WEEK OF JULY 19, 1982

business insurance®

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update:

Illinois passes law giving state control over METs

SPRINGFIELD, Ill.—Gov. James Thompson is expected to sign legislation, H.B. 2357, that will give state officials control over unregulated self-funded multiple employer trusts.

The legislation, which passed without opposition, makes it clear that self-funded METs would automatically be subject to

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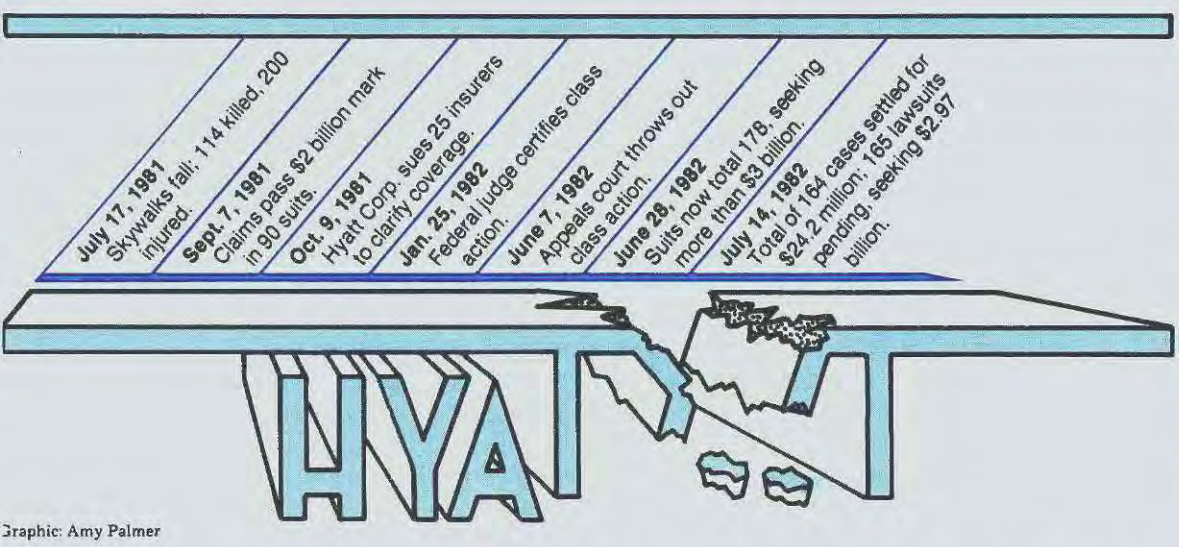

Graphic: Amy Palmer

A year later, reams of questions

By BILL DENSMORE

KANSAS CITY, Mo.—The paper file grows precipitously in the little room beside Rita Riley's office four floors below U.S. District Judge Scott O. Wright's Kansas City courtroom.

Ms. Riley, a deputy court clerk, is responsible for keeping track of reams of legal documents filed in liability suits since the skywalks at the Kansas City Hyatt Regency Hotel collapsed a year ago.

More than anything else, perhaps, paper is the most visible result of the July 17, 1981, disaster at the Hyatt Corp.-managed hotel in which 114 people were killed and at least 200 others injured.

The documents also raise a bundle of questions for risk managers about the adequacy of current insurance forms and procedures for adding additional named insureds to existing policies when multiple lines of insurance and multiple risks are involved and the safety of new building designs.

The questions are largely unanswered a year after two 32-ton, concrete-and-steel walkways suspended by metal rods—strained beyond their capacity—collapsed and fell to the hotel lobby four floors below in the nation's worst structural building collapse.

A federal safety probe later concluded the tragedy resulted from a design change in the skywalks during construction but did not identify who authorized the change or who requested it.

The design couldn't have failed at a worse time. A crowd in and around the lobby estimated at as many as 2,000 was attending an evening "tea dance," a popular feature at the luxury hotel that was opened little more than a year earlier.

Now, about once a month, Rita Riley sits quietly in the back of Judge Wright's courtroom, pen in hand, noting the comments and orders of the judge in litigation brought by victims of the collapse. At any one time, as many as 30 lawyers may be in the courtroom

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Pan Am crash likely to cause underwriting loss

NEW ORLEANS—With the crash of Pan American World Airways Flight 759, the world aviation market most likely will post an underwriting loss this year.

Both London and U.S. aviation underwriters say the July 9 Pan Am crash in New Orleans, the sixth major commercial aviation loss worldwide this year, will tip the scales to the red. Total losses in the accident that killed 154 people are expected to be $75 million to $100 million; Pan Am has $500 million in liability and hull insurance.

"This (the Pan American crash) is a very sobering thing," said a Lloyd's aviation underwriter on the risk. "It gives underwriters a jolt. With premiums and losses of this size, this will lead to a loss at the end of the year.

This story was reported by Bureau Chief Bill Densmore and reporter Steve Taravella in New York and Associate Editor Stacy Shapiro in London.

"We were heading for it anyway with raging competition throughout the market."

"Those underwriters in the world who are writing airline insurance in the United States will suffer a loss this year," said John V. Brennan, president of United States Aviation Underwriters Inc., the underwriting manager for United States Aviation Insurance Group Inc., the pool that is Pan Am's lead U.S. underwriter.

U.S. trunk, regional and charter airlines paid a total of $115 million in premiums this year, he points out, but losses are now exceeding that. He cites the combined $100 million loss from the January crashes of an Air Florida jet in Washington and a World Airways jet in Boston and the estimated $75 million Pan Am loss.

"That doesn't take into account partial losses and it's only a little over halfway through the year," he adds.

Within five days of the nation's second-worst air disaster, four lawsuits seeking $91.5 million in damages were filed.

Pan Am renewed its insurance just nine days before the crash following heated competition among U.S. and foreign insurers over rates (*BI*, July

Continued page 45

K mart, insurer probing fire that leveled HPR-rated building

By JERRY GEISEL

MORRISVILLE, Pa.—A modern warehouse protected by sophisticated sprinkler systems and insured as a highly protected risk is not expected to burn to the ground. But the K mart Corp. distribution center in Morrisville did June 21, and now both fire investigators and worried risk managers are asking "Why?"

There are no official answers yet. The company and its insurer are investigating what may be the biggest private property loss in one building in U.S. history, according to the National Fire Protection Assn., if the $100 million unofficial loss estimate holds.

But there is plenty of speculation about why the fire destroyed the 1.1 million-square-foot warehouse. The debate is focusing on the mix of products stored and the effectiveness of fire protection, which included sprinklers and fire walls.

The warehouse, which supplied goods to 382 K mart stores on the East Coast, was filled with almost all hard goods found in a K mart store—including propane canisters, ammunition and aerosol cans—when it caught fire early in the afternoon June 21. By the time 300 firefighters from 18 companies got the blaze under control nine hours later, the 6-year-old warehouse and tens of millions of dollars of goods were an apparent total loss.

The warehouse and its contents were insured for $113 million, mainly through Protection Mutual Insurance Co. of Park Ridge, Ill., a member of the Factory Mutual System (*BI*, June 28). Protection Mutual and other members of the FM system retained $25 million to $32 million of the risk and reinsured the rest, *Business Insurance* learned.

Protection Mutual would not confirm this, but said that K mart was placed through the FM system with the proper levels of treaty and facultative reinsur-

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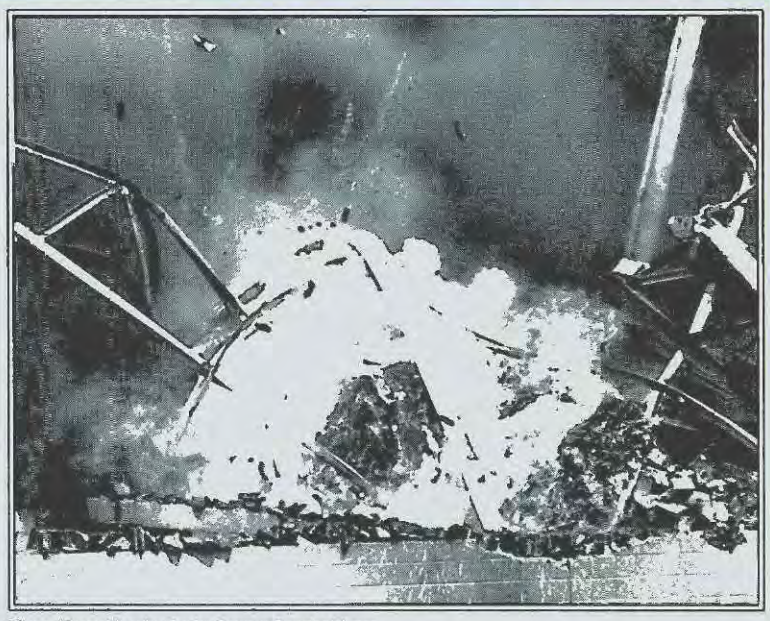

Photo: Harry Skeely, Bucks County Courier Times

Aerosol cans that flew in the air as they exploded fueled the fire.

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Competition entries due July 30

You have just two weeks to enter your employee benefits communications program in the 10th Annual Employee Benefits Communications Awards Competition sponsored by *Business Insurance*.

The competition, which is open to companies of all sizes in the United States and Canada, recognizes outstanding achievements in communicating an employee benefits program. Awards are made by a panel of judges for the outstanding entries in five categories of benefits communications: booklets, personalized correspondence, special projects, audiovisuals and total communications programs.

The awards will be presented to the winners at a dinner Nov. 1 in Chicago as part of a conference sponsored by *Business Insurance*: "The Dollars and Sense of Communicating Employee Benefits." The winning audiovisual program also will be shown.

To obtain competition rules and an entry form, call Ann Vazquez, Communications Services Department, *Business Insurance*, 212-210-0137. Entries must be received by July 30; no extensions will be granted.

update:

Illinois MET bill approved

Continued from previous page

state insurance laws unless they received a certificate to operate from another agency, like the U.S. Department of Labor. Few self-funded METs can meet Illinois insurance code requirements and those failing to gain federal approval would be forced to close.

"We're elated that the bill passed," said Richard W. Carlson, assistant director of the state Insurance Department. "We're fortunate that we have a Legislature that recognized problems posed by METs."

Many self-funded METs have failed, including at least three in Illinois, leaving behind millions of dollars in unpaid medical bills. These failures have been attributed to inadequate rates and administrators who use too many premium dollars to pay expenses and sales commissions instead of claims.

Similar legislation is now pending in California.

Judge rules on Hall-Ryder suit

CHICAGO—Frank B. Hall & Co. Inc. has won a partial victory in its bid to avoid a potential takeover bid by Ryder System Inc., the Miami-based truck-leasing company (*BI*, Jan. 18, Feb. 15).

U.S. District Judge James B. Moran last week denied a request to permanently bar Ryder, which now holds 9.5% of Hall stock, from buying any additional Hall shares. Hall argues that its purchase of Jartran Inc., a financially troubled Ryder competitor, raises antitrust questions over a Hall-Ryder combination.

Judge Moran did rule, however, that Ryder must give both the court and Hall 30 days' notice before purchasing any more Hall shares. He also said if Ryder seeks to buy more shares, he could reconsider his decision not to ban further Ryder purchases, adding that there appear to be sufficient antitrust questions to support a ban if necessary.

Asbestos defense struck down

TRENTON, N.J.—A state-of-the-art defense won't protect asbestos manufacturers and distributors from product liability lawsuits in New Jersey, the state Supreme Court has ruled.

The companies said they should not be held liable because no one knew or could have known asbestos was a dangerous substance when the products were made.

But in a 5-0 decision that allows suits against 10 companies that made or distributed asbestos products, the court said manufacturers cannot escape liability "because their prior inadequate investment in safety rendered the hazards of their product unknowable."

Effect of tort bill undetermined

WASHINGTON—Business groups backing federal product liability legislation say they can't predict what effect, if any, approval of a uniform law would have on insurance rates.

However, The Product Liability Alliance, an organization representing 200 different employers and businesses on product liability issues, does believe that a uniform law that sets clear liability standards might reduce litigation expenses by more than $400 million a year.

In a report requested by the Reagan administration's Cabinet Council, the group said a uniform federal law would slash litigation costs because both employers and consumers could reduce research to determine the current state of tort law.

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Satellite may be total loss even though it still operates

By STACY SHAPIRO

LONDON—An Indian government satellite valued at $65 million could be declared a total loss even though it is currently operating.

Reinsurers, including Illinois Insurance Exchange syndicates, have been notified that they may have to cover the full loss of the Indian National Satellite System, known as INSAT, because there may not be enough fuel to power the satellite for its expected lifetime of seven years.

However, the claim will not be finalized until Oct. 7, the expiration date of the insurance policy.

If the claim is paid, it will probably be the Illinois Insurance Exchange's first underwriting loss, said John Dore, senior vp of L.W. Biegler Inc. in Chicago.

"If it is not the first, it will be close to the first loss for the exchange," said Mr. Dore, whose underwriting syndicate led the exchange's portion of the risk.

At least three exchange syndicates participated in a $150,000 portion of the facultative reinsurance policy on the satellite. They were reinsuring the state-owned New Indian Insurance Co., Mr. Dore said.

Lexington Insurance Co. of Boston, a subsidiary o American International Group, is the U.S. lead underwriter on the INSAT reinsurance program, Mr Dore said. Officials at Lexington refused to commen on the coverage.

INSAT was designed by the Indian government and built by Ford Aerospace Co. in the United States t perform an array of tasks, said a spokesman in the Indian Embassy in London. The satellite would have provided India with a telecommunications network and 24-hour weather system and beamed television signal to rural areas of the nation.

But the satellite's troubles began shortly after it wa carried into space April 10 by a Thor Delta rocket, th same type that launched RCA Corp.'s $77 million Satcom II, which was lost after it achieved orbit (BI, Nov 16, 1981).

Specifically, the satellite failed to achieve its prope geostationary orbit and failed to deploy a solar sail, ac cording to insurance sources in London. To correct th

Continued on page 4

Insurers face aircraft loss in Lebanon

By STACY SHAPIRO

LONDON—Insurers probably will have to pay for damage inflicted by Israeli bombers on aircraft valued at $170 million parked at the airport in Beirut, Lebanon.

The damage may be covered by Middle Eastern Airlines' aviation hull war risk insurance, according to Roger Elliott, managing director of the aviation department at Willis Faber P.L.C., the airline's London broker.

But the extent of damage to the airline's fleet will not be known until airline officials can be reached. Brokers and insurers in London have had a difficult time contacting them at the war-torn Beirut airport, where the airline is based.

"It could be that most of the aircraft are damaged, you see, but we cannot get in touch with them," Mr. Elliott said. "Most of the controllers have already fled the airport."

Mr. Elliott would not confirm reports that insurers already have agreed to pay $5 million for at least four destroyed aircraft under an aviation hull war risk insurance policy.

Nor would he comment on how much the airline paid for the hull war risk insurance coverage. But one Lloyd's underwriter said he refused to write the coverage for the airline at 22.5 cents per $100 of insured value because he thought the rate was too low.

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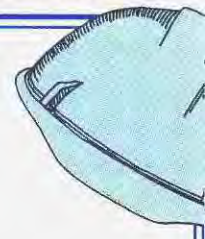
Wage-loss bills die in 2 states



By STEVE TARAVELLA

Louisiana and Delaware employers will have to wait at least another year for reform of their workers compensation systems.

A bill that would have introduced the wage-loss concept to Louisiana died in a House-Senate conference committee just 20 minutes before the Legislature adjourned July 12.

And legislation that would have based Delaware's workers compensation system on wage-loss was defeated by the Legislature last month.

Similar bills were defeated in both states last year (*BI*, July 6, 1981).

Under the wage-loss concept, an injured worker does not receive benefits for a permanent partial disability that doesn't reduce earnings, except in extreme cases. Instead, benefits are paid when earnings are lost after an accident, and emphasis is placed on getting an injured employee back to work quickly.

Supporters of the Louisiana bill, H. 256, blamed its defeat on an amendment proposed by Sen. Sydney B. Nelson, D-Shreveport, that would have allowed employees or their survivors to sue their employer if the employee was killed or permanently disabled or in cases in which the employer acted in reckless disregard for workers' safety.

Employers preferred the current system to being liable to employees' suits.

The Louisiana House, which had passed the bill creating a wage-loss system, rejected that amendment.

Rep. Michael F. Thompson, R-Lafayette, the bill's sponsor, says he patterned the original legislation after Florida's 3-year-old wage-loss system. That system has cut the rates employers pay for workers compensation insurance by 52%, according to the Florida Insurance Department.

Supporters of the bill said it could have cut the rates Louisiana employers pay for workers compensation insurance by 15%. Rep. Thompson said he hoped his legislation would forestall a predicted 20%-25% increase in workers compensation rates in Louisiana.

The bill was intended to improve Louisiana's workers compensation environment by "rehabilitating the worker to minimize

Continued on page 46

Who will pay skyride judgment?

By KIMBERLY PALMER

DALLAS—More than $5 million has been awarded to the family of a Dallas man killed in an amusement ride accident during the 1979 State Fair of Texas, but no one seems to be sure who will pay the award.

U.S. District Judge Charles Ben Howell ruled July 7 that Steck & Stapf Attractions Inc. of Dallas should pay $4.1 million to the family of Fred Millard, who was crushed to death Oct. 21, 1979, when two gondolas from the fair's Swiss Skyride fell 95 feet onto a crowd of fairgoers. Twelve people also were injured in the accident.

The judge also approved a $1 million structured settlement offered to Mr. Millard's widow and her three daughters by State Fair of Texas Inc., which contracted with Steck & Stapf to operate the ride, and Von Roll Ltd. of Berne, Switzerland, the ride's manufacturer.

The payment formula in the settlement has not been determined and it is not known how the State Fair and Von Roll will split the cost of the settlement.

The primary liability coverage for both the State Fair and Steck & Stapf at the time of the accident was underwritten by Zurich American Insurance Co. of Schaumburg, Ill. Zurich American, however, says its coverage is no longer in force because the policy wording said that the coverage paid only once per accident.

Company officials say that they paid about $2 million on behalf of the State Fair and Steck & Stapf as part of a September 1981 settlement with a woman injured in the accident (*BI*, Oct. 5, 1981).

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errors & omissions

• The National Institute of Municipal Law Offices survey cited by Dr. Bartley Hildreth in a speech during the Public Risk & Insurance Management Assn. meeting last month was based on the response of 215 municipalities with populations exceeding 10,000. It was not a survey of 10,000 municipalities, as was incorrectly stated in the June 14 issue.

Protecting property

Closing a plant doesn't end loss-control worries

By STEVE SHERWOOD

DETROIT—The risk manager who doesn't include his company's idle steel mill or mothballed V-8 engine block foundry in a loss-prevention program may be in for an unpleasant shock:

The plant may not be there when the time comes to reopen it.

As the economic recession and changes in consumer demand force more temporary plant shutdowns, more risk managers must decide how to protect these still valuable assets from fire, vandalism and theft.

How well they do this could determine whether their property insurers continue to cover the idle or vacant property.

Exactly how an idle plant is protected depends upon the industry, the plant and the facility's future.

"There are different classes of idle plants," says Eugene Kerwinn, staff counsel in Chrysler Corp.'s litigation and insurance department. "There are those we expect to put back into service someday and those we hope to sell. They are totally different types of risks."

Mr. Kerwinn is speaking from experience. Chrysler now has six auto and truck manufacturing plants shut down. Some the company plans to reopen, some it hopes to sell.

For example, Chrysler expects demand for trucks and vans to improve and hopes to reopen a truck manufacturing plant in St. Louis, he says.

On the other hand, with the switch to four-cylinder, front-wheel-drive cars that use less iron, production demands at a Chrysler foundry near Detroit fell. The plant is closed and will be put up for sale.

In dealing with a temporarily closed plant, like the one in St. Louis, Chrysler uses loss-prevention techniques similar to those in force at fully operational plants, Mr. Kerwinn says. It is necessary to protect vital equipment still in place.

"You still need to keep sprinkler systems operating, have guards on duty and control flammable materials," he said. "It is a continuing expense that is not being offset by production."

For a plant that will be left vacant and from which the valuable machinery has been removed, less stringent precautions are taken.

"You never completely abandon a plant," Mr. Kerwinn says. "There is always someone coming by at least once a shift, there are gate alarms and watchmen check to see if someone has broken in."

But when the plant is essentially gutted, there is generally not enough internal hazard to require hourly guard service, he says.

Depending on what has been left in the plant, there is financial pressure to shut off the heat that is necessary to keep sprinkler systems operating in colder cli-

Continued on next page

Graphic: Jim Bakasetas

Insurers offer HPR rates without loss-control focus

By JAMES C. LAWSON

NEW YORK—Investing in property protection devices to secure the "highly protected risk" seal of approval once was the key to unlocking the cheapest property insurance rates for the biggest risks.

Now, abundant competition for business among insurers is driving conventional property insurance rates for large and small risks to the dirt cheap levels offered HPR risks without requiring a corresponding investment in loss prevention.

The result: Some companies are seeking the lower rates and foregoing new loss-prevention programs, much to the concern of the traditional HPR markets.

The HPR insurers are fending off the price competition with some rate reductions, broader policies and continued emphasis on the value of their traditionally strong loss-prevention engineering services.

This picture of the HPR market—which includes the traditional HPR insurers of the Factory Mutual System, Industrial Risk Insurers and Kemper Group and new competitors like American International Group and Employers of Wausau—emerges in interviews with brokers, insurers and buyers.

Generally, smaller and medium-sized companies are chasing lower rates with non-HPR markets while larger companies remain committed to the HPR markets and loss-prevention standards, they say.

"Several factors are influencing this now," explains William Jennings, a vp in the property department of broker Johnson & Higgins in New York. "Flexibility, the willingness of insurers to write a marginal piece of business and the willingness of insureds to accept higher deductibles," are among them, he said.

"We're beginning to get HPR rates on non-HPR risks," notes H.B. Bennett Jr., an assistant vp and property marketing specialist with the Los Angeles office of broker Alexander & Alexander.

HPR rates previously were about 5 cents per $100 of insured value. Generally, that was 50% to 75% less than conventional property insurance rates, depending upon the conditions of the property insured.

In the current competitive insurance marketplace, however, commercial property rates have dropped as much as 30% to 50%, industry officials say.

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How others do it

- B.C. Forest Products in Vancouver, British Columbia, has learned that it's tougher to safeguard a shutdown sawmill than one that is operatng. **Page 6.**
- Management Assistance Inc., a computer manufacturer, says it pays to discuss loss control with a property insurer before building or making an addition to a facility. **Page 14.**
- Retailers say dishonest workers can rob them of their profits, but by implementing a wide variety of security devices, they can cut down on employee theft. **Page 15.**
- The American Medical Assn. in Chicago and Oak Forest Hospital in Oak Forest, Ill., have discovered that limiting access to buildings cuts losses and makes employees feel more secure. **Page 20.**
- Some companies use highly protected risk laboratories operated by Kemper Group and the Factory Mutual System to solve complicated loss-control worries. **Page 23 and 25.**
- Harry L. Masten, manager of electrical engineering at Princeton University, tells how a central smoke alarm system has virtually eliminated serious fires in dormitories. **Perspective, Page 29.**

Chrysler, which has closed several plants in the Detroit area, still makes sure the facilities are protected.

Loss control continues after plants are closed

Continued from previous page
mates, he says.

"We've been able to do this with the consent of our insurers when exposures are minimized, equipment removed, flammable materials cleaned out and no cutting or welding is allowed in the facility. But this is done on an exception basis."

Chrysler's primary property insurer is Aetna Casualty & Surety Co. of Hartford, Conn., but loss-control engineering is furnished by Industrial Risk Insurers, Mr. Kerwin says. "IRI's standards apply to our loss control."

Protecting an idle steel manufacturing plant presents similar problems.

"You look at what will be there when you vacate and try to maintain the necessary guard and automatic fire-protection services," says Sam Catanzano of M&M Protection Consultants, a subsidiary of broker Marsh & McLennan Inc. M&M Protection Consultants operates as the fire-protection division of a major steel concern that has shut down several plants.

"They have cut back quite a bit," Mr. Catanzano says, declining to name the company that self-insures its property risks.

"As its fire-protection people, we look at what will be idle and what will need to be maintained. Depending on whether a sprinkler system is in use and needs to be kept heated, this can be costly," he says.

For the most part, however, automatic fire-control systems are confined to storage and office buildings, he says.

"When a steel mill is operational, molten metal and the grease used in lubricating rolling mills are two major fire hazards," he says. "A lot of the facilities don't have automatic fire protection because, when they are fully operational, they are occupied around the clock. Hose lines are used to control hot metal."

When the plant is shut down and flammable grease cleaned out, the chances of fire are greatly reduced, Mr. Catanzano says.

If a company plans to use the facility again, guards should be kept on duty to protect offices and computer rooms, he says. Steel mills are mammoth buildings and it would be impossible to seal up the entire facility, he adds.

"Most are fenced in, the mobile equipment put where vandals can't get at it and the grounds regularly patrolled," Mr. Catanzano says. "That's your best protection."

In addition to guarding against theft and vandalism, patrols help head off liability problems that could result if children or other people wander into a facility and are injured, he says.

"You'll find that no plant will be completely shut down," he says. "There will nearly always be a couple of departments operating and guards posted."

Steps taken to protect idle facilities influence insurers' decisions to continue coverage for the property, sources say.

Factory Mutual System insurers ask their policyholders to take a number of precautions when they close a facility.

"In general, we still want to see hourly rounds by watchmen and continuation of sprinkler protections, with weekly inspections of control valves," says Chris Wells, loss-control engineer for Factory Mutual Engineers Corp., the loss-control and inspection arm of Factory Mutual.

"There is always the chance of arson and if sprinklers are on, you have a good chance of saving the building," he said.

If the plant still contains valuable equipment vulnerable to thieves or vandals, "we want any alarm equipment—motion detectors, electronic eyes, electronic surveillance—to be left on and monitored," Mr. Wells says.

External lighting is important to discourage mischief, he says. And one of the simplest and most effective measures that can be used to protect an idle plant against intruders is an audible bell, he says.

"We've never had a major loss at a facility with a bell," he says. "Once it goes off, the intruder doesn't have time to do anything." ■

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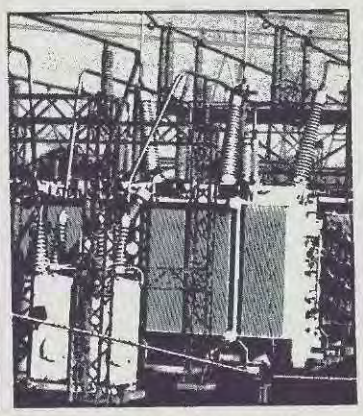

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Plant closure makes loss prevention tougher

By STEVE SHERWOOD

VANCOUVER, British Columbia —Closing down a sawmill doesn't reduce property risks. In fact, it can make the loss-prevention task harder—just ask B.C. Forest Products.

The loss-prevention measures the company will take at two sawmills it will close soon because of the poor economy will differ little from the procedures practiced at active mills.

But it is possible that employee layoffs could affect how well those procedures can be implemented.

"We're in the middle of the worst recession in 35 years," says W.S. Tully, manager of the risk and insurance department for the Canadian pulp, paper and lumber concern. "Some divisions will be shut down, but we've always had a plant emergency program so it won't affect plant protection. We'll still have men on duty."

This is necessary because "in some ways an idle plant is more of a risk than an active one," says John Ivison, BCFP's fire protection and security manager.

Unless a company carefully monitors activities in and around an idle plant, it could be asking for disaster, he adds.

"A company may take advantage of the shutdown to do major repairs," Mr. Ivison points out. And that's where the extra risk can come in.

If the company hires outside contractors to do repair work, an experienced person from the company must monitor that work closely to prevent fires caused by the contractors' inexperience with the hazards of a sawmill.

"BCFP would be watching the work closely—it's part of our corporate procedures," Mr. Ivison says. "But some companies might fall into the trap of failing to do so. Numerous companies have had facilities burned down by outside contractors who came in to do work and didn't realize the dangers."

Active or idle, a sawmill's primary enemy is fire, he says.

"You must be careful to maintain the same general standards you would apply to a plant in use," Mr. Ivison says. "If you don't, it can just kill you."

BCFP follows loss-prevention guidelines required by its insurer, Allendale Mutual Insurance Co., a member of the Factory Mutual System. But Mr. Tully says the company's loss-prevention procedures were set up long before it became associated with Factory Mutual.

Among them is the direct supervision of all welding and cutting work, whether it is done by its own employees or outside contractors, Mr. Ivison says. This is crucial since welding is a major cause of sawmill fires when sparks and highly combustible sawdust meet.

"If we've done a welding job on a mill, we supervise the work while its being done and we patrol after hours in case a spark is smouldering in the sawdust," he says. "The chances of burning a mill down are good if you don't have such a policy. You have to watch the contractors."

Sprinkler systems and other fire-control tools are maintained in idled plants and inspected regularly, he says. And the company's valve-interruption procedures, designed to be sure that every time an essential fire-protection valve is closed it is reopened, are continued.

"In the majority of our mills, we have one full-time person responsible for fire prevention and fire-fighting," he says. "We educated our management about the importance of fire safety long ago and they listened."

The importance of these full-time fire-prevention people, who are called "protection supervisors" and double as firemen and security officers, adds to loss-prevention problems when a plant is shutdown.

If these persons are among those laid off, the system is jeopardized. The trained people may not be around to protect the idle or active sawmill.

"Any hourly paid employee will be affected by layoffs and mill closings," he says. "Up here, with the union situation the way it is, this can cause problems in keeping trained watchmen on duty during layoffs."

Of 87 full-time employees involved in protection, at least 18 are salaried and would not be affected by layoffs, he says. But many of the others could be bumped off their jobs by union members with more seniority, even if these employees lack the necessary training in security and fire prevention.

"You have to train them or you could have an emergency with untrained people there to stop it," Mr. Ivison says. "We try to train them adequately."

This is not a quick task. Besides being physically fit and able to handle the rigors of a job that may require walking up to 10 miles a night, BCFP wants protection supervisors and watchmen to:

- Understand all fire hazards and the company's fire-prevention measures.
- Understand the company's valve-interruption system and welding and cutting procedures.
- Be able to direct people during an emergency, which requires full knowledge of the fire-evacuation plan.
- Understand security measures, including screening visitors to be sure they have proper authorization to be in the mills or on the grounds.
- Be versed in firefighting techniques and the use of fire pumps and hoses and be familiar with sprinkler-system controls and alarm pull stations.
- Know basic emergency medical procedures.
- Have report writing and verbal communications skills.

"We don't list this one, but the person must have the emotional ability to respond properly during an emergency," Mr. Ivison says. "During a layoff, the protection peoples' jobs are probably the most crucial to check on to be sure they will be on the job."

But whether a plant is closed down or in full operation, awareness is the key to protecting a company's facilities, Mr. Ivison says.

"In every situation you look at, the human element is involved. You have to make sure people are aware of the fire risks and hazards."

And if the company does not have someone there to supervise protection, anything can happen, he says.

"You're familiar with Murphy's Law (if something can go wrong, it will). A lot of protection people say Murphy's Law is optimistic." ■

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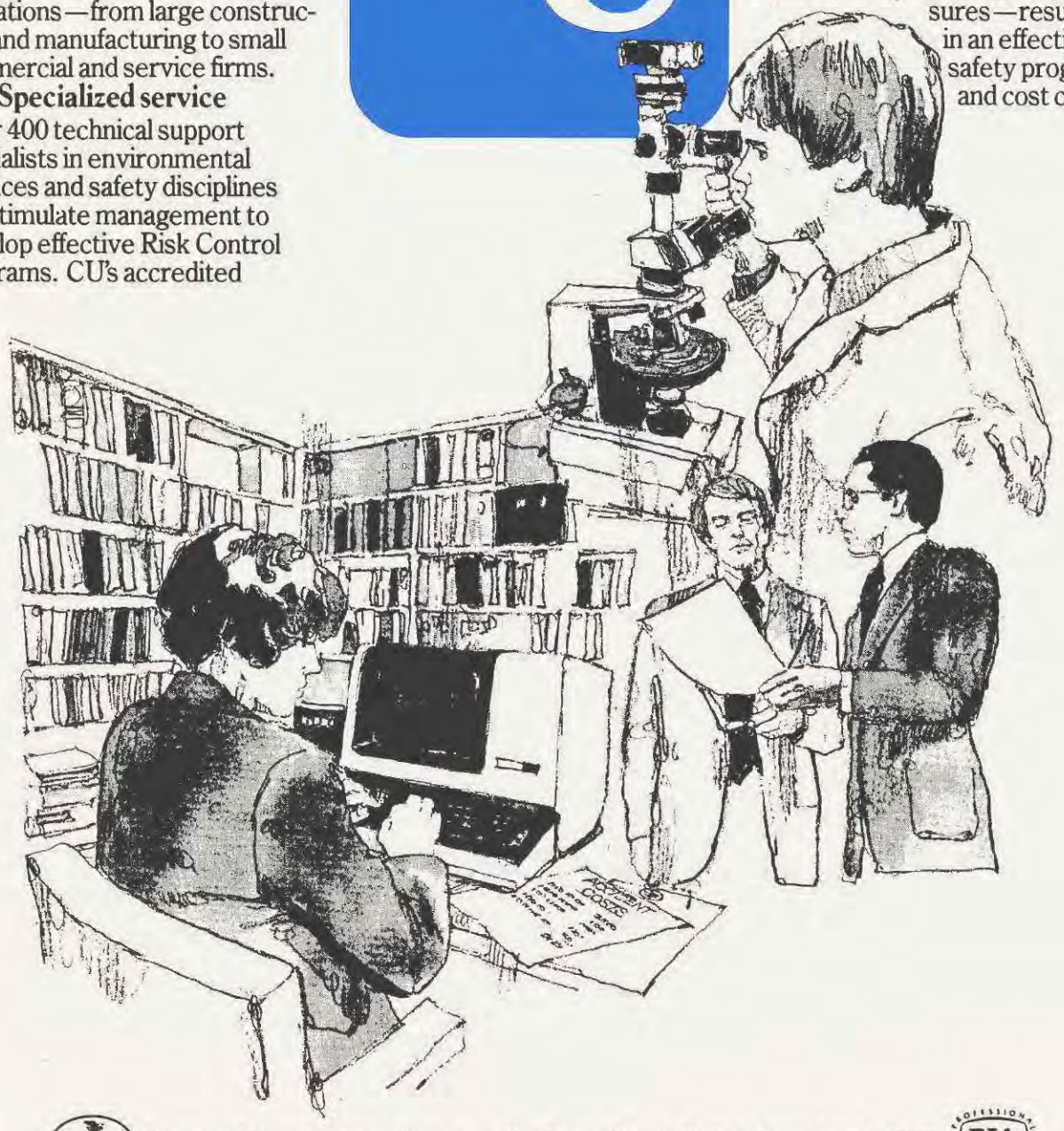

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editorial opinions

What? No buyer input?

WE ARE DISAPPOINTED with the manner in which the insurance industry is handling the proposed overhaul of the comprehensive general liability insurance policy.

First of all, the CGL form was rewritten by the insurance company members of the Insurance Services Office without input from insurance buyers. There are many knowledgeable insurance buyers who should have been consulted and who, we are sure, would have gladly contributed their time to this project.

Secondly, ISO said it wants comments on the new policy from a broad spectrum of the marketplace, but then it distributed just 600 copies of it, mostly to insurance company executives, with few going to buyers of insurance (*BI*, July 12).

This is a classic example of the industry's failure to recognize the needs of its clients and that they are a force to be reckoned with.

Remember how the marketplace—the buyers of insurance—rejected the specific exclusion of punitive damages in the late 1970s when ISO tried to unilaterally force that into liability policies?

This rewrite of the CGL form, which replaces occurrence coverage with a claims-made or claims-discovered coverage trigger, dramatically changes the conditions of one of the most valuable policies corporations buy. The buyers of insurance have more than a passing interest in this revision and the other changes made in the policy.

At least ISO sent a copy of the proposed new policy to the Risk & Insurance Management Society, which is appointing a committee to review and comment on it. But, with all due respect to RIMS and its ability to represent the buyers of insurance, we still think that the policy deserves wide dissemination for a thorough debate of its ramifications.

Risk managers already have asked us for copies of the policy. They are concerned. One risk manager, who, incidentally, hasn't seen the policy, fears that the switch to a claims-made/claims-discovered trigger will create huge problems of continuity. Companies may find it difficult to switch insurers without creating gaps in their coverage.

In the interest of providing buyers of insurance with a copy of the new policy and to encourage informed debate on it, *Business Insurance* has requested permission from the Insurance Services Office to reprint in their entirety the copyrighted new policy and ISO's analysis of it.

ISO has granted the permission, and we will deliver the package to you in next week's Perspective section.

We also offer the Perspective section of *Business Insurance* to those who would like to comment on the form, especially the buyers of commercial insurance who will be seeing it for the first time.

Keep your comments brief and to the point, and please don't exceed five double-spaced pages. We will review the articles, offer ISO an opportunity to comment also, and print another packqge of debate on the proposed rewrite of the CGL form.

Creativity needed

RISK MANAGEMENT work doesn't stop when the production does.

Every company closing down a facility, either permanently or for a short period of time during the current recession, needs to continue to protect that property from fire and vandalism.

As stories in this week's special report on protecting property point out, safeguarding vacant property calls for creativity on the part of risk managers and cooperation with insurers.

The thorough corporate risk management plan will include procedures for protecting vacant property so that when the decision is made to close a facility, everyone knows what to do.

Helpful hints are offered on pages 3 and 6 by experts who are coping with the task now.

Also, be sure you talk to your insurer. You usually have to notify the insurer if you are vacating property. You also might find its loss-prevention engineers could offer some valuable advice.

letters

The employers should have say

To the editor: Your June 14 issue included a rather favorable editorial concerning the latest legislative proposal advanced by the Asbestos Compensation Coalition. The editorial closed with a call for more debate on the proposal by "manufacturers, insurers and plaintiffs' attorneys."

The principal effect of the coalition's proposal would be to shift liability for asbestos injuries from the manufacturers of an asbestos product to the employers, who fund the state workers compensation systems. In order to determine whether the proposal makes sense, it would seem appropriate, at the minimum, to include employers in the debate.

Curtis T. Mackey
Executive Vp
National Insulation Contractors Assn.
Washington

■ *We certainly agree and did not intend to imply otherwise.*

Omitted profile

To the editor: I am writing in regard to the annual Agent/Broker Profile issue (*BI*, June 28) in which our company's profile did not appear, although we submitted the information on time.

Here again is the information:

Hirsch Wolf & Co. Inc.
1505 Coney Island Ave., Brooklyn, N.Y. 11230; 212-252-2800

	1981	1980
Premium vol	$7,500,000	$5,000,000
Gross rev.....	$750,000	$600,000
Employees.....	18	16
Commercial bus...	90%	90%

Principal officers: Hirsch Wolf, president; David Wielgus, Abraham M. Kahan, Levy I. Zelishovsky, vps; Yosef Kadin, controller.
Compensation: Commissions.
Branches: New York City; Union, N.J.

Hirsch Wolf
President
Hirsch Wolf & Co. Inc.
Brooklyn, N.Y.

Omitted profile

To the editor: I would like to submit to you for publication our company's figures, which were not included in your annual Agent/Broker Profile issue that was published June 28:

Arthur L. Owen Co. Inc.
Mercantile Commerce Building, 1712 Commerce St., Dallas, Texas 75201; 214-747-6500

	1981	1980
Premium vol	$24,000,000	$20,393,000
Gross rev.....	$2,850,000	$2,300,000
Employees.....	42	40
Commercial bus...	95%	95%

Principal officers: Arthur L. Owen, chairman; Douglas B. Owen, president; Ed Dunn, executive vp; Bruce E. Mackey, Joe E. Funk Jr., senior vps; Rex Jennings, vp of finance; Lance Leffingwell, vp.
Compensation: Commissions and fees.
Licensed excess/surplus broker in: Texas.

Arthur L. Owen
Chairman
Arthur L. Owen Co. Inc.
Dallas

It provides a base

To the editor: "Hospitals exit Social Security" (*BI*, May 10) covered only the pension aspect of the Social Security issue.

If an employer withdraws from Social Security, where do his employees find replacement coverages for the disability income and survivor benefits?

On a cost/benefit basis, Social Security may not be the best system for a sophisticated buyer. However, for the nation's average worker, it does guarantee a base to build on.

Ronald G. Damiano
Integrity Insurance Co.
Paramus, N.J.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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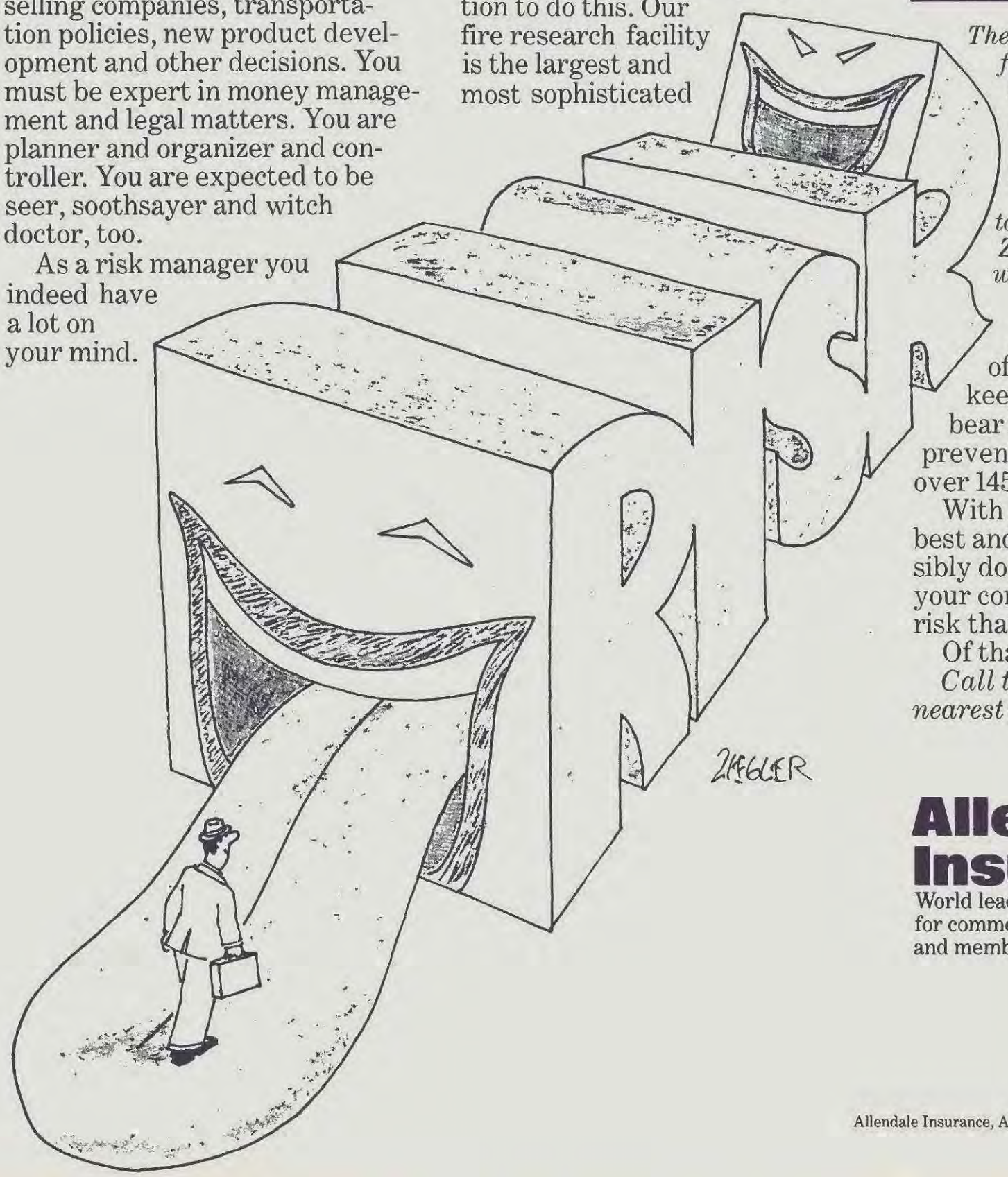

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Other markets undercut HPR rates

Continued from page 3

HPR rates, especially for good risks with excellent loss experience, have dropped slightly, industry officials say. Some companies are buying HPR protection for as low as 2 or 3 cents per $100 of insured value. But even at these competitive rates, HPR markets aren't holding clients who don't want to meet their tough engineering requirements.

Some HPR underwriters have even begun offering broader coverages, lumping in boiler and machinery, difference in conditions and increased cost of construction coverage (see story, page 19).

Earlier this year, the Factory Mutual System began marketing a comprehensive property policy that extends much broader coverage to good risks.

"The competitive market puts more pressures on us to be responsible to the market," explains John J. Carey, president and chief operating officer of Allendale Mutual Insurance Co., a member of the Factory Mutual System.

At the American Protection Insurance Co., a Kemper Group company that is a major HPR underwriter, meeting the competition means, "We're all being forced to sharpen our pencils," said Senior Vp Allan B. Johnson. "You have to be able to meet your competition."

Brokers see the non-HPR markets attracting clients who don't want to make the protection improvements needed to meet HPR standards. "That is affecting the upgrading of some buildings that should be upgraded," said A&A's Mr. Bennett. "Risk managers are asking how long they have to amortize this (proposed improvement) out to make it pay. If they find they can't do so within a few years, they may choose not to make those improvements right away."

Larry Lassus, a senior vp in the New York office of Alexander & Alexander, contends, "It's extremely difficult to sell these improvements because of the soft insurance market and high interest rates.

"Smaller corporations may not want to do as much upgrading because the premium spread may not be that great. Some smaller accounts will go strictly by the bottom line. They look strictly at the bottom line if they feel they can get the same coverage."

Traditional HPR insurers say this can be "somewhat shortsighted," in the words of Mr. Johnson at American Protection.

A financially troubled corporation may not add new protection devices and may even lay off its watchmen, further breaking down some of its loss-prevention components, he says.

The traditional HPR insurers also defend their HPR standards and their engineering services.

To be qualified as a highly protected risk, a coporations usually must demonstate the following characteristics to the insurer:

- A willingness and determination to reduce the probability of loss.
- Safe construction.
- Good housekeeping practices that promote better loss control.
- Fire-resistant, incombustible or other approved construction in a good state of preservation and repair.
- Fire protection equipment in all areas where such protection is deemed necessary.
- Satisfactory watchmen, an alarm service or their equivalent where necessary.
- Good access to public or private exterior fire protection systems, including an adequate number of hydrants, hoses and other necessary equipment and an adequate water supply.

Not all HPR risks must have sprinklered facilities, but many insurers say sprinklers usually are an important loss-prevention component at most sites.

Companies that fail to keep up protection standards are increasing their potential for a major loss or may face considerably higher property rates when the insurance market hardens, industry officials say. In the long run, it will be more costly to upgrade properties to meet HPR standards later.

The traditional HPR insurers also contend that they deliver the highest-quality loss-prevention engineering services, including regular fire inspections, detailed advice on how to prevent losses and design recommendations.

The Factory Mutual System, which includes Allendale Mutual Insurance Co., Arkwright Boston Insurance, Philadelphia Manufacturers Insurance and Protection Mutual Insurance, operates a fire test laboratory in West Glocester,

Continued on page 12

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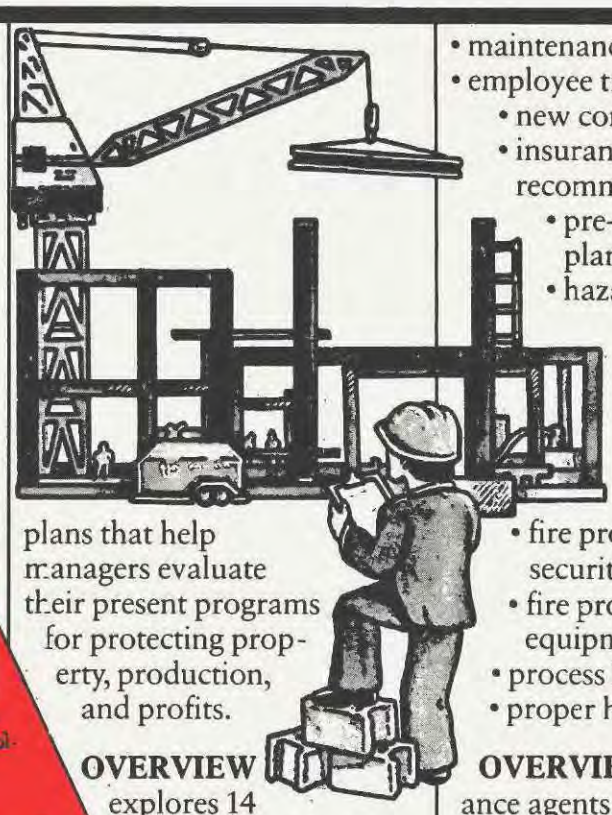

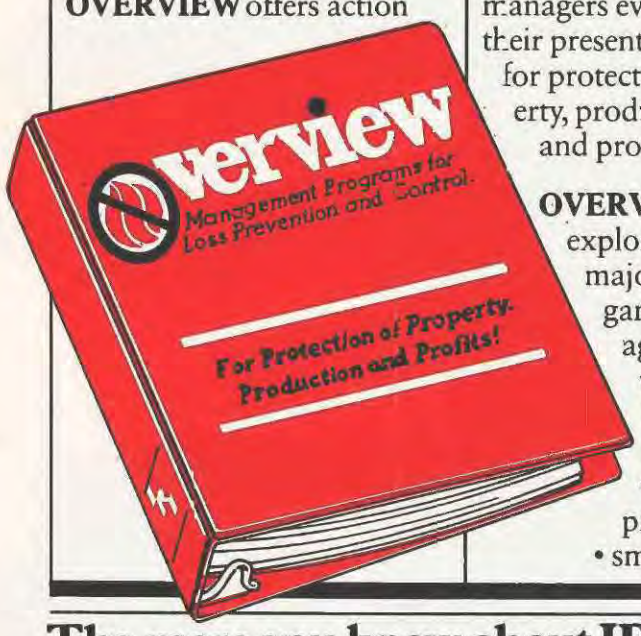

OVERVIEW explores 14 major areas of an organization's defense against loss by providing essential background information:

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- maintenance
- employee training
- new construction
- insurance company recommendations
- pre-emergency planning
- hazardous materials evaluation
- cutting, welding, and other hot work
- loss prevention inspection
- fire protection and security surveillance
- fire protection equipment inspection
- process hazard evaluation
- proper housekeeping

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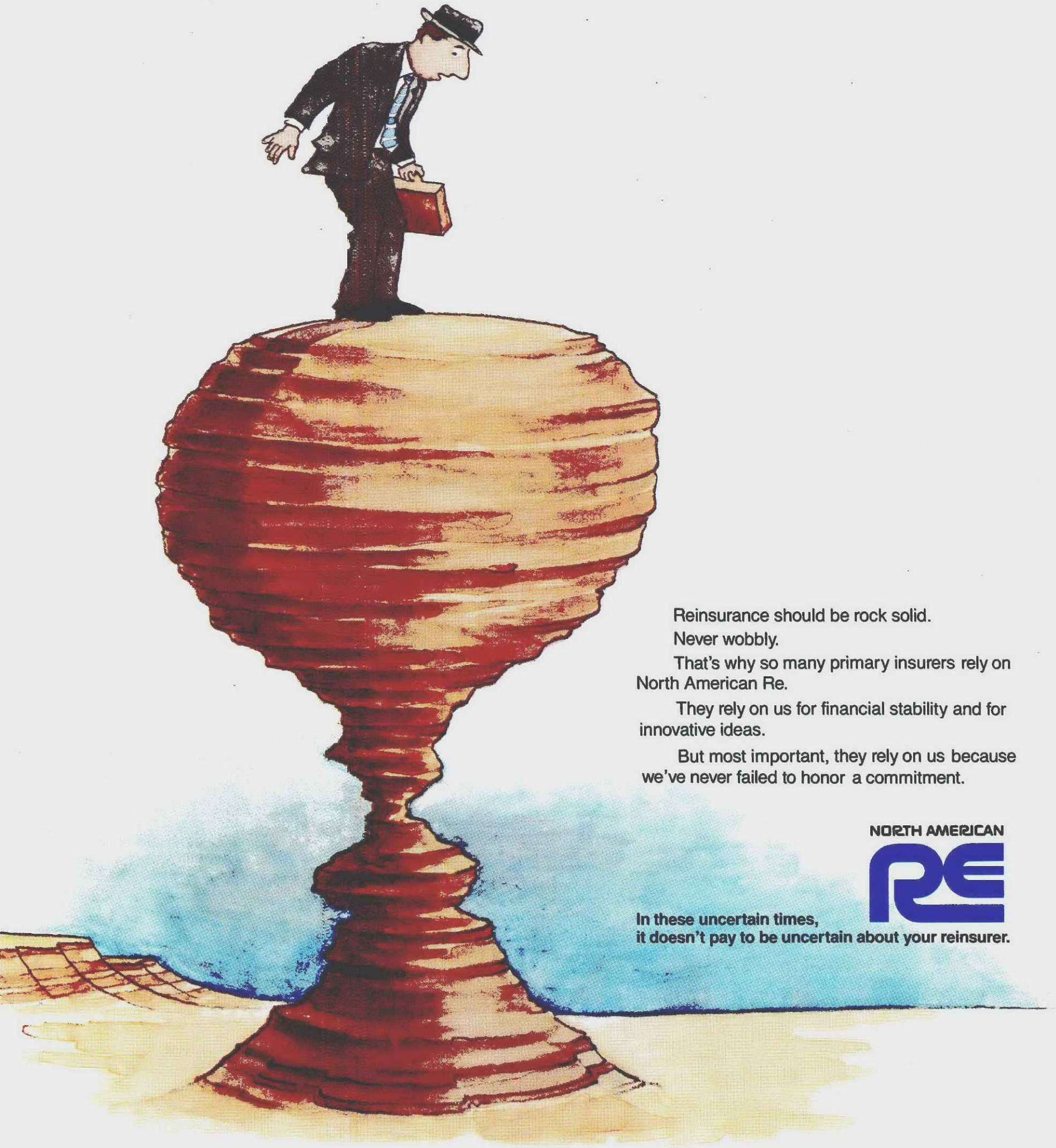

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HPR insurers offer guidance

Continued from page 10

R.I. There, engineers study the characteristics of fire, how it burns and how to best extinguish it (see story, page 25).

Many of the laboratory's findings have led to major warehousing, storage and fire prevention changes in numerous industries.

Both the Kemper Group and Industrial Risk Insurers operate training centers where they teach their own engineers, risk managers, loss-prevention managers and fire officials about fire prevention and loss control.

While neither facility does the large-scale testing that Factory Mutual undertakes, they both seek loss-prevention solutions they hope will help corporations prevent a major loss and keep property premiums in check.

Engineers from major HPR underwriters also provide concerned insurance buyers with advice on how to build sprinkling systems, what size water supply is necessary to provide the ultimate fire protection and how to section off highly flammable materials from potential fire sources.

"An HPR risk that isn't continually engineered rapidly deteriorates," explains Mr. Bennett of Alexander & Alexander.

Some risk and loss-control managers of many large corporations agree, saying they choose to remain with traditional HPR insurers for the testing and engineering services they provide.

"We practice loss prevention, trying to make most all of our facilities meet HPR standards because we want to protect our assets, protect our people and prevent having a business interuption," explains Kenneth Burns, loss-prevention manager for Carnation Co., a dairy and food products company based in Los Angeles.

"If you don't have but one facility producing a product and it is knocked out, you could go down the drain," he says. "You want to keep your product out there on the marketplace. You can't do so if you can't produce because of a loss.

"Besides, if you have a fire, maybe somebody wouldn't be able to get out of the building. And, certainly, it costs more money to build a plant these days than it did years ago."

Carnation, Mr. Burns says, retains a portion of its risk, insuring the balance with an HPR insurer. Most of its losses normally fall within its self-retention level.

"We feel it is very important to properly protect our assets," says Allen Brosius, director of corporate insurance and risk management for Honeywell Corp., a Minneapolis electronics and controls manufacturer. "There's a pure desire to avoid a loss. We don't just look at the premium, we look to make our property as safe as possible."

Honeywell insures more than 100 properties under one blanket policy written by Industrial Risk Insurers.

"There isn't much shifting around," Mr. Brosius says, explaining his company's insurance philosophy. "But we perodically check competing insurers to see what they're offering."

The competition has come from property insurers that want a piece of the HPR market and can offer big limits to large risks thanks to the glut of reinsurance capacity. In addition to seeking premium volume, the insurers see companies that formerly met special HPR protection standards as good risks.

One company that made the move from a traditional HPR market is American Can Corp., a container manufacturer based in Greenwich, Conn. It shifted from its longtime HPR underwriter, Allendale, to Employers of Wausau two years ago, realizing a 20% premium savings.

Wausau, a relatively new entry in the HPR market, offers American Can engineering services that company officials believe continue to help Amecican Can prevent major losses.

In addition to detailed research and suggestions on how to best protect a risk, engineering services also include:

- Making fire inspections at least twice a year.
- Checking the sprinkler system.
- Checking the water supply system.
- Checking the watchmen or security system.
- Checking the alarm system.

American Can doesn't always fully accept Wausau's loss-control recommendations. Recently, Wausau suggested that one of American Can's Midwestern facilities needed a secondary water supply. The improvement, would have cost the company $300,000, said Richard M. Inserra, director of insurance and risk management.

American Can convinced Wausau that it could install a new pump costing only $50,000 to boost the water pressure and resolve the problem. ■

"Resusci Anne" CPR training manikin by Laerdal Medical Corporation, courtesy of American Heart Association Suncoast Chapter, Inc.

"It's a matter of life."

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Computer firm talks to insurers before it begins construction

By JAMES C. LAWSON

NEW YORK—When Management Assistance Inc. considered expanding its Tustin, Calif., computer manufacturing site in 1979, it sought an architect, contractors, landscapers and the expert advice of its property insurer, Industrial Risk Insurers.

MAI consulted IRI, the HPR underwriting consortium of 45 large property stock insurers, again a year later when it constructed its Sorbus training and storage facility in Frazier, Pa.

Consulting insurers about construction has become a practice for MAI, a New York-based company that is concerned about preventing major property losses.

The result, company officials say, has been low insurance premiums, special awards for safety and the comfort of knowing they have done their best to prevent a major debilitating property loss that could temporarily take them out of the competitive computer marketplace.

MAI is one of a growing number of companies that are consulting the engineers of highly protected risk property insurers, seeking expert advice on how to build stronger, safer facilities able to withstand catastrophes.

They are consulting with insurers not only when constructing new buildings, but also when expanding old facilities or when changing a manufacturing or storage procedure that could require new protections against fire and other perils.

"We wouldn't think of making an addition or building a new site without consulting our insurer first," says Norman R. Bieber, MAI's assistant treasurer.

"We have to protect our assets in the most prudent manner we can," adds Lee Conklin, the company's risk and insurance manager. "The idea is to minimize your losses. If you have a loss, you're paying for a long time."

MAI's prudent philosophy not only has helped it prevent a major property loss, but also reduced its annual property insurance costs. Company officials estimate saving more than 50% on their premiums.

"We review all leases and facilities to see whether it's economically feasible to qualify them as HPR buildings," says Mr. Bieber. "We try to do it when it's economically feasible. We try to look at our payback."

The payback, many risk managers and insurers say, can be measured by comparing the cost of the loss-control measure with the premiums saved as an HPR risk, considering the time value of money.

It often is easier to contruct a building to HPR standards than it is to upgrade an existing facility.

To meet HPR standards at its Tustin site, MAI had to provide an adequate sprinkling system and fire cutoffs in the two new buildings and build a new reservoir.

The old water supply, insurers said, wasn't enough to meet the added water needs.

IRI was "afraid pipelines which came from Los Angeles could get severed in the event of an earthquake," Mr. Conklin says. "They also felt we needed to beef up our water pressure."

MAI spent $500,000 to build a 300,000-gallon reservoir at the 21.5-acre site. And the reservoir, which helped reduce MAI's property rates as an HPR risk to lower than conventional rates, has paid for itself.

MAI wanted to make its 19-acre Sorbus training center a "state-of-the-art" facility. Hundreds of expensive computers, which among other things control room temperature in response to body heat, had to be protected. Special water spinklers were installed upon the advice of IRI engineers.

MAI's special insurance package includes $250 million of property coverage written on a blanket basis covering all of the company's manufacturing, storage, training and sales facilities. While not all of MAI's buildings have been classified as highly protected risks, the computer company qualifies for HPR coverage because of its safety practices and the blanket coverage that has helped it keep its loss experience down.

MAI now pays less than $500,000 annually for its property insurance, including earthquake coverage. ■

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Dishonest workers can rob retailers of profit margins

By STEVE TARAVELLA

NEW YORK—Do you trust your employees?

You probably shouldn't—at least not without daily inventories, polygraph tests, handwriting analyses and spot checks on voided retail sales slips, say researchers and retail executives.

A recent study suggests that most retail employees commit some act of dishonesty that robs their employer of profit, according to Dr. John Clark, professor of sociology at the University of Michigan.

Dr. Clark surveyed almost 10,000 employees from major U.S. cities, including Cleveland, Dallas/Fort Worth and Minneapolis, who are employed in various workplaces from hospitals to manufacturers to retail chains.

His study "Theft by Employees in Work Organizations," reports:

- A whopping 57% of those employed at retail stores admitted abusing the store's discount privileges.
- Some 5.8% admitted falsifying time sheets to get paid for hours they didn't work.
- About 3.2% purposely underrang purchases. This percentage may acutally be somewhat low because only some of those surveyed used a cash register in their jobs, Dr. Clark says.
- About 6.6% admitted stealing specific merchandise.
- About 2% admitted falsely enlarging expense account reports. This portion, too, may actually be lower than indicated because not all of those surveyed had expense accounts.

Although the problem seems enormous, organizations that have strict controls are less likely to experience theft, Dr. Clark says.

"The attention to the problem by the organization predicts, to some degree, the rip-off," he notes.

Gordon L. Williams, vp of the security division of the National Retail Merchants Assn., agrees. He estimates that employee dishonesty accounts for as much as 40% of the annual stock shortage at the more than 35,000 department stores and specialty shops in the organization.

But association members are aware of the problem and are taking steps to beat the age-old dilemma of employee theft.

Like Dr. Clark, he recommends strong company policies backed up with surveillance techniques.

"Many companies catch employees doing something obviously wrong," Mr. Williams says, but have no rules that permit them to take action.

"Establish rules and regulations to control employees' actions and conduct so you have a basis for holding employees responsible," he advises.

The attitude of department supervisors then becomes important in controlling dishonesty.

"A supervisor should constantly challenge and correct an employee who is obviously violating a rule," he says.

Mr. Williams says that one of the most important preventive measures a retail outlet can adopt is a careful screening of prospective employees. He suggests personnel departments examine work histories and references thoroughly before hiring.

"Also, establish the right at the time of employment to subject the employee to a truth verification device (polygraph test)."

To avoid alienating employees, he also suggests that when testing is necessary, the store should announce all employees will be tested "to smoke out the suspicious person."

Several large American retailers also give written honesty tests to those being considered for a job "to determine the tendency to be dishonest," Mr. Williams says.

After an employee is on the job, retail loss prevention becomes the responsibility of the store's security

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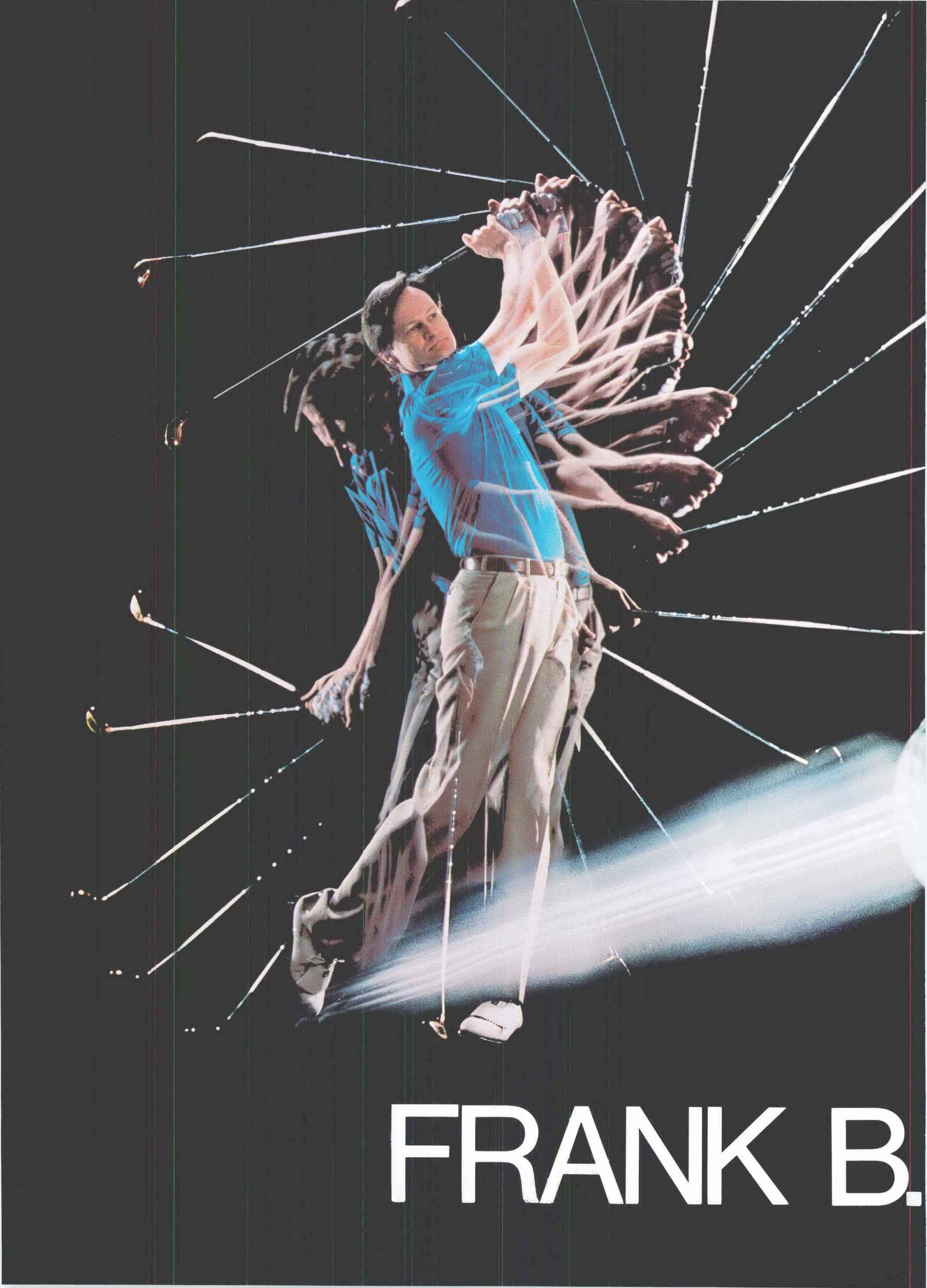

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Retail security plans target theft prevention

Continued from page 15

manager.

Although most retail chains refuse to discuss their specific in-store loss-control measures, a security operations manager for one national retail chain painted a fascinating picture of employee fraud, theft and surveillance techniques on the condition that his name and that of his company not be used.

The chain's policies, according to the security operations manager, have proved effective in controlling employee theft.

"Prevention is the key," he notes. "Our goal is to stop it before it happens."

The security manager cites his chain's employee training program as an important deterrent to in-house losses. Newly hired employees go through extensive training on shoplifting, shrinkage, internal losses and the consequences involved. If they are considering any in-house theft, he says, "this lets them know what they're in for."

The chain is prepared for a variety of recurrent problems like fraudulent refunds, falsified charge account credits and "short cash"—when a register comes up short at the end of a working day.

"The majority of our losses are in the manipulation of paper," he says, but the company has discovered some effective controls. They include handwriting comparisons, daily inventory checks in problem areas like jewelry departments, random spot checks in merchandise areas and regular reviews of refunds and voided sales slips.

The chain also uses surreptitious surveillance cameras, not in bathrooms or fitting rooms, but above the cash registers of suspected employees.

The security manager says he prefers to wait until he has filmed the employee in the act two or three times before confronting him or her. Then, he says, he will bring the case to the prosecutor's attention.

The cameras are occasionally used at the company's major loading docks when there is reason to believe employee theft is occuring.

One of the company's other in-house programs provides rewards for employees who are alert to potential loss areas.

"This program generally deals with error making, such as product mismarking, and gets employees to participate in checks in areas where we've been susceptible in the past," he explains.

If, for example, an employee brings his supervisor a $10 blouse he found shelf-marked at $1, he would be eligible for end-of-the-month rewards like a savings bond, opera tickets or a gift certificate, depending on the policy of the store's manager.

The store uses undercover operators "from time to time," he says, but with a limited success rate. "The system is very delicate and difficult to use because if we get good information from an operative, he or she often will want to remain anonymous and won't want to testify."

"It (consumer fraud) is becoming more and more sophisticated each day," he says.

Employee dishonesty is not limited to salespeople, the security manager adds, and that problem is much more difficult to monitor.

Sometimes, he says, the chain loses money when one of its buyers engages in "commercial bribery—allowing the vendor to charge $1 or $2 more per unit." The company pays the extra expense, which it eventually kicks back to the buyer.

"These are much more difficult to detect than the cashier on the floor taking $5 a day. The higher up an employee is, the more susceptible the company is to sophisticated losses," he explains. "With each level comes more authority and fewer checks." ■

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HPR insurers broadening their coverage

By JAMES C. LAWSON

NEW YORK—The fierce competition for good property insurance risks is prompting some highly protected risk insurers to broaden their coverages and lower their rates.

HPR insurers, to fend off competitors, have begun offering some of their better corporate clients difference-in-conditions and boiler and machinery coverage.

In some cases, they are offering coverage for the increased cost of construction in the event a policyholder suffers a major loss and must rebuild under stricter governmental codes requiring more expensive protection devices or better-built structures.

Coverage for the increased cost of construction, normally added to an HPR package as an endorsement, is being included in the packages of large, good property risks with low loss experience at relatively low rates, say industry officials.

Management Assistance Inc., a New York-based computer manufacturer with facilities across the country, changed HPR insurers a couple of years ago, greatly reducing its premium and greatly broadening its coverage.

"The last three or four years have been very good, better than they were in the earlier years," explains Lee Conklin, manager of risk and insurance for MAI. "Underwriters are almost forced to yield to the policyholder either with rates, additional coverages or both, based upon what the good competition is doing."

MAI currently has a blanket all-risk property policy that covers everything except nuclear, flood and earthquake exposures. MAI's package, which includes coverage for difference in conditions, business interruption and extra expense, is underwritten by Industrial Risk Insurers, a consortium of 45 stock insurers underwriting property risks.

The additional coverages, Mr. Conklin says, were practically gifts from the insurer.

"If they (underwriters) like you, they're more willing to give you something without a cost factor."

MAI's package is so good, Mr. Conklin says, "we decided to lock it in on a three-year basis."

HPR policies normally are written for corporations that exhibit an excellent ability and desire to prevent or control losses through the use of well-designed facilities, including sprinkler systems, adequate water supplies and good security and alarm systems.

Some companies with less commitment to loss prevention that normally wouldn't get the special classification, however, are doing so, say industry officials.

"In today's market, if you meet one or two of the qualifications, have a low loss experience and if there is a big premium involved, an insurer may overlook some of the minor problems," explains William Jennings, a vp with the property department of broker Johnson & Higgins in New York.

HPR policies, which formerly cost about 5 cents per $100 of insured value, now are being offered to good property risks for 2 or 3 cents per $100.

"There's much more flexibility in HPR rates than there has been in the past," explains Larry Lassus, a senior vp with the New York office of Alexander & Alexander.

In the past, some large corporations opted not to purchase the additional demolition or increased cost of construction coverage, believing they could finance the difference in the cost of construction of a more expensive building.

"We would expect to cover the loss ourselves," exlains Allen D. Brosius, director of corporate insurance and risk management for Honeywell Corp., a Minneapolis-based electronics manufacturer. "We don't feel it is significant enough to insure it."

Firms not wishing to include that coverage as part of an endorsement to their regular policies may get it in a new all-risk package that's now offered to large clients.

"Most HPR underwriters will arrange an all-risk package," says Mr. Lassus.

Those all-risk packages, he notes, will include boiler and machinery coverage, traditionally not included in most HPR policies, which covers fire and explosion perils.

"HPR carriers are doing corrective things to fend off competition. Right now, a risk manager can broaden a contract fairly far," says H.B. Bennett Jr., assistant vp and property marketing specialist at Alexander & Alexander in Los Angeles. "I've seen insurers give away demolition and increased cost of construction coverages."

The Factory Mutual System, a leading HPR insurance network made up of Allendale Mutual Insurance Co., Arkwright-Boston Insurance, Philadelphia Manufacturers Insurance and Protection Mutual Insurance Co., earlier this year began marketing a new comprehensive policy that "expands coverage in areas not traditionally covered" in its HPR packages, explains John J. Carey, president and chief operating officer of Allendale Mutual in Johnston, R.I.

The new policy, Mr. Carey explains, is a "loss policy," different from a perils policy inasmuch as it covers anything that is not excluded. Rating, he says, is based upon an anaylsis of the perils and the potential exposure to loss.

The all-risk concept has been a good insurance tool, contends Sherry Brown, assistant vp at Arkwright-Boston. Good risks have been able to cut their premiums.

Arkwright, Ms. Brown notes, still looks for risks that can adequately protect isolated hazards, provide adequate cutoffs for fire containment, have well-constructed facilities and an adequate water supply and sprinkling system. ■

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Good security is more than guards, consultants say

By STEVE TARAVELLA

Central station alarm systems, surveillance cameras, visitor escorts and employee access control systems are proving to be some of the most effective building security features.

A growing number of corporate risk managers are concerned with developing better security programs for their offices and are looking beyond standard security guard protection.

"The majority of high-rise buildings that exist today have been built on a dollar-conscious basis and consequently, a minimum, if any, emphasis has been placed on security, fire protection or life safety," contends Larry Compton, vp of consulting at Total Assets Protection Inc. in Arlington, Texas.

Belden Menkus, an independent security analyst in Middleville, N.J., suggests that a risk manager "plug himself into his area's security environment" as one of the first steps toward establishing a security system.

When shopping for security measures, Mr. Menkus says, "You have to take a look at the property in terms of the way it sits." He advises considering such factors as an area's traffic patterns and nearby buildings. "Something that may work at one site may be dumb somewhere else," he says.

A building surrounded by apartments, for example, may find walking guards more effective for exterior protection than especially bright lighting because apartment dwellers may complain, he says.

Central station alarm systems are common in corporate security packages, Mr. Menkus says, because insurance rates are often less for companies that subscribe to the system. The system, which he calls "perhaps the oldest form of security system operating in this country," alerts guards at a central site when circuits securing certain doors and windows are broken.

When guards receive the alarm, they routinely notify the police and proceed unarmed to the site. However, Mr. Menkus explains, the system's liklihood for short circuits and, therefore, false alarms, has caused many guards to hesitate before notifying authorities.

To restrict access to certain areas, Mr. Menkus recommends "zoning the site." This, he explains, includes putting a wall, gate or partition between the general flow of traffic and the area where protection is necessary. Those entering the area should be required to identify themselves, he says, either to a receptionist or by using an employee access device.

Mr. Menkus stresses that an effective visitor security policy must include checks on service people, repairmen and even the night cleaning staff.

"One of the great ways to steal things from a company's file is to go in there as a cleaning person," he notes. When a repairman enters the building, he advises, "Be sure someone in the company goes with him and stays with him until he's done."

Mr. Menkus dismisses claims that it is foolishly costly to pay someone to supervise repair jobs. "Protecting assests doesn't make any money," he admits, "but you have to ask yourself what the investment is worth."

Many companies have incorporated successful badge-identification policies into their security systems. "A badge system helps, but it's not foolproof," Mr. Menkus says. The badges are difficult to monitor because guards tire quickly of examining them, he notes. "It's possible to pay attention to something so attentively that after a while, you stop paying attention to it."

Badges should be reissued every two years "at maximum," he says, because the color photos tend to fade and because people's appearances frequently change. He advises corporate security directors to require personnel leaving the company's employment to turn in their badges when they leave.

The American Medical Assn. in Chicago has taken the badge system one step further. Keith MacKellar, director of corporate security, says visitors to the association's

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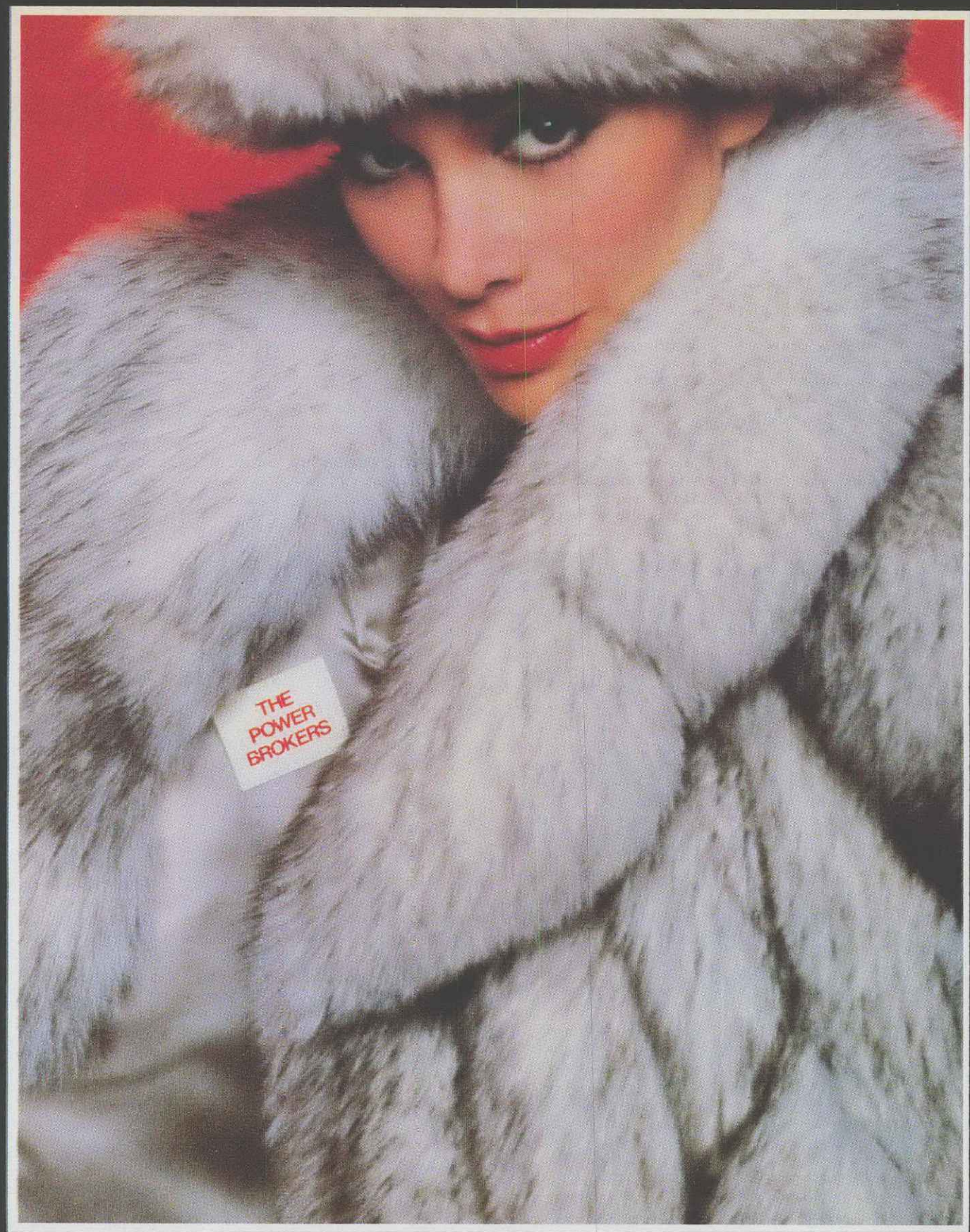

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Security should be tailored to fit each area

Continued from page 20
Chicago's headquarters are given passes to wear during their visits—with their names on them.

The association automatically voids its badges every three years.

Visitors to the AMA are screened thoroughly, Mr. MacKellar says. Perimeter exit doors are kept locked and are secured with alarm systems. Traffic is funnelled through two main lobbies, both fully staffed. Personnel are stationed in the lobbies to receive visitors, who must register in a ledger. A visitor is announced to verify that the visit is an authorized one, after which the visitor is escorted to his destination in the building.

The visitor security policy "has worked out extremely well," Mr. MacKellar says. "In most cases, it's been beneficial to the visitor, too. If he's escorted, he doesn't get lost."

Mr. Menkus agrees that visitor escorts are an important part of a good building security plan. "You should never let people wander in any organization," he advises.

James Brodie, public safety director for Oak Forest Hospital in Oak Forest, Ill., a 67-building medical center that boasts an intricate security system, agrees that badges can be helpful, but suggests that companies with easily accessible valuable merchandise, such as jewelery, install a computerized card access system for their employees.

Mr. Brodie says many companies using such an access system also program the computer to admit an employee only during certain hours. For example, an employee's card may allow him access at the building's entrance anytime from 8 a.m. to 4 p.m. If, for example, he attempts to enter the building at 2 a.m., an alarm sounds at the company's security office. This system also keeps unapproved visitors from entering the premises.

Lock-and-key control is an important part of the hospital's security system, Mr. Brodie notes. Most doors have been cored with master and sub-master lock arrangements. If a key is lost, cores can be changed immediately at no great expense because the core's combination can be changed and used elsewhere in the building.

Motion-detecting devices also have been used effectively to control access to certain areas, security directors say.

Oak Forest Hospital has placed them in hospital storerooms, where a hidden camera and tape recorder are activated if the device picks up motion in the room. This way, Mr. Brodie explains, security officers can see if the intruder is armed, and proceed accordingly.

The film and tape recording could later be submitted as court evidence, Mr. Brodie says.

"I don't believe in just flooding a place with cameras—that's really not effective," Mr. Brodie says. "Unless a camera can tell me something, I won't use it."

The hospital has installed cameras in underground tunnels (many of the buildings on the premises are connected in some manner) in which nurses often walk late at night. When a motion-detector picks up movement, a light flashes above that camera's monitor to alert the guard on duty that someone is in the area.

The AMA uses cameras primarily to monitor doors, lobbies, parking lots and loading docks—any area office property could pass through easily, Mr. MacKellar says.

Some exit areas at the AMA are governed by ultrasound for employee safety. When an employee enters this area, an officer on monitoring duty is alerted to guide people out of the building by loudspeaker even before the employee reaches the door to set off the alarm.

Motion detectors, unfortunately, have their drawbacks. Mr. Menkus says some will detect sounds or movement beyond the walls of the protected area. Their extreme sensitivity to the atmosphere occasionally signals false alarms, he says.

Mr. Compton of Total Assets Protection suggests a building focus its security operations, including alarm systems and monitoring devices, in one location.

Security guards are an important deterrent, Mr. Compton says, but advises risk managers to be selective in choosing them. "The majority of security officers are ill-trained and given poor instructions, and in some cases, pose more of a detriment to the company (than an asset)," he says.

Mr. Menkus agrees that many guards are not well-prepared. "Unless you're hiring a moonlighting cop, a security officer is just another citizen and not a peace officer."

"The quality of security is exactly what top management demands," Mr. Compton says. "Senior management has been remiss here."

Mr. Compton suggests risk managers put employee safety training programs with their security systems. "Security awareness training for employees, particularly supervisors, is an essential element in any organization, regardless of the sophistication of fire protection or other security systems," he says. Emergency evacuation procedures should be established, and drills conducted semi-annually.

"The whole purpose for security and fire protection systems is to provide rapid notification to employees who may be in some isolated area of the building," he says.

When shopping for a security system, certain questions should be asked, consultants advise. Risk managers should know, for example, how fast central station alarm systems bring response, what type of follow-up service is available after a system is installed and what company will install the system.

When considering a security firm, Mr. Menkus suggests speaking with police, suppliers and especially customers of the suppliers.

All security directors should know exactly what would happen if the system failed, such as in a power failure. "If I were a risk manager, I would find out for darn sure what kind of power I had in an emergency," Mr. Menkus says. A security director should also be aware of back-up systems, like generators.

Also, he says, security directors should be clear about who would be liable in case of communication breakdown.

Mr. Compton suggests that risk managers of companies that cannot afford security consulting services research the possibilities at a large library.

Mr. Brodie says, "Apprehension should be the last thing security thinks about—prevention is the key." ■

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Kemper experts learn by watching fires, blasts

By CAROL CAIN

LONG GROVE, Ill.—The laboratory scene in late-night science-fiction movies is all too familiar.

A white-robed scientist working with bubbling beakers is surrounded by panels where electrical charges jump from point to point. As he concentrates on an experiment, his assistant knocks over a vial, two substances mix and there is an explosion. The startled scientist leaps back onto a control panel that begins to spark.

Similar scenes, minus the startled leaping, occur frequently in Kemper Group's highly protected risk training laboratory in Long Grove, Ill. The major difference is that the fires are deliberately set and explosions are simulated as part of training programs for about 250 people each year.

The programs are aimed at maintaining and upgrading property conservation measures at factories and facilities around the world that qualify as highly protected risks because of their loss-prevention measures, says George M. Hidzick, HPR engineering officer at Kemper.

Kemper Group, with about 13,000 employees worldwide, maintains a staff of about 200 fire-protection engineers in North America—engineers who have been trained in the 11-year-old laboratory.

To qualify as a highly protected risk, and enjoy an insurance rate reduction, a facility must pass an inspection by an HPR engineer. Kemper trains about 40 new engineers each year.

"We generally hire graduate engineers; most start right out of college," says Mr. Hidzick. The recruits are then put through the one-year training program to develop engineers into Kemper fire-protection specialists.

The main purpose of the Kemper lab "is to train our people," Mr. Hidzick says. Engineers use the knowledge gleaned in the lab to inspect plants, investigate losses, evaluate risks and consult with plant mangers, he says.

When the engineers are in the field, they look at a facility's water supplies, sprinkler and special protection systems, emergency programs, signaling systems and protective measures against windstorms and exposures created by adjacent properties and construction. What to look for and how hazards can be corrected are among items covered in the training.

In addition to the training program, the lab is used for advanced seminars for Kemper staff and outsiders. Throughout the year, there are special week-long property conservation courses attended by property owners as well as Kemper agents and brokers, he says.

Special classes for plant managers, plant engineers and fire departments fill out the lab's activities. Mr. Hidzick notes that attendance at these specialized courses has dropped this year because the poor economy has pinched budgets.

The Kemper trainees actually spend only four to six weeks in the laboratory, with the remainder of their training year spent in offices and in the field. "There's lots of reading assignments of technical material and inspection work in the field," notes Mr. Hidzick.

The HPR lab is not a research facility, although research is conducted in other divisions of the HPR department, Mr. Hidzick says.

The lab itself, located on the lower level of the modern Kemper facility, in many ways looks like a basement rather than a laboratory. Yards of pipes near the entrance to the lab are linked to a 3,000-gallon pressure tank that sits in the far corner. Opposite are fire pumps—one diesel, the other electric.

A "wet room" where sprinkler systems and high-expansion fire-fighting foam are demonstrated dominates yet another corner of the facility.

Vent systems, gas valve display boards and a fixed dry-chemical extinguishing system are strategically located around the room, like machinery in a factory shop.

"The lab is not a museum," points out Mr. Hidzick. The modern equipment is used for either demonstrations or hands-on experience.

Continued on next page

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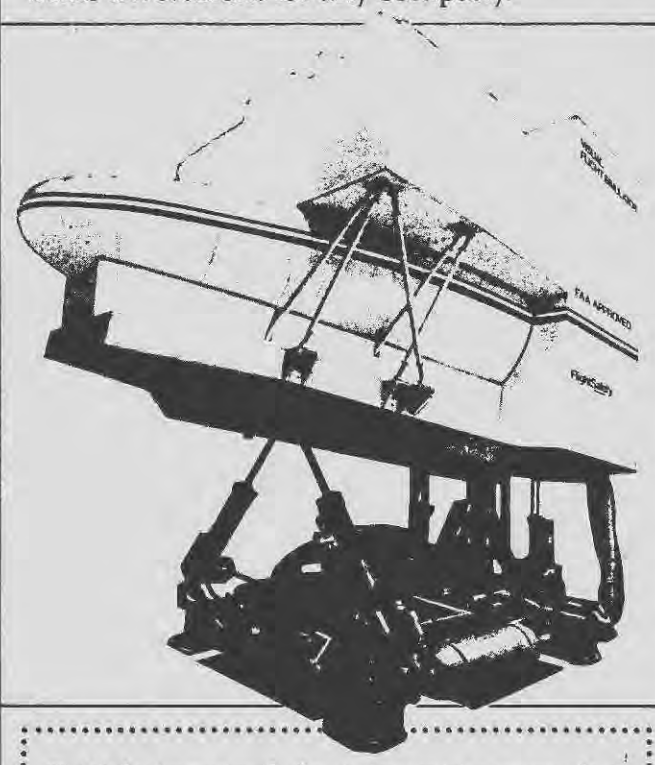

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Photo: Carol Cain
Mr. Hidzick points out some of the monitoring equipment in the lab.

Kemper uses fires to train experts

Continued from previous page

How modern is modern? "Fire-protection equipment doesn't change that rapidly," he notes, pointing to an antiquated but still functional sprinkler.

During any one of the some 22 weeks each year the lab is used for training, a team of engineers takes turns tripping the valves on the maze of pipes, observing the mechanical function of the equipment and then resetting the system.

In many instances, equipment samples furnished by different manufacturers allow the engineers to study dissimilarities. There are three simulation consoles to demonstrate combustion safety-control equipment furnished by Honeywell Corp., Electronics Corp. of America and Protection Controls Inc.

Usually the differences are in the packaging rather than the functions of the equipment. "A pump's a pump," Mr. Hidzick says.

In the pump area of the laboratory, there are working examples of a horizontal centrifugal diesel fuel pump, an electrically driven vertical turbine fire pump and the control equipment for each. There is also a cutaway section of a fire pump for a close-up inspection.

Sprinkler systems are heralded as a front-line defense against fire. In the Kemper lab, engineers have the opportunity to see some of the systems at work in the wet room, which resembles a shower room in a racquetball club.

For the demonstration, a small pan fire is lit in the middle of the room. Water from the overhead sprinklers douses the flames.

The same room is used to demonstrate the capabilities of a Hi-Ex (high expansion) foam generator that, according to Mr. Hidzick, is essentially a bubble-making machine—but one that rapidly mixes thousands of parts of air with one part of water. The generator is used in certain types of storage situations where it would be difficult to control a fire with sprinklers alone, Mr. Hidzick says.

Besides water, the effects of halon and carbon dioxide as fire-extinguishing agents can be demonstrated in the lab. However, simulations are used rather than a hands-on model because of the cost, Mr. Hidzick says.

Halon is a relatively non-toxic gas that can be used to quickly flood a burning area while people are still present. When carbon dioxide is used, though, a 30-second warning is given to those present to evacuate the area because it can suffocate humans.

Carbon dioxide, however, frequently is used to extinguish surface fires. During a demonstration at the Kemper lab, a high-pressure carbon dioxide system is set up near a dip tank, which in a factory setting would contain paint. During the demonstration, the system is tripped and the liquid carbon dioxide travels through overhead pipes until, at the end of its path, it mixes with air, bursts out of a suspended wide-mouth opening and coats the dip tank, which in an actual incident could have been aflame.

The demonstration shows not only the properties of carbon dioxide, but also how fast it travels and how much flows.

Opposite the entrance to the lab is a table with miniature houses that resemble a model railroad layout without the trains. It is used to exhibit lightening protection devices, like lightening rods.

Nearby is an explosion-suppression system. This concept was developed by the British in World War II, Mr. Hidzick says, to protect fuel tanks from enemy aircraft. In commercial use, the ignition of a fire activates the system that quickly (in 50 to 60 milliseconds) dumps an agent, like halon or water, to suppress a potential explosion.

The model in the lab uses a flash bulb to simulate ignition.

Alarm systems, fire doors and smoke detection equipment can also be demonstrated in the lab. A chemical laboratory is used to demonstrate certain properties of fire, Mr. Hidzick says.

Although many of the gadgets in the HPR lab are designed to stop a fire once it has broken out, the information generated by the engineers is used to stop fires from happening in the first place, especially when a plant is being built.

"We really try to prevent accidents by proper design," he says. "But in spite of the best efforts to prevent them, accidents still happen.

"If there's a fire or explosion, at least we try to limit the extent of it," he says, noting that plants insured by Kemper have values from $5 million to "the giants of industry where there are hundreds of millions."

Kemper's HPR department's commitment to fire and loss prevention does not end in the laboratory. The department regularly produces brochures, training materials and technical bulletins to keep HPR producers and policyholders up-to-date.

A quarterly property conservation publication, Report magazine, is another product generated by the department. Subjects of recent articles included fires of electrical origins, plant emergency organizations, yard storage protection and a computer loss-prevention checklist. ■

FM's experiments jolt countryside in name of safety

By JAMES C. LAWSON

WEST GLOCESTER, R.I.—The bright orange flames burst out of the concrete chamber set deep into the quiet, hilly, grassy terrain.

Miles away from crowded civilization, Jack Rhodes, the graying maven of the Factory Mutual System fire test laboratory, was witnessing one of the hundreds of dust explosions set off at the expansive test facility each year.

"Twelve pounds of dust. Density 0.006 ounces per cubic feet," the fire expert said, explaining the burst that had just interrupted the silence of the countryside. "Synthetic molding compound. It doesn't take much but it can be very explosive That's why it is important to maintain good loss-control standards And it starts with good housekeeping."

Fires and explosions are a major concern of the Factory Mutual System and of Mr. Rhodes, FM's vp and chief operating officer of research and engineering.

Their experiments with fires and explosions can mean big savings and fewer property losses for the hundreds of corporate clients seeking expert loss control engineering advice as part of a highly protected risk property insurance package offered by the four insurer members of the Factory Mutual System: Arkwright-Boston Insurance Co., Protection Mutual Insurance Co., Allendale Mutual Insurance and Philadelphia Manufacturers Insurance.

More than 300 different fire and explosion tests are conducted at the 1,500-acre test site each year. Factory Mutual boasts that it has the world's largest fire testing laboratory facilities.

Measuring heat, determining the rate of fire consumption under specified conditions and testing new fire prevention equipment keeps Mr. Rhodes and the 17 engineers and technicians at the test facility busy using fire to fight fire.

Aerosol fires, gas fires, dust explosions, oil tank fires, burning whiskey barrels, smouldering tires, rolled paper, flaming ceilings and measured water drops emitted by several different types of sprinklers all hold solutions to problems Factory Mutual clients, fire-

Continued on page 32

Photo: James Lawson
Jack Rhodes' tests help improve safety at all types of buildings

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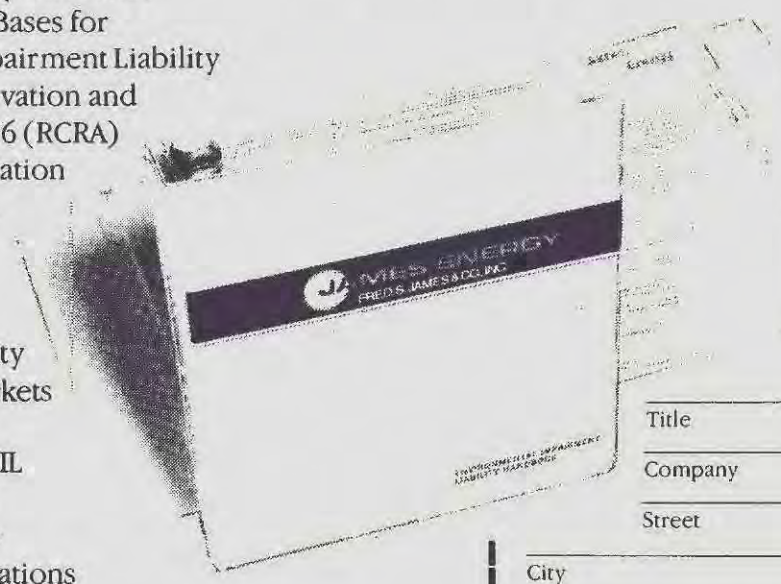

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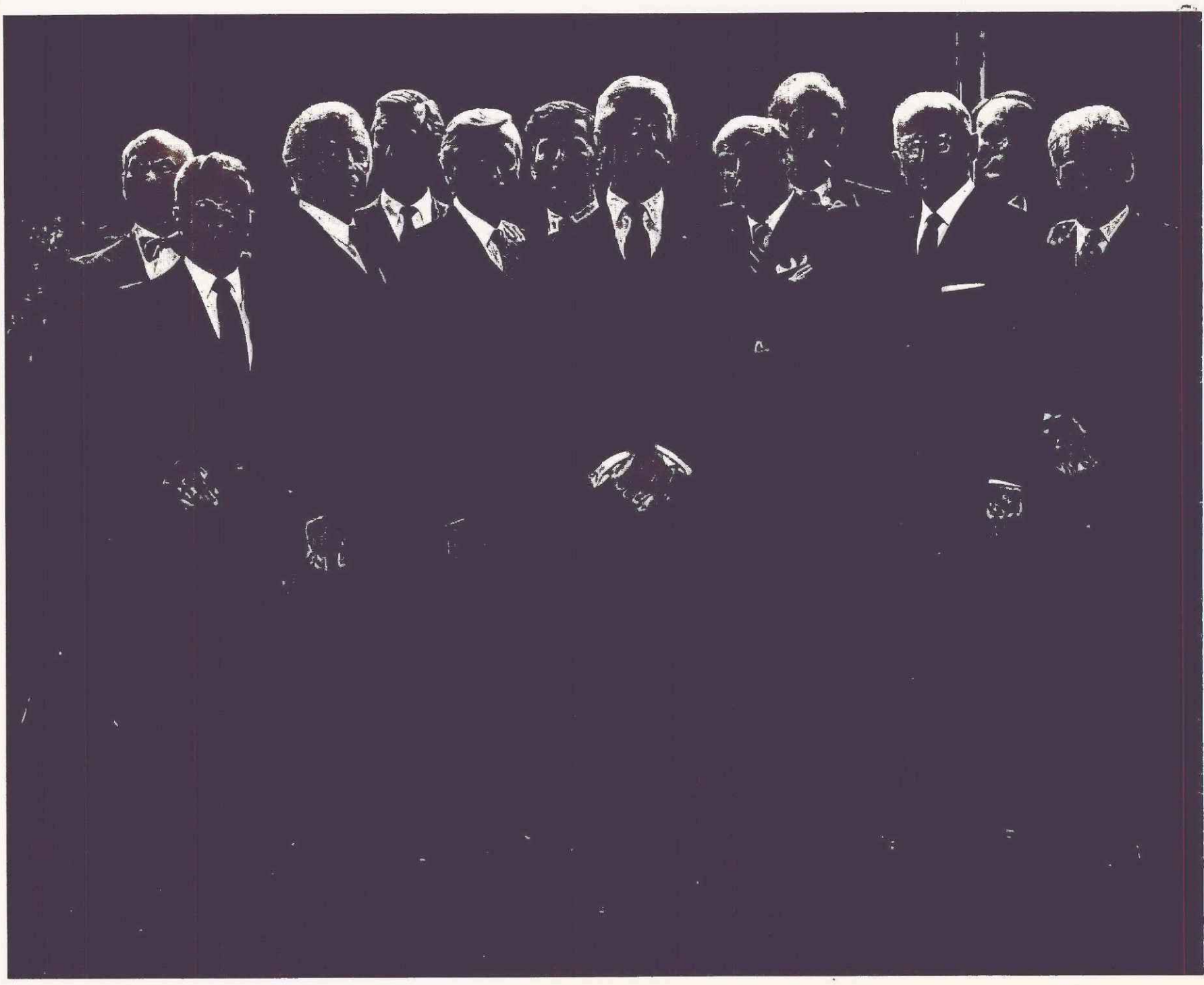

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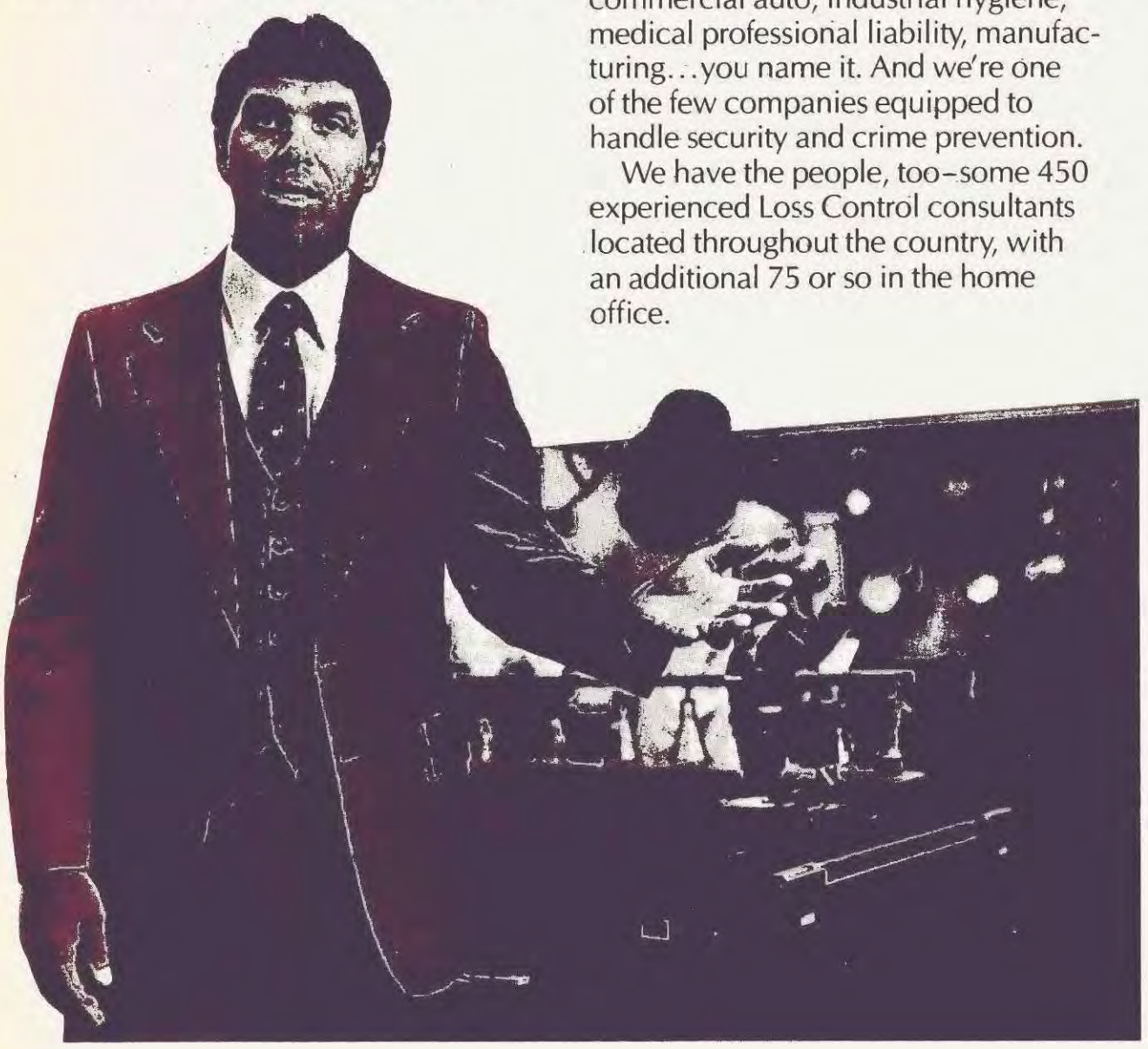

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Q. Is that tremendous capability available to companies across the country?

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Q. Is it available to big risks on an unbundled basis?

A. Yes, through our subsidiary, Hartford Specialty. Some of the largest corporations in the country currently take advantage of The Hartford's Loss Control capability on an unbundled basis.

Q. It sounds like The Hartford has made a major commitment in the Loss Control area.

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perspective

By Harry L. Masten

DETECTING FIRES

Princeton's elaborate alarm system has cut losses to a bare minimum

FOUNDED IN 1746, Princeton University has evolved into a tremendous educational and research facility, an elaborate "plant" with responsibility for thousands of students. The total university setting encompasses more than 100 academic and administrative buildings and some 44 student dormitories and other living quarters.

Education at Princeton reaches beyond conventional boundaries. Its highly effective safety program, for example, could serve as a model of fire prevention for other universities.

Dormitories, as well as all other buildings on campus that house students and others overnight, are well-protected from threat of fire losses by a sophisticated system of automatic, ionization-type smoke detectors, centrally monitored, with manual or "pull" alarms for backup.

One of the largest such systems in the world, it is composed of approximately 8,000 detector heads and was supplied by Pyrotronics of Cedar Knolls, N.J. During 10 years of use at Princeton, only one potentially serious fire has started in a protected building.

When a neglected candle ignited a dormitory curtain, the fire was promptly detected by the system, the alarm given and the fire was extinguished by the Princeton Fire Department. Although the contents of one room were destroyed, other damage was minimal and no injuries occurred.

Fires are likely to occur in any large university system. At Princeton, we expect about five bona fide dormitory fires a month, mostly originating in wastebaskets, from candles or neglected cigarettes.

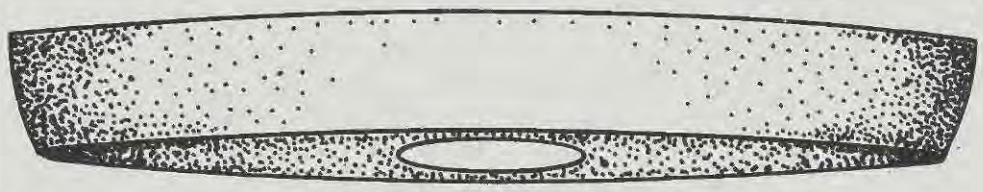
To date, such fires have been detected promptly, the occupants warned and the fires easily extinguished within a few minutes.

Currently, we have about 5,000 ionization smoke-detector heads installed in dormitories. Every room is protected, plus recreation and study areas, attics, storage spaces and other areas of concern. Some 3,000 smoke detectors are installed in academic buildings and about 25% of non-dormitory buildings are also protected.

All new construction—dormitory, academic or administrative—is routinely protected with smoke detectors and the balance of the university's buildings are being equipped as soon as funds become available.

The fire-detection system is composed of many smaller, complete systems installed in various buildings connected to a central base unit. Each unit consists of a zoned central fire-alarm and smoke-detection panel, detector heads, manual pull-type alarm stations and visual and audible signals.

Detector heads are located in every bedroom, usually over the entrance door, and provide supplementary protection of adjacent areas. Detectors are also located in halls and stairwells to protect exit paths as well as in attics, janitorial closets and storage areas. The Pyrotronics Type F5B detectors inside each room have remote alarm-indicating lights in the hallway over the access door.



The fire-protection system is zoned by building entry; all detector heads and manual pull stations are connected to the central panel at the entry to that zone. In dormitories that have several entrances and stairwells, zones are laid out to include each entrance, stairwell and rooms served from that particular stairwell, simplifying operation of the detection system.

The approximately 75 central panels serve as monitoring points and are connected to the campus police office, which is manned 24 hours a day.

In the event of a fire in a student's room, the detector, by remote control, immediately starts a flashing light above the door outside the room, sounds alarm horns throughout the building, indicates the entry affected at the control panel and sends a signal to the scanning multiplexer annunciator back at security headquarters.

The scanning annunciator monitors fire zones, security stations and special equipment. The computer continually checks the status of each monitoring point, running through all 350 points in less than two minutes. If an alarm is indicated, the panel lights up, a warning bell rings and a paper tape is printed with exact source of trouble, zone and time of activation.

Meanwhile, the security dispatch officer radio-dispatches the university proctors to the source of the alarm. Thanks to the zoning arrangements, they can be told exactly which access door requires attention. Proctors travel in roving mobile vehicles that take them to the indicated door in two to five minutes. There, the pulsating alarm light indicates the location of the fire.

Dorm proctors are trained and equipped for simple emergency firefighting, and in most cases can immediately control the problem. With the prompt dispatch system, the university can handle most fires itself. However, if a fire can't be readily controlled, a proctor quickly radios the dispatch desk and the Princeton Fire Department is called via a special hotline. In the past five years, the city fire department has been called only six times.

Responsibility for checking and classifying all alarms belongs to the foreman of security alarms and maintenance. In a typical month, a total of 78 alarms are recorded and charted, including five actual fires that were caught at inception before significant damage could be done. Any one of these could conceivably have destroyed a building and cost many lives.

Many of the other alarms indicated conditions of very real, although potential, danger, well worth the small trouble of investigation. For example, cooking in the rooms is against the law because it poses a health hazard, yet dormitory cooking set off 18 alarms.

The university is increasing its effort to limit unwanted alarms, such as those triggered by smoking in protected areas; but Princeton believes the protection of life and property is well worth the trouble.

About 68% of a typical month's alarms are attributed to student pranks or abuse of safety regulations. This problem, occuring mostly in freshmen dormitories, is constantly battled but rarely won.

Student pranks were a major factor in the original selection of "hard-wired" ionized smoke detectors. Any tampering with this type of head sets off a supervisory circuit on the console that signals a system malfunction. Prompt investigation follows.

The university selected ionization smoke detectors for fail-safe protection as well as for their excellent warning performance.

For example, if excess dust should accumulate on the head between maintenance periods, the detector responds by sounding an alarm. Photoelectric detectors, on the other hand, are not as reliable. Dust accumulation tends to obscure their optical circuits and causes them to become less sensitive and effective.

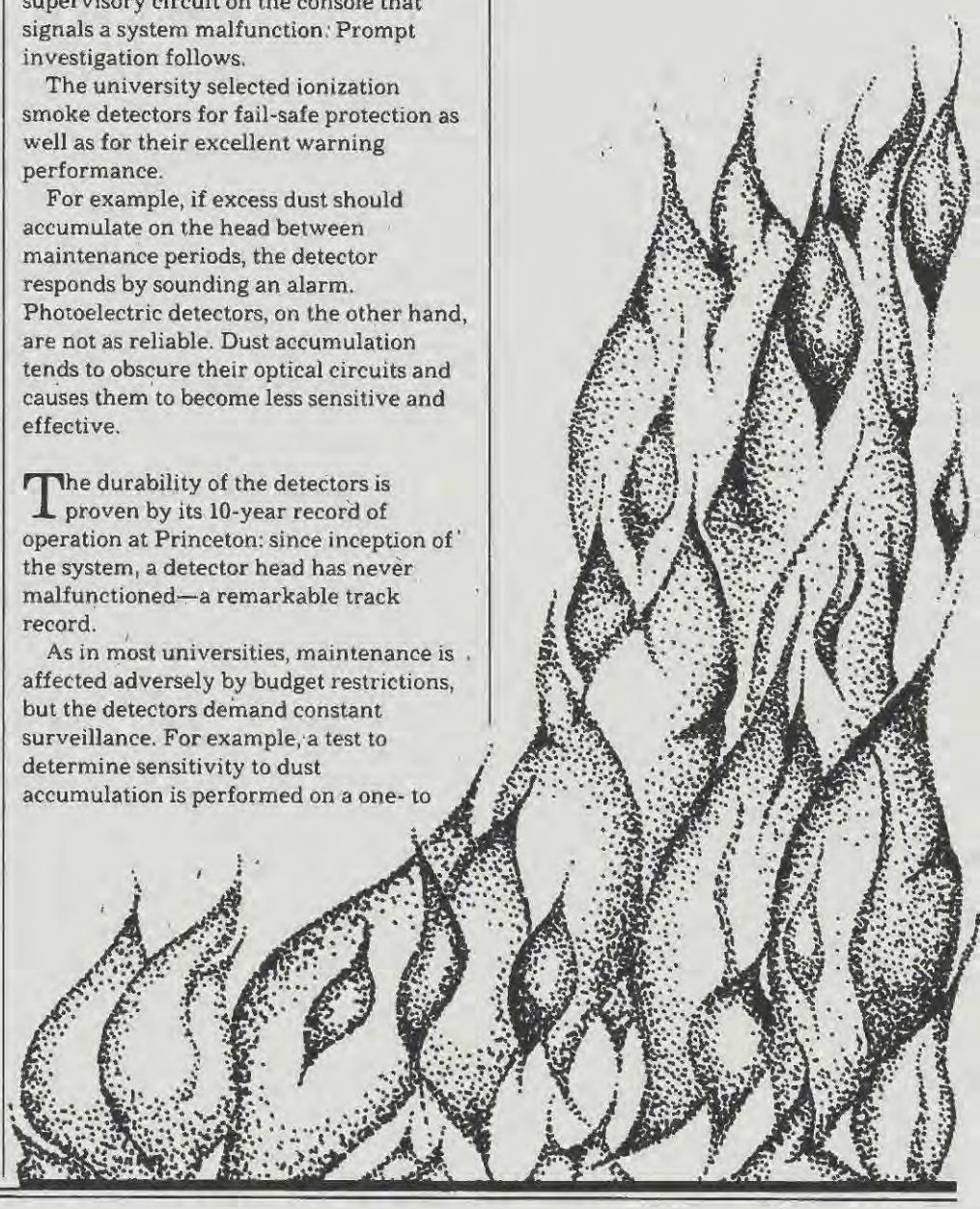
The durability of the detectors is proven by its 10-year record of operation at Princeton: since inception of the system, a detector head has never malfunctioned—a remarkable track record.

As in most universities, maintenance is affected adversely by budget restrictions, but the detectors demand constant surveillance. For example, a test to determine sensitivity to dust accumulation is performed on a one- to three-year schedule depending on the detector environment. When cleaning heads, the complete system is checked with head sensitivities noted.

Many institutions prefer to have this work performed by a service contractor. Princeton's academic schedule, however, permits these duties to be performed in the summer by its own staff. These workers attend service schools and are fully qualified for the specialized routines involved.

In addition to preventive maintenance, the university expands the fire detection system on a year-to-year basis. It is currently installing early-warning protection in its energy research and biochemical laboratory buildings and in the new addition to the geology library. ■

Harry L. Masten is manager of electrical engineering at Princeton University in Princeton, N.J.



perspective

Let insurers lend loss-control expertise

By Joseph M. Boslet

A RISK MANAGER'S job is a constant challenge requiring a wide range of knowledge and the ability to adjust to a dynamic environment. Although the risk-management function involves two general areas of interest—risk control and risk financing—this activity is not always clearly defined within the corporate organization.

As a result, some people feel there is overemphasis on the financial aspects and not enough attention to the risk-control function.

Nevertheless, many risk managers are under pressure to realize a bottom-line savings in their companies' insurance programs, and this often occurs at the expense of a positive loss-control effort.

When risk-control aspects are addressed, there is a tendency to limit activity to casualty concerns because this is usually the area of greatest immediate exposure. However, a property loss can have a devastating effect on the ability of the company to produce income and generate profit.

It's common knowledge that a positive, ongoing loss-control program can be a financial asset to a company, not only in insurance premium savings but in reducing uninsured expenses that are associated with a loss.

In addition, many companies have experienced a positive influence on productivity and worker attitudes from a conscientious loss-control program.

How then does a risk manager provide necessary loss-control functions when efforts are often directed elsewhere?

There are several options to consider. Obviously, each has particular advantages and disadvantages, depending upon the situation. Careful evaluation will determine the best course for each risk manager.

An in-house technical staff can perform loss-control services, although many companies are not willing or capable of committing their resources for the development of an in-house staff.

Contract services do not always provide a complete loss-control program.

> 'When risk-control aspects are addressed, there is a tendency to limit activity to casualty concerns because this is usually the area of greatest immediate exposure.'

However, many insurers do offer advisory technical assistance to their policyholders. They also provide guidelines on loss-control matters. But not every insurer dispenses the same kind of service, and the risk manager should carefully select an insurer with experience with a particular type of operation, quality and timeliness of services and the ability to relate to an individual company's needs when developing a total program.

Risk managers do not always take full advantage of these insurer-provided services. This often results in an incomplete or inadequate program. By working closely with an insurer, the risk manager can improve his own program and achieve risk-reduction goals and objectives.

If a complete loss-control program is not implemented, the risk manager may subject the company to the possibility of a preventable loss and associated consequences.

In order to take advantage of these insurer services, the risk manager must first determine that no one person can perform all the tasks associated with loss control. And, for any program to be of assessable value, the activity of the insurer must complement the risk manager's efforts in both loss-control program planning and implementation.

Some advantages that risk managers should consider that insurance company-provided advisory technical services present include:

- The risk manager normally has limited loss-control resources, like a fully trained and qualified staff, with which to perform property surveys, conduct safety programs, prepare reports and develop informational resource material.

- The insurer actively works in loss control every day and usually has developed a high level of experience and skill in recognizing potential problems and finding practical solutions.

- A risk manager's time is both valuable and limited. Utilizing the facilities of the insurer for loss-control planning makes more time available to devote to other risk management priorities.

- Insurers have better access to statistical and informational data through insurance-related organizations. This data can be objectively interpreted and applied to the policyholder's particular situation to reduce the chance of loss.

- The insurer's judgment and suggestions can provide added credibility to a risk manager's program and offer the technical advice necessary for implementing loss-control measures.

- An insurer has a direct and sincere interest in loss control as it applies to those facilities for which they provide coverages.

Although outside consultants have an interest, it is somewhat indirect and may limit their appreciation of the total program.

- Advisory loss-control services are usually provided by the insurer at no additional cost to the policyholder.

There are definite advantages to using insurer services in the development of a total loss-control program. Insurers are interested in risk improvement and encourage the implementation of various techniques in order to reduce loss frequency and severity.

However, this can only be truly effective if corporate management is convinced of the value and benefits of loss control and has the will to carry out an effective program. ■

Joseph M. Boslet is manager and chief engineer of the Technical Services Group at Millers Mutual Insurance Co. in Harrisburg, Pa.

speaking out

Computerization will replace 'puff' with substance

By Edward S. Beneville Jr.

I AM ALWAYS intrigued by the articles in *Business Insurance* written by Harold H. Hines Jr. The breadth of his knowledge, depth and scope of his thinking, along with his (maybe a bit verbose) command of the language set him on a level above any other insurance commentator with whom I'm familiar.

I spent hours on his most recent article "New Technology: Communications, computers changing the insurance distribution process" (*BI*, May 31). So much is said between the lines, and still, despite the length of the article, so much is left unsaid.

For the past five years, I've watched the growth of the microcomputer industry and learned all I could about micros. Two years ago I bought an Apple computer. Since then I've gotten a "high-end" multiuser, multitask microcomputer system that is truly formidable. Beginning with the Apple, which I still use regularly, my interest in micros has metamorphosed into awesome respect for their utility and their power.

I'm sure there are others among *Business Insurance* readers who watch the weekly announcements of new technological achievement and feel transfigured by the power of the tools laid before us, who sense the realization of dreams and wishful projects heretofore impossible. My emphasis is on microcomputers, the so-called "personal" computers that allow little guys to compete equally against the resources of giants, which can enhance the self-esteem, productivity, self-sufficiency, competitive position and personal stature of anyone committed to learning to use the tools.

Mr. Hines says it all in one sentence: "Futuristic skills will be contributed by people who can construct comprehensive relevant data bases and by people who can program useful information relationships." The unstated fact is that "personal" computers are so powerful, so flexible and so easy to use that most people can learn the futuristic skills. Their cost is cheap. Initiative comes dearly. Insight and vision are priceless.

Say good-bye to the insurance broker who drives a Mercedes-Benz but "can't justify" a personal (or other) computer.

I submit that puff will be displaced by substance, that the computer revolution will in itself enforce new standards of performance and create a business climate wherein individual productivity, creativity and intellectual initiative will be more readily recognized.

New generations of microcomputers are being built around the Motorola 68000 family of processors. This "wonderchip" can address up to 16 million bytes of "instant" memory. It gives the microcomputer user the ability to run virtually any program for business use. It puts main-frame computer power in the hands of individuals.

The processors are so powerful and computer memory, which used to be dear, is now so inexpensive that whole concepts of information processing are being revised.

Currently available are relational data-base management systems with built-in programming languages so simple to use that anyone who reads *Business Insurance* can easily learn them. The power of the hardware allows great extravagance in software design. When coupled with inexpensive full-featured word processing and numerical analysis programs, a microcomputer-based risk management system can offer years of space shuttle travel at the cost of a Chevrolet.

Every silver lining has a cloud. Power corrupts. With all the power of computers in general, a good many people will become very corrupt. As computers enhance our ability to address problems, new problems will appear that are intrinsic to the machines and the software that guides them.

The risks of electronic fund transfer or computer-aided misappropriation of property and funds will pale by comparison to the potential for damage from misappropriated information, unauthorized and sometimes mischievous tampering with data and programing "bombs" left insidiously in place by disgruntled employees.

The nature of the beast changes weekly with quantum leaps in technology. The best risk management, underwriting and technological minds will be challenged to perceive, anticipate and respond to emerging areas of risk. Those who don't understand the information revolution will lose their opportunity to those who do.

I used to work with a fellow who was fond of saying, "The last choo-choo is leavin' the station, climb on board or you're gonna miss the train."

Thank you Mr. Hines and thank you *Business Insurance*. ■

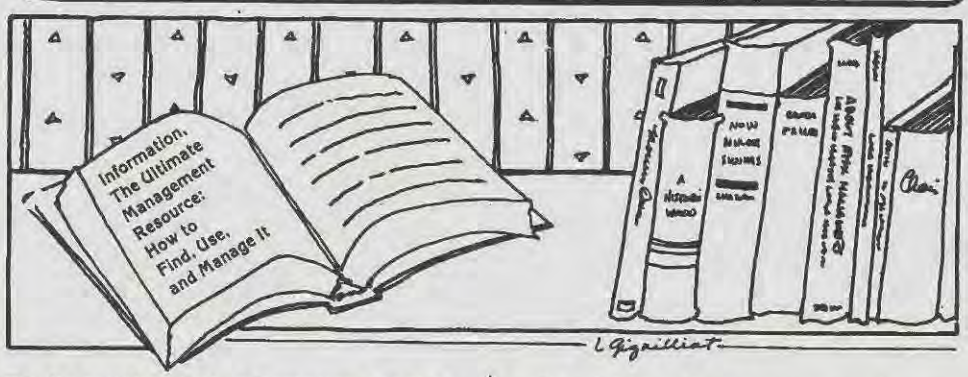
Edward S. Beneville Jr. is owner of Beneville & Co. a risk management services firm in Tustin, Calif.

Learning how to use information an important management skill

By Z'ev Kronish

"Information, The Ultimate Management Resource: How to Find, Use and Manage It"
By Morton F. Meltzer
AMACOM, 135 W. 50th St., New York, N.Y. 10020
211 pages, $15.95

books & ideas



NEW YORK state's first woman banking supervisor cum political candidate, Muriel Siebert, attributes her status as an achiever to an early awareness that knowledge can remove hurdles.

We're now hearing a new song of praise for information as a chief force in altering the odds for success. Mr. Meltzer's book continues that theme. Power is intertwined with the ability to flex your "information muscles," he observes.

And when chief executive officers begin to seek pointers on managing the flow of information by installing computer terminals in their suites, it's time for the company's middle managers to sit up and take note of their roles in the information stream.

Mr. Meltzer believes that the corporate manager should treat information as an essential resource. It is a very valuable commodity, on par with capital and labor. But he cautions that information has to be pursued diligently.

"The successful corporation plans for information, and uses that information for planning."

Seldom available at your command, information simply doesn't spring out of the blue. You tackle the challenge by nurturing its development and formulating a strategy long before a crisis arises.

One way for the executive to gear for greater information productivity is to get into the habit of formulating thoughts and putting them on a cassette tape or other dictating apparatus. Mr. Meltzer says that dependence on secretarial staff and on hand-written memos is an anachronism. Not only are labor-saving devices at hand, but they are indispensable for speed and efficiency in transmission of information.

The ability to draw correct conclusions and to make proper decisions is largely a matter of how you obtain information. The author advises setting up a file of in-house contacts on specific topics as an easy way of keeping track of valuable sources.

To what extent does managerial success depend on the flow of information? Decision making and problem solving may flounder when "information power" is deficient. "Besides wanting to influence the decisions of others, you also want to be persuaded with various ideas and concepts," Mr. Meltzer comments.

Tying the skill of communication to the drill of skillfully generating information, he makes us aware that a knowledge vacuum inhibits transfer of thought. The effectiveness of the risk manager surely depends on a grasp of information, particularly in order to maintain a stream of persuasive communication up, down and across all levels of the corporate structure.

Mr. Meltzer shows us that the importance of communication stems from a perpetual flow of data.

Comparing the information search strategy to oil development, the author says processing raw information into a useful commodity takes a bit of doing but, unlike oil, information is inexhaustible. In fact, it improves with use.

Information retrieval is a special talent. Searching requires dexterity in the area of problem solving and spur-of-the-moment decision making. The author cites major data-base sources, but fails to delineate the personality traits that go hand-in-hand with the searches. There are skills to be improved, whether you use a desk computer or follow traditional "visit-the-library" methods.

Mr. Meltzer is an articulate observer of the various aspects of information control; his previous books on the subject appeared in 1967 and 1971. And his zeal is not wasted because managers, suffering from a tendency to resist change, have been slow to take advantage of promising innovations in the field of information management.

The pursuit of information never abates. You know the absence of information can hurt you, yet its abuse can swamp you. The key to successful efforts lies in asking the right questions. ■

Z'ev Kronish is in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly.

Death ends right to renew life policy: Court

legal briefs

THE DEATH of a former employee ends any right or power to exercise a conversion option to renew or increase the amount of a lapsed group life insurance policy, according to a California appellate court.

Ronald Daniels was employed by Pacific Gas & Electric Co. and was covered under a group life insurance policy issued by Equitable Life Assurance Society. The policy provided for automatic termination of the life insurance policy upon termination of employment and the right to convert to an individual policy if application was made within 31 days following termination.

Mr. Daniels received a certificate of insurance. He voluntarily left work on March 15, 1974, and started a new job two days later. He was killed in an automobile accident on April 27, 1974, without exercising his option for conversion.

His beneficiaries sought to collect under the policy but the claim was rejected by Equitable. They sued but lost in the trial court.

On appeal, the beneficiaries contended that failure to give Mr. Daniels notice of the conversion privilege at the time of termination extended coverage for an additional 60 days following expiration of the 31-day period after he left the employer.

But the court said that as Mr. Daniels' death occurred beyond the 31-day period, any failure to give him notice at the time of termination that he had a right to convert "would have resulted only in an extension of time within which to apply for coverage; it would not have extended his insurance coverage." *Daniels vs. Equitable Life Assurance Society*, California Court of Appeals, Sept. 3, 1981. (*BI*/01/My.)

Fidelity bond coverage

"Potential income. . . not realized by the insured," as stated in an exclusionary clause of a fidelity bond issued to a bank, was that which the bank hoped to receive from the unpaid money embezzled from its general fund, according to a Tennessee appellate court.

The Bank of Huntington was insured under a fidelity bond issued by U.S. Fidelity & Guaranty Co. The bond insured the bank against losses from dishonest or fraudulent acts of its employees, but excluded the potential income not realized by the bank because of a loss covered under the bond.

A bank officer and an employee embezzled funds from the bank for about 16 years through a series of forged notes. In effect, the employee made unauthorized loans of bank funds to himself. USF&G offered to pay only the amount that actually went into the employees' pocket and paid the bank $250,000. However, the bank claimed the total amount due was closer to $470,000, including the lost interest. The trial court agreed with the bank.

The appellate court reversed that decision. According to the court, the employees' liability to the bank was the face amount of the note plus accrued interest. According to the court, the insurer meant to exclude unreceived income so that the bank would recover only what it lost, not the income it hoped to receive from the lost amount. The court said the plain meaning of the exclusionary clause excluded earned-but-unreceived income. *Bank of Huntington vs. Smothers*, Court of Appeals of Tennessee, Sept. 14, 1981. (*BI*/03/My.)

Surgical benefits excluded

The services that an employer has to furnish under the Workmen's Compensation Act are necessary services incident to the treatment of an injury sustained in a compensable accident, the Supreme Court of Virginia ruled. Providing surgery as an incentive to diet was not the responsibility of a workers compensation insurer, the court concluded.

In early 1976, Edna Daniels sprained her back while bending over to pick up forms from the bottom drawer of a filing cabinet. She received temporary compensation for about three weeks after which she returned to work. Ms. Daniels had had a weight problem for a number of years prior to the injury. Her weight had ranged from 231 to 276 pounds.

In 1979, Ms. Daniels was hospitalized and underwent surgery for "morbid obesity." Her total medical costs were more than $19,000. Her employer and its insurer refused to pay this amount claiming the surgery did not constitute necessary medical attention. She sued and won before the state Compensation Commission.

The appellate court said that Ms. Daniels had shown no legal excuse or medical reason for failing to follow her doctors' instructions to lose weight by dieting and, therefore, could not claim medical benefits for a continuing physical problem of her own creation.

Furthermore, the appellate court said a patient's attending physician does not have unbridled authority or discretion over medical decisions. Finding no causal relation between the treatment and the original accident, the court denied recovery against the employer and its insurer. *Insurance Management Inc. vs. Daniels*, Supreme Court of Virginia, Sept. 11, 1981. (*BI*/05/My.) ■

A copy of the entire decison may be obtained by sending $5 to Cases Unlimited, in care of Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the case number.

Factory Mutual uses fire to fight fires

Continued from page 25
bustion chamber, allowing engineers to study aerosol fires, a central computer room where test data is analyzed, an internal air pollution system, a water purification and recycling system and areas to test ceilings and sprinkling assemblies.

Improvements have pushed the facility's cost to more than $3.5 million.

For small-scale testing, Factory Mutual still uses its Norwood, Mass., research facilities, where it has conducted fire tests and training sessions since 1942.

Factory Mutual fire testing began in a shed in the middle of a Woburn, Mass., apple farm in 1916. At that time, FM officials say, the engineers tried to find better ways to protect industrial property from the hazards of cutting oil and oil soaked wooden floors. In 1922, the test facility was moved to Everett, Mass., and in 1942 to Norwood.

Such extensive testing helped the rubber industry in the 1940s. Shortly after Factory Mutual moved its test center from Everett, the nation's major tire companies began warehousing more of their tire products.

Mass production had created the new problem. Previously, rubber companies had shipped their products to distributors almost as soon as they manufactured them. Increased demand and modern machinery, however, caused them to change their storage practices. They wanted to store tires in warehouses for weeks, sometimes several months, before shipment.

"We worked on that problem for about two years," recalls Mr. Rhodes. "That was a tough one. Solid flammables."

Factory Mutual, through hard work and research, found a solution: a new sprinkler configuration that lowered the sprinklers from the ceilings into the storage racks. FM also suggested the manufacturers segregate the warehouses from the manufacturing areas to reduce the chance that a fire would spread.

"We're often asked to test things that affect a particular industry or an association," explains Mr. Rhodes, a 40-year FM veteran. "If they're our clients, we immediately go to work on the problem and try to come up with the best solution for protecting whatever they're manufacturing or storing. Sometimes it takes us a long time to find an adequate solution, but it's always worth the effort."

The liquor industry was satisfied with the result when distillers asked Factory Mutual in the 1950s to help them protect their warehouses. Distillers wanted to change the way they warehoused their goods, allowing them to store more whiskey. But large quantities of barreled whiskey has to ferment in warehouses for years before it is ready for the marketplace.

Presented with a new problem, FM purchased barrels of whiskey and experimented in the hopes of determining the best way to prevent and control potential distillery fire losses.

Fire test after fire test for six months finally presented a solution: A special array of sprinklers distributed between the horizontal racks where the wooden barrels were being stored.

For a project with the U.S. Bureau of Mines, Factory Mutual constructed its above-ground mine gallery chamber to help the mining industry prevent dangerous dust explosions and study the nature of mine fires.

Originally requested to construct an underground chamber, Factory Mutual simulated a gallery chamber after convincing the federal agency that a fire and explosion would be the same above ground as it would be below the surface.

Under controlled conditions inside the chamber, Factory Mutual investigates the behavior of mine fire. Data is transmitted from the chamber to a central computer in the main test center building. The gallery is a T-shaped structure containing 300 feet of passageways. One 75-foot section is sloped at a 12½ degree angle to simulate inclines found in actual mines.

"That was an exciting project," recalls Mr. Rhodes. "By building the chamber above ground, we were able to save a lot of money in construction and still were able to come up with the same conditions."

Factory Mutual provided the Bureau of Mines with information about the distribution of temperature, the nature of flames and how fires from different sources acted.

Although that contract has been completed, Factory Mutual engineers are still conducting mine tests to find new ways to protect underground mines and new information about fire and how it reacts under certain conditions.

Other major projects include work on a trash shredder for the U.S. Environmental Protection Agency. Factory Mutual has costructed a large, two-story trash shredder and currently is developing ways to protect such equipment from fires.

"The trash shredder is an interesting project," explains Mr. Rhodes. "You have so many different kinds of flammables in those

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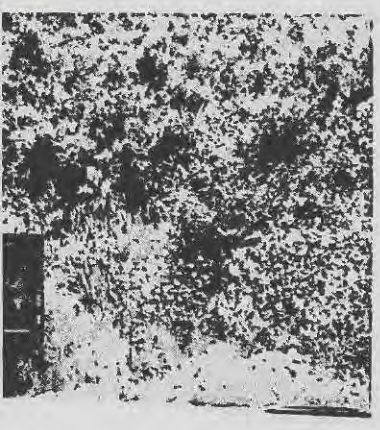
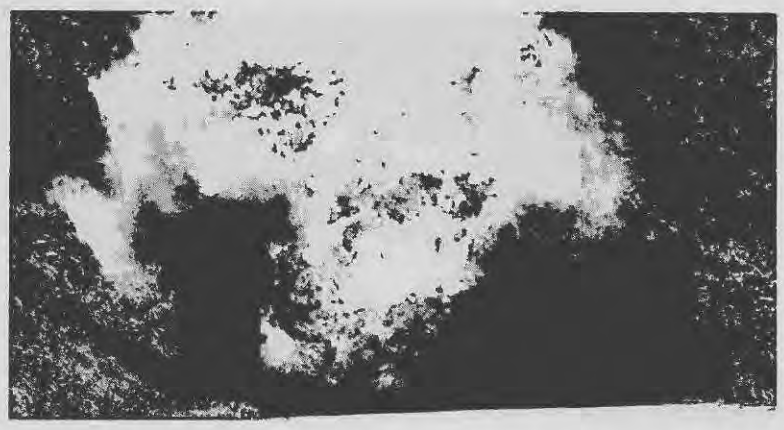
Photos: James Lawson
Experiments conducted at FM's

Who can take the guesswork out of rehab?





fire test facility in West Glocester, R.I., like this one involving a grain dust explosion, help its policyholders stop fires and other large property losses before they occurr.

FM's experiments cut property losses

Continued from facing page

things. . .combustible aerosols—anything you can find in large trash containers."

Factory Mutual also is experimenting with the containment of gas explosions using glass wool insulation.

For the American Grain & Feed Assn., Factory Mutual is studying how to protect grain elevators from grain explosions.

One of Mr. Rhodes' favorite pet projects is a water testing system. Using a laser and a water measuring trough he designed specially for the project, Factory Mutual is currently measuring the distribution of water from different types of sprinkling systems.

Factory Mutual's findings, Mr. Rhodes hopes, may someday lead to major changes in the manufacture of sprinklers.

Currently, one experiment concerns a large drop sprinkler system he hopes will someday be manufactured. The large drop system not only emits a larger water drop, but also distributes more water at a given pressure.

"Currently we're stressing sprinklers to the limit. We're trying to determine whether we can make any design changes. (Changes) won't happen unless we make recommendations."

Factory Mutual also practices good loss control measures at its own testing facilities to prevent damage to the surrounding countryside.

Shortly after building the mine gallery seven years ago, Factory Mutual built its own air pollution system allowing it to vent clean air from the chamber into the atmosphere. The system cleans out smoke, gases and other polluting particles with a series of filters and scrubbers. ■

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Harleysville buys McAlear, three other firms

Harleysville Mutual Insurance Co. of Harleysville, Pa., has agreed to purchase Anchor Holding Co. of Grand Rapids, Mich., and its four subsidiaries, including McAlear Associates Inc., an excess/surplus lines broker.

As part of the deal, Harleysville will also acquire full ownership of:

- McAlear Nason Associates Inc., a brokerage in Overland Park, Kan., specializing in aviation and excess/surplus lines.
- Pilot Management Corp., a Grand Rapids-based insurance services company.
- Huron Insurance Co. of Indianapolis, a commercial property/casualty insurer operating only in Indiana.

The acquisition of Huron must be approved by the Indiana Insurance Department. Harlesyville expects the acquisition to be completed by Aug. 1.

markets

Harleysville officials say that McAlear and McAlear Nason will continue to operate as separate entities with the current officers and staff retained.

Bradford W. Mitchell, president and chief executive officer of Harleysville, said: "This acquisition broadens our market range and provides a building block to more general expansion.

"By affiliating with McAlear we will acquire a staff that has a high professional standing in its segment of the marketplace."

The acquisition is the first for Harleysville, the 56th-largest property/casualty insurer in the nation, according to A.M. Best Co.

A purchase price for the acquisition was not disclosed.

New consulting office

Susan Alt is developing a risk management and insurance consulting practice in Chicago for Towers, Perrin, Forster & Crosby, the firm's first risk management and insurance consulting office outside of Philadelphia.

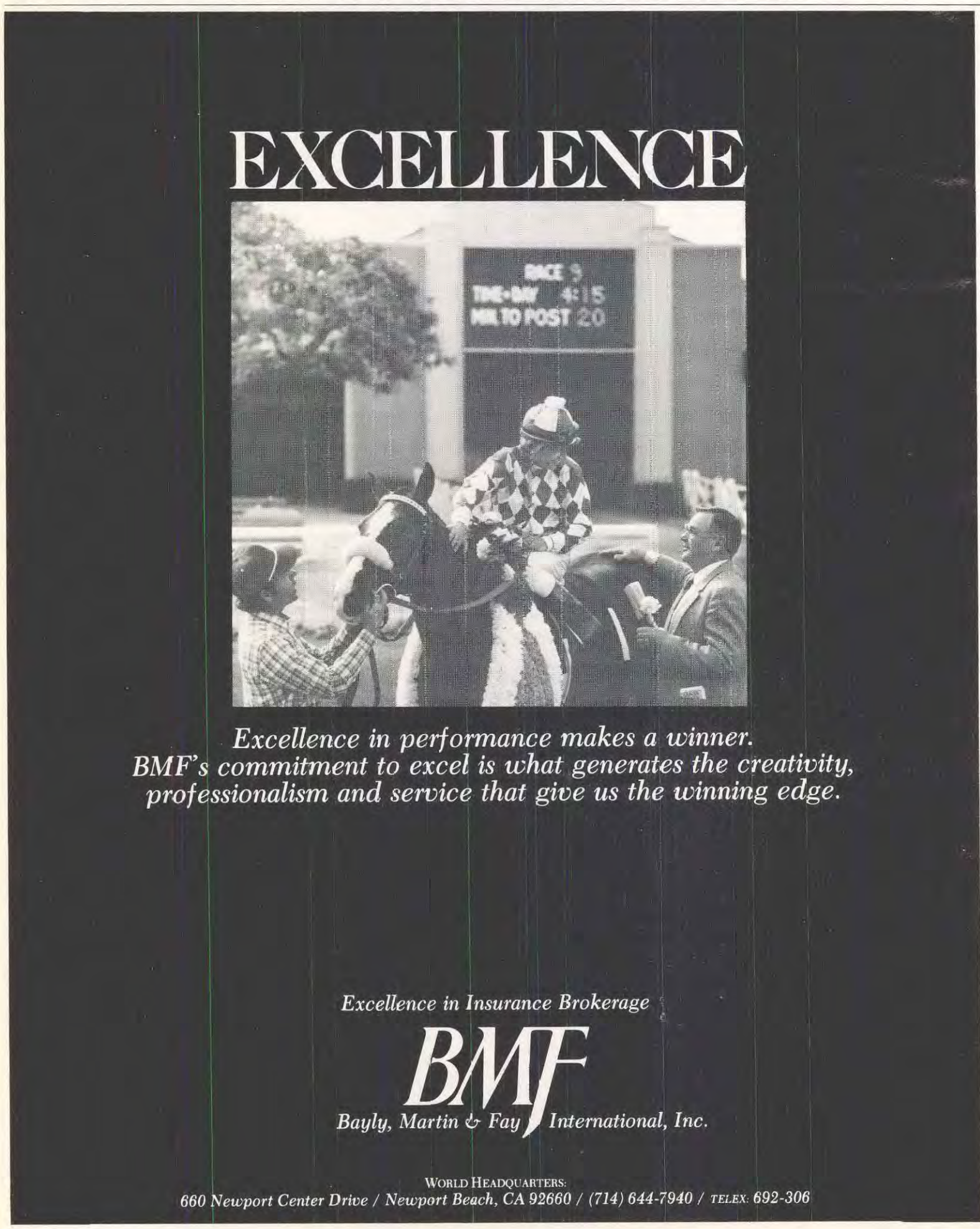
Ms. Alt, who had been a consultant with The Wyatt Co. in Chicago for the past two years, joined TPF&C last week as a consultant in risk management and insurance. Before joining Wyatt, Ms. Alt was editor of *Business Insurance*.

TPF&C has had a risk management consulting unit since 1969, centralized in Philadelphia under Robert Z. Rose, vp and manager of insurance consulting services, and Richard T. Delaney, vp and manager of property/casualty insurance and risk management consulting services.

TPF&C employs 16 professionals in risk management and insurance in Philadelphia.

The Chicago office under Ms. Alt is part of a decentralization move to build a risk management consulting practice in the Midwest.

The Chicago risk management office of TPF&C is located in Suite 8414, Sears Tower, 233 S. Wacker Dr., Chicago, Ill. 60606; 312-876-0909.



New division

Corroon & Black Benefits Inc., a subsidiary of Corroon & Black Corp. based in Nashville, Tenn., has established a new division to develop and administer health maintenance organizations and other prepaid health programs.

The Health Care Provider Division will headed by Ken Melkus, who was also named a vp of Corroon & Black Benefits Inc. Mr. Melkus has been director of an HMO set up by physicians in Rhode Island.

Life insurer formed

Coronet Life Insurance Co. has been formed by Crown Life Insurance Co. of Toronto to underwrite a variety of coverages, including group life and group annuities.

The insurer will market its products in New York state through a network of agents.

Coronet Life will be headquartered at One Penn Plaza, Suite 1709, New York, N.Y. 10019; 212-695-6893.

Pension mediator

Philip B. Polak, a former senior vp of Martin E. Segal Co., has set up a private practice as an arbitrator and mediator of pension and employee benefit plan disputes.

His office is located at Route 1, Box 440-V, Chester, Md. 21619; 301-643-4777.

California Blues

Blue Cross of Oakland and Blue Cross of Los Angeles have merged, effective July 1, to form Blue Cross of California.

The combined plan provides health insurance to more than 6 million people, or more than 25% of the state's population. It also operates two health maintenance organizations with more than 180,000 Californians.

New name

E.H. Crump (Bermuda) Ltd. has changed its name to Regency International Ltd. and will maintain offices at Bermudiana Arcade, Queen Street, Box 1224, Hamilton 5, Bermuda; 809-295-5921.

Acquisitions

National Insurance Associates, a brokerage based in Paramus, N.J., has acquired **Henry Rothberg Inc.**, an agency located in Plainfield, N.J.

New offices

Miller & Daar, a law firm specializing in insurance law, has established a new office at 111 E. Wisconsin Ave, Suite 1358, Milwaukee, Wis. 53202; 414-272-5150. ■

OSHA OKs changes in state safety rules

WASHINGTON—The Occuaptional Safety and Health Administration has approved changes in North Carolina's and South Carolina's job safety plans.

The changes in the North Carolina plan include corrections to fire protection standards; revocations of cotton dust standards; and changes in electrical and lead standards.

The changes in South Carolina include alteration to occupational noise standards; hearing conservation rules; and changes in electrical and lead standards.

Notice of approval of the changes was published in the June 22 Federal Register. ■

Senate committee mulls ERISA reforms

By JERRY GEISEL

washington

WASHINGTON—The Senate Labor subcommittee will try to overhaul the pension reform law this week.

The panel will meet July 20-21 to consider legislation, S. 1541, proposed by Sen. Don Nickles, R-Okla. His bill would make employers responsible for all their pension promises, as well as simplify the Employee Retirement Income Security Act of 1974.

Under Sen. Nickles' bill, employers who terminate their pension plans would be responsible for all of the plan's unfunded vested benefits. Currently, an employer's liability to its pension plan is limited to 30% of the company's net worth. The PBGC then is liable to pay vested pension benefits.

In addition, the Nickles' legislation would significantly reduce the number of reporting forms now required by ERISA. For example, the summary annual report, which describes a plan's financial operations, only would have to be posted rather than distributed to each pension plan participant.

Pension violations

Six current and former trustees of a Texas pension plan improperly loaned plan assets, the Labor Department says.

Trustees of the MBFA Foundation Pension Plan violated their duty to manage the plan prudently when they made a series of loans to various subsidiaries of Missionary Baptist Foundation of America Inc., the plan sponsor.

Under ERISA, a pension plan cannot do business with the plan sponsor or its subsidiaries unless an exemption has been granted by the Labor Department.

The suit, which was filed in U.S. District Court for Northern District of Texas in Lubbock, asks the court to rescind all outstanding loans between the plan and parties in interest.

The Labor Department also wants the trustees to reimburse the plan for any losses, plus interest, the plan incurred as a result of the trustees' alleged fiduciary breaches.

Defendants named in the suit are Marjorie Calvert, B.A. Hyatt, S. Joseph Lester, Murrell Stephens, Land D. Wall and Pat Wheeler.

Loan provided

The Pension Benefit Guaranty Corp. will provide a new loan of $130,000 to the hard coal industry's multiemployer pension plan to pay the June and July pensions of 9,800 retired anthracite coal miners in the Northeast.

The Anthracite Health and Welfare Fund ran into financial difficulties because of decreases in coal production, on which employer contributions for pensions are based.

Under the terms of the Multiemployer Pension Plan Amendments Act of 1980, the PBGC is permitted to provide aid to multiemployer plans that cannot provide promised benefits.

The PBGC last year provided a $311,310 loan to the anthracite fund after the plan ran short of money when employer contributions to the fund temporarily ceased because of a strike.

The 1981 loan must be repaid by August 1983, while the latest $130,000 loan is a note payable upon demand.

Interest in IRAs

A third of all households eligible to set up Individual Retirement Accounts are expected to do so this year, according to a new study.

Wage earners making more than $30,000 a year and who are between ages 45 and 64 are making the greatest use of the new IRA option, according to the Life Insurance Marketing and Research Assn. of Hartford, Conn.

Until this year, IRAs generally were limited to workers who were not covered under private plans.

But in a move to take some of the pressure off the Social Security System and to encourage individuals to save for their own retirements, Congress last year decided that all wage earners, including those covered by corporate pension plans, should be allowed to establish IRAs.

Under the 1981 Economic Recovery Tax Act, wage earners each year can make a tax-deductible contribution of up to $2,000 to an IRA. These funds are shielded from taxes until they are withdrawn, usually when an individual retires.

Certificates of deposits and money market funds are the most popular IRA funding vehicle, the Life Insurance Marketing and Research Assn. says.

Some answers

A research group intends to shed new light on one of the most confusing issues in the benefits field: How corporate pension plans are coordinated or integrated with Social Security so that the combined benefit does not exceed what a retiree would earn if he or she continued to work.

The Employee Benefit Research Institute, a Washington-based benefits think tank, will complete a study this summer addressing:

- The legislative and regulatory history of integration provisions.
- How integration works.
- Estimates on the extent of integration in corporate pension plans. ■

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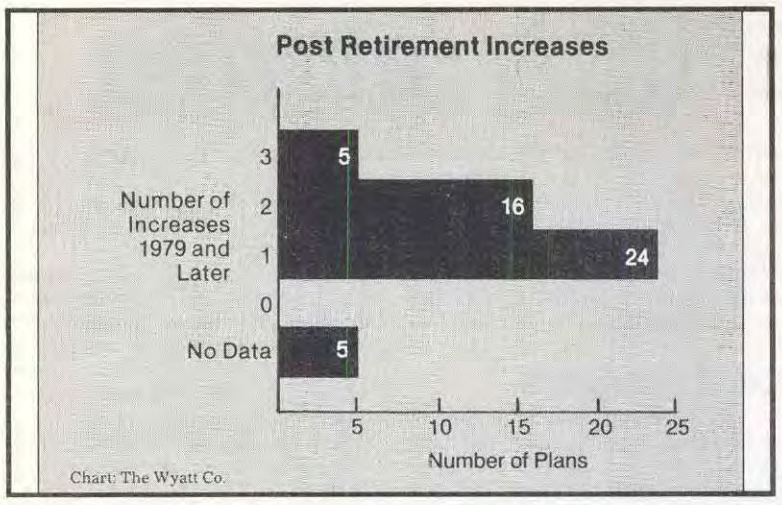

Most large employers add to retirees' benefits: Study

WASHINGTON—Most large employers are trying to help their retirees keep up with the rising cost of living, a new study shows.

Forty-five of the nation's 50 largest corporations have boosted pension benefits for their retired workers since 1979, the study reveals.

Twenty-four of the top 50 companies have increased retirement benefits at least once since 1979, while 16 companies have granted two increases. Five have raised pension benefits three times since 1979.

The attempt by corporations to help retirees keep up with inflation through pension benefit increases is one of several key findings in The Wyatt Co.'s latest survey of retirement plans sponsored by the nation's 50 largest industrial companies.

According to the survey, most of the companies boost retirement benefits for current retirees by a certain percentage per year since the time the retiree quit work or since the last increase.

Retirees of the surveyed companies who were on the job for 35 years and retire at age 65 receive average pension and Social Security benefits equal to 65% to 69% of their final salary, according to Wyatt, a national benefit and risk management consultant.

On the other hand, workers who retire at 65 but were only with a particular company for 15 years average 40% to 44% of the final pay in pension benefits and Social Security.

Benefits as a percent of final pay drop sharply for workers who retire before 65. At 19 of the companies, for example, an employee who retires at age 55 after 30 years of service will receive retirement benefits that total between 25% and 29% of final pay, while at eight companies the retirement benefit would range between 20% and 24% of final pay.

Of the 50 pension plans sponsored by the surveyed firms, 38 are fully paid by the employer, while 11 require employee contributions. One company allows voluntary employee contributions.

Twenty-five plans base an employee's pension on his average salary over a three-year period, while 22 plans use a benefit formula in which the pension is based on average salary over five years.

Forty-eight of the 50 pension plans integrate pension benefits with Social Security. Companies coordinate or integrate pension and Social Security benefits so that the combined benefit does not exceed an employee's pre-retirement salary.

In almost half of the 39 thrift or savings plans that are sponsored by the surveyed firms separate from pension plans, employers agree to match their employees' contributions to the plan dollar-for-dollar, up to 6% of the employees' salary. Another four firms match employee contributions to the thrift/savings plan up to 10% of salary.

All of the thrift/savings plans offer at least two investment alternatives for employee contributions. Popular funding vehicles for employee contributions include company stock, equity funds, diversified funds, fixed income funds, government securities and savings bonds.

However, the thrift/savings plans often limit the investment alternatives for employer contributions. For example, 17 plans restrict employer contributions to company stock.

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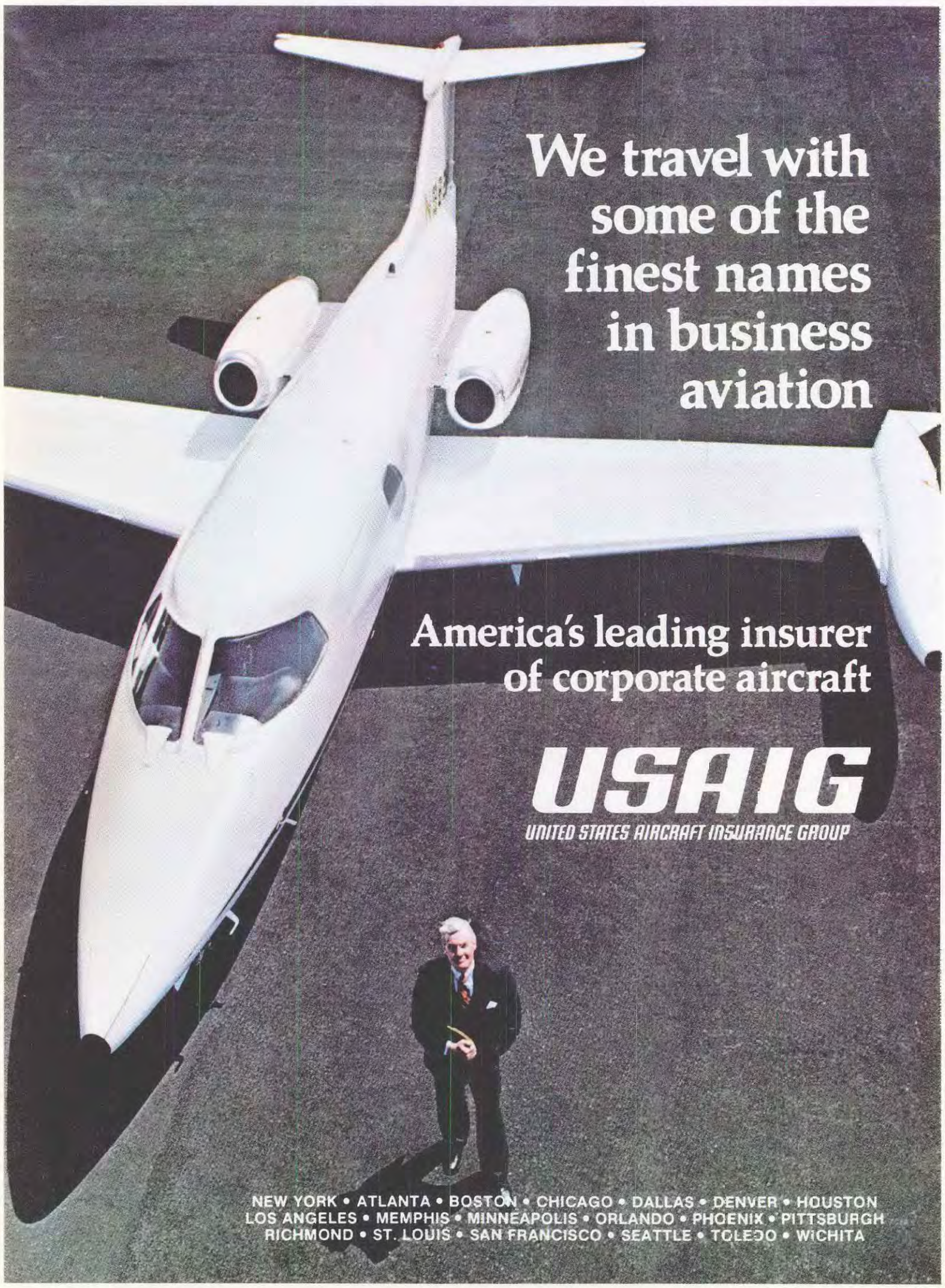
Copies of "A Survey of Retirement, Thrift and Profit Sharing Plans Covering Salaried Employees of 50 Large U.S. Industrial Companies," are available from The Wyatt Co., 1990 K St. N.W., Washington, D.C. 20006. 202-857-9200.

Group life sales increase in April

WASHINGTON—U.S. employers purchased group life insurance with a face amount of $14.7 billion in April, a 13.2% increase over sales in the same month of 1981, according to the Life Insurance Marketing & Research Assn.

In the first four months of 1982, employers purchased group life coverage with a face amount of $72.1 billion, 22.5% more than in the corresponding period of 1981. ■



Employees in sheriff's office in Louisville get dental plan

benefit beat

The Jefferson County Sheriff's Office in Louisville, Ky., is offering its 170 employees a new dental plan that provides diagnostic, preventive, restorative, endodontic and orthodontic coverage.

Employees are not required to make any premium contributions nor pay any deductibles for the new benefit, which is underwritten by CompDent Dental Plans, a prepaid dental services firm headquartered in Louisville.

The plan, which went into effect July 1, doesn't limit the number of office visits per year nor does it exclude pre-existing conditions.

Preventive and diagnostic services like examinations, cleanings, x-rays, fluoride treatments and local anesthetics, are fully covered under the plan.

Under the plan schedule, the employee pays only a specified amount for these restorative and endodontic services:

- One surface cavity filling—$3.
- Porcelain crown—$80.
- Simple tooth extraction—$4.
- Two-canal root canal procedure—$40.
- Dentures—$125.
- Treatment of periodontic abscess and acute periodontitis—$10.
- Osseous (bone) surgery—$180.
- Repair of a broken (complete or partial) denture, no teeth involved—$15.
- Porcelain with metal crown—$120.

Salary reduction

Coates, Herfurth & England Inc., a San Fransisco-based actuarial and benefits consulting firm, has established a new 401(k) salary reduction plan for its 55 employees.

The company, under its Salary Savings Plan, will match employee salary deferments—with either cash or company stock—up to a maximum of 6% of the employee's annual gross compensation.

All contributions to the plan become fully vested immediately.

Employees can choose from five different investment options, including a money market fund, a blue-chip stock fund, a growth industry stock fund, a bond/debenture fund and a fund that invests primarily in bonds, preferred stocks and short-term money instruments.

Employees can shift between investment vehicles on a quarterly basis. There is no limit to the amount of times an employee can shift his investment from fund to fund.

To participate, employees must have completed at least six months of continuous service with the company.

All of the company's eligible employees have enrolled in the plan, which went into effect April 5, said a company spokesman.

Coates, the spokesman says, considered several other savings and profit-sharing plans before it selected the 401(k) plan.

"We just felt this type of plan would be the best benefit offering the most advantages to our employees," he says.

Switches insurers

Republic Steel Corp., hoping to gain some long-term health coverage savings, is switching health insurers.

Effective Sept. 1, Blue Cross of Northeast Ohio will underwrite the Cleveland-based Fortune 500 company's hospitalization plan, replacing Metropolitan Life Insurance Co.

Metropolitan, though, will continue to underwrite the company's major medical and physician services plans.

Republic Steel, company officials say, made the switch without adding new benefits to the hospitalization plan or increasing coverage limits. The plan protects the company's 60,000 employees and retirees nationwide, a spokesman says.

The company chose Blue Cross to underwrite the hospitalization plan because company officials believed Blue Cross' arrangements with hospitals could save it money.

"We felt they (Blue Cross) would be able to hold down the rate because of those arrangements with participating hospitals," the spokesman explains.

"Commercial insurers do not yet have the same advantages as does Blue Cross."

Blue Cross organizations, in many cases, can negotiate more favorable rates with hospitals than can private insurers because Blue Cross plans represent large numbers of subscribers and historically have had close relationships with hospitals.

The change to Blue Cross, the Republic spokesman says, also will benefit employees because they soon will have a Blue Cross identification card that will be readily acceptable by hospitals. Employees no longer will have to bother with claims forms if they use participating hospitals.

Employees will receive the same level of benefits they previously received under Metropolitan Life. The coverage is based on labor agreements with the United Steel Workers Union of America.

Under the plan, hospitalized employees with 10 or more years of service with Republic Steel will be eligible for 730 days in a semi-private room. Employees with fewer than 10 years service are eligible for up to 365 days. Unionized employees are not subject to any coinsurance or deductibles. The hospitalization plan is fully paid by the employer.

Non-union employees are provided the same level of hospital care coverage, except they must pay a $100 per-claim deductible for hospitalization for non-emergency services and a $50 deductible for emergency room services in non-emergency situations.

Non-union employees also are encouraged to make better use of outpatient facilities. The company is providing non-union employees with a hospice care program.

The company's major medical plan provides employees with 80% coverage, up to a $30,000 annual maximum and a $50,000 lifetime maximum for union employees. Non-union employees have a $250,000 lifetime maximum, but must pay an annual $75 deductible under an individual plan and an annual $150 deductible under a family plan.

Retirees are provided a $250,000 lifetime maximum benefit and must pay annual deductibles of $100 for individual coverage and $200 for family coverage.

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Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

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Transamerica Occidental Life names Carpenter president

comings & goings: industry

David R. Carpenter has been elected president and chief operating officer of Transamerica Occidental Life Insurance Co. in Los Angeles, a group life and health insurer, reinsurer and pension products company.

Mr. Carpenter was most recently executive vp and chief marketing officer at the company. He is also a director of both Transamerica Occidental and Transamerica Assurance Co.

Mr. Carpenter replaces **Meno T. Lake,** who was elected chairman of the board. Mr. Lake continues as chief executive officer.

Other insurer changes:

Michael Farrington elected vp of group insurance at North Atlantic Life Insurance Co. of America in Jericho, N.Y. He had been second vp of group administration. North Atlantic Life is a subsidiary of Northwestern National Life Insurance Co.

Mr. Farrington

Edward J. Unger named vp in the group national accounts division of Metropolitan Life Insurance Co. in New York, N.Y. Mr. Unger had been assistant vp in the same department.

Excess/surplus

William H. Robert appointed vp and operating head of Falcon Insurance Co. in Boston. Falcon is the surplus lines division of Commercial Union Insurance Cos.

John S. Gibson elected president and chief executive officer of Allianz Underwriters Inc. He was previously president and chief operating officer of Lexington Insurance Co. in Boston.

Other suppliers

David R. Evert appointed disability consultant for Business Advisors Inc. in Minneapolis, a subsidiary of Control Data Corp. Mr. Evert had been the corporate safety and disability benefits program manager for Control Data.

Mr. Evert

Donald E. Jeffers named president of Geo. F. Brown & Sons Inc. in Chicago. Mr. Jeffers is also chairman of the company. Mr. Jeffers replaces **Robert W. Bird,** who is retiring. Geo. F. Brown & Sons Inc. is a subsidiary of Interstate National Corp., one of the Fireman's Fund Insurance Cos.

Ms. Maars

Catherine L. Maars joined Robert Hughes Associates in Dallas as a senior consultant. Ms. Maars was previously with International Rehabilitation Associates Inc.

Donald A. Smart joined Meidinger Inc. as regional vp and consultant in the Milwaukee office. Mr. Smart was previously vp and manager of the Madison, Wis., office of DCA Inc., a benefit consulting firm.

Richard M. Leblond joined the international division of The Wyatt Co. in Stamford, Conn., as a consulting actuary.

David L. Glueck named head of Towers, Perrin, Forster & Crosby's group benefits consulting practice. He is based in the company's Chicago office. Mr. Glueck had been vp at TPF&C.

Agents/brokers

Charles H. Patterson named president of Fred S. James & Co. of Nebraska.

William A. Empson, Robert A. Meister and **Thomas J. Peterson** elected senior vps at Alexander & Alexander of New York Inc. Also, **Charles L. Taylor** named managing vp in the Nashville, Tenn., office of Alexander & Alexander. **David F. Freiermuth** named managing vp in the Waterloo, Iowa, office and **Lynn E. Larson** named managing vp in the Denver office. ■

datebook

JULY 26-28. Aviation Insurance Assn. annual convention in Atlantic City, N.J., sponsored by the Aviation Insurance Assn.; members, $75; $50 for spouse; non-members, $150, $100 for spouse. AIA, Mercer County Airport, West Trenton, N.J. 08628; 609-883-6760.

JULY 30-31. Product Design Litigation course in New York, sponsored by the Practising Law Institute; $325. PLI, Department YWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

AUG. 2-3. The Agency System: Who Will Survive? Who Will Thrive? seminar in Philadelphia, sponsored by The Hay Group; $445 for first registrant; $395 for additional registrants. Also **Aug. 4-5** in Chicago, **Aug. 9-10** in Dallas and **Aug. 11-12** in Los Angeles. The Hay Group, 229 S. 18th St., Philadelphia, Pa. 19103; 800-523-4620.

AUG. 2-6. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; $535. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 9-11. Designing Secure Application Systems seminar in Boston, sponsored by the Computer Security Institute's Educational Resource Center; members, $645; non-members, $695. Patricia Hopper, CSI, Box 528, Matawan, N.J. 07747; 201-566-6622.

AUG. 10. Accident Investigation and Analysis seminar in Los Angeles, sponsored by the International Safety Academy; $150. Also **Aug. 11** in Houston. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 11. Effective Safety Committees seminar in Los Angeles, sponsored by the International Safety Academy; $150. Also **Aug. 12** in Houston. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 11. Risk Management Information Systems seminar in Kansas City, sponsored by Corporate Systems; $50. Also **Aug. 12** in St. Louis. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

AUG. 12-13. Securing Communications Systems seminar in Boston, sponsored by the Computer Security Institute's Educational Resource Center; members, $455; non-members, $495. Patricia Hopper, CSI, Box 528, Matawan, N.J. 07747; 201-566-6622.

AUG. 16-20. Total Loss Control Management seminar in Houston, sponsored by the International Safety Academy; $570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 19-20. Confined Space Entry workshop in Phoenix, Ariz., sponsored by Loss Prevention Associates; $285. Also **Aug. 24-25** in Los Angeles. Loss Prevention Associates, Box 59888, Dallas, Texas 75229; 214-241-0396.

AUG. 19-21. Depositions in Corporate Litigation seminar in New York, sponsored by the Practising Law Institute; $425. PLI, Department YWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

AUG. 25-27. Safety for the Oil Field Industry seminar in Houston, sponsored by the International Safety Academy; $375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 29-SEPT 1. Corporate Benefit Management conference in Hershey, Pa., sponsored by the International Foundation of Employee Benefit Plans; members, $470; non-members, $545. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

SEPT. 12-15. International Benefits seminar in St. George's, Bermuda, sponsored by the International Foundation of Employee Benefit Plans; members, $470; non-members, $545. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

SEPT. 13-17. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; $535. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 16-17. Occupational Noise and Hearing Conservation: Compliance with the New Laws course in Los Angeles, sponsored by the University of Southern California; $200. University of Southern California, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/24.

SEPT. 16-17. Human Factors Engineering for Controlling Hazards course in Washington, sponsored by the International Institute of Safety & Health; $245. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

SEPT. 16-17. Fifth Annual Aviation Law-Insurance symposium in Orlando, Fla., sponsored by Embry-Riddle Aeronautical University; $250. Professional Programs, Embry-Riddle Aeronautical University, Star Route Box 540, Bunnell, Fla. 32010; 904-672-3439.

SEPT. 20-23. Inspector Training seminar in Houston, sponsored by the International Safety Academy; $150. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 20-24. Total Loss Control Management seminar in Boston, sponsored by the International Safety Academy; $570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

NOV. 1-2. Communicating Employee Benefits conference in Chicago, sponsored by *Business Insurance*; $475; 10% discount for additional participants from same company. Ann Vazquez, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137. ■

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• To understand OSHA's proposed **hazard communication standard on chemical labeling,** send for Bayly, Martin & Fay International Inc.'s free outline. It summarizes the current labeling systems that are expected to be retained within the proposed OSHA standard and will help you determine if the new standard would apply to you. To order, write Samuel Alcorn, Senior Vp, Bayly, Martin & Fay International Inc., 660 Newport Center Drive, Suite 1000, Newport Beach, Calif. 92660.

• "A Sophisticated Alternative from Anistics Inc." is a promotional brochure from the Alexander & Alexander subsidiary, Anistics, describing ARIS, the Alexander Risk Information Service. This **database management system** is designed to streamline risk management functions and guide decision-makers. For a free copy, write Marge Shellnutt, Anistics Inc., 3565 Piedmont Road N.E., Building III, Atlanta, Ga. 30363.

• Searching for a way to communicate safety procedures to your line workers and other employees? Darrell Heppner & Associates has published safety cards that **tell employees how to lift correctly, use the Heimlich Maneuver and use proper CPR procedures.** The lifting card is available in English, French and Spanish; the others are available in English only. For a set of the three cards and a price list for bulk orders, send $3 to Darrell Heppner & Associates, 154 Sunnywide Drive, San Leandro, Calif. 94577.

• Martin E. Segal Co.'s spring newsletter features an article on **unisex mortality tables.** This article includes the actuarial and legal background and the ramifications if the new tables are widely implemented. For a free copy of this newsletter write to Jack J. Friedman, Director of Information Services, Martin E. Segal Co., 730 Fifth Ave., New York, N.Y. 10019.

• The Occupational Safety and Health Administration has issued a resource guide to worker education materials in **occupational safety and health.** The 228-page guide lists a variety of materials suitable for worker training and education. Copies are available at $7 each from the U.S. Government Printing Office, Superintendent of Documents, Washington, D.C. 20402, GPO Stock No. 029-015-00061-9.

• Several books on **insurance laws and proceedings in Asia** are available from the Insurance Institute for Asia & the Pacific. "A.I.I. Special Lecture Series" is a compilation of lectures on various lines of insurance presented by the Asian Institute of Insurance. It costs $5. "Harmonization of Asian Insurance Laws" is a report on the 1979 meeting of the Asian Insurance Commissioners on insurance legislation and supervision and is available for $3. "Reinsurance" is a compilation of lectures delivered at the 1976 Regional Seminar on Reinsurance held in Manila and also costs $3. To order any of the titles, write E.G. Donggon, Librarian, Insurance Institute for Asia & the Pacific, 811 J. Nakpil St., Malate, Manila, Philippines. Overseas postage costs will vary according to weight.

• "Flexibility in Pension Funding" is a booklet from Meidinger Inc. which discusses **methods of adjusting pension contributions to fit corporate needs.** Changing actuarial assumptions and changing asset management to recognize actuarial gains are some of the methods discussed. For a free copy write Kathleen Loomis, Director of Corporate Communications, Meidinger Inc., Box 35740, Louisville, Ky. 40232.

• The Pre-Emergency Plan from Industrial Risk Insurers may help you **control people and property losses.** For a free informative brochure, write to Catherine Daniele, Communications Department, Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

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Photo: Wide World

One man was killed when the skyride gondolas fell amid the games on the Texas State Fair's midway.

Defendants, insurers not sure who will pay skyride judgment

Continued from page 2

The State Fair's excess insurance coverage with Employers National Insurance Co. of Dallas, a subsidiary of Employers Casualty Co., is more than enough to cover its share of the latest settlement, according to its attorney. However, Steck & Staph, which has no excess insurance, may have to carry the burden of the $4.1 million award.

"I don't know if they have any ability to pay," said Russell Smith, an attorney for the State Fair.

Alfred Ellis, Steck & Stapf's attorney, was out of town and could not be reached for comment. The company no longer has operating telephone service in the Dallas area.

Steck & Stapf's ability to pay the award may depend on the outcome of a lawsuit pending against Zurich American, according to Mr. Smith. Late last year, Employers National, joined by Steck & Staph and the State Fair, filed a petition to U.S. District Judge Barefoot Sanders asking for a declaratory judgment against Zurich American.

Employers National and the two defendants contend that the language contained in the Zurich American policies covering Steck & Stapf and the State Fair is vague and are asking Judge Sanders to extend coverage to other awards and settlements in the case. A ruling on the petition is pending.

Von Roll's primary coverage is written by Gerling Konzern, an insurance and reinsurance group based in Cologne, West Germany.

"We believe that part or all of the money is collectable," says Wendell Turley, attorney for the Millard family and about 30 other plaintiffs who have filed claims after the skyride accident.

"We would not have worked up the case the way we did if we did not think the award would be collectable," he said.

Mr. Turley said he would not elaborate on what plans he might have to ensure that his clients receive the award.

Other attorneys involved in the case say that Mr. Turley also may question whether Zurich American's exposure to claims resulting from the accident ended with the one settlement last September.

The accident occurred when one of the skyride gondolas became entangled and jammed on the roller mechanism atop a support tower. Within 90 seconds, two gondolas fell to the ground amid a crowd of people.

Mr. Millard was pitching balls at a game on the fair midway with his wife and daughters when the gondolas fell, crushing him and injuring his wife and two of his daughters.

Mr. Millard's wife suffered several broken ribs and crushed vetebrae. The children were treated for shock and minor injuries.

In his decision, Judge Howell ruled that Steck & Stapf was responsible for the accident that killed Mr. Millard. He said that Steck & Stapf failed to operate the ride safely, explaining the company did not shut down the ride even though winds had reached 40 mph. The judge also found that the firm failed to properly inspect the ride and had bypassed an emergency shut-off switch.

He ordered that $2.4 million of the judgment against Steck & Stapf go to Mrs. Millard and the remainder be awarded to the children. ■

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Workers note safety concerns

SAN FRANCISCO—Some 92% of American workers believe their employers care about the safety of their employees and four out of five are aware of what their companies are doing to prevent accidents, according to a poll conducted for an insurer.

Nearly 90% of the 584 employees sampled as part of a survey taken for Fireman's Fund Insurance Cos. said they knew how to find on-the-job medical attention in a hurry in case of an accident.

Two-thirds of the respondents said a person had been given responsibility for safety at their workplaces, but only about half of the employees said they had been given training in accident prevention.

About 65% of the workers polled said they had received instructions concerning how to evacuate the workplace in case of an emergency situation. ■

Many changes planned at Lloyd's, Barum says

By LEN STRAZEWSKI

CHICAGO—Don't expect the end of an era when Parliament finally approves the Lloyd's of London self-regulation bill, says a member of the Committee of Lloyd's.

But do expect a steady flow of internal changes in management and technique at the London marketplace, says David Barum, chairman of C.E. Heath (Underwriting) Ltd.

The often-discussed divestiture of underwriting management subsidiaries by brokers, a major change included in the Lloyd's self-regulation bill, is only one of many potential changes in the works at Lloyd's, Mr. Barum told *Business Insurance* during a recent visit to Chicago.

"Since the Fisher Report came out (in 1980), 21 working parties have been investigating and reporting on all the various proposals and possibilities contained in the report. These reports are now in the process of being communicated back to the committee," he said.

The Lloyd's committee will probably discover that many of the proposals, which range from new accounting standards to reinsurance policies, can't be implemented, he said.

But action on some recommendations, including the computerization of Lloyd's underwriting operations, is already underway. The design of the underwriting booths in the new Lloyd's building, scheduled to be completed by 1985, includes space for computer terminals.

"Every one of the big syndicates has been made to realize that if it doesn't take advantange of the technology, it will fast fall behind in efficiency. We are already seeing what our major competitors are doing by linking offices electronically," Mr. Barum said.

Although Lloyd's will become faster and more efficient, policyholders probably will not notice a major difference from the technical or organizational changes, he said.

"I don't think there will be any major difference in the products or services your U.S. buyers will receive. Their risks will continue to be handled by Lloyd's brokers, after all," he said.

Although Mr. Barum is not anticipating any negative repercussions from brokers if they are forced to sell off their underwriting subsidiaries, the Committee of Lloyd's is concerned about who will buy the underwriting agencies when they are put on the market.

"There will be a number of underwriting agencies dumped on the market within the next five years," he explained. "And whenever there's anything that smacks of a forced sale, it is not attractive from a seller's point of view. And there is always the potential for mismanagement."

Mr. Barum expects that the underwriting agencies may be purchased by their current senior staffs, which will help prevent a disruption in the market, but also could bring outside interests into Lloyd's.

"Who will have the money? Banks, among others, and though they are not experienced in insurance, they are likely to want a partnership with those who are," he said.

Lloyd's brokers also own member agencies, which are agents for Lloyd's names desiring participation in various syndicates. These duties are likely to be retained by the brokerages, he said.

Workers comp rates cut 15.4% in Georgia

ATLANTA—Workers compensation premium rates in Georgia will be reduced an average of 15.4% on Aug 1, a move that will save employers some $27 million in annual premiums.

Insurance Commissioner Johnnie Caldwell ordered the rate cut after the Insurance Department performed an acturial analysis on data compiled by the state Workers Compensation Board.

Malpractice limits

TALLAHASEE, Fla.—Florida doctors and hospitals purchasing medical malpractice coverage from The Patient's Compensation Fund, a state chartered medical malpractice insurance company, now have a choice of policy limits of $1 million, $2 million, $3 million, $5 million, $8 million and $10 million for coverage excess of $100,000.

The fund previously offered only unlimited coverage excess of $100,000.

For example, a Miami anesthesiologist will pay a premium of $13,871 for $1 million of coverage, while a $5 million policy will cost $16,844 and a policy with a $10 million per-claim limit will cost $18,825.

A Miami-area hospital that wants $5 million of malpractice coverage will pay $596 per bed, while the rate for a $10 million policy will be $666 per bed.

around the states

Self-insurance credit

TALLAHASSEE, Fla.—Employers that self-insure their workers compensation risks soon will be able to receive tax credits for assessments toward a guaranty fund.

The state tax credit will apply to the 300 to 325 Florida employers that self-insure workers compensation and that are required, starting Sept. 15, to pay to a guaranty fund an amount equal to up to 1% of what they would have paid for coverage in the commercial market.

The Florida Self-Insurers Guaranty Assn., a private non-profit association, will use the assessment to guarantee the workers compensation benefits of injured workers who are employed by self-insured companies that go bankrupt and can't pay promised benefits.

Under legislation, H.B. 10-H, signed this month by Gov. Bob Graham, self-insurers will receive a tax credit against their state corporate income tax liabilities for assessments they pay to the guaranty fund. ■

Piles of paper are testimony to Hyatt litigation

Continued from page 1

with dozens more behind the scenes.

A few blocks across downtown Kansas City, near the courtroom of Jackson County Circuit Court Judge Timothy D. O'Leary, rest reams of additional court documents—the residue of a nasty legal battle among insurers for Hyatt and Crown Center Redevelopment Corp., a subsidiary of Hallmark Cards Inc. and owner of the hotel building.

The issue is which of 25 insurers representing $201 million in coverage for Hyatt and $101 million in coverage for Hallmark and Crown Center will respond to claims filed by victims and their families, estimated to cost $100 million to $200 million. Dozens more attorneys are at work on this question.

The reams of court documents paint a picture of a relatively smooth, routine risk management function among Hyatt, Hallmark and their mutual broker, Marsh & McLennan Inc.

A stream of telephone calls, letters and memos passed among the two companies and their contacts at M&M offices in Kansas City and Chicago prior to the hotel's opening on July 1, 1980, as property and liability coverage for the new hotel was put in place.

But a few seemingly insignificant glitches in the process are costing all three—and their insurers—thousands of dollars in legal fees and even threaten to involve M&M's errors and omissions insurer (see June 23, 1982, entry in accompanying chronology).

The first glitch is contained in a 1977 management agreement that Hyatt negotiated with Crown Center. The agreement governed profits and operations of the hotel, including insurance.

Among other provisions, the agreement required Hallmark to obtain insurance for operations of the hotel but also requires Hallmark to invite Hyatt to bid on providing such insurance. And it requires that any insurance on the hotel name Hallmark/Crown Center as "principal named insured."

Ultimately, the two sides agreed that the hotel operations would be insured under the management agreement by adding the Kansas City hotel as another insured location in Hyatt's master insurance program covering many of its other hotels. However, a question remains whether this endorsement makes Hallmark the principal named insured as specified in the management agreement or just an additional named insured. And depending on that answer, how should Hallmark's insurers respond?

Hallmark's primary and first excess liability insurer, Commercial Union Insurance Co., has paid no claims and is not defending Hallmark or Crown Center in suits filed by collapse victims' lawyers. CU and Hallmark argue Hyatt's insurers—because of the management agreement—are responsible for the claims.

Hyatt's primary insurer, Occidential Fire & Casualty Co. of North Carolina, quickly paid out its $1 million limit in settlements and bowed out of the controversy. Now Hyatt's $25 million first-layer excess insurer—Northbrook Excess & Surplus Insurance Co.—is paying claims and defending both Hyatt and Hallmark. But it is doing so under protest, saying that CU should be at least sharing the burden.

How the Hyatt coverage was structured is explained on page 43; the ensuing litigation is detailed on page 44.

Northbrook soon will have exhausted its $25 million limit. The claims then will fall to Pine Top Insurance Co., Centaur Insurance Co. and Insco Ltd., which share the next $25 million layer and say they will pick up the burden and pay claims.

The coverage dispute erupted after the skywalks fell because it is not clear how or even *if* the insurers in the Hyatt master program ever knew or consented to the addition of the Kansas City hotel to their policies. Columbia Casualty Co., a Hyatt excess insurer on a $25 million layer excess of $51 million, is charging that insurance certificates issued by M&M weren't authorized. Columbia, a CNA Financial Corp. subsidiary, threatens to deny coverage to Crown Center/Hallmark.

Thus a second glitch emerges:

Continued on next page

MASSACHUSETTS MALPRACTICE JUA SEEKS SERVICE CARRIER BIDS

The Medical Malpractice Joint Underwriting Association of Massachusetts is seeking bids from insurers to operate the facility, beginning in 1983.

The St. Paul Fire and Marine Insurance Company is the present servicing carrier and is expected to bid on the renewal.

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Hyatt tragedy leaves questions unanswered

Continued from previous page

Did M&M have the authority to bind insurers to their role in the Hallmark/Hyatt coverage and did it exercise that authority completely? If Columbia fails to insure the building owner, does that mean that Hyatt could be accused of breaching its duty under the management agreement?

Similarly, could Hallmark sue Marsh & McLennan for failing to properly obtain the coverage it pledged to arrange?

Yet a third glitch must be resolved. If a building collapses because of some inherently faulty design rather than the use to which it was put, does the liability fall within the coverage provided for "operations" of the hotel? Or is the owner's general liability insurer at risk? The management agreement is silent on this point.

As insurers, policyholders and their broker squabble, what lessons have been learned? Plenty, say participants, although neither Hallmark nor Hyatt's risk managers will discuss the case for legal reasons.

"All of us are more cognizant of what we put in the management agreement so there is no conflict among the insurers as to who covers," notes John D. Woods, director of corporate insurance for Marriott Corp.

When Marriott contracts with an owner to manage a building as a hotel, says Mr. Woods, the company's own insurance policies "automatically include" the owner as an additional insured

"We don't utilize a broker in these things," he says. "We do it ourselves."

In the Hyatt litigation, one insurer has raised questions about the adequacy of Marsh & McLennan's handling of the naming of additional insureds to both Hyatt and Hallmark's policies as broker for both companies.

Thomas E. Deacy Jr., Hyatt's Kansas City attorney in the skywalk litigation, says the Hyatt insurance controversy points out the importance of making sure all excess policies are written similarly and provide similar coverage in layered liability and property insurance programs for large risks. There is widely varying language among the 25 policies in the Hyatt litigation.

"That should be the responsibility of the broker," argues Mr. Deacy. "The broker may be forced to do it as a result of this case."

Insurers and brokers need to reexamine their procedures for exchange of pertinent information during the handling of complicated risk programs, suggests another lawyer in the Hyatt litigation, Ronald A. Jacks, who represents Hyatt excess insurer Northbrook.

Photo: UPI

The rubble from the collapse and the remaining skywalk were quickly removed from the hotel.

"I just think the risks have gotten terribly large and complex and the paperwork hasn't caught up," he adds.

For example, Columbia Casualty Co. says it never accepted Crown Center or Hallmark as additional insureds on its $25 million excess policy. It argues that insurance certificates issued by Marsh & McLennan Inc. or a subsidiary weren't authorized by Columbia.

"Maybe the broker doesn't always have binding authority for a particular market," says C.C. "Bud" Griffin, president of the risk management consulting firm of Warren, McVeigh & Griffin Inc. in Newport Beach, Calif. "If a broker puts out a binding letter and he doesn't have authority, that's kind of an errors and omission situation."

Mr. Griffin, who spoke generally about large-risk placements, says the relative negotiating strengths of an owner vs. an operator can affect the outcome of a program with many insureds.

The problem of conflicting forms and language was expressed differently by E. Dale Hatch, an assistant vp of Baccala & Shoop Insurance Services in Newport Beach, Calif. Baccala & Shoop is the underwriting manager for the trio of excess insurers in a $25 million layer below Columbia and above Northbrook.

"You've got a team pulling a cart, but it's like having an elephant, a kangaroo and a dog pulling the cart instead of a bunch of horses," he says of layered excess programs in general.

"One approach to solving a lot of these problems is to issue a single policy and then work behind the paper to arrange reinsurance," he says.

Mr. Griffin notes this procedure would end a risk manager's worries about policy conflicts but would also underscore the need to find a high-quality primary insurer.

As a practical matter, he adds, only the largest insurers would be willing to accept the full value of a large risk and probably for a hefty premium.

The Hyatt skywalks collapse also has made architects and engineers more aware than ever about the consequences of a computational error or computer programming mistake when designing state-of-the-art structures, say underwriters of professional liability insurance. If the design pushes materials and structures to their limits, those limits must be precisely known.

"I would think it has made a lot of people think," says Larry J. Farano, vp of large risks and professional liability underwriting for Shand, Morahan & Co. Inc. Shand, based in Evanston, Ill., is one of a half-dozen underwriters of professional liability insurance in the construction field.

"You have to keep these types of occurrences in perspective," adds Marshall A. Ames, vp of the construction industry division at Victor O. Schinnerer Inc. of Washington, D.C. "They are the exception and not the rule." Mr. Ames' company is underwriting manager for the architects, engineers and professional liability insurance program of Continental Casualty Co., a CNA Financial Corp. subsidiary.

Both underwriters say they did not observe any wholesale reconsideration of building designs after the Hyatt collapse.

Mr. Farano speculates, however, that municipal inspectors may have become more hard-nosed and building owners might have reviewed unusual structures as a result. Both also say there is little an underwriter can do to force safer designs during a period of intense competition among insurers.

Hyatt Corp. commissioned a review of all its hotels after the collapse, says Edward O. Phrang, chief of the structures division of the National Bureau of Standards. The bureau, a federal agency, compiled an exhaustive study of the physical causes of the skywalks collapse and blamed it on a design change during construction. The change made the skywalks barely able to support their own weight.

In Chicago, for example, a section of the downtown Hyatt Regency Hotel was closed and a balcony area of its lobby remodeled after city inspectors became concerned about the design.

"The more daring structures are the ones that scare me the most," says Mr. Phrang. As advances in technology make it possible to more precisely estimate the load-bearing capacity of various structures, buildings are constructed to closer tolerances. In turn, he says, "we are cutting back on the factors of safety."

Shand's Mr. Farano and others make a variety of suggestions to risk managers who want to ensure that newly constructed buildings don't contain any fatal flaws.

"If I were an owner," says Mr. Farano, "I would require that there be a construction manager on the job, and I would contract with the architect to give me a hold-harmless indemnity clause to make him responsible."

Moreover, recommends Mr. Farano, any construction agreements should define what constitutes a "major design change" and establish a procedure for obtaining approval of such changes.

The building designer should be legally responsible for any changes, which should be made only with the knowledge of the owner, he suggests, and the designer should be required to certify that the change won't adversely affect the safety of the original design. ■

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Before the collapse

The following is a chronology of the risk management process that established insurance coverage for the Kansas City Hyatt Regency Hotel before the skywalks collapse:

Sept. 30, 1977—Crown Center Redevelopment Corp., a subsidiary of Hallmark Cards Inc. and owner of the Kansas City Hyatt, executes a 55-page management agreement with Hyatt Corp. of Rosemont, Ill., for it to operate a "first-class" hotel on a parcel of redevelopment land owned by Crown Center.

The contract provides that Crown Center "shall . . . procure and maintain with responsible and properly licensed companies comprehensive general liability and property insurance. . . fully protecting the owner and Hyatt against loss or damage arising in connection with the construction, furnishing and equipping. . ." of the hotel. A second clause requires Crown Center to obtain fire and boiler insurance for construction of the hotel to 80% of its full replacement cost.

While Hyatt operates the hotel, the agreement requires Crown Center to procure CGL, fire and boiler and use and occupancy insurance for the hotel covering "claims, liabilities and losses arising from operation of the hotel." It requires the policies to "name owner as principal insured and shall name Hyatt . . . as additional insureds thereunder."

However, the contract requires Crown Center to invite Hyatt to bid on providing the insurance, and Hyatt wins the bid for CGL coverage. But the Hyatt-sponsored CGL coverage for hotel operations is purported to name the owner only as *additional* named insureds.

Hallmark later accuses Marsh & McLennan Inc., Hyatt and Hallmark's mutual broker, of not having bid the coverage at all, a claim which M&M denies.

Oct. 14, 1979—A portion of the Kansas City Hyatt atrium roof collapses during construction, sending a steel beam crashing 60 feet to the lobby floor. Crown Center, in legal papers filed more than two years later, after the skywalk crash, says it was assured in writing by the project's structural engineer that the rest of the atrium structure—including the skywalks—was "acceptable" and complied with building codes. But Crown Center did not make the communication public.

March 1980—Much of the completed hotel structure is turned over by general contractor Eldridge & Son Construction Co. to Hyatt Corp. to operate.

April 7, 1980—Hyatt Risk Manager Robert R. Duty, in a letter to Eugene D. Arnold at Marsh & McLennan in Kansas City, offers to add the Kansas City hotel to Hyatt's nationwide general liability program at a rate of $3.80 per $1,000 of gross receipts per month.

June 20, 1980—Marsh & McLennan's Mr. Arnold recommends in a letter to Hallmark Risk Manager Richard C. Heydinger that Hyatt be allowed to handle the general liability exposures of the hotel that is to open 10 days later. The annual premium is to be $32,640. In the same letter, Mr. Arnold recommends Hallmark "seriously consider" retaining the property coverage under its program with Allendale Mutual Insurance Co.

June 1980—In an internal memo to Jim Johnson, an M&M account manager in Kansas City, Mr. Arnold writes that Mr. Heydinger of Hallmark advised by phone that Hyatt will assume responsibility for general liability and workers compensation insurance at the Kansas City Hyatt and the property program will be retained by Hallmark.

Because of ongoing construction at the hotel site, Mr. Arnold writes, "the Hyatt Hotel Corp. requests they be added to Hallmark's Crown Center Redevelopment liability covers as respects construction operations only." The exact date of the memo is obscured on the copy filed in court.

June 25, 1980—Hyatt's Mr. Duty writes to Nancy Aque of M&M in Chicago advising that Hyatt will assume responsibility for general liability insurance at the Kansas City hotel. "See that all insurers are appropriately notified," the letter adds.

The letter also advises that property insurance will be provided by Hallmark/Crown Center "in addition to naming Hyatt as an additional insured under their construction liability policy for the duration of construction on this premises."

June 30, 1980—Mr. Duty sends a second letter to Ms. Aque asking her to "see that" certificates of insurance are issued to Hallmark showing Crown Center/Hallmark as "additional named insureds" on Hyatt's master general liability and workers compensation programs.

July 1, 1980—The 700-room, 40-story hotel opens.

July 16, 1980—NBA Excess & Surplus Lines Inc., an M&M subsidiary, advises Northbrook Excess & Surplus Insurance Co. by letter that the Kansas City Hyatt has opened. The letter, from NBA's Linda Geismann to Northbrook's Doug Sanders, ends: "I don't think it is necessary to endorse your policy; however, we did want to advise you of this addition."

Northbrook Excess & Surplus is the first excess insurer with a $25 million limit above a $1 million primary policy written by Occidental Fire and Casualty Co. of North Carolina.

A similar letter is addressed by Ms. Aque to David H Sayles, manager of the casualty department at Columbia Casualty Co., a CNA Financial Corp. subsidiary and excess insurer in the line two layers above Northbrook.

In legal papers filed after the collapse, Columbia argues that it never agreed to accept Crown Center/Hallmark as additional insureds because certificates issued by M&M or its subsidiary NBA weren't issued with Columbia's authority.

Aug. 14, 1980—M&M's Mr. Johnson, in a letter to Robert W. Blankenship Jr. of Commercial Union Assurance Cos. in Kansas City, describes the coverage arrangements reached during June and adds that M&M has been asked to include Hyatt has an "additional insured" on Hallmark's master general liability policy issued by CU. "Unless you advise otherwise, we will proceed to issue the appropriate certificate accordingly," Mr. Johnson writes.

Aug. 22, 1980—Mr. Blankenship responds that an endorsement will be added to the CU policy, retroactive to the date of the hotel's opening, stating that Hyatt is "an additional insured as respects coverages provided by this policy" but excluding coverages provided by Hyatt's line and "excess over any other valid and collectible insurance." This Endorsement No. 18 later becomes a central issue in a dispute among Hyatt and Hallmark insurers over who must pay claims arising out of the skywalks collapse. ■

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After the collapse

Beginning with the July 17, 1981, collapse of the skywalks at the Kansas City Hyatt Regency Hotel, this chronology tracks the litigation and legal battles that followed during the year after the disaster:

July 17, 1981—A fourth-level, 120-foot suspended skywalk at the Kansas City Hyatt, loaded with hotel guests observing a ground-floor "tea dance," tears from its suspension rods and drops on top of a second skywalk directly underneath, which also collapses. Sixty-four tons of concrete and steel crash to the lobby full of dancers.

It is 7:05 p.m., and by the following morning the death toll will stand at 111 killed and more than 200 injured. The disaster is labeled the most devastating structural collapse in U.S. history. Three more victims die later of injuries.

July 20, 1981—The first liability suit following the disaster is filed in Jackson County Circuit Court in Kansas City, Mo. It seeks $100 million in punitive damages and $1 million in compensatory damages for Mark D. Williams, 34, of Kansas City, who was trapped under heavy debris for nine hours.

Eventually, victims or their families will file hundreds of similar suits in state and federal courts seeking about $3 billion. But experts estimate total damages will be $100 million to $200 million if no punitive damages are assessed. Most of the suits name Hyatt Corp., the hotel operator, and Crown Center Redevelopment Corp., a subsidiary of Hallmark Cards Inc. and the hotel owner, as defendants.

July 22, 1981—Workmen clear the rubble of the collapsed skywalks and, later, disassemble a third skywalk still suspended over the debris-strewn lobby.

July 30, 1981—Lawyers for Molly Riley, 33, a nurse slightly injured in the collapse, file a petition before U.S. District Judge Scott O. Wright in Kansas City seeking to combine all the injury and death cases into a single class action.

Aug. 13, 1981—Joseph Fahys, a senior vp at Marsh & McLennan Inc., the broker for Hyatt and Hallmark, sends a letter to Hyatt Risk Manager Robert Duty to outline Hyatt's $201 million liability insurance program and Hallmark's $101 million liability coverage. He concludes that "to avoid duplication of primary coverage positions between Hallmark and Hyatt, the Commercial Union (Hallmark) policy was arranged as excess over Hyatt's program."

Sept. 7, 1981—Claims sought by victims or their families top the $2 billion mark in 90 state court and nine federal court suits.

Sept. 23, 1981—Myra L. Tobin, an M&M senior vp, requests "written confirmation" from insurers excess of Northbrook Excess & Surplus Insurance Co., the insurer on the first excess layer in the Hyatt line, "that your policy responds to the interests" of Hallmark and Crown Center as additional insureds. The telex states that both Occidental Fire & Casualty Co., Hyatt's primary insurer, and Northbrook, described as Hyatt's "lead umbrella" insurer, have "agreed and confirmed to us that their coverage applies to the interests of" Hyatt, Hallmark and Crown Center.

Also, the number of suits reaches 101 in state court and 16 in federal court, seeking damages totaling $2.6 billion.

Oct. 1, 1981—The Kansas City Hyatt reopens after a $5 million facelift that includes removal of any vestiges of the skywalks. The second-story skywalk is replaced by a terrace area supported by 10 steel-reinforced concrete columns.

Oct 9, 1981—Hyatt Corp. sues 25 insurers and M&M, complaining that disputes among them prevent the hotel operator from determining who its insurers are.

The key disputes are whether Hallmark's primary insurer, Commercial Union, indemnifies Hyatt and whether Hyatt's primary insurer, Occidental Fire, also indemnifies Hallmark.

As the coverage battle unfolds, Hyatt's insurers argue that language of the policies requires Commercial Union to share with Occidental and Northbrook in paying claims. Hallmark's insurers argue that the intent of Hyatt's Mr. Duty, Hallmark's Risk Manager Richard C. Heydinger and their mutual broker, Marsh & McLennan, was that Hyatt's insurers respond first to any losses due to "operation" of the hotel. Still unresolved is whether the collapse will be determined to be an "operating" loss.

Oct. 20, 1981—In state court papers, the structural engineer and the steel fabricator for the hotel building argue over who ordered a design change in the suspended skywalks aimed at making them easier to construct.

The two skywalks were to have been supported by a single set of 45-foot-long steel rods passing through the fourth-floor walkway to the second-floor walkway. The design change provided for separate rods from the ceiling to the fourth-floor walkway and a second set from the fourth to the second-level walkway.

Oct. 26. 1981—Northbrook sues other insurers to force them to share in claims payments. In Kansas City, Jackson County Circuit Court Judge Timothy D. O'Leary later enjoins the Northbrook suit and Northbrook presses its claims instead as part of the Hyatt coverage dispute before Judge O'Leary.

Nov. 24, 1981—Hallmark joins Hyatt in seeking coverage clarification in a cross-complaint that accuses broker Marsh & McLennan of negligence in failing to procure the coverage for Hallmark that it promised. Marsh & McLennan denies the Hallmark and Hyatt allegations.

Dec. 1, 1981—John T. Dixon, 64, of Warrensburg, Mo., dies of injuries received in the skywalks collapse and becomes the 114th fatality.

Dec. 31, 1981—By year-end, a total of $15.1 million is paid to 73 claimants in the Hyatt disaster by Hyatt insurers on behalf of all the defendants. Forty of the claims are settled during the last three weeks of December as plaintiffs attorneys begin to worry that Judge Wright may stop settlement talks by certifying a class action.

The largest claims paid are $1.45 million in a death case and $1.2 million in an injury case. New estimates from victims' lawyers say that claims are valued at about $652.4 million.

Jan. 25, 1982—Judge Wright certifies a class action in the Hyatt damages cases. In a surprise twist, however, he explicitly states that insurers and victims can continue to settle *compensatory* damage claims. *Punitive* claims must be handled in a single trial, he orders.

Feb. 2, 1982—Insurer-hired lawyers for Hyatt and Hallmark tell Judge Wright they will resume settlement talks with victims lawyers after an informal hiatus. They note that $18.3 million has been pledged to settle 117 claims.

Feb. 8, 1982—A group of Kansas City plaintiffs' attorneys appeal Judge Wright's class-action order to the 8th U.S. Circuit Court of Appeals in St. Louis, arguing his order illegally prevents them from pursuing their individual damage cases in Missouri state courts. Attorneys for the family of a 42-year-old Kansas City dermatologist, Dr. Jerold Rau, file a similar appeal three days later, arguing Judge Wright's order unconstitutionally prevents them from pursuing their federal court claims.

On the same day, insurer-hired lawyers tell Judge Wright at a hearing that they won't be able to resume settlement talks unless they can get "credit" from a jury for cash they pay in out-of-court settlements.

Continued on facing page

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Government, Associations, Unions, Educational Institutions	1,001
Commercial Consumers Sub-total	**23,000**
Insurance Agents & Brokers	9,741
Insurance Cos.	4,735
Financial Institutions	303
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,208
Others allied to the field	776
TOTAL	**40,763**

*Source: Business/Occupational breakdown of qualified circulation Nov. 2, 1981 issue, as submitted to BPA for December 1981. BPA Publisher's Statement.

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Continued from facing page

Feb. 25, 1982—A 349-page report by the federal government's National Bureau of Standards concludes it was the design change in the walkways that caused the collapse. Each of six rods suspending each walkway was required by Kansas City code to support 68,000 pounds but was capable of supporting only 18,600 pounds, the investigators found. The maximum load on any single rod at the time of the collapse, according to the report, was 21,400 pounds.

March 23, 1982—Attorneys for Northbrook file a motion for summary judgment against Commercial Union, seeking $11 million in settlement costs and alleging CU has failed to defend or pay claims in the skywalks cases in violation of its policies.

April 28, 1982—Judge Wright delays the scheduled deposition of Hallmark Cards President Donald J. Hall so that both sides can discuss a possible out-of-court settlement of the class-action suit. The proposed settlement, which later falls through, involves establishing a settlement fund of $23.5 million to resolve all punitive damage claims, plus an additional $3.5 million in legal fees and compensation for the class action plaintiffs' legal team.

May 11, 1982—Commercial Union responds to Northbrook's request for an $11 million judgment, arguing that Hyatt, not Hallmark, took responsibility for obtaining liability coverage for hotel operations.

In its own legal papers, Marsh & McLennan Inc. sides with CU in its dispute with Northbrook, arguing that "(t)he circumstances surrounding the placement of the two lines of insurance demonstrate that the parties intended that the Occidental line would provide primary coverage followed by the excess coverage of the Commercial Union line."

May 27, 1982—At a closed-door hearing for which a transcript is later made public, Judge Wright castigates insurer-hired lawyers for misleading him into thinking agreements existed among insurers to fund up to $150 million in out-of-court settlements.

June 7, 1982—A three-judge appeals panel in St. Louis overturns Judge Wright's class-action certification, arguing his order violates the federal Anti-Injunction Act prohibiting federal courts from interfering in state court cases. Central to the two-judge majority's reasoning is the argument that no "limited fund" exists for settling damage claims.

June 23, 1982—At a hearing in his Jackson County courtroom, Jackson County Circuit Court Judge O'Leary asks attorneys for Marsh & McLennan to supply him with a letter listing the broker's errors and omissions insurers. The judge does not indicate why he wants the information, but some attorneys speculate he may ask M&M to contribute toward a settlement fund to resolve disputes over allegedly negligent acts by the broker in arranging coverage for Hyatt and Hallmark.

July 12, 1982—In a letter delivered to the judge, M&M contends it will not participate in any settlement, nor will it ask its E&O insurers to do so. In a separate document, M&M provides the judge with a list of its E&O insurers but requests that he keep the list secret.

July 13, 1982—Insurer lawyers say about 164 cases worth $24.2 million are settled. Of that amount, $5.5 million in claims is settled in a little more than a month since the appeals court ruling overturned the class-action certification. Northbrook soon will have exhausted its policy limits. It says claims handling and payment will fall on the shoulders of the three insurers sharing the next $25 million layer —Pine Top Insurance Co., Centaur Insurance Co. and Insco Ltd. ■

Crash likely to cause underwriting loss

Continued from page 1

5, July 12).

London insurance sources familiar with the coverage say Pan Am's full-year premium is about $10.75 million.

Pan Am's coverage is brokered in the United States by Frank B. Hall & Co. Inc. and in London by Leslie & Godwin P.L.C. Pan Am said that 45% of the $500 million limit was written by Lloyd's of London underwriters and another 15% was taken by a French insurer.

Of the 40% retained by U.S. insurers, USAIG holds 25% and the other 15% is split among the Aviation Office of America Inc. in Dallas, a subsidiary of Crum & Forster; American International Aviation Agency Inc., a subsidiary of American International Group Inc. in New York; and the Insurance Co. of North America in Philadelphia, a CIGNA Corp. subsidiary.

Hull, liability losses total about $335 million in 1982

In the last six months, about $200 million in aircraft hull losses have been tallied worldwide, according to London aviation underwriters.

In addition, some 420 people have died in air crashes this year, compared with 457 in all of 1981. Underwriters say liabilities incurred are harder to estimate but one pegged the total at about $135 million so far this year.

The largest hull loss in 1982—$48.5 million—was on the World Airways DC-10 jumbo jet that skidded into Boston Harbor Jan. 23.

Other major losses, besides the recent Pan Am disaster, included the crashes of an Air Florida jet in Washington, D.C., a Japan Airlines DC-8 and an Air France Airbus and the loss of an Air Canada DC-9 valued at $9.5 million in a hangar fire.

Pan Am's is the third crash of a U.S. airliner this year in which there were fatalities.

On Jan. 13, 76 people were killed when the Air Florida Boeing 737 plunged into the icy Potomac River near Washington's National Airport. The National Transportation Safety Board's report on the accident, due late this summer, is expected to blame an accumulation of ice and snow on the plane for the crash.

A total of 42 lawsuits are filed in U.S. District Court in Washington in the Air Florida crash. Air Florida's insurer-hired lawyers say they have settled one claim for an undisclosed amount.

Underwriters valued the Air Florida hull at $12 million and said liability claims would probably range from $25 million to $40 million.

In the World Airways crash, two people are missing and presumed drowned after the jumbo jet skidded off a runway at Boston's Logan International Airport and dropped its nose into Boston harbor.

INA's assumption of part of the Pan Am risk was one of its first forays into the commercial aviation insurance marketplace, the insurer confirms. However, it does much underwriting of corporate and general aviation risks.

"INA expects its loss to be less than $1 million," said a CIGNA spokesman, who added that INA has no intention of reconsidering its place in the aviation market.

Pan Am Flight 759 was taking off from New Orleans for Las Vegas, Nev., and San Diego, continuing a flight from Miami. It crashed and burned in a suburb a mile from the runway, killing all 146 people aboard and eight on the ground, destroying several homes.

Investigators speculate the 4:11 p.m. crash resulted from a sudden shift in winds during a heavy rainstorm centered at the time over Moisant International Airport.

Such shifts, known in aviation as "wind shear," can dramatically reduce the amount of lift generated by an aircraft's wings and cause the crew to lose control.

The phenomenon has been implicated in numerous crashes, including a 1975 crash of an Eastern Airlines 727 landing during a thunderstorm at Kennedy International Airport in New York in which 113 people died.

However, the poor quality of the crew's voices on the plane's voice recorder could hamper the investigation. The National Transportation Safety Board in Washington found that undetermined maintenance problems with the recorder made transcribing the cockpit crew's comments difficult because of excessive background noise.

Four days after the crash, the NTSB issued a safety recommendation asking the Federal Aviation Administration to require airlines to replace similar voice recorders.

The model used in the plane that crashed is of a type first introduced in 1965. Aircraft designed after 1969 are required to have more-reliable model, and the NTSB wants the FAA to require the newer model in all commercial aircraft, even those built in the 1960s.

Meanwhile, Pan Am's lead U.S. underwriter is moving swiftly to settle liability claims.

Robert L. Alpert, a senior vp of United States Aviation Underwriters, already has sent a letter to families of crash victims, offering them immediate help in settling any expenses and urging them to negotiate directly with the insurer rather than retaining a lawyer.

A similar approach by Mr. Alpert's company angered plaintiffs' lawyers in the May 25, 1979, crash of an American Airlines DC-10 near Chicago in which 272 people died. In that case, the judge finally told the lawyers to stop talking about the letter.

Mr. Alpert argues that lawyers sometimes make deals with victims' families to keep one-third or more of the money they obtain from insurers. The lawyers, on the other hand, say they can get larger settlements for victims' families.

U.S. aviation sources are estimating passenger and property liability claims in the Pan Am crash will total $69 million. Pan Am insured the aircraft's hull for another $6 million, raising the likely total loss to $75 million.

"If you said that liability losses from this crash were around $100 million plus, you wouldn't be far off," says a London underwriter.

The hull of the Boeing 727-200 trijet was inherited from National Airlines Inc. when the line was acquired by Pan Am in 1979. With the bankruptcy of Braniff International Airways, many of the Boeing trijets are available for resale. That, combined with their lack of fuel efficiency when compared with more modern aircraft, has depressed their value, so the hull was only insured for $6 million.

The Pan Am crash is the first with fatalities for that airline since March 27, 1977, when one of the line's Boeing 747 jumbo jets collided in ground fog with a KLM Royal Dutch 747 at Tenerife in the Canary Islands. A total of 574 people in both aircraft were killed in the world's worst aviation disaster. ■

K mart, insurer probe warehouse blaze

Continued from page 1

ance. PM estimated the maximum foreseeable loss and accordingly used proper risk layoff procedures, said James M. Oskandy, vp-corporate affairs.

Even if the loss exceeds $100 million, it will not have a significant effect on rates, he added.

In addition, Wausau Insurance Cos. in Wausau, Wis., which insures K mart's appliance profit center and K mart stores, believes its maximum loss due to destruction of appliances in the Morrisville warehouse will be between $3 million and $4 million, said Robert Green, assistant vp.

The tremendous scope of the loss in a highly protected building designed with fire walls and a sprinkler system has alarmed risk managers who are taking another look at their own fire protection systems.

"What can we do to protect ourselves," asked William Cain, director of insurance and risk management at Dayton-Hudson Corp. in Minneapolis, echoing the concerns of other risk managers.

"We want to know what went wrong here," another insurance director added.

A definitive answer won't be available for some time. K mart is conducting a joint investigation with Protection Mutual to unravel why the fire spread so rapidly. That investigation is not expected to be completed for another two or three weeks, according to K mart attorney Noel Powers.

In addition, Protection Mutual noted that a number of investigators and engineers have been making a thorough investigation of the loss. "At this time, we are unprepared to give a definitive conclusion as to the cause of the loss," Mr. Oskandy said.

The frequency of large losses is greatly reduced in an "HPR" risk, Mr. Oskandy agreed, but he noted large losses still do occur. "This is, of course, why insurance is needed and purchased," he said.

Based on preliminary information, fire protection experts say the blaze illustrates the dangers of storing many different products in one building.

According to published reports, the fire began when a forklift truck operator accidentally punctured a propane canister. K mart says a specific cause hasn't been determined, but agrees that the fire was accidental.

Among the items catching fire were thousands of propane canisters, ammunition and various aerosol products, such as hair spray, according to reports.

The ignition of aerosol products may have caused the fire to spread so rapidly, experts say. "Aerosol cans are like little flame throwers or rocket-propelled grenades. They explode with heat and take off, starting new fires elsewhere," said Belden Menkus, a fire protection consultant in Middleville, N.J.

K mart officials said there were no indications that the sprinkler system malfunctioned. But experts say there are limits to sprinkler systems.

Sprinklers are often designed to douse fires caused by specific products. "Possibly, for whatever reason, the people operating the property may not have been keeping track of the hazard," speculated Rolf Jensen, president of a fire protection consulting firm bearing his name in Deerfield, Ill.

"You can't store products willy-nilly," he added. "When you get your fire protection system tuned to your hazard. . .don't let your hazard increase. It's like a bridge built for passenger traffic. . .you don't let 10-ton trucks roll across it.

Others say too many different and flammable products were stored in the same building. "Aerosols, propane and ammunition should be stored in a separate building away from highly valued property. Obviously, that appears not to have been the case here," said Wausau's Mr. Green.

Protection Mutual's Mr. Oskandy said loss-prevention reports prior to the blaze as well as the investigation after the fire revealed that propane cylinders and aerosol products were stored in the warehouse. Protection Mutual recognizes the variety of potential hazards in warehouses and accordingly reinsures these types of property to a greater degree than some other types of HPR risks, he said.

Meanwhile, K mart says the blaze has had little direct effect on its operations as the nation's second-biggest general merchandiser with more than $16 billion in annual sales and about 2,000 stores.

K mart stores on the East Coast served by the Morrisville warehouse are now receiving goods from five of the company's eight other distribution centers.

K mart says it will rebuild and expand the Morrisville warehouse. The new facility, expected to be completed in 15 to 18 months, will be about 2 million square feet, or almost twice as big as the destroyed warehouse. K mart already had begun to clear land for a 924,000-square foot addition before the June 21 fire.

K mart also said that it will extend health insurance benefits through Sept. 30 for any of the 375 employees at the Morrisville distribution center who are laid of as a result of the fire. ■

Panel OKs Medicare cutback

WASHINGTON—A House Ways and Means subcommittee last week approved legislation that would require employers with more than 25 workers to provide the same health benefits to workers between 65 and 69 that they offer to employees under 65.

Under the proposal, which was earlier approved by the Senate Finance Committee and would go into effect Jan. 1, cost-shifting would be turned around so that the employer's health plan would be the primary payer of older workers' health bills instead of the federal Medicare program.

In addition, the panel made a series of changes that will further reduce government payments to hospitals for patients treated under the Medicare program.

Whenever the government reduces its reimbursement schedule to hospitals for Medicare patients, hospitals try to make up for that loss of revenue by charging private patients more, insurers say. ■

Satellite may be a total loss although it's operating now

Continued from page 2
malfunctions, much of the fuel that was supposed to power the satellite for seven years had to be used.

No one seems to know exactly when the fuel will run out, but insurance industry sources say the satellite's lifetime will be much shorter than the expected seven years.

Underwriters have been told that they will pay out at least 85% of INSAT's insured value, since its life expectancy has been drastically shortened, Mr. Dore says.

When INSAT's troubles first began, underwriters were informed that the partial loss would be only $17 million, said one London reinsurer. However, he said the problems have worsened and now underwriters expect to pay the total value according to the loss formula contained in the policy.

The lead Lloyd's underwriter on the risk, Richard Maylem, says a total loss "is possible, but at this stage it will be unlikely. However, it's not going to be small."

The amount that the underwriters eventually will pay will be based on a partial loss formula that is incorporated into the INSAT life insurance coverage. The formula specifies that losses will be paid if a certain amount of INSAT's fuel is lost or if the spacecraft fails to perform specified functions properly.

This is the first time a claim has been made according to the partial loss formula on a satellite already in geostationary orbit, said Stephen Merrett, chairman of Merrett Syndicates Ltd. and a leading satellite underwriter.

"This will be a test of the policy wording because it is the first time this kind of loss has happened," Mr. Dore said.

"The question is up in the air as to when a payment will be made because there is a qustion of when a loss is considered a loss. After all, it is still up there and functioning now."

Mr. Merrett did not have a portion of the reinsurance package on the Indian satellite, even though some of the coverage was assumed by Lloyd's of London underwriters.

"INSAT was competitively priced and it incorporated a lot of new technology," Mr. Merret says, adding that the new technology may have increased the possibility of a loss while the premium was not high enough to take the added risk. ■

Two states defeat wage-loss

Continued from page 2
the work loss," he said.

"Now we try to cure a guy and hope he goes back to work," he said. "Under the wage-loss program, we would have rehabilitated the injured worker, put him back into the workplace and compensated him for his work loss—it's a different philosophy."

One of the strongest opponents of the bill was the Louisiana AFL-CIO. "Our biggest problem in the bill was the (system of) scheduled loss," says Carl Crowe, assistant to the president of the state AFL-CIO chapter. "We already have, in existing law, a wage-loss type of workers compensation."

Current Louisiana law provides 66.7% of the state's average weekly wage to the injured worker while he is off the job.

Disability compensation is now determined by doctors according to disability ratings based on guidelines established by the American Medical Assn. Disability payments granted by the state workers compensation board range from $55 a week for a minimum of 20 weeks for loss of use of a finger to a minimum of $55 a week for at least 200 weeks for loss of an arm.

Under present law, any worker who can prove he has suffered "loss of use or function" can qualify for permanent disability payments.

However, the wage-loss proposal would have provided compensation only to those who could prove "total loss of use or amputation of a member."

Otherwise, the injured worker would have received between 66.7% and 100% of the average weekly wage, depending upon the extent of the injury, while off the job.

After returning to work, the employee would be eligible for further benefits if his salary was less than 90% of his pay before he was injured. If so, he would receive 80% of the difference.

The AFL-CIO objected limiting permanent partial disability benefits to total loss of use, saying that could be interpreted in many ways. For example, Mr. Crowe speculated whether a machinist who could no longer use his arm to operate a forklift but could use it to wear a wristwatch would qualify for a 100% loss.

Labor groups lobbied for a provision that would have provided permanent disability payments to employees who suffered a loss of any degree.

Sen. Nelson proposed an amendment that would have provided benefits for workers who returned to work after experiencing a 50% loss of use, but that was opposed by business and rejected.

The conference committee offered a compromise that would have provided benefits to workers that could prove a 75% loss of use, but neither business nor labor supported that suggestion.

The bill died in the conference committee, where it had been sent by The House after rejecting the Senate version with Sen. Nelson's amendment allowing suits against employers.

"For all practical purposes, it died in the House, but it was the Senate amendments that did it in," said a spokeswoman for the Louisiana Assn. of Business & Industry.

Sen. Nelson, though, defends the amendment to allow employee suits. "I don't believe it's fair to limit employees or survivors to less than full loss compensation when an employer shows reckless disregard and causes him to be injured," he said.

In Delaware, the proposed reform would have increased the maximum benefit payable to an injured worker to 125% of the average weekly wage, up from 66.6%. The increase would have been made possible by reducing funds now going to permanent partial disability claims and attorneys' fees.

A lobbyist for the state's Chamber of Commerce said the wage-loss legislation died because of opposition from plaintiffs' attorneys and organized labor. He said it was too soon to tell if business groups will battle for a wage-loss bill next year. ■

War risk policy may pay Lebanon aircraft losses

Continued from page 2
All airlines throughout the world purchase hull war risk insurance along with their combined hull and liability policy, Mr. Elliott said. Rates vary according to where the airline is based and where it flies.

Hull war risk rates for ships bound for Lebanese ports have been costly for quite some time, Mr. Elliott pointed out. The minimum war risk rate for a ship headed for Lebanon is now 25 cents per $100 of insured value, compared with the normal rate of about 2 cents per $100. And, under the held-cover rating system in effect for Lebanese war risks, underwriters can charge whatever rate they want (*BI*, April 12).

Insurers also can give seven days' notice that war risk rates will be increased in a certain area of the world, but no such notice has yet been given to shippers operating near Lebanon.

The tight war and political risk insurance market for risks in Lebanon, particularly Beirut, is nothing new. Moslems and Christians have fought in the capital and Israeli troops and Palestinian guerrillas have skirmished along the Israeli-Lebanese border for years, increasing risks.

"It is the worst place in the world for political risk insurance," said Edward Creasy, a broker for Investment Insurance Iternational, a subsidiary of Hogg Robinson Group P.L.C.

"There are few companies that want to touch contracts with Lebanese companies or its government because of the Israeli involvement, and no one wants to do business there," he said.

Companies that have dared to do business on Lebanese soil, however, probably have not found political risk insurance from non-government insurers for at least five years, Mr. Creasy said.

Political risk insurers also are hesitant to cover political risks in some areas outside Lebanon, Mr. Creasy added. These situations include:

- Exports to the Soviet Union from the United States. Mr. Creasy says President Reagan's position on East-West relations makes it likely that the United States could widen its ban on the sale of some items to the Soviets.
- Contracts with the governments of Poland and Romania. The two Communist goverments have backed out of or defaulted on many contracts in the past year.
- Contracts in Iraq and Libya. London underwriters again point out that the chance of default is high, though the contracts can be insured for the very high rate of about $1.25 per $100 of insured value. The rate is slightly lower for Iranian deals because most of the fighting between Iran and Iraq is now taking place on Iraqi soil.

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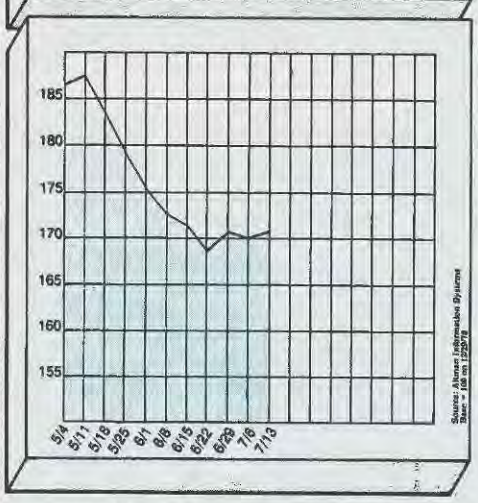
BI Insurance Index



Insurance industry stocks rebounded slightly in the period ending July 13 as the *Business Insurance* stock index rose 0.7 points to 170.7 from 170.0. Thirty-three issues posted gains, 21 stocks declined and 15 were unchanged. Leading the increases were SRI Corp., 13.7%; Alexander & Alexander Services Inc., 7.2%; Jefferson National Life Insurance Co., 6.7%; The Travelers Corp., 5.9%; and Crum & Forster, 4.3%. The largest declines were suffered by Crown Life Insurance Co., 10.8%; Great West Life Assurance Co., 10.5%; American General Corp., 7.6%; Kemper Corp., 4.0%; and Employers Casualty Corp., 3.7%. The 0.4% rise in the index was less than the increases posted by the major market averages.

British Issues

12 July Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	136	12.4	16.86	12.4	138—133	
Eagle Star	366	13.1	21.43	5.9	370—362	
Genl Accident	300	7.8	23.21	7.7	300—298	
Gdn Royal Exch	276	7.0	25.00	9.1	280—276	
Phoenix	268	10.7	24.00	9.0	280—268	
Royal	342	8.9	36.07	10.6	342—335	
Sun Alliance	774	9.7	61.43	7.9	774—764	
Brokers						
CE Heath	367	10.1	18.71	5.1	370—362	
Hogg Robinson	102	7.8	8.57	8.4	103— 98	
JH Minet	148	13.5	5.43	3.7	153—148	
Sedg Grp	176	11.4	8.57	4.9	176—171	
Stenhouse Hldg	113	8.8	7.28	6.4	114—113	
Stew Wrightson	263	9.4	18.57	7.1	263—250	
Willis Faber	489	12.2	21.43	4.4	490—483	

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

CIGNA officials, analysts say better results are to come

By JAMES C. LAWSON

BOOSTING EARNINGS in this soft insurance market has been tough for CIGNA Corp., formed by the merger of INA Corp. and Connecticut General Corp.

Depressed earnings, staff reductions and a first-quarter property/casualty combined ratio of 115.9% are all signs that the multiline underwriter, the nation's second-largest stock insurance company, is undergoing growing pains that could threaten its financial performance for several quarters to come, securities anaylsts say.

"Anytime you create a merger of this size, you have a shakedown period," explains James B. Stradtner, an insurance analyst with the Baltimore office of Alex Brown & Sons, a securities brokerage firm. "They'll be lucky if it lasts only a year.

"We don't expect to see any immediate turnaround," Mr. Stradtner adds.

While no great improvement is expected soon, he says CIGNA could begin to see some of the benefits of the merger—better marketing potential, diversity of products and services and depth of management talent—by next year.

Many of CIGNA's problems have resulted from a soft insurance market that has depressed premiums and from elimination of staff redundancies within the new structure, analysts say.

More than 1,000 people are expected to be laid off as INA and Connecticut General operations are combined, Mr. Stradtner says. Many of those people must be given severance pay, accrued lump-sum pension and profit-sharing benefits and, in some cases, moving expenses.

The severance expenses alone are not significant. But these costs plus anticipated merger costs of $12 million to $15 million, a reduction in commercial premium rates and an unusually high combined ratio could cause short-term cash-flow problems for CIGNA, analysts say.

"Unless catastrophic losses are extremely light next year, the industry will be bad—possibly worse than it has been in 1982," contends Gerold Lewisohn, a vp in the New York office of Merrill Lynch Pierce Fenner & Smith.

BI ticker

The outlook isn't bright, Mr. Lewisohn maintains, "because you're not getting rate increases, and you have to sow the seeds before you can reap the harvest."

"You characterize their (CIGNA's) problems as the problems of any multiline insurer in this market," explains Norman L. Rosenthal, an analyst with Morgan Stanley & Co. in New York. "Add the difficulty of trying to consolidate two large companies and superimpose the difficulty of consolidating two different managements styles and you have CIGNA."

The new company, Mr. Lewisohn says, also is encountering some problems integrating the two different accounting systems the merging companies used.

"The accounting they're using is more conservative than INA would have used if the two hadn't merged," explains Mr. Lewisohn.

Mr. Rosenthal says that CG reserves more conservatively than INA, though CIGNA officials deny that they have adopted such a conservative accounting system.

The difficulty of consolidating management styles has led some industry experts to believe INA Chairman John Cox is about to resign amidst company upheaval.

But Mr. Cox told a recent meeting between CIGNA officials and industry analysts that he is committed to CIGNA and has no intentions of resigning.

The company dispelled other rumors in that meeting. CIGNA officials explained that the firm's earnings results were depressed in the first quarter largely because of an unusually high level of storm-related property losses, a very weak economy and increased competition from underwriters.

The company also noted that the combination of property/casualty rate competition, declining growth in life insurance sales and cyclically bad first-quarter group insurance results were only short-term problems the company would overcome. It predicted better results within the near future, possibly next year, depending upon the strength of the insurance marketplace and how interest rates fare.

"It continues to be a very challenging environment for the industry," explains William Hartman, director of financial public relations for CIGNA. "It's a challenging period. The period enforces the logic of the merger and makes a strong company."

And to further support that contention, CIGNA last week announced that it intends to resume purchasing its shares to display the confidence it has in the company.

"We're in this for the longer term," explains Mr. Hartman. "We'd rather address our problems early than defer them to the future."

"We believe CIGNA stock offers an attractive use of our capital," Mr. Cox said, explaining the company's decision.

And that should be good news to most shareholders. Currently CIGNA stock sells for about $32 per share, off considerably from its high of about $55 per share in April. Fewer outstanding shares usually increase earnings per share.

Earnings for the second quarter, the three-month period that ended June 30, are expected to be $1.31 per share, down from year-ago earnings of $2.14 per share for the combined results of Connecticut General and INA. Net aftertax income for the quarter is expected to be $101.2 million.

Projected earnings for the year are expected to be about $6.25 per share, down 27% from last year's $8.51 per share, using combined results from the individual companies.

Despite the immediate hitches for the new company, most analysts agree CIGNA will be strong and will withstand present poor market conditions.

"It may be taking some hits now," says Mr. Rosenthal, "but we feel it's going to be a very strong company. There's no one in the industry who doesn't think it won't be a good company." ■

BI Industry Stock Report

JULY 13, 1982 — 7/7/82 THRU 7/13/82

Insurance Cos.		Price	% Chg.	P E	$ Div	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	34.25	1.5	5.6	2.52	7.4	34.38	33.50	1,148.9
American Bankers Ins Group	OTC	7.75	+1.6	6.1	0.48	6.2	7.88	7.75	69.0
American Gen Ins Co	NYSE	33.50	+7.6	4.9	2.20	6.6	35.25	33.50*	210.7
American Indty Finl Corp	OTC	13.13	1.9	7.7	1.12	8.5	13.13	12.88	11.7
American Intl Group Inc	OTC	55.50	+3.1	8.8	0.48	0.9	56.25	55.00*	865.4
American Natl Ins Co	OTC	14.00	0.9	6.1	0.76	5.4	14.00	13.88	46.4
American Sts Life Ins Co	OTC	17.00	3.0	5.4	0.80	4.7	17.00	16.50	0.4
Aneco Reins Ltd	OTC	2.63	0.0	0.0	0.00	0.0	2.63	2.63	11.0
Avemco Corp	AMEX	11.75	0.0	7.3	0.54	4.6	12.00	11.75	5.1
Banks Iowa Inc	OTC	35.50	0.0	6.2	1.48	4.2	35.50	35.50	2.5
Bitco Corp	OTC	28.00	0.0	4.2	1.92	6.9	28.00	28.00	0.8
Carolina Cas Ins Co	OTC	6.50	0.0	6.0	0.32	4.9	6.50	6.50	1.0
Chubb Corp	OTC	36.75	1.4	4.6	2.92	7.9	36.75	36.00*	132.2
Combined Intl Corp	NYSE	19.38	0.6	5.2	1.80	9.3	19.38	18.88	393.2
Continental Corp	NYSE	23.00	1.7	6.4	2.60	11.3	23.38	22.50*	199.7
Crawford & Co	OTC	12.25	2.1	9.2	0.56	4.6	12.25	12.00	0.1
Crown Life Ins Co	OTC	74.50	+10.8	5.5	3.10	4.2	83.50	74.50	0.0
Crum & Forster	NYSE	24.50	4.3	4.4	1.64	6.7	24.50	23.50	260.7
Employers Cas Co	OTC	26.25	+3.7	5.7	1.20	4.6	26.75	26.25*	6.1
Equifax Inc	NYSE	31.50	1.6	9.4	2.60	8.3	31.50	31.25	18.0
Excelsior Ins Co	OTC	14.00	0.0	36.5	0.70	5.0	14.00	14.00	3.0
Farmers Group Inc	OTC	30.88	1.2	8.7	1.24	4.0	30.88	30.25	313.6
First Colony Life Ins Co	OTC	66.25	0.0	18.8	1.02	1.5	DID NOT TRADE		
Foremost Corp Amer	OTC	27.50	2.8	7.7	1.12	4.1	27.50	26.75	15.7
Great West Life Assurn Co	OTC	179.00	+10.5	6.8	10.00	5.6	200.00	179.00*	1.5
Hanover Ins Co	OTC	28.25	3.2	3.9	0.88	3.1	28.25	27.38	17.0
Hartford Steam Boiler Inspctn	OTC	34.50	+1.4	6.4	2.80	8.1	35.00	34.50*	5.5
Jefferson Natl Life Ins Co	OTC	40.00	6.7	11.0	0.76	1.9	40.00	37.00	8.6
Kemper Corp	OTC	27.00	+4.0	4.4	1.80	6.7	27.25	26.38*	51.5
Lincoln Natl Corp Ind	NYSE	37.25	+1.0	6.1	3.00	8.1	37.25	36.75*	25.5
Mission Ins Group Inc	NYSE	22.38	1.7	5.7	0.80	3.6	22.38	21.25*	118.9
Nationwide Corp Ohio	OTC	26.50	0.0	7.7	0.70	2.6	26.50	26.50	0.4
Northwestern Natl Life Ins	OTC	23.25	3.9	4.8	1.50	6.5	23.38	22.25	20.4
Ohio Cas Corp	OTC	35.88	+2.0	5.3	2.36	6.6	36.50	35.88	125.8
Old Rep Intl Corp	OTC	17.75	2.2	4.2	0.92	5.2	17.75	17.38	86.7
Preferred Risk Life Ins Co	OTC	19.25	+0.6	5.5	0.92	4.8	19.25	18.63	7.3
Provident Life & Acc Ins Co	OTC	42.00	1.2	5.2	2.44	5.8	42.00	41.50	6.1
Ryan Ins Group Inc	OTC	32.25	3.2	13.3	0.16	0.5	32.25*	31.50	34.4
St Paul Cos Inc	OTC	37.00	2.1	4.9	2.60	7.0	37.00	36.25	165.9
Safeco Corp	OTC	32.00	0.0	5.8	2.20	6.9	32.25	31.38*	198.7
Sri Corp	OTC	20.75	13.7	4.6	1.00	4.8	20.75	18.25	39.3
Seibels Bruce Group Inc	OTC	19.25	2.7	10.2	0.80	4.2	19.25	18.75	26.1
Statesman Group Inc	OTC	5.63	0.0	4.8	0.15	2.7	5.75	5.63	18.2
Tokio Marine & Fire Ins Co	OTC	85.25	0.9	6.8	1.00	1.2	85.50	84.25*	3.4
Travelers Corp	NYSE	20.25	5.9	5.0	1.64	8.1	20.75	19.25	569.3
United Fire & Cas Co	OTC	28.75	+2.5	8.2	0.88	3.1	29.25	28.75	0.8
United States Fid & Gty Co	NYSE	36.75	0.7	6.6	3.60	9.8	37.25	36.13*	197.5
United Svcs Life Ins Co	OTC	13.63	+3.5	5.0	1.00	7.3	14.00	13.25	22.7
Uslife Corp	NYSE	16.00	+2.3	3.3	0.84	5.3	16.50	16.00*	133.2
Washington Natl Corp	NYSE	15.00	+0.8	6.3	1.08	7.2	15.38	14.88	60.5
Zenith Natl Ins Corp	OTC	14.75	3.5	7.1	0.76	5.2	14.75	14.25	22.5
INSURANCE COMPANIES	AVERAGE			6.3		5.1			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	26.00	7.2	9.0	1.94	7.5	26.00	24.50	160.3
Baldwin & Lyons Inc	OTC	34.50	0.0	6.4	0.80	2.3	34.50	34.50	2.4
Corroon & Black Corp	NYSE	19.75	+1.3	10.2	1.76	8.9	20.13	19.75	9.1
Crump E H Cos Inc	OTC	8.88	0.0	18.9	0.40	4.5	8.88	8.88	1.0
Emett & Chandler Cos Inc	OTC	8.63	0.0	9.7	0.00	0.0	8.63	8.63	1.7
Hall Frank B & Co Inc	NYSE	26.25	+1.4	9.9	1.70	6.5	27.25	25.50	209.9
Integrated Res Inc	AMEX	16.00	+1.5	6.0	0.00	0.0	16.00	15.50	202.6
James Fred S & Co Inc	NYSE	21.88	1.7	10.4	1.60	7.3	21.88	21.50	24.6
Marsh & Mclennan Cos Inc	NYSE	31.13	4.2	9.5	2.20	7.1	31.50	30.13	801.5
Penncorp Fincl Inc	NYSE	7.50	1.7	5.8	0.16	2.1	7.50	7.25	138.5
Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	1.5
Reed Stenhouse Cos Ltd	OTC	11.50	1.1	9.9	0.60	5.2	11.63	11.25	11.6
Rollins Burdick Hunter Co	OTC	16.50	1.5	10.9	1.32	8.0	16.50	16.50	36.2
AGENTS/BROKERS	AVERAGE			8.8		5.6			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	38.75	5.4	6.9	2.20	5.7	40.13	37.13	1,490.9
Anderson Clayton(Ranger/PanAm)	NYSE	27.50	+0.9	5.5	1.32	4.8	27.50	26.75	56.5
Araco Inc	NYSE	16.75	0.8	4.2	1.80	10.7	17.38	16.75	332.7
City Investing Co. (Home Ins.)	NYSE	19.50	4.0	6.1	1.70	8.7	19.63	18.75	279.8
CNA Finl Corp (CNA)	NYSE	13.50	+1.8	5.3	0.00	0.0	13.88	13.50	27.7
Control Data (Comml. Credit)	NYSE	25.25	4.7	5.7	0.55	2.2	25.25	23.75	1,481.9
General Re Corp	NYSE	38.13	1.3	9.0	1.08	2.8	39.00	37.13	452.0
Gulf Utd Corp	NYSE	20.75	+0.6	7.3	1.32	6.4	20.88	20.13	151.9
Cigna Corp	NYSE	32.25	0.0	4.2	2.30	7.1	32.75	31.25*	1,489.3
ITT (Hartford Group)	NYSE	23.38	+1.1	5.1	2.68	11.5	23.88	23.13	550.4
Optimum Hldg Corp	OTC	8.50	+2.9	6.4	0.00	0.0	8.75	8.50	10.2
Sears Roebuck & Co. (Allstate)	NYSE	19.00	0.0	9.1	1.36	7.2	19.00	18.50	2,051.9
Baldwin Utd Corp	NYSE	24.00	1.6	6.0	0.80	3.3	26.00	24.00	395.6
Teledyne Inc (Argonaut)	NYSE	99.13	0.4	5.0	0.00	0.0	102.00	99.13	635.3
Transamerica Corp (Occidental)	NYSE	18.50	+2.0	5.5	1.40	7.6	18.63	18.13*	273.4
CONGLOMERATES/HOLDING COS.	AVERAGE			5.7		4.4			

*Record high/low since Jan. 1, 1982

System design: Altman Information Systems

Financial Briefs

Catastrophe losses

Property/casualty insurers paid more than $1 billion in insured catastrophe losses during the first six months of 1982, a record amount, according to C.E. Hermanson, vp of property claim services for the American Insurance Assn.

Claims totaled an estimated $1.15 billion as a result of 22 catastrophes that affected portions of 42 states and the District of Columbia, he says. The previous record for the six-month period was about $620 million in 1974.

During 1981, insured property damage as a result of 33 catastrophes totaled $715 million for the entire year. In fact, 1982 will be only the third year in which insured catastrophe losses exceed $1 billion.

The Insurance Information Institute defines a catastrophe as any occurrence or series of occurrences—like a hurricane, tornado or explosion—in which the expected insured loss is likely to exceed $5 million. Before this year, an event only had to cause $1 million in insured damage to be classified as a catastrophe.

The most severe catastrophe in the last six months occurred April 2-4 when a series of storms caused insured losses of more than $243 million in 24 states primarily east of the Mississippi River.

The Travelers

The Travelers Corp. has declared a quarterly dividend of 41 cents per share of common stock, payable Sept. 10 to shareholders of record July 30.

Hartford Steam Boiler

The Hartford Steam Boiler Inspection & Insurance Co. has declared a regular quarterly dividend of 70 cents per share, payable July 30 to shareholders of record July 9. ■

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We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view. So your growth will never get boxed in.

Quality inspector testing a system at Diagnostic/Retrieval Systems, Inc., in Oakland, New Jersey.

Alexander & Alexander

From the client's point of view.