Revlon denies mercury in cream caused injury

By STUART EMMRICH

NEW YORK—Lee-Ellen Tulin spent the better part of this decade going from doctor to doctor trying to find out why her hair was falling out, why her hands were turning black, why she was losing her fingernails and why she was having inexplicable internal neurological problems. No one seemed to have an answer.

Mrs. Tulin, a 56-year-old, Norwalk, Conn., housewife, still isn't sure what caused all her problems, but she has an idea. And if her suspicions are right, this woman will likely have an impact far beyond the $5 million personal injury suit she has filed against Revlon Inc.

Mrs. Tulin has charged in her suit filed with the New York federal district court that Revlon's face cream Esoterica contained enough ammoniated mercury in it (until 1972) to poison her and ravage her health. The outcome of that suit, one of several filed against Revlon over Esoterica, is being watched by other cosmetics firms as an indication of what might happen next in the volatile area of product liability claims.

No one is saying that this suit will open the floodgates of litigation by angry customers who think every infirmity can be tied to a store-bought product, but there is a certain wary interest in the industry over this case.

"Whenever you deal in consumer products, there is a danger of product liability suits, but that danger is especially acute with something like cosmetics, just because of the way they are made and the way they are used," explained one official in a New York insurance brokerage firm that handles several cosmetics firms.

Cosmetic companies, despite any anxiety they might feel over the Revlon case, are actually thought to be in a fairly good position right now.

"Our losses and claims have been insignificant these past five

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Nuclear plants lay idle as quake risk assessed

NEW YORK—Despite government-forced closings of five nuclear reactor plants in the Northeast, officials of the plants and their insurer insist they have unwavering confidence in the complete safety of the reactors.

The Nuclear Regulatory Commission in March ordered the five plants temporarily closed when it was discovered that they were apparently built with too little protection against damage from earthquakes. The closings could last for months while officials try to determine if any dangers exist and how they might be corrected.

The plants are: Beaver Valley One in Shippingport, Pa., operated by Duquesne Light Co.; James Fitzpatrick at Scriba, N.Y., operated by the Power Authority of New York; Maine Yankee at Wiscasset, Maine, operated by the Maine Yankee Atomic Power Co., and Surry One and Surry Two at Gravel Neck, Va., operated by Virginia Electric & Power Co.

While the plants are going to remain closed until the NRC is convinced that there is no danger, a debate grows—even among government officials—over the need to shut down the plants and lose the power they offer communities.

"We are not really in a position to say that the government is right or wrong in closing these plants, but we certainly feel from an insurance standpoint that these plants are safe and we will continue to insure them," said Burt Proom, president of American Nuclear Insurers, a pool of 140 insurance companies that provides insurance for all the country's nuclear reactors.

"Seismic tests were done on each of these plants before they were insured and we were convinced that earthquakes were not that great a risk," he added.

Other critics have been a little more vocal in their objections to the plants' closings. One congressman called the action by the NRC

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Employers cut hospital costs with utilization review plans

By SUZANNE LaVIOLETTE
Crain News Service

CHICAGO—Professional Standards Review Organizations (PSROs) may be rapped by critics for being ineffective, but private corporations which have hired PSROs are finding hospital utilization reviews pay off.

Companies have stepped up involvement with PSROs during the past year. More PSROs are taking on private sector clients and business and PSRO groups are pushing for more corporations to use PSRO services.

Under this monitoring process, reviewers assess whether a patient's hospitalization is actually necessary and whether continued stay beyond a set standard is clinically justified. Without the required justification, hospital benefits could be cut back.

Caterpillar Tractor Co. in Peoria, Ill., has reduced its employes' and their dependents' average hospital stay to 5.5 days from 6.5 since hiring the Mid-State Foundation for Medical Care in April 1978. The PSRO monitors hospital stays of 110,000 Caterpillar employes and dependents in its 15-county area.

Caterpillar turned to the PSRO because the firm's patient days per 1,000 insureds were higher than the national average, said Ronald Hurst, manager, health care planning. Caterpillar is satisfied with Mid-State's results and is considering hiring PSROs at its other 24 U.S. locations, Mr. Hurst said.

Deere & Co. in Moline, Ill., hired Mid-State in June 1977, to monitor hospital stays of 35,700 employes and dependents in seven of the 26 hospitals in the PSRO's region.

During the first 12 months of Deere's agreement with the PSRO, there was "a very minor reduction" of patient days, according to Duane Heintz, manager, health care services. This "negligible" 3% reduction, however, jumped in the

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Week of April 2, 1979

business insurance

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

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Bermuda stakes its claim to worldwide market title

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Conceived by corporate America to cut costs and beefed up when the commercial insurance market failed to meet demands, the captive insurance company industry here now claims to be maturing into another worldwide insurance market.

Of the nearly 900 so-called exempt insurers registered here, 500 to 600 active companies are generating gross premiums estimated at anywhere from $2 billion to $3 billion, with net premiums thought to be about $800 million.

Although less than 10% of Bermuda's exempt insurers are believed to be writing unrelated business offered by London and U.S. brokers and other exempt companies, the activity is probably generating net premiums of $500 million, according to one expert. The non-captive market may have a gross capacity of $20 million or more with net capacity of $5 million, says James Bannister of the London-based Risk Research Group.

Generally, the larger Bermuda insurers take lines of $250,000 on any one risk.

Signs of the Bermuda insurance industry's maturation abound, including:

- Recognition of its capacity by major U.S. London brokers. International intermediaries now regularly offer the dozen or so big underwriters on the island what is termed "quality business."
- Continued expansion and development of underwriting agencies and pools. Gulf's Britamco has added four companies looking to pick up business, while Captive Insurance and Reinsurance Co. Ltd. (CIRCL) and Hopewell are also adding captives seeking to share risks. Other captive managers are planning new pools.
- More established insurers and reinsurers moving into the market, notably Arkwright-Boston Mutual Insurance with a subsidiary established and General Re with a branch office opening soon.
- Development and implementation of solvency regulation.

Photos: Kathryn J. McIntyre

Insurance industry offices line Hamilton's Burnaby St., still quiet at 8 a.m. on a weekday.

More on Bermuda regulation, third-party business and insuring benefits in captives on page 42.

Perhaps the strongest force pushing Bermuda's insurance industry to new heights is the U.S. Internal Revenue Service opposition to captive insurers and its recent victory in the tax court.

"Everyone here takes the Carnation case very seriously," observes Clive W. Himsworth, president of the Bermuda Insurance Institute and managing director of Bellefonte International Insurance Co. Ltd. More captives will take on unrelated business as the strive to prove to the IRS they are bona fide insurance companies and not offshore tax evasion schemes, it's agreed.

The amount of outside business underwritten to establish the credibility of a Bermuda insurer with the IRS is going to have to be more than a mere one or two percent, notes attorney James Cameron of Baker & McKenzie. The IRS said in a private letter ruling last fall that 3% of unrelated business in a captive is not enough to transform dealings between the parent and subsidiary from self-insurance to insurance in the eyes of the IRS.

If the IRS lit the fire under the feet of captive insurers, the Bermuda market is generating enough heat on its own to keep it burning,

Continued on page 42

The inside story

7 insurers sue Equifax; ask $32 million award

ATLANTA—Seven surplus lines insurers have brought suit against Equifax Services Inc. of Atlanta alleging that the financial reporting firm was negligent in preparing a fire insurance inspection report on an egg processing plant in South Carolina.

The seven companies seek compensatory damages of $12 million and punitive damages of $20 million. The companies are Lexington Insurance Co., Great Southwest Insurance Co., First State Insurance Co., International Surplus Lines Insurance Co., California Union Insurance Co., Mission Insurance Co. and Stonewall Insurance Co.

The suit was filed in a circuit court in Cook County, Ill.

According to the complaint, Retail Credit Corp., a predecessor to Equifax, filed an erroneous inspection report on an egg processing plant in Bethune, S.C., operated by Cal-Maine Foods Inc. and Dew Fresh Eggs Corp. Based on the report, the plaintiffs agreed to insure the facility, the largest automated egg processing plant in the world, for $12 million.

The plant burned to the ground in 1976, killing one million chickens in the process. Among the errors found in the inspection report were that the building was actually of wooden frame construction, not steel, as reported to the insurers, said plaintiff's attorney John McCabe of Clausen, Miller, Gorman, Caffrey & Witous of Chicago.

The suit contends that had an accurate report been made by Retail Credit Corp., the insurers would not have underwritten the risk in the nature, extent or amount that they did. Further, they might have changed their participation levels or charged higher premiums, Mr. McCabe said.

Equifax denies the charges. ▪

$5 million distillery fire insured in London, U.S.

By JOHN MAES

PEKIN, Ill.—A $5 million fire destroyed three buildings and extensively damaged a fourth in a nine-building complex at the sprawling American Distilling Co. facility here last month.

The loss is fully insured under $50 million of coverage with Lloyd's of London to $1 million with a $5,000 deductible and Fireman's Fund on the excess, said Dayle Schachner, director of administrative affairs for the firm.

Although the plant was in full production at the time of the blaze, which sent flames shooting rapidly through the buildings, there were no injuries to plant personnel or firefighters. A plant safety plan aided in speedy, orderly evacuation of workers, Mr. Schachner said. Even the workers in the immediate vicinity of where the fire broke out managed to flee safely, he added.

Fire officials were still investigating the cause of the blaze but they, along with Mr. Schachner, said it was probably due to an electrical overload above a tank in the basement of a distillery building. Pekin fire inspector Richard Isenberg said there may have been employe negligence involved, but he said he could not elaborate until his investigation is complete.

Mr. Isenberg also noted there appeared to have been alcohol spillage on the floor, which conducted the flames rapidly throughout the building. Most of the workers in the distilling building were taking their lunch break in the cafeteria at the time, he said.

Mr. Schachner said he was not sure if there was alcohol spillage but said the flames ate rapidly through a wooden floor above the tank.

The flames then spread to an adjoining bottling building and a warehouse, which were also destroyed and then moved to an alcohol storage building, said Mr. Isenberg. The roof of that building was collapsed by flames, but firefighters managed to contain them before they reached the storage tanks.

About 75 firefighters from Pekin and neighboring North Pekin and East Peoria battled the blaze for about four hours on March 20.

Claims adjustors from Fireman's Fund were on the scene the next day to examine the ruins, said Mr. Schachner, adding he anticipates no problems in the claim settlement process.

Since the fire, Mr. Schachner said his biggest problem has been meeting with the firm's engineers to determine the quickest possible method of restoring production at the Pekin plant, the company's main facility. "You can't sit idly by," he said.

American Distilling has one other plant in Union City, Calif., he said. The fire will hamper production "to a limited degree," but Mr. Schachner was unable to be specific. The firm has extra expense coverage in its policies.

In 1954, an explosion followed by fire swept through a whiskey warehouse at the plant causing $8 million damage and killing six workers. ▪

Coming up June 11

CHICAGO—*Business Insurance* will publish its annual issue on Risk Management Services June 11, covering such subjects as captive insurance company management, fire protection engineering, employe benefit consulting, insurance consulting, loss control and safety consulting and claims administration.

Readers are invited to suggest story topics, by writing or calling Susan Alt, *Business Insurance*, 740 N. Rush St., Chicago, Ill. (312) 649-5278. Contributed articles for the Perspective section are also being planned, and persons who'd like to contribute may discuss their ideas with the editor.

The Risk Management Services issue includes stories about a wide range of employe benefit and property/casualty insurance related issues, including financial services, actuarial consulting, security guard services, agencies specializing in the investigation of employe crime, disaster recovery services and salvage specialists and data processing services for self-insurers.

—for your information—

Property/casualty underwriting turns $1.25 billion gain in '78

NEW YORK—The nation's property and casualty insurance companies registered a net gain on underwriting in 1978 of about $1.25 billion on $79.8 billion in written premiums, the Insurance Information Institute estimates. That's a 21% increase from 1977 net underwriting results of $1.03 billion on $73.9 billion in premiums.

Investment income earned last year by property/casualty insurers was estimated at $6.79 billion. Combined net income from all sources, after taxes, was estimated at $6.76 billion.

The $1.25 billion gain on underwriting operations in 1978 reflects a statutory underwriting profit of approximately $2.57 billion offset by payments of approximately $1.32 billion in policyholder dividends.

Broker indicted for mail fraud

ST. LOUIS—Donald J. Kubovchik, a former excess/surplus lines insurance agent here, has been indicted on 15 counts of mail fraud for placing excess liability insurance with a bogus company he had set up.

A federal grand jury here charged Kubovchik with diverting about $870,000 in premiums to E&S Insurance Agency, which operated out of a post office box in Memphis (*BI*, Oct. 16, 1978). Insureds allegedly duped by the scheme include municipalities and government agencies around the country and Las Vegas hotel-casinos.

Two Nevada insurance agencies were fined by the state insurance department late last year for their role in placing Nevada business with Kubovchik. Harley E. Harmon Insurance Agency Inc. agreed to turn over $5,600 to the state for multiple violations of the state surplus lines law and Southwest Insurance and Southwest Insurance Associates will pay $2,825 for similar violations.

Supreme Court refuses review

WASHINGTON—The Supreme Court last month denied a request by Steere Tank Lines Inc. to review the tax court and court of appeals rulings that the company's so-called deposit premium account with its insurer did not constitute insurance.

The company claimed it was insured under a type of retrospective rating program but the Internal Revenue Service and the courts found the cash flow plan devoid of any risk transfer necessary to insurance (*BI*, Nov. 13, 1978). The company is therefore denied the tax deduction it took for $222,000 paid as a contract premium.

Omni loses in arbitration

LOS ANGELES—The American Arbitration Assn. has awarded National Indemnity a total award of $4,352,552.17 in its proceedings against Omni Aviation Managers Inc., documents from the association obtained by *Business Insurance* reveal.

The award does not relieve Omni of "its responsibility to account to the petitioner, ie. National Indemnity Co., and its reinsurers for any future salvage or subrogation recoveries which Omni may receive on behalf of National Indemnity or its reinsurers," the document says.

National Indemnity acted as the fronting insurer for Omni Aviation, a managing general agent writing hull/liability policies for small and older aircraft, preceding Bellefonte Insurance Co. Bellefonte recently won a restraining order against Omni in Los Angeles superior court (*BI*, March 19).

The total amount awarded to National Indemnity on March 13 was $3,496,025.84. On top of that, interest was awarded at 7% simple interest from Sept. 1, 1975 to March 1, 1979, in the amount of $856,526.33 and continuing in the amount of $20,393.48 for each month after March 1, 1979. National Indemnity was also awarded its costs of the arbitration proceedings.

Meanwhile, Omni chairman Michael S. Eisenstadt and longtime officer Royce E. Gum each took the 5th Amendment last week when Bellefonte sought their depositions in court. They cited the Grand Jury investigation into Omni's affairs for their silence.

And, at Omni's request, the superior court dismissed Omni's lawsuit against Bellefonte. In that suit, the managing general agent asked that the former managing agreement between Omni and Bellefonte be terminated in accordance with the terms of Article IX of the agreement or continue until June 20, 1979. The suit also asked for a restraining order against Bellefonte's managing general agency agreement with Aviation Office of America.

Tenerife plaintiff takes $25,000

NEW YORK—Although the jury hadn't awarded the son anything, defendants in the Tenerife lawsuit agreed to pay $25,000 to the son of a man killed in the worst airline disaster in history.

The defendants, KLM, Pan Am, Spanish air control authorities and Boeing Co., made the settlement to avoid a costly appeal of the jury's decision (*BI*, Feb. 19). Plaintiff's attorney Aaron J. Broder, partner with F. Lee Bailey, receives $10,000 of the settlement. The defendants had originally offered to settle for $80,000 but the plaintiff, suing for $5 million, bargained for a $275,000 settlement.

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Carter asks for health benefit standards

By JERRY GEISEL

WASHINGTON—The first phase of the Carter Administration's national health insurance plan will include the establishment of minimum mandatory standards for group health insurance programs.

These standards will cover hospital and physician services, x-rays, laboratory tests and a wide range of out-patient services, said Health, Education and Welfare secretary Joseph Califano, who outlined the plan late last month.

Employers would be expected to pay at least 75% of the health insurance premium for employes in their group plan; employes could negotiate to pay less than 25% of the premium.

For those individuals not covered under an employer sponsored plan and who do not qualify for a federal health plan such as Medicare, the federal government would guarantee their right to purchase health insurance coverage at a "reasonable cost," Mr. Califano said.

The first phase plan would not require any additional employer payroll taxes, but would be financed by general revenues, Mr. Califano said.

The total cost of the first phase of national health insurance would be between $10 billion and $15 billion and coverage would not begin until October 1982. The full details of the plan are not expected to be unveiled until later this spring.

The chances of the Carter Administration gaining congressional approval for the first phase legislation are slim. A similar proposal pushed in the last four sessions of Congress by Sen. Russell Long (D-La.), chairman of the Senate Finance Committee, has gone down in defeat every time.

"The history of catastrophic proposals in committee is pretty dismal," observed Willis Goldbeck, director of the Washington Business Group on Health. "Theoretically, if the chairman of the Senate Finance Committee (Sen. Long) can't get his own committee to pass his own catastrophic bill for eight consecutive years. . .the administration doesn't have a whole lot more better odds."

"It is going to be real tough to get anything like this through," said a spokesman for the Health Insurance Assn. of America. "It is going to be a real struggle," he added, noting that the mood in Congress is more toward pruning the federal budget rather than adding major new programs.

The Carter plan quickly came under fire from both traditional proponents and opponents of national health insurance. Sen. Edward Kennedy (D-Mass.) said he was "seriously disappointed" with the proposal, charging that the administration "is attempting to lead the country down to piecemeal health reform that has failed in the past." Mr. Kennedy said he will introduce a far more comprehensive plan next month.

AFL-CIO president George Meany labeled the Carter plan "vague and meager," which for "all practical purposes abandons the president's commitment" to give all Americans health insurance protection.

The National Assn. of Manufacturers said the priority of the federal government should be directed at slashing costs rather than adding major new spending programs, according to NAM spokesman Bob Bohan.

Blue Cross/Blue Shield had no official comment. A spokeswoman noted that the Carter plan is "so shallow and vague that there isn't much we can say now."

Although President Carter drew fire from Sen. Kennedy and the AFL-CIO for only proposing a limited plan, other observers gave the administration high marks for not advocating that national health insurance be enacted in one swoop.

"The Administration is being correct and absolutely reasonable in saying that you can't do everything at once," said Mr. Goldbeck. The odds of any bill going through are slim and by proposing a more limited bill the Carter Administration is trying to chip away at those odds, Mr. Golbeck added.

Mr. Califano, while reaffirming the administration's commitment to eventually provide a universal national health insurance plan, said a "substantial first step is all we can prudently ask."

After talking with key congressional leaders, Mr. Califano said the overwhelming sentiment among legislators is that Congress "can't and won't digest a complete national health plan is one bite."

The first phase of the plan generally follows the outline President Carter unveiled last summer. ■

Self-funded benefit boom draws concern

By MARY ELLEN McKEE

CHICAGO—More medium sized employers each year are self-funding their employe benefits to trim health care costs, but insurers and third-party administrators fear some employers jump into it without all of the facts.

"A lot of people misrepresent self-insurance as the 'messiah' of rising health care costs in the employe benefits field," says Steven Lockwood, of the brokerage firm of Lockwood, Dipple & Green.

Self-insurance should be sold as exactly what it is—a funding alternative for employe benefits, Mr. Lockwood stated emphatically. "Since the idea of self-insurance is catching on with medium sized and sometimes unsophisticated employers so quickly, it is more important than ever that the broker, insurance company or third-party administrator make sure the employer totally understands how self-insurance works," Mr. Lockwood added.

The popularity of self-funding employe benefits is undeniable, according to Jeff Brougher, president of a Lloyd's broking agency bearing his name. The Brougher Agency has expanded to 25 employes from 10, to 15,000 sq. ft. of office space from 5,000 sq ft. and to 800 stop-loss insurance clients from 80 since 1977.

The Brougher Agency is not the only stop-loss insurance providers experiencing "phenomenal" growth in this area. Lockwood, Dipple & Green experienced a 25% growth in stop-loss business in 1978. Employers Reinsurance Corp., Northwestern National Life Insurance Co. of Minneapolis and Safeco Insurance Cos. doubled their stop-loss insurance volume last year.

All of the stop-loss insurance providers contacted by *Business Insurance* said most of the 1978 stop-loss insurance business came from employer groups ranging from 50 to 800 lives.

Several factors are contributing to this rapid growth of self-funding among medium sized companies, according to Myron L. McClenny, manager of large group trusts at Safeco. "Inflation is one, but consumerism is also a major factor because many employers feel they can do a better job themselves."

Another factor according to Mr. McClenny and Mr. Turner of Northwestern National is that ERISA gave self-funding a cloak of respectability since there are no special regulations over it.

"And finally, the employer is directly involved in every aspect of the employe benefit program—he designs, pays for, implements and controls it," noted Mr. McClenny. He gets to see where his dollars are going and then can devise ways to trim costs while maintaining a high benefit level.

This intensive surge in stop-loss insurance activity among medium sized companies could cause headaches in the future if caution is not "the rule of thumb" today, claims a senior vp of a major life insurance company which markets stop-loss insurance.

This dictates that the broker and insurance company look for certain characteristics in the self-funding candidate, according to Sandra L. Ruder of Employers Reinsurance Corp.

A good self-insurance candidate at Employers Re must be financially stable, have greater than $100,000 in expected losses annually, an aggregate stop-loss of $50,000 to $100,000, no less than 50 lives and use administrators Employers Re approves.

The Brougher Agency takes a careful look at the employe profile, with special attention to the high average age. For example, if the industry is top heavy with older people then self-insurance is "definitely not the answer" to that company's employe benefit cost control. And if the company employs many diabetics, former or potential cancer patients, self-insuring is not advisable.

To curb the potential for employers to jump blindly into self-funding and to prevent agents or brokers from pushing self-insurance on employers who won't be able to bear the cost of claims a few years down the line or don't need it, Mr. Brougher has put together a seminar on self-funding employe benefits for groups comprised of 25 to 30 people.

The seminar is designed to explain self-funding at its most simplified level.

Northwestern National Life is also trying to "put something together" to cut down on employers jumping into self-funding without a sound financial base. ■

the benefit beat

Life, disability increases cost Schaefer $60,000

Life insurance, major medical and disability benefits were increased as part of a three-year agreement reached between Preferred Distributing Corp. and Local 46 of the International Brotherhood of Teamsters. Preferred Distributing is the metropolitan New York sales and delivery arm of F.&M. Schaefer Brewing Co.

Under the agreement, which covers approximately 500 employes, life insurance benefits will rise to $12,000 from $6,000 per employe during the first year of contract, to $13,000 during the second year to $14,000 during the third year. Major medical maximums have been increased to $50,000 from $10,000. However, the major medical coverage is voluntary since employes can elect coverage through Group Health Insurers or Health Insurance Plan of Greater New York. Life insurance and major medical coverages are written by Massachusetts Mutual Life Insurance Co.

Weekly disability payments will rise to $95 from $75 during the first year of the contract, to $105 during the second year and to $115 during the third year. CNA writes the disability coverage. The benefit improvements will cost Preferred Distribution about $10 per month per employe, a Schaefer spokesman said. The company pays the entire cost of benefits.

New dental insurer

Nassau County moved its group dental insurance plan for 19,000 employes to Connecticut General Life Insurance Co. from Group Health Inc. for expanded benefits at a lower price and the hopes of better claims control and quicker turn around.

Now the county will pay less for dental insurance for its employes and will have all claims computerized. But the benefits won't be expanded because the Civil Service Em-

negotiations.

Under the expanded benefit plan, the schedule for procedures to be reimbursed was 25% higher at a monthly premium of $14.60 per employe compared with $12.68 per employe with GHI. Under the revised benefit schedule, essentially the same with GHI for the past three years but covering 274 procedures instead of 88, the county will pay $12.25 per employe per month.

The only annual maximum on benefit payments is a $750 cap on orthodontia benefits.

New in-house dental plan

R.J. Reynolds Inc. maintains the first corporate-sponsored dental care center for its employes.

The pioneer in developing an HMO for its employes opened the 47,000 square-foot dental center last summer to provide prepaid care. A staff of more than 150 is now serving 36,000 employes and their dependents. Treatment is provided at no cost to regular, full time employes. A $7 monthly fee will cover all immediate dependents.

Primary coverage provided at the Winston-Salem Dental Care Plan includes examinations, fluoride treatments, cleaning, fillings, extractions, root canals, dentures, oral surgery and dental hygiene education.

Canadian legal plans

Prepaid legal insurance plans are not selling well in Canada, but one insurance company trying to market the idea is optimistic it will eventually catch on.

Co-op Fire & Casualty Ltd. of Regina, Saskatchewan handles the only pre-paid legal group insurance plan operating in Canada. It covers 25 of the 450-member United Grain

Yearly premiums for basic coverage are $21.60 for individuals and $43.20 for a family. The comprehensive plan costs $49.20 for individuals and $98.40 a year for family.

Dental insurance update

Approximately 55 million Americans are covered by dental care plans and that number is expected to climb to 60 million by 1980, according to the American Dental Assn.

Much of the growth of dental prepayment plans is the direct result of collective bargaining agreements struck by unions during the past 10 years.

Over 3 million people including retirees are covered under the United Auto Workers/Auto Manufacturers dental benefit first negotiated in 1974. In 1975 the United Steelworkers followed suit with a similar dental benefit covering 1.5 million people, notes a fact sheet, which is based on 1977 estimates from the Department of HEW, Health Insurance Assn. of America, Delta Dental Plans Assn. and Blue Cross and Blue Shield Assn.

The AT&T Bell System companies and Western Electric provide a more limited plan covering over 3 million people including retirees and about 1.5 million railroad workers are covered under that contract.

Between 300,000 to 200,000 letter carriers, Union Carbide employes, E.I. duPont employes and Eastman Kodak employes are covered under a dental plan which provides coverage for the employe, any dependents and retirees.

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Benefit Beat keeps risk managers and employe benefit managers abreast of changes in plans around the country as well as other important developments. We'd like to know if you've made any changes or know of any significant developments. Write Kathryn J. McIntyre, Business Insurance, 740 N.

N.D. business claims victory over tort reform veto

By JERRY GEISEL

BISMARK—North Dakota legislators staved off a last-ditch effort to scuttle a recently passed comprehensive product liability bill by narrowly overriding the governor's surprise veto of the proposal.

Business lobbyists were jubilant at the successful override of Gov. Arthur Link's stunning veto. "This is a major victory for the business community," said Elmer Klipstein of the North Dakota Product Liability Council in Bismark.

But consumer groups expressed grave disappointment at the veto override. "Legislators have done a great disservice to the consumers of North Dakota," said Susan Rester, project attorney for the Consumer Public Utility Project. "As a result of this action, consumers will be deprived of their right to sue in many instances."

The governor's veto assumed a significance that extended beyond North Dakota. Business leaders were concerned that if the veto had not been overridden, the drive toward tort reform would have been seriously slowed.

Furthermore, the veto signified that the Commerce Department model product liability bill (*BI*, Jan. 22) may finally be having an effect at the state level. Gov. Link referred specifically to the model bill, which is designed for state adoption, in saying he agreed with the Commerce recommendation that state legislatures should not be passing widely differing proposals and should stick with a uniform bill.

Gov. Link's veto, which touched off a furious scrabble by consumer and business lobbyists to line up support for their respective positions, marked the second time in about a year that a governor has tried to kill a product liability bill with a veto. Last year, Connecticut Gov. Ella Grasso successfully vetoed a sweeping product liability measure.

In his four-page veto message, Gov. Link said he opposed the bill (H.B. 1075) because its passage would "unreasonably curtail" the rights of consumers without giving manufacturers the "hoped-for relief" from high product liability insurance premiums.

But Mr. Klipstein of the North Dakota Product Liability Council said passage of the bill, which goes into effect July 1, will give state manufacturers greater negotiating power with their insurers since their exposures will now be more limited.

One of Gov. Link's major objections to the bill involved a provision that would absolve a manufacturer from liability if a "substantial contributing cause of the injury was product alteration by the user."

Mr. Link noted this provision would further muddy the liability waters. It "will take many Supreme Court cases to determine what is meant by a 'substantial contributing cause,'" he said.

The governor also objected to another key provision in the bill that would give businesses a stronger defense if their products were made in conformity with government standards: "Government standards are often minimum standards, usually not even designed to cover questions of safety."

One business lobbyist conceded that the language in the section on compliance with government standards may have been worded too broadly and that some effort may be made to tighten it.

Ms. Rester charged that a section in the bill that requires injured plaintiffs to ask for "reasonable damages" instead of a specific dollar amount if they are seeking more than $50,000 in damages is clearly unconstitutional and will be overturned by the state supreme court.

While controversy was raging in North Dakota, Arkansas quietly passed a compromise product liability bill (S.B. 475) that most significantly requires suits to be filed within three years of the time of injury. Arkansas Gov. Bill Clinton signed the bill late last month.

South Dakota gave final approval to legislation (S.B. 67) that generally removes wholesalers and retailers from product liability suits.

Furthermore, the bill would bar plaintiffs from introducing as evidence in a trial information about design changes that a manufacturer later introduced in making the product.

"The bill is not the whole answer, but another step in the right direction," said Jim Cope, president of Morgan Manufacturing Co. in Yankton. Last year, South Dakota enacted legislation that requires suits to be filed no later than six years after the time a product was delivered to the first user.

In North Carolina, the senate approved on a 35-13 vote legislation that limits manufacturers' liability to 10 years from the time a product was made, or six years from the date of sale. The house has not yet acted on the measure. ▪

IRA tax break bills pending in Congress

WASHINGTON—Two more bills that would permit tax deductions for individual contributions toward retirement benefits are in the Congressional hopper.

Sen. Robert Dole (R-Kan.) and Sen. Gaylord Nelson (D-Wis.) have introduced legislation (S. 75) that would allow employes to deduct 10% of their income or $1,000, whichever is less, for contributions into a corporate pension plan, an individual retirement account (IRA) or a combination of the two.

Under current tax law, employes are not given tax deductions for contributions into a corporate pension plan. In addition, employes covered under corporate pension plans have not been allowed to set up their own IRAs.

Sen. Dole (R-Kan.) introduced similar legislation last year, but the bill died in a House-Senate conference committee, a victim of heavy Administration opposition. The Treasury Department fears that allowing tax deductions for pension plan contributions could result in a major loss of revenue.

In addition, Sen. Lloyd Bentsen (D-Texas) introduced legislation (S. 557) that would allow employes to deduct up to $1,500 from their taxes for contributions to a corporate pension plan, an IRA or a combination of the two.

Sen. Bentsen said his proposal "will provide greater retirement security for groups of employes—such as engineers and scientists—who do not remain with a company long enough to meet pension plan vesting requirements."

Hearings will be held this month on both bills. ▪

A record bridge for Old Man River.

Illustration courtesy Frankland and Lienhard, Consulting Engineers.

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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.

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$20 million in losses

Free roof-collapse cover caves in on Allendale

JOHNSTON, R.I.—Despite more than $20 million in losses during 1978 resulting from weather-related roof collapses, a named peril covered at no additional cost to policyholders, Allendale Mutual Insurance Co. "does not contemplate eliminating this coverage," a corporate spokesman said.

Allendale Mutual reported a $20.2 million loss for fiscal 1978 compared with net income of $7.6 million the previous year. Losses rose to $235.6 million in 1978 from $204.8 million the previous year. However, policyholders surplus decreased by only 0.5% to $235.8 million in 1978 from $237 million in 1977.

Weather-related losses, due primarily to severe conditions during the past two winters, accounted for $35 million of the losses. The majority of this resulted from snow, ice and water load-caused roof collapses.

In 1978, 98 factories and warehouses insured with Allendale suffered roof collapses and an additional 40 roof collapse claims were made during the first two months of 1979, prompting Allendale chairman William Goodall Jr. to reveal that adding free roof collapse protection to policies in 1974 "was the dumbest thing we ever did."

However, the company, the largest member of the Factory Mutual System, does not intend to eliminate this coverage, said Harrison H. Goff, vp-corporate relations. Moreover, Allendale doesn't plan to change its pricing structure, he added.

"We're not an in-and-outer," Mr. Goff said. Allendale has added all kinds of coverages to its policies over the past 50 years and it is difficult to judge a risk by a two or three-year period, he continued.

"Our researchers said (roof collapse) wouldn't produce the kind of losses it has, but even the best underwriting couldn't predict the kind of shift in the weather we have had," Mr. Goff said.

Allendale expects that offering the roof collapse coverage will be the correct decision over the long run, he added. ■

Sasse probe continues; broker sues U.S. agent

By JOHN MILLER

LONDON—Efforts to solve the multimillion dollar puzzle of the loss-hit Sasse syndicate No. 762 at Lloyd's whose 110 members face calls of more than $27 million over large-scale U.S. fire risks and other claims are now being made by leading Lloyd's underwriter Stephen Merrett.

He heads the well-known Merrett Dixey syndicate, which has taken over management of Sasse's affairs at the behest of Lloyd's, and admits that he has a tremendous task ahead of him.

There are three areas where the Sasse syndicate seems to have made mistakes: U.S. fire risks have cost it $16 million, while Canadian fire risks ran up a $5.2 million to $6 million loss. Finally, U.S. computer leasing cover has cost the syndicate $6 million.

This computer business is tiny compared with the overall U.K. market loss on computer leasing risks, which were placed as a special contingency line of business two or three years ago and are now likely to run out at a $220 million blow to all the syndicates which judged this field wrongly.

The latest problem is the discovery that Sasse over-wrote its premium limits so heavily in both 1976 and 1977 that Lloyd's authorities are baffled how it managed to do so without being caught.

During both years it is recorded as writing $20 million of business each time when its ceiling should have been around $8 million. Lloyd's internal rules limit premium writing to roughly 10 times the amount actually deposited by a syndicate's members in its premium fund.

The syndicate was largely under the control of Frederick H. Sasse, an underwriting member of Lloyd's since 1951.

London brokers Brentnall Beard have also started litigation against the Den-Har underwriting syndicate of Florida which wrote much of the U.S. business for Sasse.

Brentnall Beard, Lloyd's brokers on both the U.S. and Canadian fire risk activities and who played a part in arranging the Sasse deal, alleges that $660,000 worth of premiums were misappropriated by Dennis Harrison, a former London insurance man who ran Den-Har, or by his associates. The writ has been issued in Florida on behalf of the Brentnall Beard group, which also names Richard Mamarella, another U.S. insurance man.

Executives of Brentnall Beard in London told *Business Insurance* that premium income totaling $358,100 which should have reached them in the U.K. was apparently spent on real estate purchases in the U.S. and the other $301,116 was put into the First Curacao International Bank.

They claim that Den-Har or its associates bought a share in Auntie Flora's Health Food Store in Florida, and also in Piccadilly Records, Florida, and in L'Elegante Haute Coiffure in Florida. So far there has been no response by Mr. Harrison.

Lloyd's has pointed out that when Mr. Merrett, who is one of the market's most experienced underwriters, assumed responsibility with its approval for managing the Sasse syndicate's affairs last May, the only serious problems known at that time related to Den-Har and the I.R.B. reinsurance scheme.

Regular audits by Lloyd's failed to reveal the full extent of Sasse's premium activities.

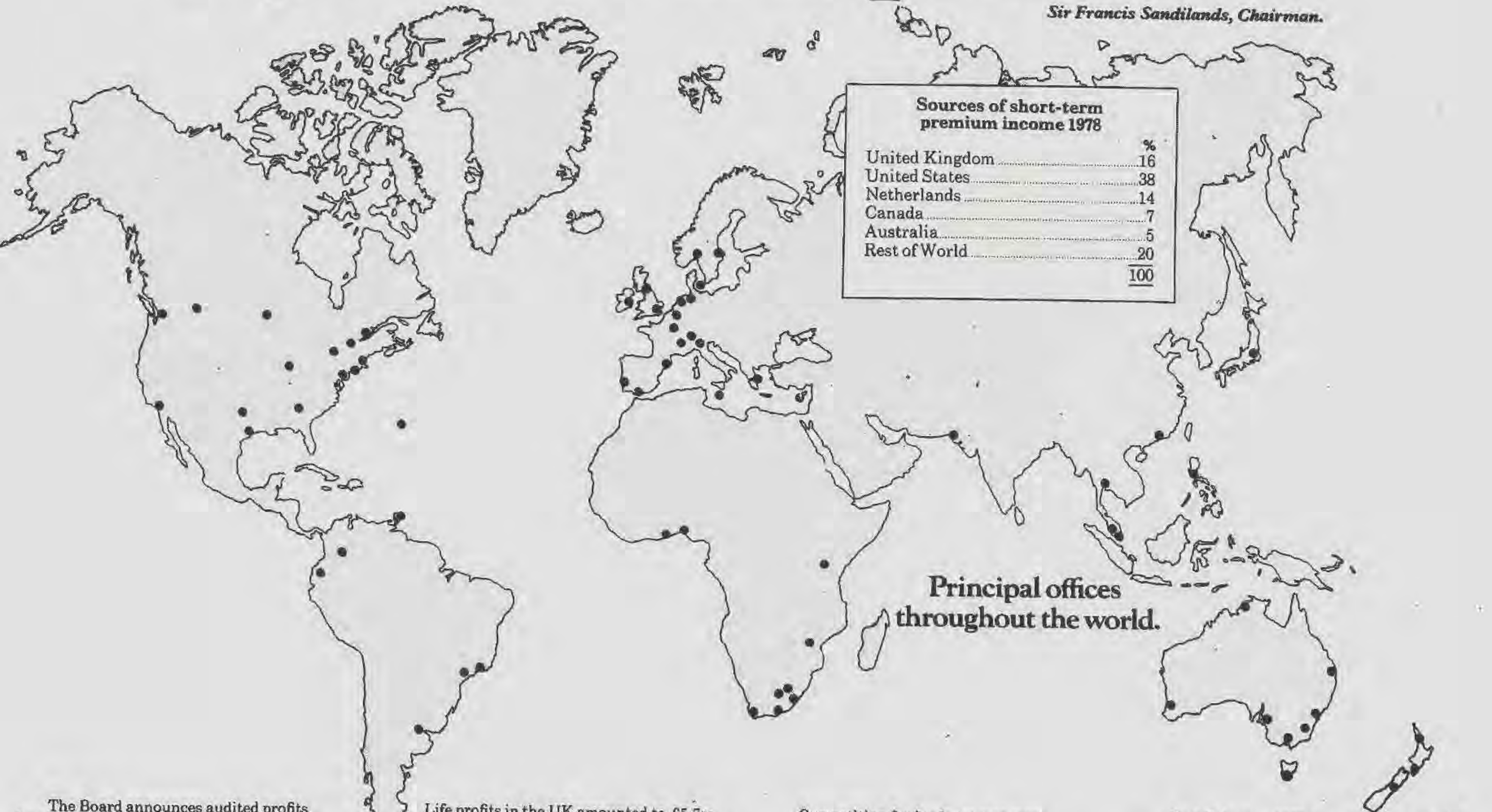
The calls upon Sasse's members may ultimately have been made worse by this aggravated premium writing, Mr. Merrett believes. "I think there is force in the argument that to some extent there ought to be a contribution from the rest of the Lloyd's community towards each individual member's losses if the system set up by Lloyd's to monitor their funds failed on this occasion," Mr. Merrett said.

Lloyd's has reacted cautiously to this approach. Traditionally bad underwriting is thought to be a matter of judgment for individual syndicates rather than the responsibility of the whole market.

All valid claims in the U.S. and Canada have been met, or will be fully settled, by Sasse. ■

"A year of further improvements in profits and capital base."

Sir Francis Sandilands, Chairman.



Sources of short-term premium income 1978

	%
United Kingdom	16
United States	38
Netherlands	14
Canada	7
Australia	5
Rest of World	20
	100

The Board announces audited profits for 1978 of £142.2m before tax *(1977 £99.8m)*.

Net profits (attributable to shareholders) amount to £87.8m *(1977 £67.6m)* representing earnings per share of 21.37p compared with 19.40p in 1977.

A final dividend of 5.673p per ordinary share is recommended to be paid on 17 May 1979, which gives a total for the year of 8.536p. This represents an increase of 10.54% over the previous year.

Extracts from the Chairman's Review and Directors' Report for 1978

Our objectives during 1978 were again to increase profitability, add to our capital base and reduce borrowings. The marked improvement in our trading results for the year and a stronger balance sheet confirm that these objectives have been met.

Underwriting was restored to profitability in 1978 with a profit of £2.9m compared with a loss of £20.9m in 1977. There was an improvement in all our major territories except Australia although the Netherlands, like Australia, produced an underwriting loss. 1978 was an unusually bad year for extreme weather losses, particularly in the United Kingdom and the United States, and results reflect a net release of £2.4m from the extreme weather provision. Marine and aviation business written in the London market made an excellent profit of £5.1m *(1977 loss £1.9m)*.

World-wide non-life premium income showed only a very small increase in sterling terms but after allowing for the effect of changes in rates of exchange, there was a growth in premium income of 5.5%.

Life profits were higher at £15.0m compared with £14.2m in 1977.

Investment income at £143.3m showed an increase of 12%. After allowing for the effects of changes in rates of exchange, the acquisition of Estates House Investment Trust Limited and the rights issue in 1977, the underlying increase was 10%.

Shareholders' funds at 31 December 1978 totalled £647m *(1977 £583m)* and were 59% *(1977 54%)* of non-life premiums.

The cost of total dividends for 1978 including preference dividends will amount to £35.1m, leaving £52.7m to be transferred to retained profits and reserves.

TERRITORIES

United Kingdom

The improvement in UK fire and accident underwriting in 1977 continued during 1978 and resulted in a profit of £3.8m compared with a loss of £1.7m in 1977.

Fire wastage throughout the country increased by over 18% compared with the previous year and arson remained a problem, but, in spite of this, there was severe competition for industrial fire business.

Accident business in total improved considerably, partly due to the effect of the lower rate of inflation on the cost of claims. The private motor account was marginally profitable following premium rate increases in June 1978 and the remainder of the accident account again produced a profit.

Life profits in the UK amounted to £5.7m *(1977 £5.6m)*. A valuation of the Commercial Union Life Fund as at 31 December 1978 is being carried out and profits attributable to shareholders will be released equally in the years 1979, 1980 and 1981. It is expected that £2m will be released for each of the three years compared with £1.5m for each of the three years following the valuation at the end of 1975.

United States

The underwriting profit increased to £7.7m in 1978 *(1977 £3.3m)*. Investment income was also higher at £44.6m *(1977 £40.0m)*.

The continuing general improvement in results throughout the US insurance industry was due to a healthier price structure established over the past two years and to the absence of major hurricane losses. The operating ratio on a statutory basis was 98.5% *(1977 98.2%)*. Bearing in mind that severe storms adversely affected the statutory results, particularly in the early part of the year, and that weather losses generally, in spite of the absence of major hurricanes, were the highest for many years, we consider this to be a satisfactory result.

Subsequent to 31 December 1978, the sale of our Boston building to the Prudential Insurance Company of America for $77m was completed and the mortgage on the building of $43m has been discharged.

Australia

Underwriting results deteriorated to show a loss of £1.7m following a profit of £0.4m in 1977. Investment income amounted to £7.9m compared with £7.8m in 1977.

Competition for business was most severe and at times irresponsible. This was aggravated by over-capacity in the market which led to price cutting and unstable market conditions.

Canada

A small underwriting profit of £0.1m *(1977 £0.1m)* was again made and investment income totalled £8.2m compared with £8.5m in 1977. After allowing for the effect of changes in rates of exchange investment income increased by approximately 12%.

In Quebec motor third party bodily injury insurance was taken over by the provincial government and the loss of business was approximately £5m. Even so a 3% premium growth for the year was achieved in local currency.

Netherlands

Our subsidiary Delta-Lloyd showed an improved underwriting result with a loss of £11.4m compared with £15.6m in 1977. Investment income rose to £19.6m *(1977 £16.8m)*. Life profits increased to £8.0m *(1977 £7.0m)*.

Remainder

The following areas together produced an underwriting profit of £4.4m *(1977 loss £7.4m)*:

	1978 £m	*1977 £m*
Western Europe *(excluding Netherlands)*	(3.3)	*(4.3)*
Other overseas	1.0	*2.0*
Republic of Ireland	(0.3)	*(0.9)*
London Marine	5.1	*(1.9)*
Reinsurance	1.9	*(2.3)*
	4.4	*(7.4)*

RESULTS IN BRIEF

	1978 $m	*1977 $m*
Premium income	**2,245.4**	*2,059.2*
Investment income	**292.3**	*245.2*
Life profits	**30.6**	*27.2*
Underwriting result	**5.9**	*(40.1)*
Loan interest	**(38.8)**	*(40.7)*
Profit before tax	**290.0**	*191.6*
Taxation and minorities	**110.9**	*61.8*
Profit attributable to shareholders	**179.1**	*129.8*
Earnings per share	**43.6c**	*37.3c*
Shareholders' funds	**$1,319.9m**	*$1,119.4m*

The figures shown above were announced in London in pounds sterling and have been converted to US dollars at the rates of exchange prevailing at the close of the years reported, which were in 1978, 2.04 and in 1977, 1.92.

On 8 February 1979 it was announced that agreement in principle had been reached between Gold Fields of South Africa Limited and Commercial Union in terms of which the Gold Fields Group in South Africa would acquire from the Company 30% of the equity capital of Commercial Union of South Africa Limited (CUSA). In addition on 8 March 1979 it was announced that the Company would offer for sale to the South African investing public 25% of CUSA's share capital and obtain a listing of CUSA's shares on the Johannesburg Stock Exchange.

FINANCIAL

Increase in Authorised Share Capital

Excluding the issued preference shares, the Company's present authorised capital is 433 million shares of 25p each, of which 21.96 million shares or 5% remains unissued.

The Board consider that this percentage is low and they propose at the Annual General Meeting to seek an increase in authorised share capital from £110m to £120m by the creation of an additional 40 million shares of 25p each, which would result in 61.96 million shares or 13.1% of the then authorised capital of 25p shares being unissued.

The increase is proposed solely to ensure that the Company has an adequate margin of share capital at its disposal. There is no present intention of issuing any shares and, in accordance with Stock Exchange regulations, the Board would seek the prior approval of shareholders in general meeting if any future issue of shares would effectively change the control of the Company or the nature of its business.

Borrowings

During the year our non-life borrowings were reduced by £21.1m to £214.2m and the debt to equity ratio (borrowings expressed as a percentage of shareholders' funds) from 40.3% to 33.1%.

CONCLUSION

The last three years have been a period of recovery and consolidation in which our pre-tax profits have trebled but there has been only a modest increase in our premium income. A deliberate restriction of growth was, in fact, a necessary element in our plan for recovery during its earlier stages, but the strengthening of our solvency margin made it possible for us to seek a rather greater rate of increase in our business in 1978. In this we were not as successful as we would have wished, due to the generally low level of economic activity in most countries and intense competition for better quality business. Prudent growth remains, however, one of our objectives for 1979.

Francis Sandilands

Chairman

Commercial Union

Assurance Company Limited

Head Office: **St. Helen's, 1 Undershaft, London EC3P 3DQ**

Tanker study

Record 1978 oil spills in wake of Amoco Cadiz

NEW YORK—A record 260,488 tons of oil were lost in accidental spills from tankers during 1978, according to figures released by the Tanker Advisory Center Inc.

In addition, tankers suffered high death and injury losses during the year, with most occurring during the fourth quarter. However, the number of ships involved in partial and total losses was well below the previous five years, with 16.6% of the world fleet of 4,137 vessels involved.

Of the 260,488 tons of oil lost at sea, 228,000 tons were lost from a single ship, the Liberian-flag Amoco Cadiz, which broke up off the coast of France in March, 1978. According to the Tanker Advisory Center, oil spillage has increased every year since 1974.

That year 67,115 tons were spilled. There were 188,042 tons lost in 1975, 204,235 tons lost in 1976 and 213,080 tons lost in 1977.

The 148 deaths and 109 injuries in tanker incidents during 1978 were up over the 113 deaths and 109 injuries reported for 1977. The greatest part of the losses occurred during the fourth quarter of 1978, when 119 were killed and 88 injured.

During that quarter, 76 were killed and 88 injured when a boiler exploded on board the Spyros, a Liberian ship undergoing repairs at a shipyard in Singapore, and 31 lives were lost when the Feoso Sun, a Panamanian registered ship suffered an explosion in the Philippines.

Fires and explosions accounted for 126 fatalities aboard tankers during 1978. Fifteen deaths resulted from collisions and seven were due to miscellaneous causes.

During the year 18 ships were declared total losses. Fires and explosions accounted for eight total losses, strandings for seven, collisions for one and miscellaneous causes for two total losses.

The number of partial and total losses during the year totaled 685, down sharply from the 834 reported during 1977. Of these, 175 were caused by contact with fixed objects or while at anchor, 147 were caused by machinery damage, 60 by strandings, 52 by collisions, 50 by weather damage, 46 by fires and explosions and 155 by miscellaneous causes.

Vessels in the 20-ton to 99-ton classes suffered greater than average number of incidents. Tankers built between 1956 and 1970 and between 1976 and 1977 had loss rates that equalled or exceeded the average.

These fleets had loss rates exceeding the world average: Greece, 96 of 350 ships for a 27.4% loss rate; United Kingdom, 87 of 334 ships for a 26% loss rate; United States, 76 of 302 ships for a 25.2% loss rate; Panama, 33 of 170 ships for a 19.4% loss rate, and Liberia, 187 of 968 ships for a 19.3% loss rate.

With the exception of the United States, the loss rates for these fleets were improved over the average for 1974-1977. For that period the Greek fleet averaged a 47.2% loss rate, U.K. averaged a 34.3% loss rate, Liberia averaged a 33.1% loss rate and Panama averaged a 23.7% loss rate. The average loss rate for the United States during that period was 18.9%. ■

Treatise details product liability

YARMOUTH, Nova Scotia—A 25,000-word treatise on "Products Liability in Canada 1932-1978" is available from Dunhill Publications of Canada.

Written by attorney James D. Reardon, the treatise discusses the development of the law of product liability in Canada and the courts' reasoning and judgments in the leading cases.

This publication can be ordered at $25 each or $15 each for three or more by writing Dunhill Research & Development Ltd., Drawer 637, Yarmouth, Nova Scotia, Canada B5A 4B6. ■

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STRUCTURED SETTLEMENTS™

Machine maker deducts premiums paid to captive

By JACK THORNTON

MINSTER, Ohio—Minster Machine Co., a builder of metalworking machinery, no longer considers the premiums it pays to its captive insurance company a tax burden even though the Internal Revenue Service supposedly bars such deductions.

The Bermuda captive, Machine Tool Assurance Ltd. (MTAL), provides Minster's product liability insurance—coverage it cannot obtain at any cost from commercial insurers.

According to financial vp Raymond A. Bergman, the expected tax problem never occurred. For three years, the company has deducted its premiums paid to its captive on its federal income taxes "and we have not been challenged," Mr. Bergman said.

It is not an IRS oversight, either. "We have been talking with them" at the IRS, Mr. Bergman added.

Over the years the tax code has been interpreted as barring deductions for self-insurance or premiums paid to captives. That means companies with captives are supposed to pay for coverage with after-tax dollars, which are worth almost twice as much as the pretax dollars normally paid to commercial insurers for such things as liability coverage.

When Minster encountered the problem of soaring premiums and restricted coverage in the mid-1970s, this point was not lost on its president, Harry Winch. "I submit to you," he said in 1976, "that this is a lousy way to spend after-tax dollars. This coverage is hellishly expensive." It was at that point, Minster decided to deduct for the premiums.

Exactly how expensive, Mr. Winch won't say because it would reveal his sales volume, a statistic which privately owned Minster jealously guards. The premiums are "close to 2% of sales."

MTAL covers Minster's product liability risks up to $2 million with no deductible, said Mr. Bergman. The company's umbrella policy covers any other product liability losses to $9 million. Under the policy in force 1974-76, the primary insurance contained a limit of $1 million, Mr. Winch said, and the premium was one-fifteenth what Minster is now paying.

MTAL, Mr. Bergman said, "provides us with the basic core coverage for product liability. It is nice in that there are no deductibles," Mr. Bergman continued, "but we have to provide our own reserves. You don't get anything for free." Neither he nor Mr. Winch would discuss the amount of reserves, other than to say MTAL "is reasonably well funded."

He does not think Minster is "purely" self-insuring a risk. "They are performing all the functions of an insurance company," he said. "MTAL is taking the risks and we are taking the deductions."

Mr. Bergman was unworried by the recent Carnation Co. court decision that has been viewed as unfavorable to captives. "The court went against them (Carnation) on a very technical point," said Bergman. "Minster has that covered," he maintains, but wouldn't elaborate.

(The Carnation case involved the practice of "fronting," in which Carnation's coverage was carried

The IRS isn't opposed to Minster's tax deduction for premiums paid to its captive, says vp Raymond Bergman.

by an independent firm which reinsured 95% of its risk with a Bermuda captive owned by Carnation. As a condition set by the fronting insurer, Carnation guaranteed additional capitalization of its captive, a condition the tax court objected to.)

Minster's captive covers its risks in building metal stamping presses, machine tools which are involved in a disproportionately large share of worker injuries. The product liability climate is possibly worse for machinery builders than even for manufacturers of consumer goods. Insurance companies could not get away from that business fast enough a few years back.

In many cases, the real cause of a worker's injury is employer negligence, the manufacturers maintain. But workers cannot sue their employers because such suits are barred by state workers compensation laws. If an injured employe feels he is entitled to more compensation than what is in the statutes, he has no choice but to sue the manufacturer of the offending machine. Those suits rose sharply in number in the late 1960s and early 1970s.

Minster lost its product liability coverage not because its record was bad—it has a good record on these cases—but because the risks were so difficult to assess. Minster has been building presses for decades and a high percentage of them are still in use. Many have been modified and speeded up by their owners, occasionally making them more hazardous.

On the other hand, most of Minster's presses are for high-volume production. Rarely are they hand fed. The vast majority of press accidents occur to operators of hand-fed punch presses.

MTAL was created in 1975 by the Anistics division of Alexander & Alexander Inc. in New York for a trade association, the National Machine Tool Builders Assn. (NMTBA) in McLean, Va. Only Minster was interested so Minster went with it solo.

MTAL's results? So far so good, reported Mr. Winch. None of the claims against Minster since MTAL was created has led to either a judgment against the company or an out-of-court settlement, Mr. Winch reported.

But because of the slowness of the legal processes and lengthy statues of limitations in product liability cases, "You aren't going to see the real impact on our reserves or the performance of MTAL for another three years," he said.

Minster employs an Aetna Life & Casualty Co. unit, Aetna Tech, as a consultant on its coverage.

riskWatch

By JOHN MAES

"Cherchez le fence" is thief's motto for art treasures stolen to order

Corporate risk managers take heed. It's possible your company is experiencing losses at the hands of an enemy you know very little about.

So says Marilyn Walsh, a research scientist at the Battelle Memorial Institute in Seattle, Wash., whose job involves extensive study of the crime problem in our society. One of her specialties in that area is "the fence," that vexatious criminal who buys and sells stolen goods, reaps substantial profits and seldom gets caught.

Ms. Walsh knows quite a bit about the fence and his art. In 1977 for example, some $4.5 billion worth of property was stolen in the United States and it's a safe bet most of that property was handled by a fence, she says.

Maes

To coin a phrase, that's only the tip of the iceberg. There are other thefts and burglaries yearly in the U.S. worth untold billions never reported to police. Again, most of the stolen property probably passes through the hands of a fence and is sold at a substantial profit, she says.

She has other interesting insights. The fence is usually insulated from capture because the thief and the burglar don't want to jeopardize their source of sale when they are caught and consequently, seldom if ever identify their fence.

The fence is not necessarily who you think he is. He could be the local jeweler, gas station attendant, appliance salesman or antique store operator. Fences usually work where merchandise is bought or sold.

"They mostly are legitimate business people," said Ms. Walsh. "The fence is not necessarily the guy standing on Times Square with watches on his sleeve or one of the people hanging around bars offering shady deals. Some are actually respectable businessmen and their stores are not fronts, they are businesses in their own right. It's just that the proprietor may be supplementing his supply with illegal sources of supply."

As remote as the connection may seem, the fence is the particular enemy of the risk manager, says Ms. Walsh. That's because the fence by his very existence encourages all types of theft, including the internal variety that plagues corporations, sapping profits and bolstering losses.

Unfortunately, corporations don't seem to be doing much about it, she says.

Too often, she says, there's a tendency in companies to simply write off a 5% loss each year, attribute it to petty pilferage of inventories and call it "inventory shrinkage." That's not a particularly healthy approach because contrary to what corporations may think, internal thieves aren't taking the goods home for their own use but are selling them to a fence.

"Most thieves are not stealing for themselves. They want to convert it to cash. They're not watching those stolen television sets, they're selling them," says the researcher.

"The marketing department carries the day and makes concessions to theft by saying, '5% is OK and if we have more we'll take steps.' But it's not a healthy approach because companies are setting limits for the limits of theft they'll tolerate, not saying they won't tolerate theft," she said.

In addition, companies keep inadequate records on stolen goods, further aggravating the problem. In police investigations, it is necessary to prove an item is stolen by identifying the serial number, something victims are frequently unable to do because they never recorded it.

This, says Ms. Walsh, not only makes it difficult to recover the property, but deprives investigators of a piece of intelligence to establish an "audit trail" which could aid in the identification of a fence.

A few measures that risk managers might use to deal with internal thefts and diminish the market for the fence:

- Crack down on all petty pilferage. Corporations would probably be astounded to learn that most employes taking seemingly harmless small amounts are selling them to the same few fences.
- Record serial numbers on invoices of items being shipped. This is where much internal theft occurs. Such records can help identify a theft and establish the trail.
- Support and encourage anti-fencing programs in local police departments.

As long as the fence is operating, there's an incentive to steal.

HMOs target Dallas-Fort Worth

ARLINGTON, Tex.—The Dallas-Fort Worth area's first health maintenance organization (HMO) has opened its doors, beating to the punch a Kaiser-Permanente plan announced last December but which is still in the formative stages.

The plan, called Metrocare, will serve residents mostly in Tarrant County, the metropolitan Fort Worth area, along with the city of Grand Prairie, which lies mostly in adjoining Dallas County.

Metrocare, an independent practice association, has agreements with 170 area doctors to handle members for a $3 charge per office visit.

Premiums have been set for billing quarterly, based on charges of $416.54 a year for families and $150.23 yearly for individuals.

Last December, Kaiser-Permanente, the nation's largest prepaid non-governmental health care delivery plan, and Prudential Insurance Co. of America announced in a joint venture they would begin operating an HMO to serve residents of the metropolitan Dallas area by the middle of this year. The organization recently received state approval and has announced it will begin operations in June.

N.Y. Life adds free second opinion plan

NEW YORK—The country's fourth largest life-insurance company, New York Life, has become the latest—and most celebrated—participant in a nationwide move to eliminate unnecessary surgery.

New York Life is offering its policyholders—at no increase in premiums—a plan whereby it will pay up to $100 for second opinions on non-emergency surgery, plus 80% of any additional excess costs such as for additional or repeated tests. The company will also offer the same deal on third opinions, if the first two conflict.

The announcement by the New York-based company, which has considered the plan for a year before deciding to go ahead with it in September, was accompanied by praise and publicity from officials of the Department of Health, Education and Welfare, who have been prime movers behind the second-opinion option.

"This is a step in the right direction," said Leonard Schaeffer, administrator of HEW's Health Care Financing Administration. "We endorse and are very pleased by the action the company has taken."

Through its decision, New York Life becomes the first company to offer a national program directly to its policyholders encouraging them to seek opinions, without the government offering any subsidies as an incentive. A similar second-opinion plan recently announced by Prudential Insurance Co. is offered to employers through group insurance programs, not to individual policyholders.

The Prudential and New York Life plans also differ because the latter requires no commitment by the policyholder to abide by the second opinion. The patient, once obtaining the second opinion, can decide on his own whether to go through with the surgery. Under the Prudential plan, reduced surgery benefits are imposed on clients who don't obtain a second consultation or who disregard conflicting surgical advice.

The Prudential plan, announced in February, already has 35 states and the District of Columbia accepting it, with officials estimating that the entire country will soon have access to it. Eugene Heimberg vp of group insurance said no companies have signed on to the new plan as yet, but said Prudential is "about to wrap up a number of them." Prudential offers a 6% premium discount to participating groups.

N.Y. Life vice chairman Jacob Underhill says unnecessary surgery does occur and certain operations can be stopped.

Prudential would usually pay around $50 for a doctor's consultation, plus the costs of any lab tests, Mr. Heimberg said.

The push to encourage second opinions comes at a time when the debate over rising health costs seems to have gained increasing fervor. A Congressional subcommittee reported last year that 2.4 million Americans underwent unnecessary surgery in 1974 at a cost of $4 billion and with a loss of 11,900 lives. About one-third of the estimated 20 million surgical procedures performed are unnecessary, an HEW report estimates.

The debate over non-emergency surgery has also caused a rift between doctors on one side and government officials and insurance companies on the other, both looking for new ways to control costs. While the American Medical Assn. has taken the firm position that there are no unnecessary surgeries performed by doctors, Jacob Underhill, vice chairman of New York Life, stressed that "it is our feeling that unnecessary surgery does occur." He thinks his company's new program might show others that these operations can be eliminated without endangering lives or further hiking the cost of medical care.

Nonemergency surgery is estimated to account for 85% of all surgical procedures.

HEW started boosting its plan to encourage second opinions last September and was met with limited success. Blue Cross-Blue Shield officials are beginning to pay the cost of second opinions for patients, although only about 30 of the country's 130 plans have picked up the option.

A Medicaid program mandating second opinions has been underway in Massachusetts for about a year. Officials there are about to compile figures that they hope will show the plan has had a positive effect on health costs.

A plan that required second opinions and forced the clients to go by the decision of the second doctor was implemented in New York state a few years ago until a court challenge voided it on the grounds that it took away a patient's freedom of choice, according to the HEW. The state is now considering offering a voluntary second-opinion option to Medicaid patients. ■

Older people work

Among married people age 65 and older, 21% of the men and 7% of the women are in the labor force, says the American Council of Life Insurance.

Baltimore task force tackles city's huge work comp bills

By JERRY GEISEL

BALTIMORE—A blue ribbon task force has been appointed by Baltimore mayor Donald Schaefer to come up with solutions to the city's skyrocketing workers compensation costs.

The appointment of the commission comes on the heels of a city department of finance report revealing that a combination of mismanagement and employe abuse has resulted in a tripling of the city's workers compensation expenses since 1974.

And unless action is taken to correct the problems, workers compensation costs, which may be the fastest rising expense in the city's budget, will continue to balloon, the department of finance report warns.

If present trends continue, the city of Baltimore could be paying $12 million annually by 1982 for workers compensation alone, up from $4.1 million last year. In 1974, workers compensation cost only $1.2 million.

Workers compensation benefits cost Baltimore $100.67 for each of the city's 40,000 employes last year, more than double the state of Maryland's cost of $39.37 for each of its 75,000 employes.

"The fragmented city system lacks overall authority, control and direction," said the report, which was prepared by senior management analyst David Rule. "Abusers are not terminated. Records are incomplete and scattered throughout any number of agencies."

Six separate municipal agencies share responsibility for supervising the city workers compensation program. Because of this fragmentation of authority, the city is unable to review the medical history of a claimant to weed out chronic abusers of the system.

In fact, sometimes one city agency will try to block another agency trying to obtain information. For example, it took the city law department six weeks to obtain permission to scrutinize police department medical records of several law enforcement officers who had filed claims.

"The system encourages improper claims to be paid because of a lack of one overall authority to supervise the entire procedure and review the complete medical history of the claimant," the report said. Another shortcoming is that action generally is not taken against city employes who either are accident-prone or are abusing the system.

In one case, an employe in the recreation and parks department lodged 23 claims against the city during his 16 years of employment, averaging three claims every two years. His alleged injuries involved almost every part of his body, including his back, groin, arms, feet, chest, thumb, shoulder, heel and head. The recreation and parks employe collected more than $10,700 for 18 injuries during those 16 years. He reportedly remains on the city payroll.

The finance report suggests the following series of steps be taken to reform the city's administration of its workers compensation program:

- Eliminate the current fragmented supervision of the program by either establishing a new agency to handle all city benefit programs, or consolidate all the agencies that now handle compensation claims into one existing agency.
- Construct a new medical building for all city employes, replacing separate infirmaries operated by the fire and police departments and the civil service system. The medical facility would be staffed by doctors under contract to the city.
- Consolidate the current scattered medical records of city employes into one centrally located file and make the record file readily available.
- Require a medical examination of potential employes by city doctors and consider giving psychiatric tests since city employes are receiving an increasing number of awards for "psychological stress."
- Hire a doctor experienced in industrial medicine to administer an accident prevention and employe health program.
- Make examples of chronic abusers by firing them and then widely publicizing the disciplinary action taken. "This strategy is much the same as utilized by the Internal Revenue Service in combating federal tax fraud cases," the report observed. ■

Life benefits

Life insurance companies paid an estimated $29.2 billion to policyholders, annuitants and beneficiaries in 1978, up from $26.5 billion a year earlier, the American Council of Life Insurance reports.

editorial opinions

Better late than never

IN THIS ISSUE, we are reprinting (by permission, of course) an exceptionally well-done article from Factory Mutual's publication, Record, on the ins-and-outs of FM's largest fire loss ever, at the Ford Motor Co. warehouse in Cologne, Germany.

Except for the fact that there had been a large loss, recorded in brief news stories in a few papers, the event went largely unnoticed at the time. Like the ITT fire in Longuenesse, France, back in 1973, the fire at the Ford facility caused ripples within the insurance community and even within the ranks of Ford's internal management that have felt for well over a year now and will be felt for a long time to come. The insurance markets, too, reeled from the loss of $100 million from direct damage to property and $50 million resulting from business interruption.

▪ Ford, like ITT, reevaluated its fire protection policies and systems in the wake of the Cologne fire, and has reportedly made a committment to spend millions of dollars over the next few years to upgrade protection systems in its plants around the world. Too bad it took an enormous loss to focus attention on the necessity of prevention.

Other automotive manufacturers, too, have reassessed their investments in protection systems. Most important, we've talked with risk managers from numerous large manufacturing firms whose attention became riveted on the fire problem in Europe and Ford's disaster, because they worried that the same thing could happen to them. And they worried that their companies had gone too long without enforcing U.S.-style fire prevention standards at European plants.

▪ Europeans, understandably, are defensive about their fire safety practices. They scorn the arrogant attitudes of U.S. risk managers who, they say, are merely babes when it comes to looking at "history." Why, Europe and Britain have been coping with industrial fire risks for more centuries than the U.S. can count as birthdays, the story goes.

True, but U.S. companies have become pretty sophisticated about risk management. And European fire protection systems remain woefully inadequate. Similarly weak is the committment we sense among European and U.K. managers to implement costly, effective prevention programs, at the expense of operating profits. Implementing a good fire protection plan in Europe often involves, admittedly, staggering expense because even the most basic elements—adequate water supply, fire hydrants, plumbing, firefighters—are not present in the first place, or are obsolete.

Every risk manager can learn a lesson from reading about Ford's experience in Cologne. The article is technical but not overly so, and it points to the need for plans, plans, plans in the event of disaster. As Murphy said in a moment of frustration when he coined his famous law, if anything can go wrong, it will.

It's about time

IN THE INTEREST of fire safety, the Los Angeles County Board of Supervisors at long last banned the use of wood shake and shingle roofs on any newly constructed or re-roofed buildings. Years of tough lobbying by the lumber industry and related businesses had defeated earlier attempts to pass this regulation.

Each year, the papers are filled with stories about terrible fires in the Southern California hills, fires engulfing hundreds of homes and businesses. The state legislature has repeatedly been asked to make this rule statewide in California.

Safer roofing materials are readily available and cost even less in many cases than wood shake and shingle roofs. Risk managers and other corporate executives should get behind this effort to pass a rule we think should be motivated purely by good common sense.

business insurance

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

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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.

Security expert

To the editor: Re: Art gallery consultants.

In your editorial Jan. 22, "Sloppy habits," you mentioned a Belden Menkus, a security expert who does consulting work.

We insure a gallery here in New Hampshire and wish to recommend consultants who might review their security exposures.

Could you give us Mr. Menkus's address? Could you direct us to anyone else in this field?

Frederick W. Griffin
Burpee, Griffin & Perkins, Manchester, N.H.

Mr. Menkus can be contacted at P.O. Box 85, Middleville, N.H. 07855 or by calling (201) 383-3928. You might also contact the Assn. of Art Museum Directors at P.O. Box 620, Lenox Hill Station, New York, N.Y. 10021, publishers of an excellent risk management manual for institutions that have fine arts collection. Finally, the American Society for Industrial Security maintains a list of security consultants, obtainable by writing ASIS at the NADA Building, Room 404, 2000 K St. N.W., Washington, D.C. 20006 or by calling (202) 338-7676. The Smithsonian Institution also sponsors periodic workships on museum security and insurance.

A matter of faith

To the editor: Re: Keys's article, Perspective Feb. 19. If, as Mr. Keys indicates in his article, the future cannot be boxed and tied by a legion of actuaries and insurance professionals, then Mr. Keys's own staff would have to be included in the group.

An insurance company, even his, relies on a legion of actuaries and insurance professionals. Maybe the only difference is, as he stated, a 60-year backlog of loss control experts. His backlog is suspect and his costs are still passed on to the insured.

Why preclude a risk manager from seeking outside help, where he, the risk manager, controls his own costs?

I would not presume to say because a staff consists of a risk manager and an assistant, they do not know what's going on in their own organization.

Using all the vast resources of a 300-year old insurance company doesn't make a risk manager wiser or more profitable in his organization.

I have more faith in the risk manager than Mr. Keys has.

Louis F. Siegel
Assistant director, Borden Inc., Columbus, Ohio.

Defends seminars

To the editor: I would like to comment on portions of Robert Keys's contribution to the Feb. 19 Perspective section regarding self-insurance. It appears that his indictment of the American Management Assn. materials is either outdated, incorrect, or both.

I recently attended the AMA risk management seminar which devoted some time to self-insurance. Park Wray of Johnson & Higgins and Ronald O'Nan of Corroon & Black presented all subject material fairly and well, including the self-insurance portion. Their presentation took into account the present value of future payments, tax consequences, excess coverage, and catastrophic loss considerations in evaluating alternative fundings. A lengthy discussion was made of the limitations and problems incurred with self-insuring.

I found both gentlemen and the American Management Assn. course to be open about alternatives, and the pros and cons of each. There was no "deliberate attempt to mislead. . ." any of the participants. I think such a statement does a disservice to both the AMA and the experts who donate their time to provide this seminar.

Michael Force
Director of legal and risk services, Moore International, Portland, Ore.

Levi spends 1%

To the editor: An article which appeared in *Business Insurance*, Nov. 27, 1978, noted that Levi Strauss & Co. channels 10%, or $150,000 of the $1.5 million it spends on benefits to communicate with employes.

Unfortunately, the decimals are in the wrong place.

The accurate statement was that we think in terms of 1% of benefit costs being a reasonable amount to spend communicating those benefits.

The amount of $150,000 is right, but that is based on $15 million being invested in benefits annually.

Ernest J.E. Griffes
Director, employe benefits, Levi Strauss & Co., San Francisco

Wants perspective

To the editor: As a new subscriber to *Business Insurance* I am particularly impressed with your magazine and have suggested subscription to several friends and associates.

Your feature articles in the Perspective section are very interesting and informative. Kindly advise how I can obtain a series of the articles in your index to Perspective feature articles outlined in your 2/5/79 issue.

Floyd Posby
Claims Examiner, A.I.G., RM, American International Underwriters, New York, N.Y.

Our circulation department can supply back issues of BI at a cost of 75 cents to $1.50 each.

Hobbling hovercrafts

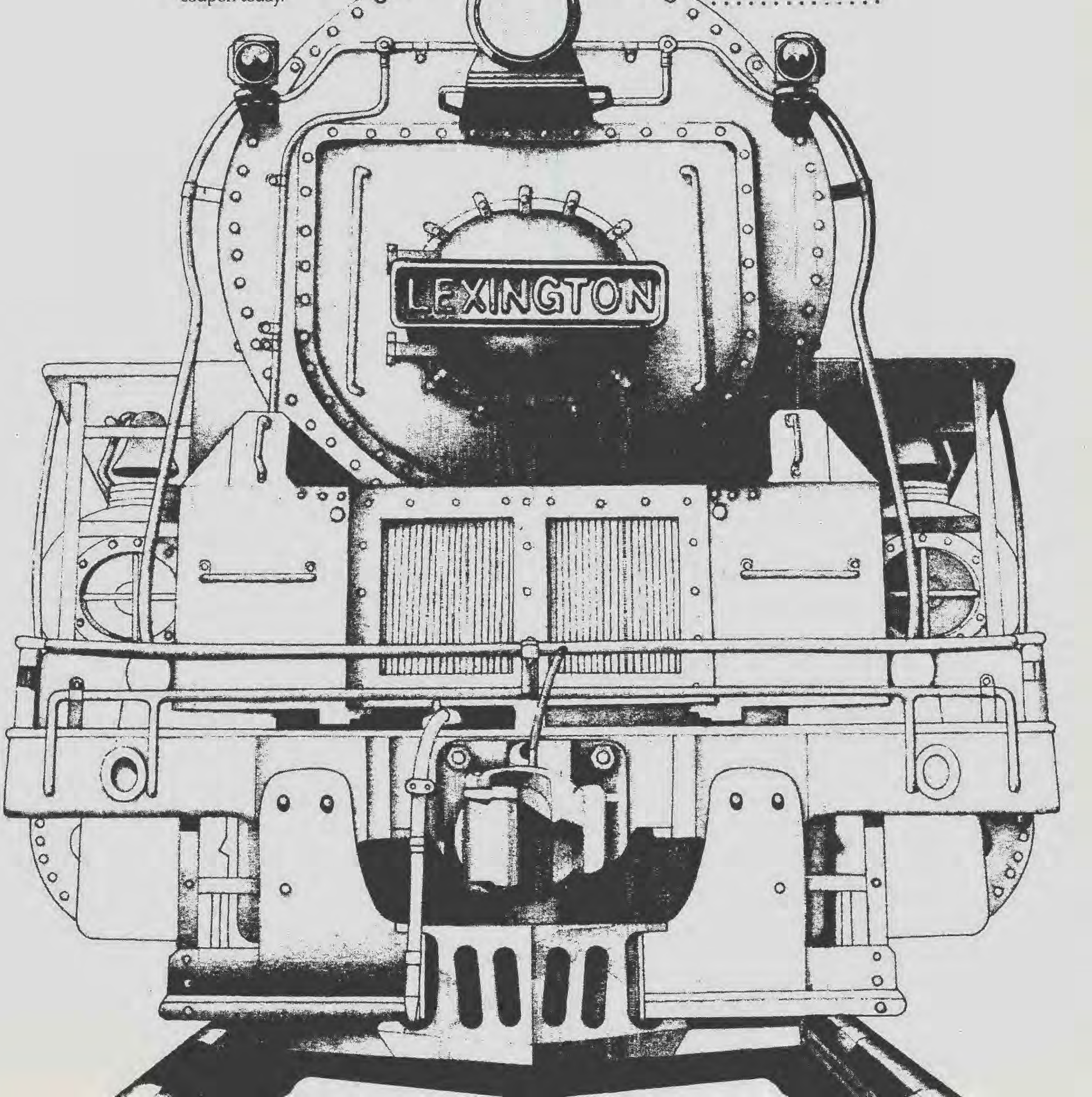
To the editor: While recently browsing through a copy of your fine publication I was struck by the sophistication of the advertisements and the all-encompassing scope of the various articles.

I was even more impressed since our company has been trying for nearly two years to obtain coverage for our product, light sports powercraft.

To a mere manufacturer/designer it would appear simple to arrange such things as liability, user, rental and group coverage for members of the Hoverclub of America (some 200 owners), especially since in England a company called Hogg Robertson Knox Johnstone carries all the hovercraft insurance at rates well below boat insurance. And the craft has a good record as a safe recreational and even ralley vehicle.

However, the English company feels the U.S.A. is too far away to administer coverage from London. Many U.S. insurance companies have simply thrown up their hands and said "Impossible. Far too expensive. We have no tables upon

Continued on page 20



LEXINGTON

Letters column . . .

Continued from page 18

which to compute the risk."

Since your publication appears prestigious in its field, may I request that as a mere consumer you take pity on our ignorance and publish this letter in the hope that someone out there in U.S.A.-land will recognize what we are asking for, recognize that in Europe there is no problem to obtain coverage, hopefully costing less than motorcycle and boat cost insurance. Hopefully, some bright U.S. company will perceive that a budding market is about to open up which they can have for the asking (or is it presenting?).

By the way, if you had a hovercraft, and it were insured, you would be able to be almost the only person in Chicago able to move around in the snow, ice and even floods. Of course, if we can't get insurance, you can't have one!

Raymond Kemp
President, British Sports Hovercraft Ltd., Tustin, Calif.

Stan Tarr's job

To the editor: We feel some erroneous impressions have been obtained from the announcement of Stanley R. Tarr's appointment to EIIA Inc. in the People section of the Feb. 5 issue of *Business Insurance*.

The statement that EIIA is "the insurance arm for the United Methodist Church in Chicago" is inaccurate. The General Conference, the highest legislative body of the United Methodist Church, mandated the inauguration of a general church insurance program and charged The General Council on Finance and Administration of the church with the administrative responsibility. . .

To institute, manage, and maintain a churchwide insurance program for the protection of United Methodist Church property and persons, covering all areas involving the interest of The United Methodist Church and available to all churches, agencies, institutions, and persons within The United Methodist Church.

—From The Book of Discipline, Paragraph 907.13

Three major criteria were built into the package program for churches: 1) Participation in the program is voluntary. 2) All United Methodist Churches are eligible, regardless of location or type of construction. (Not cleared by the state of Mississippi.) 3) Local churches are urged to go through their local agent or broker to secure coverage.

Frank B. Hall & Co. Inc. of New York was selected as national broker for the church program initiated in 1973. Snowden F. Jones, vp of Hall of New York, continues as producer and administrator. Atlantic Mutual Insurance Co. is the underwriter for the program.

In addition to property and casualty coverage, related programs include an accident insurance plan for clergypersons and full time lay employes with the American Home Assurance Co., fidelity coverage for Annual Conferences through Atlantic Mutual, and directors and officers liability insurance with the Seaboard Surety Co. Educational Institutional Insurance Administrators Inc. was incorporated to formalize a 20-year relationship between the board of higher education and ministry of The United Methodist Church and its related assurance institutions. We believe your statement that EIIA handles "risk management for Methodist churches and universities" should be corrected to read "risk management for United Methodist colleges and universities."

John F. Norwood
Associate general secretary, division of administrative services, The United Methodist Church, Evanston, Ill.

Chubb's listing

To the editor: Your International Issue of Feb. 19 failed to contain a listing of Chubb & Son's international division in the directory you published. We would like to note that the international divisions operates around the world in more than 80 countries and territories through licensed Chubb Cos., subsidiaries, affiliated local national companies, agents, and correspondents, providing a full range of underwriting, engineering and claims facilities for U.S. and multinational companies.

World headquarters are in New York with international staff assigned to U.S. regional offices in Chicago, Eastern regional office (Murray Hill, N.J.), Houston, Los Angeles, Pittsburgh, and San Francisco. International representatives are also in 30 of Chubb's other U.S. and Canadian branches. Chubb maintains overseas regional offices in Brussels, Tokyo, Sydney, Rio de Janiero and Caracas.

For further information, or a copy of Chubb's international directory, contact H.G. Parker III, director, or me at 100 William St., New York, N.Y. 10038. Telephone (212) 285-6709. Telex 127439.

David C. Benson
International marketing manager, Chubb & Son, New York, N.Y.

Requests listing

To the editor: I've read with interest your Feb. 19 issue on international insurance. You listed on page 66 a 1979 directory of companies involved in international risk management.

I wanted to call your attention to our company which was formed last year in captive insurance management entitled McDonough-Caperton/International Ltd.

I would appreciate information as to how we might submit data so as to be included in your next listing.

W. Marston Becker
Director of Admission, McDonough Caperton Shepherd Group, Charleston, W. Va.

We'll keep your name on file for the 1980 directory. But as an added safeguard, you should watch for the editorial announcements of the directory published in BI several months before the directory is published in the International Issue.

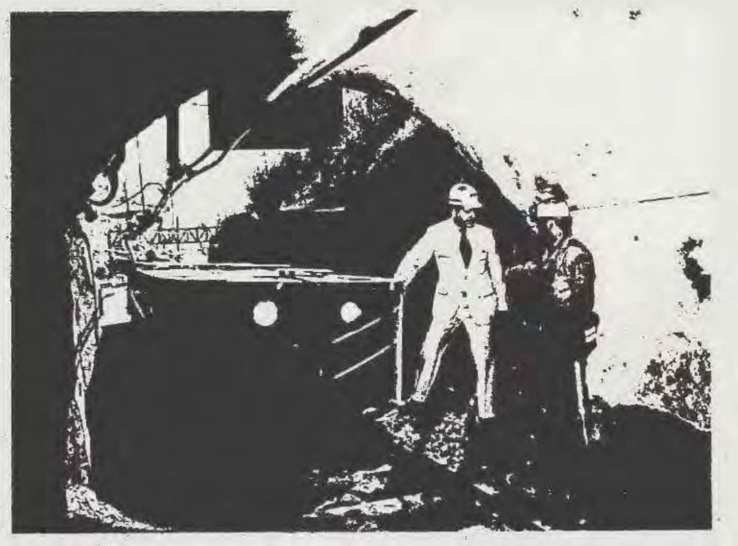
Staying a step ahead

To the editor: Pity poor Mr. Kubovchik who is being prosecuted for being behind the times. Using a post office box is not being done anymore.

Had he been up to date, he would have taken a small portion of his brokerage and established an insurance company in the Grand Caymans. Then he could have issued impressive paper, satisfied the needs of his clients and advertised for more business in the trade press. While investments of premium generated tax free income, losses—if they weren't too large—could have been paid out of cash flow. When the time came, by his own decision or fate's, he could pick up the money to finance his retirement in friendlier climes.

Or, being less ambitious or more modest, he could have sold such a company to a proselytizing association formed of his eager insureds. He then could have lived handsomely on the fees and brokerage earned through the arrangement. He would have been hailed as a leader and honored as an innovator.

Named withheld by request



Fla. regulator promotes health care cost control

TALLAHASSEE—Florida insurance commissioner William Gunter has called for establishment of an independent state hospital commission that would review rate adjustments as part of an insurance department task force report on health care cost control.

The insurance department's recommendations were presented at hearings held by two joint legislative committees. In addition to formation of the hospital commission, Mr. Gunter called for:

- Establishment of an intergovernmental agency to promote development of health maintenance organizations (HMOs).
- Creation of a voluntary second surgical opinion option on elective and non-emergency surgery, using the state employes health program as a pilot model.
- Improved coordination of health and disability plans to reduce losses resulting from fraud and malingering.
- Changing existing laws to require insurers to pay for surgical procedures that can safely be accomplished in doctors' offices, clinics and ambulatory care centers.

Should Florida establish a hospital commission, it would be the third state to do so. Regulatory bodies in Maryland and Connecticut have claimed some success in holding rate increases for hospitals below the national average, Mr. Gunter noted. The Maryland commission reportedly has saved its citizens $70 million during its first two years.

The insurance department proposal would establish the hospital commission as an independent body with consumer members in the majority and provider members comprising the balance. The commission would have budget review authority over laboratories as well as hospitals and would serve as gatekeeper for certificates of need. In addition, the commission would have a consumer complaint division and incorporate features of the professional standard review organizations (PSROs).

Legislation was introduced in 1978 to establish such a commission under the state's Department of Health and Rehabilitative Services. However, the insurance department report said an independent commission would be best able to decide questions of benefits versus costs without undue influence from a particular state agency.

Strong opposition to the commission is expected from Florida's health care industry, Mr. Gunter noted.

Creation of regional HMOs to serve state employes was also recommended by Mr. Gunter. An intergovernmental task force composed of the Departments of Health and Rehabilitative Services, Administration and Insurance should be created to develop additional HMO sites, he advised.

At present, eight HEW-certified HMOs are operating in Florida, five of these in Dade County.

The proposed task force would ostensibly work with federal agencies and cut through "red tape" to aid in the establishment of HMOs.

To improve coordination of health and disability benefits and cut losses due to fraud and malingering, the insurance department proposed establishment by insurers of a central clearinghouse system to monitor claim payments to correct abuses in overindemnification.

The insurance department suggested that individuals receiving benefits in excess of 75% of predisability income should be scrutinized by insurers as possible fraud suspects. ▪

Profit sharing plans thrive: Pension study

EVANSTON—Defined contribution plans thrived in 1978 compared to 1977 with a 92% increase in IRS approvals for profit sharing plans and a 116% increase in money purchase pension approvals.

Defined benefit plan approvals during 1978 increased 40% over the 1977 figure. Last year profit sharing plan approvals climbed to 32,890, money purchase approvals totaled 21,821 and defined benefit approvals totaled 9,728.

The statistics are based on IRS determination letters issued from January through December 1978 and compiled by the Profit Sharing Research Foundation.

Defined benefit pensions showed the largest net growth, up 216% from 1977. The figure, however, reflects the extremely low net growth figure of 1977, when defined benefit plans experienced higher termination rates than approvals.

Profit sharing and money purchase pensions showed similar net growth, with profit sharing plans up 168% and money purchase pensions up 156%. Stock bonus plans showed a net increase of 4%.

Eighty-five percent of new approvals are defined contribution plans, compared with the 72% defined contribution plan approvals issued in 1975.

Profit sharing and defined benefit pension terminations, on the other hand, declined from the 1977 figure, while stock bonus and money purchase pension terminations increased slightly.

Stock bonus terminations increased 180%, from 15 in 1977 to 42 in 1978. Money purchase pension terminations increased 14%, from 3,276 in 1977. Defined benefit pension terminations totaled 4,625 in 1978, a decrease of 13% from the 1977 figure. And, 7,334 profit sharing plans terminated during 1978, a 3% decrease. ▪

Anticipating and

Although the concept of loss control is universally accepted, in practice it often fails to receive adequate attention. But when loss control programs are professionally planned and managed, major cost reductions can be achieved.

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

Among the nation's numerous plants producing synthetic rubber, one in Louisiana has an unusual distinction. The accident rate at this plant was 85% lower in 1978 than the most recent national average for all plants in its industry, while the severity of those accidents that did occur, measured in terms of lost work days, was only 11% of the national average.

Was the plant just lucky? Not likely. Behind the statistics is an impressive story of dedication to loss control – specifically to safety measures that protect employees from injury and their employer from financial loss.

In every category of risk today, loss control is becoming a professional discipline. In addition to occupational safety and health, it is being applied successfully to all kinds of property risks and to liability exposures in general, including such high-risk areas as product safety and medical malpractice.

Taking infinite pains

Loss control has been said to consist largely of an infinite capacity for taking pains. It is true that a successful program is usually made up of thousands of details, each perhaps seemingly insignificant. Is the control valve on the water pipe for the sprinkler system kept open? Are the warning lights on a lift truck in operation? Has a new employee had a hearing examination? Should a guard rail be installed around a conveyor belt?

If such details are to be of concern to personnel throughout an organization, that concern must originate at the top, with management itself, and must be steadily maintained. The indispensable ingredient in successful loss control, specialists agree, is management commitment.

Most loss control programs start with a review of operations and the identification of actual

Preventing Losses

and potential hazards. Then goals are set up and comprehensive counteraction is initiated and monitored. Data is collected on all losses incurred and the results compared with earlier experience. At the synthetic rubber plant that achieved an exceptional record in occupational safety, all of these elements are incorporated in the plant loss control program.

For example, employee training is stressed. All supervisors are required to take a course in safety given by a safety engineer. Every new employee gets an overall safety orientation, followed by individual job safety instructions.

Active participation in the safety program is required at all levels. Each month, the safety engineer meets with a central safety committee made up of the seven top operating officials of the plant. Following that meeting, each department head conducts a departmental meeting with his supervisors.

In turn, the supervisors meet weekly with their work crews to discuss safety problems and take whatever action may be necessary.

Inspections, inspections

No day goes by without its share of inspections to determine whether rules are being followed and safe conditions maintained. Each supervisor makes a daily informal housekeeping inspection, with observations and the corrective actions taken reported by memorandum to the department involved. Every week, formal inspection tours of each department are conducted by groups of hourly employees who work there. Every month, individual members of the safety department scrutinize all operations throughout the plant. And every quarter, the same kind of intensive examination is made by groups of salaried personnel in each department.

Thus all plant personnel, from the plant manager on down, take a direct, first-hand interest in seeing that loss control works.

And now, the payoff

In addition to the purely human benefits deriving from an effective loss control program, the economic rewards can also be impressive. Every dollar gained through loss prevention goes straight to the bottom line.

Moreover, when loss control results in demonstrably lower risks, insurance premiums are also likely to be lower.

INA has been a major factor in the success of numerous loss control programs as part of its insurance operations. And ESIS, an affiliate, provides loss control and other services to companies with self-insurance programs, as well as sponsoring the International Safety Academy.

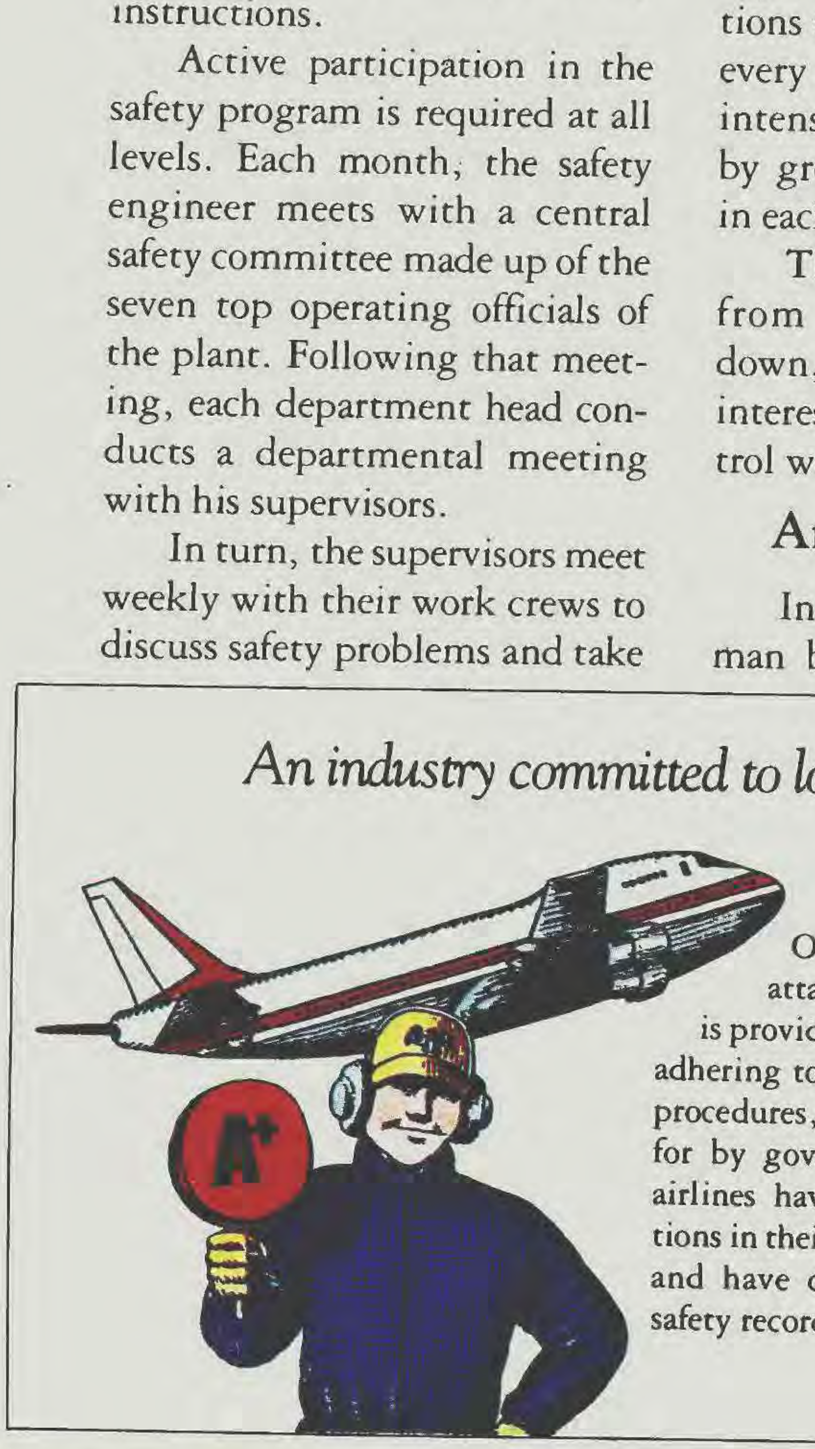
* * *

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

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

INA
The Professionals

An industry committed to loss control



One example of the results attainable through loss control is provided by the U.S. airlines. By adhering to their own rigorous safety procedures, in addition to those called for by government regulations, the airlines have achieved steady reductions in their long-term accident ratios and have compiled an outstanding safety record.

around the states

Miss. court OKs limit on product suits

JACKSON—Manufacturers are liable for the performance of their products for only six years after the time the products were first sold, the Mississippi supreme court ruled, upholding an 1880 statute.

"The statute of limitations in strict product liability cases should strike a balance between the necessity of providing the consumer with adequate time to discover a defect. . .and the need to provide the manufacturer with a definite period of liability," said presiding justice Stokes Robertson.

The case involved a 61-year-old dairy farmer who was injured when a 15-year-old Ford tractor ran over his right leg. The farmer maintained that the accident was caused by a defective safety switch that allowed the tractor to roll over him.

N.J. ski resorts

TRENTON—New Jersey Gov. Brendan T. Byrne has signed a bill sharply limiting the liability of ski resorts for injuries suffered by skiers whose actions contributed to their injuries.

New Jersey ski area operators have feared increases in liability insurance premiums as a result of a $1.5 million award two years ago in Vermont to an injured skier.

The new law establishes clearly that the assumption of risk doctrine holds in New Jersey: that a skier, when taking to the slopes, assumes certain risks inherent in the sport.

The bill also establishes responsibilities of the ski area operator, including the posting of signs on trails to indicate levels of difficulty and honestly stating the conditions of trails.

Liability upheld

AUSTIN—The Texas supreme court upheld a $170,000 judgment against Dow Corning Corp. and V. Mueller & Co. to a woman who claimed a silicone breast prosthesis leaked after implantation.

Dow Corning was the manufacturer and V. Mueller the seller of the product.

The plaintiff charged that the incision made to implant the prosthesis failed to heal properly and her doctor attributed it to silicone fluid that had leaked from the prosthesis. A second operation failed, the doctor testified, because of the continued presence of silicone in the tissue.

The supreme court rejected Dow Corning's argument that there was no evidence a defect in the prosthesis caused the leak and that the award was excessive.

N.Y. work comp

ALBANY—The New York state insurance department has approved a 14.7% average increase in workers compensation insurance rates retroactive to policies with anniversary dates of Jan. 1.

The revision involves changes in manual rates, minimum premiums and other factors, the compensation insurance rating board said.

The department also approved an increase of 6.7% on outstanding workers compensation policies, also effective Jan. 1.

Fla. on arson

TALLAHASSEE—Florida insurance commissioner Bill Gunter is proposing tougher laws on arson in the state.

Legislation requested by the commissioner would expand the definition of arson to include certain structures not covered under present laws, create a new classification of institutional arson, establish that the handling of fire bombs constitutes intent to commit arson and allow any dwelling to be included under first degree arson, whether or not it is occupied.

Maryland pensions

ANNAPOLIS—Maryland legislature gave final approval to reform legislation aimed at curbing spiraling pension costs for state employes and teachers. The legislation, which Gov. Harry Hughes is expected to sign, establishes a new pension plan for state employes and teachers hired after Jan. 1, 1980. Under the new plan, a 3% cap is placed on cost of living adjustments to pension benefits, while in the existing plan, benefits automatically rise to match the annual increase in the consumer price index. Similar legislation was killed last year in the state house of delegates. ■

Calif. women to file 20 suits on IUD ills

BAKERSFIELD, Calif.—Twenty new lawsuits will be filed by women who were injured by using the Dalkon Shield intrauterine device manufactured by A.M. Robins Co.

They will be filed by Anthony Klein, an attorney who represented 13 California women recently receiving sums totaling $500,000 in out-of-court settlements for injuries stemming from use of the IUD.

Attorney Klein told *Business Insurance* that among his 20 new cases are women who have had partial or total hysterectomies, sterility and even a colostomy as a result of using the Dalkon Shield.

"I believe Robins has already paid out between $5 million to $10 million in claims involving the device," he said.

The 13 California women received a total of $500,000 in out-of-court settlements after Robins agreed in civil actions in California's U.S. district court to pay compensation for medical conditions that included a range of conditions from pelvic inflammations to perforation of the uterus.

Mr. Klein, who has handled about 80 IUD cases, has alleged that the design of the device encouraged injury and infection, because plastic hornlike projections along the shield's outer edge irritated the lining of the uterus and created infection.

There are an estimated 1,000 IUD lawsuits that have been filed in the United States, more than 500 of which have been settled. ■

PERSPECTIVE

Ford's $150 million fire loss sparks analysis of fatal flaws in loss control

By Cynthia M. Shaler
and
Marion S. Snow

This anatomy of a fire analyzes the largest loss in the history of the Factory Mutual System, and is reprinted by permission from the Jan./Feb. issue of Record: The Magazine of Property Conservation, published by the FM System.

Much has been written about the Ford Motor Co. fire in the year that has passed, some of it factual, some speculative. Now Factory Mutual is able to present a thorough examination of the largest loss in its history. This article, based on engineering data, presents the facts as they were found by FM investigators: facts that were, until now, unavailable to those outside interests concerned with the impact of this event on loss prevention theory and practice.

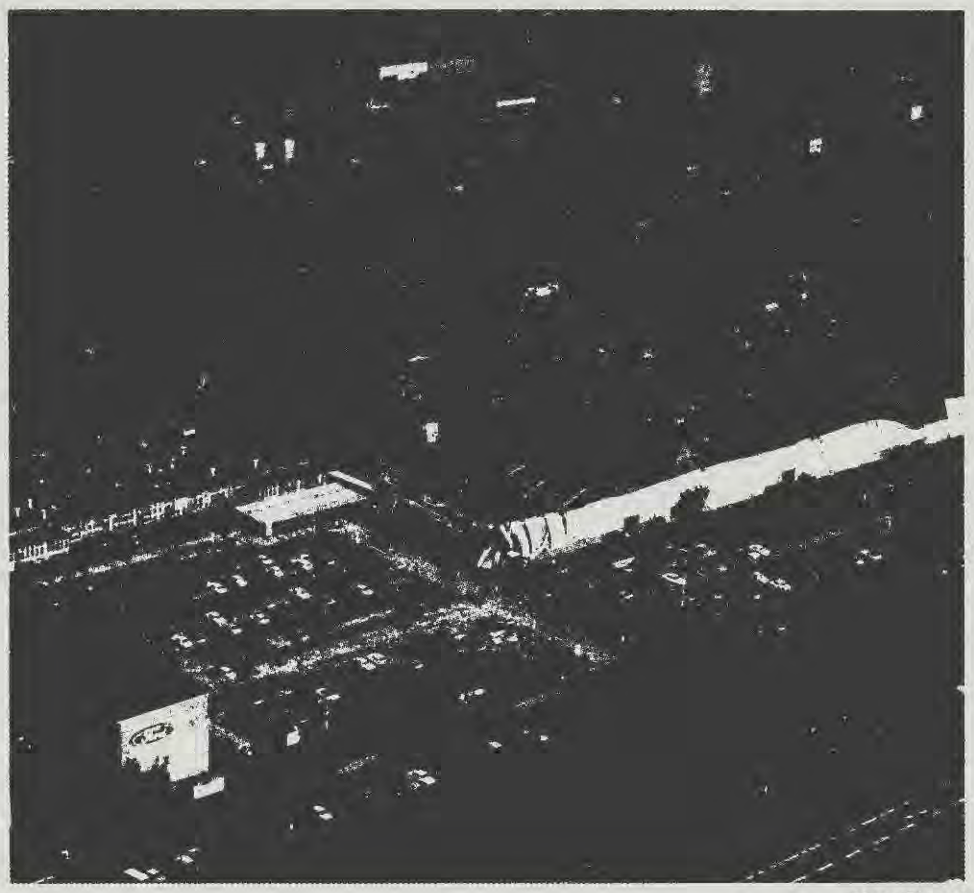


Photo: Record

Careless smoking and fatal flaws in the loss control system fueled the disastrous 1977 fire at Ford of Germany's parts and accessories depot in Cologne (Köln), says the insurer, Factory Mutual System.

MORE THAN A YEAR AGO, on Oct. 20, 1977, the industrial world was rocked by a fire in the main Ford of Germany parts and accessories depot in Köln (Cologne), West Germany. Probable cause: careless smoking. Fuel: plastics and oil. Results: destruction of 800,000 sq. ft. of warehousing estimated at over $100 million (DM 220 million) and loss of business estimated at over $50 million (DM 110 million).

Why wasn't the fire contained? The building was provided with sprinkler systems. All sprinkler control valves were found to be open. The Ford fire brigade responded rapidly. Why did this protection fail?

Ford of Germany's parts and accessories depot in Merkenich, a suburb, was one of industry's post-World War II "superplants:" mammoth structures enclosing massive amounts of production equipment or, in this case, merchandise. And that merchandise has included increasing amounts of highly combustible plastics.

The building housed Ford parts and accessories for the worldwide, after-sales market. Employes were engaged in receiving, packing, shipping and related activities.

The building was constructed in 1962, with another section added in 1967, and covered about 1,370,000 sq. ft. Roof construction was of two different types: insulated steel deck and precast concrete slab. Both had a smooth asphalt covering and were supported by steel beams and columns.

A cavity-brick wall separated east and west sections of the building. The cavity was 3.2 in. and the brick on each side 4.4 in. thick. The wall extended 10 in. above the roof. This parapeted structure had automatic-closing doors on the west side.

Plastics inventory

The merchandise stored east of the masonry wall was primarily metal—mufflers, pipes, wheels, bumpers, and sheet metal body parts. West of the wall were stored more metal car parts, plus such combustible items as floor mats, tubing, consoles, cans of motor oil, steering wheels, seat frames, upholstery, carpeting, and windshield wipers. Many of these products were, in whole or part, plastic, and most were enclosed in combination cardboard and plastic packaging.

Both permanent and temporary storage existed. Permanent storage racks either held large parts such as car seats right on the shelves, or, more frequently, held metal baskets containing many small parts. Stacks of baskets were also used for permanent storage. Temporary storage was either in baskets or on pallets. The metal baskets, otherwise known as portable racks, had both solid and slatted wood bottoms.

fire origin was double rows—such as 8 and 9, 23* and 24*—having little or no transverse flue space (parallel to the direction of loading) or longitudinal flue space (perpendicular to the direction of loading). Blocks of baskets, as in rows 8* to 24*, had longitudinal flue spaces of approximately 5 in. but no transverse flue spaces. A third arrangement, found in rows 1 and 2 and those farther north, was of double, fixed rack structures, with 4 in. longitudinal flue spaces. Other areas had similar configurations, but usually more double rows than blocks. As Diagram 2 shows, there was also considerable temporary storage in the immediate area.

Sprinkler system

In most areas of the warehouse, baskets were stacked six high, to a height of about 20 ft. Permanent racks were 10 ft. high and usually had another 10 ft. of baskets stacked on top (obstructing the longitudinal flue space). The temporary storage in row 5 west consisted of steering wheels, made of a steel core with polyurethane foam padding and PVC skin, and plastic consoles. The steering wheels were stored in portable racks, two to six baskets high. The plastic consoles in this aisle were on pallets one and two high. Storage in row 5 east and between rows 9 and 10 west consisted of cans of motor oil on pallets, either two or three pallets high.

Although they neither prevented nor controlled the fire, there were physical and human resource fire defenses at the Merkenich warehouse. Also, in addition to the efforts of Ford employes, several firefighting organizations in the vicinity responded to the alarm.

The automatic sprinkler system throughout the facility had originally been designed according to local codes, but was later modified to increase the density of coverage to Factory Mutual requirements for storage prevailing at the time. Sprinkler heads were FM-approved, upright types, with ½-in. orifices. The majority were rated at 165° F, the remainder at 212° F. Coverage area for most sprinklers was 97 sq. ft. per head. The available water density was adequate to protect

arranged as these were at Merkenich.

Sprinklers were supplied from the public main through two electric-motor-driven booster pumps, two 12,000 gal. pressure tanks, and a diesel-engine driven pump with a suction tank. One booster pump station was located at the southwest corner of the warehouse, the other in a building northeast of the warehouse. These booster pumps took suction through 6-in. and 8-in. lead-ins from a 12-in. yard hydrant main, supplied in turn by a 16-in. public main, and discharged separately into the yard sprinkler supply mains. The diesel-engine-driven pump took suction from an above ground tank, with an automatic refill connection to the public main.

Wiring for the diesel pump's pressure control switch was routed along the warehouse ceiling in open cable trays.

In addition to the booster pumps, hydrants throughout the site were supplied from the 12-in. yard extension of the 16-in. public main. Hose cabinets throughout the warehouse contained 65 ft. of C-type hose with a diameter of 2 in. and with a 5/16 in. straight-stream nozzle. Nozzle tips were adjustable from straight to spray stream or were removable to provide a ½-in. orifice.

Firefighter assignments

The sprinkler alarms were designed to be activated upon pressure drop in the system. Signals from each sprinkler riser were received and automatically recorded at the main gate house, and simultaneously transmitted to the Ford fire brigade station on the site of another large Ford plant at Niehl, 1.5 miles from the Merkenich site.

Three professional firefighters were assigned permanently to the Merkenich site during the day shift. In addition, about twenty Merkenich employes received periodic training as volunteer fire fighters. The three professionals were part of the Ford fire brigade's staff of 53, the remainder of whom were headquartered at the Niehl site just three to four minutes away by fast autobahn. At least 17 professionals were always on duty, although none was assigned at

rity patrols were responsible for raising any fire alarm.

The emergency organization of the Ford fire brigade did not include individual assignments to specific pumps and sprinkler control valves. These assignments were to be made by the officer in charge upon arrival at the emergency site.

Firefighting equipment consisted of two pumper trucks, a service truck, portable pumps, and carbon dioxide, dry chemical, and foam units. Normally, not all the equipment is sent out at once; instead, two complements of equipment and firefighters were organized.

Other firefighters that could—and did—respond to an emergency at Merkenich are those at nearby Wacker Chemical Co., volunteers from the Merkenich and Fühlinger village brigades, and the City of Köln fire brigade.

Weekly inspections of sprinkler control valves were made and recorded, and important fire protection system impairments were telexed to Factory Mutual International in Frankfurt.

There was a policy against smoking in certain areas of the warehouse: the flammable liquids storage, the carpenter shop, and the automobile plastic trim storage. Smoking was allowed, however, in most other areas of the building—including the area where this disastrous fire began.

Regular inspections

Insurance company representatives, including Factory Mutual engineers, regularly inspected the Merkenich facility and considered the depot to be a well-maintained and efficient automobile spare parts storage and manufacturing location. Factory Mutual engineers had alerted Ford that storage of plastics to 20 ft. would overtax the sprinkler system and had recommended lowering the storage height. Responding to this and other similar recommendations, Ford evaluated the results of its fire tests which had been conducted at the Factory Mutual Test Center in Rhode Island in the summer of 1976. Aware of the increased fire risk, Ford developed new company standards for the storage of high-hazard materials and these were in the pipelines to management when the fire broke out in Merkenich.

These were the events as they unfolded on that autumn day:

At approximately 2:20 on the afternoon of Oct. 20, 1977, fire breaks out in the temporary storage of plastic consoles in the warehouse. By the time it is noticed by workers in the area, the flame is about 3 ft. high. Word spreads, and four minutes after the discovery, two employes attempt unsuccessfully to extinguish the fire with a hose stream from a nearby hose station inside the building. Suspecting an oil fire and thinking that water might be ineffective, they turn their efforts toward the adjacent racks, wetting them down to prevent their involvement. Despite this, the blaze grows rapidly. A minute or so later, the Ford fire brigade at Niehl is alerted by both break-glass alarm and telephone. Simultaneously, the first sprinklers open and an automatic alarm is received at Niehl. As the fire trucks approach the site, the chief of the Ford fire brigade sees smoke billowing from the roof vents and radios the City of Köln fire brigade for reinforcements.

On arrival at the plant at 2:39, Ford firefighters are directed to the storage area where the blaze can be seen through the racks and depot employes are still trying to control the fire. The professional Ford fire brigade attacks the area with dry chemical powder and two C-type hose streams, but is hampered by the storage piled in the aisles. Sprinklers are operating, but available water densities cannot penetrate either the rising hot gases generated by burning storage or the obstructed flue spaces to reach the seat of the fire. A second group of firefight-

PERSPECTIVE

$150 million fire loss . . .

Continued from page 25

ers from Niehl arrives and organizes evacuation of personnel. This group, too, attempts to combat the blaze with hose streams, but the fire is now out of control.

At this point, the warehouse maintenance supervisor proceeds to the diesel pump house and finds the pump running with a firefighter in attendance. Ten minutes later, he checks again, and the pump is still operating under supervision. Meanwhile, as the Köln fire trucks approach within two miles of the plant, the officer in charge notes heavy black smoke in the sky and sends out an additional alarm. Another detachment is sent and volunteer fire brigades from nearby villages are called out. At 3 o'clock, the Köln trucks reach the site and another alarm is immediately radioed in, requesting eight more units. Fire is very intense now—oil cans burst and the structure creaks ominously. The pressure control wiring for the diesel engine breaks or short-circuits at this time, causing the pump to stop. By now, the sprinkler system is totally overwhelmed and manual fire fighting efforts are unable to control the situation. Water pressure drops because so many hoses and sprinklers are in operation. Another alarm is issued, which brings three more units to the scene.

Power failures

At 3:30 p.m., the Ford fire control specialist arrives at the scene and proceeds to the diesel pump house where he finds that the pump is no longer running and the door is locked. The fire control specialist unlocks the door and starts the pump manually.

Water pressure is now so low that a water relay, consisting of several pumper trucks connected by hose, is set up from the Fühlinger See (a lake near the Merkenich site) and also from a rainwater collection reservoir at the plant. The Ford fire control specialist finds that the electric-motor-driven pump in the Canteen Building has no power and the second electric booster pump is not operating although the controller is set on "automatic." This pump is started manually. Ford officials call the public water department to request that additional pumping capacity be placed on line.

At 4:20 p.m., the City of Köln fire director announces that the building west of the masonry wall cannot be saved and orders all firefighters to evacuate. Efforts are now directed at saving the building east of the wall, the main electrical substations, boiler house, social buildings, and the main office. At 6:47 p.m., the fire is reported to be under control, and is essentially extinguished by about 11:30 p.m. Occasional small fires still break out but are quickly extinguished.

Protection flaws

The Ford loss has raised a lot of alarming questions. In the rubble of this plant lies a lesson which industry should take to heart. Yes, the plant was protected—but there were several fatal flaws in the armor.

Storage of plastic parts was piled to 20 ft. Based on Factory Mutual Standards, the available sprinkler system could only protect it up to 5 ft. This excessive height allowed a deeper-seated and more intense fire to develop and interfered with access of water from the sprinkler heads to the flames. The fire started near ground level and hot gases were able to rise toward the ceiling—and with much greater velocity and volume than in a storage arrangement of lower height. The sprinkler system was overwhelmed by fire in the storage it was supposed to protect.

This was, without doubt, the most important factor. But does this mean that plastics storage must always be limited to 5 ft.? No, because protection can be engineered for higher arrays. However, in this case, the design features of the sprinkler system rendered existing protection inadequate for 20 ft. high storage.

Diagram 1

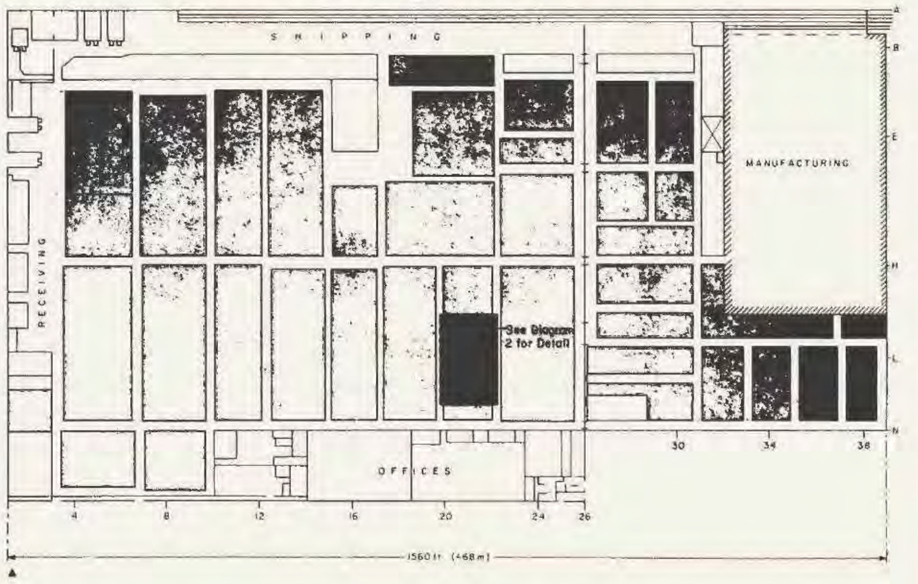
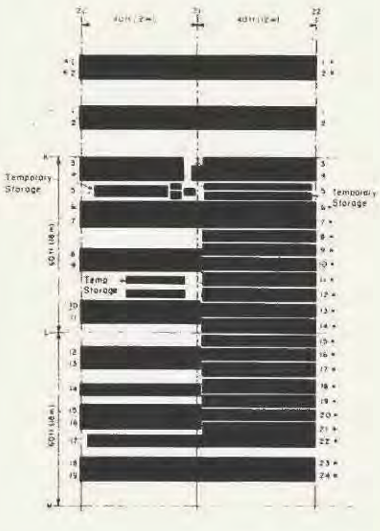


Diagram 2



Illustrations: Record

Sprinkler inadequacy

• Sprinkler density was too low. The water density available from the existing sprinkler system was only about 0.35 gpm/sq. ft. over a demand area of 3,000 sq. ft. The sprinkler density needed for 20-ft. high plastic storage would have been 0.6 gpm/sq. ft. over the same area.

• Sprinkler orifice sizes and temperature ratings were incorrect. Larger heads would have discharged roughly 40% more water over the flames and larger water droplets would have better penetrated the rising fire plume. Too many heads opened during the early stages of the fire, and resulted in lower water density for the system as a whole.

• Temporary storage blocked the aisles. Shipments of automobile components were temporarily placed in the aisles while awaiting final destination, leaving aisle spaces of only 29 in. This added to the fire hazard and made manual firefighting extremely difficult.

• There were no flue spaces to provide a path for sprinkler water to flow down through the racks so that it can reach a fire at lower levels. The source of heat generation still remains buried in the center of the piles. Because the storage in this case was so high, flame was able to involve a large volume of material while still hidden from the sprinkler water.

• Electric power supply and pump control arrangement were not reliable. Power supply cable was routed through the warehouse. Operation of these pumps, important components of the fire defense systems, was therefore subject to the effects of a fire in the building they were intended to protect. Power supply to fire pumps and fire pump controllers should be designed for reliable operation under any emergency condition.

• The on-site emergency organization was incomplete. Not until 5 or 6 minutes after discovery of the fire did someone decide to notify the Niehl fire department. Three times during the emergency, fire pumps were found not running, even though placed on automatic control. No one had been assigned to stand by to ensure uninterrupted operation. Two pumps had to be restarted manually while the third one lost power early in the fire.

In this case, had warehouse personnel been assigned to the following key functions, they would have made a more effective contribution to the firefighting efforts:

1. A person to take immediate charge of the emergency and direct the efforts of the organization until relieved by a Ford fire officer arriving from the fire station.

2. Personnel trained to sound the plant alarm and telephone the Ford fire station upon discovery of a fire.

3. Control valve operators to make sure the sprinkler system water control valves for the affected area are fully open, and to stand by the valves to guard against premature closure by others until relieved by the person in charge.

4. Fire pump operators to make sure that each fire pump starts and remains running for the duration of the emergency.

5. Fire squads to begin manually fighting the fire with small hoses and extinguishers until the fire department arrives.

When the warehouse was built in 1962, the sprinkler system was adequate for prevailing conditions. Stock was small at first and was kept within safe limits. But operations grew and more components were stored; some parts became obsolete or slow-moving. Adequate aisle spaces were not kept.

As years passed, the automotive industry turned more and more to the use of plastic instead of metal for various components. The highly combustible loading in the warehouse reflected this trend. However, protection did not keep pace with these developments. With proper sprinklers and water density, and better storage configuration, the sprinkler system could have controlled the fire. The most critical factor, though, was the existence of a solid, uninterrupted block of high-challenge fuel which no sprinkler system could sufficiently protect.

Technical footnote: What if the storage had been lowered to 10 ft.? According to Factory Mutual Data Sheet 8-9, the properly arranged storage of plastics to 10 ft. high should be protected by a density of 0.45 gpm/sq. ft. over a demand area of 5000 sq. ft. if 165°F sprinklers are installed. The actual system, with all pumps operating, provided only about 0.3 gpm/sq. ft. over an operating area of about 5000-sq. ft.

If 286° F rated sprinklers had been installed, a density of 0.45 gpm/sq. ft. over a demand area of 3000 sq. ft. would have been required: however, only about 0.35 gpm/sq. ft. over 3000 sq. ft. was available.

Thus, even lowering the storage height to 10 ft. from 20 ft., while maintaining flue spaces and installing high-temperature sprinklers, would not have assured protection from a disastrous fire. ■

Threats of political terrorism heated aftermath of the fire

In an interview with members of the FM team that investigated the fire at Merkenich, Record associate editors Cynthia Shaler and Marion Snow learned what it was like to be face-to-face with such a disaster, and how the investigation was planned and carried out. This excerpt from the interview includes exchanges with Edwin R. Bayley, technical consultant, and with Ruud H. Bosman, manager of the fire and extended coverage department, both of Factory Mutual International's London office.

RECORD: Can you describe the political atmosphere in Germany at that time?

BAYLEY: Well, several of the Baader-Meinhof gang had reportedly committed suicide in one of the German prisons that morning. Because of certain statements made by people around Europe on the left fringe at the time, it was thought that maybe the Ford fire was a result of terrorist activity. At about this time the Baader-Meinhof gang had threatened to blow a Lufthansa airlines plane out of the air, someplace in the world—they didn't say exactly where. So people were reluctant to travel by air. Important people had been kidnapped in Germany and surrounding areas of Europe. It was a very, very touchy political situation.

RECORD: Was it due to the political atmosphere that the police denied everyone access to the plant?

BAYLEY: No. Well, perhaps in part. You have to remember that it was an extremely serious fire, one of the largest industrial fires in Western Europe since World War II. It is always the duty of the police in these situations to take into account the safety of everybody who might be involved, keeping in mind that many people are not aware of how these buildings behave when they have been in a very large fire or explosion. Then, of course, the police must make an investigation as to whether a crime has been committed, whether it was arson, terrorist activity, or something else. So the entire building, not just one particular area, was closed to everybody. This was for public safety, so that people wouldn't go in there willy-nilly and get injured.

RECORD: How did Ford management react to the fire?

BAYLEY: Well, obviously the management was very shocked that such a fire could occur or spread as rapidly as it did. They knew that they had a certain amount of protection, but you must remember that a great deal of plant management has no knowledge of fire protection. They have other things to do. So consequently they did not really ask too many questions about the protection, such as why the fire brigade was unable to stop it. It seemed that one of the chief concerns of management at that time was, "This thing is gone. Let's do what we can to get production reinstated in the quickest possible time." That is one of the first things they did. They were already meeting by dinnertime that night to get alternative facilities arranged.

RECORD: Has this fire affected other Ford of Europe plants? Has Ford reevaluated its policies with regard to protection systems?

BOSMAN: I think one of the main results of the fire is that Ford management, both in the United States and Europe, is now much more aware of the hazards of plastics storage, particularly in warehouse areas. In fact, they have started on a program of reevaluating all their existing warehouses and storage areas and, where needed, they will improve their protection. They're spending a lot of money on that. That applies to America as well as Europe. They embarked on that program prior to the fire, but, of course, the fire accelerated their plans. They really want to make sure this doesn't happen again. ■

PERSPECTIVE

Using insurance, not own loss control buys a scapegoat in case of failure

By Norman Hoffman, CPCU, ARM

RECENTLY FRONT PAGE ARTICLES have appeared in this newsmagazine giving the impression that the seller's market in insurance had fallen out of bed. One might almost believe that insurance companies were holding a January White Sale or an after-Christmas Sale in which men's all wool suits were reduced to $149.95 from $250.

In those instances in which underwriters panicked following the records of 1974 and 1975 and overpriced their policies based on forecasts of the imminent end of the world, which has not occurred yet, there may be some gratuitous premium reductions. In general, however, my scientific sampling of the two wise men leads me to conclude that the pricing and availability of property and casualty insurance coverages relies even more heavily than before on a cost-plus basis, especially for large risks.

Which brings me to the subject of this dissertation: Business executives, fully cognizant that insurance premiums must cover losses, services and profit, still prefer to pay premiums rather than make a major commitment to loss control. This exists despite a clear understanding that internal loss control ranks among the more humane and least costly, i.e. profitable, risk management alternatives. The title "Risk Manager" contains within it a clear responsibility for controlling risks and resultant losses. Why, then, have I observed managements giving only lip-service to controlling losses and preferring to pass the responsibility on to their insurers or other outside services?

"A penny saved is a penny earned." "An ounce of prevention is worth a pound of cure." "Don't put off till tomorrow what you can do today." When I learned all of these proverbs I took them to be absolutes. But times have changed. Today a penny saved becomes a ha'penny in 10 years. Who wants to change a pound into a ounce? And if we put off till tomorrow or next month, maybe this quarter's results will look better. Thus, there are valid reasons today for not promoting motherhood and safety.

Norman Hoffman, assistant professor at The College of Insurance in New York, has been an underwriter, agent, broker, risk manager and captive insurance company president almost since the proverbs he quotes were first written.

Recent reports on the future and changing role of risk insurance managers stated that the service most commonly purchased by risk managers and other management personnel responsible for insurance is safety and loss control. The report found that 63% of responding risk managers utilized insurers or other outside services suppliers for safety, 53% used similar fire protection services and 42% used these facilities for advice on OSHA. Other management personnel with responsibility for insurance make even greater use of such outside services. The reasons for this utilization of paid, outside service organizations in preference to use of an inside loss control program are many.

First, the cost of insurance is definite. It is based upon specified rates and factors and offers minimum and maximum limits. So it may be reasonably estimated and accounted for. The cost of effective loss control is at best subjective. There is never any certainty as to whether one is overspending or underspending.

Second, the outcome of an insurance policy is definite. The company agrees to pay for losses and it does so. Whether or not the insurer's loss prevention program is effective, it will pay the cost of losses as promised in the policy, thus providing the insured with worry-free protection. On the other hand, the outcome of a corporation's internal loss control program is indefinite.

The payment of an insurance premium is a readily identifiable expense item. An improvement in accident or loss experience may result from other sources such as better working conditions, lower turnover, capital improvements, improved motivation or morale and a multitude of societal or economic factors thus making it difficult for management to accurately gauge the cost/benefit ratio of its internal program and expenditures.

The cost of insurance is definite. But the cost of effective loss control is at best subjective. There is never any certainty as to whether one is overspending or underspending.

Insurance companies, consultants, brokers and other service organizations offer professional loss control, property conservation and safety services either as a part of an insurance premium or for a separate charge. The risk manager or corporate executive, on the other hand, may not consider himself competent or the equal of these services.

Insurance is easy to obtain and simple to maintain. Maintaining one's own loss control program requires recruiting, qualifying, training, administering, supervising and the entire spectrum of personnel-related problems for relocating and the start of employment until separation or "death do you part."

Insurance is sold—by insurance companies, agents, insurance brokers, stock brokers, banks and by advertising. Indeed, there is an old adage which says, "Insurance is never bought, it's sold." It's unlike a gambling casino which is sought out by the customer. But hardly anyone promotes corporate loss control programs with a hard-sell. The risk manager may try, but is hampered by the fact that his livelihood and his future if he is upwardly mobile depends upon those he is trying to convince. And safety directors are not renowned as especially eloquent salesmen. Also there is actual resistance from production management.

Some types of losses just don't lend themselves to treatment by loss control programs. For example, there are social ills such as arson, vandalism, crime, large automobile losses or large products/premises liability judgments merely because the corporation is a target-risk.

Implementing and succeeding with a loss control program may be one duty management believes could and should be better left to an outsider, because of the difficulty in making any one person responsible for the job. Internally, responsibility would have to be assigned at the executive level, then possibly at a committee level, then to a safety director, then to functional managers in charge of plant, fleet, security and personnel. If an outsider provides the services, responsibility is easily pinpointed.

Then, too, it may be that management has made an effort in the past at running a loss control program and did not succeed. Thereafter it will avoid repetition of such failure.

Psychologically, it appears that management has grounds on which to pass the responsibility to outsiders. The rationale is clear: If the program works, management can pat itself on the back for deciding to buy the service; if the program doesn't work, management can always say, "Oh well, there's always someone out there waiting to sell us insurance." ■

Insurer claims staffs work strictly 9-to-5

By Amos Rosenbloom, CPCU

THE CLAIMS DEPARTMENTS of the casualty insurance companies operate on an eight-hour, five-day week. They seem to think accidents or losses should only happen during business hours. Their employes are not serving the customer. They aren't "holding the client's hand." They don't know how or whom to contact when losses occur, how to reduce losses or how to investigate accidents.

Three times in the last six months I have tried to use the claims facilities of national insurance companies and found them lacking in imagination, availability and competence.

The first loss involved a head-on collision of two trucks in the South. One driver was dead and the trucks were total losses. The reporting procedure from client to agent worked well. When I received notice of the loss the trucks were still on the highway, pictures and statements could be taken. However, the local insurance company had no night number listed in Minneapolis or Chicago. Their claims people were not at home and the trail grew cold. In this case, our agency picked up the ball, ordering pictures and taking phone statements from witnesses.

Amos Rosenbloom is a principal of Minneapolis-based Bradow, Howard, Kohler & Rosenbloom Inc., a brokerage firm, 3601 Park Center Blvd., Minneapolis 55416.

Insurance companies should have 24-hour service available for claims. If there is an automatic answering system on the day number, the company should so identify it in the phone book.

The second loss involved a death in Chicago where the back wheels of a truck ran over a pedestrian and he was killed. The time was 4:10 p.m. The claims department said they were closed and couldn't take the call until the following morning. Unbelievable? No, it happened. Again our staff stepped in to get witnesses' accounts and clear up the details of the accident promptly, so that there was enough evidence to determine probable negligence and to get help to injured parties.

The third loss was a corker. While working at night, I called a retail store customer for current underwriting data and found that the fire department had just been called. The shopping center was filled with smoke, but prompt action by the firemen stopped the fire and smoke was being extracted with large fans. I turned to the phone book, but found no night number for the insurance company. So, I think maybe there is a tape or answering service. No deal. I locate a national claims number, only to have the person answering the phone state that auto accidents are all they cover after hours. In frustration I locate one of the claims people who can authorize "Air Kem" to clean up the damage. I stayed at the store until 12:30 a.m. when the job was completed.

Three years ago a tv exploded in a motel room and caused $50,000 worth of damage. I notified the insurance company that I was on the spot 30 minutes after the loss. The tv set was the probable cause, according to the fire/arson inspector. I said I would hire someone to take pictures, and I picked up the tv set and stored it in a box. In the end, the insurance company refused to share any cost for the pictures, and did not work on subrogation for two years. When I got a call from an attorney who asked that I give him the pictures and send in the tv set which had been trashed, I was dumb-founded.

In short, the national insurance companies are so tied up in their paperwork they cannot get out to do the job. They have forgotten how to communicate and how to reduce the effects of a loss with reasonable, immediate investigation and loss reduction techniques. Insurance companies should have:

- 24-hour service available for claims. If there is an automatic answering system on the day number it should so identify it in the phone book.
- A plan for gathering information on the claim—procedures for gathering pictures, statements, police reports, names and addresses of witnesses, etc.
- The wherewithal to authorize salvage and repairs immediately.
- Requirements that the customer have an immediate safety board meeting to establish responsibility for all employe accidents. ■

info for buyers

To receive materials listed in Info for Buyers, write to the name and address accompanying each item, mentioning that you saw the item offered in *Business Insurance*. Readers are invited to submit educational and promotional material of interest to risk managers and employe benefit chiefs for possible inclusion in the column. All items that are free and of interest to our readers are eligible; those available at a modest cost will be considered. Send a sample to Mary Ellen McKee, Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

• A manual of more than 20 individual **insurance buyers' checklists** is now available in a three-ring binder form from RIMCO Inc. The booklets, for use in examining corporate insurance portfolios, lists every kind of insurance applicable to a specific type of business exposure and coverage. For a free brochure describing the binder, write RIMCO Inc., 10300 N. Central Expressway, Suite 350, Dallas, Tex. 75231.

• The Engineering & Safety Service of the American Insurance Assn. is offering the results of a newly revised survey on **hazards in the chemical** and allied industries. The 112-page survey, with pictorial illustrations and charts, contains information about loss prevention programs, hazard factors, risk evaluation, plant layout, equipment, operator practices, explosion prevention and control and environmental health. Cost is $10. Write Publications Dept., The American Insurance Assn., 85 John St., New York, N.Y. 10038.

• The Paul Revere Cos. is offering a booklet describing "super standard," a widely discussed new concept in **life insurance** underwriting and pricing. The booklet provides detailed information on the subject and easy-to-apply criteria charts. For a free copy write L. Russell Blanchard, vp-advertising and public relations, The Paul Revere Cos., Worcester, Mass. 01608.

• Reduce fire sprinkler damage and property losses caused by forced entry. Knox Box Co.'s brochure describing its innovative **public safety key box system,** which was developed to provide firefighters and paramedics immediate access to locked buildings, elevators and other secured areas. For a free copy of the brochure write Knox Box, P.O. Box 2684, Newport Beach, Calif. 92663.

• An eight-page booklet is now available from the Texas Advisory Council on Arson and the Texas Safety Assn. on the effects of **arson in Texas.** The booklet gives statistics on the impact of arson and offers tips to Texans on how they can help curb arson. For a free copy write ATAC on Arson, 1011 Congress, Suite 501, Austin, Tex. 78701.

• Factory Mutual Engineering, part of the Factory Mutual System, offers a four-page booklet focusing on **floods and the fire problems** they can cause. The booklet discusses the advantages of long range planning for floods in areas where they occur frequently, the threat of fire in these areas and the steps to take after a flood. Cost is 10 cents for members and 20 cents for non-members. Write Factory Mutual Training Resource Center, Order Processing Dept., Box 688, Norwood, Mass. 02062.

• How to protect computers and data processing equipment from property loss and damage is found in Industrial Risk Insurers's **Recommended good practice for the protection of electronic data processing and computer-controlled industrial processes.** Losses from natural disasters and man-made ones are described, including dates and amounts of damages. Also included is a glossary of computer terms. For a free copy write Robert F. Quagliaroli, Publications Dept., Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

• **Hull Cargo & Surveyors Inc.,** which represents underwriters and private interests in surveying and inspecting all types of marine and inland marine risks, offers a brochure describing its service specialties. For a free copy write Willaim J. Borrmann, Hull & Cargo Surveyors Inc., 5th Floor, 80 Maiden Lane, New York, N.Y. 10038.

• **The Direct Claims Approach:** One Sure Way To Reduce Your Claims Cost, a promotional booklet published by United States P&I Agency Inc., outlines that company's nationwide independent loss adjusting services for marine casualty cases. For a free copy of the booklet write William J. Borrmann, Affiliate Accounts Manager, USP&I Agency, 5th Floor, 80 Maiden Lane, New York, N.Y. 10038.

dates

APRIL 23. Ohio State University is sponsoring a conference on **health maintenance organizations** providing experiences, perspectives and cost containment results of major businesses using HMOs. Cost is $40. Contact Stephen F. Loebs, Ph.D., Graduate Program in Hospital and Health Services Administration, Ohio State University, 1583 Perry St., Columbus, Ohio 43210.

APRIL 23-25. RIMCO Risk Management Inc. and RCI Communications Inc. will present a seminar on **professional liability** for **building designers and construction contractors.** The program will address how to coordinate non-professional and professional coverages on a cost effective basis, approaches to insurance markets and techniques for the analysis and evaluation of competitive quotes. The seminar will be repeated **May 15-17** in Philadelphia and **June 4-6** in Chicago. Cost is $375. Contact RCI Communications Inc., 10300 N. Central Expressway, Building V, Suite 350, Dallas, Tex. 75231; phone 214-363-9656.

MAY 15-16. Risk Planning Group Inc. is sponsoring a workshop in New York to examine the theories and principles behind sound **risk management** administration and to analyze practical tactics behind a successful program. Communication tools, how to evaluate the performance of a risk manager and the proper relationship of risk manager to field operations will be discussed. Also **May 30-31** in Houston. Cost is $425. Contact Risk Planning Group Inc., 722 Post Rd., Darien, Conn. 06820; phone 203-655-9791.

london line

Business links won't tie up clients, brokers say

By JOHN H. MILLER

LONDON—Leading brokers are claiming they will try to avoid exclusive client-arrangements with any U.S. brokers with whom they will be cooperating more closely in the coming months as a result of the growing stream of trans-Atlantic insurance link-ups.

The latest to go on record in this way is the newly-created Sedgwick Forbes Bland Payne group, which is negotiating a business integration with Alexander & Alexander, but has already lost some of its own accounts to C.T. Bowring group through changes by Marsh & McLennan. (*Business Insurance*, Mar. 5).

Generally speaking, these moves are seen in U.K. broking circles as a significant step to re-assert the independent stance of Lloyd's brokers in the minds of the insurance community. But at the same time there is little doubt that fluctuations in business arrangements will occur as their associations with selected U.S. brokers grow stronger. Renewal dates will be the occasion when these plans are put to the test.

Neil Mills, chairman of Sedgwick Forbes Bland Payne, says: "Until discussions with Alexander & Alexander for a formal link are officially completed, the two groups are considering how best to coordinate their activities with a view to close cooperation in all territories throughout the world. It is unlikely any proposals will be fully announced for several months, but the directors of the two groups want to emphasize again that it is their agreed policy not to achieve an exclusive arrangement.

"This is especially the case over the correspondent relationships between A&A, other London brokers, my own group and other U.S. brokers, for the clients' interests must always remain paramount."

The Sedgwick Forbes division of the group (which recently merged with Bland Payne) has just announced it made profits of $50 million last year, against $46 million in 1977, but expects North American markets to become more competitive during 1979. Its other interests cover Australia, New Zealand, South Africa, and the Middle and Far East, as well as some European countries.

Steering design concern

Marine insurers are waiting for greater safety attention to be paid to tanker steering design after studying a report on the Amoco Cadiz oil spill off northern France last year which blames a breakdown in steering gear for the basic cause of the disaster.

But the tanker captain Pasquale Bardari is criticized for delay in calling salvage assistance before the U.S.-owned tanker drifted onto the rocks with 220,000 tons of oil on board, leading to the worst pollution ever recorded.

The report by a Liberian marine board, which took action as the tanker was registered under its flag, agrees that bad weather might have affected the steering. But there were delays in calling for tug assistance, partly because the captain apparently felt bound to make four radiophone calls to the owner's Chicago office before finally resolving the salvage terms available to him.

Claims for $1.5 billion oil spill damages have already been launched by the French authorities in the U.S. against Standard Oil of Indiana and associated companies (*BI*, Nov. 13). But some risk experts protest this is so far above the maximum international limits of $17 million which had been agreed by many countries that it is completely unrealistic. The limit has since been raised by many countries outside the U.S. to $36 million, and may go even higher to $72 million. But the French authorities, which include townships in the polluted coastal areas, say the U.S. courts have power to award much greater damages if they think this course is proper.

Oil safety committee

A committee has been set up to advise the U.K. Health and Safety Commission on health and safety matters in the oil industry, including offshore North Sea developments in which many U.S. firms are engaged.

It will aim to protect workers from hazards which may arise in their employment, and will concentrate in the first place on offshore exploration and development.

Management representatives from Esso, Mobil, Total, Shell, Amoco, and British Petroleum corporates will sit on the committee, together with trade union representatives. They will make periodic reports to the Health Commission, which has already established special advisory committees on toxic substances, asbestos, and major industrial hazards.

U.S. business profitable

Higher profits from their U.S. operations have been returned by leading U.K. insurance companies, even though they fear there may be a decline in the coming year's results.

Commercial Union, which as recently as three years ago was pulling out of loss-generating U.S. business, has swung back completely on track. It turned in profits of $15.7 million last year, against $6.3 million in 1977, citing improved claims experience in most lines.

Its statutory operating ratio was 98.5%, against 98.2% in 1977. But premium rate increases were hard to achieve, except for workers compensation, because of growing competition.

Good results in the U.S., with profit of $10 million against a 1977 loss of $7 million, helped to lift General Accident's global success to $180 million. Royal Insurance also raised its U.S. results effectively to $21 million from only $400,000 in 1977, with world profits at $356 million.

"All major lines in the U.S. improved to produce better underwriting results, with profits achieved in property lines, and losses reduced in auto and workers compensation, and eliminated in general liability," the Royal group announced. ■

What would you call a new policy that insures EDP equipment, data and media and extra expense with one deductible, covers major breakdowns, flood, quake, debris removal and then some, and is written in plain English?

Better.

The St. Paul originated EDP insurance 18 years ago. Since then we've kept right on making it better. Our latest improvements make it a lot better.

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MOP. Covers manufacturers' property exposures in transit, in storage or in-plant all in one policy.

Umbrella Excess Liability. One million dollars excess liability coverage on small businesses for as little as $200 per year. Can also handle larger accounts with limits up to $20 million.

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Revlon denies . . .

Continued from page 1

or six years," said Don Arbogast, manager of corporate insurance for Eli Lilly & Co., which owns Elizabeth Arden. "We have had no problem getting insurance or with rising premiums." But, Mr. Arbogast added, the company has been heavily self-insured these past few years and is aware of the dangers that could come from product liability suits.

Two out-of-court settlements between Revlon and women who claimed they were harmed by Esoterica have only added to the industry's worry. Revlon's product liability insurers reportedly have already paid out $500,000 to the women, a figure that Revlon officials would neither confirm nor deny.

But Frank Johnson, vp for public affairs at Revlon, said the company was admitting no guilt in making those settlements. "Those sort of things are handled by the insurance company (Insurance Co. of North America) in a way that is best for them. They want to cut their losses, so they do what they have to do," Mr. Johnson said.

"Vigorous" defense

This time, however, the company is determined to fight Mrs. Tulin's suit "vigorously," said Mr. Johnson.

Part of that defense will include arguments by Revlon that the ammoniated mercury in Esoterica never posed any health problems and that it was taken out in 1972 only because the company found a more effective replacement.

"We had no unhappiness with Esoterica and there were no problems with ammoniated mercury. We just decided that we should go with something better," Mr. Johnson said.

Part of the impetus to change the cream also came from questions by consumer groups and the government over the possible danger posed by mercury, Mr. Johnson acknowledged. But the company never agreed with critics who suggested there might be some dangers in the use of mercury in products, he said.

No FDA action

"If someone questions an ingredient that we use and we have something better to replace it with, then we will go ahead and do that. But that doesn't mean there was anything wrong with the original product," he said. "This was sold as an over-the-counter drug, not as a cosmetic, so the FDA (Food and Drug Administration) has control over it and can impose stringent drug control laws." The FDA can require the maker to put warnings on labels if there is something potentially dangerous with the product, but that never happened with Esoterica, he said. "The FDA had the power to ban this product or recall it, but they never did. Obviously, they didn't think it was all that critical," Mr. Johnson argued.

But there was evidence long ago of a concern about the effects of ammoniated mercury. In the 1930s, the U.S. government warned that long term use of a face cream containing ammoniated mercury might cause health problems. And the FDA suggested that creams which carried less than 5% ammoniated mercury (Esoterica only had 3%) should carry a caution to frequent users. Japan, after a scare in the 1960s when high levels of mercury were found in fish, banned the import of Esoterica because of its mercury content.

Since the ammoniated mercury was replaced with hydroquinone in 1972, there have been no complaints about the cream. But Mrs. Tulin—and the other two women who filed suits—argued that the effects of Esoterica before it was reformulated continue to linger.

Mrs. Tulin says in her suit that she used the cream for "many years" before she stopped applying it on her skin in 1975. For much of that time, the cream was manufactured by Mitchum Co., which was bought by Revlon in 1970.

Similar complaint

Mrs. Tulin told *Business Insurance* that in 1975 she noticed dark spots would often be left on her hands and face after using the cream, so she stopped using it. But she said it wasn't until 1978 that she thought the cream might also be linked to the chronic health problems she had suffered for the past decade.

That was when she read in a paper about a trial in Tennessee where a woman seemed to complain of similar ailments, which she said were caused by the ammoniated mercury in Esoterica.

In that case, a jury awarded the 80-year-old woman $1.5 million in damages for her suit against Revlon. But that award was overturned by the judge, who ruled it excessive. Before a retrial on damages, the case was settled out of court for a sum that Revlon officials refuse to disclose.

The lawyer in that case, Thomas Dossett, is acting as co-counsel in the Tulin case.

Mrs. Tulin's Connecticut-based lawyers, Kathryn and Harvey Wachsman, are now in the process of obtaining depositions from their client and from Revlon officials. Mrs. Wachsman said the lawyers hope to have a hearing date set sometime within the next two months.

Part of the case will rest on how much research went into making the cream, who was responsible for the tests and what kind of chemicals were used in it, Mrs. Wachsman said.

Mrs. Tulin, at the request of Revlon's lawyers, will have to undergo a physical exam before the trial starts. ■

Report lists captive use at big firms

DARIEN, Conn.—Some 155 corporations listed in the Fortune 500 operate captive insurance companies, one consultant estimates.

Companies such as Sears, Roebuck & Co. with its Allstate division are included in Hugh Rosenbaum's estimate, arrived at by matching the list he compiles for Risk Management Reports with the Fortune 500 listing.

Mr. Rosenbaum of Risk Planning Group here included companies in his estimate having what RPG terms "senior insurance subsidiaries" such as Allstate, which have expanded far beyond simply underwriting parent company risks to become general insurers.

When he took the Forbes 500, with companies ranked on the basis of their asset values, he counted 127 firms having captive insurance companies. But, "approximately 100 or more companies on the Forbes 500 list are already financial institutions or insurance companies that would have no reason to operate a captive insurer." ■

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Your company is facing growing Workers Compensation risks. The strategies you employ to minimize the impact of these risks may well save your company thousands of dollars. That's what this Conference is all about:

SUNDAY, JUNE 10

4:00 pm: Registration.

6:00 pm: Welcome Reception. Special screening of a significant Workers Compensation film.

MONDAY, JUNE 11

9:00 am: Federal Regulation—Is It Really Coming? An examination of the outlook for passage of a federal Workers Compensation law and speculation on possible provisions and their effect.

10:00 am: Federal Regulation—Impact On Employers. Daniel M. Kasper, Assistant Professor, Harvard Business School, takes an in-depth look at what federal Workers Compensation control would mean to employers.

11:15 am: Risk Managers And Regulation. Michael Craig, Manager of Insurance, Transcon Lines, and Howard T. Weber, Director of Insurance, 3M Company, discuss whether risk managers should be involved in the issue of regulation, how they should advise their companies, and what position risk managers take.

12:30 pm: Luncheon.

2:00 pm: Concurrent Sessions. Four intensive sessions—attend the one of your choice:

- **How To Uncover And Prevent Fraud.** James D. Strader, General Attorney—Workers Compensation & Casualty, U.S. Steel Corp., and Jon Shebel, President, Associated Industries of Florida.
- **Pre-placement Screening And Counseling As A Loss Control Tool.** Judith Stockman, Director of Safety, Weiser Lock Division of Norris Industries.
- **How To Limit Serious Injury Liability.** Gus E. VonBolschwing, Attorney, Golman & VonBolschwing, and Richard Carroll, Principal, Carroll & Company.
- **Calculating And Quantifying Your Workers Compensation Exposures.** Joseph A. Destein, President, Risk Sciences Group.

3:45 pm: Concurrent Sessions. The previous sessions are repeated so you can attend one more of your choice.

5:15 pm: Reception.

TUESDAY, JUNE 12

9:00 am: Faceoff—Are Workers Compensation Rates Fair? William Cain, Director of Insurance & Risk Management, Dayton Hudson Corporation; Richard I. Fein, Actuary, National Council on Compensation Insurance; Myra L. Tobin, Vice President & Senior Casualty Officer, Casualty Division, Marsh & McLennan Companies, Inc.; Palmer App, President, Central Division, Kemper Insurance Companies; and Douglass Stevenson, Partner, Rook, Pitts, Fullager & Poust, discuss and debate this central Workers Compensation issue.

12:00 noon: Luncheon.

1:00 pm: Can The Wage-Loss Concept Really Work? John H. Lewis, Attorney, discusses Florida's experiment with the wage-loss concept.

1:45 pm: Concurrent Sessions. Four additional intensive sessions; attend the one of your choice:

- **Rehabilitation—Controlling The Loss After The Injury.** Gayle C. Foster, Assistant Secretary, General Reinsurance Corporation.
- **Should You Use Your Captive For Workers Compensation?** Robert A. Reeves, Vice President—Insurance, Hospital Corporation of America.
- **Safety And Loss Prevention.** Michael Krikorian, Corporate Manager of Safety, Brunswick Corporation, and James Dugan, Manager of Safety, Allegheny Ludlum Industries, Inc.
- **Auditing And Monitoring Your Insured And Self-Insured Workers Compensation Program.** Donald R. Czerniach, Vice President—Manager, Administrative Claim Service Dept., Fred S. James & Company of New York, Inc.

3:30 pm: Concurrent Sessions. The previous sessions are repeated so you can attend one more of your choice.

5:00 pm: Reception.

WEDNESDAY, JUNE 13

9:00 am: Top Management's View on Workers Compensation. The perspective from the top on the issues and an examination of the opportunities for managing the risks.

10:15 am: Product Liability And Workers Compensation. Victor Schwartz, Office of the Secretary, U.S. Department of Commerce, discusses aspects of the Department's proposals on product liability and their relationship to Workers Compensation.

11:30 am: Taxes As Loss Prevention Incentives. Richard Bergman, Executive Director, Interagency Task Force on Workplace Safety & Health, and Robert Collyer, Executive Assistant, UBA Incorporated, discuss whether a change in the tax code to limit employer Workers Compensation tax deductions to the average for their industry would provide an incentive to improve safety and reduce workplace injuries.

12:30 pm: Adjournment.

business insurance
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Conference Data: Space is limited so registrations are accepted on a first-come, first-served basis only. To assure a place for you and your associates, please register as soon as possible.

Conference fee is $385; a 10% discount applies to this rate for additional registrants from the same company who register at the same time. If your plans change, you can substitute the name of another individual, without penalty, prior to the Conference. Or you can receive a full refund if you cancel by May 29, 1979. (For cancellations received after May 29, there is a $65 service charge.)

Registration fee includes admission to all Conference sessions and functions, complete resource materials including a workbook, planned luncheons and receptions.

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Nuclear plants . . .

Continued from page 1

"asinine" and other opponents argued that the chance of earthquakes occurring in the region of the five plants was once in 10,000 years.

The plants were closed when it was discovered that they were designed with the aid of a faulty computer model that was used to determine the likely stresses on cooling pipes in the event of an earthquake.

The computer model, designed by Stone & Webster Engineering Corp., apparently underestimated by large margins the stresses in event of an earthquake. Officials of the NRC said the pipes and pipe supports designed according to the model could burst if there were a strong quake, causing the plant to lose its cooling fluid. If that happened, according to the NRC, the nuclear core could melt down, releasing radiation.

No one yet has admitted to making a mistake that resulted in the miscalculations, which could become a major factor when determining who is liable for the millions of dollars the utilities estimate it is going to cost to replace the nuclear power with oil.

Oil needs

The five nuclear plants normally produce about 4.1 million kilowatts of electric power. Energy Department officials have estimated that it will cost the U.S. 100,000 barrels a day of additional oil to make up for that power loss.

Officials contacted at the plants said they don't know how long the nuclear reactors might be shut down or how extensive any changes might be. Most agreed with Jack Scanlon, insurance director of the Duquesne Light Co., who said all he knows at this point is, "This will in no way have any effect on our insurance. There have been no threats to cancel or rewrite any of the policies."

ANI's Mr. Proom said his company, despite the caution of the government, is "not uneasy at this point. It is our contention that the computer model was not that far off and that certainly in this part of the country the chances of earthquakes are very small."

But some officials argue that the danger of earthquake damage is greater than critics of the closings would concede.

Good safety record

Victor Gilinsky, one of five members of the NRC, said at a Congressional subcommittee meeting in March that it was possible once every 20 years for an earthquake to occur that would impose stresses beyond the permissible limits at the five plants. Experts from the U.S. Geological Survey said a 1929 earthquake that occurred less than 100 miles from the James Fitzpatrick plant in New York was greater than the standards at the plants.

James Fitzpatrick is the only one of the five plants where earthquake dangers had been taken into account in the construction and special insurance had been purchased.

The earthquake controversy comes just a few weeks after the insurance industry released a report highly praising the safety record of nuclear reactors.

The report, compiled by ANI, said over the past 21 years no accidents have occurred at insured plants involving radiation releases posing even a minor threat to the general public.

John Quattrocchi, senior liability underwriter at ANI, said losses over the past two decades have only been "minor." The company paid out only $623,000 in claims since 1958, the report said, and about 73% of the industry's premiums were refunded after 10 years because of good safety records. "We have complete confidence in the nuclear industry," Mr. Quattrocchi said.

ANI was formed in 1957 as a pool underwriting association of about 100 stock companies and insures all operating nuclear reactor plants in the country.

Liability limits

In association with the Mutual Atomic Energy Liability Underwriters, the pool covers plants to a $140 million liability limit, expected to increase to $160 million in May, Mr. Quattrocchi said. Most of the plants also buy property insurance from the pool at a limit of $300 million, but 14 have formed a captive, Nuclear Mutual Ltd., for that purpose.

Before August 1973, the government provided indemnity in excess of the insurance limits of the pool (in 1957 that was $60 million) up to an overall limit of $560 million. Since then, however, the government has been eased out of the insuring role and most of the responsibility has shifted to the pool and the utility company. Starting in May, if there is an accident that exceeds $160 million in damages, each utility company would be assessed its proportionate share of the loss, up to $5 million per reactor owned and operated.

With 68 reactors now in the country each kicking in their $5 million, that adds $340 million to the insurance coverage of $160 million, for a total of $500 million. That leaves only $60 million to be contributed by the government.

As more reactors are built, each with their $5 million share counted on, the government will gradually be relieved of any financial responsibility, Mr. Quattrocchi said. ■

Pinehurst, Stenhouse discuss U.S. merger

By LEN STRAZEWSKI

TORONTO, Ontario—Reed Stenhouse Cos. Ltd. an insurance, reinsurance and risk management firm here, is discussing a merger of its U.S. insurance business with California-based Pinehurst Corp.

The discussions, still in the "very preliminary stages," according to John Riley, director of Reed Shaw Stenhouse & Partners Inc., center around the possibility of Reed Stenhouse becoming a "major minority interest" in Pinehurst, a diversified insurance services company and parent of the insurance broker Emett & Chandler.

In return for a large block of Pinehurst common stock, Reed Stenhouse would grant majority interest in its 20 U.S. brokerage offices but retain its Reed Shaw Stenhouse name and some management interest.

An earlier report in the Wall Street Journal suggested that Reed Stenhouse was pulling out of the U.S. market in direct contradiction to its annual report resolution use to U.S. office profits to expand further in the United States.

The story incited a memo to all U.S. offices from Reed Shaw Stenhouse New York chief executive officer Tony Salvatore, in which Mr. Salvatore assured employes that "we are definitely not selling out," to Pinehurst.

"The implication in the Wall Street Journal was that we were selling out," explained Mr. Riley, "when in fact we are contemplating a merger in the better sense of the word to the mutual advantage of both.

"Should there be a meeting of the minds, Reed Stenhouse would receive a block of Pinehurst common stock. This possible merger is very much like a merger of several years ago in which Reed & Ostler joined with Stenhouse Ltd. to become Reed Stenhouse," he told *Business Insurance*. ■

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people

Joe Parrett retires; Carnation promotes Broadway

David Broadway is the new insurance manager at Carnation Co. in San Francisco, moving up from assistant insurance manager to replace Joe Parrett, who retired after 30 years with the company. Mr. Broadway, 50, will be replaced by John Oddy, who recently left the position of insurance manager for Dart Industries.

* * *

Bill Tronnier has joined Parker Drilling Co. in Tulsa, Okla., in the newly created position of corporate risk manager. Mr. Tronnier, 43, joins Parker after 23 years with Phillips Petroleum, most recently as assistant risk director. In his new position, Mr. Tronnier will report to vp of administration Roger Collins. Mr. Tronnier received his BS degree in business administration from the University of Tulsa.

* * *

Barbara Heagney has joined W.R. Grace in New York as its corporate insurance administrator, responsible for its property and casualty insurance programs. She replaces Jim Lott, who went to Rite Aid Corp. in Harrisburg, Pa., as its new insurance manager. Ms. Heagney, 28, was for the past nine years a special agent responsible for new business at Industrial Risk Insurance.

* * *

Edgar Armstrong, formerly director of the insurance and protection division of the American Bankers Assn., has joined Wyatt Co. as a consultant and head of the risk management services operation in a new Washington, D.C., office. No successor has been selected yet for Mr. Armstrong at the ABA.

* * *

Byron L. Hinson Jr. has been promoted to director of employe relations, insurance and safety, a newly created position at Sunnyland Foods Inc. of Thomasville, Ga. He will be responsible for bringing together all insurance functions, including group and casualty insurance along with supervising the employe relations department. Mr. Hinson, 39, came to Sunnyland from the Dorsey Corp. of Chattanooga, Tenn., where he was risk manager. He has 14 years of claims administration experience in all lines and four years in insurance management and safety. He graduated from the University of Georgia with a BBA degree.

* * *

Pullman Kellog of Houston, Tex. has hired **Peter Richardson** as assistant manager of insurance and promoted **Thomas N. Mercer** to senior insurance analyst from insurance analyst. Mr. Richardson, 49, most recently was corporate risk manager for Newpark Resources. In his new position, he will report to Harold L. Biggers, manager of insurance for Pullman Kellog. Mr. Richardson has a BS in economics from Penn State University and is a CPCU.

* * *

Deborah K. Hunter has been promoted to the newly created position of corporate insurance administrator of Aladdin Industries Inc. of Nashville, Tenn. Ms. Hunter, 26, previously was corporate insurance analyst. In her new position, which includes responsibility for all of the company's insurance plans except group, she will report to Frank Kyle, treasurer of the company. Ms. Hunter has been with Aladdin for four years and is secretary-treasurer of the Cumberland chapter of RIMS.

* * *

McQuay-Perfex Inc. of Minneapolis has named **Stella P. Alexis** claims and loss prevention administrator, a newly created position. Ms. Alexis, who will report to assistant treasurer Barry Glaser, previously was a risk management specialist with Land O'Lakes Inc. She is an economics graduate of Indiana, University of Pennsylvania and in December 1977 became an associate in risk management of the Insurance Institute of America.

* * *

Jim Carlisle, 55, has been named risk manager for the state of Washington, replacing Jim McLees who was promoted to assistant director for state services in the department of general administration. Mr. Carlisle, who has about 35 years of experience in the insurance industry, was formerly the risk manager for Marin County, Calif., until his job was eliminated by cutbacks resulting from Proposition 13. Prior to that, he was risk manager, for six years for Orange County, Calif.

* * *

David L. Morris is the first risk and insurance manager of Fleetwood Enterprises Inc. in Riverside, Calif., recently appointed to the position. He reports to treasurer Paul M. Bingham. Mr. Morris had been risk manager for the city of Pasadena, Calif., from June 1977 to November 1978.

•

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Utilization review . . .

Continued from page 1

next three months to a 9% reduction for the cumulative 15-month period. This reduced patient days among those monitored to slightly over 1,000 days per 1,000 insured from 1,140 days recorded in mid-1977.

"We're becoming increasingly satisfied" with the PSRO's performance, Mr. Heintz said, noting that the reduction in patient days "seems to be accelerating the longer the process is in force."

Deere also hired the Iowa Foundation for Medical Care a year ago to review hospital stays of 83,000 employes and dependents in Iowa. The Iowa PSRO has delegated utilization review to hospitals, unlike Mid-State. Deere expects to have data in July to compare the impact of the two review processes, Mr. Heintz said.

Twenty-three of the 26 hospitals under Mid-State's program review hospital stays themselves. However, Mid-State decided not to delegate review to hospitals for its private sector clients because "a number of industries we have talked to have no confidence in delegated review," according to Mid-State executive vp Don Kline. Several business spokesmen confirmed they prefer the objectivity of a third party.

Five hospitals in the Mid-State region aren't cooperating fully with the PSRO, limiting the organization to retrospective review of private patients. The administrator of one of these hospitals, E. Thomas Sheahan of the 165-bed St. Margaret's Hospital in rural Spring Valley, said the hospital isn't opposed to utilization review of private patients.

Review costs

Mr. Sheahan said the hospital should have been involved more in the PSRO's plans. He questioned why St. Margaret's, with delegated status, is qualified to conduct utilization reviews on its large number of federal patients, and isn't qualified to review the small percentage of private patients coming under PSRO review. "It really doesn't make a great deal of sense," he said.

Private firms pay Mid-State $14.54 per admission for utilization review and currently account for one-third of the PSRO's income. That figure should climb to 50% by the end of the year, Mr. Kline projected.

More private firms have been hiring PSROs during the past year as they become increasingly aware of the need to cut hospital costs, according to Willis Goldbeck, director of the Washington Business Group on Health. "Megamillion-dollar increases" are finally getting people's attention, he said. Private industry also has been spurred by the greater credibility PSROs have gained during the past year, Mr. Goldbeck said.

A 1978 survey by the American Assn. of PSROs showed 26 of the 140 PSROs in operation conducted private reviews. A new 1979 survey is expected to show that more PSROs are taking on private clients.

Providing private sector review was part of the initial PSRO concept, said association executive vp Boyt Thompson. PSROs were so plagued by organizational problems early in their development, however, that expansion to the private sector was delayed, Mr Thompson said.

Insurers interested

The association established Peer Review Network Inc. over a year ago to help private firms and PSROs develop review agreements. PRN is receiving $55,000 this year from the Health Insurance Assn. of America (HIAA). It is currently investigating PSROs for the HIAA in five geographical areas to identify those which are qualified to provide private sector review. PRN also will provide technical assistance to PSROs and survey the efficacy of their reviews so recommendations can be made to the insurers.

Since 1974, the HIAA has encouraged its insurer members to work with the medical community in monitoring hospital use. As hospitals have recently become more amenable to utilization reviews, the HIAA has stepped up its efforts.

Blues testing

Jerome Coquillard, associate director of the HIAA's consumer and professional relations division, said HIAA has faciliated agreements between eight PSROs and about 30 insurers. Some insurers, scared off by past criticism that PSROs were ineffective, now see rising costs of hospital care as enough reason to further investigate PSROs, Mr. Coquillard explained.

In an attempt to counteract criticism of PSROs, HIAA recently compiled a paper for its members, detailing findings that confirm PSROs are effective in reducing hospitalization.

Blue Cross/Blue Shield plans also are testing the effectiveness of PSRO utilization reviews. Currently, 14 have established pilot or ongoing projects in which PSROs monitor their subscribers. A Blue Cross/Blue Shield Assn. spokesman said the results of these projects were "somewhat mixed," though with some strong, positive results. ▪

Bermuda regulates insurers July 1, with exceptions

HAMILTON, Bermuda—If a captive insurer here is owned by one company and insuring only the owner's property risks, it could probably get an exemption from meeting the solvency requirements of Bermuda's new insurance law, says the chairman of the insurance advisory committee.

Group-owned insurers arguing they deserve the same exemption afforded protection and indemnity (P&I) clubs in the law can also take their case to the registrar of companies for his consideration and review by the insurance committee, suggested Hal Dale, chairman of the committee advising the government on implementing the new law.

Assuring solvency of Bermuda-based insurers is the prime purpose of the new regulation that begins July 1.

Companies are registering here as exempt insurers at the rate of 10 or 12 a month, bringing the latest tally to 870. More captives are group-owned and more are underwriting unrelated risks. These developments have convinced nearly everyone on the island—even those who argued for scant regulation in 1969—that the sheer size of the Bermuda market now requires that it be regulated.

Insolvencies are not unknown here. First International Assurance Co. (FIAC), owned by a group of individuals and writing treaty and facultative reinsurance for London and in California through FIAC agencies, became insolvent in 1976. The matter is now in the courts in Bermuda. One other exempt insurer has gone under: A company named Mid-Atlantic, also individually owned and not a corporate subsidiary, went under in 1974. Neither insolvency seems to have raised much concern about the security of the Bermuda market.

Photo: Kathryn J. McIntyre

Bermuda's insurance regulation focuses on solvency, says Shelton Burgess, registrar of companies.

By filling out the appropriate form, existing companies can delay for one year from July 1 becoming subject to the Bermuda Insurance Act of 1978, said Shelton Burgess, registrar of companies. Everyone in the insurance business here is being urged by the government to request the interim exemption in order to give the government time to build its regulatory machinery. Companies which form here after July 1, however, will immediately be subject to the provisions of the Bermuda Insurance Act of 1978.

Transitional regulations providing for the interim exemption were to be distributed April 1. Captives, captive managers, brokers and local insurers will have until July 1 to complete the application to secure the one-year exemption. The transitional regulations seek basically the same financial information required by the final regulations, only these applications are for data accumulation while financial statements filed under the final regulations will be used to enforce solvency requirements.

Loans to affiliated companies of capital and surplus are one type of transaction the new Bermuda insurance law is designed to control, says Mr. Burgess. Loans are still allowed under the law, but funds loaned can't be included when calculating admitted assets. Admitted assets must equal 75% of a company's insurance liabilities.

The final regulations will be ready before the end of May, said Mr. Burgess.

Under the law, a director, resident director and local insurance manager of a company must sign all financial reports attesting to their accuracy. ■

Bermuda firms expand third-party underwriting

HAMILTON, Bermuda—Captives searching for sources of third-party business have knocked on the door of Britamco, the underwriting agency here headed by former Lloyd's of London underwriter Leslie Dew, but the agency is "filled-up."

"Maybe there could be a Britamco II," muses Peter Foley, vp of Britamco and Insco, the Gulf insurance subsidiary that owns the underwriting agency.

Elsewhere on the island, the reinsurance pools of Captive Insurance & Reinsurance Co. Ltd. (CIRCL) and Hopewell are expanding, adding members searching to diversify their insurance portfolios.

These companies are at least cognizant of the tax advantages of doing so if not motivated by them.

"It's silly to sit back and wait for the inevitable to happen," suggests Mr. Foley, referring to the Internal Revenue Service's challenges of tax deductions for premiums paid to captive insurers writing only parent company business.

Insco is now an approved non-admitted reinsurer in 37 states and is seeking status as a licensed reinsurer in several states.

Gulf's insurance subsidiary is now underwriting $114 million in premiums, two-thirds from outside risks and one-third from Gulf. On a gross basis, including Gulf's business, the company has a premium-to-surplus ratio of 1.3-to-1. On a net basis, it's under 1-to-1.

Four new participants signed on with Britamco in January: Allianz Vers A.G. for 12.2%; Nisshin Fire & Marine, the thirteenth largest Japanese insurer, for 4.88%; Le Assicurazioni d'Italia, the huge Italian insurer, for 4.88%, and Chemical Insurance Co., the large captive of Ciba-Geigy (Switzerland), for 4.88%.

In addition to Insco, which takes 53.65% of Britamco's underwriting, the other participants are Eisen Und Stahl Ruck for 9.75%, La Preservatrice Comp. Anon for 4.88% and Reaseguradora Nacional de Venezuela for 4.88%.

Since expanding into unrelated business, Insco has focused primarily on casualty business, taking also marine, property and a small amount of aviation business. Its net capacity is up to $1.3 million and it will write a maximum line of $700,000 but the average on one risk is $250,000. That's $100,000 more than the average a year ago.

Buffer layer business was its specialty during the tight markets, "but the buffer business seems to have died," observes Mr. Foley. "So we write first and second layer umbrellas." He won't go much higher than $700,000 because high limits won't produce the necessary minimum premium of $5,000.

Meanwhile, CIRCL is nearly half-way to its 1981 goal of 25 participants in its reinsurance underwriting operation. In December, four new members joined: the captives of Owens-Illinois, Alco Standard Corp., Allegheny Ludlum Steel Corp. and General Tire & Rubber Co., bringing the total to 12 participants.

Originally formed to provide excess casualty insurance between $250,000 and $5 million to participants through reinsurance arrangements among themselves, CIRCL has now expanded to provide reinsurance of primary casualty layers. Four members are now participating in the primary program, which provides for 100% pass-through of risks to other members.

Coverage under the retro plan is limited to 50% of the standard premium: for $2 million, a participant gets $1 million of insurance. If losses exceed 110% of the initial premium, the participant is liable for 175% of premium per loss and 250% in the aggregate. There's risk shifting here, but it's obviously structured to prevent any one participant from laying off heavy losses on others.

Hopewell, the property insurance pool formed by ARM International, has expanded to 31 members, recently admitting Alva Insurance Ltd., the property captive of International Flavors & Fragrances Inc. The pool is now underwriting $70 million in premiums which are retroceded to the owners on a net line. ■

Consider using captive to fund benefits: Exec

HAMILTON, Bermuda—Funding employe benefits through a captive insurance company in theory doesn't make sense, but it can be very advantageous in specific situations, suggests James G. Harlow, a director of Johnson & Higgins in New York.

Although the pension reform law limits to 5% the amount of group benefit business an affiliated company can insure for its parent organization, the insurance industry believes employe benefit plans can be legally reinsured by a primary carrier with a corporate client's captive. The major group insurance underwriters are operating under this interpretation of the law although it hasn't been tested in the courts yet, Mr. Harlow said recently at the Third International Captive Insurance Company Conference here.

The medical reserve established to pay claims under a group health policy is the most likely candidate for reinsurance with a captive, said Mr. Harlow. Reserves established for a large corporation's health plan could range from 20% to 40% of premium, he said, translating to millions of dollars on which to earn investment income.

However, a company should seek to put the reserves in its captive only if the captive can earn a rate of return at least 2% better than that paid by the insurance company because it will cost 2% to recapture the reserves. The insurer will require a letter of credit for the reserves, which costs 0.25% to 1%, and there is a 1% excise tax payable on benefit plans insured offshore.

But the hefty health insurance reserves are likely to be paid out in one year, Mr. Harlow notes. Life insurance, requiring longer reserving, is also a good benefit candidate for a captive, as is a long term disability plan, said Mr. Harlow.

Since the funding of pension costs in the U.S. is governed by the pension reform law and since costs are very predictable, there is no reason to want to fund pensions for U.S. employes in a captive, Mr. Harlow noted. However, multinational companies may want to put foreign plans in the captive to spread the costs and avoid currency problems, he said.

Only a few corporations, however, have taken advantage of captives set up to insure property/casualty risks for funding benefit plans, said Mr. Harlow. "Those that have gone into it are doing quite well," he reports. One client of J&H who a few years ago transferred the reserves on its employes' health benefit plan to the captive, built up $200,000 over two to three years. The money was eventually used to offset a bad property loss, Mr. Harlow noted. ■

Bermuda claim . . .

Continued from page 1

advocates maintain. Respected underwriters who have moved to the island and the growing pool of money invested in insurance companies here are helping to propel the developing insurers into new business ventures.

Among the most active underwriters cited by sources in Bermuda include: Gulf's Insco and Britamco companies; Ocean Drilling & Exploration Co.'s Mentor Insurance Ltd.; Phillips Petroleum's Walton Insurance Co. Ltd.; The Blades Group; Canadian Pacific Steamship Co.'s Arion Insurance Co. Ltd.; Ford's Trascon Insurance Co. Ltd. for foreign risks; Texaco's Heddington Insurance Ltd.; Itel Corp.'s Belvidere, and Ivanhoe-Northumberland, associated with a Canadian Group and managed by Ivanhoe International Ltd.

Other factors must be reckoned with before Bermuda realizes its potential as a dependable alternative to the London and New York markets, even its promoters admit. Trained personnel to carry out the growing business are in short supply. Bermuda is moving toward establishing its own insurance education facility to train Bermudians and keep expatriates up-to-date, a step some observers believe is critical.

Looking ahead

The effect, good and bad, of new regulation over the Bermuda industry remains to be seen. The number of problem companies unearthed by the regulation and how they are handled is sure to affect the world's confidence in the Bermuda market. The very expansion of captives into third-party risks worries some in the industry here that outside business will weaken the companies, perhaps even sending some into insolvency.

These are the observations of Bermuda captive managers and owners, underwriters and insurance experts, gleaned from interviews with them in Bermuda and from their remarks during the Third International Captive Insurance Company Conference here last month. The meeting was sponsored by U.S. consultants Risk Planning Group and London consultants Risk Research Group.

Attendance at the conference—300 people from 14 countries—attested to the development of the Bermuda market. That the insurance buyers were outnumbered three-to-one or four-to-one by sellers of services indicates the Bermuda market is aggressively seeking new business.

Potential for new captive development among the Fortune 1,000 largest industrial companies is considered nearly exhausted; the focus is on association (multiple-owners) captives and new risk sharing pools.

The newest tack in risk sharing appears to be on the lower, more predictable loss layers of insurance. CIRCL is offering a program under which its 12 members can lay off their first layer of risk up to $250,000 on other members.

Although the majority of experts here cite new growth and developments, a few admit business is slow. Soft markets in the U.S. are absorbing new business and even taking some business away from Bermuda on renewal.

Different perceptions

But underwriters in Bermuda profess to avoid rate cutting in order to stay in the running for accounts.

Though its size is relatively small and coverage is apparently not cheap, the Bermuda market offers the advantage of speed, says one reinsurance broker. "I can put together $1 million (of coverage) in an hour," claims Paul C. Branscombe of Wilcox, Baringer (Bermuda) Ltd. "It takes two weeks in New York and two weeks in London to do that,"

This claim by Bermudians contradicts not-infrequent complaints that the vacation-paced atmosphere of Bermuda translates into a too-relaxed attitude toward business. "I'll call down to get something done. They say 'right away,' but two months later it still isn't accomplished," one broker lamented.

There's also concern among some insurance experts that too much secrecy—affectionately known on the island as confidentiality—surrounding Bermuda's insurers detracts from it when more established, better known markets are available.

Finally, there is the issue of whether Bermuda can accommodate its status as an insurance center. Expatriates coming to live on the island reportedly are taxing the limited housing available. Continued market growth will require more commercial buildings, changing the face of the quaint island architecture. And the insurance company and insurance management business privilege of exemption from Bermuda ownership rules is at least vulnerable to attack, especially if new political forces come to power. ■

XEROX HAS SOMETHING WORTH COPYING.

To help Blue Cross and Blue Shield Plans stem the rising cost of health care in America today, more and more companies are providing health and physical fitness programs to keep their employees healthy and productive.

One excellent example of such a program is the health and recreation program open to all Xerox employees, both management and labor, in Monroe County, N.Y.

Here's how it works. An exercise stress test is recommended prior to starting the program. A lifestyle survey is taken so that the Xerox Recreation and Medical Services staff can track the progress of employees and relate that to their diet, exercise routine, smoking and drinking habits, etc. After receiving an individual exercise prescription, each participant then spends one-half hour a day, three times a week, in jogging, bike riding, or other aerobic exercise programs.

Xerox and other bold and imaginative companies realize one important thing: that fitness programs have the potential of returning enormous dividends in greater health and happiness for employees. And greater productivity from them.

It also stands to reason that if your company can institute a program to keep your employees healthy and well, your company's health care costs can possibly be lowered.

As you know, Blue Cross and Blue Shield Plans are fighting a nationwide battle to keep costs from running away.

Programs such as second surgical opinion, medical necessity programs, home care, health maintenance organizations, same day surgery, pre-admission testing and the like are in use in many Plans with positive money-saving results. As successes are achieved, the results are shared so that knowledge gained by solving local problems can be applied on a wider basis.

We're encouraged. The average length of hospital stays for Blue Cross Plan subscribers under age 65 dropped by almost a day between 1968 and 1977. That may not sound like much. But if the length of stay were the same today as it was in 1968, we would be paying an additional $1,249,869,813 a year. In addition, the rate of hospital admissions for these subscribers dropped by 4.9%, representing $554,938,847.

But controlling health care costs without sacrificing quality is a complex problem. One we all need to work on together.

While the Xerox program is an extensive one, there are health programs to fit any size company.

Blue Cross and Blue Shield Plans would like to help you. If you would like more information about employee fitness programs, write for the free booklet "Building a Healthier Company," Box 8008, Chicago, IL 60680.

Commemorating fifty years Working for a healthier America

Blue Cross® Blue Shield®

ALL OF US HELPING EACH OF US.