WEEK OF JANUARY 26, 1981

business insurance®

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update:

Hooker Chemical Co. agrees to clean up

NIAGARA FALLS, N.Y.—Hooker Chemical & Plastics Co. is willing to clean up waste sites it owns here, but still denies liability for cleaning up Love Canal.

The company reached an out-of-court settlement Jan. 19 with the U.S. government and the state of New York to pay

Continued on next page

Medical claim fever sends rates soaring

By RHONDA L. RUNDLE

LOS ANGELES—Group medical insurance premiums are increasing an average of 30% over last year's prices, say major health insurance companies.

The increases can be as high as 60% or as low as 10%, but are hitting all sizes of employers nationwide. Inflation and greater utilization of medical insurance are blamed for the skyrocketing renewal rates.



Benefit managers were warned of the increases last fall when Harry G. Bubb, president of Pacific Mutual Life Insurance Co., told an industry audience that a new explosion in claims would send health insurance costs soaring 20% to 40% (*BI*, Oct. 13, 1980).

"The rate of increase is the highest we've seen for at least the past three years," reported Charles Bell, director of West Coast group insurance operations for the Aetna Insurance Co.

Aetna is playing catch-up for underestimating 1980 cost increases that continue to outpace the inflation rate, Mr. Bell says. A typical small group insured through Aetna can expect to pay 24% more for coverage this January than it did last January, he said.

Most renewals quoted by the Prudential Life Insurance Co. increased 10% to 40%, says Margo Bruich, director of group underwriting in Los Angeles. However, about 5% of Prudential's policyholders will have increases of 50% or more, she said.

In the final quarter of last year, quotes on rates for continuing business jumped about 10% over the preceding quarter, said Ms. Bruich. For example, a group quoted an increase of 20% in September was quoted an increase of 30% in October.

She blamed this on increases in medical care costs and higher utilization, especially during the fourth quarter. During the second half of 1980, the rate of increase in sample hospital room costs almost doubled compared with the first six months of the year, rising to 17% from 9%.

At Occidental Life Insurance Co. of California, renewal rates are close to rates for new business, averaging 30% and more above prices of a year ago, said Gary McDonald, vp and actuary of Occidental Life.

Small groups with 10 to 50 employees are pooled for rating purposes and can expect a 30% increase, he said. For larger groups rated on individual loss experience, the range of premiums is 10% to 55% above levels a year ago.

Typically, increases are higher for plans that cover full usual and customary physician and hospital

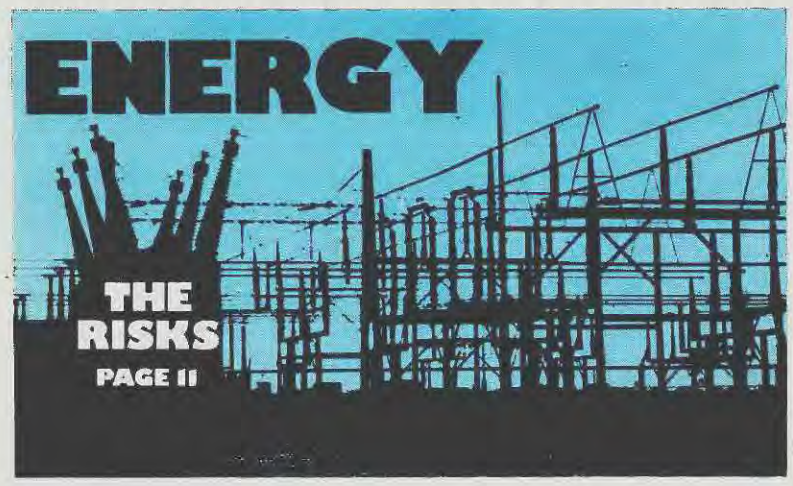
Continued on page 44

OSHA muffles the effect of new noise regulations

By STUART EMMRICH

NEW YORK—Braced for a blast of regulations forcing employers to cut workplace noise levels to 85 decibels daily from 90 decibels, manufacturers are relieved the new OSHA noise regulations take a different tack.

The Occupational Safety and Health Administration's emphasis on reducing the noise through the wearing of protective devices instead of further cutting the noise in the workplace is winning the praise of business people around the country.



"Frankly, I am pleasantly surprised," said Michael McKevitt, director of federal legislation for the National Federation of Independent Business, commenting on the rules released Jan. 16.

"OSHA is moving in the right direction. Earplugs and earmuffs make good sense," Mr. McKevitt said.

OSHA had wanted to force employers to reduce workplace noise levels to 85 decibels daily from the currently permitted 90 decibels, to reduce a worker's risk of significant hearing loss by 12%.

Allowing five more decibels of noise before employers have to engineer a reduction in noise and the emphasis on protective devices lower the estimated cost of

Continued on page 44



equifax services — Worker's Compensation Records REPORT
An Employment Service

Account No. 000-000 File No. or Requestor AMT
Date 2-25-80-21-20
Name Burke, James L.
Address Washington, D.C., 246 Spring St.
Position Applied for Vehicle Operator
Date of Birth 5-26-45
Soc. Sec. or Soc. Ins. No. 115-34-2363

SPECIMEN

Office Washington, D.C.
Report From

Information obtained through two former employers.

Other offices reporting None
Branch — Location Covered

Directing office: If transferred, show data

NAME:	Verified through former employer as James L. Burke.
SOCIAL SECURITY #:	115-34-2363
DATE OF BIRTH:	5-26-45
DATE OF INJURY:	8-5-74
EMPLOYER:	James Transit Company, Inc., 2264 Hopkins St., Washington, D.C.
NATURE OF INJURY:	Multiple contusions to left leg and sprain to the left hip.
INSURANCE CARRIER:	The Prudential Ins. Co., 764 State St., Washington, D.C.
TYPE OF DISABILITY:	Permanent total disability.
PERCENT OF DISABILITY:	This incident resulted in a 100% disability.
COMPENSATION RATE:	Mr. Burke is receiving $85.42 per week.
AMOUNT OF SETTLEMENT:	Claim is not settled as of this date.
DATE DISABILITY BEGAN:	8-23-74
DATE DISABILITY ENDED:	Was not ended as of this date.
SETTLEMENT DATE:	N/A
ADDITIONAL INFORMATION:	No case I.D.# was available from this employer. Records state that while Mr. Burke was operating a light duty truck, the right front tire went flat. He decided to replace the tire and jacked the vehicle. While removing the tire, the jack slipped causing the tire to strike his left leg and hip.

*Report goes on to cover information from an additional former employer.

Pre-hiring check raises conflicts

By EILEEN NORRIS

CHICAGO—Pre-employment screening. Is it a euphemism for blacklisting employees who file workers compensation claims or a method to help employers weed out habitual claimants?

The answer depends upon whom you talk to.

Later this month, a U.S. District Court in Louisiana is expected to decide if the practice is illegal.

Today, job applicants can be "checked out" to see if they have left a trail of workers compensation claims behind them. It is up to the employer to decide how to use the news that an employee once claimed an injury.

Does he hire the employee? Does he put him in a different job because of a previous injury? The information can offer an employer the ammunition needed to refuse a claim for a pre-existing injury.

In the South and Southwest, some 200 full- and part-time workers of Employers Information Service Inc. sift through courthouse logs jotting down available information about workers who have filed workers compensation claims under federal and state laws.

The 600 employers that are dues-paying members of EIS can call the New Orleans-based data center to see if a job applicant has filed a claim with a previous employer. As a member of EIS, an employer also can find out when and why a worker was terminated from another member company.

EIS operates in 7 states, with 5 of those (Alabama, Louisiana,

Continued on page 43

NEWSPAPER

INSIDE:

Tax may be increased for black lung trust fund
Page 2

HMO funds reduced in 1982 federal budget
Page 3

update:

Hooker to pay cleanup costs

Continued from previous page

$15 million to clean and monitor the Hyde Park chemical dump site here. Some 80,000 tons of mostly toxic wastes were dumped there between 1953 and 1974.

A company spokesman said Hooker and government attorneys also have discussed settling suits over the cleanup of two other waste sites the company owns in Niagara Falls.

"Love Canal will be more difficult to settle because Hooker no longer owns the site, and it feels its legal responsibility is no longer the same," said James W. Moorman, a former assistant U.S. attorney general involved in the Hyde Park settlement.

Hooker gave the Love Canal site, which was used during the 1940s as a toxic waste dump, to the Niagara Falls School District.

The Hooker spokesman would not comment on the Love Canal case in which New York and the U.S. government seek $635 million in cleanup costs.

The Hyde Park agreement calls for Hooker to prevent leaching of wastes from the site and to cover it with impermeable clay. Hooker also must determine the extent that contaminants spread from the site and clean them up.

Hooker's parent, Occidental Petroleum Corp. of Los Angeles, will guarantee performance of up to $10 million in remedial construction at the site and $5 million in monitoring and operating activity expenditures afterwards.

London covers spill pollution

NEW YORK—Pollution liability coverage on the stricken tanker Concho was written in the London market by the International Tanker Indemnity Assn.

Between 500,000 and 1 million gallons of No. 6 fuel oil leaked from the ship into Gravesend Bay off the shore of Brooklyn after its hull was punctured and its storage tanks ruptured. Salvage and Coast Guard crews prevented the crippled tanker from sinking and possibly releasing more of the 8 million gallons of cargo.

Insurance on the Concho, a 621-foot U.S. registry vessel owned by Sabine Towing & Transportation Co. of Graves, Tex., was placed by Alexander & Alexander's St. Louis office. Reports that hull coverage was placed in the London market could not be confirmed.

Arson blamed in Stouffer fire

WESTCHESTER COUNTY, N.Y.—Arson is blamed for the Stouffer's Inn fire Dec. 4 that killed 26 persons.

No one has been arrested, but police say a disgruntled conference center employee may have set the fire.

The blaze killed top executives from Arrow Electronics Corp. and Nestle Co., both of which were having staff meetings there (*BI*, Dec. 15, 1980).

Officials said they found traces of highly flammable liquid on the carpeting outside the conference rooms.

At a press conference, District Attorney Carl Vergari said the fire investigation also pointed out the need for sprinklers in public buildings.

He said he is "more convinced than ever" that sprinklers would have contained the fire and possibly saved lives.

Toronto hotel blaze kills six

TORONTO—Six persons died in a blaze that caused extensive damage to the "towers" section of the Inn on the Park hotel here.

Fire and liability coverage for the hotel was placed by Tomenson, Saunders, Whitehead Ltd. of Toronto. Officials there and at the hotel would not disclose the insurers' identities or policy limits.

Attorneys may drop suit

PHOENIX—The Mutual Insurance Co. of Arizona is waiting for a letter from plaintiff's counsel that could end the $10 million lawsuit filed against MICA by a group of attorneys.

Plaintiff's attorney Daniel Salcito has said that if MICA agrees to distribute the letter to its 3,000 policyholders, the suit will be dropped, reported Jack E. Brooks, MICA president.

The physician-owned insurance company is being sued because it warned its policyholders not to talk to lawyers (*BI*, Jan. 12).

Coalition to fight FICA cuts

WASHINGTON—A coalition representing more than 100 religious, senior citizen and union groups says it is ready to battle the Reagan administration if it proposes cuts in Social Security.

SOS, short for "Save our Security," formed two years ago when the Carter administration proposed a series of Social Security cutbacks, will be reactivated if President Reagan proposes cuts, says Wilbur Cohen, the head of SOS and a former secretary of the Department of Health, Education and Welfare.

index

Action line 6
Around the states 38
Benefit beat 4
BI ticker 45
Classifieds 42
Comings & goings: buyers .. 38
Editorial opinions 6
Letters 6
London line 39
Perspectives 27
Spotlight report 11
Washington 8

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No suits allowed

Hostages get benefits

WIESBADEN, West Germany—Even before the freed 52 American hostages landed to a rousing welcome here, the U.S. government had prepared a tax-free homecoming bundle of benefits.

The Hostage Relief Act of 1980, passed by Congress and signed by President Carter, provides tax-free salaries and hazardous duty pay, medical expenses and education benefits for dependents.

The pay and other allowances are nontaxable up to two years for any hostages hospitalized for illnesses and injuries resulting from their captivity.

Hostages, dependents and firms seeking damages from Iran resulting from the seizure, however, do not fare so generously. The agreement between the U.S. and Iran that secured the hostages' release bars any claims against Iran for taking the captives.

Expropriation claims against Iran unrelated to the hostages, though, will be paid by a $1 billion escrow fund.

The fund is designed to handle claims for a number of U.S. corporations whose assets and operations were expropriated during the Islamic revolution and seizure of the American Embassy in November 1979 (*BI*, Nov. 17, 1980). ■



Photo: Wide World

The 52 freed American hostages will be covered for all medical expenses.

Officials say sprinklers would have saved MGM

By CAROL G. BLITZER

SAN FRANCISCO—An automatic sprinkler system at the MGM Grand Hotel could have quickly contained the Nov. 21 blaze that killed 84 and injured 479 persons, a team of fire investigators believes.

"Safety features were not adequate," said Gordon Vickery, a federal fire administration official at a recent press conference in San Francisco. He disclosed the preliminary findings of a joint investigation by the U.S. Fire Administration, the Federal Emergency Management Agency and the National Fire Protection Assn.

Although the report is highly critical of safety provisions at the hotel, Mr. Vickery would not say whether the investigators determined the hotel was built to code at the time of its completion in 1973.

"All fire codes are minimum standards," he said. "Most codes are obsolete the day they are enacted."

Clark County Fire Chief Roy Parrish, who had reported that code violations were found in the charred remains of the hotel, would not comment on the preliminary report, citing advice from attorneys about pending litigation.

The Clark County Fire Department also has determined that the most probable cause of the fire was electrical, the report said. The fire started "within a combustible concealed space adjacent to a pie case along the south wall of the deli," the report said.

Investigators pinned considerable blame for the quick spread of the flames and smoke to a ventilation system that did not have smoke detectors to shut it down in case of fire.

Continued on page 40

Suppliers settle club fire

SOUTHGATE, Ky.—Twenty-eight defendants have proposed paying $2.5 million in damages to victims of the Beverly Hills Supper Club fire of 1977.

The defendants either made wire insulation or other products that may have been used in the club that burned on Memorial Day, killing 165 people.

The proposed settlements, which must be approved by Campbell County Judge John Diskin, would push settlements in the fire past $22 million. Earlier settlements involved the club's insurers and the utility company that supplied power to the club. Insurance covered the bulk of those settlements (*BI*, Dec. 8, 1980).

The latest defendants and the amount of proposed settlements are:

- Hugh Nelson-Columbia Carpet, $100,000.
- Ettco Wire & Cable, $40,000.

Continued on page 40

Late deadline for directory

Risk management consultants who missed the Jan. 26 deadline for mailing in questionnaires for the *Business Insurance* directory of risk management consultants still can be included in the listing by calling in information by Jan. 28.

The directory, which will be published in the Feb. 16 issue of *Business Insurance*, will list independent and affiliated consultants and their specialties, number of clients, gross revenues and corporate officers.

To call in information, contact Claudette Eisenzimmer at 312-649-5398. Jan. 28 is the last day information can be accepted. ■

Coal tax may rise for black lung

By ELLIS SIMON

WASHINGTON—The excise tax on coal production could be increased to bail out the deficit-ridden Black Lung Disability Trust Fund.

A recommendation to raise the excise tax to 2% of mine sales will probably be made to the new secretary of labor, a position still open because controversy surrounds President Reagan's selection of Raymond Donovan, a high-ranking department source said.

The trust fund is in trouble, outgoing Labor Secretary Ray Marshall said in his last annual report to Congress on the Black Lung Benefits Act.

The current tax of 50 cents per ton for underground mined coal and 25 cents per ton for surface mined coal produced only $251.3 million in revenues for the fund.

A loan of $491.1 million has been taken out with the U.S. Treasury.

Continued on page 40

1982 budget: HMOs receive smaller dose of cash; OSHA gets 16.9% increase in funds

By JERRY GEISEL

WASHINGTON—The departing Carter administration has a new prescription for HMOs that the Reagan administration is likely to refill: fewer federal dollars.

In its federal budget for fiscal 1982, the Carter administration proposes the first major slash in HMO funding since large-scale federal involvement began in 1973.

The new budget calls for $48 million to support HMO feasibility studies, planning, initial operating costs and expansion programs, an $8 million decrease from the $56 million appropriated in fiscal 1981.

HMO experts warned earlier this month at the HMO Policy Conference (*BI*, Jan. 19) that the Reagan administration will drastically cut or end the seven-year-old federal grant program for new federally qualified prepaid health care plans.

Other federal safety and pension regulatory agencies fare better. The Occupational Safety and Health Administration, the Labor Department's Office of Pension and Welfare Benefit Programs and the Longshoremen's and Harbor Workers' Compensation Act will receive more money if Congress approves the budget.

OSHA, which has been criticized for nitpicking in its enforcement of regulations and not effectively promoting workplace safety, is slated to receive $242 million in fiscal 1982. This is a 16.9% increase from the $207 million appropriated in 1981.

OSHA says it will use the extra money to visit 28,400 worksites to conduct 66,800 inspections. In the current fiscal year, OSHA says it will conduct 62,900 inspections at

Continued on page 41



Federal Budget

	1982	1981
	(millions)	
Pension office	$ 32.1	$ 30.6
OSHA	$242	$207
HMO development	$ 44	$ 56
L&H Administration (Dept. of Labor)	$ 12.2	$ 11.1
OPIC (insurance revenues)	$ 30.1	$ 29.9



Photos: Domaine Chandon

14,100 gallons of Domaine Chandon leaked from a tank.

Bubbly leak pops a $176,003 claim

By MERRILL S. SALTZMAN

YOUNTVILLE, Calif.—Industrial Indemnity Co. just spent $176,003 on champagne, but it expects a welder and a retailer to share the cost of this round.

Industrial Indemnity of San Francisco paid the $176,003 claim to M&H Vineyards here to cover its losses last Memorial Day weekend when 14,100 gallons of Domaine Chandon leaked out of a tank, said attorney Hagai Horowitz, who represents the insurer.

But the insurer is negotiating to recoup its losses from the welder, who fused two pieces of metal for the tank's portable mixer that agitates the base wine into champagne, and the seller of the portable mixer.

The accident spilling the wine was caused by "metal fatigue" of the tank's mixer and fittings, a problem that was to have been rectified by the welder, said Michaela Rodeno, assistant secretary and public relations director for M&H.

The loss was not as sparkling as it could have been because the

Continued on page 39

Illinois consumers beef most about The Blues

By JOHN MAES

CHICAGO—The highest number of complaints per policyholder filed in 1979 against 23 group health plan underwriters in Illinois was lodged against the Blue Cross & Blue Shield plans of Chicago and Rockford.

The Rockford plan, with 157,025 group plan policyholders, scored the highest complaint ratio of any group underwriter in the state, 10.83 complaints per 10,000 policyholders. Policyholders filed 170 complaints against the plan.

The Chicago Blue Cross & Blue Shield plan, with more than one million group plan policyholders, scored the second highest complaint ratio, 6.59 complaints per 10,000 policyholders. A total of 693 complaints were filed against the plan.

Metropolitan Life Insurance Co., with a ratio of 0.51 (40 complaints from 797,006 policyholders), and Connecticut General Life Insurance Co., with a 0.75 ratio (19 complaints from 255,741 policyholders), had the lowest complaint ratios.

The complaints, mostly about claims handling, were filed by both employers and employees.

The statistics were released for the first time last week by the Illinois Insurance Department to inform consumers, said Insurance Director Phillip R. O'Connor.

The insurance department will keep a close eye on companies with the highest complaint ratios and is revising its penalty schedule to "make sure that misbehavior costs more than good behavior," Mr. O'Connor said.

He hopes to induce companies with the most complaints to "do something about their complaint ratios."

Every six months, the department publishes a list of the 20 auto insurers that face the largest number of complaints. From this, a list of what has come to be known as the "dirty dozen" of auto underwriters has been developed, which the department investigates.

"We've found that industry does respond and really does something about lowering their complaint ratios," Mr. O'Connor said.

Overall, insurers of group accident and health plans show lower complaint ratios than insurers of individual life, health and accident plans.

No complaint ratios were reported for group life insurers.

National States Life Insurance Co. had a 73.14 complaint ratio with 46 complaints among 6,290 policyholders in Illinois, highest

Continued on page 41

Former RBH exec claims alcoholism cost him his job

SAN FRANCISCO—A former executive of Rollins Burdick Hunter of Alaska Inc. who says he was fired while voluntarily hospitalized for alcoholism is suing the brokerage for violation of federal right-to-work laws.

Michael P. Hillary, a former vp of employee benefits, is seeking $10 million in compensatory and punitive damages from RBH of Alaska, its chief executive officer George S. Suddock and parent company Rollins Burdick Hunter International Inc. The action was filed Jan. 15 in U.S. District Court in San Francisco.

Chicago-based RBH International declined to comment on the suit, except to say it had not received any official notification or court documents concerning the legal action.

RBH attorneys are reportedly studying a seven-page press release announcing details of the lawsuit and background information about alcoholism that was issued by a San Francisco public relations firm retained by Mr. Hillary and his attorneys.

Joseph R. Igelmund and James I. Valentine, attorneys for the plaintiff, say the lawsuit is expected to focus attention on corporate responsibility toward alcoholic employees.

"The methodology for treatment exists," Mr. Igelmund said, "but it remains to be utilized significantly. We expect the lawsuit to play an important role in correcting that situation."

The complaint, in part, alleges breach of contract and violation of two federal statutes, the Rehabilitation Act of 1973 and the Employee Retirement Income Security Act of 1974.

RBH could not immediately confirm Mr. Hillary's employment history with the company. ■

Captives combine in Cayman reinsurer

By STUART EMMRICH

NEW YORK—Six captives pooling resources in a new Cayman Islands reinsurance company project $5 million in premium volume the first year.

Treaty Assurance Syndicate of Cos. began operations Jan. 1. Capitalized at $5 million, it includes six captives with a seventh expected to join soon, said TASCO officials.

Included are Caribbean Casualty, a captive of Anderson, Greenwood & Co., a valve manufacturer and the largest participant, providing 43% of the capitalization; American Viking of Viking Ventures; Keycon Insurance Co. of Keystone Consolidated Industries; Continental Reinsurers Ltd., a rent-a-captive formed by Texas businessmen, and two new captives formed by private investors: Tapco Underwriters Ltd. and Aries Ltd. Neither has underwritten any insurance yet.

TASCO was formed to give the reinsurers the strength that comes with numbers, said vp and treasurer John Caltabiano.

"We formed a reinsurance company to have the capacity that otherwise would not be available on an individual basis—to be a major force in the reinsurance marketplace," he said.

Company officials project TASCO will underwrite $15 million to $17 million in premiums within five years.

Specializing in long-tail casualty business, TASCO will write business generated by the captives and treaty and facultative reinsurance.

Vp Benjamin Richman said the new company has a contract arrangement with at least two other reinsurers that will provide TASCO this year with an aggregate line limit of $10 million.

The company estimates a 1981 combined ratio of 100%, a "conservative" figure that includes a factor of 29% for incurred-but-not-reported losses. Net underwriting income is estimated at $47,500.

Although Mr. Caltabiano concedes this is not the best time to form a new reinsurer because of the competitive market, he says TASCO is establishing itself now to be in a good position when the market tightens.

Mr. Richman said the company's policy of retaining only $125,000 to $250,000 of the $5 million it anticipates writing this year will continue to free capital when business is more profitable for reinsurers.

Both men expect the longtime insurance background of the company's officers to help them snare business.

"The people in TASCO have been around for a long time and have a good reputation," Mr. Caltabiano said. "I don't know if this will give us an edge, but it will give us an entree." ■

Haacke quits M&M over Bowring order

NEW YORK—Rather than be forced to place London business through C.T. Bowring & Co., Harry H. Haacke cut ties with Marsh & McLennan Inc. and is heading a new joint venture of a competitor.

Mr. Haacke, who was M&M's financial services chief, says the main reason he left the No. 1 broker is because he objected to orders to place London business through Bowring, an M&M affiliate.



Haacke

Mr. Haacke now is president and chief executive officer of Rollins Wrightson Co., a joint venture of Rollins Burdick Hunter Co. and Stewart Wrightson Holdings Ltd.

Mr. Haacke said he used Stewart Wrightson to place blanket bond risks in the London market for the past 10 years and wished to continue the relationship.

M&M senior vp David M. Holbrook declined to comment on Mr. Haacke's reasons for leaving the firm, but said M&M is encouraging its brokers to use Bowring's Lloyd's broking facilities "as much as possible."

He said he is unaware of other brokers leaving the firm because they object to using Bowring for London business. M&M acquired London-based C.T. Bowring last year.

Walter Tomenson will replace Mr. Haacke as head of M&M's financial services division, Mr. Holbrook said.

Rollins Wrightson, based here, will specialize in servicing financial institution accounts. It will concentrate on blanket bonds, which cover embezzlement and employee dishonesty, Mr. Haacke explained.

Blanket bonds are a tough class of business, requiring the services of a specialist, he notes. Financial institutions' loss experience has not been good, he adds.

The venture enables Rollins Burdick Hunter, a Chicago firm, to expand in this field, building upon its existing relationship with Stewart Wrightson, he said.

Chrysler employees facing pension cuts

CURRENT AND RETIRED Chrysler Corp. employees will take $27 million in pension cuts over the next 18 months under a new contract between the financially troubled automaker and the United Auto Workers.

The cuts, subject to ratification by UAW membership Feb. 2, will postpone increases in monthly pensions for current and future retirees to Jan. 1, 1982, from Aug. 1.

Pension increases scheduled for Oct. 1 and all other improvements scheduled after Jan. 1, 1982, will be canceled. Similar pension cuts among salaried employees will total $8 million.

The reduced pensions are part of $622 million in wages and benefit concessions made by the UAW to help keep Chrysler afloat. Salaried Chrysler workers will give up $161 million in wage and pension increases.

No cuts were made in the union's health benefits.

benefit beat

Rates drop

Small groups subscribing to Pennsylvania Blue Shield saw their rates for dental programs go down Jan. 1.

Groups with fewer than 100 persons are seeing an average 11.9% reduction in premiums, or an annual savings of $602,000 for about 67,000 subscribers.

In approving the rate reduction, Pennsylvania Insurance Commissioner Michael L. Browne said the decrease was partly attributable to Blue Shield's dental reviews.

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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 in the employee benefit field. 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.

IRS restricts excise tax exemptions

WASHINGTON—Buying insurance from a foreign insurer whose country has a treaty with the United States removing the excise tax on premiums doesn't guarantee the excise tax isn't due.

The insurance transaction is exempted from the excise tax by the treaty to the extent the risk isn't, then reinsured with an insurer of a country lacking such a treaty, according to the Internal Revenue Service.

This provision will cause problems for U.S. brokers and Lloyd's of London, which is treated in the United States as a U.S. insurer, because the brokers and Lloyd's will have to track the reinsurance transaction on a U.S. risk to certify the transaction deserves the excise tax exemption, said a spokesman at LeBoeuf Lamb Leiby & MacRae, Lloyd's U.S. general counsel.

The excise tax on insurance placed with foreign insurers is 4% on direct insurance and 1% on reinsurance and life/health insurance.

The IRS announced this hitch in the excise tax exemption Jan. 21 when it released Revenue Procedure 81-3, to be published Feb. 17 in Internal Revenue Bulletin No. 1981-7.

The procedure also details how to secure refunds of excise taxes paid since 1975 that have since been exempted under treaty with Great Britain.

The party that paid the excise tax and is eligible for a refund under the treaty must claim the refund.

The tax refund is to be returned to the party that paid the tax, usually the foreign insurer but in a few cases the policyholder.

It's expected most refund claims will be filed by U.S. excess/surplus lines brokers, who will forward the refunds to the British Insurance Assn. for apportionment to its members (*BI*, Nov. 24, 1980). ■

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Trust. A Berghoff tradition that works in business insurance, too.

"My grandfather opened his business in 1898. Skeptics said it would never last.

"This year, we'll serve about a quarter million sandwiches and well over a million full meals," states Herman Berghoff, president of the famous Berghoff Restaurant in Chicago.

The Berghoff Restaurant teamed up with Wausau Insurance for dramshop coverage 47 years ago. "Wausau was one of the first insurance companies to write that coverage at the time," adds Mr. Berghoff.

Although there was a period of time in the restaurant industry when fires broke out frequently and insurers were leaving the category, Wausau knew The Berghoff better. We looked beyond the "book" and dealt with the policyholder on an individual basis.

"We've always been a believer in insurance and in loss control," says Mr. Berghoff. "At the urging of Wausau we put in a sprinkler system. As time passed, total packages developed. Now Wausau, with seven coverages, has virtually all our insurance."

About service?

"We've always had a very good relationship with Wausau's claims department, and the on-going service is impressive," reports Mr. Berghoff. "We're an old-fashioned company and *trust* means a lot to us. We never forget that Wausau has always been fair with us at renewal time — and has *earned* our trust."



WAUSAU INSURANCE COMPANIES
Employers Insurance of Wausau

The Berghoff Restaurant works hard in the partnership mix. So do we. The result is business insurance that earns its keep. That's the Wausau story and another reason Wausau works.

editorial opinions



Bad ruling, good point

A BAD Superior Court ruling in California in favor of an injured worker raises a good point: Corporate self-insurers of workers compensation risks have to do more than pay the bills; they have to maintain effective safety programs that traditionally have been conducted by their insurers.

As associate editor Eileen Norris reported last week, a Siskiyou County Superior Court jury awarded an injured worker $825,000 in damages on top of $120,000 in workers compensation benefits. The jury found the employer, International Paper Co., guilty of "intentional harm" in its dual capacity of insurer and employer. IPC should have known, the jury said, that the level of dust in the lumbermill exposed workers to the dangers of an explosion like the one that injured plaintiff Winston S. Williams.

We hope this bad ruling is overturned in the appeal process. It paves the way for similar lawsuits against other self-insurers and insurance companies. And that does more than chip away at the no-fault foundation of the workers compensation system—it threatens to erode it.

We maintain the workers compensation system that promises injured workers compensation and removes litigation works in the best interests of both employee and employer.

We believe most corporate self-insurers and insurers of workers compensation recognize and fulfill their responsibility for operating effective safety programs. At the very least, they do it out of their own concern to control the cost of workers compensation losses. Good employers run tough safety programs in conjunction with their insurers or on their own because they want to protect the health and safety of their workers.

We are realistic enough to know, however, that some employers need more than a nudge to maintain safe working conditions. But there are ways to shove employers into maintaining safe workplaces without dismantling the workers compensation system.

As we have suggested before, the Occupational Safety and Health Administration should reorder its priorities, pouring more energy into imposing stiff sanctions on employers who ignore serious safety rules and cause injury to their employees, and less into checking compliance with less important safety procedures. Hefty fines that stick would go a long way toward making less conscientious employers operate safe workplaces.

If there is a proven need to force self-insurers to maintain effective programs—and we hasten to add we haven't seen the evidence that the need exists—states could add safety program requirements to the checklist of qualifications to be satisfied by prospective self-insurers. We stress that we prefer this alternative to destroying the workers compensation system, but we aren't advocating it yet.

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.

Flag-waving hyperbole

To the editor: Your "outraged" editorial "Defending contractors" (*BI*, Jan. 12) was a wobbly argument. But more importantly, it indicated you've forgotten recent history—or never knew it.

Agent Orange can hardly be compared to swine flu vaccine or a defectively produced gun, the risks of either of which are reasonably anticipatable. Nor is Agent Orange a "weapon" without which the country would be defenseless. Your flag-waving on that account was pure hyperbole.

And you can't dismiss Agent Orange by saying, "Defense contractors might not be told for security reasons how a product will be used." Did the manufacturers think the military was using tons of defoliant as a depilatory for unwanted hair? Agent Orange's use in Vietnam was well noted by the press and Congress at the time.

Did the manufacturers think the jungles of Vietnam were inhabited only by monkeys? Did it never occur that Agent Orange might slop over onto some of our own people? Did any manufacturer consider that it might be involved in chemical warfare, or something damned close to it?

No doubt the gas manufacturer for Hitler's camps pleaded that he thought they were toasting marshmallows inside. But at the Nuremberg trials after World War II, we, the semi-civilized nations, decided that you can't just take orders, go for the long green and let someone else worry about the consequences. German industrialists went to jail just for making guns.

There's a time when orders must be protested—and refused. Maybe some civil suits aren't the worst thing that could have happened to the manufacturers of Agent Orange. Maybe next time it will make them think. Maybe even speak!

James E. Flynn
Counsel
Vappi & Co. Inc.
Cambridge, Mass.

Risk mission negated

To the editor: O forfend! An errant "no" inserted in the article about Risk Control Corp. (*BI*, Jan. 12) serves to negate our entire mission. I should have been quoted correctly as saying: "We *are* in position to tell a company how to prevent future losses."

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Alan D. Morris
President
Risk Control Corp.
Bethesda, Md.

action line

Small retentions not found

I have heard of "self-funded" and "retention" workers compensation plans with very small retention levels for risks with under $100,000 standard premium. If such low retention plans are being offered for workers compensation exposures, can you furnish me with some names of the insurance companies offering them?

Albert P. Stallings
Sullivan Co. Inc.
North Charleston, S.C.

Brokers with reputations for fixing workers compensation problems report they don't know of any insurers offering small retention plans for work comp risks of less than $100,000 in premium.

Self-insurance of workers compensation for larger risks is common.

"At $100,000 or less in annual premium, only the traditional approaches are available," said James Mummey of broker Mack & Parker Inc.

Do keep track of the state law changes, however, brokers warn, because some states are beginning to allow small deductibles. ■

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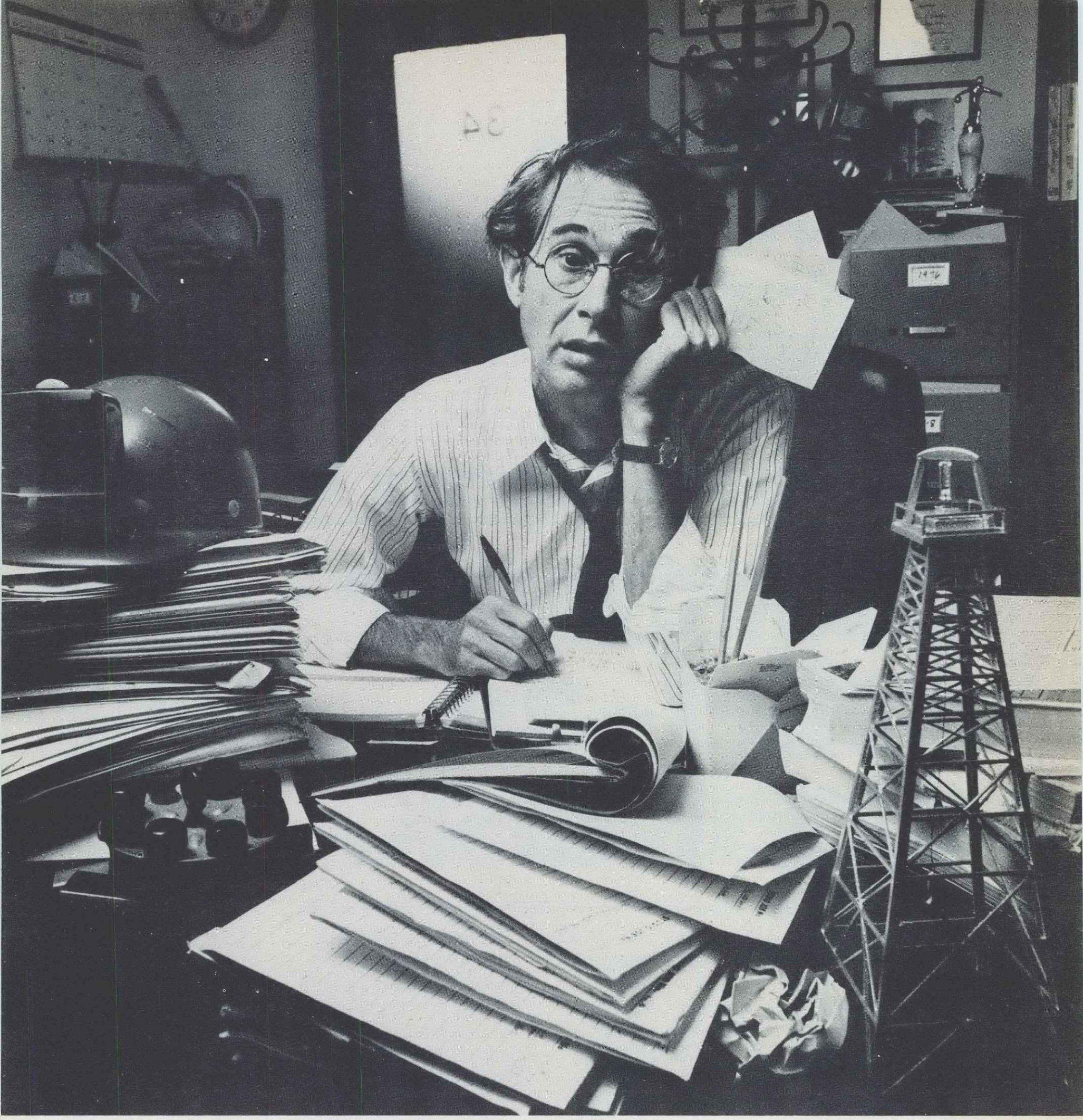
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OSHA appeals for quick action on lead exposure

By JERRY GEISEL

washington

WASHINGTON—The Occupational Safety and Health Administration last week asked a federal appeals court here to require 44 major industries to immediately install equipment to reduce workers' exposure to lead.

In August 1980, the appeals court upheld a November 1978 OSHA standard limiting worker exposure to lead to 50 micrograms per cubic meter of air during an eight-hour day, a drastic decrease from the former 200 micrograms.

But the appeals court exempted several industries until OSHA provided more details on how they could implement controls.

OSHA has since said that 44 industries—including shipbuilding, zinc smelting and precious metals refining—could immediately afford controls to reduce exposure to lead, but recommended giving the nation's primary steelmakers three years and the auto industry seven years to meet the requirements.

In other action, OSHA ruled that employers will have to pay employees when they accompany federal safety officials on workplace safety and health inspections.

Under a final Occupational Safety and Health Administration rule, employers must compensate authorized employees for inspection time spent with OSHA inspectors and for pre- and post-inspection conferences.

The OSHA "walkaround" pay rule was first proposed in 1977. But in July 1980, a federal judicial panel struck down the regulation. The panel said OSHA failed to follow federal rule-making procedures, which call for public notice and a comment period before regulations are published.

Last November, OSHA issued new proposed regulations with a comment period.

The walkaround pay regulation goes into effect Feb. 16. OSHA estimates the regulation will cost employers $5.3 million annually.

Tax on meals

The Supreme Court has agreed to consider whether employers must pay Social Security and unemployment compensation taxes on meals and lodging they provide to employees.

Rowan Cos., a Houston-based oil and drilling company, challenged the Internal Revenue Service requirement that taxes be paid on such benefits, arguing that they are not wages but a business convenience.

The federal government says meals and lodging are wages for the purpose of calculating Social Security and unemployment taxes, although they are not considered wages for income tax.

Lower courts have split on the issue.

Ship collision

The failure of a Coast Guard cutter and a tanker to stay on their own side of a busy channel was the cause of a disastrous collision of the two ships, the U.S. Coast says.

The Coast Guard cutter Blackthorn and the tanker Capricorn also failed to exchange appropriate whistle signals so each ship knew the other's intention, the Coast Guard reported.

The two ships collided Jan. 28, 1980, in Tampa Bay, Fla., killing 23 Coast Guard seamen. The Capricorn, insured through the Steam-Ship Owners Mutual Insurance Assn. Ltd., suffered only minor damage, but the Blackthorn sank.

The Coast Guard also said there was evidence that the master and pilot of the Capricorn and the commanding officer and the officer of the desk of the Blackthorn violated various navigation laws. ■

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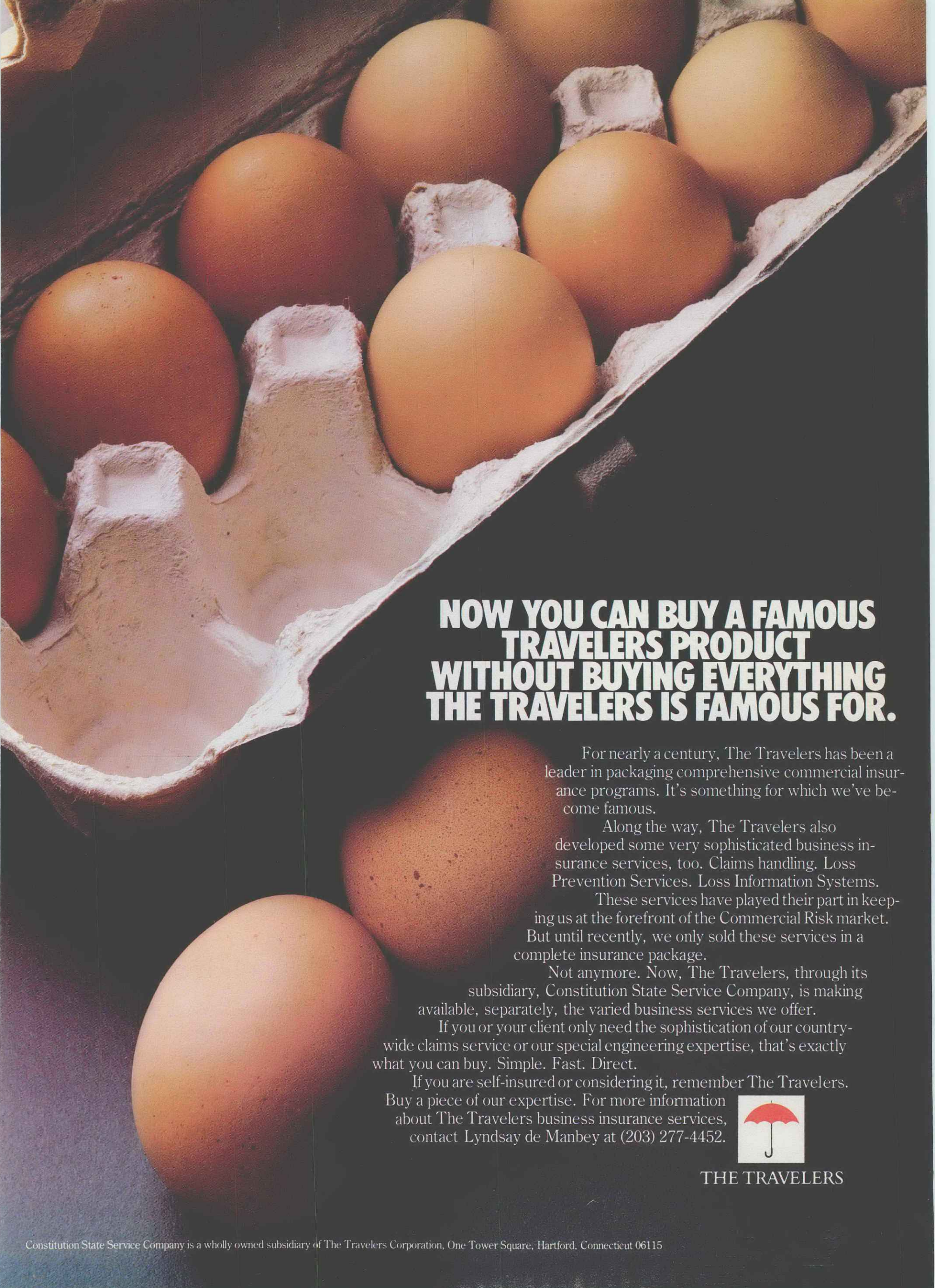
A case in point—a tornado hit Kalamazoo, Michigan on May 13, 1980. Within hours, a CU executive general adjuster arrived to co-ordinate a catastrophe management team in assessing the needs of CU's insureds in the area. The worst loss was suffered by Gilmore's Department Store—a six-story building of which an entire wall had been blown off, damaging all merchandise.

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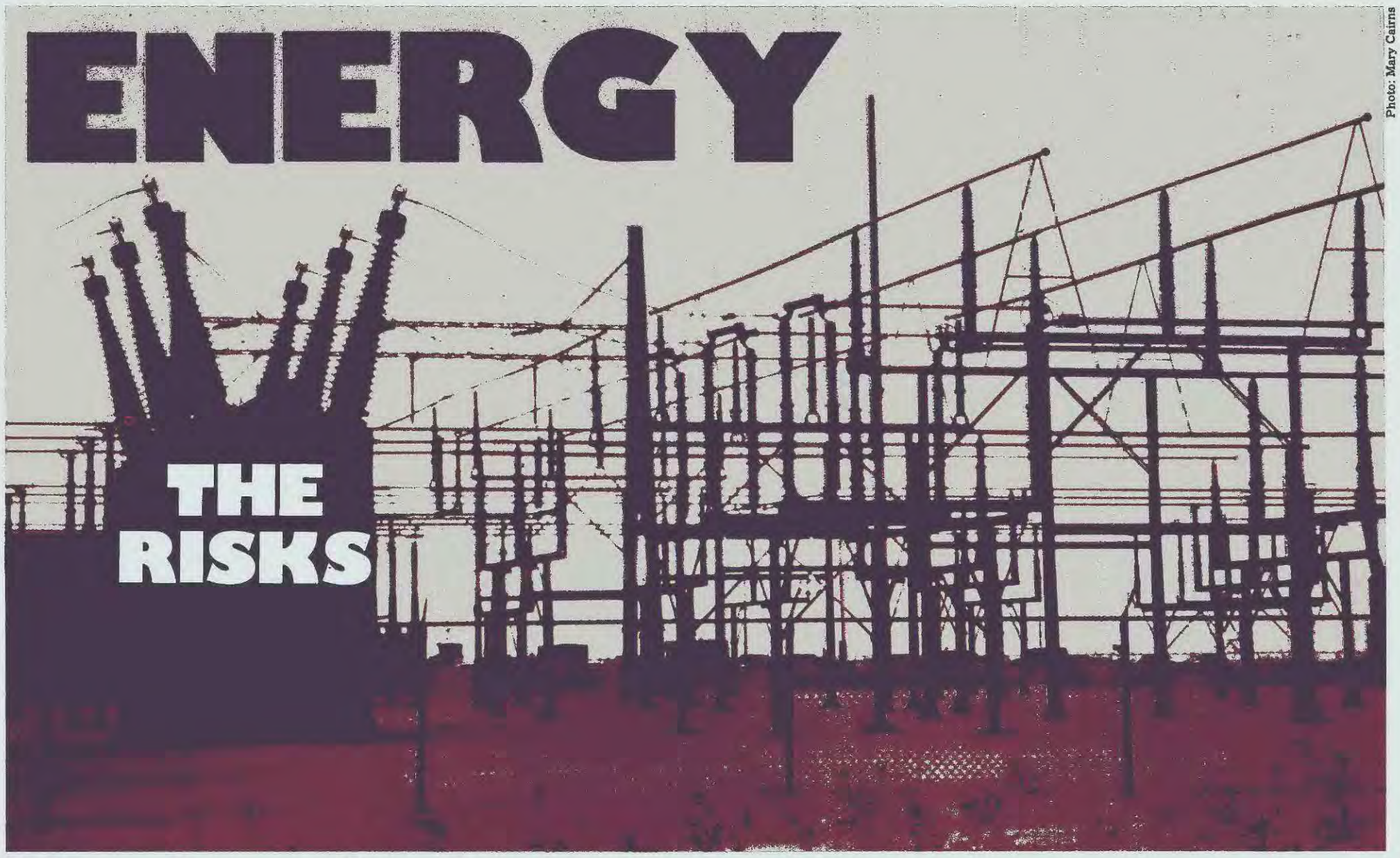


Photo: Mary Cairns

THE RISKS

Nuclear industry power resurges

By STUART EMMRICH

Nearly two years after the March 1979 accident, the dormant cooling towers at Three Mile Island continue to cast a long shadow over the nuclear power industry.

Prices for property and liability insurance will continue to rise in 1981, requirements for operator training and plant safety will continue to be more stringent and demands that pose a greater financial burden to a utility company will again be debated in Congress.

But experts also agree this year holds less chance than last of any dramatic changes in the way plants are insured or operated.

Even the most vocal nuclear critics now say they have only a slight chance of getting Congress to discard the industry's Price-Anderson Act, which puts a cap on the liability of nuclear utilities, or pass such requirements as holding each utility company liable for up to $5 billion in the event of an accident.

With a few exceptions, 1981 promises to be a fairly painless year for the nuclear power industry.

"I don't think you will see any dramatic changes this year, but I think you will see an industry getting back on its feet and moving toward solving some of our energy problems," said Burt Proom, president of American Nuclear Insurers.

"Things will be helped with the new administration with its support of nuclear power, rather than the benign neglect it had under the Carter administration."

The change in administration, plus the new Republican and conservative cast to Congress, also should help the nuclear industry fight off some of the more onerous legislation it encountered during the last session.

"There was support in some quarters for changing the Price-Anderson Act last year," said Tom Kuhn, vp of the American Nuclear Energy Council. "But with the Republicans in power the picture has changed. There is less likely to be a favorable atmosphere toward those changes this year. There has been a shift in Congress to make it a great deal more pro-nuclear."

If pressure to increase the financial responsibility of nuclear plants comes from anywhere this year, it will probably be from the Interior Committee under Rep. Morris Udall (D-Ariz.), most observers agree.

Aides to Rep. Udall acknowledge he will once again introduce legislation concerning the financial liability of nuclear plants, but that it will be much less ambitious than the unsuccessful bills he tried to push through last year. Rep. Udall had sought to hold each utility liable for up to $5 billion.

Although no new bill has been proposed, a spokesman for the committee said the most likely legislation would require nuclear utilities to increase the $5 million per reactor they are assessed in the event of an accident. The pooled funds supplement liability insurance from ANI and the government.

In the Senate, the situation is even less ripe for any major changes. Sen. Gary Hart (D-Colo.) has lost the leadership position from which he last year tried to push through legislation similar to that of Rep. Udall's.

Continued on next page



Insurers find solar risks aren't too hot to handle

By EILEEN NORRIS

CHICAGO—Solar energy risks don't blind insurers with problems. Insurance is cheap and available.

Solar heating equipment, however, can increase the value of an office or home, possibly making the amount of coverage in an existing policy inadequate, experts say.

"There are increased hazards with solar," said Bob Malin, superintendent of product research at State Farm Insurance Co. in Bloomington, Ill. "More glass and metal means a building might attract lightning easier than conventional heating methods."

But the additional risk is offset, he said, because there is no possibility for a gas furnace or boiler to blow up.

"Switching to solar means increasing the total amount of insurance to cover the increased value," he added.

The sentiment is shared by Mary Anne Walsh, a SAFECO independent agent. "When a builder calls to ask the ramifications of going solar, all we advise is that it will not make rates higher or require special insurance," she said.

Properly installed and well-constructed materials are the keys to a system that works reliably with little chance for inefficiency, Ms. Walsh says.

The U.S. Department of Energy recommends using tempered glass in solar units to minimize breakage and adding antifreeze to the plumbing system to prevent freezing or bursting of pipes, she adds. Proper design and installation can save a roof from mildew, rot or even collapse.

Continued on page 14



Honeywell Inc. in Minneapolis is one of a growing number of businesses that use solar equipment to heat their offices.



Nuclear plants are likely to escape congressional pressure this year, but face property and liability rate increases.

Nuclear utility power surges again in 1981

Continued from previous page

The new chairman of the Senate Energy Committee is Sen. James McClure (R-Idaho), who has a better standing among nuclear advocates.

"He is strongly in favor of nuclear power and has always voted for legislation to protect its interests," said Laura Worby, staff counsel of the Senate Nuclear Regulatory subcommittee. "I doubt you will find much support there for any increased liability demands for utility companies with nuclear power plants."

Instead, there will probably be efforts to pass legislation standardizing the operations of nuclear plants and the training of their personnel, Ms. Worby said. The committee is also likely to support a safety research and development bill, she added.

Mr. Kuhn of the American Nuclear Energy Council said pressures to increase individual utilities' liability will be overshadowed by a "lot more pressing issues."

"We are trying to get the nuclear power industry back to a healthy state and trying to expedite plants already in the pipeline," Mr. Kuhn said.

Waste disposal legislation is also expected to pass this year, Mr. Kuhn said. Proposed bills would set up a program for the government to move toward long-term storage of nuclear wastes, he explained.

Though congressional pressure is seemingly off in 1981, the rate increases that were a legacy of Three Mile Island will continue to grow in 1981.

ANI has instituted a policy that annual liability insurance premiums will be subject to an inflation adjustment factor. Last year the increase was 10%. Rates for 1981 will be tied to the Consumer Price Index.

Increases are also expected for property insurance premiums, which increased by a dramatic 65% last year.

Mr. Proom of ANI said member utilities, which up to now have been getting experience rated credits on their property policies, will likely face a debit this year that will increase prices by an amount yet to be determined.

There is a chance that 1981 will also see an increase in property limits available from ANI.

Charles Bollman, vp of Marsh & McLennan, said his company's clients "generally have a desire for higher limits" and there has been talk about a greater capacity for some time now.

ANI now provides $300 million in property insurance, a sum that will only cover about a fifth of the $1.5 billion General Public Utilities estimates for TMI cleanup and repair.

Mr. Proom agrees it is time to raise those limits.

"We plan to go out in 1981 and look aggressively for more capacity," he said, adding the pools have not decided how high they are going to try to go. ■

9 companies join program

WASHINGTON—A new insurance program to cover the cost of a utility company's operations when it loses power generated by a nuclear plant is expected to cover nine utilities by the end of the month.

Applications for the insurance package put together by the American Public Power Assn. trade group and Fred S. James & Co. have been received from another 30 utility companies and are being evaluated, says Paul Fry, APPA director of economics.

"This is a pretty substantial response, more than we thought we would get when we first started talking about putting this together," Mr. Fry said.

The policy, which has limits of $150,000 a day and $50 million over two years, is being underwritten by about 170 underwriters, with Lloyd's of London taking the largest chunk (*BI*, Sept. 1, 1980).

So far, the only utility company in the program is the Nebraska Public Power District, whose risk manager, Richard Grennan, helped develop the program.

The other utility companies had their applications processed at a Dec. 10 meeting of the board and in the past month were notified of their acceptance and premium, Mr. Fry said.

The average premium will be about $1 million a year, he said. ■



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Photo: PG&E
The Steinhart Aquarium went solar without problems.

Solar isn't hot to handle, experimenters discover

Continued from page 11

"Anyone considering solar should double-check their insurance policies to be sure potential problems will be covered," Ms. Walsh said. "On the whole, the industry feels a solar-equipped building is no more hazardous than one heated or cooled conventionally. Premiums reflect that."

Only a few insurers have prepared detailed in-house documents examining the potential impact of solar energy systems for insurers, says the National Solar Heating and Cooling Information Center in Rockville, Md.

The State Farm report recommends providing the same coverage for solar-equipped structures as for any other insured buildings, but requires that a solar energy questionnaire be filled out for each building.

Meridian Mutual Insurance Co. of Indianapolis has devised an inspection report specifically for evaluating solar-heated buildings. And the National Assn. of Mutual Insurance Companies has formed an Alternative Energy Committee to collect solar information.

The positive response of the insurance marketplace is based on the strong safety history of solar-heated commercial buildings.

Forty-two rows of solar collectors are part of a high-temperature solar energy system to heat and cool the Honeywell Plaza in Minneapolis. The system, which was designed, funded and built by Honeywell Inc. for its new eight-story office building, began operation on Nov. 29, 1978.

No special insurance has been bought for the system, said a Honeywell spokeswoman. She said the solar building is covered under Honeywell's general property and liability insurance.

The Steinhart Aquarium in San Francisco went solar without safety or insurance problems.

"We have no extra insurance on the building," said Tom Tucker, assistant supervisor. "Our standard policy coverage increased a little, but nothing to speak of."

The slight premium increase is offset by energy savings.

The California Academy of Sciences, the aquarium's parent, decided to install the system after a Pacific Gas & Electric Co. free energy audit showed the system would save more money than it would cost over its lifetime.

The $58,000 solar water-heating system is expected to save the aquarium about $100,000 over the next 10 years, says director John McCosker.

The Steinhart system uses the sun's rays to preheat both fresh and salt water. The water is pumped to the aquarium's roof, where it circulates through 62 solar panels that absorb the heat.

At night, the same system of pumps and pipes is used to carry water to the roof to be cooled for tanks containing coldwater fish, Mr. McCosker said.

Solar offices have also made their debut in St. Louis, a climate far different from mild California. Developer Ted Bakewell III said he sat down with his insurers before coming to any firm decision on whether or not to experiment with a solar development.

"I was told what kind of solar collectors would be best and asked if a foam insulation would be acceptable," said Mr. Bakewell, of Bakewell Corp. in St. Louis.

"The insurer told us they wouldn't accept foam insulation unless we had a sprinkler system, so we put in both," he said. "For cooperating with all its recommendations, it kept the premium at the same rate.

"The other plus was that we custom-designed our own solar system and built our own collectors," Mr. Bakewell said. "That way we didn't have to worry about product liability." ■

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Hydroelectric dams hold back flood of risks

By JOHN MAES

Hydroelectric dams hold back floods of potential liability for utility companies, but risk managers are more concerned about such smaller liability exposures as electrocutions and electrical fires.

Although dam breakage can be the most disastrous of all losses a utility firm can face, it's also the least likely accident, thanks to strict safety procedures that are the rule at government-owned and private dams.

Since hydroelectricity is only one of a variety of methods utilities use to generate power, the big risk of flood is usually tucked into a general liability policy purchased for all plants.

The risks that appear small, however, can be the most unusual.

Business interruption losses are the problem bedeviling Pacific Power & Light Co. of Portland, Ore., which has a hydroelectric project along the Lewis River at the base of Mount St. Helens.

The utility recently had to lower the water level in the project reservoir 50 feet to avoid possible overflow and downstream flooding during the volcanic eruptions last year, said Thomas Selliken, assistant vp and head of risk management. The firm serves about 460,000 customers in the Pacific Northwest.

Consequently, the company's generating capacity has dropped. It is still tallying multimillion-dollar business interruption losses for which it is insured, Mr. Selliken said.

Utility liability insurance limits often reach $100 million, and some firms carry $150 million in coverage. The giant Southern California Edison Co., for example, which serves some three million customers in the Los Angeles area, goes for the top coverage. Many use a combination of domestic and London insurers to provide the high limits.

Even in the Western United States where hydroelectric resources abound, utility firms say water power is not the primary generating source. Risk managers are more worried that someone will be killed touching a downed live wire than be swept away by flood.

"Exposures vary from one part of the country to the other," explained William Hughes, manager of insurance at Southern California Edison.

"But if there's a big forest fire and one of our lines gets knocked down by fire, we're worried about the electrocution of somebody who touches the line. It's a higher-frequency, lower-severity type of loss," he said.

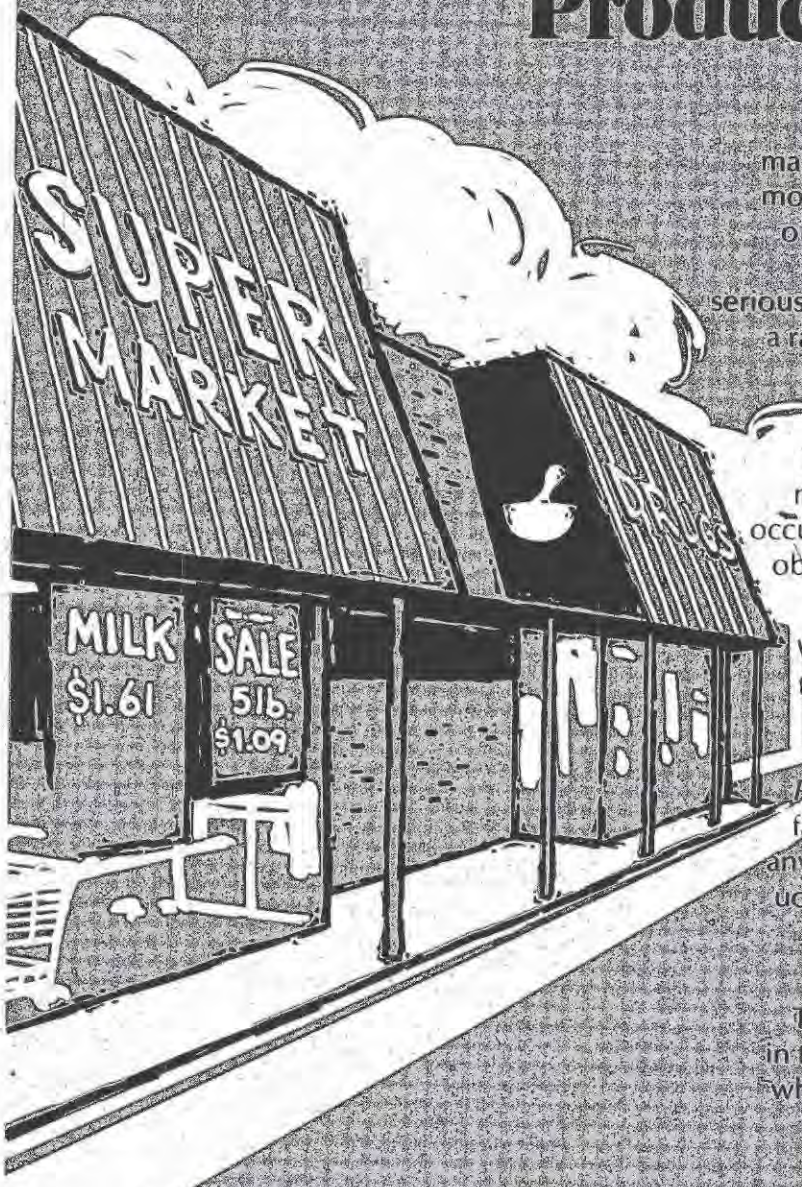
Randal Wilson, manager of risk and insurance for Portland General Electric Co. in Portland, Ore., says hydroelectric risk played about a 20% part in the company's decision to insure liability up to $100 million. The company self-insures the first $500,000 of the risk.

The industry, however, is not unscarred by losses. Utilities faced a massive insurance scare several years ago following the failure of the Snake River Dam, an earthen dam in the Grand Teton Mountains of Idaho.

The accident drove liability rates up sharply, causing many utility company risk executives to bombard their underwriters with facts showing the safety of their facilities.

"Rates were way up on all hydroelectric projects and we tried to tell our liability underwriters, primarily Lloyd's, that all hydro projects are not the same," Mr. Wilson said.

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Inspection holds dam secure from failure

By JOHN MAES

LENOIR CITY, Tenn.—Every five years, the Fort Loudoun dam near this little city of 5,200, nestled at the foothills of the Smoky Mountains, gets a complete safety overhaul from the Tennessee Valley Authority.

Engineers fan out over the entire 38-year-old structure, examining concrete joints for signs of wear. They use boats to get a close look at the lower wall for indications of stress and water damage.

Divers also check the base of the structure. If it's anything less than perfect, the condition is reported and repaired.

Care and concern is important. If Fort Loudoun ever gave way to the tons of water pushing at its walls, most of little Lenoir City could find itself underwater.

It's all part of TVA's strict, comprehensive dam inspection program that makes failure of Fort Loudoun, or any of the other 70 dams in the seven-state TVA region, highly unlikely.

"We're a highly organized and, we think, highly respected organization," said T. J. Abraham, the soft-spoken head civil engineer of hydro design in TVA's division of engineering design.

The engineering design division keeps a tight watch over the 70 dams in the TVA distribution area that covers much of Tennessee and parts of North Carolina, Georgia, Alabama, Virginia, Mississippi and Kentucky.

Thirty dams have hydroelectric power generators.

The TVA spends approximately $1 million a year for inspections, maintenance and repairs at its dams, but money isn't all that keeps them safe, Mr. Abraham says.

The most recent testimonial to TVA design and construction efforts is Tellico Dam, completed in 1978 on the Tennessee River not far from the Fort Loudoun installation. Inside its walls is the latest state of the art in gauges and instrumentation that can tell engineers how the dam is holding against the mountains of pressure being applied from outside.

Inspection for the slightest signs of stress, cracking or other wear and tear, however, is a strict routine enforced further by new guidelines calling for more frequent inspections. The guidelines stem from the 1976 Snake River Dam failure in Idaho.

Every five years, the TVA inspects all dams in its system from top to bottom, looking over every inch of construction for potential trouble spots.

That's only the first wall against loss. Following new federal guidelines, the TVA will start conducting less thorough, interim inspections of all dams every 2½ years.

Checklist inspections of each dam are performed monthly. Engineers check out specific risks and equipment that need close monitoring, said H.C. Buttrey, principal civil engineer in the division of engineering design.

One of the routine structural inspections enabled the TVA to head off potentially major problems at its 480-foot-high Fontana Dam, site of a major hydroelectric power facility in western North Carolina.

In 1972, engineers noticed cracking in the walls of its foundation drain caused by an unusual amount of concrete expansion. A repair program was begun immediately to strengthen the cracks, Mr. Buttrey said. The repairs cost about $1.5 million.

Of the yearly dam inspection budget, about $300,000 is for salaries of the 50 engineers, technicians, specialists and other TVA employees who are involved in dam maintenance at any one time, Mr. Buttrey said. ■

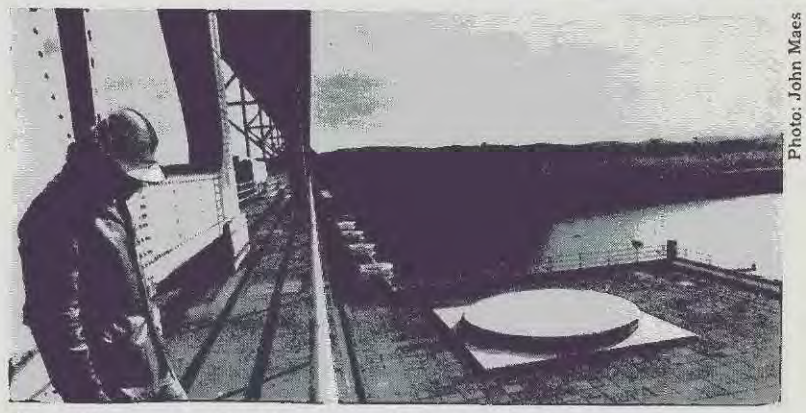


Photo: John Maes

Every five years, the Tennessee Valley Authority inspects its Fort Loudoun and other dams thoroughly from top to bottom.

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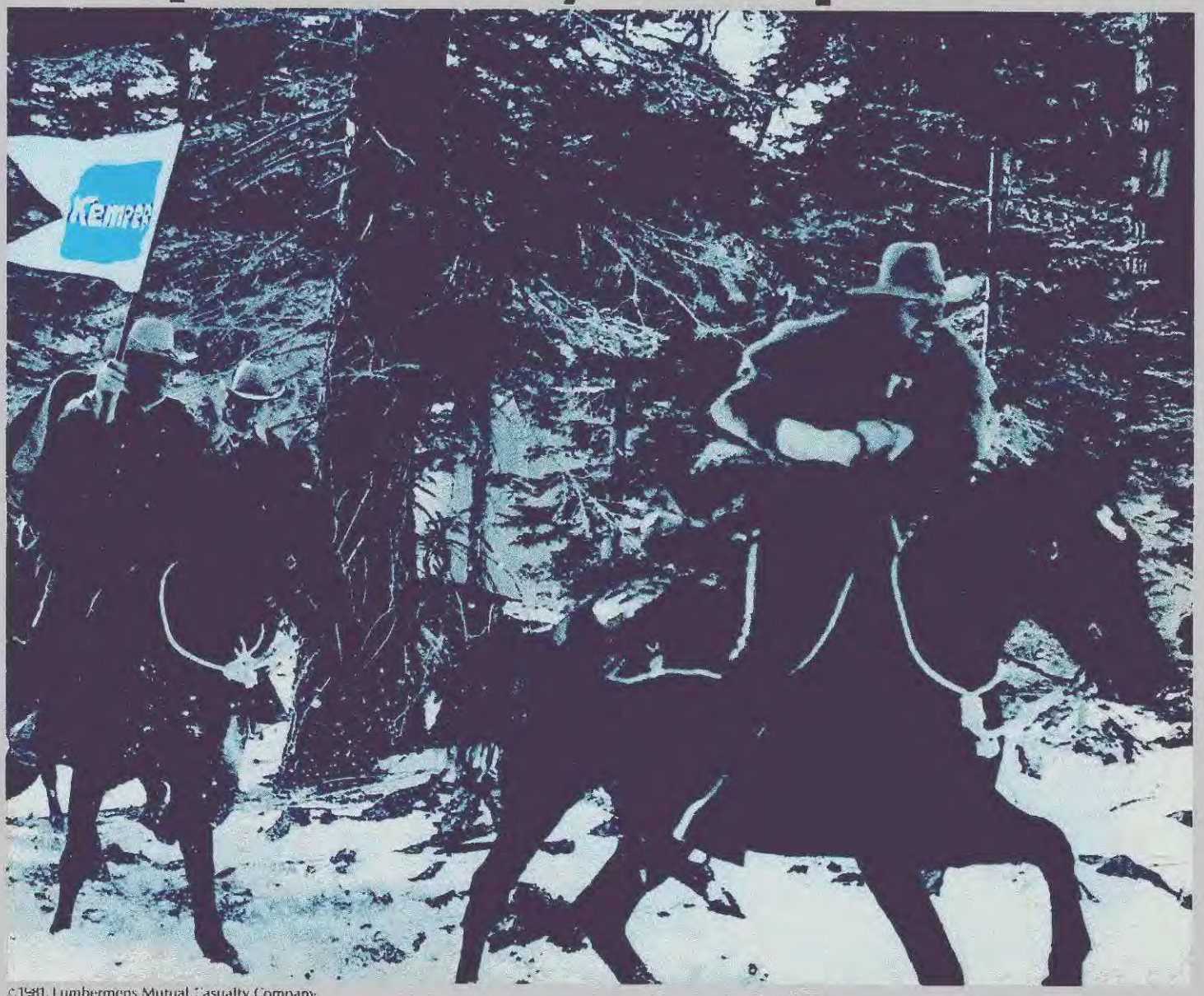
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Firms don't conserve on benefits

By MARY ANN MATLOCK

'As a general rule, they (oil and utilities) have had good benefits,' says Howard Fluhr of Martin E. Segal.

Although the watchword to energy consumers today is "conserve," producers rarely skimp on employee benefits and compensation.

The petroleum industry has traditionally been one of the leaders in offering lucrative employee benefit packages and utilities follow closely behind, observers say.

This year, the tradition has been upheld by large and small employers in oil, natural gas and coal-related fields, many of which recently added dental packages to a list of benefits that commonly include savings plans, stock options and medical, life and disability insurance and pension plans.

"As a general rule, they (oil and utilities) have had good benefits, although they're not way out of line," said Howard Fluhr, senior vp and actuary at Martin E. Segal. "They were good even 10 years ago."

Petroleum companies, he explained, are under some labor pressure to add benefits, whereas utilities are government-regulated and therefore usually less generous.

The most recent survey of benefits compiled by the U.S. Chamber of Commerce, based on 1979 data, shows benefits accounted for 44.5% of payroll in petroleum firms and 40.6% in public utilities, compared with an all-industry average of 36.6%.

Benefits average $9,125 for petroleum industry employees and $7,466 for utility workers, compared with the all-industry average of $5,560.

Some experts estimate this trend continued into 1980. "We don't see any trend to cut back benefits; 20% to 25% of the plans last year increased benefits," said James L. Herter, senior consultant at A. S. Hansen.

The high value of benefit packages and the need for qualified experts are forcing these employers—large and small alike—to constantly re-evaluate their benefit plans.

New benefit packages have focused on thrift plans, in addition to dental plans won through union contracts.

The Chamber of Commerce study found these to be offered by 67% of petroleum companies and 43% of utilities in 1979, compared with an all-industry average of only 20%.

Direct compensation for key employees is also receiving considerable attention, but details of these programs are generally kept guarded.

"Of course, the benefit program is affected by collective bargaining, but we do want to keep our benefit package competitive," said a spokesman for Gulf Oil Corp. in Pittsburgh. "It's been the trend over the last several years."

In 1980, the oil company made four changes in benefit packages, which included adding dental coverage, improving thrift and Tax Reduction Act Stock Ownership Plans and consolidating medical coverage for all locations.

While the dental benefit was added by most petroleum employers in 1980 and TRASOP changed in line with a government ruling, the thrift plan was altered to offer Gulf workers greater savings.

"For the first time, we allowed voluntary employee contributions and a selection of investments," a spokesman explained.

Beginning July 1, Gulf required an employee contribution of 3% of base pay to be matched dollar for dollar by the company.

The employee contribution buys Series EE bonds, while the employer portion buys Gulf stock for an employee account.

The employee also can contribute up to 10% of base pay into one or a combination of funds including Gulf stock and a guaranteed investment return operated by an insurer. These benefits are 100% vested to members.

Before these changes, voluntary unmatched contributions were not allowed and the mandated plan contribution was 6% of base pay to be matched by the employer with 50 cents on each $1.

The TRASOP plan's 1980 amendment, retroactive to Jan. 1, 1979, retained the 1% of available investment tax credit provision and allowed an additional 0.5% voluntary employee contribution to be matched by an equal amount from Gulf.

The savings plan at Sun Oil in Philadelphia allows employees to contribute up to 11% of base pay, which the company will match dollar for dollar up to the first 5%, explained David Marshall, manager of benefits.

At Texaco, a voluntary savings plan allows workers to contribute 2% to 10% of base pay into a thrift plan. The company contributed 50 cents on each $1 up to the first 6%

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While the major employers differ in savings options, medical plans are similar.

At Sun, a new plan that stresses cost containment will be fully paid by the employer. The older option, lacking in cost-curbing provisions, will be paid up to a set maximum.

Gulf eliminated local medical contracts and set a maximum company contribution level at $47 per month for individual coverage and $120.50 for dependent coverage.

Texaco's plans offer company-paid coverage for active employees and employees with one dependent who choose the $300 deductible. However, for employees choosing for a $150 deductible, a minimal monthly contribution is required.

Plans available at industry giants often set the standard against which smaller, younger energy-related companies compare their benefits, benefit managers say.



"Companies are competing for employees," says Joel G. Stewart, William M. Mercer vp.

"As far as overall benefits are concerned, we're constantly surveying them," said Doris Lynch, benefit manager at Mitchell Energy & Development Co. in Houston, which has 2,900 workers. "Every three months we compare our benefits to the industry to make sure they're at least competitive."

Declining to divulge program specifics, Ms. Lynch says competition mandates insurance benefits such as dental, accidental death and supplemental medical coverage for dependents. Retirement, thrift and stock ownership plans have become mandatory even at smaller firms, too.

In Tulsa, the manager of benefits at MAPCO agrees with the philosophy of measuring the company's benefits against the industry standard.

MAPCO benefits now provide survivors of former employees to receive 40% of their base pay per month if the employee is killed on the job. In addition, a lump sum payment of two times base annual pay is made, said manager of benefits Ottilia Sharp.

The firm also offers profit-sharing, employee stock ownership plans and medical coverage, most of which are paid by the company.

While benefits at smaller energy-related firms appear to match or surpass those at larger companies, salary and bonuses are also receiving considerable attention.

"The environment is such that companies are competing so heavily for employees that many things are going on," said Joel G. Stewart, vp and Texas manager for William M. Mercer.

"We're doing a lot with devising various methods, plans and schemes to pay key people, all with the ultimate idea of finding energy."

Some plans outlined by consultants but kept under wraps by companies such as Gulf, MAPCO and Mitchell include bonus payments and sharing in discoveries.

"Probably the most unique is sharing in the discovering," said Hansen consultant Richard Doherty. A geologist discovering a new field might well share in the actual dollar worth of the discovery. This is unique to the oil business."

While all benefit managers declined to divulge these incentives, one said smaller firms have worthwhile packages.

"Independent companies may have better benefit packages because we don't have the time to take a graduate out of college and train him. We've got to have top benefits and salary, otherwise we won't get trained geologists and people we need," said Ms. Lynch at Mitchell Energy & Development. •

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Close supervision cuts mine risks



Photo: Mine Safety & Health Adm.

Deaths and accidents have dropped in the past 30 years, but coal mining remains a hazardous business with high loss potential.

By ELLIS SIMON

Where a coal mine superintendent works is a good clue to that mine's insurability.

"The key to a good mine is a good superintendent who isn't sitting in a shack, but is up on the job," said Bruce Ferguson, president of Underwriters Safety & Claims Inc., a Louisville-based self-insurance services firm specializing in coal mine risks.

Underwriters look for a "hands on" approach to mine management by top executives, says Jim Kelley, executive vp of MOAC, a leading insurer of mining equipment.

"Underwriters want to know not only that the foremen are actively supervising workers, but also that top executives are frequently in the mine, participating in 'muddy boot' management."

The risks to manage are many: the mine environment including the strength of roofs and the quality of air, massive amounts of equipment and the miners' work habits and safety.

Blasting, landslides, cave-ins and pollution are all liability exposures a mining firm faces. An uncontrolled explosion could send debris into a valley below a mine, causing property damage and injury. Heavy rains could wash away a debris pile into a valley. A settling pond could give way, allowing mine residue to foul a stream. An abandoned mine can cave in, destroying property above it.

Although multimillion-dollar awards against mines are scarce, there have been several awards in the $250,000 to $500,000 range.

Deaths and accidents have dropped tremendously in the past 30 years, but coal mining remains "one of the more dangerous occupations," said Larry Correll, director of insurance and employee relations for Philadelphia-based Westmoreland Coal Co.

There were 144 coal mine deaths in 1979, down from more than 1,000 during each year of the 1940s, U.S. Mine Safety and Health Administration figures show. Injuries in 1979 numbered 23,634, compared with 38,000 around 1950.

The record, the potential for catastrophic loss and the high exposure to black lung claims make insurers generally unwilling to underwrite workers compensation in the mines.

Most large mining firms self-insure the risk. Smaller firms usually obtain coverage from assigned risk pools or state funds in monopolistic states, such as West Virginia and Ohio. Old Republic Insurance Co. of Greensburg, Pa., is the only voluntary market for coal mine workers compensation.

Excess insurance over a self-insured retention is usually purchased from General Reinsurance Corp. or Weavers Syndicate in London.

Flat Top Insurance Agency Inc. of Bluefield, W. Va., is considered the leading seller of coal mine general liability coverage. The agency has exclusive authority to underwrite this risk on behalf of Commercial Union Insurance Cos., and risk managers praise the broad policy form Flat Top has developed for the mines.

Ingram Industries of Nashville, which uses independent contractors to operate its mines, insists these contractors carry liability insurance sold on a Flat Top form, says vp-insurance Charles J. Eades. Ingram writes insurance on behalf of some of its contractors through one of two insurance subsidiaries: Tennessee Insurance Co. and Blue Water Insurance Co. Ltd. of Bermuda.

"Each mine is distinct and different. No two are alike," said Flat Top president Harold Miller. "You must be close to the industry and know what a mine is like."

Flat Top's policy form provides coverage on an occurrence basis against liability exposure resulting from blasting, subsidence or cave-ins, movement of debris, contractual liability and for vehicles operating off highways. It covers sudden and gradual pollution.

Most mine operators insure up to $5 million per occurrence and $10 million annual aggregate, and the larger operators often buy excess coverage up to $100 million, Mr. Miller notes.

The greatest competition exists among underwriters of coal mine equipment risks: MOAC, Chubb Group, Crum & Forster and a few others.

Regardless of which exposure they insure, underwriters specializing in coal mine risks agree the class is hazardous. But a well-run mine can minimize hazards.

"In evaluating risks, you look for good mining practices," said Mr. Ferguson of Underwriters Safety & Claims. "You want to make sure people are properly certified for the jobs they are performing, that proper air and gas levels are met, that the roof bolting is secure and that rock dusting is performed."

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rock above a coal seam to bind strata of rock together and prevent it from caving in. This process is called roof bolting.

Rock dusting is the spreading of an inert dust, usually lime, on the mine surface to keep coal dust levels down. This prevents coal dust explosions and helps minimize worker exposure to the dust, which causes black lung disease if breathed in excessive quantities.

"All safety aspects of coal mining are regulated by the Mine Safety and Health Administration through the Coal Mine Health and Safety Act of 1969 and subsequent amendments," noted Westmoreland's Mr. Correll.

These include mine ventilation, roof bolting and training plans. In addition, the agency sets standards for machinery and equipment used in mining and methane gas detection devices.

The explosion risk from methane and coal dust represents the greatest catastrophe exposure in a mine. "Coal dust explosions are so powerful that you can be halfway up a tunnel and the explosion will still get you from the concussion," Mr. Ferguson said.

Methane buildup results from the release of the gas from coal as it is taken from the surrounding rock.

Gas detection devices and good ventilation are the main tools used to minimize the methane explosion risk. Westmoreland's Mr. Correll says his firm takes gas readings before each shift in each section of the mine.

One government requirement—installation of canopies on mining equipment to protect workers from cave-ins or roof falls—has saved at least 114 miners' lives, the agency maintains.

Roof falls are the greatest safety hazard for underground miners, accounting for 62 of 144 mining deaths during 1979 in underground and surface mines, according to Mine Safety and Health Administration figures.

The government also makes sure mines adhere to coal dust standards for protection against black lung. Industry officials say adherence to the levels should eventually eliminate black lung.

Black lung costs the industry billions annually in benefits to workers afflicted with this disability and to survivors. The cost escalated in recent years with liberalized eligibility standards (*BI*, Oct. 13, 1980).

Surface mining is less risky than underground mining, but is not without hazards for the workers. Of greatest concern is mining on a "bench" alongside a "highwall."

The bench is a narrow plateau cut from the side of a mountain that runs alongside the highwall, a 10-foot to 60-foot-high cliff from which coal is mined.

"Highwalls are as dangerous as hell," Mr. Ferguson said. "Big chunks of rock can come out of them and crush a miner."

A mine's safety record goes hand-in-hand with its equipment loss record. "You will never find a good personal injury record where there is a bad equipment loss record," said Capt. Robert Smith, assistant vp of Hull & Cargo Surveys Inc., a MOAC affiliate.

Coal-mining operations expose expensive pieces of equipment to hazardous environments.

A typical working mine shaft has $1.5 million worth of equipment operating and a large underground mine could have 10 to 15 shafts operating at one time, says George Schmidt, MOAC's Louisville branch manager.

Surface mining operations employ bulldozers costing $250,000 to $500,000 and some have giant cranes, called drag lines, worth up to $40 million.

When underground mining equipment is left outside the mine, it is exposed to theft and vandalism. Good security deters this, but small operations often cannot afford guards, according to Mr. Schmidt.

Because of this, MOAC does not insure accounts with less than $100,000 in equipment value against theft and vandalism.

Coal mine equipment underwriters are competitive and rate-cutting occurs to about the same degree as most other commercial lines today, Mr. Schmidt says.

Crum & Forster and Chubb Group are Mr. Schmidt's strongest competitors in the coal-rich Louisville area.

Rates for coal mining equipment risks range from 30 cents to 50 cents per $100 value on a large drag line with a $10,000 dedictible, to 70 cents to $1 per $100 value for bulldozers and backloaders written with a $1,000 deductible. ■

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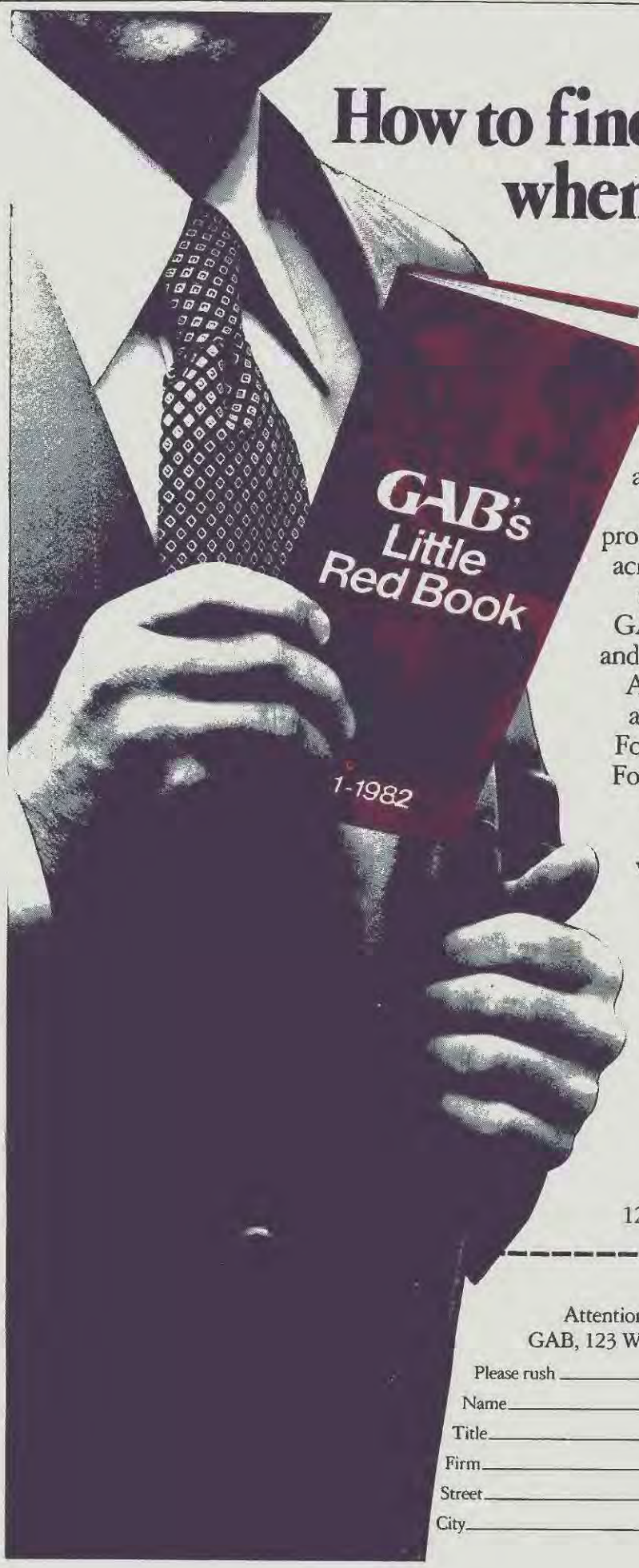
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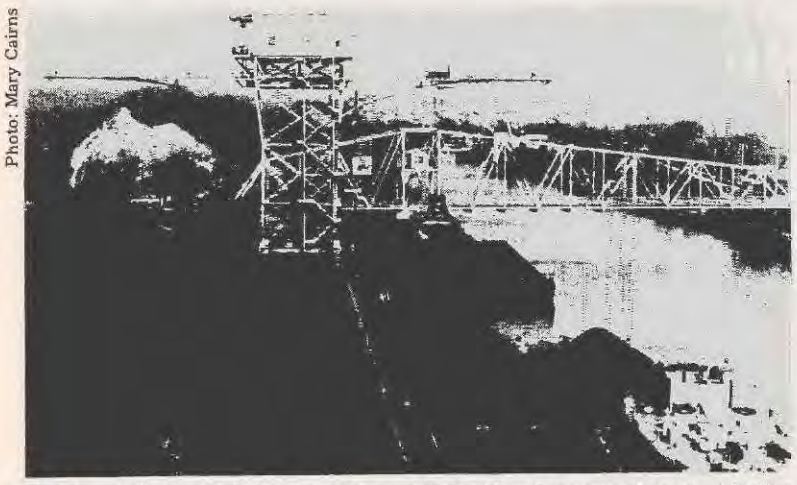
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Coal haulers carry safety rules, too

Photo: Mary Cairns



Transporting coal by water exposes the transporter to higher workers compensation payments under the federal longshore law.

By ELLIS SIMON

NEW YORK—From the mouth of a mine to the mouth of a furnace, coal storage and transportation involve few unusual exposures.

Safety, however, can't be neglected.

Despite large amounts of flammables, coal preparation plants are not great fire risks because water is used in copious amounts, too. This keeps dust levels down, says Charles J. Eades vp-insurance of Ingram Industries. Ingram's two coal preparation plants are nonflammable structures, he adds.

"A coal preparation plant is one of the safest work areas in the mine operation, provided you wear a hard hat and observe safety rules," Mr. Eades said.

Ingram's coal preparation plants and other energy-related exposures are insured by the firm's two insurance subsidiaries, Tennessee Insurance Co. and Blue Water Insurance Co. Ltd. of Bermuda.

At the plant, rock is removed from the coal, then washed to remove impurities and dust. The coal is graded and sorted by size before being loaded into railroad cars, barges or trucks.

Virtually all coal mined in the United States today is bituminous or soft coal. Anthracite or hard coal, mined only in northeastern Pennsylvania and used primarily for home heating, now accounts for less than 12% of all U.S. production.

Coal preparation plants are required to have holding basins for rock and debris removed from the coal. The basins, which usually are 8 to 10 feet high, must meet Environmental Protection Administration standards. In addition, waste water must be held in settlement basins for purification before it can be returned to nearby streams.

Ingram uses Tennessee Insurance Co. to insure its pollution liability exposure under a $1 million coal mine liability policy. The company also buys excess insurance, Mr. Eades says.

Hauling coal is not much different from transporting any other commodity, firms say.

"Coal presents no special problem. It falls within our regular insurance program," said H.E. Halweg, director of insurance for the Burlington Northern Inc. railroad.

The Burlington line, whose routes extend from Pensacola, Fla., to Vancouver, B.C., has become a major coal hauler since the opening of mines in Montana and Wyoming.

Hauling coal on river barges is less hazardous than transporting petroleum, chemicals or other highly flammable commodities, but it is not without perils.

"A river operation exposes a company to the U.S. Longshoremen & Harbor Workers Compensation Act and Jones Act liabilities," said Ingram's Mr. Eades. "It's difficult not to have an accident.

Exposure on the river can be tremendous, Mr. Eades notes. A towboat worth $6 million can easily push 30 to 45 barges worth $300,000, each carying 14,000 tons of steam coal valued at $36 per ton. The total risk tops $42 million.

Coal-handling equipment at power plants poses big risks. A typical 500 megawatt power plant will have coal-handling equipment worth $15 million to $20 million, says Walter Fishback, engineer at the Hartford Steam Boiler Inspection & Insurance Co.

The devastation caused by an explosion in these systems was dramatically displayed last October when a coal dust explosion in a crushing machine caused $20 million damage to Commonwealth Edison Co.'s station in Pekin, Ill.

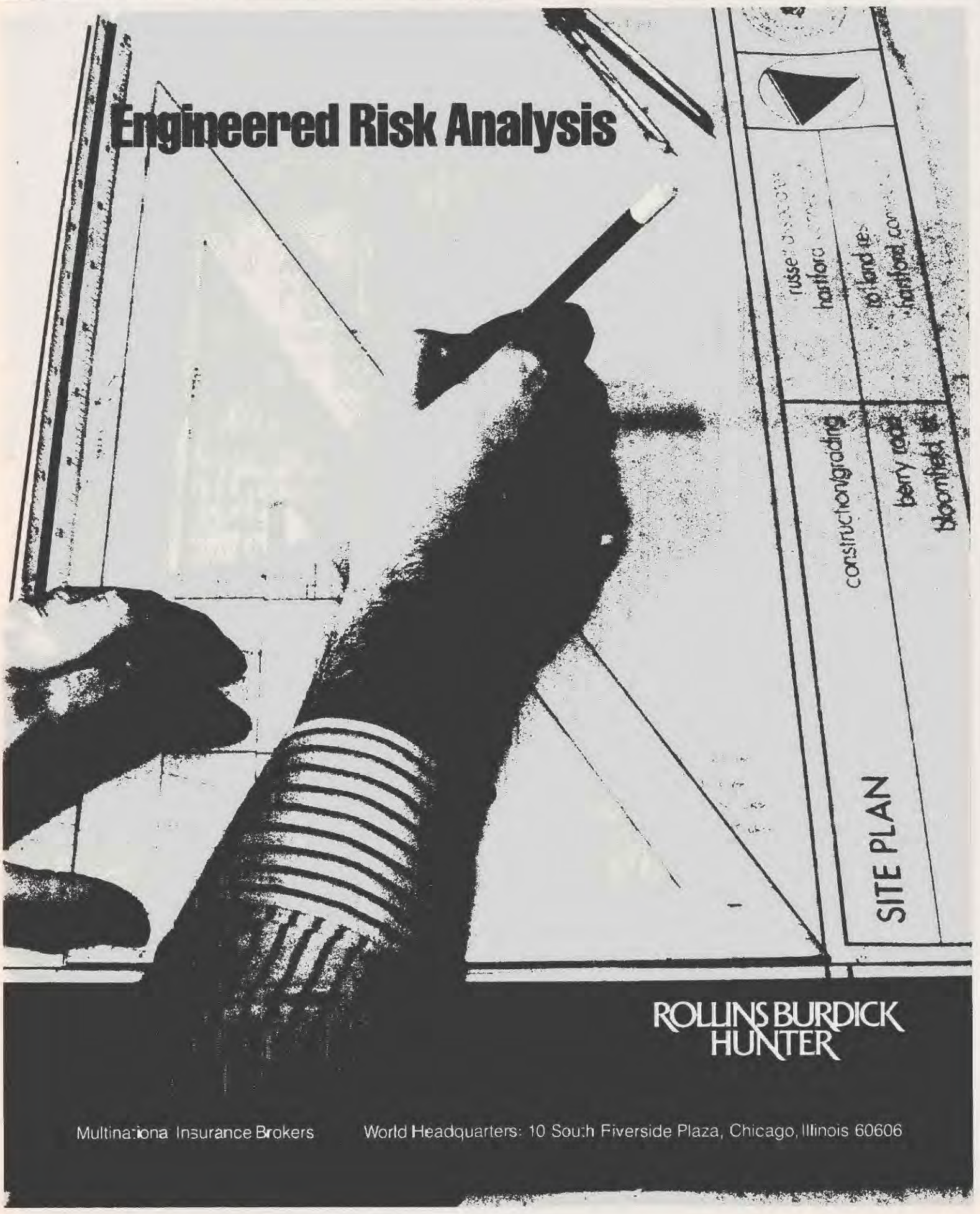
Both generating units there are scheduled to go back into production by mid-February, but officials of the utility say they do not know the blast's cause. One is already in operation. INA and 14 other insurers underwrote the risk, which was not sprinklered (*BI*, Oct. 20, 1980).

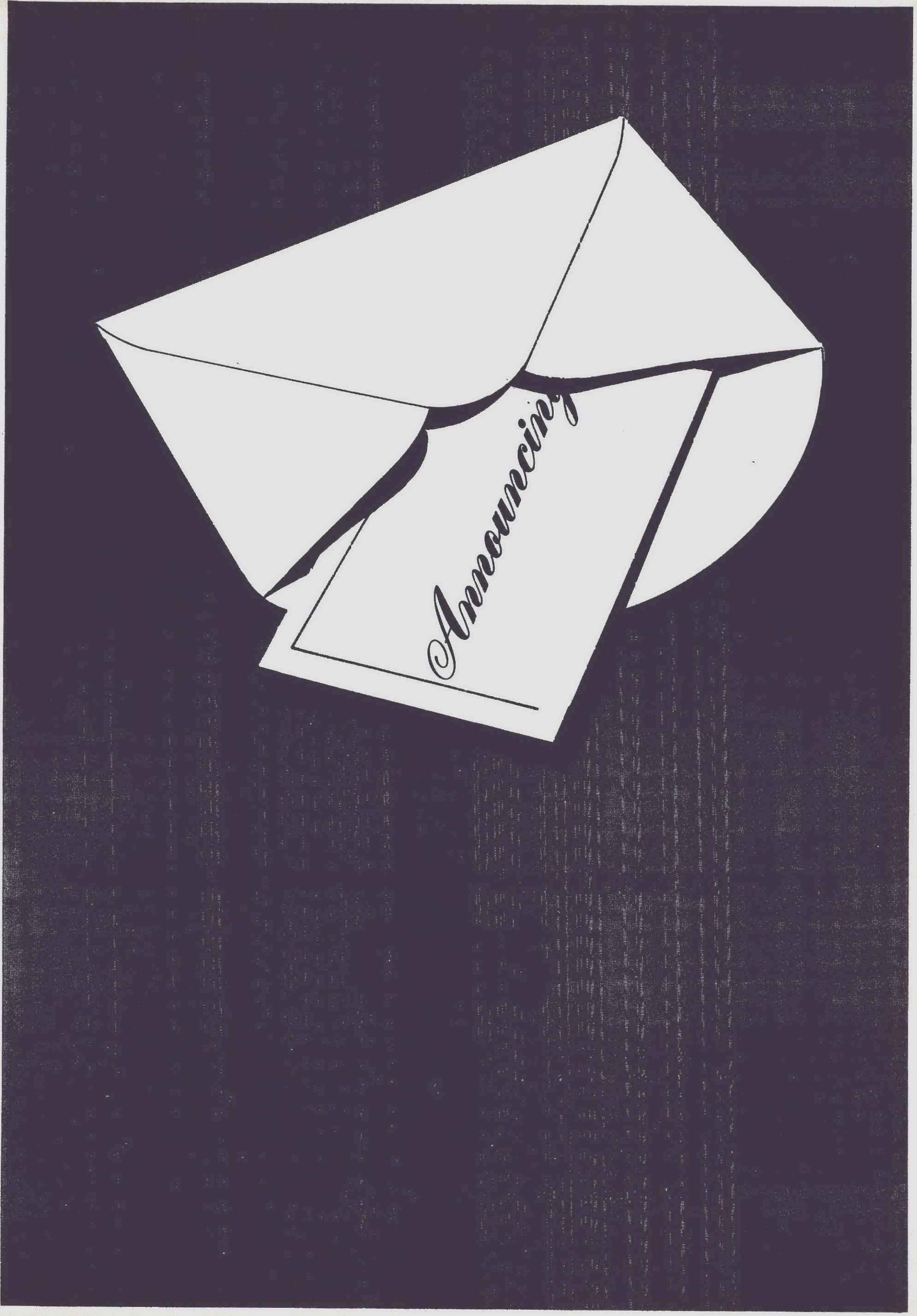
Sprinkling dramatically cuts the amount of damage resulting from fires in belt conveyors, a study by Industrial Risk Insurers shows.

Of 57 conveyor losses between 1963 and 1975, 35 occurred in unsprinklered buildings and 22 were in sprinklered facilities. Total property losses in the unsprinklered plants were $5.1 million and business interrruption losses hit $10.2 million. In the sprinklered buildings, total losses were $105,973 for property damage and $52,560 for business interruption.

Crushing and pulverizing machines, which grind coal into small pieces before it is fed into the furnaces, present the greatest boiler and machinery risk exposure in coal-handling equipment.

The units cost $250,000 to $500,000 each and a big plant may have as many as seven crushers, says Hartford Steam Boiler's Mr. Fishback. Stray pieces of metal that get mixed with the coal are these machines' worst enemies, since the metal can foul up the grinding mills, he explains. ■




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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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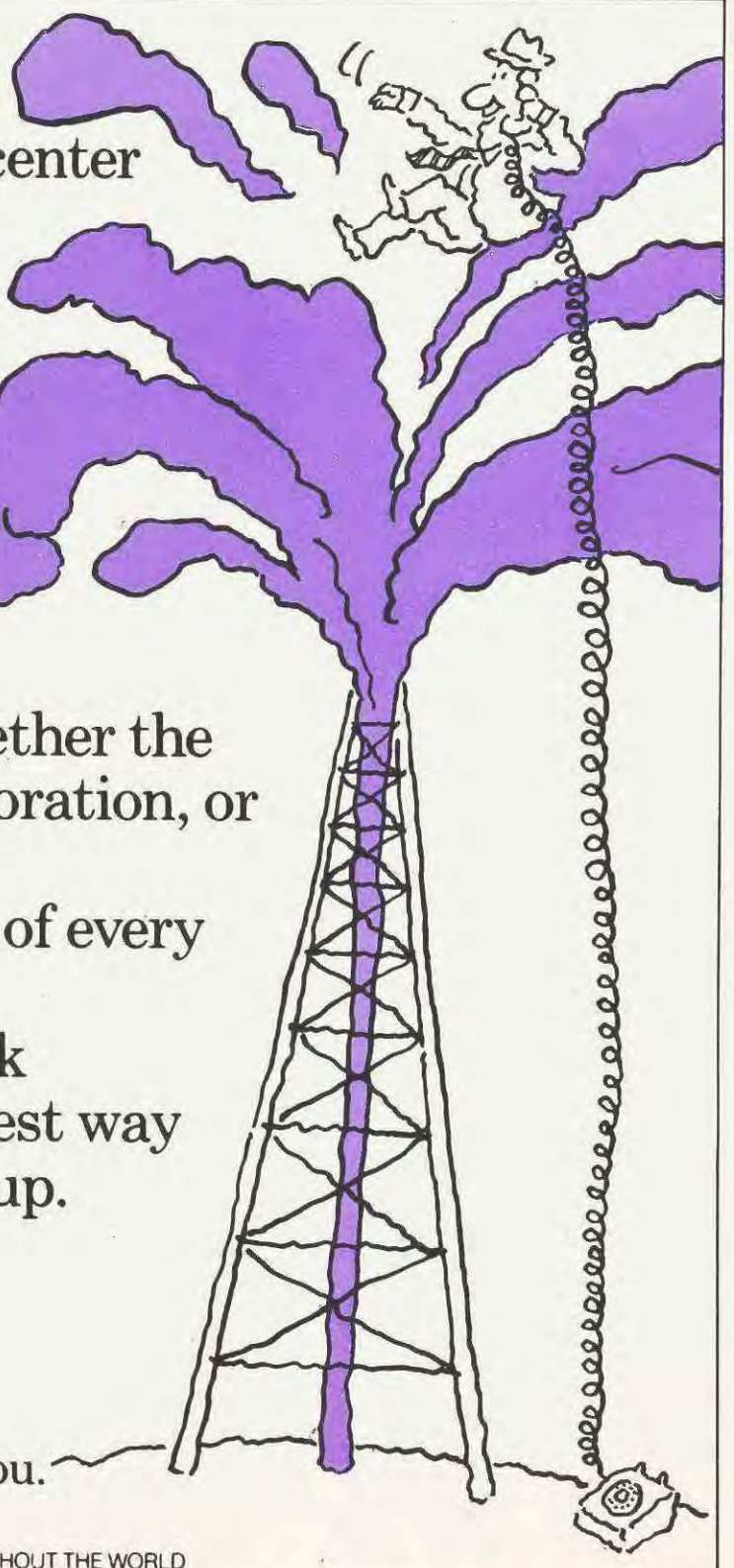
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perspective

Safety in synfuels

Consult insurer in planning a plant

By R. Blinn McClelland

IF YOU'RE planning to build an oil shale plant in the Rockies or a coal liquefaction facility in the Appalachians, here's a word of caution: Review the preliminary ideas with your insurer. Soon.

Why? To be sure the design will make the facility insurable later.

The new synthetic fuels facilities will have high values, some reputed to exceed $1.5 billion. These projects are so big that in many cases, construction and ownership of the plants will require a consortium of companies, rather than an individual firm. Sheer size is not scary to an underwriter if the hazards have been protected properly and the catastrophe potential minimized.

Special risk underwriters and industrial loss-prevention engineers with experience in the energy industry are in a unique position to anticipate the hazards of synfuels plants. Both groups generally agree the safety problems of synfuels facilities are similar to those of conventional energy plants. There are guidelines for refineries and for mining and material handling.

Yet in a coal gasification plant, we can encounter all these activities in a single place, plus new variations in the chemical processes, and everything is on a grander scale. It takes a variety of loss-prevention skills to cover the diverse aspects of such a risk.

The planning, construction and operation of a major plant generally progresses through six phases: Preliminary planning, layout, process design, fire protection design, construction and start-up.

Unfortunately, some people wait until the first three phases are over before they call in their insurer. This is very often too late. Commitments have been made and major changes can be costly or impossible.

IRI, for example, prefers to be notified during the preliminary planning stage. Here's why:

- Preliminary planning. Before any major project is undertaken, studies explore the resources available and potential profits. The insurer can add to the historical perspective with his knowledge of past losses. What has been the loss experience in similar plants? Where is the protection emphasis to be placed? How have other owners handled such loss exposures?

This will alert the design engineer to topics of interest to the risk manager. It sets the scene for increased emphasis on aspects of the new plant that will need later evaluation.

- Layout. The land may have been purchased and the design engineers are blocking out areas on a large grid. This is the best time to influence the catastrophe hazard. An underwriter's dream of an ideal plant is never claustrophobic; the more space between units, the better. A balance has to be achieved, but the obvious rule is: Unit A should not communicate loss to Unit B.

The geography of the site, the roadways and the process flow are factors to be juggled. Consultation with insurers on past losses, calculation of loss potential and analysis of loss effect become vital issues.

- Process design. Loss prevention in chemical processes begins before the protection is provided. All processes have critical areas that need more attention than others. The knowledgeable insurer can suggest instrumentation, safety devices and operating procedures that will anticipate loss hazards.

The risks inherent in the process can be reduced through this attention. The same is true of materials. Insulation, fire-proofing and fire walls are structural components that can be checked out by an insurer.

There may be a need for interpretation of building codes. Codes tend to lag behind innovations, and insurers will be able to give an opinion on the logical extension of existing codes in these uncharted areas.

- Fire protection design. This is a phase when most owners expect to seek an insurer's advice. It also elicits the most diverse opinions. It is critical that the protection be adequate for the expected hazard and be compatible with expected occurrence.

There are trends developing in fire protection thinking, and yesterday's standard may not fit today's knowledge. Decisions on the type and size of fire protection facilities should not be governed by expediency, but should follow the basic principle of meeting the needs of the true exposure.

All of the advice from an insurer leading up to this point should have been part of a logical sequence that ends with the proper fire protection in place.

- Construction. The insurer's role now changes from counsel to action. An insurer should be willing and staffed to make regular inspections during construction. Is the design plan being followed? Is the fire protection keeping pace with other construction so the assets on the site are properly protected? Are the contractors completing their assignments with proper materials?

Only by physical monitoring through the eyes of experienced inspectors can the loss-prevention ideal be analyzed and reports fed back to the owner.

- Start-up. At this point, one might think the policyholder's work is over, except for a small prayer for the plant operations department. But there is still a role for assistance.

Adequate practices and proper training to meet emergencies are highly critical in the final hours when a plant is being started. Finally, if everything comes together, nothing adverse happens.

The goal is to make the plant as safe as possible and always insurable. This can be achieved by following three main precepts: The design should incorporate safe practices, the protection should be adequate and the chance of catastrophic loss should be lessened. Each new suggestion can be compared with these standards.

Insurance marketplace conditions should not be a concern in this policyholder-owner relationship. Some of the synthetic fuels plants may take five years to build, and predicting insurance availability that far ahead can be uncertain. What is significant relates to common-sense risk management principles. If they are followed, the plant should be inherently better and more attractive as an insurance risk.

The main consideration is time. Good results occur because of early planning. That's why in construction of any kind—synfuels is but an example—you should bring your insurer into the discussions at the earliest possible moment. Make use of its underwriting experience and engineering excellence. ■

R. Blinn McClelland is vp of Industrial Risk Insurers.



Photo: IRI

To avoid problems in obtaining coverage, notify your insurer when first planning to build a synfuels plant.

perspective

Nuclear plant liabilities

Income loss could ruin plant owner

By W. R. Southern, E. P. McGlaufin and David E. Hunter

THE ACCIDENT at Metropolitan Edison Co.'s Three Mile Island nuclear power plant in March 1979 provides a dramatic example of how important risk management is to the survival of even very large corporations.

The future of Metropolitan Edison and its parent company, General Public Utilities Corp., is still uncertain because of the overwhelming financial burden placed on them as a result of the accident. In addition, the accident has affected the financial outlook of all investor-owned public utilities that own operating nuclear power plants or that have one or more under construction.

A nuclear power plant is composed of many components similar in appearance, size, cost and function to components of a conventional steam electric plant. In both types, steam is produced and used to drive a turbine-generator unit. The turbine-generator unit converts the heat energy of the steam into electrical energy. The electrical energy is directed to the electrical system and transmitted to the consumer. The basic difference between a nuclear plant and a conventional power plant is the source of heat used to produce steam.

In a conventional power plant, heat is released in a furnace by burning fuel. The heat in a nuclear power plant is released in a reactor vessel by radioactive decay of uranium or other suitable fuel elements in a process called nuclear fission.

The nuclear steam supply is enclosed in a containment building to prevent the uncontrolled release of radioactive water or gas from the system in the event of an accident. The nuclear steam supply system of a nuclear power plant serves the same function as the furnace and boiler of a conventional plant.

The components outside the containment building are identical in function to similar components at conventional power plants. The exposures to direct loss associated with the components outside the containment building are similar to the exposures associated with the corresponding components at conventional power plants.

Because the industry has, over the years, developed acceptable risk management practices that apply to the components outside the containment building, this report will not consider these practices. However, the accident at the Three Mile Island plant has raised serious doubts about the industry's past risk management decisions with respect to loss exposures related to the components in the containment building.



Photo: Columbia Pictures

"The China Syndrome" film raised questions on safety.

The loss exposure any organization faces may be grouped under four headings: legal liability to others, loss of net income, destruction or loss of assets and loss of services of key personnel.

Little or no industrial development occurred following the government's 1954 authorization of commercial use of nuclear power because of concern with potential liability arising from a nuclear accident. This concern was natural because the only experience with reactors was in the government's weapons program, and industry, as well as the rest of the public, associated anything nuclear with the nuclear bomb.

Confirming industry's concern, the Brookhaven Report, prepared in 1957 by the Brookhaven Laboratories, estimated that if none of a reactor's safety system worked and climatic conditions were favorable, a reactor accident theoretically could cause $7 billion in property damage and as many as 3,500 total injuries to persons off-site.

It is interesting to note that at the time of the report, the maximum liability limit written for nuclear accidents was approximately $25 million. From a public liability point of view, the prudent risk management decision was to avoid the risk by not building nuclear power plants.

As an alternative to levels of liability coverage, it was suggested by some that the government simply indemnify private interests operating in the nuclear field. Both Congress and the insurance industry rejected this approach, which placed the government in the role of insurer.

Nevertheless, because Congress and the president believed development of nuclear energy for commercial purposes was in the country's best interest, a compromise was worked out and the Price-Anderson Act was passed in 1957. The law provides that the government require nuclear power plant operators to secure financial protection equal to the maximum insurance available from private sources at reasonable cost and on reasonable terms.

For loss in excess of the limit available from private sources, the government will indemnify an additional $500 million. Nuclear plant operators pay the government a fee for the indemnification. The law was written to expire in 10 years because it was hoped private insurers eventually would provide all the capacity required.

Private insurers did not provide the full capacity required, and the Price-Anderson Act has been renewed twice—in 1967 and in 1977. The current law provides that nuclear plant operators purchase $160 million of nuclear liability insurance from the insurer pools. For a loss exceeding this primary layer, the plant operator can be assessed for up to $5 million for each nuclear plant for each accident.

The government continues to indemnify any owner for loss exceeding the amount of $160 million plus the $5 million per plant, but as the law is written, no owner is liable for loss in excess of $560 million. Although not in the law, it is apparently Congress's intent that appropriations would be considered for reimbursing persons sustaining loss in excess of the $560 million.

The Price-Anderson Act was really passed to provide protection to nuclear plant operators in the event of a major nuclear accident involving a large number of claims and high-dollar-value losses. Even including the claims following the Three Mile Island incident, the losses have not approached the level of protection provided by the insurance pools.

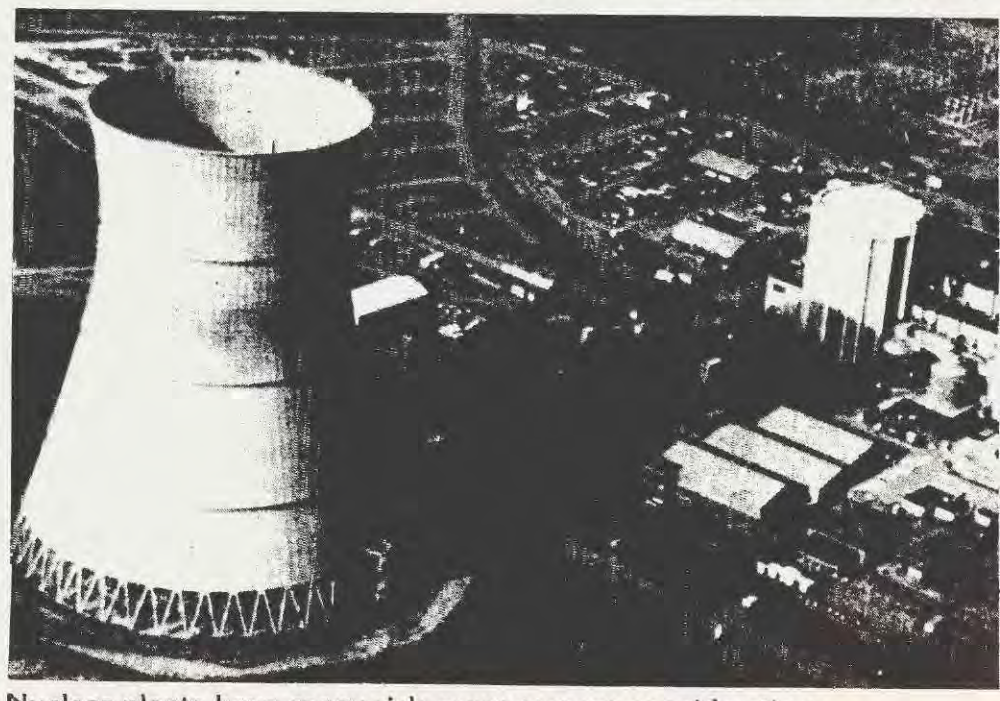
To date, public liability claims paid by the insurance pools as the result of the Three Mile Island accident total less than $1.5 million, and most of these claims consist of relocation expenses for persons evacuated at the recommendation of the Pennsylvania governor. Additional claims are expected to be paid for provable lost wages resulting from the evacuation.

Even considering the losses associated with Three Mile Island, one may conclude the nuclear power industry has adequate protection against legal liabilities arising out of a nuclear accident.

It appears that while utility risk management executives were alert to the need to provide their companies with adequate protection against liability claims, they overlooked an equally important exposure: loss of net income. In hindsight, it is clear that an accident that would result in extensive liability claims has the potential to cause a company severe loss of net income.

In the past, a utility either avoided the risk of loss of net income from a nuclear accident by choosing not to build a nuclear plant or it retained the risk. There simply was no risk-sharing medium available to compensate for loss of income caused by a nuclear accident.

From the utility owners' viewpoint,



Nuclear plants have many risk management considerations.

The authors, executives with Arkansas Power & Light Co. of Little Rock, are W.R. Southern, vp-administrative services; E.P. McGlaufin, director-corporate services, and David E. Hunter, manager-insurance and claims.

hurt

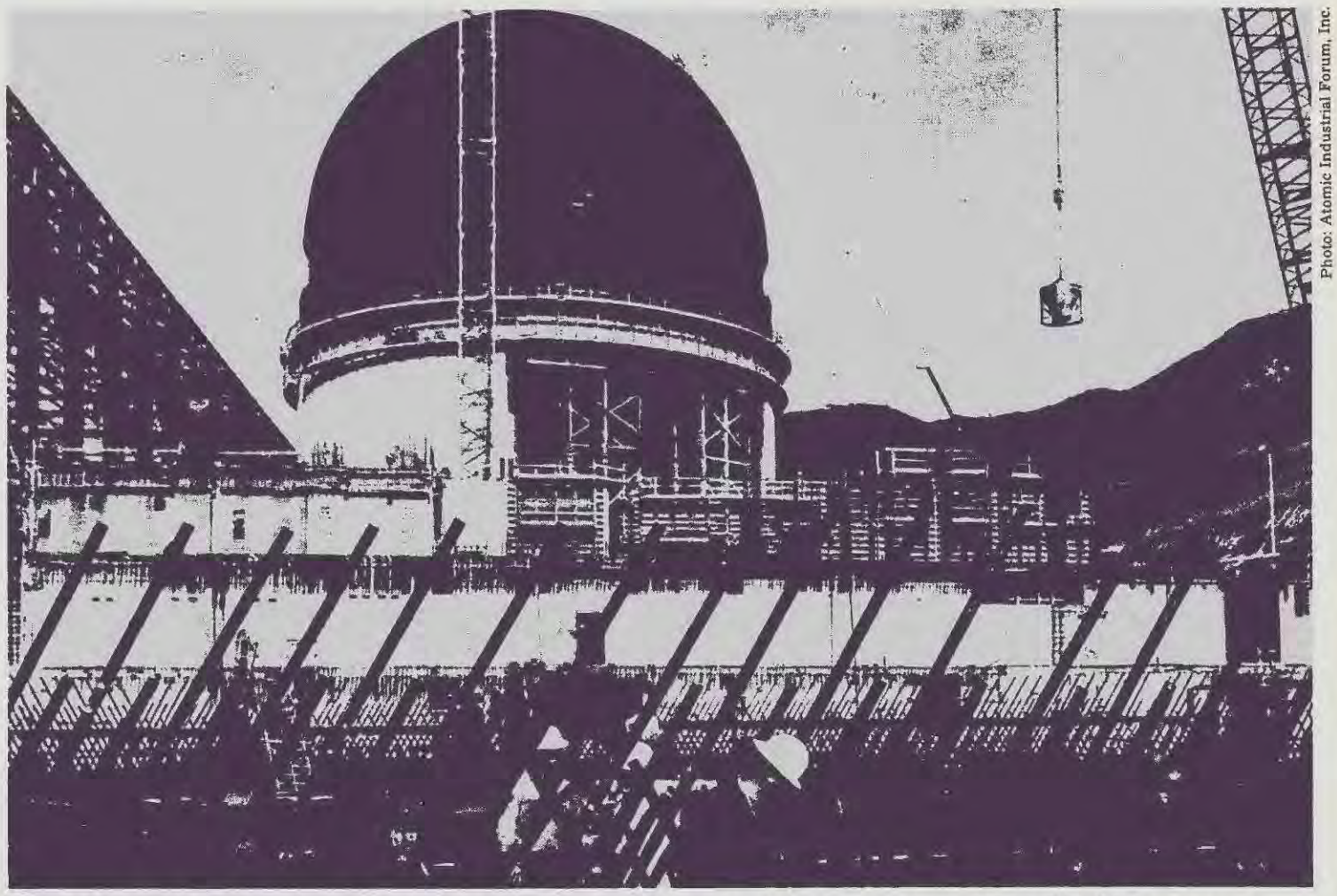


Photo: Atomic Industrial Forum, Inc.

The Price-Anderson Act was passed to aid the development of nuclear power plants for U.S. power.

it is sobering to learn that the company has retained a risk of such magnitude that if a nuclear accident occurs, it could bankrupt the company without also having a high potential for extraordinary profits. Yet this is exactly what occurred at each investor-owned utility that is operating a nuclear power plant.

As a regulated public utility, rates charged by an electric utility must be approved by state and federal regulatory commissions. In general terms, the rates are set at a level that will cover all reasonable costs of providing the service, including a fair return on the company's rate base.

The net result is that utility customers are given the benefit of any innovations that lower costs, but utilities are not assured of an adequate level of net income should an accident occur. The Three Mile Island plant will illustrate the point about utilities retaining risks without an offsetting potential for extraordinary profits.

The Three Mile Island plant is owned by subsidiaries of GPU and operated by Metropolitan Edison, one of the owners. Unit 2 of the plant was severely damaged when the cooling water to the unit's reactor was shut off and the fuel core overheated. Unit 1 of the plant was not damaged by the accident involving Unit 2, but Unit 1 was shut down and has not operated since the accident.

The total cost of the two units is in the $1.5 billion range. Electrical energy that would have been produced by the two units now has to be purchased from other utilities at costs considerably higher than the cost of energy from the nuclear units. GPU estimated the cost differential for Unit 2 at $500,000 per day.

In addition to the high cost of replacement energy, GPU must continue to pay the fixed costs on the approximately $1.5 billion investment in the idle plant. GPU is also having to spend considerable sums to evaluate the extent of damage, formulate and gain Nuclear Regulatory Commission approval of cleanup plans and decontaminate the interior of the containment building. All these contribute to a severe drain on income.



Photo: Arkansas Power & Light Co.

As a result, GPU continues to face severe financial difficulties. At one point GPU prepared a press release stating the company had gone into default because it did not have the money to pay for replacement energy. The press release was not issued because at the last minute the company was granted a $40 million loan by a group of banks that accepted a pledge of 1 million pounds of uranium as collateral.

In an article in July 1979 Public Utilities Fortnightly, Terry A. Ferrar of GPU examines the impact on future management decisions if stockholders of a regulated utility are required to assume the entire loss associated with a catastrophic loss such as the Three Mile Island accident. He concludes that if the cost is not shared by those who stand to receive the benefit of more efficient service, management will make the safe decisions to the ultimate detriment of the customer.

He suggests that those who stand to benefit from the lower costs of an investment should be the ones to underwrite the losses in the event of an accident such as the one at Three Mile Island. In the case of power companies, the customers stand to benefit, and, therefore, should pay for the loss.

Others have suggested a different approach using some new form of insurance that would in effect insure against loss of net income in the event of a nuclear accident, and some progress has been made.

Again, the Three Mile Island incident serves as an example of the fact that the nuclear power industry retained a risk greater than was anticipated, and for which adequate protection was not available. The usual problems encountered when recovering from a massive failure of a particular piece of equipment, such as a turbine-generator, are present in accidents involving similar equipment at a nuclear plant. But if the accident results in damage to the fuel core and/or radioactive contamination of equipment and facilities, the recovery problem takes on a new dimension.

Workers can almost immediately begin to clear away the damaged equipment and material from the scene of an accident at a conventional power plant, but radioactivity levels may be so high within a containment building following a nuclear accident that it is unsafe to begin repair work for an extended period. The cost of cleanup after a nuclear accident is quite expensive compared with similar work following a non-nuclear accident.

The industry was obviously caught short in its evaluation of the problems to be overcome in recovering from a nuclear accident. Even though GPU had $300 million in coverage, the maximum property damage available for a nuclear accident, the actual loss including clean-up costs may exceed $800 million, the original installation cost of the plant. Even an extremely financially healthy company could not survive this kind of loss.

It became apparent that the nuclear power industry must act in concert to develop additional risk-financing methods to protect individual companies against the severe financial consequences of a nuclear accident that results in a loss of net income and destruction or loss of assets.

Alternatives considered include:

- Securing adequate coverage from private insurers and obtaining appropriate regulatory approval to include the cost of the insurance in utility operating expenses.
- Forming a captive insurer and sharing the cost of administration and loss payments equitably.

To prevent another financial problem similar to that GPU faced, additional coverage for direct loss of assets is necessary, and some form of coverage for loss of net income is essential in order for the industry to continue to attract investors at a reasonable cost.

Investors are prone to avoid investments that do not balance risk and return. If investors are forced to take all the risk of a nuclear accident, the cost of money to the owner of a nuclear plant will be considerably higher than the cost of money to utilities that do not own nuclear plants. Furthermore, if acceptable risk-financing alternatives are not available, it is unlikely additional nuclear plants will be built.

However, there are encouraging signs that the industry has recognized the gravity of the situation and is developing acceptable alternatives to risk retention by companies.

The industry, now well aware of the gap in protection, began in 1980 to take appropriate steps to correct the deficiency in coverage by creating its own Bermuda-based insurance company, called Nuclear Electric Insurance Ltd.

NEIL, with coverage available since September 1980, is a mutual insurance company incorporated under the laws of Bermuda. NEIL will provide its members insurance against the extra expenses incurred in obtaining replacement power during prolonged accidental outages.

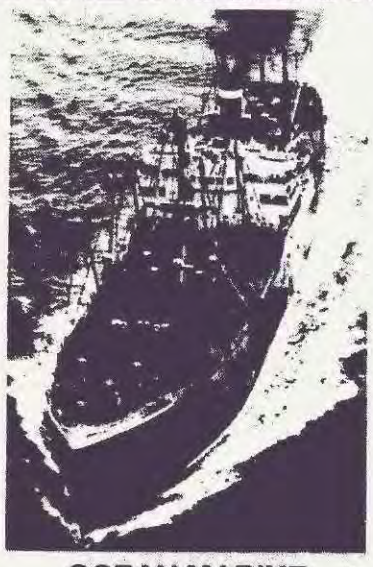
The policy will provide a maximum weekly payment of $2 million for any one unit. Recovery begins after the first 26 weeks and pays 100% of the insured amount for the next 52 weeks and 50% for the following 52 weeks. The maximum amount of insurance available for any one unit is $156 million, or $234 million for 2 units. The initial cost for NEIL members is approximately $1.9 million per reactor per year.

While the 26-week "deductible" may not be ideal, it appears to be adequate and should preclude a NEIL participant from experiencing the same devastating circumstances GPU faced after the Three Mile Island tragedy. ■

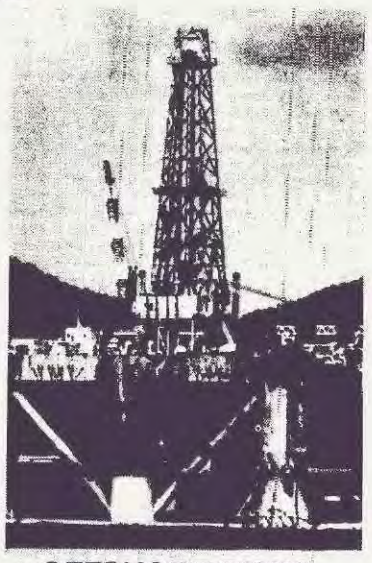
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Wind turbines stir little breeze in insurer circles

By EILEEN NORRIS

CHICAGO—The insurance industry hasn't blown in a great gust of special coverages for wind turbine generators because there has been barely a flutter of demand.

But when wind turbines grow as an energy source, so will the coverage expand to keep pace with the risk, insurers agree.

"The first automobile probably wasn't insured either," said Michael Morrison, president of AIG's Energy Inc., a one-year-old member of the insurance group. 'Wind turbines are more experimental now than anything. It's just not here yet."

Of the large wind turbines being operated and researched, most are owned by the federal government or major utilities.

The National Aeronautics and Space Administration and the Blue Ridge Electric Co. in North Carolina have combined their efforts to research a two-blade wind turbine that sits on the tip of the windy Blue Ridge Mountains in Boone, N.C.

The Department of Energy which has funded the project, doesn't buy special insurance for its equipment, according to NASA's manager for wind turbines. The government self-insures all the risk on its projects. The Boone machine is the largest of 17 similar projects.

The only unusual risk the Boone wind machine has presented since its debut one year ago has been the wrath of nearby neighbors, says Jerry Moretz, service supervisor for the Blue Ridge Electric Co., which operates the turbine for the government.

The massive tower is perched within 1 mile of a scattering of chalet-style homes. Neighbors complained of irritating noises from the machine, so the Department of Energy agreed it would reduce the turbine's revolutions to 25 per minute from 35, Mr. Moretz said.

That slowdown helped the noise problem, but now neighbors are complaining about TV reception interference from the machine, he said.

The wind turbine generates enough electricity for 300 to 500 average-size homes at winds of 25 mph. Of course, higher winds are always welcome—the tower was designed to withstand 150 m.p.h. winds.

Southern California Edison Co. has two wind turbines operating in the desert at its wind energy test site about 8 miles northwest of Palm Springs, Calif. The largest turbine, with three blades each measuring 165 feet across, can produce enough energy to meet the electricity needs of 800 to 1,000 homes, says Robert Sheffler, a research engineer for the utility.

Southern California Edison talked about buying special insurance on the two machines, but hasn't yet, he said. "It's treated as another piece of equipment and covered under our general property and liability policy.

"When we get more machines up and operating, I'm sure we'll start thinking about taking out some special coverage for the machines," Mr. Sheffler said.

The utility, which serves three million customers, wants to test the machines for another year or two before it decides to mass-produce turbines, Mr. Sheffler says.

Edison's second turbine is a smaller model that resembles an egg beater. It is not running yet.

Neither NASA nor Edison has had any accidents or bad luck with the machines, but both say they want to closely monitor the effects of the turbines before committing themselves to more projects.

Manufacturers of wind-powered electrical equipment, however, are more positive. They are gearing up for what they hope will be the commercialization of wind equipment.

"Product warranty insurance will be a fruitful market for insurers in the future," predicted Ben Wolff, executive director of the American Wind Energy Assn in Washington, D.C.

"The market penetration is fairly insignificant right now, but it will open up," Mr. Wolff said. "Oil and gas are going to get more expensive under the Reagan administration and renewable resources will look good by comparison." ■



Photo: DOE/NASA

The experimental wind turbine in Boone, N.C., is the largest of 17 similar projects operated by the federal government.

Geothermal power springs new risks

By JOHN MAES

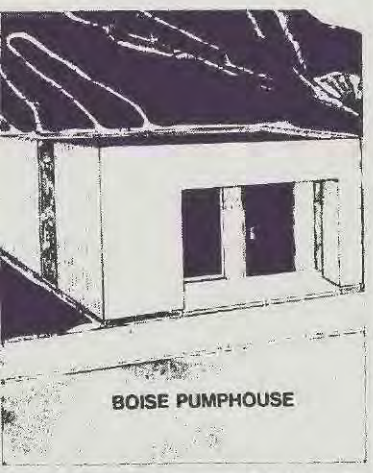
Developers have just scratched the crust in geothermal energy sources, but users and insurers are already researching the risks.

Geothermal power, derived from underground fields of naturally heated water, falls short of causing quakes of concern. Its potential is limited to areas in the Western U.S. and along the Eastern seaboard where the nation's geophysical storehouses of energy are located.

Although hot springs power dates back to the late 1800s, only a handful of firms and municipally owned agencies are tapping the resource. Several companies say they are researching its use.

But though it is clean and noncontroversial compared with nuclear energy, geothermal energy does have risks.

The most nagging fear of potential loss is premature drying of the source, which could leave utility firms and well construction companies with worthless multimillion-dollar investments in the form of generating plants that take years to construct.



BOISE PUMPHOUSE

Geothermal plants are built atop naturally heated springs.

"The firm must test for the resource, which will give the developers an estimate of what the resource base is," said Arthur Liebelt, executive vp of property insurance for Insurance Co. of North America, which has developed an insurance program specially designed for geothermal investors.

"Then they cap the well to bring the steam up and when that's done, the investors then agree to construct the generating plant, but this could take up to eight years to do," Mr. Liebelt said.

Even though test borings are scientifically documented, nature could intervene and cause the well to sputter prematurely or generate only a portion of the expected power. It's also possible the water may not be hot enough for proper generation.

INA sells special coverage for investments in geothermal expeditions, a package including builders risk for power plant construction and protection against drying up of the resource field, generally for as long as five years, Mr. Liebelt said.

If a plant fails or its power falls short of projections, causing losses, INA buys the facility. "If they only get 50% of the power expected, our losses are mitigated by that amount," he said.

Investors pay $250,000 to $5 million in premiums for the coverage, depending on the well's worth and the size of their investment.

Liability risks are also likely, such as watershed pollution from such geothermal byproducts as solids extracted from the ground, Mr. Liebelt said. "Those are all long-term situations and there's no way of looking into a crystal ball."

Changes in the land pose another unique risk: Subsidence and mounding underground from extraction of hot water and disposal of byproducts could crack building foundations and cause considerable property damage.

If that happens, purveyors of geothermal power could face whopping lawsuits, said Phillip Hanson, project director for Boise Geothermal, a public project that provides geothermal power to 250 homes in Boise, Idaho, and hopes to expand the project by next year.

"That's got a long tail," he said. "If they happen, we won't see those problems for many years."

Boise Geothermal, a cooperative program between the city of Boise and the Boise Warm Springs Water District, to tap the energy source, is self-insured, he said.

The agency is using $8.3 million in local and federal funds to develop the project, which administrators hope will heat 250 more homes by June 1982, planned subdivisions and all downtown office buildings, said Mr. Hanson.

Officials hope goethermal can ultimately provide 30% to 40% of Boise's power, "but it will never become a primary energy source," he said.

Southern California Edison in Los Angeles also derives a small portion of its generating capacity from a geothermal well in California's Imperial Valley, but the company buys the steam from an oil firm that taps the energy field, said William Hughes, risk manager.

"We've not identified any major problems with it," Mr. Hughes said.

"We only take the steam and run it through our generators." ■

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Oil

Firms fear spill liability

By MARGARET LeROUX

HOUSTON—Pollution and potentially unlimited liability for offshore oil spills are the major insurance problems facing oil industry risk managers.

The harder their firms work, the bigger the problem.

More offshore drilling platforms were in operation in 1980 than ever before, 441 as of December compared with 405 in 1979, and another 176 rigs are under construction.

With so many rigs in operation, the potential for a major oil spill is a specter that haunts even the soundest oil company risk management program.

"The most difficult issue facing petroleum industry risk managers is assessing what is our company's potential liability," said Rudd Marlowe, risk manager at TeSoro Petroleum Co

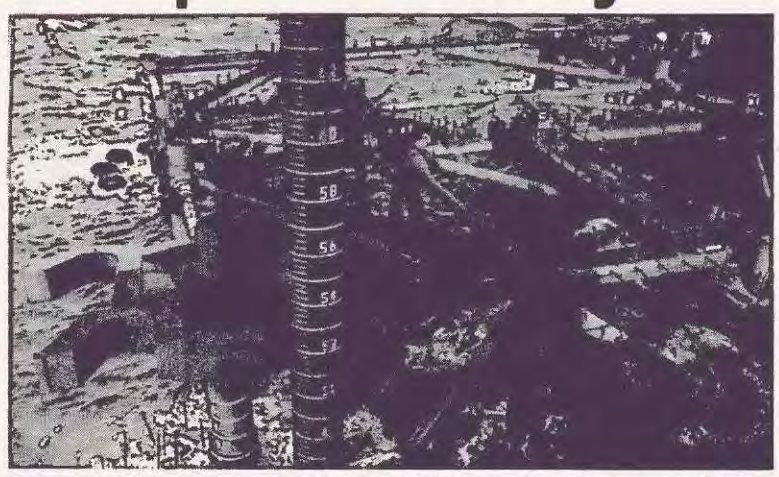
Forcing the issue is a bevy of government regulations, both federal and state some of which, according to a risk manager for a West Coast-based oil company, "show a lack of understanding of the problem.'

One oil company risk executive. Russell Jones at Tenneco Inc. here, calls the issue "the unlimited liability forced on us by government regulations."

What concerns Mr. Jones and other risk managers in the petroleum industry are the amendments to the Outer Continental Shelf Lands Act.

The amendments establish unlimited liability on the part of the oil companies and their insurers for cleanup and containment of oil spills and pollution, including property damage and bodily injury.

The amendments also require any company operating off the shores of the continental United States to show $35 million worth of financial responsibility in the form of a bond, insurance certificate or statement of self-insurance.



Oil rig companies are liable for unlimited damages for pollution under the Outer Continental Shelf Lands Act amendments.

Getting $35 million in liability insurance is no problem in the current soft, highly competitive market. Indeed, the entry of All-American Marine Slip, INA and AIG into the liability market for oil companies has created stiff competition for London underwriters who used to have virtually a monopoly on the market.

One underwriter noted rate discounts of 30% to 40% on renewals this year.

But the problem is getting an underwriter to sign a certificate of insurance committing it to unlimited liability.

"It's a real Catch-22," said Robert Quinn, president of J.H. Blades Co. here. "According to the law, you need the certificate. You can get that amount of coverage, but no insurer will sign such a certificate.

"It was not the intent of the authors of the legislation to assess unlimited liability on the part of insurers," Mr. Quinn says. He predicted a compromise can be worked out.

Inflation, too, has changed oil industry risk management programs. The cost of exploration and values of equipment have soared in recent years.

Risk managers complained that inflation has also caused the domestic liability market to inaccurately rate drilling risks.

At Pogo Producing Co. here, risk manager Dee Swenson recently moved the company's coverage for liability other than control of well, which includes pollution, to the London market from INA.

"The domestic market method of rating, based on values such as engineering studies and company revenues, doesn't accurately reflect the risks," according to Ms. Swenson.

"It's an archaic method, with inflation escalating the cost of everything," she said.

The London market, however, rates such risks on a per-well basis, a method Ms. Swenson described as both more accurate and more economical for buyers.

Per-well rating allows for the difference in risk, Ms. Swenson explained.

"The deeper you drill, the greater the risk." ■



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Fire standards drag, safety consultant says

THE BIGGEST problem in fire prevention on oil rigs operating on land or off U.S. shores is the lack of strict fire safety standards, says a leading loss-control consultant.

"The lack of guidance by both the U.S. government and the petroleum industry is hurting us," said Ralph D'Angelo, assistant vp and manager of the petrochemical unit at Marsh & McLennan's Protection Consultants.

The American Petroleum Institute requests the "barest essentials" in fire prevention standards for offshore platforms, Mr. D'Angelo notes.

"The API standards suggest what a company can do if it wants to. There's no requirement that a company follow the standards."

The U.S. government hasn't made any one department or agency responsible for setting and enforcing fire safety standards. There are both gaps and overlaps among such interested groups as the U.S. Coast Guard, the Department of Transportation and the Occupational Safety and Health Administration.

The Offshore Islands Statutes are an example of inadequacy, he says. Regulations for fixed drilling platforms require a pump to provide only 250 gallons of water per minute.

"Modern systems have pumps that provide 2,500 to 5,000 gallons of water per minute," Mr. D'Angelo said.

In contrast, the United Kingdom has specific regulations that mandate the entire design of fire safety systems for rigs drilling in the North Sea, the consultant said.

Despite the lack of leadership by industry and government, individual companies are putting in protection levels "over and above what's been suggested," Mr. D'Angelo said.

"For a long time the petroleum industry's ideas on fire safety meant fire pumps, hydrants and fixed monitors for refineries," the consultant said. "Now it's computerized, automatically run equipment."

Legislation may relieve oil rigs' costs

By JERRY GEISEL

WASHINGTON—When an oil production worker is injured on a permanent offshore drilling rig, the oil company is liable to pay the injured worker a generous array of federally mandated benefits.

Those benefits, required under the federal Longshoremen's and Harbor Workers' Compensation Act, inflate the cost of offshore oil.

But the new Reagan administration and Congress are expected to back legislation to overhaul the longshore act and give energy businesses some relief from soaring workers compensation costs.

Other regulatory changes could also affect America's energy development costs:

- A curbing of the Occupational Safety and Health Administration's enforcement and rulemaking power.
- More protection for energy and other businesses against product liability suits.
- Greater flexibility for energy firms in selecting insurance funding alternatives.

The longshore act has become so expensive and confusing that some energy-related firms have found it difficult to buy coverage, says Jon Bederik, director of governmental affairs for the 1,500-member International Assn. of Drilling Contractors.

But relief may already be underway. Rep. John Erlenborn (R-Ill.) introduced legislation (H.R. 25) earlier this month to trim benefits and close the loopholes that have made the law so expensive for employers whose employees work near water.

The bill would specify that the reach of the federal longshore law extends only to the point of rest—the spot where the cargo comes off the ship and is put on the ground.

Rep. Erlenborn's bill would limit survivor's death benefits to the maximum placed on disability benefits: 200% of the national average weekly wage, subject to a weekly maximum of $456.

Because workers on oil-drilling rigs are extremely well paid—sometimes making as much as $1,000 a week—the savings that would result from limitations on death benefits could be big.

The measure also would limit annual increases in compensation benefits to 3%. Currently benefit increases are based on increases in the national average weekly wage.

The new administration also may give energy firms a new way to fund their product liability risks. Malcolm Baldrige, the new secretary of commerce, says he favors federal legislation that would allow companies to band together to self-insure their product liability exposures.

Such an approach is embodied in the Risk Retention Act (S. 69) recently introduced by Sen. Howard Cannon (D-Nev.), the ranking minority member of the Senate Commerce Committee. A similar bill is expected to be introduced in the House by Rep. James Scheuer (D-N.Y.) later this month or in February.

Energy transport firms have been hit with enormous product liability awards. Firms that have made trucks carrying liquid butane gas to conform with state safety standards have been found liable by courts (*BI*, Jan. 23, 1978).

A federal product liability law, which Secretary Baldrige suggested may be necessary, could reduce the liability exposures of energy transport firms.

The new administration has also pledged to change OSHA from an agency best known for harassing businesses with nit-picking regulations to an office that will work with business to improve workplace safety.

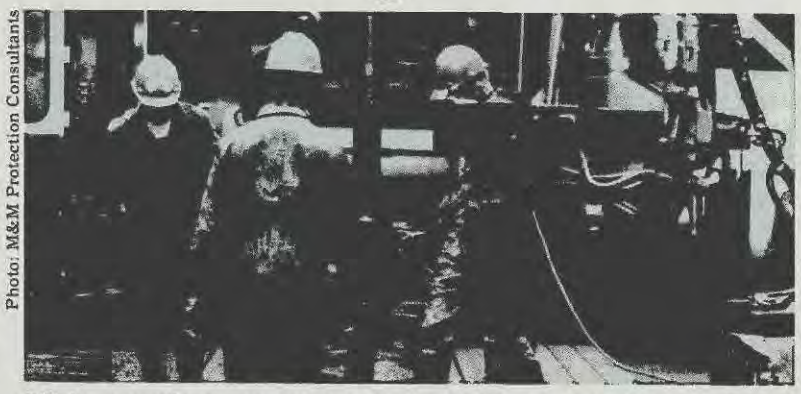


Photo: M&M Protection Consultants

Offshore workers are covered by federally mandated programs.

Mr. Bederik believes the new administration will force OSHA to be more flexible in drafting regulations and work more closely with energy firms before establishing standards.

The issue of whether the benefits of a regulation exceed the costs also will receive greater scrutiny.

"It is very difficult and expensive to retrofit a drilling rig to meet a noise standard," Mr. Bederik explained. ■

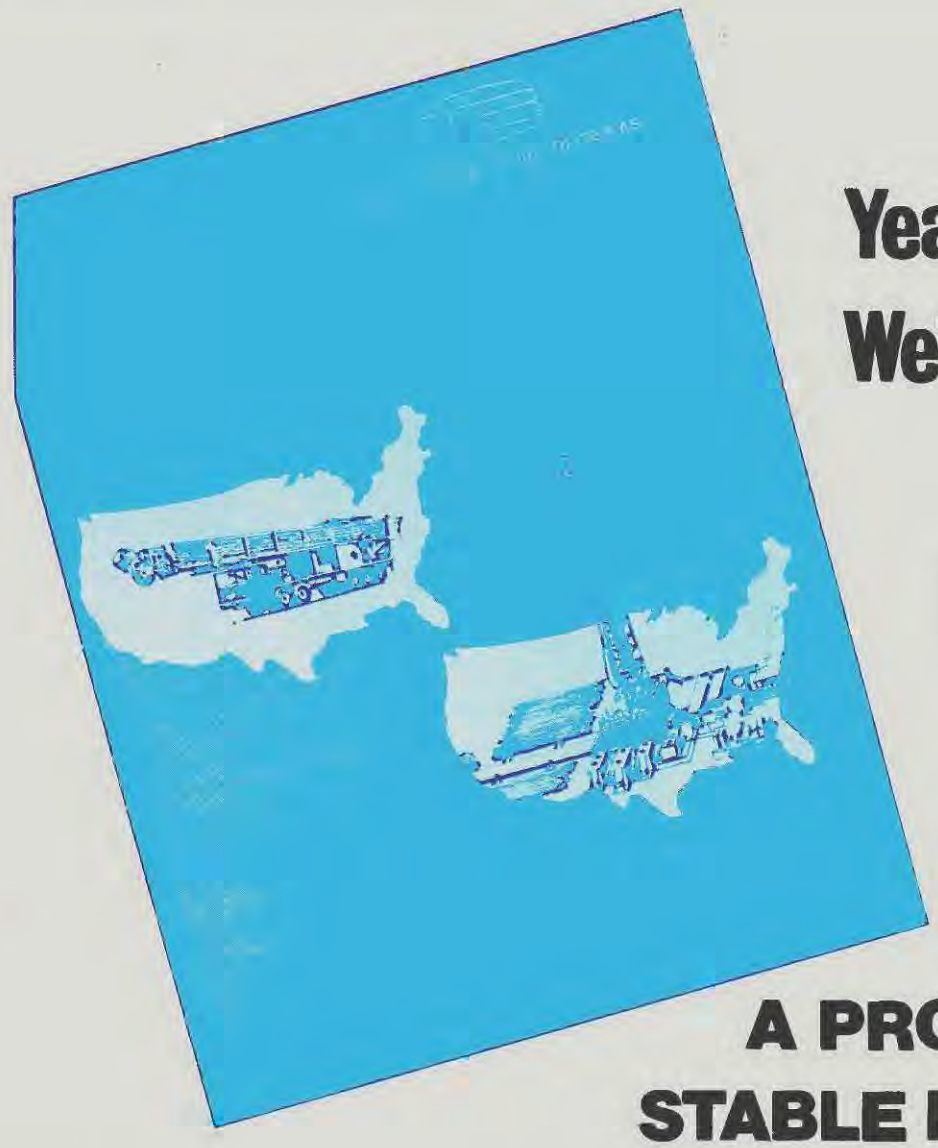
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Enserch may act as either operator or contractor in drilling.

Oil rig risk exec gives contracts thorough drilling

By SHARON WATSON

DALLAS—While Enserch Corp. drills holes for oil, insurance director Mike Whelan is checking his contracts and policies for holes. He has to move fast.

In addition to the day-to-day concerns for more than 350 oil rigs and 5,500 employees in Enserch's exploration and contracting operations, Mr. Whelan faces the challenge of monitoring an expanding number of contracts between the oil company and drilling or servicing companies.

"Only recently there was a slow drilling market, and we were fighting to avoid assuming risks under contract for our drilling operation. Now there is a shortage of oilfield service companies, and our drilling and producing people are being forced to use unfamiliar contractors," Mr. Whelan said.

Making sure all contractors are properly insured and that Enserch is not exposed has become a major task.

"We recently formulated an approved contractors list for insurance and are making field trips to explain its use and the possible impact of an improperly insured contractor," he explained.

While there is no typical allocation of risks in a drilling agreement, Enserch has expectations translated into these contracts for the management of drilling risks. Because the company has been involved in both operator and contractor sides of drilling operations, Mr. Whelan speaks of expectations from both sides.

A traditional day-work contract favored by a contractor drilling from an offshore platform would call for Enserch to take full responsibility for his employees and the platform, plus pollution liability, well-control expenses and reservoir and in-hole equipment damage.

The contractor would be responsible for his employees and the drilling rig. In each case, the responsibility would be undertaken regardless of the negligence of the other party.

"The allocation of these risks is obviously a matter of negotiation," Mr. Whelan remarked. "Frequently the operator will seek to transfer all or part of his risks to the contractor. The contractor may then counter by assuming liability only when grossly negligent or by limiting his liability to a fixed-dollar amount."

In most cases, the contractor will not be asked to assume responsibility for damage to the oil or gas reservoir, which is largely uninsurable. It is also difficult for a contractor to obtain well-control insurance on a non-owned well, and there may be a duplication of coverage and cost with the operator's insurance if the contractor tries.

Risks Enserch cannot remove to the contractor through the drilling contract are frequently insured.

As operator, Enserch insures the cost of controlling a blowout and any redrilling, pollution, cleanup and containment expenses. A policy limit of $50 million for offshore drilling is not unusual and coverage may be extended to blowouts above and below ground.

Insuring onshore blowout risks is "somewhat of a reversal of our trend to increase self-assumption," Mr. Whelan said.

"We feel that today's tremendously increased drilling costs, deeper wells and less experienced drilling crews have increased the onshore blowout risk, both in frequency and severity."

As operator, Enserch also insures, above a self-insured retention, physical damage to its platforms and pollution liability. The liabilities for in-hole equipment of the contractor and reservoir damage are generally self-assumed.

"The injury to the operator's employees may or may not be insured. At Enserch, we insure on a plan which provides primarily catastrophe coverage on a per occurrence basis and some aggregate protection."

As the contractor in a similar situation, Enserch would insure damage to its rig and injury to its crew above a self-retention from $500,000 to $1 million.

Risks for physical damage to the company's domestic onshore rigs are largely self-assumed; offshore platform rigs and large international rigs are covered in a London package policy with a combined per occurrence retention.

"By combining the rig fleet with other Enserch properties in a package policy, we have achieved better pricing and coverage than is currently available in the rig market," Mr. Whelan said. Enserch combined risks into a fleet for hull coverage and placed with All-American Marine Slip. ■

Gas station hazards fuel higher rates

By CAROL BLITZER

SAN FRANCISCO—It isn't the price of gasoline that raises the premiums for service station owners, it's the growing hazard of day-to-day business.

Owners face daily exposure to the threat of robbery, but their mechanical mistakes can lead to large claims.

"When you work on anything mechanical going 70 to 80 mph and you do something wrong, you've perpetrated a problem that could come back to haunt you," said Ron Junkin, broker for South Bay Insurance Agency, which handles the Northern California Petroleum Retailers Assn.

Essential coverages in a garage liability policy include adequate money value in case of robbery, coverage for completed operations and for plate glass, Mr. Junkin says.

Completed operations, for example, could insure the garage operator when he performed a motor tune-up and accidentally left a screwdriver inside.

The motorist drives away and the engine blows up, causing $2,000 damage.

Besides offering property/casualty insurance to the 230 members of the NCPRA, Mr. Junkin's agency sells a group disability program with a 10% discount for members. Members also belong to a pooled group for workers compensation. With favorable experience, the pool can expect a dividend returned at the end of the year, averaging about 21% for the last three years, Mr. Junkin adds.

Mechanical mistakes 'can come back to haunt you.'

Bob Moore, broker-agent for the California Service Station Assn. in San Rafael, offers a similar program that paid 36% this year and expects a more than 40% return next year. More than half of that association's 1,500 members are part of the pool.

Both associations use CNA in Chicago and National Union of New York, selling $300,000 as a minimum primary liability limit and up to a $500,000 maximum primary limit.

Higher limits are available under umbrella coverage, but few dealers take it, Mr. Junkin adds. Typical deductibles are $100 and $250.

Rates have gone up recently because of more claims and because the public is becoming better schooled in how to get money from dealers, Mr. Junkin says.

A $500,000 liability policy for an average station probably costs from $1,200 to $1,500, he says, depending on what stock and equipment it has, the number of employees and the amount of payroll.

Nationwide Insurance Co. of Columbus, Ohio, offers a package plan for garage liability including garagekeepers liability, property and fire, crime, glass and owned automobile insurance.

Nationwide has been underwriting service station insurance for about 10 years and originally got into the market by urging agents to contact their local gas station owners, said Dave Hall, marketing manager.

Mr. Hall describes their package as "similar to a multiperil policy,"



Photo: Mary Cairns

Gas stations need plate glass and completed operations policies.

noting most owners opt for a $10,000 to $300,000 liability limit, which costs them about $5,000 depending on either payroll or gallons (for self-service stations).

Credit card receipt theft is a new risk difficult to cover, Mr. Junkin says. "A load of gas can cost $10,000 and our maximum coverage in today's insurance market is about $5,000. Most companies won't insure that.

"If the card receipts are stolen, they're of no use to the person who steals them, but it's like cash to the dealer. Unless that dealer has accurate records, he could stand to lose whatever that gas load was worth if somebody got into that lock box," he explained.

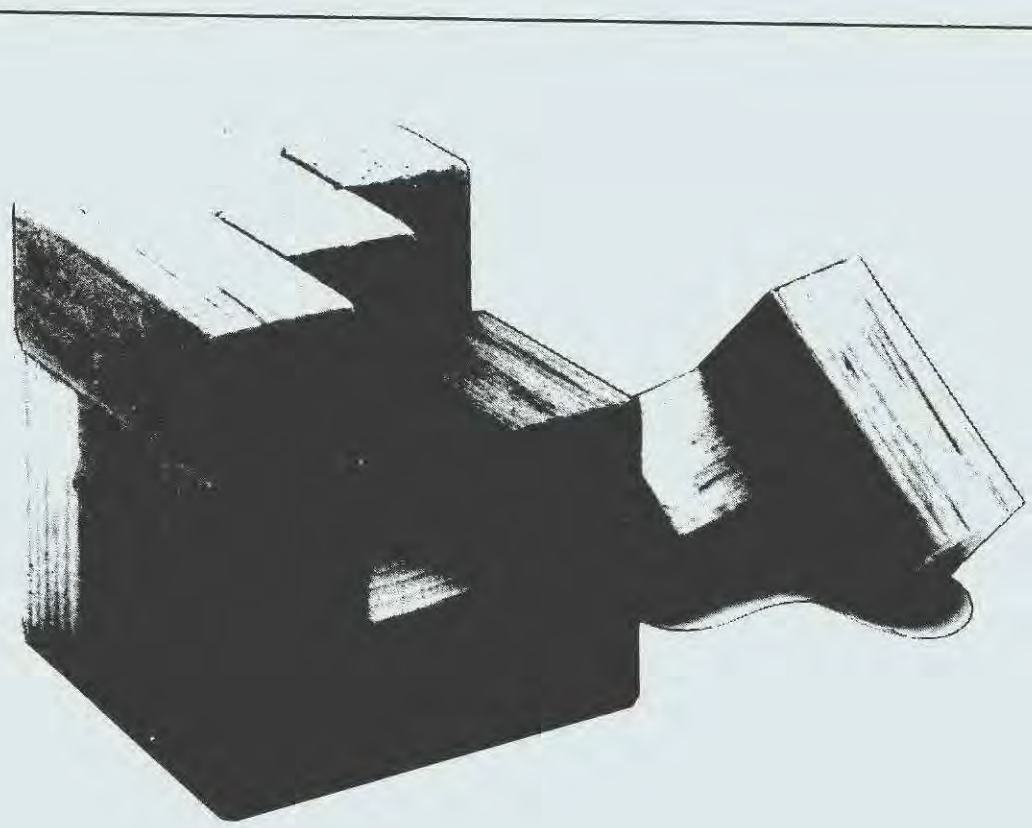
Although the price of gas does not directly affect the price of insurance, there are some side effects, Mr. Junkin says.

"When the price of gas goes up, fewer people buy the product and the profit margins of the dealers are hurt. They still have ongoing expenses. Those sometimes present a problem for them to pay their premiums," he said.

When the insurance company receives less premium than needed to support the risk and more losses come in, rates are increased, he adds.

"Rising prices of fuel have not really affected rates. Basically, inflation as a whole has affected everything else, and the number of claims," said Mr. Moore of the CSSA. ■

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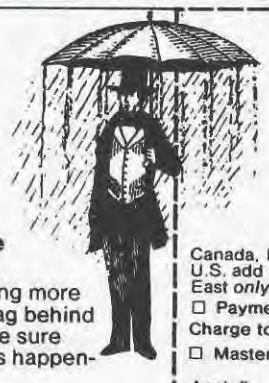
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Gasoline wholesalers will have to carry $1 million of liability coverage per truck under the Motor Carrier Reform Act.

Wholesale gas firms face hikes

By CAROL BLITZER

WASHINGTON—New legislation requiring more liability insurance is expected to raise insurance premiums for gasoline wholesalers, says Mike Scanlan, vp for motor fuel policy for the National Oil Jobbers Council here.

Today most gasoline wholesalers buy $750,000 to $1 million in liability coverage per truck, Mr. Scanlan explains, but a new law, the Motor Carrier Reform Act, says that after July 1, all will have to have $1 million of liability insurance.

NOJC is trying to design its own insurance program and expects to have it operating by next year.

"We're thinking of setting up our own insurance plan because members will be required by law to carry insurance that isn't out there right now," Mr. Scanlan said.

"Now you know once the law passes, they'll start coming up with programs like that, but we figure we can probably do it cheaper," he added.

'Getting insurance isn't a problem. Premiums tend to be a problem.'

The council offered an insurance program once before, but dropped it because of lack of participation.

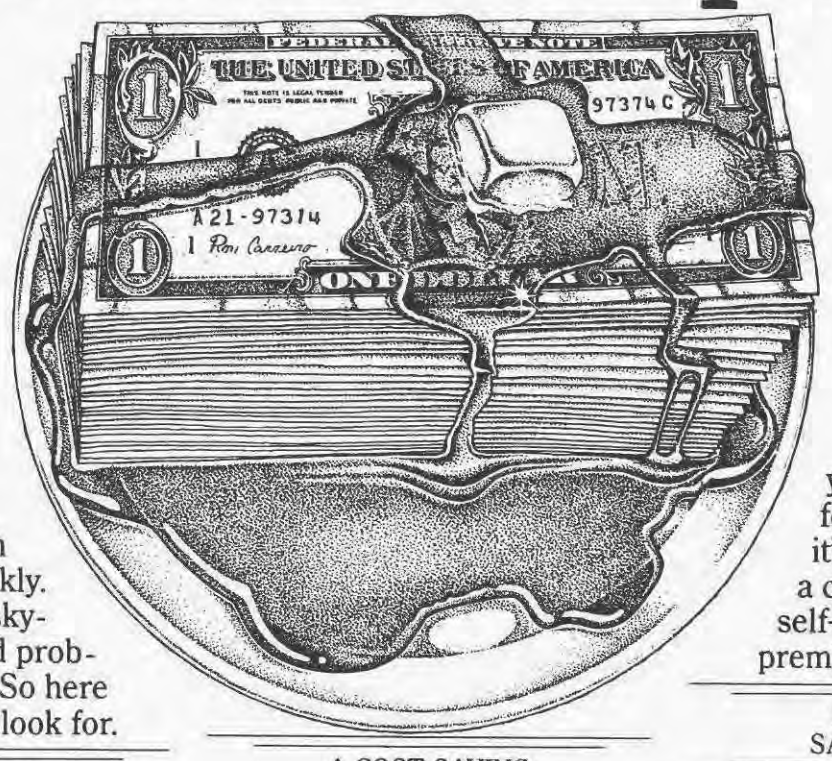
NOJC members pay median annual liability premiums ranging from $6,108 for the smaller truckers (up to 2.5 million gallons per year) to $31,164 for those who haul 15 million gallons and more, Mr. Scanlan says.

"Getting insurance isn't a problem. They (the jobbers) are pretty good businessmen. Premiums tend to be a problem," Mr. Scanlan said.

"The government keeps passing regulations that say we have to have more and more insurance on our trucks. They were asking for $2 million liability coverage on trucks carrying gasoline and our guys just didn't want to go out and do that," he said.

"We killed it, but it'll be back next year. Legislation keeps coming up like mushrooms, we cut 'em but they keep coming back," Mr. Scanlan said. ■

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Gas: LNG industry's good safety record keeps insurance cost problems contained



Despite their safety records, billion-dollar LNG plants have faced regulatory standards and vociferous community opposition.

By DAVID SPERLING

Liquefied natural gas seems to be the answer to America's energy crisis. It's abundant, cheap and does not pollute.

Like nuclear energy, however, LNG is steeped in controversy. The problems were born 35 years ago in Cleveland when a tank containing LNG ruptured, touching off an explosion and fire storm that killed 128 people and injured 300 others.

Although there have been no major LNG accidents since then, government regulations and vociferous community opposition have blocked construction of new, billion-dollar LNG plants from Maine to California.

Gas companies are convinced, however, that safety fears are highly exaggerated. They point to the industry's exemplary safety record as evidence.

"LNG plants are no more dangerous than oil refineries," contended Charles Cozier, administrator of corporate insurance for the American Natural Service Co. in Detroit. Mr. Cozier's company is a subsidiary of American Natural Resources, which is banking on the future of liquefied gas with plans to construct its first LNG degasification plant in 1982 on the East Coast.

In California, Western LNG Terminal Associates hopes to start building a billion-dollar LNG terminal near Point Conception next year. The facility, which would import LNG from Indonesia and recently discovered gas deposits from off the coast of Alaska, is expected to provide 1.3 billion cubic feet of natural gas per day—enough to support up to 25% of California's daily gas needs.

Larry McManus, controller-treasurer for Western LNG, said insurance for such a facility does not pose any special problems.

"There appears to be adequate capacity," he said. "We haven't had any indication that they look at this as an extremely hazardous type of project."

Most LNG is imported from Algeria, Indonesia and Nigeria—although vast new deposits off Alaska are expected to greatly reduce dependency on foreign LNG.

"There's a tremendous number of people wanting to convert to natural gas," said Joseph Yandoli, director of insurance for the Columbia Gas System, a Wilmington, Del.-based company that works in all aspects of exploration, transportation and distribution of natural gas.

LNG is harmless when tightly stored. But it is potentially disastrous if spilled from a tanker or leaked from a storage tank. One study concluded that the worst possible accident at an LNG terminal in Southern California would kill 70,000 people and cause $325 million in property damage.

Insurance covering LNG facilities is widely available though Lloyd's or domestic excess/surplus markets. Charles Beard, director of risk management for El Paso Natural Gas Co., said there was "plenty of capacity" for LNG risks.

"If there is a disaster associated with LNG, I presume the market will tighten up," he said. "But controls are so rigid, the likelihood of an accident is very remote."

El Paso Natural Gas imports LNG in double-hulled tankers from Algeria and pipes it domestically though a subsidiary. Mr. Beard said its LNG track record was spotless, attributing a "very good loss ratio" to stringent safety standards and staff training.

Gas company risk managers report coverage is available for the whole range of onshore and offshore risks—from exploration to transportation and distribution. The biggest portion of their insurance dollar covers damage and destruction to offshore platforms—some of which are valued at up to $1 billion.

The major markets for this type of coverage are Master Drill Rig Slip in London and five groups in the United States: All-American Marine Slip, American International Group, Oil Rig Inc., American Offshore Syndicate and Mutual Marine Office.

The first layer of liability coverage, up to $25 million, is provided by an industry captive insurer in Bermuda: the Assn. of Electric and Gas Industries Service Ltd. AEGIS coverage, says Mr. Yandoli of Consolidated Gas System, is a "big plus" because it helps eliminate the cyclical impact of the market.

Additional layers of liability coverage are available through AEGIS or E/S markets..

Insurers share most natural gas risks because of the enormous values at stake. Workers compensation and third-party liability insurance are written as part of the package by both U.S. and London markets.

Onshore, pipeline breaks are a big headache for risk managers.



AEGIS coverage is "a big plus," says Joseph Yandoli.

American Natural Resources tries to indemnify potential trouble spots by sending outside safety consultants to inspect each of its 100 locations at least every other year. Some risk managers carry business interruption policies to cover loss of revenue from the time the break occurs to when repairs are made.

Risk managers, Mr. Yandoli stresses, should scrutinize contracts and agreements to avoid assumption of liability. For example, he said, a big operator might try to get the gas company to assume liability for its operations—something the risk manager should be on guard against. ■



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Fire safety department seeks signs for hotels

ATLANTA—Georgia hotels, motels, dormitories and apartment buildings more than three stories tall would have to prominently display fire safety signs in all sleeping rooms, meeting rooms and public areas under a regulation proposed by the state fire safety commissioner.

The signs would give 17 instructions on what to do in case of fire and will indicate whether the building is equipped with sprinklers, smoke detectors, fire extinguishers and other safety features.

"The recent MGM Hotel fire and the one in Westchester County, N.Y., made it obvious that precautionary measures such as this one are vitally needed," said Commissioner Johnnie L. Caldwell. "If the signs I'm proposing had been in those places—all other factors being unchanged—I believe many of those people would be alive today."

A public hearing on the proposal will be held Feb. 2 in Room 238 of the state capitol.

Anti-arson bill

ALBANY—New York State Sen. John Dunne (R-Nassau) is expected this week to introduce an omnibus anti-arson package.

The proposal will:

- Grant immunity from prosecution to law enforcement officials who exchange information on arson suspects with one another. This would extend immunity granted to insurers in 1977.
- Bring New York into line with a National Assn. of Insurance Commissioners model law standardizing fire insurance applications in arson-prone areas. The forms would be changed to allow easy computerization of data so persons who had committed arson could be easily identified.
- Enable municipalities to place tax liens on insurance claim payments for all properties on which taxes are owed and when arson is suspected.
- Permit users to cancel fire insurance coverage on any property when arson is suspected, waiving the present requirement of 30 days notice for cancellation of personal fire insurance coverage on private homes.
- End the present requirement that claims be paid speedily in cases when arson is suspected.

Claim reporting

ALBANY—Insurers in New York must report to the New York State Education Department any disposition of a professional malpractice claim against persons licensed under Title 8 of the Education Law, when the claim charges fraud, incompetence or negligence, under the new insurance law.

Claims against physicians, physicians' assistants and specialists' assistants are exempt from the new law.

Malpractice insurers also must report any cancellation of professional liability insurance for reasons other than nonpayments of premiums.

The law is intended to affect only primary insurers, but an excess or umbrella insurer would be required to submit the claims reports if the primary insurer is not licensed in New York.

Implied warranty

AUGUSTA—Superior Court Justice Daniel E. Wathen will decide whether to grant Ford Motor Co.'s motion to dismiss the Maine Attorney General's Office's suit ordering the company to obey the state's implied warranty law.

The law overrides any verbal or written warranty between the dealer and buyer and requires that goods be of "fair, average quality," free of defects and "fit for the ordinary purposes" for which they are sold.

In its suit filed in July 1979, the state contends Ford sold cars and trucks built from 1974 to 1978 that had engine defects and that the owners should receive free repairs or replacement of parts.

Ford contends it is exempt from the law because as a national manufacturer, it does not do business primarily in Maine. ■

around the states

comings & goings: buyers

Kaiser taps Monahan for strategic planning

EMMETT MONAHAN, formerly director of risk management and real estate for Kaiser Aluminum & Chemical Corp. in Oakland, Calif., is now director of strategic planning for the $3.2 billion company. In his new position, Mr. Monahan reports to a Kaiser group vp. Although it was his background in finance—an M.B.A. degree in finance and experience in financial positions before joining Kaiser—that qualified him for the planning position, the former director of risk management noted the value of his insurance-related experience. "I think that the risk management position is one where a good manager can demonstrate his or her managerial ability," Mr. Monahan said. "There is certainly the opportunity to show how this managerial ability is transferable to other areas." Mr. Monahan's former responsibilities are being split between a corporate real estate manager and **Blaine Trunnell,** formerly manager of property insurance who was promoted to director of risk management.

* * *

Julius C. Scoggins, 34, has been named risk and insurance manager for the city of Sunnyvale, Calif., replacing **Jeff Pettigrew,** who is now risk and insurance manager for Contra Costa County, Calif. Mr. Scoggins will handle all liability and workers compensation claims and a self-insured dental plan. He reports to Judy Kelsey, assistant city manager. Mr. Scoggins had been deputy city attorney and is a graduate of the University of Santa Clara Law School. He is a member of the Public Risk & Insurance Management Assn.

* * *

Leslie W. Brown, 36, has been appointed risk manager at J. F. Shea Co. Inc. of Walnut, Calif. Mr. Brown reports to the principals of the family-owned company, assuming responsibility for risk management and employee benefits. Mr. Brown, who was formerly employed in a similar position at Granite Construction Co., replaces **Howard Cutter,** who left to become the risk manager of Alyeska, a consortium of oil companies constructing the Alaskan pipeline. Mr. Brown is a graduate of Stanford University with a bachelor's degree in history. He is also a member of the Orange County chapter of the Risk & Insurance Management Society.

* * *

Charles J. Eades, 51, has been promoted to the newly formed post of vp-insurance at Ingram Industries Inc. in Nashville. Mr. Eades also has been elected president of the Tennessee Insurance Co., Ingram's wholly owned subsidiary. He is responsible for risk management and employee benefits, reporting to E. Bronson Ingram, president, chairman and owner of the company. Before this promotion, Mr. Eades was risk and employee benefits manager. He is vp of the Captive Insurance Cos. Assn. and the Cumberland chapter of the Risk & Insurance Management Society, and was one of the first directors of Corporate Insurance & Reinsurance Co. Mr. Eades has a bachelor's degree in accounting from the University of Cincinnati and is a certified public accountant.

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Divestment issue sparks bill debate

london line

By STACY SHAPIRO

LONDON—As the Lloyd's of London reform legislation goes through Parliament, American brokers can continue any mergers or acquisitions of Lloyd's brokers.

"There's no stopping it," said a Lloyd's spokesman.

The accountants of Sedgwick Group can continue reviewing the proposed merger with Alexander & Alexander.

Heated debates on and off the floor of Lloyd's, however, could be contributing to the delay of the Lloyd's bill being introduced into Parliament.

Some members argued that investment of underwriting agencies from brokers is a good thing and should be included in the proposed act. Doing business at Lloyd's as well as owning an underwriting agency could be considered a conflict of interest, they said.

Divestment of Lloyd's interests was suggested by Sir Henry Fisher in the Fisher Report and was adopted in the bill.

But when members overwhelmingly approved the bill in November, they voted to remove this clause.

A group of 100 members called the Assn. of External Members tried to block the Lloyd's bill from being passed as is. They are opposed to the new Lloyd's Council, which would only allow six out of 25 seats to be filled by members not working at Lloyd's.

The association also questioned the bill's freedom from liability clause that would absolve Lloyd's from any liability lawsuits, such as that in the Sasse Syndicate case.

"It's unprecedented in the land and there's no one except Parliament or the queen, perhaps, that is above the law," said David Cronin, honorary secretary for the association. Lloyd's contended, however, that the clause is necessary because without it, disciplinary procedures would be prohibitive.

The council would have to worry about lawsuits every time it needed to evict a member, said a Lloyd's spokesman. Errors and omissions insurance also would have to be bought by Lloyd's and would be extremely expensive, he said. Every time the council wanted to act against a Lloyd's member, it would have to contact the E&O insurer.

"The committee wouldn't be lords in its own house, would it?" he asked.

"If the bill is passed, one will never be able to sue Lloyd's. That's true. The clause is, in insurance terms, a hold harmless." ■

Bubbly loss

Continued from page 3

wine that leaked to the floor was in the still stage, just on the brink of becoming the champagne that sells for more than $10 a bottle.

However, even if the loss had been larger, the Napa Valley winery was well covered. Its multiperil property insurance policy has limits of $15 million with a $1,000 deductible, said the winery's insurance agent, Bruce Cassayre of Sander, Jacob, Cassayre & Griffin of Walnut Creek, Calif.

Property policies for wineries often cover breaking hoses and faulty connections, but loss of an entire tank of wine is uncommon, he said.

Ms. Rodeno said the leak would have been spotted easily if it had not occurred on a holiday weekend when the winery was closed.

A specific wine valuation clause in the winery's property policy helped it collect close to the actual value of the loss. Each month it reports to its broker the value of the wine on hand because its worth constantly changes as the aging process makes it continually more valuable.

Even though the lost wine could not be classified as expensive "bubbly," Mr. Horowitz still contends the losses of such a potential palate-pleaser "is a crime against nature." ■

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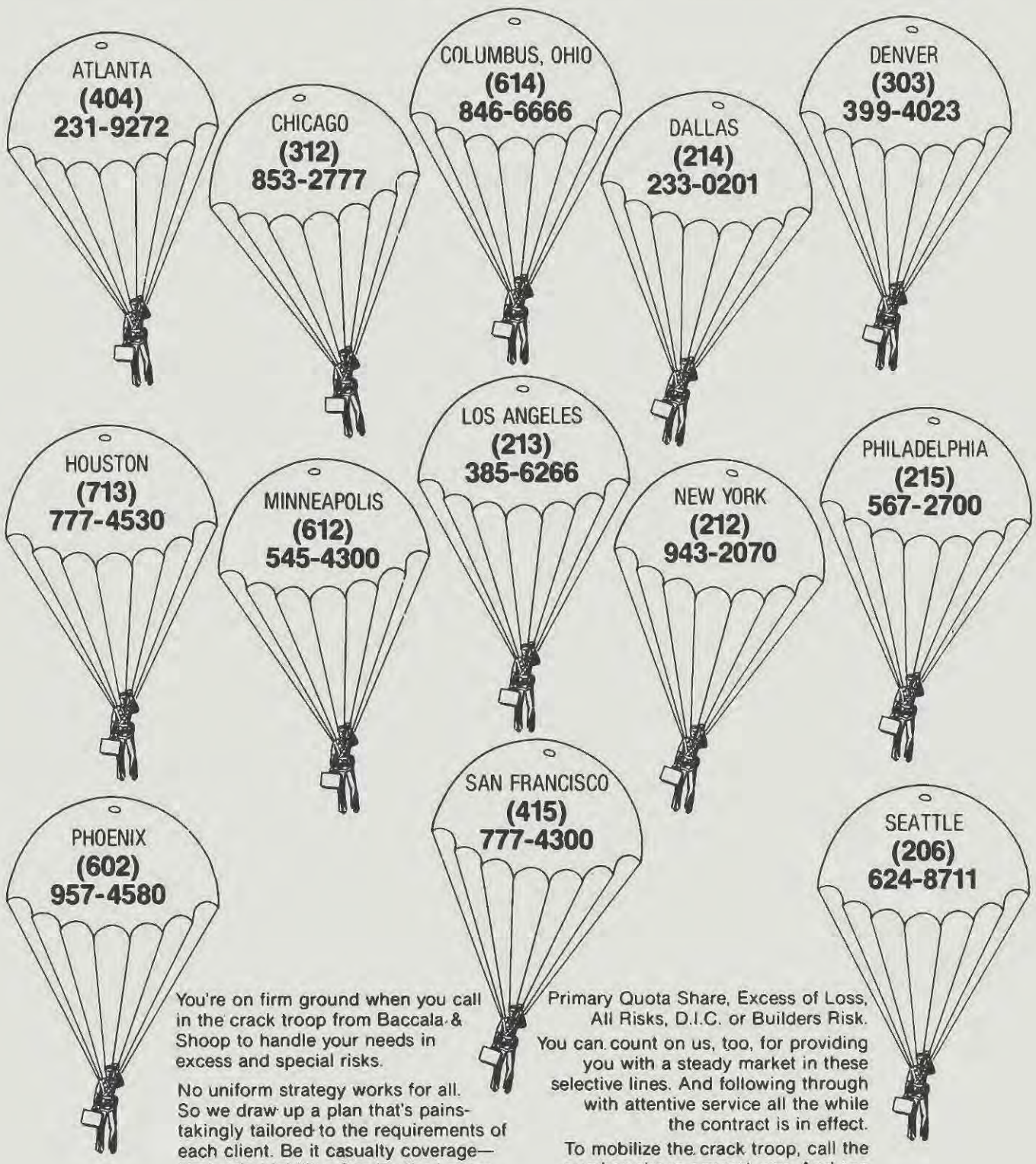
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Sprinklers needed: Officials

Continued from page 2

Some fire dampers were disabled, resulting in combustion by-products being spread throughout the air conditioning system. Fan coil units in guest rooms likely spread smoke into the room, probably contributing to several deaths, said Mr. Vickery.

He said a final investigation report due in June will include analyses of blood and tissue samples to determine why and how people died.

"We are running tests on products taken out of the fire. This will tell us what the exact products were that caused deaths," Mr. Vickery said.

A human behavior study of hotel occupants also will be done to learn how to educate people to save their lives.

"We believe that polyurethane in the casino area contributed to deaths. Plastics are derived from petrochemicals and throw off intense heat and thick black smoke, which is a killer," said Andy Caspar, San Francisco fire chief.

"It was a sieve. There were holes and walls breached that wouldn't be allowed in California," he continued. "Codes in Nevada are not adequate."

The MGM Grand Hotel was partially sprinklered. "The partial sprinkler system controlled the fire in the casino and deli," Chief Caspar explained.

"The MGM fire has brought undue criticism to high-rises. It could just as well happen in two-story buildings," said Mr. Vickery, who added that 1,000 fires occur per month in U.S. hotels and motels with 160 deaths a year.

"Americans don't really give a damn about fire," Mr. Vickery said. "Our fire death rate is four to five times what it is elsewhere in the world. Public apathy allows these conditions to exist."

Mr. Vickery would like to see legislation giving the fire administration statutory authority to investigate all fires of this nature. He noted the MGM people were very cooperative, but said this was not the case in the recent Keansburg, N.J., nursing home disaster.

He also would like to see a tax credit for people who want to improve safety. "If we can do it to protect the environment, why not to protect life?" he asked.

San Francisco fire codes are stricter than those in Las Vegas, Chief Caspar noted, adding he sees no reason to exempt a building. He said he was willing to negotiate with builders over whether to provide two-hour fire-resistant walls rather than automatic sprinklers.

"Nationwide, we need to require hotels to post a fire plan," Mr. Vickery said. The San Francisco Fire Department, meanwhile, is putting together a brochure for hotel guests advising:

- Count the number of doors between you and the fire escape and know where they are.
- Remember to take your hotel key with you when you leave the room because in most modern hotels you will not be able to return to your room without it.
- Turn off the air conditioner to prevent smoke from entering through it into your room.
- Soak sheets and towels with water and use them to breath through.

Meanwhile, MGM Grand Hotels Inc. reports recovery of $2.48 million in business interruption losses from insurance during the quarter ending Nov. 30, 1980.

The Mutual Fire & Marine Insurance Co. underwrote the first $2.5 million layer of combined property and business interruption coverage over a $2,500 deductible (*BI*, Dec. 1, 1980). ■

Suppliers settle club fire

Continued from page 2

- B.F. Goodrich Co., Monsanto Co. and Connaco Corp., $750,000 combined.
- Essex Group, $40,000.
- Anaconda Co., $95,000.
- Phelps Dodge Corp., $75,000.
- General Electric Co., Reynolds Metals Co., Southwire Co. and Triangle PWC, $250,000 combined.
- Mobay Chemical Corp., $90,000.
- Winfield Design Inc., Wadsworth Electric, Williams Products Inc., Adam Fienaurer & Sons, Reed Holdings Inc., Thonet Industries Inc. and Albert Van Luit & Co., $210,000 combined.
- Firestone Tire & Rubber Co., Tenneco and Diamond Shamrock Corp., $625,000 combined.
- Marmom Group, $40,000.
- Cadillac Cable Corp., $40,000.
- American Insulated Wire Corp., $40,000.
- E.R. Carpenter, $90,000.
- Halo Lighting, $50,000.

Coal tax may rise for trust fund

Continued from page 2

At the end of 1980, the fund had chalked up a $955 million deficit which is expected to grow to $2.35 billion by 1985 and $4.25 billion by 1990 if current funding methods continue.

"The current method of financing the trust fund has proven inadequate to meet the program's need," Mr. Marshall said in his report.

The trust fund pays black lung disability and medical benefits to miners and survivors of miners who last worked in the coal mines before 1970.

Changing the excise tax to 2% of mine sales, however, should be enough to balance the fund revenues and liabilities if projected coal production increases are correct, a source said.

The trust fund's deficit, however, could be even greater if Congress enacts legislation introduced last year that would require the trust fund to pay benefits to miners and survivors of miners who last worked before July 1973.

Responsibility for paying benefits to miners who last worked between 1970 and July 1973 now rests with their last employer. Assessing responsible mine operators for payment of such claims has been one of the most difficult administrative problems for the Labor Department, which administers the Black Lung Benefits Act, Mr. Marshall says.

The Labor Department's methods have been questioned by the coal industry, the report notes. Benefit payments could come from the employer who provided most employment, the last employer or the trust fund, it says. The department is studying this question.

In reviewing Labor Department claims processing activity, Mr. Marshall notes a backlog of 241,332 claims at the beginning of 1979 has been reduced to less than 43,000 at the beginning of this year. The department reviewed 194,000 claims in 1980, approving 84,000 of them.

Of the $1.55 billion paid in benefits by the Labor Department since 1973, $1.44 billion or 93% was paid in 1979 and 1980.

A claimant and survivor receiving benefits from 1979 to 1999 could expect to receive $185,656.69 in disability and medical payments during that time, assuming a 7% annual increase in benefits and a 12% annual increase in medical costs, the report reveals. A survivor receiving benefits for the same period could anticipate total compensation of $127,667.32.

If inflation trends are higher than projected in the report, total benefits could be considerably greater.

The typical black lung beneficiary is not likely to receive benefits for 20 years, however. The average age of a miner receiving benefits in December 1979 was 67.4 years. The average widow beneficiary was 70.

About 1,100 of the 5,000 coal mine operators responsible for providing black lung benefits were uninsured at the end of 1978, the report says. About 100 of these had applied to be approved by the Labor Department as self-insurers.

The remaining 3,900 mine operators purchased black lung workers compensation insurance from private insurers or state insurance funds, the report notes.

At the end of 1978, 12 insurance companies insured or serviced 88% of the operators that were privately insured or self-insured. ■

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Budget prescribes smaller HMO dosage

Continued from page 3

4,000 worksites. OSHA says it will issue health and 10 safety standards in fiscal 1982, the same number as in 1981.

OSHA experts doubt if Congress will cut OSHA's funding, but the agency will be directed to conduct more inspections at companies with below-average safety records, says Mark K. de Bernardo, a labor law attorney with the U.S. Chamber of Commerce. The Reagan administration wants OSHA to be more of an advisory unit and less of a regulator.

The Office of Pension and Welfare Benefit Programs, which administers the pension reform law along with the Internal Revenue Service, estimates it will issue 1,661 ERISA exemptions, variances, interpretations and regulations in fiscal 1982, down from 1,726 in fiscal 1981.

About 745,000 ERISA reports are expected to be filed with the office in 1982, down from one million this year.

The decrease in reports reflects the Labor Department's efforts to reduce employers' paperwork, said Ian Lanoff, the U.S. pension administrator. For example, a recent Labor Department rule allows pension plans with fewer than 100 participants to file full financial reports only every three years instead of annually.

To monitor and regulate the nation's 500,000 private pension plans, Congress has been asked to give the pension office $32.1 million in fiscal 1982, up from $30.6 million in fiscal 1981.

The Labor Department also wants $12.2 million to administer the federal Longshoremen's and Harbor Workers' Compensation Act, the 1927 law that sets benefit schedules for injured maritime workers. In fiscal 1981, $11.1 million was appropriated to run the program for one million workers.

The Pension Benefit Guaranty Corp., which guarantees workers' vested pension benefits, estimates it will receive $19.5 million in premiums from employers purchasing termination insurance, up from $15.8 million in fiscal 1981.

The PBGC says it will earn an additional $78.2 million in investment income, pushing total revenues to $97.7 million, up from $92.8 million in 1981.

Benefit payouts also will rise for workers whose plans terminate with assets insufficient to pay guaranteed benefits. Payouts are expected to be $61.5 million in fiscal 1932, compared with $51.7 million in fiscal 1981.

Meanwhile, the Overseas Private Investment Corp., which provides political risk insurance to businesses investing in less developed countries, says its insurance revenue will be $30.1 million in 1982, up from $29.9 million in 1981. ■

Cost dims fireworks

WASHINGTON—The pyrotechnic salute to the inauguration of President Ronald Reagan was only half as big as planned, but insurance didn't wet the fuse, as a Chicago newspaper columnist contended.

Maggie Daly, celebrity columnist for the Chicago Tribune, reported insurers demanded the sky salute be cut in half—to 5,000 shells from 10,000—to prevent damage to landmark buildings.

Though the fireworks display was trimmed, budgets, not insurance, were the problem, said Tex McCrary, sky salute committee chairman.

"Yes, there were cutbacks in the salute, and I ordered them strictly for budgetary reasons. I thought I could raise $400,000 and I only came up with $160,000," he said.

The fireworks display was contracted to Grucci fireworks of Long Island, N.Y., and Pyrospectacular of Hollywood.

Grucci purchased routine special event coverage and wasn't even burned on price, Mr. McCrary said.

Amusement Business Underwriters provided $5 million in general liability coverage and an additional $5 million in physical damage insurance for about $10,000 in premium. ■

Illinois Blues draw most gripes

Continued from page 3

among individual accident and health firms. Modern Life & Accident Insurance Co. had a 39.76 complaint ratio, while Reliable Life & Casualty Co. was next with 36.14, the insurance department reported. World Book Life Insurance Co., at 1.32, and National Casualty Co., at 1.41, were the lowest.

Among individual life insurers, Lincoln Heritage Life Insurance Co. had the highest complaint ratio, 32.63, or 30 complaints filed from 9,196 policies in force. Colonial Penn Life Insurance Co., which had a 6.11 ratio from 12 complaints among 19,654 policies in force, was second. Western & Southern Life Insurance Co., 0.52, and New York Life Insurance Co., 0.53, had the lowest.

Most complaints in both sectors involved claims handling, Mr. O'Connor said.

Complaints were more numerous from individual accident and health plans than from group, possibly because many individual policyholders don't fully understand the terms and exclusions of their policies and lodge a protest when they discover something is not covered, Mr. O'Connor said.

When asked if he thought that was the result of individual health insurers not supplying enough information about policy terms or of buyers not making the effort to fully understand what they are buying, Mr. O'Connor replied, "I suspect it may be a little bit of both."

Other complaint ratios among group health insurers were: Guarantee Trust Life Insurance Co., 6.42; Bankers Life Co., 4.38; Golden Rule Life Insurance Co., 3.83; New York Life, 2.85; Montgomery Ward Life Insurance Co., 2.59; Provident Life & Accident Insurance Co., 2.32; Colonial Penn Franklin Insurance Co., 2.11; Prudential Insurance Co. of America, 1.83, and Lincoln National Life Insurance Co., 1.53.

Also Crown Life Insurance Co., 1.52; Benefit Trust Life Insurance Co., 1.38; Aetna Life Insurance Co. of Illinois, 1.36; John Hancock Mutual Life Insurance Co., 1.27; The Travelers Insurance Co., 1.24; Aetna Life Insurance Co., 1.20; The Travelers Insurance Co. of Illinois, 1.09; The Equitable Life Assurance Society, 1.08; Continental Assurance Co., 1.04, and Washington National Insurance Co., 1.02.

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8.		FEB 23	Feb 10
9.		MAR 2	Feb 18
10.		MAR 9	Feb 25
11.	SPECIALTY RISKS	MAR 16	Mar 3
12.		MAR 23	Mar 11
13.		MAR 30	Mar 18
14.	CAPTIVE/OFF SHORE . . . R.I.M.S. PREVIEW	APR 6	Mar 25
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Detecting fraud

CHICAGO—There are ways of detecting workers compensation fraud. You should know about them.

The American Insurance Assn. has bureau index systems that keep records on all types of insurance claims, including workers compensation.

Its 2,185 subscribers include insurance companies and self-insured employers that notify one of nine index bureaus when they award a claim. The bureau files the card by name so that when another insurance company sends in a card showing a duplicate payment for the same person, the fraudulent claim is discovered.

Employers cannot use the index for a pre-employment screening service, warns Carolyn Stotz, administrative manager for the central index system in New York.

"You have to put in to get out," she says. "The person already is hired when he files a claim, so it can't be used for a prescreening service. We're here to detect duplicate payments," she said.

Aetna Life & Casualty Co. has a suggestion for screening out the habitual claimant.

During a pre-employment physical exam, an applicant might be asked if he has ever been injured on the job before or if he's ever received workers compensation for being off work, says Dr. Henry J. Grycz, Aetna's medical director/engineering.

"It's not a discriminatory practice," he said. "We want to match the person to his or her physical capabilities.

"If an employee is being interviewed for the machine shop, the employer has to know if the person has epilepsy. Chances are their reflexes wouldn't be good enough to handle that particular job," Dr. Grycz added.

Commercial Union Insurance Co. in Boston lists the following workers compensation fraud warning signs:

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- The employee recently obtained one or more disability policies.
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Pre-hiring checks cause controversy

Continued from page 1

Oklahoma, New Mexico and Tennessee) administering workers compensation laws through the courts. Texas and Mississippi make the claims public information through their industrial accident board and workers compensation commission, respectively.

EIS dues are based on the average number of employees. An employer assessed $264 per year as dues can request 75 checks on names at $3.52 per name.

A somewhat similar job history search using different methods is available in all states from Equifax Services Inc. of Atlanta. Equifax, however, obtains a job applicant's workers compensation record report only after the applicant authorizes the investigation.

If Equifax can't get the claim information through a state's industrial commission or workers compensation board, it contacts the applicant's last two employers to check workers compensation claim history, said Carole Sewell, product manager of employment services.

The charge is $22.50 per name regardless of the search method.

While the companies that offer pre-employment screening checks say the search service is perfectly legal and necessary, others have their doubts.

For example, take Versie Kimble of Louisiana. In 1969, he injured his right shoulder while working for a drilling company. He filed suit in federal court against Noble Drilling Co., and, after a jury trial, recovered $35,000.

In December 1972, Mr. Kimble began working for D.J. McDuffy Inc., a now-defunct oil well service company. At that time, the McDuffy Co. was not a member of the Industrial Foundation of the South (the former name of EIS).

In March 1973, McDuffy joined the foundation and shortly after fired Mr. Kimble. McDuffy contended Mr. Kimble was terminated because he was about to seek political office. Mr. Kimble charges he was fired because of his suit against his previous employer.

Mr. Kimble contends the foundation provides, in effect, a blacklist in violation of the post-Civil War Federal Conspiracy to Obstruct Justice Act. A trial judge threw out his case, but the 5th Circuit Court of Appeals reinstated it.

Rehearing sought

EIS has petitioned for a rehearing, scheduled this month.

Labor lawyers, insurance companies and employers are monitoring the case closely, says attorney Jules Bernstein of Washington, D.C. The case addresses the question of whether an employee can be denied a job for previously filing a workers compensation claim, he explained.

"It's a civil rights violation," says Mr. Bernstein. "A worker could be blacklisted from other jobs whether the claim was legitimate or not."

Mr. Bernstein represents the AFL-CIO's building trades, groups that are painfully aware of "these kind of tactics," says George Lutz, staff assistant at the AFL-CIO's Washington, D.C., headquarters.

"We hear isolated instances of these services," Mr. Lutz said. "They thrive in weak union areas. It's another form of blacklisting."

The Workers Institute for Safety and Health, a Washington, D.C., movement of the AFL-CIO, is studying legislation that would make it tough for services like Equifax and EIS to get claims and litigation information on an employee, says Warren Smith, group chairman.

"We don't think that information should be available to employers," Mr. Smith said. "It's a confidential matter that can prejudice a decision."

He said the institute is awaiting a decision on the Kimble vs. McDuffy (and EIS) case before drafting legislation.

Because workers compensation systems differ from state to state and because the federal government has absolutely no power over a state's workers compensation procedures, it may be a while before the matter is settled, sources agree.

Neither the Federal Trade Commission nor the U.S. attorney general's consumer protection agency has any jurisdiction over agencies that perform background checks on employees.

"There's nothing in the federal law they have to comply with," said an FTC spokesman. "It's up to each state."

But Equal Employment Opportunity Commission attorney John Suhre said the potential for harm in a workers compensation investigation is there—if the information is mishandled.

"From a legal standpoint, it's within the law," he said. "But my personal opinion is that a person's ability to do a job should be separated from whether he has filed a claim or not.

"It becomes a question of how the information is used," he added.

Business Insurance tried to find an employer that had been helped by using EIS or Equifax, but neither service would provide *BI* with clients' names or agree to have a member call anonymously with an endorsement of the service.

Verification service

EIS issued a one-page statement describing its services three weeks after *BI* first inquired about its workers compensation checks.

"We're a verification service," H.J. Robinson, president of EIS, said when contacted later. "We don't check to see who filed work comp claims. It comes from the courthouse and we get it from them.

"Employers have to know if the people they want to hire are qualified for the job," he said. "Knowledge of pre-existing injuries assists a company's personnel department to place the applicant in a proper position."

He said EIS differs from Equifax because it can report on an employee's job history "in a moment's notice. We'll probably be in the rest of the country soon," Mr. Robinson added.

Equifax just started offering its new workers compensation record report last March, Ms. Sewell said. Research showed a need for the service after observing "rampant abuses by claimants," she said.

Equifax has some 1,200 offices throughout the United States, with at least one in each city, said John Rahiya, assistant vp of marketing for the company.

Most of the workers compensation records are available through the state's compensation board because employers are obligated by law to tell the state whom they pay workers compensation claims to, he said.

The firm offers myriad other services, including credit reports for business, mortgage servicing aids, property inspection and utility audits.

"Everyone has a legal right to file a workers compensation claim," said George Bose, senior account executive of Equifax's Chicago office. "But it's good to have a file available on the individual so that a company doesn't repay the employee for injuries already incurred.

"Our major use is for placing an employee in the right position," Mr. Bose said. "We don't sell it as a way to get someone out of the company."

EIS and Equifax fell short of getting an endorsement from the leading underwriters of workers compensation insurance, but a few insurance companies admitted using Equifax for background searches on their own employees who hold sensitive positions.

None of the insurers contacted, however, said they used EIS or Equifax to check an applicant's compensation claim history.

Aetna Life & Casualty Co. and The Hartford Insurance Co. in Connecticut said they don't encourage or discourage their policyholders from using claim checks.

Work history

INA Corp. in Philadelphia occasionally uses Equifax to check an applicant's work history, but not his workers compensation background.

The Travelers Insurance Co. in Hartford might recommend one of its policyholders subscribe to a pre-employment screening service as part of an overall program, but not just to investigate workers compensation claims, said a spokesman. The Travelers occasionally uses Equifax itself if hiring an individual for a "sensitive position."

Kemper Insurance Co. in Illinois said it doubted the legality of the pre-employment screening services. "It's illegal to use workers compensation claims in hiring or firing," said Richard Perry, workers compensation manager for Kemper. ■

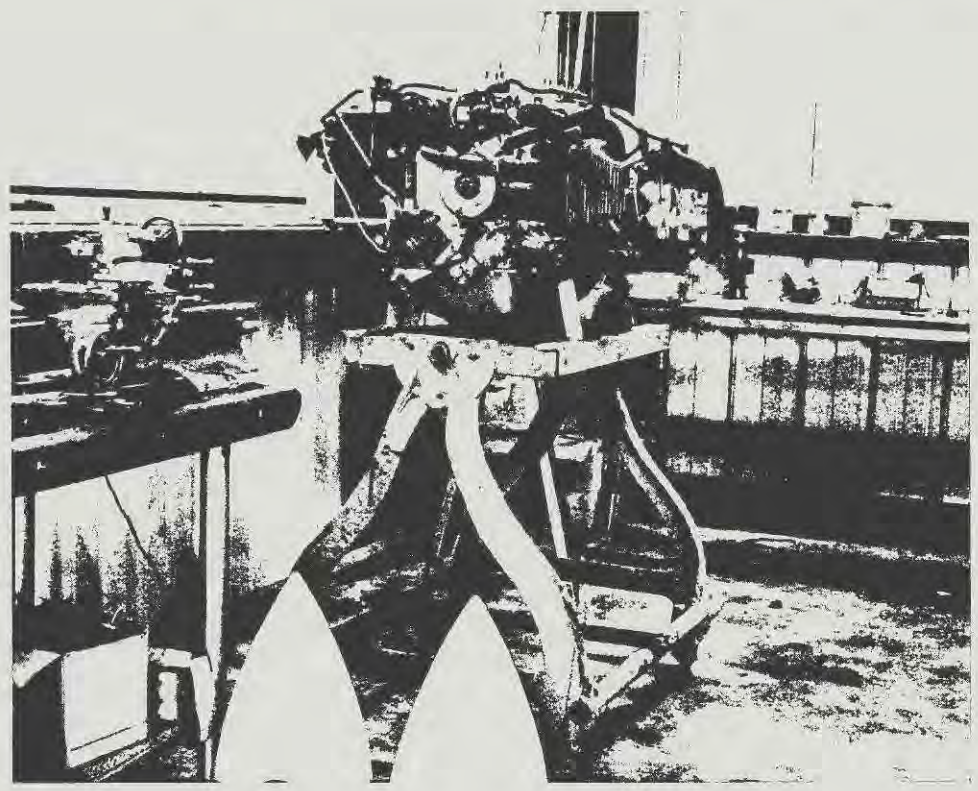
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Rates rise with claims

Continued from page 1
charges than for plans with built-in cost controls, Mr. McDonald said.

"Thirty percent sounds high to me," said Thomas Ferguson, vp and actuary of The Equitable Life Assurance Society in New York. "We are looking at rate increases of about 20% to 23%," he estimated. Increases vary a lot by region and can add or subtract as much as 5%, he added.

"We found out we were in trouble sooner than most companies," said G. W. Kimmerle, executive vp of group insurance for Pacific Mutual Life Insurance Co. He says the company substantially increased premiums in early 1980 before other insurers realized that inflation in health care costs would reach 20% last year.

Although Pacific Mutual correctly forecast inflation, it did not anticipate the tremendous increase in utilization of medical insurance by plan participants, said Mr. Kimmerle. Inflation and high utilization are creating premium increases of 25% to 35% in 1981, he noted.

"The hikes are hitting the jumbos as well as the small groups," Mr. Kimmerle said. "We've had some 30% and 40% increases on groups generating millions of dollars in premium."

Mr. Kimmerle identified four factors that are contributing to increased use of insurance. The "fear factor" is causing employees of financially troubled businesses to "get medical repair work done before they lose their jobs," he said.

At other companies threatening to go bankrupt, workers are scurrying to take advantage of prepaid insurance before coverage lapses, he added.

During hard times, the increased strain and stress of living takes its toll on people, creating a higher incidence of sickness—especially heart disease, ulcers and other nervous conditions, he added.

There also is a tendency for employers to overinsure today, said Mr. Kimmerle. Without financial incentives to discourage overuse of insurance, it is difficult to control prolonged hospitalization.

"There's definitely a lot more shopping around in the marketplace than there has been the past couple of years," said Mr. McDonald at Occidental. But it's too soon to know whether this latest round of price hikes will cause buyers to redesign or cut back insurance programs, he says.

"It's always a challenge to hold business under these circumstances," another insurer acknowledged. Company representatives are reluctant to admit they are losing business, but apparently are bracing for some hard times.

"We are studying the reasons for higher medical costs on a group-by-group and geographical area-by-area basis," said Prudential's Ms. Bruich. Although such studies are ongoing, this one will get high priority, she says. ■

Cost cure takes planning, consultant tells buyers

NEW YORK—There's no quick cure for rising health care costs, one consultant warns.

"You have to approach this like any other organizational procedure," said Kenneth Drummer, vp at Frank B. Hall. "It takes long-term planning."

He urged attendees at a Hall cost-containment seminar here to evaluate benefits in terms of the plan, data base, demographics, provider resources and utilization patterns.

"This is the most important step," Mr. Drummer said. Only after this should actual cost-containment recommendations and changes be made, he said.

Specifically, the evaluation should:

- Look at benefit plans to determine what is covered, how the plan is used and how it is communicated to employees.
- Review the data base for currency, completeness and accuracy of information. Also, the information should allow hospital and physician trends to be identified on an aggregate basis for employer groups.
- Analyze a company's demographics for the age, sex, residency patterns and turnover rates of employees.
- Review provider resources to determine if area physicians are largely fee-for-service, if professional standards review organizations are available and where medical societies are located in the area.
- Obtain utilization patterns for inpatient rate (bed days per 1,000 employees per year); length of stay; surgical rate, and discharge diagnosis.

"You need to know this information," Mr. Drummer said. "The answers to these questions often point to what the solutions can be."

For example, if a certain surgical procedure for an employer group is above the national average at a hospital, that facility can be approached by the employer and asked to explain the situation, he said.

An employer also may find that certain cost-containment options will not work for his company. For example, if a firm has a high turnover rate, wellness programs may not save money because the healthy employee probably will move on to another employer.

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Noise rules muffle effect

Continued from page 1
compliance with the regulations to $254 million from earlier projections as high as $31 billion.

Not everyone, however, is convinced the new noise regulations will cost industry only $254 million.

"We think there will be very significant costs to industry far beyond the OSHA estimates," said Mark de Bernardo, an attorney with the U.S. Chamber of Commerce. "We have talked to some of our members and two estimated that the cost to them individually would be in the millions of dollars."

The cost to large employers is expected to be significant, but small and medium-sized firms will probably bear the brunt of the regulations, Mr. de Bernardo said.

The new regulations, to be phased in over a year, require that:

- Earmuffs or earplugs be made available to about 2.9 million workers who are exposed to noise levels exceeding 85 decibels daily.
- Protective devices be worn by about 2.3 million workers who are exposed to noise levels exceeding 90 decibels daily.
- Employers offer periodic hearing testing to workers exposed to more than 85 decibels daily.
- Noise levels be monitored.

Employers who have received complaints from employees about excessive noise levels must begin a noise monitoring program by April 15. The monitoring program must be completed by Oct. 15.

A hearing conservation program must be in place by April 15, 1983.

"I think what OSHA is doing is a good idea," said J.E. Dugan, director of safety and loss control for Allegheny Ludlum Industries in Pittsburgh. "This is not going to cost the employer that much money."

"OSHA is right to get away from engineering noise out," agreed Mr. McKevitt of the National Federation of Independent Business. "That is just too expensive."

Besides the lowered cost of compliance, OSHA officials said the new rules also might potentially reduce workers compensation costs to employers because workplace safety is increased.

But Mr. Dugan of Allegheny Ludlum is worried that while employers must provide protective equipment, employees don't always have to wear it.

Some aspects of the hearing testing are drawing objections, too.

Requirements that certain equipment be used in hearing tests instead of alternative equipment that would do the same job will force some firms to totally replace the equipment they now have, said Mr. de Bernardo.

"That is a significant economic penalty," he said.

Mr. Dugan also worries, "If the mandatory testing of the workers shows they are experiencing a hearing loss, then you are only gathering evidence for a workers comp claim. Work rules might have to be instituted by the individual employer to force their employees to put these protective devices on," he said.

Audiometers, which produce tones at specific frequencies and sound levels, must be used in the hearing testing.

Employees' hearing must be tested at frequencies 500 through 6,000 Hz since these have been determined as the most important frequencies for understanding speech.

By producing an "audiogram," these audiometers show how intense or loud a sound at a given frequency must be before it can be heard.

"The audiogram is an important indicator of early hearing loss, since losses can occur so gradually that a person may not realize that he or she is becoming impaired until a substantial amount of hearing is lost," the OSHA regulations say.

Employers also face the expense of remapping their facilities to identify where the noise levels reach 85 decibels daily.

Employers must use two types of equipment to test the noise levels to which workers are exposed: noise dosimeters and sound level meters.

The noise dosimeter is carried by an employee during a workday and records the various sound levels the worker is exposed to over an extended period. The sound level meter records specific noise levels at a particular time.

Mr. de Bernardo of the chamber warns that employers may be premature in their relief that the rules stop at requiring protective equipment and hearing monitoring.

He called a "myth" the belief that OSHA was not going to continue to push for engineering controls at the 85-decibel level. "This is just the first step. The next one is engineering controls," he said. "OSHA just isn't prepared to do that just yet." ■

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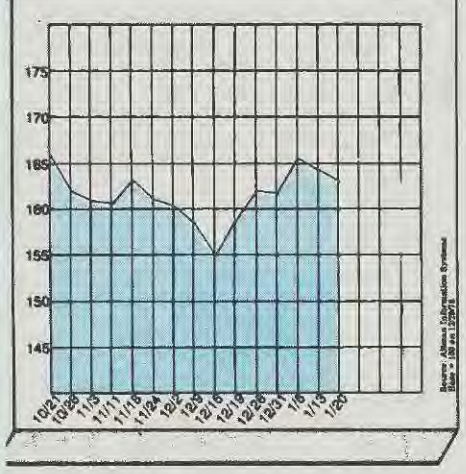
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BI Insurance Index



Insurance industry stocks slid for the second straight week, with the *Business Insurance* index dropping to 163.1 from 163.9. Thirty-five stocks dropped, 23 rose and 14 remained the same. Showing the largest drops were: Crum & Forster, 9.9%; Aetna Life & Casualty Co., 7.5%; Washington National Corp., 6.9%; Chubb Corp., 5.8%, and Integrated Resources Inc., 5.7%. Biggest gainers were: American Bankers Insurance Group, 10.7%; Pinehurst Corp., 7.4%; Great West Life Assurance Co., 7.1%, and SRI Corp. and American Financial Corp., 4%. The 0.5% index drop was less than that of the three major market indicators—Dow Jones, Standard & Poor's and the New York Stock Exchange.

British Issues

1/20 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	137	7.2	14.57	10.7	138—	135
Eagle Star	232	8.0	14.28	6.2	233—	230
Genl Accident	284	7.3	18.24	6.4	288—	284
Gdn Royal Exch	286	7.5	20.71	7.2	292—	286
Phoenix	242	7.6	20.00	8.3	246—	242
Royal	340	7.7	32.17	9.4	340—	332
Sun Alliance	688	9.3	42.14	6.1	696—	688
Brokers						
CE Heath	172	8.4	13.87	8.1	175—	172
Hogg Robinson	101	8.1	8.14	8.1	101—	100
Alex Howden	89	7.4	10.00	11.2	91—	88
JH Minet	85	10.6	6.45	7.6	87—	84
Sedg Grp	104	9.5	7.14	6.9	107—	104
Stenhouse Hldg	83	7.9	6.64	8.0	84—	83
Stew Wrightson	182	7.6	17.14	9.4	185—	180
Willis Faber	260	11.5	16.14	6.2	260—	257

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

Underwriting downturn may bring 'surprises'

By MYRON M. PICOULT

Special to Business Insurance

AN OLD axiom says insurance analyst earnings estimates are always too low when the property/casualty underwriting cycle is improving and always too high when the underwriting cycle is deteriorating. There is every reason to believe the axiom will hold true in this current underwriting downturn.

About four weeks ago, SAFECO presented industry observers with a post-Christmas present in the form of a $16.2 million reserve increase on its surety line to cover previously reported bond losses. As the fourth-quarter numbers are accumulated by other property/liability companies and the traditional year-end reserve review is implemented, other companies with both commercial and personal lines business will surely provide us with some "surprises."



Picoult

Looking back at 1980, it is quite clear earnings were not superb, but the results were not the "basket case" some feared when the year began. Based on the A.M. Best & Co. preliminary numbers and our estimates, we believe the 1980 property/casualty net operating earnings for stock companies declined approximately 1.5% to $6.11 billion, which was right in line with our expectations. In 1979, the industry's earnings rose 9.4% and peaked at $6.2 billion.

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 ticker

From an underwriting standpoint, the year was one of the worst on record, with the stock industry finishing the year with a combined ratio after policyholder dividends of approximately 103.5% and a statutory underwriting loss of $2.77 billion. It is interesting to note that despite all the verbal consternation about ratecutting, approximately half of the underwriting losses before dividends were attributable to the commercial lines and half to the personal lines area (basically auto and homeowners), where competition is not as intense as in the commercial insurance market. On an after dividend basis, roughly one-third of the underwriting loss was in the personal lines.

However, 1981 will likely show a widening spread between commercial and personal lines underwriting trends. Our crystal ball shows a 16% decline in stock industry operating earnings in 1981. This is based on an 8.5% gain in written premiums, an 8% rise in earned premiums, a 15% increase in net investment income and a combined ratio after policyholder dividends of 108.5%.

Of the 5-point deterioration we envision in the combined ratio, we believe 1.5 to 2 points will be related to personal lines and the remainder to commercial lines, reflecting the industry's sadomasochistic pricing tendencies in these coverages over the past year. The trends are quite evident as one reviews the Fast Track Data published by the Insurance Services Offices for various commercial coverages.

Also of note are the rate level revisions implemented by the ISO during 1980. A review of the figures showed the year finished with a flourish. Overall rates were up 5.2%, compared with the 2.4% figure in 1979 and 2.9% in 1978.

Automobile insurance rate increases dominated. Personal auto rates expanded 9.5%, compared with a 5.3% rise in 1979, and commercial auto rates increased 15.3% vs. an 8.7% increase in 1979. Overall rate revisions in personal lines aggregated 5.8% in 1980, double the figure in 1979.

On the commercial front, despite the deviations used by most companies, commercial rates increased 4.9% compared with the 2.2% for all of 1979. Contributing factors were the strong gain in the commercial auto lines and a paring of rate cuts in professional liability, burglary and commercial fire lines. An increase in special multiperil and glass rates was also a plus factor, as was an edging up of boiler and machinery rates.

The stock market performance of property/liability issues in 1981 is likely to emulate a roller coaster, as the psychology surrounding the stocks will be buffeted by periodic concerns about the length and depth of the underwriting cycle, and investors' highs and lows by the inflation outlook. The worse the underwriting results are and the sooner this occurs, the better off stock prices will be because there will be a change in pricing and underwriting attitudes.

If other financial intermediaries respond in the marketplace to a better inflation outlook, but casualty stocks do not because of concerns about a "stretched out" underwriting cycle and poor near-term results, the intrinsic value and earnings leverage inherent in many property/liability entities could make them prime acquisition candidates.

Financial briefs

Reliance Group

Reliance Group Inc. declared a quarterly dividend of 75 cents per share on its common stock, 55 cents per share on its series B preferred stock and 65 cents on series C preferred.

The dividend on common stock will be paid March 15 to shareholders of record Feb. 16 and March 1 for series B and C shareholders.

Reliance

Reliance Insurance Co. declared an increase in its quarterly dividend on common stock to 45 cents per share from 39.5 cents per share, payable March 1 to shareholders of record Feb. 16. The board of directors also declared a quarterly dividend of 67 cents per share of series A preferred stock, payable in April to shareholders of record March 16.

Kemper Corp.

Kemper Corp. announced a 14.3% increase in its quarterly dividend to 40 cents per share, payable Feb. 27 to shareholders of record Feb. 6.

Quarterly dividends have grown at a compound annual 32% rate over the last five years.

John Hancock

John Hancock Mutual Life Insurance Co. announced that dividends to individual policyholders in 1981 will total $271 million, a $24 million increase over last year.

The dividend scale improvement, which amounts to $16 million, is the result of progress in investment performance and the company's mortality experience.

The remainder of the increase, $8.2 million, is attributable to the growing volume of business and policy dividends increasing with duration, said Edwin Matz, chairman and chief executive officer.

American General

American General Corp. has approved an increase to 50 cents from 25 cents per share in the quarterly cash dividend payable on its common stock.

The annual dividend rate, based on this quarterly payout, would be $2 per common share, up from the total 1980 payout of $1.72 per share. ■

BI Industry Stock Report

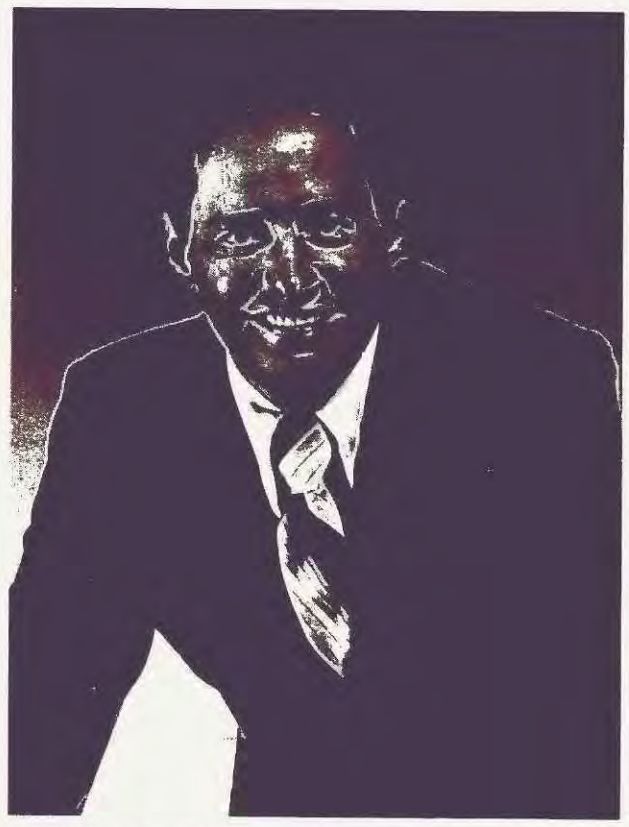
Insurance Cos.		JAN. 20, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	1/14/81 THRU 1/20/81 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	32.50	-7.5	4.9	2.12	6.5	34.63	32.50	885.5
American Bankers Ins Group	OTC	7.75	10.7	5.2	0.11	1.4	8.13*	7.38	203.4
American Finl Corp Ohio	OTC	25.25	1.0	4.7	0.50	2.0	25.25	25.00	13.0
American Gen Ins Co	NYSE	38.88	1.6	6.1	2.00	5.1	39.13	38.63	130.6
American Indty Finl Corp	OTC	16.13	4.0	5.3	1.12	6.9	16.25	15.50	8.9
American Intl Group Inc	OTC	73.50	0.7	10.4	3.50	0.7	73.75	73.00	102.1
American Natl Ins Co	OTC	13.13	1.9	5.5	0.68	5.2	13.38	12.88	69.8
American Sts Life Ins Co	OTC	21.50	2.4	8.9	0.72	3.3	21.50*	21.00	0.0
Aneco Reins Ltd	OTC	4.75	0.0	0.0	0.00	0.0	4.75	4.63	34.9
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	7.7
Avemco Corp	AMEX	9.50	0.0	8.2	0.50	5.3	9.75	9.50	9.6
Banks Iowa Inc	OTC	27.25	0.0	5.2	1.32	4.8	27.50	27.25	0.9
Citco Corp	OTC	37.00	3.5	5.9	1.68	4.5	37.00	35.75	2.2
Carolina Cas Ins Co	OTC	9.25	0.0	3.9	0.32	3.5	9.25	9.25	0.0
Central Natl Finl Corp	OTC	10.50	-1.2	3.8	0.50	4.8	10.63	10.50	0.5
Chubb Corp	OTC	38.50	-5.8	4.9	2.68	7.0	40.88	38.50	119.2
Combined Intl Corp	NYSE	17.88	0.0	5.2	1.60	9.0	18.38	17.88	79.4
Connecticut Gen Ins Corp	NYSE	46.00	-2.4	6.3	1.52	3.3	47.25	46.00	143.5
Continental Corp	NYSE	24.38	-1.0	5.2	2.20	9.0	24.75	24.38	186.9
Crawford & Co	OTC	18.00	1.4	13.7	0.48	2.7	18.00	17.75	7.4
Crown Life Ins Co	OTC	91.25	1.4	66.1	2.40	2.6	91.25	90.00	0.0
Crum & Forster	NYSE	22.75	-9.9	4.2	1.44	6.3	25.13	22.75	455.3
Employers Cas Co	OTC	40.25	2.5	6.6	1.20	3.0	40.25	39.25	4.7
Equifax Inc	NYSE	20.88	0.0	6.8	2.40	11.5	21.00	20.63	5.8
Farmers Group Inc	OTC	29.88	-1.2	9.4	1.00	3.3	30.25	29.88	198.3
First Colony Life Ins Co	OTC	35.50	0.0	13.1	0.80	2.3	37.00*	35.50	15.9
Foremost Corp Amer	OTC	20.38	0.6	7.3	0.60	2.9	20.38	20.25	13.5
Great West Life Assurn Co	OTC	205.00	5.1	10.1	8.00	3.9	205.00*	195.00	0.5
Hanover Ins Co	OTC	43.50	-1.1	4.0	0.72	1.7	44.00	43.50	13.3
Hartford Steam Boiler Insptn	OTC	34.50	1.5	7.2	2.40	7.0	34.50	34.00	9.4
Integon Corp	NYSE	38.25	-0.6	13.6	0.52	1.4	38.25	38.13	42.2
Jefferson Natl Life Ins Co	OTC	39.50	0.0	14.5	0.64	1.6	39.50	39.50	0.2
Kemper Corp	OTC	32.63	-3.0	4.8	1.60	4.9	33.25	32.63	43.9
Lincoln Natl Corp Ind	NYSE	40.00	0.0	5.6	3.00	7.5	40.75	40.00	36.4
Magic Invt Corp	NYSE	30.38	-2.0	8.6	1.12	3.7	31.13	30.38	148.0
Mission Ins Group Inc	NYSE	34.75	-0.4	7.1	0.80	2.3	35.00	34.50	2.6
Nationwide Corp Ohio	OTC	19.75	0.0	5.0	0.70	3.5	19.75	19.75	2.6
Northwestern Natl Life Ins	OTC	27.75	-1.3	6.0	1.25	4.5	28.00	27.75	58.9
Ohio Cas Corp	OTC	34.63	-1.1	5.6	1.76	5.1	35.13	34.63	54.5
Old Rep Intl Corp	OTC	15.25	1.7	3.8	0.92	6.0	15.25	15.13	33.8
Pinehurst Corp	OTC	7.25	7.4	13.4	0.00	0.0	7.38	7.00	37.7
Preferred Risk Life Ins Co	OTC	16.50	-2.9	6.0	0.64	3.9	17.00	16.50	3.3
Provident Life & Acc Ins Co	OTC	45.00	-2.2	5.8	1.88	4.2	46.50	45.00	53.1
Republic Natl Life Ins Co	OTC	24.38	-0.5	13.5	0.70	2.9	24.50	24.38	139.2
Safeco Ins Group Inc	OTC	25.00	0.0	7.5	0.12	0.5	25.00	24.50	4.3
St Paul Cos Inc	OTC	38.13	-1.6	5.2	2.32	6.1	38.75	38.13	98.2
Safeco Corp	OTC	34.75	-2.1	5.3	2.00	5.8	35.50	34.75	74.6
Ski Corp	OTC	25.50	4.1	4.7	1.20	4.7	25.50	24.75	9.7
Seibels Bruce Group Inc	OTC	17.38	-0.7	3.8	0.30	4.6	17.38	17.25	11.0
Statesman Group Inc	OTC	5.38	-2.3	4.0	0.15	2.8	5.50	5.38	23.0
Tokio Marine & Fire Ins Co	OTC	161.50	-1.8	17.9	1.03	0.6	163.75	161.50	7.4
Travelers Corp	NYSE	39.25	-4.0	4.4	2.88	7.3	40.63	39.25	206.7
United Fire & Cas Co	OTC	28.75	0.0	7.9	0.90	3.1	28.75	28.75	2.1
United States Fid & Gty Co	NYSE	39.50	-4.0	4.4	2.80	7.1	40.63	39.50	199.2
United Svcs Life Ins Co	OTC	14.88	-0.8	5.4	0.96	6.5	15.00	14.88	19.9
Uslife Corp	NYSE	24.50	-1.5	6.1	0.72	2.9	24.88	24.50	173.6
Washington Natl Corp	NYSE	35.00	-7.0	7.2	1.50	4.3	37.00	35.00	51.9
Zenith Natl Ins Corp	OTC	18.50	-2.6	9.8	0.63	3.4	18.50	18.50	5.0
INSURANCE COMPANIES	AVERAGE			7.2		3.9			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	32.75	-0.8	10.7	1.84	5.6	33.75	32.75	264.6
Baldwin & Lyons Inc	OTC	31.50	1.6	5.9	0.80	2.5	32.00	31.50	10.6
Corroon & Black Corp	NYSE	21.25	1.8	8.6	1.72	8.1	21.25	20.63	24.7
Crump E H Cos Inc	OTC	12.13	3.2	10.5	0.40	3.3	12.13	11.88	7.9
Hall Frank B & Co Inc	NYSE	25.00	0.5	8.5	1.54	6.2	25.25	25.00	129.4
Integrated Res Inc	AMEX	18.50	-5.7	9.2	0.00	0.0	19.50	18.50	47.3
James Fred S & Co Inc	NYSE	24.25	0.5	9.2	1.60	6.6	24.50	24.25	48.5
Marsh & Mclennan Cos Inc	NYSE	32.38	-3.4	10.3	2.00	6.2	34.00	32.38	109.4
Penncorp Fincl Inc	NYSE	7.13	0.0	5.2	0.16	2.2	7.38	7.13	162.9
Reed Stenhouse Cos Ltd	OTC	11.88	3.3	10.1	0.56	4.7	12.00	11.63	12.2
Rollins Burdick Hunter Co	OTC	22.25	-1.1	10.1	1.24	5.6	22.25	22.25	96.9
AGENTS/BROKERS	AVERAGE			8.7		5.0			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	42.25	-2.3	8.3	2.00	4.7	42.50	41.88	573.0
Anderson Clayton(Ranger/PanAm)	NYSE	21.63	-0.6	5.7	1.20	5.5	22.25	21.63	40.9
Armco Inc	NYSE	36.00	-5.3	7.5	1.64	4.6	38.25	36.00	240.2
City Investing Co. (Home Ins.)	NYSE	21.75	3.0	4.9	1.50	6.9	21.75	20.75	816.7
CNA Finl Corp (CNA)	NYSE	15.50	-5.3	4.3	0.00	0.0	16.63	15.50	16.2
Control Data (Comml. Credit)	NYSE	65.63	-2.1	8.5	0.90	1.4	67.88	65.63	372.8
General Re Corp	NYSE	53.88	-1.1	7.8	1.40	2.6	54.63	53.25	65.2
INA Corp (Ins. Co. of NA)	NYSE	38.50	-3.7	5.5	2.40	6.2	40.25	38.50	93.8
ITT (Hartford Group)	NYSE	29.38	-3.7	5.6	2.60	8.9	30.25	29.38	341.0
Reliance Group Inc	NYSE	67.75	1.1	2.6	3.00	4.4	67.75	67.00	106.6
Sears Roebuck & Co. (Allstate)	NYSE	15.25	-3.9	8.3	1.36	8.9	15.63	15.25	1,107.1
S & H Co. (Bayly Martin & Fay)	NYSE	30.50	5.2	15.1	1.00	3.3	30.75*	29.88	118.1
Teledyne Inc (Argonaut)	NYSE	197.75	1.7	8.7	0.00	0.0	201.75	192.38	264.0
Transamerica Corp (Occidental)	NYSE	18.25	0.0	5.0	1.28	7.0	18.50	18.25	385.9
CONGLOMERATES/HOLDING COS.	AVERAGE			6.3		3.1			

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How The Hartford protects your world.

"Our Group Life volume rose almost 500% in the last 10 years—to a current $10 billion."

An interview with Larry Lance, Senior Vice President, Group Department



Q. How do you explain The Hartford's growth in Group Life?
A. Our growth to $10 billion in Group Life volume is the result of a long-standing commitment to meeting customer needs in this area. We've built up a skilled, experienced field staff and a full range of flexible and responsive Group products.

Q. Can you give an example of flexibility and responsiveness?
A. For one thing, we can meet the needs of just about any group—small as well as large. Unlike many carriers, for example, The Hartford will write Life, LTD, Dental and other coverages on a mono-line basis. In fact, we'll write Life or LTD on as few as 10 lives without evidence of good health.

Q. Has The Hartford been an innovator in Group Insurance?
A. Yes. One example is The Hartford's unique LTD coverage that pays full benefits to age 70 as long as the insured cannot engage in his or her regular occupation. Other companies' plans may terminate benefits after a certain period if the insured can function in some other job.

Q. What special services does The Hartford offer Group accounts?
A. Our field staff and underwriters can help tailor Group coverages to each customer's needs. In addition, we're now completing implementation of a computerized claim handling system and also developing a computer system which will automate pricing, proposals and policy issuance. Once fully operational, these systems will give us the opportunity to be of even greater service to our clients.

Q. How can companies take advantage of Hartford Group Insurance expertise?
A. By contacting their insurance agent or broker. Our field group sales personnel work closely with agents and brokers in designing group insurance plans to meet an employer's needs. Or call us directly—we welcome inquiries at any time. Call Foster R. Drury, Assistant Vice President and Director of Sales—(203) 547-2599.

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