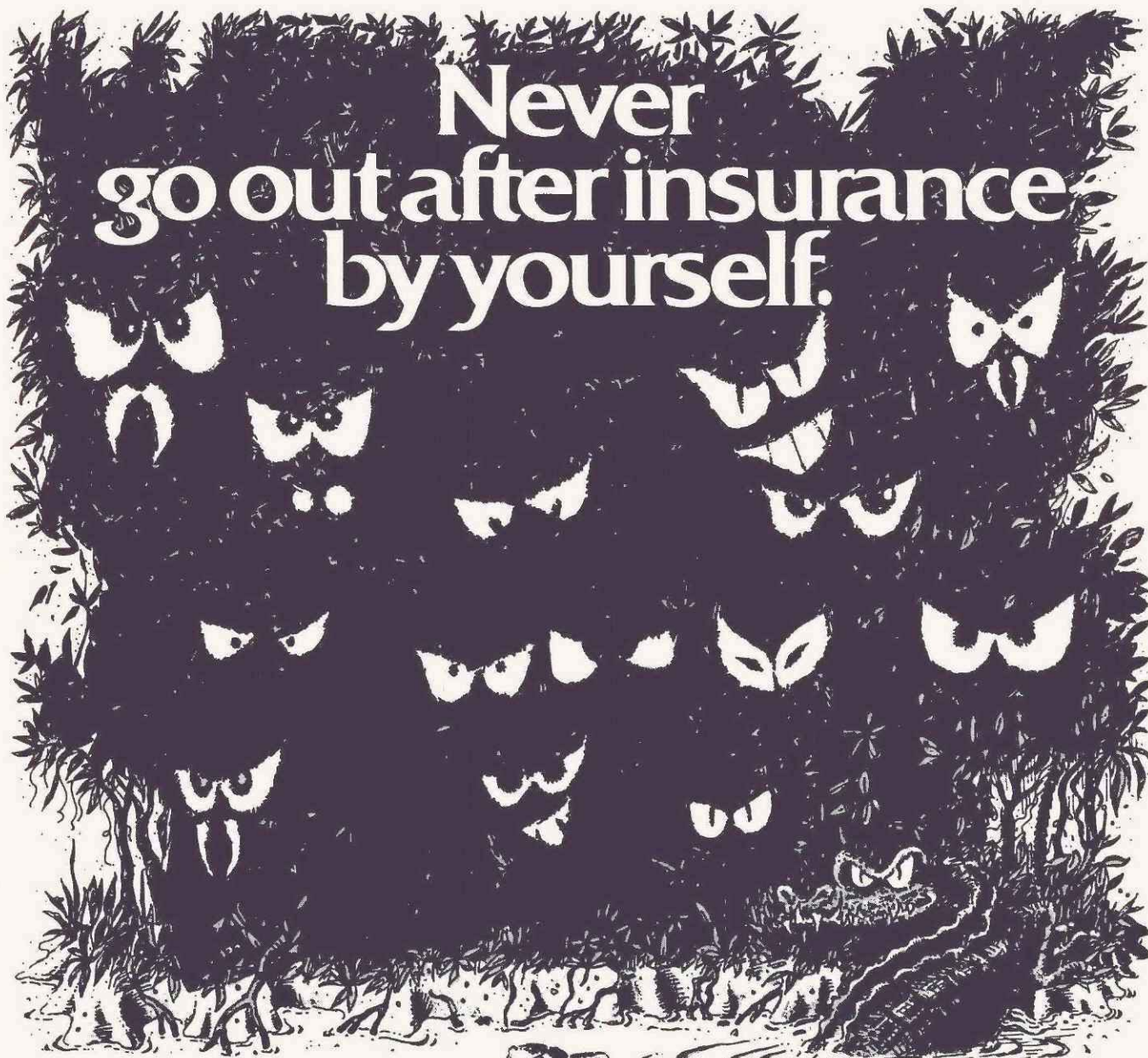
The Administration endorsement came after Commerce convinced OMB that enacting the proposal would not set a precedent for federal involvement in insurance since participation in the pools is voluntary and could slash insurance costs, especially for smaller firms, an important consideration during a period of spiralling inflation.

OMB also was influenced by the paper blizzard from business groups such as the 14,000-member National Assn. of Manufacturers, which told the federal agency that product liability affordability problems remain acute despite the overall improvement in the property/casualty market, and that the proposal "has the potential for bringing much needed relief to the business community without adding to federal expenditures."

Administration endorsement of the Commerce plan will aid, but by no means guarantee, that the proposal will be passed by Congress, most observers agree.

A bigger obstacle to the bill's passage than opposition from some insurers may be congressional indifference.

The Risk Retention Act probably will be sent to the Senate Commerce Committee and the House Interstate and Foreign Commerce Committee, which have considered product liability issues. ■



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More underwriters . . .

Continued from page 1

Lloyd's does have its defenders. H.T. Chester, senior vp at Johnson & Higgins, said it is unfair for detractors of the computer-leasing policies to brand them as examples of financial guarantee insurance.

"This was not a pure credit risk, a pure business risk, because there really was a hazard to be insured against—that new equipment could be invented that would knock the legs out from under the old stuff, which is exactly what happened," he said.

"There was no suggestion that there would be a claim if the lessee of the equipment went broke and therefore couldn't pay the agreement—that would have been a credit guarantee. Instead, it only applied if the lessee stayed financially solvent and walked away from the contract because new and better equipment was available," reasons Mr. Chester.

Although Mr. Findley said the Lloyd's Policy Signing Office is alerted to turn down risks that "blatantly guaranteed insolvency of a particular company," he conceded that "there are many ways of arranging contingency risks and I would not swear that some of them do not impinge on this area."

Ironically, despite the debate in Lloyd's over financial guarantee insurance, a number of insurance companies outside the exchange seem to be doing a good business underwriting these kind of risks, including several leading British companies.

The Credit & Guarantee Insurance Co. Ltd. has a reputation for insuring against debts resulting from a firm's insolvency. Trade Indemnity guarantees payments for certain exporters' goods and services overseas. General Surety & Guarantee Co. Ltd. insures contracts that fail because a firm becomes insolvent.

Guarantee specialist

In the United States, a small New York brokerage firm doubled its revenues to \$400,000 last year and increased its premium volume 25% to \$2.5 million through business devoted exclusively to guaranteeing financial investments.

S&B Brokerage Service Corp. of White Plains has carved out a special niche in the brokerage business by concentrating on offering companies financial guarantees, mostly on leases for such things as heavy construction equipment and trucks, said William Jacobs, executive vp.

"There are really no other brokers in the country that do this as a specialty," he contended. "We are able to do it because our people are more financially oriented. They are not really insurance people and we are not really dealing in the traditional insurance market."

Although he was quick to point out what he said were differences between his company's leasing contracts and the ones Lloyd's wrote on computers, the basic concept remains the same. An insurer guarantees the purchase price of some equipment by agreeing to pay off the lease if the lessee does not pay the full amount.

But S&B has ostensibly avoided the pitfalls in the leasing marketplace by heavily restricting policies it puts together for its 15 clients, Mr. Jacobs maintains.

"What Lloyd's was really insuring were residual values of a class of equipment highly vulnerable to developments in technology. We only handle items which we know are going to have a high resale value.

"Trucks, especially, are going to have a high resale, particularly in a time of inflation when the costs of new ones continue to rise. We re-

ally can't foresee any major breakthroughs in technology in other fields, either. After all, a crane is a crane," Mr. Jacobs figures.

Policyholders must sign agreements requiring them to turn over the equipment to the insurer if any claims are made, giving the insurer first rights to the equity value of the equipment so the insurer can recover some of its losses.

High deductibles are also standard on these policies, sometimes in multiples of \$100,000.

Other contract clauses come close to guaranteeing the insurer won't have to pay any claims, giving the insurer reason to want to find new customers for the leased equipment at lower interest rates than would be available at most banks, in order to speedily limit the loss. In fact, Mr. Jacobs says, his

company practically has to prove to insurers the risk of loss is minimal before it is able to get a willing underwriter.

"Everyone says the risks they are handling are safe, but we have to be incredibly careful that the policies the insurance companies show interest in are inherently safe," he says.

Insurers willing

"We have to be more than a little more careful in this area. If we have losses, it is not inconceivable that the insurance company writing a policy might decide it doesn't want to write any more in the future, and since almost all our business comes from these types of accounts, I don't have to tell you what kind of shape we would be in if we couldn't continue to find insurance companies to write these policies."

So far, however, Mr. Jacobs hasn't had any trouble finding carriers. His company has an accep-

tance rate of around 90% on business for which it seeks insurance companies.

Conversely, the company accepts only 5% to 10% of the applications that come in each year. "We do very few pieces of business, but in very large accounts. If I do more than five or six presentations (to the insurer) a year, that is a lot," says Mr. Jacobs.

Although he declined to disclose names of clients or insurance companies involved in these policies, he said he has primarily used one insurer ("one of the top three or four in the country") and has feelers out from two other large concerns who are also interested in a piece of the business.

Spokesmen for the Insurance Co. of North America, Aetna Life & Casualty, The Travelers and American International Group said they are not writing these sorts of policies. A spokesman for Hartford said his firm writes computer leasing contracts on a limited basis

through foreign subsidiaries and a domestic reinsurer, although he added, "We are currently reassessing the extent of that exposure."

Mr. Jacobs thinks most major insurance companies will ultimately decide there is nothing excessively risky about this business.

"Financial guarantees are a new application to old insurance practices; they expand the concept of insurance underwriting, especially that of surety bonds," he said.

"We see in the future that it will continue to grow. More insurance companies should get into writing this once they look closely at our experience," he added.

That point is still very much open to debate, however. Mr. Chester of Johnson & Higgins says he doubts there will be any flurry of activity by underwriters in pure financial guarantees.

But executives of insurance companies shying away from this area concede it may not be that un-

Continued on next page



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ISO policy changes due in 3 months

NEW YORK—A look at changes the Insurance Services Office has in mind for the comprehensive general liability policy should be possible in about three months.

An ISO spokesman said a "skeleton" outline of the rewritten policy would probably be made public then.

The policy, which the ISO tentatively plans to implement in 1981,

has been undergoing months of scrutiny by the office and is anxiously awaited by the insurance industry.

Fred Marcon, executive vp of ISO, said his office is making a concentrated effort to involve brokers, underwriters and other interested parties in the rewriting process on a scale never before

attempted by the Insurance Services Office.

"We want to make sure that all users will get a chance to make comments before we do anything," he said.

Mr. Marcon said estimated prices in the new policy probably would be released in about six months and the policy itself should be filed later next year.

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Letters column . . .

Continued from page 14
age.

We simply decided there was no particular advantage in being listed in view of our predominantly local books of business and the doubt that many, if any, of our clients actually receive and read your publication. However, we do write some property and bonds for two local subsidiaries of firms located in McLean, Va. (Washington area), and Cleveland, Ohio. Both of these firms have risk managers and I know the person who used to serve in this capacity with the McLean parent conglomerate read this annual column. When I visited him at his office in August 1976, he mentioned that he had noticed our listing and was happy to see it in view of doing business with us. He is no longer with this firm, but what if his successor reads your unfortunate and completely uncalled-for article referred to above? I certainly don't want him to think our "business has turned sour"!

Sherman A. Wilson, CPCU
President, Insurance Center of
Owensboro Inc., Owensboro, Ky.

Letter corrected

To the editor: Thanks for printing my letter in the July 23 issue. One small critique, however—you show me as "an independent risk management consultant"—which is not correct. Admittedly, last fall I did look over the insurance of a couple of smaller corporations, but that was the extent of it.

Commencing January 1979, I have contracted with the Risk & Insurance Management Society as the coordinator of Canadian activities. I do not carry on any consulting, because it could create some conflict of interest with the constitution and bylaws of the society, in the sections dealing with membership. (Membership shall not be open to those engaged in . . . "the business of independent insurance service for a fee.")

Don Stuart
Coordinator of Canadian Activities,
RIMS

Sprinkler savings

To the editor: I must take issue

with an article appearing July 23 written by Stuart Emmrich, entitled "Premium Cuts Don't Cover Sprinkler Cost."

It has been our experience that the most effective way to approach and sell new commercial accounts for our office has been to utilize risk management approaches to reduce exposures to loss and to control loss experience of the prospective client.

One of the most effective ways has been to qualify properties for highly protective risk underwriting for either Factory Mutual System or Industrial Risk Insurers by adding sprinkler protection.

The tremendous savings in insurance premiums by reducing published Insurance Services Office's fire rates down to the highly protected risk rates very often will pay for the installation of the sprinkler system within seven years or less. If such an investment in sprinklers can be amortized in this period of time, it can be shown that the investment is a favorable one for the assured. Although most of the cases which we have handled have been amortized in a period of four to seven years, in one rare instance an assured was able to pay for a \$100,000 installation in one year.

Jay Frank, CPCU, CLU
Cohen-Seltzer Inc., Elkins Park,
Pa.

Account for costs

To the editor: Re: "Premium cuts don't cover sprinkler costs" by Stuart Emmrich (BI, July 23).

Being relatively new to the risk management field, I follow your publication with great interest. This article caught my eye in that it was completely void of accounting and financial considerations.

The article implies that the cost of installing a sprinkler system would be expensed in the year incurred. However, such an investment will furnish years of benefits. The more appropriate accounting treatment would be to capitalize the initial cost, i.e., a depreciation charge would be made each year over the designated life of the capital improvement.

By capitalizing the installation costs, the time value of money can be applied to analyze the initial cash outlay; the resulting cash flows (savings in the form of reduced premiums minus additional costs for maintenance and alarm company charges for the system) and the recognition of depreciation on the sprinkler system, a non-cash flow expense.

Once all of the savings and expenses have been identified for each year over the life of the project, appropriate discount factors would be applied to each year's total. Finally, all of the years' discounted cash flows can be summed and compared to the initial investment. If the sum of discounted cash flows (in this case, savings) is greater than the investment, then on a financial basis, the sprinkler system would be installed.

In conclusion, the installation of a sprinkler system may very well pay for itself in the form of premium savings over the life of the system. As pointed out in the article, quite correctly, premium savings will vary greatly depending on such things as building construction and occupancy hazard and thus will greatly influence the "profitability" of the installation.

Paul E. Morrison
Insurance manager, G.D. Searle &
Co., Skokie, Ill.

Frontiers expands

Frontiers Adjusters Inc. of Phoenix, Ariz., is opening a new office in Shasta, Calif. G.L. Larkins is manager of the office.

riskWatch

By MARGARET LeROUX

The HMO plan looks even better after three years' experience

I wrote three years ago of my favorable experience with a health maintenance organization, the Kaiser Foundation Health Plan of Northern California. Now I'm more of a fan of HMOs than I was then.

Prepayment programs still have detractors as well as proponents among health care and employee benefit professionals. As one of the 3.7 million members of Kaiser HMOs, I've also seen both good and bad aspects of the system. But when given a chance to join another group health plan, I chose to stay with the Kaiser plan.

Covered for health benefits by the University of California, Berkeley, where my husband is on the staff, my husband and I have a choice of four health plans including those insured by Blue Cross and Equitable Life Insurance. But the Kaiser plan is cheaper for both us and the university, which pays up to \$43 per month per employee for health benefits and \$79 for an employee and a family member.



LeRoux

The Kaiser plan costs \$32.20 per month for an employee and \$64.36 for an employee and a family member. For similar coverage, Equitable charges \$37.58 and \$72.38, respectively, while Blue Cross costs \$60.44 and \$123.20.

As Kaiser members, doctors' office visits are free for my husband, while I pay \$1. If we were in the Equitable or Blue Cross plans, we'd pay either 20% of the total charges or a \$25 deductible.

In deciding to stay with Kaiser, we were among the majority of university employees and their families. During an open enrollment period last November, 668 people transferred into Kaiser, almost twice as many as the 382 who transferred out. Among new employees, the largest number, 706, joined Kaiser.

Cost considerations aside, quality of care and availability of myriad services are the other reasons I'm still a supporter of HMOs. My reasons were echoed by several others in an informal survey among friends and business associates, both members and non-members of Kaiser.

Several young parents lauded the prenatal instruction and pediatric services offered free by Kaiser. One couple was especially appreciative of the "advice nurse" who can be telephoned 24 hours a day for consultation on basic medical problems. Advice nurses are available for adults, too; if a visit to a doctor seems in order, the advice nurse will arrange an emergency appointment.

The advice nurse concept is being expanded to include health phone hotlines, whose pre-recorded 60-second messages answer questions on a variety of subjects ranging from chicken pox to venereal disease. As of January 1980, all Northern California Kaiser members will be able to dial health phones from their homes.

Several people in my survey cited the multiphasic exam, a major benefit offered free to new Kaiser members. The exam includes an electrocardiogram, chest x-ray, eye exam and glaucoma test. Blood and urine samples are also analyzed and the test results are explained in a follow-up session with a doctor or nurse practitioner.

For one of my neighbors, the multiphasic exam revealed higher than average blood pressure, so her doctor advised participation in Kaiser's "Living with Stress" class. The class is one of 150 offered free or for a nominal fee at the 13 Kaiser medical centers in Northern California. One of the most popular has been the nine-year-old stop smoking clinic, but its popularity has been challenged in recent months by sessions on how to avoid jogging injuries.

As certain health topics are more popular than others, so are certain of the 1,672 physicians who practice at Kaiser medical centers in Northern California. Because each doctor has a limit to his or her patient load, it's almost impossible for new patients to get an appointment with the more popular ones.

That has been my only problem with the HMO system. After spending a frustrating afternoon crossing names off my list of recommended doctors I expressed my dissatisfaction to the appointment nurse. He listened patiently to my complaint, then quipped, "Would you prefer an older, fatherly type or a young liberal for your doctor?"

My doctor combined the best of both those descriptions. Although he wasn't my first choice, he and the other health care professionals I've seen as a Kaiser member have impressed me with the quality of their skills.

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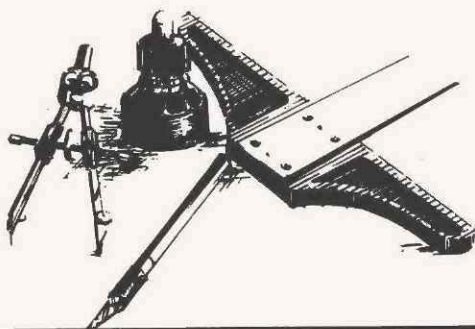
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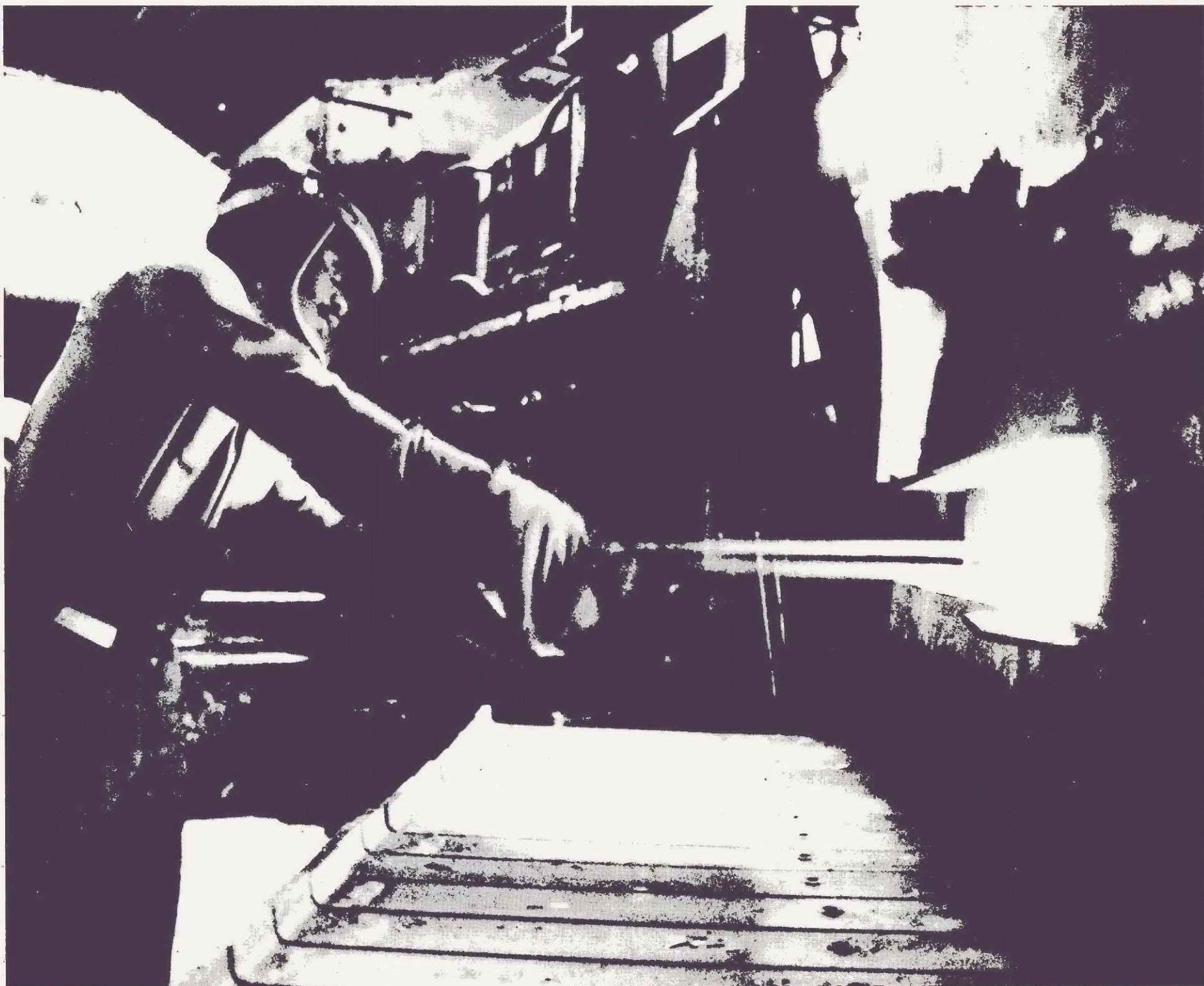
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