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MARCH 28, 1983

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives/$1 a copy; $40 a year

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update

Conference committee argues Social Security differences

WASHINGTON—House-Senate conferees last week agreed that all workers hired by the federal government after Jan. 1, 1984, will be covered under Social Security.

The conferees, meeting to iron out differences between versions of Social Security rescue legislation passed by the the House and Senate, also agreed that non-profit employers, including those that already have withdrawn

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Big employers increasing health cost control: Study

By CAROL CAIN

More of the nation's largest employers are getting involved in health care cost containment, but there is little uniformity in their methods.

This is one of the findings of a recent survey by the National Assn. of Employers on Health Care Alternatives, which polled members and non-members from among Fortune 500 companies.

"While all can agree that the rapid increases in health care costs need to be curtailed, there seems to be little agreement on what approach or approaches might best accomplish a reduction in the health care price spiral," noted a report on the study that is to be released in April.

Findings in the report show that major approaches to capping health care costs include:

- Membership in coalitions. About 74% of NAEHCA members surveyed and 66% of non-members participate in health care coalitions, belonging to an average of 2.5 coalitions each. Nearly 80% of all respondents indicated they are involved in coalition activities directed at data collection.
- Health maintenance organization options. More than 90% of NAEHCA members and non-members offer employees an HMO option.
- Second surgical opinion programs. Sixty-one percent of NAEHCA members and 51.5% of non-member respondents have implemented such programs.
- Outpatient surgery. Forty-one percent of respondents have included outpatient surgery in their health benefits plans.
- Wellness programs. The number of wellness programs has increased 100% over a similar survey done in 1979.

Attempting to define a role for the private sector in curtailing

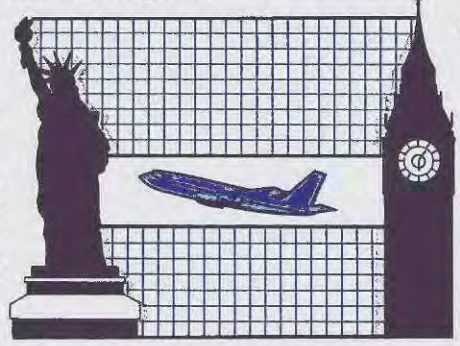
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Domestic airlines tap U.S. insurers for cover

By STACY SHAPIRO and BILL DENSMORE

LONDON—U.S.-based airlines are shifting their hull and liability insurance away from the London markets, finding friendlier skies amid U.S. underwriters.

Already, a handful of U.S. air carriers has completed 1983 aviation coverage renewals that contain reduced participation from London underwriters. And, sources in London point out, most of this year's renewals won't be negotiated until June or even later in the year.



Graphic: Jim Bakasetas

Price is, of course, one factor causing airline risk managers to swing back across the Atlantic to American insurers. So far this year, London aviation underwriters have hiked rates 5% to 6% over the 20% to 25% increases they demanded last year (*BI*, July 5, 1982). U.S. insurers are also increasing rates, but are undercutting the London market by a percentage point or two, just as they did during last year's renewals.

But brokers, underwriters and insurance buyers all say that lower rates aren't the only reason the risks are landing in U.S. markets. Some U.S airlines are questioning the underwriting policies of the London market, explaining that U.S. insurers tend to rate airlines individually while British underwriters tend to base rates on the entire airline industry's loss experience.

The flow of business from London to the United States isn't worrying London market officials too much, however.

"It is true that some business has been lost to the United States," says Barry Coleman, chairman of the Lloyd's Aviation Underwriters' Assn. "We are not worried, however, because the American business was at such low rates that underwriters over there will lose money."

Mr. Coleman says whatever coverage is lost will partially return in the form of reinsurance. He points out that London remains the premier aviation insurance market since it has a piece of almost every airline's package—either through primary or reinsurance coverage.

"This latest trend is just a correcting factor to bring airlines back to their own domestic markets. The domestic business is just going back to where it rightfully

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Rate hikes could come in '83: Conning

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—If insurance industry executives get scared enough, they could order commercial insurance rate increases as soon as the middle of this year, according to Conning & Co., an insurance industry analysis firm.

Rate increases in commercial lines beginning this year that continue into next year would reverse the current trend of increasing insurer losses, with record loss ratios topping out in 1983, Conning says.

Insurance industry executives will have to order rate increases this year or early next year to stop by 1984 the steady decline of return on equity insurers have suffered since 1980, the report says.

"Return on equity is what we believe drives the business," says Joseph D. Sargent, managing partner of Conning, based in Hartford, Conn.

Mr. Sargent admits, however, that a change in rates this year is Conning's "optimistic" prediction for industry results. Rate increases could be stalled until mid-1984, and the analysts have also predicted the industry's results under this "pessimistic" scenario.

If the first rate increases are delayed until late 1983 or mid-1984, the insurance industry's poor underwriting results would not be improved until 1985. Return on equity, however, would improve slightly in 1984 even if rate increases are delayed until mid-1984.

"What will drive the turn in our view, regardless of timing, will be mounting losses, companies withdrawing and fear of joblessness by insurance company executives," said Mr. Sargent.

Commercial insurance prices have moderated their previous steep decline, but Mr. Sargent stressed, "We don't believe any great change is going to occur until a lot of com-

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U.S. property/casualty commercial lines projections
(in billions of dollars)

Year	Premiums written	Premiums earned	Losses	Expenses	Combined ratio
1977	$32,423	$30,818	$21,782	$ 8,906	98.2%
1978	37,470	35,754	24,678	10,524	97.1
1979	40,980	39,351	27,916	11,880	99.9
1980	42,738	42,172	30,996	12,895	103.7
1981	43,328	42,878	32,063	13,762	106.6
1982	43,670	43,415	34,694	13,481	110.8
1983E	45,417	44,283	38,163	13,550	116.0
	Assumes rates increase mid-1983				
1984E	$52,230	$50,040	$41,974	$14,905	112.4%
	Assumes rates increase late 1983				
1984E	$49,960	$48,245	$41,974	$14,490	116.0%

Source: Conning & Co.

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Air Florida, Boeing reach pact on crash liability
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Court says excess insurers must share defense costs
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update

Social Security conferees meet

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from Social Security, have to participate in the program by Jan. 1.

Furthermore, local and state governments cannot opt out of Social Security after the legislation's effective date. However, public employers that already have withdrawn would not have to return.

Both House and Senate conferees agreed that Social Security benefits would be taxed for retirees whose incomes exceed certain levels. The tax would be phased in for individuals whose adjusted gross incomes exceed $25,000; for married couples, the tax trigger would be $32,000.

However, the conferees were still trying to decide whether income from non-taxable bonds should be included in the adjusted gross income for determining whether an individual's income exceeds the base amount triggering the tax.

The conferees also were bitterly deadlocked late Thursday over raising the Social Security retirement age. House conferees were supporting an amendment that would gradually raise the retirement age from 65 to 67 by the year 2027. Senate conferees favored raising the retirement age to 66.

In addition, the conferees were meeting to decide whether cafeteria benefit plans should be subject to Social Security taxes.

Under the House version, cafeteria plans would be subject to Social Security taxes if the menu of benefits from which employees choose includes cash or other taxable benefits (*BI*, March 14). But under the Senate version, cafeteria plans only would be subject to the FICA tax if they were part of a cash-deferred arrangement, like a 401(k) salary reduction plan.

SEC formally probing Aetna

HARTFORD, Conn.—Aetna Life & Casualty Co. says in its annual report that the Securities and Exchange Commission is "formally investigating" its use of tax-loss carryforwards that boosted its 1982 earnings by one-third.

In addition, the SEC has subpoenaed Aetna financial documents, according to a company spokesman who added that the insurer complied with the subpoenas last month.

Aetna earlier said that it would discontinue using the practice effective in the fourth quarter of last year, but would not adjust results for the first nine months (*BI*, Feb. 21).

Posgate loses council seat

LONDON—Ian R. Posgate has been suspended from his seat on the Council of Lloyd's of London and the smaller Committee of Lloyd's until July, the council announced last week.

The council had earlier voted to suspend Mr. Posgate as a Lloyd's underwriter following allegations that he and four other former directors of Alexander Howden Group P.L.C. misappropriated funds for their own benefit (*BI*, Jan. 31).

Under the council's bylaws, it must review Mr. Posgate's suspension from the council and committee in July.

Cause of Pan Am crash stated

WASHINGTON—Wind shear, not pilot error or equipment problems, was the probable cause of the July 9 crash of a Pan American World Airways jetliner near New Orleans that killed 153 people, the National Transportation Safety Board says.

The NTSB's conclusions give Pan Am's position a boost by concluding that the captain's decision to take off in heavy rain following warnings of shifting winds "was reasonable in light of the information available to him." The Boeing 727 jetliner rose to 160 feet, the NTSB said, where it encountered a sudden downdraft and shift from a headwind to a tailwind, forcing it to the ground.

Chase faces shareholder suit

WILMINGTON, Del.—Chase Manhattan Corp. and its former auditors, Peat, Marwick, Mitchell & Co., are named along with 28 present or former Chase officers and directors in a shareholder suit alleging "inferior, risky and imprudent" loan practices.

The suit, filed earlier this month in a Delaware state court, alleges that Chase has lost $500 million because of bad loans.

It lists 18 companies to which Chase lent money, including Drysdale Government Securities Inc. and Penn Square Bank, both of which failed last summer, as well as the nations of Mexico and Poland, which have since renegotiated their obligations.

The suit was filed on behalf of shareholder Bernard Kaplan of New York by the Bala-Cynwyd, Pa., law firm of Greenfield-Chemicles, said Richard D. Greenfield, a lawyer at the firm.

Chase Manhattan declined comment on the suit.

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Vol. 17, No. 13—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221. Copyright 1983 by Crain Communications Inc.

Boeing will fund portion of Air Florida crash claims

By BILL DENSMORE and STACY SHAPIRO

WASHINGTON—Boeing Co.'s insurers will contribute around $10 million to settle claims from last year's crash of an Air Florida jetliner, sources say.

A Boeing insurer in London said the airplane manufacturer's underwriters will make a one-time payment of $7.7 million to Air Florida Inc. for passenger claims and also will pay crew claims, although that amount is still being negotiated.

However, several sources, including an Air Florida insurer, said Boeing's insurers' total share will be around $10 million of the expected $40 million to $60 million in compensatory damage claims.

Another Boeing underwriter indicated the total figure is still unclear.

Ron Smith, claims manager for the Ariel & Rooper Syndicate at Lloyd's of London—the lead Boeing underwriter at the time of the crash—said he had no idea what the manufacturer's ultimate liability would be.

The agreement ends a dispute between Air Florida and Boeing over liability for the Jan. 13, 1982, crash of the Boeing 737-222 into the icy Potomac River, which killed 78 people and injured nine others. Four crew members where among the dead and one was injured.

A total of 34 claims have been settled so far for an undisclosed sum, says George N. Tompkins of the New York law firm of Condon & Forsyth, which is handling Air Florida's defense.

Underwriters for Air Florida and Boeing reached the tentative agreement to share liability for compensatory damages during a private conference March 4 with U.S. District Judge Joyce Hens Green.

Neither Mr. Tompkins nor Boeing attorney Keith Gerrard of the Seattle law firm of Perkins, Coie, Stone, Olsen & Williams, would comment on details of the agreement but confirmed that one had been reached.

Judge Green is hearing claims for punitive and com-

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Suit says B.R.I. defrauded insurer

By LEN STRAZEWSKI

NEW YORK—One of New York's largest insurance brokerages and several agents and reinsurance intermediaries are being sued for allegedly defrauding an insurer of nearly $49 million 10 years ago.

B.R.I. Coverage Corp. is charged with conspiring with convicted fraud artist John V. Goepfert to defraud Resources Insurance Co. from 1972 through 1975, in the recent lawsuit filed by the New York Insurance Department.

Former state Insurance Superintendent Albert B. Lewis, plaintiff in his role as liquidator of Resources Insurance, alleges in the suit that B.R.I. Coverage Corp. and its president, Donald Ferrarini, participated in a "massive criminal interstate scheme and artifice to defraud" Resources Insurance.

The insurer was ordered into liquidation in 1975. At that time B.R.I. was called Brokerage Resources Inc. and was owned by a public company, Integrated Resources Inc. The suit contends that because Brokerage Resources was purchased by its own officers to form B.R.I. Coverage Corp., there is no difference between the two companies, which are both named as defendants.

The lawsuit alleges that B.R.I. financed, supervised and advised a host of related agencies and intermediaries that were designed by Mr. Goepfert for the purposes of victimizing Resources Insurance through the placement of high-risk insurance and reinsurance risks, the embezzelment of premiums and the arrangement of false losses, claims and reinsurance.

The civil action, filed earlier this month before the confirmation of new state Insurance Superintendent James Corcoran, seeks about $150 million in specific and punitive damages and legal fees. It asks that any procedures that would in-

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Guaranty fund stalls claims payment

SPRINGFIELD, Ill.—The state's life and health insurance guaranty fund will delay paying some claims from the defunct Iowa State Travelers Mutual Assurance Co. pending a court order.

Iowa State, which was ordered into liquidation by the Iowa Insurance Department, left behind about $11 million in assets and $23 million in liabilities, including at least $1 million in life and health claims from about 32,000 Illinois policyholders (*BI*, March 7).

Although Illinois regulators had previously said all outstanding claims would be covered by the Illinois Life & Health Insurance Assn., one of the few state-mandated guaranty funds for life and health insurers, the fund's board members have only approved the processing of claims filed before Feb. 25 and are planning to ask an Illinois court whether the fund should pay any later claims.

"It is unclear to us whether we should follow the language of the Iowa conservation order, which cancels all Iowa State policies on Feb. 25, or the broader language of the Illinois act, which suggests claims should be paid through the policy period," explains Walter G. Nelson, chairman of the fund's board of directors and vp of State Farm Life Insurance Co. in Bloomington, Ill.

It's likely that paying claims filed after Feb. 25 would require a cash assessment from the approximately 300 licensed life and health insurers in Illinois that are in the fund, Mr. Nelson adds. The fund currently has assets of only about $200,000.

Meanwhile, Florida insurance officials say residents insured by Iowa State will have their medical care bills paid by Florida's guaranty fund. That coverage continues until policy expiration.

According to the Florida Insurance Department, Iowa State Travelers last year wrote $2.3 million in health and life insurance premiums in Florida, but outstanding claims remain untallied.

Los Angeles ordered to pay $10.7 million for '78 brush fire

By DOUGLAS McLEOD

LOS ANGELES—The city of Los Angeles must pay eight insurers and 27 property owners $10.7 million for losses caused by a 1978 brush fire that swept through the city's western hills, a state court has ruled.

Los Angeles Superior Court Judge Harry Mock Jr. entered the judgment against the city and its Department of Water and Power March 8, ending a trial that began in January.

The city will appeal the ruling to the state Second District Court of Appeals, according to Diana Mahmud, a deputy city attorney, who would not comment further.

However, if the judgment stands, it appears the city will have to pay the vast majority of the award.

The Department of Water and Power has a $10.2 million self-insured retention in this case, said plaintiff's attorney Michael W. Connally, and has several layers of excess liability insurance above that retention. Insurers in the first $20 million excess layer include New Hampshire Insurance Co., CNA Financial Corp. and Landmark Insurance Co., he said.

Mr. Connally added that he did not know which excess insurers would be called upon to pay the amount above the retention if the judgment stands.

Officials responsible for the city's insurance program could not be reached for comment.

The Los Angeles law firm of Long & Levit filed the lawsuit in March 1980 on behalf of the eight property insurers, the Great Western Council of the Boy Scouts of America, a large property owner, and 26 residents, all of whom suffered losses in the Oct. 23, 1978, fire that

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errors & omissions

- An article in the March 14 issue concerning the health care plan offered by Morgan Construction Co. of Worcester, Mass., incorrectly stated that the company spent $2 million on health care in 1981. Morgan spent about $1.2 million in 1981.

- Alan Dyer was incorrectly identified in an article in the March 21 issue. Mr. Dyer is a senior partner with the accounting firm of Neville Russell in London.

Business Insurance, March 28, 1983 / 3

Industrial robots

Mechanical employees create new dangers in the workplace

By MARGARET LeROUX
and STACY SHAPIRO

INDUSTRIAL ROBOTS—their mechanical arms swinging in, out, up, down and around—are dropping new problems into the laps of risk and safety managers worldwide.

Robots move. Their powerful, jointed arms reach out into the area around them to get their jobs done. Their movements are controlled by computer, but because it isn't a fail-safe system, they add a new danger to the workplace.

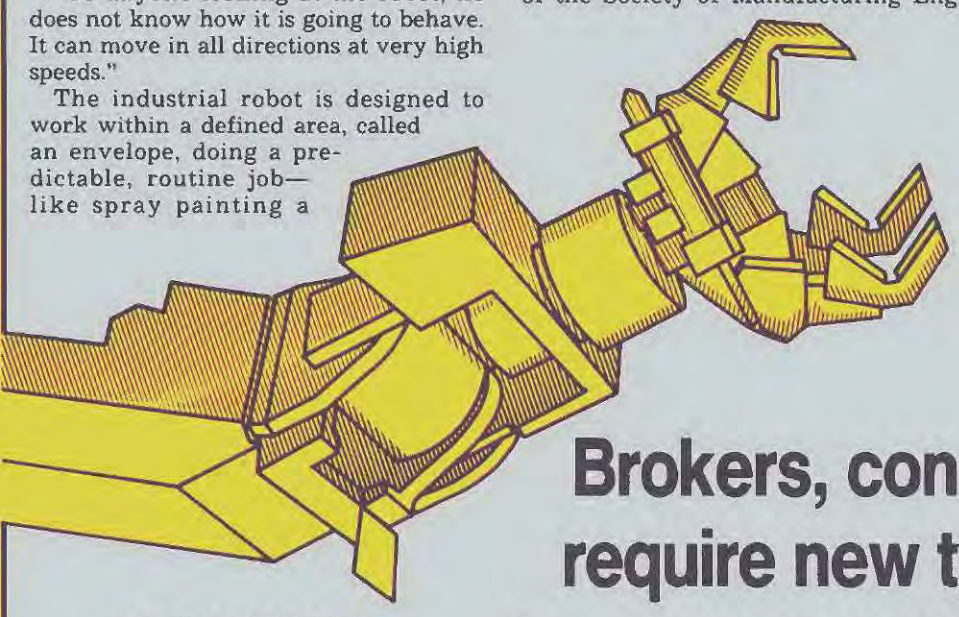
Workers can be seriously injured or the robot can be extensively damaged if something goes wrong.

"One of the major things to consider is that this thing moves, unlike any other machine that remains in a static position," warns Keith Cheshire, chief engineer for Ford Motor Co. Ltd. in Great Britain.

"The main hazard of the industrial robot is that, unlike static machines, it is unpredictable," adds Neil Percival, manager of the quality and standards division of the Machine Tool Industry Research Assn. in London.

"To anyone looking at the robot, he does not know how it is going to behave. It can move in all directions at very high speeds."

The industrial robot is designed to work within a defined area, called an envelope, doing a predictable, routine job—like spray painting a product, welding or adding a part to a car as it moves down an assembly line.



But the unexpected can happen when an error develops in the computer program controlling the robot's action, when an electical power surge gives the robot an extra jolt of energy that it can't control, when an untrained worker must deal with a robot or a curious worker just wants a closer look.

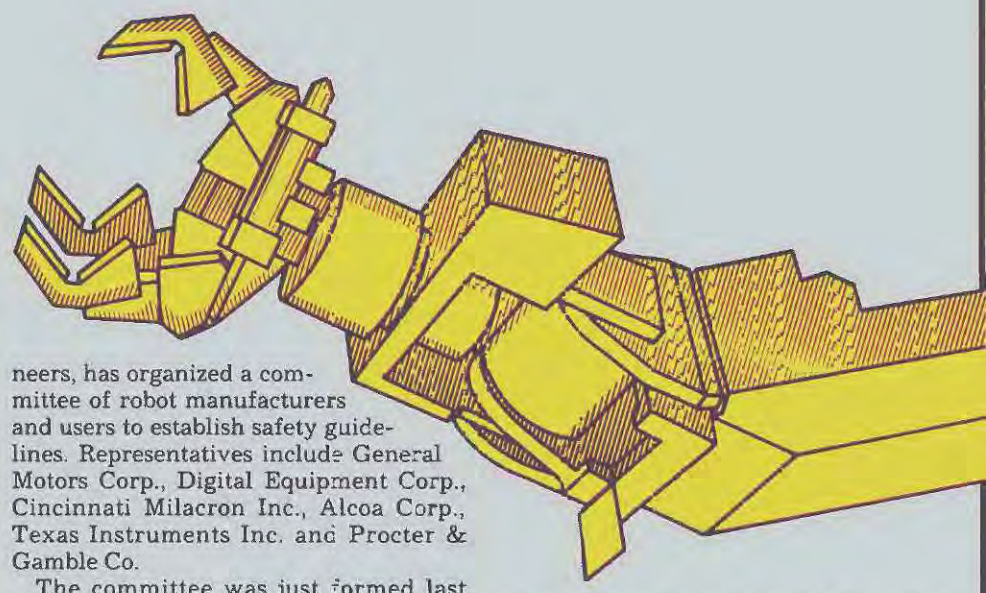
So far, robots have a pretty clean record. Only one employee death has been recorded as the result of an accident involving an industrial robot.

But the use of robots in industry is still in its infancy, as is the development of loss-control and safety programs for dealing with these mechanical employees.

Safety concerns in Europe have prompted guidelines and some regulations (see story, page 16), but that is not the case in the United States.

Although 3,000 to 4,500 robots are currently in use or being laboratory tested in the United States, there are no standard industrywide or government-enforced safety rules for the use of robots.

However, the Robot Institute of America in Dearborn, Mich., an affiliate of the Society of Manufacturing Engineers, has organized a committee of robot manufacturers and users to establish safety guidelines. Representatives include General Motors Corp., Digital Equipment Corp., Cincinnati Milacron Inc., Alcoa Corp., Texas Instruments Inc. and Procter & Gamble Co.



The committee was just formed last month, but the guidelines it may establish could become increasingly important as the robotics industry grows.

It's already estimated that 15% of all assembly lines in the United States will use some type of robot by 1990. Cliff Young, a consultant with Arthur D. Little Inc. in Boston, predicts that the market value of robots will grow in the next 10 years to $2.1 billion from only $200 million in 1982.

"There's still a lot of learning and a lot of testing to be done," warns John H. Kopmeier, vp at AMECO Corp., a Menomonee Falls, Wis., robot manufacturer.

While U.S. risk managers wait for these standards, they are not, however, running their robots in a safety vacuum.

They are turning instead to a robot safety guide developed in Britain and heralded worldwide or they are relying on robot manufacturers that make safety training an intregal part of any robot sale. Others tap their insurers for robot safety advice.

Mr. Cheshire of Ford in London says there is no mystique about safety for industrial robots. He says employers must have procedures for using them safely, train employees to follow those procedures and have safeguards built in to stop the robot if an employee violates a rule or another force triggers a robot fit (see story, page 12).

Both the British guidebook and the manufacturers' guides concentrate on these same principles, with key emphasis on teaching workers to respect the area in which the robot works.

This mainly means keeping the workers out of the robot's envelope or working area, training them properly if they need to work inside the danger zone and reminding them that a robot is not a person. It cannot see or reason and will continue on its designated path regardless of whom is in the way.

The British guide, "Basic Principles of Safeguarding Industrial Robots," was written by the Machine Tool Industry Research Assn., the research unit of the British Machine Tool Trades Assn. But much of the input for it came from the experiences of manufacturers and users, including London-based subsidiaries of U.S. companies like Ford, Cincinnati Milacron and Unimation Inc., a robot manu-

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Brokers, consultants say high-tech hybrids require new type of all-risk insurance policy

By STACY SHAPIRO
and MARGARET LeROUX

COMPANIES USING industrial robots may soon be able to insure them under a specially designed policy from London.

Reed Stenhouse (U.K.) Ltd. is designing a coverage package that would insure robots separately from other factory machinery.

If the Lloyd's of London broker can find insurers to write the coverage, it will be the first policy to cater to the special insurance needs robots might create.

Reed Stenhouse's plans add to the debate over whether robots now in use on assembly lines and in factories are adequately covered under current policies.

Most robot users would most likely answer yes, pointing to property damage policies, business interruption policies, boiler and machinery policies, machinery breakdown policies, computer policies and/or all-risk policies.

Many insurers would agree, stressing that they see nothing so unique about robots as to cause a coverage problem.

But some consultants and brokers, like Reed Stenhouse, say coverage gaps exist because of the very nature of the robot, which is both machine and computer.

Boiler and machinery policies cover machines and computer policies cover electronic equipment, but would both policies respond when a robot—a computer-controlled machine—runs into trouble? Would there be coverage gaps where one policy stops and the other starts?

Typically, a boiler and machinery policy excludes data processing equipment, while most computer policies require that a computer be located in a safe, controlled environment.

"Computers weren't designed to operate on the production floor," says risk management consultant Karen Sargeaunt with Waite Hill Services Inc. in Richmond, Va., a subsidiary of Figgee International.

"And if you study almost every computer insurance policy written for U.S. insureds, you'll find computers aren't covered unless they're in a protected environment.

"For a computer-controlled robot system that is functioning in the hostile environment of the factory floor, there could be virtually no insurance cover," Ms. Sargeaunt says.

And, even if the buyer's property, machine breakdown and electronic data processing policies all respond to a loss, how many hassles will crop up among insurers trying to decide who pays what?

The solution Reed Stenhouse, Ms. Sargeant and others propose is a special robot all-risk policy.

"What we'll eventually have to come up with is a brand new policy that combines the all-risk features of a boiler and machinery policy with EDP (electronic data processing) coverage, something to eliminate the gray areas where each policy leaves off before the other one takes over," says George Roussey, a vp of Marsh & McLennan Inc. and manager of its boiler and machinery department in N.Y.

The present policies may be adequate but they may not be enough, said a Reed Stenhouse spokesman.

"We have arrived at strategies to provide better products for the robots," he says.

Reed Stenhouse started looking at the coverage problems presented by robotics last summer as the British automotive industry began using robots more and more on the assembly lines.

A committee was formed by Reed Stenhouse executives in the risk management, underwriting, broking and safety departments to evaluate the risks and see what, if anything, should be insured.

Recently, the committee concluded robots just may need separate coverage.

Continued on next page



Robot policy may be needed

Continued from previous page

"Our conclusion is that the objective risks for robots are not any different from other machines," says a Reed Stenhouse spokesman. "But the risks of loss and liability may be greater."

The increased number of robots that will be used in British factories may boost the chances of costly business interruption losses for robot users if one of the robots malfunctions, he said. There are fewer than 400 robots in use in Britain this year, but that number is expected to grow to 3,500 by 1985.

The Reed Stenhouse spokesman and Ms. Sargeaunt of Waite Hill suggested that both robot manufacturers and buyers would be interested in special robot insurance.

The Reed Stenhouse spokesman explained that a robot malfunction could cause an expensive product liability claim for the robot manufacturer and also for the buyer if the products are flawed because the robot was malfunctioning.

Both the user and manufacturer could face substantial third-party damage claims if something went wrong while a robot was being used in a high-risk area, like a nuclear power plant.

"Conventional insurance is unlikely to give coverage for business interruption and product liability for the robot," said the spokesman.

The new package policy would provide all the essential coverages, including physical damage, business interruption, machinery breakdown and liability. That would eliminate coverage disputes.

"We look at the robots as neither machines nor computers but as robots, and underwriters should look at them in this way," said the spokesman.

However, not all insurers are looking at it that way.

The Factory Mutual System researched the need for special robot coverage. It decided that it is not worthwhile now to treat robots as unique machinery.

FM dropped the idea of evaluating robots separately after FM Research Corp. in Norwood, Mass., researched the need last year.

The research unit concluded, however, that "the existing standards developed by FMRC for the protection of these standard items —e.g., electrical equipment and components, semiconductors, cabling, hydraulics, etc.—are sufficient," Factory Mutual International in London said in a letter to *Business Insurance*.

However, the situation may be reviewed in light of further technological advances, FM International said.

In the meantime, when FM International's clients experience coverage problems attaching robots to normal fire and boiler machinery policies that exclude electronic data processing control equipment, the insurer simply drops the exclusion.

To insure the robots, "the exclusion was excluded," said Ian White, senior account executive at FM International in London.

"Really, the robot is not that complicated," he said. "It is just a sophisticated standard piece of equipment."

"There's no need for a new policy," says David Carlson, vp of underwriting at The Hartford Steam Boiler Inspection & Insurance Co. "The trend is away from legions of policies and toward broad forms that incorporate as many needs as possible in a policy.

"The only time there's a need for a new policy is if existing policies don't respond to insureds' needs."

For example, boiler and machinery coverage evolved from covering only pressure-type machines to include electric switchboards and transformers, he explained. "As machines become more sophisticated, the coverage will be written to respond to the needs of insureds."

At the inland marine department of St. Paul Fire & Marine Insurance Co., William Long, underwriting officer, agrees. "Today's markets are writing broad, all-risk coverages including floods, earthquakes and machinery breakdown."

Mr. Carlson of Hartford Steam Boiler concedes that boiler and machinery policies exclude data processing equipment and EDP policies say the equipment has to be in a controlled area, but he says the coverage gaps can be eliminated through an all-risk policy.

"That depends on how 'all-risk' your all-risk policy is," counters Ms. Sargeaunt. "Dust, corrosion and rust are excluded in most all-risk policies, and they're exactly the elements you find in a factory."

One of the largest exposures for companies using robots appears to be business interruption.

"The time element is frightening," says Les Mungle, vp of inland marine underwriting at Fireman's Fund Insurance Co.

The robot industry is evolving at such a breathtaking pace that entire robot systems, much less a single part, are obsolete within months after their introduction.

Robot users seeking spare parts might find themselves without a supplier if the manufacturer of their machine does not survive the keen competition now going on among robot manufacturers.

Further complicating the situation is the multitude of languages in which robot programs are written. It is not always easy to replace a program if one is lost through error, accident or sabotage.

"We're all guilty of not recognizing the total exposure we have to the risk of business interruption," said Donald P. Muench, vp and treasurer of Kearney & Trecker Corp., a Milwaukee manufacturer of computer-controlled machinery.

As American industry becomes more automated and as more computer-controlled robots and other machinery are used, "the risk of loses from business interruption is growing insidiously," Mr. Muench.

But, he says, insurance is not necessarily the best protection.

For example, he asks, "How do you assess the value of the person who is developing your computer program if he or she is hired away by a competitor?"

Or in the case of sabotage, "even if an insurance company were willing to reprogram lost tapes, unless they have the staff capabilities to do it—and most don't—it becomes a moot point."

What comes into play are the other aspects of risk management, he says, "doing things like having backup files at a separate location from your equipment, but where you can get your hands on them." (A separate story on handling computer disasters starts on page 20.)

Matthew Jackson, manager of the Hartford Insurance Co. in Japan, agrees with Mr. Muench's assessment of the business interruption risks.

"From an insurance point of view, business insurance is the tricky one," he says.

Because of the complex technology involved and the difficulty of securing replacement parts, repairing robots can sometimes take months.

"But the real problem now is that nobody has enough loss experience data to accurately predict what's going to happen," Mr. Jackson said. "Right now, we're still learning and the clients are still learning." ■

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Industrial Risk Insurers

Access to robots should be limited: Guide

Continued from page 3
facturer in Danbury, Conn., which is being acquired by Westinghouse Electric Corp.

The guidelines were drawn up with government regulation in mind, "taking into account the practical experience of manufacturers and users of robots with certain statutory requirements applicable to their design and use," the booklet states.

The guide states clearly that the major new hazard presented by robots is the working envelope, or the area within the reach of the robot. "Unpredictable action patterns, ability to move in free space and the possibility of reconfiguration all distinguish a robot from other machinery," it stresses.

It recommends installing fencing not less than two meters high around all four sides of the machine and building physical stops within the robot to prevent the arm from moving outside the work area.

Besides a fence, access to the robot can be controlled through trip devices that stop a robot or activate an alarm. These include photoelectric safety systems, pressure-sensitive mats or mechanical screens.

Because it is necessary for workers to enter the robot work area at certain times to perform maintenance and other work, the guide suggests very stringent procedures be established to determine who will enter the area, what work they will do and how long it will take to do it. The guide refers to this as a permit-to-work system.

> 'If anyone from our organization sees safety criteria being violated by one of our customers, that person is obligated to inform both the customer and his own supervisor,' explains Unimation's Pat John Rosato.

Such a system establishes in a formal, written format what work needs to be done near the robot, who will do each section of work and who will supervise it. Safety precautions that have been taken also are to be noted in the permit.

A time limit is established in which to perform the work on or near the robot. After that amount of time, if the work is not finished, the work environment is checked again to make sure it is still safe.

Necessary safety procedures to be followed before the work permit is canceled also are to be spelled out.

The only recorded worker fatality involving a robot occurred in July 1981 while a worker at a Kawasaki plant in Japan tried to fix a malfunctioning machine within the robot's reach.

Kenji Urada was doing routine maintenance work when he noticed a machine that was receiving parts from a robot was malfunctioning.

Mr. Urada entered the restricted area and began to make adjustments. Absorbed in his work, he did not notice the descending arm of the robot that pinned him.

His co-workers stood helplessly by, unable to turn off the robot as Mr. Urada was killed.

While the Kawasaki employee apparently had a good reason to be inside the robot's work area but miscalculated the robot's activity, simple curiosity among employees about these mechanical co-workers also presents a risk that makes it necessary to restrict access to robot work areas.

Earlier this year, an employee at General Motors' Oshawa, Ontario, plant was injured by a welding robot when he got too close and was pinned between the robot and a steel table.

The employee was from another department and was unfamiliar with the range of the robot's welding arm, according to a plant spokesman.

The machine was fenced in on three sides, but the employee was able to get in the robot's path by entering from the fourth, open side.

The employee was not authorized to be in the robot area, the GM spokesman said, adding that safety seminars given when the robot was installed emphasized that only authorized personnel should enter the robot's area.

Since the accident, fencing has been added around the fourth side of the robot.

In the British safety guide's extensive section on risk assessment, it suggests risk managers consider how often access to the danger area is necessary and the risk and severity of injury should a guarding device on the robot, referred to as an interlock, fail.

U.S. risk managers can get similar guidance from safety seminars and manuals prepared by robot manufacturers.

Unimation Inc., the leading U.S. robot manufacturer, offers a four-day training course for buyers of its robots and provides a manual that covers virtually every risk involved.

"There's nothing that we're aware of relative to safety that we don't cover in the training course and manual," said Pat John Rosato, director of technical training and publications for Unimation.

"We take a very pro-active approach," he continued. "If anyone from our organization sees safety criteria being violated by one of our customers, that person is obligated to inform both the customer and his own supervisor.

"Whether or not the robot user listens to us is, of course, up to his own judgment."

The Unimation manual is replete with cautions and warnings in the step-by-step procedures it outlines for installation, maintenance and repair of Unimation robots, called UNIMATES.

The safety summary in the manual reads:

"The following is mandatory reading for all personnel who find themselves in or around the area that the UNIMATE can reach.

"Personnel cannot be expected to knowledgeably and safely apply, operate or maintain a UNIMATE by just making the appropriate manual available; no more than a

Continued on page 10



Frederick M. Siegfried, CEBS, Vice President, Group Sales and Underwriting, talks about helping agents and brokers apply self-funding techniques to a broader spectrum of group health cases.

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opinions

May 'The Force' be with you

ANYONE WHO HAS seen "Star Wars" or "The Empire Strikes Back" knows there are good robots and bad robots.

On the good-robot side are the lovable C3PO and R2D2, who aid Luke Skywalker. And on the bad side are the Empire's imperial walkers that pounded across the terrain of the ice planet Hoth crushing the Rebels' defense.

The industrial robots that are invading the world's workplaces are not quite as colorful as the cast of "Star Wars," but the lesson of good and bad still applies.

There are good robots. They are the ones that increase productivity on the assembly line and reduce the risk of injury to workers by doing the "dirty work."

And, there are the bad robots. They are the ones that malfunction because of a computer glitch, damaging a product. Or, they're the ones that continue on their programmed path despite the fact that a human is in the way and will be injured.

In Britain, automobile companies that are using robots on their assembly lines, a trade group representing robot manufacturers and the British government are taking an active role in making sure their robots fall into the good category. In fact, together these three sectors have written the only known guidebook on industrial robot safety.

Likewise, a West German engineers' trade group has established robot safety regulations that its members must follow.

In contrast, there is little activity going on in the United States to establish a standardized safety code for the use of industrial robots.

We recognize as a positive step the Robot Institute of America's formation of a committee last month to study the need for robot safety guidelines. And, we applaud the robot manufacturers that make safety seminars and manuals part of a robot sale.

But, the United States is way behind other nations in developing some kind of consensus for dealing with robots in the workplace.

C3PO and R2D2 were good robots because the Rebel forces programmed them to perform good, helpful tasks. And, the imperial walkers were bad because Darth Vader ordered them to be destructive.

U.S. robot manufacturers and users have to get into the act, too, if they want "The Force" of safety to be with them.

letters

Computers enhance, not disrupt, relationships

To the editor: Statements in the article "Computer network to link buyers, insurers" (*BI*, Feb. 21) regarding automation contain misleading remarks by me suggesting that the use of public data networks by the industry would change the historic relationships between agents, their clients and the insurance companies.

My remarks were intended to explain that any data network could be available to risk managers to send whatever information is currently sent to insurance companies. Examples would be claims reports and voluntary premium audits.

A modifying point was made that those agents or brokers, who do not condone direct exchange of information today, could maintain the same position: Adding data communications to their already accepted —policyholder to agent to insurer—mail and telephone communications.

The agent's best guarantee that the network's services would not be exploited by companies is to realize that today a risk manager can use the mail or telephone to purchase insurance from any source.

The reason it does not happen is because insurance companies within the American agency system will sell their products only through licensed agents. We are not aware of any member of Insurance Value Added Network Services (IVANS) who does not currently observe that rule.

Let me also elaborate on certain comments in the article about the accessibility of insurance company's rates through IVANS. While some companies may make rates available to its agents through the network, it is not a service that will be available to anyone other than agents, nor will it be among the first value-added services to be offered. Therefore, any inference that rates or quoting services would be made directly available to insurance purchasers was a mistake.

It is unfortunate that a representative of IVANS contributed to the confusion about the use of data networks. Fortunately, one of the benefits of a data network dominated by the industry is that the interest of both agents and insurers will be protected. That is certainly true of IVANS, whose board of directors is comprised of representatives from both the Independent Insurance Agents of American and the National Assn. of Professional Insurance Agents, as well as participating insurers.

John W. Folk
President
IIR/ACORD Corp.
White Plains, N.Y.

N.Y. state employees are paying their share

To the editor: Considering your Jan. 24 article on the Hewitt Associates study that indicated that few employers were raising employees' health insurance deductibles, you may be interested in recent increases in deductibles paid by most enrollees of the New York State Government Employees Health Insurance program, which provides benefits to employees and retirees of New York state and nearly 1,100 political subdivisions.

Effective Jan. 1, the annual major medical deductible for 427,000 enrollees was increased from $75 to $100 per person with an increase in the family maximum from $225 to $300.

On Jan. 1, 1984, and Jan. 1, 1985, the annual deductible will be further increased by a percentage amount equal to 1% for each percent increase in the medical care component of the Consumer Price Index for urban wage earners and clerical workers. The annual increase under the formula is capped at $10 per person or $30 per family.

These changes will produce savings in 1983 and 1984 totaling an estimated $7 million.

We feel that this approach is a positive step in addressing the need to adjust deductible levels as medical expenses increase.

Ronald Rich
Director
Division of Employee Benefits
New York State
Department of Civil Service
Albany, N.Y.

Independence is a major value of consultants

To the editor: *Business Insurance's* annual issue on risk management consulting (*BI*, Feb. 21) was, as usual, very informative and Jim Davis' "Fighting for market share" Perspective article was particularly thoughtful.

Regarding consulting, Dr. Davis comments that the special expertise we provide can be a handicap by creating an inability to provide a full range of risk management services. His thinking, I believe, is that we need to expand into other areas of risk management services or we will appear too narrowly focused to our clients. But that independent objectivity highlights the true consultant's value.

Clients are looking to their consultants to provide them with independent expertise and advice on the broad range of risk management services available to them. Betterley Risk Consultants would not be able to offer that objectivity if we provided risk management services; rather, clients ask us to evaluate, help assemble and monitor the elements that constitute a well-run risk management program.

In risk management, consultants cannot consult if they also sell services.

Richard S. Betterley
Senior Consultant
Betterley Risk Consultants Inc.
Worcester, Mass.

Gallagher's packages

To the editor: For the article "Packages cover both property, liability risks" (*BI*, March 7), I say congratulations to *Business Insurance* for what I consider clear and concise reporting.

To our competitors, the other brokers mentioned in the article, I say welcome aboard. . .imitation is the greatest form of flattery.

Arthur J. Gallagher & Co. has been designing and selling "combined aggregate protection" programs for 20 years and providing the risk management services necessary to make these programs a success.

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Donald J. Krutek
Vp
Risk Management Sales
Arthur J. Gallagher & Co.
Rolling Meadows, Ill.

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. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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ADVERTISING: New York: 212-210-0133; Chicago: 312-649-5276; Los Angeles: 213-651-3710
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Published weekly at 740 Rush St., Chicago, Ill. 60611. Offices: 220 East 42nd St., New York, N.Y. 10017; Suite 515, National Press Building, Washington, D.C. 20045; 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 5327 N. Central Expwy., Suite 200, Dallas, Texas 75205; 20-22 Bedford Row, London WC1R 4EB, England. $1 a copy. $40 a year in U.S. Canada and all other foreign add $14 for surface mail. Europe and Middle East only add $35 for air delivery. First-class mail to U. S. and Canada only, add $50. Bermuda only, $85 per year expedited delivery. WILLIAM STRONG, *vp-circulation*. DIANNE WALSH, circulation manager. ROGER DIGREGORIO, *fulfillment director*. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.

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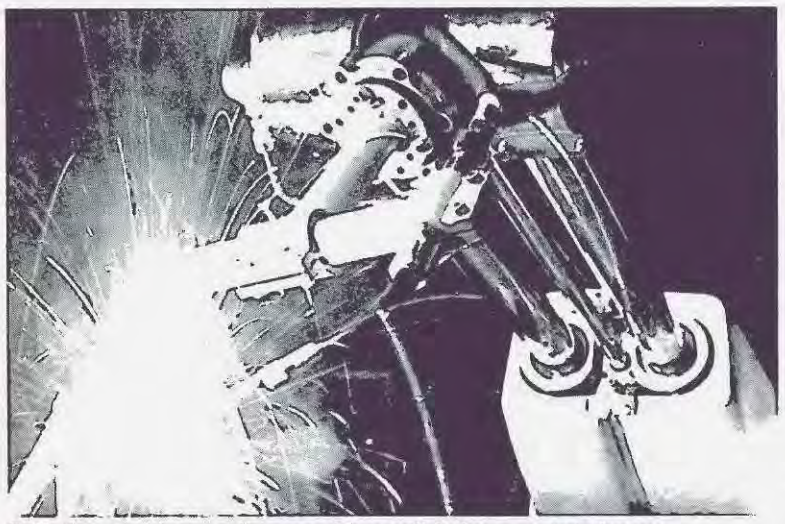
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Robot manufacturers offer safety training



Robots used for welding could possibly burn an employee.

Continued from page 6

man can knowledgeably and safely fly an airplane, operate a lathe or repair a complex transfer device by reading a 'How to. . .' manual.

This equipment manual is written under the assumption the user has attended the UNIMATE training course conducted by the Unimation's training department and has a basic working knowledge of the UNIMATE.

The equipment manual is not to be considered a self-teaching vehicle, the company adds.

"Failure to comply with the above and subsequent warnings can result in *serious injury* to personnel and/or *major damage* to the UNIMATE."

Within the manual, there are three levels of special notations used to describe the risk associated with a particular procedure:

- "Warning" signifies that when a particular procedure is not followed, serious injuries will occur to personnel and/or major damage will be inflicted on the UNIMATE.
- "Caution" signifies that when a particular procedure is not followed, the UNIMATE may be inflicted with minor to near major damage.
- "Note" is used to give supplementary information or to emphasize a point, procedure, etc.

The Unimation safety manual is full of specific DOs and DON'Ts for general use of the robot and specific troubleshooting.

For example, the manual directs users to:

- **DO** realize that the UNIMATE can, during a failure mode, move to locations outside of its programmed area.
- **DO** consider what action is expected from the UNIMATE before a switch is toggled or button is pushed; then be prepared to stop the UNIMATE if a deviation is observed.
- **DO** realize that the only safe restriction to the movement of the UNIMATE is a mechanical stop.
- **DO** realize that non-movement periods caused by time delays, a master controller or computer interface make it unsafe to assume that the UNIMATE is not about to move because it is not in motion.
- **DO** realize that the UNIMATE cannot see nor reason. Any obstacle placed in the UNIMATE path of operation, after it has been taught a program, will be struck.

Alfred D. Smith, manufacturing consultant for Hartford Group, outlined a seminar on robot loss control that the insurer gives for robot users and Hartford field representatives.

"I talk about what to look for in the area of physical exposure, quality control and environmental controls," Mr. Smith said.

Like other robot experts, he stresses that workers must be kept from the area in which the robot is working.

"A robot operates in a cycle," he said. "It will, for example, pick up a piece of equipment every 60 seconds, swing it in a 90-degree-angle arc, do something with it, oscillate, then swing back to its starting point and begin the whole cycle over again.

"This will happen regardless of what else is going on in the plant—or no matter who is within reach of the robot.

"You have to literally fence in the robot or fence out humans, with a gate that sounds an alarm or shuts off the power if it's opened," he explained.

Painting yellow caution lines around the robot isn't protection enough, he added.

Mr. Smith also warns users of robots not to be lured into a false sense of security about product control because of claims that robots are fantastically accurate.

"You can't set them up, turn them on and come back eight hours later expecting everything to be perfect," he warns.

Another robot expert points out that more safety problems will crop up as robot technology increases and workers must deal with them directly.

"For the most part, robots do what they're supposed to and the risk of injury is limited," he pointed out. "Robots today don't work that closely with people, which is where the problems of the future will originate."

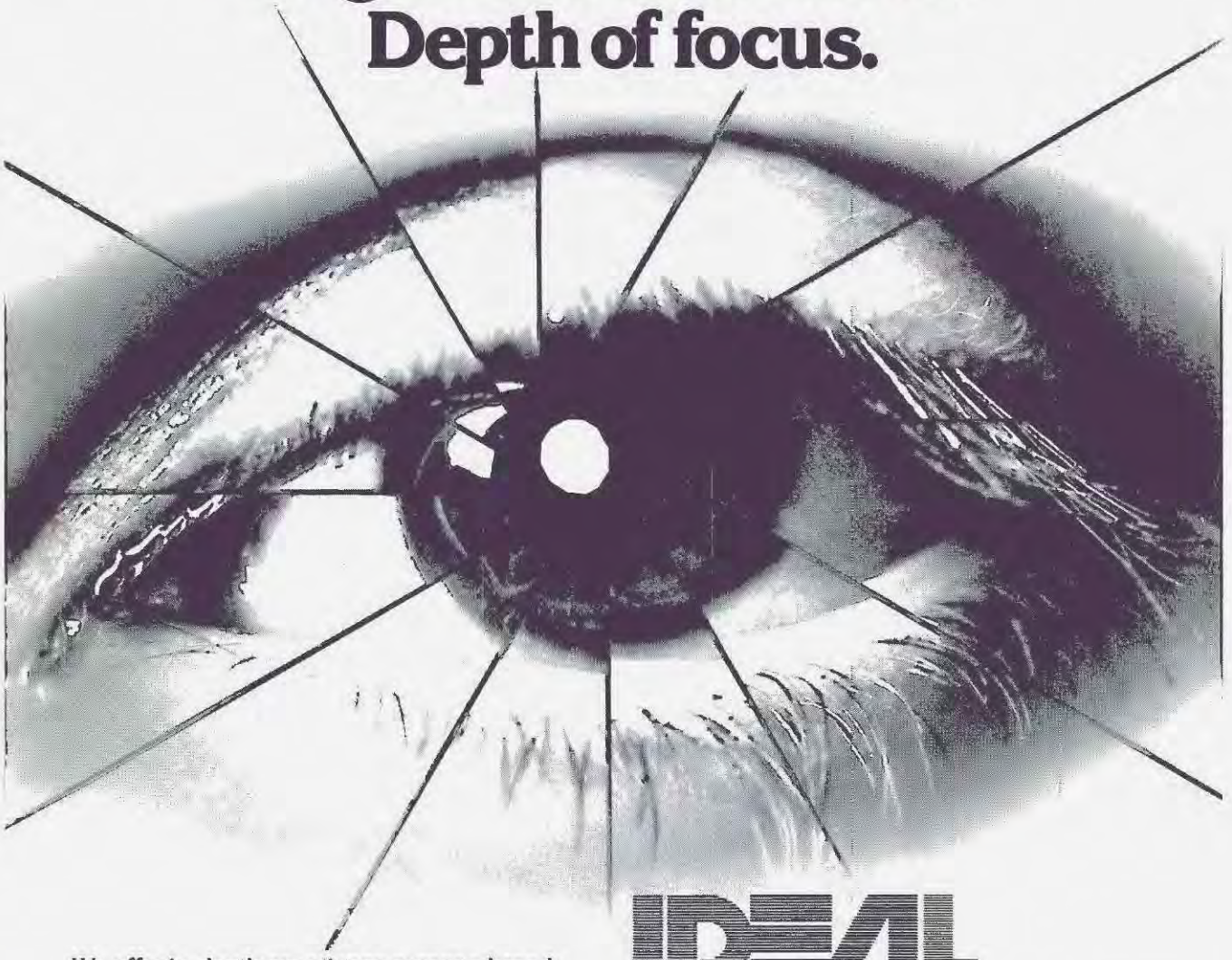
As robots develop vision and greater dexterity, they will have more interaction with humans, he concluded. "Consequently, there will be greater risks."

While some safety features are included in virtually all industrial robots, they are not uniform among the robots manufactured by 71 different companies in the U.S. robot industry.

And the safety features probably are not as inclusive as they would be if the object were to make the world's safest robot.

"If we included every conceivable safety device, the machines would be so prohibitively expensive, no one would be able to afford them," said Unimation's Mr. Rosato. Some safety features, like safety gating, are available only as options, he added. ■

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Risk managers are seriously hampered in their insurance negotiations and are more likely to suffer significant increases in misunderstandings and misinterpretations of the coverages that their policies actually provide. This is what causes a coverage dispute.

The legal cost of pursuing a claim of this nature can be astronomical. Regardless of how rightful the insured's position is, the effect on cash flow forces a company to exercise restraint and sometimes to even compromise situations with most serious consequences.

PIA's Legal Expense Insurance for Coverage Disputes has been created to make it possible for the insured to pursue a rightful claim without regard for reasonable legal costs.

The climate of economic stress has brought about aggressive competition within the insurance industry, resulting in the cost of premium becoming the prime consideration for many companies when buying coverage. As a consequence, more policies are being prepared and hastily written without attention to the basic essentials of underwriting. Ambiguous wordings are being used more frequently; intricate terminology is glossed over. Then, when a claim is presented to an insurance company, these obscurities raise the question of applicability—because the exact coverage intended is obscured to the purchaser, the broker and the insurance company.

When a policyholder feels his claim should be honored and the insurance company feels it has cause to deny it, the only recourse remaining may be litigation. As a result, there has been a substantial increase in coverage disputes and many insured corporations are now discovering the potential costs and hazards of such suits: the larger the claim, the more likely the chance of denial.

1. Coverage disputes should be litigated by those few attorneys who specialize in this area of law, since effective litigation requires a keen understanding of the procedures and intricacies. In preparing a coverage dispute case, the bulk of the funds expended by the plaintiff will undoubtedly be during the discovery period or the first six months in which the insured is preparing his case. This is not a one-time corporate expense. These costs must be understood and looked at as the loss of the *use* of corporate cash flow monies.
2. A coverage dispute trial could drag on for years since constant postponement is a key defense maneuver. The monies the insured is using for legal expenses now becomes tied up for years. This is far more expensive than it appears. The insured has lost his money for investment purposes. The insured may have to borrow money to meet the obligations of the unpaid claim. Now a large indebtedness has to be contended with. Compute these factors over four or five years and you begin to understand how unproductively spent money has a very high replacement cost that could approach the value of the claim.
3. If, under these conditions, the insured compromises his position, the legal fees already spent are lost and the cash flow problems have compounded the cost, and the insured now must meet the cost of the claim itself—with depleted corporate funds or expensive borrowed dollars. The total cost of a coverage dispute could greatly exceed the claim in question.
4. If the company is successful, in their claim and does recover, as part of its judgment, the legal fees expended in pursuing the claim, the company has, in the loss of the use of monies over the years, could have lost almost as much as it has been able to recover. This, then, is not effectively putting the insured in the position he should have been in. While the insured may have been successful in collecting his claim, plus his legal fees, he still may, in reality, be in a loss position.

In response to these conditions, PIA, innovators of specialized insurance for the specific needs of business and industry, offers you Coverage Dispute Legal Expense Coverage with two options in the event of a coverage dispute either with your insurance company, your broker, or your consultant:

OPTION 1

The corporation selects an attorney. The attorney and fee schedule are subject to approval by the underwriter. Under this option, the corporation pays a deductible based on the size of its insurance budget. It is also responsible for a 20% participation in the legal costs incurred, in excess of the deductible, with a maximum coverage of $5 million on aggregate annual legal costs for an unlimited number of cases.

Example: CORPORATION SELECTS ATTORNEY

Legal fees total	$1,000,000
*Deductible	100,000
20% corporate participation (20% × $900,000)	180,000
Total cost assumed by insured	280,000
Total cost assumed by PIA	$ 720,000

**Deductible based upon corporate insurance budget.*

OPTION 2

The insured may request the underwriters to select legal counsel. If the underwriters agree, they will reduce the deductible by 50% and waive the corporate participation in its entirety, absorb all legal expenses up to the ceiling of $5 million annually on an unlimited number of cases. The policy is *non-cancellable by the underwriters* except for non-payment of the premium.

Example: CORPORATION USES PIA's ATTORNEY

Legal fees total	$1,000,000
Deductible (50% of Option 1)	50,000
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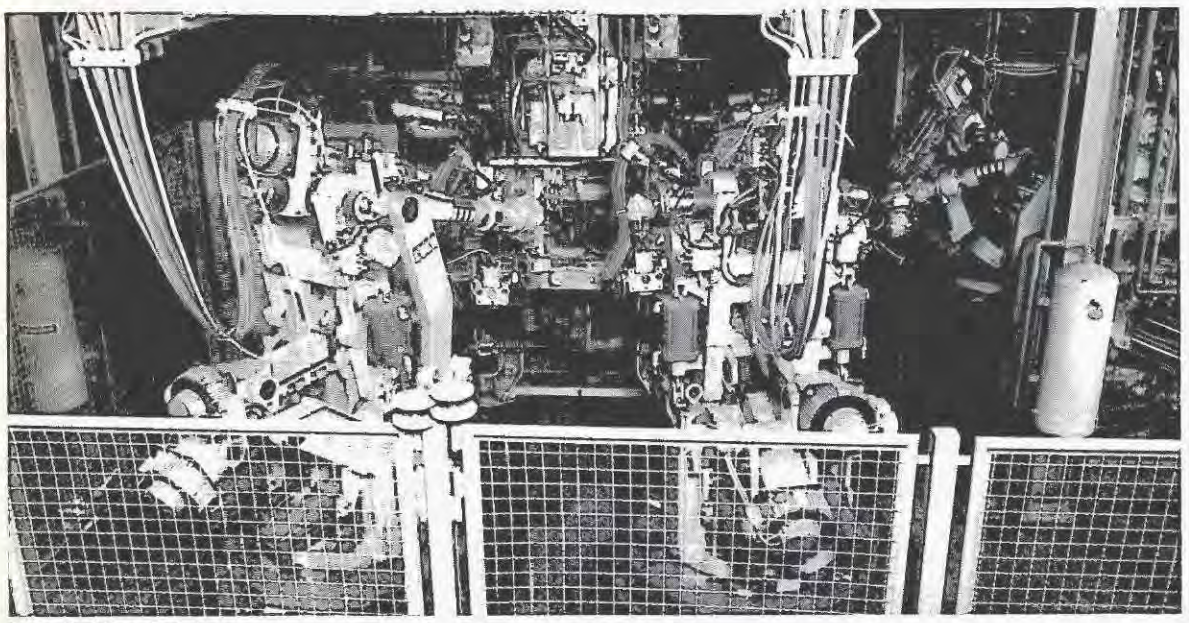


Photo: Ford Motor Co. Ltd.
Robotic safety devices at Ford Motor Co. Ltd. plants include erecting fences around the machinery.

Robot safety stressed at British Ford plants

By STACY SHAPIRO

LONDON—There is no mystique about safety for industrial robots, says Keith Cheshire, chief engineer for Ford Motor Co. Ltd.

"With any development in the technological world, we use the same systems, the same approach to safety. We apply the basic principles of good accident prevention," he says.

This includes preventing losses through training, establishing procedures and installing physical barriers, he explains.

"No one, but no one, is let loose near a robot unless that person has been fully trained and, if necessary, officially appointed in writing (to enter the robot's work area)," says Mr. Cheshire, who handles safety for Ford's 23 British plants.

The training takes place in the plant or is provided through one of the robot manufacturers.

Procedures, laid down in each plant, are rigidly observed. The use of work permits and authorizations is an integral feature of the safety system at work.

It's also very important that the procedures be compatible with the safeguards developed to slow or stop the machine when authorized personnel must be near the robot, says Mr. Cheshire.

Ford uses several kinds of safeguards including photoelectric cells and infrared devices that stop the machine if someone walks in front of it; pressure-sensitive mats in the fencing or on the machine; and captive key systems that lock the doors of the robot's cabinet or the guard door and will not turn until the power is off.

The robot's power source also is controlled to prevent power surges from causing the machine to move unexpectedly.

The robot memory is kept intact, emergency control backup systems are maintained in highly critical robot installations and routine maintenance of the robots is established.

"Does the system work? Does our approach result in a low-accident experience?" asked Mr. Cheshire. "The answer to both these questions must be yes.



Mr. Cheshire

"We have had our moments. I would be less than honest if I said otherwise, and no doubt we shall have our moments again, but by and large, we have done extremely well."

Ford, like other British car manufacturers, installed its first line of industrial robots in 1979, the same time the British Machine Tool Trade Assn. was researching its robot safety guide (see story, page 3).

Ford needed to find a way to make safe the robots that were being installed to spray and weld the Ford Sierras that were being produced at the Dagenham plant in the county of Essex, north of London.

The plan could not be expensive because the auto industry was in a slump, but it still had to meet the safety requirements outlined for the workplace in the British government's Factory Act of 1961.

"We go to great pains so that we understand that what is safety-effective is also cost-effective," said Mr. Cheshire.

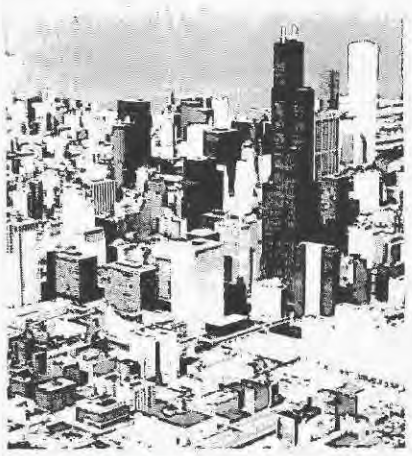
The safety plan also had to be implemented at the same time the the robots were moved into the plant if Ford really wanted to save money.

"It is no good installing a machine first with faulty safety plans that will not meet government's inspectors' approval when they come in later," said Mr. Cheshire. "Then they shut the plant down," and that is very expensive.

"The days when the government inspector came into the factory and saw a new line and shut down the place are over," he said. "The safety engineer is now in at the design stage."

In Ford's case, the company safety engineers met with the production engineers before the robots were installed to make sure safety practices were adequate.

Continued on page 14









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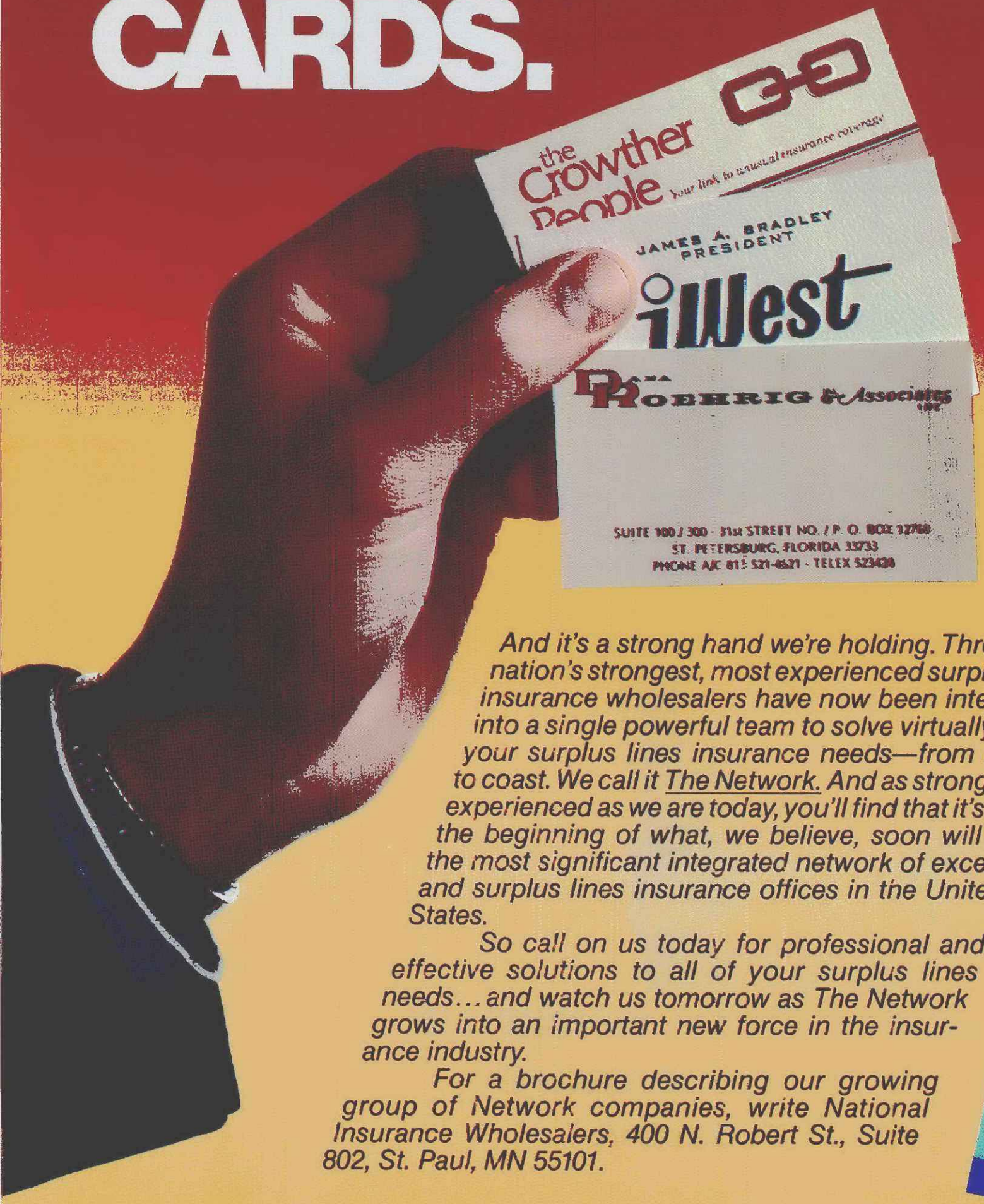
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Ford's British unit assesses robot risks

Continued from page 12

Ford assessed its robot risk by first understanding what kind of machine was going into the Dagenham plant.

There are four main types of robots, which can vary in size depending on what kind of job it performs. The XYZ robot moves up and down. The cylindrical robot rotates and moves up and down. The polar robot rotates on an axis like the wrist of an arm and can also elevate. And, the jointed-arm robot is equipped with a mechanical version of the human arm.

Each machine has an "envelope," which is the space in which its mechanical arms move.

Once it was determined what type of robot was being installed, Ford safety engineers had to assess the new hazards that machines with swinging arms would produce.

Because the robot carries a powerful punch, a worker that gets too close to a swinging arm can be seriously injured.

Hazards can be compounded by faults in the robot's computer control system, through electrical faults in the power supply coming into the plant, through human errors in programming the robot or through a worker's lack of expertise in working with a robot.

A worker could also be trapped by the robot if its position was not well-planned when it was installed.

After placing the robots properly, Ford built a large metal fence around the robots to keep unauthorized personnel away from the danger area.

This method is less expensive than wrapping metal fencing around each robot, as is done is some plants. It also safeguards all the robots in one line from unauthorized personnel.

Authorized personnel were defined as those people who must program or service the robots. Systems were installed to safeguard these workers when they went near the robots.

Unlocking the fence stopped the machines. The fence was high enough so no one climbed over it. Switches outside the fence were placed to stop the machines if a worker couldn't.

Also, workers were trained by manufacturers to use the robots safely with as little error as possible. Power supplies were checked and Ford made sure no magnetic or other interference affected the machines.

Since then, Ford has installed 215 robots in the United Kingdom.

This same robot safety program is now followed in Ford plants all over Europe, and the program, which is being updated daily, has become far more sophisticated.

"There is advancement in guarding and the recognition of what is needed," said Mr. Cheshire, who now lectures on robot safety. "You get this by experience."

But, the onus to prevent losses also falls on the worker himself.

"We have yet to devise a machine that will reach out and devour a man," said Mr. Cheshire. "It is a worker who is in the wrong place at the wrong time if safety measures are intact."

Development of safety guide a joint effort

LONDON—The development of "Basic Principles of Safeguarding Industrial Robots" in Britain did not happen overnight or without a lot of cooperation.

In fact, the story of its development is an example of various sectors combining efforts once they realized they shared the same goal.

In 1979, the British Motor Industry Safety Group realized it had a new problem on its hands.

The group, composed of engineers from Britain's eight major automobile manufacturers, had been meeting frequently since 1973 to discuss common safety problems in the automobile industry and establish safety practices.

At the 1979 meeting, industrial robot safety came up.

"We asked ourselves, 'What is available for safety involving these robots?'" said Keith Cheshire, chief safety engineer for Ford Motor Co. Ltd. and chairman of the group.

"Everyone went back to their plants and looked around and came back to the next meeting—with zero."

At about the same time, the British Department of Industry asked French and German officials to join its officials in Kilbride, Scotland, to talk about industrial robots.

Robots were moving into Europe from the United States and Japan in a big way, but without any international safety standards to guide European industry.

The European officials drew up an outline of what they needed to know about industrial robots to make further decisions on the new machinery. One of the key questions was: "Are there any kind of safety standards that can be promoted for industrial robots?"

The officials did not know the answer, so the British Department of Industry asked the Health and Safety Executive, the British counterpart to the U.S. Occupational Safety and Health Administration, to look into it.

Meanwhile, the British Machine Tool Trade Assn. was also getting inquiries about robotics. Safety questions, including one from the Motor Industry Safety Group, were passed on to its research body, the Machine Tool Industry Research Assn., or MTIRA.

MTIRA finally brought together a working group representing buyers and users at the request of the Motor Industry Safety Group.

Both MTIRA and the Motor Industry Safety Group knew, however, that any solutions would have to satisfy the Health and Safety Executive, too. They decided to ask the HSE to join forces with them on an unofficial basis.

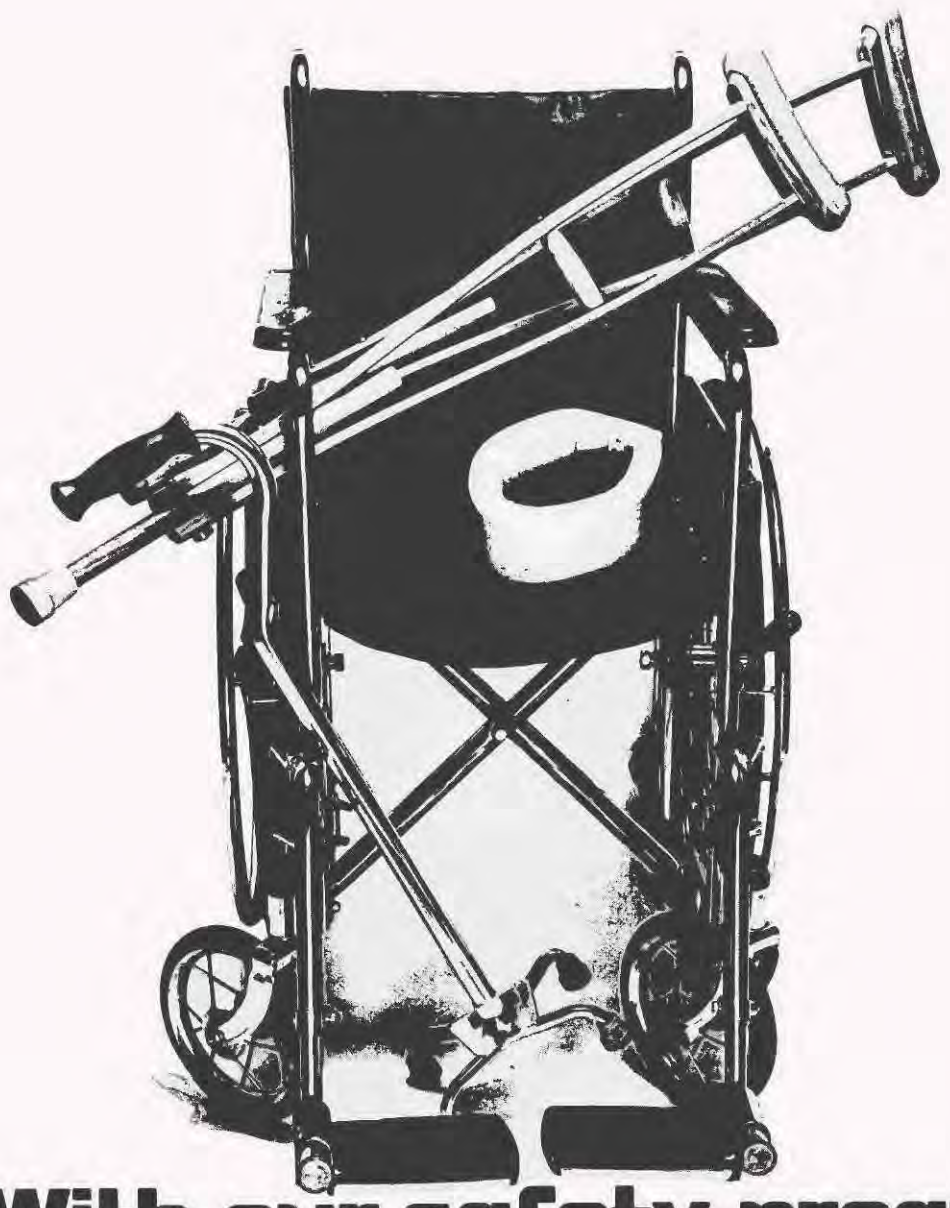
The HSE was delighted to assist in a project as long as it was done "unoffically," said James Barratt, inspector of factories for the HSE in Birmingham. He explained that legislation would be needed for it to take official action.

The working group met for the first time in 1980 and considered ideas for robot safety from the HSE, the automobile industry, the robot manufacturers and university robotics researchers.

Many of the ideas sprang from the automakers' own experiences with robots.

Two years later, the group published its safety recommendations in the "Basic Principles of Safeguarding Industrial Robots," which is considered to be the definitive guide on industrial robot safety.

Supplements to this guidebook are also being written concerning more specific uses of robots and accompanying safety applications. ■



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Industrial robot safety gets attention in Europe

By STACY SHAPIRO

LONDON—While there apparently are no laws worldwide on robot safety, the British government and other groups in Europe are looking closely at the ramifications of the new technology.

The British government, through its Health and Safety Executive, is taking an active role in investigating industrial robot safety.

The HSE, which is the British counterpart to the U.S. Occupational Safety and Health Administration, is gathering statistical information about robot losses and safety practices in West Germany, France, Sweden, Japan and the United States.

Its officials meet with officials from France and West Germany two or three times a year to discuss robot safety and to consider what kind of regulations may be needed to safeguard robots.

Another consultative body, the Industrial Robot Liaison Group, with representatives from France, West Germany and Britain, has gathered all available information on safeguarding robots to develop uniform guidelines of its own.

So far, however, Britain has issued no regulation or codes of practice on industrial robot safety, said James Barratt, inspector of factories at the HSE in Birmingham. He is heading the agency's investigation of industrial robot safety.

"To my knowledge, no country has moved to writing new legislation for the safety of new technology," he said. "We have to define what the new hazards are and how we deal with them. Can this be done under old legislation or do we have to have new legislation?

"With technology moving so quickly, it is like hitting a moving target. My feeling is that if we have new legislation now, soon it would be a bit creaky. But this is not for me to say," he said.

The HSE, though, is pleased with the basic principles on safeguarding industrial robots published by the Machine Tool Trade Assn. (see story, page 3).

"The MTTA's basic principles do not represent the law of this land, but it is the best advice at the moment for industry on industrial robot safety," Mr. Barratt said.

"I am happy to see rules made by trade associatons. It shows a genuine interest in health and safety."

To date, however, neither the International Standards Organization, International Electrotechnical Commission nor the European Economic Community has set any international standards for robot safety.

"There is not even an international standard on what a robot is," he said.

"I know of no fatalities in the United Kingdom, or even serious accidents. Still, it is prudent to continue looking at industrial robot safety," said Mr. Barratt. There was, however, one robot-related death in Japan in 1981.

But less-serious accidents have occurred around the robots. People have been burned or bruised or had their hands trapped. Equipment being handled by the robot also has been dropped, presenting another safety hazard.

The Swedish Working Environment Organization collects detailed statistical information on these kinds of robot accidents, he said. During one 18-day examination of eight workplaces, it found that there were at least 24 dangerous situations involving a robot.

Sometimes a worker ventured too close to a robot and other times the equipment itself caused the potential danger.

In West Germany, the steel industry felt that the robot accident situation was serious enough to enforce some rules. The Assn. of German Engineers (Verein Deutschen Ingenieure) requires that member companies follow certain safety requirements outlined in a pamphlet.

These German codes note what laws should be followed with regard to fencing in the robot, other safety devices and control devices.

In some cases, however, the German codes make sweeping generalizations that may not be practicable, said Mr. Barratt.

For example, the guidelines require that all hazards to operators should be avoided, which would be almost impossible to do and operate the robot, too. ■

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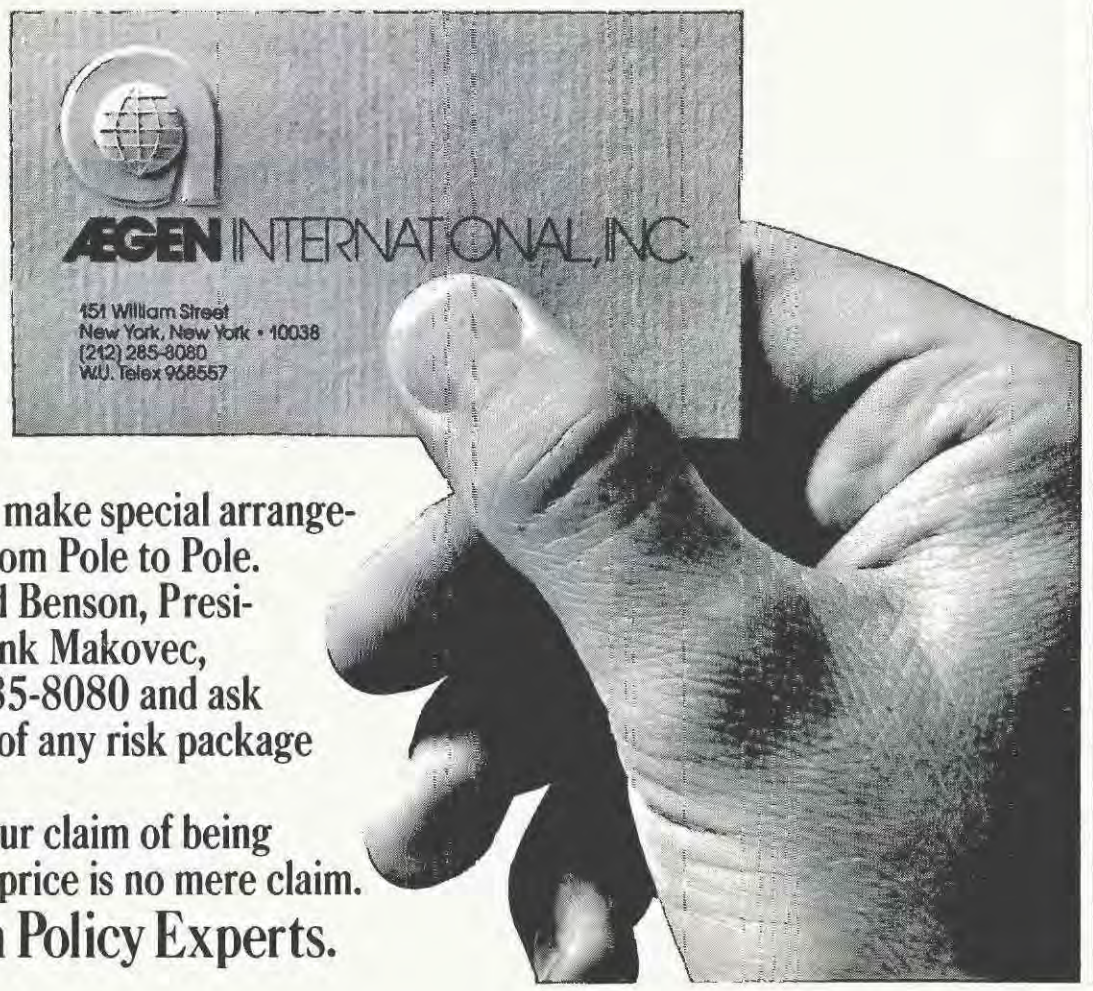
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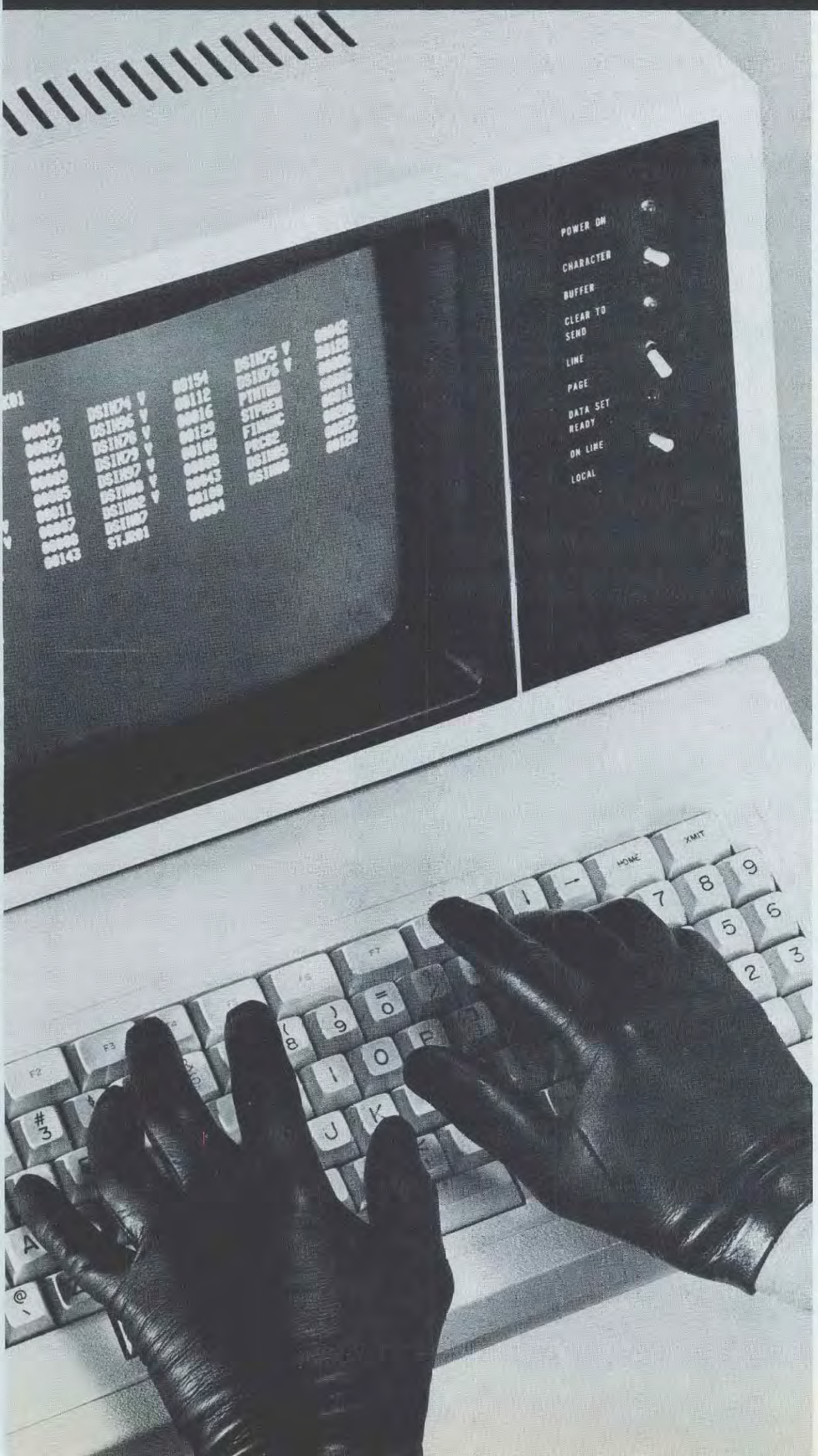
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Robotics could cut comp premiums: Insurers

By MARGARET LeROUX

Although robots pose new safety hazards in the workplace, they also may reduce workers compensation costs because they often do the "dirty work."

While employers aren't documenting any huge savings yet by having robots perform jobs that often result in injuries to workers, the potential apparently is there. It's just a little too early to tell.

"The logic is right," says a spokesman for Aetna Life & Casualty Co. "As more robots are used, workers compensation premiums should go down. But, it's just too early to tell if that will be the case."

"Nobody has any indication of what is going to happen with workers compensation rates as robots become more widely used," said a spokesman for The Travelers Corp. "It will be a while before we in the insurance industry feel any impact," he said.

Carl Chamberlain, assistant secretary in charge of product management for workers compensation at CIGNA Corp., is more sure that work comp rates will be affected.

"Workers compensation premiums can probably be expected to decline as the result of using robots," he says. But he cautions that inflation in medical care costs could cancel out any savings robots might produce.

To track any savings in workers compensation and link it to the use of robots would be a very difficult analysis to do, Mr. Chamberlain says.

> 'The logic is right. As more robots are used, workers compensation premiums should go down. But, it's just too early to tell if that will be the case,' says a spokesman for Aetna Life & Casualty Co.

A company might be saving money by using a robot to lift pieces of machinery—through a decrease in disability claims from employees who might suffer back and other injuries doing the same job. But the fact that the cost of medical care is escalating so fast, it could wipe out any cost savings from improvements in workers compensation loss experience, he explained.

He also points out that inflation in salaries also cuts back workers compensation savings because insurance rates are based on payroll.

Robot manufacturers, of course, are confident their products will reduce risks.

"Robots can be used to eliminate risk," says John H. Kopmeier Jr., vp of Ameco Corp., a robot manufacturing company in Menomonee Falls, Wis.

"We produce robots that are used in loading and unloading furnaces in forging processes," he explains. "Another of our robots loads and unloads equipment in dye casting, another loads and unloads diesel engine connecting rods weighing 13 pounds each from a rotating wheel grinder."

The jobs the robots perform are both "tedious and injury-producing for humans," he added.

In the example of the diesel engine connecting rods, "employees who are loading and unloading the rods had a lot of complaints about wrist and lower-arm fatigue," Mr. Kopmeier said.

Now that the robot is doing the loading and unloading—at more than twice the speed of the human employee—the disability risk at one particular company has been eliminated and productivity has increased.

The employee who used to do the loading and unloading was retrained for another job.

Another robot manufacturer in Anaheim, Calif., is touting a new multilegged, walking robot that it says could handle even more hazardous duty.

Odetics Inc., according to press releases and news reports, has developed a remote-controlled walking robot that is intended for work in hazardous situations, like entering a contaminated nuclear power plant or defusing a bomb. The "functionoid" can't be programmed to perform tasks on its own and has no "television" eye to see what it is doing, so it is manipulated with a remote-control device.

Some companies at which robots have been used on assembly lines for years haven't documented any savings in disability costs related to the robots.

A spokesman for Ford Motor Co. in Dearborn, Mich., where robots have been used on the assembly line for more than 15 years, said, "There is no correlation between our workers compensation costs and the use of the robots."

But, others are finding they save in other ways, like in product and labor costs.

At Boeing Co.'s Wichita, Kan., plant, robots were recently introduced in the spray painting booth where humans used to do the "nasty" job of painting aluminum airplane parts with an anti-corrosion coating, according to a Boeing spokesman.

"It's not a dangerous job, but it's not a pleasant job, either," the spokesman said. "The employees had to wear a special suit, like a space suit, with air pumped into it —not a very comfortable way to work all day," he said.

Two robots replaced humans in the spray booth five months ago and now the employees work outside the booth, loading parts onto a conveyor belt that feeds parts into the booth for painting.

The company has realized savings in the amount of paint used by the robots and in the quality of the job they do, the spokesman said.

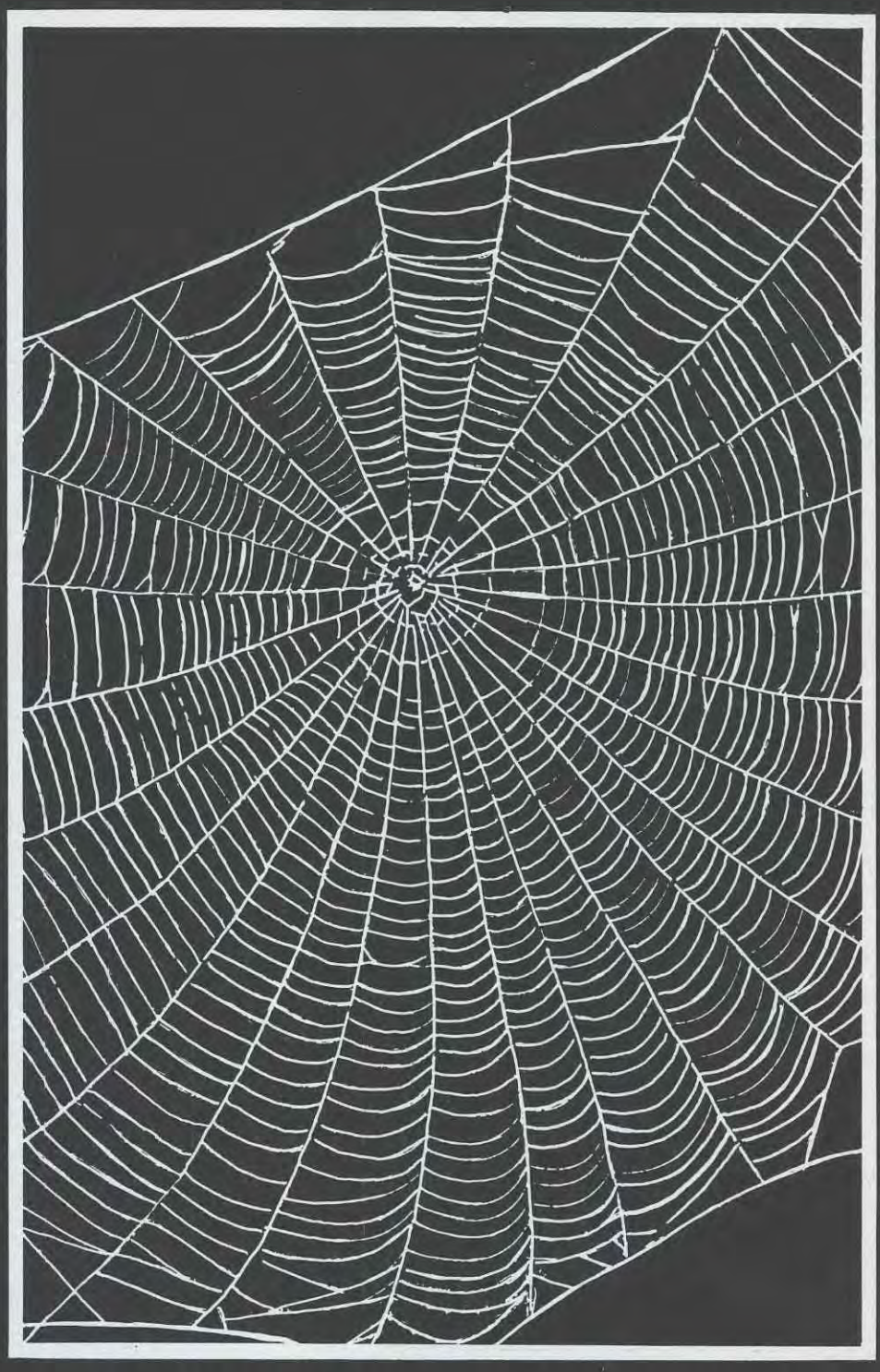
"Every little bit of extra paint means less fuel efficiency (for the plane)," he said. "Where the paint job done by humans varied from part to part, the robots are computer-programmed; they go back and forth at a steady rate, applying the programmed amount of paint on each part."

Mike Waskom, risk manager for Chesebrough-Ponds Inc., has not found lower comp costs despite use of robots in several divisions, but he has seen other savings.

"The robots have been more of a labor-cost savings than anything else," Mr. Waskom said. ■



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Companies have several options after a computer disaster strikes

By LEN STRAZEWSKI

When a disaster wipes out a company's data processing system, its business can suffer within hours, not days, data recovery experts and consultants say.

Although many companies can afford to lose the service of a manufacturing site, a couple of warehouses or several key executives for up to several weeks, few companies can afford to lose their computer sustems for very long.

And if your company is very computer-dependent—like an airline, a hotel chain or a bank—a few hours is much too long to be without your system.

"A hotel chain without its reservation system can lose more than $1,000 an hour in missed reservations and an airline can lose much more. A bank could lose millions if debits and credits are lost in a system failure," explains Belden Menkus, a data processing and security consultant in Middleville, N.J.

"Without some kind of disaster plan, days can easily turn into weeks, and weeks can easily turn into forever," Mr. Menkus says.

"How long can you really afford for your computer to be down?" he asks. "Unless your insurance plan has very high limits or is specially designed for data processing losses, 72 hours down may use up all your business interruption insurance limits and you still won't be functioning."

The solution, Mr. Menkus says, is preparedness. Banks, airlines and companies whose total business operations are supported by computers have already learned this lesson and have virtually complete backup systems. But, he points out, just about every company that uses a computer should prepare some kind of data processing disaster preparedness plan.

"And I don't mean a spare computer tucked away in a crate somewhere. I mean an organized, well-thought-out method of action that includes assigned duties for everyone involved, a place to go to recover, a way of transporting the data and software and all the other details in the middle and after: from how to get Ma Bell to put up the telephone lines fast enough to who re-

Continued on page 24



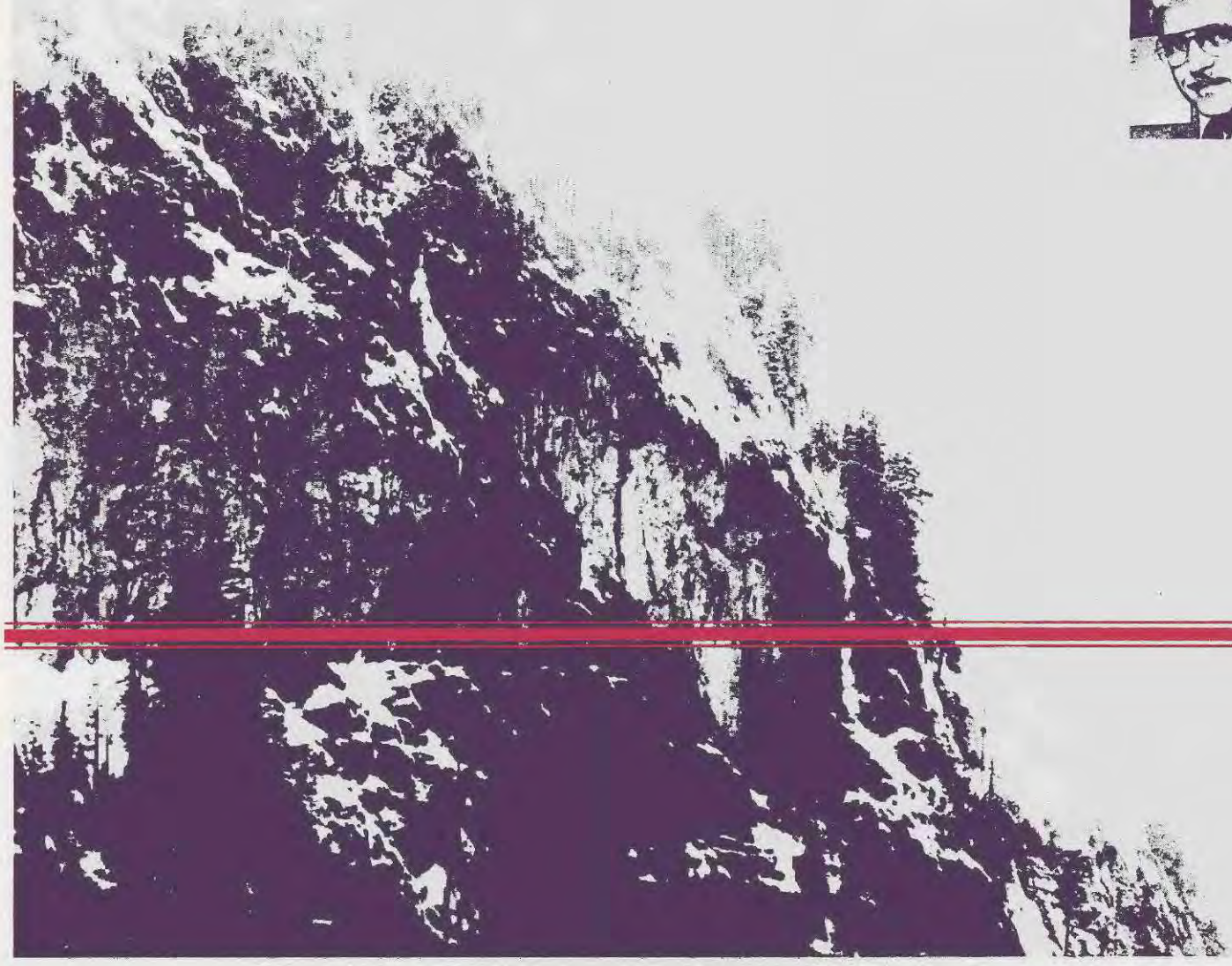
Photo: The Williams Cos.

Companies should have their computer data stored in a safe place at a site away from the plant.

"The Power of Perspective"

Jack Turk talks about The Structured Settlements™ Company





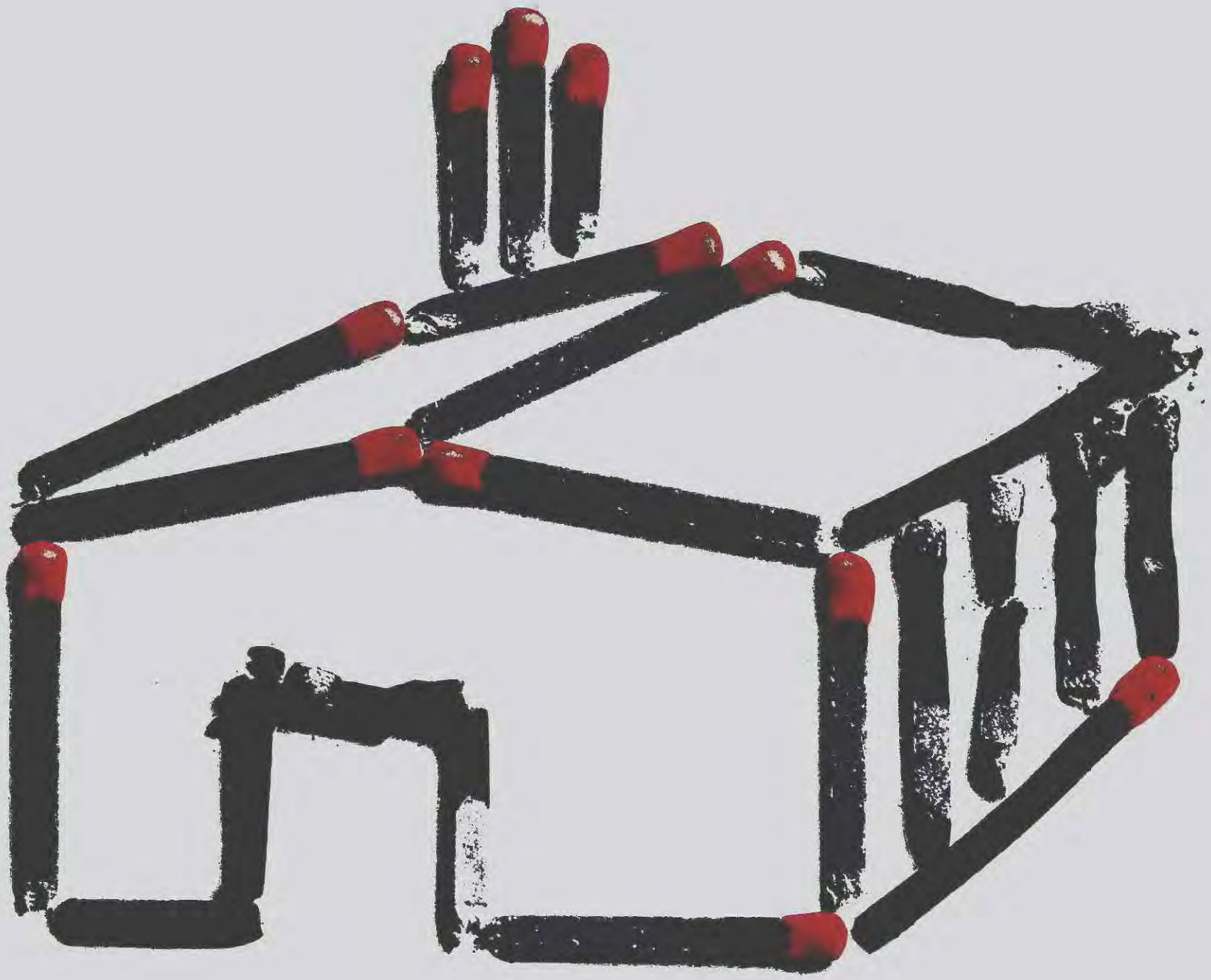
Whether the challenge is a mountain or a difficult claims situation, Jack Turk knows how to meet it. "Only experience can lend the perspective required to foresee problems and plan solutions," he says. "As an outdoorsman, I enjoy making every bit of my experience count. As a representative of The Structured Settlements Company, I know that we are the only company with the kind of experience that really counts in the successful settlement of a wrongful death or injury claim."

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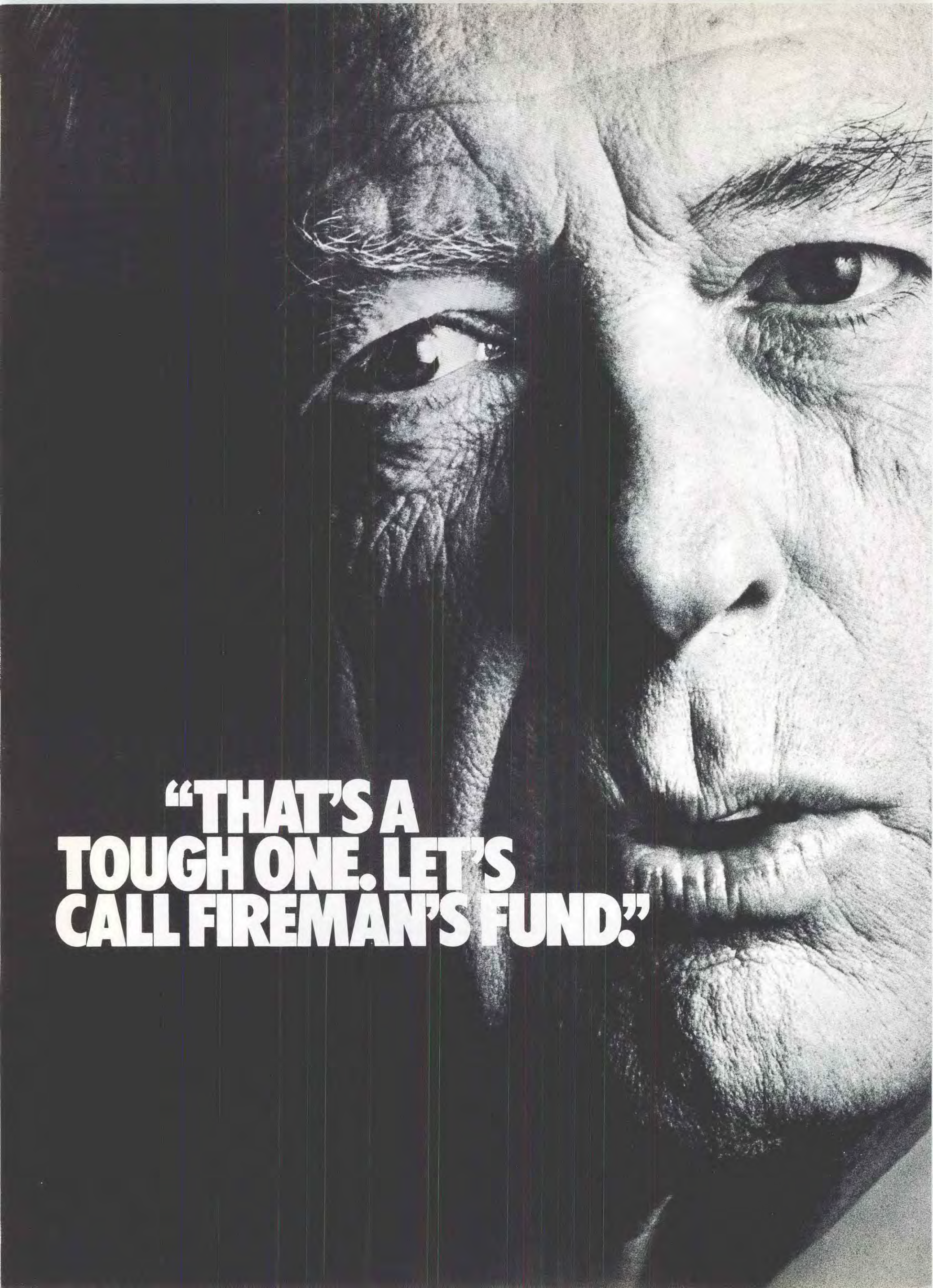
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Photo: United Pacific Insurance Cos.

Some companies, especially airlines and hotels, are faced with immediate losses if their computers fail.

Find a safe place to store valuable data, experts say

Continued from page 20

paints the data center walls," he says.

"You need a plan and a place," agrees J.C. Matlock, president of Total Assets Protection Service, a consulting firm based in Arlington, Texas, that has helped several Toronto-based employers—including Imperial Oil Ltd., Hudson Bay Co. and General Foods of Canada Inc.—design a disaster plan and a shared disaster recovery center (see story, page 27).

"The plan is what you execute, but it's no good unless you've got a place to execute it from and a way to communicate the plan to all those involved," Mr. Matlock points out.

"What good is a written contingency plan if it's in a drawer in a desk in an office that has just had an airplane crash on top of it?" he asks.

Drawing up a corporate contingency plan can be a long, difficult process, but it is relatively inexpensive. Although a company will probably want help in completing a risk assessment, most of the effort needed in disaster planning must be done by the company's data processing manager, risk and security managers and other executives.

However, choosing and arranging off-site data storage and recovery centers can be both expensive and difficult. And corporate disaster recovery needs also vary, they point out.

General Reinsurance Co. in Greenwich, Conn., for example, does not fear a brief computer failure. Many of the company's claims and accounting functions can be processed manually in branch offices until a new computer system can be installed, says Computer Operations Manager William S. Weil.

But the company must protect its data files, he adds, without which even manual operations would be extremely difficult. So, Gen Re employs one of the most simple protection methods, called "cold site" storage.

> 'Our most immediate concern is getting data off-site as fast as possible,' Gen Re's Mr. Weil explains.

Cold sites, computer security jargon for data processing storage and operations areas off the corporate site, can range from an elaborate vault storage area to just a building shell some distance away from a company's central operations. The word cold means the storage site lacks computer hardware.

Gen Re uses Dataguard, a Fort Lee, N.J., data storage firm that operates a vault storage facility less than one hour's driving time away from Gen Re's main offices in Connecticut. Other Dataguard clients include Pan American World Airways Inc., Security Pacific National Bank and Munich Reinsurance Co.

"Our most immediate concern is getting data off-site as fast as possible," Mr. Weil explains. "Each week, we send copies of our data tapes by bonded messenger to the Dataguard facility.

"Always send copies, even if it's not of something you think you need immediately," he adds. "Dataguard could have a disaster, too."

The tapes are stored according to their estimated retrieval date in small vaultlike cubicles, which eliminate the probability of a large-scale disaster at the cold site. The storage area is also equipped with a fire-control system using a chemical fire supressive called Halon, which replaces water sprinkler systems that could damage stored data tapes.

If a power blackout or computer failure strikes Gen Re and wipes out data records, replacement tapes can be ordered from Dataguard immediately and arrive in an hour as part of the Gen Re disaster plan.

The service costs the reinsurer about $1,300 a month.

"Security is very, very tight," Mr. Weil explains. "Only the shift supervisor is allowed to draw tapes

Continued on page 26

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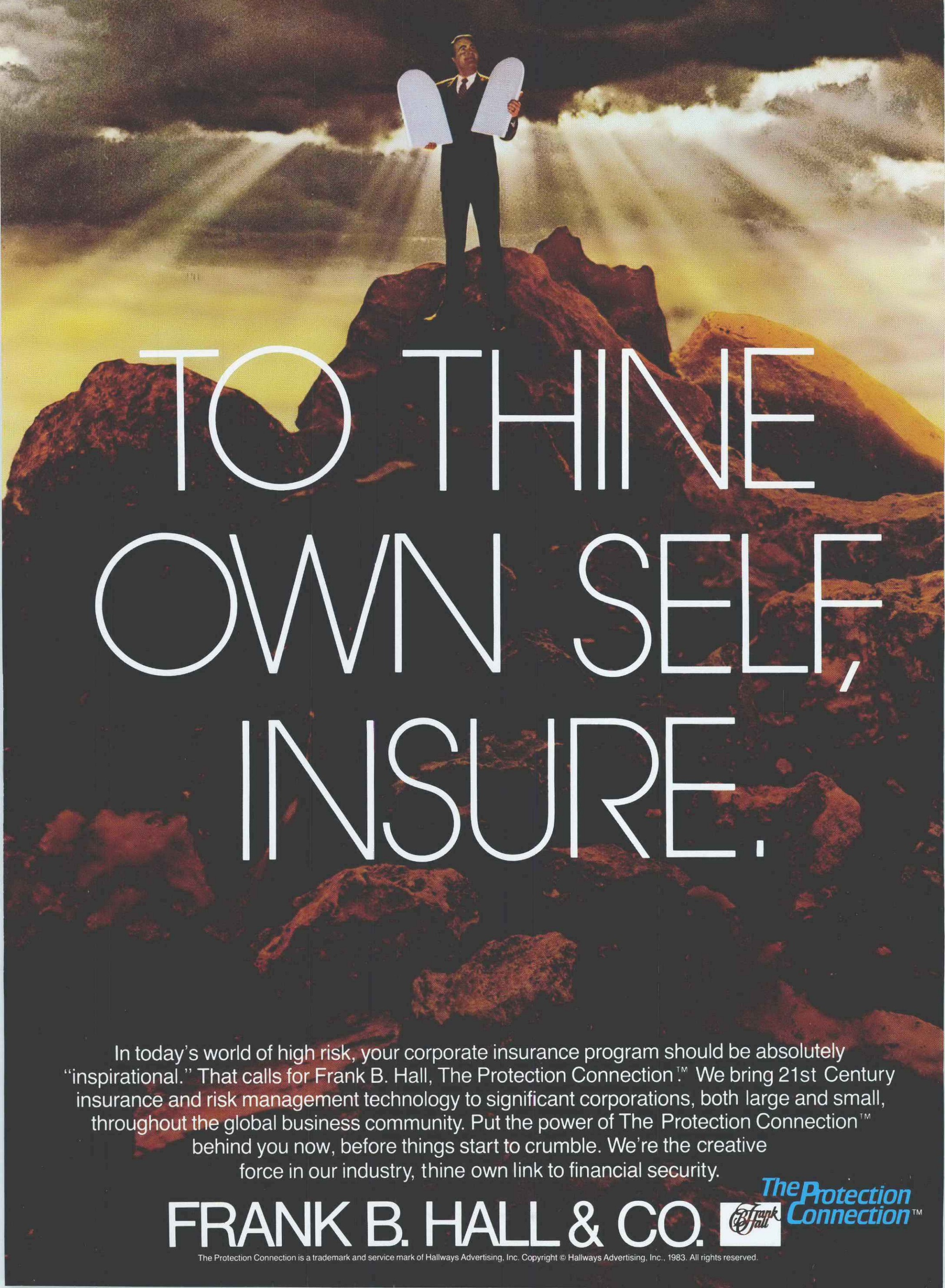
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Many firms store data at off-site locations

Continued from page 24

from the vault unless I personally authorize someone else directly to the storage company."

If Gen Re's whole office complex is wiped out, the Dataguard vault is the center of the data processing recovery plan.

"We are somewhat lucky in that we are not like a bank; a temporary problem is not likely to kill the company," Mr. Weil explains. "Most functions can be done in the branches manually. After five days, however, the problem could get critical."

The first step of the Gen Re master recovery plan involves contacting the top data processing staff members who will be directly involved in the plan, as well as the upper echelon of management, Mr. Weil says. Next, the remainder of the data processing staff is notified.

"We split into teams according to assigned disaster plan tasks. One team works in finding a temporary alternative 'hot site,' which has computer facilities that can handle our data. Another team works on reconstruction design and locating equipment.

"When we are running again, the plan calls for notifying the branch offices as to what facilities we've got and what they can start sending us," Mr. Weil says.

"Under this plan, we feel we can be up in 24 hours and functioning in a somewhat crippled fashion the day after. By the third day, we need to be near normal," he explains.

When forming its data recovery plan, Gen Re rejected another route chosen by some other companies—a hot-site data recovery center with computers and telecommunications equipment on the premises.

"The costs of those operations are pretty steep and even a 'shell' site is likely to take three weeks or more to get rolling. That's a lot of time for a potential high cost.

"If we were a company that needed to be running completely in 24 hours, it would be worth the cost, but I don't think we need that kind of service," Mr. Weil points out.

Several vendors, including divisions of Comdisco Inc. and Sun Oil Co., have recently begun offering hot-site services to complement data storage vault centers. These companies provide sites to clients on the philosophy that companies hit by a disaster need a computer center that is ready to function.

But, they also believe that disaster is not likely to strike several companies at once, so there won't be a crowd at the door.

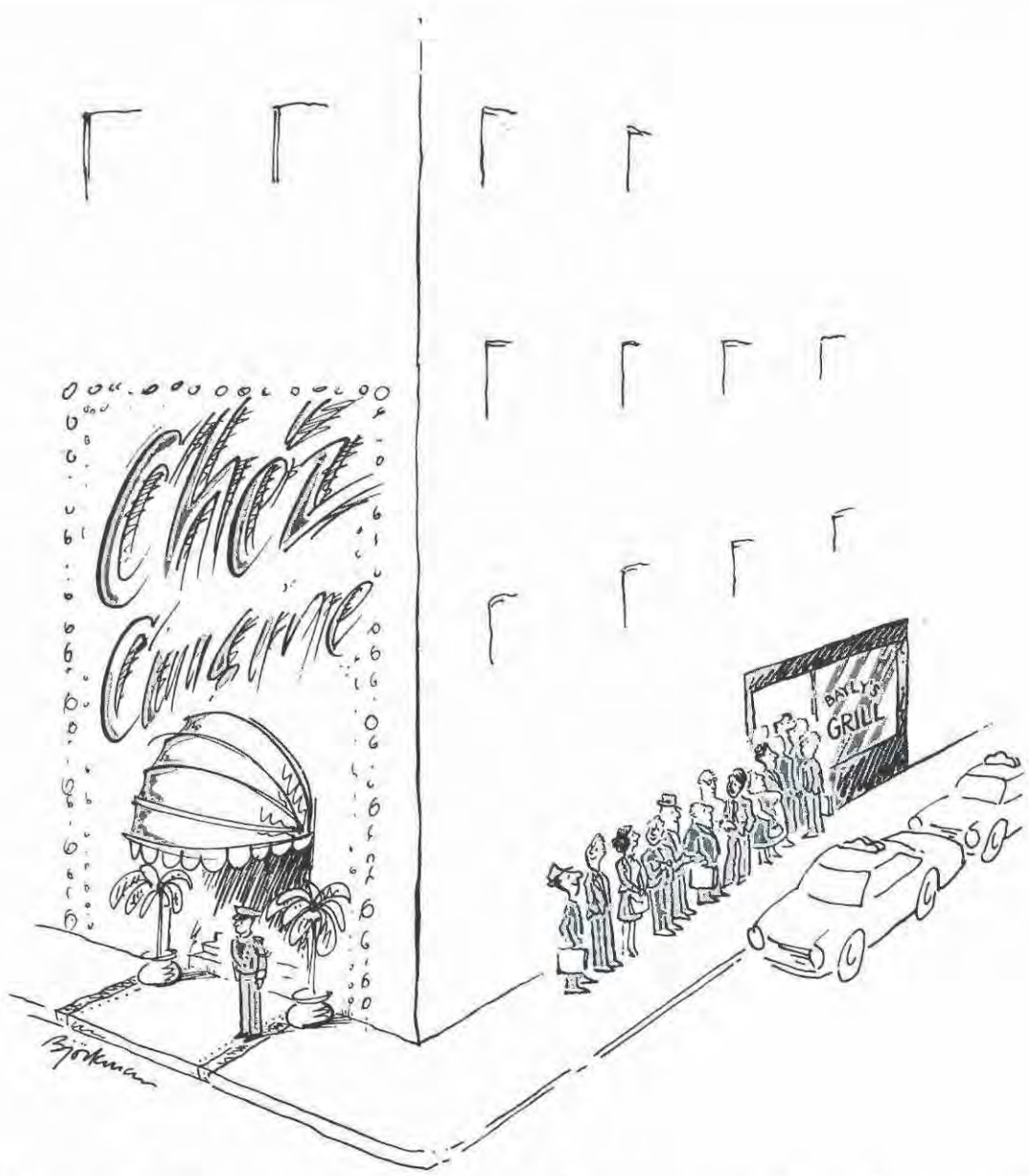
Comdisco Disaster Recovery Services is one of the largest hot-site vendors, operating centers in New Jersey, Chicago, Dallas and Northern California.

"You can't forecast a disaster," says Comdisco President Raymond R. Hipp. "And even a small disaster such as a frozen water main or small fire can cause a large-scale financial disaster if the data system is completely shut down. That's what we are designed to protect against."

Originally a computer leasing firm, Comdisco entered the disaster-recovery business about 2½ years ago to try to find a way to use stockpiled computed equipment, sources in the industry say. By combining the stockpiled equipment with a sophisticated telecommunications system and strategically placed centers, the company found a way to make money on its excess computers and provide a resource many computer-dependent companies were seeking.

But Comdisco's service, which is used by about 300 large companies with the capacity for about 100 more clients, is very expensive. Subscription rates vary from $2,000 to $10,000 per month,

Continued on facing page



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Continued from facing page
which does not include data storage fees.

Comdisco offers no storage services.

If a disaster does strike, the costs can mount, but as Mr. Hipp and other data recovery consultants note, these costs are a fraction of what a business would lose if the loss of its computer system shut it down completely.

Just alerting the center that you need its services costs a client company $10,000 per disaster, and full disaster center services cost about $2,500 per day.

Mr. Hipp, however, doesn't encourage a company to show up at a Comdisco center's door after a disaster, expecting to duplicate all its computer operations at once. Instead, like other experts, he recommends following a prearranged disaster plan built around a risk assessment.

Perform the most-needed functions first, he advises, because most companies can temporarily operate at about 30% efficiency.

Arthur Andersen Co. of Chicago is a client of Comdisco's suburban Chicago recovery center, according to David A. Haeckle, manager of technical services for the Big Eight accounting firm. The hot site is just one part of its disaster recovery plan, which like many others is constantly undergoing revision because of new insights into the effects of a data processing failure.

"We can have our critical systems up in a day and a half," Mr. Haeckle says.

"We have for years maintained a data services office in the Chicago suburbs that is not a far drive from the Comdisco site," he explains. "Though it is not big enough to handle all our needs, the suburban office stores current copies of all critical data files.

"If disaster strikes in downtown Chicago, we can have the tapes moved to Comdisco in no time."

Critical data, however, cover a lot more ground than one might expect, Mr. Haeckle notes. "Since we are an accounting firm, many functions are handled within the branch offices by local partners: billing, client files, expense files, etc. They can continue on, and even some basic consulting work can continue within the branch offices. . .on microcomputers."

Continuing administrative functions, however, were deemed critical by the company. Payroll, for example, would be one of the first functions taken over by the data recovery center should a disaster hit the main office.

"It's difficult, but it is important to clearly identify everything you need to begin recovery. You must know what functions have to be performed and make sure you have the resources to perform them. The sticky points of many disaster plans usually are in the details which are easy to overlook: data and voice communications, company forms if you plan to do billing, documentation of your agreements with other service providers.

"Once you know what you want, go out and find a center that has what you need and don't settle for anything less than your requirements," Mr. Haeckle says. ■

Food firm updates disaster plan continually

By LEN STRAZEWSKI

TORONTO—The road to computer disaster prevention can be long and difficult. Just ask Allan Reesor, director of information resources for General Foods of Canada Inc.

Mr. Reesor has devoted more than two years to reviewing General Foods' data processing disaster plan and is still working at making it perfect.

"There's a stage you go through when you're first starting out," he explains. "At first you think you can design a disaster plan in your spare time over the next three weeks. You believe that you can talk to the company across the street, set up a mutual-assistance pact and everything will be fine."

Top corporate executives may even encourage a simplistic view, though not intentionally, he says.

"Top executives are used to making risk decisions," Mr. Reesor explains. "They tend to look at data processing like another aspect of the corporation. The company doesn't design backup systems for its manufacturing operations, so why should they back up computer operations?"

Top management may not want

Continued on next page

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Ask how much your firm could lose: Expert

Continued from previous page
to spend the money and the time, either.

"Funding a disaster plan, including data storage and a recovery site, is a real issue. Many companies are already operating in a survival mode, just wanting to ride out the recession," he notes. "Management may be very unwilling to spend what little profits are available to protect themselves against a relatively unlikely disaster."

Spend some time and money assessing your corporation's data processing risks, he advises, and you'll quickly change your mind and probably the minds of your top executives, too.

"You've got to know what the dollars involved are and you have to calculate what the company can stand. However, quantifying the risk is difficult. To know how dependent the company is on its data processing, you've got to examine virtually every system," he says.

General Foods turned the question back to system users and asked them to evaluate the company's potential for loss if the data processing system were destroyed.

"The big questions were how much will we lose and how long can we afford it. And for the purposes of recovery, how much it will cost to perform a function—input records, run a payroll, process orders—by an alternative method. Usually, the alternative is manual."

The results can be startling. "After an hour, you might start to hurt. You should try to pinpoint exactly how much each hour hurts because it will encourage you to get moving.

"After 30 days, most companies would be out of business. After 60 days, you will be out of business for good," Mr. Reesor says.

Armed with this knowledge, proposing a disaster plan to management won't be too difficult. The next step is to decide how much of the operation should be protected, what hazards it should be protected from and by what means.

"I take the position that you can't protect yourself from a dedicated saboteur or terrorist, though a good physical security and building access system might help.

"What you really want to avoid is a relatively natural disaster—a large fire or property loss, a brownout or blackout, an airplane crash or earthquake."

How much protection is needed is also important to consider.

"A complete backup system is the ultimate protection," says Mr. Reesor, "but most companies neither want nor can they afford a complete backup system. Airlines and banks are exceptions. Their operations are almost entirely based on computers, so airlines have a secondary system and many banks are designing backups, too."

Some companies may be able to protect themselves well with a modular approach to data protection. By spreading out data processing storage and functions, a company can protect itself from a disaster at one location without wiping out its complete data processing system.

"If all your functions are in one central data processing center, a 747 crash landing on top of it wipes you out. But if your data is stored and functions are performed at several locations, each with a specialized use, a disaster is only likely to knock out one set of functions."

For example, a company may be able to keep going if its billing computer is knocked out, so long as paychecks are processed at another location and orders can be received and shipped from still another. Although a delay in sending out bills will cost some money, it's not going to drive the firm out of business.

A company that can afford to exist several weeks without complete computer services has an option that was considered but rejected by General Foods of Canada. If speed is not completely of the essence, a company could choose a cold site, a data storage area that lacks computer hardware (see story, page 20).

"A cold site is more appropriate for a small to medium-sized company than General Foods," Mr. Reesor says. "The company that can afford to wait a couple of weeks is able to go to its cold site, bring in new equipment, pick up its tapes from storage and get back in action cheaply."

Large companies like General Foods require hot sites, recovery centers with computer facilities, telecommunications systems and other equipment on the premises.

"However, these facilities can cost, so it might pay to combine efforts with several other companies and agree to share the recovery facilities," said Mr. Reesor. General Foods is teaming with several other Toronto-based companies to do just that.

"The advantage to a hot site is that you are always in command. With a hot site ready, you can be up and running essential functions in two to eight hours, long before the company is severly hurt," he explains.

But don't try to process all functions from a hot site, he advises.

"Speed is important, and if you try to do everything, you'll never get going. Within your disaster plan, decide how much of the data needs to be recovered quickly and plan to execute those functions first."

And don't be afraid to revise the plan if necessary, he says. Needs change and a good plan should always be under review. ■

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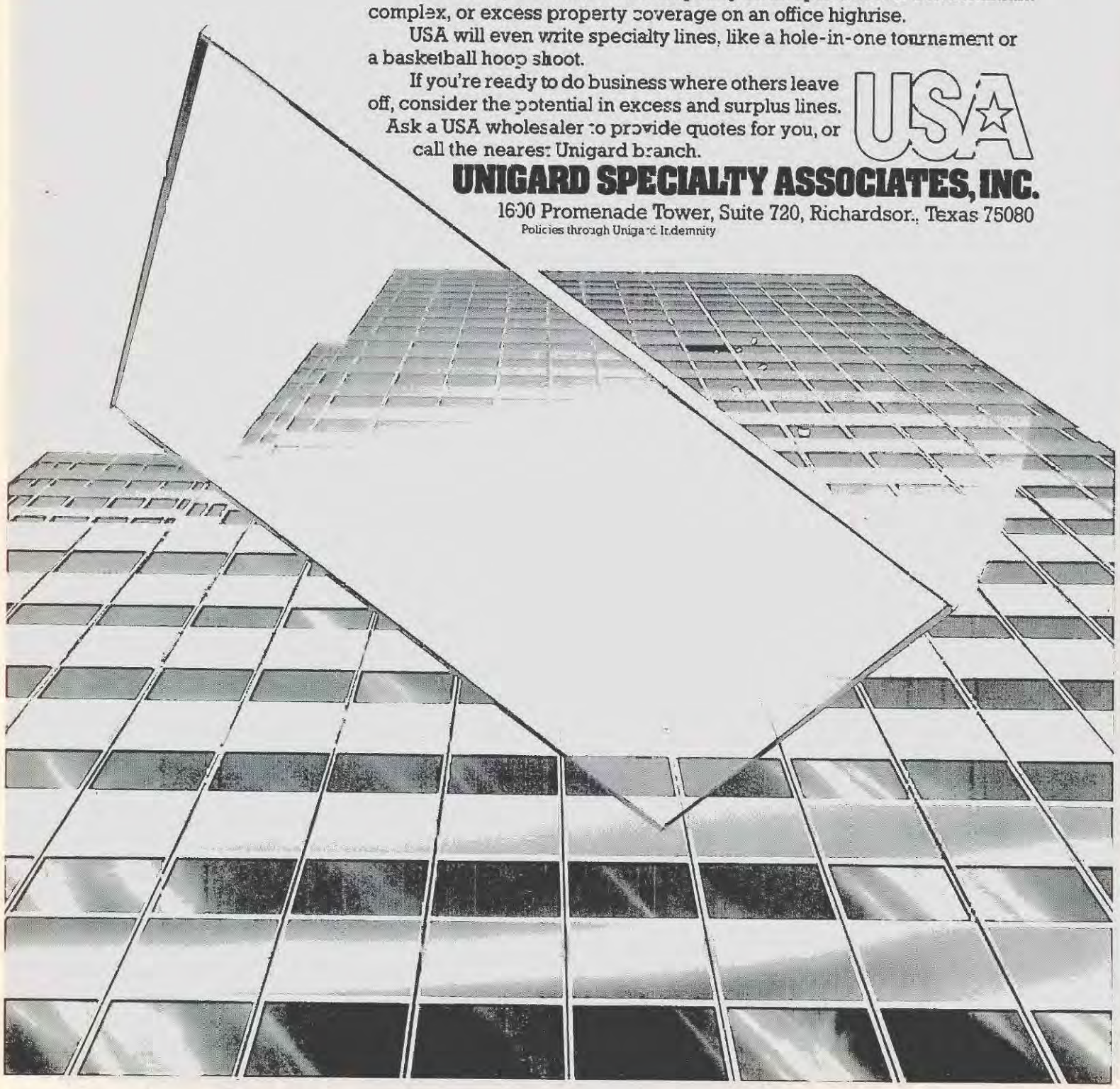
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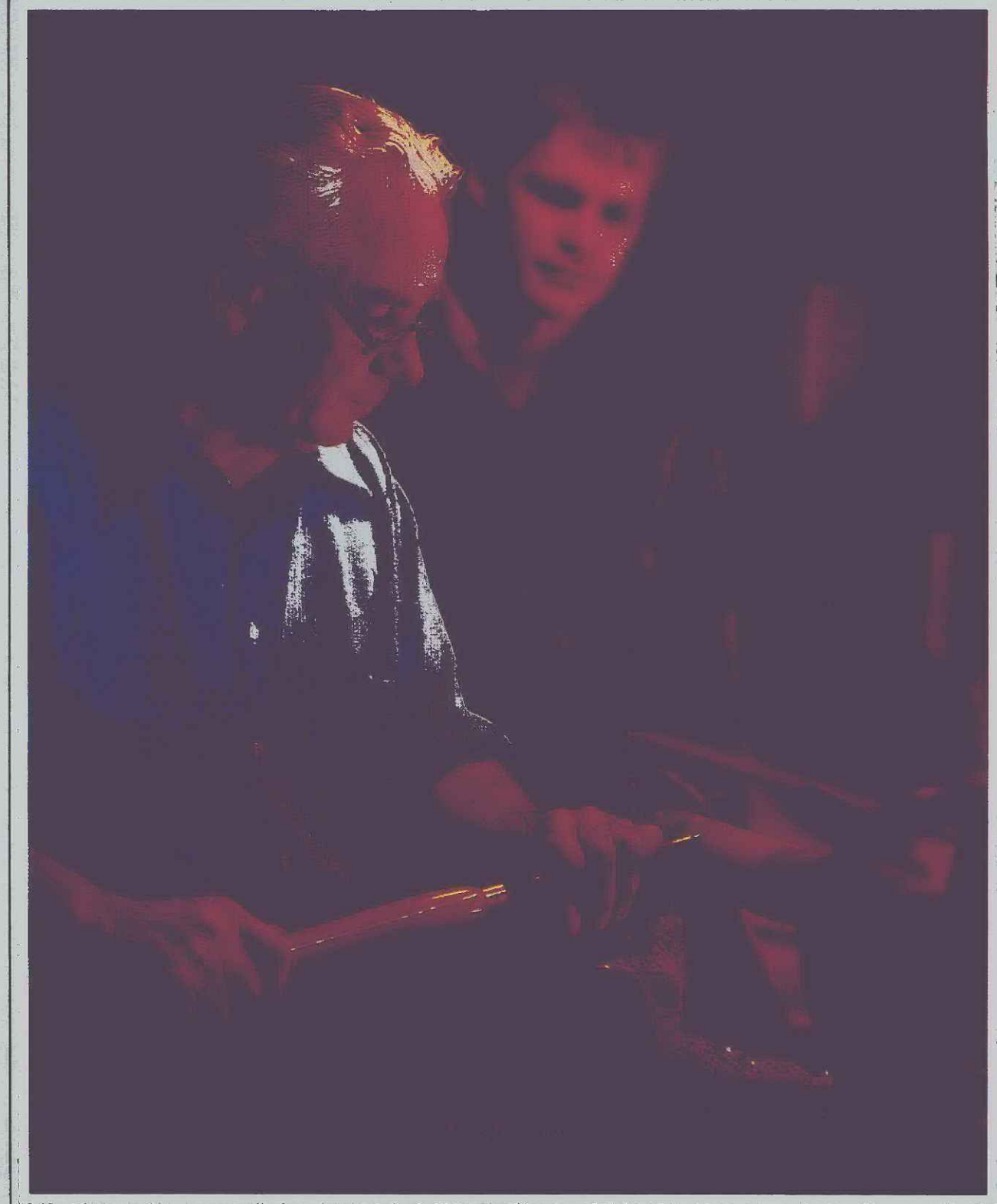
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Business failures fueling interest in bad-debt cover

By DOUGLAS McLEOD

NEW YORK—As bankruptcy rates reach new highs and economic hard times spread, commercial credit insurance is becoming a hot item.

Also known as bad-debt insurance, the coverage is meant to pay policyholders what they can't collect from clients that have filed for bankruptcy or are otherwise unable to pay.

Interest in the coverage is running high, both from companies that sell domestic products and from those with export sales, brokers and underwriters report.

"Demand is overwhelming," particularly from companies with overseas exposures, says Francis X. Boylan, a managing vp with Alexander & Alexander Services Inc.

At London Guarantee & Accident Co. of New York, a subsidiary of Continental Corp. and one of two markets that writes domestic bad-debt insurance, inquiries have tripled in the last three years and policy sales have doubled, according to Kenneth C. Lee, a special agent for the company.

"Inquiries are hot and heavy," Mr. Lee said.

Insurance managers for several companies that have bought the coverage—mainly small to medium-sized manufacturers and wholesalers—add that they sleep easier because of it.

"It only takes one biggie for you to satisfy yourself that you've done the right thing (by buying the insurance) or that you've made a mistake (by not buying it)," said John Reiter, finance vp for Cortaulds North America Inc., a fiber manufacturer based in Mobile, Ala., with more than $130 million in sales.

"If somebody went bankrupt and we lost a couple hundred thousand dollars, that could ruin us," added a vp for a New York-based metals brokerage.

The reasons for risk managers' concerns are plain.

In 1981, 16,794 U.S. businesses went bankrupt, according to credit-monitoring agency Dun & Bradstreet Cos. Inc. The number jumped to 25,346 in 1982, and that rate continued in the first two months of this year as 4,852 businesses went under.

Recent bankruptcy filings by large companies—like Wickes Cos. Inc., Lionel Corp. and Braniff International Corp.—have "generated substantial interest" in credit insurance, according to John E. Simms, senior vp with American Credit Indemnity Co. of New York, a subsidiary of Control Data Corp., the other market that writes domestic commercial credit coverage.

"We're getting inquiries for insurance on the large steel companies," Mr. Simms said. "You never would have seen that a few years ago."

For companies that export, economic strains on buyers can be compounded by a number of factors, including the possibility of currency devaluations like those that have recently occurred in France and Mexico.

"If you have a devaluaton of currency," the overseas buyer suddenly has to come up with additional currency to meet a dollar obligation, and the added strain may be too much for a marginal company, Mr. Boylan points out.

Even if a credit loss isn't big enough to ruin a seller, it can create serious cash-flow problems, perhaps forcing the company to miss payments on its own loans.

These are the risks bad-debt insurance is intended to cover.

Markets for the insurance are relatively few. American Credit and London Guarantee are the only underwriters insuring companies against defaults of domestic U.S. customers.

Foreign commercial credit insurance, normally a part of political risk insurance packages, differs slightly from its domestic counter-

Continued on page 32



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Interest in bad-debt cover rises

Continued from page 30

part and is also offered by only a handful of companies, including the Foreign Credit Insurance Assn. and AIG Political Risk Inc. through National Union Fire Insurance Co. of Pittsburgh.

Domestic bad-debt insurance is basically catastrophe coverage, designed to pay credit losses above an agreed-upon aggregate deductible that is calculated to reflect a firm's normal—or expected—credit losses.

Certain types of companies are not likely to benefit from bad-debt insurance, underwriters point out. For example, many large companies can afford to self-fund their credit exposures.

American Credit typically insures companies with annual sales of between $1 million and $50 million, Mr. Simms says, adding, however, that some clients have as much as $1 billion in sales.

Companies that sell primarily to government entities would also probably not need the insurance.

On the other hand, smaller companies that sell relatively large amounts of merchandise to a few customers—companies with a "lumpy distribution of accounts receivable"—have greater exposure to credit losses, Mr. Simms pointed out. Companies that sell only a few highly specialized products and those that are involved in industries that suffer during a poor economy, like the construction industry, are also likely candidates for bad-debt insurance.

The insurance itself is designed to pay losses in excess of the deductible that occur when a debtor of the policyholder becomes insolvent and fails to make payment under terms of sale, which may extend up to one year.

Insolvency in clearly defined in the policies and may include the filing of a bankruptcy petition, disappearance of the debtor, death of a sole debtor and seizure of the debtor's assets to satisfy a tax lien, among other possibilities.

The policies contain aggregate limits of liability but sublimits are assigned to the accounts of each of the insured's debtors.

Many of the policyholder's debtors may be covered automatically under the coverage to certain specified limits based on the credit ratings assigned them by an agency like Dun & Bradstreet.

A debtor with an agency's highest rating, for example, may have its account with the insured automatically covered to a sublimit of $100,000, while a company with a second-best rating may be allowed only $80,000 of automatic coverage. These sublimits can fall as low as $500, Mr. Simms said.

If the insured wants to cover a particular account for more than is automatically provided, the debtor and the limit requested must be named in the policy. Also, if a particular debtor isn't rated by the credit agency, that debtor must be named and a special limit assigned.

Endorsements can be added to the policies at additional premium, granting automatic coverage for very small accounts—as low as $1,000, for example. However, small accounts should not constitute the principal part of any company's credit insurance package, Mr. Simms said.

In addition to simply covering losses, both American Credit and London Guarantee offer ancillary services, including providing credit checks of an insured's current and potential buyers and a collection service for past-due accounts.

Based on its credit checks, American Credit occasionally recommends that an insured not do business with a potential client or cut back on a line of credit with an existing client, Mr. Simms said.

American Credit provides its collection service without charge when debtors pay within 10 days of the scheduled payment date, while London Guarantee extends the period to 15 days. If a debtor take longer to pay, both insurers charge for collection service.

When American Credit prepares a bad-debt policy, it examines the insured's business in several ways, Mr. Simms says, including:

- The policyholder's sales volume for the past three years.
- Its bad-debt experience for the past three years (used in determining what level of loss is normal and thus what deductible should be set).
- Its projected sales for the coming year.
- An analysis of the policyholder's accounts receivable including the names, addresses and credit histories of all debtors.

A rate for the coverage is then developed and applied to the insured's gross sales to determine premium due for the policy, Mr. Simms said.

An individual premium will depend on a number of factors, Mr. Simms pointed out. These will include:

- Sales volume.
- Credit ratings for the range of accounts involved.
- Distribution of accounts receivable, meaning the ratio of credit extended to total sales.

Premiums typically range between 0.1% and 0.25% of annual sales, according to London Guarantee's Mr. Lee.

"The larger the client, the smaller the rate," he added.

Both Mr. Lee and Mr. Simms agreed that premiums for the insurance have generally increased over the last few years as credit ratings of debtors have steadily declined.

And, while the business is still profitable for underwriters, the sagging economy has revealed itself through rising losses.

American Credit experienced losses of about $13 million in 1980, 50% of the $26 million in premium volume that year. The loss ratio improved somewhat in 1981 to 43% on $12 million in losses and $28 million in premiums. But underwriting deteriorated last year with losses rising to $19 million, 59% of the year's $32 million in premiums, according to Mr. Simms.

London Guarantee also has seen mounting losses, Mr. Lee says.

But losses suffered by underwriters mean losses averted by insureds, and that's fine with the companies that have already bought the coverage.

Cortaulds avoided a $500,000 loss four years ago when one of the textile companies it supplied filed under Chapter 11 of the Federal Bankruptcy Act, according to Mr. Reiter.

The company's bad-debt policy with American Credit carries a $5 million aggregate limit and a $150,000 deductible, Mr. Reiter said. Insured credit lines range from several thousands of dollars to multiple millions, he added.

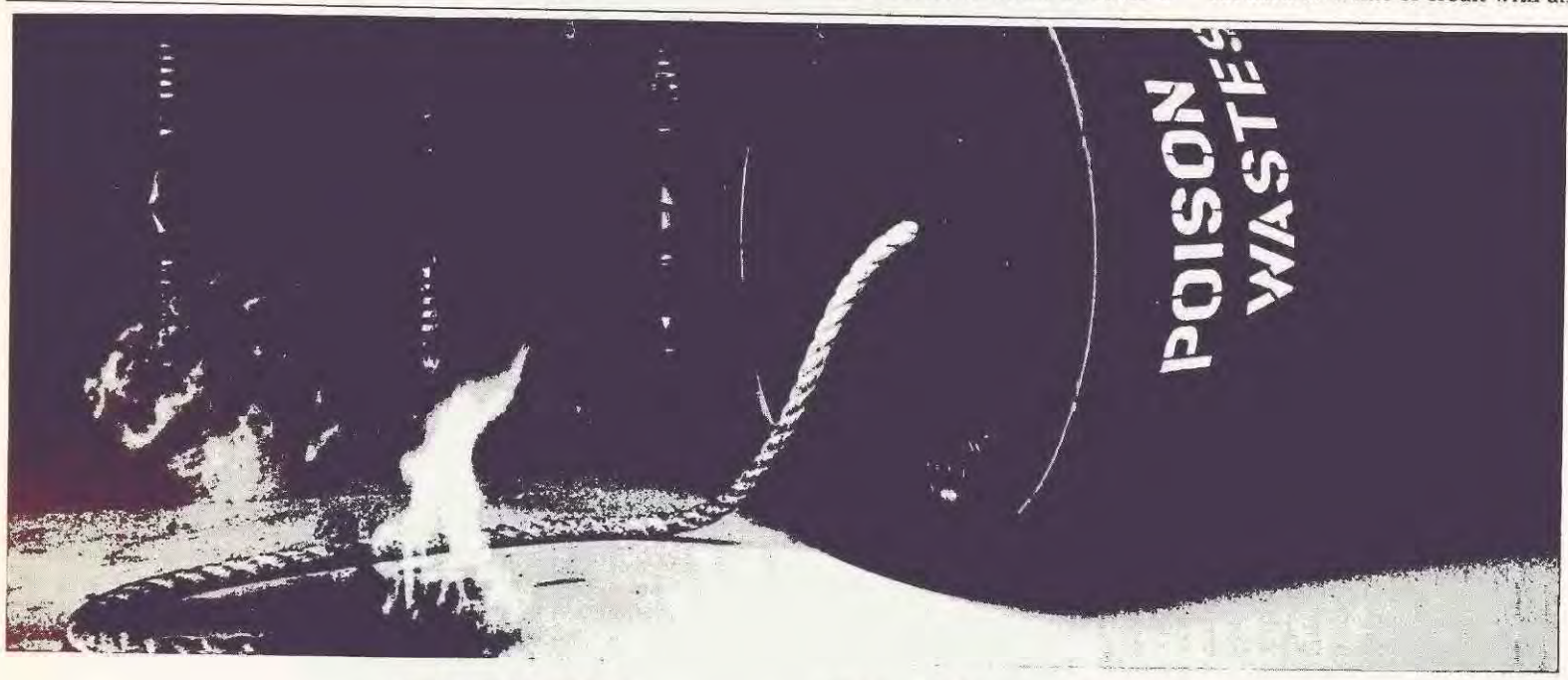
Cortaulds bought the coverage in 1973 when the company started producing high-priced nylon yarns and importing other expensive goods, Mr. Reiter said. While the company might have had only $50,000 accounts to worry about before, the nylon buyers' accounts could now run to $200,000, he said.

And while the company has not had any major bad-debt losses in the last three years, it's impossible to tell when one may come along, he pointed out.

"Credit insurance is for the catastrophe, the big one," he said. "They could come out of the blue."

J. Baker Inc., a shoe wholesaler that is a unit of National Shoes Inc., has purchased bad-debt insurance for several years.

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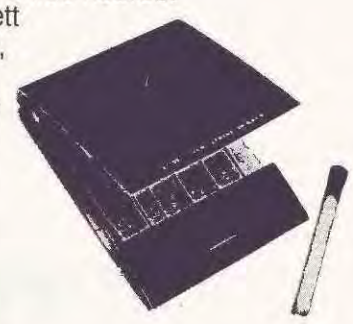
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Continued from facing page

Baker, which accounts for about $60 million of the parent company's $100 million in annual sales, is now renegotiating a policy that covers the accounts of 10 large department store chains, with a $1 million aggregate limit and $27,000 deductible, according to Alan I. Weinstein, senior vp and treasurer.

The largest single line of credit covered under the policy is $500,000, Mr. Weinstein said.

While no catastrophes have struck Baker, the policy with London Guarantee did pay a $65,000 loss last year, he added.

"We do quite a bit of business with major discounters. (The insurance) gives us a feeling that we can go to bed at night and know we're covered," Mr. Weinstein explained.

Apparel Industries Inc., a privately held New York-based clothing manufacturer, has a London Guarantee policy covering 3,500 accounts with balances that range from $100 to more than $1 million, according to Richard W. Dixon, the company's credit manager. The policy has a $400,000 aggregate limit, and the largest single line of credit is insured to $200,000.

The company weighed the cost of the policy against the probability of a major loss and decided in the policy's favor, Mr. Dixon explained.

"We've been more conservative in these bad times," he said.

Bad times are not being felt in the United States alone, and exporters are increasingly studying bad-debt insurance.

FCIA, an association of about 50 U.S. insurers and reinsurers, offers bad-debt insurance to firms as part of a package to which the Export-Import Bank contributes political risk insurance (*BI*, Oct. 12, 1981).

Within this package, FCIA offers two separate insurance programs: one that covers exporters that make multiple shipments to numerous overseas buyers and another that covers shipments to a single buyer.

The multibuyer program includes a choice of five types of policies that cover 90% of credit losses caused by the buyer's insolvency or failure to pay within six months of the due date of an obligation on the export of various goods, with terms of sale of up to five years.

Like their domestic counterparts, these policies cover losses in excess of an aggregate deductible. They also provide automatic coverage to specified "discretionary credit limits," based on assessments of buyers' creditworthiness.

The discretionary limits can be raised by 25% per year if a buyer maintains a good credit history. Limits above the discretionary level can also be provided.

The single-buyer program includes a choice of three policies that cover up to 90% of credit losses on single or multiple shipments to the same buyer on terms of sale of up to five years. Coverage of 100% of the exposure can be arranged if the term of sale is at least three years and the buyer has paid all installments on time for the first half of the term.

The AIG policy likewise covers 90% of losses over a deductible caused by any failure of an overseas buyer to pay within six months after a due date. The policy also covers 90% of losses from "transfer risk," the failure of a foreign currency exchange authority to transfer payments deposited in a foreign bank to the policyholder.

The AIG policy will also provide credit insurance on products shipped from virtually any country. This coverage is available from FCIA upon request, but FCIA generally covers only U.S. exports.

FCIA also requires that the products must consist of materials and labor that are between 50% and 100% of U.S. origin, depending on the type of policy being considered. AIG has no such requirement.

The AIG policy also may cover the accounts of buyers in countries where FCIA restricts coverage, like South Africa and most Eastern European nations, says Robert Svensk, president of AIG Political Risk.

As is the case for domestic bad-debt underwriters, losses for export credit insurers are mounting.

"In the international area, the loss volume is incredible," says A&A's Mr. Boylan.

FCIA paid export credit losses of $6.3 million on multibuyer policies covering values of $4.7 million in 1979, according to the association's annual statement. Losses jumped to $9.1 million on $5.5 billion of values covered in 1980 and to $15.1 million on $5.9 billion in values in 1981.

Figures for 1982 have not yet been released but Joseph Piepul, FCIA's senior counsel, indicates that losses for the year will hit $30 million. FCIA will not release its premium volume figures. ■

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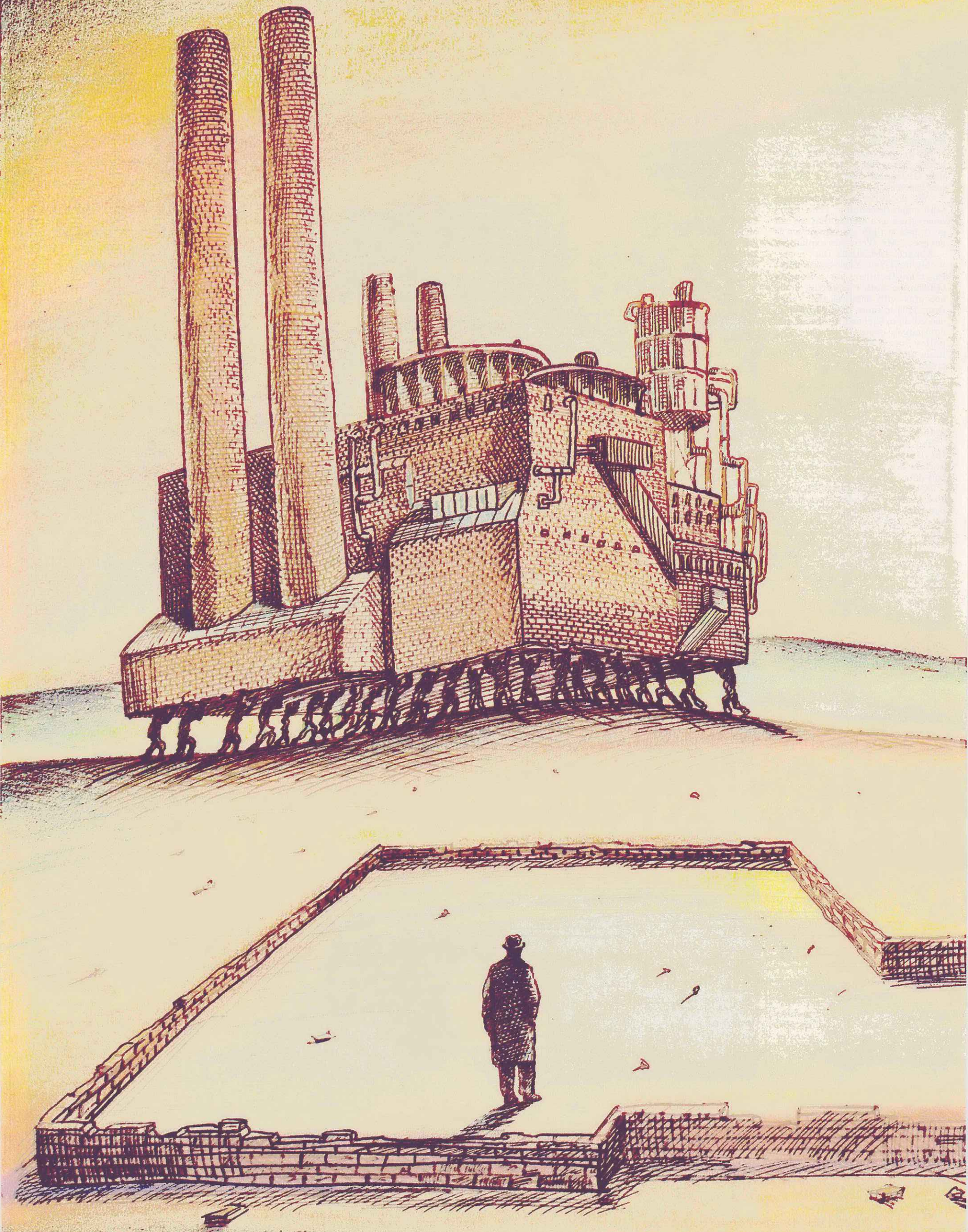
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In certain parts of the world, if the powers that be don't like the way you do business, they do more than send you nasty letters.

No long treatise is needed to convince you how perilous it can be operating internationally these days. All you have to do is look at the front page or your T.V. Suffice it to say that sudden changes in local laws, riots, nationalization, civil insurrection, even the whims of foreign governments can all have serious effects on your business.

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Even in times of worldwide economic stability, political risk has accounted for some uncertainty in foreign ventures. Today, the situation is even worse. What some people are calling a worldwide recession coupled with unexpected political change–even in foreign countries once considered stable–has created an environment in which operating internationally is much riskier than ever before. The election in France is a good example. Iran, Iraq, Argentina and Lebanon are just a few more examples of relatively current events that have also caused some nasty surprises.

More than ever before analyzing political risk demands an intimate and expert knowledge of political and economic conditions all over the world. Just keeping a watchful eye on potential developments where you do business is simply not enough anymore.

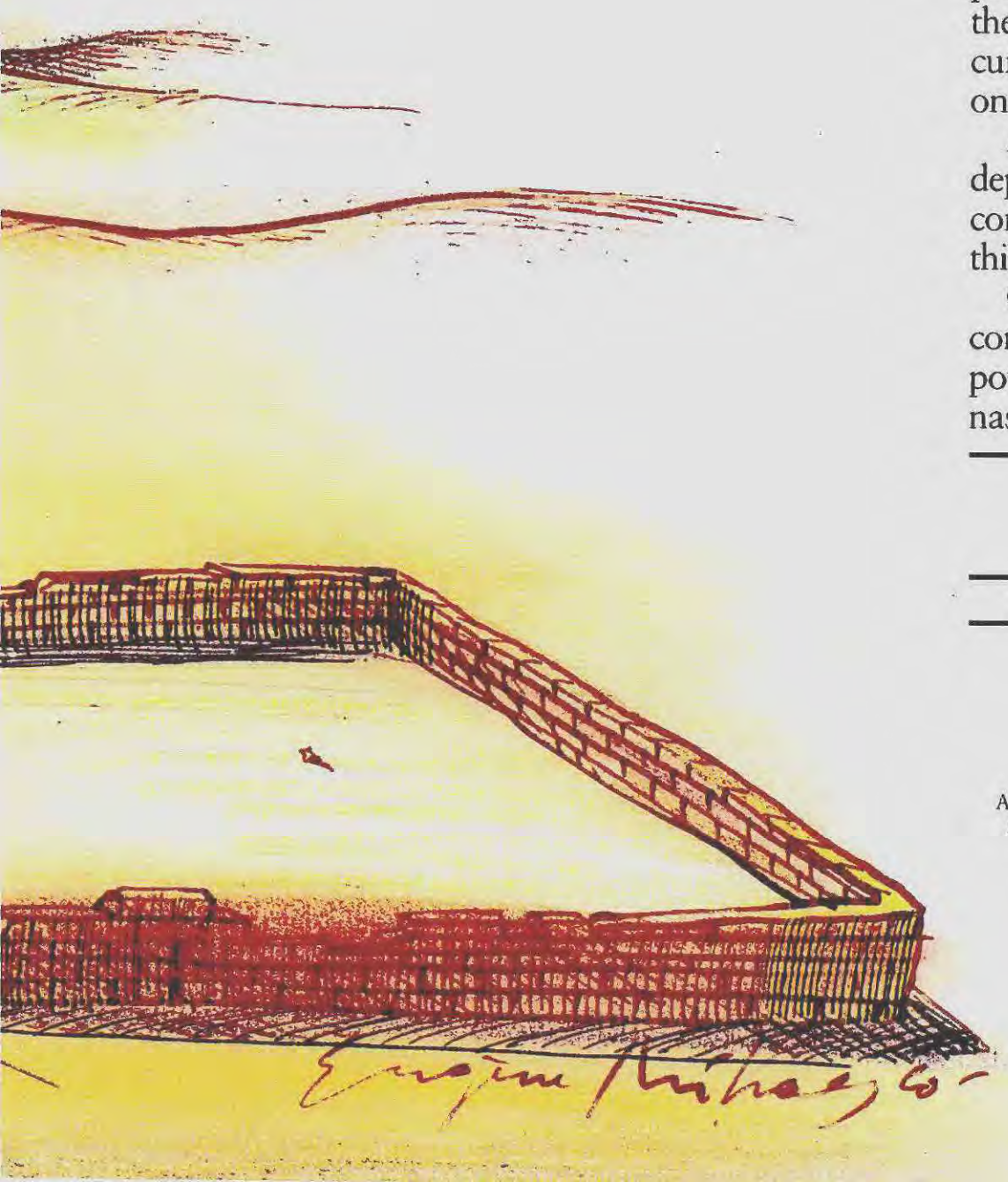
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JOHN BULL'S BACK ON TRACK

Technology gets an old locomotive running again

Special from The Hartford Steam Boiler Inspection & Insurance Co.

WHEN THE HISTORIC steam locomotive, the John Bull, made a three-mile run in September 1981on the Georgetown branch of the B&O railroad, the trip served as testimony to the maker of the 150-year-old engine—and to a modern insurance company with sophisticated technical capabilities.

The September trip in Washington, D.C., marked not only the John Bull's 150th anniversary, but also its first time it was under steam since 1927. That the John Bull rolled again was due to John H. White Jr., curator of transportation at the Smithsonian Institution. It ran safely with the help of to The Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn.

The journey of the John Bull actually began June 18, 1831, when Robert Stephenson & Co. of Newcastle-on-Tyne, England, completed construction of the John Bull, its 44th locomotive. Ordered by Robert L. Stevens of the Old Camden & Amboy Railroad at a cost just less than $4,000, the John Bull was disassembled and shipped from England to Philadelphia. There, a young mechanic named Isaac Dripps, who had never before seen a locomotive, reassembled the John Bull in just 10 days.

The John Bull pulled its first carload of passengers Nov. 12, 1831. Thereafter, it operated on the Camden & Amboy for 35 years. Retired in 1866, the locomotive was renovated 10 years later for display at the Centennial Exposition in Philadelphia in 1876. It was last under steam in 1927 as part of the Baltimore & Ohio Railroad's centennial pageant.

But it wasn't until 1980 that the John Bull got another lease on life. In that year, Mr. White—who knew more about the locomotive than anyone else, having fallen in love with it as a Smithsonian summer employee more than 23 years ago—decided that the John Bull's 150th anniversary could only be properly celebrated if the old iron horse traveled under its own steam once again. But more than restoration was needed; testing of the engine's structural integrity was vital to insure a safe and successful journey.

Mr. White approached John Eklund, director of marketing development for Hartford Steam Boiler, to see if the firm could insure the John Bull's ability to run. Mr. Eklund and his management agreed and, although the insurance inspection was carried out under formal contract, there was no fee for the inspection work performed on the John Bull.

Hartford Steam Boiler not only solves industrial insurance problems through its own testing division, but writes insurance too. Using state-of-the-art technology including radiography, ultrasound, magnetic particle and hydrostatic tests, technicians from HSB's Non-destructive Test Division, located in Essex, Conn., can detect cracks and corrosion in equipment ranging from the ancient John Bull to a modern nuclear power plant. In addition, the company's Radian Corp. is able to examine the scale, deposits, lubricants and other crusts that go with mechanical old age.

By having its own experts evaluate the structural integrity of a piece of machinery or a component of a larger structure, Hartford Steam Boiler is able to make sound industrial insurance judgments.

After weeks of planning, a team of technicians from the Non-destructive Test Division spent two days and the intervening night on the first-floor exhibition area of the Smithsonian. They inspected the John Bull with a fine-tooth comb, using visual radiographic, magnetic particle, ultrasonic and hydrostatic tests. In addition, samples of scale, deposits, lubricants and other crusts were gathered for energy-dispersive spectroscopy and X-ray diffraction tests.

Close inspection of the locomotive revealed that the boiler shell and the bury dome were made of wrought iron, probably by stacking up rods and rolling them into a sheet of the required thickness. Rivet holes were evidently punched rather than drilled. This method of fabrication, coupled with constant vibration and stress from movement of the railroad track, could have caused a number of problems in the old locomotive's structure.

Other manufacturing processes used by the Stephenson firm were also cause for concern. The entire length of the horizontal portion of the boiler shell was insulated with wooden slats. Due to constant exposure to the elements, the condition of the shell beneath the wooden insulation was in question.

Everything underwent rigorous inspection: the firebox, mud legs, tub sheet, bury dome (a type of shield), boiler shell, stack, smoke box, tube sheet, cylinders, pistons, piston rods and axles. The radiography performed on the boiler was just part of the exhaustive testing required. Only radiography could confirm the quench cracks first found by magnetic particle testing and determine the extent of the cracks, thus serving as a guide in making repairs.

At the Smithsonian, two radiographers crawled underneath the John Bull and went into the 6-foot-high, 4-foot-diameter boiler through a manhole. First, they did a visual inspection. Then, they set up a jig to guide the iridium-192 pellet, which was only 1/100,000 by 1/100,000ths of an inch in size. The pellet would deliver 60 curies of radiation necessary for the X-rays.

While magnetic particle inspection had been conducted on the boiler's exterior, radiography was needed where the metal overlapped and was riveted. Film was taped to the boiler. X-ray exposures were made 360 degrees around the boiler. Exposure times varied from four to 11 minutes to coincide with the varying thicknesses of the metal plate. The films were taped on the outside of the boiler in 7-by-7-, 4½-by-10- and 14-by-17-inch sizes. Sometimes films were double-loaded or even triple-loaded to cover the varying thickness in the overlapping areas.

Processing the film was done manually in a van at the door of the museum.

In all, 118 radiographs were made, mostly of the boiler, firebox and steam box. They proved invaluable, for they exposed some cracks in the rivet heads and between the rivets, as well as some cracks in the nozzle and connecting rods. They also showed that many areas had no defects at all.

Armed with these test results, the Smithsonian experts went to work in the restoration shop. No rivet was thrown away or replaced with a modern one. Instead, old rivets were removed, repaired and put back in their original holes.

Six months after the inspection began, the John Bull was carefully taken from the Smithsonian and shipped to the Calverton Branch of the Southern Railway near Washington, for a "wet run" Oct. 14, 1980. It blew an old gasket that was quickly repaired. After a few more anxious moments, the John Bull ran again, spewing smoke and sparks from its wood-burning engine. The run was a success.

There was more work to be done, though, on the locomotive, tender and the single car it pulled. Yet, except for a sticking throttle at the start, the John Bull made its 150th anniversary run without a hitch on Sept. 15, 1981 thanks to careful workmanship, both old and new, modern technology and a helpful insurer. ■

This article was prepared courtesy of The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

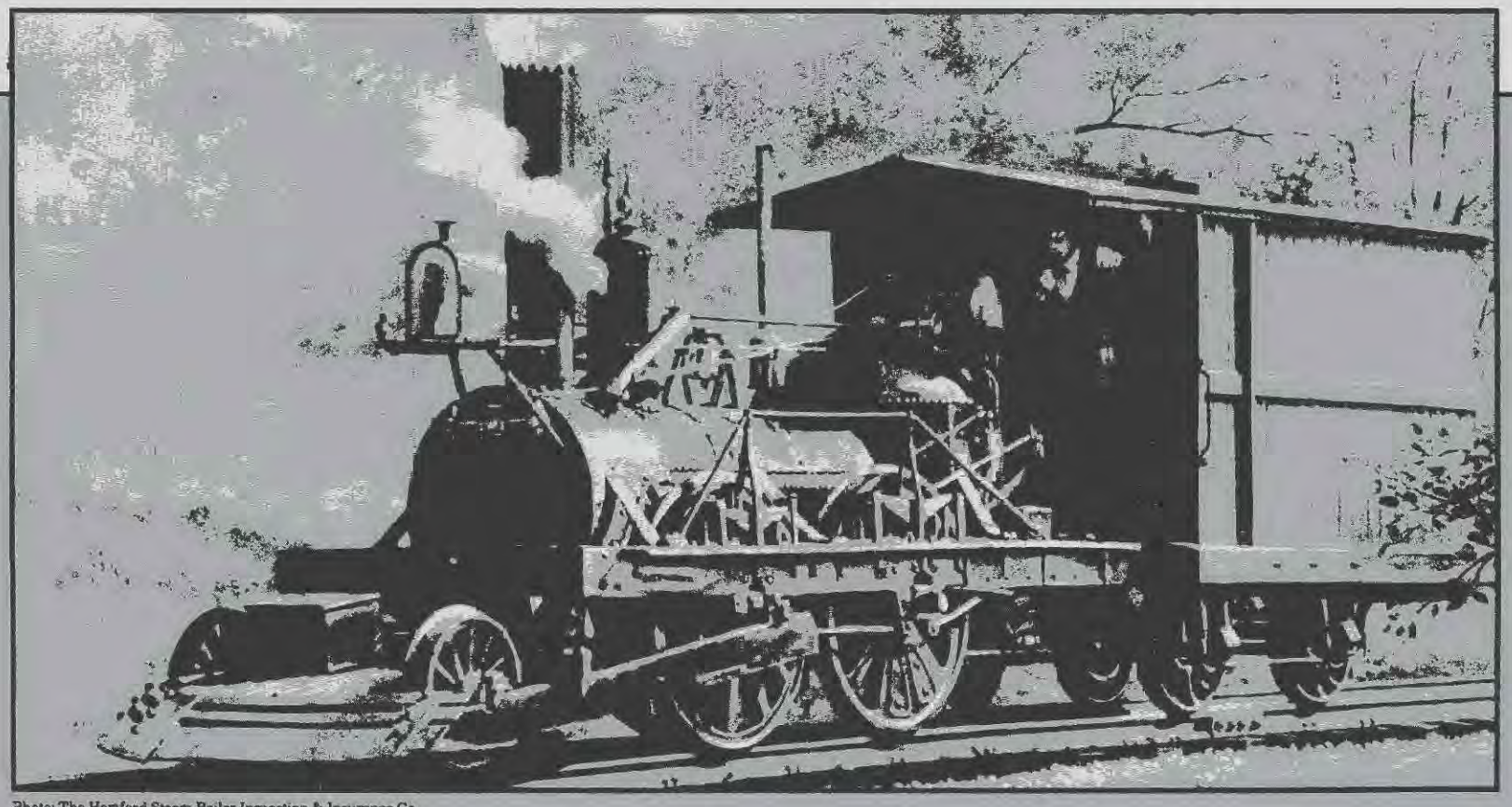


Photo: The Hartford Steam Boiler Inspection & Insurance Co

perspective





Insuring against nature

How the French are covering natural disasters

By Jacques Charbonnier

THE LANGUAGE may differ, but in France, the meaning of natural disaster is the same as in English—an occurrence causing widespread property damage.

Each year in France, natural disasters like floods, thunderstorms, landslides and avalanches cause damage totaling between $70 million and $140 million. In 1980 alone, the economic loss from flood damage amounted to $150 million nationwide.

Nearly 20 years ago, a first step toward compensating natural disaster victims was made. A bill was passed in 1964 to assist farmers who suffered losses due to natural disasters, like lost crops or cattle.

But that legislation has come under attack, since indemnification under that bill was only partial. For example, in 1980, frost and floods caused heavy damage to crops and only 35% of the loss was compensated.

The major complaints have come from professionals and the public who, after being victims of a natural disaster, were not being compensated. The most they could expect was only partial assistance from the government. The government, which could decide whether or not to compensate the general public, tended to favor some categories of victims for political reasons.

Jacques Charbonnier is a risk management consultant in Sainte Foy les Lyon, France.

Responding to the public demand, the French Parliament passed a new law in July 1982.

Those affected by the law are people or businesses located in an area hit by a natural disaster and are insured against fire, water damage to buildings, vehicles or consequential loss.

To reward people who in the past had bought insurance, legislators decided to grant the benefits of the law to those owners who had made a consistent effort to protect their property.

According to the new law, the definition of natural disaster is "a material damage directly caused by the abnormal intensity of a natural agent, insofar as the usual measures of control did not succeed in preventing its occurrence."

What constitutes a natural disaster is determined by a public departmental order signed by at least two cabinet ministers.

To be activated, the new law has to apply to as many entities concerned as possible. For that reason, the new law compels insurance companies issuing property damage policies to extend their coverage to the consequences of any natural disaster. Therefore:

- The coverage is made concrete by means of a standard clause to be inserted in each policy.
- The rate of the premium has been determined by a decree, and this rate is the same in almost all geographical regions. The French overseas departments, such as some islands in the West Indies, are temporarily excluded from the law's benefits.

The new legislation mentions different tariff rates according to the type of building or business. As a guide, the rate of the extra premium for private houses and apartments is fixed at 5.5% of the normal premium.

- If an insurance company refuses to sell such coverage, it could have its authorization to sell insurance withdrawn. The Minister of Finance must make this decision.
- The settlement of the claim must be made within three months computed from the day the damage estimate is received.
- The minimum amount of deductible varies according to the property insured. One example might be, 10% of the total damage assessed for a business.

From the day of the law's publication, many professionals pointed out some drawbacks of the new system.

Since disaster insurance is grafted onto fire insurance, which is optional, one cannot say that disaster insurance is mandatory for everyone. The law requires only those people who have fire insurance to purchase disaster insurance.

In addition, the designation of an event as a disaster does not arise from fixed technical criteria, but is decided on a case-by-case basis. Since two ministers are sufficient to make the decision, it is probable that local political influence will play a prominent part.

And, finally, the lack of technical insurance bases has frequently been evoked: a 5% rate has been empirically established for the risk of flood and 10% of this rate has been added on for the remaining risks such as windstorms, earthquakes, etc.

In 1982, the increased cost of premiums will be around 20%, due to the 5.5% extra premium, plus the normal variation of the construction cost index, which will amount to about 15%. Consumers are unhappy over the prospective rise in cost.

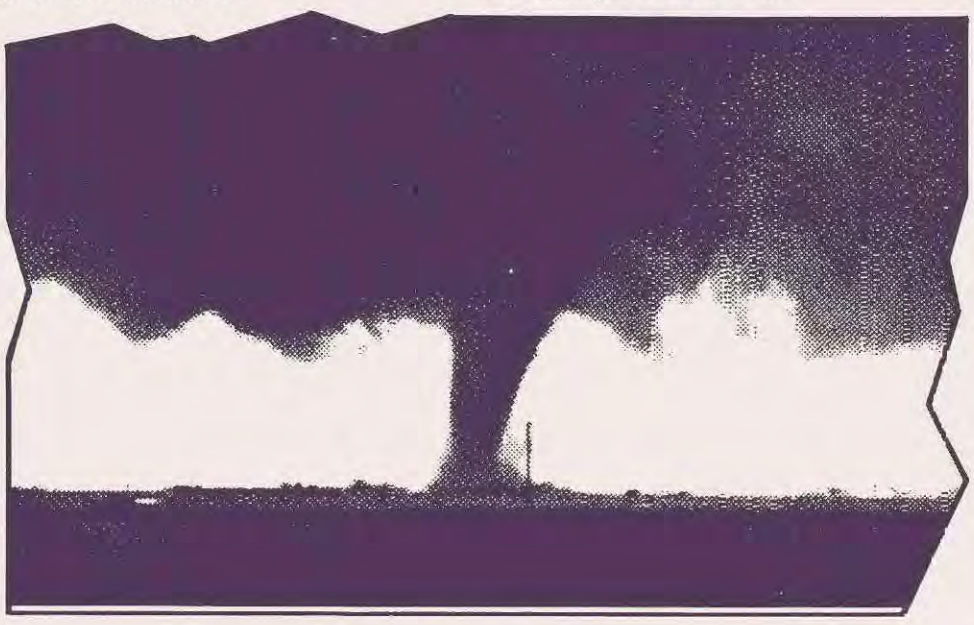
Besides, some extended coverages usually granted in fire policies, such as the surveyor's fee or consequential loss, may not be available in the case of a natural disaster.

Thanks to the new law, the premiums will be greater; and yet, the rate of the brokers' and agents' commissions has paradoxically been reduced to 10% (vs. 20% or 25% for normal risks).

This is a paradox because there will probably be a significant increase in their work. These professionals have to give detailed explanations to their clients about the new law. If a disaster does occur, they will be working overtime: surveying the damage, discussing details with company representatives and helping to settle claims.

Because of the occurrence of recent disasters such as the Nov. 7-8, thunderstorms, which damaged many homes, most people can appreciate the advantages of the new law. ■





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perspective

Learning the basics in risk management

There is a helpful 'starter' text for the smaller company

books & ideas

"Avoiding Surprises"
By Frederic C. Church Jr.
Boston Risk Management Corp.
79 Milk St.,
Boston, Mass. 02109
277 pages, $17.95 hardbound

By Russell A. Drake Jr.

"AVOIDING Surprises" is an excellent basic book for small companies (less than $200 million in sales) seriously studying the application of risk management.

The introductory chapters, omitting much of the trade jargon, succinctly cover the distinction between business and accidental risks, the definition and objective of risk management and the concept of the total cost of risk. "Risk management therefore is the process of conserving your assets and resources. . .and your revenues against the effects of accidental loss and waste. . .risk management's objective is to limit losses, provide catastrophe protection, and reduce total cost of risk."

TCR, covered in Chapter Three, is frequently overlooked by management and risk managers. Simply stated, it encompasses all costs of a risk management program such as net premiums, self-retained losses, internal loss-control costs, internal and external administration costs and any and all other costs attributed to the risk management function.

The biggest difficulty of TCR is to identify all internal costs and self-retained losses on a consistent basis. One company with a high TCR per revenue or earnings is not necessarily worse than other companies, for it may be able to quantify costs and losses better than other companies.

The greatest use of TCR is a comparison of one's own performance from year to year to determine trends and whether adjustments to the loss-control programs or insurance programs are necessary.

Chapters Four and Five, covering the identification of assets and exposures and measuring risks, are particularly useful for smaller companies. For a major corporation or company, the processes, checklists and reports are likely too cumbersome. However, they do represent a useful checklist of things to look for in specific risk measurement situations.

Chapter Five covers controlling risks and has an excellent outline of eight stages in the orderly development of a total loss-control program:

- Commitment to a total loss-control program.
- Organizing the total loss-control function.
- Promulgation and issuance of a policy statement.
- Identification of target areas for control.
- Developing guiding principles for the total program as well as specific control elements by target areas.
- Setting goals and timetables for completion.
- Measuring performance and monitoring.
- Adjusting the program as required.

The checklist of things to look for in specific exposure areas is both logical and thought-provoking.

The measurement of loss-control performance is especially useful for those who have not thought of it or have not been using any method to quantify loss-control performance.

Unfortunately, the description of the lost workday case rate and the preventable vehicle accident rate measurements, which are excellent measures, were omitted. Once standardized performance measures are established, they are useful in comparing the performance of the various operating units of the company.

While Chapter Six dealt with before-the-fact loss control, Chapter Seven is aimed at after-the-fact loss control, or what to do after the loss. Unfortunately, too much of the chapter was directed toward the claims procedure with too little emphasis on developing internal reporting procedures so that all losses are reported promptly to risk management.

Chapters Eight and Nine did a good job of summarizing the methods and techniques of self-assumption of risk and financing risk, including an excellent exhibit depicting their interrelationships and order in the decision-making process.

The discussion of the quantitative and qualitative methods of evaluating risks and exposures was well-done as an introduction to this subject, although it still will confuse many. While it could have been included as part of an earlier chapter on measuring risks, it was well-handled here. The discussion of the various types of policies and their standard coverage could well deserve a full separate chapter.

My favorite chapter was Chapter 10, which covered the general subject of administration of the risk management function—"An effective risk management program requires top management commitment enunciated through a risk management policy statement."

In addition, management must not expect a short-range solution. For, "creation of a risk management function should be viewed as a long-range commitment. There are no immediate returns from the introduction of a loss-control program. . . .Senior management must view risk management as a long-range solution to the corporate risk problems rather than take the short view that is increasingly popular with publicly held corporations."

Usefully and humorously included in this chapter are a job description for a risk manager, the general characteristics of the ideal risk manager and the profile of the perfect broker. The author also adds a valuable discussion of the various processes for selecting the best broker.

The recommended procedure is a conceptual or presentation approach when the various brokers present their ideas on how they would work and perform in the risk management process, specifically describing their designing, marketing and implementing of insurance programs.

The last chapter covered the various communications devices useful for the risk manager to succeed with primary objectives. They include the risk management policy statement, insurance and risk management manuals, annual reports to management and more. ■

Russell A. Drake Jr. is director of corporate risk management for Borden Inc. in Columbus, Ohio.

Out-of-wedlock children eligible for benefits

legal briefs

A SECTION OF the New York Workers Compensation law was struck down as unconstitutional in that posthumous and legally adopted children were presumed dependent while stepchildren and those born out of wedlock had to prove their dependency, according to an appellate court.

Ricky Burns, age 21, died as a result of an accident while he was working for a construction company. Eight and a half months later, a child was born to an unmarried woman. The child's mother filed for death benefits on behalf of the child. She testified the only time she mentioned her pregnancy to Mr. Burns was on the day he died.

Under New York law, dependents include a posthumous child, a child legally adopted prior to the employee's injury, an "acknowledged" child born out of wedlock or stepchild of the deceased. The claim was denied.

The appellate court said that upon considering the various elements that must be proven by the child born out of wedlock, it was evident that "acknowledgment" did not substantially further any state interest. The court concluded that proof of paternity and dependency were sufficient to accomplish the statutory purposes. Thus, the court said the "acknowledgment" requirement denied equal protection to children born out of wedlock. *Claim of Burns*, Court of Appeals of New York, April 7, 1982, (*BI*/04/D.-$5).

Bank officer's fraud

Although a bank director who was involved in a fraudulent scheme was the person who obtained the fidelity bond for a bank, his knowledge of his wrongdoing would not be imputed to the bank so as to void the fidelity bond, a Washington appellate court ruled.

Ralph Dreitzler Jr. served as a director of the Continental Bank. During this time, he was also president and principal owner of an insurance brokerage firm. Dreitzler proposed, and the bank's board of directors approved, a program for insurance premium financing.

In 1975 the bank obtained fidelity bonds from St. Paul Fire & Marine Insurance Co. against losses due to fraudulent or dishonest acts of employees. The insurance premium financing plan involved the bank loaning Mr. Dreitzler's insurance clients funds for their premiums.

Subsequently, investigation revealed that Mr. Dreitzler had forged loans financed by the bank resulting in the bank incurring losses of over $1 million. The bank sued St. Paul under the fidelity bonds and won in the trial court.

On appeal, St. Paul argued, in part, that the bank had knowledge of Mr. Dreitzler's wrongdoing at the time of the bond application rendering the bonds void for fraud. But, the court said his wrongdoing was not imputed to the bank merely because he obtained the fidelity bonds. According to the court, Mr. Dreitzer was not the "alter ego"of the bank and had acted adversely both as to his defalcations and as to his concealment of them on the bond application. *Puget Sound National Bank vs. St. Paul Fire & Marine Insurance Co., etc.*, Court of Appeals of Washington, May 24, 1982, (*BI*/05/D.-$5).

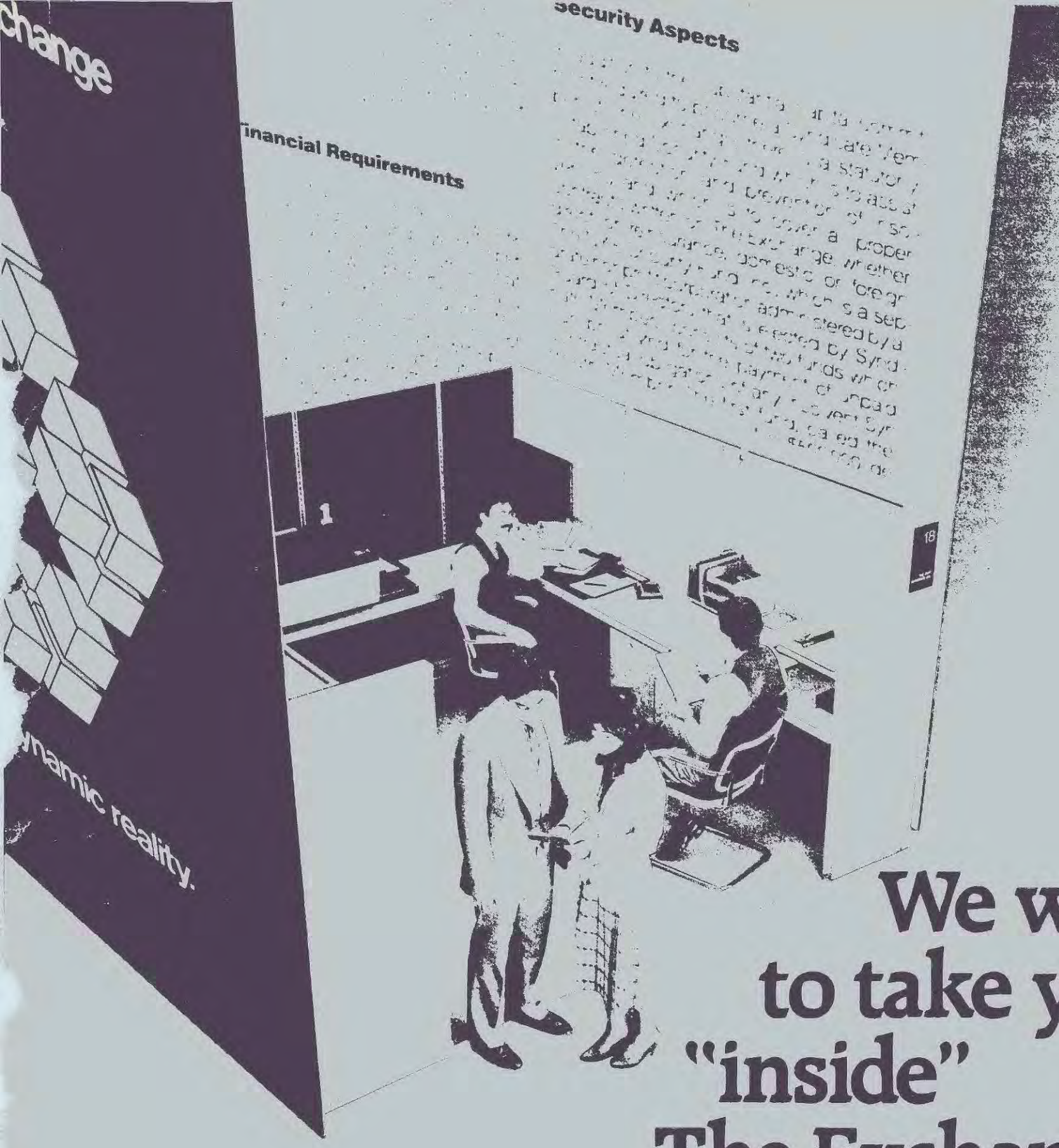
Psychological compensation

A Georgia appellate court ruled that a psychological disorder, arising from psychological injury, resulting in mental disability was not compensable as an "accident arising out of and in the course of employment."

Roe Chatham had a history of psychiatric problems dating back to World War II. He began work for the employer in 1973. In 1979 he was terminated without warning for poor performance of his duties. Shortly after he suffered psychotic episodes. He became disabled. Mr. Chatham did not suffer any physical injury during the course of his employment. His claims for benefits were denied by the compensation board. However, a trial court reversed, awarding him benefits.

The appellate court concluded that the accuracy of psychiatric diagnosis and treatment did not overcome "the clear-cut logic and pervasive public policy underlying the requirement that to be compensable, psychological injury or disease must result 'naturally and unavoidably' from some discernible physical occurrence." To permit recovery in such cases, in the opinion of the court, would render employers helpless to discipline, much less fire, employees for fear of inciting or stimulating a nervous, mental or emotional disorder. *Hanson Buick Inc. et al vs. Chatham*, Court of Appeals of Georgia, June 16, 1982, (*BI*/02/F.-$5). ■

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



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Crough to become Colonial Penn president

Daniel F. Crough has been elected president of Colonial Penn Group Inc. in Philadelphia, effective April 1. Mr. Crough succeeds **Herbert J. Grubb,** who resigned for personal reasons.

Mr. Crough currently serves as senior vp, secretary and general counsel of Colonial Penn. He has been with the company since 1972.

Other insurer changes:

T. Skipwith Lewis appointed vp-engineering at The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn. Dr. Lewis had been dean of the College of Engineering at the University of Hartford. He replaces **Earl L. Kemmler**, who retired.



Mr. Lewis

John F. Malloy appointed a vp of American International Underwriters and manager of the casualty management department in New York. He is responsible for all aspects of primary casualty lines for AIU and for the foreign general subsidiary and affiliated American International Group Inc. companies. Mr. Malloy had been the AIU branch casualty manager in New York. **Thomas A. McCormick** was named to replace Mr. Malloy as the branch casualty manager. Mr. McCormick had been an AIU assistant casualty manager in New York.

comings and goings: industry

Reinsurers

John G. Beck appointed president of Hudson Life Reassurance Corp. in Sarasota, Fla. Mr. Beck is responsible for all life reinsurance operations. Mr. Beck had been president, treasurer and director of Frankona America Life Reassurance Co. Hudson Life Re is a subsidiary of Skandia America Group.

Hartford Re Management Co., the recently formed reinsurance subsidiary of Hartford Insurance Group, named **Lyman J. Baldwin Jr.,** a Hartford senior vp-casualty underwriting, as chairman. Also, **John F. Donahue,** vp-property/casualty underwriting, named president of Hartford Re.

Excess/surplus

Francis T. Rosene elected president of Starr Associates Inc. in New York. Starr Associates is involved an underwriter, brokerage, managing general agent and a licensed facultative reinsurance intermediary. Mr. Rosene had been senior vp of AIG Energy Inc., American Home Assurance Co. and National Union Fire Insurance Co. of Pittsburgh, Pa. Starr Associates is an affiliate of American International Group Inc.

Other suppliers

Richard C. Sears named chief executive partner and **David Skovron** named chief operating partner of Kwasha Lipton in Fort Lee, N.J. **John A. Connors**, who had been chief executive, is retiring. Mr. Sears had been chief operating partner. Mr. Skovron had been managing partner of the consulting actuaries division.

W. Stevens Parr joined Meidinger Inc. as regional director of international services. He will work at Meidinger's Rowayton, Conn., office. Mr. Parr had been a vp at Hall-Godwins (Overseas) Consulting Co.

David E. Barford has been named head of the London office of employee benefit consultant William M. Mercer Inc.'s international division. Mr. Bradford, 34, has been Mercer's managing consultant of operations.

Dr. Richard Huset joined the consulting staff of Meidinger Health Risk Management Inc. in Minneapolis. He will consult on medical cost containment and health promotion. Dr. Huset was previously chief of chronic disease programs and health promotion at the Minnesota Department of Health.

Arnold S. Bernstein has joined Fringe Plan Administrators Ltd. in New York as vp and director of employee benefits. He had been a vp at Martin E. Segal Co.

Beulah J. Handler appointed senior vp of National Insurance Associates Ltd. in Paramus, N.J. She's responsible for all corporate entities including NIA group programs, excess lines, professional plans, risk management services and an insurance acceptance company. She formerly was vp-administration of NIA.

David A. Boydstun appointed California manager of the Hewitt, Coleman & Associates. He will work in the Santa Ana office. Mr. Boydstun previously was workers compensation manager at Western Employers Insurance. Hewitt, Coleman is an affiliate of Western Employers.

Tom McClure and **Orlo Hill** have been promoted at Brown Brothers Adjusting in the San Francisco home office. Mr. McClure is now executive vp of branch office operations in the home office. Mr. Hill is now responsible for quality control at all branch offices.

Michell Hyett Tauster appointed manager of employee benefit plans for Buck Consultants Inc. in New York City. Ms. Tauster had been a senior assistant benefit consultant in Buck's group department.

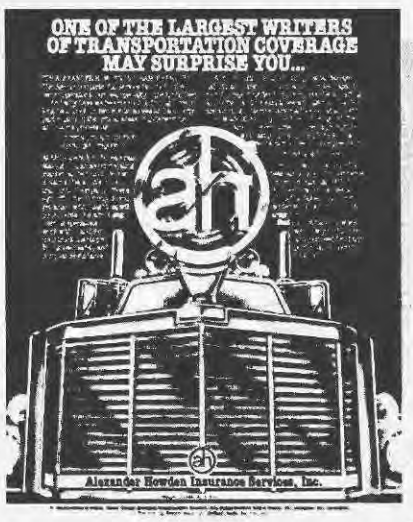
John W. Thompson named manager of the Chicago regional office of Buck Consultants Inc. Mr. Thomspon has been with the company since 1977 and was previously on the actuarial staff of Standard Life Insurance Co. in Edinburgh, Scotland.

Daniel A. Rigney Jr. promoted to vp of American Risk Management Inc. in Fort Lee, N.J. Mr. Rigney had been assistant vp. American Risk Management is a division of The Reiss Organization.

Harvey Sobel joined Peat, Marwick, Mitchell & Co. in New York as manager of the insurance actuarial consulting group. Mr. Sobel previously was an associate actuary in the group insurance department of Mutual Life Insurance Co. ■

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Prizes help promote safety at candy maker

By CAROL CAIN

CHICAGO—The Curtis Candy division of Nabisco Brands Inc. decided to use an item its knows well —food—to improve its safety record.

It worked!

"We reduced workers compensation claims by 70%" through the program that began in 1980, said William Morgan, safety director of the Franklin Park, Ill.,-based company.

Sixty-nine accident claims were filed in 1979, 33 in 1980, 23 in 1981, 18 in 1982 and only one so far this year, Mr. Morgan said.

The statistics were presented during an all-day workers compensation conference March 10 sponsored by the Illinois State Chamber of Commerce. Incentive, safety and wellness programs were explained by panelists during a discussion on accident prevention attended by 180 people.

Curtis' incentive program, for production employees only, divides the 1,200 workers into seven teams.

Those teams that complete 30 working days without a lost-time accident are rewarded with coffee and doughnuts and two drawings are held for $50 cash prizes, Mr. Morgan said. The same rewards are repeated for teams that go 60 working days without such an accident.

A box lunch and four $50 awards reward teams that go 90 days without an accident. A team that reaches the 120-day milestone is treated to a prime rib dinner and 10 $50 awards.

The program costs between $30,000 and $40,000 per year, but Mr. Morgan adds that just two workers compensation cases could cost that same amount.

The meals are served during the employees' lunch period, which is extended past the usual half-hour. "But there's no lost time production. . .It's usually a better day because the employees are happier. It's not the usual day," Mr. Morgan said.

"The main thing is that we recognize them. . .we feed them."

When devising such an incentive program, it's important that the prize is something that employees can achieve, Mr. Morgan said. "Some plants have an incentive that you have to go a full year."

A negative aspect of the program is that there can be pressure to not report accidents, he admitted. However, if a non-reported accident is discovered, the person is disqualified from the program.

Promoting safety must be an active, ongoing commitment, another conference participant said.

"You can't take care of safety from an office," said Clarence Morath, manager, employee benefits, Northwestern Steel & Wire Co. of Sterling, Ill., which self-insures and self-administers its workers compensation program.

"You use (the office) to hang your hat in and change into your safety clothes. We believe that those involved with safety should be on call 24 hours a day. The supervisor should be out in the plant at least seven hours of an eight-hour shift. You'd be surprised at the dividends it pays," Mr. Morath said.

Thirty years ago, when safety managers at Northwestern began appearing regularly in the plant, "We were like Jesus—stoned several days a week," Mr. Morath said. But the spirit changed and there was more cooperation from employees, especially as injury rates declined, he said.

Another method used at Northwestern to instill a sense of safety is to charge accidents "to that department.

"Prior to that, we lumped safety and workman's comp and no one paid any attention to it," Mr. Morath said.

Also integral to any safety program is "the blessing of top management," Mr. Morath said. Other panelists agreed, but noted that managers must also communicate well with workers to further safety.

"Safety communication is the key. If you have a good safety team at the management level, but no support from the rank and file, you're wasting your time," said William Provenzano, benefits adviser at the Arco Metals division of Atlantic Richfield Co. in Rolling Meadows, Ill.

A good Safety program will cost money, "but it's money well-spent," Mr. Morath added. "If you try to get by with as little as possible, that's what you're going to get."

Other at the conference said that employee wellness program can also aid safety. Healthier employees often are more alert, and therefore, safer employees, said Carol Bacon, a nurse and occupational consultant with The Doctors Emergency Officenter, an outpatient care center in Mount Prospect, Ill.

Alcoholism, drug abuse and hypertension are just a few of the many problems "we've got out there," she said. "You have to keep your employees thinking wellness."

That awareness can be accomplished through classes offered by nurses from medical facilities like Ms. Bacon's center or from nonprofit groups like the American Heart Assn., she said.

"There are a great many sources, and a lot of them are free," Ms. Bacon said.

Periodic physicals for upper management "might keep costs down," she added. "Look down at the end of the road for the total amount saved."

Administering physical examinations to employees who are about to be laid off is another consideration. The exams are "not for back injuries, but for noise and high residual lung problems," Ms. Bacon said.

Arco Metals' Mr. Provenzano said his company does not administer physicals before workers are laid off because they're too expensive and management believes it might create more problems.

"Wellness can really cut costs," said Andrew Moore, Northwestern Steel & Wire's safety supervisor, "but you have to prove to management how much it can save." ■

Safety chief to quit

CHICAGO—Vincent L. Tofany, president of the National Safety Council, will resign April 1.

Mr. Tofany will become a corporate vp at Mohawk Data Sciences Corp. and president of the MDS Dek Identification Systems division in Parsippany, N.J.

T.C. Gilchrest, who is now executive vp of the National Safety Council, will assume the responsibility of acting president.

Mr. Tofany had been president of the council for 10 years and is a member of President Reagan's Presidential Commission on Drunk Driving. ■

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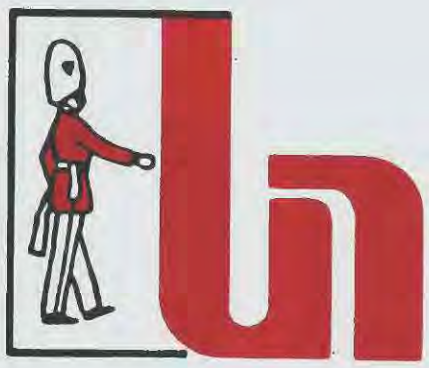
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Home offers buyers on-line claims review

Risk managers whose companies are clients of The Home Insurance Co. can now review their claims information with their own computer terminals.

The Home's risk services division's new system—called Browse—allows claims inquiries by policy number or claim number using an interactive video display terminal.

Risk managers with terminals have access to a summary of all claims and their status. Details on claims transactions, from the first report to the latest information, are available. Claims files back to 1975 can be tapped. Hard copies of transactions can be obtained with desktop printers.

With this capability, risk managers can obtain data to compose their own reports. Data can be selected by general or specific type of claim transaction, specific product or coverage line, in detailed or summary format and in selective time frames or sequences of reports.

There is a quarterly charge for the Browse system. A large part of that charge is for the communication lines between the risk manager's office and the nearest Home office. Fees depend on distance between the office, number of terminals, number of locations that have access to the Browse system and type of terminals. The installation of a video display terminal and printer, a self-instruction manual and on-site training are provided at no additional cost.

The Home also can provide the Browse system to risk managers who already have IBM System 34 equipment.

For further information, contact your local Home agent.

products & services

Health hot line

Fred S. James & Co. Inc. has introduced Med-Guide, a health information telephone service.

Companies that subscribe to Med-Guide receive access to a toll-free number employees can call for individually researched responses to their health questions.

With this information, employees may be better able to understand and use medical information more wisely.

Med-Guide specializes in questions on serious illnesses like heart disease, cancer, diabetes, arthritis and asthma.

Med-Guide can help employees understand:

- Their illnesses, medication or treatment.
- What appropriate health professionals and services are available.
- Who can provide a second opinion.
- What specialized center, institution or self-help group is available.

Med-Guide does not offer diagnoses or treatments. Their service is provided by Brownlee Dolan Stein Associates, a health information and guidance specialist.

The fee for Med-Guide varies with the size of the workforce. For 1,500 or more workers, the cost is 40 cents per month per employee; for groups of between 500 and 1,000, the rate rises to 60 cents per month per worker; and for fewer than 250 employees, the rate is $1.50 per month per employee.

For further details, contact Charles Schoenster, executive vp and regional director of James Benefits, at 201-467-1500.

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Additional coverage can be purchased for municipal utilities, housing authorities, school systems, amusement parks, arenas and stadiums, dams and reservoirs, golf courses, jails and zoos.

Municipalities can request specific limits for various coverage. Generally, there is a $1 million limit on the total program, with additional limits available through umbrella layers. The program is underwritten by Marinco on an occurrence basis.

For more information, contact Bill Morris, Marinco Inc., P.O. Box 17800, San Antonio, Texas 78217; 512-341-9117; in Texas, 1-800-292-5721. ■

California product liability awards rise

SAN FRANCISCO—Average awards in product liability cases by California Superior Court juries increased 51% in 1982 to $531,785 from $351,515 in 1981, according to an Insurance Information Institute study.

This increase is due in part to a number of multimillion-dollar verdicts, the III says. Twelve percent of the plaintiff verdicts were for more than $1 million and accounted for 61% of the $30.3 million total in awards.

In 1981 only 7% of awards were more than $1 million and accounted for only 42% of the some $20 million awarded. ■

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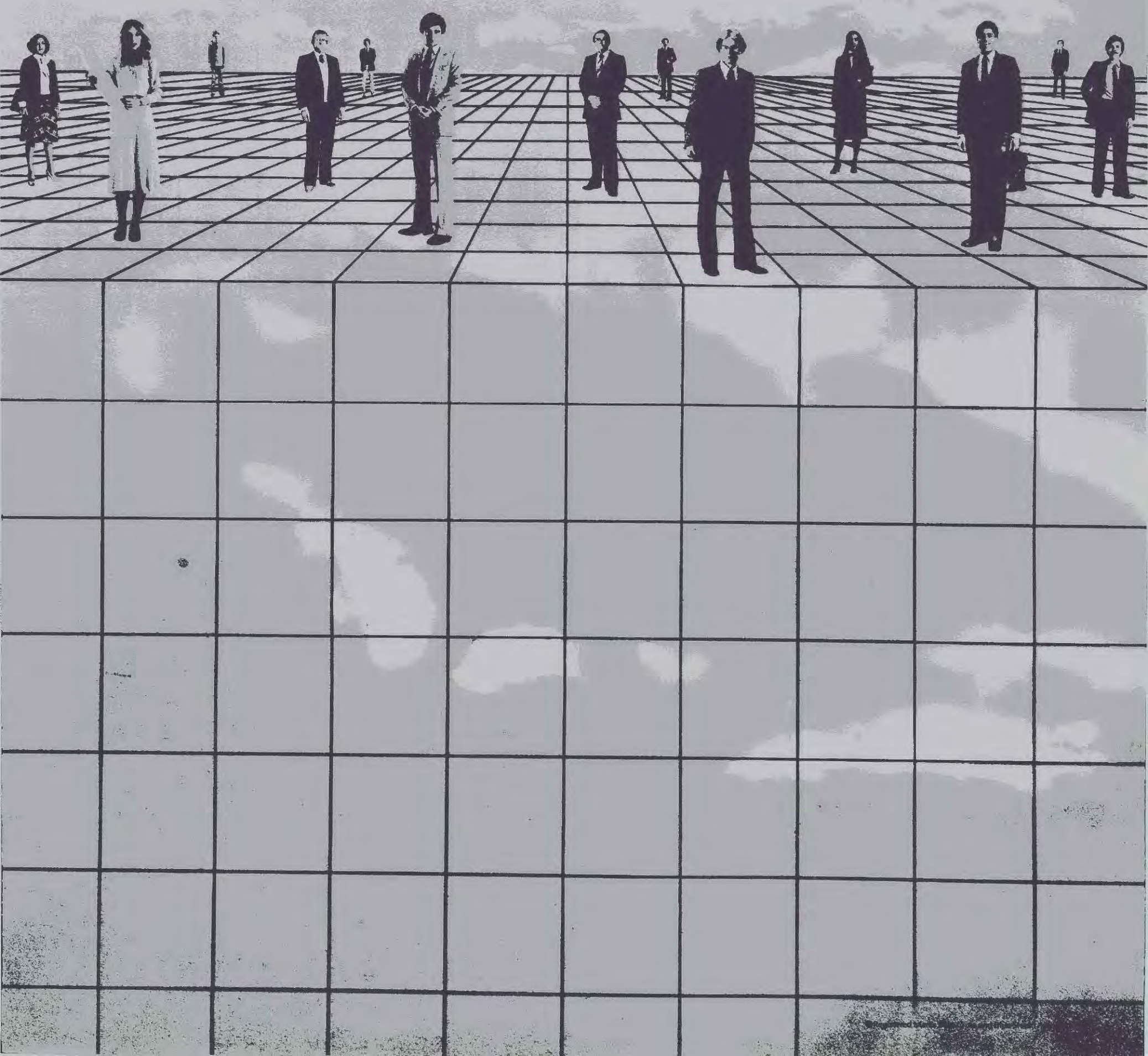
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Gene Marsh takes new post at CHA Insurance Services

comings and goings: buyers

Gene Marsh, 46, has been named president of the CHA Insurance Services Inc., a Sacramento, Calif.,-based provider of medical malpractice insurance to 350 California hospitals. In the newly created position, Mr. Marsh will be responsible for developing new lines of coverage offered by CHA Insurance Services, whose sole shareholder is the California Hospital Assn. Mr. Marsh also is involved in a wide range of loss-control activities for CHA Insurance Services, which has an annual premium flow of about $90 million. Mr. Marsh previously was executive vp at Gencon Risk Management Service and International Insurance Co. of Takoma Park, Md., a multiline insurer owned by the Seventh-day Adventist Church. Gencon provides risk management and insurance agency services for the Adventists. In 1982, Mr. Marsh won a spot on the *Business Insurance* Risk Management Honor Roll in the not-for-profit business category. His major achievement was expanding International Insurance Co. from a one-line property insurer to a multiline company that writes about 95% of the church's property/casualty coverages. Mr. Marsh reports to CHA Insurance Services's board of directors.

Robert J. Field, 37, is the new risk manager of UOP Inc., a subsidiary of Signal Cos. in Des Plaines, Ill., replacing Marc Bledsoe Mr. Field has responsibility for property/casualty insurance and bonding. He is the former manager of insurance and safety for Darin & Armstrong of Southfield, Mich. Prior to that he was manager of insurance for Rapistan Inc. in Grand Rapids Mich., and insurance administrator and property manager for Taubin Co. Inc. in Southfield, Mich. Mr. Field received a bachelor of science degree from Wayne State University in Detroit and the Associate of Risk Management designation. He reports to Carl Schumman, treasurer and chief financial officer.

* * *

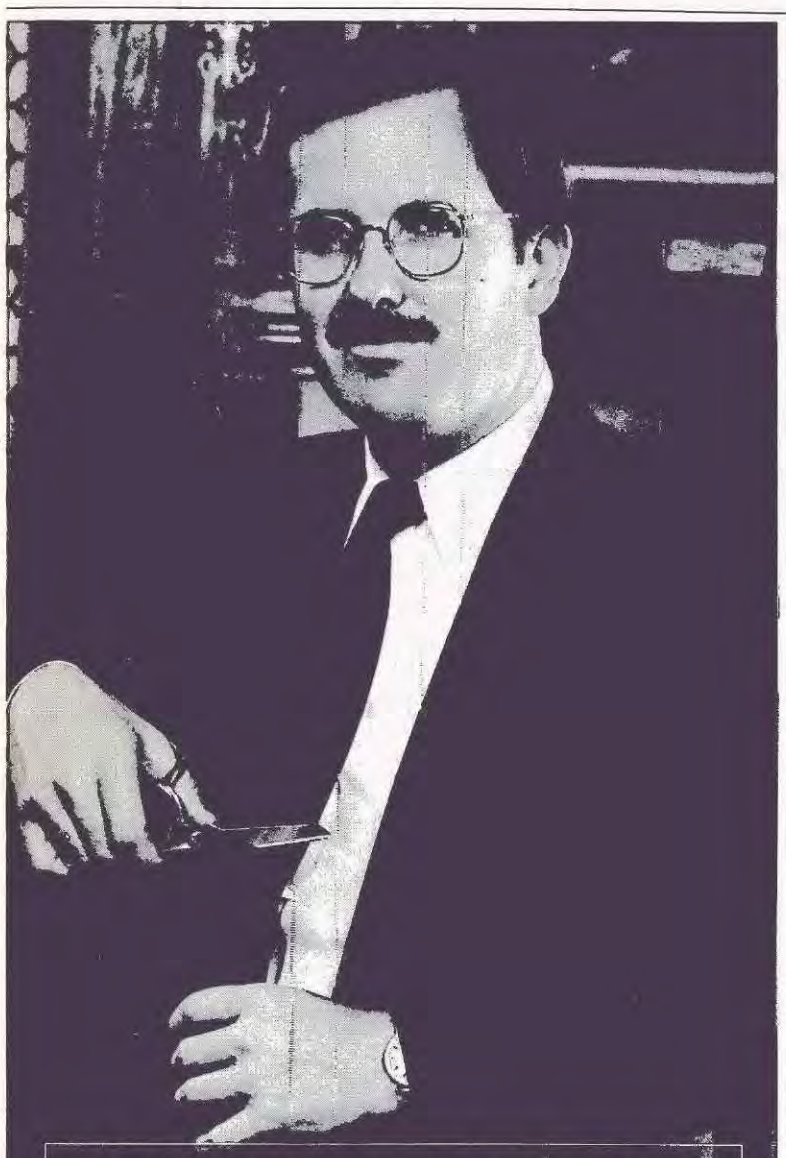
Sal M. Bianchi, 44, is the new risk manager for the city of Evanston, Ill., replacing **Allen Hyman**, now risk manager for the city of Corpus Christi, Texas. Mr. Bianchi will be responsible for safety, property/casualty insurance and risk management for the city. Mr. Bianchi was with the Chicago Transit Authority for 19 years, most recently as risk manager. He received a bachelor of science degree from Loyola University in Chicago and a law degree from De Paul University. Mr. Bianchi reports to City Manager Joel Asprooth.

* * *

George C. Souther, 39, has been named risk manager and safety officer at Youngstown State University in Youngstown, Ohio. In the new position, Mr. Souther will initiate a program to prevent and investigate accidents and administer workers compensation coverage. He is the former insurance manager of Sangamon State University in Springfield, Ill. He received a bachelor of business administration degree from Northern Illinois State University in DeKalb and the ARM designation. Mr. Souther reports to Dr. Taylor Alderman, vp of personnel services.

●

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APRIL 24-29. Risk & Insurance Management Society's 21st annual conference in Los Angeles; $520 for members; $620 for non-members. RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

APRIL 25-26. Principles of Petroleum Insurance workshop in San Francisco, sponsored by Professional Development Institute; $395. Also **April 28-29** in Los Angeles, **May 2-3** in San Antonio, **May 16-17** in New Orleans, **May 26-27** in Dallas, **June 2-3** in Denver and **June 9-10** in Oklahoma City. PDI Accounting & Insurance Center, Box 13288, NT Station, Denton, Texas 76203; 817-565-3383.

APRIL 25-29. Identification, Sampling and Evaluating Airborne Asbestos Dust in Los Angeles, sponsored by the University of Southern California; $500. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

MAY 2-4. Recognition of Accident Potential in the Workplace Due to Human Factors course in Los Angeles, sponsored by University of Southern California; $300. USC, Office of Extension & In-Service Programs, Institute of Safety & Systems Management, Los Angeles, Calif. 90089; 213-743-6523.

MAY 8-11. Washington Legislative Update seminar, sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

MAY 9. Confined Space Entry Safety workshop in Dallas, sponsored by Loss Prevention Associates; $185. Loss Prevention Associates, P.O. Box 59888, Dallas, Texas 75229; 214-241-0396.

MAY 9-10. Flexible Compensation, 1983 seminar in Washington, sponsored by Employers Council on Flexible Compensation; $300 for members, $425 for non-members. ECFC, 1700 Pennsylvania Ave. N.W., Washington, D.C. 20006; 202-393-1728.

MAY 9-11. 1983 Electrical Safety conference in Madison, Wis., sponsored by the University of Wisconsin; $395. Victor P. Janule, Department of Engineering and Applied Science, University of Wisconsin-Extension, 432 N. Lake St., Madison, Wis. 53706; 608-263-7429.

MAY 9-13. Property Conservation course for property owners in Long Grove, Ill., sponsored by the Kemper Group; $400. W.P. Thomas Jr., NID (HPR) A-1, Long Grove, Ill. 60049; 312-540-3380.

MAY 10-11. Managing Latent Occupational Disease Liability conference in Arlington, Va., sponsored by The Energy Bureau Inc.; $695. Linda Doren, The Energy Bureau, 41 E. 42nd St., New York, N.Y. 10017; 212-687-3178.

MAY 10-13. Hazardous Materials Safety seminar in Nashville, Tenn., sponsored by the Hazardous Risk Advisory Committee of Nashville; $135 before May 9; $150 thereafter. Hazardous Risk Advisory Committee, Seminar Registration Desk; Metro Civil Defense, 2060 15th Ave. S., Nashville, Tenn. 37212; 615-385-8575.

MAY 11-12. Health Care Cost Containment workshop in New York, sponsored by the Health Research Institute; $395. Also **June 22-23** in Boston. HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 11-13. Employee Stock Ownership Assn. sixth annual conference in New Orleans; $350 for members; $400 for associate members; $450 for non-members; discounts available for additional participants from the same company. ESOP Assn., 1725 DeSales St. N.W., Suite 400, Washington, D.C. 20036; 202-293-2971.

MAY 11-13. Property Conservation seminar in Wilmington, Del., sponsored by the International Safety Academy; $275. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 12-13. Evaluation of Structural Failures program in Madison, Wis., sponsored by the University of Wisconsin; $275. Rolf T. Killingstad, University of Wisconsin Extension, 432 N. Lake St., Madison, Wis. 53706; 608-272-3748.

MAY 16. An Analytical Approach to Risk Management seminar in New York, sponsored by *Business Insurance*; $535; 10% discount for additional registrants from the same company. Also **May 18** in Dallas, **May 23** in Los Angeles, **June 15** in Chicago and **June 20** in San Francisco. Ann Vazquez, *Business Insurance*, Communications Services Department, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

MAY 16-19. Inspector Training seminar in Houston, sponsored by the International Safety Academy; $490. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 16-20. Fundamentals of Industrial Hygiene Monitoring course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $425. Also **May 25-26** in Chicago. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

MAY 18-20. National Safety Management Society annual conference in Arlington, Texas; $230 for members; $275 for non-members; $20 additional for registration after April 1. David M. Wassum, NSMS, P.O. Box 170174, Arlington, Texas 76003; 214-631-6070.

MAY 22-27. American Industrial Hygiene conference in Philadelphia, sponsored by the American Industrial Hygiene Assn. and the American Conference of Governmental Hygienists; $65 for members; $90 for non-members; $15 additional for on-site registration. Stephanie Beidler, AIHA, 475 Wolf Ledges Parkway, Akron, Ohio 44311; 216-762-7294.

MAY 23-25. Employee Benefits symposium in San Francisco, sponsored by the International Society of Certified Employee Benefit Specialists; $420 for members; $495 for non-members. ISCEBS, Box 209, Brookfield, Wis. 53005; 414-786-6700.

MAY 23-25. Fundamentals of Industrial Exhaust Ventilation course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $350. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

MAY 23-25. Techniques of Loss Control course in New York City, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Education Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 23-27. Basic Safety Management seminar in Atlantic City, N.J., sponsored by the International Safety Academy; $570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 24-26. Benefits in Crisis conference in Washington, sponsored by the Assn. of Private Pension & Welfare Plans; $315 for members; $345 for non-members. APPWP, 1201 Pennsylvania Ave. N.W., Suite 340, Washington, D.C. 20004; 202-737-6666.

MAY 24-27. Ergonomics seminar in San Jose, Calif., sponsored by the International Safety Academy; $375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 25. Insurance Accounting & Statistical Assn. conference in Detroit; $135. International Office, IASA, Mutual Plaza, Durham, N.C. 27701; 919-683-2356.

MAY 26. Employee Health & Fitness: The Corporate View conference in Chicago, sponsored by Campbell Soup Co. and Universal Gym Equipment; $150. Employee Health & Fitness, Box 741, Cedar Rapids, Iowa 52406; 319-365-1663.

MAY 26-28. Litigation in Aviation and Space Law second national institute in Washington, sponsored by the American Bar Assn.; $393 for members; $418 for non-members; $368 for tort and insurance practice lawyers; $343 for young lawyers and government employees; $75 for law students. ABA, Division of Professional Education, 10 W. 35th St., Chicago, Ill. 60616; 312-567-4675.

JUNE 1-3. Fundamentals of Insurance conference in Chicago, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Editorial Department, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE. 1-4. Public Risk and Insurance Management Assn. annual conference in St. Paul, Minn.; $220 for members before April 25; $275 for members after April 25; $425 for non-members; $375 for additional non-member registrants from the same company. PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

JUNE 7. Health Care Cost Containment briefings in Kansas City, Mo., sponsored by the International Foundation of Employee Benefit Plans; $130 for members; $155 for non-members. Also **June 8** in Milwaukee, **June 28** in Pittsburgh and **June 29** in Tarrytown, N.Y. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 7-8. Legal Aspects of Occupational Safety & Health course in Los Angeles, sponsored by the University of Southern California; $250. USC, Institute of Safety & Systems Management; Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

JUNE 13-15. Techniques of Risk Management conference in New York City, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Also **Sept. 12-14** in Chicago. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 19-22. Collection of Employer Contributions institute in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 21-23. Labor-Management Trustees and Administrators institute in Toronto, sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 27-30. Corporate Benefits Management conference in Monterey, Calif., sponsored by the International Foundation of Employee Benefit Plans; $470 for members; $545 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 28-30. Florida Surplus Lines Assn. annual convention in Boca Raton, Fla.; $125 for members and associate members; $150 for non-members. Philip R. Cree, FSLA, Box 343800, Coral Gables, Fla. 33114; 305-448-2211.

AUG. 3-6. Public Employees conference in Seattle, sponsored by the International Foundation of Employee Benefit Plans; $390. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

SEPT. 21-23. Reinsurance Concepts conference in Chicago, sponsored by the Risk & Insurance Management Society; $445 for members; $545 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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Some older workers can now form IRAs

By JERRY GEISEL

washington

WASHINGTON—Many older workers now can form their own Individual Retirement Accounts, too.

The Technical Corrections Act of 1982, H.R. 6056, signed by President Reagan, makes it clear that workers over 70½ years can set up and contribute up to $2,000 a year to an IRA so long as his or her spouse is under 70½.

The legislation was needed because it wasn't clear if workers over 70½—the year in which IRA accruals normally are supposed to cease—could set up IRAs if they had younger spouses.

Meanwhile, a poll found a strong relationship between contributions to an IRA and family income.

An ABC-Washington Post poll of 1,504 people found that 60% of wage earners with an annual income of more than $50,000 have made contributions to an IRA.

By contrast, one in four wage earners with incomes between $30,000 and $40,000 contributed to an IRA, while just one out of every 25 persons with incomes less than $12,000 a year made IRA contributions last year.

Pension plan suits

Top officials of a North Carolina university didn't turn over employee contributions on time to the school's pension plan and used plan money to operate the university, the Labor Department says.

A suit filed by the department charges that Stanley Smith, president of Shaw University in Raleigh, N.C., and William Love, the school's business manager, violated the Employee Retirement Income Security Act by failing to act solely in the interests of the plan's participants

The department contends that Mr. Smith and Mr. Love deprived the plan of assets and investment income by failing to forward employee contributions to the plan and by not collecting additional pension contributions owed by the university

The two men also are charged with violating ERISA's prohibited-transaction provisions by allegedly diverting plan fund's to the university's general account.

ERISA bars a pension plan from lending money or transferring assets to the plan sponsor unless a special exemption has been granted by the Labor Department.

The Labor Department suit, which was filed in the U.S. District Court for the Eastern District of North Carolina in Raleigh, asks the court to remove Mr. Smith and Mr. Love from their positions as plan fiduciaries.

The suit also seeks repayment to the plan for any losses that occurred as a result of their actions.

The suit also asks Shaw University to repay immediately all funds that were allegedly diverted to it from the plan.

Multiemployer plans

Multiemployer pension plans that overcharge employers who withdraw from the plans must return the overpayments within six months of the time that the mistake was discovered, the Internal Revenue Service has proposed.

The plan, however, would not have to pay interest earned on the overcharge so long as the overpayment was refunded to the employer within six months.

Under the Multiemployer Pension Plan Amendments Act of 1980, employers withdrawing from multiemployer plans must pay a share of the plan's unfunded vested benefits. The IRS proposal on the return of withdrawal liability overcharges was published in the March 11 issue of the Federal Register.

Grain elevator deaths

Explosions and suffocations account for more than half of the work-related fatalities in the grain handling industry, the Occupational Safety and Health Administration says.

In a survey of 126 fatalities that occurred in grain storage facilities between 1977 and 1981, OSHA found that 37 deaths were explosion- or fire-related.

Another 33 deaths were caused by suffocation after the workers were buried in grain-filled bins or silos.

Other significant causes of fatalities included falls from elevators, contact with electric currents and workers being caught in conveyor belts, OSHA said.

PBGC loan

The Pension Benefit Guaranty Corp. has loaned $25,000 to the Local 60 Hotel & Restaurant Employees Pension Fund so the Naperville, Ill.,-based multiemployer pension plan can pay benefits to retirees.

According to the PBGC, the plan must begin to repay the loan when the plan's "liquid" assets exceed benefit payments and administrative costs.

The 38-year-old plan has 755 participants, including 360 retirees. The average monthly benefit paid to retirees is $70, the PBGC said.

Under the Multiemployer Pension Plan Amendments Act of 1980, the PBGC has authority to make loans so that financially hard-pressed multiemployer plans can pay guaranteed benefits.

Highway safety

An insurance industry trade group says current federal regulations requiring buses and vehicles transporting hazardous materials to stop at railroad/highway grade crossings should be retained.

"The potential for catastropic damage if the vehicle transporting passengers or hazardous materials is struck by a train is far greater than from a rear-end collision," the Alliance of American Insurers said.

In comments filed with the Bureau of Motor Carrier Safety, the Alliance noted that the failure of automatic crossing signals is not a rare event.

"We have witnessed too many spectacular environmental emergencies involving carriers of hazardous materials to regard these consequences with equanimity," said the Alliance, an association with 150-insurer members.

"We urge that the existing requirement be maintained," the Alliance told the Bureau of Motor Carrier Safety.

Pension integration

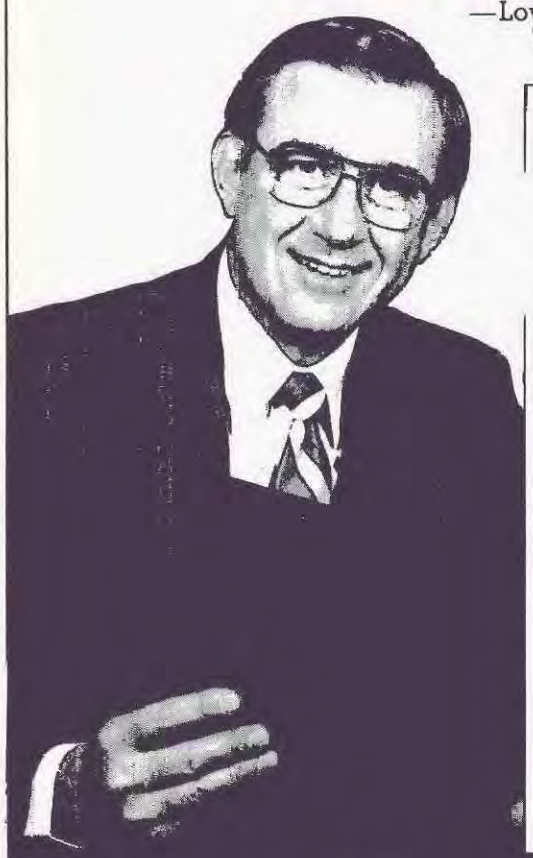
The Employee Benefit Research Institute next month will publish the first comprehensive analysis of the integration of private pension plans with Social Security.

"Pension Integration: Concepts, Issues and Proposals" will analyze a wide variety of pension integration issues. The 80-page book also includes a detailed bibilography.

Copies of the book are available at $10 each from EBRI, 1920 N St. N.W., Suite 520, Washington, D.C. 20036; 202-659-0670. ■

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Joint regulation called for on new bank law

By BILL DENSMORE

NEW YORK—South Dakota's new law allowing banks to indirectly sell insurance nationwide underscores the need for banking and insurance regulators to work together, a banking commissioner says.

"We ought to be talking to one another," William C. Harris, Illinois' commissioner of banking, told the Conference of Insurance Legislators' Task Force on Multi-Purpose Financial Products and Regulatory Initiative.

Mr. Harris was one of a dozen witnesses at a March 18 hearing called by task force Chairman John R. Dunne, a New York state senator.

Mr. Dunne called the hearing to gather comments on South Dakota's decision to allow out-of-state bank holding companies to acquire state-chartered banks and to then acquire insurance operations through those state banks (*BI*, Feb. 28, March 7).

Supporters of the law call it a "jobs bill" since some of the nation's largest bank holding companies have said they'll consider purchasing South Dakota banks that could then act as nationwide insurers. That would presumably bring hundreds of jobs to the state.

But opponents call it a thinly disguised attempt by the nation's big banks to circumvent the federal regulation that has kept them out of the insurance business since 1933.

At the hearing, insurers, stockbrokers and regulators vented their litany of arguments against the threat of insurance competition from banks and against the perils of a helter-skelter merger of bank and insurance regulation.

The complaints went unanswered, as representatives of the banking industry were conspicuously absent from the hearing's witness list.

Aides to Sen. Dunne said many banks were invited to send representatives, but none did, citing scheduling conflicts. A representative of one bank holding company, Chase Manhattan Corp., was in the audience but did not testify.

"I'm not aware that we were invited to testify," said Eugene F. Swanzey, Chase's vp of corporate communications and government affairs.

Mr. Harris' opening comments were echoed by H. James Douds, a senior vp and general counsel of the National Assn. of Life Underwriters, a federation of state and local associations representing more than 135,000 life and health insurance agents.

"Little, if any, specific guidance is given in the legislation as to how a South Dakota state bank/insurance company combined entity will be regulated under state banking and insurance laws," Mr. Douds explained.

He called the South Dakota law a "deplorable step toward competition in regulatory laxity."

In his testimony, Mr. Harris, the Illinois banking regulator, described key provisions of the South Dakota law as "deceitful" because they were designed to defuse opposition from insurance brokers and agents to an earlier version of the measure.

"A bank is expressly empowered, directly or through subsidiaries, to engage in all facets of the insurance business," says one section of the law.

But another section of the law, cited by Mr. Harris, says a state bank acquired by an out-of-state holding company "shall conduct its insurance business in this state in a manner likely to not attract business from the general public to the substantial detriment of insurance companies, insurance brokers or insurance agents to the extent of their business in the state."

This section, Mr. Harris says, means out-of-state bank holding companies would only use South Dakota as a headquarters for insurance sales in other states.

"It seems to me it's a siting bill—it's a location- or haven-attracting endeavor of a particular state," said Mr. Harris, adding, " I would presume that Citibank had a hand in drafting that legislation."

Aides to South Dakota Gov. William Janklow, who signed the law earlier this month, acknowledge that legislation was suggested to the governor at a meeting he attended with the directors of Citicorp, Citibank's New York parent.

Citibank has courted the governor since the state's decision two years ago to remove limits on usury rates, or the interest a credit-card issuer can charge its customers.

After that law was passed, Citibank established a South Dakota subsidiary that employs hundreds of people and moved its credit-card operations to the state from New York.

The state role in passing the bill was harshly criticized by several of those who testified at the hearing.

For example, Daniel Murphy, an executive vp at securities broker E.F. Hutton & Co., termed the new South Dakota law an "unfortunate pre-emption of Congress.

"All of a sudden (similar bills) are popping up in five states, and I wouldn't be surprised if they don't pop up in 10 or 15 more states," he said.

The South Dakota law and initiatives like it were denounced as "wrong laws at the wrong time for the wrong purposes," by Thomas M. Sullivan, general counsel at Aetna Life & Casualty Co. and chairman of the American Insurance Assn.'s committee on financial services.

"Such legislation is inherently deceptive," he testified. "It purports only to grant state-chartered banks insurance powers, while actually providing a vehicle for circumventing the (federal) Bank Holding Company Act."

The federal act, as amended in October by Congress, forbids bank holding companies from owning non-bank subsidiaries that engage in insurance. But the federal law, according to Mr. Sullivan, does not forbid insurance operations by departments of banks. Thus, a bank in a state that allows state-chartered banks to conduct insurance operations can be acquired by an out-of-state holding company without violating the federal act.

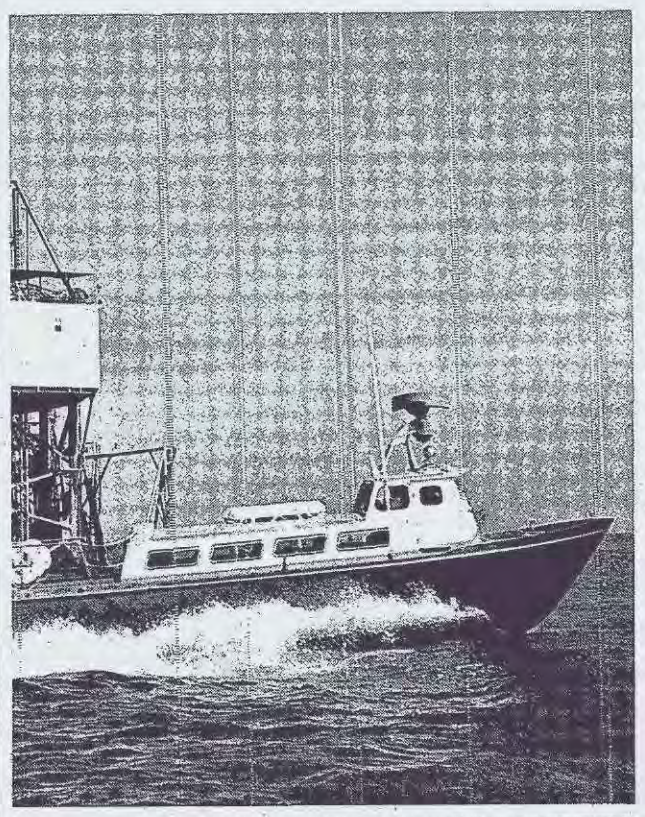
Mr. Sullivan recommends that if banks are to be allowed to act as insurers, they should be controlled by insurance laws and should be forbidden to require a loan customer to purchase the bank's insurance as a pre-condition of creditworthiness.

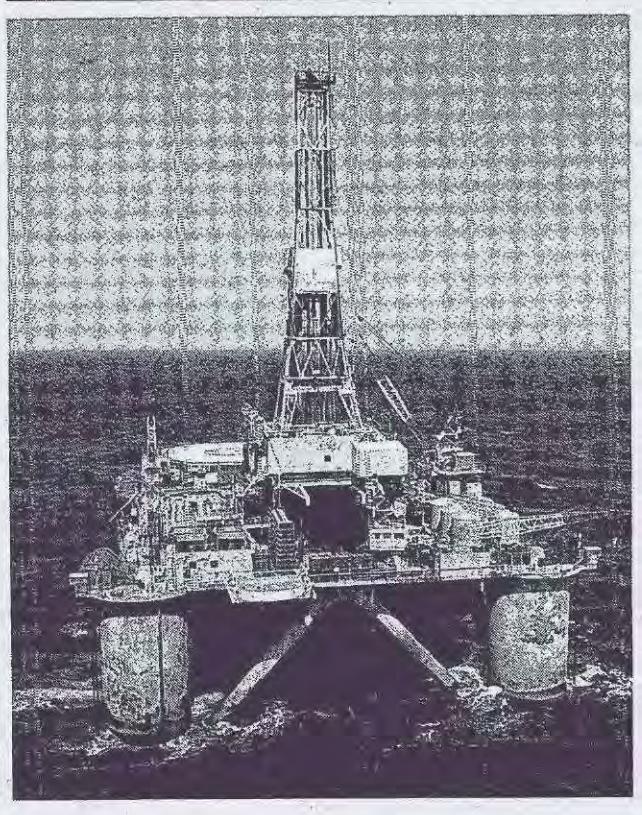
The suggestion that banks could coerce customers to purchase insurance was cited by most of the insurance industry representatives at the hearing.

Because banks control most of the nation's lending, they have unique opportunities to use their credit power improperly, argued Reginald E. Beane, vp-federal affairs of the Independent Insurance Agents of America.

In written testimony, Mr. Beane warned that banks should be prohibited from linking insurance purchases and loans. "Otherwise, the consumer is put in the position of purchasing insurance or other services in order to protect his loan relationship, not because he is getting the best deal on his insurance."

But Chase Manhattan's Mr. Swanzey said after the hearing, "This is the first I've heard of that. I don't follow the coercion logic." ■





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Lloyd's new chief has flair for American straight talk

someone you should know

By STACY SHAPIRO

LONDON—Ian Hay Davison, Lloyd's of London's new chief executive, has a down-home American style of shooting straight from the hip, something U.S. insurance buyers have not often found in the London market.

For example, Mr. Davison readily answers questions about Lloyd's. He welcomes public response to events in the market.

Perhaps Mr. Davison acquired some of his style from his years in the United States.

During World War II, when he was only 8 years old, Mr. Davison journeyed to Darien, Conn., as one of the many English children educated overseas briefly during the war. He returned to Britain three years later in 1943.

Then, after receiving a degree at the London School of Economics and becoming a chartered accountant, Mr. Davison returned to the United States as a Harkness fellow at the University of Michigan.

After 15 months of studies, he spent three months working for Price Waterhouse on Wall Street and then trekked across the nation with his wife for another three months.

"We covered 39 states in three months," said Mr. Davison. "There isn't much of the States I do not know."

After returning to Great Britain in 1958, Mr. Davison joined the London office of Arthur Andersen & Co. For eight years, he acted as the firm's No. 1 computer consultant, working on projects at major corporations like Ford Motor Co. Ltd. and Unilever.

In 1966, he became managing partner at Andersen. Today, the firm that once was an 11-member office in London employs more than 2,000 people in Britain.

"It increased tenfold while I was a managing partner, so that must say something," said Mr. Davison. "Or, let's put it this way, I did not succeed in stopping the growth."

But in January of this year, Mr. Davison was asked by the governor the Bank of England to take on a much bigger job—to serve as Lloyd's chief executive, a newly formed position.

His accounting background, particularly his position as chairman of the Accounting Standards Committee, which sets accounting rules in Britain, was exactly what Lloyd's was looking for in a chief executive. The market must implement the Lloyd's self-regulation act passed by Parliament last year, as well as pass new rules to offset the taint of scandal that surfaced during 1982.

"I would not have been sitting here if I had not been chairman of the Accounting Standards Committee," says Mr. Davison. "I think that is why they hired me.

"I took the job because the governor of the Bank of England asked me, and when the governor asks you, you cannot say no—at least in this country—nor should you."

Mr. Davison's role at Lloyd's is much more than that of a chief accountant's, though. During his five-year term, he will help Lloyd's establish new regulation in many areas besides accounting, including disciplinary arrangements, admission of members, financial means tests, underwriting standards and reinsurance arrangements.

Also, Mr. Davison is leading Lloyd's into a new era of communications—something, he says, that the market badly needs.

Lloyd's, he says, should no longer be covered with a veil of secrecy, adding that information should be disseminated publicly, not through market gossip.

The Lloyd's Act of 1982 will help the market to open channels of communication wider, says Mr. Davison. Through powers given it by the act, the Lloyd's Council will establish bylaws on disclosure of underwriters' personal insurance interests, make more rules pertaining to how a Lloyd's broker should conduct business and discuss uniform methods of evaluating Lloyd's

Continued on facing page

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Continued from facing page
accounts.

By adopting a uniform accounting method, the financial results of Lloyd's syndicates will be better understood by members and outsiders alike, Mr. Davison says.

As Lloyd's chief executive and as the chairman of the Accounting Standards Committee, Mr. Davison feels he'll be able to influence how Lloyd's states its results—another form of communication.

"Accounting is a language for communicating in the world of business and Lloyd's problems all turn around communications problems," he said. "It is all to do with communicating, and the accounts are the No. 1 method. They tell how you are getting on."

Accountants that audit the Lloyd's syndicates' accounts may be required to adopt a uniform accounting system by the end of this year, he says.

"All accountants of Britain's 770,000 companies must be approved by the (Accounting Standards Committee), but so far the committee's standards have been used for universal application," says Mr. Davison.

"We have been criticized for this because people have said, well, that is all very well, but we have our own peculiar problems. Who will deal with these?

"We are looking at the possibility of introducing arrangements by which we would put a Good Housekeeping Seal of Approval, if you like, on standards drafted by specialist bodies. We call it franking. We would put our franking stamp, for example, on standards set up by accountants at Lloyds'," he says.



'I took the job because the governor of the Bank of England asked me and when he asks you, you cannot say no,' Lloyd's Chief Executive Ian Hay Davison explains.

Mr. Davison also says he favors disclosures by underwriters and other working members of any interests in reinsurance related to their syndicates. But, he adds, that such disclosure won't eliminate all the recent problems that surfaced at Lloyd's.

"Apart from basic disclosure to names, like proportion of their income reinsured, I am not at all sure that disclosing the reinsurance arrangements in detail is going to achieve anything at all," he says.

"Lloyd's should see what syndicates have adequate procedures for forming a view about their reinsurance and, secondly, that Lloyd's can assist by providing advisory information about reinsurance channels."

However, Lloyd's will not restrict syndicates by establishing a list of approved reinsurers, he says.

Mr. Davison also says he wants to make sure that companies, like brokers, that operate using the Lloyd's name stick to Lloyd's impeccable rules.

"How does Lloyd's regulate the Lloyd's brokers when they conduct non-Lloyd's business? The answer is, rigorously. If they carry Lloyd's name, they have to comply with Lloyd's standards."

Some rules are already set down, but Mr. Davison hopes there will be more. "I am certainly prepared to hear arguments that there are not enough of them and the rules are not yet clear enough.

"Lloyd's itself is impeccable and if the companies put Lloyd's on the letterhead, they are using our name to support their practices and they cannot do that unless their practices conform with our requirements."

Most American insurance buyers dealing with the London market will welcome these reforms when they are finally implemented.

Mr. Davison, for his part, is also not letting his new job at Lloyd's break his bonds with America. Next month, for example, he will fly to the United States as a member of the committee recognizing the 200th anniversary of the British withdrawal from the United States following the defeat at Yorktown. ■

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Peru cracks down on delays in paying insurance premiums

By CAITLIN RANDALL

LIMA, Peru—Peruvian insurers are hoping that new government rules that force buyers to pay premiums promptly will relieve a cash crunch.

By the end of last year, Peru's 20 insurance companies were owed more than $70 million in unpaid premiums, an amount equal to 74% of the total value of policies issued, according to the nation's Superintendency of Banks & Insurance, which oversees the Peruvian insurance industry.

Insurers in Peru say that the delayed payments have led to a critical capital shortage.

According to one leading Lima broker, several companies are taking steps to sell some of their assets to raise badly needed cash.

"There has been very little growth in the insurance market over the past few years," says Bruce Maynes of Johnson & Higgins' Lima office.

"Insurance companies in a financial bind tried to lure clients by offering liberal payment schedules, and, because of the highly competitive market, other companies were forced to do the same."

Mr. Maynes explains that the underwriters pressed the government to change the premium payment rules, which were originally drafted in 1965, because "delays were becoming ludicrous and detrimental to the industry as a whole."

The insurers themselves originally started the practice of accepting late premium payments as a means to compete for customers since rates are fixed by APESEG, an association of Peruvian underwriters, subject to aproval by the Superintendency of Banks & Insurance (*BI*, Nov. 22, 1982).

Brokers say that delays in payment of up to 11 months were commonplace. During this period, however the real value of the premium would drop by almost a third because of Peru's staggering annual inflation rate of nearly 70%.

The new rules mandate that clients must pay cash for at least 30% of the premium for most coverages within 90 days after the policy is negotiated. The rest of the premium must be paid off within 270 days with interest.

If the initial down payment isn't made within the first 90 days or if any installment is more than eight days late, the policy is immediately canceled.

In addition, travel and life insurance policies purchased by employers for their workers must be paid —in cash—when the policy is signed. Medical insurance policies and cargo policies must be fully paid within 30 days of the signing.

While Peruvian insurance companies have tightened the rules on premium payments, Reaseguradora Peruana, the state-controlled company that handles both domestic and foreign reinsurance, is trying to force the underwriters to pay reinsurance premiums on time.

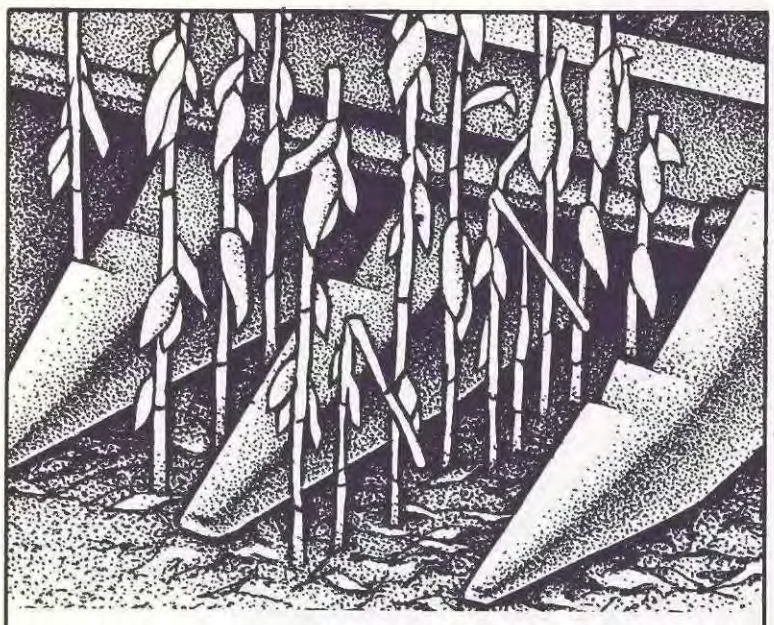
Reaseguradora Peruana currently gives companies up to a maximum of six months to pay for reinsurance from the moment a primary insurance policy is signed.

"It was becoming a vicious cycle," says Peter Venard of Fenix Peruana Insurance Co. "Companies facing a cash-flow problem weren't paying their reinsurance premiums or their claims payments."

Unpaid claims have risen by one-third in real terms since the first half of 1981, he adds.

Although there have been grumblings by some insurance buyers about the new premium payment laws, brokers say most of their clients are "dealing with the rules.'

"Many of our clients realize they've been getting away with murder," says Mr. Maynes at Johnson & Higgins. "They're accepting the rules as a fact of business." ■



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Continental, Jardine to pursue Far Eastern underwriting jointly

Continental Corp. and Jardine, Matheson & Co. Ltd. (Hong Kong) have reached an agreement to jointly develop their Far Eastern underwriting interests.

Under the agreement, Continental will acquire 30% of Jardine's wholly owned subsidiary, The Lombard Insurance Group, for $20 million in cash. An additional 30% interest in Lombard will be offered Continental in exchange for Continental's interest in five other underwriters in Malaysia, Taiwan, the Philippines, Hong Kong and South Korea.

Jardine will retain at least a 40% interest in Lombard and will continue as its general manager.

Lombard, principally a property/casualty insurer, has operations in several Far Eastern countries, Australia and Great Britain.

The reinsurance operations of the two companies—Continental Reinsurance Corp. and East Point Reinsurance Cos.—will not be affected by the agreement, which is subject to regulatory approval.

markets

Coverage pool

New York-based Midland Insurance Co. has joined Associated Commercial Property Insurers, an eight-member commercial property insurance pool.

ACPI changed its name from General Cover Underwriters Assn.

ACPI's other members are Bituminous Insurance Cos., General Accident Insurance, Hanover Insurance Cos., Maryland Casualty Cos., Millers National-Illinois Group, Providence Washington Insurance Group and Security Insurance Group.

Reorganization

Prudential Reinsurance Co. has reorganized facultative property/casualty marketing operations within the international department's home-foreign division. The home-foreign division handles foreign risks of U.S.-based companies.

Marketing functions will now be divided between the newly formed New York metropolitan marketing unit and the greater U.S. marketing unit.

Kevin McDermott will serve as manager of the New York unit, and John Malinski will be manager of the greater U.S. unit.

The reorganization applies only to facultative and not to treaty reinsurance operations.

Acquisitions

The Home Insurance Co. has agreed to acquire **Rolfe Group Ltd.**, a Canadian insurance holding company, and two of its subsidiaries, **Commonwealth Insurance Co.** and **Reandex Managers Ltd.** The Home, a subsidiary of City Investing Co., will invest $15 million in Rolfe and plans to expanding Rolfe's operations into the United States. Commonwealth specializes in oil, gas and mining industry risks, while Reandex is Commonwealth's underwriting manager.

Republic Hogg Robinson Inc. has acquired a New York-based actuarial consulting firm, **Pension Planning Co. Inc.**, and its affiliate, **Group Plan Consultants Inc.**, an employee benefits consultant.

Poe & Associates Inc. has acquired **W.F. Morneau and Associates Inc.**, an agency based in Orlando, Fla. Morneau's new address is P.O. Box 20195, Orlando, Fla. 32814; 305-671-8600.

Torchmark Corp., an insurance and financial services holding company based in Birmingham, Ala., has announced it will acquire **Evaluation Associates Inc.**, a pension investment consultant based in Westport, Conn.

New offices

Jensvold & LeFevre Inc., a Houston-based excess/surplus lines broker, has opened a new branch, **Jensvold & LeFevre of Illinois Inc.**, at 600 W. Jackson Blvd., Chicago, Ill. 60606; 312-559-1260.

The Honolulu branch of **Fireman's Fund Insurance Cos.** has moved to new offices at Grosvenor Center, 737 Bishop St., Honolulu, Hawaii 96805; 808-523-6500. The office's mailing address remains the same at P.O. Box 2079, Honolulu, Hawaii 96805.

Evans, Conger & Brown Inc., a Delaware Valley insurance agency, has moved to new offices at Four Sentry Parkway, Blue Bell, Pa. 19422; 215-834-1410. ■

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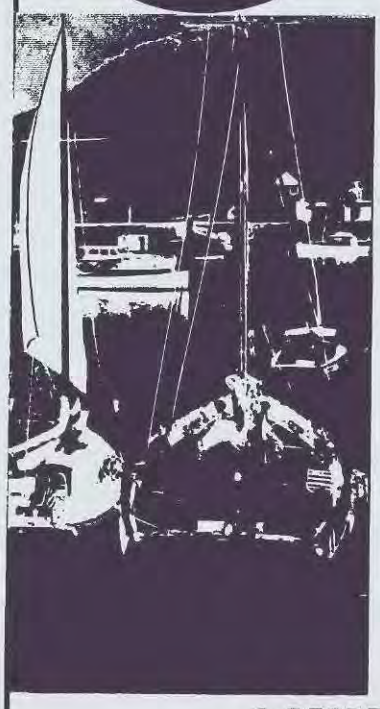
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International airline liability clouded

By BILL DENSMORE

NEW YORK—Insurance managers for companies that ship costly goods overseas by air should routinely declare the items' value to the shipper, two groups advise.

The suggestion by the Air Transport Assn. of America, an airline trade group, and the Shippers National Freight Claim Council follows two events that jeopardize the airlines' current liability limits for passenger and cargo losses on international flights.

The two events—the failure of the Senate to ratify an international pact that would have replaced gold as the measure of liability and a California court ruling—make it more likely that international airlines can be successfully sued for the full value of passenger or cargo claims.

"If I were a shipper, I would always ship under a declared value, even if it costs a little more up front," says William J. Augello, executive director of the Huntington, N.Y.,-based freight claim council.

"To hedge one's bets, I suppose you might declare value," says James E. Landry, senior vp and general counsel of the Air Transport Assn. in Washington.

In the first of the two setbacks to the airlines, the Senate failed to ratify the proposed Montreal Protocols 3 and 4, which would have replaced gold as the standard for measuring cargo and passenger liability limits with a new monetary equivalent called a Special Drawing Right (*BI*, March 7).

The change would have raised to $117,000 from $75,000 the maximum amount a U.S. passenger on an overseas flight could recover if injured or killed. A passenger could receive another $200,000 under a supplemental insurance program.

The new treaty, which would have replaced the current Warsaw Convention on international airline liability, would have also increased cargo loss limits.

However, opponents in the Senate argued that U.S. citizens should not be subject to any limit on what they can recover from airlines in crashes and the Montreal Protocols failed to gain the necessary two-thirds majority (*BI*, March 14).

In the court case, a federal judge in Los Angeles ruled Feb. 15 that the current limitiation of $75,000 per passenger under the Warsaw Convention, calculated with reference to gold, is unenforceable since the United States no longer maintains an official gold price.

U.S. District Court Judge Terry J. Hatter Jr., in a case involving the 1980 crash of a Korean Air Lines jet, adopted the same reasoning as a U.S Circuit Court of Appeals in New York in a case involving coins shipped by the Franklin Mint that vanished while being handled by Trans World Airlines.

Both sides have asked the U.S. Supreme Court to hear the Franklin Mint case.

"You've got, because of the Senate's failure to act and the circuit courts going every which way, a situation where passengers, shippers and airlines alike haven't the slightest idea what their rights are," argues the ATA's Mr. Landry.

In the Korean Air Lines case, Judge Hatter took the reasoning by the 2nd Circuit Court of Appeals two steps further.

While in the New York case, the appeals court held that the Warsaw Convention was unenforceable prospectively, or 60 days after the ruling took effect, Judge Hatter declared the limit was immediately unenforceable. And, he also invalidated the limit applying to passenger as well as cargo claims.

His decision, however, is legally binding only in the Central District of California, which includes Southern California, while the 2nd Circuit ruling is binding in New York, Vermont and Connecticut. That includes suits involving air cargo shipped from New York's Kennedy International Airport.

An indication of the confusion over the issue can be found in the Dec. 30 decision of another federal judge—this one in Chicago—involving computer parts owned by Deere & Co. that were damaged while being shipped by Lufthansa between Chicago and Frankfurt, West Germany.

In a pre-trial ruling, Judge James F. Grady concluded that, despite the Franklin Mint case in New York, the last official U.S. price of gold should be used in determining the cap on Lufthansa's liability for the computer damage. That benchmark would yield a limit of $9.07 per pound on international shipments for which the shipper has not declared any excess value. ■

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Judge rules excess insurers must share defense costs

By STEPHEN TARNOFF

OAKLAND, Calif.—Kaiser Cement Corp.'s primary liability insurer and five of its excess insurers will have to share an estimated $3 million in legal costs stemming from a $65 million loss, a California judge has ruled.

But another excess insurer, which specifically excluded defense costs from its policy, won't have to pay any of the legal bills.

Alameda County Superior Court Judge Robert H. Kroninger ruled March 9 that the excess insurers that did not specifically exclude defense costs from their coverage will have to contribute proportionally to the amount each insurer paid under the loss.

All the insurers had given various reasons why they did not have to contribute defense costs and why Kaiser's primary insurer, Truck Insurance Exchange of Los Angeles, should be responsible for all of Kaiser's legal bills (*BI*, Dec 13, 1982).

Truck, which had written a comprehensive general liability policy with $500,000 per-occurrence and $1.5 million aggregate limits, had been paying all defense costs and had sued the excess insurers to try to shift some of the burden.

The whole dispute resulted from an incident in 1980 in which Kaiser sold crushed limestone rock that had been inadvertently mixed with kiln brick. The mixture caused flaws in construction projects.

Last December, Judge Kroninger had ruled that the incident entailed only one occurrence under the coverage, that Kaiser would have to pay one deductible and that Truck would only have to pay $500,000 toward claims.

Kaiser had at least $100 million in excess insurance at the time of the mishap and reportedly purchased an additional $50 million in retroactive coverage through Lloyd's of London broker C.T. Bowring & Co. because it feared claims could exceed $100 million.

Kaiser's excess insurers under its original $100 million line of coverage included:

- Transcontinental Insurance Co., a unit of CNA Financial Corp., which wrote a $10 million per-occurrence and aggregate layer excess of the $500,000 per-occurrence primary policy.
- Northbrook Excess & Surplus Insurance Co., which wrote a $15 million layer excess of $10.5 million.
- Lexington Insurance Co., part of American International Group Inc., which wrote $20 million of a $25 million layer excess of $25.5 million.
- American Excess Insurance Co., a unit of American Re-Insurance Co., which wrote the remaining $5 million of that layer.
- Allianz Underwriters Inc., which provided with a $15 million quota-share policy, part of a $25 million excess of $50.5 million layer.
- Pine Top Insurance Co., which wrote the remaining $10 million of that layer on a quota-share basis.
- Fireman's Fund Insurance Cos., which wrote the final $25 million layer excess of $75.5 million. Fireman's Fund does not have to contribute to defense costs since claims have not yet pierced its layer.

Most of the coverage was ceded to reinsurers, a source in the industry said.

In its decision, the court said that Truck's insurance contract with Kaiser did not limit its obligation to defend, but also did not obligate it to defend after policy limits are exhausted under California law.

"It is, therefore, impossible to say that the defendant excess carriers in our case were entitled to rely on any assumption that Truck would bear all defense expenses in the event of loss and that defendants' liability would be limited to payment of claims," the court said.

"For the same reason, it can't be said that Truck will be allowed a windfall if cost of defense is distributed among all insurers, as Truck had no reason to expect that its policy required it to assume unlimited defense costs.

"All of the carriers should be required to contribute to the defense costs heretofore borne by Truck, in proportion to the amount of claims paid, Truck bearing the expense of Kaiser's self-insured portion, if any," Judge Kroninger said.

In determining the formula on how defense costs would be allocated, the court said that Transcontinental, the first-layer excess insurer, would not have to contribute because defense costs were excluded under the contract.

Transcontinental has expended its $10 million of coverage.

Judge Kroninger ruled that the estimated $500,000 in defense costs Transcontinental would have paid, should be borne by Allianz and Pine Top—the insurers who are currently paying claims.

"The reason for this is obvious," the judge said. "If Transcontinental had diverted its proportionate share of defense costs (approximately $500,000) to that purpose, there would have remained that much less to satisfy claims. Pine Top and Allianz would now be faced with the obligation of making up that $500,000.

"It therefore appears that the only fair result can be achieved by holding that Transcontinental should be deemed to have devoted its proportionate share to defense costs and, to avoid circuity, requiring that Pine Top and Allianz reimburse Truck in such amount, in addition to Pine Top's and Allianz's proportionate shares of defense costs."

Attorneys for Truck, Kaiser and Transcontinental were, in general, pleased with the decision while other excess insurers expressed disappointment.

"We're very pleased with it," said Stephen A. McFeely, an attorney for Truck. "The judge gave us what we wanted."

Mr. McFeely, with the Oakland firm of Crosby, Heafey, Roch & May, said the judge basically followed an earlier California case, Aetna vs. Certain Underwriters, and used the same method of apportioning costs.

Kaiser attorney James Hendrick characterized the decision as "very favorable" for Kaiser and Truck, both of which had argued for the pro rata sharing of defense costs.

"I truly think it is a right decision under the circumstances of this loss," said Mr. Hendrick of the San Francisco firm of Thelen, Marrin, Johnson & Bridges.

An attorney for Transcontinental said that it was "very happy" with the decision.

J. Jay Schnack, an attorney with the Oakland firm of Moore, Clifford, Wolfe, Larson & Truttner, said that Transcontinental contended it shouldn't have to pay defense costs in addition to the $10 million limits of its policy.

But Mr. Schnack said that he disagreed with the court's holding that Truck was not obligated to bear all of the defense costs. "We felt Truck negotiated to bear the full costs of defense."

"We're very disappointed," said Robert Schiff, an attorney for Northbrook Excess & Surplus with the San Francisco firm of Maloney, Chase, Fisher & Hurst. "It's a very troublesome thing for the industry."

Northbrook, which provided the layer following Transcontinental, argued that its policy "followed form" and that if Transcontinental did not have to pay defense costs, neither did Northbrook.

Northbrook, which has not yet decided if it will appeal, was not shocked by the decision but was surprised that the court ignored the issues it raised, Mr. Schiff said.

Speaking individually and not as Northbrook's attorney, however, Mr. Schiff questioned "whether following form has any vitality," and whether an attorney can ever tell a client if an insurer can use the following form provision with respect to coverage restrictions.

"After this experience, it would be unwise to counsel a client that they can rely on underlying exclusions unless they are specifically laid out in the policy," Mr. Schiff added.

Also expressing disappointment was an attorney for Pine Top, which with Allianz will have to bear Transcontinental's share of defense costs.

"Why should it be moved up to our layer?" asked Don Rees, an attorney with the San Francisco firm of Gordon & Rees. "It would be logical to prorate the money to all carriers. Why just put it up at the top?"

Attorneys for Allianz could not be reached for comment. ■

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Du Pont stresses safety to customers

By CAROL CAIN

WILMINGTON, Del.—Du Pont Co. is offering a freebie that it predicts can put a dent in the estimated $256 million spent each year on injuries in the automotive repair industry.

The automotive refinish products division of the 181-year-old company normally sells items like paint respirators, dust masks and ear plugs. But, beginning this month, it will give away a "managing safety" poster to shop owners and managers (see photo).

This isn't any ordinary poster, but then neither is Du Pont's safety record.

Cited by the National Safety Council as the safest large industrial company in America—the company reported only 26 disabling injury cases out of its 137,000-employee workforce last year—Du Pont wants to share some of its safety expertise with its customers.

Du Pont's safety practices have a history about as old as the company itself.

When the company was established as a gun-powder producer in 1802, the founder, E. I. du Pont, brought with him from France a tradition that dictated that management shared in all the perils associated with the manufacturing process.

For example, he built a house for his family on the mill grounds, and no employee was allowed to enter a new powder mill until a member of top management had operated it.

In 1811, the company issued its first formal written list of safety regulations.

To this day, all new employees are told that safety is a condition of employment: Either perform the job in a safe manner or look elsewhere for work.

"You're probably asking yourselves: Who appointed the Du Pont Co. to be the guardian angel of the automotive repair business? The answer is nobody," said Gene Gardner, director of the automotive refinish products division, who announced the new safety program at a Chicago press conference earlier this month.

"But we feel that if we can help our customers with any business problem, we have a responsibility to do so," he added.

"If our customers have problems with the application of primer, for example, our technical people are available to offer their expertise and solve the problem. When problems arise with tinting or matching, our color experts are ready to help. Safety is no different."

The 22-by-17½-inch poster lists eight safety points, but it's the second one that Mr. Gardner stressed as key to any safety program: Management is dedicated to preventing injuries and illnesses.

"Management must demonstrate that it is dedicated to preventing injuries. Lip service won't do this job," Mr. Gardner said.

In fact, management's commitment is what makes this safety poster difference from the rest.

"Look at the lower left. There's a line that calls for a management signature.

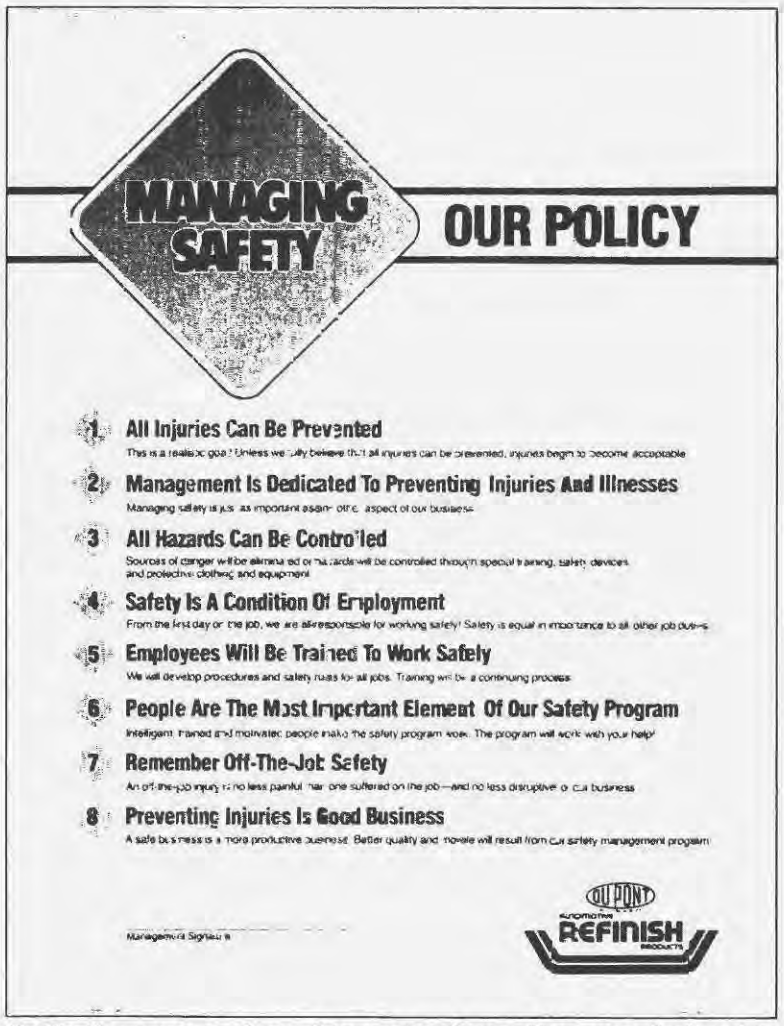
"Before the owner or manager of a shop puts up this poster, he or she has to decide that this will be the policy of that shop," Mr. Gardner said.

"If they are not willing to commit to this policy, then don't bother. It won't work."

The other seven points on the poster are:

- All injuries can be prevented.
- All hazards can be controlled.
- Safety is a condition of employment.
- Employees will be trained to work safely.
- People are the most important element of the safety program.
- Remember off-the-job safety.
- Preventing injuries is good business.

"The present safety performance of the automotive repair industry is a senseless, needless drain on the vitality of the business," Mr. Gardner said. This "modest" inroad is an opportunity to help the industry, he added.



Du Pont's new managing safety poster shown above was designed to reduce injuries.

About 60,000 of the free posters will be distributed by mail and by Du Pont's sales network.

It was the company's sales staff who noticed the repair industry's need for safety programs while visiting repair facilities at new car dealers and independent body shops.

"They see shop workers light cigarettes and cigars while standing next to open drums of solvent.

"They see people using cutting torches to cut the tops off of solvent drums—without first rinsing the drums to remove fumes.

"They see people spraying primer and paint without wearing respirators.

"And they see people doing grinding, metal work and other jobs without any safety measures such as eye, hand and foot protection," Mr. Gardner said.

"We manage safety. Big business manages safety. Why not a three-man body shop?" asked Harry T. Hall, a Du Pont marketing specialist.

The posters though, will not be enough to turn the industry's safety figures around Mr. Hall said.

It will take an attitude change, he stressed.

But, several Du Pont reps said they believe the industry is ready for that change. "Body shop people are beginning to want management. This fills a need of theirs," a Du Pont spokesman said.

To gear up for the campaign, Du Pont salespeople are being trained to incorporate the safety tips when they make their calls, Mr. Garder said.

The managing safety posters are available from Du Pont jobbers or by writing: Safety Poster, Du Pont Refinish Products, Room X-39960, Wilmington, Del. 19898. ■

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University of Pennsylvania 1971 Lt. Wt. Varsity Crew
Picture Courtesy of Fred Leonard, Coach

Fraud lawsuit names B.R.I.

Continued from page 2

validate the suit because of a delay in filing be nullified.

B.R.I. officers Mr. Ferrarini, Burton Matfus and Howard Miller, according to the suit, continued the fradulent activities until at least 1981 through a "systematic deception of the New York Insurance Department" and an ongoing conspiracy with other defendants who had been employed by related agencies. These include Resource Facilities Inc., Northeast Facilities Inc. and Worldover Facilities Inc., the lawsuit says.

A B.R.I. spokesman called the suit "completely without merit."

"Virtually all of the allegations contained in the action refer to events that occurred 10 years ago at which time Brokerage Resources Inc. was a wholly owned subsidiary of Integrated Resources Inc., a publicly held company now trading on the New York Stock Exchange.

"The liquidation of Resources Insurance Co. has long been a subject of investigations by the New York State Department of Insurance, and B.R.I. and its officers have extended their full cooperation to the superintendent and others when called upon to do so. B.R.I. and its officers are totally innocent of any charges contained in this action and we are confident that future events will make this clear," the spokesman said.

The other defendants who allegedly participated in what the suit calls "the Brokerage-RFI enterprise" include former employees of managing general agency Resource Facilities Inc.—Charles Pace, Coleman Leff, Richard Mamarella, Frederick M. Viano; Allen Assael, a former employee of reinsurance intermediary Northeast Facilities Co. Inc.; James W. Allen and John Miller, partners in Allen Miller & Associates Inc.; and Raymond Karlinsky, principal of Worldover Facilities Inc., Inram Inc., Murgo Facilities and the Hart Agency.

Also cited as defendants are John F. Dalkin and Bernard Berman of Jack Dalkin Inc., Resources Facilities of Florida Inc., International Insurance Underwriters Inc. and IIU Premium Finance Corp.

Mr. Goepfert, who along with Mr. Assael has been convicted of insurance fraud in New York and Pennsylvania and is in prison, is not a defendant in the suit.

However, Mr. Goepfert and his alleged partner, Mr. Karlinsky, are again at the center of a tangled web that is a virtual duplicate of the structure of companies that allegedly forced the Kenilworth Insurance Co. of Illinois into insolvency last year (*BI*, Dec. 6, 1982).

Like Kenilworth, Resources Insurance Co. was literally surrounded by brokers and intermediaries who used the company as a "captive," according to the lawsuit, taking an exorbitant portion of the insurer's total premium volume in commissions and fees.

Also, like Kenilworth, Resources Insurance accepted both high-risk insurance and reinsurance and later found itself without promised premium or reinsurance support, according to the lawsuit.

In early 1972, the suit says, a "special book" of high-risk business was produced by Brokerage Resources, Mr. Ferrarini's retail brokerage operation. The business was placed with surplus lines insurers by Mr. Goepfert's and Mr. Karlinsky's Worldover, Inram, Murgo and Hart Agency operations.

At the time, much of the business was placed with Uniguard Mutual Insurance Co. and Service Fire Insurance Co. (now known as North American Co. for Property & Casualty Insurance), both of which lost money on the business.

Later in 1972, Resources Facilities was established as a managing general agent and as an alter ego of Brokerage Resources to facilitate the placing of this high-risk business. Resources Facilities used Resource Insurance as a reinsurer of the business placed with Uniguard and NACPAC, the suit says.

Meanwhile, Brokerage Resources obtained MGA agreements from Uniguard and NACPAC so that Brokerage Resources could bind direct risks for them and Resources Facilities could reinsure them simultaneously with Resources Insurance. Allen Miller & Associates also produced business for Resources Facilities that was reinsured with Resources Insurance.

Mr. Ferrarini allegedly directed the operations of Resources Facilities with Messrs. Goepfert and Karlinsky. The business included substandard commercial property and casualty risks, non-medallion New York taxicabs and substandard auto insurance in Florida.

The Resources Facilities shareholders, according to the suit, included Messrs. Ferrarini, Matfus and Howard Miller of Brokerage Resources and broker J.W. Allen of Allen Miller & Associates.

These shareholders also set up "dummy subsidiaries," RF Agency Inc. and Northeast Facilities, which were staffed solely by Brokerage Resources officers and employees, the suit says. These dummy subsidiaries were used as intermediaries in order to charge more commissions, the suit says.

Resources Facilities reported more than $27 million in premium volume for commercial risks for the first eight months of its operation, according to the suit. Of the $27 million, 25% to 30% of went to commissions and fees.

There was another $13 million in personal auto insurance premium, of which only $7 million was paid to Resources Insurance Co.

The combined operations of Brokerage Resources and Resources Facilities insured and reinsured risks with Resources Insurance Co. in this manner for three years, according to the suit. Premiums, the suit alleges, were siphoned off through a series of circular premium payments and commissions through Resources Facilities, Northeast Facilties and other agencies.

When Messrs. Ferrarini, Howard Miller and Matfus bought Brokerage Resources from Integrated Resources in 1974 with a $500,000 loan from Mr. Goepfert, the funds were really taken from money held in trust for Resources Insurance Co., the suit contends.

Also during this period, the Brokerage-RFI enterprise (Brokerage Resources and MGA Resources Facilities) attempted to conceal from the New York Insurance Department and its publicly held parent company, Integrated Resources, the involvement of Worldover Facilities and Mr. Karlinsky in Brokerage-RFI, according to the suit.

Mr. Karlinsky had lost his license to sell insurance in New York shortly after the founding of Resources Facilities in 1972.

Mr. Karlinsky publicly purchased Mr. Goepfert's portion of their partnership that owned Worldover Facilities, Inram, Murgo Facilities and Hart Agency, but continued the partnership arrangement in secret.

That relationship and the relationship between Brokerage Resources and Resources Facilities described in the suit were concealed by Mr. Ferrarini and others during investigations that continued through 1982, the suit says.

This concealment through last year should nullify any efforts to dismiss the suit because it is untimely, the suit argues.

Mr. Karlinsky, contacted in Boca Raton, Fla., told *Business Insurance* that he was unaware of the suit and had no comment. Other defendants' locations were unknown. ■

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Rate hikes could come in '83

Continued from page 1

panies are hurt, forced to preserve their capital by withdrawing or closing down and once again terror stalks the boardroom, capital flees the business, at which time a sounder and more profitable underwriting environment will emerge.

"This condition is essential before a turn of any great significance can take place. If it does not happen, the timing will be pushed out to our pessimistic scene with timing as much as a year later."

Most industry observers would agree that fear in the hearts of insurance company executives is needed before commercial insurance rates will increase. Conning's statistical projections, as presented by Mr. Sargent, depict just how bad the industry's results could become.

Mr. Sargent's predictions were part of an address on judging financial solvency and security of insurers and reinsurers at the International Insurance & Reinsurance Forum, held in Bermuda March 7 and 8 and sponsored by Risk Planning Group Inc.

In analyzing the financial solvency of an insurer and reinsurer, one must consider the background trends of overall business industry-wide, Mr. Sargent advised.

Conning's analysis of industry trends suggests there has been some rate firming in international reinsurance and excess/surplus lines rates.

But, "If the debacle is as bad as we expect, we will see retrocessionaries as the first casualty," Mr. Sargent said. Retrocessionaries are the reinsurers of reinsurers.

"The inexperienced reinsurers will be the next in trouble," Mr. Sargent predicted. As reinsurers begin to increase rates, they will "accentuate problems for the primary industry."

Mr. Sargent noted that Conning's projections for rate increases this year and in 1984 don t consider the effects of "unusually severe storms, no rash of tornadoes, not even an itsy-bitsy hurricane, no goodbye California, and no more adverse developments on occupational disease."

"Obviously, if a catastrophe were to occur tomorrow, either of a loss nature or a financial crisis nature, the effect would probably be to tighten commercial lines underwriting and set the scene for an eventual improvement in underwriting results," noted the Conning report distributed by Mr. Sargent.

No one can expect insurance regulators to stem rate cutting, Mr. Sargent observed. Insurance regulators will act only when insurers' surplus drops to the point where the companies will have difficulty operating. Regulators can be expected, however, to force insurers to strengthen loss reserves, which would result in higher losses for insurers, thus hastening an increase in rates.

Conning bases its optimistic and pessimistic predictions for insurance industry results on the results of more than 400 U.S.—based property/casualty insurance companies.

It used interest rate assumptions of 5.82% in 1980, 6.03% in 1981, 6.13% in 1982, 5.93% in 1983 and 5.95% in 1984 and 1985.

Conning did not contemplate any meaningful unrealized gains or losses in securities held by the insurers.

Conning did make different assumptions about underwriting results in commercial lines compared with personal lines. Commercial lines underwriting results will deteriorate to about a 116% combined ratio in 1983 from 110.8% in 1982, Conning projects (see chart, page 1). Personal lines underwriting results are expected to show modest underwriting improvement in 1983 to 105.9% and in 1984 to 104.2% from a preliminary 107.8% in 1982.

Conning predicts that regardless of whether rates are increased in mid-1983, the total industry will produce a 111.86% combined ratio and the resulting rate of return on mean equity, according to generally accepted accounting principles, will be 8.35% in 1983.

"This figure, by itself, does not seem particularly low, but if one allocates capital to the two major areas, commercial lines would be approximately 5.5% and the return on personal lines something over 10%," Conning's report says.

"The rate of return for commercial lines would match the lowest return ever achieved by the entire property/casualty industry since 1950. Predicting a further worsening, therefore, would not have any historical support."

Secondly, Conning notes, if the average commercial lines combined ratio is 116%, some companies' results will be worse. Conning estimates that 20% of the commerical insurers or commercial lines departments will have combined ratios of over 122% and 10% will be over 127% in 1983.

"This could create the conditions we believe are essential to turn the business, creating patterns of company losses sufficient to put fear into a major segment of the business to curb capital commitments and irresponsible underwriting practices," the Conning report says.

If rates begin to increase this year, Conning projects the industry's loss ratio will top out at 82.44% in 1983. Combined with an expense ratio of 29.42% in 1983, insurers would finish 1983 with a record high combined ratio of 111.86%, Conning predicts.

The rate increases in 1983 and 1984 would decrease insurers' loss ratio in 1984 to 79.58%, and with an expense ratio of 29.53%, create a combined ratio of 109.11%. Return on equity would improve to 11% from 8.35% in 1983.

Insurers' 1985 results would improve to a loss ratio of 76.08%, which combined with an expense ratio of 30.05%, would produce a combined ratio of 106.13%. Return on equity would climb to 14.37%.

The projected 1985 results would be only slightly better than insurers' 1981 results, but still not as good as their 1980 results when a loss ratio of 74.98% and an expense ratio of 28.5% produced a combined ratio of 103.49%. Return on equity would still be below the 14.86% registered in 1980.

Using the interest rate assumptions outlined earlier, Conning projects under the optimistic model that insurers aftertax investment income will increase just 4.08% in 1983, compared with increases of 9.53% in 1982 and 15.53% in 1981. But in 1984, investment income on increased cash flow generated by higher rates will increase 10.41% and in 1985 12.46%.

Aftertax GAAP earnings for the property/casualty insurance industry will fall to a low of $4 billion in 1983 from $5.5 billion in 1981 and $4.874 billion 1982. Earnings will increase in 1984 to $5.445 billion and in 1985 to $7.549 billion.

Under Conning's pessimistic prediction for the industry, the loss ratio will increase to 81.66% in 1984, producing a combined loss and expense ratio of 111.19%. Aftertax GAAP earnings will be just $4.495 billion, with a return on equity of 9.17%.

The rate increases implemented in late 1983 or early 1984 would improve the industry's results to a loss ratio of 78.25% in 1985 for a combined ratio of 108.3%. Aftertax GAAP earnings would increase to $6.383 billion and return on equity would improve to 12.51%.

In both models, Conning predicts that the property/casualty insurance industry's written premiums will increase 7.29% in 1983 to $77.582 billion, 13.81% in 1984 to $88.292 billion and 14.28% in 1985 to $100.897 billion.

Earned premiums are expected to increase 5.91% in 1983 to $74.946 billion, 10.66% in 1984 to $82.937 billion and 14.06% in 1985 to $94.595 billion. ■

Rates won't rise much, Bogardus says

HAMILTON, Bermuda—Most insurance industry executives and observers addressing the International Insurance and Reinsurance Forum predicted rates would have to increase soon, but one U.S. brokerage executive disagreed.

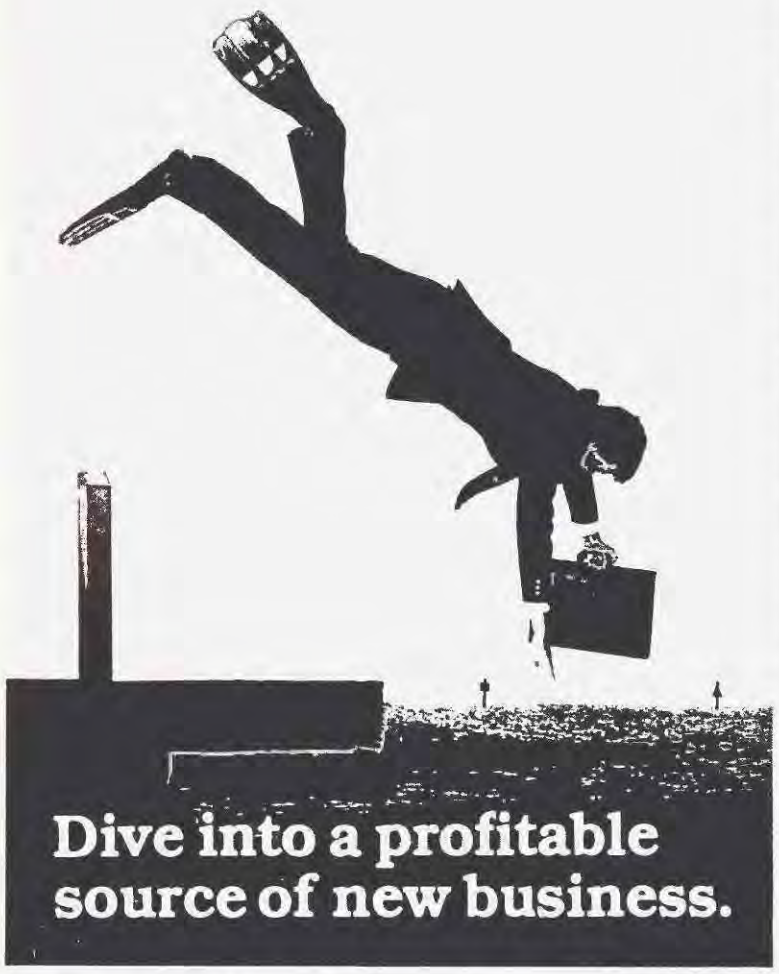
"This market does not appear to be a short-term phenomenon," said John A. Bogardus Jr., president and chief executive officer of Alexander & Alexander Services Inc.

"Rates will stabilize but they probably will not increase substantially. This reflects satisfactory returns on equity in recent years for most insurance companies, the attraction of foreign capital which is still going on, competition, alternative risk management options and a fierce resolve not to lose market share," Mr. Bogardus said.

Agreeing with other speakers that lower interest rates and larger losses are pushing insurers into negative cash-flow positions, Mr. Bogardus said, "Some large domestic insurance companies can accept and are living today with negative cash flow for competitive reasons."

Although insurance analyst Conning & Co. says rates could start to increase this year, most of the industry executives were less optimistic. However, they did agree with Conning's projections that results will worsen this year.

For example, low rates are expected to continue for 1983, said Keith Batchelor, chairman of C.T. Bowring & Co. (Insurance) Ltd. in London. Competitive rating for workers compensation risks is spreading in the United States and rate reductions are still being offered in some classes, he said. ■



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Boeing to help pay claims

Continued from page 2
pensatory damages from more than 40 of the crash plaintiffs. Because of the agreement among defendants and their insurers, the judge postponed until Sept. 8 the scheduled March 31 start of a liability trial in hopes the defendants and plaintiffs will also reach an agreement.

Defendants are seeking to have crash victims drop their claims for punitive damages in exchange for Boeing and Air Florida dropping their opposition to payment of compensatory claims.

Compensatory claims are those sought by crash victims based upon the value of lost wages, injuries or other monetary damages. Punitive damages are sought to compensate victims for willful misconduct by a defendant. Punitive damages have never been awarded in a U.S. air crash, lawyers say.

The Air Florida-Boeing arrangement would be similar to one made by McDonnell-Douglas Corp. and American Airlines Inc. following the 1979 crash of a DC-10 near Chicago that killed 273 people.

In that crash, American's insurers agreed to pay 70% of compensatory damages, while McDonnell-Douglas' underwriters assumed 30% of the losses.

Under the Air Florida-Boeing agreement, Boeing's insurers will pay the approximate $10 million directly to Air Florida's underwriters, led by British-based Orion Insurance Co. Ltd.

Air Florida's insurers then will be responsible for paying all claims on behalf of both defendants.

The average settlement per passenger in the Chicago crash has been about $436,000, according to American's insurers. Using that average figure, the 76 claims resulting from the Air Florida crash could total about $33 million. However, inflation and the fact that six people survived the Air Florida crash are likely to push the total to at least $40 million. Higher amounts are usually awarded in injury cases than death cases.

Aviation insurance sources estimate that underwriters have set aside reserves of $40 million to $60 million to cover losses from the Air Florida crash, including the $12 million hull loss.

Air crash claims typically take several years to resolve. But assuming that $50 million is ultimately paid for passenger claims, Boeing's $7.7 million contribution would represent about 15% of total passenger claims, compared with McDonnell-Douglas' 30% in the DC-10 crash.

The Boeing 737 twin-jet stalled moments after takeoff from Washington's National Airport, struck a highway bridge and plunged into the Potomac during a winter storm (*BI*, Jan. 18, 1982).

The National Transportation Safety Board blamed the crash on a buildup of snow and ice on the craft's wings, which reduced its climbing ability.

The safety board also cited an ice blockage in tiny wing-mounted tubes, instruments that gave pilots a false indication that their engines were running at full throttle. As a result, the plane accelerated sluggishly down the runway and never really attained takeoff speed.

The NTSB blamed the cockpit crew for taking off with ice and snow on the wings and failing to use an anti-icing system. But it also noted the 737's tendency to become uncontrollable at low speeds due to ice buildup—a tendency noted officially by British authorities before the crash. The NTSB said it was aware of 22 reports of such incidents since 1970.

Boeing says it had warned 737-222 operators as early as 1974 of the tendency, but Air Florida accused the manufacturer in legal papers filed with the NTSB of providing "inadequate, misleading and ineffective" information about the tendency (*BI*, Aug. 16, 1982).

American Airlines is also a defendant in some of the Air Florida crash cases because its crew was under contract to apply deicing fluid to the Air Florida craft. However, American is covered under an indemnity agreement with Air Florida.

At the time of the crash, Air Florida's hull and liability insurance was shared 5% by the Dallas-based Aviation Office of America Inc., a Crum & Forster subsidiary; 25% by La Reunion Aerienne in France; and the rest with Lloyd's and other London insurers led by Orion. Air Florida paid $4.28 million for the insurance coverage with a single limit of up to $500 million (*BI*, March 23, 1982).

Details of Boeing's product liability coverage at the time are not known. ■

L.A. ordered to pay $10.7 million for fire

Continued from page 2
spread through Mandeville and Rustic Canyons and Pacific Palisades.

The lawsuit claimed that sparks from the contact of two high-voltage power lines owned by the DWP started the fire.

The eight insurers covered more than 150 property owners affected by the fire, said Mr. Connally, an attorney with Parkinson & Wolf, a successor firm to Long & Levit.

The $10.7 million judgment awarded by the court consists of:

- $2.8 million payable to the eight insurers, including $2.2 million covering property claims paid and $558,595 in interest that would have accumulated on some of the claims money since 1978.
- $2.9 million for uninsured damages sustained by the 27 property owners, all of whom had already collected part of their losses from the eight insurers.
- $2.7 million to be divided among the 27 property owners and the eight insurers, covering interest that would have accumulated on both the $2.9 million in uninsured losses and the $2.2 million in claims payments. The insurers will collect interest on the amounts of paid claims from the payment date forward; the rest will go to the property owners.
- $243,396 to be divided among the plaintiffs to cover litigation expenses.
- $2.1 million in attorneys' fees.

The interest included in the award was calculated at market rates, which averaged 12.25% annually over the period, rather than at the California statutory rate of 7% in effect in 1978, according to Mr. Connally, who said the difference amounted to about $1 million.

The suit charged that the city was negligent in maintaining the power lines and should have foreseen that the "dangerous condition" of the lines could cause a fire.

The suit also argued that the city should be held liable under the state's "inverse condemnation" law, which states that a government body may not take or damage private property without "just compensation" of the property owner.

The dangerous condition claim was tried before a jury, but the inverse condemnation claim was tried before Judge Mock. According to state law, a jury only awards damages in an inverse condemnation case.

Judge Mock found against the city on the inverse condemnation claim, but the jury said the city could not have foreseen the dangerous condition of the power lines.

Among the insurers who will share the award is New Hampshire Insurance Co., one of the city's excess underwriters. ■

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Cost-control efforts increase

Continued from page 1

increases in health care expenditures is an important objective of the report, according to Ruth H. Stack, executive director of NAEHCA, who with consultant and researcher Dr. William Pollock compiled the survey results and wrote the 48-page report.

Copies will be sent to key people in Congress and in the administration, stressing that employers are doing a lot in this area, she said.

"Maybe it will have some impact against the (proposed) tax cap," Ms. Stack said. Congress is considering legislation, S. 640, that would tax employees on employer health care contributions that exceed $2,100 a year for family coverage or $840 for individual coverage.

"It is interesting to note how close the percentage (in this survey) of benefits dollars and total compensation dollars devoted to health care are to those percentages obtained in the 1979 survey," the report noted.

NAEHCA members in 1981 spent 29.5% of total benefit dollars and 8% of total compensation dollars on health care, compared with the 30.7% of benefit dollars and 8% of compensation dollars reported in the 1979 survey.

In 1981, non-members spent 32.6% of total benefit dollars on health care, compared with 31% in the 1979 survey. They spent 9.7% of total compensation dollars on health care, compared with 9.9% in the 1979 survey.

"Thus, while increases in health care costs have tended to exceed percentage increases in prices and wage and salary increases, the proportion of total compensation devoted to health care benefits costs has remained fixed," the new report states.

"It would appear that companies have either increased the proportion of health care paid for by the employee or made reductions in plan coverage in order to maintain health costs at a stable percentage of overall compensation costs."

Even with this kind of effectiveness apparent in the survey, the final report criticized large employers for seeming to ignore an obvious first-line approach to cost containment: utilization data.

Only about 30% of the respondents said they have access to utilization figures, like the number of days employees spend in the hospital and the number of outpatient visits.

"The biggest problem if people don't have statistics is that they can implement programs, but not necessarily the right programs for them," she said. Ms. Stack, who pointed out that the survey results are based on 1981 statistics, added that many of the companies indicated they have begun to obtain such figures. Another survey planned in 1984 (of 1983 statistics) probably will show an increased interest in this area, she added.

The survey was conducted by the NAEHCA Foundation under a grant from the Atlantic Richfield Foundation. Atlantic Richfield, based in Los Angeles, is one of NAEHCA's 90 members.

The survey was intended to examine cost-containment activities of 308 of the nation's largest employers.

One-third of the questionnaires were sent to members, while the remainder were sent to a random sample of about 200 Fortune 500 corporations. A majority of NAEHCA members also are Fortune 500 companies.

A follow-up phone campaign in November and December to increase the number of respondents delayed the scheduled January release of the report.

More than 73% (66 employers) of the NAEHCA members responded along with 44% (99 companies) of non-members. The entire sample represented about 5 million employees.

Employers are deciding to band together to fight rising health care costs for a variety of reasons, the survey shows.

Highest on the list of reasons for joining a coalition was data collection, according to 81.5% of the member respondents and 78.7% of non-members.

Improving health care understanding was the next most likely reason, indicated by 79.6% of the member companies and 77% of non-members.

Also prompting coalition membership was utilization review, cited by 68.5% of NAEHCA respondents and 68.9% of non-members.

More than half the respondents say they joined a coalition to lobby legislators on health issues. Ranked lower on the list of reasons were trustee education (35% for NAEHCA members and 28% for non-members) and development of employee communications (42.5% for members and 54% for non-members).

About 65% of both NAEHCA member and non-member respondents belong to coalitions that promote alternative health care programs, and about 41% of each group belongs to a coalition that develops alternative health care programs.

A separate section of the survey polled employers on their use of health maintenance organizations as a health care alternative. About 92% of NAEHCA members offer an HMO option, along with almost 91% of the non-members.

The average number of HMO locations offered by NAEHCA members was 13.5, compared with 7.7 by non-members. An average of 15.9% of employees at NAEHCA members were enrolled in HMOs, compared with 10% at non-member employers.

The higher levels of HMO involvement at NAEHCA members is not surprising since the 6-year-old organization was formerly called the the National Assn. of Employers on Health Maintenance Organizations.

The group was founded after a survey of Fortune 500 companies indicated a need for an association to provide timely information and services to facilitate effective employer compliance to the mandatory dual-choice regulations of the Health Maintenance Organization Act of 1973. In 1980, the group expanded its directions and changed its name.

The survey also shows what type of agreements employers have with HMOs. Just more than 48% of the NAEHCA members have written HMO contracts, while 56.5% of non-members have them.

Letters of agreement were arranged by 32.8% of NAEHCA members and 21.2% of non-members, and verbals agreements were reached by 19% of NAEHCA members and 22.4% of non-members

The authors of the NAEHCA study report the recent increase in HMO involvement is related to the increase in the number of federally qualified and state-certified HMOs, rather than conscious efforts by large companies to offer HMOs.

Of those NAEHCA members that responded to the survey, 50% offered only federally qualified HMOs or HMOs certified under state dual-choice laws, 25.9% offered only federally qualified HMOs and 24% offered all kinds of HMOs. Of the non-members responding, 46.5% offered only federally qualified HMOs, 27.9% offered only federally qualified or HMOs certified under state dual-choice laws and 25.6% offered all HMOs.

Overall health costs decreased for 20% for the NAEHCA respondents that offered HMO options and for 17.6% of the non-member companiess.

Claims costs decreased for 23.3% of NAEHCA members and 16.9% of non-members.

Continued on facing page

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Government, Associations, Unions, Educational Institutions	1,004
Commercial Consumers Sub-total	**23,083**
Insurance Agents & Brokers	9,629
Insurance Cos.	4,944
Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,408
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TOTAL	**41,232**

*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

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Continued from facing page

Administrative costs, however, rose for 55.3% of NAEHCA members who offered HMO options and 34.7% of non-members. They decreased for 2.1% of members and 3.8% of non-members. Administrative costs remained the same for the remainder.

The benefits staff in companies offering HMOs basically remained the same, though 1.3% of the non-member respondents indicated that staff size decreased.

Employee reaction to HMOs was overall favorable. Some 79% of the NAECHA members reported a positive reaction, along with 56% of non-members companies. A negative reaction was reported by 8% of the member companies and 28% of non-member companies.

Employers also were asked about their cost-containment programs.

Coordination of benefits led the list. Of the 66 NAEHCA members and the 99 non-members responding, 94% and 98% respectively said they coordinated benefits.

Preferred provider organizations were on the other end of the scale. Only 3% of NAEHCA members and 6% of the non-members made use of such organizations.

Claims reviews were used by 45.5% of the NAEHCA respondents and 32% of the non-members; disability reviews were used by 68% of the NAEHCA respondents and

> About 92% of NAEHCA members and 91% of the non-members offer an HMO option.

nearly 52% of the non-members; and utilization reviews were used by about 35% of the NAEHCA respondents and 28.5% of the non-members.

About 50% of both groups incorporated health promotion programs, and about half said they had redesigned their benefit plans to contain costs.

When plans were redesigned, increasing the size of deductibles was used most often to cut costs, a step 53% percent of the companies took.

Following close behind was increased coverage for outpatient services, reported by 47% of those that redesigned their plans. Some 31% increased employee premium contributions, 25% increased coinsurance levels and 10% offered an optional low-benefit plan.

The survey showed 42% of the employers encouraged outpatient surgery; 36% encouraged pre-admission testing; 32.3% promoted home health care; 30.4% encouraged use of an extended care facility; and 11.8% offered hospice benefits.

The implementation of health promotion or wellness programs to cut health care costs increased 100% compared with the 1979 survey.

More than 12% of the employers surveyed have a back care program; 26% offer a fitness program; 23% have a nutrition program; and 27% have a weight control program. In 1979 the figures were 6% for back care, 17% for fitness, 8% for nutrition and 16% for weight control.

The issue of cost containment is complex and part of a slow movement, said Helen Lewis-Wistner, president of the NAEHCA Foundation when a prelimiary report was issued last year (*BI*, Dec. 13, 1982). But it's one that NAEHCA has been tracking for years. Similar surveys were conducted in 1978 and 1979.

The newest report also contains the 1979 report of 1978 statistics. Copies of the report are available for $25 from NAEHCA, 1134 Chamber of Commerce Building, 15 S. 5th St., Minneapolis, Minn. 55402. ■

Survey notes program effectiveness

The effectiveness of cost-containment programs also was analyzed in the National Assn. of Employers on Health Care Alternatives survey.

The method NAEHCA used was to compare the health care cost increases reported by companies that have implemented cost-containment programs and those that have not with the average increase of all the reporting companies.

The medium average increase in health care costs in 1981 was 17% among companies responding to the survey.

More often, it was companies with cost-containment programs that reported costs increases below the median 17%.

For instance, 58.3% of the companies that implemented outpatient review reported a cost increase below the median, compared with 46.2% of those companies that did not.

Another 50% of the companies that introduced claims review, health promotion, second surgical opinion and inpatient review said their health care costs increased less than the median, while only 47% of those that did not implement such programs kept health cost increases below 17%.

Greater gaps were noticed between companies that implemented disability review and those that did not, 54.6% vs. 42.4%; and between companies that implemented coordination of benefits programs and those that did not, 49.3% vs. 40%.

It was only in the case of plan redesign that the figures were reversed: 42.5% that had implemented this measure had a lower increase in health care costs compared with 52.8% of those that did not.

"Two explanations are possible," the report noted. "The first is, redesigning your health plan does not have a depressing effect on costs. The second, a more plausible explanation, is that companies that redesigned their plan did so in response to actual or anticipated cost increases in 1981. This assumption seems to be supported by the fact that over half of those that indicated when they redesigned their plan said they had done so in the past year."

Another section of the survey applied the same effectiveness test to plan redesign.

Some 70% of the companies that added or increased the amount of coinsurance payment experienced health care below the 17% median. But, only 32% of companies that did not implement such a change had cost increases below the median.

On the other hand, only 40% who had increased deductibles recorded health care cost increases below the median, compared with 45% who had not done so.

About 47% of those that increased reimbursement for outpatient procedures had cost increases below the median, compared with 38% of those that did not implement such a change.

Reimbursement for certain alternatives to hospital care also were shown to be measurably favorable for companies that included them, compared with companies that did not.

For instance, more companies that have outpateint surgery programs saw a lower increase in costs than companies that did not: 50% compared with 27.3% in 1980, and 52.5% compared with 27.3% in 1981.

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Airlines buy more cover from U.S. insurers

Continued from page 1
belongs," he says.

Although Mr. Coleman suggests that U.S. underwriters quoting cheaper rates than the London market could lose money, new insurers are eager to accept some of the risks leaving London.

United States Aircraft Insurance Group, Associated Aviation Underwriters and the Aviation Office of America have always been active in the U.S. market, with USAIG and AAU often functioning as claims leads on U.S. airlines.

But recently, at least two other players have emerged: the Insurance Co. of North America subsidiary of CIGNA Corp. and American International Aviation Agency Inc., an affiliate of American International Group Inc.

For whatever reason—price, underwriting philosophy or capacity—several U.S. airlines have taken substantial chunks of coverage away from London insurers and placed them with U.S. markets.

- In an apparently unprecedented shift, Corroon & Black Corp., the broker for USAir Inc., has managed to place Washington-based USAir's April 1 renewal without any direct involvement by the London markets.

About 20% of the risk had been brokered to London underwriters through Minet Holdings P.L.C., which is 20% owned by Corroon & Black.

Airline policies, which have limits of $200 million to as high as $1 billion, are generally arranged in a vertical manner, with a number of underwriters agreeing to each take a percentage of all losses above some self-insured retention. Typically, Lloyd's and London underwriters have taken large shares of the coverage, but not in USAir's case.

"It is true that London will not be on the risk this year," confirmed Larue J. Knauss, USAir's director of corporate insurance. "But I would not want to give the impression that this is a trend. It just worked out that way this year.

"I think all the telephone calls I've been getting indicate it's a little bit unusual," said Ms. Knauss, who added that the claims lead for her airline's coverage is with USAIG.

- Air Florida Inc. of Miami cut in half the amount of coverage it purchased in London and moved that coverage to U.S. markets upon its Feb. 1 renewal.

Last year, about 50% of the Air Florida coverage, brokered by Fred S. James & Co. Inc., was placed in the London market, while about 25% was with French underwriters and about 25% was insured with U.S. markets.

The French participation in the renewal did not change this year, sources in London say, but an additional 25% of the coverage was shifted from British to U.S. underwriters. Two years ago, 75% of Air Florida's coverage was underwritten by London insurers.

Brokers and buyers say Air Florida found U.S. rates to be "no more than 10%" lower than those in London and attribute the switch partly to the ability to get faster payment from U.S. underwriters on routine claims.

Air Florida officials refused to comment on any changes in insurers or coverage.

"This year we had aggression from the American companies that quoted cheaper rates even though Air Florida had a loss in Washington (*BI*, Jan. 18, 1982)," said Ivan Purdue, chairman of the Aviation Offices Assn. in London. "Now the London market quote is down to 25% and the bulk of the business is in the United States."

At least two other insurance buyers have cited what they regard as the willingness of U.S. underwriters to rate airlines individually as a reason for shifting coverage to the United States:

- "We feel that London tends to be a cohesive group that acts in harmony together and doesn't offer any independent, free thinking," says Michael C. Shermer, vp of risk management at Federal Express Corp., the overnight package delivery giant based in Memphis, Tenn., that operates more than 100 jets.

Mr. Shermer says that Federal Express reduced to 35% from 40% the percentage of its coverage placed in London upon its March 1 renewal through broker Alexander & Alexander Inc.

Three years ago, he says, London had almost 100% of the Federal Express account.

Yet Mr. Shermer is quick to add that London remains a key market for U.S. airlines.

"There is not a *significant* difference in pricing" between U.S. and British markets, he says. "The rate differential is there and it is considered, but it is independent thinking we're concerned about."

Such independent underwriting is important to an air carrier like Federal Express, which has had no recent crashes and operates its fleet only at night when few other jets are in the air.

- Independent underwriting is also important to Alaska Airlines Inc., the Seattle-based all-jet passenger carrier that was the first U.S. airline to renew its coverage in 1983.

The carrier, which flies mostly Boeing 727 trijets between the U.S. mainland and Alaskan cities, also has excellent loss experience, but it tends to be lumped among commuter and charter operators in Alaska for rating purposes by London underwriters. The commuter airlines, which operate small aircraft in difficult flying conditions, for the most part have less satisfactory loss history (*BI*, Dec. 6, 1982).

Sources say Alaska Airlines reduced the amount of coverage it sends to London by about 25%, cutting London participation to just a small percentage of its package. They said that the airlines received quotes from U.S. underwriters that were about 10% lower than in the London market.

Alaska Airlines officials also declined to comment on its coverage.

Sources in the industry say that U.S. insurers are becoming more attractive for many airlines because largely they can pick and choose the airlines they insure, granting favorable rates to large airlines with good loss history and shunning those with problems.

On the other hand, the London market, since it has such a huge stake in the worldwide aviation market, tends to base its rates on the industry's overall loss record rather than a buyer's individual experience.

Since losses have been mounting during the past several years, airlines say there are few bargains to be found in the London market. In 1982 alone, aviation underwriters suffered over $300 million solely in worldwide hull losses, says Mr. Purdue, citing British Insurance Assn. figures. He says insurers expect hull losses to average about $200 million annually.

"Across the board we have lost considerable amounts of American business," says Mr. Purdue. "Some of us think we should let other people get their fingers burnt first. There may be ways to make money out of this business, but we can't."

London insurers say it's because of these losses that they must seek rate hikes. But, U.S. competitors point out that the London quotes are 20% to 25% higher than two years ago, calling them unrealistic.

Raymond L. Richards, vp and head of the aviation department at CIGNA, doesn't think that the lower rates charged by the U.S. aviation insurers will cause them to lose money.

CIGNA's entry into the aviation market "has been very, very successful," he says, explaining that U.S. insurers are tapping new markets like CIGNA not because of low rates but because of a desire to buy their insurance domestically if they can do so without paying more.

Also, the rate quoted to an individual airline by a Lloyd's underwriter is known throughout the market, so that individual syndicates can peg their rates to a lead underwriter's, Mr. Richards explains. By going to a U.S. underwriter that keeps its rates confidential, London aviation insurers will have to issue their quotes blindly, he says.

"I think next year I'll go to the domestics first," says the risk manager of one U.S. airline who echoes Mr. Richards' observation. ■

Foreign airlines quick to switch London brokers

LONDON—The turbulence in the aviation insurance market is affecting non-U.S. airlines as well as American air carriers, sources in the market point out.

Among the account changes mentioned by the sources:

- British Airways' $10 million account moved from C.T. Bowring to Sedgwick Group P.L.C., even though Sedgwick quoted higher rates during the bidding for the account.
- Alitalia, the Italian airline that places its primary aviation coverage with primary insurers, has shifted 12% of its reinsurance from broker C.T. Bowring & Co. in London to U.S. broker Frank B. Hall & Co. Inc. It's not known how much of the reinsurance Hall placed in the United States, but Hall did place a portion of the coverage with British underwriters, market sources say.
- Iran Air switched its account from Alexander Howden Group P.L.C. to Stewart Wrightson Group P.L.C.
- Air Malta switched from Stewart Wrightson to Hogg Robinson Group P.L.C.

The story behind the renewal of British Airways' coverage contains all the ingredients of this year's scramble for lower rates and better terms. Yet, despite the jockeying, sources in the market say British Airways will pay about 7% more for its coverage this year.

British Airways, after requesting bids for its combined hull and liability coverage, awarded this year's account to Bowring, its longstanding broker. But, the airline gave Bowring only five days to place the coverage.

Bowring was just completing the order, sources say, when a British Airways helicoper crashed into the North Sea. No one was seriously injured, but the hull claim amounted to $3.5 million.

The crash complicated the coverage negotiations, and Bowring was unable to find enough underwriters to complete the hull coverage within the five-day limit. British Airways then moved the account to Sedgwick, whose brokers were still trying last week to complete the coverage.

Bowring had set British Airways' hull rate at 16 cents per $100 of insured value, while Sedgwick's quote came in at 19 cents per $100. For passenger liability, Bowring quoted about 83 cents per 1 million passenger kilometers while Sedgwick quoted about 88 cents.

However, under the Sedgwick program, British Airways will receive a profit commission if it posts a good loss record and the maximum limit per aircraft were increased.

One airline, however, is sticking with last year's broker even though it was unable to obtain a cheap bid in 1982.

Last year, Qantas Airways' renewal was handled by Alexander Howden Group P.L.C. instead of its previous broker, Bain Dawes Ltd., after Howden promised the airline a $500,000 premium reduction. However, Howden couldn't convince underwriters to meet that pledge, and the broker was forced by Lloyd's of London to dismiss the head of its aviation division and cover the difference between the quote and the coverage from internal funds.

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BI Insurance Index



The *Business Insurance* stock index set a record high for the ninth consecutive week, closing at 258.9 on March 22, up 3.7 points from the record of 255.2 set March 15. Thirty-three stocks posted gains, 20 issues closed down and 11 were unchanged. The leading gainers were Fremont General Corp., 12.5%; Continental Corp., 12.4%; Aneco Reinsurance Co. Ltd., 10.3%; American International Group Inc., 9.6%; and Statesman Group Inc., 8.8%. The largest losses were reported by Marsh & McLennan Cos. Inc., 7.5%; Kemper Corp., 5.4%; American Bankers Insurance Group, 4.5%; Corroon & Black Corp., 3.6%; and American General Corp., 3.3%. The 1.5% increase in the *BI* index outperformed the New York Stock Exchange composite and the Dow Jones 30 industrials for the week.

British Issues

22 Mar Companies	Price pence	P/E	Div. pence	Yield %	1 Week High pence	1 Week Low pence
Commi Union	127	38.5	16.86	13.3	135	125
Eagle Star	370	14.8	21.43	5.9	370	363
Genl Accident	398	12.7	24.29	6.1	410	398
Gdn Royal Exch	424	12.1	25.00	6.1	430	422
Phoenix	294	15.5	24.00	8.2	294	290
Royal	512	13.2	37.86	7.4	528	512
Sun Alliance	975	16.3	61.43	6.3	975	965
Brokers						
CE Heath	353	10.1	18.71	5.3	353	343
Hogg Robinson	105	8.1	8.57	8.2	106	104
JH Minet	134	12.2	5.43	4.0	134	123
Sedg Grp	223	12.7	10.00	4.5	226	221
Stanhouse Hldg	106	9.9	7.86	7.4	107	105
Stew Wrightson	257	9.2	18.57	7.2	260	255
Willis Faber	548	14.4	25.00	4.6	560	547

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

Expenses as well as revenues creating problems for industry

By MYRON M. PICOULT

Special to Business Insurance

IT IS AXIOMATIC that finding the correct solution first requires proper definition of the problem. Unfortunately, there is still a considerable amount of confusion within the property/casualty insurance business as to just what kind of problem is being faced.

For the most part, it is perceived that the industry has a revenue problem caused by underpricing, which in turn mirrors overcapacity and sluggish overall economic growth. Somewhere along the line the terms "cash-flow underwriting" and "total-return concept" have been dropped from the industry's vocabulary.



Mr. Picoult

We do not wish to minimize the industry's revenue problem, which in fact is real and severe. However, there is another problem lurking in the shadows that has dire, longer-term implications for the industry: an expense ratio problem tied to efficiency and distribution.

Some insurance executives do not really believe such a problem exists, or at least they make light of it by saying that high expense ratios are a function of slow premium growth. Hence, the way to lower expense ratios is to write more business.

We do not believe that companies with agency distribution mechanisms can survive and prosper unless they bring their expense ratios into the low 20s.

Over the past 40 years, written premium volume for the stock companies as a percent of nominal gross national product has grown from just about the 1% level to a record high of 2.67% at the end of 1977. At the end of 1982, the ratio stood at 2.37%. The growth in the industry's premium volume at various times over this 40-year span has ranged from almost 20% faster than the growth in GNP to actually lagging behind GNP growth on average over the past five years.

Looking back over this 40-year period, we find that there are only seven years in which the stock industry's growth in premium lagged behind the rise in the Consumer Price Index: 1942, 1943, 1974, 1979, 1980, 1981 and 1982.

The recent, unprecedented four-year period clearly reflects the results of:

- Some redundancy in the level of rate relief garnered between 1975 and 1978.
- The industry's past and, to some extent, present masochistic pricing tendencies. It has become increasingly evident that pricing decisions made over the past few years have all been market-share related.
- The sluggish economic environment.

While we do not expect the industry's premium growth to lag behind GNP growth in the years ahead, we doubt that it can grow 20% faster than the GNP, as was the case in past years.

This belief is based on:

- The increasingly commodity-oriented nature of the product, which will hold down overpricing. The exception, of course, would be those lines where a vacuum developed.
- A secular decline in inflation that will reduce the growth of insurable values.
- Shifts in the way business is written—in regard to captive insurance companies, retro plans and other embellishments of the administrative-services-only and minimum-premium concepts currently popular in group health lines—that will serve to reduce the instrumental growth rate over nominal GNP.

The slowing in premium growth has longer-term implications to cash flow and, thus, investment income, as well as overall expense levels. Hence, underwriting prowess to produce cash flow and/or superior distribution capability to foster expense savings will become increasingly important.

With respect to the expense side of equation, most underwriting expenses are directly related to the amount of property/casualty premiums written. Commissions and brokerage fees are the biggest single expense item.

The use of computers has clearly helped the industry pare its expense level from the 45% figure in 1932 to a low of 26.9% in 1977. It is presently hovering around 30%. We question just how much more can be squeezed out of further optimization of either existing or updated computer facilities. The key to further paring of expense ratios, given a slower pace of premium growth, is both the reduction and distribution cost and improved internal operating procedures.

Improved internal efficiency may result in both the centralization of some activities and decentralization of others at the same time. The methods employed are directly related to a company's mix of business and present distribution capability.

Some of the changes we have seen included loss-control areas, underwriting large, specialized risks, automating transactions between agents and insurers and charging commission structures that involve more of a profit-sharing arrangement of a particular book of business.

We have also seen layoffs, consolidation of physical plants, lower salary increments and early retirement programs used to pare down expenses.

Blatant cuts could prove to be very costly if not done intelligently. Poorly administered programs inflict severe damage on a company's prime development and marketing expertise over the longer term. But cuts must be made because the industry as a whole is replete with inefficiencies. Turning a deaf ear to the problem is not effecting changes, since the guise that changes will "injure" future growth prospects is a poor excuse for sidestepping some tough management decisions.

Today's buzzwords, related to more efficient internal operating costs and streamlined distribution capabilities, are tomorrow's survival kit. ■

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

BI Industry Stock Report

MAR. 22, 1983 3/16/83 THRU 3/22/83

Insurance Cos.		Price	Chg	P-E	$ Div.	Yld %	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	38.50	0.0	6.6	2.64	6.9	39.00	38.50	1,327.4
American Bankers Ins Group	OTC	13.38	-4.5	10.4	0.50	3.7	14.13	13.38	86.1
American Gen Ins Co	NYSE	66.38	-3.3	9.0	2.20	3.3	68.88	66.00	189.9
American Indty Finl Corp	OTC	22.75	-2.2	22.5	1.12	4.9	23.25	22.75	5.2
American Intl Group Inc	OTC	88.75	9.6	12.7	0.48	0.5	88.75*	82.75	349.7
American Natl Ins Co	OTC	19.25	4.1	8.1	0.84	4.4	19.25*	18.50	101.4
American Sts Life Ins Co	OTC	26.50	-0.9	7.5	0.88	3.3	26.75	26.00	0.4
Aneco Reins Ltd	OTC	4.00	10.3	50.0	0.00	0.0	4.38*	3.75	50.9
Avemco Corp	AMEX	15.38	-2.4	8.9	0.58	3.8	16.00	15.38	8.2
Banks Iowa Inc	OTC	42.00	0.0	11.7	1.52	3.6	42.00	42.00	0.8
Bitco Corp	OTC	40.00	1.3	7.0	2.00	5.0	40.50*	39.50	8.4
Carolina Cas Ins Co	OTC	7.25	0.0	10.7	0.32	4.4	7.25	7.25	3.9
Chubb Corp	OTC	58.00	-3.1	9.6	2.92	5.0	59.75	57.75	204.8
Combined Intl Corp	NYSE	32.50	2.8	11.0	2.00	6.2	32.63	31.38	121.8
Continental Corp	NYSE	35.25	12.4	17.3	2.60	7.4	35.25*	31.25	664.3
Crawford & Co	OTC	19.75	0.0	14.7	0.57	2.9	20.00	19.75	37.0
Crown Life Ins Co	OTC	95.00	5.6	6.2	3.10	3.3	95.00*	90.00	2.9
Employers Cas Co	OTC	36.00	0.7	7.6	1.20	3.3	36.00*	36.00	7.0
Equifax Inc	NYSE	30.13	3.9	19.3	1.40	4.6	30.13*	29.50	26.9
Excelsior Ins Co	OTC	11.00	0.0	0.0	0.70	6.4	11.00	11.00	11.8
Farmers Group Inc	OTC	41.38	3.1	11.2	1.36	3.3	41.38*	40.50	651.6
Foremost Corp Amer	OTC	46.25	1.6	14.7	1.24	2.7	46.25*	45.75	25.2
Fremont Gen Corp	OTC	22.50	12.5	41.7	0.48	2.1	22.50*	20.13	493.6
Great West Life Assurn Co	OTC	188.00	0.0	15.3	10.00	5.3	188.00	188.00	0.0
Hanover Ins Co	OTC	43.50	-2.2	6.5	0.88	2.0	44.00	43.50	18.9
Hartford Steam Boiler Inspctn	OTC	54.00	8.0	11.9	2.80	5.2	54.00*	49.00	25.8
Jefferson Natl Life Ins Co	OTC	45.50	3.4	11.3	0.76	1.7	45.50	44.00	64.7
Kemper Corp	OTC	42.00	-5.4	7.9	1.80	4.3	44.13	41.63	86.4
Lincoln Natl Corp Ind	NYSE	49.13	4.0	8.7	3.00	6.1	49.38	47.50	88.3
Mission Ins Group Inc	NYSE	36.25	-1.7	9.0	1.00	2.8	37.25	36.25	90.9
Nationwide Corp Ohio	OTC	41.50	0.0	15.3	0.70	1.7	41.50	41.50	3.3
Northwestern Natl Life Ins	OTC	34.75	8.2	24.3	1.50	4.3	34.75*	32.75	83.4
Ohio Cas Corp	OTC	51.50	0.0	10.5	2.52	4.9	51.75*	51.50	90.9
Old Rep Intl Corp	OTC	31.50	7.2	7.7	0.92	2.9	31.50*	29.50	145.4
Orion Cap Corp	NYSE	20.00	-1.2	10.6	0.66	3.3	20.13	19.88	42.2
Preferred Risk Life Ins Co	OTC	30.75	-0.8	8.3	1.00	3.3	31.00	30.75	6.1
Provident Life & Acc Ins Co	OTC	60.50	1.7	8.4	2.60	4.3	60.50*	60.00	51.2
St Paul Cos Inc	OTC	68.25	3.2	7.0	2.80	4.1	68.25*	65.25	158.8
Safeco Corp	OTC	56.25	-2.0	9.8	2.40	4.3	57.25	55.88	125.5
Sri Corp	OTC	45.75	1.4	9.2	1.12	2.4	45.75	44.50	41.4
Seibels Bruce Group Inc	OTC	25.88	-0.5	12.7	0.80	3.1	26.00	25.88	25.0
Statesman Group Inc	OTC	7.75	8.8	5.7	0.15	1.9	7.88	7.63	25.8
Tokio Marine & Fire Ins Co	OTC	105.50	0.5	16.9	0.92	0.9	105.50	103.50	10.2

MAR. 22, 1983 3/16/83 THRU 3/22/83

		Price	Chg	P-E	$ Div.	Yld %	High	Low	Vol (000)
Travelers Corp	NYSE	30.25	3.4	8.2	1.80	6.0	30.25*	28.63	583.2
United Fire & Cas Co	OTC	31.50	3.3	10.3	0.88	2.8	31.50	30.50	4.2
United States Fid & Gty Co	NYSE	50.38	2.3	12.7	3.84	7.6	51.00	48.75	284.0
United Svcs Life Ins Co	OTC	20.13	-1.8	6.0	1.00	5.0	20.63	20.13	13.7
Uslife Corp	NYSE	23.50	-1.1	6.3	0.88	3.7	23.88	23.25	214.5
Washington Natl Corp	NYSE	23.50	-0.5	11.4	1.08	4.6	24.00	23.50	97.3
Zenith Natl Ins Corp	OTC	18.25	0.0	9.1	0.80	4.4	18.25	18.25	15.2
INSURANCE COMPANIES	AVERAGE			10.2		3.9			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	21.50	2.4	0.0	1.00	4.7	21.63	21.00	319.2
Baldwin & Lyons Inc	OTC	41.50	1.2	7.5	0.80	1.9	41.50	41.00	5.1
Corroon & Black Corp	NYSE	26.75	-3.6	12.8	1.80	6.7	27.63	26.75	19.6
Crump E H Cos Inc	OTC	10.00	1.3	14.3	0.40	4.0	10.00	9.88	44.1
Emett & Chandler Cos Inc	OTC	10.88	-2.2	0.0	0.00	0.0	11.13	10.88	6.4
Hall Frank B & Co Inc	NYSE	29.88	-1.6	14.4	1.70	5.7	30.00	29.50	150.7
Integrated Res Inc	AMEX	43.50	1.8	13.1	0.00	0.0	43.88	41.63	498.6
Marsh & Mclennan Cos Inc	NYSE	40.00	-7.5	11.9	2.20	5.5	42.50	40.00	511.1
Poe & Assoc Inc	OTC	10.00	0.0	62.5	0.60	6.0	10.00	10.00	1.0
Reed Stenhouse Cos Ltd	OTC	15.63	2.5	14.9	0.60	3.8	15.63	15.25	11.3
AGENTS/BROKERS	AVERAGE			14.5		3.6			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	57.63	2.4	12.7	1.80	3.1	57.88	56.13	1,087.8
Anderson Clayton(Ranger/PanAm)	NYSE	28.50	0.4	11.8	1.32	4.6	28.50	27.13	34.5
Armco Inc	NYSE	18.63	-4.5	0.0	0.80	4.3	19.38	18.63	425.3
City Investing Co. (Home Ins.)	NYSE	31.88	5.8	8.8	1.70	5.3	31.88	30.13	334.2
CNA Finl Corp (CNA)	NYSE	19.25	2.0	7.9	0.00	0.0	19.25*	18.88	50.6
Control Data (Comml. Credit)	NYSE	48.25	0.5	11.7	0.60	1.2	49.13	47.13	458.3
General Re Corp	NYSE	69.13	1.5	14.8	1.28	1.9	69.13*	67.75	280.5
Gulf Utd Corp	NYSE	28.13	-0.4	9.0	1.32	4.7	28.25	28.13	211.8
Cigna Corp	NYSE	46.63	6.3	6.9	2.48	5.3	46.63	44.13	820.7
ITT (Hartford Group)	NYSE	35.13	-0.4	7.4	2.76	7.9	35.25	35.13	1,250.0
Optimum Hldg Corp	OTC	9.13	0.0	8.8	0.00	0.0	9.13	9.13	4.4
Sears Roebuck & Co. (Allstate)	NYSE	35.75	0.7	14.5	1.52	4.3	36.63*	35.13	2,908.0
Baldwin Utd Corp	NYSE	17.25	-26.6	3.4	0.88	5.1	23.50	17.25*	3,400.1
Teledyne Inc (Argonaut)	NYSE	153.88	-2.0	12.2	0.00	0.0	156.38	152.50	478.8
Transamerica Corp (Occidental & Fred S. James)	NYSE	27.50	3.8	9.6	1.50	5.5	27.50*	26.75	410.6
CONGLOMERATES/HOLDING COS.	AVERAGE			10.6		2.9			

*Record high/low since Jan. 1, 1982

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Financial briefs

Kemper

Kemper Corp. has declared a regular quarterly dividend of 45 cents per share, payable June 1 to shareholders of record May 11.

Warwick

Warwick Insurance Managers Inc., which made its initial public stock offering in January, reported that its operating income rose to $334,902 in 1982 from $28,265 in 1981. Earnings per share rose to 12 cents last year from one cent in 1981.

The company also posted a healthy revenue gain. Revenues rose to $3.83 million last year from $228,960 in 1981.

Warwick Insurance Managers, based in Morristown, N.J., is a holding company whose affiliates include Warwick Insurance Co., a commercial property/casualty underwriter that commenced business last year. The holding company also manages Bakers Insurance Co., a mutual property/casualty insurer.

Alexander & Alexander

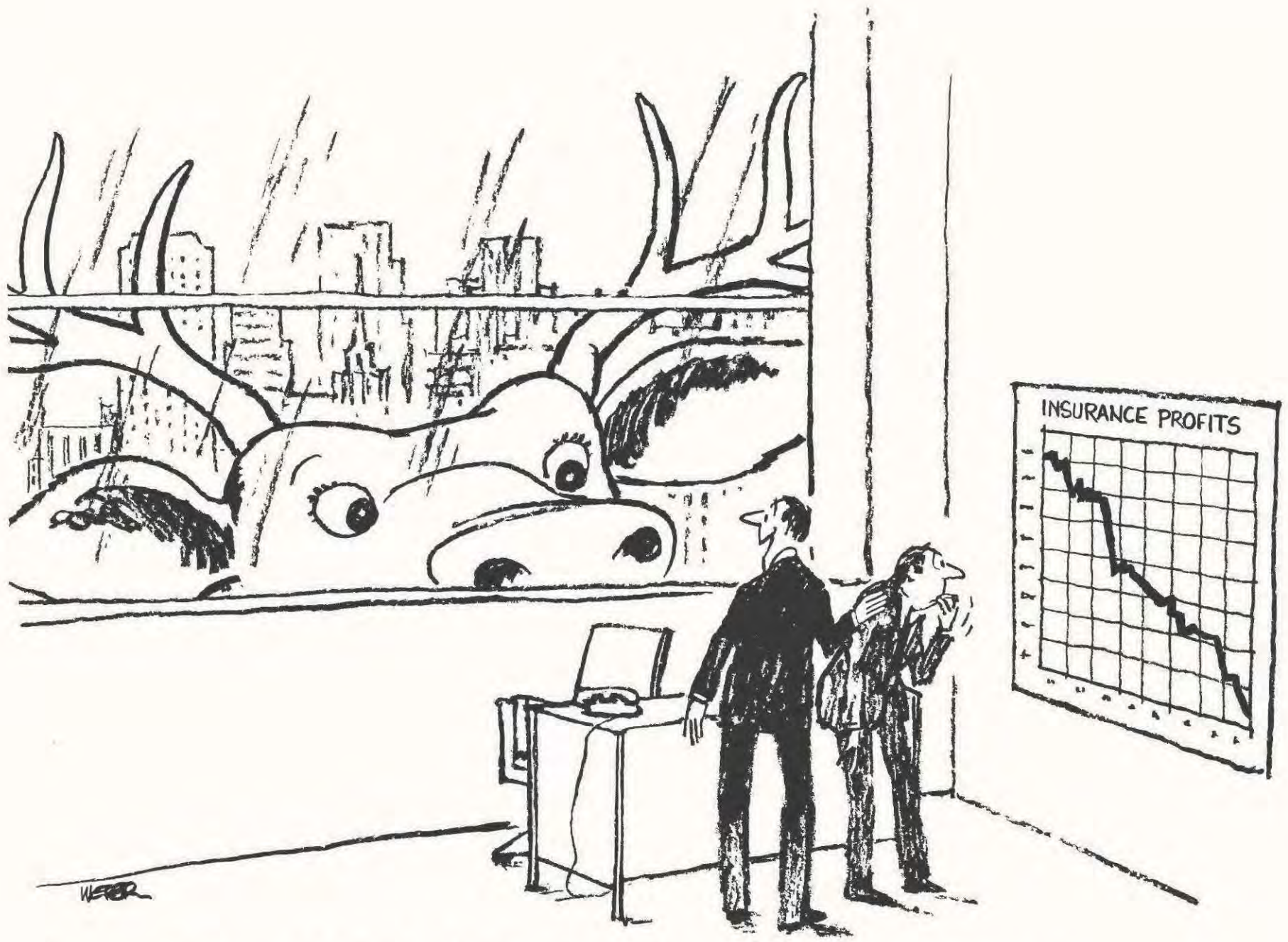
Moody's Investors Services Inc. has lowered the commercial paper rating of Alexander & Alexander Services Inc. to prime-2 from prime-1.

Moody's attributed the change to problems at A&A's British subsidiary, Alexander Howden Group P.L.C. Earlier this month, A&A reported a $25 million net loss for the year, largely made up of losses and other charges incurred by Howden (*BI*, March 14).

Last month, Standard & Poor's Corp. lowered its rating on A&A's commercial paper to A-1 from A-1-plus.

Marsh & McLennan

Marsh & McLennan Cos. Inc has declared a quarterly dividend of 55 cents per share of outstanding common stock, payable May 11 to shareholders of record March 28. ■



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