WEEK OF MAY 11, 1981

business insurance®

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update:

Committee approves bill to protect HMO members

WASHINGTON—The Senate Labor and Human Resources Committee approved legislation last week to protect employees from being held responsible for unpaid medical bills if their health maintenance organization goes broke.

The measure, S. 1029, gives HMOs a choice of several options, including pur-

Continued on next page

$9 million judgment matches policy limits

By EILEEN NORRIS

CHICAGO—A record $9 million award to a quadriplegic is more than twice the size of an earlier proposed settlement and equals the available insurance limits.

The Hartford and Argonaut insurance companies are the primary insurers for the doctor, anesthesiologist and hospital found guilty of malpractice in a cosmetic surgery operation on a suburban Chicago woman.

Eileen Tannebaum, 46, has been a quadriplegic since 1975 when her brain was deprived of oxygen during cosmetic surgery on her nose.

The Cook County Circuit Court jury that heard her $17 million suit against Northwest Hospital in Chicago, plastic surgeon Dr. Arthur Broder and anesthesiologist Dr. Murray A. Rosenberg awarded Mrs. Tannebaum $6.5 million for her injury and her husband $2.5 million for his wife's medical bills.

The award is the highest recorded compensatory malpractice award involving a quadriplegic, according to Jury Verdict Research Inc. in Solon, Ohio.

Mrs. Tannebaum's attorney, John D. Hayes of Chicago, disclosed to Business Insurance that the defendants "could have settled the claim for $4 million" before the 57-day trial began in February.

Indeed, the hospital's insurer, Argonaut Insurance Co. of Menlo Park, Calif., was willing to settle the case for $4 million, said John

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Interpool also suing

By LEN STRAZEWSKI

NEW YORK—Interpool Ltd., a New York-based container-leasing firm, is countersuing The Home Insurance Co. and its former brokers in response to civil charges of fraud and misrepresentation filed against it in March.

Interpool, according to its complaint filed late last month, is seeking to bind The Home to a November insurance policy and endorsements provided by California agents Edward Draper Jr. and Larry Gregg through New Jersey brokerage Louden-French Ltd. Inc.

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Photo: UPI

Striking Bermudian service workers rally for higher wages outside their union headquarters in Hamilton.

Bermuda: Strikes barely hamper captives and reinsurers

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—The siege of service industry strikes that ground tourism in Bermuda to a halt last week barely tampered with the machinery of the island's insurance industry.

However, a few had worried that the labor disputes, which were settled May 6, could hurt Bermuda's image as a captive insurance company domicile.

Widespread walkouts affecting the postal service, bus system, garbage service, taxis, hotels, schools, telephone system and electric company only slightly inconvenienced the insurance business, captive insurance company managers and reinsurance company executives said during telephone interviews.

Insurance industry offices and the offices of needed support industries—banks and law firms—were fully staffed and functioning.

However, the effects of the strikes on the postal service, hotels and taxi companies, whose services the insurance industry use heavily, might be felt for at least a month more.

Sources on the island said services will not return to normal for at least two weeks but probably not for a month.

Slower mail service has forced the insurance industry to rely more on private courier services. The shutdown of major hotels and lack of taxi service has caused directors' meetings and some business appoint-

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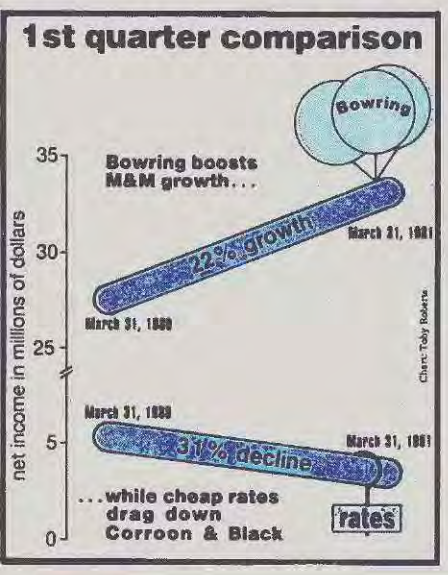
Brokers will press harder to feed slow 1981 growth



By LEN STRAZEWSKI

NEW YORK—The telephone won't stop ringing in the coming months as brokers continue their feverish push for new business.

Companies can expect more brokers competing for their business and their current brokers to be eager to expand present insurance programs.

The big push, which began in the last months of 1980 to offset falling commissions, continued into the first quarter of 1981. It just barely supported brokerage growth in the generally disasterous rate environment, industry sources say.

Brokerage revenues grew marginally in the first three months of 1981 for most of the publicly owned brokerages. The rate of growth was usually slower than the national inflation rate.

New income, a reflection of productivity and expenses, generally declined from the same period in 1980, causing slight declines in most of the brokers' investment value.

Marsh & McLennan Cos. Inc., parent of brokerage Marsh & McLennan Inc., was the big exception, showing dramatic gains fueled by its acquisition of C.T. Bowring, the British insurance group.

Corroon & Black Corp. was the big loser, with a drop of 31% in net income.

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Safety/ security

The aim of risk management is thwarted when customers or employees are injured because of lapses in safety and crooks can steal because of holes in security.

This issue's Spotlight Report focuses on how to improve safety and security precautions.

It explains how to protect against thefts of most everything, from million-dollar diamonds to packages that have to get there absolutely, positively overnight.

And it tells how some employers have virtually eliminated accidents and injuries in their workplaces through safety programs.

The full report on safety and security begins on page 13.

NEWSPAPER

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update:

Committee passes HMO bill

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chasing default insurance, entering into hold-harmless agreements with medical-service providers or setting up financial reserves.

The measure also would give $15 million in grants to HMOs that are in the final stages of development and would add $35 million over the next three years to the federal HMO revolving loan fund.

HMOs would be free to set rates based on the experience of a subscribing group. Mental health, drug abuse and alcoholism benefits would still be mandated for federally qualified HMOs.

A House Energy & Commerce subcommittee earlier approved a substantially different HMO bill (*BI*, May 4).

Panel OKs Social Security cuts

WASHINGTON—A House Ways & Means subcommittee has tentatively approved a package of cuts in Social Security benefits to save the system $1.2 billion in the next fiscal year.

The provisions would phase out benefits for those between 18 and 22 years of age who are children of Social Security recipients, eliminate minimum retirement benefits and allow benefits to be rounded to the lowest dollar. The bill also would end entitlement benefits for parents caring for children receiving Social Security benefits when the child turns 16, rather than 18, and change the date for automatic cost-of-living increases to Oct. 3 from July 3.

Waste rules may be eased

WASHINGTON—The Reagan administration is expected to make major concessions to the chemical industry by easing regulations and reducing costs for disposal of toxic-waste materials.

The administration will replace former President Carter's restrictive licensing procedures for all disposal sites with controls that will regulate dumping based on "the degree of hazard."

Johns-Manville ordered to pay

CLEVELAND—A federal court jury has ordered Johns-Manville Corp. to pay $850,000 to the widow of an asbestos worker who died of lung cancer in 1979.

The jury ordered the company to pay $500,000 of that amount in punitive damages, the first time such damages have been assessed the company in an asbestos case. The company will appeal.

Johns-Manville, which disposed of more than 400 asbestos claims last year, said the punitive award could affect future cases.

The company said the award was not justified because the worker, Edward Moran, was a cigarette smoker and this was a primary cause of his cancer. The Travelers is J-M's insurer.

Continental ESOP still alive

DENVER—Continental Airlines has stalled a takeover by Texas International Airlines' holding company, leaving hopes that Continental can still use an employee stock ownership plan to give corporate control to its workers.

Texas Air Corp., which owns nearly half of Continental's stock, wants to acquire the financially troubled airline. But an association of Continental employees is promoting employee ownership through a huge stock plan and has lined up commitments for $185 million in loans to finance the move (*BI*, May 4).

Attempts by Texas Air interests to kill the stock plan were thwarted at Continental's annual meeting in Denver last week.

Union leader's pension upheld

NEW YORK—A federal appeals court has ruled that retired National Maritime Union President Joseph Curran's $55,000-a-year pension should not be cut, reversing a lower court's ruling that had slashed his benefits to $36,000 annually.

A U.S. District Court had ruled in 1979 that the pension benefits for Mr. Curran, the union's founder, should be cut after a suit by two merchant sailors charging union officials with misuse of union funds.

FAA not part of settlement

WASHINGTON—The Federal Aviation Administration says it is not involved in a court-sealed agreement that apportions liability for the American Airline DC-10 crash in Chicago in 1979.

According to reports from London, American Airlines will pay the most and McDonnell Douglas Corp. will pick up the remainder (*BI*, May 4).

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Photo: Wide World

Workers, aided by a helicopter, recover the bodies of the victims of the copter crash near Williston, N.D.

State fund to pay benefits for deaths in copter crash

By STEVE SHERWOOD

WILLISTON, N.D.—Death benefits for seven of the eight persons killed in a helicopter crash near here early this month are covered by the North Dakota Workmans Compensation Bureau, officials say.

The May 1 crash in the rugged Badlands killed seven seismographers employed by CG&G Seismographic Co., headquartered in Denver.

The helicopter's pilot, employed by Blain Helicopters of Billings, Mont., was also killed. The men were returning to Williston after completing an oil exploration trip when the crash occurred.

An investigation is under way.

A CG&G spokesman said workers compensation insurance for the North Dakota employees is written by the state bureau.

CG&G is a French exploration company with an estimated 800 employees in the United States. It does oil and gas exploration, primarily working in the western states.

Blain Helicopter officials would not comment on the crash or on the workers compensation insurance covering its employee.

The death benefits for workers in North Dakota, paid to widows or orphaned children, is two-thirds of the deceased workers' wages up to a maximum of $90 a week, plus $7 a week for each child under 18, explained Duane Kessler, director of claims for the bureau.

The bureau was set up in 1919 by the Legislature to cover any industry-related illness or injury, Mr. Kessler says.

Employers are charged rates based on job classifications. These rates are established by the bureau and are paid on the first $3,500 of payroll per year per employee. ■

Profile deadline nears

The deadline is nearing for completion of forms for the annual *Business Insurance* Agent/Broker Profiles issue to be published June 29.

The issue features rankings of the top-20 domestic brokers, plus a listing of the three-largest Canadian companies. Also to be included is financial data from more than 200 of the nation's largest brokerages and independent agencies.

To qualify for participation in the listing, companies must deal directly with policyholders, have at least $300,000 in gross revenues and do at least 50% of their business in commercial lines.

If you have not received a form, they can be obtained by calling Claudette Eisenzimmer at 312-649-5398. The deadline for return is May 25.

Los Angeles County trying to stop work comp rate hike

By RHONDA L. RUNDLE

LOS ANGELES—The County of Los Angeles is championing the cause of California municipalities seeking reimbursement from the state for workers compensation benefit increases that were legislated last year.

The county will seek an injuction from the state Court of Appeals within the next two weeks to block implementation of the higher benefits, says Larry Launer, principal deputy county counsel.

He argues a workers compensation measure passed last August (A.B.2750) is unconstitutional because it mandates benefit increases for all private and public sector employees without appropriating funds for local governments to pay for those hikes.

Proposition 4, the so-called Gann Initiative approved by voters two years ago, specifies that if the state mandates costs to local government, it must reimburse them for those costs, explains Bill McClure, chief of the county's workers compensation claims division.

State law enacted through Senate Bill 90 also requires the Legislature to pay back municipalities for increased costs mandated by law.

Private employers stand to gain from the county's action, Mr. McClure says. If the Legislature had recognized its constitutional duty to appropriate funds as part of A.B. 2750, the measure probably would not have passed, he says.

Appropriation bills require a two-thirds majority for approval rather than a simple majority.

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Senators propose new Pooling Act

WASHINGTON—The Risk Retention Act has won the backing of two key Senate Republicans who have introduced a version of it.

Sen. Robert Packwood, R-Ore., chairman of the Commerce Committee, and Sen. Bob Kasten, R-Wis., chairman of the Commerce Consumer Affairs subcommittee, introduced a new version of the product liability pooling proposal last week.

Under the Packwood-Kasten bill, S. 1096, new risk retention groups would be barred from being established in the Cayman Islands or Bermuda three years after the act is enacted. An earlier version, S. 69, introduced by Sen. Howard Cannon, D-Nev., lacked the three-year provision.

The sunset provision on offshore risk retention groups is a compromise to bridge differences between business and insurance groups.

"Many members of the insurance industry believed that it was inappropriate to give that much power to foreign countries," Sen. Kasten said. "On the other hand, because the laws in an overwhelming majority of states are not adapted for the chartering of risk retention groups, product sellers believed that the inclusion of Bermuda and the Caymans as charters was absolutely necessary."

Sen. Kasten says he hopes that states will pass laws making it easier for businesses to set up insurance cooperatives to insure their product liability exposures during the next three years. ■

Employers defend work comp structure

By RHONDA L. RUNDLE

SACRAMENTO—California employers are mounting a frontal assault against continuing erosions in the exclusive remedy provisions of the workers compensation system.

Two bills have been introduced in the Legislature to shore up workers compensation under attack by recent court rulings allowing injured workers to seek additional damages through civil lawsuits.

These rulings strike at the heart of the workers compensation system, designed to promptly pay medical expenses, disability and death benefits to injured workers without litigating the issue of fault.

"Exclusive remedy is the single most important issue for employers in the field of injury litigation this legislative session," says Joe Markey, executive director of the California Self-Insurers Assn.

"This is one of our top priorities," echoes Susan Cavazos, employee benefits manager of the California Chamber of Commerce. "The concept of dual capacity has expanded dramatically in the last year and we want to stop it in its tracks."

The California Manufacturers Assn. is sponsoring the two measures: Senate Bill 995 introduced by Sen. Daniel E. Boatwright, D-Concord, and Assembly Bill 2065, introduced by Patrick Nolan, R-Glendale.

The two bills were identical as introduced, although S.B. 995 has sustained some minor amendments in the Senate. "If one dies there is still a vehicle to carry out our purpose," says Paul Gladfelty, director of workers compensation and unemployment insurance at the California Manufacturers Assn.

Strong opposition to the bills is already reported by the powerful California Trial Lawyers Assn. They are countering with a bill of their own designed to codify recent case law exceptions to exclusive remedy.

A.B. 2031 provides that workers can sue employers under certain circumstances enumerated in the bill. These exceptions include all the recent court decisions favoring employees in civil actions against their employers (see related story).

Employers intend to refer to these decisions in their bills, too, Mr. Gladfelty says, "because the courts have fashioned a remedy we feel never existed."

"It is our intention to reverse the decisions in the *Douglas vs. E.&J. Gallo Winery, Moreno vs. Leslie's Pool Mart* and *Bell vs. Industrial Vangas Inc.* cases Mr. Gladfelty says.

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Dual capacity judgments traced

Douglas vs. E.&J. Gallo Winery, 1977

Employee Douglas was injured climbing an elevator manufactured by E.&J. Gallo Winery.

This case set a powerful precedent for subsequent dual capacity suits brought by injured employees. Here, the employer's second hat was that of a manufacturer of a product for sale to the public.

The appellate court held that since the employer would be subject to liability for products sold to the public, the employment relationship was only coincidental.

"In electing to manufacture elevator scaffolding to the public rather than obtaining it from a third-party manufacturing firm, the defendant should be held to the standard of manufacturers generally," the court said.

Bell vs. Industrial Vangas Inc., 1980

Employee Bell worked for Industrial Vangas Inc. as route salesman. He suffered injuries from a fire that occurred during the process of delivering gas to a customer.

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Photo: Joliet Herald-News

A showcase at Bergner Weise in Joliet is filled with the "hot ice" collection.

Indeed, this jewelry is a real steal

Some of the jewelry on sale this month at the Bergner Weise store in Joliet, south of Chicago, is a real steal.

The jewelry is created from diamonds bought by Stanley Mark Rifkin, a 28-year-old computer wiz who embezzled $10.2 million from the Security Pacific National Bank by electronically transferring the money to a New York bank and then to his own Swiss account (*BI*, Nov. 13, 1978).

Mr. Rifkin then bought 120,000 fine diamonds from a Soviet export firm. However, his spree was halted by the FBI, and Mr. Rifkin is in prison.

But the story of the gems doesn't end there. The bank auctioned the diamonds in October 1979 for about $7 million to help recoup its losses from the theft. It filed claims for the balance of the loss with its insurers, Fireman's Fund Insurance Co., The Hartford Insurance Co. and Aetna Life & Casualty Co., but swallowed a $1 million deductible.

The diamonds were purchased by an Israeli firm that sold them to Finlay Fine Jewelry in New York.

Finlay hired designers to mount the diamonds into fashionable pieces of jewelry, including some set with emeralds, rubies, sapphires and opals especially cut in Brazil and Southeast Asia.

The "hot ice" collection is traveling to fine jewelry stores across the country.

And—just to be sure—security is tight at the Bergner Weise store.

Self-insurance pays off for Kentucky coal firms

By EILEEN NORRIS

LEXINGTON, Ky.—A group of self-insured coal producers is really digging its first cut in workers compensation costs.

And the group of small coal producers is patiently waiting to see what additional savings might be ahead.

The group's organizers are still reeling in the luxury of a 10% decrease in their initial costs, says John J. Brady, president of the Kentucky Coal Producers Assn.

The state's workers compensation board approved self-insurance for the group two months ago. The fund offers coverage for workers compensation and occupational disease (black lung) as required under state and federal guidelines.

Although there are other self-insured workers compensation pools in Kentucky, this is the first in the coal industry.

"It was a 10% savings right off the top," Mr. Brady says.

Because losses must be reserved for the group's first few years, the employers won't see any rebates in premium for the first two years, he says. "But after that, we could cut our costs by about 35%."

Self-Insurance Consultants of Lexington has the primary contract with the coal operators, and Corroon & Black Management Inc. is handling the claims administration for the pool's 16 employers.

The self-insured fund only has about $2.5 million to $3 million in total premium volume, Mr. Brady says. The group has helped the smaller employer who can't possibly afford to self-insure its own workers compensation and black-lung risks, he says.

As it stands now, mine operators in Kentucky cover workers compensation through an insurer, self-insure or are in the group pool, says Scott Getsinger, legal counsel for the Workers Compensation Board.

Then there are some operators who try to

Continued on page 67

Roofers join to reduce cost of cover

By JERRY GEISEL

CHEVY CHASE, Md.—Roofing contractors in the Baltimore-Washington area now can hang their insurance shingle on a Bermuda captive.

Roofers in the District of Columbia, Maryland and Virginia were having trouble hanging onto their insurance coverage despite excellent loss ratios.

"Roofers were being forced into assigned risk pools (where premium surcharges often are tacked on) because insurers wouldn't provide coverage," said John Matternas, chairman of the board of IM of America, a brokerage firm in Chevy Chase.

This prompted the roofers to form a group-owned insurance company in

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Security safeguards scroll of democracy

By JOHN MAES

CHICAGO—The wall of security and insurance around the Magna Carta when it tours the United States is as airtight as its display case.

The 766-year-old English document, which is the foundation of today's democratic system, is guarded around the clock and is carried in a specially built case that is bombproof, fireproof, waterproof, explosionproof and bulletproof, said Robert Green, executive director of the Magna Carta in America Foundation, an interest group that organizes the U.S. tours.

The 66-pound case also floats "and does about everything but brew English tea," he quipped.

The document, one of four remaining original copies, is insured, but Mr. Green would not disclose limits for fear he would help potential thieves set a ransom.

While in the United States, the Magna Carta is guarded by Purolator Armored Inc. security personnel. Purolator's insurers provide the insurance coverage, Mr. Green said. Purolator, a company based in Piscataway, N.J., would not disclose its insurers.

When the document is en route by jet to its home in Lincoln Cathedral in Lincolnshire, England, Royal Globe Insurance of London underwrites the insurance, Mr. Green said. Last year, Lloyd's of London insured the document while it was on display in Dallas.

Procedures and times for moving the document are varied to avoid setting a pattern that thieves could follow.

"We make no announcements of arrivals and departures," Mr. Green said last week, the last day of the exhibit's stay in Chicago, the final stop of the nine-city U.S. tour.

Security guards were to travel

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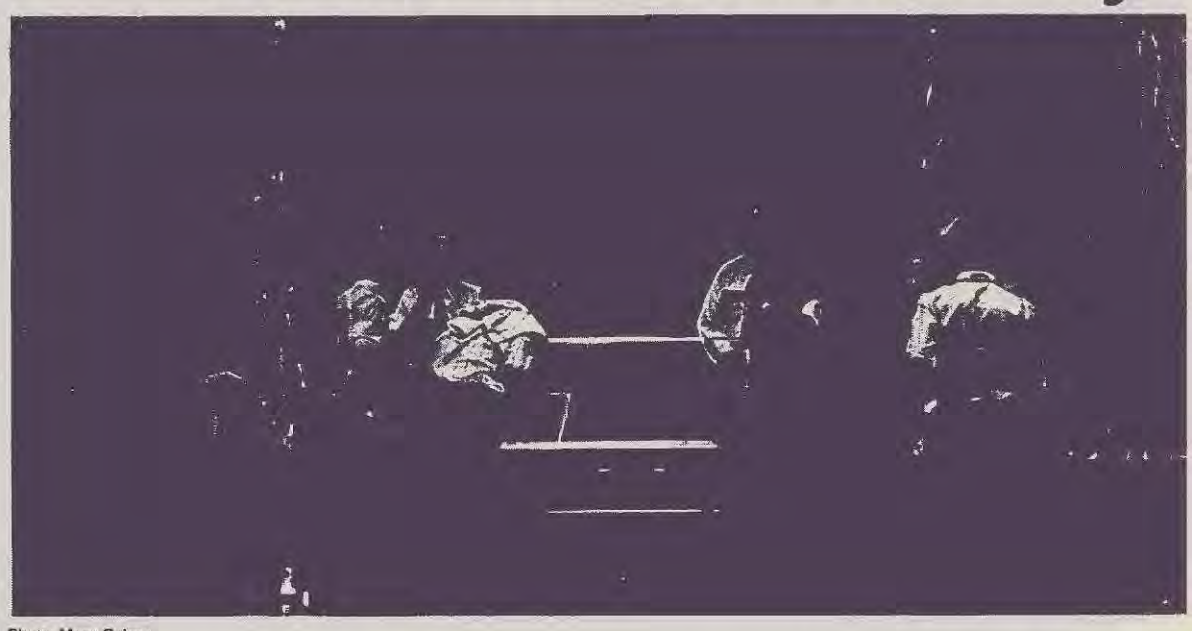


Photo: Mary Cairns

The Magna Carta is examined by curious Chicagoans during its recent tour of the United States.

Court to rule on UMW royalty payments

The U.S. Supreme Court will decide whether Kaiser Steel Co. can be held liable for failing to make royalty payments to the United Mine Workers health and retirement plans.

Kaiser has refused to abide by a 1974 contract provision with the UMW that requires unionized coal companies to pay a $1.90 royalty to the UMW pension and health funds for each ton of non-union coal purchased.

A dispute on the royalty penalty, which the soft-coal industry wants to eliminate, is blocking an agreement between striking UMW members and coal companies (*BI*, April 27).

When Kaiser refused to make the royalty payments for non-UMW coal purchased from Mid-Continent Coal and Coke Co., the union filed suit.

benefit beat

Kaiser, in its defense, said it didn't have to make the payments because the royalty provision violates antitrust and labor laws.

"Where a contract provision, such as an illegal hot-cargo clause, is void as against public policy, it has no existence in the eyes of the law," Kaiser argued in its brief to the court.

The royalty payment violates federal antitrust law "because it impairs the ability of non-UMW producers to compete with UMW producers for sales to companies such as Kaiser Steel and because it penalizes such companies when they choose their suppliers on the basis of competitive merit," the Kaiser brief said.

A U.S. District Court and a federal appellate court earlier ruled in favor of the union. If Kaiser thought the royalty provision was illegal, its objections should have been raised in a complaint to the National Labor Relations Board or in federal court, the lower courts ruled.

Pension boost

New Jersey's 65,000 retired public employees will receive an 11% cost-of-living increase in August that will continue through fiscal 1932.

The increase, approved by Gov. Brendan Byrne, is expected to cost state, county and local governments an additional $14 million.

An extension of the cost-of-living adjustment for teachers, police officers, firefighters, correction officers and other state retirees beyond a year would require further legislative action.

Pension plan

Facet Enterprises Inc. has filed suit in federal court in Tulsa, Okla., asking that its pension plan be ordered terminated.

The firm and United Auto Workers locals at three plants have agreed to terminate the plan and replace it with a new one to assist the financially troubled firm. But the federal Pension Benefit Guaranty Corp. disagrees with the substitute arrangements and declared the plan should be active.

The company had been incurring some $3.8 million in pension-related expenses and has unfunded liabilities of about $30 million.

Strike settled

Members of Local 225 of the Transport Workers Union of America ratified a three-year contract late last month that includes provisions for improved pension, major medical and additional medical benefits.

Exact details on the contract affecting 237 drivers and mechanics employed by Short Line Bus Co. in Mahwah, N.J., are not available.

The ratification came after a 15-day strike by the transport workers affected New York-bound commuters from New Jersey, New York, Connecticut and Pennsylvania. ■

london line

Salem ruling is appealed

LONDON—Lloyd's of London underwriters are appealing the High Court verdict that it pay 10 million pounds ($25.5 million) to Shell International for the lost oil cargo on the tanker Salem (*BI*, April 13).

A judge earlier ruled in High Court that there was an insured loss under the "takings at sea" wording in the policy, and he ordered Lloyd's to pay.

Lloyd's underwriters have insisted that the sale of the 179,000 tons of crude oil to South Africa by the ship's owners without Shell's knowledge and before the tanker was scuttled was not covered by the insurance contract.

"Underwriters' defense rested on the position that the circumstances of the loss of 179,000 tons of crude oil in the Salem case did not constitute the operation of a peril insured against on a limited cover policy," Lloyd's said as it announced the appeal.

Self-regulation

Committee readings will begin this week in Parliament on the Lloyd's of London bill on self-regulation.

The committee will hear a petition against the proposed bill that was submitted by two Lloyd's underwriting members. The petition includes changes the members would like to see in the Lloyd's bill.

Four members of Parliament will sit on the committee, two from the Labour Party and two from the ruling Conservative Party.

Antarctic crash

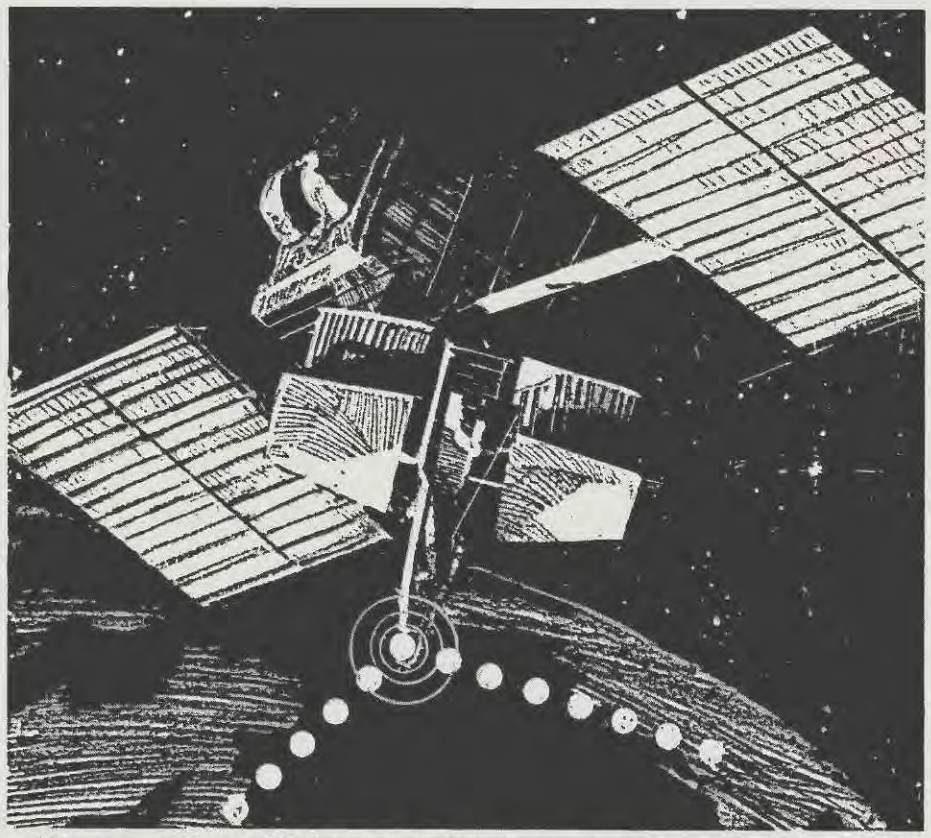
Aviation insurers intend to study the latest development in the case of the Air New Zealand DC-10 that crashed into an Antarctic mountain peak in November 1979, killing 257 people (*BI*, Dec. 24, 1979).

A new report by a special commission blames the airline for changing the computerized flight plan for the sightseeing trip without informing the crew. The finding contradicts suggestions that errors by the crew caused the jetliner to slam into 13,200-foot Mount Erebus.

Air New Zealand's broker, C.T. Bowring in London, is threatening to challenge the New Zealand panel's finding.

Claims from the victims' relatives are still being examined, and no likely cost has been determined. ■

Here's why reinsurance brokers worldwide communicate with Allstate:



Allstate will use SBS I, a satellite launched November 15, 1980, to facilitate its worldwide communication network.

1. Professionalism
2. Market continuity
3. Financial strength and capacity

Allstate Reinsurance.

Allstate Reinsurance
Allstate Insurance Company
Northbrook, Illinois, U.S.A.

Allstate Reinsurance Co. (U.K.) Limited
London, England

Altstadt Reinsurance
Altstadt Versicherungs A.G.
Zug, Switzerland

Allstate Insurance Company, Northbrook, IL

Photo: Mary Cairns
Video display terminals with unattached keyboards and controls to adjust brightness and contrast on the screen are preferred.

Careless VDT planning can prompt complaints

By JOHN MAES

CLEVELAND—Companies using video display terminals to get the job done in a modern manner are flirting with an old problem: workers compensation claims.

The computer terminals that make office jobs easier by reducing paperwork and speeding information retrieval have come under criticism from labor groups.

Foot and back soreness, muscular pains and headaches, nausea, eyestrain and blurred vision are reported by employees who work at terminals all day, said Judith Gregory, research director for the National Assn. of Office Workers. She spoke at a conference on May 2 sponsored by the Ohio Coalition of Labor Union Women.

If the VDT situation is not corrected by employers, it could result in decreased productivity, absenteeism, health insurance claims and workers compensation claims, Ms. Gregory said.

A number of workers compensation claims have been filed by office workers alleging job stress and injuries because of poor office design, bad lighting, poorly constructed office furniture and job repetition.

"This would indicate that we will see claims from VDT users," she said.

She acknowledged that her organization has not determined how many claims have been filed in the United States for injuries stemming from the computerized terminals, but she said 10 such claims, alleging visual problems, are pending in Canada.

Some 7 million to 10 million VDTs are in use in offices throughout the country. The number is expected to grow as companies seek to raise productivity and efficiency.

A recent study by the National Institute of Occupational Safety and Health (NIOSH) revealed that VDT users reported more frequent cases of anxiety and eye and muscular complaints than other office workers.

The agency has recommended operators be given rest breaks of 10 minutes an hour and that glare on VDT screens be controlled.

An Austrian government-sponsored study of offices in Vienna concluded that blurred vision occurs after four hours of nonstop VDT operation, Ms. Gregory said. Normal focus did not return for a full 16 minutes, creating a driving hazard when an operator leaves the terminal and immediately drives home.

As a result of that study, the Austrian government has ordered all VDT operators to be given breaks every four hours, she said.

Evidence also indicates that eyestrain causes transfer of pain from eye muscles to other areas of the body in the form of headaches, nausea and stomach pains and overall fatigue.

"Depending on how it's implemented and what controls you have over it, the VDT can be a hardship rather than the benefit to your job it's supposed to be," she said.

But employers can minimize the hazards through purchase of good equipment and workplace design, she said.

Good equipment includes detachable keyboards that allow operators to control the distance between their eyes and the screen; crisp, clear characters on the screen; and controls to adjust brightness and contrast, Ms. Gregory said.

The employer also should see that operators are provided with chairs with strong backs to avoid postural problems. "At $75 each, it shouldn't be too much to ask for an employer to provide good chairs. They pay for themselves over time with fewer back injuries."

As for office surroundings, the more the employer can do to reduce glare on the VDT screen, the better, she said.

Terminals should be placed a safe distance from windows and lighting should not be too bright. Dimmer switches are one of the best devices for reducing glare.

"It's not that difficult for employers to bring in mechanisms that help you adjust the brightness of your lighting," she said.

Matte wall paint or a color that absorbs light also reduces glare, she said.

Employers also should consider rotating jobs for clerical workers who, according to the NIOSH study, suffer a much higher rate of stress than professionals who use VDTs, Ms. Gregory said.

Stress is much more likely to occur in VDT workers who perform repetitive tasks according to rigid rules. ■

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Abortion benefit deadline delayed

washington

By JERRY GEISEL

WASHINGTON—The Labor Department has postponed for the second time the date on which employers could be hit with federal sanctions for defying a federal law that requires companies to pay employees' costs for abortions.

The Labor Department, in final rules that were to go into effect in late January, said employers who refuse to pay abortion-related costs under health insurance plans could be barred as federal contractors.

However, the effective date on the rules was delayed until April 29. It now has been pushed back to June 29 "to permit consultation with interested groups on the issues," the government said.

The rules apply to some 300,000 companies that each do more than $10,000 of business with the federal government.

The Labor Department rules on abortion benefits are part of the agency's anti-discrimination rules governing contractors who serve the federal government.

The federal pregnancy benefits law and Labor Department contractor regulations require employers to offer equitable pregnancy benefits and pay for abortions on the same scale they pay other sicknesses if the woman's life is endangered by pregnancy.

Employers also must pay for medical complications from an abortion.

Collyer appointed

Robert Collyer, a veteran workers compensation expert, has been named deputy undersecretary at the Labor Department's Employment Standards Administration.

Mr. Collyer will be the Labor Department official in charge of the federal Longshore and Harbor Workers Compensation Act and the Black Lung Disability Program.

Mr. Collyer previously was executive assistant for UBA Inc., a research and educational organization specializing in workers compensation and unemployment compensation issues.

Lead regulations

Occupational Safety & Health Administration rules lowering the level of lead to which workers can be exposed go into effect May 15.

Under the rules, which apply to all lead industries except primary and secondary smelters of metal, employees must be removed or transferred to another job, without loss of benefits, if the lead level in their blood equals or exceeds 60 micrograms of lead per 100 grams of whole blood. The old "trigger level" for removal was 70 micrograms.

At the same time, workers can return to their jobs when the lead level in their blood drops to 40 micrograms, a decrease from the current 50 microgram standard.

For primary and secondary lead smelters, the effective date of the new trigger levels has been postponed to June 1 to give OSHA more time to consider evidence submitted by those industries in support of their request for a one-year delay.

Social Security

The Reagan administration will propose cuts in the Social Security system soon to keep the program solvent, says David Stockman, director of the Office of Management and Budget.

"We have to look at the whole system in terms of the cost and benefit structure," Mr. Stockman said. "We are doing that now, and there will be recommendations to the Congress in the relatively near future."

Mr. Stockman did not specify what changes would be proposed. However, a special Reagan administration transition team last fall recommended a gradual increase in the Social Security retirement age to 68 and linking benefit increases to wage hikes when wages rise at a slower rate than prices. (*BI*, Nov. 24, 1980). ■

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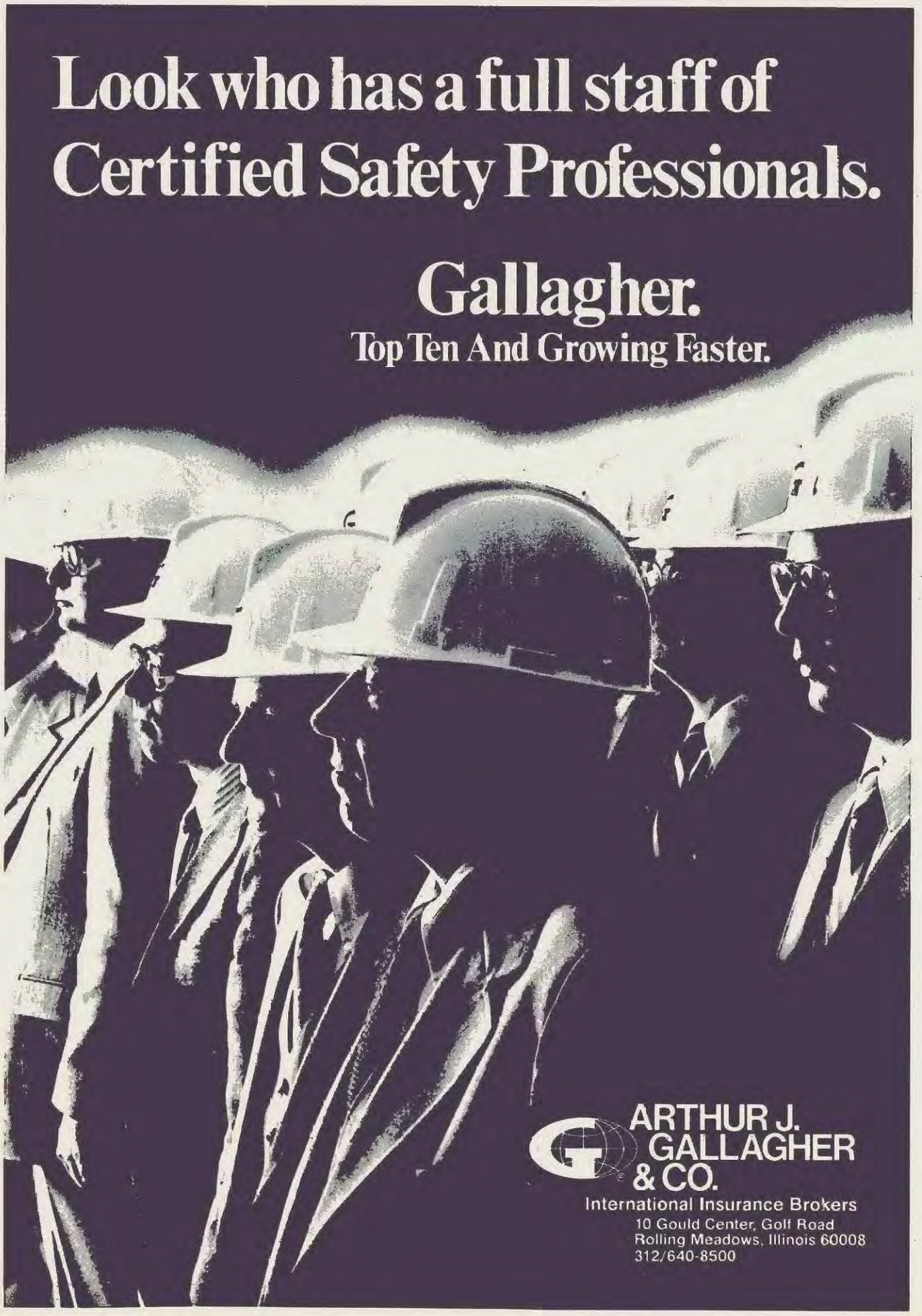

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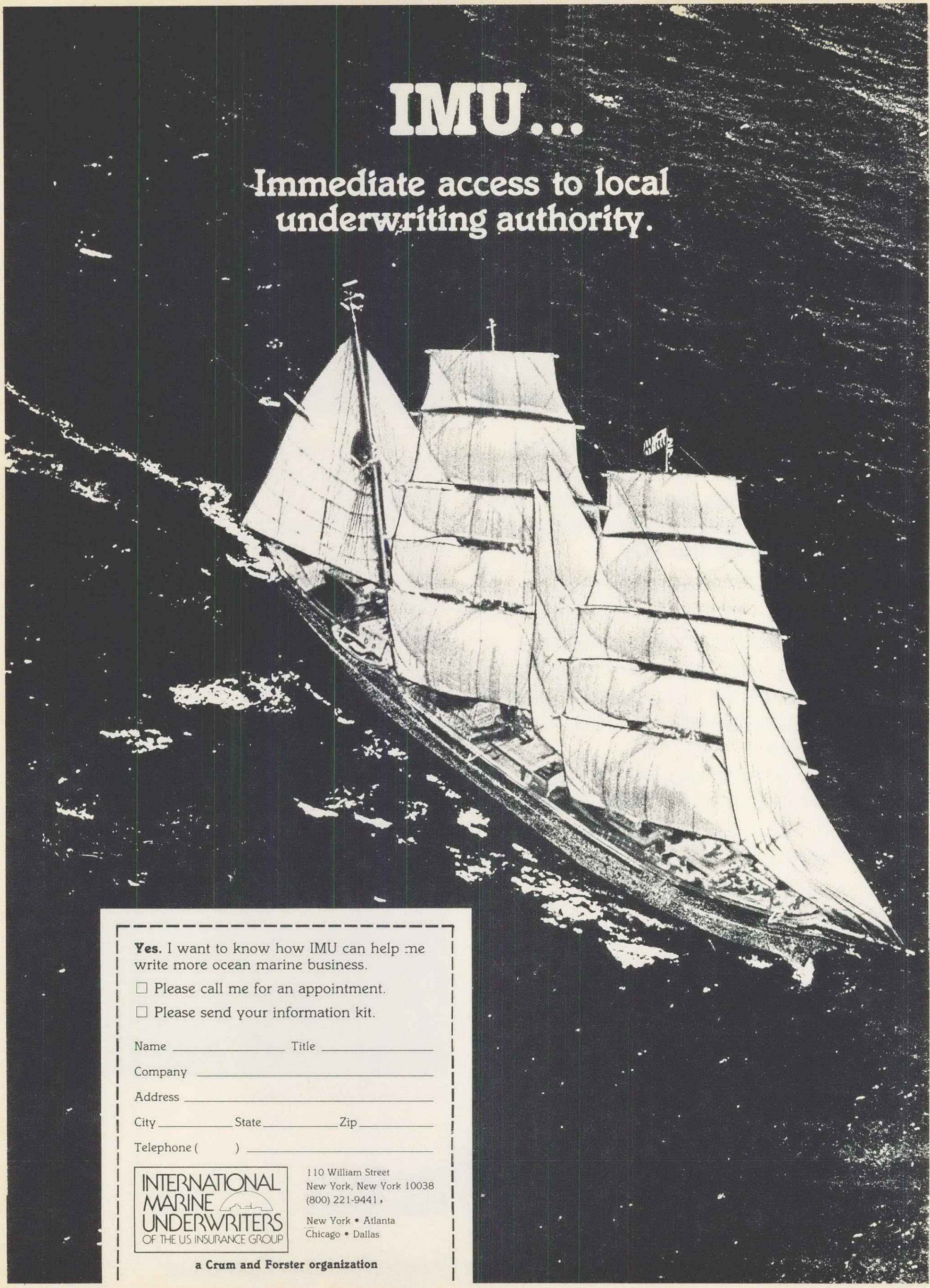

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Product safety importance grows

By JOHN MAES

Product safety.

The term is appearing more frequently in corporate operations manuals.

Professionals with product safety know-how are a hot commodity in the job market, and the product safety manager is running a larger and more important branch of the company management tree.

Most product safety managers don't frequently cross paths with risk managers, but experts predict that as both professions grow, risk and product safety managers will work more closely together.

Your company's product safety manager is someone you should know.

A 1977 survey by Iron Age magazine showed that 38% of the 843 companies surveyed had some type of product loss-prevention program.

"Not too many years ago, the product safety manager was only found in the company that had been hit with a lawsuit," said Russell E. Marhefka, director of product safety programs for the National Safety Council. "Even then a common response was to give one man another hat to wear among three or four others."

But more recently, companies have realized that attention to the problem not only helps defend a lawsuit, but also can protect the bottom line, he said.

"Companies have become more aware of this," Mr. Marhefka said. "They realize they must be much more knowledgeable about product safety than they had been in the past."

Many companies, especially large, heavy-industrial concerns, have hired managers to set up, coordinate and monitor product safety programs. Smaller companies hire consultants or have outside agencies monitor their safety efforts.

"If it's a smaller company manufacturing a highly-regulated product, it might just have an organization like Underwriters Laboratories do an evaluation of its product design and get the U.L. listing," said Robert Shankula, a loss-control supervisor specializing in product safety for INA.

"Then U.L. will come along once a year and monitor the design to see that it has not been changed."

At some companies, product safety involves multiple departments and hundreds of employees, especially in industries heavily regulated by the government.

At General Motors Corp., auto safety enginnering is a branch of GM's environmental activity operation. GM also conducts research and maintains the "state of the art in technology and safety," according to a GM spokesman.

Safety research on current vehicle models and crash testing is conducted at GM's research and development laboratories in Milford, Mich.

Another company with strict product safety practices in a heavily regulated industry is Searle Corp. in Skokie, Ill., a pharmaceutical manufacturer.

All new products are first tested on animals, followed by clinical studies. Extensive data is compiled and turned over to the Food and Drug Administration if the product is found to be safe. The FDA decides whether to allow the company to market the product.

Not only are companies active in product safety development, but professional associations also are entering the arena, too.

The movement has also given birth to the Certification Board for International Product Safety Management in Bethesda, Md., which is developing a full-fledged certification program in product safety. Several hundred professionals have already "grandfathered" into certification in the last year, based on their work experience, said Harold M. Gordon, its director.

The insurance industry also has supported the growth in product safety programs. In some industries, insurers demand training.

"If the product is something innocuous like phonograph records, we probably won't require much," said INA's Mr. Shankula. "But if it's a high-risk industry like cranes or hoisting equipment, then we would need to see a pretty strong

Continued on next page

Du Pont's emphasis on employee safety pays big rewards

By STUART EMMRICH

WILMINGTON, Del.—When it comes to safety, Du Pont Corp. is a hard-liner. But it pays off: It is also an industry leader.

Safe job performance is a mandatory condition of employment for every Du Pont worker, and employees have been known to be swiftly dismissed if they "willfully commit an unsafe act," according to David Willette, assistant director of safety and fire protection.

But company officials aren't hard on just their employees; they demand a lot of themselves.

"We start with the belief that all occupational injuries are preventable," Mr. Willette said. "There hasn't been one yet that couldn't have been prevented."

If such an accident does occur, it is seen as a breakdown in the company's highly sophisticated—and successful—corporate safety program.

Results from the program show why Du Pont is considered a corporate leader in workplace safety management.

From a U.S. workforce of 105,000 people, the company last year reported only 40 OSHA lost work days, a rate of 0.039%. That record is 68 times less than the all-industry average and 23 times less than the chemical industry average, Mr. Willette said.

Du Pont's 1980 safety performance earned the company the National Safety Council's Award of Honor for the 34th time. In 1979, the council recognized Du Pont's Chattanooga plant as the world's safest industrial plant.

The company's Kingston, N.C., plant's string of more than 66 million injury-free exposure hours achieved in 1977 still stands as the world's-longest unbroken accident-free report, according to Du Pont.

Continued on page 16

Photo: DuPont

A synthetic substance is sprayed with water at a Du Pont plant.

Spotlight Report

More companies stress product safety

Continued from previous page
program.

"When they don't have a good program and it's a hazardous product, they won't get insurance with many companies. A good program opens up insurance markets to these companies and a lack of one might prevent renewal or their rates will go a lot higher," he said.

David Ludwin, a product safety specialist with Marsh & McLennan Protection Consultants in Chicago, spends about 75% of his time on product liability loss-control issues. The M&M safety consulting arm has sponsored 10 seminars on the subject in the last two years, updating trends and supplying the latest information on tort reform and legislation.

"Every week, I get a phone call on a different problem," he said.

Most product safety executives are now influential corporate officials, but not powerful, he said. The power to stop a shipment or an assembly line is still reserved by upper-level management.

However, product safety managers commonly have access to all levels of management, allowing them to lobby for the measures deemed necessary to solve a problem, Mr. Ludwin said. "They must have the access to top management and be able to cross these interdisciplinary lines of marketing, engineering and design.

"He should be a coordinator, a person that can resolve differences between various departments because the courts have held that it's not only the cold, hard product that can get you into trouble, but also the way it's designed and marketed," he said.

Although product safety and risk management may be far apart on a corporation's organizational chart, Mr. Ludwin said good risk managers will eventually forge a link with product safety executives to stay abreast of potential product liability problems.

"There should be a close association between the two," he said. "The risk manager should definitely play a part in the control of the problem. The risk manager should be a catalyst in this type of communication. The risk manager and product manager need to communicate."

AMF Inc. in White Plains, N.Y., takes communications into its job design. Unlike other companies, its corporate manager for product liability loss prevention, Lee O. Gaskins, reports to the risk management department.

Mr. Gaskins, during his 10 years with AMF, has developed a training program for product liability loss coordinators in each of the 25 manufacturing units of the company.

Mr. Gaskins talks extensively with insurance director Wayne Harrison, he said. The communication is a help in determining how product liability claims, which are filed through the risk management department, will be handled.

Careful analysis must be made to decide whether to defend or settle a claim. "You can't be too quick on either side," he said.

Mr. Ludwin of M&M Protection Consultants predicted steady, continued growth in product safety programs. The product safety/product liability loss professional will also become a more influential figure in the corporation. "The product safety manager will assume a much more influential position once top-level management realizes the savings.

"It will be a less emotional, more enlightened response," said Mr. Ludwin, referring to the frenzied interest in product safety programs generated by the product liability suit scare of several years ago.

Companies will try to bring safety into product design "because they realize the savings go beyond insurance rates. It's a cost benefit," he said. ■

Official keeps records handy

By JOHN MAES

AURORA, Ill.—No piece of information about a product is too insignificant for Gordon L. Leach, product safety coordinator for Stephens-Adamson Inc.

That's because you never know if a piece of information will affect the defense of a product liability lawsuit, he says.

"Even the so-called insignificant hand-scribbled note can have its importance in the future," he says. "That's all good product safety management is: worrying about tomorrow's problems today."

That means special care every day to preserve data that could save the firm millions of dollars.

The product safety executive works directly on the defense of product liability lawsuits for the manufacturer of bulk material handling equipment, and the research is no simple task.

The executive starts by gathering all the information possible about the product and the accident that spurred the lawsuit.

Some key information includes:

- Contract documents.
- Correspondence, notes, memorandums and any pieces of written communication between employees about the product.
- Engineering drawings.
- Service records.

Mr. Leach considers record maintenance one of the most challenging aspects of his job with Stephens-Adamson, a subsidiary of the Milwaukee-based Allis Chalmers Corp.

Although Mr. Leach spends only about 50% of his time on product safety, devoting the other half to his role as cost-improvement manager, he spends many hours gathering records for the company's passenger conveyors that were discontinued in 1969.

Although his company no longer sells the product, conveyors are still in use and will be for many years. Thus, having adequate records may be vital to the defense of claims filed 10 years from now.

"If there's a suit, I start by getting as much information as possible," he says. "I may also go out to the scene of the accident to make sure the product is really ours and then determine if there was anything that could have been done to prevent the accident."

He also takes pictures and conducts interviews as part of the company's investigation.

This information is shared with corporate counsel for defense and provides the attorneys with the necessary "education" about the product to bolster the company's defense. ■

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Product safety is multifaceted at Case

By JOHN MAES

RACINE, Wis.—J.I. Case bills itself as the company that makes machines to match the job.

That gives Alan L. Dorris a full-time job trying to make sure that the machines are safe to operate.

Mr. Dorris is corporate manager of product safety for the manufacturer of heavy construction, excavation and outdoor power products. Case operates in an industry that is no stranger to the wave of product liability suits that have hit U.S. corporations.

A former teacher who holds a doctorate in industrial engineering from Georgia Tech, Mr. Dorris is responsible for coordinating product safety programs and policy at all domestic and foreign installations of Case, a subsidiary of Tenneco Corp.

One of Mr. Dorris' goals is to add to the product liability ledger the statistics no one will ever see: the suits that weren't filed and the customer injuries that didn't occur because of safety consciousness in the design of Case products.

"We'll never know about the accidents that didn't happen," he says. "That's just not on the scorecard."

In formulating product safety policy, Mr. Dorris says he likes to hear many opinions from within the company, spreading the product safety message far and wide. He also advocates working with outside groups to promote safe products for all kinds of industries.

In three years at Case, Mr. Dorris has designed a series of product safety programs.

For example, when a new Case product is being developed, or an existing one is modified or redesigned, Mr. Dorris conducts design-safety review sessions in which representatives of different departments—engineering, legal and even marketing—will offer opinions about the design.

"They all come in with a different perspective about the product," he says. "I like to have a variety of opinions because the only way to have a safe product is if it's designed, manufactured and marketed safely. If you fall down in any one of those areas, you can end up with a problem."

Another project has been the education of Case overseas managers about the realities of product liability problems, for which Mr. Dorris has traveled overseas.

Through meetings, presentations and printed materials, he tries to impress upon international managers in the nine different nations in which Case operates that the product liability problem will eventually hit them as hard as it has hit U.S. corporations.

"They don't realize that they will have a product liability situation analogous to what we have," he says.

Mr. Dorris is also active with outside groups and trade associations like the National Safety Council and the American National Standards Institute.

Professional involvement, he says, is good for any product safety professional. Seminars offer product safety managers an opportunity to listen to ideas on product safety and provide "a forum in which to work for common safety goals."

Such discussion actually helps all of industry because it generates ideas that can make products safer, he says. For example, Mr. Dorris is working with a Standards Institute committee currently developing safety warning signs and stickers for a variety of products.

"We're developing something that can help the entire industry and is nationwide in scope," he says.

Mr. Dorris reports to the corporate vp for technical affairs at Case. Dealing infrequently with the risk manager, Mr. Dorris keeps in closer touch with the legal department. To aid Case's defense when it is sued for product liability, Mr. Dorris supports the legal department by gathering information about the product and the accident.

"We look for a history of the machine, what equipment it had on it, what manuals there are on it, any repairs that were done, how and when it was shipped and if the machine was modified," he says.

The legal department turns over information gathered by Mr. Dorris to the company's insurers.

Service personnel at various Case outlets provide a "gold mine of information," for these reports he says. "Your service people can have valuable insight into whether the accident is probably a freak or whether it's likely to happen again."

Talking with salesmen and other personnel who deal directly with customers and reviewing service warranty information are other sources of information about possible product problems.

Mr. Dorris also drives tractors, backhoes or forklifts and watches film or videotape of actual use, observing how the machine is handled. Sometimes a customer does not use the product in the way designers had originally intended and modifications must be made, he explains.

Occasionally, Mr. Dorris deals with the the safety department at Case, but mostly, product safety and industrial safety are "autonomous" operations.

"We do interface, however, because, for example, there are workplace accidents that involve the safety of the product itself. If the worker slips and falls while using the product, maybe the customer will too. It's the type of thing you may want to follow up," he says.

Mr. Dorris does not have authority to unilaterally stop a shipment or remove a product from the assembly line because of a safety problem. But the product safety manager anywhere in industry with that type of authority is rare. The field still does not have the recognition it deserves from top management, he says.

"We're seeing a lot of seminars and training programs for product safety professionals and they are becoming more influential in companies. But the commitment for product safety must come from the top down," he says.

But Mr. Dorris is very influential in policymaking and has access to all levels of Case management, if necessary, to suggest steps that will minimize a product risk.

"If something happens that is not in our best interest, I have access to the level of management needed to get the problem resolved," Mr. Dorris says. ■

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Safety:

Du Pont stresses it

Continued from page 13

Perhaps one of the reasons Du Pont's safety record is so enviable is the commitment top executive officers give to it. The chairman sets safety policy, the chief executive officer is also designated the chief safety officer and safety is a standing topic at every regular meeting of the president and vps, Mr. Willette said.

Another reason might be its heritage. Du Pont's safety awareness dates back to the early days of the company in the early 1800s, when E.I. Du Pont ruled that no employee could enter a new or rebuilt powdermill until a member of top management had personally operated it.

In 1811, the company issued its first official safety rules, but the safety program really took hold with the formation of the safety & fire-protection division in 1926.

This 40-member operation makes sure that the company meets safety and health goals and assists work-site officials in fulfilling those goals.

"Our function is to provide support to the line operations, which come to us as a resource," Mr. Willette said. "But it is every supervisor's responsibility to make sure that his site is operating safely. They are the ones who best know the problems on the job and how best to correct them."

Supervisors are expected to take an active part in monitoring safety in the workplace.

"No one sits in his or her office shuffling papers. The supervisor goes around the work site to make sure that employees are performing their jobs safely," he said.

That is backed up by regular safety audits conducted by safety committees at each of the sites.

These audits note the number of unsafe acts that occur during a periodic review and then grade them according to severity. A chart is then drawn up to monitor the rate on unsafe acts, to see which departments are showing increases in incidences and their reasons.

"An upward trend might be explained by distractions at the work site or an influx of new employees," Mr. Willette said. "Or it might show that some of the safety measures we have developed aren't getting across to the employees properly and that we should revise our training and education programs."

The company is now trying to put together guidelines for safer operations of its lift trucks, a study that was prompted after there were two fatalities associated with the trucks in the past two years.

The company has found out so far that very little was known about the stability of an empty lift truck. An empty truck is more likely to tip over than a loaded one. It was also determined that supervisors were not as knowledgeable about the safe operation of the trucks as they should have been and that more extensive training programs were needed, Mr. Willette said.

Those training programs are the cornerstone of the company's safety policy.

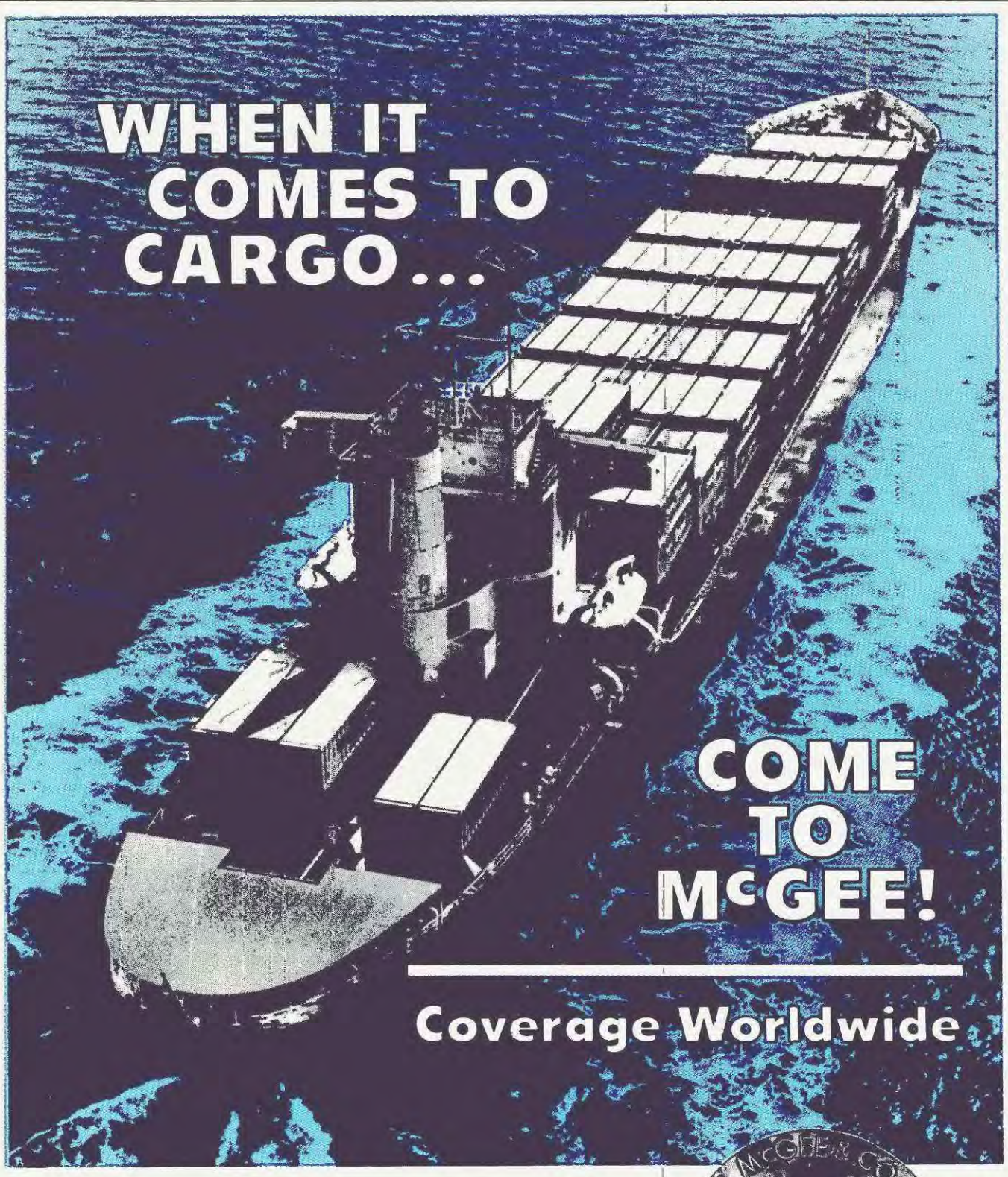
New employees are immediately taught the company's safety rules and what equipment and safety devices he or she must wear on the job. The new employee is also given written materials on safety procedures.

That indoctrination continues all through employment. Du Pont employees are expected to attend at least one safety meeting a month.

Du Pont officials want the company to be known as synonymous with safety, a desire that affects almost every operating decision.

"Our philosophy is that if management says that workplaces have to be safe, they will be over a period of time. That commitment takes more than just thumping on desks, however. There has to be resources and an organization behind it.

"DuPont has that," he says. ■



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Unions' role increasing in worker safety issues

By STUART EMMRICH

WASHINGTON—Last May, Eula Bingham, then-director of the Occupational Safety & Health Administration, signed a regulation that gave American workers the right to inspect company-held medical records.

This precedent-setting decision in the field of workplace safety received widespread publicity and was viewed by many as an important change in employee-employer relations.

Though this rule was later suspended for the construction industry, it remains in effect for other trades. Meanwhile, another provision to that regulation may have much greater ramifications.

That provision gives unions, with the consent of the employees, access to those medical records.

So while an employee might look at his or her own record and notice an unreported health problem, unions with access to a great many records may be able to spot patterns of health problems among workers. Then the union could build a case of occupational hazards on a wide scale.

The OSHA regulations, by including unions in the record/access issue, not only tacitly imply the important role of unions in monitoring workplace safety, but also give the unions the potential to greatly increase their influence over how an employer protects its workers' health.

"We fought very hard for this rule. We think it will have a great impact," says Michael Wright, an industrial hygienist for the United Steelworkers Union.

Spokesmen for major unions and OSHA say that the new regulation has so far had little impact on workplace safety. Unions have taken a look at records in just a few cases and have found no major problems to report.

Eula Bingham

But they agree that the potential posed by the change in medical record regulations is a great one that may not be felt for a couple of years.

"The OSHA ruling is very important. It is a great step forward," says Georg Taylor, director of safety and health for the AFL-CIO.

In some cases he says, a worker may be developing a disease after being exposed to something in the workplace over a long period of time, but the company doctor may not have told him exactly what is wrong.

"This gives our physicians the right to go into these records and determine if anything is wrong there," he says.

The OSHA ruling further confirms the important factor that unions now play in worker safety, a factor that has been dramatically increased in the past couple of years by the degree of sophistication and organization unions are bringing to the problem.

Major national unions, such as the AFL-CIO, the Steelworkers, the United Auto Workers and the Oil, Chemical & Atomic Workers Union, maintain central offices that establish policy guidelines and coordinate efforts among union locals to monitor the safety and health of employees.

Continued on page 22

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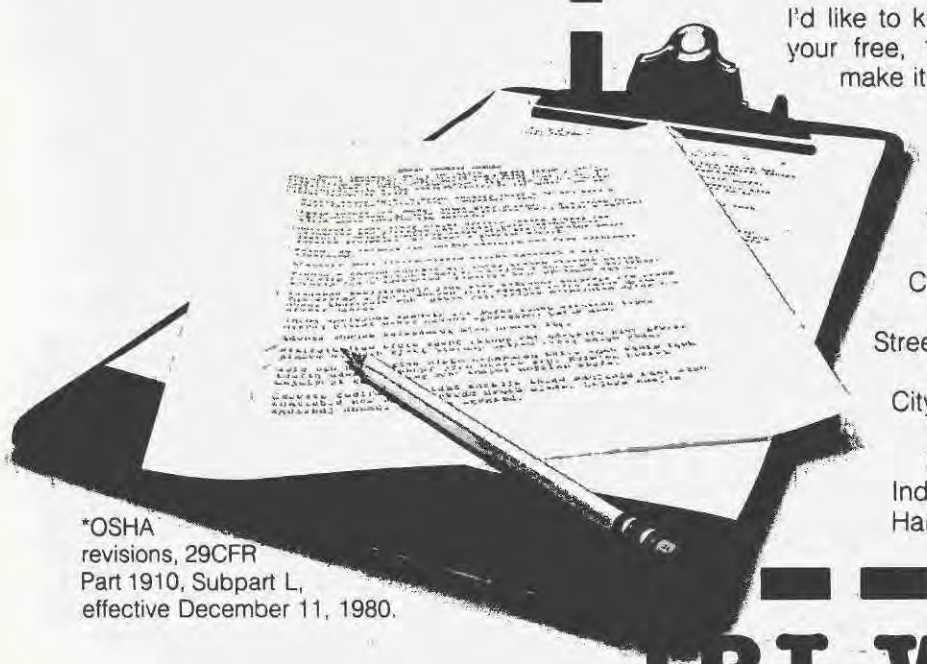

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*OSHA revisions, 29CFR Part 1910, Subpart L, effective December 11, 1980.

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Safety measures cut future costs

By LEN STRAZEWSKI

CHICAGO—Companies should start improving safety now to keep today's cheap insurance prices when markets shift, insurers say.

The loss experience of today will shape the rates of tomorrow.

"It's really a folly to ignore safety now because of low rates," says Ramon Padron Jr., director of field operations, engineering division of Aetna Life & Casualty Insurance Co.

"Any company with a policy that ignores safety will eventually be eaten up by other costs, too."

Management is the key, Mr. Padron says, and companies must develop management systems that establish and maintain the loss-prevention program.

Managers should preach by their example, following their own program of safety. They should make it known that the goal is a better, safer workplace for everyone—not just smaller insurance premiums.

Though insurers do grant premium discounts for safety improvements, including credits allowed by Insurance Services Office manual rates, most underwriters evaluate large companies individually. But, personnel safety improvements should be considered for more than insurance reasons.

"A company can look forward to less turnover, less absenteeism, fewer morale problems and small insurance costs," he says. "The fact that management is working toward a safety management program relates to the overall insurability of the risk, and there is no doubt that the drop in the accident rate will be immediate.

"Insurance rates are likely to drop soon after the accident rate."

Companies can begin an overall safety management program including property, liability and workers compensation loss prevention, by taking a few simple risk management steps, the insurer loss-prevention experts say.

Most major companies already practice risk management, but many small- to medium-sized companies under $10 million in sales ignore the basic risk management tasks, says James L. Kennedy, director of INA's loss-control services.

"They should start with an asset list, recording everything that needs protection," he says. "A good list would include the building which houses the firm and all its equipment, all personal property, valuable records and all intangible assets including the firm's suppliers, marketplace and customers and the company's financial assets.

"After you have analyzed all the

Continued on page 26

Cost-cutting steps listed

ST. PAUL, Minn.—Small companies trying to cut the cost of workers compensation losses and insurance can take effective steps, even after an accident occurs, according to a St. Paul Fire & Marine safety newsletter.

The insurer advises you to:

• Provide adequate diagnosis and treatment of the injured worker. You should designate a physician familiar with workers compensation problems at your company.

• Investigate the cause of the accident, document the activities of the injured worker and file a first report with the insurer, on the day of the injury if possible.

• Establish contact with the employee to demonstrate your concern, to assure him or her of compensation benefits and other financial protection.

• Maintain contact with the physician, employee and the insurer to speed the employee's return to work as soon as the worker's condition permits.

• Talk with the physician to plan a period of adjustment for the injured worker. Perhaps part-time or limited duties might be advisable.

• Encourage managers, supervisors and co-workers to welcome the employee back and be supportive of his or her efforts to overcome any disability. ■

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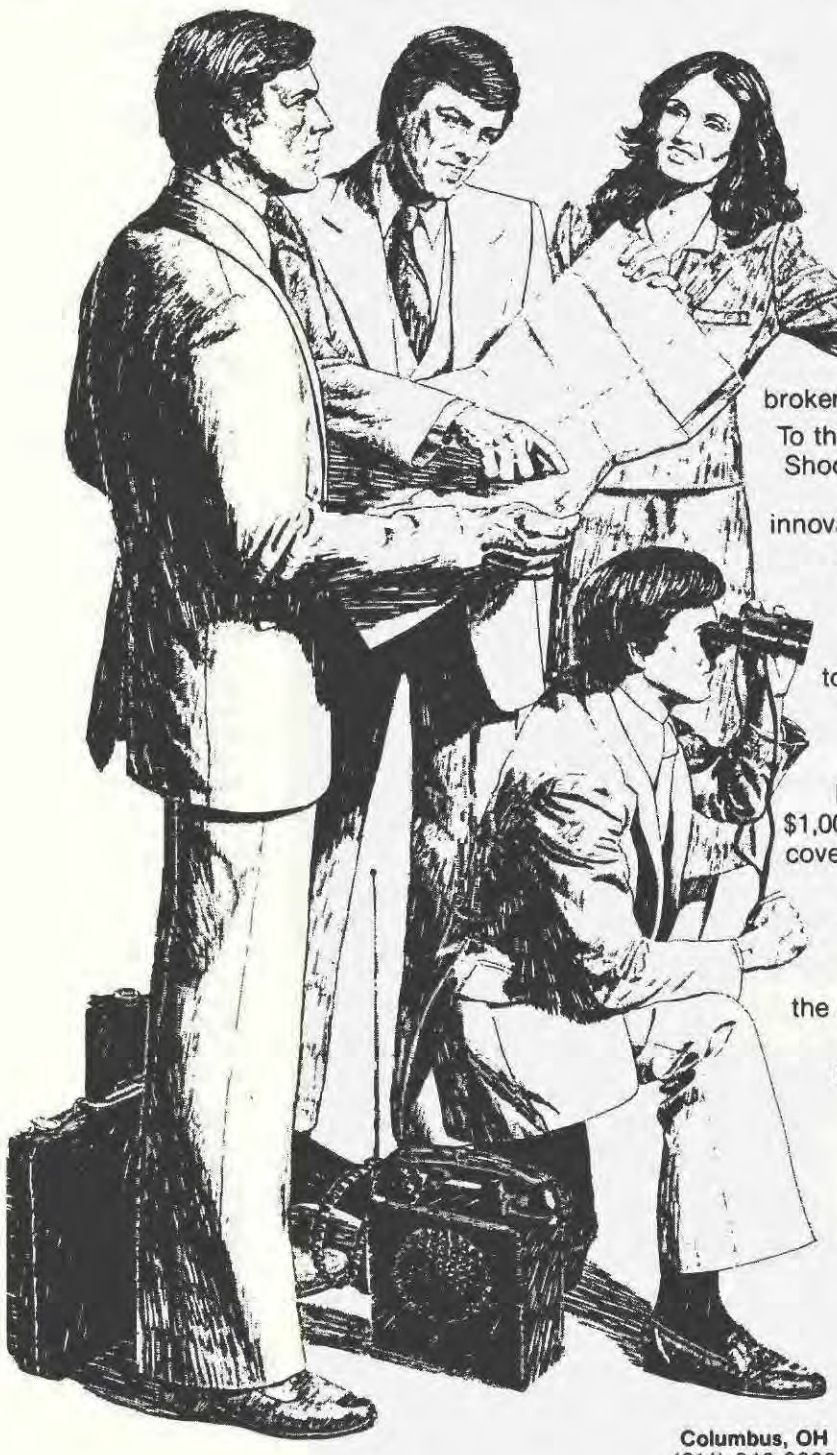

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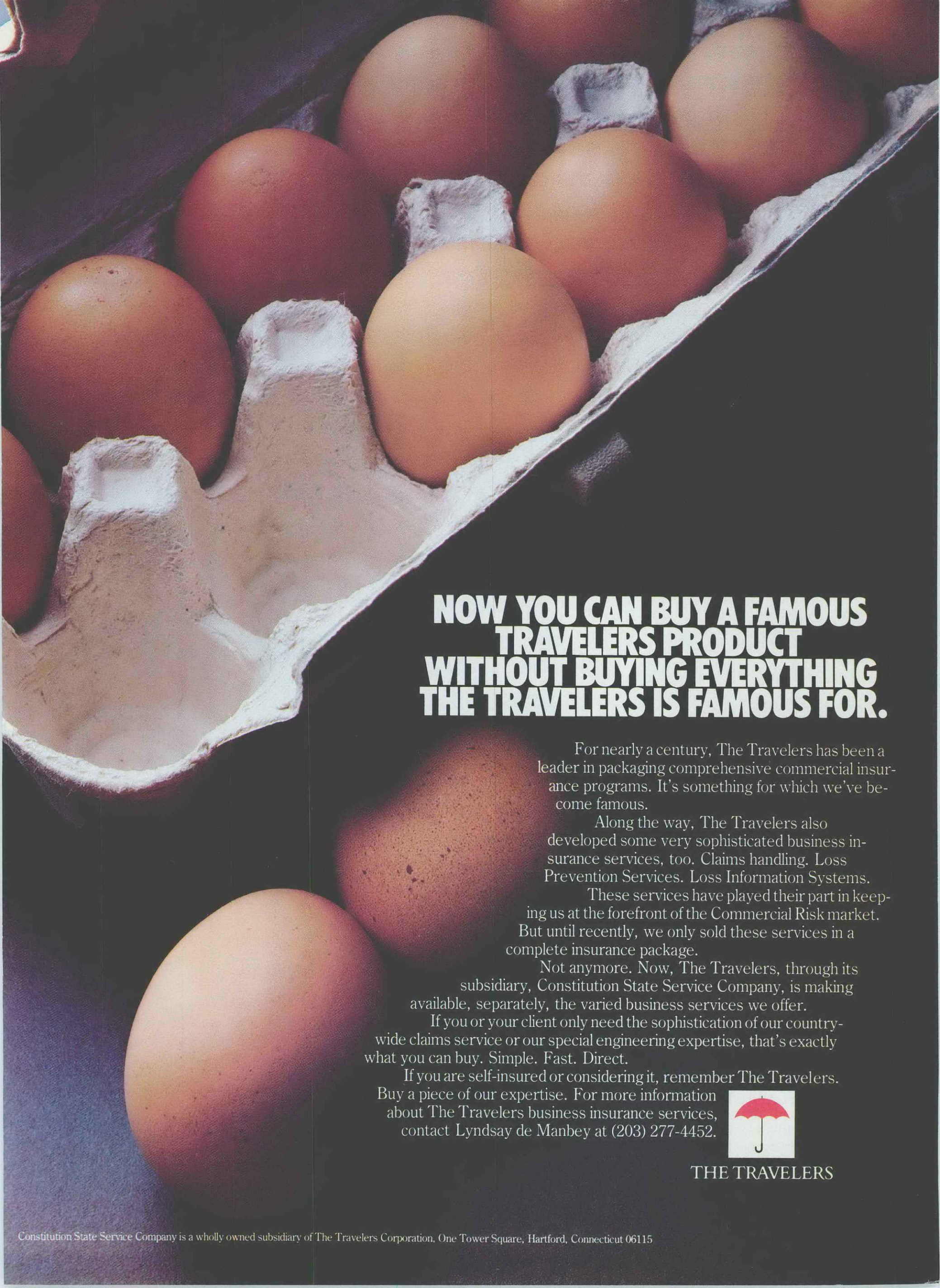

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Loss-control measures can cut rates

Continued from page 24
possible exposures, you can plan what to do: retain the risk, insure, transfer to someone by subcontracting or control with changes by the company."

You can then start to take practical action. Mr. Kennedy advises a company seek help from its insurer. Loss-control services are usually part of the package of aid insurers provide for the premium charge. If you are retaining some portion of the risk or need help in planning changes in exposures not covered by an insurance policy, you may be able to buy services for a fee from an insurer.

"One of the first things we can tell you to do is issue a policy statement on safety," says Don Leonard, associate director of the engineering division of The Travelers Insurance Co.

"Make a statement, appoint a safety coordinator and begin a training program," he says. "Make sure that you have delegated the authority for loss prevention and safety to someone who will keep abreast of safety improvements and changes in the industry or area.

"You know, with tax reduction laws in various areas, there have been changes in fire and police departments in many communities. You may have to make some changes to cope with service reductions."

Mr. Leonard also suggests that companies work with their insurers to set some physical priorities: changes in fire doors or exit signs, guards on equipment, safety masks. Then train supervisors to make sure the priorities are met.

Your insurer can help train supervisors in safety. The time spent learning safety technique will eventually pay for itself, he says.

"In industry today, training of all types is quite important. Most workers have special, trained skills. If you don't train them to be safe, you will eventually have to pay in higher personnel replacement costs, lower productivity and absenteeism, as well as in your insurance premium." ■

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School stresses loss control

By STEVE SHERWOOD

HOUSTON—Students at the International Safety Academy often remark after their first class that they are being taught management, not safety.

"We tell them to go to the head of the class," says Dr. Keith Barenklau, director of the academy since 1977.

"Our focus is on management," he says. "We key in on it and try to get loss control into the mainstream of the management function, where the safety director is in a top advisory capacity. To do an effective job he must have two-way communication with the guy who directs the main work effort."

Courses are more like those one would find at the Harvard Business School than those at technical colleges, he says. "Our main contacts are line managers—plant managers, vice presidents of operation, presidents of companies—who want to control loss as well as insure against it. We aim at them."

Although his school is not aimed specifically at corporate risk managers, he says the loss-control techniques it teaches would help them do a better job.

"Loss control is the risk manager's trump card, but not enough are playing it," he says. "We can help them learn to play it.

"We use the best management literature available and key it into loss control. This sets us apart from other safety institutions."

Loss control, he adds, is irresistably tied to other major management concerns. It is the work done to conserve the resources of an organization: its people, property, equipment or trade secrets.

Any company has four basic areas that can affect overall profits and that can be controlled, he says: production, quality, cost and loss.

In most cases, production comes first in importance and loss control comes last.

"The idea of safety first is a half-truth at best," Dr. Barenklau says. "If you go to a pump manufacturer and ask what he produces, he won't say safety. He'll tell you he makes pumps."

The business of any company is business, he says. "You should see the eyebrows of some of the old brownshoes raise when we tell them safety isn't first. But it isn't; production is. Safety has to complement production, quality and cost control. Without it, you won't have the rest."

This is part of what the academy teaches its estimated 720 students per year in its weeklong courses at the Houston facility. The courses cost about $500 each.

"Total Loss Control," the academy concept, applies professonal management to the control of losses in an industrial system, according to academy literature. The system approach takes into con-

Continued on page 28

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Texas safety academy stresses loss control

Continued from page 26

sideration the interrelationship of man, equipment, material and environment in loss control.

"Basic causes of accidents, such as lack of knowledge or skill, physical or mental problems and inadequate design or purchasing, result when management has failed in its control function," the school's academic policy says. "When this occurs, loss control is no longer a systematic discipline, but rather a haphazard hodgepodge of trials that more frequently than not result in failure."

Total Loss Control is a holistic approach to the problem of accidental loss, making it a functon of management.

"The National Safety Council has sent its staff here for training," Dr. Barenklau says. "The council has called us the management developers in safety."

The academy, owned by INA Corp., has been operating formally since 1972, he says. It has a full-time staff of eight and maintains a stable of 20 consultants who are on call as needed. The consultants are experts in fields ranging from petrochemicals to toxicology and fill in gaps not covered by the expertise of staff members.

The professional staff includes: Dr. Barenklau, who has experience in the meat packing and electric utility industries; George D. Stevenson, associate director, a materials-handling expert; Dr. Richard L. Summers, a damage-control and occupational-stress expert; Dr. Duane S. Batson, a nuclear physicist and propulsionist; and Herb Bailey, experienced in building trades and technical manufacturing topics.

"We want anyone working here to have solid workplace experience, a bachelor's degree in one of the hard sciences and an advanced degree in safety or loss control,"

'The National Safety Council sent its staff here for training.'

Dr. Barenklau says. "We have nothing against college professors, but book learning wears thin when people are paying you $300 a week and want specific answers to specific questions."

In addition to courses, the academy offers a full range of consulting work, loss-control conferences, access to what Dr. Barenklau says is the world's largest safety film library (500 titles) and retail sale of books, pamphlets, cassette tapes and slides on loss control.

"We provide loss-control management conferences to all comers, both in the United States and overseas," he says. Academy personnel have done consulting or conference work in Australia, Norway, Finland and Singapore.

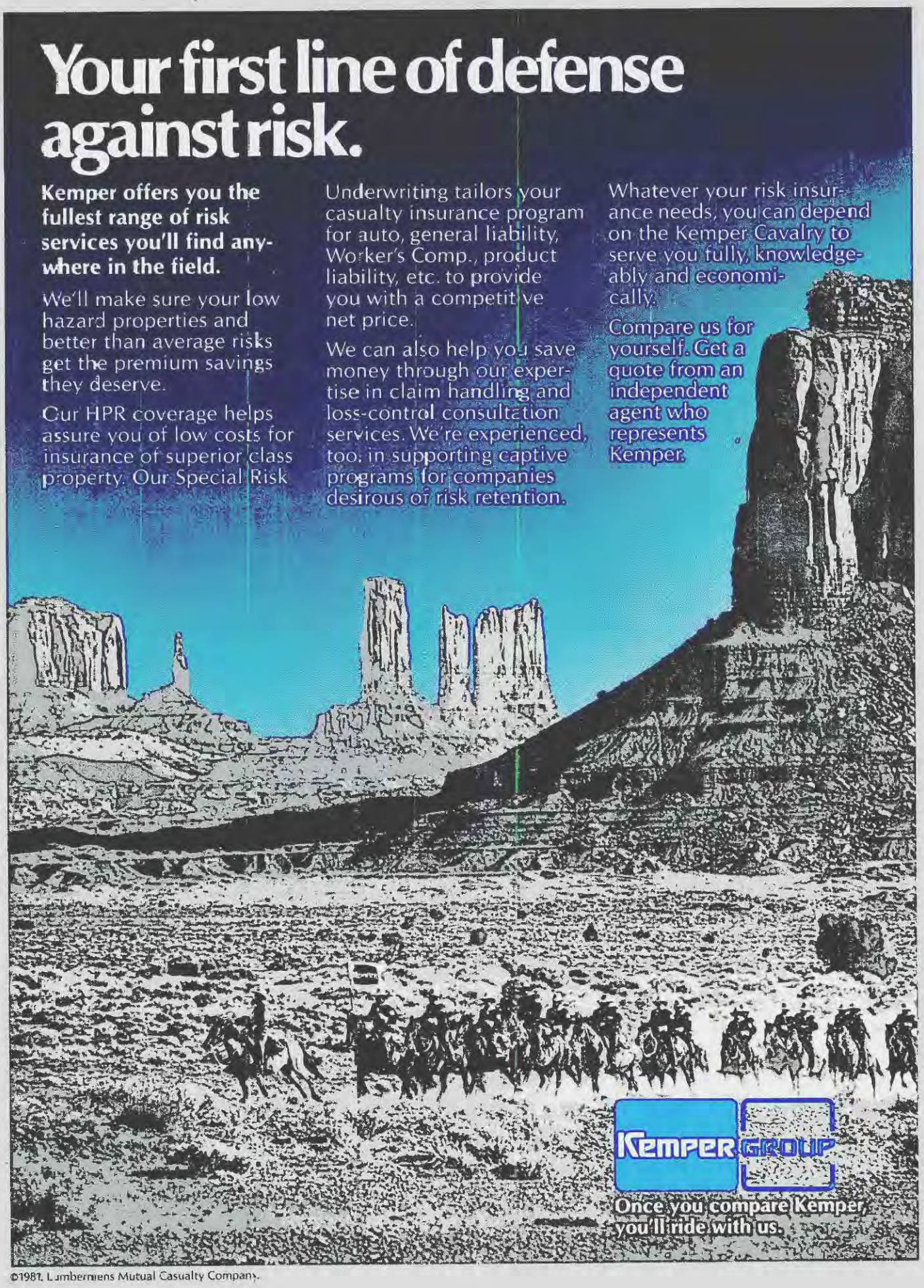
"We're contracting to do some work in Saudi Arabia this fall," Dr. Barenklau says. "We will be training Saudi supervisors of oil production in loss control." The academy has trained students from Japan, France, Nigeria, Zaire, Liberia, Algeria and other countries.

"We consider it a feather in our cap when we get direct mail requests from foreign nations," he says, estimating 5% of the students attending the academy are foreign nationals.

Teaching, consulting, selling books and renting films earns the Internatonal Safety Academy about $1 million a year.

"That's pretty good for five boys and three girls. Film rental is very lucrative. That's what is carrying us now," Dr. Barenklau says.

The academy maintains an interchange of information with safety councils worldwide and publishes its own newsletter to keep loss-control managers informed about the latest legal decisions. ■



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Wyoming mine paying attention to fire hazards

By DAVID SPERLING

ROCK SPRINGS, Wyo.—The Jim Bridger Mine's greatest enemy is fire.

Two years ago, a fire ripped through a dragline operation at the mine, resulting in $500,000 worth of damage and some six weeks of downtime.

"If we didn't have a fire truck available, the damage would have been much worse," said Phillip Bailie, manager of western mine safety for Northern Energy Resources Co., which operates the mine.

But the losses from business interruption were more costly than the fire itself.

"If you lose a dragline for even four days, it's very expensive," Mr. Bailie said.

Each dragline, a giant earth-gouging machine that scoops up 15 million cubic yards of earth a year, costs $20 million to $30 million.

With an eye on their capital investment, mine officials started digging for a solution to their fire-safety problems.

They found two answers:

- Stepped-up enforcement of fire-safety regulations at the dragline.
- An automatic fire suppression system.

The company's first step was to instill greater fire-safety consciousness in its workers. The chief hazard, Mr. Bailie says, was that welding and cutting inside the dragline operation could send sparks falling on oil, grease or dirty rags.

The company demanded more emphasis on cleaning the work area and equipping personnel with dry-chemical fire extinguishers.

The fire suppression system was developed by Chemtron Fire Systems and cost more than $100,000 for equipment and installation, Mr. Bailie said. Detailed studies of various hazards were made, resulting in the selection of CO2 and Halon 1301 as the gaseous fire protection agents.

Dry-chemical systems were ruled out because of their residue that could clog the machinery or infiltrate grease and lubricants in the installation.

Five extensive fire suppression systems, using both flooding and local applications, were chosen. The systems were built with worker safety in mind.

"Dragline personnel are better acclimated to fire-suppression systems than most industrial workers," said Norman Sarchin of Mainline Supply, who supervised installation of the fire-suppression system. Halon was designated the chief protection agent because it is capable of suppressing a fire without endangering personnel.

NERCO, which operates four dragline operations at the Bridger mine, thinks that although the present fire system is not the final answer, fire protection for the draglines has been vastly improved.

"Although we haven't had to use it yet, we feel much better prepared," said Robert J. Deurloo, vp of NERCO's western mining division. Mr. Deurloo said there would be "continued enhancements" to the system.

Since installation of its new fire-suppression system and since raising its fire-safety consciousness, there have been no new fires at the Bridger mine. And NERCO officials are confident that when it comes time to renew their fire insurance policy, the company's improved loss experience will pay off. ■

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	December 31, 1980	December 31, 1979
ASSETS		
Bonds	$ 859,596,026	$ 860,218,984
Stock	247,312,717	139,190,965
Cash	7,146,756	5,357,269
Accounts receivable – premium	70,184,043	52,316,156
Funds held by ceding reinsurers	41,989,127	33,477,922
Other Assets	33,524,986	19,403,825
TOTAL ASSETS	$1,259,753,655	$1,109,965,121
LIABILITIES, CAPITAL AND SURPLUS		
Loss and Loss Expense Reserve	$ 924,362,842	$ 828,303,701
Unearned Premium Reserve	150,977,335	117,826,310
Reserve for Commissions, Taxes and other liabilities	16,388,194	29,242,067
TOTAL LIABILITIES	$1,091,728,371	$ 975,372,078
Capital paid up	$ 2,500,000	$ 2,500,000
Contributed Surplus	75,001,598	75,001,598
Unassigned Surplus	90,523,686	57,091,445
POLICYHOLDERS' SURPLUS	$ 168,025,284	$ 134,593,043
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	$1,259,753,655	$1,109,965,121

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Security

Federal Express guards its goods

By JOHN MAES

MEMPHIS—It's 12:30 a.m. at the gigantic package handling facility of Federal Express. A shrill electric buzzer pierces the night air and "the sort" begins.

Jets taxi one by one to the huge terminal and begin disgorging containers carrying the 95,000 to 100,000 packages of all shapes and sizes handled nightly by Federal.

The facility becomes a sea of packages, a din of machinery, a whir of conveyor belts.

Hundreds of workers laboriously but swiftly sort packages that speed along fast-moving conveyor belts.

Each piece is routed to one of many stations where it will be reloaded into the belly of a jetliner and, a few hours later, flown to its destination.

Federal's motto: "Absolutely, positively, overnight."

Though this ritual is performed the night before every business day of the year, Federal Express boasts that only a miniscule 2.5 of every 10,000 packages are lost to thieves at its Memphis facility and its 153 city cargo stations.

The Federal Express secret is a sophisticated processing system and a giant security force linked closely to the company's risk management.

The very nature of Federal's system is partly responsible for the low loss total. Packages are moved so quickly through the city stations and the Memphis hub that the opportunity to steal is greatly diminished.

It's hard to sneak in, spot and grab a valuable package in four hours of rapid motion.

In addition, shipments remain in the hands of company employees from pickup until delivery, which also reduces loss potential.

But company officials say that Federal's security program, which heavily emphasizes employee relations and public contact, has played no small part in keeping the loss/damage figure to about 1.5% of gross revenues over the last year and a half.

At its Memphis hub, Federal uses contract guards for access control and off-duty plainclothes Memphis police officers inside the sorting plant to watch over employees and look for security problems. Trouble is reported to shift supervisors.

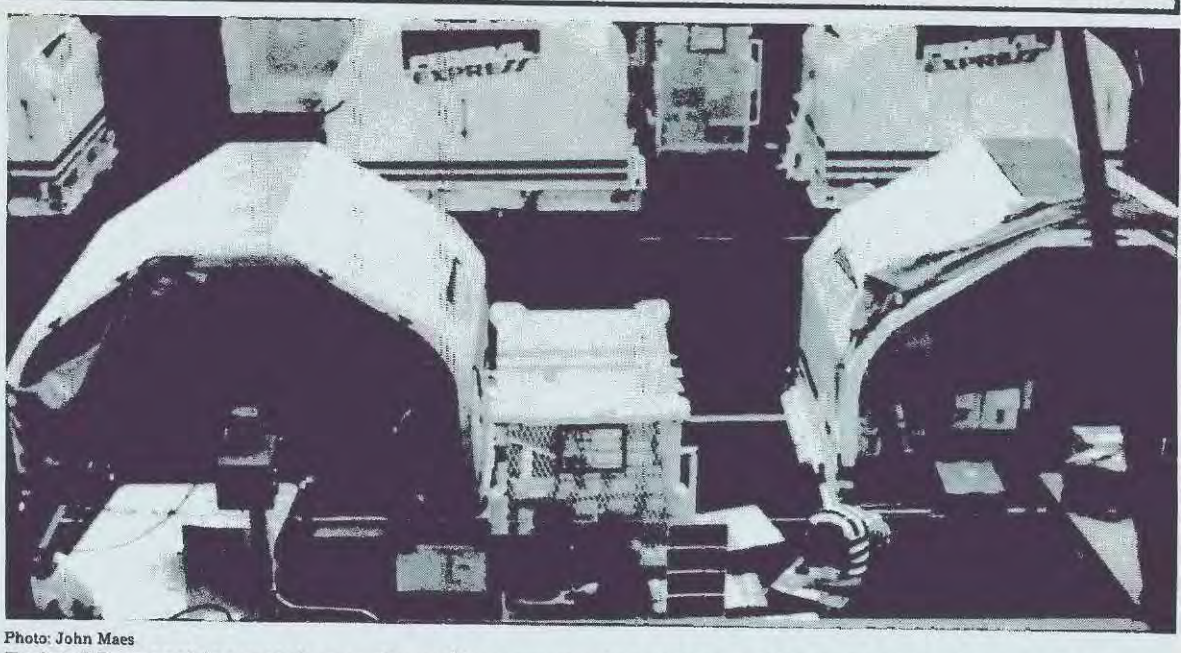
Guards are only one part of a complex process that begins in Federal's own 24-member security department.

Employee education from supervisory to rank-and-file personnel is its major component, says John P. Walsh, manager of corporate security. During training and orientation programs, everyone from managers to supervisors to couriers to ramp agents are taught security awareness and loss-prevention techniques.

These efforts follow a background check of all prospective employees by the personnel department.

In addition to Mr. Walsh, who is in charge of the Memphis area, Federal employs four regional security managers who oversee the 153 city stations. They are responsible for inspecting each location in their region at least once a year.

Continued on page 34



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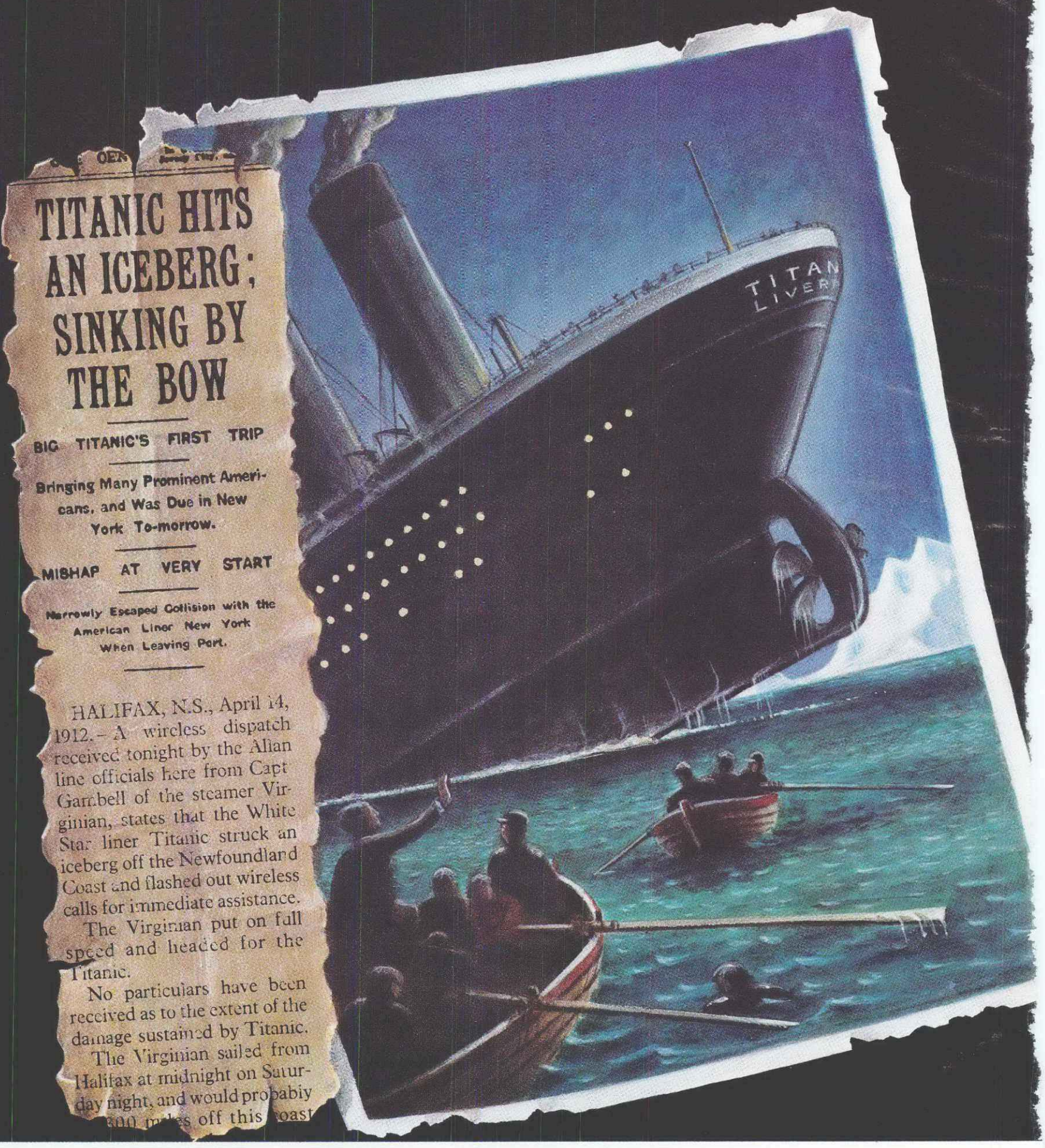

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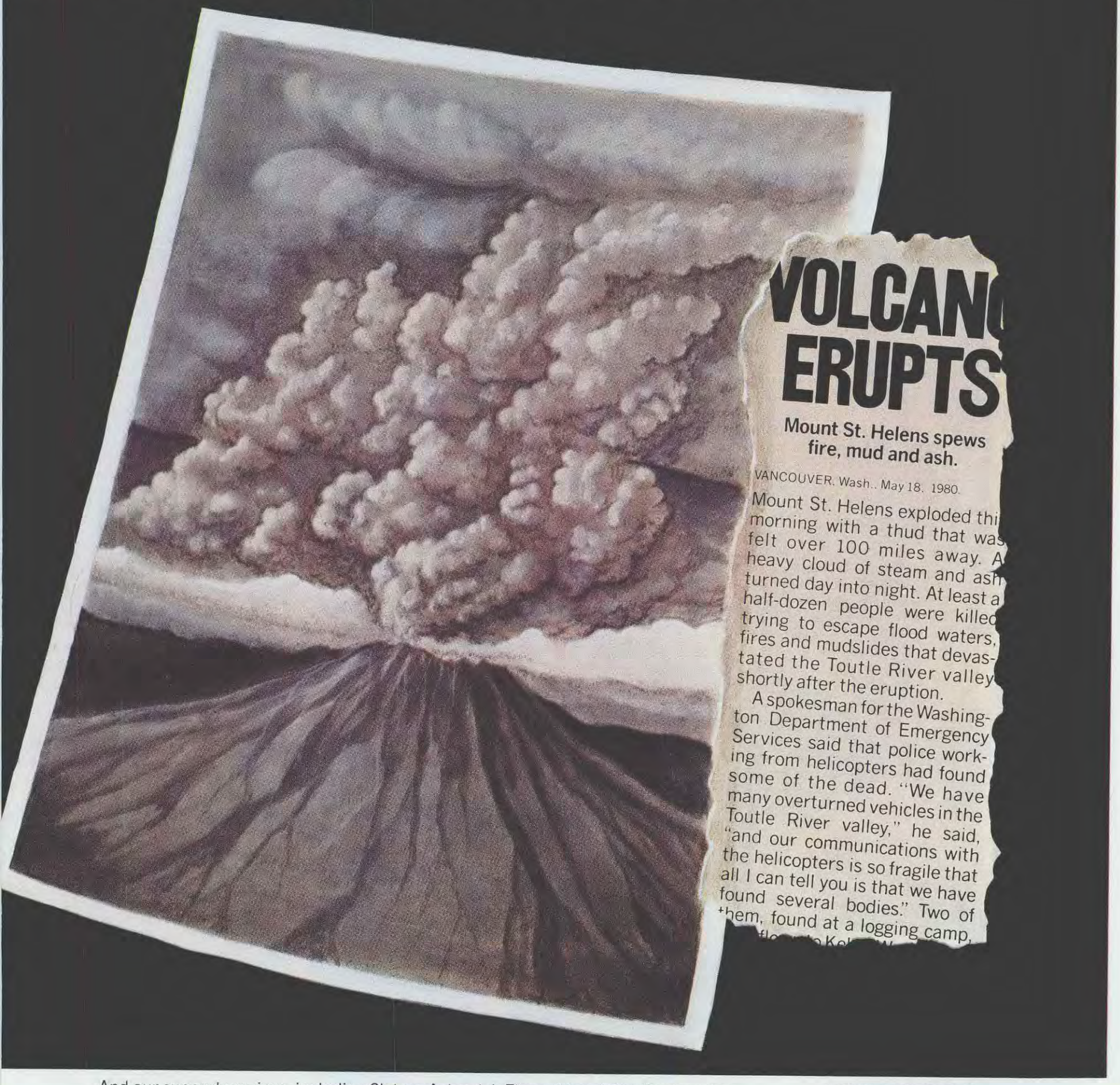

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Federal's security stresses cooperation

Continued from page 31

Before the company builds new facilities or renovates existing property, the security department will do a thorough analysis of plans and point out how security features, such as the placement of windows, doors or fencing, can be be included.

The staff will also meet with local law-enforcement authorities "to let them know we're there and interested in cooperating with them," he says.

Mr. Walsh also participates in the employee education process to establish a good reputation for the department among rank and file.

"I can go to just about any station in our system and even though I'm totally unknown, the employees will make me feel welcome," he says.

In addition to keeping employees honest, it's also important to let the workers know the department exists to help and make their working conditions safer, Mr. Walsh adds.

"We tell them that we're around for their benefit 24 hours a day. If an employee loses a wallet, we'll do a complete search for it. If they can't start their car, we'll send somebody out to help. If they're in a remote area and afraid to walk to their car or truck, we'll send somebody out to escort them, or we'll call the local police and ask them to do it."

Next month, Federal will replace contract guards in Memphis with its own security force. The guards, to be recruited from college-level law-enforcement programs, will also receive professional law-enforcement training and will be paid more than the contract guards receive from their employers, Mr. Walsh says.

The result? An even sharper security edge for the corporation with a guard force thoroughly trained in corporate operations.

"They'll be highly motivated to assist the workforce because these are fellow employees," says Mr. Walsh, a 24-year-old former juvenile correctional officer and law-enforcement graduate of Memphis State University.

But while the security department communicates with the employees, it also keeps an open line with the risk management department.

Security receives daily reports on customer claims from the staff of Michael C. Shermer, vp of risk management, so it can begin the necessary traces and investigations, Mr. Walsh says.

It is also furnished with claims analysis by region, district and city, a data service provided by its insurance broker Corroon & Black, Mr. Shermer says.

"This way we know our origin and destination losses," he says. "When you have losses in the same city over a period of time, that's how crime patterns develop."

Mr. Shermer says he is also informed when fraud or theft investigations are being conducted by the security department's three full-time investigators.

"Having knowledge of potential exposures is what the risk management department's all about," he says.

Communications between the two departments follow no set schedule, but when a matter of mutual interest develops, "you just get up off your seat and go talk to somebody about it," he says.

"We're primarily a close company here and we're not heavy on memos. This company is basically patterned after Delta Airlines. If you want action, don't waste time putting things in memos to inundate people 12 times over."

When they have the ear of the customer, both departments let them know that there are things that can be done in packaging a shipment to enhance security.

"It's important to do that in a customer-oriented business such as ours," Mr. Shermer says. "I'll get on the phone with someone and say 'Hey, what are you doing about things like packaging and labeling?'

"If Tiffany jewelers is the shipper, we tell them to put something like TF& Co. on the label so it won't be as conspicuous."

In a company like Federal, which has been growing by about 50% a year, Mr. Shermer says he must continually think ahead to tomorrow's loss problems and not dwell on yesterday's. The key is to plan ahead for even greater loads and greater sorting and identification problems, he says.

The company feels it may have some of the potential problems already licked with a new $15 million bar-coding system, much like that used in supermarkets. The new technique will soon be used and will allow Federal to keep a tighter track on the location of packages moving through its system.

The technique uses bar-coded invoices whose numbers will be fed into company computers. Couriers will be equipped with belt-pack computer devices so Federal will be able to track down any package it is handling.

"It will certainly cut our losses even more," Mr. Shermer says. "If a package is reported missing or not delivered, the company will easily be able to determine its last position.

"We're happy but not satisfied with our cargo claims security, but we're striving to get that loss total down. If we can get that loss factor down to zero, we're going to be champs." ■

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Can the insurance industry meet the needs of America's drive for energy independence?

The transition from imported oil to new domestic energy sources is creating enormous challenges—social, political, technological, and commercial. Not the least of these is the challenge to insurance brokers with clients in the business of providing energy. It will cost at least $100 billion in current dollars to equip the domestic synfuels industry, according to a leading energy company executive. But unless the risks can be managed, the investments will not be made. "We are not going to expose assets that are uninsured," the same executive said.

This $100 billion investment will be an *additional* burden. Existing capital expenditure programs are already running at *$75 billion a year* to meet the demand for new oil exploration, enhanced recovery systems, and new refinery capacity for heavy crudes.

Energy companies and their risk managers look primarily to the insurance broker to help with this enormous and unprecedented increase in the value of assets at risk. The broker must provide energy companies with all of the risk-management alternatives, including the transfer of risks to insurance markets. The broker's most important functions will be threefold: developing and providing access to new insurance capacity, developing new coverages to attract that capacity, and providing loss-control and environmental-protection services which will be essential to minimize risks and make those coverages available.

The insurance capacity crunch

Where are the new sources of capital to provide the huge catastrophic coverages that will be needed? Captive insurance companies and association insurers will play a role. New American insurance exchanges will also make a contribution later in this decade if regulatory impediments are removed. But the most important source of all will be the international insurance markets. American capital will not be sufficient to build a vast new industry and to insure it, too. Energy executives are well aware of this. "We view the broker primarily as a source of entrance into the world insurance marketplace," one of them recently commented.

Brokers must therefore have strong relationships with the worldwide underwriting community in order to reach the sources of capital and introduce the new coverages that will be required. New organization and new concepts will have to be developed, but the brokerage industry has met such challenges before. The needs of the nuclear-power industry led to the creation of special insurance syndicates, reciprocal self-insurance pools, and industry-owned mutual insurance companies, all through the efforts of brokers, underwriters, and industry. Today, the nuclear industry needs insurance capacity in still greater amounts and in forms responsive to its particular technological characteristics.

Merely finding new capital sources is only the beginning. Completely new coverages will have to be designed to attract this capital into the markets at acceptable premiums. This will require informed risk analysis of all types of new energy installations. Obviously, processes as diverse as coal gasification, coal liquefaction, and direct combustion cannot be lumped together. The exposures they create vary enormously. Tar sands and oil shale also present different problems, as do solar installations, solid waste conversion, biomass processing, and tidal and wind-powered systems. To serve their clients in these areas, brokers will have a greater need for loss-control and risk-management talent than ever before.

Risk management in the eighties: an exploratory review by Marsh & McLennan

This message is the first in a series dealing with major issues likely to affect the risk-management process in the 1980s. Vast and rapid changes are taking place in our economic, political, social, and technological environment. We plan to focus on the implications of these changes for risk-management clients and on the specific role of the insurance broker. Our purpose is to provoke constructive debate. We have solicited and received opinions from a number of corporations and underwriters on these subjects which we intend to share with you in this series. If you would like to send us your views, we will be pleased to add them to the comments we already have.

Write to: Mr. Philip J. Brown, Jr., Executive Vice President, Marsh & McLennan, Incorporated, P.O. Box 839, Radio City Station, New York, N.Y. 10101.

The growing need for specialized talent

Insurance capacity alone will not be enough. Unless it is available to energy companies at premiums compatible with profitability, the huge investments needed for energy independence will not be made. Loss-control engineering is therefore a *sine qua non*. Risk-management specialists will have to be involved at the earliest possible stages when new installations are being planned and designed.

Implementing the risk-management approach in any field calls for the broker to have strong teams of specialists in many engineering disciplines. To meet the future needs of clients in the energy industry, these teams will have to be enlarged and strengthened, so that risk-analysis and loss-control specialists can evaluate any new installation, operation, or process as a whole, rather than as a series of disconnected technical problems.

Brokers will therefore have to make important investments in the training of specialists to provide the risk-management and technical services which their clients will require. It will be more necessary than ever that we "speak our clients' language," and this effort will have to be made at a time when shortage of technical talent will be aggravated by the increased planning and operational demands of the entire energy industry.

Environmental concerns

Asset-protection, though vital, is only one of the insurance problems posed by the drive for energy independence. The inevitable environmental impact will also place heavy demands on insurance capacity, new coverage development, and loss-control resources.

Certain forms of environmental liability insurance are dependent on engineering surveys conducted before coverage is provided. But energy companies and their publics must be assured that the environmental risks can be managed, or the installations will not be built. So input from brokers with extensive environmental engineering experience will be essential through all the stages of designing and planning any new energy installation.

The increased need for risk-analysis, loss-control, and insurance-brokerage skills will have an impact on every field of energy industry activity, from ocean floor to outer space. New marine coverages will have to be developed for tidal and ocean-thermal systems. Oil-rig "life insurance" is also a probability. Energy-collection by satellite will pose totally different problems.

Summary: the challenge for the insurance broker

To solve the risk-management problems of this energy transition era, a broker must have, and must continue to develop, certain major strengths in serving its clients:

- Broad access to international insurance markets to obtain the needed capacity.
- Technical capabilities: both to develop new insurance coverages and to provide loss-control services.
- Environmental knowledge and experience.
- Depth of professional talent to meet the challenges that lie ahead.

Recognizing these needs is a first step. Meeting them will take imagination, careful planning, and sustained effort. At Marsh & McLennan, we are confident that both the talent and the resources will be found.

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perspective

Preventing pilferage

Screening potential employees thwarts theft

By Carole Sewell

A CLEAR AND PRESENT danger exists that places the business community in a particularly vulnerable position, according to U.S. Commerce Department statistics.

Internal theft is 15 times greater than external theft. Embezzlement accounts for an annual loss of over $4 billion while pilferage costs business $5 billion to $10 billion.

Corporate assets are entrusted to employees each day. Cash, products, supplies and vehicles serve a company only when utilized by employees.

Since most employees are not corporate officers, their interest for the company's assets may be less than overriding. As employees handle assets daily, the care these assets receive will vary.

One way to stop such loss is to carefully screen employees. Security affects the personnel selection process and vice versa. And, since security of the corporation and its assets are the concerns of the security director, that department is hit head-on by the problem.

One solution is to treat problems before they occur. As an example, consider the problem of white-collar crime. One answer is to screen out the dishonest before they are employed. Don't allow them on the payroll to begin with. The employer can consider it asset control or loss prevention. But how do you do it?

The key ingredient is reference checking and the gathering and use of information about applicants. This type of information includes job experience and performance, school records, physical and mental health, character, public records, credit records and workers compensation claims. These facts must be supplied by sources other than the applicant in order to be effective for the employer.

The laws dealing with privacy, discrimination and freedom of information, combined with the fact that no employee selection program will ever be 100% effective in eliminating theft and related problems, are factors to contend with. However, when combined with other components of your security program, effective reference checking can help minimize loss.

The value of background information is evident. However, many employers mistakenly believe that traditional methods of screening and selection are no longer legal. That's not true. A distinction must be made between legal regulations and self-regulations that may be related to the law and the values of society that give rise to law.

As far as legal restrictions, Title VII of the Civil Rights Act of 1964, as amended by the 1972 Equal Employment Opportunity Act, applies. The Age Discrimination Act of 1967 and the Rehabilitation Act of 1973 outlaw discrimination based on age and disability. Although these limitations apply, these restrictions do not prohibit the use of background investigations. Employers may lawfully seek information, interpret and utilize it and conduct pre-employment physical examinations. They may also share results of reference checking with another employer.

Employers may not use an applicant's union membership to disqualify the person, and they may not use reference information in ways that would produce adverse impact without a demonstration of a business need. As suppliers of information, employers must not deliberately or maliciously communicate false information about an applicant.

Carole Sewell is product manager-employment services for Equifax Services in Atlanta.

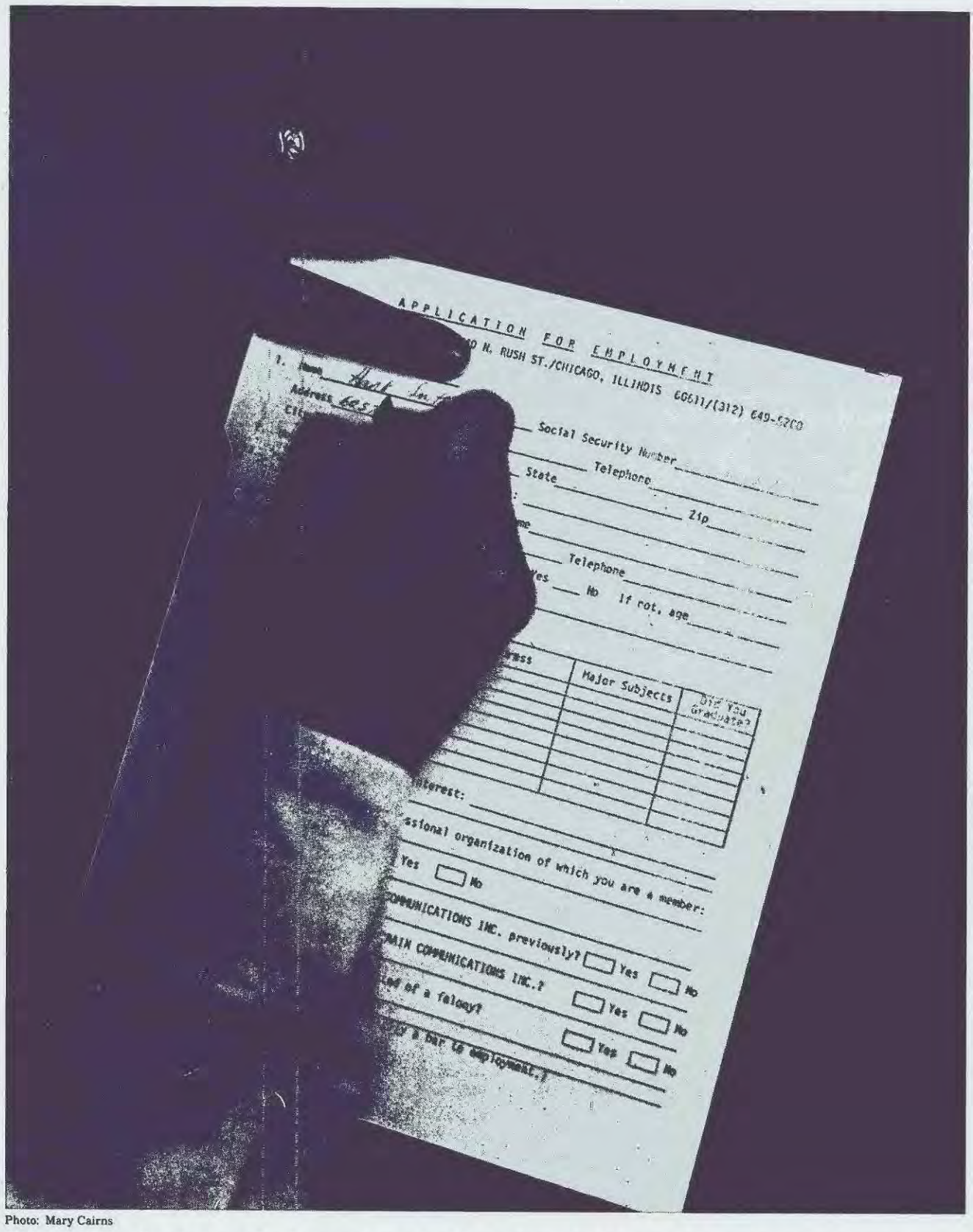


Photo: Mary Cairns

Checking applications and references supplied by job seekers is part of a good security system.

Uniform guidelines on employee selection adopted in 1978 by the Equal Employment Opportunity Commission, Civil Service Commission and the Labor Department specify that personnel selection procedures such as reference checking, pre-employment investigations and tests are not prohibited. They also specify that any selection procedure must meet the requirements of the law.

Reference checking is a valuable tool. The bottom line in not to eliminate reference checking, but to make sure the criteria used in hiring decisions are pertinent and not discriminatory.

Here are some points to remember as they relate to reference checking and employee selection:

- Be consistent. Have a uniform standard for applicants in a job category, regardless of race, religion, etc.
- Information used for employment purposes should be job-related only.
- Check the application for accuracy. Misrepresentation is not uncommon and is grounds for rejection.
- Job specifications must be relevant. Avoid unncecessary physical or educational prerequisites.
- Keep written documentation. Be able to back up your decision with written information.
- Provide the proper Fair Credit Reporting Act notification. If an applicant is not hired because of information in a pre-employment report, he or she must be notified. Disclosure, if requested, must be made by the reporting agency.
- It is legal to use court records, such as those from litigation, bankruptcy and workers compensation records.

perspective

OSHA's missing link

Emphasis on training is needed

By Jack B. ReVelle

While anthropologists search for the missing link in humanity's evolution from monkey to man, safety theoreticians continue a search of their own. They seek that magic mix of techniques, approaches, principles and practices that when judiciously blended produce an industrial safety program with the potential to significantly reduce accidents and illness.

Early research in the development of safety and health theory produced inaccurate conclusions regarding the advisability of emphasizing the elimination of industrial hazards over employer-provided occupational safety and health (OSH) training and employee education.

More recent and reliable research has generated revised conclusions that have yet to be widely implemented within the regulatory and industrial spheres.

The authors of the Occupational Safety and Health Act of 1970 mistakenly selected industrial hazard abatement as the primary method to reduce the frequency and severity of industrial accidents. At that time, they placed insupportable emphasis on this approach as the main means of improving worker safety. This unfortunate decision to emphasize hazard abatement at the expense of other approaches has continually proven to be without justification in the 11 years since the act became law.

In fact, what occurred was an unfortunate oversight. Sen. Harrison Williams, D-N.J., and the late Rep. William Steiger, R-Wis., the law's authors and sponsors, only minimally addressed OSH training and employee education.

This missing link in the act is the primary cause for the relative lack of attention to training and employee education in business and industry. It has taken place despite considerable evidence that hazard abatement alone has not resulted in significant reductions in industrial accident frequency and severity rates.

The quickest and most cost-effective means of correcting this oversight is to appropriately amend the act so that the assistant secretary of labor for OSH will be required to direct OSHA compliance officers to look for sufficient attention to safety training and employee education.

A bill to amend the act and the OSH Training and Employee Education Act of 1981 should stress enforcement of OSH training and employee education requirements as well as encourage employee awareness and understanding of common workplace hazards. Some of the amendments that should be a part of this bill include:

- Guidelines established by OSHA for employers in developing their own programs. As a minimum, such guidelines will include specific annual training requirements for each employee according to their exposure to hazards in the workplace.

- The compiling of OSH records including documented evidence of employer-sponsored hazard analyses to ascertain the extent and variety of safety training and employee education necessary to insure adequacy; actual training and education annually; and of graded classroom and practical examinations to determine employee comprehension of their employer's training and education program.

- The development of annual programs by employers that would include: a comprehensive written plan with expected dates, times, places, topics, training aids, instructors and exams; scheduled training periods in approximately equal proportions throughout the planning period; and classroom and on-the-job training sessions that cover workplace hazard detection and recognition, generally accepted safe operating procedures for each task, selection and use of personnel protective equipment, location and operation of emergency equipment and emergency medical procedures.

The need for the proposed amendment was spotlighted by a recent decision by U.S. 6th Circuit Court of Appeals in *H.B. Nutting vs. Occupational Safety and Health Review Commission and Ray Marshall, Secretary of Labor*. The court ruled against OSHA because its training standards "do not outline any particular requirements for a safety program."

> The law's authors and sponsors only minimally addressed OSH training and employee education, an unfortunate oversight.

The court noted that "OSHA can point to no evidence of industry practice or reasonable standards." The decision requires only that employers "instruct each employee in the recognition and avoidance of unsafe conditions or eliminate any hazards or other exposure to illness or injury."

Professional societies such as the American Society of Safety Engineers and the National Safety Management Society have both supported providing employees wth pertinent training and education. Germane books have entered the professional publications market to meet the demand for employer guidance on the subject.

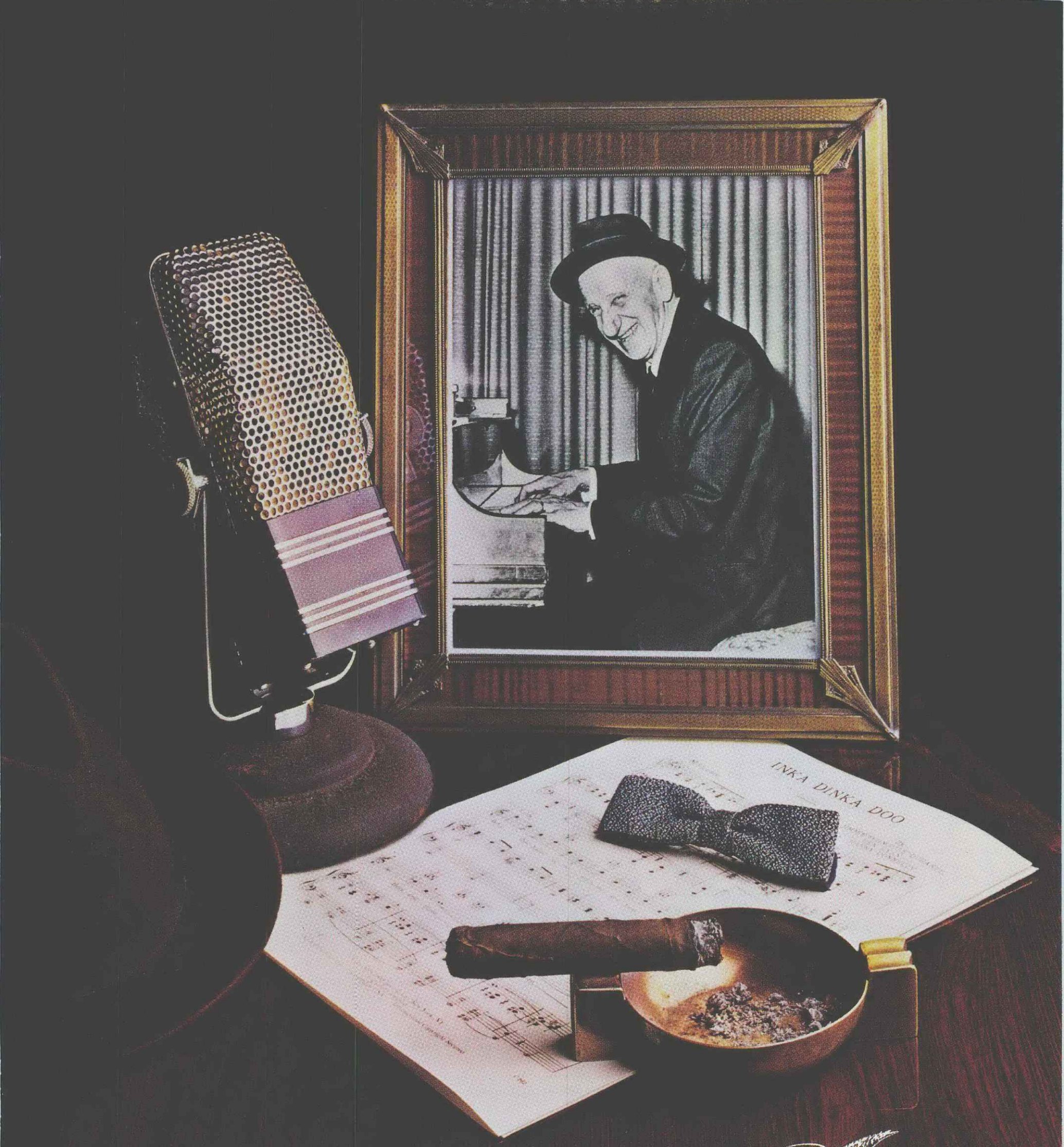
While it is still inappropriate to make a final judgment, there is considerable evidence to support the conviction that a truly complete OSH program must include no less emphasis on training and education than on the elimination of occupational hazards. Legislating that the two must receive at least equal attention is the only way to insure that employers provide and document certain levels of eployee training.

Additional profits can result when employers provide their employees with sufficient training and education. The cost trade-off between cost of compliance with the law and profits to be gained from it is a nice one for employers. Not only will property losses be prevented, but accident frequency and severity rates will also be reduced.

The cost to employers will be less, both directly with increased productivity and indirectly with reduced workers compensation premiums.

The recognition and inclusion of OSHA's missing link should become a priority action for the fledgling Reagan Administration this year. ■

Jack B. ReVelle, Ph.D., is a technical specialist in production research and development with McDonnell Douglas Astronautics Co. in Huntington Beach, Calif.



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perspective

Keep out

Card-access control helps secure areas

By Bill Bliss

CARD-ACCESS CONTROL is the modern answer to the need for some locks and keys. It can be used to let the right people in and out freely while preventing the wrong people from entering at all. It also serves as a form of traffic control, opening some areas to all, and some to a very few.

Access-control systems are often used as part of an overall security package. They are not intended as the only way to restrict access to top-secret areas or to replace guards in areas containing precious goods. For example, banks are excellent customers for card-control systems. But they use them to keep the public out of administrative and private areas, not to keep thieves out of the vaults.

Most systems are more complex, involving individually personalized cards and readers that transmit data to a central processing unit. This type of system can be very flexible. It can be programmed so various people are admitted to various areas and at different hours.

These access-control cards are tamperproof and based on a unique coding technique that makes them virtually indecipherable by the most sophisticated detection methods.

They are passive in that the coding is not an energy source. This means the patented electronic coding technique is totally immune to external electrical or magnetic fields.

The electronic code is such that a unique card code for all employees is provided. The cards at one location cannot work down the street.

Four types of cards are in general use today: magnetically encoded cards, capacitively coded cards, varying-density holographic and tuned-circuit cards.

The original type of access-control card was simply holographic. An outgrowth of data-processing technologies, it was a plastic card with holes punched in it. Such cards were very easily duplicated, since the code was readily visible. This type of system is no longer in use.

Another early system used a magnetic-striped card, similar to a bank card. Such a card can contain a lot of information—up to 60 or 70 characters—but is difficult to read and is easily erased or changed. It, too, is not widely accepted in security work.

A widely used type of card is the magnetically encoded card. Bits of magnetically charged material are embedded in a plastic card, and the reader translates the impulses into data. This system is simple, easily condensed and the code can't be seen.

The problem is that it is an "active" card, meaning the card itself contains the energy of the coding source. Since the energy is in the card it can be changed—sometimes even by accident—if the bearer passes near a highly magnetic field such as a laboratory or nuclear plant.

A more permanent form is the capacitively coded card. In this patented system, a paper-thin board is silk-screened with a capacitively active substance and then encapsulated in a plastic card. Because this is a "passive" card, it is extremely difficult to duplicate. While the code on an individual card can't be changed, the central processor is easily reprogrammed to reflect changes in the access status of the bearer.

Another popular card is a varying-density holographic card. Instead of actual holes, infrared translucent areas that vary in density are used.

This card is also difficult to duplicate. Its drawback is that if the card gets soiled, it may be read inaccurately. The system may also present problems in outdoor applications where the ambient light changes in intensity.

The tuned-circuit card doesn't need to be inserted in a slot, but simply passed near the door to be opened. Tuned RF (radio frequency) circuits inside a plasticard upset the frequency generated around a door, causing fluctuations that are picked up and interpreted by a processor. In theory, this is a very good system: It is convenient, especially for people with their arms full, and has no slots to tamper with.

Unfortunately, implementaton presents problems. The cards are heavy and expensive, and both the number of cards and the distance the central processor can be located from the door are quite limited.

A card-access system isn't designed to be foolproof and solve all security probems. Rather, it should be considered a protective tool, working well in practical terms and keeping most people where they are supposed to be. Of course, card-access control can be combined with other forms of security from an arsenal including digital codes, voice identification, door alarms, one-person "mantraps," physical guards and television monitoring.

In a small building or plant, the system may simply be used instead of giving out keys, to let people in and out at odd hours. A simple system is often applied by businesses occupying just part of a building, so that unauthorized people can't proceed past the elevator foyer or reception area. Company parking lots or garages are also common applications for self-contained card readers.

On a larger scale, card access can be used to supplement the guard force, so people can come and go at need, but a guard at a central station can keep track of them.

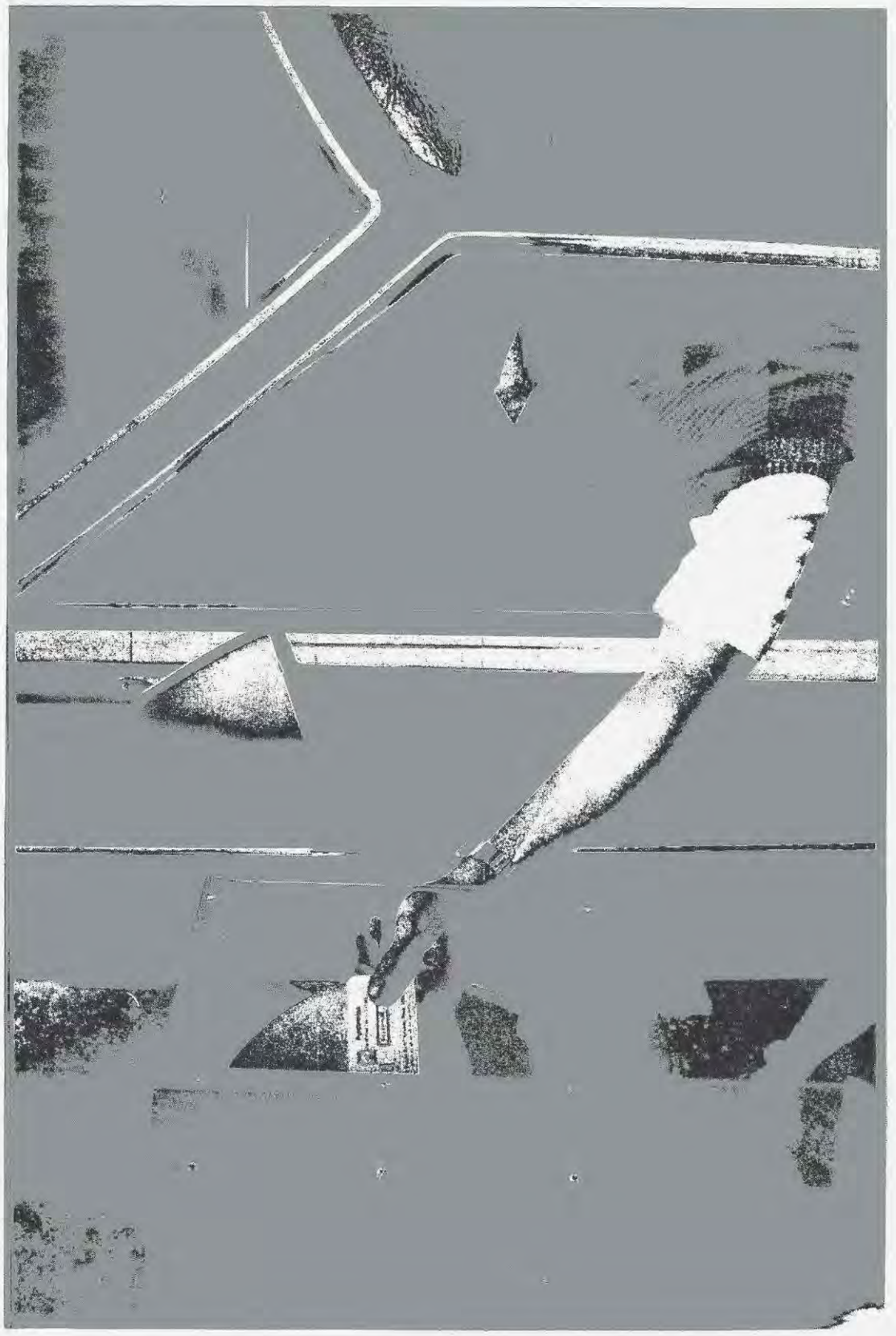
Within a building or plant, card access is useful in a computer room to keep out sight seers and button pushers. It's useful in a record room or tape storage vault—not top-secret places, but palces where the general employee has no need to be.

Libraries and museums are logical places for such systems. The public should have access to many areas, but some areas must be kept only for employees. Banks, too, want the general public in its buildings, but not in private and administrative areas.

Nuclear power plants are also common users. Here the system is not used so much for traffic control as for safety and personnel tracking.

One application that is usually avoided involves large groups of people arriving at the same time to go to the same place. For example, in a large automotive assembly plant, any form of controlled access will prove a troublesome bottleneck.

Sometimes such a problem is attacked by providing banks of access doors and card readers so that traffic can move easily. ■



Card-access control systems, such as this one outside a plant, can stop unwanted individuals from entering restricted areas.

> Card access can be used to supplement the guard force so people can come and go, but a guard can keep track of them.

Bill Bliss is general manager at Pyrotronics/Sentacron Systems in Norwood, Mass., manufactuers of card access and other security systems.

Coping with disaster

Careful planning lessens the blow

By Belden Menkus

DISASTER RECOVERY'S single goal is to assure that an organization, its employees, its assets and its operations effectively survive a calamity.

By its very nature, a disaster creates an emergency environment. The disaster recovery effort should help the the effects of that environment.

And, because of the atmosphere in which the disaster recovery process typically must be carried out, the organization involved must be prepared to draw primarily upon its own people and resources during this recuperation period. Assuring that they are available requires careful and intensive planning and preparation. The exact nature of what must be done will be determined by the nature of the disaster.

The idea of creating a structured organizational response to a disaster emerged from World War II civil defense activities. The concept was broadened during the next 25 years to provide a means for assuring the continuity of essential industrial and governmental units after an enemy attack or natural disaster.

However, the concept was refined into what appears to have become its generally accepted form beginning about 1973. The catalyst for this change was a rapidly spreading recognition of the crucial role that the survival of computer systems would play in the ability to survive a disaster.

This general renewal of concern for assuring organizational survival has led to the introduction of many procedural refinements of the disaster recovery process and to the creation of new products and services.

Disaster recovery encompasses both "contingency response planning" and "emergency operations management." Such efforts are designed primarily to assure continuity of operations in the post-disaster period. The emphasis is on minimizing adverse effects to employees and customers to avoid loss of assets and disruption of business activities.

Because of the need to act immediately, "making the organization whole" (a principal goal of insurance-oriented loss/risk management efforts) is a secondary concern, although it is not ignored. Disasters may be considered in two categories: natural and man-made. Those in the first category are fires, floods, earthquakes and hurricanes. Those in the second category are explosions, civil disorders (including acts of civil disobedience, strikes, demonstrations and terrorist activities) and loss of utility or government service.

These distinctions are somewhat arbitrary at best. There is some overlap between the categories. For example, an explosion is man-made when it results from an industrial accident or bomb detonation, but it is considered natural when it results from a lightning bolt igniting a volatile chemical.

A successful plan requires support by senior management, since preparing an organization to survive effectively during an emergency requires an advance commitment of key employee time and other resources that cannot be related directly to increased profits. Disaster recovery is a cost/loss avoidance process; unfortunately its value can be demonstrated only under the most adverse of circumstances.

Generally, the person with overall accountability for maintaining the security of the organization's operating sites such as plants, warehouses, and office buildings is charged with coordinating development and periodic testing of the emergency operating plan. He or she also activates it when a disaster occurs.

The disaster recovery coordinator (DRC) begins by determining the nature, likelihood of occurrence and probable impact of each type of disaster. Data used in this analysis is drawn from a variety of sources including local weather and lawenforcement agency records, standard maps of flood plains and other hazard-prone areas, and reports by labor/community relations specialists.

If the organization has multiple locations, the DRC will likely discover that the nature of a particular disaster will vary with locations. After this risk analysis is complete, the DRC identifies the desirable level of recovery for each risk possible. In recovering from a disaster, it is not essential that all functions be restored immediately or fully.

However, what should be restored and when it should be restored will vary with facilities and over time. ■

Photo: Wide World

Workers clear the rubble after an earthquake struck in Westmorland, Calif.

Belden Menkus is a security consultant in Middleville, N.J.

Nine-point plan for recovery

WITHIN THE CONSTRAINTS imposed by already established priorities, a disaster recovery team should create a comprehensive disaster recovery plan. Local needs and organizational practices will define its full content, but typically such a plan has at least these nine phases:

• Designation of management continuity. This section identifies by job title who decides or acts upon specific processes, functions or policies when other managers are unable to function in an emergency situation.

• Maintenance of an employee skills data base. While their basic job assignments may not call for the use of these skills, experience and talents, many employees will have abilities that can prove essential to the success of the recovery process. This section of the plan deals with establishment and operation of such a skills bank. Safeguarding of this information should be one of the elements of the organization's records protection activity. This will assure that the needed information will be readily available during the post-disaster period.

• Location of emergency operations sites. This section identifies secure places that will serve as the command post during the disaster recovery period. An alternative off-premises site should be available if access to the regular facility is not possible.

• Arrangements for cooperation with the appropriate local government agencies. Needs will vary with the differences in local situatons. In some instances, for example, the organization's security staff may be able to support the local police force in restoring order after a disaster. But in another situation, the organization may require special help from surrounding fire departments.

• Establishment of a records protection program. The scope and operation of the program should include electronic data-processing materials.

• Provision of necessary communications capabilities. There are two aspects to be considered in this section: prompt emergency notification of key organization employees needed immediately after a disaster and immediate restoration of essential voice and data communications capabilities. The ability to communicate independently will compensate for any delays encountered by local utilities in restoring communications services.

• Identification of and arrangements for the special services and resources required during the disaster recovery process. Depending upon individual needs, a wide variety of items may be required ranging from on-site medical services to earth-moving equipment and portable sump pumps for draining electrical service vaults on the premises.

• Designation of sources for possible replacement of key equipment, tools and raw material stocks. This section should tell the coordinator how and from whom to acquire a replacement supply of a particular industrial grade chemical needed before production can resume.

• Clarification of the status of the organization's security forces in the recovery process. This section will include the special equipment and training that members of this force will need to carry out their role. The decisions and plans made will depend upon relations with local government agencies as previously noted and upon the force's basic status, whether it is employed by the organization or provided under contract by a third party.

A likely disaster should be simulated at least twice a year. With minimal advance notice, key employees should be required to carry out the duties assigned to them under the disaster recovery plan. Such exercises will provide much-needed training and offer an exceptional opportunity for appraising the likely effectiveness of the plan itself.

Where a number of organizations are located near each other, it may be feasible for them to share in a joint disaster recovery effort. While it has been most effective where the organizations involved are in essentially the same industry, these aid agreements have been developed successfully in a variety of environments since World War II.

Belden Menkus

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Dr. Thomas E. Cronin, medical director of the O'Hare Industrial Clinic, examines an anatomical model.

Clinic's founder turns philosophy into caring

someone you should know

By EILEEN NORRIS

ELK GROVE VILLAGE, Ill.—A man hops through the doorway, dangling one bare foot. A sock and sneaker are hanging from his free arm. He limps to the front desk of the O'Hare Industrial Clinic.

"My toes got smashed," he tells the receptionist, who takes a pink slip from the man's free hand as she scurries around her desk to escort him to the emergency room.

Chances are good this man will be X-rayed, treated, bandaged and out the door within 45 minutes. When he leaves, he probably will have been given medicine (which will have directions in both English and Spanish) and an appointment for a follow-up visit.

A medical report on the patient's condition will be in the mail to his employer within 24 hours.

Dr. Thomas E. Cronin, medical director of the clinic, says the staff of 30 physicians, specialists and professionals developed a new dimension in industrial health care back in 1963. They dubbed it "totality" of patient care. And the concept is still in full swing today.

The phrase translates into providing the best quality of care in the most efficient and expedient manner. That's Dr. Cronin's credo, and his clinic is his best attempt at turning the philosophy into reality.

The clinic is a familiar sight to the neighborhood, having been at the same site for some 18 years. O'Hare International Airport is only a short distance away, and many major airlines and large industrial employers in the northwest suburban Chicago area are clients of the clinic.

More than two-thirds of the workers who come here have been injured on the job. The other one-third are screened for physicals and periodic exams.

Since caring for injured workers is the clinic's primary job, it does it well, Dr. Cronin says. "It doesn't work when you try to mix a private practice with this kind of setting. In order to be helpful, our objectivity and independence is important."

Dr. Cronin all but cringes at the suggestion that the clinic's physicians would most naturally side with or be sympathetic to the employer when diagnosing a worker's injuries.

"We're not the company doctor. We are the company's medical consultant. And we call the shots as they are. If we find the employee faking an injury, we say so in our report. If a worker is disabled to the point of being unable to return to work, we say that, too.

"Our credibility with our patients is vital."

The 1,000 employers that the clinic has working arrangements with are billed on a fee-for-service basis. The worker gets a treatment request slip from the employer, which he then hands to a clinic staff member when arriving for an appointment.

If it's an emergency, which is usually the case, the employee is whisked right into the emergency room where industrial physicians, nurses, orthopedic surgeons and radiologists are standing by.

The clinic also has quite a few specialists in the field of ophthalmology, urology and dermatology, and two or three general surgeons who are on call as consultants. Since about 30% of the employees seen by the clinic are Spanish-speaking, a number of professional staff speak that language fluently. Others speak Polish, Italian and Korean, Dr. Cronin says.

He says the clinic charges about 30% less than hospitals charge for physical therapy and about 50% less than what hospital emergency rooms charge for treatment.

"Our therapy clinic operates on a daily basis and allows the employee to return to gainful employment sooner," Dr. Cronin says.

"A worker could sit in an hospital emergency room for several hours with a cut finger. And all that lost time is to the employer's loss," he says. "We try to maintain a maximum time for a new injury so that the worker is out within 45 minutes. We try to keep follow-up visits to a half-hour. This all helps to cut down on the employee being off the job."

Dr. Cronin says he and his staff are painfully aware of the high costs of workers compensation in Illinois and sympathize with the employer who pays a staggering price for industrial injuries.

Lost time from accidents is a primary factor in increasing workers compensation premiums charged to the employer, says Dr. Cronin. The clinic often advises a limited-duty status for employees who can still work, even though injured, to cut lost-time costs.

The clinic also tries to keep employers' costs down by providing preplacement screening. A state law holds the employer responsible for "aggravation of any pre-existing medical condition."

The industrial clinic also provides drug screening analysis, Occupational Safety and Health Administration noise and hearing standard testing and screens for low-back injuries with X-rays, Dr. Cronin says. ■

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Rich Fuchs on associations: The opportunities and pitfalls of "safety in numbers."

SFO Inc. is among the nation's leading underwriters of special multi-peril property/casualty insurance for specialty lines. With its principal office in Kansas City, Missouri, SFO is a division of the Missouri Insurance Group, Inc. of Los Angeles. Here, in an interview, SFO Vice President Richard C. Fuchs II delineates the unique needs of the independent insurance agent who wishes to expand his or her customer base through the development of insurance programs for associations.

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Employers hear cry for instruction in tear-gas use

By CAROL G. BLITZER and ESTHER FRITZ

LOS ANGELES—A new corporate security plan is bringing tears of joy to some workers here.

Tear gas.

California's amended law allows private citizens to buy and carry tear gas starting in January, but only after completing a course of instruction. A number of companies are offering tear-gas classes and paying at least part of the cost as an employee benefit.

Though the companies wouldn't mind their insurers looking kindly on this extra security precaution, premium reductions in workers compensation or liability coverage aren't the main motivation. Personnel safety is.

Some companies are responding to employee requests for personnel safety instruction and others have had frightening losses that motivate their participation.

"We had an incident in the parking structure below the building last year, in which an employee was assaulted," says Ladonna Lieb, a benefits administrator for Vidal Sassoon in Los Angeles.

Public Safety Educators in Reseda provide Sassoon employees with instruction in tear-gas use. About 60 employees of a possible 200 attended one of two meetings.

About half of CBS's 1,500 television employees in Los Angeles are taking a tear-gas course, with the company paying half of the $22 fee, a CBS official said.

"Unfortunately, being in the news media and hearing what happens makes people feel they need the course," she said.

"I don't believe it affects our insurance. Employees sign a release form that says they can't hold CBS accountable for any injury. They chose to take the course and whatever they learned is their responsibility. We're offering it as a convenience."

A Riverside, Calif., company called Modern Humans has recently expanded into the Northern California market to offer a tear-gas class for $21 or less, depending on the number of participants from a company.

Modern Humans offers continuing education courses for nurses and became involved in tear-gas classes when nurses began requesting self-defense instruction, said Janet Wheeler, the company's director.

The educational firm has taught classes at banks, the public guardian's office and hospitals, including O'Connor Hospital and Santa Clara Valley Medical Center in San Jose.

O'Connor's course was fully paid for by the hospital, but employees bought their own tear-gas canisters.

Santa Clara Valley offered the class, but employees had to pay for it themselves. According to Edna Nerio, a member of the hospital's safety committee, the hospital also offered a self-defense class.

Tear gas, however, shouldn't be the only technique taught to employees, advise self-defense experts. Chicago businesses are offering self-defense courses as part of benefit packages for women employees.

"Tear gas isn't a magic wand," warned Christine Masterson, an instructor for Chimera Inc., a Chicago-based women's self-defense organization. "Chances are you won't have it with you when you need it.

"Women are often attacked in their home. They also forget to transfer the canister when they change purses and coats. Besides, what do you do if an attacker knocks the container out of your hand or the wind blows the tear gas back in your face? Tear gas is a good supplement to, but not a substitute for, a self-defense course."

By teaching women how to pro-

Continued on page 50

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Many employees want self-defense training

Continued from page 48

tect themselves from criminal assault, companies hope to prevent physical injuries that keep women from coming to work and the emotional scars that can impair job performance.

The companies also want to ease anxieties that women have about working overtime or working night shifts. They think self-defense classes demonstrate their concern for the safety of women workers.

A company-sponsored self-defense seminar paid off for a Montgomery Ward assistant buyer in Chicago. Marcia Engle is 5 feet tall and weighs only 100 pounds. But she broke a would-be abductor's nose with her hand as he tried to pull her into his car while she waited for a bus.

The attacker fled when the bus arrived.

Harris Trust & Savings Bank, Montgomery Ward & Co., Catholic Charities and South Shore Bank in Chicago have hired Chimera to teach a corporate personal safety insurance seminar. They've been so popular the companies plan to offer them again.

Chimera offers a one-hour lecture demonstration open to both women and men and a 12-hour course for women only.

The companies say they offer the program out of concern for employee safety at home, on the street and on public transportation, not because of crime in the companies' neighborhoods.

Employees agree that they don't feel any less safe at work than anywhere else in the city. But 64% of the Fortune 1,000 executives whose companies are headquartered in large cities say crime in their corporate neighborhoods has shaped company security programs, according to a new study, The Figgie Report, Part II: The Corporate Response to Fear of Crime.

The report was commissioned by A-T-O Inc. of Willoughby, Ohio.

"Two out of every three (64%) of senior executives say that the incidence of at least one type of crime has increased in their corporate neighborhood within the past five years," the report states. "A few companies have even considered relocating because of the threat of crime."

Although lower insurance rates are hardly the target, the classes may reduce some liability risks, the companies say.

An employee could sue an employer for negligence if she were attacked while on business at or away from the office, acording to Erica Pascal, legal counsel of South Shore Bank in Chicago.

The women at the bank wanted to learn an effective method of self-defense that they could master quickly, said Diann DeWeese Smith, director of administration and marketing.

They didn't have the time to invest in several years of martial arts training. Instead, they took Chimera's 12-hour course.

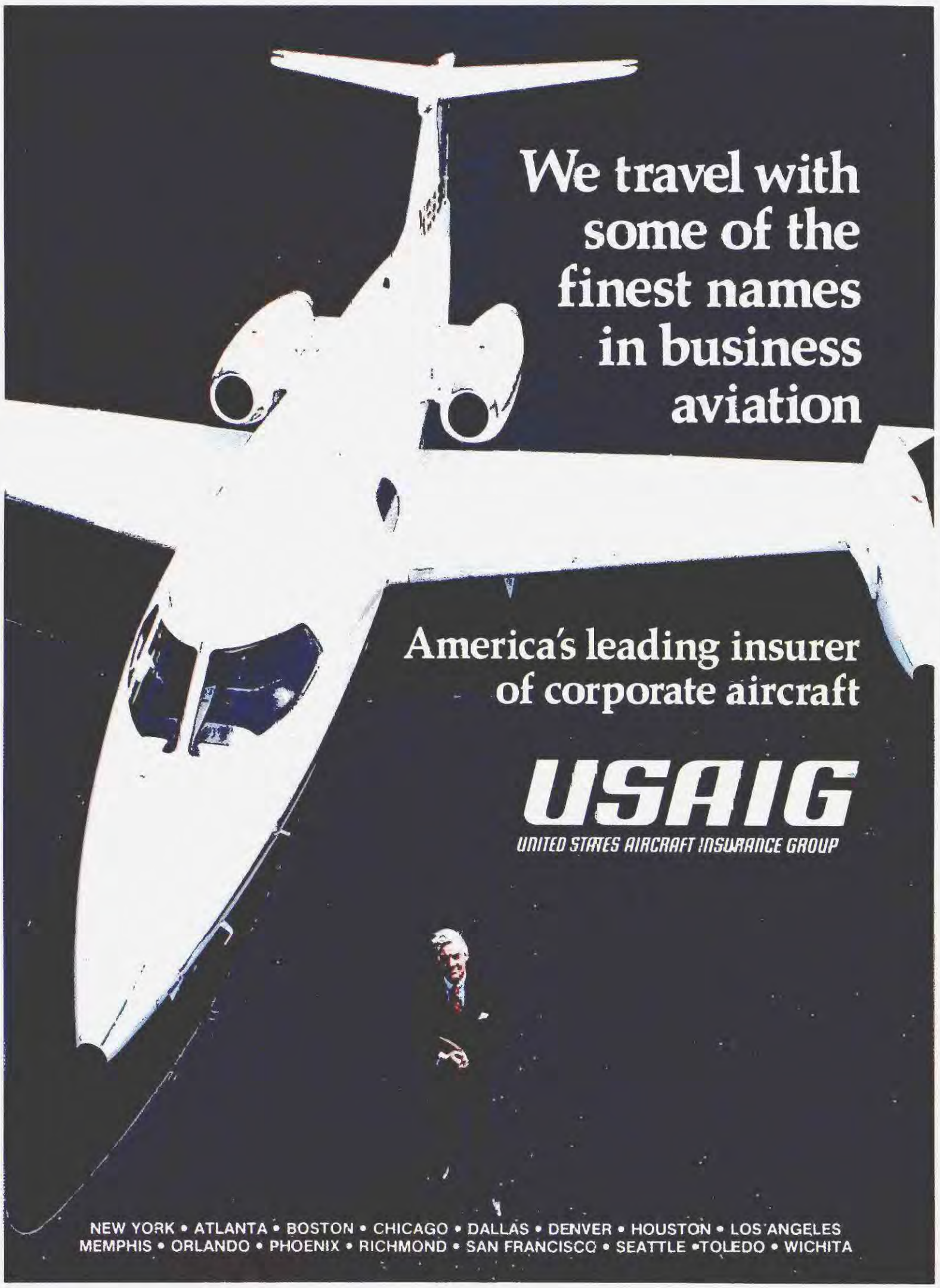
Many employees do not attend self-defense seminars until the second or third time they're offered. Many are afraid to ponder all the possible ways they could be attacked.

But Montgomery Ward packed 600 employees into its corporate theater for a two-hour seminar put on by Chimera and a Chicago policewoman.

The company had sponsored a Chicago Police Department crime prevention presentation twice before. Like Chimera, the police teach methods of avoiding attack, but they don't give lessons in physical self-defense.

Some women at South Shore Bank were reluctant to take the course because male coworkers ridiculed them, Ms. Pascal said. "Are you going to do that to your boyfriend?" they asked. "Boy, am I going to have to be nice to you."

The idea that women can learn to defend themselves threatens some men's masculinity, she said. "They feel they've failed in the role of protector or are afraid the skill will be used against them." ■



Computer may cut lost baggage claims

By STEVE SHERWOOD

ATLANTA—If an airline passenger flies to Paris and his baggage flies to Rio de Janeiro, chances are a computerized tracking system based here will find the missing luggage.

The system, known as BAGTRAC, is the joint venture of the International Air Transport Assn. (IATA) in Montreal and the Societe Internationale de Telecommunications Aeronautiques (SITA) in Atlanta.

Activated March 1, 1980, BAGTRAC is designed to speed recovery of misplaced luggage and cut lost luggage claims and out-of-pocket expenses paid by international airlines to inconvenienced passengers.

"Normally, until the bags are found, you have to make minor settlements for such things as toothbrushes and clothes. They don't come cheap," says T. Sudderth, SITA's general director.

Donald Bobbitt, baggage procedures manager for IATA, says airlines spend around $150 million a year on total luggage mishandlings including delays and losses.

"This is still not much when you consider 131 major carriers are boarding 750 million passengers a year," he says.

Mr. Bobbitt says 98% of mishandled luggage is recovered within 72 hours and most of that comes in on the next flight. The remaining 2% are those not recovered within the first four days. Only a small fraction are lost permanently.

By tariff, the maximum liability an airline has for a lost piece of luggage is $750. Sources say the average payment is between $200 and $400 and that some 5 million pieces of luggage are lost each year. BAGTRAC hopes to cut this down through more efficient service.

Before BAGTRAC, luggage lost outside the United States was sought primarily through a manual teletype system, Mr. Bobbitt says.

"Say you were traveling from New York to Amsterdam via London," he says. "If your bag was missing, by the old system a telex would be sent to New York and London inquiring about the bag. If they didn't have it on hand and the tag came off, it may have ended up anywhere. It could take weeks to get it back, and in the meantime, the airline may have to pay for your clothes and toiletries."

Through BAGTRAC's computer, the search for a missing bag begins immediately. A description, which includes the passenger's name, the bag number, the bag's color, type, brand name and contents, is entered into the system.

The missing bag is known as an "AHL" or "advise hold."

Elsewhere, descriptions of unclaimed bags called "OHDs" or "on-hands" are entered into the system by subscribing airlines. The computer matches the AHL and OHDs for possible matches and informs those searching where to send for the bag if it is found. The matching process, from anywhere in the world, takes only seconds. Subscribers enter the BAGTRAC computer system directly by terminal interface or by Teletype, which takes longer.

"Some of the advantages are reduced Teletype traffic, immediate response, synchronized world service, immediate accessibility to worldwide information, early replies for passengers and fewer mishandled bags," Mr. Bobbitt says.

For this service, member airlines pay about $100 a month and 7 cents for each AHL they enter.

"It takes finding less than one bag a month to pay for the use of the system," says Mr. Sudderth.

Sixty airlines subscribe at this time, most headquartered outside the United States. Two airlines—TransAmerica and Capital International Airways—are the only American-based carriers on the BAGTRAC system.

Jim Dale, supervisor of claims and passenger relations for Capital International, says he's enthralled by the system.

"I've been in the airline baggage business for 14 years and as far as I'm concerned there is nothing simpler to use, less costly or more effective in finding lost bags," he says. "I'm very much sold."

Capital International, based in Nashville, Tenn., serves many U.S. cities and San Juan, Puerto Rico.

Mr. Dale says he cannot tell as yet whether the system will save the airline money because it is not yet installed in all the airline's offices.

Most domestic airlines use Eastern Airline's Easy-Track computer system, which has been in operation for about 10 years. An Eastern official says that system is currently being updated so that more carriers can be served. There are now 32 subscribers.

Eastern and BAGTRAC have discussed the possibility of exchanging information, he says, but have made no plans.

"There aren't many cases of bags being shipped from Denver to Chicago and ending up in Saudi Arabia," he says. ■

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Flying Fire Engine

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Photo: California State Highway Dept.
California workmen assess the damage to a state highway caused by the tremors of an earthquake.

California report studies quake insurance market

By CAROL G. BLITZER

SACRAMENTO, Calif.—A first attempt at analyzing California's earthquake insurance market shows that insurers would be able to meet financial obligations if a major quake hit.

The report on "Earthquake Zoning and Probable Maximum Loss Evaluation" by the California Insurance Department is the first attempt at compiling information on who offers coverage and whether these insurers can cover possible losses.

"As we get three to five years of data, we'll have a more significant handle on this," said Bernard I. (Bud) Farrell, assistant commissioner of property/liability insurance.

Ultimately, the department hopes to gather enough information to help insurance companies evaluate their own liabilities by zone, to give the reinsurance market a chance to compile information on possible losses in a uniform manner, to provide a means to review both markets and to assure that losses from a major quake would not deplete the financial structure of the insurance industry.

"The intended eventual use is to provide data to judge the capacity of the world's reinsurance market to meet possible greatly increased capacity needs," the report states.

It also can provide a basis for estimating the effect on the industry if more consumers purchase earthquake insurance.

"A company may never have given any thought to how it accumulates liability for earthquakes," said Karl Steinbrugge, an earthquake consultant who worked on the report. "This'll straighten some of them up and make them think about the problem."

Mr. Steinbrugge said this report is not the final product. "It has to be broadened to include other coverages: fire following an earthquake, workers compensation, time-element coverages, automobile," he said.

The Federal Emergency Management Agency estimates that damage from a major quake would total more than $80 billion in Northern California and $86 billion in Southern California.

According to the report, residential earthquake insurance is carried by 6% of homeowners in Southern California and 7% in Northern California. Probable maximum loss is estimated at $1.23 billion for Los Angeles and Orange counties and $844 million for the San Francisco area.

If there were 100% market penetration (if all the homeowners with fire insurance also carried earthquake protection), the probable maximum loss would be $3.06 billion for the Los Angeles area and $1.8 billion for the San Francisco area.

The report's main value to insurance companies is in defining what a company's share of the market is and how much business is done in various classes (wood-frame versus reinforced-brick structures, for example), said William H. Dillon, vp in charge of commercial property for Fireman's Fund in San Francisco.

Mr. Dillon was chairman of an industry committee for the National Committee on Property Insurance, which provided financial assistance for the report.

The state Insurance Department will treat an earthquake as a single event and will require insurers to limit one risk to one-tenth of the insurer's assets in excess of liabilities, he said.

The report is important to the reinsurance market for its information on exposures, said Ralph C. Lewis, senior vp of North American Reinsurance Corp. in San Francisco.

"We were surprised at the number of companies writing earthquake insurance but not at the amounts of liability. We probably thought we had more," he said. "As we get more accurate information, we'll probably find there is more liability."

Mr. Lewis said that the report is not the complete picture.

"As time goes on, people will become more skilled," he said. "Next time, statistics will become better and finally we'll have a good handle on it."

Of 300 companies reporting to the Insurance Department, 231 offer earthquake coverage. More than 200 reported their earthquake liabilities as ordered by the department.

"The report casts no light on reserves, but there's nothing in the report that says companies can't meet their obligations at this time," Mr. Farrell said. ■

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Contract Services Division

Liberty Mutual names new president

Gary L. Countryman has been elected president of Liberty Mutual Insurance Cos., replacing **Marvin B. Bradshaw**, who has been elected chairman of the board. Mr. Bradshaw, who will continue as chief executive officer, replaces **Frank L. Farwell**, who was elected honorary chairman of the board.

Countryman

John L. Eavenson, executive vp, was elected vice chairman of the board.

Other insurer changes:

Robert G. Brissman and **Reno H. Forsythe** named senior vps of American States Insurance Company of Indianapolis, Ind.

Richard Williams appointed vp and head of national fidelity and surety operations at Fireman's Fund Insurance Cos. in San Francisco.

Michael G. McIntyre named regional vp and regional sales manager of Allendale Insurance's New York region. Also at Allendale, **Kenneth E. Devlin** named vp and regional manager of the company's western region. Allendale specializes in loss-control engineering and industrial property insurance.

Gary W. Miller elected president of Protective Insurance Co., a subsidiary of Baldwin & Lyons Inc. He will continue as an executive vp at the parent company.

Ward I. Graffam promoted to vp of long-term disability products in the employee benefits division of Union Mutual Life Insurance Co.

Anthony J. Sabelli promoted to field vp of John Hancock Mutual Life Insurance Co.'s international group department.

Other suppliers

Edward C. Hamill joined Meidinger Inc., a compensation and benefit services consulting company, as corporate vp and manager of the Charlotte, N.C., office.

Robert Kryvicky joined the Cleveland Consulting Office of Towers, Perrin, Forster & Crosby, international management consultants.

RIMS course to be offered in Chicago

NEW YORK—The Risk Management and Insurance Society Inc. will offer its Techniques of Risk Management course June 10-12 at the Ritz-Carlton Hotel in Chicago.

The course emphasizes the processes involved in controlling risks: identification and analysis of exposures, prediction of loss, loss control, retention and self insurance and insurance purchasing decisions. The concepts are then applied in a risk management case study.

The fee is $295 per participant for RIMS members and $175 for each additional participant from the same company. The fee for non-members is $395.

The instructors, Larry D. Gaunt and William R. Feldhaus, are professors at Georgia State Univeristy. Both have practical business experience in risk and insurance management.

To register, contact Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292. ■

comings & goings: industry

Agents/brokers

Thomas L. Nygren has joined Frank B. Hall & Co. of Houston as vp of financial services in the company's new financial services department.

W.J. Creedon named executive vp and chief operating officer of Warren & Sommer Inc. and **John C. McCutchen** named executive vp and chief financial officer and chief operating officer of the Warren & Sommer Management Co., both in Denver.

Silvio DeSerto elected president of Meeker-Magner Insurance Brokers & Consultants Inc., a subsidiary of Meeker-Magner Co. in Park Ridge, Ill.

Jack R. Perez named vp and eastern regional coordinator of Reed Stenhouse International, a subsidiary of Reed Stenhouse Inc.

Charles Jakso appointed executive vp of Penn General Agencies of California Inc.

A.C. Burton named chairman and chief executive officer of Don Flower Associates Inc., a Wichita, Kan., subsidiary of Rollins Burdick Hunter.

At the same company, **Dick McKenzie** named vice chairman, **Charles L. Jones** named president and chief operating officer, **A.G. Jenkins** appointed senior vp and manager of the general aviation department and **John Huffaker** named senior vp and manager of the programs department.

Michael A. Euritt appointed president of Penn General Agencies of Arizona Inc. **William A. Kursinsky** appointed vp.

B.C. Wilkinson joined IMC of Texas Insurance Agency Inc. of Houston as executive vp.

William P. Schermerhorn elected vp of Bache Ter Bush & Powell Inc. in Schenectady, N.Y.

Frank Loehnert Jr. named chairman of Corroon & Black of Ohio. At the same company, **George Schmelzle** appointed president and chief executive officer.

David W. Emmerich named senior vp of NUA (Illinois) Inc., the new property excess/surplus operation of National Underwriting Agency in Chicago.

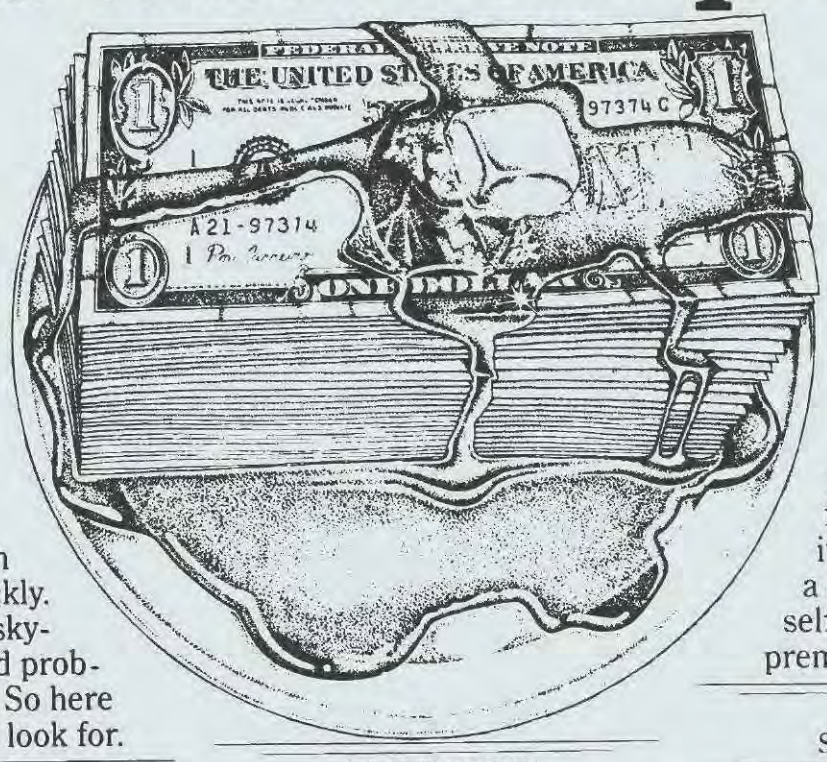
Robert L. Hannon Jr. elected chairman and chief executive officer of Johnson & Higgins (Michigan). **David W. Bianchi** elected president and chief operating officer.

Excess/surplus

Martin M. Mazer and **Walter J. Clark** named to new posts at Wehorn International Inc. Mr. Mazer was appointed casualty underwriting manager and Mr. Clark was named property underwriting manager.

Franklin G. Magin Jr. promoted to vp of underwriting for Commander/International Underwriting Managers Inc., a member company of the Jersey/International Group. ■

Are you being fed a sugar-coated dental program?



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A claim system that wastes time, wastes money. DENTSTAR is exclusively designed to handle the typically high volume of dental claims quickly and accurately. It instantly spots duplicate claims, overcharges and invalid data that could delay processing and cost you time, money, and aggravation. And since DENTSTAR is on-line nationally, our regional offices can help your employees wherever they are.

FLEXIBILITY

A plan that can't adapt to your needs can be worse than no plan at all.

At John Hancock you get what works for you. Whether it's designed around a conventional insured, self- funded or minimum premium plan.

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Posters may cut health-care costs

By MARY ANN MATLOCK

NEW YORK—If Union Labor Life Insurance Co. has its way, posters encouraging cost-effective health care will decorate employers' walls.

The insurer believes that second-opinion surgery and pre-admission testing can cut costs without sacrificing quality of care. This has led it to print and distribute promotional posters to companies.

Since late 1979, 1,000 posters and 100,000 pamphlets encouraging second-opinion surgery have been distributed, and 650 posters and 65,000 leaflets for the pre-admission testing campaign, started in late 1980, have been passed out.

Though Union Labor doesn't have proof of the savings incurred by these techniques, it believes they are worth promoting for their clients and others.

"It's putting our money where our mouth is," said Richard Collins, vp of group operations. "It's an industrywide problem and we believe we'll benefit in the long run.

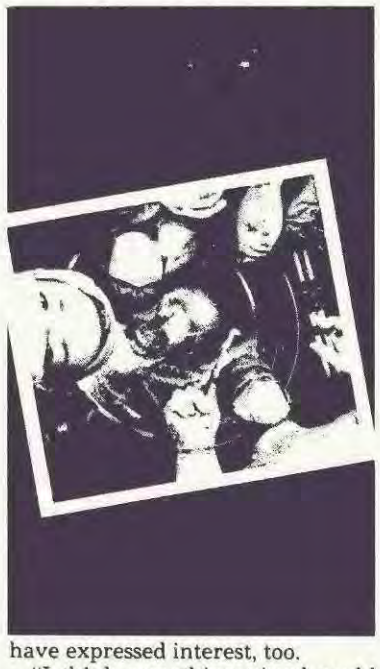
"Our problem has been getting people to use it," he said, referring to the second-opinion coverage started about five years ago and pre-admission testing launched two or three years earlier.

The insurer and benefit managers believe more publicity about the program is needed.

"By publicizing it we hope to get more impetus," Mr. Collins said. "Getting more people to use it is a way to measure it."

Research ultimately will determine the true value of these procedures, but he said consumers will benefit from access to a second professional opinion and lower medical bills when pre-admission tests are done on an out-patient basis.

All clients of the insurer, which is the largest underwriter of jointly administered health and welfare funds, received posters and pamphlets to boost the program. Others



have expressed interest, too.

"I think something visual could help, but you also need a narrative to explain pre-admission testing and how to go about it," said Sharon Campbell, benefit manager at Schneider Transport Inc. in Green Bay, Wis.

Schneider Transport, with 3,000 employees, is not a client of Union Labor Life but is interested in its posters.

"We're self-insured and think some costs could be contained. We'd like to see what these look like."

Officials at Venture Stores in St. Ann, Mo., share these views.

"We sent for them (promotional materials) because we do have second-opinion surgery and thought it would help employees to get somebody else's advice before going under the knife," benefit specialist Carol White said.

Although describing them as "very good posters," the employer decided against using them because of their union emphasis.

The communication campaign is not expected to stop with the poster distribution. The insurer already is toying with the idea of putting reminders about the new coverages with claims forms and paying those using second-opinion surgery a differential, Mr. Collins said. ■

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Premiums in Israel rise with inflation

worldwide

By STACY SHAPIRO

TEL AVIV, Israel—Companies here will soon pay more for property insurance under a new law that links claims to inflation, a reinsurer says.

"An insurance law has been passed to cover a variety of subjects to protect the policyholders," said Jack Mansoor, deputy managing director of the international division of the Hassner Group, the largest insurer in Israel.

The law requires that claims be based on the property values at the time of the damage, but the value will be automatically linked to the cost-of-living index, he said. Therefore, premiums will also be raised to reflect inflation, he said.

Premiums on property policies are not the first to be tied to Israeli inflation. Third-party liability premiums on motor vehicle insurance already are linked to the cost of living, Mr. Mansoor said.

The government allows the insurance companies to raise premiums semiannually by a cost-of-living differential. In April, policies went up 25%. Another increase is expected after the October elections, Mr. Mansoor said.

Insurers also increased theft insurance premiums by 60% last year and will ask for another 20-25% increase this year, he said.

Fire rates up

COLOGNE, West Germany—Poor loss experience is forcing leading West German insurers to raise fire insurance rates 10% this year on renewals with limits of 50 million deutsche marks or more, the German Fire Offices Assn. here confirmed.

Renewals in 1982 will be increased 20% for fire renewals worth 1 million deutsche marks or more. For properties with high loss ratios, renewal rates will be up 30%.

By 1983, West German insurers want to impose a fire tariff that would insure these increases and others. But for now they're adjusting fire rates to compensate for the underwriting losses.

Reinsurers are planning a new penalty clause in their treaties for insurers who don't conform to the new tariff.

Property losses caused by fire have increased dramatically in West Germany. In 1979, they cost 833 million deutsche marks compared with losses of 357 deutsche marks in 1974. Loss ratios grew to 88% in 1980 from 49% in 1970.

"Buyers, although accepting that adjustments are necessary, are not very enthusiastic about this (increase) and are threatening to look for other markets," said E. Muller-Gutthard, chairman of the German Insurance Assn. and a board director of the Nordstern Insurance Group in Cologne.

"The speed with which these new measures become effective depends on various factors," he said.

"Accelerating factors would be adverse results in other lines such as auto and marine insurance. A retarding factor would be high interest rates, but some people consider our rates of interest in Germany to be very low."

Higher risk

NEW YORK—Political and economic problems expected in Brazil in the next five years heighten the possibility of major loss for international businesses operating in the South American nation, according to a Frost & Sullivan political risk survey.

A military coup or other unrest is expected by 1986, especially if the country is forced to abide by the wishes of the International Monetary Fund and world banks to straighten out its economic problems.

The IMF and the banks have been criticized by a number of groups in Brazil for the worsening economic condition. Strikes and civil unrest could result if the government does not place restrictions on foreign operators, the consultants say. ■

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• Alternatives to preserving the value of retirement incomes are found in the booklet **The Retirement Challenge: Balancing Inflation** by State Mutual Life Assurance Co. For a free copy write Poster, Group Marketing, State Mutual Life Assurance Co. of America, 440 Lincoln St., Worcester, Mass. 01605.

• The 1981 information book of the International Foundation of Employee Benefit Plans, **For Better Benefits Management**, has just been published. For a free copy write International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005.

• The pamphlet **Risk Review,** a continuing series on loss prevention, is available free of charge from Rayner Risk Control. For your copy write John Rayner, Rayner Risk Control, 9 Buckmaster Road, London SW11 1EN, England.

• **The Mercer Handbook of Canadian Pension and Welfare Plans**, 1981 edition, is now available to the public. The handbook is an update of the edition published in 1977. The cost is $25. For a copy write CCH Canadian Ltd., 6 Garamond Court, Don Mills, Ontario M3C 1Z5, Canada.

• A free brochure reporting on the sample studies published by ERISA on **Industry Retirement Practices** is available by writing ERISA Benefit Funds Inc., 515 National Press Building, Washington, D.C. 20045.

• A new reference book on property/casualty insurance has been published by the Insurance Information Institute. **Sharing the Risk—How the Nation's Businesses, Homes and Autos Are Insured** is $3.95 for one copy or $3 for three or more copies. For a copy write Publications Division, Insurance Information Institute, 110 William St., New York, N.Y. 10038.

• The International Risk Management Institute Inc.'s new **Manual of Rules, Classifications and Interpretations for Workers' Compensation Insurance** has just been issued. The cost is $95 per manual, including free updates for one year after the date of purchase. For a copy write International Risk Management Institute Inc., Suite 208, Building IV, 10300 North Central Expressway, Dallas, Texas 75231; 214-363-9656.

• The catalog of **rental safety and training films**, The Safety Makers, is available from the International Safety Academy. For your free catalog write International Safety Academy, The Film Library, Box 76146, Los Angeles, Calif. 90076; 213-381-5569.

• The latest copy of the monthly newsletter, **Benefit Plan Developments**, is available to benefit plan administrators. For a free copy write Sinclair-Whitely & Associates Inc., Box 50473, Nashville, Tenn. 37205; 615-297-3566.

• The U.S. Chamber of Commerce is offering its **1981 Analysis of Workers Compensation Laws**, a detailed listing and explanation of workers compensation laws and changes. Copies are $8, with discounts for bulk orders. For a copy write U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 301-468-5128. Specify publication No. 6383.

• The Labor Department is offering **ERISA Opinion Letter Update No. 11,** the latest listing of the department's official responses to questions on the effects of actions under ERISA and the status of employee benefit plans. The cost is $16.10 per copy, and advanced payment is required. Make checks payable to LMSA, U.S. Department of Labor. For a copy write Division of Public Disclosure, Pension and Welfare Benefit Programs, Room N-4677, U.S. Department of Labor, 200 Constitution Ave. N.W., Washington, D.C. 20216; 202-523-8771.

• The 1981 edition of the **National Directory of Safety Consultants** has been published by the American Society of Safety Engineers Consultants. The publication lists the qualifications of more than 250 of the nation's top occupational safety and health consultants. The cost is $7.50 each, prepaid. Write the American Society of Safety Engineers, 850 Busse Highway, Park Ridge, Ill. 60068.

• The booklet, **ABCs of Experience Rating**, can help businesses reduce their workers compensation insurance rates. Copies of the booklet are available at $1 each from the Public Affairs Department, National Council on Compensation Insurance, One Penn Plaza, New York, N.Y. 10119.

• **Risk Management: An Introduction for New York State Local Officals** by L.E. O'Brien and Duane Wilcox is available from the Cornell University Local Government Program. The 140-page book covers various topics including key risk management terms, concepts and methods. The publication costs $10. Write the Local Government Program, 200 ILR Extension Building, Cornell University, Ithaca, N.Y. 14853.

• **Aircraft Products Liability Insurance** is the subject of a booklet printed by Aircraft Builders' Counsel Inc. This new program is an outgrowth of the original ABC plan for insuring aircraft products. It is directed to the smaller business that has only a moderate production of aircraft products. For a free copy write ABC, 8939 Sepulveda Blvd., Suite 526, Los Angeles, Calif. 90045. ■

business insurance

INSURANCE SERVICES GUIDE:

when they're ready to buy.

see page 72

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Excess/surplus company opens offices in California

Universal Security Insurance Co., a new excess/surplus lines insurer headed by Harry Degner, has opened in Los Angeles and San Francisco.

USI will focus on excess workers compensation, personal and commercial umbrellas and other excess coverages.

"Primary coverage will be written for 'gray-area property lines' and fringe areas of professional liability such as nurse registries, optometrists and dentists," said Mr. Degner, president and chief executive officer.

The new company reports a capital and surplus of $5 million with availability of more from its parent company, S&H Insurance Co., which is wholly owned by Sperry & Hutchinson.

Other USI officers include Joan-Guy Rivard, vp and chief financial officer; Chris Christiansen, senior vp; and Robert E. Brown, administrative services manager.

Brokers combined

Fireman's Fund Insurance Cos. has combined its surplus lines brokerage operations.

The Excess & Specialty Risk Market Inc., a subsidiary of Fireman's Fund, and the recently acquired Geo. F. Brown & Sons Inc. are being combined. The new office will be managed from Chicago under the name of Geo. F. Brown & Sons Inc.

Captive manager

Cayman Corporate Service Ltd. on Grand Cayman Island has been formed to provide corporate management accounting and underwriting facilities for captive and investment companies.

Rex A. Rankine is the new company's managing director. The firm's address is Box 436, Grand Cayman, B.W.I.

New division

American International Group Inc. has formed the AIG Banking Division, which offers a complete line of insurance services.

The division offers many coverages including directors and officers liability, errors and omissions, property/casualty and bond and various accident and health lines.

Associations

Program Reasearch and Management Corp., a specialized insurance company, has been formed to serve the needs of associations and other national accounts. The company is headquartered at Building E, Research Park, Princeton, N.J. 08540; 609-924-9225.

Consultant

Loren B. Kramer, former partner of Arthur Young & Co. and the firm's national insurance industry specialist, has formed Kramer Consulting Services Inc.

The Chicago-based company will specialize in financial consulting and educational seminars for management and board members of insurance companies and professional firms that serve the insurance industry. Offices are at 222 N. Michigan Ave., Chicago, Ill. 60601; 312-332-7680.

Actuary

Robert F. Link, former vp of Equitable Life Assurance Society, has established an actuarial consulting practice in Old Lyme, Conn.

During 35 years with Equitable, Mr. Link worked in group coverages, becoming head of the group actuarial department in 1969. More recently, he managed Equitable's corporate strategic planning unit.

markets

New law firm

Beth Kravetz, former counsel and director of government relations for the National Assn. of Insurance Brokers in Washington, D.C., has set up a new law firm.

Kravetz & Hearity will specialize in insurance laws and regulation, toxic substances and federal and state regulatory issues.

The firm is located at 1747 Pennsylvania Ave. N.W., Suite 800, Washington, D.C. 20006. 202-822-9544.

New offices

A.S. Hansen Inc., compensation, benefits and actuarial consultants, has relocated its Chicago office. The new address is Three First National Plaza, Suite 2600, Chicago, Ill. 60602; 312-621-9800.

McAlear Associates Inc., a Grand Rapids, Mich.,-based insurance broker, is opening a Detroit-area office at 18554 Mack Ave., Gross Pointe Farms, Mich. 48236; 313-884-3066. ■

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Photo: Steve Sherwood

Eddie T. Justiniano of Groupo Segures La Commercial says brokers in Mexico have to do more than their U.S. counterparts.

Mexican insurance changes with growth

By STEVE SHERWOOD

MEXICO CITY—Economic growth spurred by its oil sales is bringing changes to Mexico's insurance industry.

"The insurance law until recently was completely obsolete," said broker Tomas Lorant of T. Lorant & Co. "It has changed dramatically, but the special addenda have not come out yet so we can't say just how much it will affect us."

Sergio Comel, executive vp of employee benefits for Seguros America Banamex, Mexico's second-largest insurance company, agreed with Mr. Lorant.

"The former law is very strict and defined," he said. "The new law is being issued as a frame and will be more dynamic to respond to new necessities."

The out-of-date law both men mentioned was Mexico's 45-year-old General Law of Insurance Institutions. It was repealed in January when a new law was passed. Just what the new law will allow will not be known until rulings are made on some 72 issues.

"The interesting thing is that the government is asking help and advice of our insurance agent and bonding association," Mr. Comel said. This could mean more favorable interpretations, he added.

Mexico has about 70 insurance companies. Of these, five write an estimated 75% of total premiums, sources said. These premiums represent only 1% of Mexico's gross national product.

"There is insurance sophistication in Mexico, but not as much as in the U.S. even though we have companies that would easily make your Fortune 500 list," Mr. Lorant said. "The largest industrial groups in Monterrey—the Alpha and Visa groups—are each worth several billions of dollars and are privately owned."

Still, these companies must purchase primary insurance from a Mexican company, he said. If they want to reinsure, the law requires that 50% of the premium, plus reserves, remain in the country.

According to the old law, "Any insurance issued by a non-Mexican insurance company on property located within the limits of the Republic of Mexico is in violation of the General Law of Insurance Institutions."

In addition, any person who fulfills a contractual insurance obligation or buys or sells insurance of a foreign company for property located in Mexico is in violation of the law. Non-Mexican insurance companies are forbidden to do any insurance business, except reinsurance, within Mexican territory.

The new law probably will not change this rule since its objective is to free Mexico from foreign dependence and keep its money in the country.

"We are trying to invest all the money from oil in capital to be self-supporting in most important sectors of the economy," said Mr. Comel. "The capital is used to build highways, mass-transit systems, schools and new port facilities."

Some differences between Mexican and American insurance practices were outlined by each spokesman when they were interviewed by *Business Insurance* during the RIMS conference last month in San Francisco.

"In Mexico we have government control," Mr. Lorant said. "No all-risk policies are allowed, and perils must be named."

Since rates in Mexico are 30% to 40% higher than in the United States, a good portion of reinsurance goes to companies north of the border.

These would commonly reinsure international companies for all-risks on a worldwide basis, another source said. "It would be steep insurance to plug any gaps in the coverage."

Eddie T. Justiniano, director of the international department of Groupo Segures La Commercial, one of Mexico's largest insurance companies, added to the list of differences.

"In property/casualty, one difference is in business interruption insurance," Mr. Justiniano said. "In Mexico, this is basically salary continuance. Many of the business concepts are not covered."

It is illegal in Mexico for an insurance company to write direct policies, he said. All must go through agents or brokers.

"This means a broker in Mexico does more work than in the States," Mr. Justiniano said.

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Perhaps one of the greatest differences between the Mexican and U.S. insurance markets is in employee benefits, Mr. Comel said. This is ironic because the employee benefits market largely developed through subsidiaries of U.S. companies in Mexico.

"There is not much group life in force," Mr. Comel said. "In our company, we have around 300,000 people insured through 1,500 policies. This represents 15% of the market so it gives you a good average."

Only 29% of Mexico's 70 million people are economically active, he said. It is a very young population with 75% of the population under 25 years old.

With economic and population growth projected for the next few years, the employee benefits market is expected to increase, Mr. Comel said. Mexico will need more than 2 million new jobs by 1982 and 20 million new jobs by 2000 to keep up with the workforce. The population is growing at an annual rate of 3.2%.

"Our company this quarter has increased premiums by 70% over last year and the employee benefit market is expected to grow about 45% in 1981," he said.

Major medical is not well-developed because of Mexico's excellent social security system, Mr. Comel said. "Medical clinics are spread throughout the country. An employer does not want to pay medical insurance premiums when he is already paying social security taxes."

But unions are asking for group insurance and other benefit plans to offset the country's 30% inflation rate.

"The people understand inflation will not be solved by higher salaries and are asking for benefits in other areas," Mr. Comel said. "This makes the employee benefits future interesting."

Pension plans offered by insurance companies must compete with heavy benefits paid to retired or disabled workers by Mexico's social security system.

"After 40 years of service, a retiring Mexican worker can get 70% to 80% of his latest salary," Mr. Comel said. "In addition, federal law states that if an employer shuts down, each worker must be paid severence pay according to the number of years he worked for the company." This equals nearly a year's pay for a worker with 10 years of service.

If a worker is fired, the employer must pay him 12 days' wages for each year of service.

Mr. Comel spoke positively of the new insurance law and the trend it indicates. "Before this year, we weren't allowed to sell pension plans; now we can. Before this year, only individuals could act as agents; now companies can hire employees dedicated to selling insurance."

Despite this added maturity, insurance has not come of age in Mexico, he said. "Unfortunately, it is not yet considered to be of great importance in this country. We grow according to needs ... nothing more."

Knowledge about insurance and the economic buying power of the average worker are limited.

"This is improving at a very fast pace, but you can't teach 70 million people all at once that they need insurance," Mr. Comel said. "Insurance for us is still a luxury." ■

Boy receives lifelong care in settlement

JOLIET, Ill.—A court-approved structured settlement will provide lifelong care for a 9-year-old boy who suffered permanent brain damage when he nearly drowned in 1975.

The settlement with Coleco Industries, a swimming pool manufacturer, could be worth as much as $2.3 million if the boy, Sean Fordonski, lives to age 67. Travelers Insurance Co. is Coleco's insurer.

The basic settlement will provide the boy $410,571 over 20 years, including legal expenses and a guaranteed monthly payment to his estate. The Travelers will pay $12,000 yearly, escalating to $20,000 over the period, plus interest and a $34,000 lump sum after 10 years.

A $51,000 payment will be made to his parents for legal expenses.

The parents sued Coleco after the incident, charging the company did not build adequate protection into its product to guard against accidents and failed to warn buyers of the potential hazards. ■

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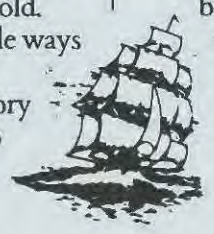

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Florida studies insurer investment income

TALLAHASSEE, Fla.—Florida is the latest state to jump on the insurer investment income review bandwagon, according to the state Insurance Department.

Insurance Commissioner Bill Gunter is planning hearings in mid-June to consider possible new ratemaking methods "that would more accurately reflect the impact of unprecedented investment income earnings by the property/casualty industry," the department said.

Several other states, including Illinois, Minnesota and Arizona, already have begun reviews of the role of investment income in insurance ratemaking (*BI*, Feb. 9).

"We have an obligation to consumers to carefully scrutinize alternative methods for computing investment income in light of dramatic changes in the industry brought about by consistently high interest rates," Mr. Gunter said.

An internal Florida Insurance Department study earlier this year revealed that "investment income has essentially replaced underwriting experience" in personal and commercial lines ratemaking.

around the states

Auto liability

AUSTIN, Texas—A bill introduced by Rep. Gene Green would make automobile liability insurance compulsory in Texas. The bill, H.B. 197, would amend the state's Safety Responsibility Act.

"This would mean Department of Public Safety officials could require proof of auto liability insurance from those stopped for traffic violations," Rep. Green said. Those without insurance could be charged with a misdemeanor.

The law also would apply to commercial fleets of vehicles, unless the owning entity qualifies as a self-insurer, the spokesman said. "Anyone with 25 or more vehicles who is deemed financially responsible can self-insure."

A similar bill is pending in the Illinois General Assembly. The bill, H.B. 9, would require motorist to show proof of automobile liability insurance when applying for their license plates.

Malpractice rates

NEW YORK—An independent consulting actuary will review the case for dramatic medical malpractice insurance rate increases, the New York Insurance Department says.

Last month, two insurers filed rate-increase applications for increases far above those approved in the past three years. The Medical Liability Mutual Insurance Co., which insures about 17,700 physicians, is seeking an overall rate increase of 71.3%, and the smaller Medical Malpractice Insurance Assn., which insures about 3,000 physicians, wants overall increases of 367.8%.

Superintendent of Insurance Albert B. Lewis said he called for the actuarial review because the two filings are based on the same loss experience of present and past insurers underwriting medical malpractice coverage that had not received such large rate increases.

The Medical Liability Mutual, he noted, had not sought overall rate increases in 1978 or 1979 and had already received permission for a 24% increase in 1980.

The Medical Malpractice Insurance Assn. had sought rate increases of 98% in 1978, 104% in 1979 and 186% in 1980.

All were denied as excessive and not in compliance with the insurance law, he said.

Oil-spill laws

NEWARK, N.J.—State officials want the federal courts to rule that the federal "superfund" law will not pre-empt the state's power to enforce its own oil-spill regulation.

Since 1976, New Jersey has taxed the state's chemical and petroleum industries to clean up certain spills, raising $32.8 million, $19 million of which has been used to clean up spills.

Lawsuits recently filed in federal court here by state Assemblyman Raymond Lesniak and in Washington by Attorney General James Zazzali ask that the state be permitted to continue its fund to pay the cost of spills that may exceed amounts provided by the federal program.

Although the federal legislation calls for a fund of $1.6 billion, New Jersey officials argue that payments are to be made on a "national priority list" and that they may be limited to $1 million in certain situations.

The lawsuits contend that the allocations from the federal superfund might not be adequate to cover cleanup costs of extensive spills that might occur in a state with a large chemical industry, such as New Jersey, according to a spokesman for the state attorney general.

Workers comp

SPRINGFIELD, Ill.—State Rep. Calvin W. Schuneman has introduced legislation that he says will be the "next step" in reforming Illinois' costly workers compensation system.

The bill, H.B. 1432, is called the Workers' Compensation Cost-Containment Act. Rep. Schuneman says it will promote consistency of care for injured workers and also make it possible to further reduce or eliminate needless costs caused by unwarranted treatment and excessive fees.

The bill also addresses some workers compensation problems as identified by Illinois Director of Insurance Philip O'Connor and Illinois Industrial Commission Chairwoman Rebecca Schneidnerman.

The bill provides that:

- Fees and charges for treatment be limited to those prevailing in the same community for similar treatment of injured people.
- The Illinois Industrial Commission adopt a schedule of maximum reasonable fees and hospital charges for the care of injured workers.
- A system be established for professional review of charges or treatment that are questioned.
- The injured employee not be liable for any charges exceeding those approved by the commission.

The proposed law also will grant the Illinois Industrial Commission, the state body charged with the administration of workers compensation laws, the authority to establish a schedule of maximum fees and hospital charges to be applied in treatment of work-related injuries. ■

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S. Peter Law joins Schlumberger Ltd.

comings & goings: buyers

S. Peter Law is joining Schlumberger Ltd. in New York as risk manager for the company's worldwide operations, effective June 1, filling a position that had been open. Mr. Law is currently vp for risk management and employee benefits at U.S. Industries in New York, which will create two new positions when he leaves. Mr. Law has worked at USI for almost 10 years and had been vp of corporate services, a title that changed as part of a corporate reorganization. Mr. Law has a bachelor's degree from Princeton University and is a Chartered Property/Casualty Underwriter. He will report to the treasurer at Schlumberger, which is a Netherland Antilles-incorporated company with corporate management headquartered in New York City.

Also effective June 1, **William M. Goddard,** 32, will fill the newly created position of director of risk management at USI. He has been assistant risk manager at Richardson Merrell in Wilton, Conn. He is a graduate of Western Connecticut University with a bachelor of science degree. He has a CPCU and is working on a master's of business administration at the University of Connecticut.

Philip D. Langlois, 53, who has been pension manager at USI, will be promoted to the newly created position of director of employee benefits. He holds a bachelor of arts degree from Yale University.

* * *

Robert C. Lee, 53, who as director of insurance for Armco Inc. engineered the growth of the steel company's captive insurer, Bellefonte Insurance Co., to a commercial insurer, has retired from Armco. He left the Middletown, Ohio,-based company the end of April as executive vp of Armco Financial Services Group, a post he was named to late last year after Armco acquired NN Corp. Mr. Lee will practice law in Austin, Texas, as managing partner of the new Southwest regional office of Irwin, Hale & Jacobs, a firm based in Los Angeles. Mr. Lee also will establish a management and consulting activity specializing in corporate risk and captive insurance companies programs. He joined Armco in Houston in 1950 and moved to Middletown in 1969 where he became director of insurance and the Bellefonte Insurance Cos. He has a bachelor's of business administration and a juris doctor degree from the University of Houston.

* * *

Gerald Belfiglio, risk manager of Allegheny International Inc., will become director of risk management of Allegheny Ludlum Steel Corp. in Pittsburgh on June 1. In this newly created position at Allegheny Ludlum, he will be responsible for all aspects of the corporate risk management program including loss control, self-insurance, insurance funding plans and employee benefits. Mr. Belfiglio has a CPCU designation, is vp of the Pittsburgh Chapter of the Risk and Insurance Management Society and a member of the American Iron and Steel Institute subcommittee on insurance. He has a bachelor's degree in science and insurance from Penn State University in State College, Pa.

* * *

Verne Andrews has joined Katy Industries Inc. as risk manager. He will be responsible for the development and administration of the insurance program for Katy's domestic and foreign subsidiaries, including employee benefits. He replaces the late Patricia Carroll. Mr. Andrews will report to William H. Murphy, vp, treasurer and controller. Mr. Andrews formerly was director of insurance for Sunbeam Corp. in Chicago. He has a bachelor's degree in business administration from the University of Illinois.

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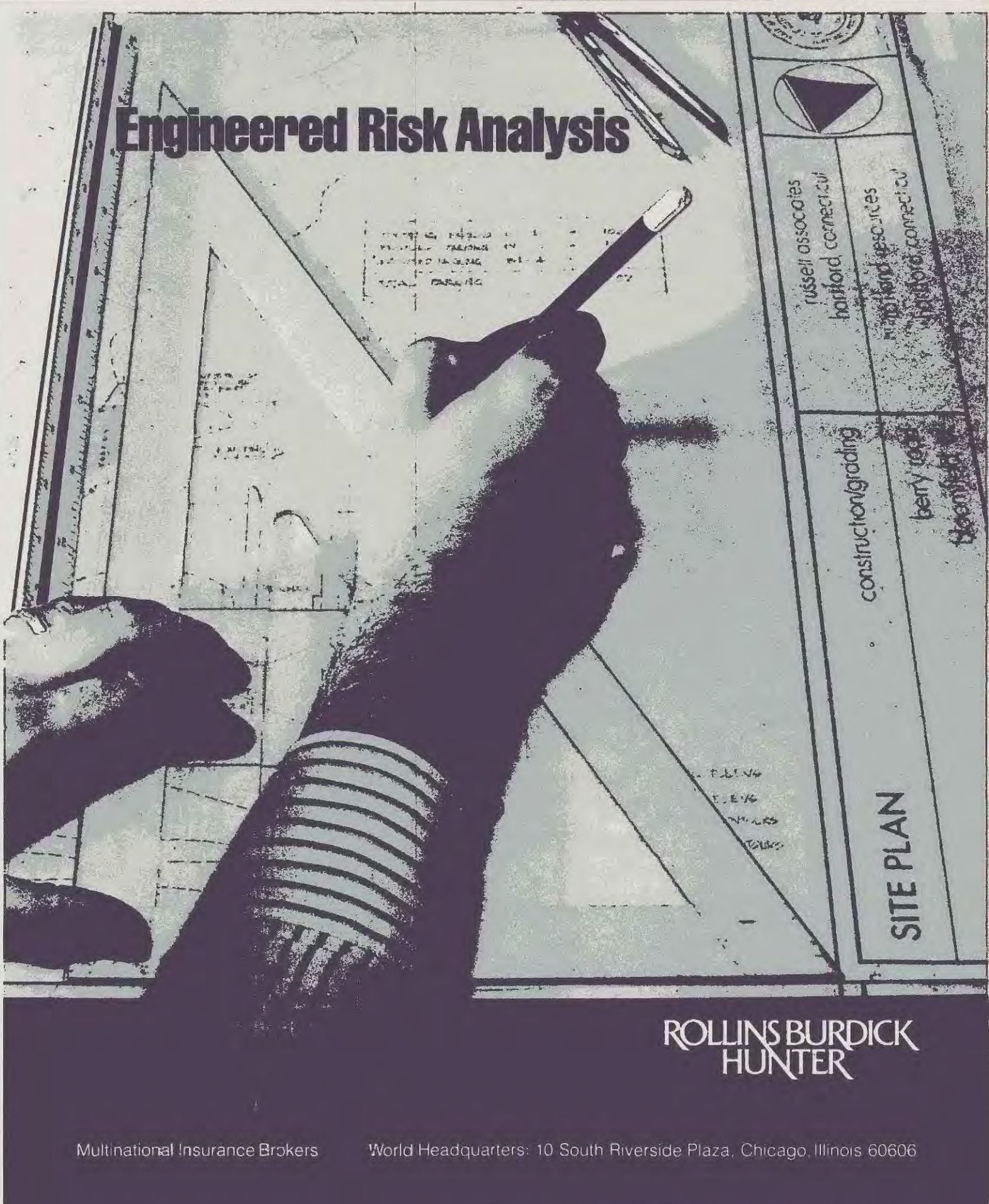

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Firms 'flexing' benefit plans for employees

By EILEEN NORRIS

CHICAGO—Benefit and compensation dollars are not only being stretched these days. They're being "flexed," too.

Flexible compensation, a benefit program in which individual employees decide how their benefit dollars are spent, may not be the wave of the future, but it is getting attention.

Actually an old benefit tool that has been revamped and renamed, flexible compensation is being viewed by employers as giving employees the decision-making power they are clamoring for, said James W. Becker, senior consultant at The Wyatt Co. in Chicago.

But, Mr. Becker warned, flexible compensation is not for everyone or even most employers. He said he only knows of 75 companies that have pure programs, and those are large employers that can afford the high costs of administering a flexible program.

More often than not, the financially well-off employer incorporates flexible compensation as a means of recruiting and retaining employees, he said.

Before designing a plan, employers should decide the type and level of benefits to be included, Mr. Becker said. "Dream big, but start small," he advised.

The second step is for the employer to determine who will pay for the selected benefits: the employer, the employee or both?

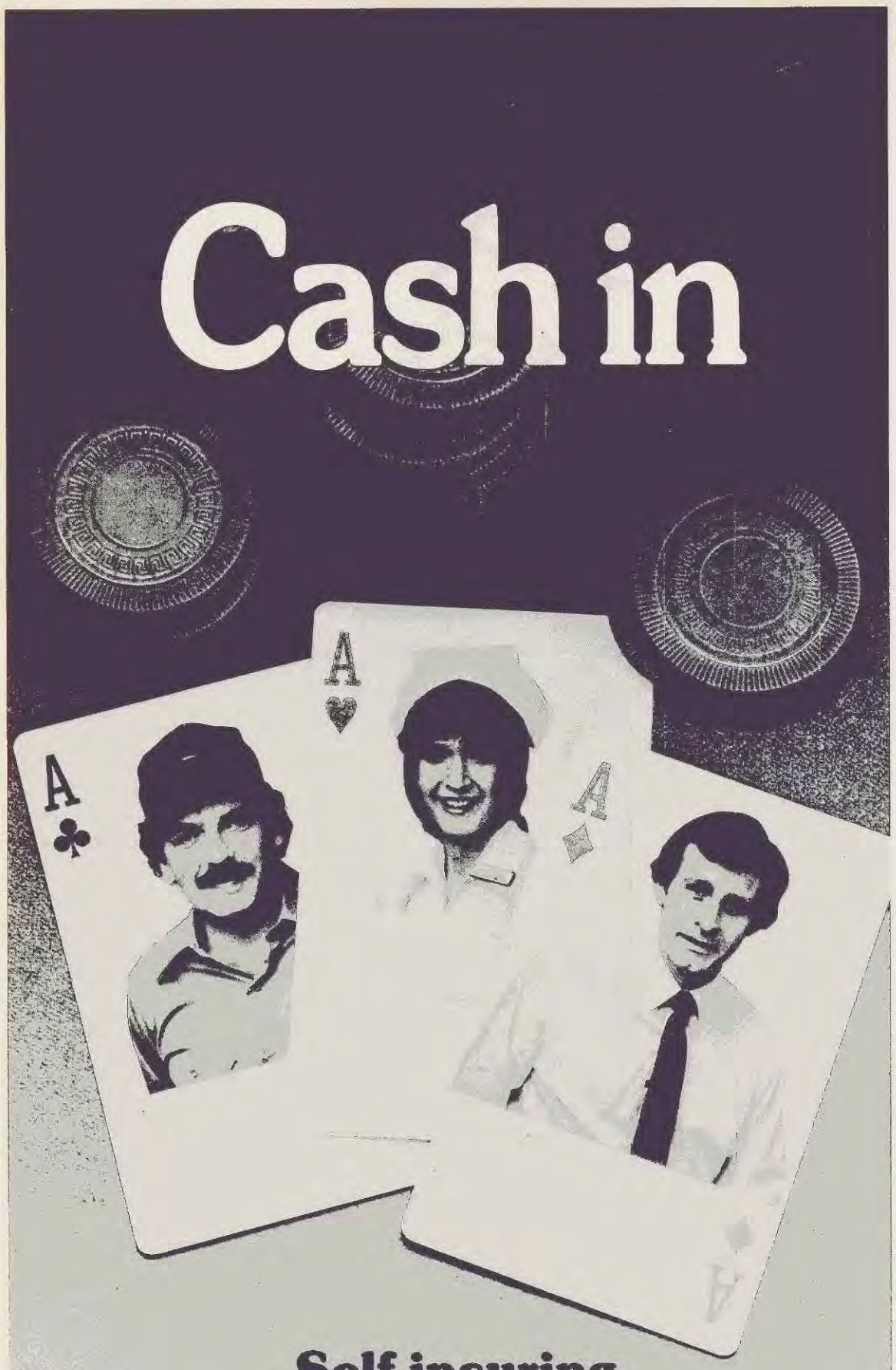
Once this has been decided, the costs for employer-paid benefits can be projected and the amount available for employee benefit options established. The employer's contribution becomes the employee's flexible shares or credits in the plan, he said.

Those credits can reflect age or service, although it's simpler to tie credits to a percentage of payroll. "With each optional benefit selected, the employee spends some of his credits, the amount depending upon the cost value assigned to the benefit," Mr. Becker said.

There are three basic approaches to designing a flexible compensation program:

• The additional allowance approach. Under this plan, existing non-flexible benefits are retained, with the employer providing an additional allowance to purchase new or improved benefits. If the employee wants more optional benefits than his allowance provides, he may purchase those benefits with payroll deductions. This approach is most appropriate where an employer is willing to spend more for his benefit program, often because existing benefit levels are inadequate, Mr. Becker said.

• The selective trade-off approach. This plan also retains existing benefits but develops variations on those benefits that have both higher and lower values. The employee has the option of increasing, decreasing or maintaining his existing benefit levels. If he selects benefits with a greater aggregate value than his present program, he pays the difference through payroll deductions. If he selects benefits that total less than



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the value of his present program, he can take the difference in cash or can re-select benefits.

• The core benefit approach. This has become the prototype flexible compensation program. The existing benefit program is reduced to a core of non-flexible benefits designed to cover the basic life contingencies. The cost differential between the original benefit program and the core is made available to employees to purchase new or improved benefits.

"By providing basic benefits at an adequacy/needs level and allocating the remainder of current expenditures for employee benefit options, this approach accomplishes two objectives: Employer costs are maintained and employees' perceived needs are satisfied," Mr. Becker said.

But the realities of flexible compensation are sometimes ambiguous or difficult to quantify, he said. Benefits costs can vary depending on plan design. Even more complex are the considerations of employees' attitudes and their feeling of well-being.

With proper communication and visibility, flexible compensation can be an effective tool for recruiting employees, controlling employer benefit costs, breaking the lockstep relationship betweeen salaried and bargaining employee benefits and taking the sting out of government regulations, Mr. Becker said.

But he warned that flexible compensation cannot be expected to stimulate employee performance since it doesn't really affect the amount of compensation—only its distribution.

"And no matter what you may have read," he told an audience of about 50 persons at a benefit seminar last month, "it is not likely that benefit costs will be reduced by converting to flexible compensation. Inflation alone will prevent that.

'Dream big, but start small,' Mr. Becker says.

"The spending emphasis is shifted from benefits at any price to benefits at a given price and on that basis, employer costs, as a percentage of payroll, can be controlled."

What are the risks of flexible compensation?

First and foremost, he said, is the cost for the internal and/or external services necessary to set up and administer a program. That includes plan design, monitoring employee attitudes, benefit costing, legal counseling, record keeping and employee communications. He said setup costs for a formal flexible compensation program can range from $250,000 to $750,000 for a program covering 5,000 employees.

Then there's the problem of "anti-selection," Mr. Becker said. "Younger employees with growing families might be more inclined to pass up supplemental life insurance benefits for dental coverage."

He said the results might be bad teeth in the dental plan, older lives in the life insurance plan, increased benefit costs and a less-flexible compensation plan.

"From an employer's standpoint, anti-selection can be attacked with a strong core plan and limited options, or by tying benefit option availability to a defined percentage of employee participation," he said.

Any potential problems could be sidetracked by avoiding options that allow an all-or-nothing approach to basic life benefits, Mr. Becker said, and by an ongoing program of employee education and communication. ■

Help your employees plan for retirement today

CHICAGO—As part of a survey, consultant Joyce Crosby-Quay once asked a vp of a bank in Houston why the bank didn't have a pre-retirement program.

The executive told her, "No one ever stayed around the bank long enough to need one."

She then asked a competing administrator, whose bank had retirement planning, why they had it.

She was told that turnover dropped 28% after the program was started up. "We found having a dialogue with the employees developed their sense of loyalty to the company," the second banker said.

That story pretty much sums up the status of pre-retirement planning, says the Connecticut-based consultant, who admits that retirement planning is one of those "back-burner" concerns for employers.

Ms. Crosby-Quay recently spoke at a seminar sponsored by The Wyatt Co.

Of the 30 companies she surveyed, less than half had a retirement planning program.

Some of those employers surveyed said they had offered a program at one time, but found that none of those invited (persons 63 to 65 years old) came.

"The program was so narrowly defined in terms of who could attend that many of the workers felt threatened, like they were being pushed out the door," she said.

"We found some of the employees in that age group didn't attend the program because they didn't want their fellow employees to know their age," she said.

Ideally, she said, it would be good to have two separate programs. One would be a planning-ahead type of informational seminar for 50- to 55-year-olds and one would be of a more immediate nature for the 55- to 65-year-old group.

Many workers now nearing retirement age are opting to continue their careers part-time, said Ms. Crosby-Quay. Some are even embarking on new work endeavors.

"Retirement planning presents the employee with options so they can make choices instead of being faced with necessities," she said.

Making decisions about health, legal and financial matters has to be taken off the back burner, she added.

"The typical retired worker is going to feel a loss of identification and suddenly find himself with a loss of power and decision-making."

A high divorce rate, an increase in mental breakdowns and an alarming rise in alcoholism make retirement even more difficult to face, she said.

When's the best time to prepare the older employee for retirement?

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Workers' goals changing, study shows

By EILEEN NORRIS

CHICAGO—A great employee benefit package alone won't create a stable workforce, research on employee attitudes suggests.

If employers want to hold onto the less-loyal worker of the '80s, they had better respond to their changing attitudes.

Today's employees want to be asked instead of told, they want personalized communications instead of formal communiques and they want management to flex company policy rather than cling to it, says Florence R. Skelly, executive vp of the research firm of Yankelovich, Skelly & White.

Simply put, today's employees want excitement from the job.

Workers are also more concerned about being deemed important by their peers than climbing the ladder of success, according to research.

If the company can't fulfill workers' needs, employees are apt to give less of themselves or just move on, she said.

Ms. Skelly recently spoke at an employee communications, compensation and benefits seminar presented by The Wyatt Co.

She said such a "moving-on spirit" currently plaguing the workforce could be bad news for corporate America, which is forever faced with asking "What do employees really want?"

Keeping workers happy on the job takes a lot of work, she said. For some employers, it takes a drastic realignment of thought.

The typical employee attitude didn't change overnight, Ms. Skelly said. It's been evolving for years, and it's recently ripened to a stage that says just as much about the past as the future.

In the past, she said, workers were more optimistic about the economic future of the country. Today, three out of four employees feel the chances for a real economic spurt are not that good, Ms. Skelly's research shows.

That pessimism, coupled with an older workforce beginning to react to the value changes of the last two decades, makes for a complex combination of people.

But Ms. Skelly said there is some good news for employers. Workers are far more positive than ever toward business as a whole. In fact, they are looking to business to fill their growth gaps.

The skepticism and anger of the 1960s has faded and is being replaced by a mounting support for less government intervention.

There is a new feeling among companies, Ms. Skelly said, to reward the talented worker and forget about trying to bring the mediocre employee up to snuff.

Pluralism, flexibility and variation in lifestyles are the important elements for the worker today, she said. The notion of the woman as housewife has vanished, and two-paycheck households are taking its place, blurring classic sex roles.

There is also a renewed sense of interest in the future among employees surveyed by Ms. Skelly's research firm.

"They are not returning to the savings binge of the '50s," she said, "but employees are looking to equity housing as the chief mechanism for their assets.

"There is a new definition of maturity that we're seeing today, too. It no longer is mature to hang in there if you don't like what you're doing. You have to be mature enough to hear the inner voices and do something about being dissatisfied."

That new definition of maturity explains why workers are less loyal to an employer than ever before, Ms. Skelly said.

"The trend is not to make a commitment. One is constantly examining what they want out of a job. Less loyalty naturally ensues," she said.

The goal of the employees surveyed by her firm is to be stimulated by a job, or "caught up in something," she said.

That response fits in nicely with another goal of those surveyed. Personal fulfillment was found to be important to the workers. A sense of achievement and of growing within a career was mentioned as significant.

When employees were asked what they wanted out of a job, many said they wanted to be treated as if their opinion counted.

"They want to be asked," she said. "No one asks them how to do it better. But outside the job, they're besieged with market surveys taken by people who want to know what they think."

Many benefit or personnel managers have told Ms. Skelly that they are leery of asking employees how they would handle a particular problem because they're afraid to say the idea won't work.

"We also found that if you tell employees why their ideas won't work, they are very open to your reasoning and in fact feel better because they at least had a say."

Added personal contact with superiors and being told company policy changes or news by an immediate supervisor are two other things employees want.

"There is a need to know and be told—to be part of the excitement that's generated. Information makes a worker feel he has greater control over the situation," she said.

What can companies do to avoid turnover and to give employees what they want within reason? Ms. Skelly has some suggestions:

- Note a worker's triumphs and defeats. Make sure the employee gets valuable information directly from the supervisor and try to work in smaller units or groups.
- Experiment. Depart from a standardization in compensation and non-monetary awards.
- Make communications with employees less formal. "The majority of the workforce, those under 40 years of age, don't read anyway. Unless you communicate like People magazine, chances are it won't get read," she said.
- Find ways to increase opportunities for workers without damaging the system. Experiment.
- Give the worker more honest and personal feedback on performance. She said most performance reviews tend to be defensive. ■

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Roofers band together

Continued from page 3

Bermuda.

The contractors set up Division Seven Insurance Co. Ltd. to provide $1 million of comprehensive general liability coverage, up to $500,000 of coverage for auto liability and auto physical damage and workers compensation insurance.

Umbrella coverage, up to $5 million, is available through IM of America from North Star Reinsurance Corp.

Policies are being issued by First General Insurance Co. of Atlanta, which is being reinsured by Division Seven. The captive is taking the first $100,000 of risk for general liability and $150,000 of risk for auto coverage and workers compensation exposures, on a per-occurrence basis.

Several offshore reinsurers are retaining risk above those limits.

Interest in Division Seven began last year when roofing contractors found it difficult to secure coverage even though some companies had loss ratios of under 30%.

About a dozen roofing contractors in the Baltimore-Washington area retained IM of America to survey the companies' insurance costs and recommend an alternative insurance program.

Based on the survey, IM and the contractors determined that an offshore, group-owned insurance program offered the best means for stable coverage and cutting costs for contractors with good loss records.

Division Seven Insurance Co. Ltd. was incorporated earlier this year with a capital and contributed surplus of $330,000. The money was raised by the roofers.

Premiums paid to Division Seven range from $75,000 to $150,000 and are based on standard published rates.

Policies are issued annually. After several years, the program will be reviewed and rates could be cut. Other alternatives include increasing coverage or paying a dividend based on loss experience.

Division Seven has seven policyholders who paid a total of $700,000 in premiums. Premiums could top $1.5 million by the end of the program's first full year, Mr. Maternas said.

Owners of the captive hope that the Division Seven program will spread nationwide to include hundreds of roofing contractors, he said.

The program is open to roofing contractors with loss ratios of less than 50%. A roofer does not have to be a trade association member to join the program.

Claims are being adjusted by Underwriters Adjusting Co., a national adjuster. IM of America supervises claims handling.

Loss-control services are provided by Construction Safety Consultants Inc. of Falls Church, Va. Division Seven is managed by Association Insurance Consultants Ltd. of Bermuda, an affiliate of IM of America. ■

County fighting workers comp increases

Continued from page 2

The technique used by the Legislature to pass A.B. 2750 could be used again to pass modest "piecemeal" increases in benefits without administrative reforms in the system, Mr. McClure says.

If this approach is ruled constitutional by the court, it would change the strategies of the various parties to workers compensation legislation, he adds. Employer interests are weakened if labor can pass its proposals with a simple rather than a two-thirds majority.

If the county succeeds in its suit, all provisions of A.B. 2750 could be struck down, Mr. McClure says. He believes it is more likely, however, that corrective legislation would be required to reimburse municipalities for their higher workers compensation costs.

The City of San Diego might be interested in joining Los Angeles County's action, says Tom Calverley, deputy city attorney in the litigation division.

A.B. 2750, which passed in the closing days of the 1980 legislative session, was a small victory for labor but a major blow to insurers and employers who had sought passage of another bill designed to balance increased benefits with administrative reforms.

The measure raised temporary and permanent total disbility benefits to a maximum $175 from $154 weekly. Death benefits were increased to $75,000 from $55,000 for two or more dependents.

Los Angeles County also has filed for declaratory relief in Superior Court, but Mr. Launer does not expected quick action there.

Miners save through pool

Continued from page 3

dodge the cost of workers compensation altogether.

Kentucky and Arizona are the only states where a worker can reject workers compensation coverage before injury. Some coal mine operators have taken advantage of that kink in the law, which Kentucky is currently trying to iron out (*BI*, March 9).

Coal miners applying for work in Kentucky are sometimes told by operators to either reject workers compensation or forget about getting the job.

The savings can be great for the mine operator that successfully avoids the coverage, which adds about 40% to an operator's overhead or $30 to $40 in premium for every $100 in payroll, sources say.

More small-coal operators are expected to join the self-insurance pool as their insurance policies expire, says a source with the coal producers' group.

There are other moves afoot, too, for larger coal producers who want to cut their workers compensation costs.

Some 20 major coal companies are attempting to organize a Bermuda-based mutual insurer that could develop into one of the largest group-owned captives (*BI*, Nov. 3, 1980).

The potential premium volume of COAL, Coal Operators Assurance Ltd., is said to exceed $100 million. A study that will focus on black-lung risks at potential member companies to determine expected claims and funding is expected to be completed by mid-July, says Duane Allen, assistant treasurer at Hanna Mining Co. in Cleveland and co-chairman of the steering committee organized to develop the mutual.

The operation of COAL would probably not be competitive with the Kentucky self-funded group pooling, however, because smaller coal companies don't have the capital to commit to COAL.

Mr. Allen said one of the companies in COAL has $3 million in premium volume—the total estimate of the Kentucky Coal Producers Association's self-funded pool. ■

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Left to right: Fil Cooper and Foy Watson, Vice Presidents; Don Wilkinson, (CLU), Regional Manager, Knoxville; John Aggen, Regional Manager, Chicago; Tom Tucker, Regional Manager, Atlanta; Bob Anderson, Regional Manager, Cincinnati.

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Strikes barely affect Bermuda market

Continued from page 1
ments to be postponed.

However, the critical cogs in the insurance machinery in Bermuda—the telex and telephones that bring the insurance market most of its business—were never affected by the strikes.

Demands by 300 hospital nonmedical employees and 850 government workers for higher salary increases set off the chain of sympathy strikes involving nearly all of Bermuda's service industry.

The settlement reached last week with the government provides for increases of 20.5% this year and 15.5% next year for hospital and government workers, according to reports in the Royal Gazette Ltd., the local newspaper. A ratification vote was under way late last week, but the offer was expected to be accepted.

Some saw the strikes as an attempt by the opposition Progressive Labor Party to bring down the ruling United Bermuda Party.

"It is a political struggle between the UBP and PLP orchestrated through the union," observed Richard S. Thompson, president of Altamid Management Co. and a Bermudian active in UBP politics. "But the government is stable."

The president of the Bermuda Industrial Union, the umbrella organization that coordinated the strikers, is also a PLP member of Parliament.

Mr. Thompson says the strikes "will obviously affect people considering Bermuda as a site for their captives. Someone is going to question it in the future."

The strikes attracted a lot of attention, especially in the United States, because of the large number of tourists who had to head home when the hotels closed.

But most sources think Bermuda's reputation and standing as a stable country for an insurance industry will continue.

"There would have to be a tremendous change in attitude before the insurance market would be affected," suggested Douglas Higley, vp of Mentor Insurance Co.

Because the strike ended quickly, it probably will not have a lasting effect, said David Vaughan, managing director of Marsh & McLennan Ltd., one of the largest captive managers in Bermuda.

But he doubted that even a prolonged strike would have had much effect because no other captive domicile could handle Bermuda's 1,000 registered insurance companies.

"Service to our clients has not been impaired," he stressed.

His assurance was echoed by all other insurance business representatives interviewed.

During the strike, postal service management employees sorted the mail, but companies had to send their own messengers to pick it up.

The closing of all major hotels except small guest houses scared away some business travelers, although those with company-owned accommodations or friends on the island are arriving anyway.

One large hotel announced last week that it would be back in business in two weeks, but it is expected that it will take a month for all hotel services to be back to normal.

Francis Carter, president of Belvedere Insurance Co., will entertain a visiting Lloyd's underwriter in his home. "Those with worthwhile contracts are coming down irrespective," Mr. Carter said.

Captive managers and reinsurers planning directors' meetings were finding the lack of hotel services an obstacle.

Marsh & McLennan Ltd., for example, canceled three meetings last week because there weren't accommodations for the directors. Trenwick, a Bermuda-based reinsurer, was considering moving a directors' meeting to Canada.

Brian Hall, president of J&H Ltd., the largest captive manager on the island, stressed that he saw business proceeding as usual. The insurance managers committee, which advised government on regulation of the insurance law, met last week, he said.

Restaurants and shops were not affected by the strike. A few grocery stores were missing employees, but management kept the shelves stocked.

Word that the gasoline stations would close created long lines and red-faced drivers when the rumor proved false.

The strikes spurred no violence, but Bermudians were awaiting a report on the cause of a fire at an automobile dealer last week. Authorities have not ruled out arson.

The Bermuda Regiment was on full alert during the strike, however, and the reserve police were on duty, freeing the regular force to patrol union marches and the streets.

John McGarrity, senior executive officer of the independent brokerage firm Fordingbridge, said his business wasn't affected at all. He found a room at Coral Beach, which remained open, for a Lloyd's broker and never canceled any appointments.

He even says he found an advantage to the strikes. "It may have enhanced our business. We can get around the streets better without all the bloody tourists." ■

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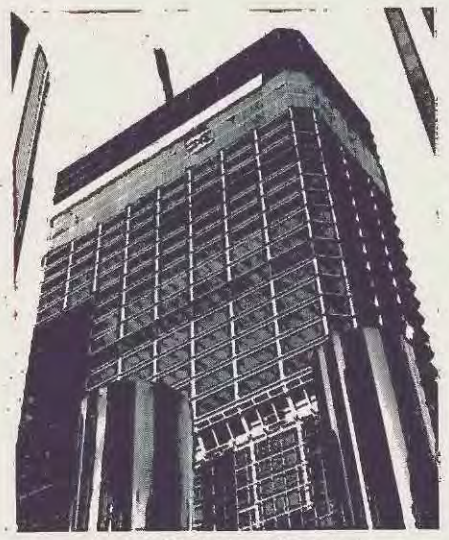

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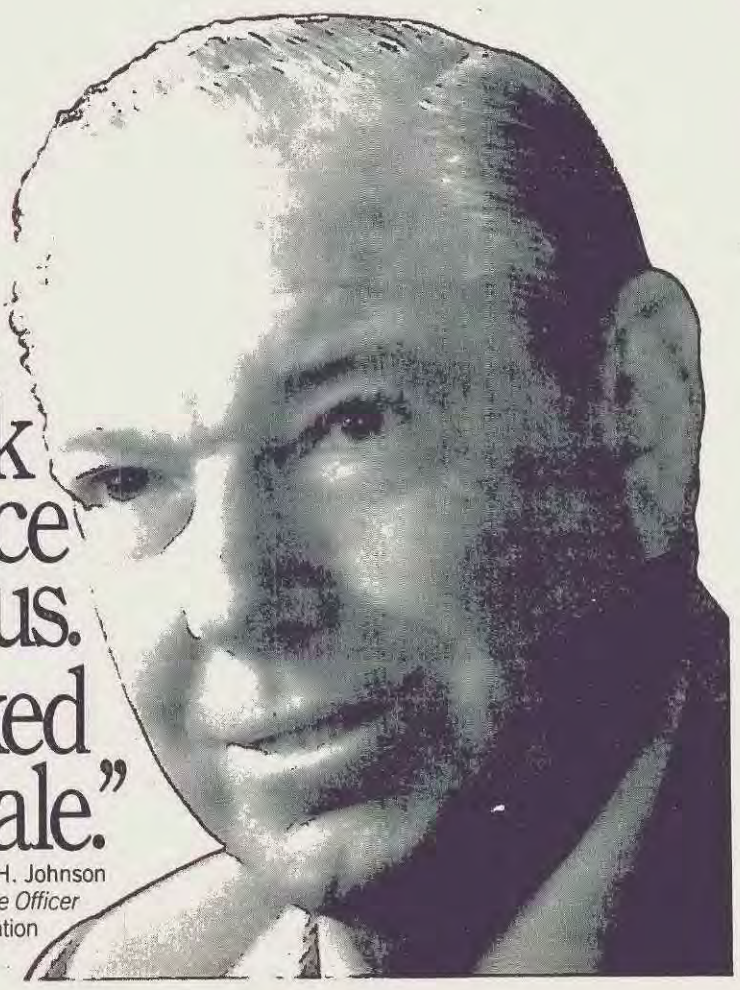

Robert H. Johnson
Chairman and Chief Executive Officer
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Record award

Continued from page 1
Cassidy, attorney for the insurer.

But he said The Hartford's home office in Connecticut refused to permit a settlement of more than $2.5 million.

"Both local (insurance) companies were willing to settle the case, but the 'other insurer's' home office wouldn't allow it. The irony is that the guy in the home office who was refusing to be reasonable retired in the middle of the trial," said Mr. Cassidy.

He said The Hartford, which insured the two physicians, is responsible for "more than one-half and closer to three-fourths" of the claim.

A spokesman for The Hartford Insurance Co. would not discuss the details of the settlement and would only confirm that the company was the insurer for the physican and the anesthesiologist in the Tannebaum case.

Before the accident, Mr. Tannebaum was active in a rehabilitation group and treatment of the handicapped, Mr. Hayes said. The large award is based on his client's pain and suffering and the cost of providing 24-hour care, Mr. Hayes explained.

Argonaut, the hospital's insurer, doesn't expect Circuit Judge Jerome Lerner to reduce the amount of the award, said attorney Mr. Cassidy.

M&M leads brokers in 1st-quarter results

Continued from page 1

M&M Cos. reported that operating revenues rose 41% over the first quarter of 1980 to nearly $219 million from $155.6 million. Net income reached a record $33.3 million, 22% higher than the first three months of 1980.

Operating revenues from insurance services topped $175 million, a 46% increase over the same period in 1980.

Excluding gains from the C.T. Bowring acquisition, M&M still produced a strong showing. Operating revenue for the parent company would have grown about 11% and revenues from insurance services, fueled by new business, would have grown 9%, according to the company.

The Bowring merger, however, did have an investment drawback, said Leonard Wilson, an industry analyst with First Manhattan Co. (See related story on page 73.). First-quarter earnings per share declined to 91 cents from 98 cents for the corresponding period in 1980.

New business was not as strong a support for the nation's second-largest brokerage, Alexander & Alexander Services Inc. Revenues for the first quarter of 1981 grew to $113.6 million, an increase of 6.4% over the same period last year. Restated revenues for the first three months of 1980 were about $106.7 million.

Net income followed the brokerage industry trend and dipped 4.7% to $15.9 million from a restated net income of $16.7 million.

Frank B. Hall & Co. Inc., the next-largest public brokerage, had a deceptively strong finish in the first three months of 1981, according to Mr. Wilson.

"Hall did a bit better than I expected, but it is not as it seems," he explained. "Hall had a couple of acquisitions which increased its growth."

Hall reports unaudited revenues of about $86 million for the first quarter, 16% more than the $73.9 million for the first three months of 1980. Net income grew 5% to $8.8 million from $8.4 million in 1980.

Earnings per share, however, dipped due to the acquisitions, decreasing from 82 cents for the first quarter of 1980 to 80 cents in 1981.

Acquisitions also supported the first-quarter results of the fifth-largest brokerage, Fred S. James & Co. Inc., although new business also grew, the company said.

First-quarter 1981 revenue grew 23% to a record $61.3 million from about $49.7 million for the same quarter last year. Net income, however, dipped slightly to $5.2 million from about $5.5 million for the same period in 1981.

Earnings per share decreased to 58 cents from 64 cents in 1980.

Like Marsh & McLennan, James revenues were supported by the acquisition of a British broker, Wigham, Poland. The effect, of course, was much smaller.

"The revenue increase was the result of greater domestic commission and fee income, the inclusion of Wigham, Poland's revenues, an increase in investment income, partially reduced by a small decrease in contingent commissions," James President William E. Burch said.

Corroon & Black Corp., next in size to James, was the quarter's biggest loser among the brokers, wounded by rate competition and a blow to the company's excess/surplus lines subsidiary, Baccala & Shoop, according to industry observers.

The subsidiary had lost a major market, but recently began underwriting for a Hartford Group subsidiary.

Revenues for the first quarter of 1981 dipped more than $1 million to $38.3 million from $39.5 million. Net income dropped more dramatically to about $3.5 million for the first three months of 1981 from about $5 million for the same period in 1980, a loss of about 31%. Earnings per share for the quarter followed suit, dropping to 45 cents from 66 cents for the first quarter of 1980.

Blaming the "prolonged price competition among underwriters, resulting from excessive worldwide underwriting capacity and high interest levels," Rollins Burdick Hunter Co. also reported a sharp drop in new income.

New income for the first three months of 1981 dropped 21% to about $2.4 million from just over $3 million in 1980. Per-share earnings for the companydropped to 55 cents for the first quarter of 1981 from 70 cents from the corresponding period in 1980.

Revenues for the seventh-largest brokerage, however, grew a bit, up 2% to about $20.6 million from $20.1 million in 1980.

In the second tier of brokerages, Poe & Associates of Tampa, Fla., turned in surprisingly strong first-quarter results, finishing with larger growth than many of the bigger brokers.

Revenues grew 23% to about $4.5 million in the first three months of 1981 from about $3.7 million in 1980. Net income increased 10% to $586,000 for the quarter from $466,000. Per-share earnings grew to 32 cents in 1981 from 29 cents in 1980.

Poe, which also has an insurance company subsidiary, ranked 19th in the 1979 *Business Insurance* top-20 brokerage listing. ■

matches limits

A spokesman for Judge Lerner also said that the award would not be reduced from the $9 million one-time cash settlement, as is sometimes the case. The judge concurred with the jury's award.

Mr. Cassidy said it is "odd" that the jury awarded $9 million in compensatory damages, the exact limits of coverage available under the undisclosed amounts of primary, excess and umbrella liability insurance held by the hospital and the two health-care professionals.

The Hartford did say it is waiting for the judge to act on the jury's recommended award before deciding whether to appeal.

Mr. Hayes said the award was the largest personal injury award in Illinois history, but Jury Verdict Research has in its files a $15 million punitive award stemming from a product liability suit in which a farmer was badly burned when a gas cap flew off his tractor.

In October 1976, the research firm said, a 41-year-old dentist in Alaska was awarded $6.5 million when the seat belt in his Volkswagen failed during an accident, leaving the man permanently crippled.

During the trial, Mrs. Tannebaum testfied for about five minutes from a hospital bed. She is no longer able to speak and only can make yes and no sounds with the help of a word board and a speech therapist, her attorney said. ■

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Dual capacity judgments traced

Continued from page 3

Bell sued his employer alleging that he was injured because of defects in equipment used for the manufacture and distribution of flammable gas.

The trial court granted a motion for summary judgment in favor of the employer. The appellate court reversed on the basis of dual capacity.

"Recovery of one remedy is not necessarily inconsistent with recovery of the other. In such circumstances the remedies should be considered cumulative rather than alternative," the court said.

Moreno vs. Leslie's Pool Mart, 1980

Stock boy Moreno was employed by Leslie's Pool Mart, a retailer of swimming pool maintenance products. While disposing of chemicals, he emptied muriatic acid into a half-empty bottle of chlorine.

The combination created dangerous fumes that caused respiratory damage to Moreno. He sued his employer in a tort action.

The trial court granted a motion for summary judgment stating that the condition of employment makes workers compenstion the exclusive remedy for the injured worker. The appellate court reversed, holding that Moreno was entitled to sue.

Williams vs. International Paper Co., 1980

Lumber mill worker Williams was injured in a sawdust explosion and fire at the Northern California plant of International Paper Co.

Plaintiff's attorney successfully argued that IPC functioned in a dual capacity to its employee as a self-insurer who assumed the role, duties and obligations of a third-party insurer.

"As such, IPC understood an affirmative obligation to maintain the premises in a safe and proper manner ...," said the plaintiff, arguing IPC had failed to correct unsafe conditions it detected.

A jury verdict of $825,000 was rendered in favor of the employee, subsequently reduced by $120,000 in compensation benefits already paid to him. The decision will be appealed.

Johns-Manville Products vs. Superior Court, 1980

Reba Rudkin worked for 29 years in a Johns-Manville plant where he was exposed to asbestos. He recently died from asbestos-related illnesses.

Although Johns-Manville allegedly knew of the dangers of long exposure to asbestos, it concealed the knowledge from its employees. Mr. Rudkin claimed that he was ignorant of the risks and would not have continued to work there if he had known the facts.

The California Supreme Court held that the workers compensation law does not bar action against an employer for aggravation of a compensable injury where the employer fraudulently concealed that the employee had contracted an industrial disease as a result of asbestos exposure.

●

Compiled from "Erosion of the Executive Remedy Doctrine: The Continuing Assault," by Michael G. Lowe, Hanna, Brophy, MacLean, McAleer & Jensen, attorneys at law.

Firms defend comp structure

Continued from page 3

In these three cases, the appellate courts held that an employer could be successfully sued in its dual capacity as employer and as a manufacturer or distributor that offers a product for sale to the public.

The doctrine of dual capacity was spelled out in the suit against Gallo four years ago:

"An employer qua (as) employer enjoys the cloak of immunity weaved by the workers compensaton law. But when an employer engages in the dual capacity of manufacturer of a product for sale to the public, the employer assumes all the duties and liabilities of such manufacturer."

The bills sponsored by the employers reject the concept of dual capacity, stating that: "The fact that the employer also occupies any other capacity prior to or at the time of injury shall not permit the employee or his or her dependents to bring an action at law for damages against the employer in that capacity under any theory of law."

"Our bills are not intended to overrule another controversial ruling against asbestos manufacturer Johns-Manville," Mr. Gladfelty said. The California Supreme Court held that J-M could be sued for aggravation of a compensable industrial injury by fraudulently concealing knowledge of the disease from the employee (*BI*, June 9, 1980).

"It is not our intention to overturn any cause of action against an employer in which there has been an intentional tort," Mr. Gladfelty explained.

Both S.B. 995 and A.B. 2065 will be heard in legislative committees this week, although scheduling changes have been occuring rapidly. "Trial attorneys are playing games with where the bills will be sent and which committees they will be heard in," one legislative source explained.

After two years of talk about erosion of the exclusive remedy rule, employers sprang into action following widespread alarm over the Williams vs. International Paper Co. decision (*BI*, Jan. 19).

The court ruling threatens all self-insurers and insurance companies with dual capacity suits after the injured worker exhausts the workers compensation remedy.

In the International Paper case, the plaintiff alleged that the company was negligent in providing adequate safety and loss control. ■

Work comp bills pending in California

SACRAMENTO, Calif.—Workers compensation promises to be a major focus of California legislative efforts again this year as it was in 1980.

Bills are pending to increase benefits, mandate administrative reforms, reinforce exclusive remedy and establish open competition.

Senate Bill 1158, a major reform package sponsored by Sen. Bill Greene, D-Los Angeles, is identical to the last amended version of S.B. 375, which was referred to interim study last August (*BI*, Sept. 8, July 7, May 26, 1980).

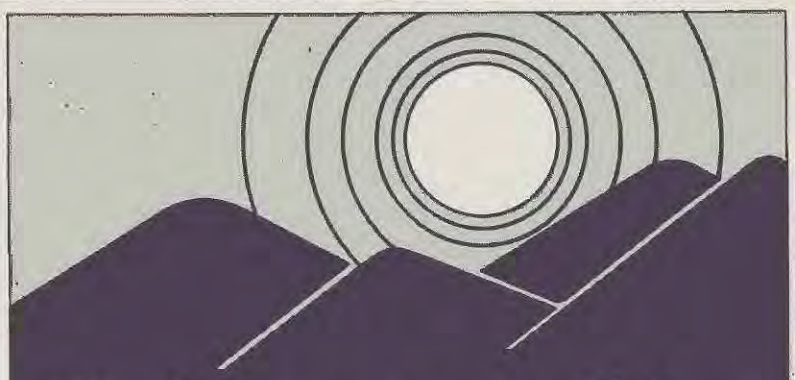
The bill would raise maximum temporary disability and permanent total disability to $280 a week from $175 a week and increase the maximum death benefit to $200,000 from $75,000.

Balancing these increases are several provisions sought by insurers and employers to discourage litigation over the extent of permanent injuries.

Counter to these measures is another bill, Assembly Bill 2031, which seeks to codify all of the case law exceptions to exclusive remedy and is strongly opposed by employers.

Assemblyman Bruce E. Young also has introduced A.B. 1386 to repeal California's minimum rate law governing workers compensation, the only regulated insurance line in the state.

Illinois, Arizona, Minnesota, Oregon and Kansas are considering similar legislation to establish



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Interpool countersuing The Home, ex-brokers

Continued from page 1

The suit also asks that Interpool's former brokers—including Mr. Draper, Mr. Gregg, Richard Marshall, president of Loudon-French, and William Johnston—be held liable for compensatory and punitive damages in addition to the return of commissions and premium.

"What we are seeking is the coverage we paid $1.4 million for or all the premium back," Joseph Simon, Interpool's vp and general counsel, told *Business Insurance*.

Mr. Simon and others were named in The Home's suit against Interpool that alleges Interpool and its brokers, including Louden-French, conspired to misrepresent loss history to the insurer to obtain vastly lowered rates for the trucking coverage.

A separate suit filed by New Jersey broker William Johnston charged Louden-French and Interpool executives with conspiring to defraud him of commissions earned as producing broker and intermediary between Interpool and Louden-French (*BI*, April 27).

Interpool Technical Services, an Interpool Ltd. repair subsidiary, was named in the Johnston suit because Interpool's former risk manager, Richard Bessette, also named in the action, worked from the subsidiary's office in Lyndhurst, N.J.

The original suit by The Home indicated that Interpool received bargain rates of 32 cents per container per day based on the loss history the insurer had received through the two layers of brokers.

Interpool's suit, however, denies the rate was ever that low and said it paid more than $1.4 million in premium to Louden-French based on a rate of 60 cents per container per day for primary layers of insurance.

"The 32 cents rate is sheer nonsense," Mr. Simon says. Interpool claims the full rate was more than 67 cents per container per day for primary coverage from The Home and excess insurance from Affiliated FM Insurance.

Interpool's suit further charges that the rate it paid was much higher and the coverage much lower and narrower than what the company had been offered in an October cover note from Louden-French.

The suit further charges that Louden-French, its executives and the California brokers "fraudulently misrepresented to the plaintiff (Interpool) that the premium for The Home coverage was 60 cents per container per day and that the brokers' commissions on this premium were only 15% payable to Louden-French, when in fact the plaintiff has been informed that Home Insurance Co. was only receiving a premium of 32 cents per container per day and was remitting additional commissions to defendant Draper out of this 32 cents received by it at a rate of 10%."

The Home, Louden-French and other defendants had not been served notice of the suit last week, pending the assignment of a docket number in the Superior Court of New Jersey, Chancery Division, Bergen County.

Louden-French's attorney had no comment on the action until he had studied it, and brokers Gregg and Draper would not return calls from *Business Insurance* placed to their Tustin, Calif., office. ■

Search for a domestic insurer led Interpool into legal tangle

NEW YORK—The search for a domestic insurer willing to cover physical damage on truck trailers led container-leasing company Interpool Ltd. into a web of lawsuits and countersuits charging fraud, conspiracy and premium-skimming, *Business Insurance* has learned.

The circumstances leading to confused policies, canceled coverages and civil suits began in January 1980 when the Bahama Islands-based firm became attracted to insurance proposals made by broker William Johnston and Richard Marshall, president of Loudon-French Inc., a New Jersey brokerage (*BI*, April 27).

"In the past we had always used foreign insurers and we were looking for the security of a domestic carrier," Joseph Simon, Interpool vp and general counsel, told *BI*.

In the past, Interpool's insurance had been placed by the Perdi Insurance Agency of Toronto, "but when Loudon-French said it could get The Home Insurance Co. on the primary layer of our risk, we were very pleased. Eventually, the brokerage said it could get The Home to participate in both the primary and two layers of excess coverage," Mr. Simon said.

The Home later rescinded its policy, charging in a lawsuit that Interpool, Mr. Simon, the firm's brokers including Loudon-French and its former risk manager, Richard Bessette, conspired to defraud The Home by submitting phony loss history to win low cargo insurance rates.

Interpool is countersuing to bind The Home to the coverage it wanted so badly.

Magna Carta under guard during tour

Continued from page 3

with the document and move it immediately from the jet to an armored car upon arrival in England.

The document also was on tour in the United States in 1976 and 1977. It was displayed at the 1939 New York City World's Fair and was taken to Fort Knox, Ky., for safekeeping during World War II.

Mr. Green said his foundation has permission to bring the exhibit back to the United States later this year and over the next five years. Security measures similar to those during the past trip will be followed, he said. ■

RIMS to offer finance course

NEW YORK—The Risk and Insurance Management Society Inc. will conduct its Techniques of Finance and Accounting Course June 10-12 at the Grand Hyatt Hotel in New York.

The course is designed to familiarize risk managers with financing techniques that have become important aspects of their duties. The course combines structural presentation with a capital budgeting workshop and case analyses.

The fee for RIMS members is $295, and $175 for each additional participant from the same company. The fee for non-members is $395. To register, contact Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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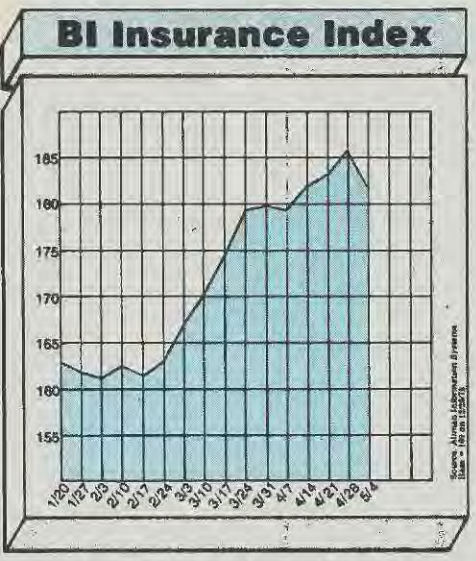


Insurance industry stocks took one of their worst nosedives of the year with the Business Insurance index dropping 4 points to 185.8 from 181.8. Forty-nine stocks declined, only 10 rose and 13 remained unchanged. Biggest declines: U.S. Fidelity & Guaranty Co., 9.3%; Fred S. James & Co. Inc., 7.2%; Pinehurst Corp., 7.1%; Jefferson National Life Insurance Co., 7.1%; and Corroon & Black, 7%. First Colony Life Insurance Co. at 7.6% and Avemco Corp. at 4.9% registered the biggest gains. The 2.1% index decline was lower than that of the major market indicators.

British Issues

5/5 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	176	10.6	15.43	8.8	178—163	
Eagle Star	256	8.5	15.00	5.9	261—248	
Genl Accident	344	8.3	19.29	5.6	354—344	
Gdn Royal Exch	334	7.9	22.14	6.6	346—334	
Phoenix	276	8.1	21.29	7.7	284—272	
Royal	380	10.6	34.29	9.0	392—378	
Sun Alliance	800	8.0	47.14	5.9	819—800	
Brokers						
CE Heath	255	12.4	13.67	5.4	260—255	
Hogg Robinson	120	9.6	8.14	6.8	123—119	
Alex Howden	127	9.1	10.00	7.9	129—122	
JH Minet	114	14.2	6.50	5.7	116—107	
Sedg Grp	134	12.8	7.14	5.3	135—127	
Stenhouse Hldg	90	8.6	6.64	7.4	91— 88	
Stew Wrightson	226	15.6	17.14	7.6	230—225	
Willis Faber	326	12.3	17.14	5.2	335—322	

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

Strong competition clouding earnings outlook for brokers

By LEONARD M. WILSON

A lot of people thought it couldn't happen. After all, Alexander & Alexander had registered earnings growth in just about every quarter in memory, through thick and thin. And yet, there it was: earnings of 85 cents per share for the first quarter of 1981 compared with 90 cents per share in 1980.

Alexander & Alexander's results are emphatic evidence of just how soft premium rates are. Not even a strong new business effort or tight cost control could offset a rate environment described by industry contacts as "awful" or "the worst I've seen."

Wilson

"You can do just about anything you want in reinsurance markets," another said.

Therefore, Alexander & Alexander's results should not really be a surprise. The other public brokers are in the same boat, also reporting lower first-quarter earnings.

Marsh & McLennan might have posted higher earnings except for the inclusion of C.T. Bowring, which likely caused a moderate earnings dilution.

Actually, Marsh & McLennan deserves some credit for a strong, underlying performance in the face of the difficult rate environment and the demands of digesting Bowring. Far from resting on its laurels as the industry's biggest, Marsh & McLennan has outdistanced most of its competitors in revenue gains.

New business is the reason for M&M's success. Marsh & McLennan has been able to deploy formidable resources in the direction of securing new clients.

The other public brokers also have been busily adding clients to stem the erosion of earning power. The new business momentum gives every indication of carrying through the rest of the year.

Affiliations with brokers in Britain are also influencing earnings comparisons, mostly for the better. Frank B. Hall's subsidiary, Leslie and Godwin, turned in a strong first-quarter gain, while Fred S. James received a positive earnings contribution from a majority interest in Wigham, Poland. Corroon & Black's 20% ownership of Menet Ltd. also helped comparisons.

BI ticker

But earnings prospects are still clouded by the rate competition. If anything, judging by the first-quarter growth in commissions and fees of the public brokers, rate competition was even stiffer in the first quarter than in the second half of last year.

It almost seems as if the underwriting of commercial lines has gotten out of control and is racing irresistibly toward some kind of crunch, notwithstanding the continued rise in investment income and the improved capital position of most insurers.

Since late 1978, it is estimated that premiums—and therefore, commissions—in a typical public broker's book of business have dropped 20% to 25%. In the same period, the general price level has risen about 30%.

Insurance has become a bargain for corporations. In a way, price-cutting in commercial property and casualty lines is the economic mechanism that enables the policyholder to participate in a high level of investment income without explicitly retaining cash flow through self-insurance or other methods.

It may be logical and correct from an economic point of view, but for the brokers it has severely pinched profit margins. And profitability is the force behind the ability of any enterprise to develop new products and improve client service.

Insurance brokers are no different. Public brokers continue to expand staff, but the pressure on profit margins is a concern.

A reduction of rate competition undoubtedly would help to lift profitability. But few observers are willing to go out on a limb and say when such a turn will occur.

Nevertheless, the depth of rate reductions will probably diminish late this year. After three years of rate competition, most risks in a broker's book of business have been pared substantially. Not much room will be left to reduce premiums further, particularly with continued deterioration in underwriting.

By now, investor attitudes toward the brokers' quarterly earnings performance have turned from disappointment over the lack of growth to resignation.

Resignation may be appropriate for another quarter or two, but some hope for earnings progress in the last quarter is in order even though the immediate premium rate perspective is not especially comforting.

Financial briefs

Aneco Reinsurance

Andrew J. Barile and Edward L. Mallozzi, original directors and shareholders of the new publicly owned Bermuda-based Aneco Reinsurance Co. Ltd., are selling their 174,000 capital shares to Aneco Group at $4.25 a share. Each had purchased 7,375 shares privately at 40 cents a share before the public offering of the stock. They also made purchases in the open market.

Bids for Aneco's stock were $4.25 May 5.

Mr. Barile, formerly president of the Delaware-based subsidiary Aneco Group, has returned to the reinsurance intermediary Andrew Edwards & Co. Inc. as chairman. Mr. Barile owns a portion of the company. Mr. Mallozzi will continue as a consultant to Aneco through 1981.

Under a separate tentative pact, Aneco will issue 110,338 capital shares to Phoenix Mutual Life Insurance Co. in exchange for Phoenix's minority interest in Aneco Syndicate Ltd., an Aneco subsidiary member of the New York Insurance Exchange.

Aneco is expanding into the New York Stock Exchange with the planned purchase of Harco Securities Group Ltd., a newly formed corporation that will be a member firm of the exchange.

Christopher Moran Group

Lloyd's of London has approved the sale of the four Lloyd's underwriting agencies owned by the troubled Christopher Moran Group in London to Stenhouse Holdings Ltd.

The sale, for 31 million pounds, is subject to Moran Group shareholder approval.

The agencies, which manage seven Lloyd's syndicates, have continued doing business under new executives since the group's director, Christopher Moran, was charged with fraud last year. Mr. Moran is awaiting trail, having already been suspended from doing business at Lloyd's.

The agencies have continued operating under Lloyd's committee approval of three appointed individual Lloyd's members.

The agencies will merge with Stenhouse Reed Shaw Underwriting Agencies Ltd., the Lloyd's underwriting agency management company owned by Reed Stenhouse Partners Ltd., the principal British subsidiary of Reed Stenhouse Cos. Ltd. in Canada.

The Moran companies to be sold are Harman, Hadley Agencies Ltd., Redgrove & Everington Ltd., Hedley Redgrove Agencies Ltd., and Harman, Gardner-Roberts Ltd. Together they showed a combined net profits—subject to completion of audit—of 548,000 pounds for the year ending Jan. 31, and combined net tangible assets of 17,000 pounds.

"The share capital of the agency companies is divided into "A" ordinary shares carrying the voting rights and "BB" ordinary shares to which the rights to capital and dividends attach," said Stenhouse. Thus Stenhouse will receive all capital except for 20% of Hedley & Redgrove Agencies Ltd. and 25% of the "A" share capital.

"A further percentage of the a share capital of each agency company varying between 25% and 38% will be transferred at par from C.J. Moran to individual nominees of SHL acceptable to Lloyd's," said Stenhouse. The remainder of the a share capital is held by individual members of Lloyd's.

BI Industry Stock Report

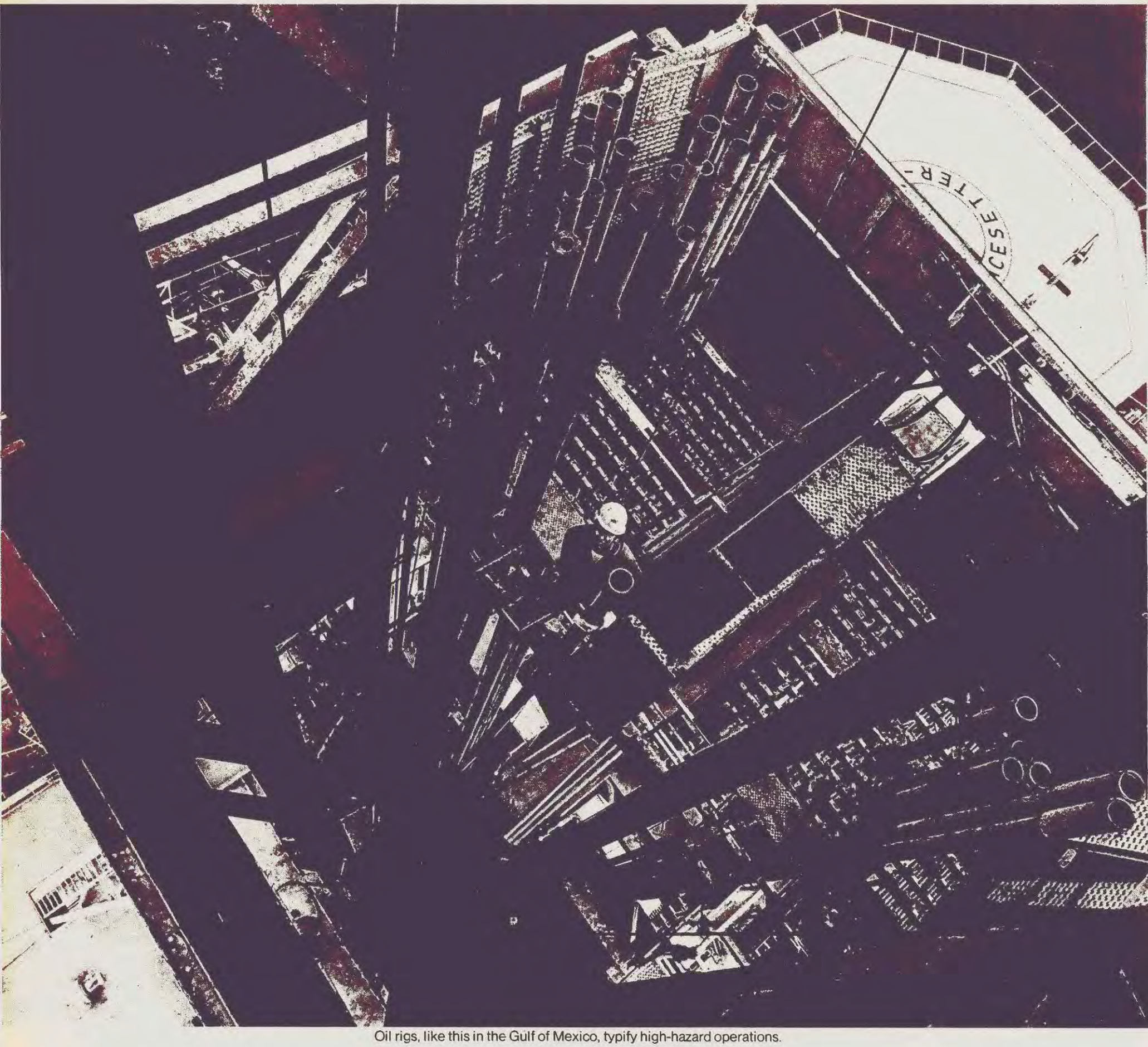
Insurance Cos.		MAY 5, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	4/29/81 THRU 5/4/81 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	36.00	-1.8	6.0	2.32	6.4	36.50	36.00	365.6
American Bankers Ins Group	OTC	7.50	-1.6	5.0	0.22	2.9	7.63	7.50	84.7
American Gen Ins Co	NYSE	42.75	-2.3	6.6	2.00	4.7	42.88	42.25	110.7
American Indty Finl Corp	OTC	17.25	-0.7	6.6	1.12	6.5	17.38	17.25	8.0
American Intl Group Inc	OTC	84.50	-0.3	11.3	0.60	0.7	86.25*	84.50	154.2
American Natl Ins Co	OTC	14.25	-2.6	6.4	0.68	4.8	14.50	14.25	135.3
American Sts Life Ins Co	OTC	18.00	0.0	6.2	0.72	4.0	18.00	18.00	5.0
Aneco Reins Ltd	OTC	4.25	-2.9	0.0	0.00	0.0	4.38	4.25	12.2
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	0.1
Avemco Corp	AMEX	10.00	-5.9	8.5	0.50	5.0	10.63	10.00	7.7
Banks Iowa Inc	OTC	32.00	4.9	5.4	1.44	4.5	32.00*	30.50	7.6
Bitco Corp	OTC	43.00	0.0	6.2	2.16	5.0	43.50*	43.00	6.3
Carolina Cas Ins Co	OTC	8.75	2.9	5.6	0.32	3.7	8.75	8.50	3.0
Central Natl Finl Corp	OTC	10.50	-2.3	3.9	0.65	6.2	10.63	10.50	1.6
Chubb Corp	OTC	45.88	-5.2	5.6	2.68	5.8	48.25	45.88	159.5
Combined Intl Corp	NYSE	20.00	-5.3	5.7	1.60	8.0	20.88	20.00	283.2
Connecticut Gen Ins Corp	NYSE	50.25	-3.4	32.6	1.76	3.5	51.38	50.25	91.1
Continental Corp	NYSE	26.25	-3.7	7.1	2.40	9.1	27.25	26.25	201.7
Crawford & Co	OTC	18.00	-2.7	14.1	0.52	2.9	18.25	18.00	14.2
Crown Life Ins Co	OTC	113.00	0.0	9.5	2.80	2.5	113.00	113.00	0.4
Crum & Forster	NYSE	32.25	-3.7	5.6	1.44	4.5	33.25	32.25	190.8
Employers Cas Co	OTC	35.75	-0.7	5.4	1.20	3.4	35.75	35.75	1.5
Equifax Inc	NYSE	25.00	8.1	7.7	2.40	9.6	25.00*	23.38	30.6
Excelsior Ins Co	OTC	15.75	0.0	32.1	0.70	4.4	15.75	15.75	8.2
Farmers Group Inc	OTC	32.25	-4.8	10.2	1.12	3.5	32.88	32.25	182.1
First Colony Life Ins Co	OTC	42.50	7.6	14.6	0.80	1.9	42.50	41.00	15.0
Foremost Corp Amer	OTC	27.75	0.0	8.6	0.80	2.9	28.00	27.75	12.8
Great West Life Assurn Co	OTC	255.00	2.0	10.6	10.00	3.9	255.00	255.00	0.0
Hanover Ins Co	OTC	28.50	-3.9	3.9	0.72	2.5	29.50	28.50	15.3
Hartford Steam Boiler Insptn	OTC	44.50	-3.3	9.0	2.60	5.8	45.00	44.50	10.0
Jefferson Natl Life Ins Co	OTC	39.50	-7.1	27.4	0.64	1.6	42.50	39.50	5.6
Kemper Corp	OTC	33.25	-5.0	5.1	1.60	4.8	34.38	33.25	27.0
Lincoln Natl Corp Ind	NYSE	41.75	-2.1	5.8	3.00	7.2	42.25	41.75	49.3
Mgic Invt Corp	NYSE	36.00	-2.7	9.7	1.28	3.6	37.00	36.00	215.1
Mission Ins Group Inc	NYSE	43.38	1.2	8.5	1.00	2.3	43.38	42.75	11.0
Nationwide Corp Ohio	OTC	24.13	-1.5	6.9	0.70	2.9	24.38	24.13	1.1
Northwestern Natl Life Ins	OTC	30.38	0.0	6.7	1.25	4.1	30.38	30.38	29.9
Ohio Cas Corp	OTC	40.75	-5.5	6.8	2.04	5.0	42.88	40.75	62.6
Old Rep Intl Corp	OTC	16.38	-0.8	4.5	0.92	5.6	16.63	16.38	51.0
Pinehurst Corp	OTC	6.50	-7.1	0.0	0.00	0.0	7.00	6.50	6.8
Preferred Risk Life Ins Co	OTC	19.38	0.6	6.5	0.80	4.1	19.38	19.25	0.3
Provident Life & Acc Ins Co	OTC	46.00	-6.1	6.8	2.20	4.8	47.50	46.00	12.7
Republic Natl Life Ins Co	OTC	28.50	-0.9	17.2	0.70	2.5	28.50	28.25	0.5
Ryan Ins Group Inc	OTC	21.50	-5.5	8.5	0.12	0.6	22.00	21.50	10.3
St Paul Cos Inc	OTC	44.63	-4.0	8.4	2.32	5.2	46.13	44.63	170.4
Safeco Corp	OTC	38.25	-2.2	7.1	2.00	5.2	38.88	38.25	99.5
Sri Corp	OTC	25.00	2.0	6.2	0.80	3.2	25.25*	24.50	24.8
Seibels Bruce Group Inc	OTC	21.63	-6.5	11.6	0.80	3.7	22.88	21.63	50.2
Statesman Group Inc	OTC	5.75	0.0	4.4	0.15	2.6	5.75	5.75	17.7

		MAY 5, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	4/29/81 THRU 5/4/81 High	Low	Vol. (000)
Tokio Marine & Fire Ins Co	OTC	180.25	-0.8	19.9	1.03	0.6	185.25	180.25	3.3
Travelers Corp	NYSE	46.00	-6.1	5.3	2.88	6.3	47.25	46.00	183.8
United Fire & Cas Co	OTC	48.50	0.0	12.7	1.00	2.1	48.50	48.50	3.7
United States Fid & Gty Co	NYSE	41.25	-9.3	5.4	3.20	7.8	43.63	41.25	175.2
United Svcs Life Ins Co	OTC	15.38	-3.9	6.4	1.00	6.5	15.88	15.38	69.2
Usilife Corp	NYSE	28.88	-6.1	7.1	0.76	2.6	30.25	28.88	112.1
Washington Natl Corp	NYSE	25.88	-1.4	7.6	1.08	4.2	26.00	25.63	72.7
Zenith Natl Ins Corp	OTC	17.00	0.0	10.0	0.50	2.9	17.00	17.00	16.3
INSURANCE COMPANIES	AVERAGE			8.3		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	33.75	-2.9	11.2	1.84	5.5	34.50	33.75	216.8
Baldwin & Lyons Inc	OTC	34.50	3.0	5.9	0.80	2.3	34.50*	33.50	4.5
Corroon & Black Corp	NYSE	23.25	-7.0	10.8	1.76	7.6	24.38	23.25	13.9
Crump E H Cos Inc	OTC	11.13	-4.3	10.2	0.40	3.6	11.63	11.13*	4.8
Hall Frank B & Co Inc	NYSE	26.13	-5.9	9.6	1.60	6.1	27.00	26.13	11.9
Integrated Res Inc	AMEX	16.38	-2.2	7.6	0.00	0.0	16.63	16.38	9.1
James Fred S & Co Inc	NYSE	25.88	-7.2	11.1	1.60	6.2	27.13	25.88	58.9
Marsh & Mclennan Cos Inc	NYSE	36.75	-1.7	12.0	2.00	5.4	37.50	36.75	79.3
Penncorp Fincl Inc	NYSE	5.75	-4.2	5.1	0.16	2.8	6.00	5.75*	234.9
Poe & Assoc Inc	OTC	11.50	0.0	10.2	0.80	7.0	11.50	11.50	0.5
Reed Stenhouse Cos Ltd	OTC	12.25	-2.0	11.6	0.56	4.6	12.25	12.00	19.4
Rollins Burdick Hunter Co	OTC	23.75	0.0	12.4	1.24	5.2	23.75	23.75	9.4
AGENTS/BROKERS	AVERAGE			9.5		4.9			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	43.13	-2.3	8.1	2.00	4.6	44.00	43.13	971.0
Anderson Clayton(Ranger/PanAm)	NYSE	22.25	-2.2	6.0	1.20	5.4	22.50	22.25	14.0
Armco Inc	NYSE	35.63	-5.0	9.1	1.64	4.6	37.00	35.63	86.6
City Investing Co. (Home Ins.)	NYSE	26.88	-5.3	7.5	1.60	6.0	28.13	26.75	500.5
CNA Finl Corp (CNA)	NYSE	16.75	-6.9	6.2	0.00	0.0	18.00	16.75	67.5
Control Data (Comml. Credit)	NYSE	74.50	-3.2	8.8	0.90	1.2	79.25*	74.50	412.6
General Re Corp	NYSE	72.13	2.3	9.8	1.76	2.4	73.00*	70.25	78.3
INA Corp (Ins. Co. of NA)	NYSE	42.00	-5.9	5.9	2.40	5.7	44.00	42.00	117.8
ITT (Hartford Group)	NYSE	33.63	-4.6	5.5	2.60	7.7	34.25	33.63	557.6
Reliance Group Inc	NYSE	77.00	-3.6	6.2	3.00	3.9	79.75	77.00	16.8
Sears Roebuck & Co. (Allstate)	NYSE	18.88	-6.2	9.8	1.36	7.2	19.38	18.88	1,578.4
S & H Co. (Bayly Martin & Fay)	NYSE	33.50	0.4	14.4	1.00	3.0	33.50*	33.25	42.9
Teledyne Inc (Argonaut)	NYSE	149.25	-2.8	9.2	0.00	0.0	153.88	149.25	309.2
Transamerica Corp (Occidental)	NYSE	20.38	-7.4	5.5	1.28	6.3	21.25	20.38	391.6
				7.8		3.1			

*Record high/low since Jan. 1, 1981.

System design: Altman Infomation Systems

A bottom line view of loss control



Oil rigs, like this in the Gulf of Mexico, typify high-hazard operations.

Every business has special perils needing special insurance broker solutions. How Alexander & Alexander looks at offshore drilling, one of the riskiest, will help explain how we will look at your business. In this case, we study rig safety through a contractor's eyes. Scrutinizing the workers and the working environment. Probing the whys of injuries and the hows of accident prevention. Viewing down-time as dollars.

Client-tailored safety programming

Only by working from a client's point of view can we be sure a company gets the most comprehensive, cost-efficient programs possible.

This insider's vantage point enables our loss control consultants to be sticklers on safety for any corporation. Ferreting out hot spots from loss data banks. Casing the carrier's services. Creating safety programs that work. And staying on top of them, alert to changing conditions, new hazards, new operations, new technology.

Each industry has different needs. For insurance, for risk management, for human resource management, for financial services. And each of our 120 offices here and overseas has the facilities, expertise and strength to fulfill the requirements of any company, large or small, in any industry.

We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view.

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From the client's point of view.