

'Restrictive' trade zone regulations to be revised

By ELLIS SIMON

NEW YORK—The final rules for the New York free trade zone are likely to be revised to counter criticism by insurance companies, brokers and risk managers that the draft regulations are too restrictive.

However, a controversial provision requiring free trade zone policies to meet state insurance department minimum standards for all other policies may remain in the rules.

The insurance companies and brokers attacked several points of the draft rules at a public hearing late last month. Others followed up

with telegrams to Gov. Hugh Carey urging that he intervene to liberalize the rules.

The regulation includes definitions of authorized insurers and free zone risks, limitations on free zone transactions, licensing and reporting requirements and an appendix listing over 300 classes of unusual risks that could be written in the free zone.

In addition it says only reinsurance premiums ceded to reinsurers also licensed in the free zone can be credited in determining a free zone insurer's premium to surplus ratio.

Insurance superintendent Albert B. Lewis, who will make the final decision on the regulation, de-

fended the need for the minimum policy standards provision, which drew criticism at the hearing from AIG attorney Patrick Foley and INA regional counsel Robert Eisenstadt.

"Nowhere in this legislation is there the right to allow insurance companies to write any form without regard to minimum state standards," Mr. Lewis told *Business Insurance*. "Can I allow a liability insurance policy to be written without requiring that claimants still be paid in the event an insured goes bankrupt?"

However, Mr. Foley said: "There's no need for (minimum

Continued on page 54



Photo: Wide World

Daily News uninsured for strike losses

Pressmen man the picket lines as the strike that has shutdown New York's three daily newspapers continues. The New York Daily News says that it does not carry strike insurance and The New York Times and New York Post would not comment on possible insurance. See story page 6.

Execs aflame again over FASB standard

By KATHRYN J. McINTYRE

STAMFORD, Conn.—American Bakeries Co. in Chicago expects its insurance costs to hit \$6 million in 1978, double the cost just four years ago.

The company knows it could reduce the cost by self-assuming more risk. However, "the technique available to my company to reduce premiums was removed by FASB No. 5," complains G. P. Lesieutre, assistant to the treasurer.

Financial Accounting Standards Board standard No. 5 prohibits annual charges against income for a self-insurance program as if the charges were insurance premiums. As a result, corporations must charge a self-insured or uninsured loss against a single year's earnings instead of also charging some of the cost to previous years that showed good loss experience.

Mr. Lesieutre detailed in a recent letter to the FASB how its accounting standard, promulgated in July 1975, has altered the risk manage-

ment program at American Bakeries. "In 1973, we marketed our property coverage and had to decide on a renewal premium of \$220,000 at a \$5,000 deductible or \$103,000 at \$100,000 deductible. It is obvious which course we chose.

"FASB No. 5 removed our legally reserving for a large loss... The logical step is to average our losses for five or 10 years and build a reserve for the deductible, which we did before FASB No. 5. The next logical step would have been to evaluate larger risk assumptions in the same and other lines of coverage by offsetting contingency reserves. The premium savings can be substantial."

The Chicago company's frustration as detailed by Mr. Lesieutre is the most vivid example of corporate displeasure with FASB standard No. 5 among the dozens of letters filed last month with the FASB by disgruntled financial executives.

The controversy over the accounting standard was rekindled

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business insurance

Week of September 4, 1978

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

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Firms worry rule outlaws 'fronting' plan for benefits

By JERRY GEISEL

WASHINGTON—Corporations are worried that some reinsurance arrangements may be prohibited by a government proposal that is designed to make it easier for employers to purchase employe benefit policies from their insurance subsidiaries.

The proposal, which was released earlier this year by the Department of Labor and the Internal Revenue Service (*BI*, June 12), would amend the pension reform law to lower barriers that prevent companies from insuring employe benefits with subsidiaries.

Currently, under ERISA, a subsidiary can insure a parent only if the subsidiary is wholly owned by the parent and less than 5% of the subsidiary insurance company's revenues come from parent company risks.

A number of major corporations which use their insurance subsidiaries to issue policies to employes of the parent—such as John Deere & Co. of Moline, Ill., and Field Enterprises of Chicago—were unable to meet the 5% test and sought to have the percentage raised.

In response, Labor and IRS recommended that the wholly owned requirement be reduced to 50% ownership and that up to 50% of the subsidiary's revenues could come from the premiums of policies purchased by the parent from the subsidiary.

The Labor-IRS proposal, though, left unresolved whether a

corporation's insurance subsidiary can enter into "fronting" arrangements with other unrelated insurance companies.

Under a "fronting" arrangement, insurance policies are usually issued by a well-known licensed insurance company. The licensed insurer then reinsures a substantial portion of the risks with the parent corporation's insurance subsidiary.

For example, Travelers Insur-

ance Co. provides life, medical and sick leave benefits to employes of Agway Inc. of Syracuse, N.Y. Travelers in turn, reinsures the policies with Agway's two insurance subsidiaries, Agway Life Insurance Co. and Agway Insurance Co.

Under the reinsurance arrangement, Travelers pays one of Agway's insurance subsidiaries 50% of the premiums it receives from the Agway benefit plans. In

Continued on page 52

Tenerife jury verdict follows 531 settlements

By REBECCA A. FANNIN

NEW YORK—A U.S. jury late last month returned the first verdict in the worst airline disaster in history, but an overwhelming number of claims have already been settled out-of-court in the accident that killed 579 passengers and crew members.

The 531 out-of-court settlements have awarded an average \$100,000 to relatives of the victims. Remaining claims number approximately 112 against Pan American Airways Inc. and KLM, whose 747 jets collided in the Canary Islands in March 1977.

In the first trial in U.S. district court in Manhattan, damages of \$375,000 were awarded to Donald Johnson. Mr. Johnson's wife was killed in the crash, leaving three

college-aged sons and a high-school-aged son.

Mr. Johnson, represented by Charles F. Krause of Speiser & Krause in New York, was asking \$1 million for his wife's services. That amount was based on her projected earnings of \$470,000 as a nurse and her value to her husband and four sons, during her expected life of 30 more years.

The jury of five women and one man awarded a lump sum payment without breaking down values according to her services.

The amount awarded to the Johnsons presumably could be one of the higher awards since most of the passengers were older retirees.

The \$375,000 amount should have a bearing on the monetary

Continued on page 5

The inside story

Product liability pleas, decisions

Business leaders encounter a cool reception as they plead for tax deductions for self-insurance reserves (page 2), while a federal appeals court overturns a famous jury award involving a circular saw (page 14). And our latest update on tort reform legislation around the nation appears in our Product Liability Score Card on page 46.

Lloyd's: Looks back and ahead

Lloyd's is expected to report record earnings for the 1975 trading year at a press conference this month. Page 10. But the venerable institution faces new challenges with traditions that may be passe. Page 27.

Westchester's Bieber

An auspicious time to start a risk management program helped Westchester County and risk manager Robert Bieber blunt the insurance sting of escalating premiums. Page 15.

The people column
page 58

Tax breaks for self-insurance fails to stir Senate committee

By JERRY GEISEL

WASHINGTON—Business groups received a cool reception from Administration officials and a Senate panel late last month when they made their long-delayed pitch for tax deductions for product liability reserves.

Treasury official Daniel Halperin told a Senate committee hearing that tax deductions for self-insurance would not help businesses solve their product liability problems, but would cause regulatory problems for the Internal Revenue Service.

Mr. Halperin said the Carter Administration could not support the proposals until a stronger argument "has been made as to why we should do it."

Sen. Robert Packwood (R-Ore.) warned that a "national scandal" could result if a firm received a tax deduction for self-insurance, failed to adequately reserve and lacked

sufficient funds to pay claims to injured consumers.

Mr. Halperin's and Sen. Packwood's concern was directed at two Senate bills which were discussed at last month's hearing by a Senate Finance subcommittee. One bill (S. 1611) would permit businesses to deduct 3% of annual sales for money set aside in a special reserve to pay for product liability claims. The other bill (S. 3049) would allow tax deductions of between 2% to 5%, depending on severity of the firm's product liability problem.

Observers said the hearing was held more out of respect to Sen. John Culver (D-Iowa), the author of the two bills, than out of real congressional interest in the proposals.

In addition, the subcommittee has been under mounting pressure from a variety of business groups to discuss the proposals. However,

the subcommittee gave one hour to discussion of the bills on one of the slowest legislative days of the year. Only two senators, Sen. Harry Byrd (D-Va.) and Sen. Packwood, showed up for the hearing.

In pressing for the proposals, business groups testifying before the panel described, as they have for the last two years, the product liability crisis that confronts their members.

James Mack of the National Machine Tool Builders Assn. said 20% of the trade association's members have been unable to obtain product liability coverage. Other members have faced premium increases of more than 1,000% since 1975, he said.

By permitting tax deductions for self-insurance, businesses that have been forced to go "bare," would have at least some protection to pay claims, Mr. Mack said.

But Walter Vinyard, senior counsel of the American Insurance Assn., said the Internal Tax Revenue code should not be amended to subsidize through tax deductions the manufacture of potentially dangerous products.

He also warned that tax deductions for self-insurance would not help the firms it is designed to benefit. He pointed to a National Federation of Independent Business survey which found that 42.8% of small businesses would be unable to establish a self-insurance fund.

Marsh & McLennan executive vp Robert Clements, speaking on behalf of the National Assn. of Insurance Brokers, said the proposals would make insurance available at a reasonable cost to small businesses by reducing demand.

The present tax code, which permits tax deductions for insurance premiums but not for self-insurance, artificially inflates demand to purchase insurance. "A deduction for self-insurance would neutralize the tax choice between conventional insurance and self-insurance," Mr. Clements said.

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Insurers post underwriting profit following strong second quarter

DES PLAINES, Ill.—The nation's property and casualty insurance companies used a strong second quarter to post an underwriting profit of \$440 million for the first six months of 1978, according to the National Assn. of Independent Insurers.

The NAI estimates that insurance companies achieved a second quarter profit of \$581 million to offset a first quarter loss of \$141 million. The underwriting profit for the six-month period bettered the comparable period last year when insurers suffered an underwriting loss of \$117 million.

The NAI estimates, based on reports filed with the California insurance department and other figures from insurance companies, an underwriting profit of \$1.1 billion for the first six months. Dividends to policyholders totaled \$666 million for the final profit of \$440 million.

Meanwhile, The Insurance Information Institute estimated a \$260 million underwriting profit for the first six months on written premiums of \$39 billion. The estimate compares to an III loss of \$176 million for the first half of 1977.

Senate eyes liability for diplomats

WASHINGTON—The Senate last month approved legislation that sharply curtails diplomatic immunity for all foreign embassy personnel here except ambassadors and their families.

The bill would make thousands of foreign embassy employees legally responsible for their non-official actions. Embassy personnel could, for example, be sued if they were at fault in traffic accidents and be forced to pay traffic tickets.

The measure also requires all diplomats, including ambassadors to carry liability insurance. The House version of the legislation, which was passed last year, lacks such an insurance coverage requirement.

The bill now must go to a House-Senate conference committee to resolve differences.

Illinois tort reforms signed

SPRINGFIELD, Ill.—Gov. James Thompson last month signed legislation that requires product liability suits to be filed no later than 12 years from the date of manufacture, or 10 years from the time the product was sold to its first user, whichever comes first.

OPIC reserves reach record

WASHINGTON—The Overseas Private Investment Corp. (OPIC) now boasts reserves of \$380 million, the highest figure in its history.

OPIC added \$40 million to reserves from its retained earnings. Insurance reserves now stand at \$280 million and financing reserves at \$100 million. "The growth of our ready reserves strengthens our confidence that OPIC will never become a drain on the U.S. treasury," said acting OPIC president Rutherford M. Poats.

Most file Form 5500

WASHINGTON—Under pressure from the Labor Department, most employe benefit plans have finally filed their 1975 annual reports (Form 5500). Most of the reports had been due by Dec. 15, 1976.

Originally, about 2,000 plans were delinquent in filing the reports. But last month, all but 200 plans had responded to delinquency notices sent by the Labor Department.

Final notices are being sent to those 200 plans. If they fail to respond, the plans will be the target of enforcement action.

Travelers files Hartford roof suit

HARTFORD—The Travelers Insurance Co. has filed suit against 22 designers and contractors demanding to be reimbursed for the \$14 million it has paid in connection with the collapse of the roof at the Hartford Coliseum.

The Travelers charged the 22 firms with negligence and breach of contract. The firms represent all the major companies that worked on the Coliseum.

Calif. tort reforms defeated

SACRAMENTO—The California assembly's judiciary committee killed several product liability bills late last month, ending any chance of tort reform this year. The bills had previously cleared the state senate.

State business groups blamed the defeat of the reform legislation on powerful lobbying efforts by trial attorney groups. The bills would have given manufacturers a defense against liability if the product had been altered or if the product conformed with the state of the art at the time of manufacture.

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the benefit beat

Longshoremen win better pensions in new contract

The 19,000 active and retired members of the International Longshoremen's & Warehousemen's Union will receive significant pension improvements under a new three-year contract with the Pacific Maritime Assn. Pension benefits for workers retiring after July 1 at age 62 with 25 years of service will be increased to a maximum of \$550 a month from \$450 a month on July 1, 1980.

The rate of pension accrual has been increased to \$20 a month per qualifying year from \$18 a month. That will increase to \$21 in 1979 and \$22 in 1980. Pension benefits for already retired workers are being increased by \$2 a month per year of service to a maximum of \$50 a month.

The union has established 62 as the normal retirement age, meaning there will be no actuarial deductions for workers retiring at that age. In addition, the early retirement reduction for workers age 55 with 13 or more years of service has been liberalized to a 5% cutback for each year under age 62. The pre-retirement survivors benefit is now available to all workers without any benefit reductions.

Dental insurance benefits were also increased with reimbursement now set at 80% of usual and customary fees rather than 50% of a fixed schedule.

On hearing losses, the new contract also provides that there will be a 90% reimbursement to active members, pensioners and dependents for the expense incurred for a hearing examination and the purchase of a hearing aid up to a maximum of \$360.

Pfizer plan

Pfizer Inc. is spending \$6 million a year to increase benefits under the company's retirement annuity plan. Pfizer is changing its method of calculating credited earnings to the average of the five highest consecutive years of earnings. That average is then multiplied times years of service to determine creditable earnings. Annual benefits are calculated by two formulas. The first is merely 1.4 times creditable earnings. The second annual benefit is determined by multiplying creditable earnings by 1.75 and subtracting the figure calculated by multiplying 1.5% of the worker's Social Security benefit times each year of service. Retirees will receive the higher of the two benefits.

Pfizer also raised its mandatory retirement age for most employees to 70 to comply with the new federal law, but there will be no pension credits for work past age 65. Pfizer says the retirement program cost \$21.7 million last year and the firm told its employees it paid more than \$10 million in Social Security taxes last year.

Meat workers

Pension benefits for workers retiring this year have been increased by an average \$850 a year as part of a settlement between the Canadian Food & Allied Workers Union and meat packing firms employing approximately 14,000 union members. A worker at Swift, for example, will receive \$11.50 per month per year of service up from \$9.50. The age of eligibility for voluntary retirement has been reduced from 65 to 63 as part of the two-year pact. In addition, the dental plan was upgraded to make payments based on dental association 1978 rates. Previously the payments were based on 1976 rates.

The contract was achieved following a two-month lockout at Canada Packers Ltd., Canada's largest meat processor, and a strike of the same duration at Swift Canadian Co., the nation's third largest meat packer. Other firms participating in the national agreement include Burns Food Ltd. and Intercontinental Packers.

Airline pilots

Northwest Airlines' 1,500 pilots won increases in benefits and salaries that the company says will cost an additional \$51 million over the life of a three-year contract, which was negotiated during a 3½ month

strike.

The health insurance policy, underwritten by Connecticut General, was improved to provide for a maximum annual deductible for all causes of \$100 per year per individual and \$300 per year per family. Previously the deductible was \$100 per illness per individual. Surgical schedules were also improved as was the supplemental accident benefit. The major medical lifetime maximum was increased to \$500,000. A new dental schedule was adopted and orthodontia was added as a covered procedure.

The pension plan was changed to allow a retiring pilot's benefits to

be based on the highest consecutive 60 months of service out of the last 120 months of service. Pilots who were formerly mechanics with Northwest and then flight engineers also won a supplementary pension benefit since they could never accrue enough years of pilot service to qualify for the full pilot benefit. They will now also receive in addition to their pilot pension \$15 per month for every year of service as a flight engineer.

The contract also specifies that the full workers compensation benefit paid to a retired pilot will be subtracted from his pension benefit except in the case of total

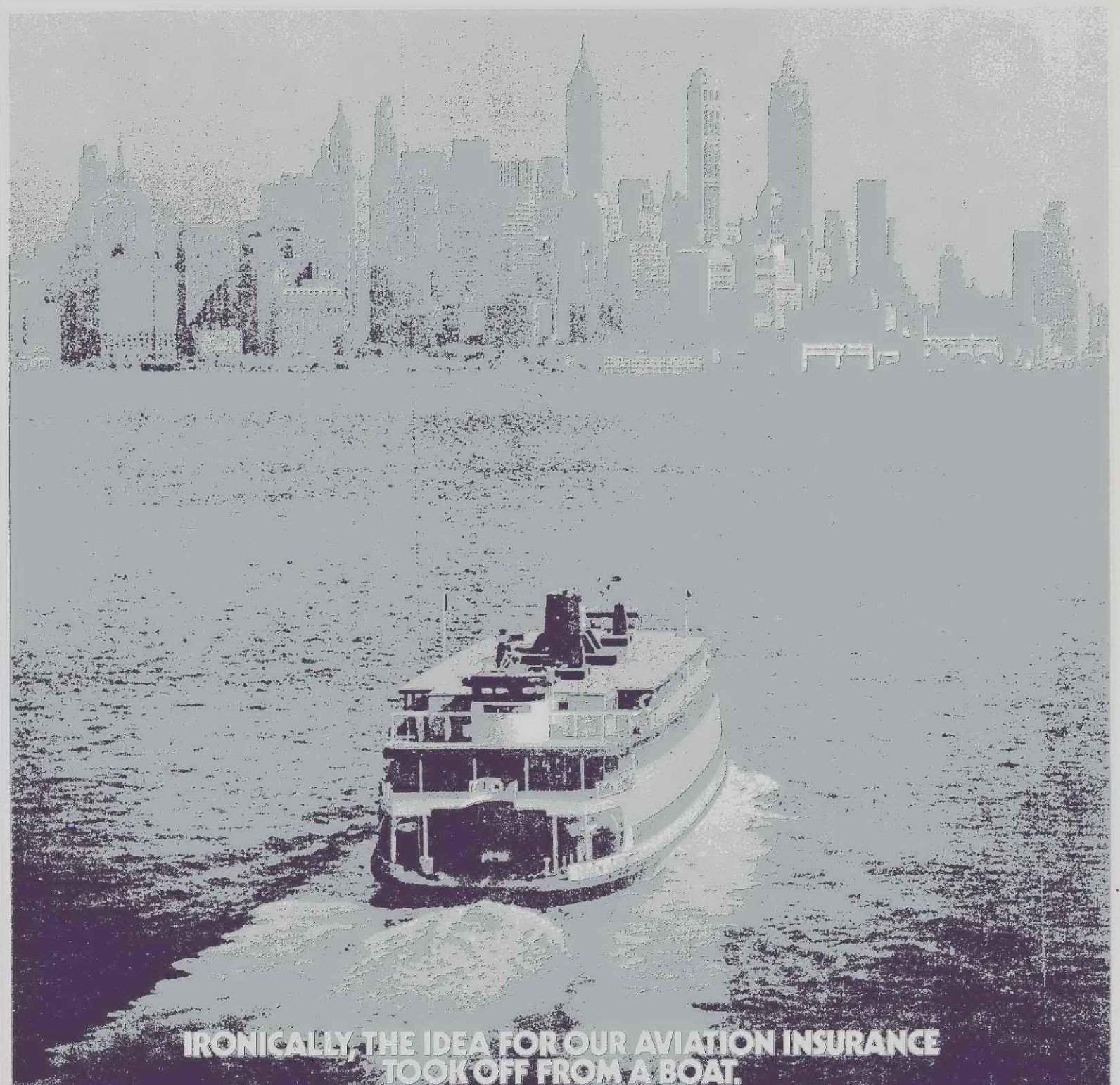
and permanent disability, when the offset will be 50% of the workers compensation benefit.

Salaries will be increased 6½% annually across the board under the contract post-dated July 1, 1977.

Utility taps Mercer

Southern California Edison has tapped William M. Mercer Inc. to handle the utility's employee benefit communication effort. Edison benefit manager Kenneth L. Andrews said Mercer will prepare summary plan descriptions, annual benefit statements and other

Continued on following page



IRONICALLY, THE IDEA FOR OUR AVIATION INSURANCE TOOK OFF FROM A BOAT.

One spring day in 1929, two executives from major insurance groups were commuting on the ferry to Manhattan. One was Vice President of Marine Office of America (MOAC), the other a partner of Chubb & Son.

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ation. Because on that day they decided to form Associated Aviation Underwriters.

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Funny what can happen on a very ordinary ferryboat ride.

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the benefit beat

Continued from preceding page communication materials. Mercer is also the broker for the utility's life, medical and long term disability programs. "This work is separate and apart from the work they do for us as broker of our insured employe benefit plans," Mr. Andrews said.

The communication work will be handled on a fee-for-service basis with annual fees ranging from \$25,000 to \$75,000. Mercer was chosen from a list of three consultants.

Time bomb

A proposal that pensions be automatically increased as the cost of living rises is a "time bomb," warns consultant Towers, Perrin, Forster & Crosby. ERISA authors Sen. Jacob Javits and Harrison

Williams call for a study of automatic indexing in their package of amendments to the pension reform law.

Built in cost of living adjustments can raise pension costs sharply, says TPF&C, and "underwriting future inflation after retirement creates a variable, open-ended liability that few private pension plan sponsors are willing and able to assume." Indexed profit sharing and pension plans with liberal provision could cost as much as 25% of payroll, TPF&C argues.

The present system of ad hoc increases in inflationary times is working well, the consultants say. The private sector is already paying for the fully indexed civil service retirement system, TPF&C complains, and the government should find a way to pay for index-

ing of private plans if legislation mandates cost of living increases.

Survivor benefit

District agents of John Hancock Mutual Life Insurance Co. will be able to elect a monthly post retirement survivor benefit equal to 45% of a retiree's pension as part of a new three-year contract with the Insurance Workers International Union, bargaining agent for 5,500 field representatives. In addition to the monthly payment, the group life plan provides a lump sum payment equal to half an employee's compensation prior to retirement. Single employees would be eligible for a lump sum benefit equaling 150% of final pay and this option would also be available to married persons. Under the old plan, all retirees received a lump sum payment equal to one year's compensation.

Complementing this feature is a new contingent annuity option,

similar to a joint survivor option, under which employes can leave from 1% to 50% of pension as a continuation for a surviving spouse. Hancock has also adopted a new formula for determining a retiree's wage base. The company will now average income for all years beginning Jan. 1, 1970, allowing the employe to disallow the two lowest years. The company also raised the mandatory retirement age from 65 to 70 to comply with federal law, but will not provide additional pension credits beyond age 65.

Pregnant employes who become disabled will receive disability and health benefits similar to those for other disabilities. Previously, they received no wage replacement and health benefits were paid on a fixed schedule basis with \$800 for a normal delivery. The company is also allowing disabled employes with six months to 10 years service to continue their health insurance coverage by paying one-third of the premium. Second sur-

gical opinion coverage, which had been limited to the home office in Boston, will be made available nationwide.

Second opinions

A second opinion or prior authorization must be sought on all non-emergency hospital admission by persons insured with Health Maintenance Life or patients forfeit 100% payment of their hospital bill. The West Coast indemnity company, a subsidiary of the HMO Family Health Program, claims to be the only indemnity plan with such a requirement.

HML executives also contend the requirement is holding the plan's hospital days per thousand to 400 compared with the industry average of 800 to 1,000.

A policyholder's doctor must submit his treatment program, including the number of days he plans to hospitalize the patient, to HML's medical director for his opinion on the need for the procedure and the time the patient should have to stay in the hospital.

If the medical director authorizes the procedure and the number of hospital days requested, the treatment is paid for in full. But if medical director authorizes fewer days in the hospital or rejects the hospitalization entirely, coverage under the plan is limited. If the treating physician and patient disagree with the medical director, an outside consultant is called in. If he doesn't resolve the conflict, it is turned over to a three-person panel for resolution.

"Our primary emphasis is to reduce prolonged lengths of stay," medical director Gerard N. Mazo explained. If a policyholder doesn't seek prior authorization, only 80% of the hospital bill is paid by HML and then only for the number of days in the hospital that would have been authorized.

Benefit Beat keeps insurance managers and employe benefit managers informed of changes in programs around the nation. We'd like to know if you've made any changes or know of any important developments. Write Greg David, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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errors & omissions

- Due to a typographical error, a headline in the Aug. 21 issue was incorrect. The headline on a story about a federal insurance proposal for liquid gas firms should have read, "Liquid gas firms dispute need for federal insurance."

- Fred S. James & Co. reported increased revenues of 26% for the third quarter and 28% for the six-month period. The "What's up in the industry" column (Aug. 21) incorrectly said those figures were increases in earnings. James earnings increased 28% and 30% for the two periods.

- The Rhulen Agency of Monticello, N.Y., has corrected information it supplied for the 1978 listing in Agent/Broker Profiles. The firm had 80 employees in 1976 and 95 employees in 1977, not 95 in both years. The firm also did 95% of its business in commercial lines.

- Due to incorrect information supplied by the broker, the Lasher-Cowie Agency of Phoenix missed the Agent/Broker Profile issue. The Mueller Agency continues in operation, although a member of the firm did join Lasher-Cowie.

A record bridge for Old Man River.



Illustration courtesy Frankland and Lienhard, Consulting Engineers.

At 1,222 feet, the main span of the new Mississippi River Bridge near New Orleans will be the longest cable-stayed bridge span in the Western Hemisphere.

This immense structure, more than two miles long, will soar to a height of 133 feet over the navigation channel. It will be poised on six piers that, alone, cost over 42 million dollars. The main pier is the largest ever placed in the Mississippi... a giant 201 x 84 foot caisson that was sunk through 90 feet of water to penetrate another 100 feet into the riverbed.

Pier construction on such a massive scale — battling scouring currents, bad weather, and

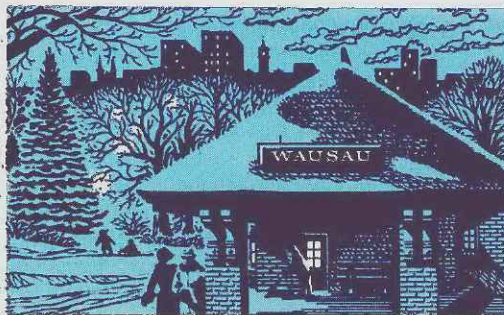
Our Builder's Risk Coverage helped span the gap.

heavy river traffic — called for the utmost in construction skill. That's where joint-venture contractors Massman Construction Co. and Al Johnson Construction Co. came in. Putting together the builder's risk insurance coverage called for an insurer with plenty of capacity, a thorough understanding of construction problems, and willingness to get totally involved.

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Daily News doesn't carry strike insurance

NEW YORK—The New York Daily News, the nation's largest circulation newspaper, carries no insurance to protect itself from the strike that has stopped its operations for nearly a month.

The two other New York newspapers, The New York Times and the New York Post, would not comment on whether they carried strike insurance. The three papers are estimated to be losing nearly \$2 million a day in advertising and circulation revenue.

The New York Daily News has no strike insurance coverage, although such coverage was in force when a longer strike occurred in the winter of 1962 and 1963, according to assistant general manager

Richard Warshauer.

"It wouldn't be a great benefit to us to be covered by strike insurance," Mr. Warshauer said. "The total limits would be too low and the deductibles too high."

A strike insurance policy offered to members of the American Newspaper Publishers Assn. covers fixed charges, ordinary business expenses and net profits up to a limit of \$750,000 for any one newspaper and \$1.5 million for two newspapers covered as a unit. There is no deductible.

The policy, provided by Territorial Insurance Co. Ltd. of Hamilton, Bermuda, also provides \$3 million for all losses resulting from suspension of the business of all newspapers in the same city. A limit of \$25 million applies to all losses from all strikes during the insurance year.

The strike insurance policies available to newspapers in the early '60s only covered overhead costs, according to Mr. Warshauer.

He said he presumed that all three papers were covered under these policies during the 1962-63 strike but had since dropped strike insurance coverage because "premiums went through the ceiling" after the long strike.

Despite published reports that The New York Times carries no strike insurance coverage, Times spokesman Leonard Harris declined to either confirm or deny those reports.

The New York Post also declined to comment.

Two captive writing newspaper-related insurance coverages for the newspaper association are Mutual Insurance Co. and Potomac Insurance Co., both in Bermuda.

Col. Robert Faught, manager of Mutual Insurance, said Mutual writes strike insurance "at times," but that Potomac, Mutual's subsidiary, only writes libel insurance for weekly newspapers.

Labor wants to end sex bias in plans

WASHINGTON—Four months after the Supreme Court ruled that employers cannot require women to contribute more to pension plans than men, the Labor Department has gone one step further and said the benefits men and women receive in group plans also must be equal.

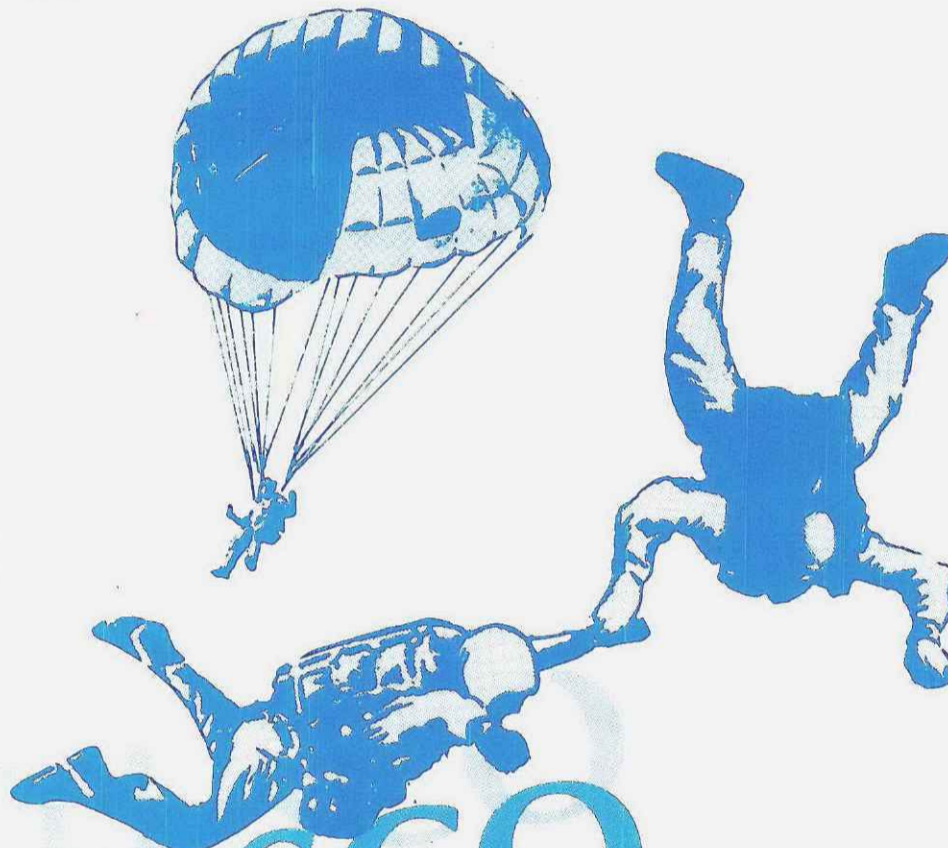
The impact of the proposal is limited since most pension and welfare plans do not discriminate on the basis of sex. A Labor Department spokesman estimated that only about 5% of plans provide unequal benefits.

The proposal also would appear to rule out the current sex distinctions found in joint survivors benefits. Currently, a male employee who elects to have his pension transferred to his wife when he dies, has his benefits reduced more than a female employee.

The Labor Department proposal is an attempt to settle years of controversy over the interpretation of the 1965 Equal Pay Act. That act had been interpreted to mean that employers were in compliance with the law if their plans required either equal contributions or equal benefits for employees.

Now the Department has said that the "either-or" interpretation was incorrect. Contributions and benefits cannot contain any sex-based differentials.

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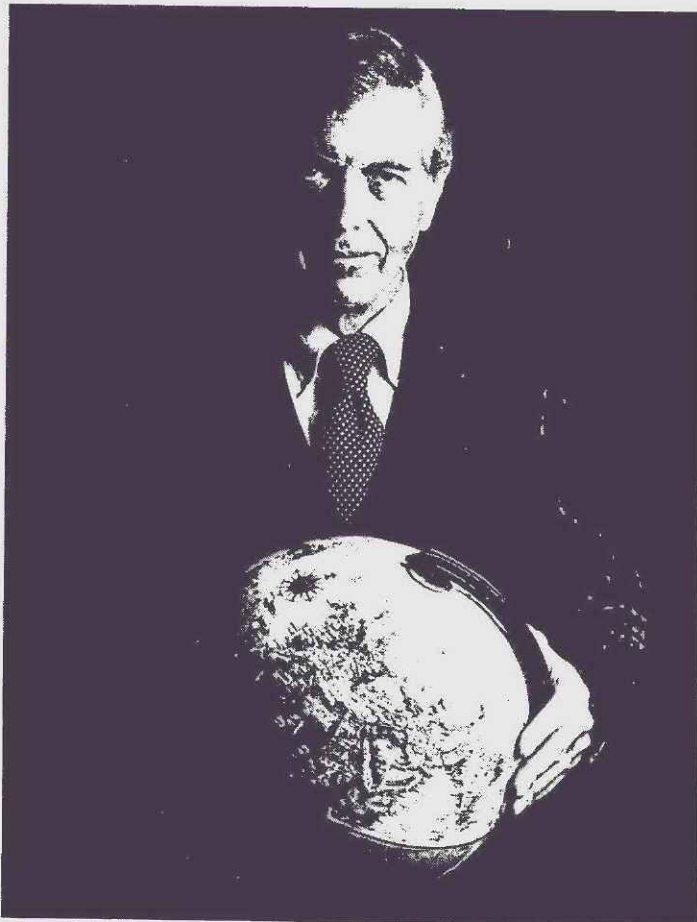
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editorial opinions

Fun City security

MACY'S DEPARTMENT store in the center of Manhattan has given up its program of photographing customers who ask for refunds. This was part of an effort to determine and apprehend people who are forging sales slips and obtaining fraudulent refunds for merchandise never purchased at the store.

Macy's backed off from its plan after city and state regulatory agencies began investigating possible violations of privacy laws and consumer refund laws. The store had thought that if it inspected the photographs and isolated individuals who were repeaters, it could determine who the counterfeiters were and could stop them.

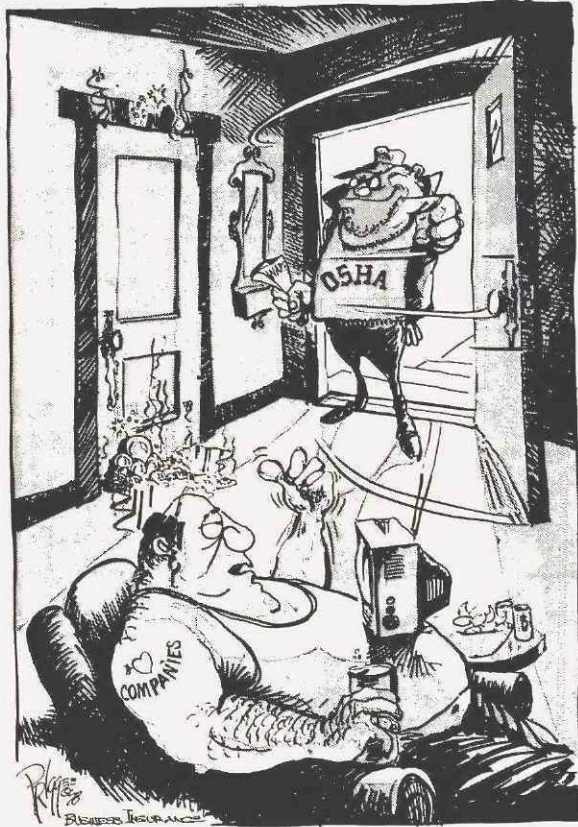
Individual rights to privacy are important. So are the rights of customers to obtain legitimate refunds. But what about the right of a business to protect itself from theft and fraud? And what about the right of honest customers not to have to pay for this kind of crime, which is built into the prices of the goods they purchase?

New York City officials and state regulators seem to have found a way in this case to make Macy's risks all the greater because it lacks the right to use any methods that might be deterrents to criminal behavior.

Lawyers, lawyers

LAWYERS, LAWYERS EVERYWHERE... For those who believe the root of all evil lies in the legal profession with those practitioners who, pressed to make a living, spend their time making defendants out of you, there is hope.

Item: The Supreme Court unanimously upheld the suspension of an Ohio "ambulance chaser," a lawyer who made a practice of visiting accident victims with an eye to drumming up legal business. He defended his actions by saying that this was nothing more than a type of advertising, protected by the Supreme Court in an earlier decision prohibiting bar associations from restraining their lawyer-members from doing any public advertising. But the court differed, saying that in-person solic-



Sure, come right in.
But don't look in the closet.

tations by a lawyer "for pecuniary gain" aren't simply "advertising."

Item: Other people besides Chief Justice Warren Burger think there are a lot of incompetent lawyers around. San Diego-based Charles P. Harrod is a bit stronger when he says a lot of lawyers are shysters, besides being schlocks. As a lawyer himself, he is specializing in prosecuting other lawyers for doing a shoddy job for their clients. He opened a legal malpractice and says business is brisk.

Now that you've been handed the good news, here's some bad news on the same subject: It doesn't look as if there'll be any letup in the amount of litigation in coming years. Consider the California estimate that the number of lawyers in that state is expected to nearly double by 1984 to about 90,000 from 58,000 last year. Meanwhile, the state's population will rise an estimated 10% to about 24.3 million from 22 million. Or, put another way, by 1984 there will be one lawyer for every 270 people, versus one lawyer for every 380 people now. An Orwellian prospect.

business insurance

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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.

A free ride?

To the editor: Re: "How To Find A Broker And What To Expect" (Aug. 7). Ms. Fisher states that the broker's service and expertise is available at no dollar cost. Not so, Ms. Fisher; the old adage "you get what you pay for" still applies. The insured pays, whether broker, consultant, agent or direct writer. There are good arguments for each, and good ones earn their way—but you do pay.

Norman J. Goeltz
Market administration manager,
Allstate Insurance Co., Atlanta

10-year carryback

To the editor: I think it would be a serious mistake to support the Treasury Department's proposal to allow a 10-year carryback on income losses arising from product liability claim payments in place of the present three years. Supporting this would be a mistake for two reasons.

First, some businesses might be induced to retain far more risk than is appropriate for their financial position. Secondly, passage of such legislation by Congress might lead some of our lawmakers to believe that they had provided a sufficient remedy to the product liability problem and they would therefore delay consideration of tort reform and other basic remedies that are needed.

The problem with the Treasury Department proposal is that it provides a totally inadequate benefit to businesses with nominal taxable income and it provides no benefit at all to businesses with significant taxable income.

Consider how the Treasury proposal would affect the position of a smaller company with annual taxable income of \$50,000 faced with a need to pay a \$250,000 uninsured product liability claim. The \$250,000 deductible expense would wipe out the current year's taxable income plus the oldest prior years available for carryback. For each of those years the federal tax on \$50,000 of taxable income would have been \$10,500 (effective tax rate 21%) providing this business with cash available from the tax credit of \$52,500.

Where does that business get the additional \$197,500 it needs to pay the judgment? The additional cash needed would probably represent between 50% and 100% of the total net worth of the business. I don't think that business would survive.

On the other end of the scale, in a recent article you reported that Ford Motor Co. retained \$2 million net on its product liability exposure (BI, July 24). Even assuming this is \$2 million per occurrence with no aggregate limit, it is inconceivable that retentions of this type by any major corporation could ever result in uninsured liability payments in any year that would be more than a small percentage of that company's taxable income for the year.

We all know that if our economy is going to improve we desperately need additional capital investment. Most of that capital investment arises from retained earnings. Any business that is forced to jeopardize that source of capital by exposing itself to uninsured losses in excess of its annual taxable income has problems that a tax recovery credit cannot solve.

My conclusion is that any business faced with a cash requirement to pay a product liability judgment in excess of four times its taxable

income (present carryback law) would have to have some unusual cash resources to survive. Does the Treasury honestly believe that adding another seven years of available tax recovery would be meaningful?

Howard T. Weber
Director—Insurance, 3M Co., St. Paul, Minn.

Physical exams

To the editor: I am interested in obtaining additional information concerning "pre-placement" physical examinations discussed in "Want to avoid unjustified claims? Document your employees' health" (Aug. 7).

I am interested in whether the content of the examinations alluded to is as extensive in comparison to the standard physical.

Would you please forward my request to Dr. LaDou for possible additional information on the standard vs. extensive type of physical.

Anthony A. Budy
Manager-safety/loss prevention,
United Telephone System, Carlisle, Pa.

Additional information can be requested from Dr. Joseph LaDou, founder and director of the Peninsula Industrial Medical Clinic, 1197 East Arques Ave., Sunnyvale, Calif. 94086.

Another consultant

To the editor: We enjoy your publication and especially enjoyed the article entitled "Buyers' Misfortunes Are Consultants' Fortunes" (May 29).

Risk Consultants Inc. and its staff of 21 is experiencing satisfying growth at our three offices (Dallas, Denver, and headquarters at Charlotte, N.C.) through offering some of the same consulting services: management or retainer accounts, special projects, and annual audits.

Perhaps your readers would be interested to know that much of our new business comes from banks and other financial institutions. Faced with accountability to shareholders, directors, and federal and state examiners, the prospective clients are saying "help!" Increasingly, governments are also needing assistance because they cannot get the response from open bidding they once could.

William E. Sleeper, CPCU, ARM
Vp, Dallas Office, Risk Consultants Inc., Dallas, Texas

Sexism at BI?

To the editor: The July 24 issue of Business Insurance carries an excellent summary of the no-fault insurance laws now in existence. However, it contains an error that appears to be so obvious but yet continues in the benefits field. Under the state of Utah in the court challenge and reason section, you refer to "Workman's Comp."

In this era, when women compose such a large portion of the U.S. workforce, the continued use of the noun "workman's" compensation, rather than "worker's" compensation is particularly offensive.

Perhaps your editorial staff copied directly from the law or some other publication. Your editor should not be faulted any more than the Law Bulletin published in Boston, which carries the title "Workman's Compensation Law Bulletin" and its sales brochure continually refers to "workman's"

Continued on page 53



**AFTER YEARS OF LEGWORK WE
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In the past, insuring a multi-million dollar complex risk or a pair of million dollar legs usually meant one thing. Lloyd's.

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Over \$200 million

Lloyd's plans to reveal record profits for '75

By JOHN MILLER

LONDON—Lloyd's is expected to announce record profits early this month when final results for the 1975 trading year are disclosed under its traditional three-year accounting system.

It is assumed 1975 results will substantially top 1974's mark of \$124 million and will also beat the record year of 1973, when profits reached \$200 million on a premium income of \$2 billion.

But with premium income now reaching \$4 billion annually, insurance syndicates are waiting to see

The Lloyd's market is in turmoil as the world's oldest insurance market encounters external pressure and internal problems. The Economist of London examines this development on page 27.

the actual percentage profit on their business. This key indicator rose from 8.25% in 1970 to 9.21% in 1973, then dropped back to 5.3% in 1974 as a result of the poor underwriting climate in U.S. liability risks.

Higher profits will give Lloyd's encouragement to face competition from the New York Insurance Exchange and other markets with renewed vigor as there is still a fight for business in many world centers.

The increase of laid-up shipping in tankers and other vessels has reduced the marine market's attractiveness and aviation underwriters also complain of fierce competition and over-capacity.

Surplus line liability business from the U.S. is still attracting attention. The development of "consumerism interest" in many parts of the world is causing Lloyd's anxiety as it could lead to unexpectedly heavy claims if it is not halted. Some experts are predicting a leap of \$30 million to \$40 million in Lloyd's trading profits for 1975, but this has to be viewed in relation to higher premium income before the real benefits are known.

Likely trends for the trading years 1976 and 1977 will be revealed Sept. 7 when Lloyd's chairman Ian Findlay gives his annual summary of business.

Capacity requirements at Lloyd's, where 3,000 new people want to join its existing 14,000 members, will also be reviewed at its press conference.

Chairman Findlay has warned it may become necessary to watch present capacity carefully. But there is growing belief that by 1982 there will be a substantial rise in U.S. insurance demands if some economic forecasts come true and that it will pay Lloyd's to be ready for this development and for expansion in other world markets. ■

IRS clarifies filing rules

WASHINGTON—Employee benefit plans maintained outside the U.S. in which substantially all the participants are not U.S. citizens will not have to file Form 5500 for 1975 and 1976, the Internal Revenue Service says.

According to the instructions for the 1975 and 1976 forms, these plans did not have to file with the Labor Department. Last month's announcement makes it clear that those benefit plans also don't have to file with the IRS.

The 1977 Form 5500 clearly explained that the affected benefit plans did not have to file with either IRS or Labor for 1977. The instructions for the 1978 return will explain filing requirements for that plan year, the IRS said. ■

Wyoming losses

Insured losses from a wind and hail storm that swept Wyoming in early August are estimated at \$9.5 million by the American Insurance Assn. The storm has been assigned catastrophe number 60.

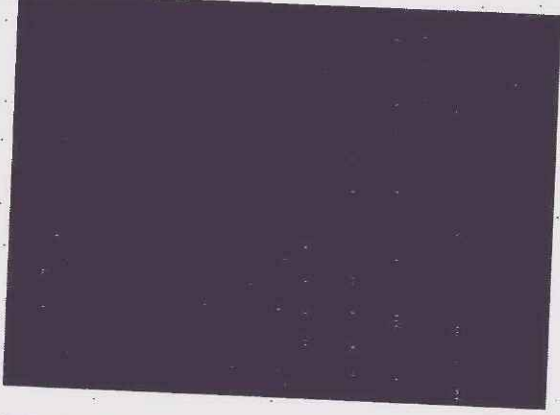
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Uniform form planned

Labor to streamline summary annual report

WASHINGTON—Mention the words summary annual report and a pension plan administrator is likely to turn an angry shade of red thinking of the time and expense spent filling out papers so complex that few participants could read and understand them.

All that may soon change, however, under a new Labor Department proposal announced late last month that calls for the first major streamlining of the summary annual report since the pension reform law was passed in 1974.

If the proposal becomes final, both plan administrators and par-

ticipants may have their cake and eat it too. Administrators will find their paperwork burden considerably lighter while participants will be able to quickly zero in on the vital information in the report—the plan's financial condition—and not be bogged down by superfluous detail.

The government is proposing to turn the summary annual report into a uniform easy-to-fill-out form which plan administrators would complete by inserting information in the appropriate blank spaces.

The Labor Department anticipates that all information necessary to complete the new form would be contained in the full annual report that is filed with the government.

Aside from turning the current summary annual report into a form, the Labor Department wants to scrap some of the detailed financial information now required.

For example, under the proposal, plan administrators no longer would be required to attach complete copies of statements of assets, liabilities, income, expenses and accompanying notes.

In calling for a simplification of reporting financial data, the Labor Department noted that few participants could understand the full statements and few made a serious attempt to do so.

Instead of being overwhelmed by a mass of information that is difficult to understand without a financial background, participants will be given the answers to such questions as what were plan expenses, how much in benefits did the plan pay out and what is the value and size of plan assets and liabilities.

However, plan administrators still would be required to furnish financial statements and notes without charge to participants who request copies.

In addition, administrators no longer would have to provide names and addresses of plan officials who are listed in the summary plan description booklets which participants also receive.

The new form, like the existing summary annual report, would be due in most cases nine months after the end of the plan year. In some cases, the government grants extensions for filing reports.

The new form would be available in time for the 1978 plan year though the government is asking for comments on whether the form should be available for 1977 plan year.

Comments on the new form should be sent by Oct. 10 to: "Summary Annual Report Regulations," Room C4526, Office of Regulatory Standards and Exceptions, Pension and Welfare Benefit Programs, U.S. Department of Labor, Third and Constitution Ave. NW, Washington, D.C. 20216. ■

INA acquires Guatemala firm

PHILADELPHIA—INA Corp. has acquired a majority interest in a Guatemala insurance company, Compania de Seguros Cruz Azul. The insurer writes both property/casualty and life insurance in Guatemala.

"The acquisition of Cruz Azul is yet another step in adding to the comprehensiveness of INA's worldwide facilities to better serve our clients' needs," INA said. ■

The tougher the
insurance problem,
the more
we can help.

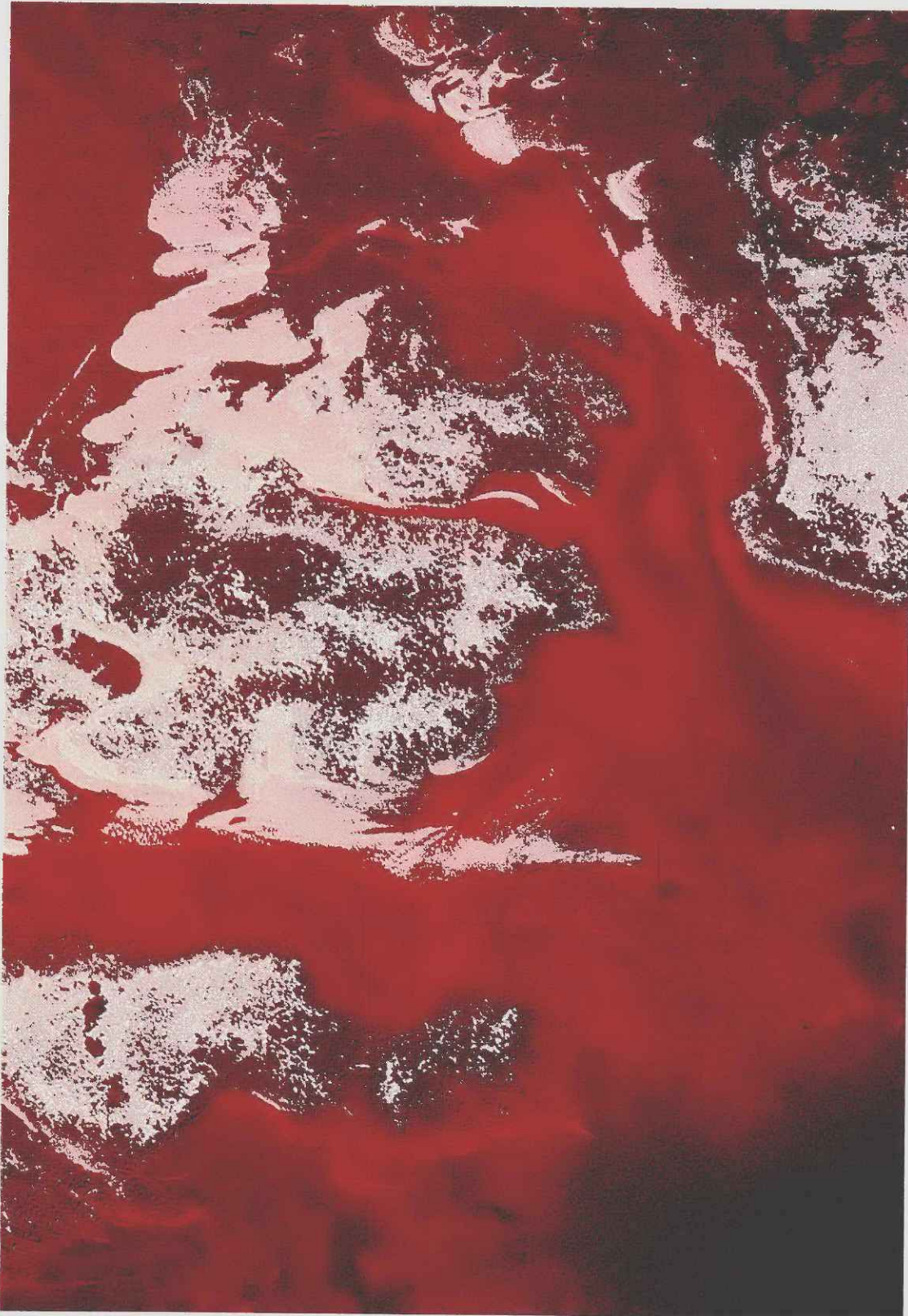
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Appeals court overturns famous circular saw award

By JERRY GEISEL

NEW ORLEANS—A circuit court of appeals has overturned a jury award in what was considered one of the classic horror stories in the annals of product liability.

Although the damages involved were relatively small—\$50,000—the case became a cause celebre in insurance and business circles as an example of how juries no longer take into account compliance with safety standards and product alteration when deciding liability.

The Fifth Circuit Court of Appeals disagreed with a district court jury that found Oliver Machinery Co. of Grand Rapids, Mich., liable in an industrial accident in which a worker lost a finger even though the blade guard had been removed from a commercial table saw that Oliver manufactured more than 30 years ago.

"We're absolutely delighted with the appeals court decision," said Ralph Baldwin, president of Oliver Machinery and a national leader in the tort reform movement. "We're especially pleased that the court emphasized that juries must not operate on sympathy, but on the law."

But Robert Earp, the attorney for the injured worker, said unless the appeals court decision is reversed, workers will continue to be needlessly injured. "The jury verdict would have encouraged a whole industry to make safer machines," the attorney said.

The case began Oct. 11, 1971, when Curtis Hagans, an employe of the Utility Trailer Co. of El Paso, Tex., was feeding lumber into a 2,000-pound table saw that Oliver produced in 1942.

Suddenly, the circular blade hit a knot in the wood, causing the board to jerk up abruptly. As the board came down, Mr. Hagans' left hand, which he had been using to steady the board, fell onto the blade, severing his ring finger and severely lacerating his middle finger.

Mr. Hagans sued Oliver under the theory of strict liability, arguing that the table saw was "unreasonably dangerous" and therefore defective since it was equipped with a removable blade guard device. The blade guard had been removed prior to the accident.

Plaintiff attorney Mr. Earp contended that Oliver possessed the necessary technology in 1942 to permanently attach the blade to the saw to prevent accidents such as struck Mr. Hagans.

But the appeals court ruled the saw table was not unreasonably dangerous since its utility outweighed its danger. The court noted that a permanent blade guard would have substantially limited the saw's usefulness. Common woodworking functions such as dadoing and rabbeting could not be performed with the guard in place.

Oliver could have installed a non-removable guard assembly device, the court said. But if that had been done the Oliver table saw would have been incapable of per-

Unless manufacturers fight unjustified claims, 'the product liability crisis is never going to be solved in an equitable manner.'

—Ralph Baldwin

forming vital woodworking functions.

"Texas law does not require a manufacturer to destroy the utility of his product in order to make it safe," the court ruled. "A manufacturer need not incorporate into his product safety features that render the product incapable of performing some or all of the very functions creating its demand."

Mr. Earp also contended that Oliver was liable because it failed

to warn Mr. Hagans of the risks involved in operating the saw without the blade guard assembly.

Such a warning was vital because Mr. Hagans had only worked with the table saw for about a week and only had about an hour of instructions before he first used the machine, Mr. Earp said.

The court agreed that it is sound policy for manufacturers to inform users of the potential risks in using a product. But there is no obliga-

tion to warn when the danger is obvious, the court said.

"One can imagine no more obvious danger than that by the jagged edge of a circular saw blade spinning at 3,600 revolutions per minute," the court said. "Clearly, a warning of the dangers involved in using the saw would not have informed him of anything he (Hagans) did not know already."

While obviously elated with the appeals court decision, Mr. Baldwin said there is no real winner in personal injury cases due to the high legal costs.

But unless manufacturers fight claims they feel are unjustified, "the product liability crisis is never going to be solved in an equitable fashion. You can't just lie back and play dead. You have to pursue every legal remedy," he said.

Mr. Baldwin said he was

shocked when the jury originally ruled against Oliver. "The case was so cut and dry that there seemed no possibility of a ruling against us."

But when Oliver lost the first round, Mr. Baldwin turned to the firm's insurer, American Mutual, and said: "This is a miscarriage of justice. We want you to appeal."

Mr. Baldwin, who was one of the founding fathers in the current drive to change the tort reform as it affects product liability, said the Hagans suit never would have been filed except for the contingency fee system.

But Mr. Earp said the contingency fee arrangement ensures that the working man receives the same justice as the rich man. "But for the contingency fee system, our country would only be for the wealthy," he said.

MEMO FROM MARSH & MCLENNAN

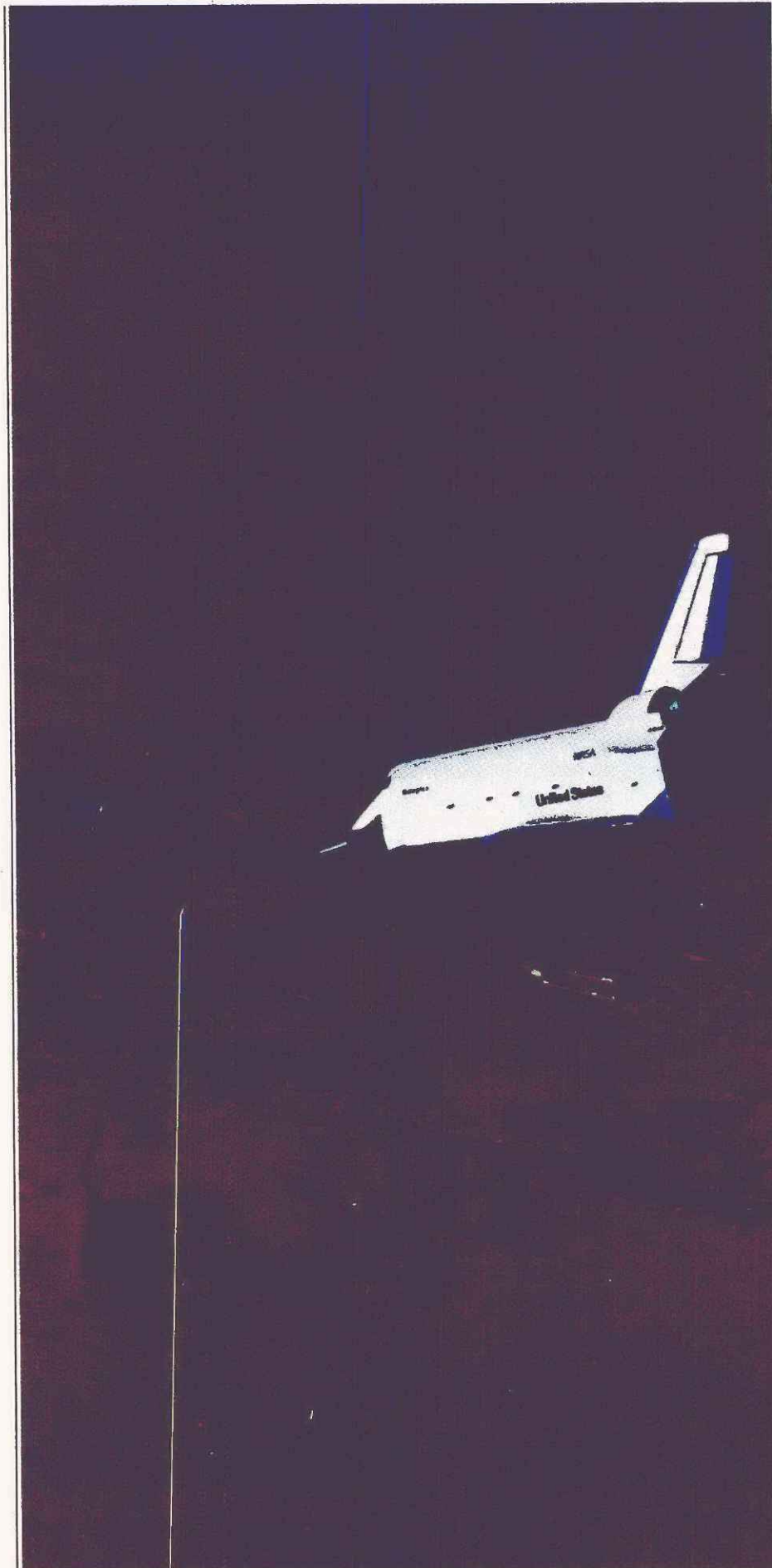
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But before any commercial enterprise can consider such a venture, it must be certain of the availability of adequate insurance protection.

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The space shuttle means new commercial opportunities, coupled with new challenges for the insurance industry. NASA photograph.

Pension reserves hit \$101 billion

WASHINGTON—The reserves of private pension plans administered by life insurance companies totaled \$101 billion in 1977, up 14.8% from the \$88 billion administered a year earlier, reports the American Council of Life Insurance.

These reserves back up pension benefits of millions of U.S. workers, the council says, and are invested in various sectors of the economy.

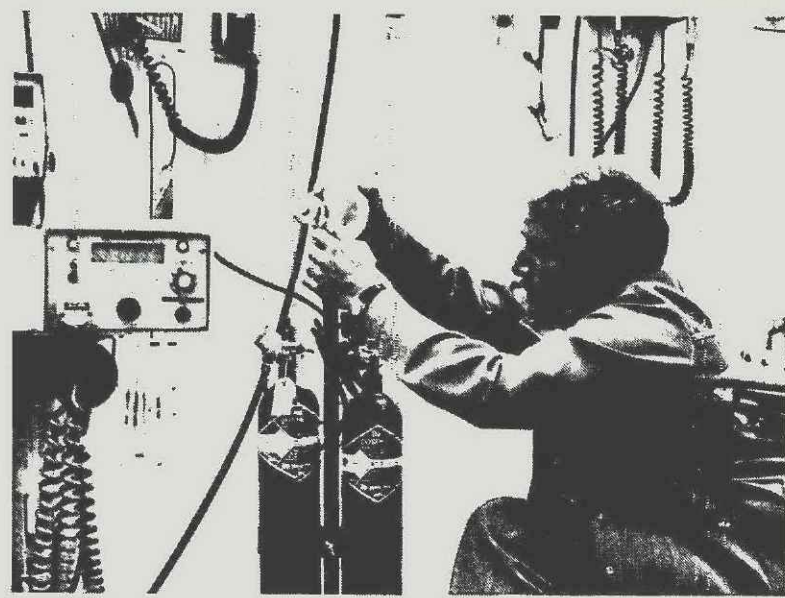


Photo: Ellis Simon

Westchester risk manager Robert Bieber checks the oxygen level in a hospital treatment room.

Westchester's Bieber contains insurance sting to a small bite

By ELLIS SIMON

WHITE PLAINS, N.Y.—Westchester County could not have better timed the start-up of its risk management department.

The year was 1973 and the voters had just put Yonkers mayor Alfred Del Bello into the county executive's office. Mr. Del Bello asked Yonkers' risk manager, Robert M. Bieber, to join him at the county seat.

At the time, insurance markets were soft, but over the next two years local governments were to bear a sting in the form of liability premiums that were measured in multiples of previous costs.

Westchester was not unscathed, but the pain was less than it might have been without a risk management program, according to Mr. Bieber. Total casualty premiums rose from \$901,000 in 1973 to \$2.5 million in 1978 primarily because of higher workers compensation costs resulting from pay hikes and increased staff.

Liability coverage costs rose, too, but Mr. Bieber said he was told by Liberty Mutual, the county's insurer, that hikes of between 300% and 400% would have been in order had the county not set up its risk management program.

As director of risk management

for Westchester County, 38-year-old Mr. Bieber protects a public entity owning over \$200 million in property, a 700-vehicle motor fleet and employing more than 8,000. Exposures include a community college, amusement park, commercial airport and medical center.

Reducing exposure has been the cornerstone of Westchester's risk management program. Since coming on board, Mr. Bieber has instituted property conservation, safety and loss control measures that have saved the county over \$500,000.

In each of the county's 20 departments, two supervisors have been assigned additional duties as safety directors, reporting both to Mr. Bieber and their respective department commissioners. The 40 safety officers underwent a four-day training session and are in charge of inspecting facilities, reporting poor or unsafe work and making sure corrections are made, Mr. Bieber said.

When the county's insurers recommend changes, the safety directors are also responsible for putting them into effect, he added. Other duties include setting up accident review boards and holding safety management meetings within the various departments.

"The accident review system has made employees more aware of their safety responsibility," Mr. Bieber said. In addition, training sessions with employees have helped cut back on the number of workers compensation claims.

Such was the case when there was a high incidence of nurses and nursing employees reporting back injuries. After implementation of the training program, incidents dropped by 30% to 35%, Mr. Bieber said.

Preventive measures have also been taken to reduce Westchester's exposure at Rye Playland, a county-owned amusement park. In addition to a preventive maintenance program ride concessionaires must be inspected by an independent engineer before they can open for the season, he said.

At the county airport, home of numerous corporate craft, an emergency response system has been set up to handle potential disasters. Hospital malpractice exposure has been reduced through better communications with patients and an improved system for promptly handling complaints, Mr. Bieber said.

With the assistance of Liberty Mutual, Westchester County set up a defensive driving and emergency response training program for sheriff's department, parkway police and other personnel regularly driving on behalf of the county.

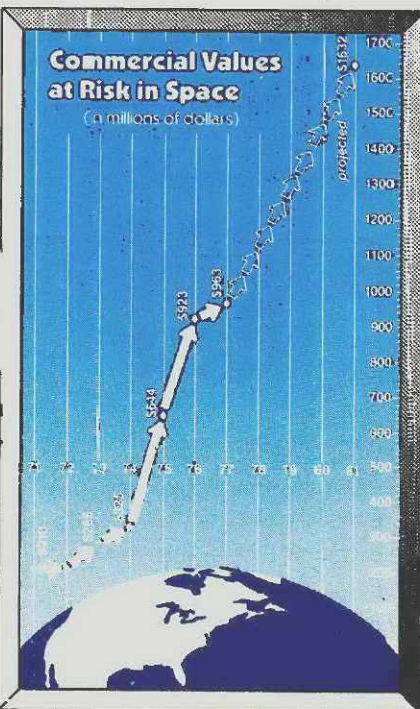
In addition, the driving histories are carefully reviewed and persons "we don't want in county vehicles" are "weeded out," said Mr. Bieber.

Loss prevention measures have not been limited to the casualty side. In conjunction with the Improved Risk Mutuals, Westchester's property insurer, the risk management department regularly inspects county property for housekeeping and sprinkler problems and needed repairs for hazardous facilities.

Much of this work is the responsibility of Arthur Harris, Mr. Bieber's assistant, who maintains regular contact with the departmental safety directors. Minor repairs can be handled out of operating budgets, but Mr. Bieber is often called before the county legislature

Continued on following page

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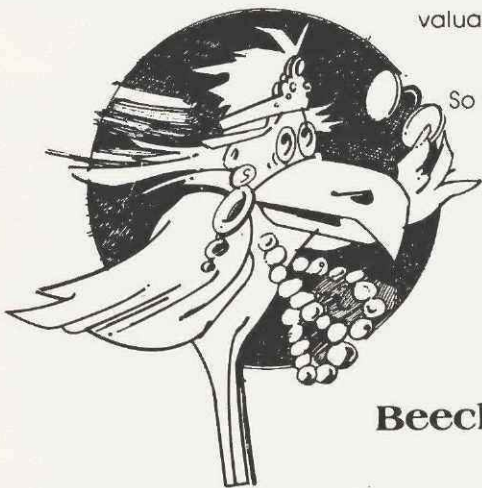
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Westchester . . .

Continued from preceding page to justify major work.

Employee fidelity has not been overlooked by Mr. Bieber's loss prevention measures. At facilities where there is a great inflow of cash, such as Playland, the community college and hospital, money is constantly audited and careful records are kept.

With a \$2.5 million premium, casualty coverage represents Westchester County's greatest cost. By comparison, property coverage for \$207 million total exposure runs \$153,000.

The county's casualty coverage includes general and auto liability plus workers compensation written under a master program insured by Liberty Mutual. The plan has no deductible and provides up to \$1.5 million per occurrence. The county also maintains a \$10 million

umbrella policy written in London.

Mr. Bieber had considered self-insuring the county's workers compensation exposure, but analysis of the total insurance program showed that savings on workers compensation would have been more than offset by higher hospital malpractice costs.

By including the medical center's malpractice in the master casualty program, Westchester can get coverage for much lower premium than if it were insured separately. The size of the total premium plus the fact that Westchester's workers comp is highly profitable for Liberty Mutual are inducements for this arrangement, Mr. Bieber said.

Westchester County has been with Liberty for 19 years and has had good loss experience over that period, he added. "They know our risk, know the management of our risk and they're willing to stick with us."

However, Mr. Bieber changed property insurers in 1977. That year, Improved Risk Mutuals replaced Allendale Mutual with a program providing greater flexibility and a \$70,000 savings, he said. In addition, Westchester assumed a \$50,000 deductible per occurrence where it previously had \$500 per occurrence.

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Westchester County

With a population of almost 1 million persons, Westchester County is a study in contrasts. It stretches from the New York city limits to Bear Mountain and Yorktown Heights some 30 miles north and from Connecticut to the East Bank of the Hudson River. Noted for posh suburban communities such as Scarsdale, Bronxville and Harrison, it also includes larger cities such as Yonkers, White Plains and New Rochelle which suffer from the urban decay of the Northeast.

The county government operates on a budget of \$403 million and employs 8,000.

Whereas the old policy provided coverage for named perils only on a cash value basis, the new program covers all risks and provides replacement cost, he noted. Under the new program, "we could never become a co-insurer," Mr. Bieber said.

INA underwrites the county's comprehensive crime policy, with no deductible and a \$1,000 deductible on money and securities coverage. MOAC is underwriter for Westchester's marine fleet, one sludge barge.

Knox, Lent & Tucker of White Plains is the county's broker of record.

Mr. Bieber's expertise is being used to assist Westchester's municipalities in solving some of their insurance problems. He serves as technical adviser to a task force the municipalities and school districts set up to deal with their liability problems.

The task force has hired the Bliss Group of Illinois to do a study on the feasibility of a reciprocal arrangement.

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State extends workers' right to file suit

CHARLESTON, W. Va.—Three lower court rulings involving injured workers at a coal mine, a bridge and a factory were overturned as the West Virginia supreme court broadened employees' rights to safe working conditions.

"Entrepreneurs were not given the right to carry on their enterprises without any regard to the life and limb of the participants in the endeavor and free from all common law liability," the court declared.

By making negligent firms vulnerable to lawsuits by aggrieved workmen, the court's decision could lead to widespread repercussions in industry.

Employers had been free of liability in most cases before, since the bench normally ruled that dead or injured workmen were covered by workers compensation.

The United Mine Workers union, in a friend-of-the-court brief, claimed that workers compensation became a "trade-off" since workers didn't have to prove liability and companies didn't put their fate in a jury's hands.

However, the UMW said some firms have merely figured in a certain percentage for compensation claims and conduct business as usual, aware that employees will be killed or injured. Companies feel safe from damage suits due to the immunity factor, the union charged.

The court tried to define the elusive term "deliberate intent" under which it would allow injured workers to seek compensatory damages in court outside the normal immunity bounds of compensation.

Justice Darrell V. McGraw Jr. said deliberate intent means an employer loses immunity from suit "where his conduct constitutes . . . willful, wanton and reckless misconduct."

The court said liability or that ability to sue and collect will require "a strong probability that harm may result from the company's action." ■

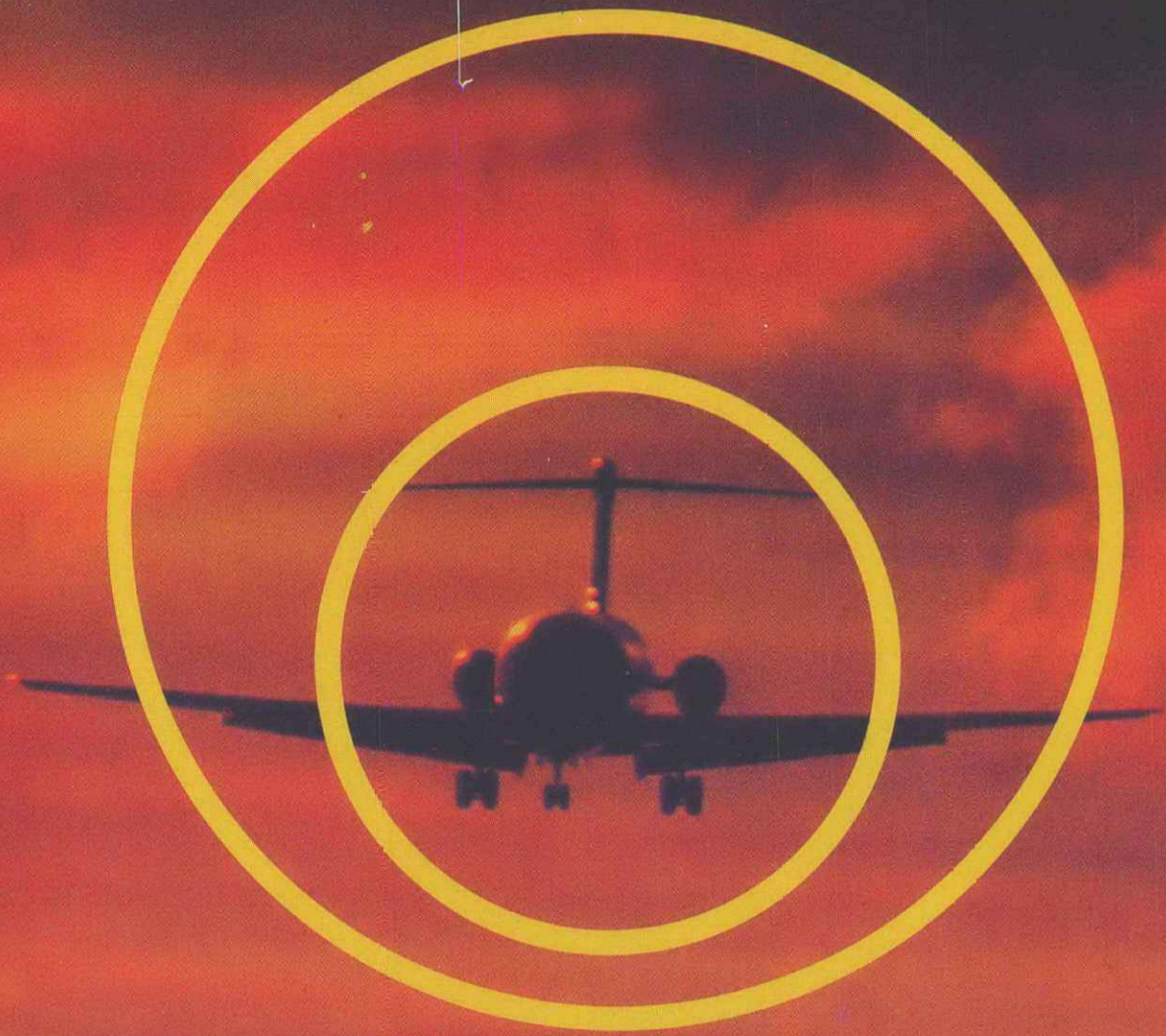
More quake info asked

SACRAMENTO, Calif.—New regulations aimed at making sure that property insurance companies are able to meet their obligations in case of a major California earthquake have been released by the state insurance department.

Under the new rules, each insurer doing property insurance business in the state must record its earthquake liabilities and report them to the department. The regulations also provide that each insurer calculate the probable maximum loss (PML) it could incur in the event of a catastrophic earthquake, less deductibles and the amount it would be reimbursed through reinsurance.

A department spokesman said the development of the PML will help insurers make realistic evaluations of their aggregate earthquake loss exposures and their ability to respond. In addition, the PML data will help the department supervise risk exposures as required by the California Insurance Code.

The new rules divide the state into seven zones, each of which, according to seismologists, could separately and at different times suffer a major earthquake. ■



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ABA study shows

Higher insurance costs, losses strike U.S. banks

WASHINGTON—The nation's banks were hit with higher insurance costs and bigger losses in the last year, according to a bank trade group.

The cost of blanket bond coverage, which protects banks against such common losses as employee dishonesty, robbery, burglary and check forgery, jumped by 15.6% in one year. Overall, bond coverage soaked up about half of the nearly \$200 million the banking industry shelled out in insurance premiums in 1977.

These findings are contained in the American Bankers Assn.'s sec-

ond annual confidential bank insurance survey. The group surveyed 3,393 of the nation's 14,412 banks. The randomly selected banks were asked about their insurance needs, coverages, costs and losses. From the results, the ABA extrapolated spending and experience for the entire banking industry.

Smaller banks were much more likely to be socked with bigger increases in bond coverage premiums than their larger counterparts. For example, banks with deposits of between \$25 million and \$99 million found their bond coverage premiums rising by an average of 21% in one year. However, banks with deposits of more than \$1 billion paid just 3.9% more.

Geographically, banks in the West and Southwest paid 27% more in bond coverage premiums last year, while banks in the ABA's region 1, which includes most of the Eastern Seaboard, paid 10.6% more.

The size of the bank also was directly related to the deductibles in basic bankers blanket bond programs. Banks with deposits of less than \$25 million had an average deductible per incident of \$4,500. The largest banks had an average deductible of \$190,000.

Only 4% of banks responding said they had no deductible on their basic bankers blanket bond coverage. Banks without a deductible tended to be small.

According to the survey, bank size had a direct relationship on the likelihood of the bank being robbed. For example, in 1977 about 2% of banks with deposits of less than \$25 million said they had suffered losses due to robberies.

On the other hand, a whopping 77% of banks with an average of more than \$1 billion in deposits said they had robbery losses.

Nine out of the 10 largest banks carry special insurance for their data processing systems, but only 8% of the smallest banks carry such protection. The reason for this disparity is that larger banks are much more likely to engage in extensive data processing operations, the study explained.

Most banks continued to purchase more insurance than that suggested by the ABA's insurance and protection division. For example, bankers blanket bond coverage for banks with less than \$25 million in deposits averaged \$438,349. The ABA recommends only \$350,000 of protection.

The mean policy limits for basic blanket bond for banks with deposits between \$25 million and \$99 million was \$1.38 million while the mean policy limit for banks with deposits between \$100 million and \$499 million was \$2.94 million.

In addition, the mean policy limits for blanket bond for banks with deposits between \$500 million and \$999 million was \$6.42 million. Finally, the biggest banks in the country, those with deposits of more than \$1 billion had a mean policy limit of \$10.73 million for basic blanket bond.

Average premiums for blanket bond coverage ranged from \$2,830 for institutions with less than \$25 million in deposits to \$163,000 for the largest banks.

As in past years, the biggest loss for banks was due to check fraud, the type least likely to be recovered through insurance. Check fraud last year cost the banking industry \$76,187,000.

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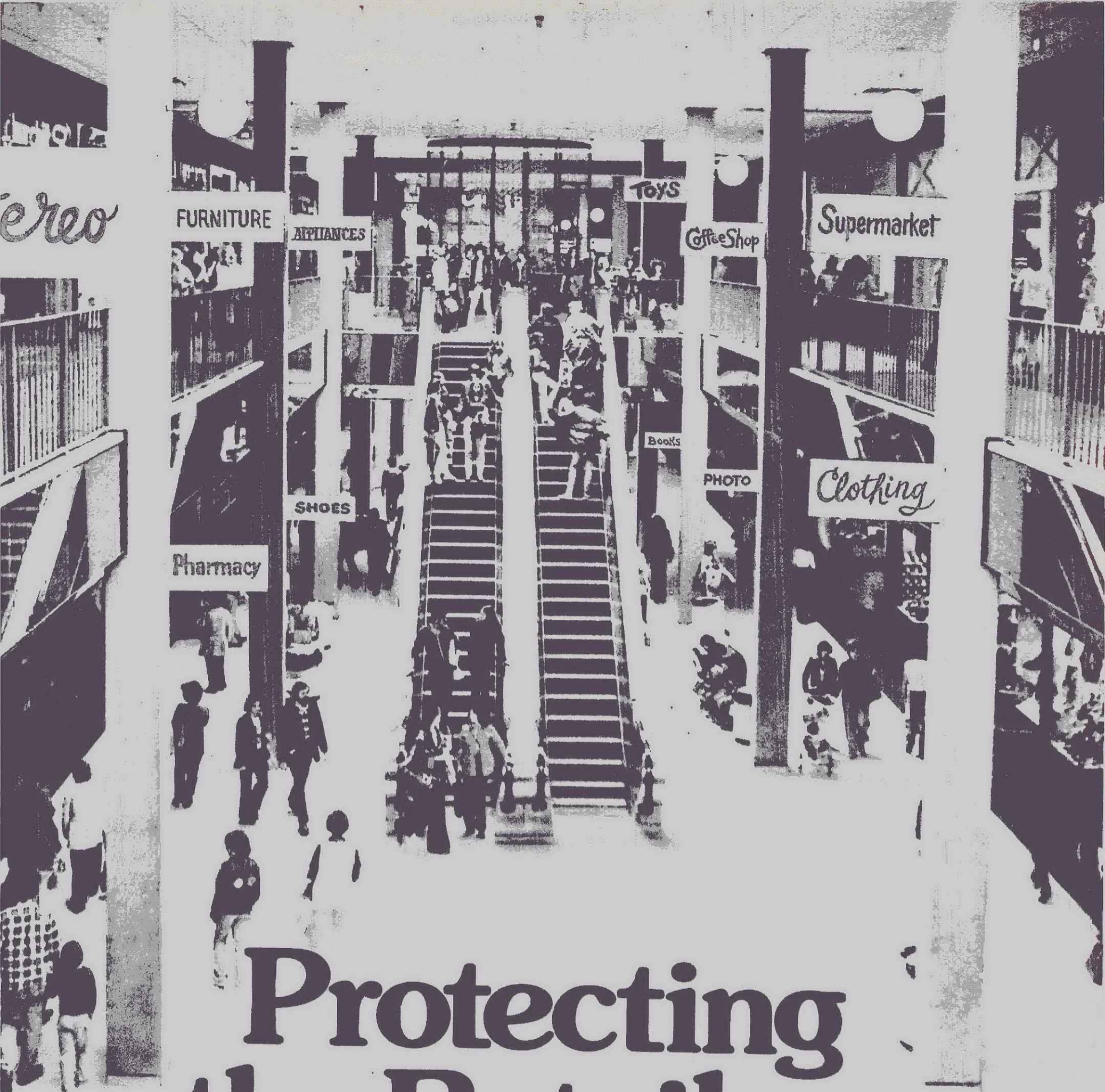
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BNA survey

**Firms expand benefits,
reject national health**

WASHINGTON—A dramatic increase in dental insurance plans and a 75% rise in the cost of health insurance programs are among the most significant changes in employee benefit plans in the last four years, according to the Bureau of National Affairs.

A BNA survey of 162 personnel directors also found that about half the companies queried now provide the same benefits for all employees, up from the 40% that provided identical benefits in a similar survey in 1974. The number of firms providing long term disability plans also doubled in the last

four years.

In addition, the Bureau found overwhelming opposition to national health insurance. Only four of the personnel managers favored such a program, 20 had no opinion and 66 said they opposed the idea.

"No thanks," wrote one personnel official. "We feel federalization leads to decay of service and loss of quality of care."

"This is not the answer to the problem" of rising health care costs, wrote another personnel chief.

Forty percent of the companies surveyed now offer dental insurance programs, up from 12% in 1974. Thirty percent offer prescription drug plans but only one company reported a prepaid legal service program.

All but two of the firms provide employees with group life insurance. These benefits are now more likely to be based on annual salary, while in 1974 most companies reported using a flat amount.

The average monthly premium paid by the employer for life insurance ranges from an average of \$4.24 per plant employee to \$4.87 per managerial employee. About one-quarter require employees to contribute to the cost of life insurance.

Long term disability plans now cover office employees in 67% of the firms. Forty-three percent of the companies cover plant employees and 81% provide LTD for managerial employees. The number of firms providing LTD was too small to be included in a 1968 BNA survey and has doubled since the 1974 Bureau report.

Eligibility requirements for LTD coverage tend to be longer than for other types of insurance and the maximum benefit is most often between 55% and two-thirds of pay. LTD costs for employers varied widely from four cents per \$100 of salary to \$1.34 per \$100 of salary.

Nearly all the companies provide health and major medical benefits. Insurance companies are the source of the benefits for 58% of the companies, about the same as in 1974. Blue Cross/Blue Shield now captures about 39%, down from the 43% figure four years ago.

Nine percent of the companies now self-insure their benefits, up sharply from the 3% reporting self-insurance in the previous report.

The median cost for comprehensive medical plans for office and managerial employees is \$25.16 per month per employee; for plant employees the figure is \$29.18. Family coverage for office and managerial workers is \$66.73; for plant employees that figure is \$79.40.

The cost of health insurance programs has increased 75% in four years, the personnel officers reported.

About 40% of the firms surveyed require their workers to contribute to the cost of medical insurance.

Less than half (45%) of the firms have been approached by an HMO, although two-thirds of the firms that have been approached have offered their workers the option of a prepaid program.

Thirty-four percent of the companies say they have taken some steps to control health care costs. The most frequently mentioned step is to work closely with insurance companies to institute coordination of benefits programs to make sure the same medical bill isn't being paid twice, the Bureau of National Affairs reported.

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Abuses plague most Teamster pension funds, dissidents say

Crain News Service

WASHINGTON—The Teamster pension funds are a horror story of ERISA violations and inaction by the Labor Department and Congress, a union reform group charges.

The Professional Drivers Council (PROD) released a study of the 15 largest Teamster pension funds to illustrate their complaints that the funds are rife with fraud.

The union members said "beware" is the one-word message trumpeted by the 80-page report. PROD research director Bob Windrem said most of the 15 top funds have violated ERISA.

However, PROD discovered the pension plan for the union's leadership is pristine by comparison with careful investments and generous benefits. "It is fitting that the Cadillac of union pension funds should serve those who drive union Cadillacs," PROD complained.

Mr. Windrem claimed that the Labor Department's commitment to investigating Teamster abuses has been "woefully lacking," and that Congress "needs to wake up to the threat of continuing fund losses."

In response to the report, Teamsters president Frank E. Fitzsimmons released a statement challenging outside organizations, such as PROD "to themselves adopt democratic principles."

Those principles include negotiating a contract between labor and management, setting up a pension fund for members, divorcing themselves from the support of "millionaires" and tax-exempt funds" and "union busting lawyers," and "telling the truth instead of lying."

Mr. Windrem said the "sophistication of the manner in which pension funds are being ripped off" calls for a greater commitment by the Labor Department. To underscore this, he said he was told the department has only one lawyer working on a suit against the Central States pension fund, compared to eight attorneys for the fund.

"The Labor Department cannot continue to use a minimum number of investigators to attack a major problem of American life—the massive ripoff of workers' benefit funds," he declared.

He said part of the problem is that the department wants to move slowly in order not to establish a precedent of acting too quickly in ERISA investigations.

According to PROD, however, another part of the problem is political. "The Labor Department has always been considered the advocate of organized labor," Mr. Windrem said.

One recommendation that PROD and Teamsters for Democratic Union have made, Mr. Windrem continued, is for Congress to consider a bill permitting plan participants to vote for union trustees of benefit funds. That recommendation, he said, "has apparently fallen on deaf Congressional ears."

The PROD report says that the Central States fund, "which could be a great engine for good in this nation, has instead become a money machine for every gangster with the right connections." This type of corruption, Mr. Windrem stated, is spreading into the more than 230 pension funds covering more than 1.8 million Teamsters.

The survey found that six of the top 15 funds lost heavily because of investment decisions "no reasonable man could call prudent." A

seventh fund reported a multimillion dollar loss to a swindler whose prior record should have at least raised flags. An eighth, the Alaska Teamster fund, is owed \$20 million by its companion health and welfare and prepaid legal funds because of "massive mismanagement."

Additionally, other funds incurred "huge" stock losses in 1976—losses other funds avoided, the report says.

Despite these abuses, the report lauds a few of the funds as well-managed. For example, PROD says the largest fund, the \$1.6 billion Western Conference, is "as well disciplined, as 'clean' as the reputation of the Prudential Insurance Co., which manages all of its assets at a guaranteed rate-of-return in excess of 7% and with total discretion."

And, ironically, the report points out that the \$90.6 million fund which covers Teamster leaders—the Teamsters Affiliates Fund—"has no money invested in real estate."

"Far be it from Fitz (Mr. Fitzsimmons) and his lieutenants to invest their money in shaky investments like Las Vegas casinos run by convicted felons or desert property miles from nowhere," the report says.

The report notes that the fund invests in blue chip stocks and bonds and guaranteed return contracts. It says the union pays money into the fund on a regular basis, "and every nickel, dime and quarter that flows into the fund comes from the pockets of rank-and-filers."

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Connecticut	\$116	New York	\$129
Delaware	\$ 91	North Carolina	\$ 71
District of Columbia	\$126	North Dakota	\$ 80
Florida	\$ 91	Ohio	\$118
Georgia	\$ 83	Oklahoma	\$ 81
Hawaii	\$ 89	Oregon	\$106
Idaho	\$ 88	Pennsylvania	\$106
Illinois	\$125	Puerto Rico	\$ 66
Indiana	\$ 87	Rhode Island	\$114
Iowa	\$ 82	South Carolina	\$ 66
Kansas	\$ 83	South Dakota	\$ 73
Kentucky	\$ 71	Tennessee	\$ 72
Louisiana	\$ 75	Texas	\$ 76
Maine	\$105	Utah	\$ 97
Maryland	\$ 98	Vermont	\$ 94
Massachusetts	\$127	Virginia	\$ 84
Michigan	\$130	Washington	\$103
Minnesota	\$ 86	West Virginia	\$ 87
Mississippi	\$ 56	Wisconsin	\$ 88
Missouri	\$ 84	Wyoming	\$ 80

Source: Health Insurance Assn. of America

A&A acquires Calif. broker

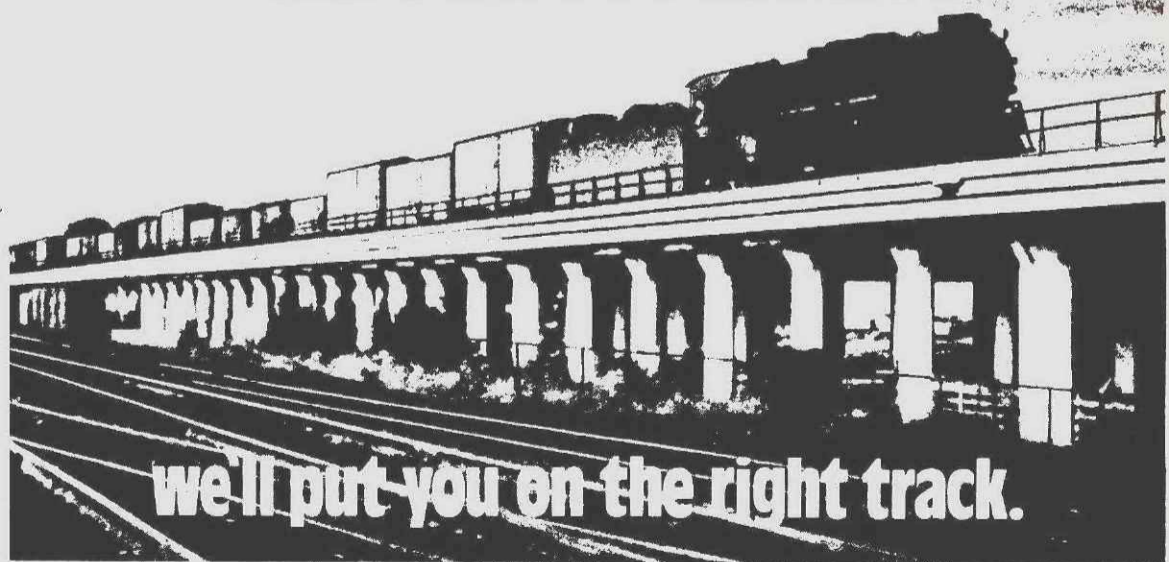
LOS ANGELES—Alexander & Alexander Inc. is acquiring Lee Smith & Co. Inc., an Orange County insurance broker that reported \$8.4 million in gross revenues for 1977.

A&A thus continues its aggressive acquisition program that allowed it to leap Johnson & Higgins and become the second largest

brokerage firm in the nation last year.

E. Lee Smith, now president of the firm, will become a vp at Alexander & Alexander of California. The 35 employees of the Smith firm will remain at their present location for the rest of the year and will then move to new quarters in Orange County.

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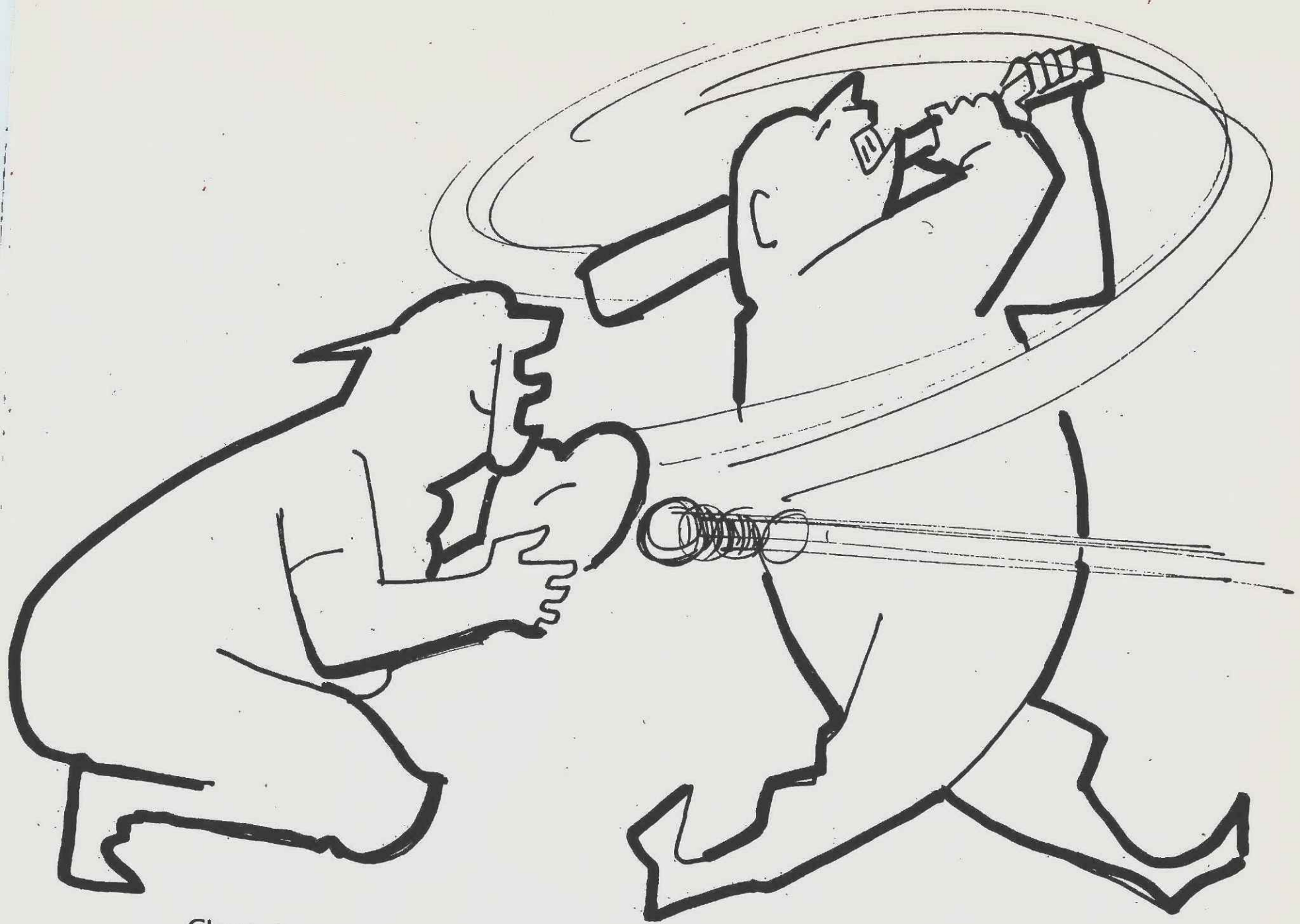
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Lloyd's future . . .

Continued from preceding page
 planation: Lloyd's is mindful of its duties under the Insurance Brokers (Registration) Act 1977 which requires all brokers to register with the department of trade (those loved by Lloyd's get automatic registration).

Also, says Mr. Findlay, Lloyd's might find it hard to discipline wayward brokers if they are controlled from abroad. Lloyd's says that foreign laws may prevent an overseas owner from complying with committee rulings.

But serious offences can be punished by withdrawing the Lloyd's broker's license. American insurers, who directed £1 billion of business to Lloyd's last year, are unconvinced. They think the big Lloyd's brokers just want to keep them out.

Three quarters of all Lloyd's business comes from overseas, and half from America. The largest single chunk, about £250 million last year, came from none other than Marsh & McLennan, which is America's biggest broker. Much of it went via three big Lloyd's brokers, C. T. Browning, Sedgwick Forbes and Bland Payne (20% owned by Marsh & McLennan). Commission on this business—5-10% of premiums—is split between the American and English brokers.

Lloyd's brokers usually take between a half and a quarter of the commission. Because of the Lloyd's ban, some American brokers now want more.

Lloyd's, worried by this and by the threat of a rival New York market, has backpedaled a bit on one of the bids. Frank B. Hall is paying £26 million for Leslie and Godwin, which will, after all, retain its Lloyd's club card. Hall must split out the Lloyd's broking operations by the end of 1978 and sell 75% of them to a Lloyd's-approved British firm.

In banning foreign ownership of Lloyd's brokers, the committee gave an unintended fillip to the rival operation being set up in New York. The new exchange could be touting for business by mid-1979. It will have a start-up capital of \$60 million, which means premium income capacity of \$200 million, only a fraction of the total \$60 billion-a-year American insurance and reinsurance market.

Imitating Lloyd's may defeat the Americans. They have chosen the wrong moment in the six-year insurance cycle. American rates are just past their peak, and there is spare underwriting capacity. Rates may pick up again in 1980-81, when underwriting capacity is next expected to contract, as falling profits drive out marginal operators. High-risk business will then be hard to place domestically, because of the glut of good-quality business. Traditionally it is this high-risk business which comes to Lloyd's. If the New York market is to rival Lloyd's and siphon off some of this London-bound business, it must by 1980-81 have developed some of the Lloyd's know-how and be able to match London rates.

Even at home, competition for Lloyd's business is hotting up. Many general insurance companies worldwide moved into reinsurance, especially marine and aviation, before 1974, lured by fat profits. So did the normally staid life offices. They wanted to expand into general insurance, and reinsurance is a cheap entry path because there are no big overheads, like advertising.

Much of the competition for Lloyd's business, however, comes from established firms, especially in continental Europe. The two biggest reinsurers between them

do more business than Lloyd's.

The committee of Lloyd's is worried about more and more members chasing a limited volume of business for narrowing margins. One response it is considering is to limit the number of new underwriters elected each year. The amount of business Lloyd's can write depends on the number of

underwriting members. Each member can write at least £100,000 of premium business a year. There is no shortage of takers. Over 3,600 were elected last year.

In marine underwriting, almost a third of Lloyd's premium income, rates are low (and falling) partly because of the slump in world shipping, especially tankers. In the good times, shipowners can cheerfully afford top-line Lloyd's insurance cover; in a slump, especially

when the ships are laid up, they economize. More business could evaporate if some marine underwriters have their way.

Committee members, like Robert Kiln, are worried. He thinks there is much unwise underwriting in London. Some underwriters, eager to fill capacity even at bargain-basement rates, perform only cursory checks on the risk.

Many Lloyd's brokers control underwriting agencies. Lloyd's is sensitive about the potential con-

flict of interest. Underwriting agencies which manage syndicates may have an interest in that syndicate making a profit. Yet the broker is legally acting for the assured, with a duty to get the lowest rate.

This practice of the broker acting as agent for the underwriter dates back to the nineteenth century, at least. Like so much in the running of Lloyd's, custom takes precedence. Tradition is fine but no reason to preserve practices that defy commercial sense.

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Provincial auto pool steers crashes into success

By HARRIET KING

VANCOUVER, B.C.—Nearly five years ago, a socialist provincial government declared itself the only basic liability insurer for autos in British Columbia, including coverage on some 156,000 vehicles in corporate fleets.

Consequently, on March 1, 1974,

the Insurance Corp. of British Columbia was born, amid much controversy. Yet, its basic coverage monopoly grew rapidly and it soon became the third largest auto insurer in Canada.

The socialist New Democratic Party government was contending that private carriers had skimmed the cream off the auto market by

selecting only the safest drivers. Higher risk motorists were priced out of the market, leaving perhaps 30% of British Columbia drivers uninsured. NDP leaders reasoned that if they could insure everybody in one package, the good risks would blend with the bad and premiums for all would be affordable. All drivers received \$75,000

minimum liability coverage, the highest required in Canada.

ICBC was said to be a socialist solution to a free enterprise problem. But despite early fears that the new carrier would become a bureaucratic monster, some Vancouver risk managers contend that the new government coverage is better than what they had before.

"I'm not a socialist and I don't like government intervention into private enterprise. But from the beginning, ICBC has to me made a lot of sense. It was brought about because of the head-in-the-sand attitude of the private insurance companies," contends William Tully, risk manager for B.C. Forest Products, one of B.C.'s largest resource companies, and legislative chairman for the Canadian risk managers association.

Mr. Tully contends that "over the last three years, ICBC had probably cost most companies less than their previous coverage, especially with safe driving bonuses. It also means that there is very little chance of uninsured motorists running around, because people can't get their plates unless they have the basic \$75,000 coverage."

Robbie D. Sherrell, who became president of ICBC in March of this year, believes so strongly in the principle behind ICBC that he says: "I'd certainly think it could be a model for any nation, state or province. It has got to be the answer when dealing with a portfolio that no carrier wants to deal with, from product liability to medical malpractice to marine hull. Or for things like nerve gas or radiation exposures."

Mr. Sherrell came to ICBC with 19 years of experience behind him, all spent at the Hartford Insurance Group. His last position was executive director of Hartford Europe.

Another risk manager, Sam Badger of MacMillan Bloedel, B.C.'s largest forest products producer, notes: "ICBC was a political promise that had to be kept, come hell or high water. But we currently are not having any specific problems with the coverage."

"There were a lot of problems at the outset of the administration of the system because it developed too fast" he adds.

In essence, ICBC became one of



Robbie D. Sherrell says the British Columbia system could be a model for insurance that no carrier wants to provide.

Canada's largest corporations overnight. Today, its premiums are nearing \$400 million annually. The socialists had used the need for ICBC as a campaign plank, one which helped the NDP win the 1972 election. But once the plan was approved by the provincial legislature in mid-1973, very little time was left to get the company rolling before its March 1, 1974, implementation date.

Nor was there an exact model for early managers to follow. The provinces of Manitoba and Saskatchewan had previously implemented government monopolies on auto insurance, but there were differences.

B.C.'s minimum coverage was higher; driving risks differed in the prairie provinces from those in the coastal, more populated British Columbia, and British Columbia had more motorists than the other

Continued on page 32



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icy policy.

B.C. system . . .

Continued from page 29

two put together. Moreover, ICBC is set up to be self-supporting while the auto programs in the other two programs are propped up by government gas tax subsidies.

Initially, ICBC was unwieldy and operation of the company was stormy. Its managers were largely political appointees—current president Sherrell is the first professional manager for the company.

And rates were too low. In presenting its political platform to the public in 1972, the NDP had promised to lower premium rates substantially. They did and within two years losses soared embarrassingly to \$185 million. Employees, too, were dissatisfied with working conditions, salaries and fringe benefits and went on strike for 14 weeks. Afterwards, it was difficult to bring the organization together so that it could function smoothly.

The embarrassment lasted only as long as the government. A conservative and free enterprise-minded Social Credit Party swept into office in December 1975. The Socreds assumed a hard-nosed, business-like attitude and told the crown corporations to operate as independent, self-supporting businesses. But the new government did pay off the ICBC debts so the carrier could get a fresh start—this time with drastically higher rates.

Yet, controversy also erupted over the Socreds. The task of raising rates as much as 240% in some categories fell to Dr. Pat L. McGeer, a brain specialist, one-time B.C. liberal leader and the current Socrad Minister of Education. As chief executive of ICBC, Dr. McGeer was outspoken. When he raised rates, he told policyholders: "If you can't afford insurance, sell your car." Disgruntled insureds responded by picketing with placards that read: "Stick it in your ear, McGeer."

"Initially there was a lot of confusion," says John Hall of Crown Zellerbach. "But once over the break-in stage, there have been only minor difficulties. I suspect our costs are about the same as when we were operating through a private carrier. We currently buy as little insurance as we need to, just liability. Before, we self-insured everything but liability, just as now."

Physical damage coverage also was compulsory initially but Mr. Tully says the compulsory element has been dropped, so many companies such as B.C. Forest Products self-insure for physical damage.

The way the program works now is that each individual driver or fleet operator is charged premiums based on the accident experience of the vehicles themselves. For instance, if driver A has an accident while driving driver B's car, A is held harmless from a liability standpoint and any claims would be against the vehicle owner. When the vehicle is sold, the new owner must get a new license plate because plates are not passed along with the car.

That policy, too, caused problems at first, says Mr. Tully, since it was difficult sorting out who was responsible for claims against former fleet vehicles that had been sold with old plates attached.

A few technical problem areas still exist, says MacMillan Bloedel's Mr. Badger, "where present coverage is not as broad as under our old contract."

Mr. Hall of Crown Zellerbach says that his company works on a decentralized basis. "We let individual divisions deal direct with local agents. This policy has worked for us, as they can then tell the agents what they want and still

and most are for simple property damage.

Mr. Tully is enthusiastic about ICBC's drive-in claims center, an innovation in British Columbia. "We can now take in a vehicle, an adjuster there looks at it and he estimates the number of hours it will take for repairs. We take it to the body shop of our choice and show the estimate to the shop. If the estimate is adequate, the shop does the work. If it's too low, the shop

negotiates with the estimator. ICBC then pays the claims. This does away with some of the delays that insurance companies previously dreamed up."

Except for the basic liability coverage, private carriers can legally handle any type of insurance, including auto excess coverage, which Mr. Sherrell says 30% of B.C. drivers buy. But to date, only the Royal Insurance Co. has been active.

ICBC also writes general insur-

ance such as fidelity, liability, multi-peril, U & O, contractors equipment, commercial and industrial buildings, schools and inland cargo. Policies written exceeded 109,000 by yearend 1977, generating net premiums of \$20.3 million.

But the company isn't out to monopolize any other market segment, Mr. Sherrell insists. "Yet, the potential is there if a need arises in some other high risk area that no one else will touch." ■



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MORESON IRON & METAL, INC. ET AL		5854-02		01 78 TO 01 78				
KEY	FILE	3	2	1	CLAIMANT OR DRIVER NAME			
	138A08120				CARRY L OBJECT	04 17 75	MS 46	CLOSED
	TRUCK BY							FOREIGN F
	3XA09340				NELSON	05 07 75	MS 46	CLOSED
	HARP OBJECT				INJURY		46	CLOSED
	1				LACERATED FOOT			
	3XA0934				TOTAL	05 14 75	MS 46	CLOSED
	3XA09350				BOSS J OBJECT	05 23 75	MS 46	CLOSED
	BEH BY						46	CLOSED
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legal brief

Continued from preceding page cover.

Thus, the court ruled that the insurance company was not liable for the bank's settlement costs and attorney fees. *White Rock Nat. Bank v. U.S. Fire Ins. Co.*, Court of Civil Appeals of Texas, Feb. 2, 1978. (BI/04/Au.-\$4).

Incontestability clause

In a case of first impression in Massachusetts, the state supreme court ruled that an incontestability clause in a group life insurance policy barred a defense that a decedent was not an employee eligible for coverage.

The widow of an attorney claimed benefits under a group life and health insurance policy issued

in December 1968 to Power Engineering Co. Inc. (Power) by the Travelers Insurance Co. (Travelers).

The attorney, who represented Power, was paid \$300 per month less insurance deductions. His name did not appear on the company's payroll records and there was no withholding for state or federal income taxes nor for Social Security. However, the attorney was listed as an employee of Power in a letter from Travelers to Power.

The policy defined employe as one on the payroll and regularly employed on a full-time basis of not less than 30 hours per week. The policy also contained the following clause: "This policy shall be incontestable after two years from its date of issue . . ." Benefits under the health portion of the policy were paid on behalf of the attorney in 1971. A death benefit claim in June 1971 was denied because the claim showed the attorney as self-employed.

The lower court awarded the widow \$5,000 in death benefits and \$5,200 in health insurance benefits.

The appellate court noted that incontestability clauses were designed to require an insurer to investigate and act with reasonable promptness if it wished to deny liability on the ground of false representation or warranty by the insured. Because Travelers treated the insured here as an insured under the group policy for a period of two years during his lifetime, the court concluded that the defense that he was never an "employee" was barred. *Bonitz v. Travelers Ins. Co.*, Supreme Judicial Court of Massachusetts, Feb. 3, 1978. (BI/05/Au.-\$4).

Advertising exclusion

The supreme court of Minnesota has ruled that an alleged defamatory pamphlet prepared by an insured for limited distribution and for the purpose of personnel education did not constitute "advertising" within the contemplation of an exclusionary clause in a business protector policy.

Fox Chemical Co. (Fox), a manufacturer of automotive products, was insured under a business protector policy issued by Great American Insurance Co. (insurer). The policy provided protection for libelous or defamatory material "except publications or utterances in the course of or related to advertising, broadcasting or telecasting activities . . ."

Fox had prepared a pamphlet entitled "7 Phony Tests and Weird Ideas About Synthetic Lubricants." The pamphlet was distributed on a limited basis to master distributors as informational background to aid in educating salespersons. Fox was sued for defamation arising out of the pamphlet. The insurer refused to defend them relying on the exclusionary clause.

The trial court ordered the insurer to defend Fox.

The appellate court agreed. The court concluded that the exclusionary clause appeared to "contemplate as evidenced by the broad terms 'broadcasting' and 'telecasting,' that public or widespread distribution of the alleged defamatory material" was the excluded activity. *Fox Chemical Inc. v. Great Am. Ins. Co.*, Supreme Court of Minnesota, March 3, 1978. (BI/05/S.-\$4).

(Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.)

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If competition intensifies

CU executive fears lower bottom lines

LONDON—A top official of the Commercial Union insurance group sees lower "bottom line" margins if insurers engage too fiercely in world competition in the next 10 years.

Robert Sloan, executive director of the Commercial Union Group, told the Chartered Insurance Institute that many predominately national insurance markets are trying to extend their activities beyond their frontiers.

In an allusion to overseas markets, he suggested, "Moves to establish or strengthen alternative international insurance centers will go on in Europe and the

world's other major financial centers.

"Viable centers will receive encouragement and support from international insurance brokers and reinsurers. They imply, at first glance, a diminution of the premium throughout the London market.

"But in reality will this happen?" he asked. "Any international insurance center must be founded on a sound domestic market and the reconciliation of legitimate pretensions to expansion is crucial to London's place in the next decade.

"While unquestionably Lloyd's by its very nature and structure will continue to be a massive presence in London, its company colleagues may vary in interest and commitment, depending on the value to their corporate interest of remaining a part of the market.

"The whole issue will be determined by the rewards which an investor can secure and there may be the danger of promoting excessive competition which will maintain gross premium income but can lead to reduced margins," Mr. Sloan continued. "Is there some way in which world insurance affairs can be managed at the highest level in the interest of stability, despite antitrust issues and the desire for a free and open insurance market?"

"There is a strong case for the collective management with others of international insurance affairs and I see a strong case for creating a mechanism to do this," he said.

Mr. Sloan, an expert on the European insurance market, expects world non-life premium income to top \$140 billion this year, excluding China and Soviet-bloc countries. One hundred billion dollars will stay in the national markets and London will get \$7 billion, or 20% of the remaining international business.

The Chartered Insurance Institute has named Mr. Sloan its president for 1979.

MAP plan asks insurers' aid

SACRAMENTO—The California market assistance program is asking insurance companies for more help in placing difficult product liability risks.

MAP chairman Joseph Shakespeare said the group has successfully placed half of the 64 requests for assistance that it has received.

"We can show that insurers in this state can handle this business," Mr. Shakespeare said, "and that we have no need for a joint underwriting association or other legislated markets. But we need a willingness by underwriters to give a submission a careful second look if we are to accomplish our objective."

New officers

New officers for the Northern California chapter of Risk and Insurance Management Society Inc. (RIMS) are A. Bruce Gibson, insurance manager, Arcata National Corp., president; Gary D. Lindsey, U.S. regional manager, risk, insurance and employee benefits, Genstar Pacific Corp., vp-programs; Judith M. Tornese, assistant risk manager, Transamerica Corp., vp-arrangements; William W. Leder, assistant risk manager, American Building Maintenance Corp., secretary.

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The \$100,000 saving

When 47-year-old painter John R. injured his lower back on the job, his physician declared him totally disabled. An IRA rehabilitation specialist, however, found that John wanted to go back to work; that his job—painting interiors—required no heavy lifting; and his employer would rehire him.

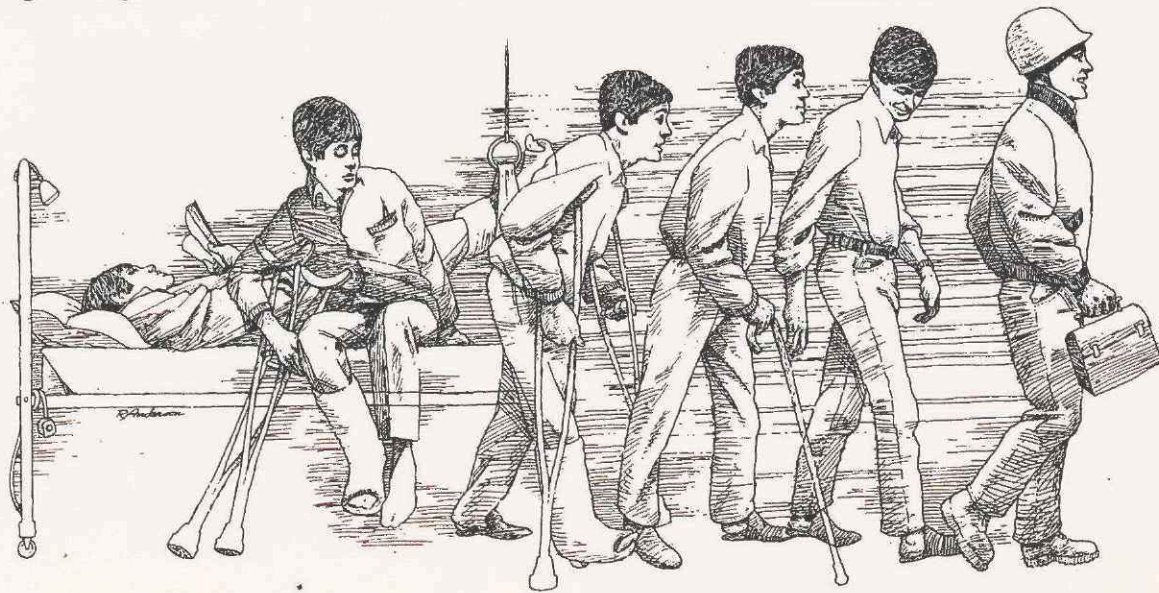
After acquainting John's physician with what we had learned, all parties agreed he could return to his job. He did, two weeks after our initial interview, saving the insurance carrier over \$100,000.

We'd like to prove we can save money for you. Our estimates show approximately \$10 in claims saving for every \$1 spent on rehabilitation. For more information, write: Hugh Richbourg, Ass't V.P., International Rehabilitation Associates, 985 Old Eagle School Rd., Wayne, PA 19087. Tel: (215) 563-3346.



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Report recommends risk managers devote attention to computer risks

CHICAGO—Unlike the low frequency, high severity risks that are the usual concern of risk managers, electronic data processing involves high frequency but low severity losses, says the current Risk Management Reports.

The six-time-a-year guide to risk management urges its readers to devote a significant amount of time to controlling EDP risks because of the importance computers now hold in most organizations. "Risk managers can render an important service to their organization if they take the lead in developing and monitoring a complete data processing risk management program," the report says.

Risk managers should consider

forming a risk analysis team including themselves and representatives from internal audit, EDP departments and major users of computers within the organization, the report recommends.

Risk managers should be consulted in planning a facility so that it can be the sole occupant of a windowless building and so that it can be located away from known hazards such as an airport glide path. EDP facilities should be constructed of as much non-combustible materials as possible, the publication continues.

Every facility should have a fire extinguishment system, says Risk Management Reports in discuss-

ing the advantages of a water system and a Halon system. Specific steps—such as offsite file storage and written backup agreements—are suggested in the event of a disaster. Risk managers must also consider potential fraud and privacy rules in a program to control data processing risks, the report points out.

Standard data processing insurance policies cover equipment such as disc packs and other media, the extra expenses incurred if an EDP system is incapacitated, valuable papers, accounts receivable and business interruption losses.

Risk Management Reports recommends institutions that do

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computer work for others purchase special errors and omissions coverage. But this type of insurance is limited because underwriters do not understand the risk and the report urges risk managers to communicate their need for this

E&O policy to the underwriters. The issue of Risk Management Reports contains an EDP risk evaluation questionnaire, a list of suppliers of safety and loss control services of EDP systems and a bibliography.

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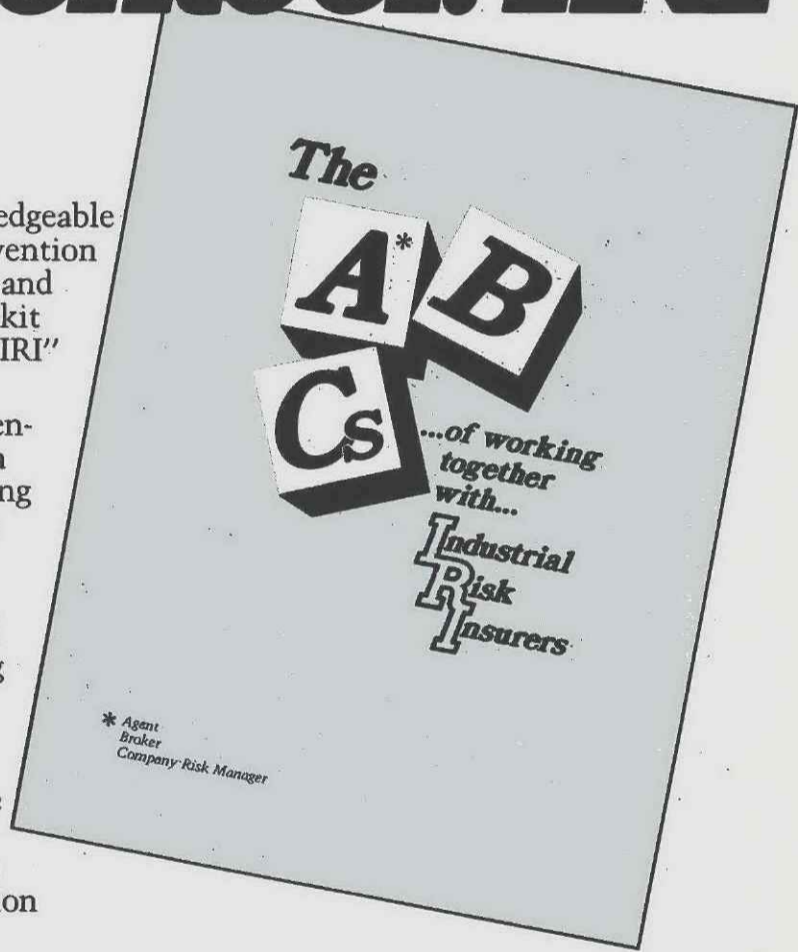
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Low-level radiation

Shipyard cancer claim not unique, U.S. reports

WASHINGTON—A claim for federal workers compensation benefits from a navy shipyard employee alleging that long term exposure to low level radiation caused him to develop cancer is not the first claim of its kind to be received here, contrary to nationally published reports.

The federal workers compensation program has paid 12 claims in the last two decades for disabilities believed to be caused by long term exposure to low level radiation, said John McLellan, associate director of the Federal Employees Compensation Program.

Joseph R.L. Cloutier, who worked as a welder in the Portsmouth Naval Shipyard in New Hampshire for 28 years, filed claim with the Navy this spring alleging a disability from cancer caused by contact with radiation the shipyard. Though the claim does not say what he thought the source of the low level radiation was, it is presumed he is pointing the finger at nuclear powered submarines.

Information from the Navy the level of radiation in the shipyard seems to indicate radiation was not the cause of Mr. Cloutier's cancer, Mr. McLellan said. However, the Office of Workers Compensation has not received a medical report from Mr. Cloutier's doctor, "without which it's difficult to make a judgment."

Mr. Cloutier is reported as saying there are hundreds of other shipyard workers who will file for benefits citing the same disability if their claim is accepted. But Mr. McLellan stressed that the Office of Workers Compensation does not have a policy on any specific injuries and analyzes each claim on its merits. "If a worker can show the disability is caused by employment, the case is allowed," he explained.

In general, half of the claims for compensation citing occupational diseases are allowed, Mr. McLellan said, while perhaps 10% to 20% of the claims citing exposure to radiation are accepted.

Firm handles bank's claims

LOS ANGELES—Workers compensation claims for 26,000 Bank of America employees in the southern portion of California are being administered by U.S. Administrators under terms of a two year contract, according to Edward J. Struck Jr., general manager of the workers compensation division.

The bank has self-insured workers compensation liabilities since January 1973. Mr. Struck said that with the signing of the contract, the bank now has a local office for all workers compensation claims in Southern California.

Mr. Struck said that U.S. Administrators' monitoring procedure known as the quality assurance approach, consist of computer-aided analyses which guarantee that a health care or welfare benefit services are necessary and of high quality and that charges are submitted only for services actually performed.

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agent/broker topics

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Most commercial agents draw on excess markets

NEW YORK—An overwhelming majority of commercial agents and brokers across the nation are currently using the excess and surplus lines markets, *Business Insurance* learned in a recent survey of 874 agents and brokers.

This was just one of the highlights of the survey, which covered a wide range of operational issues including product mix, corporate structure and accounting systems.

Other key findings included:

- Brokers and combination agency/brokerages place almost twice as much business in the excess and surplus lines markets than do the firms describing themselves solely as agencies.
- More than three-fourths of the agents and brokers responding sell group insurance, with most of those firms servicing groups with fewer than 10 lives all the way up to the biggest groups.
- Slightly more than two-thirds of the agents and brokers said they provide or obtain for their clients services other than insurance, including most frequently appraisals, inspections, safety/security surveys, engineering surveys, pension consulting assistance, benefit planning or administration services and self-insurance services.
- 38.4% of the agents and brokers reported some part of their revenues generated by fees rather than commissions, but only 6.1%

said fees amounted to more than 10% of their revenues.

- Nearly one-third of the agents and brokers believe that fee-based compensation is on the rise.
- Accounting systems are most frequently handled by service bureaus, followed by manual systems and mini-computers. But one-fourth of all agents and brokers are considering changing their current systems, with over half that group anticipating a shift to mini-computers.
- Commercial foreign insurance is placed for clients by 39.5% of all the agents and brokers, with almost two-thirds of that group indicating this business amounts to 5% or less of total premium volume. But only a small group of 7.8% of the agents and brokers place foreign group insurance.

Of the 874 agents and brokers who responded to the survey, nearly three-fourths said 51% or more of their total premium volume is commercial. About two-thirds described themselves as insurance agencies, while 23% said they were brokerages and 8.1% indicated they're both agency and brokerage firms.

In terms of size, slightly over half of all the respondents (51.5%) said their total annual premium volume is \$2.5 million or less, with the largest single group of responses for both the agencies and the combination agency-brokerage firms

falling into the premium volume range of \$1 million to \$2.5 million. The largest single group of responses in the brokerage category, however, fell in the over-\$15 million premium volume range.

Measured in terms of producers brokerage firms again were the largest. Although only 14% of all the respondents had 11 or more producers, a whopping 30.8% of the brokerage firms said they had more than that number of producers. Fully 92.4% of all agents who responded, and 70.4% of the combination agency/brokerage firms, have 10 or fewer producers.

Looking at it another way, 64.8% of all the responses indicated there are five producers or less in the firm.

Excess and surplus lines markets are used by 91.2% of all the agents and brokers responding to the *BI* survey. Agencies, brokerages and combination agency/brokerage firms use the markets about equally.

As a percentage of total premium volume, combination agency/brokerage firms use the excess/surplus markets most heavily, followed by brokers and then by agents. Initially, the survey was tabulated using ranges representing volume of business placed in the excess/surplus markets, indicating that brokerage firms would lead with 57.7% of the respondents

Continued on page 38P



Double-checking endorsements inhouse should enhance the broker's and insurer's relationship with the client, according to vp of operations Ben Wheeler (extreme right). His partners at the Maxson-Mahoney-Turner brokerage firm in Dallas are (from left): Harry L. Brownlee, David O. Turner and Charles L. Shaw III.

Others try similar schemes

Broker takes over some insurer tasks

By BARBARA JEAN GRAY

DALLAS—Last July, the brokerage firm of Maxson-Mahoney-Turner Inc. began handling all of its commercial lines endorsements on Atlantic Co. business in-house.

Assuming this transfer of extra responsibility from the insurer's branch office goes smoothly during the 60-day test period, the brokerage firm will handle all renewals on Atlantic commercial lines business. If that too goes well, the firm will eventually handle the

mechanical aspects of new business.

The broker's goal, according to vp of operations Ben Wheeler, is "to serve our customer better, which in turn should enhance that relationship and indirectly enhance the company and customer relationship."

Ideally, the operation will eliminate a lot of time-consuming shuffling back and forth of papers normally spent in checking the finished product.

"What we have found is that the products (the insurance companies) send us sometimes have to be sent back for corrections," observed Mr. Wheeler. "We're trying to eliminate one of those checking functions. Our records are more accurate."

One of the factors aggravating the basic paper flow system these days for many insurers is lack of competent employees at this personnel level, he said, although Atlantic "is not one of these companies that suffers."

Though the Maxson-Mahoney-Turner experiment is rare, it's not unique.

It's one of several insurance company pilot programs to cede some duties into the hands of agents.

In this past year alone, at least three other similar programs have been launched. St. Paul Fire & Marine Insurance Co. has a special arrangement program with 20 agents and is targeting to have 30 by the end of this year. Industrial Indemnity has six California agents in its

Continued on page 38O

How Important Is E/S Insurance?

% of premium in E/S market	Total	Agency	Brokerage	Agency/Brokerage	Other
1% or less	10%	13%	3%	6%	3%
2%—5%	32%	40%	16%	23%	17%
6%—10%	23%	24%	22%	23%	14%
11%—20%	14%	11%	22%	20%	14%
21% or more	8%	3%	14%	12%	40%
No answer	13%	8%	24%	17%	11%

*from a *Business Insurance* readership survey of agents and brokers, May 1978

Generating \$77 million in commissions

Directory lists 64 excess/surplus brokers

CHICAGO—This issue of Agent/Broker Topics provides you with a directory of 64 excess and surplus lines brokers across the country who broker property and casualty line coverages plus a diverse assortment of specialty markets, ranging from air-supported structures to drive-it-yourself auto rentals.

It's our first such listing, (page 38K to 38N), designed to help you find coverages for those risks that go beyond the standard markets.

The excess and surplus lines brokers who were operating all of last year (54 in all) generated a total of \$77 million in commissions and fees, an average of \$1.4 million per firm.

Four of those firms were in the

first full year of operation in 1977. The newcomers totaled \$1.4 million for an average of \$355,770 per firm.

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

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

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

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

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

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

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

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

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

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

Agent petitions insurers to battle direct writers . . .

By BARBARA JEAN GRAY

LITTLE ROCK, Ark.—Marvin Maurras asked.

First in a nice polite letter, then more forcefully in a face-to-face meeting, he requested insurers to help agents keep the personal lines market from dying.

Mr. Maurras was armed with two things. One was a survey of agents showing their desire to write personal lines but their frustration over lack of competitive markets. The other was a company premium and loss ratio study that substantiated insurer profits in 1976. This was even before their own computers or the Insurance Services Office had provided this data, he claims.

He and his fellow agents felt insurers had been simply handing the personal lines business over to direct writers in the mistaken beliefs that it was not profitable and that their independent agency force didn't care.

On his 21st try, Marvin Maurras got the answer he wanted. One insurance company, CNA, agreed to give the Arkansas agent's plan for a personal lines offensive against direct writers a shot.

Three other insurers, St. Paul Fire & Marine, U.S. F & G, and Northwestern National, have since made more competitive rate filings as well, agent Maurras reports.

Mr. Maurras, a partner in the commercial lines agency of Cobb, Hollenberg & Maurras, is now waiting for what he calls the "herd instinct" to take effect as other insurers move to cash in on the Arkansas profits he claims have been there for some time.

Even though his involvement in re-activating personal lines came originally because of his ties with the Independent Insurance Agents of Arkansas, he has personal business reasons as well. "I felt the direct writers had to be stopped to keep their attention back over their shoulder and out of commercial lines," he said.

His own firm, which was formed out of Atkins Inc. here less than a year ago, is setting up a personal lines department because of the optimistic horizon.

Two years ago when he assumed the title of chairman of the technical committee of the IIA Arkansas,



"I felt the direct writers had to be stopped to keep their attention back over their shoulder and out of commercial lines," said Marvin Maurras.

he inherited the challenge of reviving a fast-withering personal lines market.

The situation was bleak. Insurance companies using the independent agency system had lost 20% of the personal lines market penetration, dropping to 47% from 59% between 1963 and 1974. The outlook for 1975 was pointing downward even further. His research also showed that the rates of some of these insurance companies were 50% or in some cases 100% above Allstate, State Farm and Farm Bureau. Many of the insurance companies had or were planning to file for upward deviations from the Insurance Services Offices rates. Most companies had some form of restriction on new homeowners business.

Independent agents were projecting writing a residual market at that time, he said. "We were going to be left with the substandard market only."

Mr. Maurras formulated a two-pronged attack: a membership survey and current profitability data to provide him with ammunition in approaching insurance companies.

In December 1976, the agents as-

sociation sent out 438 surveys. More than half of the 56% of agents responding attributed lack of a personal lines market in their agencies to lack of interest of insurance carriers to write personal lines coverage and to price.

At about the same time Mr. Maurras and his committee asked 10 insurance companies to supply homeowners premium and loss data from three agencies from each town class for the period 1974, 1975 and the first nine months of 1976.

The results, the agent claims, showed that the companies were in the black and didn't even know it. The agents' \$24 survey revealed the turnaround in profitability faster than ISO or the companies' own computers. "We told them they were making money and they didn't believe us."

Information in hand, Mr. Maurras then wrote to 20 insurance company presidents suggesting that they work with the agents association to work out a development plan for personal lines. Twenty company presidents responded by saying, "Thanks, but no thanks," although a few expressed willingness to consider a plan drawn up by the agents.

Undaunted, Mr. Maurras reasoned that "if anyone would be willing to do it, it would be someone from the direct writer ranks."

The agent flew to Chicago to meet with CNA chairman Ed Noha, although CNA had been one of the 20 companies that had declined the invitation by letter. This second contact was positive and agreement was reached.

"We feel every agent will have access to one or two companies by now and hopefully six or eight by October, now that the wedge is in there," said the agent.

From here, Mr. Maurras will just finish up some loose ends as chairman of the IIAA technical committee and then he'll retire from the position at the ripe old age of 31.

CNA's Arkansas plan, has some aspects similar to its national high performance agents' plan but does not clash, he said.

"That's the story they're telling us and we believe it," says Mr. Maurras with a laugh. "But it doesn't matter if it's not true. It's working."



Photo: Barbara Jean Gray

CNA vp Peter Conway has high hopes for what the new program will be able to achieve in Arkansas.

. . . CNA accepts agent's challenge

CHICAGO—CNA responded.

In answer to the Independent Insurance Agents of Arkansas and their technical committee chairman Marvin Maurras, CNA developed a unique experimental program for a personal lines offensive in that state against direct writers.

After the agents met with CNA chairman Ed Noha, the insurer investigated the possibilities, said Peter R. Conway, vp of property and casualty distribution. "We felt there were opportunities to use concepts of competition with direct writers head to head."

CNA's Arkansas project is a marketing package containing a three-year guaranteed market, a 12.5% guaranteed commission, financial assistance for personnel development and co-operative advertising. In exchange, the agent makes a volume pledge. It officially was inaugurated last May.

"CNA, as a company, has as a major objective re-entering the personal lines insurance market. We call it the family insurance market—life, auto and homeowners. This (the Arkansas project) seemed to track what we are trying to do in personal lines."

Arkansas had never been CNA country. Prior to the new program there, the insurer had a total of seven agents placing an aggregate volume of less than \$1 million, Mr. Conway said. The only real volume

was in the bar association's legal malpractice program.

The seven were good agents and were making money, he continued, but "basically we didn't pay too much attention to it because personal lines was minuscule. We started off (the Arkansas project) and viewed it as a new entity."

All seven existing agencies were offered an opportunity to convert to the new program. To date, 48 Arkansas agents, both commercial and personal lines agents, have signed up for the Arkansas project and more will be appointed in the coming months.

The "single step" policy is competitively priced, the executive said in an interview. "Because of previous insurance department regulation, independent agents were priced out of the market. The personal lines pricing structure was running 50% higher than State Farm and Allstate."

The "single step" policy provides a combined automobile and homeowners policy.

CNA is supplementing its "embryonic" service facility, in the state, although the Orlando, Fla., branch still works with the developing Arkansas branch.

Last January, CNA embarked on another agents' plan, also guaranteeing markets and commission rates in exchange for volume pledges from the agents. That program, called the "high performance program," now has two contracts in force and another 20 in negotiation.

It is being pursued in states where the insurer has large market penetration, Mr. Conway said, so there are none in Arkansas.

The Arkansas project is similar to the high performance agency program in some respects and different in others. While the Arkansas plan is always three-year, the high performance can be three or five years; while the Arkansas project has a commission level of 12.5%, high performance program has 16.7%.

Arkansas is testing different things than the high performance agency program, Mr. Conway pointed out, "not the least of which is that agency companies are competing head to head with direct writers. We will not make any future plans until we have the opportunity to evaluate some parts of the experiment, but there's no reason why (the two programs) can't be compatible.

"They don't clash, they mesh," the CNA vp said.

Agent group molds company contract

By MARGARET LeROUX

SAN FRANCISCO—The Independent Insurance Agents of America has re-asserted an aggressive posture in agency-company contracts and has played an active role in shaping a new agreement.

Industrial Indemnity's new agency-company agreement guaranteeing commission rates for three years was being touted as "one of the broadest in the marketplace."

But the nation's largest agent association, while acknowledging some good aspects, didn't blindly embrace the new contract with open arms. The 33,500-member IIAA reviewing the contract and suggested some changes.

"There has been a lack of producer input on developing agreements with insurance companies," said Jeffrey Yates, associate counsel for the IIAA. "This is what we're trying to correct. We want to assure our members that the producers' point of view is being re-

presented when agreements are negotiated."

The IIAA has recently revised a seven-year-old guideline booklet for such contracts and has also re-activated its contract committee after several years of dormancy.

There was little IIAA argument on the highlight of the Industrial Indemnity contract, the set three-year commission rate.

"On first blush this looks good," said Sherrill M. Connor Jr., executive vp of the IIAA in California, because "to be practical, commission increases are not in the cards in the foreseeable future."

Currently, Industrial Indemnity commission rates "are pretty standard among the industry," James T. Hamilton, vp of marketing, said. "They vary by product line and producer." The agreement will be individually negotiated with each of the 1,295 producers for the insurance company, a subsidiary of Crum & Forster, which operates in

ten western states.

The insurer is heavy in workers compensation, a line which traditionally pays in the 10% commission range, the agents group said.

Industrial Indemnity announced the new agreement early this summer but the contract committee of the national association of independent agents found "some areas of concern," and after study, referred the agreement back to the insurer with "a few enhancements," according to Mr. Yates.

"Basically we're concerned with provisions we believe to be most important to the agents' protection," Mr. Yates said. Among them was the question of termination of the agreement.

The final contract form, resolved two weeks ago, contained adjustments responding to the agent association.

Among the Industrial Indemnity contract provisions borne out of discussion with the IIAA are:

- The agency termination notification extension to 90 days from the original 60 days.

- The addition of a provision for a one-year renewal of business after agency termination.

- The creation of a "rehabilitation" program rather than termination where problems are correctable.

- The provision of an annual list of in force business upon agent request.

- Clarification of the agent's ownership of the business.

The contracts committee of the IIAA also noted the need for modifications in the areas of amendments to contracts, arbitration and direct billing.

The IIAA included in its recommendations a first draft of its new guide for agency-insurance company agreements. "We asked them to consider the changes we suggested in light of the criteria established in the guide," Mr. Yates said.

Indiana broker shuns guesses, adopts formal plan for growth

INDIANAPOLIS—No longer content to call an estimate of premium volume for the next year a "growth plan," a \$1 million revenue insurance brokerage firm here has drawn up and delegated responsibility to key executives for an in-depth, sophisticated, five-year projection of operations.

The management committee of Management Advisors Inc., a holding company whose major subsidiaries are a commercial mass marketing operation and a general insurance agency, called together 16 top executives and outside advisers recently for a one-day shirt-sleeves session to flesh out the details of a nine-page plan, designed to guide the firm to twice its present size.

The nine executives who formulated the plan are the top officers of Assn. Program Managers Inc., the eight-office Associated Insurance Managers Inc., Agency Premium Finance Inc., Lifeway Inc., Realty Assurance Corp. and Realty Management Services Inc. They worked more than a month putting together a 17-point program that was critiqued at the meeting by president William J. Garrity, as well as the firm's public relations counsel, its legal adviser, its CPA and its banker.

A. Russell Chaney, assistant vp of Fireman's Fund Insurance Cos., who has attended the firm's less formalized planning sessions for the last five years, acted as facilitator for this year's management think tank.

Four assumptions served as a base for the brokerage firm's planning: that premium volume would increase 20% each year, that the present 14% commission level would decrease by 0.5% each year, that sales expense would be set at 45% of income and that administrative expense would be set at 40%.

Those last two assumptions represent a reversal of the present structure in which sales expense for the fiscal year ending Oct. 1 is \$419,650 or 40% of the \$1.03 million commission income. Administrative expense this year is budgeted at \$453,700 or 44%.

Associated Insurance Managers (AIM) and Assn. Program Managers (APM) will generate a combined premium volume of \$7.29 million for the present fiscal year. Net profit before acquisition costs and income tax is targeted for \$154,950. This compares to a total corporate \$53,987 income in 1977 and a \$5,651 loss in 1976.

For the fiscal year ending Oct. 1, 1983, AIM-APM is shooting for a premium volume of \$18.15 million with a commission income of \$2.18 million. According to the five-year plan, sales expense that year will be \$980,000 and administrative expense \$871,400, with a pre-acquisition cost and tax profit of \$326,700.

The two, equal-sized subsidiaries which make up the bulk of Management Advisors Inc. have 42 employees who each generates \$24,483. The ambitious growth plan calls for a doubling that productivity between now and 1983 to \$51,867. The firm has a total of 49 employees including all subsidiaries presently.

Making premium volume projections is not new to Management Advisors Inc. President Garrity in 1965 made such estimates for each of the coming 13 years with a fairly high rate of accuracy. Ten of the 13 projections were met or bettered in

actual performance. In 1973, the firm fell 12% short of its projection and 5% short in 1976 and again in 1977.

Back in 1965, the premium volume for 1977-78 was estimated at \$7.23 million; the actual performance is exceeding that by a mere 1%.

This year's detailed projection, in addition to looking into a more complex insurance world, lays the groundwork for a statewide network of AIM-APM offices the firm envisions five years down the road. Historically, the concept of a multi-

ple agency systems statewide has not succeeded, concedes Mr. Garrity. They are hard to control and must be highly managed. Therefore, Management Advisors views its challenge for developing such a system as one of centralization of operations.

Management Advisors Inc. plans to build its network through the acquisition route, at the rate of two per year, preferably firms with gross commission income of \$100,000 or more, located in county seats and where Management Advisors already has some operations if

Continued on following page



Photo: Barbara Jean Grey

Management Advisors president: William J. Garrity estimated 1977-78 premium volume in 1965. He was off a mere 1%.

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AFCO

Indiana broker . . .

Continued from preceding page possible. Ten geographical areas in the state have been identified as desirable expansion areas.

In the past five years, Management Advisors Inc. has made nine small acquisitions in the state, all of which have been agencies with revenues less than \$100,000.

The firm has paid cash for the agencies with the exception of the last two acquisitions, Mr. Garrity said. The most recent acquisitions however have been for an exchange of stock. Management Advisors Inc. is currently 70% owned by active employees and 30% by outsiders who happen to be board members. The firm is studying the idea of going to a class A non-voting stock for acquisition and ESOP purposes to assure flexibility, allowing the options of cash,

stock or a combination of the two. Management Advisors Inc. uses a list of 30 graded items to determine acquisition candidates and traditionally has used a 1.6 multiple of commissions less goodwill as a rule of thumb for price. This compares to an average 1.89 multiple that applied to 44 acquisitions around the country according to one survey, Mr. Garrity said.

He announced that he intended to use his future travels with producers as a shopping trip for acquisition prospects and that he intended to invite the principals of the prospects to the firm's annual meeting.

Crucial to the firm's administration in the course of engineering this aggressive growth plan is the bringing on stream of an in-house

computer system. The computer and its de-bugging were voted as the top priority planning issue of the day-long session by the 16 executives.

Management Advisors Inc. has plunked down \$57,000 initially for an American Information Development micro-data reality system to handle its electronic data processing needs. Total outlay for the system will amount to \$90,000 in the coming year.

APM will be put on line with the new EDP system first, dualing with the present Systems batch system. AIM is scheduled to be on line by October.

The computer issue was voted first among the top six issues chosen from the 17 items listed in the complete plan. The morning session of the one-day conference was devoted to identifying and clarifying five-year goals, specific concerns and planning issues. The

Management Advisors uses a multiple of 1.6 times commissions less goodwill as a rule of thumb when buying another agency, says president William Garrity.

other five issues voted discussion worthy were centralization, the marketing plan, personnel requirements, premium finance and cash flow procedures and employee training.

The afternoon session delineated the goals further, identifying the goals for the coming year and the methods for achieving them.

Among the five-year goals for the firm are:

- Two acquisitions per year.
- Complete home office market-

ing.

- Elimination of all outside premium finance companies to the exclusive use of the brokerage firm's facility.

- Computerization of all in-house accounting functions and company operations.

- The reduction of insurance companies (other than specialty) to 10 from 12.

- Addition of 20 to 30 personnel, including the use of college recruitment.

- Development of a model agency for the training and continuing education of new and present employees.

- Development of job positions for personnel director, training director, claims manager, engineering manager and risk manager.

- Tripling of office space to 14,000 square feet at the home office facility from 4,700.

- Combination of AIM and APM sales office in each branch.

- Development and promotion of a corporate image and logo.

At the end of the day, through a combination of volunteering and assigning, each of the major planning issues was assigned to an executive who has the responsibility to detail progress in a year. —bjg

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Agent group opposes new info program

SAN FRANCISCO—The Independent Insurance Agents of California are objecting vocally to a recently enacted consumer-oriented information program of the Aetna Life and Casualty.

Aetna's personal lines program, initiated in Virginia July 1 and nationally Aug. 1, includes a booklet on the types and sources of information the insurer keeps on its personal lines policyholders and a toll free phone number for insureds to use to learn more about the information files.

No file information will be given out over the phone, an Aetna spokesman said, but arrangements will be made whereby the field office will call the insured back using a method of specific questions to determine the authenticity of the call.

A third aspect of the program includes a letter being sent to individuals whenever an adverse underwriting decision is made against them. The letter will suggest that the individual contact his insurance agent if he wants additional information.

IAAC president Charles M. Wright said, "We think a response to privacy and confidentiality question is correct. The insured has every right to know the nature of the information in his file, to know that it is protected and to be able to question or correct any inaccurate data. But Aetna's gone a step too far by allowing the insured to bypass his agent entirely in this process. We view this as a direct attack on the principles upon which the American agency system was founded and operates."

The program "has the potential of taking us out of the picture and we're against it," he said.

Insurance firms retrieve promotional incentives to garner new business

CHICAGO—Promotional incentives to stimulate insurance company business are coming into vogue or being dressed up after being out of fashion for several years.

The move certifies not only a loosening of underwriting restrictions but a downright wooing of agents to enhance their book of business with a company in exchange for prizes or gifts in addition to commissions. Although relatively common in life insurance, the concept is more cyclical for property and casualty lines.

Kemper Insurance Cos., for example, is conducting an incentive contest for the first time in four years. In five of Kemper's seven geographical divisions, a producer who increases his personal or commercial property lines book of business by \$30,000 in premiums compared to one year ago, with a good loss ratio, qualifies for one four-day trip to Hawaii or Florida.

Transamerica Insurance Co. is also offering a trip. Although the company officially declined to comment on its program, Transamerica agents said the company is offering a 10-day cruise for a percentage increase in business over last year's book. All lines, including workers compensation, qualify, although there are some limitations within the lines.

Safeco Insurance Co. is also scouting up new business via the incentive route, although that marketing strategy is not particularly unusual for Safeco. The multiple line insurer has conducted similar programs in five of the past seven years, sales promotion supervisor Bill Dillon said. Only in 1973 and 1975 did the company have a promotion limited only to life insurance.

This year's program which runs throughout the year, however, offers the firm's first trip to foreign shores.

Agents for Safeco can earn travel points by written premium dollar increases in commercial lines (a figure approaching \$100,000), by an increase in the number of items in addition to a dollar increase in personal lines or through life sales. The points may be earned in any one of the three categories and a bonus is awarded if points are earned in all three.

Agents whose points total one specified level win a one-week trip for two to Marco Island, Fla. Ambitious agents who earn a point total more than twice the first level win a one-week trip to Spain for two.

Historically, insurance company incentive programs attempt to stimulate new business by holding out a little carrot to the independent agent responsible for generating that business. Some of this year's spurs however take a slightly different twist.

Great American Insurance Co.—which is traditionally not incentive oriented, according to its director of product development for personal lines John J. Lewinski—tried a six-month program this year to encourage its agents to bring homeowners coverage up to replacement cost.

The program met with only "nominal success," Mr. Lewinski said. Despite initial favorable reaction from agents, the actual performance was "successful in some areas but a complete flop in others" when it came to actually filling out the "estimator" form to earn points and increasing coverage to earn points.

Despite the fact that increase coverage of the policy would mean

increased commission for the agents, "that idea didn't seem to move many agents. It's amazing how many agents feel they just don't have the time. Another big excuse was 'I have my insureds insured to value already.'"

That last argument didn't jibe with a recent Great American survey in California that found that only 50% of their insureds were covered to replacement value.

The promotion was conceived by Great American and developed with the help of Business Incentives in Minneapolis. For each of the "estimator" forms completed

Continued on following page

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Incentives . . .

Continued from preceding page
the cash award amounted to 50 cents and for each \$1,000 of increased coverage written, 25 cents. The agent could then apply the money to a range of gifts offered in a merchandise catalog.

"If we had it to do over, perhaps we would go to \$1 for the estimator and 50 cents for the premium increase," hypothesizes the marketing executive.

He projected that Great American will see a \$500,000 increase in revenue as a result of the promotion "but we were projecting \$7 million or \$8 million."

Although perplexed as to what would have the power to appeal to a large number of agents, he said the recent experience has not soured the company totally on the concept of incentives. In fact, it looks forward to future incentive

programs both in personal and commercial lines.

Aetna Life & Casualty Co. is also taking a different tack to the incentive idea. It is near completion of a four-month promotion geared to increase policies in force in commercial property with a branch office contest. There will be first and second place winning offices in each of Aetna's nine geographical divisions. All of the employees in the nine first place offices will win a \$50 gift certificate to be applied in a gift catalog. All of the employees in the nine second place offices will win a \$30 certificate.

Aetna's last incentive program in 1974 offered its agents a trip to London for an increase in personal and commercial lines business.

"By making this one an inter-office campaign," said the man-

ager of the commercial insurance department, J.D. Faunce, "we have greater control over the business. If agents are selling everything, it puts pressure on underwriting."

The present program is also the first in which the employee is the one who benefits, he said.

Although the incentive programs must draw sufficient response to merit their existence (Safeco hosted over 2,100 people in Acapulco this spring), a sampling of agents and brokers across the country found a lukewarm response at best.

"We don't necessarily get excited about the idea of trips," commented Lee Walton, senior partner for the Walton Insurance Agency. If he were planning the trip, the Jackson, Mich., agent said, "I would rather pick out my own time and place and invite my own personal friends." Anyway, he added, insurance companies often "herd you into a plane."

Nick Verreos, president of his own agency in San Francisco, claims he never liked the idea of marketing program incentives. Because of his college degree in marketing, "I know what these contests cost the companies," he argued. "At the same time, we have always had the complaint from them that 'We cannot compete (with direct writers) because agents cost us money.'"

"They entice agents to move business around to keep loss ratios low (for contingency commissions). I believe this happens even though some agents say it doesn't." Similarly, he said, some agents shift business just to win contests.

"I wouldn't disagree with the idea of incentives if they're based on production rather than shifting business."

At least one brokerage firm has notified its carriers that it's not interested in such contests. Walter P.

Dolle Inc. president Jack Trainer said incentives really didn't motivate his placers to shift business because the firm's risk placement depends on markets rather than contests. Furthermore, winning the contests present problems to management which must select someone from the firm to accept the trip or prize. Once in fact, the Cincinnati brokerage did win a contest it wasn't even aware it was participating in. Because of the problem of selecting one employee responsible for the prize, no one went on the trip, Mr. Trainer said.

The concept of promotional incentives is more of an attraction to smaller agents who do business with only two or three companies, the president believes, rather than to a firm his size (\$2,500,000 in gross revenues). —bjg

letters

The Agent/Broker Topics section of *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.

Licensing laws

To the editor: I realize the summary of agents licensing laws in your June 26 issue could not deal with the variations in each law, but felt you would be interested in knowing not only that there is an alternative to the 90 hours Virginia requirement, but also that it is the alternative more often used.

The Virginia law requires 90 hours of insurance study in a recognized college or university or 45 hours of a specially approved insurance course comparable to 45 classroom hours in a college or university. It is understandable that most license applicants fulfill the 45 hour requirement.

Seeman Waranch
Insurance Agency of Norfolk Inc.,
Virginia Beach, Va.

Dinner Levison opens 1st branch

NEWPORT BEACH, Calif.—Dinner Levison Co. opened a branch office here last month, the first branch office for the 63-year-old San Francisco brokerage firm.

The new office's two producers, Mike Kane and Hobie Harper, were formerly in the insurance department of Coldwell Banker & Co.

The move is Dinner Levison's first into southern California where it plans to become a major factor in the brokerage industry, managing partner Robert C. Nevins said. Three other southern California locations are also being studied.

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"I have been in the insurance business 20 years, working with many different insurance companies and have been particularly impressed by INA. So, when I went into business for myself, I knew from the start that INA was one of the companies I wanted to represent.

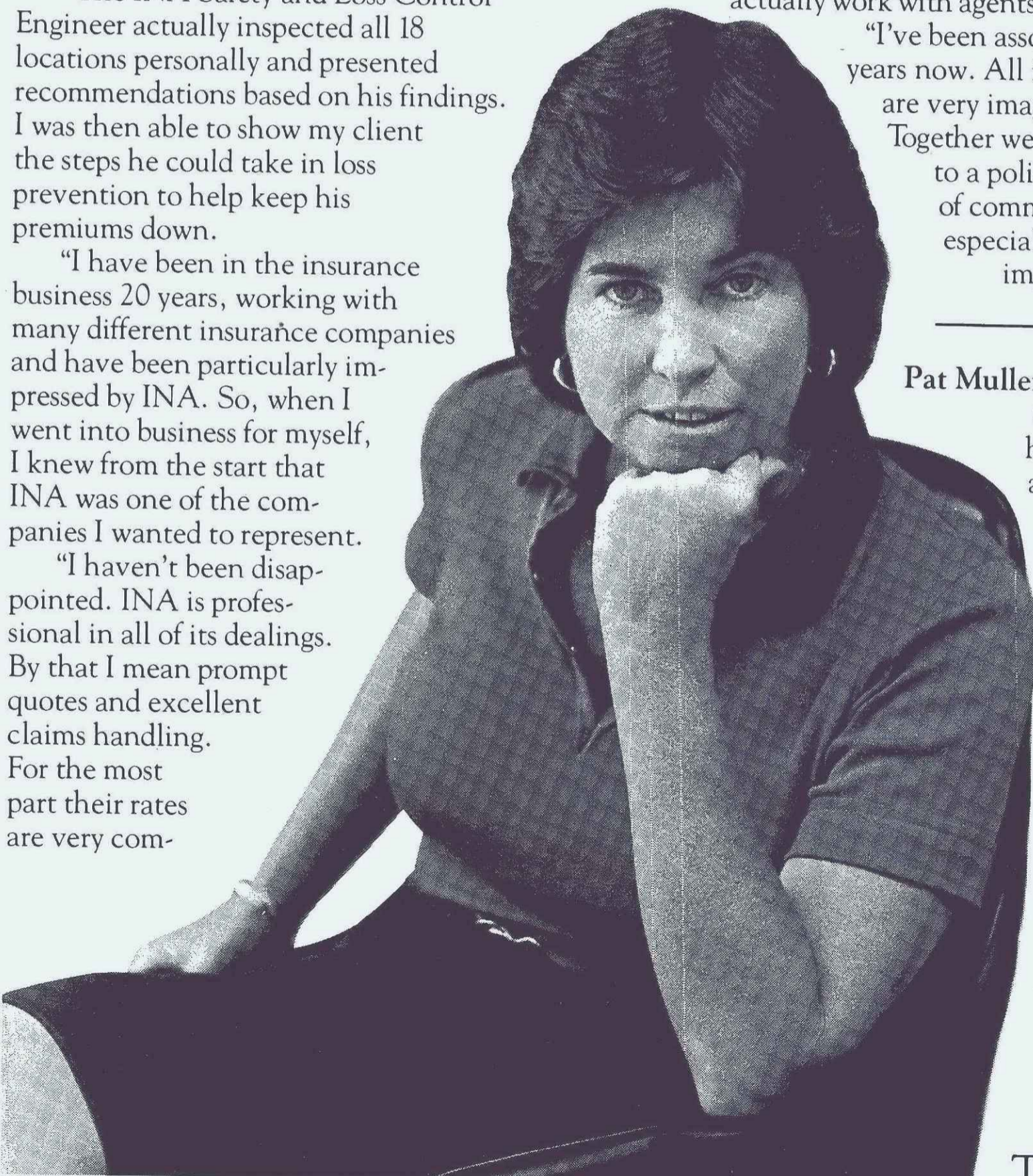
"I haven't been disappointed. INA is professional in all of its dealings. By that I mean prompt quotes and excellent claims handling. For the most part their rates are very com-

petitive, but if sometimes I get a quote that seems out of line to me, the underwriter and I can usually negotiate the matter.

"Another advantage in dealing with INA is their marketing expertise. Their representatives actually work with agents to develop new business.

"I've been associated with INA for four years now. All in all, I'd say their people are very imaginative in underwriting. Together we develop new approaches to a policy, and INA's knowledge of commercial insurance needs is especially strong, and that's very important to our company."

Pat Mullen of P.L. Mullen & Co., St. Louis, Mo., is one of hundreds of independent agents across the country who benefit from working with INA. If you are an independent agent and would like to learn more about representing us, please write to: Office of the President, Insurance Company of North America, 1600 Arch Street, Philadelphia, Pa. 19101.



INA
The Professionals

PERSPECTIVE

Brokers must close talent gap with new efforts

By E. Theodore Lewis

PROFESSIONAL TRAINING and development of property/casualty agents and brokers is often cited by producers and insurance carriers as an area in which substantial improvements are desired. And although producers and carriers bemoan their problems, few have taken steps to provide corrective actions.

This passive attitude might have been understand-

E. Theodore Lewis is a consultant with McKinsey & Co. Inc. in New York. He has done numerous studies for property and casualty insurers in the field of human resources, profitability and executive development to name a few.

able in an era of less intense competition and growth, but it is hardly defensible in today's market. Recent trends make the need for improvements far more critical to the industry's success. This article explores these trends and outlines specific activities that could be undertaken.

First, the recent growth in the amount and complexity of business done by agents and brokers has intensified the need for qualified people. Typically, an important source for new agents and brokers has been the underwriting and marketing personnel employed by primary carriers. However, the growth of the primary market has intensified the competition for people and in some cases doubled the turnover rate for underwriters.

According to one personnel officer, "The situation is terrible. Inexperienced people are receiving outra-

geous offers . . . everybody is stealing from everybody else."

The Bureau of Labor Statistics substantiates these apparent trends in employment. During the period 1972-1977, the all-industry employment growth was approximately 11%. However, the property/casualty industry employment growth was 15%. And, according to published employment data from major brokerage firms, comparable data showed a growth in employment of 25%.

Thus, with demand for new producers growing at twice the rate of "all industry" and substantially above one of the primary sources of personnel, it is unlikely that the newly hired personnel could be experienced individuals.

Second, producers have also grown by acquiring smaller producing organizations. This has permitted the acquiring organization to quickly obtain experienced people as long as the supply of acquisition candidates exists. However, growing professional and management talent from within is usually de-emphasized.

In addition, producers have traditionally relied on primary carriers to provide some of the basic training required. However, a recent poll that I conducted of six major carriers indicated that most provide only an introduction to that company's forms and procedures.

One company admitted that its programs were primarily "public relations oriented," having little technical content. Another carrier indicated that most training programs had been abandoned during the unprofitable 1974-1975 period. Finally, another carrier cited that the number of training programs they sponsor have expanded, but the two to five-day program length suggests that only modest basic training could be accomplished.

This pattern suggests that less experienced individuals may be thrust into positions without sufficient preparation.

Third, the insurance buyer has become more sophisticated. The corporate customer is increasingly relying on its own professional risk managers to provide advice regarding their insurance needs. Many of the larger corporations have increased their retentions, require more tailored coverages and consequently seek more sophisticated financing arrangements as well as "unbundled" risk management services. This third factor highlights the need for well trained, experienced producers to provide the technical advice required by their customers.

In summary, a serious question is raised by these three factors: Will producer growth be at the expense of professional service?

As alarming as the situation is, it is certainly correctable. But, because of the lead time required for the impact of any training program to be felt, it is essential that action be initiated promptly. There are at least three areas in which action could be taken.

- Accelerate the pace of producer industry-sponsored training programs. Industry-sponsored training and development efforts have the potential to produce dramatic results. If sufficient attention is given to the balance between general insurance theory and practical application, industry-wide training could provide much of the training that the inexperienced producer must have to function effectively.

Further, continuing education programs for the more experienced producer could provide the needed refreshers necessary to

Continued on following page



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Consultant says 'spread' key financial indicator

CHICAGO—The "spread" or difference between a brokerage's revenue per employe and compensation per employe may be a more valid yardstick of a firm's profitability than the traditionally applied revenue per employe, suggests the Hales Report.

According to this measure, a firm's compensation cost compared to the revenues generated per employe gives a better indication of how much that firm benefited from each employe, in the consultant's opinion. Hence, the bigger the spread the better.

Using this gauge, Alexander & Alexander Inc. of the six largest publicly held brokers scored the greatest gain between 1977 and 1976 in getting more revenue out of each employe. In 1977 the revenue per employe was \$43,880 and the compensation per employe was

\$21,003 for an average "spread" of \$22,877. In 1976, the "spread" was \$17,913 when revenue per employe was \$37,861 and the compensation per employe was \$19,948. Therefore, between 1977 and 1976 A&A's "spread" increased 27.7%.

At the other end of the scale of the top six, the consultant's newsletter noted, Marsh & McLennan Inc.'s "spread" increased 4.2% between 1977 and 1976. Last year the largest publicly held firm generated \$43,415 in revenues per employe and paid an average of \$21,318 for a "spread" of \$22,097. The prior year, M&M recorded \$41,043 per employe and compensated an average of \$19,836 for a "spread" of \$21,207. ■

Lewis . . .

Continued from preceding page maintain professional skills.

- Strengthen carrier-sponsored programs. Insurance carriers might first investigate the value received for dollars being spent for "public relations oriented programs." To the extent that monies spent could be redirected to more fundamental training, expenditures could then be made to improve the professional abilities of producers. Additionally, headaches caused by misunderstandings would be reduced and cost kept to a minimum.

Furthermore, carriers who insist that an established volume of business be produced as a requirement for their producer training might evaluate hidden costs of this posture. They could find that more effective communication between producer and underwriter could more than pay for the cost of training.

- Require that agents and brokers pass a proficiency examination. The requirement for certification and periodic re-qualification of agents and brokers is a concept which is gaining wider acceptance by state regulators. Wisconsin, for example, now requires producers to maintain a level of continuing education and the state monitors the number of classroom hours. For individual agents and brokers who have updated their skills through personal efforts, this procedure should cause little concern. For others, this requirement should spur them to improve their base of knowledge.

The industry might be well advised to take the initiative to develop a comprehensive approach rather than wait for the likely tangle of unrelated and perhaps conflicting state-sponsored proficiency requirements.

In summary, the development of well qualified producers is a critical problem that has severe implications for producers and insurance carriers. Solving these long-standing problems will be difficult, but not insurmountable. The critical question is—Can we afford to do nothing? The answer, I believe, is obviously not! ■

Fire losses up

Fire caused an estimated \$313 million in insured and uninsured losses in May, up 3.3% from the same month in 1977. Losses actually declined \$57 million from the revised figure for April but surged \$7 million over the May 1977 figure of \$306 million.

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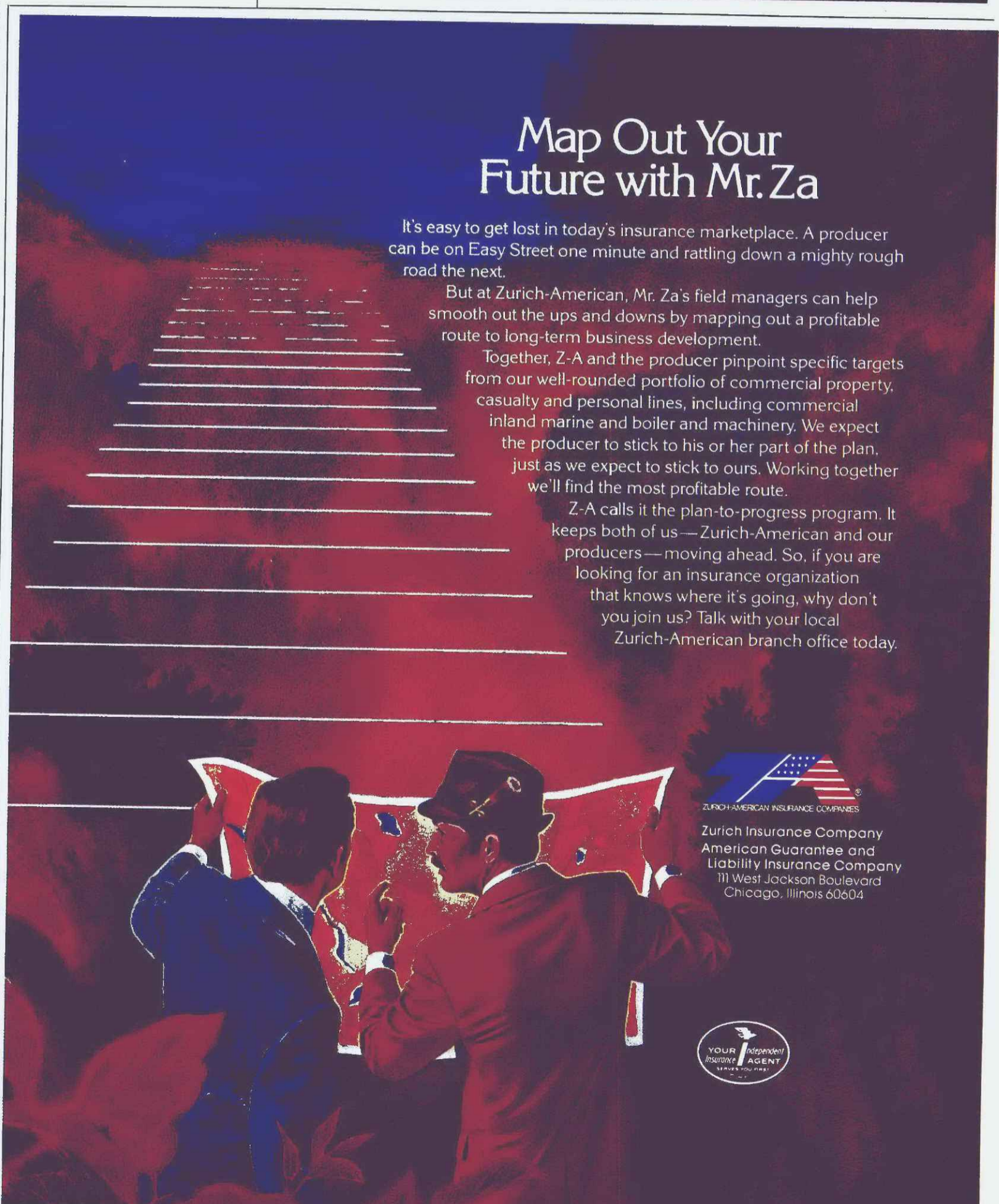
But at Zurich-American, Mr. Za's field managers can help smooth out the ups and downs by mapping out a profitable route to long-term business development.

Together, Z-A and the producer pinpoint specific targets from our well-rounded portfolio of commercial property, casualty and personal lines, including commercial inland marine and boiler and machinery. We expect the producer to stick to his or her part of the plan, just as we expect to stick to ours. Working together we'll find the most profitable route.

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Creative underwriting: It's in the cupboards

PRODUCER PAR EXCELLENCE walked into his agency one day to find Joe Zilch quietly sobbing at his desk. Zilch's head was resting face down on his folded arms and he was making soft choking sounds.

"Joe, what's wrong?" Producer Par Excellence asked.

Zilch raised his head and the tears fell from his cheeks to his desk. "It's the insurance company underwriters! They're terrible! No imagination! No creativity! No innovation!"

"Zilch, are you still trying to peddle that mattress factory of your brother-in-law? You've been trying to place that risk for weeks and I keep telling you that with its combined loss ratio of 150%, no sprinkler system and its location next door to a dynamite factory, you're going to have trouble. Is that what you're upset about?"

"No, that's not it. That's not the issue. It's those rummy insurance companies! Premiums go up, up, up. Commissions go down, down, down. And good



By
**BARBARA
JEAN GRAY**

underwriters are nowhere to be found!

"Most of the insurance companies are making money this year," Zilch railed on, "Why don't they put some of their money into building up their underwriting departments? It's their duty to us, their agents. We're their customers! They owe us decent underwriting staffs!"

"You're right, Zilch," Producer Par Excellence nodded in agreement. "They do."

"And furthermore," Zilch countered with more assertion, "where are we going to get our new agency people? Since you've appointed me head of the personnel development department, I've called the underwriting department of every insurance company within 200 miles. The cupboards are bare! Where have all the good underwriters gone? How will my great plan ever work?"

"What's your plan?"

"It's called Rally All Insurance Desirables. I'm calling it RAID for short. But I can't find any good company underwriters. Where have all the good ones gone?"

"Some of them went with the agency down the street," Producer Par Excellence recalled. "And another five or six went with the agency across town. And within the last year, we've hired three ourselves. I'm afraid you're going to have to start going to colleges to do some recruiting. Some companies in other industries are also having open houses for people in the neighborhood for get-acquainted sessions for prospective employees."

"But those kind of people will have to be trained. They don't know anything about insurance! You don't expect me to train them too do you?" Zilch asked incredulously.

"Sure, that's your job. You've been going to a lot of agent association meetings lately. Haven't they been the ones for personnel training?"

"Well, they've been more for social development than professional development. I mean, they haven't been insurance training PER SE, if you know what I mean."

"What do you mean social development? Zilch, have you only been going to the golf tournaments? Is that it? Golf tournaments?"

"Well, you've got to have well rounded employees. I mean, 'All work and no play' as the saying goes."

"Well, that's got to stop! You're going to have to start attending other functions as well."

"How about two golf tournaments? . . . One golf tournament and one racquetball tournament? . . . Can I talk you into one golf tournament, one racquetball tournament and one cocktail party?"

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- Prior year and budget comparisons in general ledger.
- Balance forward receivables.
- Additional sort sequences for expiration list.

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How to speed your premiums

FT. WAYNE, Ind.—Some tips on oiling the wheels of premium collection were offered to the Northern Indiana CPCUs by E.J. Leverett Jr., professor of risk management at the University of Georgia:

- Bill the client on the binder rather than waiting for the oft-delayed company policy.

- Mail the invoice separate from the policy which tends to get "shelved."

- Appoint an agency person to phone all delinquent accounts on the premium due date and continue to follow up by phone.

"If you have more than 4% of your premium (excluding direct bill) on accounts receivable," Dr. Leverett told the group, "you have a problem."

Florida agents

Independent agents here wrote 81% of the commercial lines insurance coverage in 1977, while direct writers took a 19% share. This compares to 83.3% for the independent agents in 1976 and 16.7% for the direct writers. Those statistics were pointed out to the state association by executive vp Tom C. Johnson at the FAIA annual meeting.

INSCO

Regional Offices: Atlanta, Chicago, New York, Dallas, San Francisco, Glens Falls (N.Y.), Columbus (Ohio).

BI directory compiles financial information on excess/surplus brokers

S.L. Alexander Insurance Services

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

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

Principal officers: Samuel Alexander, president.
Branch offices: Mammoth Lakes, Calif.
Lines of specialty insurance: product liability, directors and officers liability, oilwell, errors and omissions, workers compensation.

22956, Houston, Texas 77027; (713) 626-3220

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

Principal officers: Charles W. Bila, president; Marcus D. Jensvold, vp.
Lines of specialty insurance: oil. Managing general agent for: Northeastern Fire, National Security, Lloyd's and companies, Doran Excess Underwriters.
Continued on following page

American Foreign Facilities Ltd.

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

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

Principal officers: Dave Haimson, president; George Schulz, vp; Rhoda Haimson, secretary.
Lines of specialty insurance: product liability, restaurants, motels, supermarkets, fine arts and auto body shops.
*firm established 9/77

America's Insurance Center

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

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

Principal officers: Raymond R. Kravetz, president; Marko Popin, vp; Arthur F. Kravetz, secretary; Sylvia Kravetz, treasurer.
Lines of specialty insurance: coin-op laundry package policy, dry cleaners package policy, automatic car wash package policy, condominium directors and officers liability, clinical laboratory malpractice, taxi fleets physical damage.
Managing general agent for: G.S.W., Ambassador, Guaranty National Insurance Co.

Arrow Excess & Surplus Ltd.

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

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

Principal officers: Norman R. Cohen, president.
Subsidiaries: Budget Installment Corp.

B&F Special Risks Inc.

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

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

Principal officers: J. Pat Berry, president; Wayne G. Forest, executive vp.
Lines of specialty insurance: umbrellas and primary general liability for oil patch companies.
*firm established 5/77

Eila/Rigg Inc.

3333 Wesleyan, Suite 132, P.O. Box

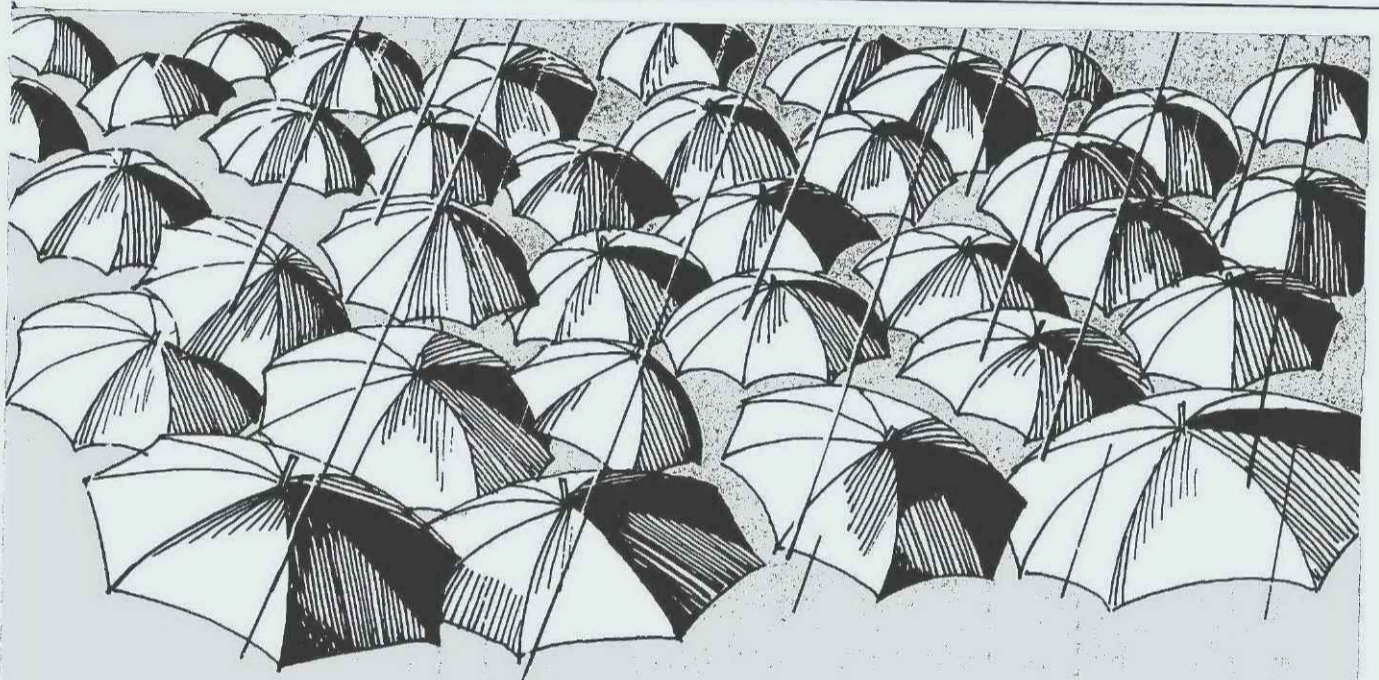
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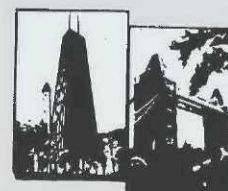
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E/S directory . .

Continued from preceding page

J.H. Blades & Co. Inc.

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

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

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

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

Parent company: Crum & Forster.

Lines of specialty insurance: oil-related risks.

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

Blakely General Agency Inc.

4100 West 33rd, P.O. Box 5148, Topeka, Kan. 66605; (913) 267-1222 (Kansas WATS 1-800-432-2488)

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

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

Subsidiaries: West General Insurance Co.

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

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

Brokers' Marketplace Inc.

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

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

Principal officers: Gary L. Hoffman, president.

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

Managing general agent for: Integrity Insurance Co.

Brokers' Risk Placement Service Inc.

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

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

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

Parent company: Harold F. Hinz Company.

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

*firm established 5/77

Geo. F. Brown & Sons Inc.

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

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

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

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

Parent company: Interstate National Corporation.

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

Carnegie Insurance Service Corp.

17700 Broadway, Cleveland, Ohio 44146; (216) 439-5555 (Ohio WATS 1-800-362-2411; adjoining states WATS 1-800-321-9202)

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

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

Subsidiaries: Carnegie Insurance Budget Co.

Lines of specialty insurance: truck, fire.

Colonial Excess Ltd.

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

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

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

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

Connecticut Underwriters Inc.

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

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

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

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

Crump-Babcock Underwriters Inc.

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

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

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

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

*firm established 1/77

Frank Crystal & Associates Inc.

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

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

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

Parent company: Frank Crystal

& Co. Inc.

Lines of specialty insurance: layered property programs.

Day, Webb & Taylor Inc.

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

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

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

Branch offices: Los Angeles, Seattle.

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

Managing general agent for: various.

Delta Special Risks Agency

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

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

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

Parent company: Delta General Agency Corp.

Lines of specialty insurance: jewelers' block, umbrellas.

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

Eastern Excess & Surplus Ltd.

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

	1977	1976
Gross rev.	\$ 35,000	\$ 25,000
Commercial bus.	100%	100%
E/S lines	100%	100%
Employees	3	

Principal officers: Seymour Berk, president.

Eastern Risk Managers Ltd.

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

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

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

The Excess & Special Risk Market Inc.

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

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

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

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

Parent company: Fireman's Fund Insurance Co.

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

*firm established 11/77

Excess and Surplus Lines Insurance Brokers Inc.

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

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

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

Lines of specialty insurance: umbrellas.

EXSURE Inc.

100 Constitution Plaza, Suite 364; Hartford, Conn. 06103; (203) 525-6636

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

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

Parent company: The Plaza Corporation.

Managing general agent for: Bellefonte Insurance Co.

*firm established after 1/78

Fenchurch Risk Managers Ltd.

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

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

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

Branch offices: Rahway, N.J.

*firm established after 1/78

Arnold J. Flegenheimer Inc.

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

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

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

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

Forest Products Agency Co. Inc. (For Pac)

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

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

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

Lines of specialty insurance: forest products.

Gross Excess Lines Ltd.

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

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

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

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

*firm established 4/76

H&W Insurance Services

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

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

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

Our sources of information

The information contained in this excess/surplus lines brokers directory was supplied by the excess/surplus lines brokers themselves. Although the information is accurate to our knowledge, *Business Insurance* cannot guarantee the accuracy of the information.

Special care has been taken with the figures and names contained in the listings, but errors can happen. If there's an inaccuracy in your firm's listing, don't hesitate to call Barbara Jean Gray at 312-649-5274 or write her at 740 N. Rush, Chicago, Ill. 60611 so we can publish a correction.

Branch offices: Atlanta, Chicago, Los Angeles, Philadelphia, Miami, Pittsburgh, San Francisco. Parent company: Hoskins & Weckerle.

L.E. Harris Agency Inc.

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

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

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

Branch offices: Baltimore. Lines of specialty insurance: product liability, professional, directors and officers liability, umbrella.

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

High Risk Excess Corp.

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

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

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

Branch offices: Valley Stream, N.Y.

IWest Insurance Managers Inc.

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

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

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

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

Lines of specialty insurance: product liability, aviation.

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

Jaquin Excess Inc.

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

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

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

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

Walter Kaye Associates Inc.

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

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

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

Branch offices: Beverly Hills, Calif., Chicago.

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

Parent company: The Kaye Group Inc.

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

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

Landmark Management Corp.

1515 Classen Blvd., Box 676, Oklahoma City, Okla. 73101; (405) 521-9911

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

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

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

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

Parent company: Landmark Insurance Group Inc.

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

Managing general agent for: National American Insurance Co.; Southeastern Fire Insurance Co.; Landmark American.

Lawrence Excess Ltd.

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

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

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

Subsidiaries: David C. White Agency Inc.; BVI Insurance Ltd. Parent company: Wolf, Wolf, Groden Ltd.

Lines of specialty insurance: auto, garage, buffers.

Managing general agent for: Guaranty National Insurance Co.; Northeastern Fire Insurance Co.

Bernard W. Levmore Co. Inc.

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

	1977	1976
Gross rev.	\$ 1,000,000+	\$ 1,000,000+
Commercial bus.	95%	95%

Continued on following page

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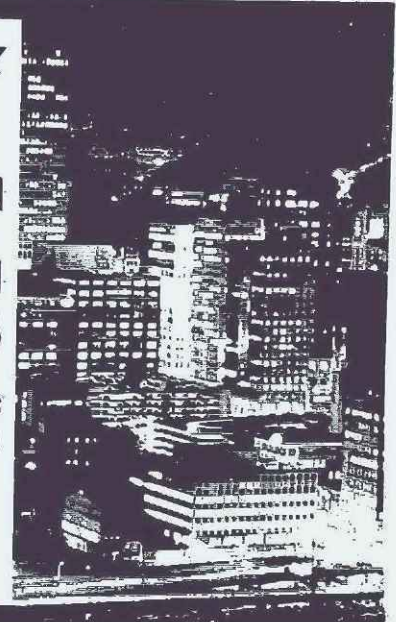
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Directory

Continued from preceding page

E/S lines	70%	65%
Employees	7	

Principal officers: Bernard W. Levmore, president.

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

McAlear Associates Inc.

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

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

Principal officers: Charles A. McAlear, president; James F. Langan, vp; Thomas Bloom, vp; Ralph Leistner, vp; Peter S. Damon, vp.

Robert Mack United Inc.

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

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

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

Lines of specialty insurance: long haul truck. *firm established after 12/76

Michelotti Facilities Inc.

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

Gross rev.	\$ 100,000+	\$ 100,000+
Commercial bus.	100%	100%
E/S lines	30%	30%
Employees	3	

Principal officers: Thomas Michelotti, president.

Lines of specialty insurance: primary demo cont. ins., workers compensation, buffer layers.

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

Mid-Continent Underwriters

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

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

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

Lines of specialty insurance: package programs, marine. Managing general agent for: North-West Insurance Co.

Midtown Risk Specialists

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

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

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

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

Montgomery & Montgomery

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

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

Principal officers: David B.

Montgomery, president; Lawrence E. Brown, Robert A. Nolan, Howard E. Smith, vps; Ruthwin Samuels Jr. and Luis Valves, asst. vps. Branch offices: Los Angeles. Lines of specialty insurance: product liability, bankers' blanket bond.

North Island Excess & Surplus Corp.

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

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

Principal officers: Michael A. Orlando, president; John M. Pidoto, vp; Shirley Chadwick, asst. secretary. *firm established 12/76

Frank Perfetti Inc.

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

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

Principal officers: Frank Perfetti, president.

Branch offices: Troy and Syracuse, N.Y.

Lines of specialty insurance: restaurants and taverns. Managing general agent for: Great Atlantic.

Pike Incorporated

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

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

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

Managing general agent for: Sphere Insurance Co.

R R S Associates Inc.

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

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

Principal officers: Robert R. Spering, president. Branch offices: Middletown, Lines of specialty insurance: buffers.

Rhulen Special Risks Inc.

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

Gross rev.	N/A*	N/A
Commercial bus.	N/A	N/A
E/S lines	N/A	N/A
Employees	5	

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

Parent company: Rhulen Agency Inc. Lines of specialty insurance: unprotected fire. *firm established 1/78

Mark Robis Surplus Line Broker

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

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

Principal officers: Mark Robis, president. Lines of specialty insurance: workers compensation, medical.

Scarborough and Company

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

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

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

Parent company: Ryan Insurance Group Inc.

Lines of specialty insurance: financial institution insurance.

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

Ralph Schram Inc.

P.O. Box 5228, 4435 "Q" Street, Lincoln, Neb. 68505; (402) 483-2991 Telex 48-1363

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

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

Subsidiaries: Lincoln Insurance Center Inc.

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

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

Seaboard Underwriters Inc.

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

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

Principal officers: Donald R. Sandgren, president; J. Phillip Hogan, executive vp and treasurer; Joe Simnor, vp underwriting; Robert Henson, vp e/s (Chgo); Bernard Brooks, e/s (Burlington). Branch offices: Chicago, Houston.

Subsidiaries: Seaboard Underwriters Agency Inc.

Parent company: Penn General Agencies Inc.

Lines of specialty insurance: long haul truck.

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

Thomas F. Sheehan Inc.

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

Gross rev.	N/A*	N/A
Commercial bus.	N/A	N/A
E/S lines	N/A	N/A
Employees	16	

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

Lines of specialty insurance: errors and omissions.

Managing general agent for: Imperial Casualty & Indemnity; Pine Top Insurance. *firm established 2/78

Skanco International Ltd.

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

Gross rev.	N/A*	N/A
Commercial bus.	N/A	N/A
E/S lines	N/A	N/A
Employees	6	

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

Lines of specialty insurance: commercial auto and professional liability.

Managing general agent for: Paxton National; Commercial Standard; Bankers Standard; Jef-

erson.

*firm established 9/77

South Continental Insurance

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

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

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

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

Southwest Surplus Agency

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

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

Principal officers: Don Litchfield and Jim Driscoll, partners.

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

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

Specialty Underwriters

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

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

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

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

Lines of specialty insurance: trucks and miscellaneous professional liability.

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

Swett & Crawford

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

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

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

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

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

Parent company: The Continental Corporation.

Lines of specialty insurance: directors and officers liability.

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

Tolley of America Inc.

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

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

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

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

United Excess & Surplus

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

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

Principal officers: Joseph M. Munoz, vp.

Lines of specialty insurance: air supported structures and apartment buildings. *firm established 6/77

Walterry Insurance Brokers

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

Gross rev.	\$ 874,000	\$ 411,218
Commercial bus.	80%	79%
E/S lines	32%	27%
Employees	4	

Principal officers: Walter J. Coady Jr., president.

Parent company: Walterry Incorporated.

Lines of specialty insurance: bowling centers.

Weghorn International Inc.

156 William St., New York, N.Y. 10038; (212) 227-4600

Gross rev.	\$ 346,000	\$ 133,000
Commercial bus.	100%	100%
E/S lines	60%	60
Employees	6	

Principal officers: Richard J. Weghorn, president; Michael L. Himowitz, vp; Joseph W. Pettit, vp.

Branch offices: Morristown, N.J. Parent company: John C. Weghorn Agency Inc.

The Wetzel Company Inc.

2000 South Post Oak, Suite 2400; Houston, Texas 77056; P.O. Box 66452, Houston, Texas 77006; (713) 626-3240

Gross rev.	\$ 2,775,314	\$ 2,034,188
Commercial bus.	100%	100%
E/S lines	100%	100%
Employees	22	

Principal officers: F.J. Wetzel, president; B.D. Wilcox, vp-oil; R. Lannin, vp-oil; R.E. Hess, vp-casualty; J.C. Jones, asst. vp-property.

Lines of specialty insurance: oil/gas energy.

Managing general agent for: Commodore Insurance Co.

Wohlreich & Anderson

6 Commerce Drive, Cranford, N.J. 07016; (201) 272-2500

Gross rev.	\$ 10,400,000	\$ 9,000,000
Commercial bus.	98%	98%
E/S lines	100%	100%
Employees	130	

Principal officers: Bernard J. Daenzer, president; Bob Clay, senior vp; Peter Wilkens, vp marketing.

Branch offices: Los Angeles; San Francisco; West Hartford, Conn.; Chicago; Indianapolis; Columbia, Md.; Boston; Southfield, Mich; Livingston, N.J.; New York; Garden City, N.Y.; Cleveland; Portland, Ore.;

New arrangements . . .

Continued from page 38A

model agency program. Reliance Insurance Co. conducted a seven-month program for three Denver agents this year.

The specific arrangements vary from company to company and agent to agent. Underwriting authority, for example, may be included with the agents' duties for Industrial Indemnity and St. Paul but not with Reliance and Atlantic. Similarly, reimbursement, if any, also varies.

St. Paul for example is tacking on a little additional expense factor which is a percentage of commission, according to senior marketing vp Harlan Martin. "It depends on what they (the agents) like to do and what they are capable of doing in terms of underwriting and policy issuance. It may be across the board or limited. In some places it may be limited to some classes."

Atlantic and Maxson-Mahoney, on the other hand, are presently negotiating a service fee to cover the incurred expenses.

The Reliance pilot, which involved the agents' suggesting modifications to manually computed rates in exchange for quick underwriting decisions by the company, had no financial interchange.

"It seems to us from talking to agents that they don't think (increased commissions are) necessary," said Reliance vp Russell Tibbetts. "If they can get a quick answer, that, for them, is a good trade-off."

Reliance is very bullish on the concept, although the Denver experiment was not a total success, the executive said. It was stopped in July when "we felt we had learned enough from the pilot to go back to the drawing board. It was not developing the way we hoped it would."

"In some cases, we were dealing with agents new to us. We think it works better with agents who you have worked with before. There were also misunderstandings as to what our underwriting standards were."

Although the Denver pilot was launched after discussions with InsGroup, an agents association headquartered there, future programs wouldn't be limited to InsGroup members, Mr. Tibbetts said.

While Mr. Wheeler and many other agents like him are eager to serve as guinea pigs for programs like these, insurers note that they aren't every agent's cup of tea.

St. Paul's Mr. Martin admitted the insurer had been turned down by some agents. Nor does Atlantic necessarily expect agents to beat a path to its door.

"There's not too much agreement among agents about the idea," observed Mr. Thompson. "It creates a new kind of staff obligation, something they must do every day."

And INA, which has offered special arrangements to agents as far back as 1807, is even less enthusiastic.

"We have repeatedly authorized our field people to allow agents authority," reported senior vp Nord Bjarke. "Frankly, nothing much happens. There are legal requirements and processing requirements agents are not prepared to carry on. We're not against it, but we don't think there are a great deal of benefits."

"We're not encouraging it nor do I expect we will pay additional for those functions," he continued. "If the agent wants to take them on because he thinks it improves his bottom line, then he can take them on."

Other insurers beside INA have also taken on such programs in the

past and participation is a small portion of the total agency force even after several years.

The Home Insurance Co.'s Mark II program, now six years old, has only 12 agents in it, according to one source. A spokesman for The Home declined to elaborate on the program because of its limited nature, saying only that "it would be ideal if we had all agents in it."

The Mark II program transfers several responsibilities, including underwriting authority on commercial lines, to agents where Home is the leading or second company in the agency. Responsibility for the direction of the program was recently shifted to Home's four regional U.S. offices from its New York headquarters. Agent reimbursement is on a fee schedule.

The U.S. group of Crum & For-

ster also declined to give details on its Producers' Issued Compac (PIC) a special multi-peril package program which now applies to 15% of its producers.

The problem with these types of programs is that so few agents qualify, an executive of the company said.

Though the implementation of these programs is done by the insurance company initiative, at least two agent groups have been active in negotiating such programs for its members.

The Denver-based InsGroup has been "heavily involved" in such discussions, president Bob Howey said, although he declined to identify the companies approached.

InsGroup has been in dialogue with Atlantic Co., Reliance and Industrial Indemnity, the insurers said.

A second agent group, Insurors-group of Santa Monica, Calif., is also playing intermediary for its

members in such arrangements and plans to have final details on a plan with Reliance Co. soon. Two other pilot programs are also in the works, president George Nordhaus said.

The concept of proven, profitable agents making individual arrangements with insurance companies has always been around in isolated cases, agents claim. That approach too is still alive.

Atlantic Co.'s other agency pilot program was begun on the initiative of Houston-based James J. Braniff & Co., where the agency assumes some of the policy duties.

"We're trying to do this with a number of companies," said principal Tom Braniff. The goals are to increase speed and accuracy of some operations.

Mr. Braniff said his goals in such proposals extends beyond policy issuance. "I would also like to work to get underwriting authority—not on oil rigs or chemical companies or enormous perfor-

mance bonds—but to get companies to recognize our professional ability in underwriting in an effort to get broader underwriting guidelines."

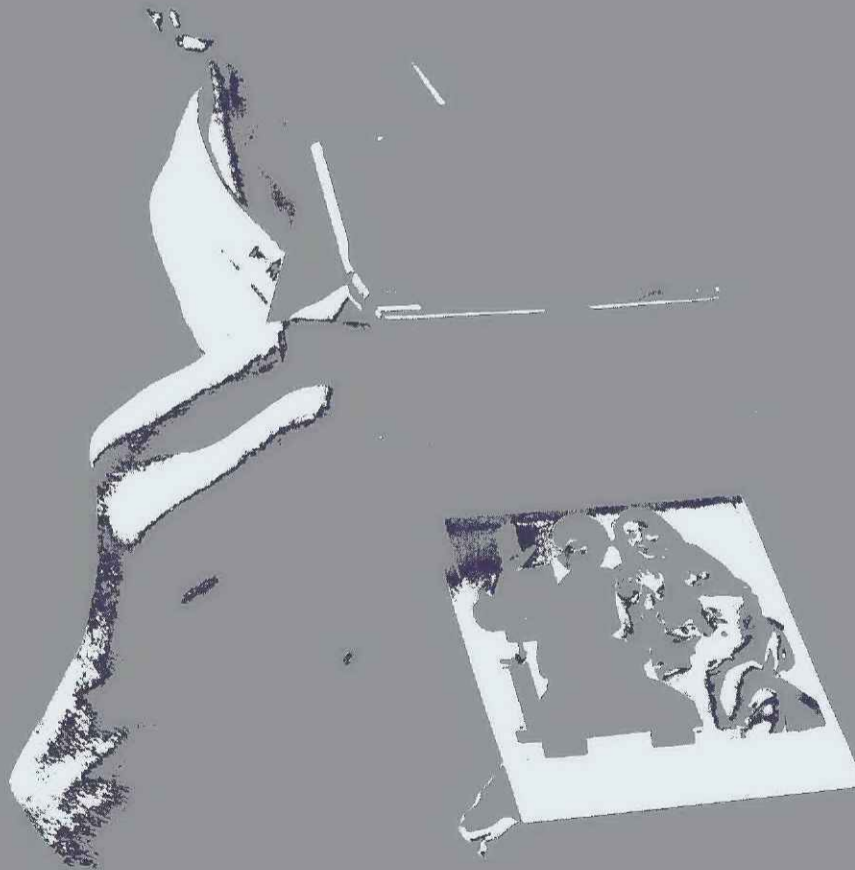
One factor that may throw a monkey wrench into the plans is the computerization of such operations at the company level.

Simultaneous to its pilot programs with agents, Atlantic is running a test project in its Roanoke office aiming to prepare 75% to 80% of all its commercial auto binders, policies and renewals by computer.

"If they accomplish that," notes Mr. Thompson, underscoring the 'if,' "then the agents' doing those functions becomes last year's news."

In the same vein, INA's Mr. Bjarke explained, "We're rapidly putting the majority of our business on computer-rated and policy-issued systems. How can the agent interface with that?"

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Reader survey . . .

Continued on page 38A

in that category placing 6% or more of their business with the excess/surplus markets. Using the five range groupings, combination agencies/brokerages place 54.5% of their business in the excess/surplus markets, followed up by agents which put 39% of their business with those markets.

However, by going back through all of the responses, a more detailed tally was made, revealing that agency/brokerages place an average of 14.2% of their premium dollars in the excess/surplus markets, followed closely by brokers placing an average of 12.2% of their premiums there. These groups were followed at a distance by agents placing an average of only 7.5% of premiums in the excess/surplus markets.

Brokers consistently offer cli-

ents more services than firms in the other two categories for all seven of the services listed in the survey questionnaire. Appraisals and inspections were the most frequently provided services for all three kinds of firms. For appraisals and inspections the brokers' edge was relatively small at 54.2% versus 48.2% for agencies and 47.9% for combination agency/brokerages.

Pension consulting

But the number of brokerages offering safety/security surveys and engineering services to clients (52.7%) is much higher than the number of agencies (27.5%) or combination agency/brokerage firms (33.8%).

Pension consulting, the third most commonly provided service,

is offered by 32.8% of all firms, with brokerages again the leaders, offering the service 44.3% of the time compared to 36.6% for agency/brokerages and 28.5% for agencies.

Nearly one-third of all firms polled provide benefit planning and administration services, though brokers provide the service most frequently (48.3%), compared to 32.4% for combination agency/brokerages and sliding down to only 22.1% for agencies.

Record-keeping, claims control and administration services are provided by 25.4% of all firms, although 42.3% of brokerage firms provide the service compared to 35.2% of agency/brokerages and 18% of all agencies.

Actuarial services were provided to clients or obtained for them by 11.1% of all firms surveyed. Brokers were most active in this area, providing these services 26.4% of the time. Agency/brokerages supplied actuarial services only 9.9% of the time and agencies got into

this area only 4.9% of the time.

Fee-based compensation amounts to more than 5% of total revenues for 17.8% of the entire group. Agencies are still overwhelmingly generating revenues through commissions, as was evident in the finding that 63.6% of all agencies responding don't have any fee income at all. In the case of brokerages and combination agency/brokerages, a large majority said they have some revenues attributable to fees.

Fee income

A significant 34.4% of the brokers revealed that more than 5% of their annual revenue income is fee-based, compared to 23.9% of agency/brokerages that have over 5% of revenues in fees. Only 10.5% of all agencies have over 5% of revenues generated by fees.

Only 6.1% of all respondents said more than 10% of their revenues are generated by fees.

Brokers, more than the other two groups, are convinced that fees are on the increase. Overall, 28.5% of those polled believe fees are growing as a portion of total revenues, led by 49.8% of the brokers who see more of a shift toward fees and followed up by 36.6% of the combination agency/brokerages and 19.8% of the agencies.

Internal accounting systems for agencies and brokerages, now handled for 46.6% of the firms by contract service bureaus, appear to be in for some major changes in coming years. Almost one-third of all firms are still using manual accounting systems, while 23.6% use mini-computers. Overall, 25.3% of the entire group are considering a change.

Of those anticipating a change, over half of the firms foresee that they'll use mini-computers in the future, with another quarter of the group looking forward to incorporating an in-house computer system into the operations. Ten percent anticipate they'll go to a service bureau.

In terms of future changes, the orientation of brokerages is clearly more mini-computers, while the biggest group looking at in-house computer systems is combination agency/brokerage firms. Agencies comprise the biggest group looking at service bureaus. All three categories of agents and brokers, however, most frequently indicated that mini-computers are drawing their attention.

Biggest current users of mini-computers are the brokerages at 42.8%, followed by combination agency/brokerages. Manual systems and service bureaus are still in use most frequently by agencies and combination agency/brokerages.

The survey revealed that a large majority of agents and brokers provide their clients with group insurance. Of the 676 agents and brokers who said they sell group coverage, 77.3% of the total group, 447 are agents, 154 are brokers and 61 are with combination agency/brokerage firms. More than three-fourths of the respondents in each category said they sell group insurance.

Group insurance

Generally, agents and brokers for all three categories of firms sell group coverage to groups ranging in size from very small (less than 10 lives) to very large groups (10,000 or more lives). Only 3.7% of all the respondents decline to deal with very small groups, selling coverage only to groups with over 50 lives. Understandably, agencies and combination agency/brokerages usually deal with all sizes of groups, although 8.5% of all the brokers who participated said they deal only with groups having over 50 lives.

Commercial foreign insurance is placed for clients by 39.5% of all agents and brokers, with brokerages and combination agency/brokerages placing this coverage most often (65.7% and 57.7% respectively). Only 28.9% of the agencies said they place foreign coverage.

Most agents and brokers don't place foreign group insurance for clients. Only 7.8% of the firms said they place foreign group coverage, with brokers most frequently involved in this business.

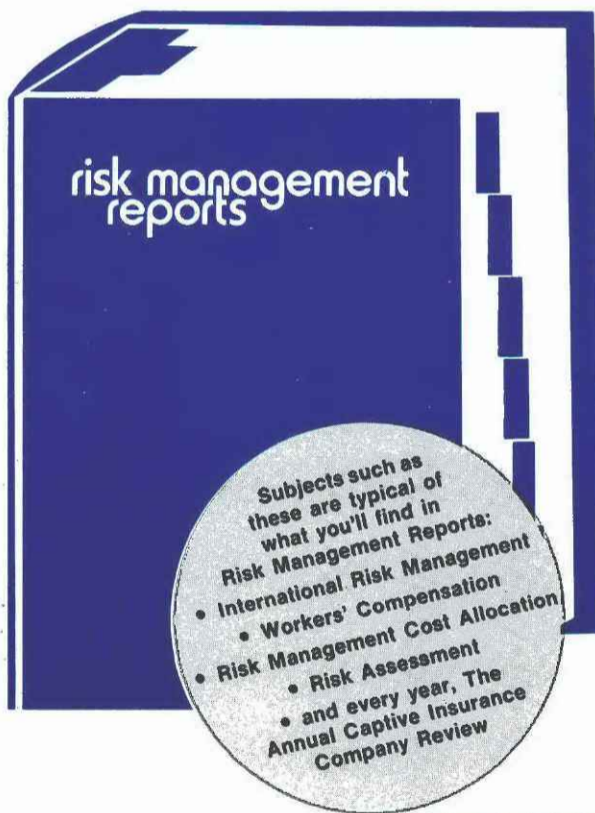
Of the firms that place foreign commercial insurance for clients, nearly half the brokerage firms said this segment of the business accounts for 5% or less of their total premium business, compared to 78.8% of the agencies which said it amounts to 5% or less.

About two-thirds of the combination agency/brokerages said foreign insurance amounted to 5% or less of their total premiums.

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- Attention bankers and insurers. **Insurance Buyer's Checklist for Banks** offers guidelines for the best insurance program for banks. The booklet is designed to facilitate continuation of present coverages. Cost is \$10. Write Robert N. Hughes, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex. 75231.

- A promotional brochure describing the **reinsurance facilities** of Donald Bryant & Co. is now available. For a free copy write Donald E. Bryant, Donald Bryant & Co. Inc., 200 Bloomingdale Rd., White Plains, N.Y. 10605.

- The seventh edition to the **Guide to Pensions in Western Europe** is now available from Lowndes Lambert Group. Though the company readily admits that due to the rapidly changing subject the booklet is out of date almost as soon as it is published, its real value lies in the essential but brief background information provided. The booklet details the pension programs of nine countries and also the multilateral agreement on social security for migrant workers. For a free copy write Uwe O. Petersen, Noble Lowndes Deutschland GmbH, Niedenau 45, D 6000 Frankfurt 1, Germany.

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- **Fire and Water Abroad** discusses the water facilities in developed and less developed nations abroad and provides a checklist and some words of warning. The booklet reviews some basic forms and endorsements, coinsurance, fire protection credits, replacement value insurance and points out how the foreign insurer can be of assistance. For a free copy write AFIA Worldwide Insurance, 1700 Valley Rd., Wayne, N.J. 07470.

- A 65-page exploration of the captive insurance concept is contained in the publication **Managing Captive Insurance Companies**. The study is the result of extensive research of both published and non-published information by Andrew J. Barile. Starting with the history of captives, this study proceeds to cover inducements to form a captive, the feasibility study, domestic vs. foreign captives, tax considerations, administering and re-insuring captives, industry captives and the future of captives. Rounding out the analysis is an appendix listing captives and their sponsorship as well as a bibliography. For a free copy write Andrew J. Barile, President, Andrew Edwards & Co. Inc., Re-Insurance, 600 Fifth Ave., New York, N.Y. 10020.

- **The Bankers Guide to Security Training** is 32-page booklet designed to comply with the Bank Protection Act of 1968. Increasing employe and customer safety, aiding law enforcement officers and decreasing financial losses as a result of external non-violent crimes are some of the topics discussed. Cost: \$10 each; quantity discounts available. Write Order Processing Dept., American Bankers Assn., 1120 Connecticut Ave. N.W., Washington, D.C. 20036.

- **Corporate Insurance in Brazil** is an English language brochure prepared by Argos-Cia. de Seguros. The brochure contains a general discussion of the insurance market in Brazil and specific coverages available through the company. General lines insurance and employe benefits are covered. For a free copy write Dennis J. Orio, Marketing Director, Argos - Cia. de Seguros, Caixa Postal 6261, CEP: 01000, Sao Paulo, SP - Brazil.

- Bankers Life Nebraska offers a brochure that poses the question **"Is something missing in your employe benefit package?"** If so, they maintain their dental plan may complete your employe benefit circle. For a free copy write Kenneth H. Tiekotter, Director—Group Sales Service, Bankers Life Nebraska, P.O. Box 81889, Lincoln, Neb. 68501.

- **Self-Insuring Employe Benefits**

Through a 501 (c)(9) Trust is a free brochure now available in limited supply from Bayly, Martin Fay International. Write Jack H. Seiter, senior vp, Bayly, Martin & Fay International, 3200 Wilshire Blvd., Los Angeles, Calif. 90010.

- **From Charitable Immunity to Public Accountability: A Review of Selected Solutions to the Malpractice Problem** is an article that has been reprinted from *Topics in Health Care*, an Aspen publication. It is now available from Ebasco Inc. in a 34-page booklet complete with references. The authors, one of whom is the senior vp of the firm, tackle the malpractice problem: immunity, legal aspects, four solutions, group approach, government sponsored insurance, modification of the tort system, Ohio malpractice law and the future of the malpractice problem. For a free copy write Nicholas Alexis, Consultant, Marketing Communications, Ebasco Risk Management Consultants Inc., 100 Church St., New York, N.Y. 10007.

- Gates, McDonald has put together a promotional kit describing their **cost control services to self-insurers for workers compensation**. Included are pamphlets to assist in compliance with OSHA, description of services for reducing accident costs, self-insurance for workers compensation plans and answers to questions on self-insurance. For a free copy write C.S. Jenks, Gates, McDonald, One Nationwide Plaza, P.O. Box 1944, Columbus, Ohio 43216.

- **The 1977 National HMO Census Survey** is the result of the coalition effort conducted by the AAFMC, BCA, GHAA, HIAA and NABSP. The responses (93% fulfillment) of all major HMOs surveyed produced extensive information about HMO size, age, type of sponsor, growth, hospital and physician utilization, type of physician group and family premium rate. This data is presented in 37 different tables. Copies of the survey are \$3. Write Education and Research Dept., Group Health Assn. of America, 1717 Massachusetts Ave., N.W., Washington, D.C. 20036.

- **Insuring Abroad** is a 16-page brochure in which INA explains how to obtain sufficient local coverage, legal requirements, allocat-

ing responsibility, difference in conditions and reviewing and updating. For a free copy write Dept. R, INA, 1600 Arch St., Philadelphia, Pa. 19101.

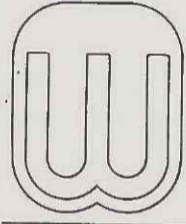
- An easy-to-read chart listing legislative changes proposed by major insurance, manufacturing and legal organizations to help solve the product liability problem is contained in the pamphlet **The Product Liability Problem: Proposals for Solutions Through Tort Reform**. This pamphlet has recently been updated with an addendum outlining the positions of three industrial trade associations and an eight-member Special Com-

mittee for Workplace Product Liability Reform. For a free copy write The Insurance Information Institute, 110 Williams St., New York, N.Y. 10038.

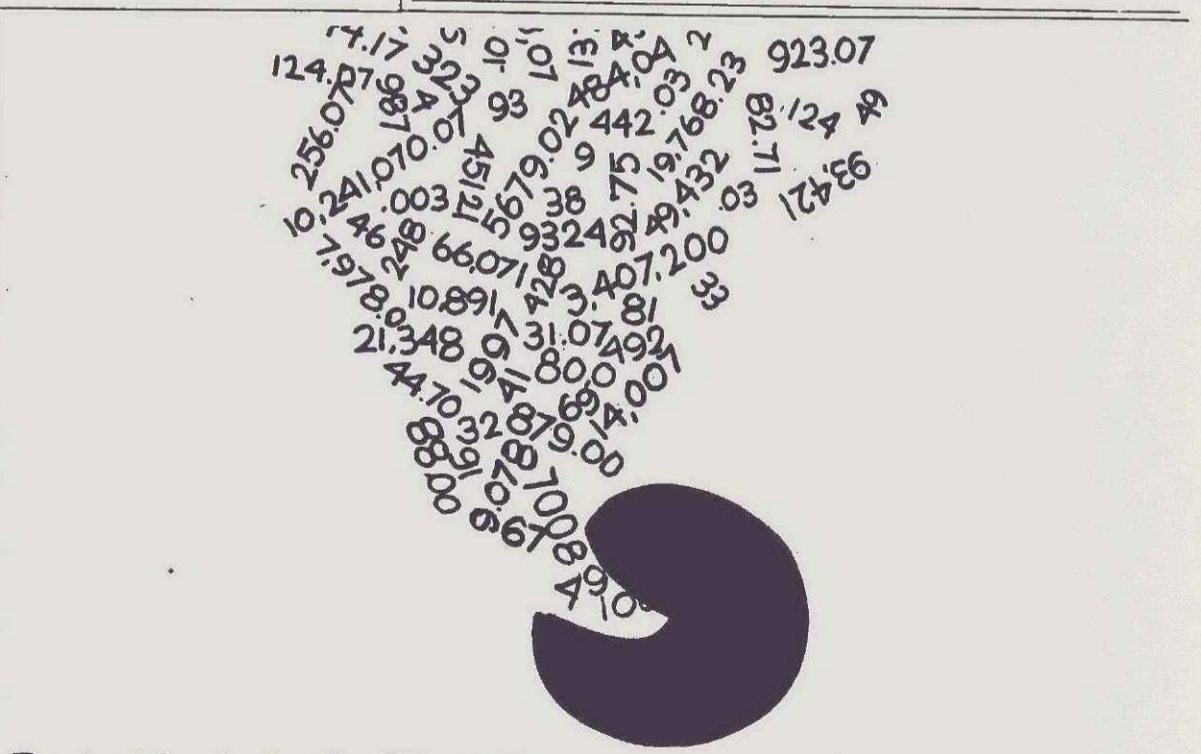
- If you are learning risk management techniques or are enrolled in such a class, Insurance Education Specialists has prepared a study guide that may be of value—**Structure of the Risk Management Process** by Robert E. Kuntz. The study guide is intended to be used in conjunction with the 1977-78 IIA Topical Outline for RM 54. Cost is \$8.50. Write to Insurance Education Specialists, 43 Norfolk Ave., Clarendon Hills, Ill. 60514.



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PERSPECTIVE

Risk managers can stem the bureaucrats as political scientists

By Peter Downes

—Speaking Out—

EVE WAS SUBVERTED by a civil servant. I came to this amazing conclusion after reading Carl Sagan's "The Dragons of Eden," wherein he pointed out that the brain of a dyed-in-the-wool bureaucrat is dominated by its reptilian cortex.

Critics may yell at this point, "Why do you keep preaching about the evils of bureaucracy? You know that there must be bureaucrats both within your corporation and in government. We all feel that it would be nice to have no regulations at all but be realistic—you know there must be regulations."

Of course, there must be regulations and this has always been recognized by any one who is capable of thinking at all. Adam Smith, the prophet of laissez-faire economics recognized the need for a bureaucracy, as did the philosopher Kant and the poet Goethe. And today, any risk manager with a modicum of intelligence knows that there must be regulations and functionaries to administer them.

But the risk manager in his capacity of political scientist should surely recognize something else. Karl Jaspers stated the point succinctly when he said, "Bureaucracy is a means. But it tends to make itself into its own end."

In his brilliant text "The Bureaucratization of the World," Henry Jacoby goes even further when he says, "The bureaucratic mind permeates and controls all spheres of life to an ever greater extent as everything in the world becomes subject to administrative agencies." Mr. Jacoby also reminds us that the laws passed by legislators become mere authorizations for the administration which determines their interpretation, with the result that the average citizen feels that he no longer controls his own destiny in the face of an authoritarian regime which is answerable only to itself.

Oddly enough, Richard Nixon recognized the symptoms of bureaucracy to some degree when he made an abortive attempt to change the system at the beginning of his second term. As one might expect, however, he also misread the situation completely by attributing a political bias to the bureau-

cracy and then by attempting to implement a cure which seemed far worse than the disease. Had he troubled to read history at any time he would have come to know that bureaucrats have no political loyalties so far as their work is concerned.

The mental process involved has been amply demonstrated by some notorious bureaucrats. For example, during the French Revolution under Robespierre's regime, it was the responsibility of a M. Herriot to see that the tumbrils arrived at the prisons on time and that the aristocrats incarcerated therein be then transported to a place of execution where their heads were cut off on schedule. After Robespierre's fall, M. Herriot was brought to trial himself and was condemned to the guillotine. It is on record that he thought this most unjust since he had administered the laws of a legitimate regime and it would have been dishonorable for him to have done otherwise. He had merely done his duty.

In this century, SS administrator Eichman put up a similar defense when the Israelis finally got him into a courtroom. A law had been passed which said that Jews were not human beings and must be exterminated. Eichman's job was the administration of the service that rounded up Jews and then transported them to extermination centers. Indeed, he considered the compliance with the law and its regulations took precedence over the needs of a beleaguered military that required all the transportation it could find.

The point to remember is that neither Herriot nor Eichman were aberrations, but the logical outcomes of well developed bureaucracies. Their notoriety lay in the hideous laws they administered. In this regard it is notable that bureaucrats in the U.S. here and now argue much the same way as Herriot and Eichman. Some insurance commissioners, for example, will announce blithely that they are merely administering the laws passed by their legislatures and in so doing they will quite thoughtlessly disrupt the economic well being of whole segments of the population who have virtually no redress.

Nevertheless, as Robert A. Lecne pointed out in a recent article "The Real Cost of Regulation" (Harvard Business Review, November-December, 1977), there is a regulatory boom simply because society is demanding it. The problem which then exists,

smaller risk this is more restrictive than for the catastrophe loss which is limited to twice the state accident limit.

The independent bureaus of California, Delaware, New Jersey and Pennsylvania have no specific rule in their experience rating plans on occupational diseases.

It would seem that some limitation would be called for, particularly in the case of a plant closing, perhaps as the result of an OSHA ruling. Until the influx of occupational disease losses work their way into the manual rate and thus into expected losses, the weight should be upon the state accident limit, perhaps a factor 10 times the SAL with no "per year" limit as a function of expected loss. A limitation encompassing the entire three year period as a function of 60% of the expected loss would be more realistic. This is important as the likelihood is that the bulk of claims will impact in only one or two years.

Amendment of the rate-making technique which limits the amount of disease loss in any one class to 25% of the self-rating point. In most states the rule now would not



The risk manager must begin by recognizing that he, in common with all other staff managers in his corporation, is himself a bureaucrat.

—Peter Downes

as I see it, is that society in general and industry in particular have no more than a patchy knowledge of the pervasive and authoritarian nature of bureaucracy.

This is where the risk manager can come into his own as political scientist. His first chore as always is to take care of his own shop and he can start by recognizing that he, in common with all other staff managers in his corporation, is himself a bureaucrat and what he does is but a means to an end. However, it is not uncommon for one of the corporate bureaucracies to delude itself into thinking that what it is doing is an end in itself. Systems managers are particularly prone to this error but smart risk managers should be able to squelch such tendencies. Ridicule is a very effective weapon.

In the world at large, it is tempting to suggest that concerted lobbying efforts by organized bodies such as RIMS may ultimately succeed in reducing the powers of the bureaucracy. This would be unrealistic. Historically, bureaucracies have always survived with all their powers regardless of the violence of a revolution.

If concerted action is likely to have no more than a marginal effect, what should a risk manager do? In my opinion, he should make himself familiar with the many kinds of regulations which exist and then seek to persuade his company to adapt to the socio-economic environment in which it finds itself. He may do this, quoting Robert A. Leone once more, by recommending to his company "a well articulated strategy for allocating its limited resources to satisfy its regulatory responsibility in ways consistent with corporate goals."

permit more than \$100,000 in total disease loss in any one year to be included in the making of manual rates.

Permission from the states to write long-term retrospective plans say five years, to provide the spread needed where there will be good years and very bad years over the next decade.

Above all, this is an appeal for cooperation between our industry and the industries about to be "hit" to design a program which will be palatable yet economically fair.

It should be remembered that unlike medical malpractice and product liability, workers compensation policies carry no limits of liability for occupational diseases. Whether the final bill turns out to be \$50 or \$100 million or more, the workers compensation insurers must pay the cost.

If the basic tenet of all insurance, pooling, cannot be brought to bear in solving this problem, then this industry must once again offer its surplus for loss payment rather than growth enhancement. The result being that we can expect a tighter market than ever before at a time when our policyholders are weary of our tight market woes.

Keene . . .

Continued from page 43

tributions and treat them as individual accounts. The annual before-tax contribution limit would be the lesser of 10% of compensation or \$1,000, but the deduction limit would be reduced by 20% of the amount by which an employee's gross income exceeds \$30,000 (this means no such deductions would be permitted for those earning \$35,000 or more).

If the participant terminates employment before becoming vested in the plan, he could "cash out" his contributions and roll them over into an IRA or into a new employer's plan.

The proposals introduced by Sen. Dole and Rep. Conable are along similar lines—permitting employee contributions up to the lesser of 10% of compensation or \$1,000—but with some notable differences. Neither has a cutback of the deduction limit based on higher income levels; they do not require a plan to accept employee contributions; they permit the use of an IRA for plan participants under some conditions.

The consequences of instituting any of these provisions are intricate indeed, aside from the formidable accounting, reporting and paperwork problems. For example, current IRA deduction limits of 15% of compensation or \$1,500 could be affected. Then there's the possibility of a trend to shift part of the contribution burden from employers to employees if deductions for mandatory employee contributions are available; a mandatory contributory plan would be difficult to maintain if employee tax deductions are limited to voluntary supplemental contributions only. The impact on thrift plans could be dramatic.

Although action on these bills will undoubtedly move at a slow pace, they are an indication of the way the wind is blowing.

Dual jurisdiction

"ERISA's dual jurisdiction pain is too much to bear" was the title of an article written for *Business Insurance* last year. That headline is still valid today. But it seems that this year more people are paying attention to the problem.

For instance, Sen. Javits—an advocate for reform in this area almost since ERISA's passage—has attempted to solve the dual jurisdiction problem by calling for the formation of a single agency, the Employee Benefit Commission, to administer ERISA. The organization of this commission is outlined in S.3017, the "ERISA Amendments Bill" introduced by Sens. Javits and Williams in May. However, it's expected the bill will see little action this year.

Because of the continuing complaints over dual regulation, the Labor and Treasury departments began to think about putting their own houses in order rather than relinquish any ERISA administration responsibilities. In June, the two departments drafted an agreement on overlapping jurisdiction. Briefly, the agreement puts participation, vesting and funding matters into the lap of Treasury. Fiduciary matters, including prohibited transactions, would rest with Labor.

It may still be a while before the bureaucratic machinery actively works on this problem of double paperwork and double regulations, but it's encouraging to see that at least some gears are beginning to mesh.

Contingent employer liability

In September 1974—the birth month of ERISA—our firm released a bulletin which challenged the practicality of employer liability insurance to cover plan terminations. We stated, "It is not at all clear that employer liability insurance is a workable solution." Now, four years later, the PBGC concludes that implementing a contingent employer liability insurance (CELI) program within the framework provided by ERISA is not feasible.

PBGC has indicated in a recent report to Congress that ERISA's liability concept should be restructured. One suggested alternative is to make pension plan obligations an ongoing responsibility of the employer, scrapping the 30% net worth limitation. Here, the PBGC would pick up the tab only if the employer becomes insolvent or terminates his business.

Keys . . .

Continued from page 43

offer an actuarially sound program for our insureds which will obviate the necessity of them making the choice of the Scylla of self-insuring or the Charybdis of the assigned risk plan.

Although not an all-inclusive list, the following steps should be considered.

- Reinstatement of a contingency loading in each class. The 2.5% "profit and contingency" loading now used in National Council states is the old 2.5% "profit" loading.

- Addition of a non-rateable specific disease loading in those industry groups using a category I or II substance.

This would be an immediate answer with the premium allocated only to those industries now identified.

- Amendment of the experience rating plan to apply a more realistic maximum. Presently the maximum disease loss per year which is captured by the plan is the state accident limit plus 40% of the expected loss for the three years of the plan. For the



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PERSPECTIVE

Product Liability Score Card

State	Tort reforms enacted	Bill pending	Cleared house	Cleared senate	Dead for 1978	S/L	State of the art	Failure to warn	Standards	Alteration	Remarks
Ala.					X	X					No action taken on a compromise measure.
Alaska		X									No action taken on bill to reduce awards by plaintiff's negligence.
Ariz.	Yes					X	X	X	X	X	Bill also prohibits asking for specific damages in a suit.
Ark.					X						Bills probably to be introduced next year.
Calif.		X		X			X				Some legislation might pass.
Colo.	Yes					X	X		X		Second state to pass major reform legislation.
Conn.			X	X	X	X		X		X	First product liability bill to be vetoed.
Del.					X	X	X	X	X	X	Possible action next year.
Fla.	Yes		X	X		X					Established a 12-year limitation on filing suits.
Ga.	Yes					X				X	Establishes a 10-year limitation on filing suits.
Hawaii											No information available.
Idaho					X	X	X	X	X	X	Bill died in senate committee.
Ill.	Yes		X	X		X					Bill just signed by governor.
Ind.	Yes					X	X	X	X	X	Establishes a 10-year limitation on filing suits.
Iowa					X	X	X	X	X	X	Possible action next year.
Kan.			X	X	X	X					Bill died in conference committee.
Ky.	Yes					X	X	X	X	X	One of the most comprehensive bills passed.
La.					X	X	X		X	X	New effort to be made next year.
Maine					X						No reform bills introduced.
Md.					X	X	X	X	X	X	Bill never made it out of committee.
Mass.					X	X	X	X	X	X	Legislation has no chance of passage.
Mich.		X	X			X	X	X	X	X	Possible action later this year.
Minn.	Yes										Bill prohibits asking for specific damages over \$50,000 in a suit.
Miss.					X	X	X		X	X	New bills to be introduced next year.
Mo.				X	X	X					Bill died in a house committee.
Mont.					X						No legislation introduced this year.
Neb.	Yes					X	X	X		X	Establishes a 10-year limitation on filing suits.
Nev.					X						No legislation introduced.
N.H.	Yes		X	X		X				X	Establishes a 12-year limitation on filing suits.
N.J.		X				X	X	X	X	X	Action unlikely this year.
N.M.					X						No legislation introduced.
N.Y.		X		X		X				X	Time is running out on senate-passed bill.
N.C.			X	X	X	X					New effort to be made next year.
N.D.					X						No action until 1979.
Ohio		X	X			X			X	X	Bill still is tied up in senate committee.
Okla.			X		X	X					Reform bill died in the senate.
Ore.	Yes					X				X	Third state to pass p/l legislation. 8-year s/l.
Pa.		X		X		X	X		X	X	Action unlikely this year.
R.I.	Yes					X				X	Establishes a 10-year limitation on filing suits.
S.C.					X						No information available.
S.D.	Yes					X					Establishes a 6-year limitation on filing suits.
Tenn.	Yes					X	X	X	X	X	Establishes a 10-year limitation on filing suits.
Tex.					X						Legislation to be introduced next year.
Utah	Yes					X	X	X	X	X	First state to pass reform legislation.
Vt.					X						No information available.
Va.					X						No reform bills introduced in 1978.
Wash.				X	X	X				X	Comprehensive legislation to be introduced next year.
W. Va.					X	X					Legislation died in committee.
Wis.					X	X	X	X	X	X	Bills never moved.
Wyo.					X						No information available.

Business Insurance's Product Liability Score Card summarizes efforts to enact tort reforms in state legislatures. The first section details the status of tort reform legislation in the state; the second section indicates what tort reform proposals are included in the legislation. When a bill is amended, the tort reforms still alive are indicated. The tort reform elements charted are a statute of limitations from either the date of

introduction of a product or from the date of an accident, allowing a defense that a product met the state of the art at the time of manufacture, elimination or restriction of a failure to warn claim, allowing a defense that a product met government standards and allowing a defense if a product were altered after it left the manufacturer. The editors of *Business Insurance* have attempted to make the chart as accurate

and up-to-date as possible. If you know about product liability actions in your state, please write or call Jerry Geisel, *Business Insurance*, 1253 National Press Building, Washington, D.C. 20004 or call 202-633-5300.

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dates for buyers

SEPT. 14. The suburban Chicago chapter of **Chartered Property & Casualty Underwriters** in conjunction with the Insurance Women of Suburban Chicago will feature Sen. Robert T. Lane, chairman of the insurance and licensed activities committee, at a joint dinner meeting in Rolling Meadows, Ill. Cost: \$10. Contact Mr. John Crandall, Protection Mutual Insurance Co., 300 S. Northwest Highway, Park Ridge, Ill. 60068; phone 312-825-4474.

SEPT. 14-15. Brief course on **reinsurance** to be held in New York City and sponsored by The College of Insurance. The course will present the intricacies of facultative and treaty reinsurance, the details of pro-rata, excess and catastrophe plans and a portfolio for a hypothetical primary carrier. Only the first 40 applicants can be accepted. Cost: \$60. Contact Matthew Lenz Jr., The College of Insurance, 123 William St., New York, N.Y. 10038; phone 212-962-4111.

SEPT. 25-27 The Risk Studies Foundation presents a three-day seminar on the **Future of Risk** featuring an interdisciplinary approach. Registration for the seminar to be held at the Waldorf-Astoria Hotel in New York City is \$295 and attendance will be limited to 55 delegates. Contact Risk Studies Foundation, 205 East 42nd St., New York, N.Y. 10017.

SEPT. 28-29. Establishing, Operating and Managing Captive Insurance Companies is the title of a practical course sponsored by Risk Research Group in London. The course is designed for those who wish to form their own captive or advise clients in captive participation. Among the topics to be covered will be feasibility studies, underwriting, selection of location, accounting and taxation, loss control and claims and reinsurance. Cost is \$78. Contact Gillian Morley, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4 DD; phone 01-236-2175.

OCT. 5. Los Angeles chapter of RIMS to hold its annual conference at the Sheraton Universal Hotel in Universal City. Cost is \$30 for members; \$35 for nonmembers. Contact Wendy Hamilton, Newhall Land & Farming Co., 23823 N. Valencia Boulevard, Valencia, Calif. 91355; phone 805-255-4000. Or contact Barbara Fein, R & B Development Co., 2222 Corinth Ave., Los Angeles, Calif. 90064; phone 213-478-1021.

OCT. 5-6. The Piedmont and Carolinas chapters of **RIMS** will sponsor their ninth annual Education Seminar at Myrtle Beach, S.C. Property, casualty and employee benefit subjects will be discussed. Cost: \$30. Contact Howard Partin, Liggett Group Inc., Durham, N.C. 27702; phone 919-471-7336.

OCT. 9-10. Self-insurance and Risk Management Services is a seminar to be presented by Practical Risk Management in San Francisco. Emphasis will be placed on the practicalities of implementing, controlling and monitoring an effective property, liability and workers compensation self-insurance program. Moderators and panel members will be drawn from the professional staff of Warren, McVeigh & Griffin, risk management consultants. The seminar will be repeated in Dallas, **Oct. 26-27** and Los Angeles, **Nov. 9-10.** Contact Practical Risk Management, Suite 205, 1700 Montgomery St., San Francisco, Calif. 94111; phone Susie, 415-433-6979.

OCT. 16-18. International Security Conference in New York City. In addition to the expo of security products, crime-prevention specialists will present more than 35 practical seminars. Seminars are \$35 each. Contact International Security Conference, 2639 S. La Cienega Blvd., Los Angeles, Calif. 90034; phone 213-836-5000.

OCT. 18-20. The first **New England Workshop for Risk Managers** will be held in South Egremont, Mass., and will focus on everyday risk and management problems. Cost: \$40. Contact A. David Heilemann, Rogers Corp., Rogers, Conn. 06263; phone 203-774-9605.

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benefit tax slants

IRS details rules for prepaid legal service plans

By JOSEPH S. ROBINSON
Attorney-at-Law

IRS RELEASED proposed new rules that explain the procedures to be followed by a group legal service plan that seeks approval as a qualified plan. The proposals say that the plan must give notice to the secretary of the Treasury that it is applying for recognition of its status as a qualified plan. (Proposed Reg. Sec. 1.120 (c)(4)-1(a).) This should be done by filing Form 1024.

If a group legal services plan meets the requirements of a qualified plan, an employe may exclude

from income any amounts contributed by an employer to the plan on his or her behalf. An employe's spouse and dependents may also exclude amounts contributed on their behalf. Similarly, benefits received under the plan are excluded from the gross income of the recipient. Benefits may be either legal services provided by the plan directly to participants or reimbursements for legal services obtained elsewhere.

Pension death benefits

Under the current rules, payment of death benefits in a lump

sum are included in the estate of the deceased participant. It is only when such payouts are made in installments that they escape estate tax. (BI, March 6).

IRS was recently asked to rule on the following situation: The employe's widow had the election of a lump-sum or installment payout. She chose equal installments over 12 months which fell into two of her taxable years. This is not viewed as a lump-sum and the exclusion continues to apply. (Private Ruling No. 7817012).

Keep in mind that the election chosen by the widow knocks out the payments from capital-gain

treatment.

Salary reduction plan

The Treasury has withdrawn a set of proposed regs issued in 1972 relating to the tax treatment of amounts contributed under a salary reduction plan or arrangement to certain qualified trusts, qualified bond purchase plans, or to purchase certain qualified annuity contracts.

The proposals are being withdrawn because ERISA precludes present adoption of final salary reduction regs relating to qualified plans or arrangements in existence

on June 27, 1974.

Entertainment payback

When an employer uses a standard mileage allowance of 17 cents to reimburse an employe for auto expenses or a fixed per diem allowance of \$44 to reimburse him for travel expenses, and he adequately accounts for those expenses to his employer, the employe is excused from reporting the reimbursements and deducting the expenses on his tax return. But IRS recently vetoed the use of a flat allowance to reimburse for entertainment expenses. Here's the story:

A corporate executive, who regularly entertains customers at home, wanted to be reimbursed a flat amount, based on the number of guests he entertains and the number of nights they stay with him. To back up his expenses, he keeps a log that notes the guest, the date, the business discussed and the results of the meeting.

The IRS ruled that the mere keeping of a log will not be adequate. The executive must provide his employer with the amount of the specific expenses incurred for entertaining. (Letter Ruling 7819023).

It should be pointed out that an employer may still make a flat reimbursement arrangement with an employe. However, under such circumstances the employe is obliged to declare the reimbursements and should keep records to support offsetting deductions.

Accidental death

An employer may provide up to \$50,000 of tax-free group term life insurance for an employe. Amounts above that are taxable to the extent of the premium outlay. **Query:** What about travel life insurance or accident and health policies which include a life insurance feature?

These specialized types of life insurance against accidental death are not included in determining whether an employe has more than \$50,000 of group life insurance coverage. The limitation doesn't apply to death benefits in so-called travel insurance or accident and health policies where such policies do not provide general death benefits.

Thus an employe would have no taxable income from his employer's premium payments giving the employe \$50,000 of group life insurance coverage and \$100,000 of accidental death insurance under an accident and health plan.

Deferred pay plan

A U.S. Court of Claims recently considered a deferred compensation/salary continuation arrangement between a hospital and an anesthesiologist operating as an independent contractor. The arrangement was of the type commonly adopted with hospital-based physicians and an endowment policy had been purchased by the hospital to meet its obligations.

In a decision of potentially far-reaching impact, the trial judge upheld the arrangement as properly "unfunded," i.e., there was no constructive receipt, but found that the insurance features, represented by the hospital's contractual promise to pay future death and disability benefits, conferred upon the doctor an economic benefit that was currently taxable. (Goldsmith, Ct. of Claims, 1978). ■

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Cab firm faces controversy over unfunded reserve

By ELLIS SIMON

HARRISBURG—A Philadelphia cab company has been allowed to retain its license for 45 days provided it comes up with

Ford pays \$600,000 in Pinto suit

WASHINGTON—Ford Motor Co. has agreed to pay \$600,000 to a 7-year-old boy who was orphaned and severely burned in the crash of a 1972 Pinto just outside Washington more than five years ago.

Jeremy Norton was two years old when the Pinto he was riding in was struck from behind on a busy interstate highway. The fuel tank ruptured on impact and the boy's father died in the flames that ensued. His mother died several days later of burns.

The Norton boy previously had been awarded \$657,000 by a circuit court jury, but both sides appealed the verdict. The settlement was reached before the Virginia Supreme Court had decided to hear the appeals.

The money will be placed in trust for the young Norton boy, who lost six toes and faces several orthopedic operations, under the supervision of an orphan's court.

Ford agreed in June to recall more than 1.5 million 1971-76 Pintos and 1975-76 Mercury Bobcats to make safety improvements to the car's fuel system. Critics charged that the fuel tank would explode upon light impact.

It is estimated that 59 persons have died in Pinto crashes since 1975. More than 20 lawsuits are pending with awards of at least \$1 million having been levied in Alabama, Florida and California.

According to court records, Ford is self-insured for the first \$2 million of product liability coverage.

In a recent interview, Ford chairman Henry Ford II admitted that he is concerned about the Pinto and that the company must fix the car no matter what the cost.

Gambling firm sues insurer

LAS VEGAS—Hartford Accident & Indemnity Co. has been sued by Argent Corp., two of its gambling casinos and two casinos it owned in 1976 for nearly \$30 million for allegedly failing to pay losses sustained from a slot-machine embezzlement scheme uncovered in 1976.

Filed in federal court here, the suit asks actual damages of nearly \$4.8 million on behalf of the Stardust, Fremont, Hacienda and Marina hotel-casinos as well as \$25 million in exemplary damages and \$5 million for each hotel-casino and Argent. The Marina and Hacienda hotel-casinos were sold about the time the embezzlement was discovered.

A spokesman for Hartford Accident & Indemnity said he could have no comment on a case in litigation. The attorney for Argent Corp. could not be reached for comment.

The suit alleges that the losses were uncovered after agents of the Nevada Gaming Control Board discovered a \$7 million embezzlement scheme in which Stardust personnel allegedly were removing a portion of the casinos' profit before it was counted for tax purposes.

more than \$230,000 owed to two self-insurance trust funds.

A commonwealth court judge stayed a ruling by the state public utility commission suspending Yellow Cab Co.'s operating authority on the condition that the firm make up back payments and stay current on future payments.

According to utility commission attorney George Kashi, the cab company had missed eight weeks of payments to two trust funds operating under department order since September 1977. The first fund required a weekly payment of \$15,000 to handle claims made on accidents since 1973. The latter required payment of 25 cents per ride to handle claims made on accidents prior to that time.

The taxi firm had excess liability coverage in two layers from \$100,000 to \$250,000 and from

\$250,000 to \$1 million, Mr. Kashi said.

To date, outstanding liability judgments against Yellow Cab total \$462,000 and date before 1973, according to Mr. Kashi. Yellow Cab self-insured its first \$100,000 of liability coverage from 1969 to 1973, but had coverage through an insurance company on a claims made basis from 1973 to June 1977.

At that time the insurer sought to raise the taxi firm's rate from approximately \$600,000 to \$3.2 million, Mr. Kashi said.

Presently, no payments are being made to liability claimants and no money is being put into either fund. The present situation represents a danger to the riding public since they cannot be compensated for damages below \$100,000, a util-

ity commission spokesman said.

Yellow Cab Co. operates 216 vehicles out of the 700 cabs operating in Philadelphia.

Persons entitled to the \$462,000 in outstanding judgments against Yellow Cab must deal with the

bankruptcy courts since the firm has filed for reorganization under Chapter 11 so it can resolve problems with its creditors.

Yellow Cab Co. president Stanley Miller could not be reached for comment.

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ERISA exemption . . .

Continued from page 1

return, Agway's insurance subsidiaries reinsures Travelers for 50% of the risk under the plan.

The government proposal does not come out and say directly that fronting and reinsurance arrangements, such as the Agway and Travelers agreement, is prohibited under ERISA.

However, a footnote attached to the proposal says: "This proposed class exemption is not intended to cover such reinsurance arrangements to the extent they are prohibited transactions."

Offshore captives

Cleveland attorney Thomas A. Jorgenson, who represents an unidentified manufacturing company that has an offshore captive, described the footnote as an innuendo that condemns "a multiple of legitimate reinsurance arrangements which are in the best interests of plan participants and beneficiaries."

Mr. Jorgenson said a principal advantage of reinsurance is that the primary insurer does not have to absorb the full burden of the loss.

"This protects the assets and financial stability of the primary insurer and therefore increases the likelihood that the participants . . . will receive their benefits," he said.

Government officials declined to comment on the fronting and reinsurance controversy. However, one source noted that "reinsurance is a key issue" and added that it was going to take a lot of work by IRS and Labor to find a solution to the reinsurance problem.

In his written comments on the proposal, Mr. Jorgenson also criticized the two agencies for continuing to refuse to permit offshore or non-U.S. insurance company subsidiaries to underwrite or reinsure benefit policies for the parent.

Excluding foreign insurance subsidiaries is "unnecessary, unreasonable, and arbitrary," Mr. Jorgenson said. He added that foreign insurers are subject to the same type of regulatory requirements as U.S. insurers and it is unfair to assume they are "somehow inferior" to their U.S. counterparts.

The 50% rule

The IRS and Labor, though, appear unlikely to drop their opposition to allow offshore captives to get into the employe benefits arena. Sources told *Business Insurance* earlier this year that the government was opposed to use of offshore captives since they are difficult to regulate and are not as safe as domestic insurance companies.

World Book Life Insurance Co., a subsidiary of Field Enterprises, denounced the proposal that no more than 50% of a subsidiary's revenues can come from the premiums of policies purchased by the parent from the subsidiary.

"A percentage test, such as the 50% outside business requirement,

is unnecessary," said Thomas G. Bostetter, World Book vp and general counsel.

IRS and Labor officials said earlier that the 50% internal business test was reasonable. "It shows that the insurance company is in the business of selling insurance to the public . . . and hasn't been set up only to sell insurance to the

parent's employe benefit plan," a Labor Department spokesman said.

Adequate regulation

But Mr. Bostetter protested that World Book Life Insurance Co. is licensed in 42 states and the District of Columbia. As a licensed U.S. insurer, World Book is subject to numerous state regulations that protect policyholders making the 50% of premium test superfluous,

he said.

Although John Deere & Co. did not come out directly against the 50% test, it argued that premiums received by its captive from the firm's Canadian subsidiary, John Deere Ltd., should not be included in the 50% test.

Ron Modlin, an attorney for John Deere, pointed out that ERISA does not apply to employe benefit plans outside of the U.S. in which the participants are primarily "non-resident aliens." Since

ERISA doesn't apply to foreign plans, it seems only fair that the premiums John Deere's U.S. captive receives from its Canadian plans not be included in the 50% internal business test, Mr. Modlin argued.

An IRS spokesman said the two agencies will consider all comments received as it gears up to draft a final proposal. It is not yet known when the final proposal will be released, the spokesman added.

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C&B purchases Greenville firm

NEW YORK—Corroon & Black, the nation's sixth largest insurance broker, has completed the acquisition of the Caine & Estes Insurance Agency of Greenville, S.C.

Caine & Estes also has offices in Columbia and Gaffney, S.C., as well as Charlotte and Asheville in North Carolina and Memphis, Tenn. Hunter Armstead, regional head of Corroon & Black, said the acquisition would allow C&B to participate in the rapid growth of the two Carolinas.

Kautz finds firms hesitate on deductions

CHICAGO—Corporations are holding true to their conservative reputation when it comes to taxes and deductions for liabilities under a self-insured workers compensation program.

A survey conducted by R. L. Kautz & Co. of 25 of its large accounts showed that 75% of the companies still only deduct the

cost of workers compensation claims paid during the year instead of also claiming a deduction for the liability of uncontested claims.

Dan Huggins, president of the Chicago-based self-insurance administration firm, told the Chicago chapter of the Risk & Insurance Management Society that most corporations are conservative on

claims deductions because "they don't want the publicity of being challenged by the Internal Revenue Service and they don't want the cost of litigation."

Uncontested claims, Mr. Huggins noted, are ones in which there is no question: there is a job related injury and the amount of the claim is not in dispute. The 9th Circuit

Court of Appeals in California ruled in the Crescent Wharf & Warehouse Co. v. IRS in 1975 that uncontested claims do represent a corporate liability which qualifies for establishing a reserve and taking a tax deduction.

However, the court did not resolve the question of the reasonable accuracy of the reserves es-

tablished, sending the case back to the trial court for a rehearing. Since the case was then settled out of court, the question of reasonable accuracy in setting reserves for uncontested claims remains unanswered, Mr. Huggins said. As the administration firm which aided Crescent Wharf in setting those reserves, Kautz is disappointed that the accuracy of the reserves was never established.

The case also did not concern the question of reserving for incurred but not reported (IBNR) claims, Mr. Huggins noted. ■

letters

Continued from page 8
compensation."

S. F. Mullady

We at Business Insurance have adopted the use of workers compensation. Alas, sometimes we slip up.

Fee formulas

To the editor: The item in "Benefit Beat" (July 24) reported that the City of Rock Island, Ill., had recently switched to a self-funded health plan for its 480 employees and dependents.

According to the article, a Chicago administrator was selected at a cost of 4.5% of paid claims. The article pointed out that the other administrators quoted fees based upon the number of employees. The consultant for the town recommended a charge based upon claims since he "doesn't consider the latter billing method equitable since it doesn't reflect claims experience."

Those of us who are in the third-party administration business are well aware of the chagrin and unhappiness of the client who finds his claims escalating and his administrative charges following.

Medical costs are very sensitive to inflation and utilization as everyone knows. On the other hand, the number of employees in a given business is a function of the amount of work which has to be done and we suspect that in a municipality such as Rock Island there are some restraints on hiring. Accordingly, we wonder if the city made the best deal.

Our calculations indicate that if the prospective claims increased 20%, or \$70,000, (a not unlikely possibility) the administration charge would increase by \$3,150 and this amount would provide for 88 more employees at an estimated cost of \$3 per month per employee.

Marshall P. Stuart

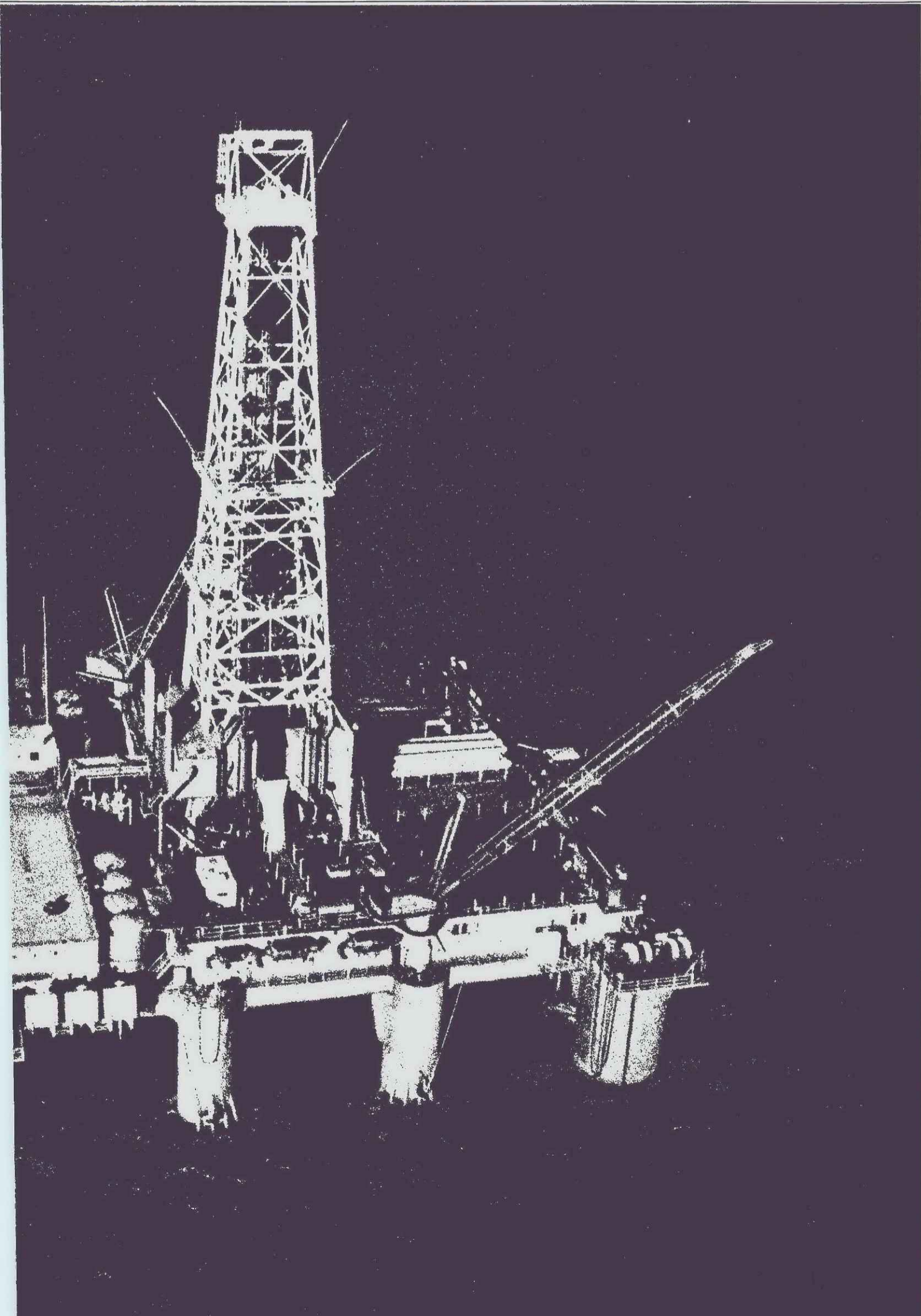
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Free trade zone . . .

Continued from page 1

policy standards)," explaining that free zone users will be sophisticated insurance buyers, risk managers and their brokers, who do not need departmental protection.

Three hundred and one risks are listed in the draft regulation as candidates for the free trade zone.

The minimum policy standard provision and a following section prohibiting rates that are "excessive, inadequate, unfairly discriminatory, destructive of competition or detrimental to the solvency of insurers" imply that the department can implement rate and form regulation and violate the spirit of the law, said INA's Mr. Eisenstadt.

Free trade zone legislation, which was signed into law in July along with the bill allowing for creation of the New York Insurance Exchange, permits insurers to un-

derwrite unusual or hard to place risks or risks producing annual premium in excess of \$100,000 without regulatory approval on rates or forms.

Claims made outlawed

Mr. Foley charged that the minimum policy standard would lead potential free zone business elsewhere. The provision could force insureds to purchase coverages they do not want so they would choose instead to use unadmitted markets, such as Lloyd's, he explained.

One form of coverage that Mr. Foley said would be outlawed was "claims made" liability policies. This is the only form of medical malpractice coverage that reinsurers are willing to write, he added.

However, Mr. Lewis responded that he saw nothing in the regulation that would prohibit the "claims made" form from being used for free zone policies.

But, Marsh & McLennan executive vp Robert Clements disagreed, explaining that because "claims made" form is prohibited under present insurance regulations, it would be prohibited in the free trade zone.

The superintendent has yet to convince anyone in the insurance community that the regulation can be interpreted any other way, he explained.

Recognizing the insurance department's concern for protecting the buying public from deceptively written policies, Mr. Clements told *Business Insurance*: "Nobody wants the free trade zone to be a home for disreputable insurers, but the regulation seems to be overkill."

The problems concerning the superintendent can be dealt with in

other ways, he added.

"The general tenor of the proposed regulation is that it seems to reflect a philosophy of regulation on the part of the insurance department which is inconsistent with the concept of the free trade zone," said Edith F. Lichota, chairman of the RIMS governmental affairs committee.

"Where a risk falls within the criteria of size or hard to place nature, it seems to me that some of the regulatory effort being expended by the superintendent under these proposed regulations would be excessive and unnecessary," she added.

Telegrams to Carey

Several brokers and the Insurance Brokers Assn. of the State of New York sent telegrams to Gov. Hugh Carey and superintendent Lewis protesting the draft. Insurance Brokers Assn. president Thomas A. Clark Jr. called the

draft regulation "completely contrary to the philosophy which gave birth to this legislation."

"It appears that the regulators have conspired to undo all the good you and superintendent Lewis had projected when backing the enabling legislation," Robert L. Sanford of Smyth, Sanford & Gerard told the governor.

"If the free zone is to generate the desired employment opportunities and have the envisioned significant impact on our industry, it must not be encumbered by unnecessary regulation."

George Mulligan of the American Insurance Assn. attacked the regulation's provision requiring use of reinsurers licensed in the free zone to obtain credit in determining the amount of premium a trade zone insurer could write in relation to its surplus.

"If Regulation 20 (which permits insurers to receive credit for regular business ceded to nonadmitted reinsurers) is adequate for domestic insurers, it should be adequate for trade zone insurers," he said.

Other limits

The free zone insurer's aggregate net premium, or gross premium less credited reinsurance cedings, is the basis for determining how much free zone business a company can write.

The regulation limits free zone writings to the greater of 20% of an insurer's surplus or the amount that produces a sum not greater than twice its surplus when combined with a company's other net premiums.

No insurer would be permitted to write more than 25% of its total aggregate net premium in the free zone unless it chooses to write solely free zone business under a plan approved by the superintendent of insurance.

Others who presented testimony asked for a clearer definition of what constitutes a free zone risk. In addition, there were several requests for changes in the language used to describe some of the unusual classes of risk included in the appendix to the regulation.

RIMS' Edith Lichota said special risks should be described in more general terms to prevent the list from being interpreted as rigid and the exclusive form of identification for risks that could be written in the free zone.

William Berry, an economic affairs aide to Gov. Carey, said the insurance industry was "overreacting" to the draft.

While conceding that the draft regulation could represent overregulation, Mr. Berry said critics should wait until the final form is released before protesting since the public hearing was a forum for input into the process that was likely to result in changes being made.

Superintendent Lewis said the department intends to respond to some of the objections raised at the hearing particularly to clear up ambiguities regarding limitations on writings in the free zone and the definition of risk.

But, he added that there will still be some restrictions on the amount of free zone business companies could write to prevent the free zone from being used to siphon off surplus that would otherwise go for personal lines policies. ■

Want the most

Pension benefits depend to a large extent on your field of work, says the American Council of Life Insurance. Citing a study by The Conference Board, the council notes that the most generous pensions in the private business sector of the economy are paid by the banking and insurance industries, followed by utilities and manufacturing. Retail trade businesses are the least generous.



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 **Prudential**
Group Insurance

FASB . . .

Continued from page 1

when the board asked for comments on its first 12 accounting standards as part of a review of its work. Though the deadline for comments was Aug. 15, letters were still arriving at the FASB Stamford headquarters at the end of August.

Among the 144 letters received by then, 125 commented on standard No. 8 governing foreign currency translation while 44 addressed No. 5. The overwhelming majority of letters objected to the standards. Nearly all the financial executives who wrote to the board on No. 5 asked that the standard be amended to permit accruals for self-insurance reserves. Insurance company executives tended to petition for the right to accrue catastrophe reserves.

The few who asked the board not to amend standard No. 5 included the Reinsurance Assn. of America and the National Assn. of Independent Insurers. One risk manager conjectured the reinsurers want insurance companies to buy reinsurance against catastrophes instead of being permitted to accrue reserves to cover them. The NAIH apparently appreciates the standard as an accounting deterrent to self-insurance among corporations, even though the standard prevents insurers from accruing catastrophe reserves, he said.

But treasurers and controllers of some of the largest corporations in America repeatedly criticized standard No. 5 for not recognizing annual charges against income for self-insurance reserves as valid as a charge against income for insurance policies. They asked that the accounting treatment be consistent regardless of whether losses are insured or self-insured.

"Whether a company buys insurance or self-insures its risks is irrelevant," maintained B. F. Goodrich Co. controller Stephen A. Willey. "The decision to self-insure rather than purchase insurance is an economic decision, not an accounting decision."

"The accounting distinction fails to recognize the only difference is a financing one in which the self-insurer has the use of funds prior to claims settlement instead of the insurance company," argued Howard Johnson Co. treasurer Edgar L. Andlauer. "In either case, the losses will be paid by the enterprise and the cost should be recognized in the same accounting period regardless of the method of loss settlement."

The method of accounting for self-insurance dictated by standard No. 5 so unfairly penalizes the self-insured, the corporate executives complained, that it forces companies to buy insurance. "Statement No. 5 has abolished self-insurance," declared American Express senior vp Allen B. Richards.

When a company has a "reasonable dispersion of risk and a reasonably predictable pattern or expectation of loss, it is often financially advantageous to self-insure rather than to buy purchased insurance," explained E.I. DuPont comptroller C.R. Minix. "When companies are prevented from accruing self-insurance reserves under these conditions, they must record the losses as they occur, indiscriminately."

Companies want to avoid the significant fluctuations in earnings from one period to the next that can result from this accounting procedure because "this diversity can be misleading to financial statement users who prefer the more stable earnings that would be reported by a company which purchased insurance," explained a

statement from Stauffer Chemical Co. "The resulting effect upon the market price of self-insurers securities may force that company to purchase insurance coverage even though, aside from FASB 5, this purchase is not economically feasible."

It would be more accurate if the self-insurer could charge each period for its proportionate share of the cost of self-assuming risk instead of paying for a self-insured loss as it occurs since "large losses occur in a frequency that transcends more than one accounting period," suggested American Bakeries' Mr. Lesieutre.

This change in the accounting standard would also improve the comparability of financial statements of insured and self-insured companies, executives said. "We see no reason that comparability between enterprises should suffer since these transactions do not differ in economic substance," said Citicorp vp James M. Hoppe.

Corporations aren't asking for an amended standard just for convenience's sake, but out of necessity, it was pleaded. "Self-insurance accounting can be a necessity when one cannot obtain coverage from an insurance carrier due to loss history or extreme risk," said H.C. Knortz, comptroller for International Telephone & Telegraph.

Since corporations are permitted to reserve, for example, for bad debts, they should also be allowed to reserve for property and casualty losses, it was reasoned.

These same points were argued by financial executives when the board released a draft of standard No. 5, but the board was not persuaded then to amend the standard. "It sounds like they haven't accepted or read the board's rationale for the standard," observed an FASB staff project manager who has read the letters. "Many have not addressed the board's ra-

tionale for the standard."

"Basically, these are the same comments I made before," agreed Howard Johnson's Mr. Andlauer. "I still think there is a fallacy in their reasoning that if you insure you can spread the cost of losses, but if you self-insure you can't."

Howard Johnson is not self-insuring risks on its 700 restaurants as much as it wants because of FASB standard No. 5, Mr. Andlauer said. However, it is moving toward self-insuring workers compensation, a risk that is not subject to the standard.

Even under its current deductibles, Howard Johnson could suffer losses that would affect its profit and loss statement, Mr. Andlauer admitted. "It takes a lot of guts to maximize costs over the long run through self-insurance because you have to consider the stockholders who look at earnings per share," he observed. A stockholder who sees a drop in earnings in one year because of a loss isn't going to

remember the higher earnings in previous years when there weren't any losses.

But FASB standard No. 5 holds that self-insurance does not provide the same protection from loss that the purchase of insurance does. "Earnings fluctuations are inherent in risk retention and they should be reported as they occur," the board said in an appendix to the standard. "The board cannot sanction the use of an accounting procedure to create the illusion of protection from risk when, in fact, protection does not exist."

Howard T. Weber, director of a heavily self-insured program at 3M Co. in St. Paul, agrees.

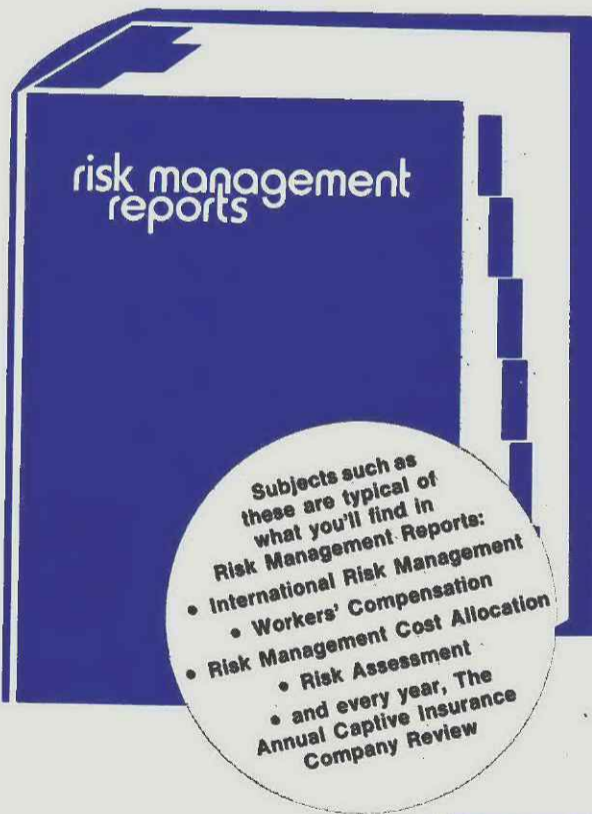
The purpose of the standard is to prevent a corporation from stashing away profits in good years to use in bad years to smooth earnings and to mislead stockholders, Mr. Weber noted. "Whether it's concerning operations or an uninsured loss, it's just as wrong to mis-

Continued on following page

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FASB . . .

Continued from preceding page lead the stockholders," he insisted. However, FASB standard No. 5 actually improves the reserving posture of a corporation, Mr. Weber stressed. "A close, technical adherence to FASB 5 will require the establishment of far more reserves than most companies ever have maintained or now maintain."

There isn't anything else 3M would self-insure or take a higher deductible on than it does now if it could reserve against the unknown, Mr. Weber said. But, he noted, 3M takes advantage of insurance company subsidiaries and participates in the reinsurance facility CIRCL. "Without those, I might have a different opinion," he admitted.

In addition, it seems not every company that abandons a self-insured program is doing so out of an aversion to FASB standard No. 5. Don Hansen, director of insurance for United Airlines, for example, dropped its \$10 million aggregate hull deductible this July to the minimum deductible of \$100,000 for narrow-bodied crafts and \$200,000 for wide-bodied crafts primarily because of the improved markets.

This is quite a different view from that presented in a letter to the FASB by former United risk manager Waller Smith. Now a vp of Rollins Burdick Hunter Co., Mr. Smith said in his July 19 letter that FASB standard No. 5 "in a single blow destroyed a plan in operation for 30 years . . . the ultimate goal of which was total self-insurance of aircraft by United."

Mr. Smith maintains that when

United eliminated its \$32 million in accrued reserves in 1976 as a direct result of FASB standard No. 5, the self-insurance program was effectively killed.

Although United apparently did not shift to a nearly fully insured program until just two months ago, the airline made in 1976 what Mr. Smith describes as "significant revisions" in its insurance program. United negotiated a plan with its London insurers that he won't reveal the details of except to say that it involved lower deductibles than the \$16 million retention previously held.

The comments submitted to the board will be reviewed by the FASB staff. The staff analysis won't be sent to the board until at least early November. The board then could decide the standard should stand as written, or that it wants more information or it could amend the standard.

Tenerife . . .

Continued from page 1 amounts to be awarded in the remaining lawsuits, according to Daniel F. Hayes, an associate of the Krause law firm.

By comparison, a total of \$62,268,750 was paid to 1,123 claimants for the deaths of 340 persons in the 1974 crash of a Turkish Airlines DC10 near Paris, previously the worst airline disaster.

The claims settlements in the Tenerife crash have moved quickly, aided by several agreements among the parties involved.

For instance, Pan Am and KLM have decided not to contest their liability and the relatives of victims have agreed not to press for punitive damage awards.

Therefore, settlements have focused only the amount of damages

to be awarded rather than contesting who is to blame.

In a related agreement, the parties involved have tentatively agreed to share blame by paying the claim settlements based on a fixed percentage.

According to a KLM legal source in New York, KLM will pay the greatest percentage of the settlements, 40% Pan Am's share is 30%, while Spanish air control authorities will pay 20% and Boeing Co., which builds the 747 aircraft, 10%.

The disaster occurred 1½ years ago in Tenerife, when the two planes were preparing for departure to Las Palmas, a Canary Island. They had been diverted from landing there because a bomb had exploded at the Las Palmas airport.

The Pan Am jet was taxiing into position when it was hit broadside by the KLM 747, which was traveling down the runway at its full takeoff speed of 165 miles an hour.

Air traffic controllers had told the Dutch KLM pilot not to begin takeoff. It has been speculated that the Dutch pilot may not have understood the English spoken by the controllers, although English is the international language for air traffic control.

Liability insurance coverage for the two airlines is based chiefly in Lloyd's of London.

For KLM, Lloyd's is the lead underwriter and the "heaviest" carrier involved, said Sarah McDonald, insurance supervisor in KLM's New York office. The Bowring London brokerage firm placed the insurance.

A Dutch underwriting pool is also believed to share some of the KLM liability risk.

For Pan Am's liability insurance, Lloyd's provides 45% of the coverage, according to Pan Am's broker James Goulard, a vp at the Parker Aviation division of Frank B. Hall. The two largest aviation pools in the U.S., Associated Aviation Underwriters and U.S. Aircraft Insurance Group, each had a 20% share. The remaining 15% was written by Paris-based Robert Malatier, a part of the French group La Concorde.

Limits of liability insurance for either airline were not disclosed.

The possibility of further litigation arising among the insurers after the claims have been paid has been raised by several parties.

Stephen Feron of Condon & Forsythe, the law firm that represented KLM in the Johnson trial, said it was a "good possibility" that insurers would sue each other based on belief that their share of the payments was in excess of their fault.

But broker Mr. Goulard discounted the possibility, explaining that the aviation insurance market is "acting as a worldwide community and that all are involved in the same pot."

"They're just trying to settle it as effectively and efficiently as possible," Mr. Goulard said.

All lawsuits resulting from Tenerife have been consolidated under Judge Robert Ward in federal court in the southern district of New York. Pre-trial business, such as the taking of depositions, will take place in New York. Afterward, however, the cases will be transferred to their respective locale.

Most of the lawsuits will be tried in the central district of California.

The next case to be tried involves a 26-year-old single girl.

Although the awarding of punitive damages has been ruled out, most of the passengers were from either California or Oregon, where state law prohibits the awarding of damages in such cases.

The Krause law firm had requested that punitive damages be considered for a Massachusetts resident killed in the crash, but Judge Ward overruled the request.

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At BI conference Nov. 13-14

Experts to probe latest communication methods

CHICAGO—A roster of 22 experts including benefits consultants, communications specialists and corporate benefit managers highlights the second annual *Business Insurance* Employee Benefit Communications Conference to be held here Nov. 13 and 14.

The conference is designed to provide those involved in benefit communications with working sessions and problem-solving meetings on the latest communication techniques being used to effectively convey employee benefit messages to workers and to help managers take home ideas useful in tackling their own benefit communications problems.

To these ends, *Business Insurance* has scheduled 16 concurrent sessions led by 13 outstanding employee benefit communications consultants to analyze and discuss in smaller groups materials being used by the registrants themselves, who will be invited to submit their communications programs ahead of time. Participants will also be able to compare their programs to those of similar firms.

Concurrent sessions will probe and analyze the different media that can be used to transmit benefit information to employees, including audio-visual techniques, booklets, personalized correspondence, computerized statements and special projects.

One group of concurrent sessions will involve small-group problem solving, using a case study approach to planning and implementing an effective benefit communications program.

Registrants will be invited to participate in two audio-visual screening and critique sessions where they will judge the effectiveness of several audio-visual com-

munications programs. Discussion will be led by Herbert Zeltner, a New York City-based communications expert who heads his own consulting company in the marketing and communications field.

Several corporate benefit managers with differing views and a benefit consultant will debate whether employee benefits should be communicated differently to hourly and salaried employees. Squaring off on this subject are David C. Wineland of Armco Inc., D. Bruce Sidebotham of General Tire & Rubber Co. and George F. Way with Buck Consultants Inc.

Presenting and discussing their winning audio-visual and print communications programs will be

Harold L. Hudson of Revlon Inc. and Meg Franklin of Levi Strauss & Co.

Several general sessions are planned to discuss two subjects of broad concern to benefit communicators: Using supervisors to inform employees about their benefit programs and surveying employees to determine attitudes about benefits and to determine the effectiveness of ongoing communications programs. Clay Hurst of Olanie Hurst & Hemrich will be joined by Kelly Coy of that same firm to discuss techniques of communicating with supervisors and encouraging communications between employees and supervisors where benefits are concerned.

John Kerney Jr. of Kwasha Lip-

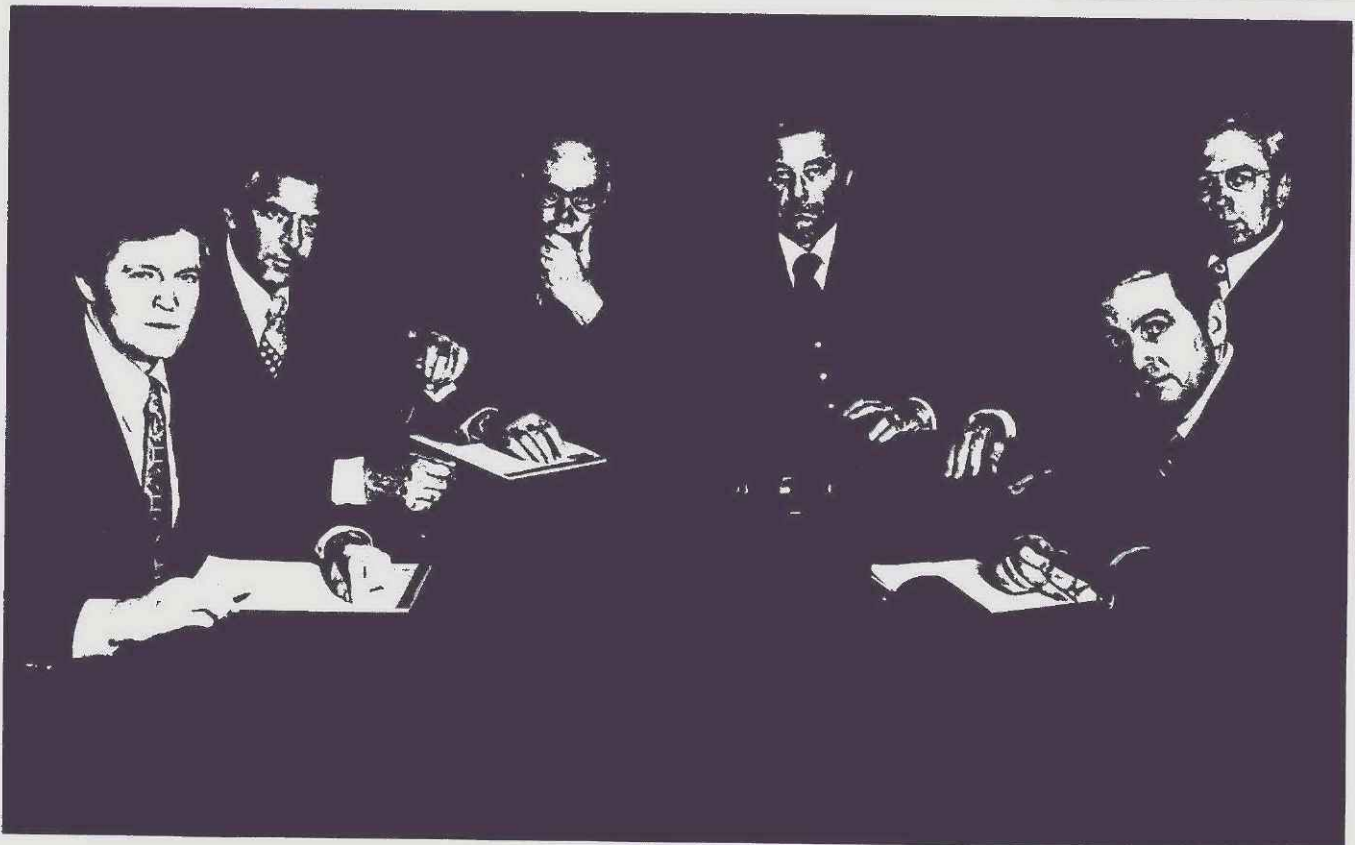
ton will present alternative approaches to surveying employees on their attitudes and knowledge about benefits. He'll discuss the importance of getting accurate feedback from the workforce.

Concurrent sessions during the two-day conference will be led by consultants from around the country, including R. Craig Fulford of Southern Employee Communications, Dennis B. McKoy of Johnson & Higgins, David M. Gladstone of Hazlehurst & Associates, Gary L. Bradshaw of Wyatt Co., Peter A. Danielson of Benefit Consultants Inc., Russell J. Alberding and Dorothy D. Zinck of A.S. Hansen Inc., Nanci A. Healy of Frank B. Hall & Co., Donald L. Sheppard of

William M. Mercer Ltd., Ira Kerns of The Creative Establishment Inc., Lee A. Carlson of the Benfro division of M&R/Services and Judith A. Karam of Martin E. Segal Co.

The registration fee for the conference is \$295. Attendance is limited. Group discounts are offered for companies sending more than one representative; after the first registration, the fee is 10% lower for others registering at the same time. The conference is to be held at the Marriott Motor Hotel near O'Hare Airport.

For more information or to register, contact Taylor Lucas, Crain Education Division, 740 N. Rush St., Chicago, Ill. 60611, or call (312) 649-5242.



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TPF&C, Stennes plan merger

NEW YORK—International management consultants Towers, Perrin, Forster & Crosby will merge with Stennes & Associates, an actuarial consulting firm headquartered in Minneapolis.

TPF&C has offices in 22 cities while Stennes has operations in Des Moines, Iowa, and Lincoln, Neb., in addition to Minneapolis. Stennes employed a staff of 70. The move is designed to increase TPF&C's ability to provide services to the insurance industry.

The combined firm will operate under the TPF&C name.

Missouri upholds forced retirement

JEFFERSON CITY—The Missouri Supreme Court has upheld a state statute requiring mandatory retirement for magistrates and probate judges at age 70.

The court said a mandatory retirement age is a legitimate at-

tempt to insure the fitness of the judiciary as well as the continued competency of the judicial system.

In addition, mandatory retirement increases the opportunity for qualified persons to become a part of the judiciary and permits orderly attrition through retirement. The retirement provision also eases establishing and administering judges' pension plans.

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people

Bowman joins LA authority CBS promotes 2 in insurance

Robert W. Bowman, formerly risk management administrator for the East Bay Municipal Utility District in Oakland, Calif., has been named risk manager of the Southern California Joint Powers Insurance Authority in Los Angeles county. He will report to the board of directors. Mr. Bowman had been with the East Bay Municipal Utility District since 1974. Previously, he was liability claims supervisor with the Commercial Union in both Los Angeles and San Francisco.

At CBS Inc. in New York, **Beverly P. Critz**, 31, has been appointed assistant director of insurance, responsible for administration of the company's general insurance program. Ms. Critz has been manager, general insurance. Replacing her in a reorganization of the department is **Dorothy Belive Griffith** as manager of insurance. She develops and implements asset protection controls, underwriting data, safety recommendations and loss prevention reports. Ms. Griffith previously was an insurance analyst. That position hasn't been filled.

In a newly created risk management post in Pinellas County, Fla., **Robert J. Ellis**, 40, has been appointed risk and loss prevention

manager. He's in charge of developing a self-insurance program for most coverages except for boiler machinery and property insurance. In addition, his responsibilities include risk financing techniques; risk treatment alternatives; risk retention levels; funding for workers compensation, life and health coverages, and management of safety and fire protection programs. Mr. Ellis reports to Joseph C. Elliot, director of the general services department. Previously, Mr. Ellis served in a similar position in Seminole County, Fla., where his former position hasn't been filled.

Robert Doyle, 36, has joined Amax Inc. in Greenwich, Conn., as insurance supervisor, reporting to Robert Ryan, corporate insurance manager. Mr. Doyle previously worked for NL Industries in New York as workers compensation manager. **John J. Kennedy**, 53, has been hired to replace Mr. Doyle. Mr. Kennedy reports to John H. Harrington, director of risk management.

James P. Weichert, 30, has joined Moore Business Forms Inc. in Glenview, Ill., as compensation manager. The company has expanded from its Midwest base to a national company, creating a need

for this position. Mr. Weichert is responsible for the design, development and administration of all wage/salary programs and employee benefits. He previously was staff assistant-compensation and benefits for FMC Corp. in Chicago, where he hasn't been replaced.

Richard A. Siegrist, 33, has left Owens-Illinois Inc. in Toledo as manager of insurance programs and employee benefits. He previously was staff assistant-compensation and benefits for FMC Corp. in Chicago, where he hasn't been replaced.

John E. Hogue, 43, has joined Johnson & Higgins in Houston as an account executive after serving as director of casualty insurance at Farmland Industries in Kansas City, Mo. Farmland Industries hasn't replaced Mr. Hogue.

Allan H. Bader, 32, has left his position as property analyst at Joseph E. Seagram & Sons Inc., where his job hasn't been filled. Mr. Bader joined Frenkel & Co. in New York to set up a risk management services department for the brokerage firm.

At Gulf State Utilities in Beaumont, Tex., **Dennis A. Wales**, 26, has been hired as risk analyst. He reports to Olice Steward, director of risk management. Mr. Wales previously was employed by Associated Milk Producers in San Antonio as an administrative assistant. At Associated, **Barbara Bessey**, 35, has been hired to replace Mr. Wales. She reports to Leo Flies, director of employee relations and insurance.

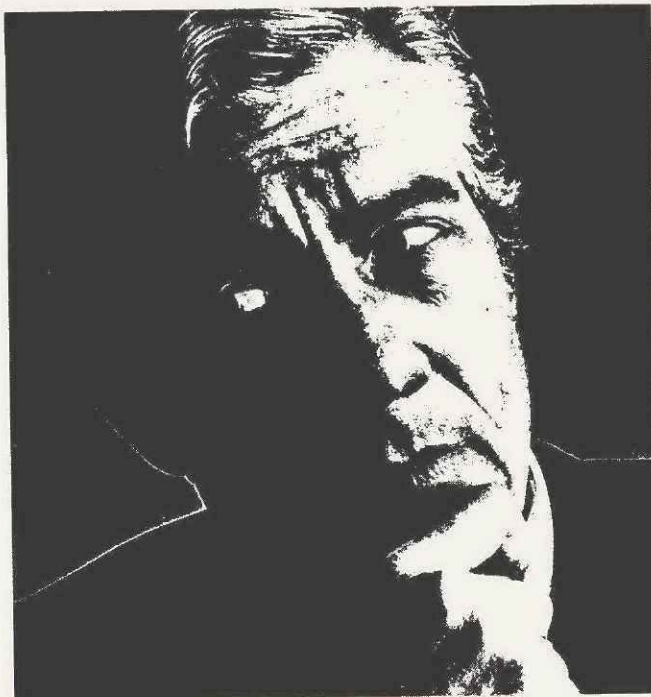
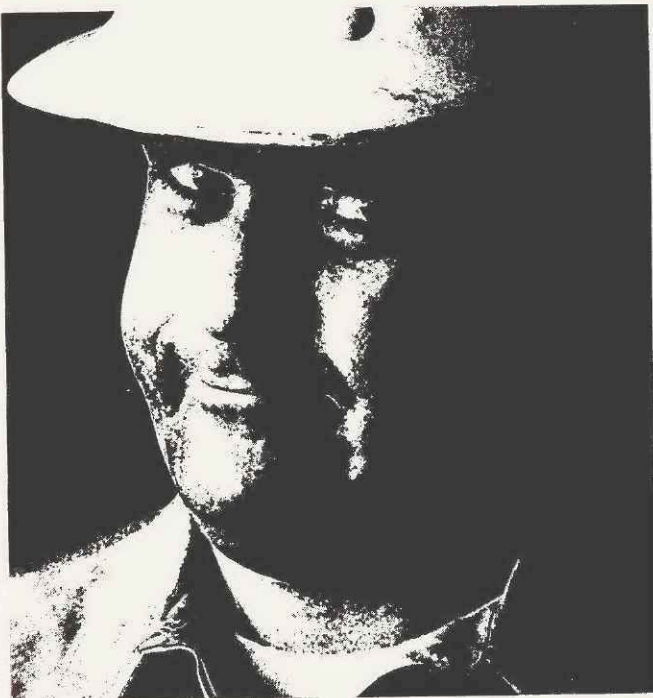
Jerry A. Luttrell, 31, was named insurance and regulatory compliance administrator at Kolmar Laboratories Inc. in Port Jervis, N.Y. He replaces an insurance and benefits manager who left in late 1977 for another job. Mr. Luttrell, who reports to the vp and general counsel for the private label cosmetics manufacturer, is now in a restructured job in which he handles all insurance work; product liability claims and defense, and benefits supervision but not benefit administration. Mr. Luttrell worked for just over four years for Nabisco Inc. in East Hanover, N.J., where he was manager of casualty insurance and insurance attorney. Nabisco hasn't yet named his replacement. At Nabisco, he was also heavily involved in product liability claims management and defense as well as contract-related work.

Erin Oberly has been named a consultant for Warren, McVeigh & Griffin in San Francisco. Ms. Oberly had been assistant director of risk and insurance management for Levi Strauss & Co. in San Francisco for the last three years.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Rebecca A. Fanin, Business Insurance, 708 Third Ave., N.Y., N.Y. 10017 or call 212-986-5050.

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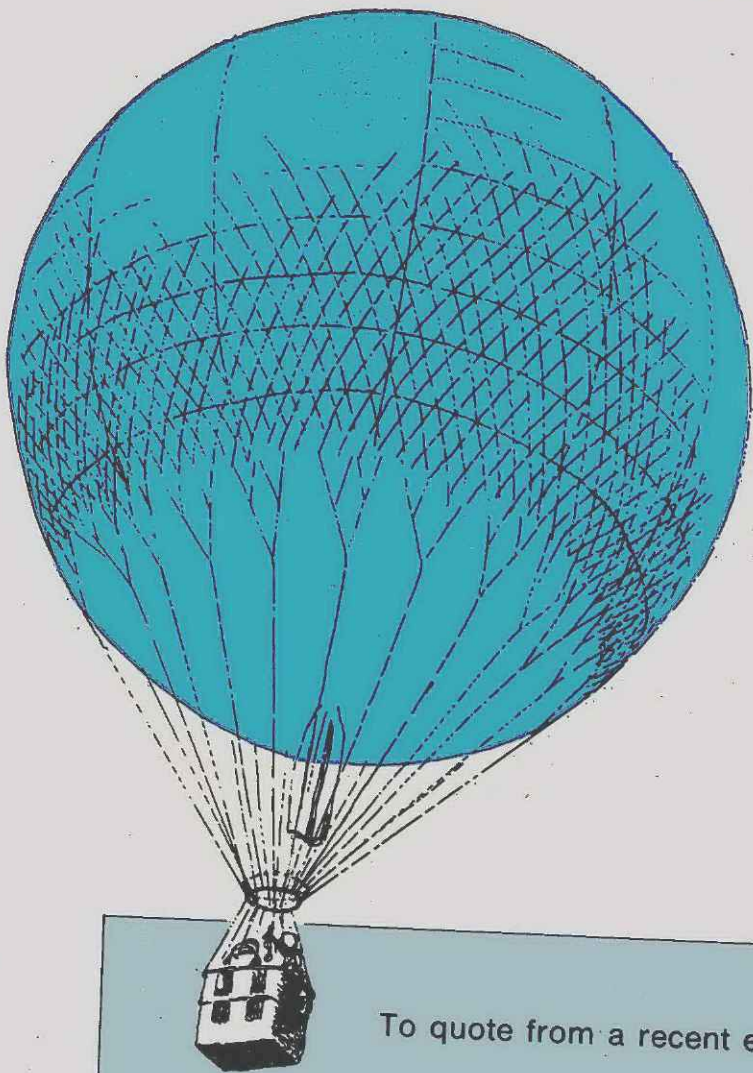
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SPECIALTY RISKS ISSUE OCTOBER 30, 1978

What are Specialty Risks

and why will Business Insurance
publish a new highlights
issue about them?



To quote from a recent editorial in Business Insurance:

"Insuring superstar Pele's ability to play soccer and tennis champ Bjorn Borg's appearance at a championship match, requires the special knowledge and skill of people who've dealt with unusual risks. Similarly, race horses, racing cars and America's Cup sailboats pose a problem demanding tailored insurance policies for events that are riskier and characters a whole lot more valuable than the usual man-in-the-street . . ."

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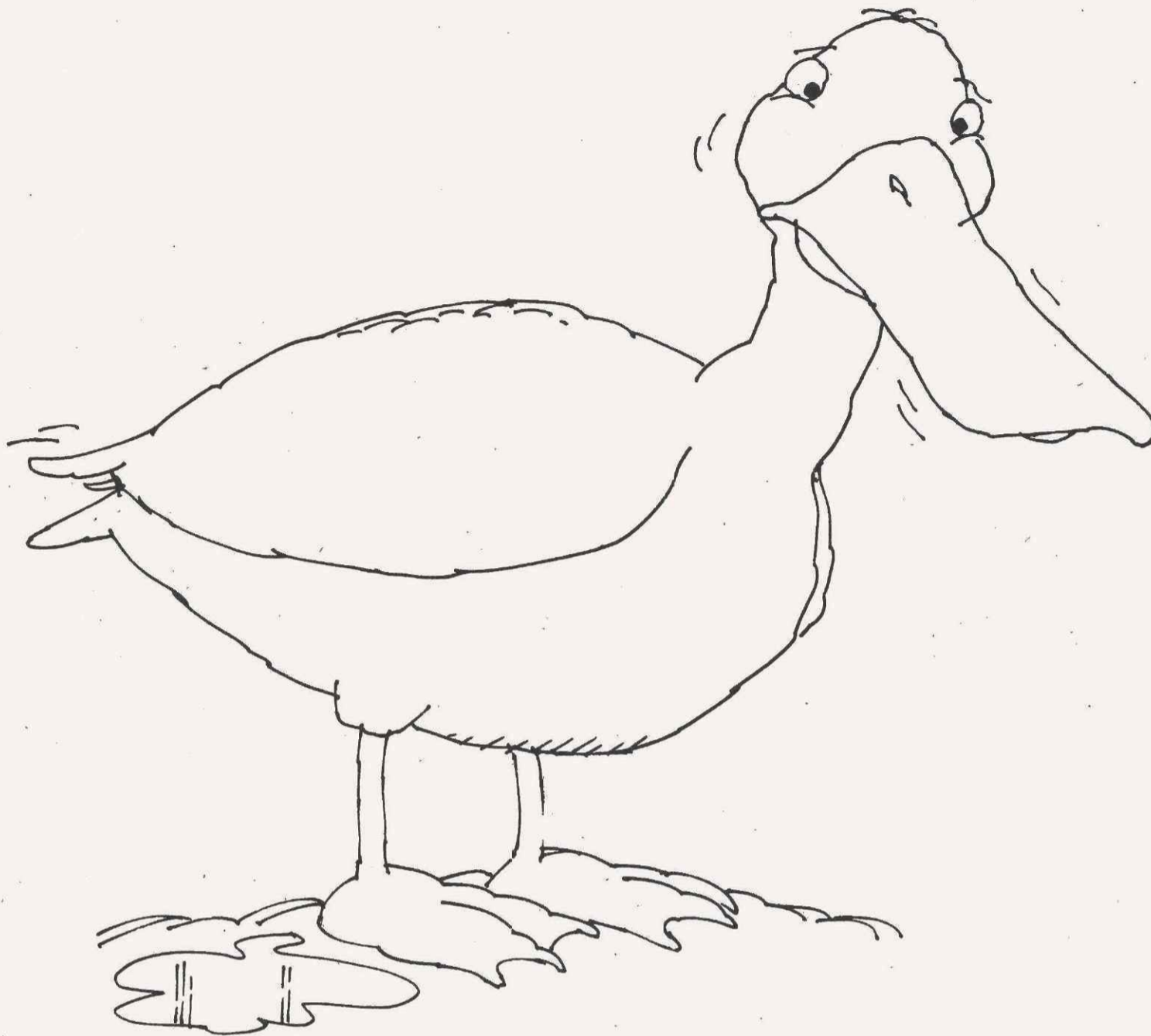
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