WEEK OF FEBRUARY 23, 1981

# business insurance®

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## update:

### Court hikes awards in DC10 crash suits

CHICAGO—A U.S. Court of Appeals here has ruled the family of a person who died in the May 1979 crash of an American Airlines DC10 near O'Hare International Airport is entitled to receive interest on damage awards from the date of the crash.

The ruling applies to the more than

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# Reagan kills HMO funds

## Employers don't push HMO use, study says

NEW YORK—Employers are not encouraging employees to join health maintenance organizations.

A national survey reports that 77% of employers offer the prepaid health care alternative only because federal regulations say they must. Only 18% promote HMO membership among their workers.

The Louis Harris & Associates study of senior management attitudes toward HMOs also shows employers see little cost savings with HMOs. Sixty-two percent said offering an HMO had no effect on the costs of health care to their firm. Fourteen percent said costs went up and 13% said they decreased.

HMO proponents say the prepaid nature of HMOs is an incentive to contain costs.

An earlier Harris survey (*BI*, Sept. 29, 1980) showed employer support plays a major role in influencing employees to join HMOs. For 58% of the 1,092 HMO members surveyed in that poll, first information on the prepaid plans came from employers.

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

Forty-three percent of the HMO members said their employer's or union's description of the HMO plans was very appealing, but only 11% of the 991 eligible nonmembers surveyed responded the same.

Both surveys were conducted by Harris & Associates for the Kaiser Family Foundation, a private foundation that created one of the nation's largest prepaid programs. Of the 984 executives in the latest poll, 664 of their companies offer HMOs, 260 do not and 60 are not in an area where an HMO is available.

Only half of the executives surveyed said they have a favorable attitude toward prepaid health care. The concept received the most negative response in the South and among employers with fewer than 500 employees.

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**By JERRY GEISEL**

WASHINGTON—The Reagan administration's campaign to cut billions from the federal budget snips the government's remaining financial ties with health maintenance organizations.

The president's plan to eliminate all new federal HMO loans and grants will force HMOs to rely more heavily on private industry, a challenge HMO leaders seem confident they can meet.

President Reagan also wants to cut biannual pension benefit increases for retired federal workers to once a year, tighten the black lung disability program and eliminate certain secondary Social Security benefits.

The budget will have to be approved by Congress.

Aside from ending new federal grants and loans to get HMOs rolling, the administration will drop the Carter administration's supplemental budget request for $17 million to shore up the depleted HMO loan fund. The move represents a dramatic shift in federal policy toward prepaid health care.

Since 1973, the federal government has pumped more than $305 million in grants and loans into HMOs. This massive federal support, which began with the passage of the 1973 HMO Act, has played a key role in the enormous expansion of HMOs around the country.

In 1970, before the HMO Act, 4 million Americans were enrolled in 35 HMOs. At the end of 1980, about 9 million persons were enrolled in 235 HMOs, according to the Group Health Assn. of America, a trade association representing HMOs.

The Reagan administration says it supports the HMO concept, but believes it is time for the government to get out of the HMO business.

"The administration believes that after eight years of federal support, the feasibility of HMO prepaid health care delivery has been adequately demonstrated, and that HMOs can be financially self-supported institutions developed without continued federal subsidies," the 200-page budget proposal explains.

Private industry will fill the federal vacuum in supporting HMOs once "unnecessarily restrictive" re-

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Photo: Wide World

**President Reagan confers with David Stockman (to his right), OMB director, during a meeting with other staff members to discuss budget cuts.**

## New light on work comp claims

# Thermography maps injuries

**By EILEEN NORRIS**

The resurrection of an ancient pain detection method is casting a new, colorful light on workers compensation claims.

Conflicts over whether a worker is injured and should be awarded disability benefits are, in a growing number of cases, being settled with the help of thermography.

Looking somewhat like a geographical weather map, the thermogram is produced by a video-camera process that uses infrared sensors to send out a prismatic image of the body's temperature and "pain spots."

Many California insurers applaud the technique, saying it can be used as often by the insurer to disprove a workers compensation claim as it can be by the employee to prove an injury.

However, other areas of the country are slower to warm up to thermography, although it is being looked at. Most are watching the picture in California before backing the pain-detection method that dates back to 400 B.C., when Hippocrates first equated "hot spots" on the body with pain and disease. Others question potential abuses of the procedure to win a case.

Gynecologist Dr. Istzan Nyirjesy, president of the 150-member Maryland-based American Thermographic Society, cautions that thermography should only be used as an "adjunctive procedure in medicine."

"Thermography should not be used alone for any purpose," Dr. Nyirjesy said. "Just like a physician would prescribe a blood test and X-rays, so could he use a thermogram. It's not a treatment by itself."

In California, however, a different picture is painted by Charles E. Wexler, an Encino radiologist who says he is not a physician. He does not see the patient before a thermogram is taken, but rather has the patient draw a picture of "where it hurts" before his technician performs the test.

Dr. Wexler, who has testified in court cases, then reads the film as a radiologist would read an X-ray. "An X-ray is a picture of anatomy; a thermogram is a picture of physiology. If one is looking for evidence of pain caused by nerve

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Photo: Dr. Charles E. Wexler

**California insurers are using thermograms to disprove fraudulent workers compensation claims.**

NEWSPAPER

# INSIDE:

## update:

### Court allows award interest

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100 cases pending in federal court and could cost insurers extra millions of dollars in damage awards and settlements, said John J. Kennelly, an aviation litigation attorney. The ruling could also affect non-aviation wrongful death cases.

"The impact will be great in aviation and in all similar litigation throughout the country," he said.

The three-judge panel upheld a 1980 damage award of $277,500 to the widow and daughter of Craig Valladares of Arlington Heights, Ill., a victim of the crash (*BI*, July 21, 1980). The widow was awarded $27,500 in prejudgment interest.

The ruling stems from a motion originally filed by Mr. Kennelly contending the survivors of crash victims should receive prejudgment interest as just compensation for their loss.

Norman Barry, attorney for McDonnell Douglas, manufacturer of the ill-fated airliner, said he will not recommend that an appeal be filed because the ruling states that the Valladares case cannot be used as a 'model,' for future death actions. It will restrict interest to be based on what the victim would have earned between the time of death and the award.

### Lloyd's reopens cargo claim

LONDON—At the request of Italian police, Lloyd's is reopening the investigation of a controversial cargo claim settled in 1978.

Lloyd's will reopen files on the loss of 301 Fiats allegedly burned on the cargo ship Savonita. An internal investigation of the claim in 1978 found no evidence of wrongful activity.

"Fraud is still unproven," said a Lloyd's spokesman. The Italian police will look through the special internal Lloyd's report on the Fiat claim and also read the files of the brokers and underwriters who were involved in the settled claim. Willis Faber & Dumas Ltd. and Pearson Webb Springett had worked on the settlement.

### Cayman Underwriters closes

GEORGE TOWN, Grand Cayman—Cayman Underwriters Services Ltd., the Charter Corp. captive management company here hit with an internal scandal last year, is shutting down.

Only two staffers are left to close up the office that once managed 35 captives, 22 of them substantially active.

Charter Corp. notified clients Nov. 30 to find new managers effective Jan. 1. The future of the captive insurance company pool CORAL, formerly organized by Cayman Underwriters Services, is uncertain, but sources say members want to maintain it.

Cayman Underwriters Services' former managing director John Ray was charged with forging the name of a reinsurer on a $30,000 check (*BI*, June 16, 1980). He was convicted of the forgery and is appealing. There was never any indication that clients were hurt in any transaction.

### Health plan attracts towns

WHITE PLAINS, N.Y.—Several Westchester County municipalities have expressed interest in joining the county's new health insurance program, says county risk manager Robert M. Bieber.

The county, which employs 9,500 persons, dropped the state civil service health insurance plan Feb. 1 in favor of Blue Cross/Blue Shield of Greater New York (*BI*, Nov. 24, 1980). The county wanted to avoid a 25% to 35% rate hike next July and obtain individual loss experience denied by the state plan.

### Action expected on pooling

ALBANY—The New York State Assembly is expected this week to pass legislation permitting local governments to form self-insurance pools for liability risks.

The bill is identical to one passed last year in the Assembly, but does not contain a $300,000 appropriation to fund pooling feasibility studies.

The bill also must be approved by the Senate, which killed the measure last year.

### Bill would require sprinklers

RALEIGH, N.C.—Buildings in North Carolina that don't have sprinkler systems and other fire-protection devices would be upgraded to the tune of more than $10 million if legislation sponsored by the North Carolina Insurance Department passes the General Assembly.

Prompted by fire disasters in Las Vegas, the legislation would require buildings that don't meet a 1976 fire safety code to add such fire-protection devices as sprinkler systems and insulated electrical conduits.

Although the state has only 346 buildings that would be affected by the legislation, an association of building owners estimated it would cost their owners more than $10 million to comply.

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# Nuclear plants oppose federal insurance fund

By STUART EMMRICH

WASHINGTON—The nuclear power industry is not endorsing a proposal to put the federal government into the insurance business to cover nuclear utilities.

Rep. Allen Ertel (D-Pa.), who says present property insurance is not adequate for debilitating nuclear accidents, is proposing utility companies pay $150 million a year into a government-run fund to supplement existing coverage.

"I think it would be good for the industry if additional property coverage were available," said Richard Grennan, risk manager for Nebraska Public Power. "However, I don't think it should be made mandatory and I would rather see the federal government stay out.

"If the federal government gets in there, there is always lots of red tape and they don't have a full understanding of the situation. An all-out attempt should be made to get (increased limits) through the private insurance industry."

The proposed insurance fund would be directed by a quasi-government corporation and would pay 75% of the cleanup costs of an accident after existing insurance, now limited to $300 million, and a $50 million deductible are exhausted.

Participation in the fund would be mandatory before utility companies would be issued nuclear plant operating licenses.

The fund also would pay for part of the cleanup of Three Mile Island, now estimated to cost $1 billion. The bill calls for annual payments of $112.5 million to TMI over the first five years of the program, to be repaid gradually by the

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# Aftermath of fires:

## Nevada advisers urge safety work

By RHONDA L. RUNDLE

CARSON CITY—Tough new fire safety measures under study in Nevada could qualify high-rise buildings for highly protected status, but not big insurance cost savings.

Nevada officials should not expect insurance cost reductions to offset the expense of retrofitting hotel towers and other buildings with sprinkler systems, industry sources say.

A blue-ribbon commission appointed by Nevada Gov. Bob List three days after the MGM Grand Hotel fire in November will recommend the state require existing high-rises and big hotels to install sprinklers in casinos, corridors and guest rooms if they do not already have them.

The nine-member panel will present its proposals to the governor March 1, but some details of its recommendations were disclosed at a meeting following the Feb. 10 Hilton Hotel fire (*BI*, Feb. 16).

If adopted, the proposals would give Nevada the most stringent restrictions on high-rise buildings in the nation, said John G. Degenkolb, a fire safety expert from Los Angeles who is a commission member.

The proposal calls for sprinklers to be installed in every room of all new structures over 55 feet high. Current codes require sprinklers in newly constructed buildings over 75 feet tall, said Dennis R. Colling, commission staff member who is drafting

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## Dublin codes didn't require sprinklers

By STACY SHAPIRO

DUBLIN—The Stardust Cabaret was approved by local fire officials just days before a St. Valentine's Day dance turned into a fiery holocaust, killing 44 persons.

News of the fire, reported internationally, provides a series of issues for U.S. officials to consider again as they review their own fire codes after a series of U.S. fire disasters.

Fire codes dating as far back as 1925 did not require the Dublin factory-turned-disco to use fire-resistant materials in remodeling or to install sprinkler systems.

Under present codes and bylaws, fire-resistant material need not necessarily be used in construction, explained one government official. So the Stardust ceiling could have dripped because of its polystyrene and caused gaseous odors, as witnesses charge.

Sprinkling systems also are not necessary in any building in southern Ireland.

"There's no law that says you must install a sprinkling system," the official said.

Only 800 people attended the Valentine's Day dance in the hall with a capacity of 1,500, so the cabaret also cut off part of the hall with a curtain, creating an empty, unwatched section.

"Somebody lifted the curtain and fire blew out like a torch," the official said.

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# Firms wait on Iran claims

NEW YORK—Most U.S. companies with claims against Iran will use the arbitration system set by the hostage release agreement despite a federal court ruling that called the accord unconstitutional, says a lawyer for some of the firms.

The ruling, handed down by a Dallas federal judge earlier this month, said former President Jimmy Carter acted unconstitutionally in releasing Iran's assets and nullifying lawsuits against Iran.

U.S. District Court Judge Robert W. Porter ruled in favor of Electronic Data Systems Corp., saying the Carter action was an "unwarranted intrusion" by the president into the judicial branch of government.

The judge granted a preliminary injunction blocking the transfer back to Iran of $20 million in Iranian funds being sought by EDS. The firm says Iran defaulted on an agreement for a computerized health and social services data system sold by EDS.

**This judgment,** however, will not be the last word on the issue, notes Lawrence Newman, chairman of the New York Plaintiffs Steering Committee on Iran Litigation. The committee represents 35 law firms acting for more than 100 corporate and private clients with claims against Iran for losses suffered during the Iranian revolution.

The Dallas court case "is only an interim ruling," Mr. Newman said.

Although some companies may be encouraged to pursue attachment of Iranian assets as a result of the Dallas ruling, many more firms may be willing to accept the arbitration system for settlement of their claims, he added.

Several of the more than 380 plaintiffs seeking about $3 billion in Iranian assets in this country have told *Business Insurance* they are waiting for more information about how the arbitration will work and whether the fund will be enough to cover claims (*BI*, Feb. 2).

Mr. Newman echoed this sentiment last week, saying his group wants to know if Iran has enough money to maintain the $500 million security fund level it has promised.

The group also questions whether the nine-member arbitration tribunal will be able to adjust the 1,700 claims that have been registered with the U.S. Justice Department.

The State Department last week endorsed the Carter hostage pact in its entirety, but said "the present administration would not have negotiated with Iran." ■

# Spouse coverage rule overturned

By JERRY GEISEL

NEWPORT NEWS, Va.—Employers do not have to offer equitable pregnancy benefits to spouses of male employees, a U.S. District Court judge has ruled.

That decision, which will save Newport News Shipbuilding $500,000 a year in health benefits, also is welcomed by other employers across the nation who had defied an Equal Employment Opportunity Commission guideline.

In a landmark case, Judge J. Calvitt Clarke Jr. overturned a 1979 EEOC guideline that says if an employer's health insurance plan covers the medical expenses of female employees' spouses, it must equally cover maternity expenses of male employees' wives.

Newport News Shipbuilding, one of the nation's largest shipbuilders with 23,000 employees, filed suit here last year charging the EEOC had no legal authority to require equitable pregnancy coverage for male employees' wives (*BI*, Feb. 18, 1980).

When the Pregnancy Discrimination Act was passed in 1978, Congress specified the law applied only to employees and not spouses, said Bob Ponton, manager of equal opportunity at the firm. Judge Clarke upheld that point.

"The clear legislative intent behind the PDA was to ensure that *working women* are protected against all forms of *employment discrimination* based on sex," Judge Clarke wrote.

"The legislative history specifically states that the act does not change the application of Title VII (of the 1964 Civil Rights Act) to sex discrimination in any other way," he added.

In its largest group health insurance plan covering hourly employees, Newport News Shipbuilding pays all reasonable and customary health expenses for spouses of female employees, but it places a $500 cap on pregnancy hospitalization benefits for spouses of male employees.

Equalizing pregnancy benefits for male employees' wives would have boosted Newport News Shipbuilding's health insurance costs about $500,000 a year, Mr. Ponton estimates.

Unsure whether to heed the EEOC guideline on dependent coverage, benefit managers and business groups around the country were watching the Newport News case closely.

"You don't know what good news this is," said Jack Hoffman, director of personnel and employee relations for the city of Glendale, Calif. "I stuck my neck out" and said pregnancy benefits for dependents did not have to be offered, Mr. Hoffman added.

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## What price true love?

By STACY SHAPIRO

LONDON—No matter how much Chia-Chia the giant panda is insured for on his trip to Washington, D.C., to meet his new love Ling-Ling, it won't be enough.

"The valuation is impossible. They are so rare," said a spokeswoman for the London Zoo, where Chia-Chia resides. The giant panda and his London mate were gifts from the Chinese government, as are all the panda pairs around the world, she said. No value has been placed on them.

Chia-Chia is being flown from here March 5 because Ling-Ling's mate Hsing-Hsing couldn't mate, said London Zoo Director Colin Rawlins, and the zoo is looking for travel insurance through brokers Horncastle, Crawford & West.

British Airways, which is flying Chia-Chia to the United States, is also looking for extra cover above its usual liability insurance.

The airline has a blanket insurance policy of $8.98 per kilo on all livestock, but British Airways thinks the giant panda is worth more than his weight of 120 kilos, and is checking for heavier panda coverage.

Everyone wants Chia-Chia to remain healthy and be ready for romance, so the stops are out to ensure he's comfortable on his flight to Washington.

He will be escorted to the airport in a heated van and sit in his custom-fitted traveling box used once before for a friend that went to Moscow.

The chartered BA plane is a new 747, fully equipped to keep proper temperatures for pandas. Once on board, Chia-Chia will be joined by his veterinarian John Knight, London Zoo curator Dr. Brian Bertram and perhaps the head keeper, George Callard.

Chia-Chia is already cleared by U.S. quarantine officials to go immediately to the Washington Zoo to meet his Ling-Ling, and everyone hopes the healthy pandas will produce baby giant pandas, a feat that's only been accomplished in captivity in China.

# Policies won't span loss from creaky town bridge

By JOHN MAES

PRAIRIE DU CHIEN, Wis.—Business is definitely interrupted in Prairie du Chien, but the merchants' business interruption policies won't bridge the gap in profits.

However, the town's workers compensation insurer is alleviating some of the economic problems flooding this town on the Wisconsin-Iowa border since a bridge linking it to neighboring communities across the Mississippi River was closed because of structural weaknesses.

The 6-year-old bridge was the main access to and from town. Since it was closed in January, local business has dropped 30% to 80% because customers don't want to drive to the nearest bridge, which is 30 miles away, and backtrack to town, said James R. Bittner, mayor of this town of 6,000.

"We're quite a trade center here for the people and farmers in this area," he said. "We're the biggest city from here to Dubuque, Iowa, and from here to LaCrosse, Wis., so we're really feeling the effects of it."

Merchants across the bridge in Marquette and MacGregor, Iowa, also are being hurt by the loss of customers from neighboring Wisconsin towns, said Marquette Mayor Donna Kinley.

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Photo: Courier Press

**Officials have stopped traffic across Prairie Du Chien's bridge.**

# Scandal tests stress claims

By RHONDA L. RUNDLE

LOS ANGELES—A group of college teachers who say they were wrongfully accused of handing out phony grades want workers compensation benefits to solve their wounded reputations.

Eight instructors at Los Angeles Valley College suffered stress and strain from unwarranted damage to their professional reputations, charges Virginia Mulrooney, who is executive secretary of the American Federation of Teachers College Guild.

"As soon as the scandal broke last fall, I knew we would get those stress claims," said an official at the Los Angeles Community College District which employs the teachers. "They had nowhere else to go—and we've got the dough. That is typical in these tort and workers compensation actions."

Ms. Mulrooney has said the claims were filed in lieu of a lawsuit against the student who made the allegations "because he has no money and there's nothing to be gained by suing him."

"We have received notice of two claims through the workers compensation appeals board. We have not been directly notified of any claims," said the college district official.

Processing the unusual claims will be difficult.

"Stress claims are relatively hard to define and always require thorough investigation," said David Guyer, assistant vp of claims with Keenan & Associates,

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# Tight security short-circuits chip theft

By CAROL G. BLITZER

SILICON VALLEY—Twenty million dollars in electronic chips and transistors disappeared from here last year, but most risk managers and security specialists are hesitant to talk about the stolen semiconductor parts.

That doesn't mean, however, they aren't doing something about the thefts of the micro circuits. They've responded by developing detailed security and cooperating with local law enforcement agencies.

Next month the Santa Clara Industrial Security Managers group expects to have results of a questionnnaire designed to determine the depth of the problem. The group hopes the information will put pressure on government to provide funds for local law enforcement agencies to establish an electronic crimes task force, says John O'Loughlin, past president of the group.

"The idea is that the law enforcement community could dedicate two or three people to work these kinds of cases and maintain a central repository of intelligence data," explained Mr. O'Loughlin, manager of safety and security at Intel in Santa Clara.

"We've been more victimized and probably are more aggressive in pursuing these matters," Mr. O'Loughlin continued. This month two people were arrested in connection with the theft of 10,000 units (valued at $1 million) in November 1979.

But only about 10% of Silicon Valley's stolen chips have been recovered, says Lt. Bob McDairmid of the Santa Clara County Sheriff's Department's organized crime and criminal information section.

Gary Toms, Intel's risk manager, says employee theft is a problem in all industries, but because Intel's products are "state of the art" and manufactured in limited quantities, they are worth more on the black market than through legitimate channels.

"We're the only game in town," he said. "If we only make 1,000 chips, we sell them to our regular customers on a pro rata basis. On the black market, they don't sell on a pro rata basis."

Only a small proportion of Intel's 10,000 domestic employees are involved in theft,


Illustration: Milt Priggee

Mr. Toms stresses. "I'm sure there isn't a semiconductor manufacturer who hasn't had some parts disappear."

Spokesmen for National Semiconductor, Monolithic Memories and Shugart (maker of floppy disks) admitted there had been thefts, but declined to comment on the extent.

Although Fairchild Camera & Instrument Corp. in Mountain View is a major manufacturer of chips, theft is not a large problem, says Gary D. Goerz, risk and insurance manager. "We're not losing by the truckload, but by the handfuls," he said.

If a customer can wait six months, Fairchild's chips will be available, he explains. "It isn't advanced enough to make it a hot item."

Mr. Goerz says Fairchild hasn't filed any claims against its main cargo or fidelity bonding insurers for the last year and a half. Earlier there were some problems with theft of consumer products.

American Microsystems Inc. in Santa Clara has had minor problems. Because this plant deals mostly in research and development of custom work, "we don't have the problems of off-the-shelf type products," said Bill Weymouth in security. "When we do have chips that could be used by any engineer, we keep close tabs."

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## benefit beat

# Fledgling HMO calls off its start

HEALTHGUARD Inc., a fledgling health maintenance organization intended to serve western Massachusetts residents, has called off its starting date for at least a year.

Plans for the independent practice association, sponsored by Massachusetts Mutual Life Insurance Co. and the Health Care Foundation of Western Massachusetts, were postponed because of "concern over the organization's ability to adequately control costs," said a Massachusetts Mutual spokesman.

The HMO had already offered its program to employees of Massachusetts Mutual and about 500 of them had signed up for it, said Charles Everett, executive vp of HealthGuard. They have been informed the program is canceled and that they will continue to be covered by their current plan, underwritten by their employer.

About 25 other employer groups had requested information regarding HMO membership, Mr. Everett said. HealthGuard was intended to serve groups of 10 or more in the greater Hampden and Hampshire counties.

The HMO's sponsors decided to postpone the operation after they received new information from other companies sponsoring HMOs that showed costs ran higher than anticipated, the Massachusetts Mutual spokesman said.

The sponsors will continue to study the feasibility of the HMO for at least a year before making a decision on it.

## New pension

About 1,400 United Auto Workers members at Schwinn Bicycle Co. in Chicago lost their demand for a profit-sharing plan, but won the first pension plan in the company's 85-year history in a three-year contract ending a three-month strike.

The pension plan provides for a monthly payment of $124 the first year for a 65-year-old employee retiring after 30 years of service. Payments increase to $144 the second year and $165 the third.

## COB savings

A new coordination of benefits provision in group contracts with Blue Cross & Blue Shield of Nebraska saved $2.3 million during September, October and November of last year, the Blues report.

Under the new program, called the "Seek and Pay Concept," Blue Cross investigates coordination of benefits claims before it pays them to determine whether it is the primary insurer. Formerly the plan paid a claim before investigating it for coordination of benefits, and hospitals would reimburse it if it made an overpayment.

"We've noticed more cooperation from hospitals in getting claims in," Al Gilmore, vp of marketing, said of the new system.

More than 500,000 group members subscribe to the Nebraska Blues.

## Interest index

Buck Consultants Inc.'s forward interest rate index, a device to help pension plan sponsors comply with Financial Accounting Standards Board disclosure requirements, dropped to 12.4% for January from 12.8% recorded in December.

The index helps pension plan sponsors figure their investment returns so they can compare the market value of plan assets to the actuarial value of plan liabilities. FASB requires corporate financial statements to include these disclosures for fiscal years ending on or after Dec. 15, 1980.

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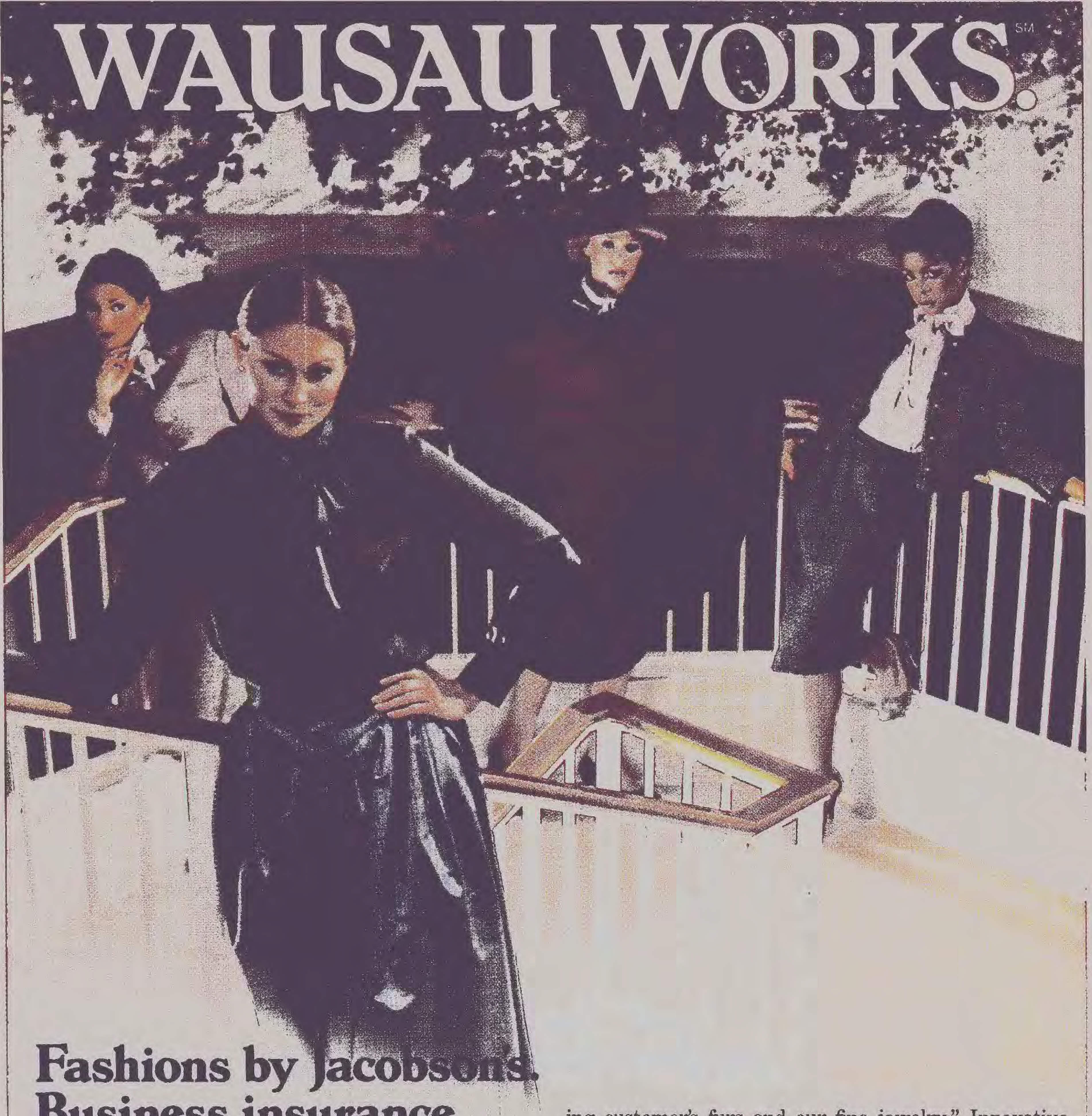
*Benefit beat keeps insurance and employee benefit managers up-to-date on what other companies are doing and informed of current developments. We'd like to know if you've made any changes. Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.*




# Fashions by Jacobson's. Business insurance by Wausau.

"We attract customers who want something individual, yet affordable," says Robert Eaton, treasurer and insurance buyer for Jacobson Stores Inc. of Jackson, Michigan. "And," he adds, "we need individual, yet affordable insurance."

Jacobson's operates specialty department stores at 18 locations in Michigan, Ohio and Florida. Wausau provides property insurance on all of them — $150 million worth — plus two other lines of insurance.

"Our exposures often change as we add or remodel stores," says Mr. Eaton. "And we have unusual needs such as insuring customer's furs and our fine jewelry." Innovative work by Wausau's Detroit people has resulted in coverage written especially for Jacobson's. From merchandise to electronic data processing and builder's risk, Wausau protects Jacobson's property, completely.

"We've found that we could maintain and improve our insurance coverage at a competitive price with Wausau," says Mr. Eaton. "That's a hard combination to beat. It's of primary importance for me and for Jacobson's to work with an insurer who can be flexible. With Wausau, I've appreciated that very much," he concludes.

Wausau works for Jacobson's. And Jacobson's does its part in providing up-to-date information to aid our underwriting. The Jacobson's-Wausau "partnership" makes business insurance work for a living.

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# Administration axes rule on labeling of chemicals

washington

By JERRY GEISEL

WASHINGTON—The Reagan administration has axed the Occupational Safety and Health Administration's proposed rule requiring specific identification and labeling of hazardous substances in the workplace.

"This action will permit a more complete analysis of a number of issues, including overlap with other regulatory programs and the preparation of a new proposal," said Raymond Donovan, the new secretary of labor.

The hazardous product labeling standard, which would have affected an estimated 320,000 employers and 20 million workers, was one of the numerous rules proposed during the "midnight" hours of the Carter administration.

Carter officials argued the regulation "is extremely important because it will allow employees to identify the chemical substances and know the workplace hazards to which they are exposed, thereby enabling them to take actions to better protect themselves."

But business groups said the proposal was too narrow and ignored more workable alternatives.

Mr. Donovan also confirmed reports (*BI*, Feb. 9) that the administration is scrutinizing a final OSHA standard requiring employers to offer more hearing protection to workers exposed to high noise levels.

That regulation is scheduled to be phased in over the next three years, beginning April 15. Mr. Donovan said it is being studied to determine its economic impact on employers.

OSHA earlier estimated the standard would cost employers $254 million to comply (*BI*, Jan. 19).

Mr. Donovan raised the possibility that the administration propose the withdrawal of OSHA's final "walkaround pay" rule requiring companies to compensate employees for the time they spend with federal officials during safety inspections. That rule, which had been set to take effect Feb. 17, is trapped in Mr. Reagan's 60-day freeze on regulations.

The labor secretary said the issue may be a matter for collective bargaining and thus would be outside OSHA's authority.

## Lebanon risks

U.S. corporations that want to invest in Lebanon have a new source of political risk insurance.

U.S. and Lebanese officials have signed a bilateral agreement activating insurance programs offered by the federal Overseas Private Investment Corp.

OPIC insurance will be available to cover the political risks of currency inconvertibility, expropriation and war, revolution and insurrection.

More information on OPIC's Lebanon insurance programs is available from the information officer, Overseas Private Investment Corp., 1129 20th St. N.W., Washington, D.C. 20527.

## III moves

The Insurance Information Institute's office has moved. The III is now at 1025 Vermont Ave. N.W., Washington, D.C. 20005; 202-347-3929.

## Pension policy

The House Select Committee on Aging will hold a special hearing at 10 a.m. Feb. 26 to discuss the recommendations of the President's Commission on Pension Policy.

Commission chairman C. Peter McColough, chairman of Xerox Corp., will be among those testifying. The commission recently recommended the establishment of a universal private pension system that would immediately vest 3% of a worker's annual salary.

The hearing is scheduled to be in Room 345 of the Cannon House Office Building across from the U.S. Capitol. The committee should be called at 202-225-9375 the day before the hearing in case the room is changed.

*The Red Phone . . .*

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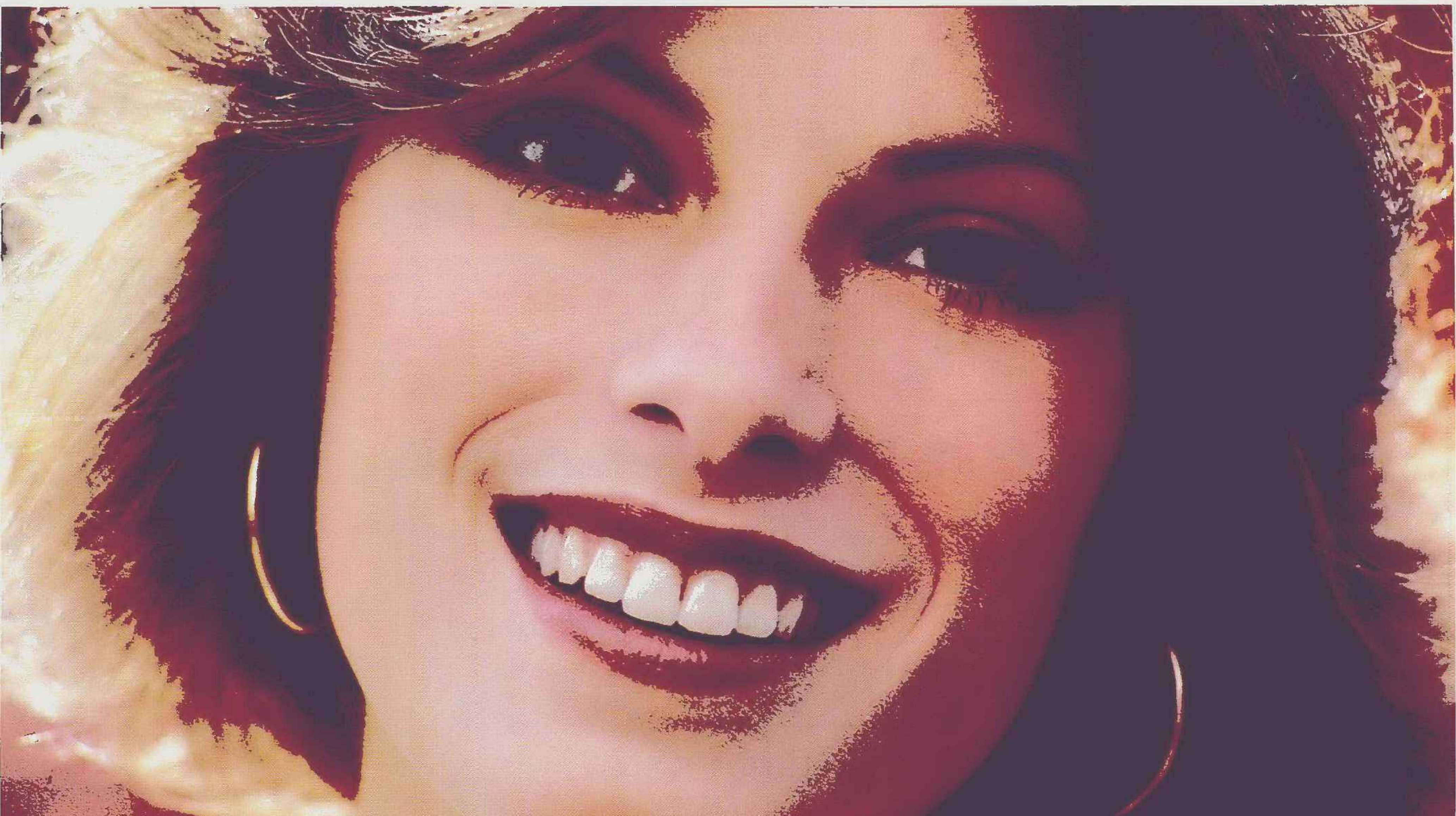


# ANOTHER REASON WHY THE TRAVELERS IS NUMBER ONE IN INSURING SMILES.

# Insurers, bankers study risks in transfer systems

**By MARY ANN MATLOCK**

ISELIN, N.J.—The Surety Assn. of America may soon fill gaps in the coverage of electronic fund transfer systems, the growing networks that move billions of dollars in bank money.

Present coverage for the systems is included as a rider to the new bankers blanket bond policy issued last July, but is limited to fraud involving bank employees or theft by outsiders through transfer systems belonging to the National Automated Clearing House Assn. in Washington, D.C.

More than 10,000 banks belong to the NACHA system, but banks use other programs, too.

The optional rider does not cover such other emerging systems as Fed Wire, Bank Wire II, Chips and Swift, which some bank managers believe could have been covered under ambiguous language of the former policy rider. This ambiguity, however, was never tested.

"We always had the feeling we may have been able to gain coverage under the old wording," said John James, vp with risk management duties at New York's Chemical Bank. "This new language is more specific and clears up any doubt."

The new language drew joint action by the Surety Assn. and the American Bankers Assn. to broaden coverage for risk now considered remote.

"We're looking to determine the insurability of exposures in various electronic fund transfer systems," said John Wolff, ABA associate director. "We're looking to see what exposures those systems have and what premiums could be."

No target date is set for a decision on the coverage, but the two groups continue to meet regularly.

**"I don't doubt** we will broaden cover, but we won't until we're satisfied it's (the electronic funds transfer system) as safe as it can get," said Francis X. LeMunyon, secretary of the Surety Association. "It's a tremendously volatile, emerging field."

Though a majority of the nation's 14,434 banks use the NACHA system and therefore should have no unpredicted risks in this area, some use more than one system and fear a loss could be expensive.

ABA statistics show even one loss could be expensive. Funds handled by the systems daily are: Fed Wire, $315 billion; Bank Wire II, $20 billion, and Chips, $120 billion a day for 92 New York banks using it. About 680 banks in 26 countries use the Swift system.

Whether these systems could be robbed without assistance from a bank employee is questionable.

"The risk is remote but still there," said Mr. LeMunyon. "For an outsider (to interlope on the system), he would almost have to involve the complicity of an employee. That is now covered." ■



# Congress to probe boarding home fires

KEANSBURG, N.J.—A nationwide congressional investigation into boarding home fires will begin here March 2.

Thirty-one elderly residents of the Beachview Rest Home in Keansburg died in a fire earlier this month, one of four fatal boarding home fires in the state in the past eight months.

The result of the probe, which will include public hearings here and across the nation, may be minimum federal safety requirements for these institutions, said a spokesman for Rep. James J. Florio (D-N.J.), member of the House Select Committee on Aging.

Currently, the estimated 1 million U.S. boarding homes are subject only to state codes, although the federal government subsidizes care for many of their residents.

"The reason for these hearings is to find out what has to be done," the spokesman said. "Boarding home fires are a nationwide problem. Every state has had them."

The problem, some observers say, is caused by lax state codes for the structures that house former mental patients, the retarded, war veterans and the elderly. The situation has intensified in recent years because of the push to de-institutionalize these people and find them homes in the community.

"These boarding homes can be anything from converted chicken coops to high-rise brick and mortar buildings," one source said. "I don't know of any state that requires boarding homes to have sprinkler systems."

Supporters of stricter codes say improved fire protection measures could make it easier for the high-risk boarding homes to find affordable property liability insurance. Opponents say the high cost of such measures could close homes (*BI*, Feb. 16).

While individual states such as New Jersey already are revamping their codes, others may find the federal government doing it for them.

"This could be the start of minimum federal standards for boarding homes similar to those for nursing homes," one observer said. The federal government may have an obligation to enforce minimum standards because it often pays the boarders' bills through Social Security," he added.

State funds, if provided, merely supplement the federal payment, which is set at $157 per month and generally is mailed directly to the boarding home operators.

If boarding home residents qualifying for these Social Security checks choose to live with relatives, payments are cut by a third, one source pointed out.

# School can't be sued for malpractice: Court

## around the states

ANNAPOLIS—The Maryland Court of Special Appeals says parents cannot sue their children's school for "educational malpractice."

Joseph and Phillis Hunter filed a $600,000 damage suit against the Montgomery County Board of Education in suburban Washington, D.C. The Hunters charged their son, Ross, had been placed in the second grade, but was forced to repeat first-grade material even though he was an excellent student.

As a result, Ross Hunter developed "internal psychological scars which today hinder his ability to learn or be tested on what he has learned," the Hunters' suit charged.

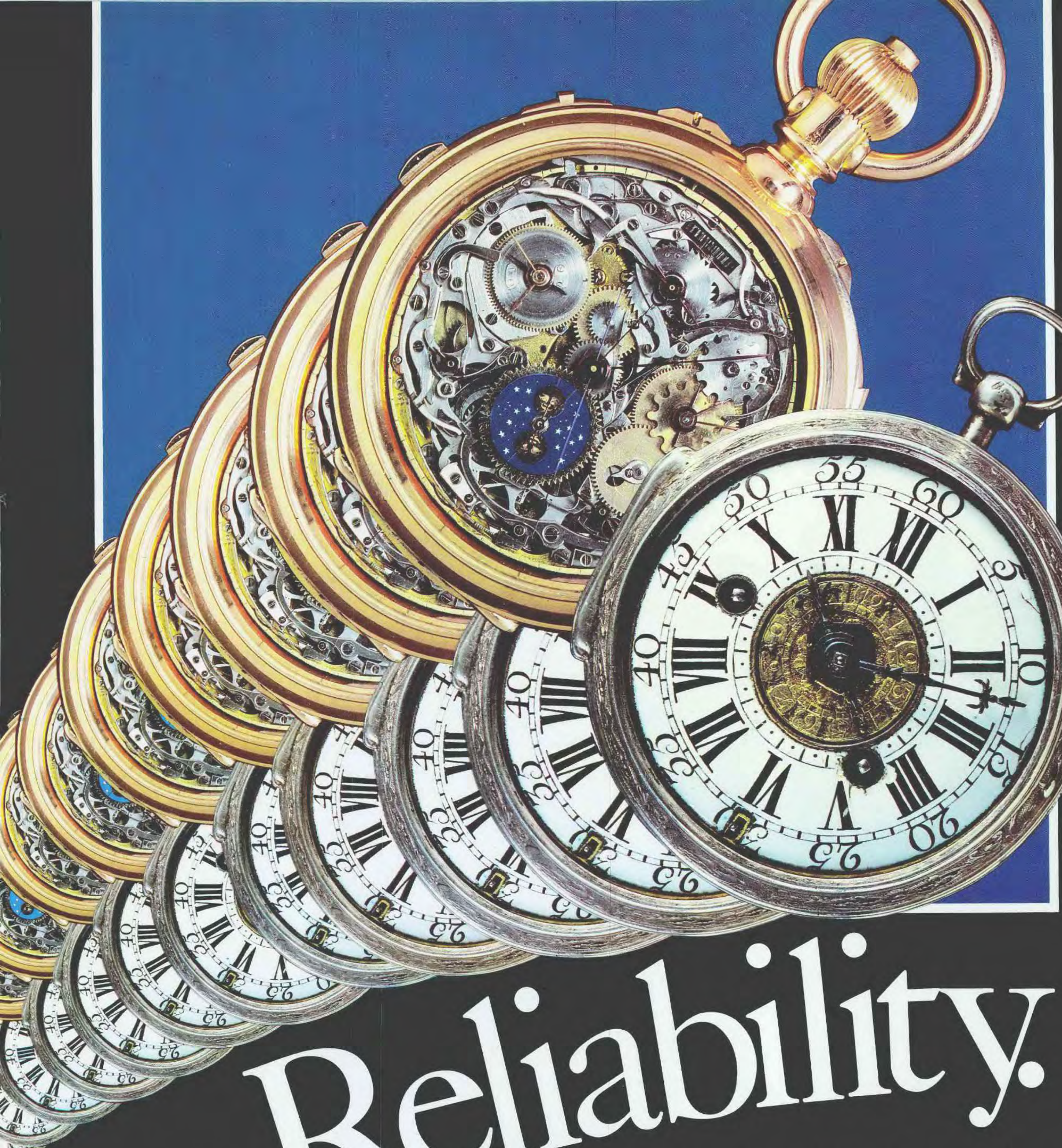
But the appeals court said the parents didn't have legal grounds to file a suit. If educational malpractice suits were allowed, parents might file claims "every time a child failed a grade, subject or test, with the result that teachers could possibly spend more time in lawyers' offices and courtrooms than in the classroom," the court ruled.

### Legislation needed

ALBANY—New York Insurance Superintendent Albert B. Lewis says legislative approval would be needed to lower the premium requirement on nonexotic business placed in the New York Free Trade Zone.

A Feb. 16 article in *Business Insurance* quoted him saying he could lower the premium requirement by regulation.

However, department counsel advised him since that the premium threshold of $100,000 was written into the legislation creating the Free Trade Zone and could only be changed by the legislature, he said. ■



# Hospital policy wards off risks of contamination

By LEN STRAZEWSKI

CHICAGO—If a dread disease contaminates parts of a hospital and forces it to close, who pays for the lost business and disinfection?

The risk is insurable, says Wayne Pearson, vp of Financial Guardian Inc. brokerage, but no one has bought the coverage.

Hospital risk managers say the risk is slight, despite recent reports of three cases of Legionnaire's Disease contamination at Northwestern Memorial Hospital here.

"We've been working on this policy for a year because we perceived a need for a business interruption coverage that would protect a hospital from loss if it had to close due to contamination," Mr. Pearson explained.

"When the Northwestern Memorial Hospital situation came to light, we decided to start marketing the plan as soon as possible."

The new policy, underwritten by Lloyd's of London, is being reviewed by the American Hospital Assn. for group sponsorship. Financial Guardian, however, already is selling the coverage to hospitals directly.

The special plan costs $1.75 per licensed hospital bed for $500,000 in coverage, with a minimum premium of $350. The brokerage can provide up to $2 million in coverage on request.

The need for this insurance, however, is debatable. In a letter to Chicago-area hospitals, Mr. Pearson cites recent news reports about the Legionnaire's Disease contamination at Northwestern Memorial that was detected in 1978 and 1979.

"One patient died and a section of the hospital had to be closed for an extended period of time," Mr. Pearson's letter says. "Consider the adverse impact on the hospital's earnings if the contamination penetrated their entire water supply."

Victor Morris, risk manager for Northwestern Memorial Hospital, has considered the impact. If his hospital had purchased the coverage two years ago, it still would never have filed a claim.

"Contrary to reports, no part of the hospital was ever closed and there was no loss of revenues," he explained. "We would've been unable to file a claim under that kind of policy, as far as I can tell."

**Northwestern**, which is self-insured for liability risks, has alternative space available for patients who need to be moved and staff trained to disinfect.

"The biggest problem a hospital can face is in public relations," Mr. Morris noted. "There's no coverage for situations that occur when patients leave the hospital because of disease reports. Closing a wing or floor temporarily for cleanup is just not much of a financial threat to a big hospital."

Other hospital risk executives agree. For a large hospital, the threat of revenue loss because of dread disease is nil. Though the overall risk is slight, smaller hospitals may see a need for the coverage.

"I'm sure that for every insurance policy created there is a buyer," explained Steve Takahashi, vp/treasurer for American Medical International, a group of more than 50 hospitals in the Los Angeles area.

Interpreting the coverage poses a problem, Mr. Takahashi says.

"The likelihood of this problem is pretty small and identifying which costs are specifically related to a disease would be pretty darn difficult, though I'm sure some small hospitals would be interested," he added. ■

# Lloyd's chairman launches U.S. visit

**By STACY SHAPIRO**

**london line**

LONDON—Through the window of the chairman's chambers is the new site for the Lloyd's of London building, swept clean of the rubble from the past.

And silhouetted behind his leather-top desk sits Lloyd's chairman Peter Green on the phone to Joseph Blades, chairman of J.H. Blades & Co., planning his trip to the United States.

"The chairman of Lloyd's hasn't been there since 1977, and since the U.S. is Lloyd's biggest single market, I suppose the chairman should go and raise the flag and pay our respects," Mr. Green said.

But the chairman of Lloyd's will do more than raise flags on his three-week trip to the United States, which began last week. He and his entourage of seven will visit with legal counsel in New York to discuss some "problems," such as Lloyd's position on Itel's bankruptcy. He will shake hands with new officials in Washington's Commerce Department and Maritime Commission, and he'll enjoy some Texas hospitality and New Orleans jazz.

And while in New York, Mr. Green will be peeking at one of Lloyd's competitors: The New York Insurance Exchange.

"I think I'll have a fraternal look at it," he said. "For America, it's a new way of doing things."

But the NYIE poses no immediate threat to Lloyd's market, he said. Lloyd's provides diversity in its chambers instead of the eight or nine large companies represented in NYIE cubicles. "That's the strength of Lloyd's," he said.

His market, however, isn't showing its full strength these days. It is contending with the Sasse Syndicate and computer leasing disputes, plus the large claims from Allendale and Hurricane Allen. Members are fighting among themselves over the Lloyd's legislation now in Parliament. Brokers are cutting staffs, internal costs and even premiums to keep their heads above British inflation and overseas competition, and marine underwriters are raising premiums at least 50% across the board.

"Despite what you read in the papers, we're bouncy and healthy," Mr. Green said. Lloyd's has "slimmed down and is eager to do business."

"I hope when we have a new act of Parliament, we will be able to have regulation which will make life easier to run Lloyd's," Mr. Green said.

Some external names and a few Conservative members of Parliament have halted the bill in committee in the hopes of amending it.

But Mr. Green is confident that some form of the Lloyd's bill will go through Parliament.

"We are just as keen as MPs are to see the new Lloyd's act on the statute book. We are talking to them all day, every day" to find common ground, he said. "I am confident that we shall find that common ground."

## Salem suit

The U.K. High Court Feb. 23 begins hearing arguments in the lawsuit filed against leading Lloyd's marine underwriters over the mysterious disappearance of the tanker Salem.

Shell International trading group contends it lost $56 million through the illicit diversion of the tanker's 190,000-ton oil cargo to South Africa before the ship was scuttled in January 1980.

As Shell International has already been given $30 million by South Africa for the loss of the oil, the forthcoming U.K. hearing will turn on whether Lloyd's has to pay the remaining $26 million.

Lloyd's underwriters are resisting the Shell claim on the ground it does not come within the insured perils clauses in Shell's policy. ▪

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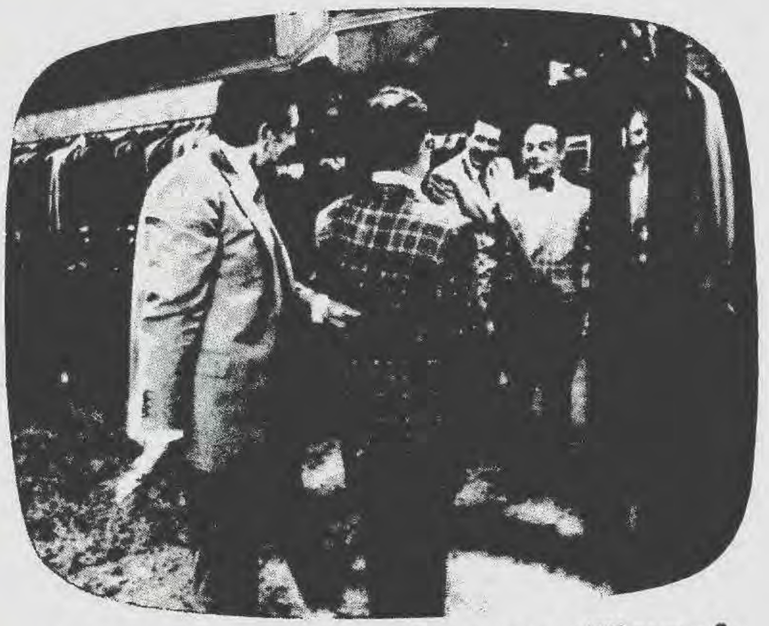

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## editorial opinions

# Put out the matches

THE REAL tragedy of the Las Vegas Hilton Hotel fire is that it didn't have to happen.

Like the Stouffer's Inn fire in New York in December, investigators are sure arson was the cause of the fire that swept from the eighth to the 30th floors of the Hilton, leaving eight dead and almost 200 injured.

The victims, like the 26 victims in the Stouffer's fire, probably didn't have a chance. Police believe in both cases the act was premeditated. Someone had planned how to set a fire that would spread quickly and viciously. In the Stouffer's fire, police even speculate that the arsonist planned his deed specifically to isolate certain meeting rooms with flames, making escape impossible.

Yes, we do wonder if the guests would have had more of a chance to escape if the east wing of the Hilton had been equipped with a sprinkler system like those in the other two wings. One Las Vegas fire official speaking on television said it would have made a difference.

And some guests are saying the alarms did not sound on their floor, forcing them to warn other guests of the danger by running down the hall pounding on doors.

But what we really wonder is whether all the precautions in the world can have any effect if someone is intent on burning down a building.

Can even the strictest fire codes defeat an arsonist?

We do urge the risk managers of hotels, restaurants and other public buildings to take the Hilton, Stouffer's and MGM Grand fires as warnings to re-evaluate loss-control systems. And if there are any holes, to plug them quickly—despite the cost—before another tragic fire leaves more people dead.

And we suggest that monitoring of personnel is an important security measure that can't be overlooked. The busboy accused of setting the Hilton fire was employed by the hotel less than a week before the fire, but were there signs in his behavior that should have been observed?

We want to extend the responsibility for curbing needless tragedy beyond the risk manager and the business community.

If a business' safety precautions can't stop an arsonist's blaze, then the arsonist's matches must be taken away before they are struck.

We encourage legislative and community groups that already have formed task forces to crack down on arson to continue their work. Business should help them. We encourage these groups to vigorously try to determine what they can do in their community and business establishments to make a would-be arsonist's job so hard that he or she might be discouraged.

And we want to see business owners, insurers and police cooperate even more to track down and arrest suspected arsonists swiftly. At the Hilton, it took less than a day to nab a suspect; in the Stouffer's fire, no arrests have been announced. We want arsonists to know they will be caught.

We want arson prosecuted, and we don't want the courts to show compassion. We think the punishment meted out should be proportionate to the damage done—the financial damage to the business involved and, more important, the tragedy imposed on the families of the victims.

That is the real tragedy of the Hilton and Stouffer's fires. The killings were senseless.

If we can't build structures that are invulnerable to an arsonist's plot, then we can't let ourselves be vulnerable to the arsonist. Across the country, communities, legislatures, law enforcement groups and the courts must work together to extinguish the arsonist's match before the blaze begins.

# It's discouraging

WE ARE DISCOURAGED by the recent federal court ruling that employers do not have to offer equitable pregnancy benefits to spouses of male employees.

If a company's health care insurance covers all reasonable and customary health expenses of spouses of female employees, why should it not cover or limit coverage for the medical care of a male employee's spouse?

Not only do we believe that pregnancy is a legitimate disability that should be treated like other disabilities, but by denying these benefits to male employees' spouses, companies force male employees to accept a less equitable benefit package than that given female employees.

## 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.*

# Missing the real story

To the editor: The article headlined "Pre-hiring check raises conflicts" (*BI*, Jan. 26) seems to have missed a far larger and more important story.

According to the U.S. Department of Labor, U.S. companies and their insurers spent more than $14 billion for workers compensation claims in 1977—a 27% increase over the previous year. In 1978, about one in every 11 workers experienced a job-related injury—some 5.66 million compared to 5.3 million in 1977.

Clearly employers and their workers compensation insurers do have a legitimate problem, a fact which your article seems to ignore. Instead, its lead sentence appears to conclude that prescreening is either a euphemism for blacklisting or a method to help weed out habitual claimants.

Interestingly enough, *Business Insurance*, in its June 25, 1979, edition, published a story in which a spokeswoman for a California-based company asserted that putting job applicants through extensive physicals, collecting their medical history and analyzing the potential impact of job demands on their health had slashed the company's workers compensation costs by 75%. She also said that in the five-year existence of the program, they had only met three discrimination suits for medical reasons, and none of those were upheld in court.

Equifax Services began offering its workers compensation records after exhaustively researching the legality and ethics of such a service. We found that it is both legal and ethical to offer workers compensation records for these purposes:

- To help employers place handicapped applicants in the most suitable jobs.
- To help screen out habitual workers compensation claimants whose number and type of claims clearly demonstrate that they are unsuited for a particular type of work or that their intent in seeking employment is to file an additional claim.
- To verify application information about the nature and extent of previous injuries which might have a bearing on current employment capabilities.

Our service also makes employers and their insurers aware of previous injuries to enable the use of state second injury funds if they hire the applicant and he/she incurs further injury.

We obtain an authorization from the applicant before making each report, and your article is correct in so stating, but it is incorrect in saying that these reports are not covered by the federal Fair Credit Reporting Act. They are and this law enables the applicant to see and dispute any information we provide to a prospective employer.

Additionally, our customers are guided in their consideration of handicapped workers by federal guidelines established under the Rehabilitation Act of 1973 or by state law in 23 states. And, incidentally, they sign an agreement for service with us, saying that they know and will abide by the FCRA.

**Peter W. Wallace**
Director-public relations
Corporate public affairs
department
Equifax Inc.
Atlanta, Ga.

# Radical solution to fires

To the editor: What I am about to suggest may seem radical to most readers. But the overwhelming evidence tells me that all buildings in the United States should be sprinklered, furnished with state-of-the-art detectors and maintained to optimal conditions. The only exceptions should be one- and two-family private residences.

We read about the spectacular fires that have occurred recently. But these are just a small sampling of the disasters that occur yearly. How many lives could have been saved with mandatory sprinklers in all buildings?

There are two major drawbacks to sprinklers: They cost a lot and they leak. The cost could be defrayed by governmental loans, at low interest rates, to install the sprinklers. Our technology should be made to respond to the sprinkler industry to produce heads that come close to eliminating all leaks.

It is interesting that one of the high-rise office complexes in New York City, the Citicorp Plaza, is sprinklered. In the early '70s, some 130 Citicorp employees were killed in an unsprinklered high-rise fire in Brazil. Obviously the people at Citicorp pay attention to history.

How many more catastrophes do we need for all of us to heed this warning?

**Michael F. Abate**
President
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DONALD A. WALSH, *Advertising Director—New York* (212-986-5050, Ext. 15)
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# Financial Strategies In Business Insurance

*An INA Series*

***A change in perspective was the key.***
-Marriott's John Woods

For the Marriott Corporation, international airline catering is a significant source of revenue.

"We currently operate 23 flight kitchens around the world," notes John Woods, director of insurance for Marriott, "and together they prepare millions of airline meals annually."

Until several years ago, the company purchased its property-casualty insurance for each flight kitchen separately. But it soon became apparent that this arrangement was creating serious cost inefficiencies.

Then, through its broker, Marriott contacted INA International. Together they restructured the formula under which the kitchens' insurance coverage was purchased.

"INA views all of our food service operations as a collective entity," explains Woods, "rather than as individual small businesses. Consequently, the premium for each flight kitchen is now based on the combined overall loss experience of *all* the kitchens."

In addition to the fact that having a unified, consistent international insurance program has effectively eliminated costly gaps and overlaps in coverage, Marriott has realized a steady reduction in premiums since the program began.

Comments Woods: "This decrease in premiums is even more remarkable when you consider that our airline catering operations have been continually *expanding* during the same period."

---

***Bidding from knowledge, not guesswork.***
-Blount International's Jim McLain

For a construction firm, one of the most difficult tasks in bidding on overseas work involves factoring in correct insurance costs. Unfamiliar with local conditions, a bidder may overestimate and lose the contract. Too low an estimate can result in a successful bid with heavy downside risk. The answer: a working partnership with an insurer whose international expertise guarantees an accurate premium quotation.

Blount International, Ltd., a leading engineering and construction firm, recognized the value of such a relationship when it first moved into the overseas market in 1975.

"The lead project was a major housing facility in Tabuk, Saudi Arabia," recalls Jim McLain, Blount's manager of International Business Development. "Our insurance needs were highly complex–including a workers' compensation program for employees from over a half-dozen different countries."

Blount turned to INA International. Their familiarity with local procedures and costs provided insight, according to McLain, "that couldn't have been duplicated in-house." The result was a successful bid, comprehensive from the insurance standpoint, yet competitive in price.

Award of the Tabuk contract has led to a series of other overseas projects. And INA continues to play a vital role for Blount–especially in the crucial early stages of bidding. In McLain's view, "Rapidly changing conditions in so many countries make this close cooperation essential."

---

For over two decades, the specialized and innovative work of the Holt Insurance Agency has been of singular importance to an entire industry. Based in San Clemente, Calif., the agency serves equipment-rental firms.

***Protection that helps pay for itself.***
-The Holt Agency's Warren Holt

Agency president Warren Holt explains: "We devised comprehensive programs for equipment and U-drive truck rental yards at a time when most insurers wouldn't touch the business." The Holt Agency saw a need, worked to fill it–and has become the largest, most respected agency of its kind.

The Holt "formula" has three main elements, each representing a significant customer benefit. Number one: because the all-risk coverage through Holt is underwritten by INA, rental companies are assured of market stability from a leading insurance carrier.

The second factor is Holt's expert utilization of extensive and carefully maintained loss-control data. These computerized files are regularly reviewed with clients–and necessary safety measures outlined. Results have been startling: reductions in loss-ratios of up to 80%.

Finally, this "specialist" agency pioneered the concept of having clients charge optional damage waiver fees to renters of equipment, protecting the renter against subrogation if equipment is damaged or stolen. This is similar in principle to an auto rental agency issuing collision waivers. "These fees," says Warren Holt, "accumulate to the insured as *net* income and can often help offset the cost of the client's total annual premium."

Decision-making in business insurance has never been more complex. And the financial implications have never been greater. Today, devising cost-effective insurance programs requires knowledge, experience, capacity–and a complete range of products and services. Flexibility and the willingness to innovate are also essential.

INA's ability to combine these elements can assist you in developing practical solutions, new approaches, and better strategies. Consult the professionals. Write directly to John Cox, President, INA Property-Casualty Group, 1600 Arch Street, Philadelphia, PA 19101 or call (215) 241-2729.

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The Professionals

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# Thermography colors work comp case

Continued from page 1
damage or muscle spasm, an X-ray is much less dependable," he said.

"We test the patient three times at 20-minute intervals to make sure the pattern of pain is consistent," he said. "Critics who argue that a patient can alter the results by applying hot packs or biting the area to be filmed don't know what they're talking about.

"The three thermograms should all look consistent. If all three don't look the same, then there's a question, but it's very obvious," Dr. Wexler added.

Thermography abuses already have emerged in California, with some operators advertising, "Send us your patients and we'll send you a picture of their pain—in color," said Dr. Paul H. Goodley, a Los Angeles physician. He was the first to introduce thermography as evidence in the federal and state courts in California.

"There are doctors' opinions that are buyable . . . they will bend the medical opinion for whoever is buying," he explained. "I am completely independent and work for the insurance companies and the employees.

### Doctor's assistant

"The thermogram is an objectifier that assists the physician to become a more precise examiner," Dr. Goodley stressed. "Thermography does not provide a picture of pain."

He explains the process this way: "Since nerves control the blood flow, an injury is likely to radiate more heat than other areas. If the nerves are injured, the blood vessels constrict and the thermogram shows a hotter area. The invisible heat is then recorded in black or white or a range of colors."

Dr. Goodley's opinion isn't always accepted, but the thermogram gives him a way to back up other medical evidence with an objective test, he says. He reports a 96.7% accuracy rate between the patient's report of pain and his or her thermogram results.

A California workers compensation claims examiner who has 10 years experience in insurance supports thermography. She says it is useful even though the insurance industry generally doesn't think soft tissue injuries should be treated.

### Evidence of injury

"I can't say if it's the final answer, but it has helped us determine if injuries are valid or not," said the claims examiner, who asked not to be identified.

She recalled a case in which an employee contended she had a neck injury that Dr. Goodley found didn't exist.

"The thermogram as evidence was presented to the workers compensation appellate judge and he found no permanent injury.

"Thermography also can be used to evaluate the healing process of an injury so that the employer isn't paying for something they shouldn't be," she added.

The California State Compensation Insurance Fund, which writes about 25% of the state's workers compensation insurance, is accepting thermograms in disputed cases and paying for prescribed physician thermograms, said Dr. Bud Whiting, medical director for the state fund.

"We started being billed for it about four or five years ago," he said. "What's making it more popular now is that it's a nonevasive type of test. It doesn't expose the patient to harmful radiation. You can depend on thermograms like other laboratory techniques.

"The point is, thermograms don't stand alone," he said. "It's one of many diagnostic procedures that works."

Claims examiners are told to monitor use of thermograms in case one physician is using them excessively, he said. The testing is expensive, running from $100 to $200, Dr. Whiting adds.

Thermography is making its way, in isolated cases, to places like Washington, D.C., New York and Baltimore where doctors, insurers and workers compensation experts are beginning to acknowledge its benefits.

The National Medical Advisory Service, a Washington, D.C., independent company that defends workers compensation claims, is just beginning to review thermography, says president Dr. Ronald Gotz.

"It's a new area that has not yet gained wide acceptance," Dr. Gotz said. "We need to know how good the data is, and we're just starting to really look into it."

### State fund use

The New York State Insurance Fund, which writes about one-third of the workers compensation coverage in the state, has paid for breast thermograms, says Dr. Max Howard, the fund's orthopedic surgeon.

"I haven't seen thermography used in on-the-job injury claims yet, but I suspect we will," he said.

A New York City physician that has been practicing thermography for about 10 years uses the technique to help his patients who claim to have pain that is tough to verify, he said.

Several courts in the state, beginning with the workers compensation arbitration court, have routinely accepted thermograms from Dr. Paul Ruegsegger as evidence of diagnosed pain.

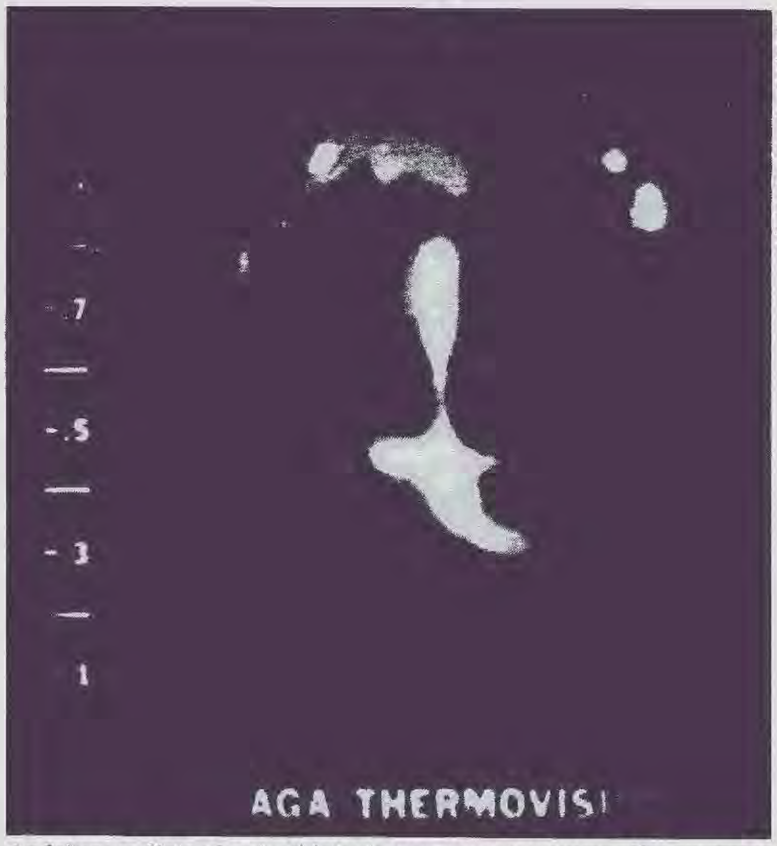



Photo: Dr. Charles E. Wexler

**An injury radiates heat, which shows up as spots on a thermogram.**

As a consulting physician for Swiss Airlines, Dr. Ruegsegger says he has testified against "fakers" who have alleged their work as cargo lifters for the airline gave them backaches.

"Whenever the judge or jury sees the thermogram and it's explained to them, there's no question," Dr. Ruegsegger said. "The technique is accepted as evidence.

"I once had a woman come to me who had a so-called unbeatable case," Dr. Ruegsegger said. "She was driving a Volkswagen car when a truck sliced through her car. She claimed she couldn't move her legs or turn her head. The thermogram showed she had a little sprain, and she was angry at me," he said.

"If someone wants a picture of heat so they can go to court and win a million dollars, forget it. That's quackery," he added.

A professor of neurosurgery at Johns Hopkins University in Baltimore says he has occasionally testified for a patient, using thermography as evidence.

But Dr. Sumio Uematsu cautions that thermograms present a great potential for abuse if they are used alone.

"Thermography has to be viewed with the patient's history and other physical tests that support the finding," Dr. Uematsu said. "If used properly, a thermogram can be a great reward for a patient whose pain no one has believed for many years."

A spokesman for Liberty Mutual Insurance Co. in Boston, the nation's leading workers compensation underwriter, said thermography is accepted for diagnostic purposes, but never has been used in settling a disputed claim.

Aetna Life & Casualty Co. in Hartford, another large workers compensation insurer, says it's too early to tell how well thermography will be accepted in workers compensation claims.

### Lack of experience

INA Corp. in Philadelphia cites a similar lack of experience with thermograms. "Claims, medical and legal experts are reading research on it, but that's as far as it's gone," a spokesman said.

Fireman's Fund Insurance Co. in San Francisco and Alexis, a subsidiary of Alexander & Alexander Inc. that administers claims for self-insurers, have seen claims for breast thermography but not for common on-the-job workers compensation injuries.

Thermography has been widely used for the last quarter century to detect breast cancer. Tumors, infections and other injuries are said to turn up on the thermogram as the increased blood flow to the area changes the skin temperature.

Still, the Memorial Sloan-Kettering Institute for cancer research in New York City reports only an 80% to 85% accuracy rate for detecting breast tumors with thermography, and researchers at the Mayo Clinic in Rochester, Minn., say only that thermography has some potential and "is being studied." ■

## Pre-employment thermography?

ENCINO, CALIF.—Pre-employment thermography?

If it's found to be legal, one Encino radiologist is planning to market a pre-employment thermogram to employers as a way to screen out job applicants who might already have injuries.

Thermography is a process that measures the natural heat given off by the human body. It uses infrared sensing devices to obtain a temperature map of the body or of certain parts of it.

**A "hot spot"** is equated with pain or disease and is recorded on film in black and white or a range of colors.

The idea for pre-employment thermography came to Dr. Charles E. Wexler when his own X-ray technician was involved in a rear-end automobile accident.

Because he had used the employee as a model two months before the accident when teaching thermography to another technician, Dr. Wexler had a pre-accident series of thermograms of her.

Fourteen hours after the accident, Dr. Wexler again made a thermogram of the employee, who complained of neck pain that was radiating into the left arm and hand. This series of thermograms substantiated her injuries. More done several months later showed that the woman's pain had disappeared.

Dr. Wexler also is considering selling what he calls "serial" thermography, a set of thermograms taken at intervals after a claimant's injury to see if the patient's complaint agrees with the thermogram.

"It's the next best thing to pre-employment thermograms," Dr. Wexler said.

# City prescribes self-insurance for savings

BATAVIA, N.Y.—The final step in a self-insurance program designed to save this city of 17,000 about $130,000 annually begins next week.

Beginning March 1, a prescription drug plan for 115 city workers will be added to self-insurance that includes life coverage for 60 workers and property and liability packages for the city, said Richard A. King, assistant to the city administrator.

"We determined for every dollar we paid out (to Blue Cross & Blue Shield for the prescription plan) we got 50 cents in benefits," Mr. King said. "So we worked out an agreement with pharmacies in the county and nearby fringes to honor a card the city would produce."

**Under this plan,** expected to save $8,000 a year, pharmacies have agreed to charge the average wholesale drug cost plus a $2.60 dispensing fee. Workers pay the first $1 per prescription.

This program, and one implemented a year ago to provide $1,000 in life insurance for 60 city workers, account for a small fraction of the city's savings from self-insuring its coverages.

More than $100,000 in savings is projected to come from property and general liability lines the city began self-insuring Jan. 1.

"A year and a half ago, we hired a consultant to do a study because costs (of commercial coverages) had gone up 500% in five years," Mr. King said. "Costs were getting too expensive. They were becoming a larger and larger component of the city's budget."

The study recommended the city approach the commercial markets for flexible programs with higher deductibles. The most that could be saved from this approach was $30,000, Mr. King recounted.

Because of this disappointing showing by commercial insurers and a $1.4 million closing settlement the city received upon completion of an urban renewal project, self-insurance was given more consideration.

**"In 1980,** the city allocated $500,000 (from the settlement) to a self-insurance reserve fund pending the outcome of studies," Mr. King said.

"We came to the conclusion we could effectively self-insure with this reserve fund and excess insurance."

The self-insurance program, including claims administration by Claims Management Services in Rochester, loss-control consulting by an outside firm and $1 million excess on general liability and property, costs $35,000 to $45,000 annually.

The cost of commercial insurance for the same coverage for 1981 would have been $150,000, Mr. King said.

The city is now considering self-funding medical coverage, also underwritten by the Blues. ■

**perspective**

# Capsulizing programs

## Risk management study spotlights aims, gains

By Hal Johnson

WHY IS THERE so much emphasis on the risk management annual report in risk management professional circles? Does it really perform a purpose? Is it worth the effort?

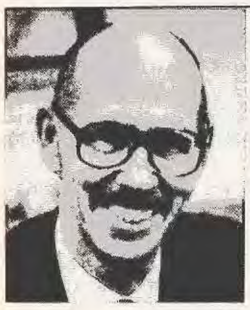
The main justification for the risk management annual report lies in the needs of your company's senior management, and perhaps operating management. Your risk management decisions and performance can have a most significant effect on the company operating statement. Company management thus deserves and needs a clear and concise picture of the company's risk management program, where it is and where it is going.

The report provides management with the risk management picture in a capsule. It is a means for management to understand the risk management department's functions, how it operates and how it seeks to protect corporate assets and earnings. The report tells what the company risk management costs are. It provides the risk manager's evaluation of the risk management function and recommendations for the future.

How do you go about making up a risk management annual report? There are four essential steps:

- Determining to do it. If you have decided to make your report, you have taken the most important step in the process.
- Determining your objectives. What do you aim to accomplish in making up the report? What do you want to emphasize?
- Planning. When? As early as possible. You will want to determine the type of information desired in your report and the format. You will want to establish time schedules for obtaining information such as losses, insurance premiums and loss-prevention activities.

You will want to establish time schedules for completing the draft report. This may be a joint project with several on your risk management staff. It also may include people from other departments with the risk management function. You will want to plan and schedule production of the report itself. If there is additional information you will want for next year's report, you may have to plan now to obtain such information during the next year.



*Hal Johnson is director-risk management for State Farm Insurance Cos. in Bloomington, Ill.*

- Follow through to completion. Your report will be completed only to the extent that you place continuing priority on completion of the pieces that will become your final report.

I've also developed a few pointers:

- Gear to your reader. Determine who the reader or audience is. Typically, the risk management annual report is prepared for company senior management, the board of directors, executive committee or perhaps for an insurance committee. Put yourself in the shoes of the reader. What will be of interest to the person? How can you make your story significant?

Also, gear your report to some person whose only contact with you or the risk management function during the year may be through your annual report. What do you want this person to know and remember?

- Be brief. Recognize the time limitations of people reading your report. Digest, digest, digest. The briefer your report, the more likely it is to be read.
- Highlight and explain. Your report may include exhibits, such as dollar losses or insurance premiums. But don't inundate the reader with dollar amounts and figures, leaving him or her determine their significance. What do the figures mean? What has happened? Highlight the important points. If you have a lengthy report, a synopsis of "report highlights" at the beginning may be helpful.
- Explain in financial terms. Senior management logically must translate the report's content into dollars. Help your management determine the significance of the report by reflecting careful financial analysis.
- Do your own thing. There need be no standard format for the risk management annual report. Use your own ideas on emphasis and format. Let your imagination go. If you are presenting your written report to the board of directors, you may want to embellish the presentation by flipcharts and other helpful visual aids. You possibly would want to produce a slide cassette to illustrate loss-control problems or improvements.

Avoid an annual report that is a carbon copy of last year's. Enhance the interest of your reader or audience through new approaches, devices or formats from year to year.

- Dress it up. You will have written a good report. Maximize its effectiveness by putting it together in a quality manner. If a good report is put together in a sloppy manner, the reader may subconsciously review the content as sloppy. You may want to go outside of your own department to produce the report itself. You may want to enlist the aid of your art department and/or art work service to make the report more meaningful.

What you will incorporate in your annual report will depend on your desired content and points of emphasis. Elements that, to one degree or another, may be found in risk management annual reports are exhibits, explanatory comments, achievements, cost of risk, expecially workers compensation, loss control, planned non-insurance and the future.

Your exhibits or schedules probably will be placed at the end, for reference as needed. Examples of typical exhibits include:

- Corporate insurance coverage summary, including skeleton information only.
- Risk financing alternative plans summary, discussing self-insurance or captive insurers, for example.
- Insurance premiums, losses and deductible losses in dollar amounts, by line and by year for five years or longer.
- Other loss costs not insured and not under another risk-financing plan by dollar amounts, by line and by year for five years or longer.
- Planned non-insurance including a list of pure risk (non-speculative business risk) exposures for which insurance or another risk-financing plan is not provided.

Other exhibits that might be useful, depending on how risk management relates to other departments, include:

- Safety and loss-prevention activities, including summary results inspections and other programs.
- Lawsuit activity, describing closed vs. open cases, their status and amounts by type (products, other general liability, contracts, employment relations).

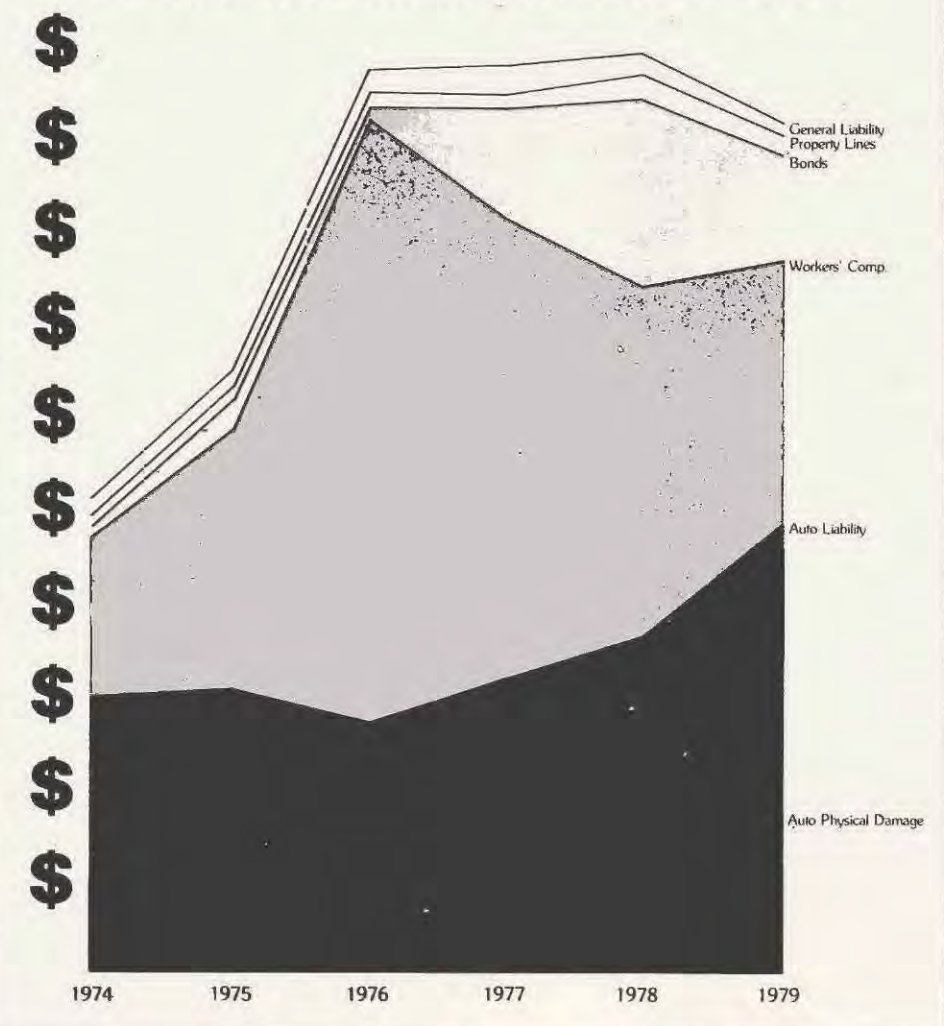
The real meat of your annual report is your interpretation of where you have been, where you are and where you are going. These explanatory comments should address:

- Philosophy and operation. Your explanation should reveal your risk management policy. For example, one RIMS member crystalized his policy "to minimize the adverse financial results of accidental loss to the company assets, operations and personnel."
- Management by objectives. Your report should reflect the objectives you had set at the beginning of the year and the progress toward meeting those objectives.
- What went right? What went wrong? Why? The risk manager needs to face these questions squarely. And senior management has a right to an accurate picture regarding them.

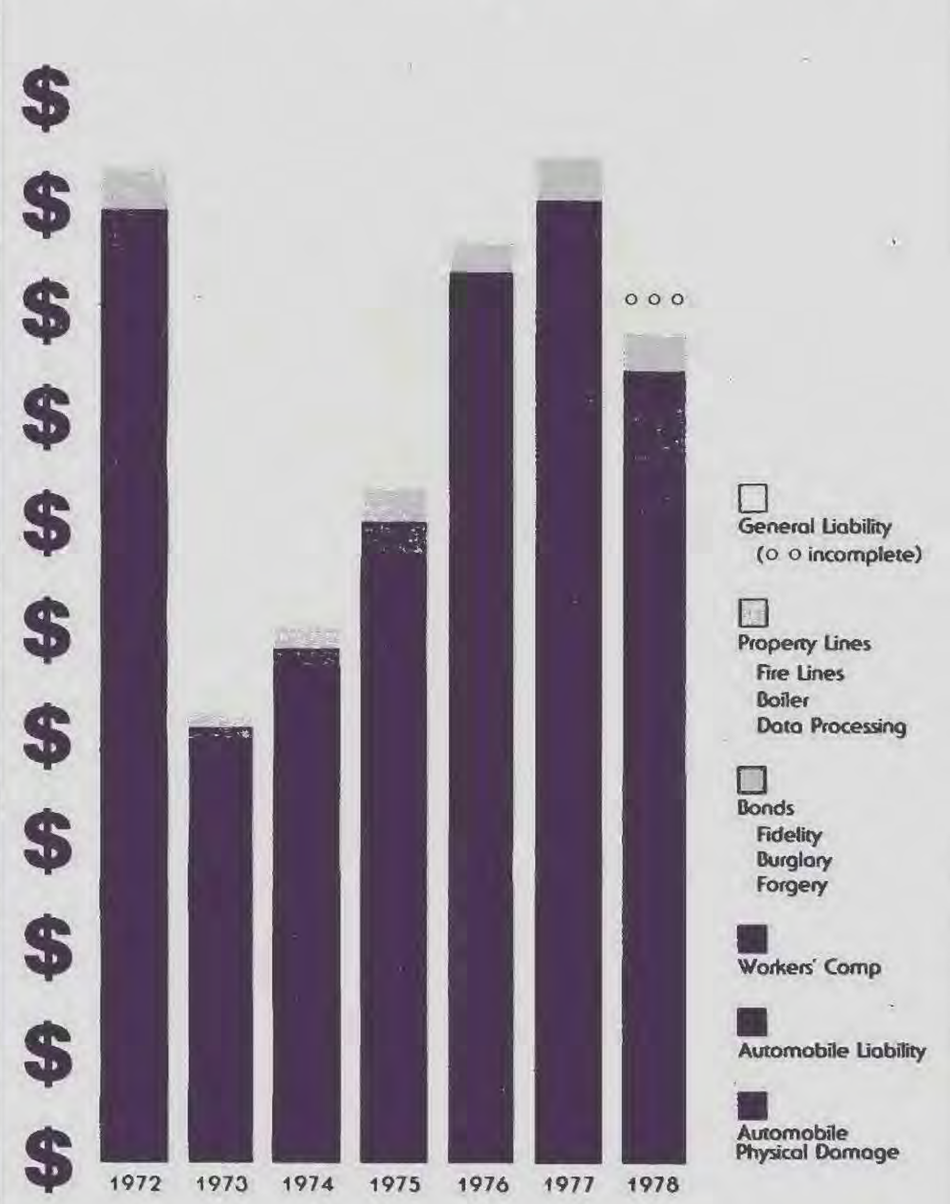
Your achievements are important, too.

If the company incurs a substantial loss for which management was unprepared, the risk manager logically may be called upon for an analysis and explanation. On the other hand, if things have been going right, if losses have been minimized, if insurance premiums and other costs have been contained, such facts may not always be

**Overall risk management losses I**



## Overall risk management losses II




This chart from State Farm Insurance Co.'s risk management annual report illustrates what areas showed improvement in controlling losses to demonstrate success to top management.

known. It is up to the risk manager to summarize the risk management "achievements."

The achievements might be summarized over the previous year or over the previous several years. A few examples:

- Streamlining risk management administration to lower overall costs.
- Development of well-trained risk management staff, including safety and loss control.
- Utilization of new risk management techniques to improve the cost effectiveness of the overall risk transfer and management program.

The report will highlight and state significant aspects of all loss and risk management costs, such as:

- Insurance premiums, losses, retained losses.
- Risk financing alternatives, losses and expenses.
- Other losses.
- Cost of administration and salaries.
- Loss-control expenses, including security.

You should explain pertinent trends for each of these by line of exposure. What were your major causes of loss during the past year? During the past three years? What were the major factors in the increases or decreases in premiums? In other risk management expenses?

You may find it helpful to relate risk management expenses from year to year in terms of some meaningful yardstick, such as sales, units produced or the value per share of stock.

An excellent example of explaining the success of a risk management program in financial terms is provided by a RIMS member at a company with annual sales of $1 billion. He explained the corporate workers compensation costs under a retrospective rating plan.

Loss control is the key bottom-line element on the risk manager's operating statement. It deserves analysis and explanation in the risk management annual report. A few examples might include the following:

- State of safety program.
- Major causes and sources of losses.
- Comparison of the company injury/illness rate per 100 employees as compared with the Department of Labor averages for similar industries.
- Your new automobile safe driver training program—What are your goals for it? How does it operate? How is it coming along at this point?

It is advisable to inform senior management of the types of loss for which you do not buy insurance or for which you do not have other risk-financing alternatives. Here we are considering the pure risk exposures, not the speculative business risk exposures. You may want to include the list of noninsured exposures as an exhibit.

In your explanatory comments, you may want to emphasize your most pertinent noninsured exposures. You also may want to indicate if an exposure cannot be insured, or your reasons for not buying insurance for it.

Obviously, you will have provided a picture of what has happened in the past. And your report will be an opportunity to offer your thoughts on what senior management should know regarding the present risk management program.

Senior management also will appreciate your looking to the future. If you see bad news on the horizon, tell it like it is. There is no need to use scare techniques.

But an honest appraisal is in order. In ancient times, the messenger carrying bad news might be beheaded. You may have to explain to management that you foresee increased losses or increased insurance costs because of market changes. You won't be beheaded for this. Your management will appreciate this information and respect you for giving it.

Your annual report is an opportunity for you to lay out your primary goals and objectives for the coming year and beyond. Thus, your management will be able to more fully comprehend your aims and your contributions to be company.

Last, your annual risk management report should indicate what you feel are pertinent recommendations for the future. What do you think is important for management to know?

It will be helpful to all that you go on record. It may require you to stick your neck out tactfully. But don't expect senior management people to automatically know the importance of such risk management recommendations unless you tell them. ▪

## legal briefs

# Check cashing isn't compensable activity

AN EMPLOYEE'S check-cashing activity during a lunch break did not benefit an employer, and so injuries sustained on that mission did not raise out of or in the course of employment, ruled Massachusetts' highest court.

The employee was injured during her authorized lunch break while going to cash her paycheck at her employer's bank nearby. The bank cashed paychecks for employees, but the employee was under no compulsion to cash or not to cash her checks at any particular bank or during her lunch period. State law required employers to provide facilities for cashing paychecks to the extent deemed reasonable by the state commissioner of labor.

The board denied the employee's claim for compensation, but a trial court reversed and awarded her benefits.

The appellate court reviewed decisions from other jurisdictions and found that when a claim was allowed under similar situations, the courts also found the employer benefited in some way by the check-cashing arrangements. The court cautioned that many things an employee might do during a lunch break, such as obtaining a haircut, eating lunch or even resting, could benefit an employer in an indirect way. But without some specific employer benefit, the court concluded that compensation was properly denied. *Corraro's Case*, supreme judicial court of Massachusetts, April 10, 1980 (*BI*/02/N.-$5).

### Beneficiary change

A Connecticut court ruled the remarriage of a woman who remained listed as beneficiary on her ex-husband's group life insurance policy did not terminate her interest in the policy's proceeds. The divorce dissolution ordered that she be listed as beneficiary until she remarried.

Suzanne Hoelck was named beneficiary of Cornelius Hoelck Jr.'s group life insurance policy issued by Phoenix Mutual Life Insurance Co. When the marriage was dissolved, Mr. Hoelck was ordered to keep her as beneficiary until her remarriage. She remarried about three years later. Mr. Hoelck died 16 months later without removing Suzanne as beneficiary. She sought to recover the $17,000 insurance proceeds from his estate.

Generally, the court said, a beneficiary can be changed only by following the procedures prescribed by the policy. However, the court acknowledged that an exception to the general rule applied if a policyholder had done everything in his power to comply with the procedure but failed to accomplish the change because of some circumstance beyond his control.

The court concluded the exception did not apply because the dissolution judgment did not order that the insurance policy become the property of Mr. Hoelck. The court emphasized he had 16 months to make the change and did not do so. Suzanne was awarded the $17,000. *Williams vs. Sistare*, Connecticut Superior Court, May, 1, 1980 (*BI*/01/J.-$5).

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*These abstracts were prepared by Cases Unlimited Inc. Copies of an entire decision may be obtained by sending a check for $5 made out to Cases Unlimited, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.*

# Cap on tax-free plans could generate billions

By JERRY GEISEL

WASHINGTON—Billions of dollars in new revenues would come tumbling into federal coffers if a cap were imposed on the amount of tax-free health insurance benefits an employee could receive, a new study confirms.

The Congressional Budget Office says federal tax revenues would jump $17 billion over the next five years if legislation were enacted limiting tax-free employer contributions to $120 a month for family group health insurance.

In 1982, such a limitation would affect about 23 million employees, about one-third of employees who participate in group health plans.

Excluding health insurance benefits from taxes "leads to what many consider to be overly extensive health insurance coverage, which has expanded use of health care services and, consequently, driven up their prices," said CBO, Congress's research arm.

CBO also noted, however, that taxing health insurance benefits might cause some employees to forgo important medical care.

Capping tax-free health benefits is supported by some powerful members of the administration. David Stockman, director of the Office of Management and Budget, endorsed the idea while a congressman (*BI*, June 9, 1980) and is expected to try to convince the administration to endorse it.

Several hospital groups have spoken in favor of capping tax-free health insurance benefits, but unions bitterly oppose any taxes.

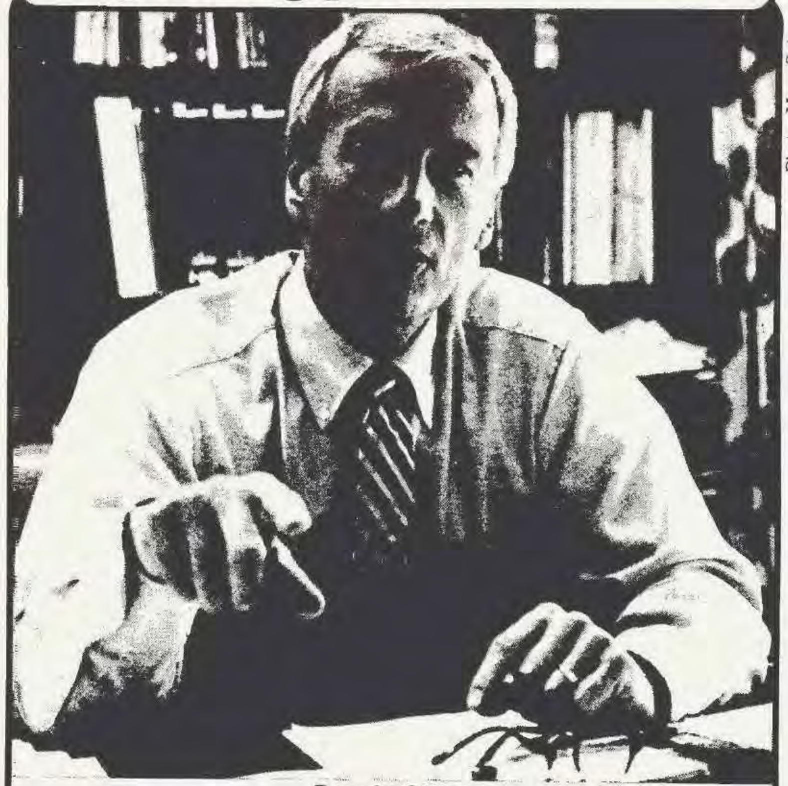
The CBO says even more money could be saved if annual Social Security benefit increases were limited to the rise in wages or the Consumer Price Index, whichever is less. Benefit increases are now indexed to match the annual CPI.

If increases were limited to the lower of average wage hikes or the CPI, the government would save about $26 billion over the next five years, CBO estimates. ■





## growing pains



Ronald O'Nan

# "If you pay your own medical bills, you can save"

By LEN STRAZEWSKI

CHICAGO—Firms too small to self-insure workers compensation can still find ways to deflate growing premiums for the state-mandated coverage.

The cost-cutting trick, however, demands careful monitoring of your industry classification and the claims data sent to your insurer.

Some firms are just telling their insurers too much, says Ron O'Nan, vp-risk management for Corroon & Black of Illinois. A small firm can trim costs just by paying some medical bills from accidents itself, bypassing the insurer.

"If you pay your own medical bills, even just the first $500, you can save nearly $4 for every $1 you pay," he explained. "Of course, you have to report your expense, but by not filing the bills with your insurer, you can improve your expense modification factor."

Insurers grant discounts from standard manual rates based upon a firm's loss history. Small medical bills from accidents and injuries that don't actually lead to workers compensation claims can affect that modification and hurt a firm's discount, Mr. O'Nan says.

A small employer also should work with its broker to make sure it is not in the wrong rate manual classification. As small firms grow, the threat of misclassification grows.

That's what happened to Fire Protection Co., a sprinkler system manufacturer and installer in the Chicago area. The small business employs 65 persons, including 23 unionized installers who work outside the company machine shop and a truck driver.

It is insured by Fireman's Fund American Automobile Insurance Co. through a group plan sponsored by the National Automatic Sprinkler and Fire Control Assn. Yet President Bob Grenning isn't sure how much he has to pay.

"They classified us wrong and we're still trying to get it changed. The insurer asked the rating bureau for a judgment and it classified all our workers, including the truck driver, into the highest available rate class," he explained.

Machine shop firms of the size and type of Fire Protection Co. pay $5.10 per $100 of payroll, according to Illinois manual rates. The rate is calculated according to the loss experience of the class of firms, most of which have safety programs.

Workers who do their job outside the workplace in areas not covered by specific safety programs have a poorer loss history. Firms that install sprinklers, for example, would be charged $6.55 per $100 of payroll.

Mr. Grenning got socked with the higher bill, though most of his employees work in the cheaper rate class. The difference in cost is nearly $1,000—not negligible for a small business.

Appeal is not easy. "The policyholder had to write a letter himself, asking for a change in classification," explained Jan Russert, account executive for Reed Stenhouse Inc., Fire Protection's broker. "I couldn't do it for him. That's the rule."

Once the appeal was opened, the broker took over, filing evidence that showed Fire Protection had two separate exposures that should be rated separately.

"My last attack was reading the manual over the telephone back to the bureau that wrote the manual," Ms. Russert said. "Usually they respond quickly, but it's been a couple of weeks." You don't have to be a big company to fight for the discounts you deserve, you just have to be organized, experts say. What and when you communicate to your insurer can keep workers compensation premiums down.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# Reagan proposes killing HMO funds

Continued from page 1
quirements for federal qualification are removed, the administration says.

These restrictions include "artificially" high minimum benefit requirements. The administration says it will propose amendments to remove these restrictions so more private money will start flowing.

"Once HMOs are no longer required to undertake uneconomic activities, private capital will be available for HMO development, obviating the need for further subsidies," the administration says.

HMO experts were not surprised the Reagan administration wants to eliminate new federal grants or loans to HMOs.

"We would have liked to have seen modest grants to start new HMOs," said James Doherty, executive director of the GHA. "But we knew that was not politically feasible."

Mr. Doherty, however, expressed concern that the Reagan administration wants to lop off the supplemental request for $17 million for the HMO loan fund. This cutback could endanger the chances of new HMOs staying financially solvent during initial years.

Instead, Mr. Doherty would like to see a gradual phase-out of the loan program to protect young new HMOs. He is optimistic the $17 million request ultimately will be approved by Congress.

Mr. Doherty says private industry can keep the HMO movement rolling, noting that several insurers, including Prudential Insurance Co. and Insurance Co. of North America, have made major financial commitments to HMOs.

The administration also proposes that pension benefits of retired federal workers be increased only once a year to match the Consumer Price Index. Benefits now are adjusted twice a year.

Biannual increases are "clearly unfair," the administration says. It notes that benefits provided in other federal programs, are increased only annually.

The General Accounting Office and the President's Commission on Pension Policy have urged cutting the pension increases.

But Congress, under pressure from politically powerful federal employees unions, has resisted approving the cutback, which would save the federal government hundreds of millions of dollars a year.

The Reagan proposals leave the basic Social Security old age retirement program intact. However, the administration wants to phase out the minimum Social Security benefit of $122 a month to workers who have paid only a small amount into the program.

Minimum benefits often are collected by federal workers who worked briefly in private industry before joining the federal government. As a result, retired federal workers often receive a federal pension as well as Social Security, although they have made only small contributions into Social Security.

"Because these recipients receive Social Security payments far in excess of the level to which their spotty contributions entitle them, they represent a serious drain on the Social Security trust funds," the administration says.

Social Security benefits for students older than 18 whose parents were Social Security beneficiaries also would be eliminated. These payments average $255 per month and cost $2 billion annually.

The administration says the program is not necessary because students have many other sources of financial aid to help them complete their education.

Changes also are expected in the black lung program, which provides benefits to disabled coal miners through a tax on coal production. The tax supports a trust fund that is nearing insolvency, the administration says.

The major source of the fund's financial problems is lax administrative and statutory procedures that have turned the black lung program into an automatic pension, the administration says.

The administration says it will put the black lung trust fund on sound financial footing by tightening eligibility requirements. That reform proposal will be developed later, the administration added. ■

## Hospital costs increase 15-fold

Although a patient's average hospital stay is getting shorter, the cost to the hospital has increased almost 15-fold since 1950, the Health Insurance Institute says.

For example, when someone checked into a hospital in 1950, he stayed an average of 8.1 days, costing the hospital almost $16 per day or about $127.

By 1979, the cost per patient day was nearly 16 times what it was in 1950. An average stay of 7.6 days cost hospitals nearly $259 a day or $1,889. ■



## Dublin codes did not mandate sprinklers

Continued from page 2
Arson is suspected by fire officials.

Secondary lights, a requirement in all Dublin buildings, did not come on when the main lights went out, panicking teen-age dancers.

"Apparently the secondary lighting didn't operate. It's one of the critical factors to look at," the official said.

**Exits were** blocked by bodies when firemen arrived, and some survivors say at least two of the seven exits from the disco were locked.

The Stardust Cabaret was insured for liability and property through broker Lowndes Lambert Ltd., a subsidiary of the Lloyd's broker in London. The lead insurer is Shield Insurance Co. of Dublin.

The fire also generated the interest of United Kingdom officials.

Douglas Woodward, director of the Fire Protection Assn. in London, believes fire and government officials should take a closer look at the fire codes.

"There should be a code of practice for dance halls and discos," he noted. "They use converted warehouses for discos—very little is done. I think they're a little suspect."

But unlike Ireland, the United Kingdom has a strict fire policy under the Fire Precautions Act of 1971.

Under the law, first applied to hotels, the British government requires that all buildings have a safe means of escape that must be maintained.

**All employees** must be trained for safety procedures in case of fire, and fire safety equipment such as extinguishers must be available.

When a new building is constructed, local governments require proper fire-resistant material, compartmentalization and sprinkler systems for high-rises and large public halls. ■

## Suits filed against Hilton

**LAS VEGAS—At least seven lawsuits arising out of the Feb. 10 Hilton Hotel fire that killed eight and injured 242 have been filed against the hotel chain in U.S. district court here.**

**Los Angeles attorney Fred J. Kumetz has filed six separate actions against Hilton Hotels, including two on behalf of sisters of the late singer Nat King Cole.**

**The suits allege negligence on the part of the hotel and wanton disregard for the safety of its guests, said attorney Kumetz. The basis for the charge is failure to provide sprinklers, smoke detectors and fire warnings systems, the suits say. Each of the six suits seeks general and punitive damages of $1 million.**

**Las Vegas attorney Neil Galatz filed a suit against Hilton on behalf of three named plaintiffs and a long list of John Does the day after the fire. Punitive and compensatory damages sought by the plaintiffs are in excess of $10,000 each.**

**Attorneys Kumetz and Galatz also are representing victims of the MGM Grand Hotel fire that killed 84 and injured more than 700 Nov. 21.**

## Panel urges safety

Continued from page 2
the formal recommendations.

Retroactive application of sprinklers would be mandated in public assembly rooms—including casinos—of more than 5,000 square feet. At least one sprinkler head would be required in each room that opens onto an exit corridor.

The recommendations proposed that smoke detectors be required in all sleeping quarters offered for public use, and that voice communications equipment be installed between rooms and connect to a central station from which fire officials could advise occupants of danger and prevent panic.

Some aspects of the study might be adopted immediately after March 1 by order of the governor or the state fire marshal, Mr. Colling said. Others likely will require enactment by the Nevada state legislature.

"Life safety and not cost" was the primary consideration of the panel, said commission chairman Kenny Guinn, a savings and loan association executive. The commission's recommendations will include the formation of a full-time life safety state board with a paid executive staff, he said.

Financial incentives to be considered in implementing the commission's proposals might include insurance cost reductions, lower assessed valuations on property, accelerated depreciation and federal tax incentives. "But building owners will clearly be spending from their own pockets," Mr. Guinn said.

A newly constructed two- or three-story building with 40,000 square feet could be sprinklered for about $42,000, Mr. Guinn estimated. An insurance industry source suggested the cost ranges from $1 to $1.50 per square foot on new high-rise construction.

The tab would be two to four times as high on an existing building. Preliminary estimates discussed during commission meetings ranged from $2.50 to $4 per square foot, Mr. Colling reported.

Retrofitting with sprinklers would likely qualify high-rise buildings as highly protected risks, underwriters say, but premium reductions would not be great.

"Unsprinklered rates are pretty low right now," said George M. Hidzick, head of engineering for Kemper HPR. "The cost differential between HPR and non-HPR on office buildings and hotels doesn't give near the same payout as on an industry facility."

**Underwriters** look for more than just sprinklers for HPR treatment, Mr. Hidzick explained. Other requisites mentioned by underwriters include management interest in loss prevention; good maintenance of the property; fire cutoffs between walls and floors; an adequate water supply to automatic sprinklers; supervised alarm service; low exposure to non-protected adjacent risks, and single tenancy in the building.

The nine members of the governor's commission include: Thomas Huddleston, state fire marshal; Ray Parrish, Clark County fire chief; Robert Weber, Clark County director of building and zoning; Thalia Dondero, Clark County Commission member and former chairwoman; Bill Farr, Washoe County Commission chairman; Mr. Degenkolb; Jasper S. Hawkins, a Phoenix architect; Peter Tyree, Colorado Springs regional building officer, and Mr. Guinn. ■

# HMO plans not pushed

Continued from page 1

Membership is most actively promoted among companies with more than 1,000 employees, especially in the Midwest, followed by the East and then the West.

Twenty-nine percent of all employers surveyed said senior managers in their companies are somewhat or very much against HMOs. Fourteen percent said management is undecided.

When asked to list the main advantages of HMOs over traditional health care, top responses were:

- Less worry about medical bills, and less costly bills.
- Having a preventive health program and regular checkups.
- Knowing how much service will cost and paying just one fee.
- Getting complete care in one place.
- Having a more comprehensive range of benefits and fuller coverage.

Top disadvantages listed were:

- No choice of doctors or a personal physician.
- The limited number of people HMOs serve because of their limited geographic locations.
- Impersonal service.
- Not being able to choose own hospital.
- Quality of service might not be so good.

Fifty-three percent of the employers listed the lack of a personal physician and choice of doctors as the biggest disadvantage.

**When asked** to compare HMOs with traditional health care, the employers rated the HMOs highest for availability of preventive health services, 70% to 5% for traditional care plans; health education programs, 57% to 5%; 24-hour-a-day doctor and medical service, 50% to 14%, and providing doctors whenever needed, 35% to 33%.

The HMOs also scored best in cost to employees and benefit plans. But in other areas employers clearly favored traditional care.

Fifty-two percent said the quality of doctors is superior under traditional care, 4% rated HMO doctors higher and 37% said they saw no difference.

Thirty-nine percent said services are better in traditional care situations, compared with 16% for HMOs and 28% who saw no difference. Another 38% thought the attitude of fee-for-service doctors is better than that of HMO doctors, who were rated better by only 8%.

HMOs also received low grades for convenience of location of doctors' offices. Sixty-eight percent of the employers said it was easier to get to a traditional doctor's office than to an HMO. Only 6% thought locations of HMOs are convenient.

In some cases, employers clearly saw no difference between HMOs and fee-for-service systems. These included the quality of diagnostic tests and hospital care.

Of executives of companies offering HMOs, 39% said employees were more satisfied with the traditional system of health care, while 17% said the HMOs gave better employee satisfaction. Thirty-two percent said they saw no difference.

Government involvement in HMO development was considered a major drawback by more than a third of the chief executives surveyed and by a fourth of the benefit administrators.

More than half said the federal government should do less to promote HMO growth while 31% said the government should continue its present promotion of HMOs.

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*Copies of the survey of employers' attitudes toward HMOs are available from the Kaiser Family Foundation, 525 Middlefield Road, Suite 200, Menlo Park, Calif. 94025.*

# Court overturns mandate for equal spouse cover

*Continued from page 3*

Glendale excludes pregnancy as a covered benefit for spouses of male employees. It is the target of complaints from four police officers who say the Pregnancy Discrimination Act requires that their spouses' pregnancy-related costs be covered in their dependent health insurance plans.

Mr. Hoffman says Glendale, which has about 1,500 employees, would have to pay $25,000 a year more in group health costs if it had to cover pregnancy for spouses of male employees.

**Insurance company** actuaries say a legal mandate requiring equitable pregnancy benefits for spouses would be expensive for firms not now offering the coverage.

Group health insurance premiums would jump 3% to 14% for equitable pregnancy benefits for dependents, they say. The exact percent of increase would depend on the average age of the work force and the percentage of male employees. Firms with overwhelmingly male work forces, such as Newport News Shipbuilding, would face the greatest increases.

The EEOC maintains the Civil Rights Act of 1964 makes it clear there must be equality of benefits for spouses in group health insurance plans. The Pregnancy Discrimination Act amends the Civil Rights Act.

"If an employer makes available to female employees insurance which covers the cost of all the medical conditions of their spouses, but provides male employees with insurance coverage for only some of the medical conditions (i.e., all but pregnancy-related) of their spouses, male employees are receiving a less favorable fringe benefit package," the EEOC says.

The EEOC is reviewing the Newport News Shipbuilding decision. An EEOC attorney would not say whether an appeal is planned.

**Experts believe** firms now providing equitable pregnancy benefits in their dependent plans won't take the benefit away even though the district court says the EEOC had no right to impose such a requirement.

"I can't recall a benefit being taken away once it is granted," said Kenneth Smith, insurance administrator for Dentsply International Inc. of York, Pa.

"Once a benefit is provided, it becomes an American institution and becomes impossible to take away," said Mr. Hoffman of Glendale, Calif.

"Benefits once installed tend not to be removed except in cases of severe economic hardship," said Bill Tidwell, manager of employee benefits at Weyerhaeuser Co. in Tacoma, Wash.

But employers that have resisted the EEOC mandate will continue to exclude pregnancy in their dependent plans now that the federal court has ruled in their favor, experts say.

Other court battles on equitable pregnancy benefits for spouses are likely and a clear answer on the issue may not come until the Supreme Court rules on a case, said a spokeswoman from Hewitt Associates in Lincolnshire, Ill.

Consultants and other experts were unable to provide an exact number of employers that, like Newport News Shipbuilding, either exclude or provide unequal pregnancy benefits for male employees' spouses.

But some sources believe at least several hundred employers, particularly those in financially hard-pressed cities and counties, have refused to heed the EEOC guideline. ▪

# School scandal tests stress comp claims

*Continued from page 3*

which administers the college district's self-insurance program.

Mr. Guyer said he had not seen the claims, but that they would not automatically be accepted. Medical evidence of stress would be necessary to substantiate a valid claim, he observed.

Damage to reputation or professional career alone would be outside the workers compensation system, he added.

**The teachers' union** is putting a value of $100,000 on the group of eight claims. That sum divided by eight is $12,500—not a large amount for a bona fide claim, but a lot for a questionable claim, Mr. Guyer noted.

The Los Angeles Community College District has been self-funding its workers compensation program since 1977. Approximately 10,000 employees are eligible to receive benefits through the district, which receives 500 to 600 claims a year. Five to 10 stress claims are submitted annually.

"We've tried to fight those," the official said, "but the workers compensation appeals board is so liberal, in most cases we have only succeeded in reducing the amount of the claim."

The current batch of stress claims arose out of allegations by Richard J. Cowsill, a 31-year-old night student at Valley College, who said his teachers gave him unearned credit for courses he never attended more than 18 months ago.

**Mr. Cowsill** says these favors were bestowed in order to influence his decisions as student body president about allocation of discretionary funds.

He has called a subsequent investigation into his allegations "a cover-up." The inquiry conducted by the college district has failed to substantiate most of Mr. Cowsill's charges.

The former Valley College student body president is also a candidate in the upcoming college district Board of Trustees election, but denies using the grade scandal to further his political career.

# classified advertising

## RATES AND CLOSING TIME:

*Published every Monday. Copy in written form in Chicago office not later than noon Monday, 7 days preceding publication date. Display classified: takes card rate of $49.00 per column inch with card discounts on size and frequency. Straight classified: $4.50 per line, minimum charge $22.50. Cash with order. Figure all cap lines (maximum of two) 26 letters and spaces per line; upper and lower case, 34 per line. Add two lines for box number. Replies are forwarded daily. Mail ads to Barbara Tosheff, Business Insurance, Classified Advertising Dept., 740 N. Rush St., Chicago, Illinois 60611. Call (312) 649-5340 for more information. No verbal phone copy accepted.*

# Tight security measures short-circuit chip thefts

Continued from page 3

The storehouse is equipped with alarms and the company has a system of weighing the chips, sealing the drums they are in, checking the seals and witnessing destruction of unneeded parts.

Even with tight security measures, it is possible for a theft to go undetected for months. "It's what we don't know that can hurt us," Mr. Weymouth said.

Lt. McDairmid agrees detection of the crime is a real problem. The chips and integrated circuits are very small and bear no special serial numbers. If a box of chips is found in a raid, there is virtually no way to prove the chips were stolen in the first place, he says.

To track down the middlemen, Lt. McDairmid's section sets up phony "buys." "If we know that someone is dealing in stolen parts, we try to put them in a position of selling to us," he said.

What makes semiconductor theft attractive to the criminal is that they can earn big money with a lot less risk than dealing in drugs, for example, Mr. O'Loughlin says. "White-collar criminals don't usually go to jail or get shot at."

**There's also** a huge market for the stolen goods because demand for products has increased tenfold in five years, he explains. "If a product is any good, it's more valuable than its gold content. It has been alleged that reclaimers could be selling the parts out the back door, so some companies have set up their own crushing mechanisms or send a trusted employee to supervise the crushing."

"What we are doing here is to make it not for anyone who handles an Intel part," Mr. Toms said. Making it not means cooperating with police to try to locate the fence and pushing for prosecution "so it makes the theft worthless," he added.

"We account for every part, good or bad, this prevents the sale of scrap parts. We grind them up," Mr. Toms said, noting that other companies have had problems with theft of discarded parts that ultimately were used in consumer products and malfunctioned.

**At Intel,** the security department has developed an internal audit system for testing security personnel and systems. It will have employees walk through a doorway with empty boxes or pop doors to see if the alarm works and to check security personnel response time. "We have to do it sensitively and make sure everyone knows why," Mr. O'Loughlin said.

"Police are getting more on top of the problem of stolen chips," he said. "We've really pushed it because we've had significant losses." Intel got together last year with Memorex and Fairchild to sponsor an informational seminar for law enforcement personnel.

Lt. McDairmid points out that semiconductor terminology can be very confusing and some companies haven't taken the time to fully explain exactly what was missing. The purpose of the seminar was to explain integrated circuit nomenclature and processes.

Some of the stolen parts are fenced locally, but many of them are moved quickly to distrubutors in Southern California and the Sacramento Valley, Lt. McDairmid reports.

His department is working closely with the Irvine and Santa Ana police departments, the Los Angeles Sheriff's Office, the FBI and U.S. Customs.

**"These are** very complex cases," Mr. O'Loughlin said. "A multitude of problems makes it very lucrative for the gray market' (distributors who deal with both legal and illegal parts)."

"The problem is international in scope," he added. "Certain regulations restrict flow of electronic technology and products outside the U.S. There's no question there has been wholesale selling to foreign markets, including Eastern bloc countries, without monitoring. It has serious defense and economic ramifications." ■

## comings & goings: buyers

# Cantlon will manage firm's domestic risks

**EDWARD J. CANTLON** has been named risk manager in charge of domestic operations at Chesebrough-Pond's in Greenwich, Conn. In this newly created position, Mr. Cantlon reports to Mike Waaskom, director of risk management. Before joining Chesebrough-Pond's, Mr. Cantlon was director of risk management at CIT Financial Corp. in New York. He has a bachelor's degree in business administration from Sacred Heart University in Bridgeport, Conn., and is a member of the Risk & Insurance Management Society.

* * *

**Jack R. Little,** 46, has been promoted to manager of corporate loss prevention on the headquarters staff of Sybron Corp. in Rochester, N.Y. Mr. Little now will be responsible for coordinating employee safety and property loss-prevention programs, and will continue to coordinate product liability activities. He reports to Frank McCafferty, director of risk management. Mr. Little, who has been with Sybron for 22 years, has bachelor's and master's degrees in ceramics engineering from Alfred University and an M.B.A. in finance and management

Little

* * *

**Lauren Giba,** 25, has joined the risk management department at G.D. Searle & Co. in Skokie, Ill., as a casualty insurance clerk. Ms. Giba, who reports to risk manager John F. Roskopf, will be responsible for handling all workers compensation and automobile claims for the corporate office and supervising the handling of these claims for the rest of the corporation. She also is responsible for compiling data on product liability. Before this promotion, Ms. Giba worked as a bids and contracts coordinator for Searle Laboratories. She replaces **Dawn Werfelmann,** who moved to the corporate legal department to become a paralegal assistant. Ms. Giba is pursuing a bachelor's degree in business at Harper College in Palatine.

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*We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Joanne O'Hare, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5482. We'd also like to receive pictures of the people.*

# Nuclear utility firms oppose federal fund

Continued from page 2

utility.

"There is definitely a need for higher limits; TMI showed that," said Douglas House, risk manager for Duke Power Co. "But as far as the federal government mandating that we get higher limits, I think it is better for private industry to do what is necessary."

The nuclear pools that now provide insurance for utility companies have been gradually increasing limits in recent years and recently announced plans to boost property coverage to $375 million as of March 1.

But that total is far less than the $750 million Rep. Ertel says his proposed fund would create for the utilities in eight years.

Still, opponents of the Ertel bill say the nuclear pools should be given time to come up with comparable limits before the job is handed over to the government.

"The nuclear pools have done an excellent job to date," Mr. Grennan said. "We have come a long way in the last 10 years, and I think capacity will continue to increase in the coming years. It is questionable, though, whether there will be anything like $1 billion anytime soon."

**More optimistic** about the chances for the private insurance industry to achieve the limits the Ertel bill seeks is Charles Bollman, vp of Marsh & McLennan Nuclear Consultants.

"It might be possible to reach $1 billion if it is approached correctly," Mr. Bollman said. He prefers the private sector provide insurance for nuclear plants.

"The industry has never really been challenged to stretch its muscles and see what it can do," he said. "If it does and it fails, maybe then it will be time for the government to become involved. But I don't think that time has come yet."

Under provisions of the Ertel bill, the nation's utility companies would pay an annual premium based on the amount of nuclear power they generate. For instance, if a company produces 10% of the country's nuclear power capacity, it would pay about 10% of the $150 million in annual premiums, says Robert Hall, an aide to Rep. Ertel.

**Premiums could** be adjusted for rating and experience factors, as the nuclear pools now do in some cases.

The government-created corporation that would oversee the program would be free to increase premiums if a higher-than-expected loss experience threatened to deplete the fund, Mr. Hall said.

No insurance companies or government dollars would be involved in the fund. All of the money would come from the utilities' premiums and interest generated by the deposits.

Mr. Hall said the main reason for the bill is to find a way to clean up Three Mile Island. This objective might give the bill its best chance of passage, he added.

"Compared to what else has been proposed for TMI, from direct grants to loan guarantees, we think we have a better solution," Mr. Hall said. "We think it will be less politically unpalatable than the others."

# Losses not covered

Continued from page 3

But this type of interruption of business is not covered by business interruption policies, says George Sutton, a Prairie du Chien insurance agent for several area proprietors.

"It doesn't look like they'll be able to collect because there has not been any physical damage to any of their businesses," he explained. "They're only covered for perils for which they are insured. They're still actually doing business, but it just isn't convenient for their customers to get there."

Mayor Bittner said the area's troubles began Jan. 16 when a state inspector checking the bridge found it had become severely weakened during cold weather. The steel used in its construction was of poor quality, the mayor said he was told.

The state of Wisconsin ordered the bridge closed to all traffic, forcing Prairie du Chien officials to cut a channel across the frozen Mississippi to make way for a ferry to move people back and forth.

That's where the town's workers compensation insurer, General Casualty Co. of Wisconsin, comes in. Because the town's employees weren't normally involved in forging ferry channels through frozen rivers, workers compensation coverage had to be extended to cover this new risk. General Casualty granted the extension at no added cost.

But the new ferry operation did cost its operator more in insurance premiums.

Joe Gates, of White-Gates Inc., insurance agent for the city, said he managed to place three months of liability coverage with Terra Nova Insurance, a Lloyd's of London underwriter. The policy says $100,000 per occurrence to a $900,000 aggregate. The cost is $500 in deposit premium and $30 per $1,000 of ferry receipts, he said.

Prairie du Chien has spent a total $30,000 to establish the ferry, but it will be reimbursed by the state highway department.

**Lawsuits** will be filed over the defective bridge, Mayor Bittner says, but he doesn't know yet who will be the defendants because fault has not been established. "It may be in the construction, the steel or the inspections," he said. "I'm hoping we will know shortly."

No one knows yet if the bridge will be repaired or a new one built.

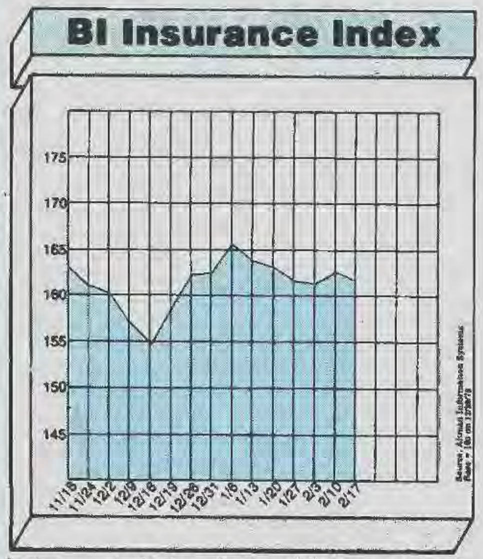
Meanwhile, merchants are resigning themselves to losses.

"There's not a whole hell of a lot that can be done about it," said Dick Stark, owner of Stark Sport Shop in Prairie du Chien. His sales dropped 60% the last two weeks of January and are off 50% for the first half of this month.

"What was normally a five-to 20-minute drive is now a 1½-to two-hour drive for some of these people."

Mr. Stark said he's resigned to the fact he'll never be able to make a claim with his insurer. ■

## BI Insurance Index




**Insurance industry stocks slid once again after a previous rally. The *Business Insurance* index dropped 0.9 to 161.7 from 162.7. The base of 100 was at year-end 1978. Thirty-eight stocks dropped, 20 rose and 14 were unchanged. Largest drops were Hartford Steam Boiler Inspection, 6.3%; Aneco Reinsurance Ltd., 5.6%; Tokio Fire & Marine Insurance Co., 4.8%; Employers Casualty Co. and MGIC Investment Corp., both 4.4%. Biggest gains were: United Fire & Casualty Co., 12.9%; Avemco Corp., 7.2%; Great West Life Assurance Co., 7.1%; Crown Life Insurance Co., 6.1%, and Jefferson National Life Insurance Co., 4.9%. The 0.5% index drop was lower than the three major market indicators.**

### British Issues

| 2/17 Companies | Price pence | P/E | Div. pence | Yield % | 1 Week High—Low pence pence |
|---|---|---|---|---|---|
| Comml Union | 147 | 7.7 | 14.57 | 9.9 | 151—147 |
| Eagle Star | 239 | 8.2 | 14.28 | 6.0 | 253—239 |
| Genl Accident | 292 | 7.5 | 18.24 | 6.2 | 300—292 |
| Gdn Royal Exch | 310 | 8.2 | 20.71 | 6.7 | 318—310 |
| Phoenix | 250 | 7.8 | 20.00 | 8.0 | 250—246 |
| Royal | 360 | 8.2 | 32.17 | 8.9 | 362—355 |
| Sun Alliance | 752 | 10.2 | 42.14 | 5.6 | 754—746 |
| **Brokers** | | | | | |
| CE Heath | 210 | 10.2 | 13.87 | 6.6 | 210—185 |
| Hogg Robinson | 102 | 8.2 | 8.14 | 8.0 | 104— 99 |
| Alex Howden | 103 | 8.6 | 10.00 | 9.7 | 105— 98 |
| JH Minet | 93 | 11.6 | 6.45 | 6.9 | 94— 89 |
| Sedg Grp | 121 | 11.1 | 7.14 | 5.9 | 122—111 |
| Stenhouse Hldg | 81 | 7.7 | 6.64 | 8.1 | 82— 79 |
| Stew Wrightson | 217 | 10.1 | 17.14 | 7.9 | 217—203 |
| Willis Faber | 282 | 12.5 | 16.14 | 5.7 | 282—272 |

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

# Insurer premium growth slows at year-end 1980

**By MYRON PICOULT**
*Special to Business Insurance*

## BI ticker

AS I NOTED in my last column, I expected to see some surprises as property/casualty insurers began to report 1980 fourth-quarter and full-year results. About two-thirds of the companies in our property/casualty universe have reported their results and to date, the negative surprises have far outweighed the positive surprises.

In the brief commentaries included with the earnings releases, company executives continue to bemoan the competitive rates. In some instances it is apparent that prior comments on rate adequacy were given more lip service than action in 1980, while in others the fourth-quarter premium slowdown continued to indicate that at least some insurers were walking away from some business.


Picoult

Preliminary fourth-quarter data shows some trends. Net written premium growth continues to slow. On average, written premiums were up only 0.05%; this is in stark contrast to the final average increases of 9.1%, 6.8% and 5.3% registered in the first, second and third quarters of 1980 over the comparable 1979 period.

The combined ratio is hovering at 107% with a range of 99.4% to 116.5%. A year ago, the comparable ratio was 99.1%. Also of note is that only one insurer, the Ohio Casualty Group, has posted a combined ratio of less than 100% for the quarter. For the year thus far, Ohio Casualty and U.S. Fidelity & Guaranty stand alone below the break-even mark.

Quantifying the fourth-quarter ratio further, we find that about 2.2 points of the 7.8-point swing are tied to the expense ratio—no doubt reflecting expense pressures related to the slowdown in premium volume. The remainder of the swing is related to the loss ratio. This in large part reflects reserve strengthening.

It should further be noted that most of the problems have been related to the commercial lines, not personal lines. By way of comparison, for the first three quarters of 1980, our universe posted final average combined ratios of 100.3% and 102.4%, respectively.

Finally, investment income continues to track at a healthy rate. Our preliminary figures show a 22.5% increase. This is running a little ahead of the nine-month average gain of 19.6%.

The fourth-quarter results, which we expect to slow a bit, are apparently related more to the expansion of short-term liquid instruments and the rise again in short-term interest rates than to expansion of cash flow. In some respects, this growth in investment income is comforting because it is offsetting underwriting losses. In other respects it is a nemesis, as it provides poorly managed companies with illusions of profitability.

The horror stories and the all-pervasive gloom-and-doom attitude are still very much alive. Many investors still have a cavalier attitude that this is an industry that cannot stand profitability and has inbred masochistic tendencies.

Everyone has contributed to the current environment—insurers and brokers alike. Some have contributed more than their share. However, there are signs of indigestion developing. This conclusion is based on the poor fourth-quarter underwriting results, some of the public comments about the underwriting results and premium growth and discussions with management about premium goals in 1981. Expectations clearly have been lowered.

Furthermore, programs to pare the maturity of bond portfolios have come largely from pressures from finance committees. Can concerns about underwriting be far behind?

Some investors believe underwriting must get much worse before the industry would feel pressured to get its house in order, while others subscribe to Murphy's Law and/or the Jupiter Effect (alignment of the planets) believing they will bring about a giant catastrophe sure to dry up capacity like a sponge dries up water.

Well-managed and respected companies know the problems and the solutions. Fear of losing market share will have to become a secondary consideration, as painful as it might be.

Before property/liability equities can go anywhere, investors' perception of inflation will have to improve.

There will have to be some sense that the market is tightening and bottoming out. We believe this is now the case. Fears of a stretched-out underwriting cycle and painful memories of the last cycle will no doubt keep many "professional investors" on the sidelines for the time being.

We suspect this will be an open invitation to the "merchant bankers" who understand the business and will use it as an opportunity to accumulate blocks of undervalued property/casualty stocks.

*Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the current president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His monthly column for Business Insurance appears the fourth Monday of every month.*

# BI Industry Stock Report

FEB. 17, 1981 — 2/11/81 THRU 2/17/81

### Insurance Cos.

| Company | Exch. | Price | % Chg. | P/E | $ Div. | % Yld. | High | Low | Vol. (000) |
|---|---|---|---|---|---|---|---|---|---|
| Aetna Life & Cas Co | NYSE | 31.63 | -4.2 | 4.7 | 2.12 | 6.7 | 32.25 | 31.50 | 364.9 |
| American Bankers Ins Group | OTC | 7.75 | 0.0 | 5.2 | 0.11 | 1.4 | 7.88 | 7.75 | 56.7 |
| American Finl Corp Ohio | OTC | 26.50 | 0.5 | 5.0 | 0.50 | 1.9 | 26.50 | 26.38 | 10.3 |
| American Gen Ins Co | NYSE | 35.75 | -2.7 | 5.4 | 2.00 | 5.6 | 36.75 | 35.75 | 54.4 |
| American Indty Finl Corp | OTC | 16.00 | 2.4 | 6.2 | 1.12 | 7.0 | 16.13 | 16.00 | 16.1 |
| American Intl Group Inc | OTC | 73.00 | -3.9 | 10.3 | 0.50 | 0.7 | 76.00 | 73.00 | 152.9 |
| American Natl Ins Co | OTC | 12.88 | 0.0 | 5.4 | 0.68 | 5.3 | 12.88 | 12.88 | 29.4 |
| American Sts Life Ins Co | OTC | 20.00 | 0.0 | 6.8 | 0.72 | 3.6 | 20.00 | 20.00 | 4.4 |
| Aneco Reins Ltd | OTC | 4.25 | -5.6 | 0.0 | 0.00 | 0.0 | 4.50 | 4.25 | 31.7 |
| Appalachian Natl Corp | OTC | 2.13 | 0.0 | 6.1 | 0.05 | 2.4 | 2.13 | 2.13 | 0.0 |
| Avemco Corp | AMEX | 9.25 | 7.2 | 8.0 | 0.50 | 5.4 | 9.25 | 8.75 | 4.8 |
| Banks Iowa Inc | OTC | 28.50 | 0.0 | 4.4 | 1.32 | 4.6 | 28.50 | 28.50 | 0.8 |
| Bitco Corp | OTC | 38.00 | -0.7 | 5.5 | 1.68 | 4.4 | 38.00 | 38.00 | 6.0 |
| Carolina Cas Ins Co | OTC | 8.25 | 0.0 | 3.9 | 0.32 | 3.9 | 8.25 | 8.25 | 1.5 |
| Central Natl Finl Corp | OTC | 10.50 | -1.2 | 3.8 | 0.50 | 4.8 | 10.50 | 10.50 | 0.2 |
| Chubb Corp | OTC | 38.25 | -4.1 | 4.8 | 2.68 | 7.0 | 39.88 | 38.25 | 91.0 |
| Combined Intl Corp | NYSE | 17.50 | 1.4 | 5.0 | 1.60 | 9.1 | 17.50 | 17.00 | 143.6 |
| Connecticut Gen Ins Corp | NYSE | 45.25 | -0.5 | 6.2 | 1.52 | 3.4 | 45.25 | 44.75 | 135.0 |
| Continental Corp | NYSE | 23.50 | -5.1 | 6.3 | 2.40 | 10.2 | 24.88 | 23.50 | 256.3 |
| Crawford & Co | OTC | 19.00 | 0.0 | 14.5 | 0.52 | 2.7 | 19.00 | 19.00 | 9.4 |
| Crown Life Ins Co | OTC | 95.00 | 6.1 | 68.8 | 2.80 | 2.9 | 95.00 | 90.00 | 1.0 |
| Crum & Forster | NYSE | 25.00 | 2.0 | 4.6 | 1.44 | 5.8 | 25.00 | 23.75 | 60.2 |
| Employers Cas Co | OTC | 32.50 | -4.4 | 5.3 | 1.20 | 3.7 | 33.75 | 32.50 | 7.5 |
| Equifax Inc | NYSE | 20.75 | -1.8 | 6.6 | 2.40 | 11.6 | 21.13 | 20.75 | 0.8 |
| Farmers Group Inc | OTC | 27.38 | 0.9 | 8.6 | 1.12 | 4.1 | 27.38 | 27.25 | 53.6 |
| First Colony Life Ins Co | OTC | 34.00 | 0.0 | 11.6 | 0.80 | 2.4 | 34.50 | 34.00 | 0.5 |
| Foremost Corp Amer | OTC | 19.50 | -0.6 | 6.4 | 0.80 | 4.1 | 19.63 | 19.50 | 7.0 |
| Great West Life Assurn Co | OTC | 225.00 | 7.1 | 10.4 | 10.00 | 4.4 | 225.00* | 210.00 | 0.0 |
| Hanover Ins Co | OTC | 42.50 | 1.2 | 3.9 | 0.72 | 1.7 | 42.50 | 42.00 | 38.6 |
| Hartford Steam Boiler Insptn | OTC | 37.50 | -6.2 | 7.5 | 2.40 | 6.4 | 40.00 | 37.50 | 9.0 |
| Integon Corp | NYSE | 35.38 | 0.0 | 12.2 | 0.52 | 1.5 | 35.50 | 35.00 | 27.9 |
| Jefferson Natl Life Ins Co | OTC | 43.00 | 4.9 | 20.1 | 0.64 | 1.5 | 43.50 | 42.00 | 10.7 |
| Kemper Corp | OTC | 30.75 | -2.4 | 4.7 | 1.60 | 5.2 | 31.38 | 30.75 | 28.1 |
| Lincoln Natl Corp Ind | NYSE | 37.50 | -4.2 | 5.2 | 3.00 | 8.0 | 39.13 | 37.50 | 53.2 |
| Mgic Invt Corp | NYSE | 29.88 | -4.4 | 8.4 | 1.12 | 3.7 | 31.00 | 29.88 | 185.0 |
| Mission Ins Group Inc | NYSE | 35.75 | 0.7 | 7.3 | 1.00 | 2.8 | 36.38 | 35.75 | 35.1 |
| Nationwide Corp Ohio | OTC | 22.00 | 0.6 | 5.5 | 3.70 | 3.2 | 22.00 | 21.88 | 7.5 |
| Northwestern Natl Life Ins | OTC | 28.50 | -0.9 | 6.3 | 1.25 | 4.4 | 28.75 | 28.50 | 22.2 |
| Ohio Cas Corp | OTC | 35.13 | 0.0 | 5.9 | 1.76 | 5.0 | 35.13 | 35.13 | 49.1 |
| Old Rep Intl Corp | OTC | 15.00 | -0.8 | 3.7 | 0.92 | 6.1 | 15.00 | 15.00 | 28.4 |
| Pinehurst Corp | OTC | 6.38 | -3.8 | 11.8 | 0.00 | 0.0 | 6.38 | 6.38 | 11.1 |
| Preferred Risk Life Ins Co | OTC | 17.75 | 4.4 | 6.4 | 0.64 | 3.6 | 17.75 | 17.00 | 6.0 |
| Provident Life & Acc Ins Co | OTC | 40.50 | 0.0 | 6.0 | 1.88 | 4.6 | 41.00 | 40.00 | 11.1 |
| Republic Natl Life Ins Co | OTC | 23.63 | -3.1 | 13.1 | 0.70 | 3.0 | 24.13 | 23.63 | 192.5 |
| Ryan Ins Group Inc | OTC | 26.00 | 2.0 | 7.8 | 0.12 | 0.5 | 26.00 | 25.50 | 0.5 |
| St Paul Cos Inc | OTC | 38.50 | -2.2 | 6.9 | 2.32 | 6.0 | 38.75 | 38.50 | 97.1 |
| Safeco Corp | OTC | 33.13 | -0.4 | 5.9 | 2.00 | 6.0 | 33.38 | 33.13 | 73.0 |
| Sri Corp | OTC | 28.00 | -0.9 | 9.3 | 1.20 | 4.3 | 28.25 | 28.00 | 5.4 |
| Seibels Bruce Group Inc | OTC | 16.63 | -0.7 | 3.9 | 0.80 | 4.8 | 16.75 | 16.63 | 13.7 |
| Statesman Group Inc | OTC | 5.00 | 2.6 | 3.7 | 0.15 | 3.0 | 5.00 | 4.88 | 3.8 |
| Tokio Marine & Fire Ins Co | OTC | 148.25 | -4.8 | 16.4 | 1.03 | 0.7 | 155.50 | 148.25 | 5.3 |
| Travelers Corp | NYSE | 38.63 | -2.5 | 4.5 | 2.88 | 7.5 | 39.63 | 38.63 | 133.1 |
| United Fire & Cas Co | OTC | 35.00 | 12.9 | 9.7 | 0.90 | 2.6 | 35.00* | 35.00 | 2.5 |
| United States Fid & Gty Co | NYSE | 38.00 | 0.7 | 4.6 | 2.80 | 7.4 | 38.38 | 37.63 | 67.6 |
| United Svcs Life Ins Co | OTC | 14.50 | 0.0 | 5.8 | 1.00 | 6.9 | 14.50 | 14.50 | 8.6 |
| Uslife Corp | NYSE | 24.38 | -2.0 | 6.1 | 0.72 | 3.0 | 25.00 | 24.38 | 86.0 |
| Washington Natl Corp | NYSE | 31.75 | -3.8 | 6.5 | 1.50 | 4.7 | 33.25 | 31.75 | 30.5 |
| Zenith Natl Ins Corp | OTC | 14.00 | 0.0 | 8.7 | 0.50 | 3.6 | 14.00 | 13.50 | 11.2 |
| INSURANCE COMPANIES | AVERAGE | | | 7.3 | | 4.1 | | | |

### Agents/Brokers

| Company | Exch. | Price | % Chg. | P/E | $ Div. | % Yld. | High | Low | Vol. (000) |
|---|---|---|---|---|---|---|---|---|---|
| Alexander & Alexander Svcs | OTC | 29.75 | -2.5 | 9.7 | 1.84 | 6.2 | 29.75 | 29.50 | 163.2 |
| Baldwin & Lyons Inc | OTC | 31.00 | 0.0 | 5.8 | 0.80 | 2.6 | 31.00 | 31.00 | 1.3 |
| Corroon & Black Corp | NYSE | 22.00 | -0.6 | 8.9 | 1.72 | 7.8 | 22.13 | 21.88 | 23.7 |
| Crump E H Cos Inc | OTC | 12.63 | 1.0 | 11.0 | 0.40 | 3.2 | 12.63 | 12.50 | 13.7 |
| Hall Frank B & Co Inc | NYSE | 24.00 | 2.1 | 8.8 | 1.60 | 6.7 | 24.00 | 23.63 | 65.8 |
| Integrated Res Inc | AMEX | 18.13 | -2.0 | 9.1 | 0.00 | 0.0 | 18.38 | 17.88 | 18.2 |
| James Fred S & Co Inc | NYSE | 22.38 | -1.1 | 9.6 | 1.60 | 7.2 | 22.88 | 22.38 | 26.9 |
| Marsh & Mclennan Cos Inc | NYSE | 31.38 | -1.2 | 10.1 | 2.00 | 6.4 | 31.75 | 31.13 | 100.4 |
| Penncorp Fincl Inc | NYSE | 6.38 | -3.8 | 5.7 | 0.16 | 2.5 | 6.63 | 6.38* | 119.2 |
| Reed Stenhouse Cos Ltd | OTC | 11.63 | -3.1 | 11.0 | 0.56 | 4.8 | 12.00 | 11.63 | 2.6 |
| Rollins Burdick Hunter Co | OTC | 22.00 | -1.1 | 10.6 | 1.24 | 5.6 | 22.00 | 22.00 | 12.3 |
| AGENTS/BROKERS | AVERAGE | | | 8.7 | | 5.2 | | | |

### Conglomerates/Holding Cos.

| Company | Exch. | Price | % Chg. | P/E | $ Div. | % Yld. | High | Low | Vol. (000) |
|---|---|---|---|---|---|---|---|---|---|
| American Express(Fireman's Fd) | NYSE | 42.50 | -3.4 | 8.1 | 2.00 | 4.7 | 43.38 | 42.25 | 327.5 |
| Anderson Clayton(Ranger/PanAm) | NYSE | 20.25 | -4.7 | 5.5 | 1.20 | 5.9 | 21.50 | 20.25 | 13.5 |
| Armco Inc | NYSE | 33.13 | -3.3 | 8.4 | 1.64 | 5.0 | 34.00 | 32.75* | 122.4 |
| City Investing Co. (Home Ins.) | NYSE | 22.13 | 0.0 | 6.0 | 1.50 | 6.8 | 22.13 | 21.63 | 361.4 |
| CNA Finl Corp (CNA) | NYSE | 14.63 | -3.3 | 4.1 | 0.00 | 0.0 | 15.00 | 14.63 | 10.0 |
| Control Data (Comml. Credit) | NYSE | 61.88 | -2.2 | 7.5 | 0.90 | 1.5 | 62.50 | 60.88 | 244.1 |
| General Re Corp | NYSE | 53.00 | 1.2 | 7.5 | 1.40 | 2.6 | 53.50 | 52.13 | 44.0 |
| INA Corp (Ins. Co. of NA) | NYSE | 36.88 | -3.6 | 5.2 | 2.40 | 6.5 | 38.00 | 36.88 | 74.7 |
| ITT (Hartford Group) | NYSE | 28.75 | -1.3 | 5.5 | 2.60 | 9.0 | 29.13 | 28.13 | 456.4 |
| Reliance Group Inc | NYSE | 68.25 | -2.2 | 5.5 | 3.00 | 4.4 | 69.25 | 68.25 | 112.4 |
| Sears Roebuck & Co. (Allstate) | NYSE | 15.63 | -0.8 | 8.5 | 1.36 | 8.7 | 15.63 | 15.38 | 797.7 |
| S & H Co. (Bayly Martin & Fay) | NYSE | 32.00 | 2.4 | 15.8 | 1.00 | 3.1 | 32.00* | 31.38 | 51.1 |
| Teledyne Inc (Argonaut) | NYSE | 190.75 | -0.7 | 8.3 | 0.00 | 0.0 | 191.25 | 188.50 | 71.1 |
| Transamerica Corp (Occidental) | NYSE | 18.00 | -2.7 | 4.9 | 1.28 | 7.1 | 18.25 | 18.00 | 208.4 |
| CONGLOMERATES/HOLDING COS. | AVERAGE | | | 7.0 | | 3.2 | | | |

*Record high/low since Jan. 1, 1980.

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# Financial briefs

## Fireman's Fund

Fireman's Fund Insurance Cos. reported operating income of $210 million for 1980, an increase of 13% over the $186 million earned in 1979. Revenues for the year totaled $2.9 billion, up 7.2% from a year ago.

Operating income from the property/casualty subsidiaries was $202 million in 1980, an increase of 13% from 1979, while premiums rose to $2.4 billion, an increase of 5.6%. The combined ratio climbed to 103.2% in 1980, compared with 102.3% a year ago.

## St. Paul

St. Paul Cos. Inc. will pay a regular quarterly dividend of 58 cents per share April 17 to stockholders of record March 30.

## RBH

Rollins Burdick Hunter Co. showed a 4% decline in net income for 1980, to $9.4 million from $9.8 million. Revenues for the year grew 8% to $72.9 million from $67.3 million in 1979.

For the year's fourth quarter, revenues increased 5% to $17.1 million from $16.2 million. Net income during the last three months of 1979 dropped by 14% to $1.8 million from $2.1 million.

The Chicago-based brokers also reported that a regular quarterly dividend of 31 cents per share will be paid March 31 to shareholders of record Feb. 26.

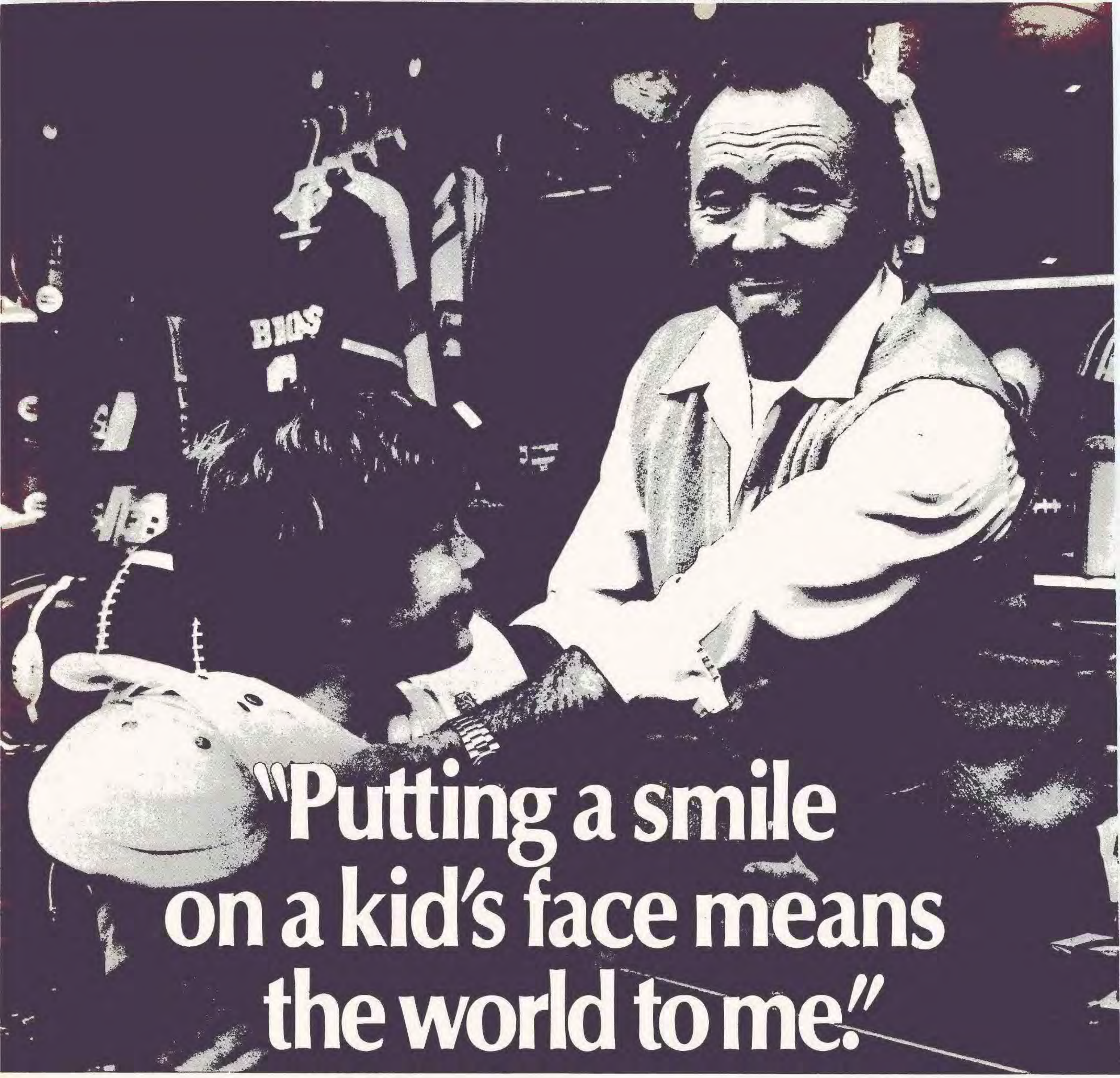
## Crum & Forster

Operating income increased 2% in 1980 for Crum & Forster, to $151.5 million from 1979's $148 million.

Net income for the year was $141.5 million, a decrease of 2% over the $143.3 million earned a year ago.

For the fourth quarter of 1980, operating income dropped 9% to $34.9 million from $38.6 million.

The company's combined loss and expense ratio was 101.1% before dividends to policyholders and 104.4% after dividends. In 1979, comparable ratios were 98.7% and 100.5%

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