

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Gulf pulls out of OIL; was a founder and largest member

By MARGARET LeROUX

PITTSBURGH—Gulf Oil Co., one of the founders of Oil Insurance Ltd. (OIL), the petroleum industry's mutual insurance company, is withdrawing from OIL effective Jan. 1, 1976, *Business Insurance* learned.

Gulf, with assets of \$12.3 billion, is the mutual's largest member.

Gulf's pullout means a loss of \$1 million in premium income for OIL, according to Joseph Edwards, Gulf's assistant treasurer. OIL currently has assets exceeding \$27 billion. Its premium income for 1974 was \$37.8 million.

Gulf's participation in OIL was at a higher level than any other of OIL's 27 members. Gulf is the only participant in OIL with a \$10 million deductible. Other OIL members have deductibles of either \$1 million or \$5 million. The maximum coverage available to any OIL member is \$75 million.

Indications are that Gulf will rely more heavily on its own Bermuda captive, INSCO, as well as the commercial market, for coverage. INSCO "will participate more in the insurance program," Mr. Edwards said, adding, "we'll still have a substantial amount of insurance in the commercial market."

Gulf's decision to withdraw from OIL was based on "a re-examination of our insurance

practices," Mr. Edwards stated. He emphasized that the decision is not to be taken as a sign of lack of faith in OIL.

Gulf participated in the formation of OIL in 1971 because the company was convinced the commercial insurance markets were not sufficient for the petroleum industry, Mr. Edwards explained. At present, however, "we think the commercial market has improved," he added, saying premiums are now at a tolerable level.

Industry sources said Gulf's decision to withdraw from OIL was precipitated by a disagreement within the organization over whether to extend marine coverage to tankers. "The members were bitterly divided over the issue of marine coverage," a source close to the organization said.

Gulf reportedly felt there was sufficient commercial market for marine coverage and objected to OIL's offering it.

Standard Oil Co. of California, which opposed Gulf on the issue, was successful in obtaining coverage for its tankers from OIL. OIL decided to make marine coverage available to members as of Jan. 1, 1976.

With Gulf's departure, Standard becomes the largest member (based on assets) of OIL. Gulf will not be completely out of OIL until 1980, however. According to the rules of the mutual insurer, withdrawal is a five year process

with the member decreasing participation by 20% in each of the five years.

The risk distribution plan of OIL was a major factor in Gulf's decision to get out of OIL, other sources said. "It's weighted against the biggest companies," one source noted. Premiums paid into OIL are based on losses of all members, then are prorated on the basis of each member's gross assets.

But the smaller a company is, the greater the chances its loss proceeds will exceed its premiums, a source explained. Gulf apparently felt it was being forced to carry too big a share of OIL's risks.

Yet another significant factor in the pullout, according to several industry sources, was the treatment

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Law limiting liability fails 1st court test

By ELISABETH M. WECHSLER

BOISE—A statute limiting medical malpractice liability claims to \$150,000 was found unconstitutional in a state district court here.

As a motion is being readied to appeal the decision to the Idaho Supreme Court, there is some debate as to whether the decision would be directly applicable to other states which have instituted statutory limits on malpractice claims.

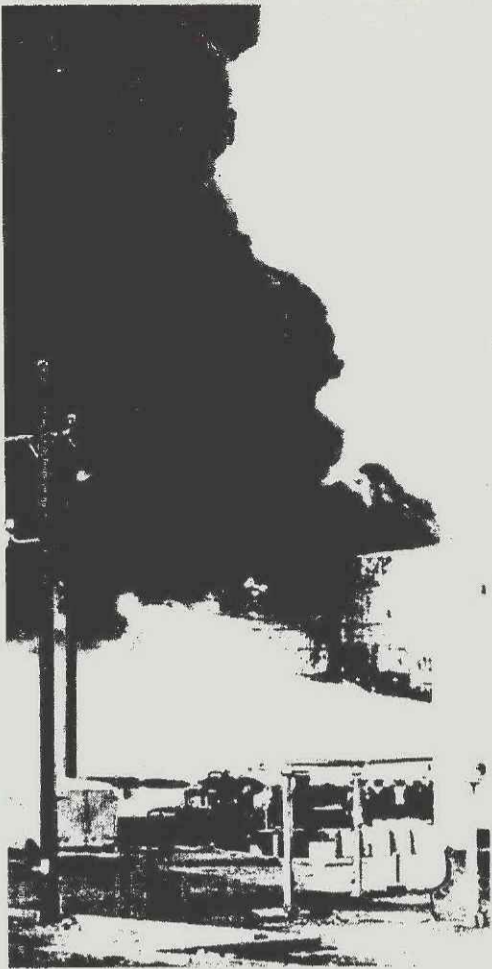
"In the 49 other states the law would be upheld as constitutional, although I haven't studied other state laws in detail," said Eugene C. Thomas, general counsel for the Idaho Medical Assn. and the Idaho Hospital Assn., the plaintiffs in this action to test the law. He is a partner with the law firm of Moffatt, Thomas, Barrett & Blanton, based here.

Mr. Thomas believes the Idaho statute, which would limit liability claims on physicians and "acute care" hospitals, "meets the standards of due process of law under state and federal constitutions." He predicts the statute eventually "will be upheld as constitutional under federal law."

"The judge's opinion would uphold a statute in California because that state doesn't have an Article I, Section 18," a provision he believes is unique to Idaho law. Mr. Thomas explained that the spirit of this provision is based on the right of an individual to

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Second oil refinery fire in Philly; Arco is hit



A nine-alarm fire lasted over 18 hours at the Atlantic Richfield Co. (Arco) refinery, just one mile from where the Gulf Oil Co. \$10 million refinery fire killed eight Philadelphians in August. Cause of the Arco blaze and resulting damages were undetermined last week. Arco insurance manager Edward Kettel was unavailable for comment on insurance coverages; however, Arco belongs to Oil Insurance Ltd. (OIL), a mutual whose petroleum industry members absorb deductibles of \$1 million to \$5 million. Philadelphia Mayor Frank Rizzo broke his hip fleeing an explosion caused by the fire, but there were no deaths.

Product liability costs force machine builder to liquidate company

By SUSAN ALT

ST. PAUL, MN.—Havir Manufacturing Co., a small Minnesota machine tool builder, is being liquidated because it can't afford products liability insurance and at the same time afford to defend itself against a rash of product liability lawsuits.

Some risk and insurance experts have been predicting for several years that this would happen. Havir, with \$2 million to \$3 million annual sales, is thought to be the first company having to go out of business because of unmanageable product liability exposures.

Machine tool industry officials predict it won't be the last. "I have no reservations about predicting more companies in the industry will face this situation and have to go out of business," stated one top executive of a press builder.

Havir's board of directors unanimously decided the company couldn't afford to be without the coverage either. John Lenz, president, told *Business Insurance* that the company's products liability insurer, The Home Insurance Co., notified Havir in July it was canceling the policy in 30 days.

Havir instructed its local agency, Fidelity Insurance Agency in Minneapolis, and other brokers in the area, to get quotes from other underwriters. These quotes were "50 times what we had been paying" in early 1975, said Mr. Lenz. Most bids were in the area of \$150,000 a year for \$500,000 coverage with a minimum \$5,000 deductible per occurrence.

The company has an umbrella liability policy covering up to \$2 million in loss with Commercial Union Insurance Co., with which it has had no trouble. Havir's premium from The Home had jumped to \$10,000 from \$4,000 in March, upon renewal of the policy. "I would liken it to a situation

where your personal auto insurer says your insurance is going to cost \$10,000 a year. We're not that big. Costs in the area of \$200,000 a year with no statute of limitations on liability for these machines could break us," declared Mr. Lenz. "We don't feel we could raise our prices on machines enough to tolerate that load. We are competing in a field where such price increases wouldn't be tolerated."

Havir employs 75 people and builds about 1,000 small punch presses a year.

Mr. Lenz said Havir has not been sued for any press built in the six years since the firm's present owners took over. But Havir has about 25,000 machines in the field which were sold prior to 1969, and the problem stems from these presses. "We've had lawsuits involving presses 30 years old," as old as the company, commented Mr. Lenz. He declined to disclose exactly how many open lawsuits Havir is presently defending.

Very few suits ever involve any awards, he added. "But there is the expense of defending them, and often an out-of-court settlement." Havir assists in the defense, which is handled primarily by the insurer. Mr. Lenz estimated it has cost the company an average of \$5,000 per case for defense. He guessed probably 25% of all suits against Havir have been settled out of court.

Havir's directors were influenced in their decision to liquidate by the outlook for continued economic uncertainty, but "99% of the decision was based on the product liability problem," said Mr. Lenz. Directors of Havir reasoned that the trend is going to get worse before it gets better, he added.

"We've noticed a very dramatic increase in this type of suit since

Continued on page 2

SAFETY/SECURITY REPORT

Conservation of assets—human and physical—is the essence of risk management. Workplace safety, fire protection, and prevention of theft and burglary are at the core of asset conservation. We've zeroed in on these vital functions in our annual report on safety and security, beginning on page 19 and running through page 65.

A number of stories were developed from speakers' remarks at the National Safety Congress. Other story topics include: Hotel security, page 19. Bank security, page 20. Electronic and guard surveillance in shopping malls, page 24. Retailers try harder to snare shoplifters, page 33, and to foil employe thievery, page 56. But a shoplifter says it's easier than ever to steal goods, page 40. We've probed safety plans at companies including Questor Corp., Miller Brewing Co., Brunswick Corp., Associated California Loggers, Jenos Inc., E. C. Braun, General Electric Co., Swift & Co., Inland Steel Corp., Kenner Products.

IMPORTANT Enlarged Responsibilities and Duties under the Pension Reform Act

Trusts and Trustees have been exposed to significant legal liabilities at common law to beneficiaries of the Trust. The recently signed Pension Reform Act of 1974 which is effective January 1, 1975, for the first time by statute enlarges upon the liabilities of Trustees, and most importantly places new responsibilities on "Fiduciaries" of Pension Trust and Employee Benefit Plans.

While the duties of the Fiduciary are enumerated in the Act inclusive of breach by Co-Fiduciaries, it is abundantly clear that the only appropriate safeguard to shield against these onerous liabilities is through the purchase of effective insurance.

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Havir liquidation . . .

Continued from page 1

no-fault has come into being, in the last couple of years. The number of suits against us has doubled in that time," he commented. To Mr. Lenz's recollection, Havir has not been sued by users of the presses, but always by individuals hurt while operating the machines. About one-third of the time, he estimated, the workers' compensation insurer, which had paid a benefit in an employer's name, enters into the suit.

Other press builders also noted that frequently the workers' compensation carrier holds the manufacturer liable, either at the outset for the initial work comp benefit or later, in a subrogation action.

To wit, one large Midwestern press builder told a story about one of its machines cutting off a worker's hand in a Southern plant. This press builder was notified immediately after the accident, by the employer's insurer, that a subrogation action would be filed unless the press builder voluntarily agreed to pay the workers' compensation benefit to the worker, which it is doing.

Some machine tool producers with catastrophic product liability exposures blame lawyers for finding injured parties and instigating suits. The majority of product liability actions against press builders are filed by injured individuals who have no further recourse against their employers. This is because the employers have no liability beyond the statutory workers' compensation benefit.

And there, say several of the leading press builders' executives, lies the villain. "The real problem," states C. J. Keller, president of Chicago-based Verson Allsteel Press Co., the country's largest press builder, "is that antiquated workers' compensation laws take the employer off the hook for lia-

bility to injured workers."

"I think we need legislative help" with this problem, affirms Hal Kibbey, executive vp of the E. W. Bliss division of Gulf + Western Industries, another leading machine tool producer. "The people who, in our opinion, are largely responsible for the accidents are not bearing the financial impact of the accidents. Because the limit of liability of the plant operator or owner is the work comp benefit, the injured party seeks recourse against us."

Another press builder cited a recent official finding of products liability premium hikes averaging 10.8 times for the industry in the last five years. He also believes lawyers are merely taking advantage of a "situation that exists. The error lies in permitting that situation to exist. I think most work comp benefits are far too low, and that is the problem. Also the rules should allow us to sue employers for negligence" in the use of the presses, this executive maintained.

"Most cases involve negligence at least to some degree on the part of the employer, in not enforcing safety rules, not maintaining machines, permitting unsafe work practices," he said.

Apparently Havir is not the only machine tool builder facing a demise because of this problem. Although several other small press builders said they have no plans to curtail operations, "we know of several smaller press builders who've said they have serious problems," commented Mr. Kibbey of E. W. Bliss, based in Scuthfield, Mi. His comment was substantiated by several other firms in the field, but no names of firms facing these difficulties could be obtained.

Bliss, in business since 1857, has about 250,000 presses in the field, probably about as many as all other builders put together.

"We've found, though, that the age of machines is not the cause of accidents. About 95% of accidents are caused by human error," said Mr. Kibbey, noting most accidents seem to occur on smaller presses.

Bliss self-insures against the first \$100,000 of its products liability exposures, a deductible it went to two years ago. Mr. Kibbey has two fulltime engineers on his staff handling nothing but products liability.

Most press builders do not have the type of insurance which covers rising costs of defense, and these costs can sometimes run as high as \$100,000 on a complicated case. A large press builder will often pay between \$75,000 and \$150,000 for its products liability coverage with huge deductibles. One company whose premiums have quadrupled in four years expects more hikes soon because it has a \$500,000 annual aggregate retention in its product liability policy "but losses have been running in excess of \$1 million."

It is not unusual for a medium to large sized press builder to have between 50 and 150 product liability lawsuits against it at any one time, depending on how many machines it has in use.

Machine tool builders are plagued by product liability insurer cancellations. R. David Mathias, president of L & J Press Co. in Elkhart, In., believes nearly every press builder in the country has been dropped by an insurer at least once in the last five years. Mr. Mathias views product liability as the most serious problem the industry has.

James Loshbough, vp and general manager at Federal Press Co., Elkhart, says his insurance has been cancelled twice in the last five years. Product liability premiums have risen 5,300% since 1968, to the staggering sum of \$75,000 to \$80,000.

Federal Press, about twice the size of Havir, now has virtually first-dollar product coverage with Yosemite Insurance Co. after cancellations by Reliance Insurance Co. and Continental Insurance Co. said Regina Baker, treasurer. Federal's primary policy limit is \$300,000. Umbrella liability coverage with The Home Insurance Co. goes up to \$10 million.

Federal has approximately 20 lawsuits open currently. Ms. Baker noted that these products liability lawsuits seldom if ever ask less than \$1 million damages, and in recent months frequently ask \$3 million to \$5 million damages. Most cases are settled out of court by the primary insurer, she said, estimating the average settlement at \$20,000 to \$50,000.

A year ago, when Federal changed to Yosemite (with only a \$250 deductible under the policy), it got quotes from a number of other insurers. Most were two to three times higher than what Federal is paying with Yosemite, and went as high as \$250,000. Most involved \$10,000 to \$25,000 deductibles, plus retrospective adjustments on any settlements. ■

GUIDE TO FEATURES

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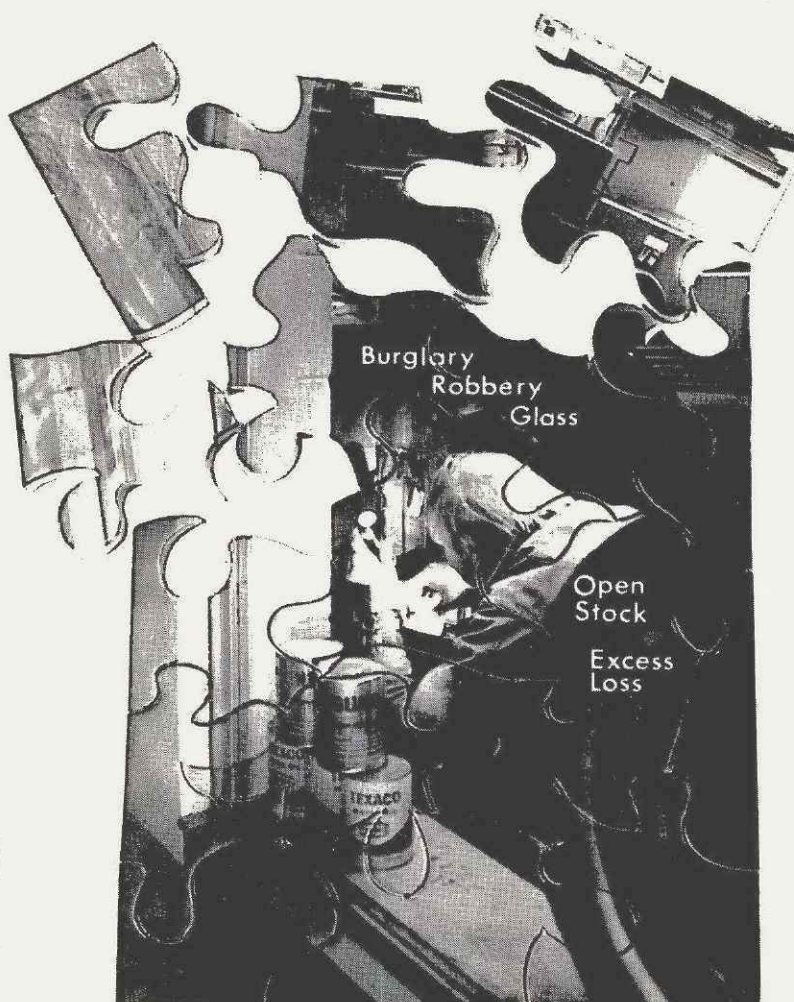
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Study confirms malpractice insurers show red ink

SACRAMENTO, CA.— Seven major insurance companies, which have written malpractice liability coverage in California during the 15 years from 1960 through 1974, will pay out \$183 million more than they collected in premiums during the same time span.

At the same time, it is estimated that, utilizing a 12-year tail after the year a policy is in force and excluding any expense loading, losses will exceed premiums in that period by 170%.

These are just a sampling of the provocative conclusions contained in an interim report on the malpractice situation in California issued early this month by the state Auditor General's office.

The 45-page report—which has been curiously ignored by the state's politicians, some of whom have pointed to the insurance industry as the cause of the malpractice problem—is laced through with dramatic assertions regarding the financial health of liability insurance carriers in California—and, by extension, everywhere else in the nation.

“Our preliminary evaluation of the seven malpractice insurance carriers . . . indicates their financial condition has undergone serious erosion over the last five years and they currently face insolvency,” the report declares. Significantly, it adds that the insurers, over the past five years, have shown a composite loss of 108% from underwriting on all lines of liability coverage.

The report does not identify the companies under scrutiny except to note that the state insurance department has issued cease and desist orders for two of these companies (actually, the two, Signal and Imperial, are now under conservatorship) and has advised another company to restrict its writings of malpractice.

An eminent industry source, however, told *Business Insurance* that the other companies in the study are: Pacific Indemnity Co., American Mutual Insurance Co., Hartford Insurance Co., Travelers Insurance Co. and either Argonaut Insurance Co. or St. Paul Insurance Co.

The report only describes the companies as “both current carriers and some that have a long history in the field but which are no longer writing malpractice in California.”

The projected \$183 million which these firms will ultimately have to pay out in excess of what they collected in premiums is a bare-bones figure, the report says. It does not, for example, include any provision for indirect expenses, investment earnings on premiums held, inflation or increases in claims frequency.

The report estimates that the companies earned \$263,034,000 in premiums for the period 1960 through 1974 and have already paid out \$114,663,000. While this would not seem to indicate a loss, the report asserts that when claim payments are related to the year of insurance (policy year), the result is that as of last December 31, the companies paid out more in losses for the years 1963 through 1968 than they received in premiums.

Further, noting the tail that accompanies the malpractice business, the report points out the companies have estimated an additional \$1,131,000 will be paid out on the claims reported to them for policy year 1965 but which had not yet been settled.

Yet those figures pale before a forecast made by Booz-Allen Consulting Actuaries, and cited in the

report. The firm is said to have predicted ultimate losses to malpractice insurers in California for the 15 years covered will soar to a stunning \$400 million, even after allowances have been made for such factors as investment income.

The investment procedures of the seven companies came in for sharp scrutiny in the report.

Indeed, the report states that the potential insolvency of these companies “has been brought about primarily by common and preferred stock investments made with policyholders’ funds and the procedures used for valuing the investment portfolio.”

Accordingly, it notes that the California insurance commissioner has adopted for malpractice carriers the “valuation procedures for bonds and stocks” issued by the

securities valuation office of the National Assn. of Insurance Commissioners. The result of this action, says the report, is that bonds must be carried at amortized book value and that stocks, both common and preferred, must be shown at market value.

The report goes on to suggest that it was the potential for investment gain which lured insurance companies into “intentionally” charging inadequate rates for malpractice insurance.

“Liability insurance carriers must increase premiums in order to improve their underwriting results,” the report asserts. “However, any increase in premiums without the injection of new capital will on a temporary basis, increase risks to policyholders and further erode the financial condition of the carriers.”

A central problem has been the erratic stock market, according to the report. The companies, long accustomed to increasing their surplus and writing new business when their equity portfolios rose, came to shoulder new risks without “having invested permanent capital.”

The report continues: “When stocks experience sharp declines, a possibility exists that the industry could be declared insolvent even though the actual market value of their equity investments is greater than their historical cost.”

This possibility exists, the report maintains, because regulation regarding investment does not consider the effect of “negative” leverage. Pointing out how this leverage can result in insolvency,

the report, again using the major malpractice insurers, estimated their policyholders surplus as of Dec. 31, 1974, at \$323,904,000. Yet it says “unrealized losses from common and preferred stock investments” totaled \$117,757,000 or 36.4% of the surplus figure. Nevertheless, it also notes the actual market value of equities in question was 10% higher than original cost.

The report estimates the ratio of net premiums written to policyholders surplus for the composite of the malpractice carriers in California at 1:8 in 1971; 1:5 in 1972; 1:7 in 1973 and 4:3 in 1974. The five-year average of net premiums written is \$749,923,000 against a policyholders surplus \$376,765,000 for a 2:1 ratio.

In commenting on the interim *Continued on page 4*

RBH knows its way through the benefits maze

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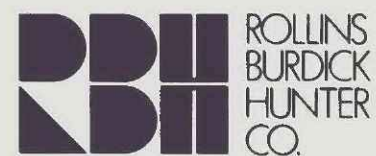
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Bank must pay alarm supplier for cost incurred after bank lock-box robbery

By JOANNE GAMLIN

SANTA ANA, CA.—United California Bank's indemnity agreement with Orco Alarm Co. was upheld by Orange County Superior Court in the case that springs from the \$3.3 million bank vault burglary in March, 1972, of the Laguna Niguel branch of UCB.

Superior Court Judge Claude M. Owens, at the same time, denied a motion for a new trial made by Arthur Hews, attorney for the 36 plaintiffs in the case. He also denied a motion made by UCB's chief defense attorney, Claire D. Johnson, for a judgment notwithstanding the verdict.

The jury in the case last July

found United California Bank to be liable for negligence, breach of express warranty and bad faith and returned a verdict for compensatory damages and for mental distress in the amount of \$1,209,000. Attorney Hews has requested a verdict for compensatory and punitive damages totaling over \$11 million. (*Business Insurance*, June 16 and July 14.)

Robert Williams, senior vp at UCB, told this magazine that the bank will not appeal the verdict or the court ruling on the indemnity agreement.

Because the court upheld the indemnity agreement that Orco Alarm Co., also a defendant in the case, held with the bank, he

said that the compensatory damage segment of the award, totaling \$924,000, would be reduced by about \$36,000.

UCB's safety deposit liability carrier, Fidelity & Casualty of New York, will cover the compensatory damage segment of the total award and therefore will benefit from the court's ruling on the indemnity agreement, he said. UCB has a \$25 million safety deposit policy with Fidelity & Casualty of New York with no deductible. *Business Insurance* learned.

Stephen Marks, the attorney representing Orco, which is part of Honeywell Corp., explained that the \$36,000 figure represents the amount of money which the

alarm company paid to the 36 plaintiffs to settle its part of the lawsuit brought against UCB.

He said that after settling with the plaintiffs, Orco filed a complaint arguing that the bank had signed a contract promising to indemnify Orco for all losses resulting from any dysfunction of the alarm system installed in the Laguna Niguel bank.

He remarked that to his knowledge this is the first time that a court has upheld an indemnity agreement between an alarm company and a bank and he indicated that the ruling could reduce alarm companies' third party liability exposures in the future. The ruling could also work to reduce alarm companies' liability in subrogation cases, he said.

He noted that Cal-Union is Orco's liability insurer.

The ruling means UCB must indemnify Orco for both the \$36,000 paid to the plaintiffs and for the

alarm company's attorneys fees, which amount to about \$34,000, Mr. Marks commented.

Mr. Williams said UCB has no insurance covering losses stemming from the indemnity agreement.

However, he emphasized that the real problem confronting the bank lies with that segment of the court verdict covering the award for mental distress.

Fidelity & Casualty contends it is not liable for covering mental distress, he asserted, noting that negotiations are continuing with the carrier to resolve the question. Mr. Williams indicated he would not rule out a court fight to settle the question.

A risk manager at a major bank, however, said he had never heard of safety deposit liability coverage going for claims of mental distress. "And I have read safety deposit liability policies for 40 years," he declared.

Similarly, the insurance manager at another major bank, based in Los Angeles, said that he does not believe that safety deposit liability insurance can cover mental distress.

It was pointed out by one of these managers that Pacific Indemnity Co., United California Bank's carrier for comprehensive general liability insurance (CGL), sent no legal representation to the pre-trial hearings.

UCB's \$25 million safety deposit liability coverage is much higher today than it was in 1972, the year of the burglary. However, the bank does not have robbery/burglary insurance, the far more expensive form of safety deposit coverage which permits a bank to reimburse depositors who report losses without a court trial to establish liability.

A large San Francisco based bank recently purchased robbery/burglary insurance coverage. A spokesman, who said he did not want to be identified, said that the bank took this action after it learned that UCB was taking the Laguna Niguel case to trial. ■

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Study . . .

Continued from page 8

report in a letter to its members, the Assn. of California Insurance Companies, San Francisco, observed that the report "reflected the position of the industry—i.e., that it is not responsible for what is known as the 'medical malpractice crisis.'"

However, the association also viewed the report with measured alarm. It said: "The Auditor General has made certain other editorial and gratuitous remarks which bear upon the entire industry. As we read it, these remarks are open invitations for an examination of the essentials of the insurance business."

The full report was aimed at educating state legislators on the malpractice situation before they voted on a malpractice insurance law. However, the new law, authorized by assemblyman Barry Keene (D. Eureka) was signed last month.

Its major provisions are: A \$250,000 limit on awards for 'pain and suffering'; a three year statute of limitations; a ceiling of 10% on all awards over \$200,000 that lawyers can claim as their fees; the addition of seven non-physician members to the state board of medical examiners and an increase in the board's power to evaluate and discipline doctors; the provision for the insurance department to review malpractice rate increases of 10% or more.

The 25,000-member California Medical Assn. supported the bill. But the State Bar of California and the California Trial Lawyers Assn. vehemently opposed it.

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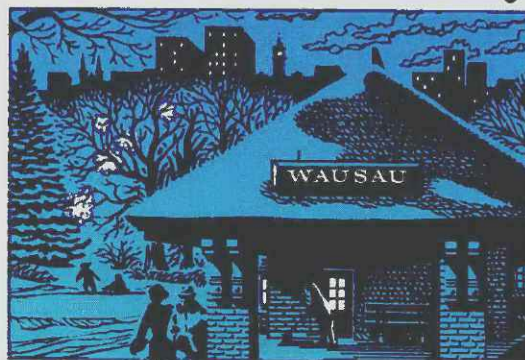
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Increased tanker losses blamed on heavier loads

NEW YORK—Thirteen tankers reported total or constructive total losses in the first half of this year. That unlucky number is actually double the amount of total tanker losses of the two previous years during the same period.

According to a report released by a tanker specialist here, the reason for the dramatic loss increase could be directly tied to a basic mismanagement of risk.

Since mid-1968, following the adoption of the International Conference on Load Lines of 1966, tankers have been carrying more cargo and riding deeper in the water without any strengthening of the tanker hull.

Arthur McKenzie, who is director of an organization here called

the Tanker Advisory Center, is urging that the Intergovernmental Maritime Consultative Organization of the United Nations review recent sinkings, particularly in the area off Cape Hatteras to determine if any changes are required in the present load line international regulations.

Mr. McKenzie released second quarter 1975 figures on worldwide tanker casualty returns in which he pointed out the worsening experience of serious tanker losses.

Drawing on casualty data from Lloyd's list, published by Lloyd's of London, Mr. McKenzie's findings included losses on ore/oil and bulk/oil vessels, tankers and certain liquid gas/oil carriers of 6,000 deadweight tons and over.

One bright spot in the report is that the number of reported casualties has dropped, even though collisions were up.

Mr. McKenzie attributed this to the general introduction of deductibles in many marine insurance policies.

Another factor in the drop of reported casualties is that many tankers are just tied up at dock, and are not in use due to an excessive surplus tanker capacity. Over 500 tankers at midyear were reported in drydock.

One loaded tanker that sank in heavy weather the first half of this year was the tanker Spartan Lady. It was carrying 20,000 tons of oil and went down in hurricane-force winds 160 miles southeast of New York in April.

Mr. McKenzie reports that since November of 1969, six tankers have sunk in this general area with a loss of 95 men and over 150,000 tons of oil.

In the preceding five years, only one tanker was lost in the same area.

While the center's report notes that some of the worsened experience could be due to greater traffic density, a decline in experienced officers worldwide, or "acts of God," it said the most probable explanation was the practice among tankers to carry more cargo and ride deeper in the water without increasing their own strength.

Price wars are roots of insolvencies

INDIANAPOLIS—Price wars, not inflation, are the main cause of insurance company insolvencies, according to H. Peter Hudson, Indiana's commissioner of insurance.

In a panel discussion at the 29th annual convention of Indiana Insurance Agents Assn. Mr. Hudson said he rejected the idea that inflation is the root cause of the insurance industry's insolvency problems.

Insurance companies historically have been able to cope with inflation more effectively than other industries, the commissioner stated.

Expressing alarm over the number of insurance company insolvency notifications, Mr. Hudson said the time has come "to reverse company attitudes" on commercial lines and return to basic insurance principles, including "getting an adequate price for the product."

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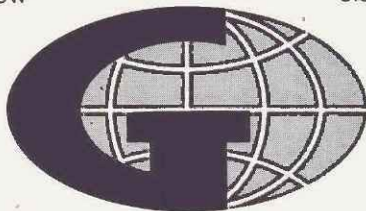
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• A kit of brochures from the National Loss Control Service Corp. provides details on its various services, including wastewater analysis, noise control, laboratory analysis, occupational health consulting, industrial hygiene consulting, product safety consulting, OSHA consultation, risk cost stabilization and self-insured claim and loss control. For a free kit, write to NATLSO, Long

Grove, Il. 60049.

• A 20-page question and answer booklet on **Industrial Noise and Hearing Loss** is available from Maico Hearing Instruments. It covers acoustical measurements, noise control, protection for the employe, hearing measurements and documentation. For a free copy, write to Maico Hearing Instruments, Minneapolis, Mn. 55435.

• A series of brochures from Dymo Products Co. provides a **Guide to Effective Safety Signage**. Principles of safety communication and a survey of safety sign uses are included, along with price lists for Dymo sign-making products. For a free kit, write to Dymo Products Co., Willow Hill

Executive Center, 550 Frontage Rd., Suite 2033, Northfield, Il. 60093.

• Granet Corp., makers of industrial protection gloves, is offering **Protect Hands**, a brochure of products available and a checklist for determining glove needs. For a free copy, write to the firm at 25 Loring Dr., Framingham, Ma. 01701.

• **Handbook & Standard for Manufacturing Safer Consumer Products**, published by the Consumer Product Safety Commission, outlines a step-by-step method to implement a product safety policy and procedures. Technical recommendations focus on design review, identification and evaluation of potential hazards, documentation of any changes in design, materials or production that could affect safety, safe production practices, maintenance of records and product safety audits. Single copies are available at no cost from the Commission in Washington, D.C. 20207. Additional copies may be purchased from the Superintendent of Documents, Washington, D.C. 20402 at \$1.50 a copy. Use order No. 052-003-00103-9.

• The advantages of coating plastic safety lenses with TEMA II, made by American Cyanamid, are explained in a question and answer booklet from Glendale Optical Co., **Glass or Plastic?** For a free copy, write to Glendale Optical, 130 Crossways Park Dr., Woodbury, N.Y. 11797.

• **Let's Clear the Air About Respirators** provides answers to questions about personal respiratory protection in the work environment. For a free copy, write to Willson Products Division, ESB Inc., P.O. Box 622, Reading, Pa. 19603.

• National Loss Control Service Corp., a subsidiary of Kemper Corp., is offering a booklet on how maps can be made of workplaces showing the range of noise levels at various points. **Noise Data that Can Be "Seen"** is free by writing to Norman R. Dotti, P.E., Manager, Noise and Vibrations Services, Environmental Sciences Division, National Loss Control Service Corp., Long Grove, Il. 60049.

• Institutional Research Consultants has published **Court Interpretations of the Business Pursuits Exclusion in Personal Liability Insurance Policies**, a report that analyzes the latest court decisions dealing with the "business pursuits" exclusion which is common to all personal liability policies. It magnifies the consequences of not adding the "business pursuits" endorsement to a policy. It also defines a "business pursuit" and will aid the reader in determining where he would stand in the event of legal actions. The price is \$5. Mail requests to 5725 Fremont Pike, Box 181, Stony Ridge, Oh. 43463.

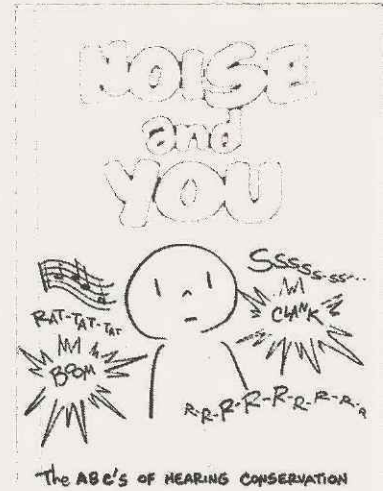
• A Defense Research Institute Inc. publication examines **Liability of Attorneys**, the fourth in a series of DRI monographs on professional liability problems. The report covers the nature of the attorney-client relationship, grounds of liability, applicable standard of care, and liability to third parties. Liability under the federal securities acts, burden of proof and measure of damages, and professional liability insurance are also examined. Written by New York attorney Robert R. Hume, the report includes an appendix of basic forms giving a comparison of attorneys' errors and omissions policies. The report is available to

DRI members and subscribers for a handling fee of \$2.50 and to non-members for \$5, prepaid through the Defense Research Institute, 1100 West Wells St., Milwaukee Wi. 53233.

• A new international employe benefits booklet is available from Kwasha Lipton. It describes the service, staff and history of the international division of Kwasha Lipton, and it defines the six major problems faced by designers of compensation and benefit programs for multinational companies. For a free copy, write to Henry I. Magnusen, director-client services, Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• **Basic Planning for Pilferage Control** is a brochure from Wells Fargo Guard Services which describes methods and procedures essential for a successful basic theft and pilferage control program. It includes information on physical security plans and employe indoctrination methods. For a free copy, write Robert L. Arko, vp, Wells Fargo Guard Services, Randolph Park West, Route 10, Randolph, N. J. 07801.

• The ABCs of hearing conservation are presented in an employe-directed booklet, **Noise and You**, published by the David Clark Co.



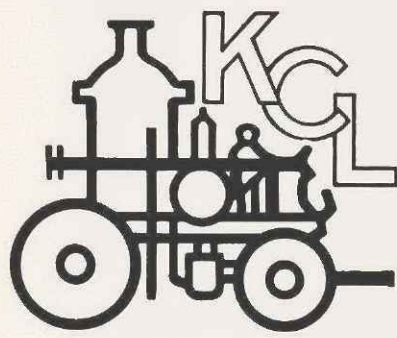
Inc., makers of noise protective devices. For a free copy, write to the firm at 360 Franklin St., Worcester, Ma. 01604

• **Hi-Ex Foam** is a 12-page pamphlet by the Walter Kidde & Co. on high-expansion foam fire extinguishers. Details on how the foam works, how it is used, and the variety of systems available are accompanied by charts and illustrations. For a free copy write Advertising Mgr., Walter Kidde & Co. Inc., 675 Main Street, Belleville, N.J. 07109.

• **Photographic Identification Services** details the need for a positive identification system and how the Wackenhut photo ID system is utilized by business, industry, institutions and the professions. For a free copy write to J. C. Bachmann, Wackenhut Corp., 3280 Ponce de Leon Blvd., Coral Gables, Fl. 33134.

• **The Physical Security Check List** is a questionnaire enumerating all of the areas around business premises which should have maximum security at all times. It includes basic questions every company should ask itself about these potential security risks: facility location, landscaping, fencing, exterior lighting, doors and windows and the kinds of locks used, key control, roof access to buildings, railroad spur lines, employe lockers, outside parking lots, company vehicles and fire protection. It is published by Security Services Inc. For a free copy, write Allen Silvarman, Security Services Inc., P.O. Box 123, Southfield, Mi. 48075.

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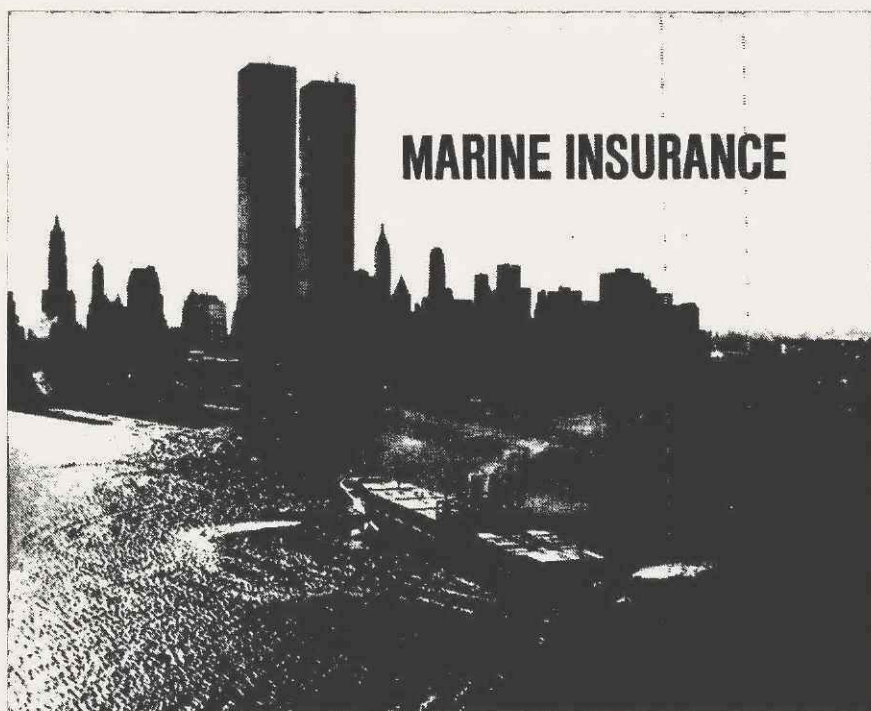
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Texas hospitals get 'go' sign on reciprocal

By LINDA MOSKOWITZ

AUSTIN, TX.—The Texas Hospital Insurance Exchange (THIE) was granted a certificate of authority by the state board of insurance, and operation of the new reciprocal insurer is now contingent upon obtaining adequate reinsurance.

Negotiations are underway with several major domestic reinsurers as well as some international firms, including Lloyd's of London, according to John Kellam, Boon Chapman Agency, consultants-attorneys for THIE.

The Texas Hospital Assn. (THA), parent of the THIE, has mailed out confidential survey questionnaires to its members in an effort to provide reinsurance companies with "updated statistical liability information because of the drastic changes that have occurred recently," according to the Boon Chapman, which is administering the survey.

One of the major changes in the Texas hospital liability and malpractice situation is the withdrawal of Argonaut Insurance Co. from the market. The primary reason for this action by the insurer was the denial of a rate increase by the state board of insurance earlier this year (*Business Insurance*, Aug. 25), said Mr. Kellam. At that time, the board issued an order that all malpractice and professional liability rates would be frozen and that all insurers writing such lines would have to file their current rates for approval.

Argonaut subsequently challenged the constitutionality of rate freezes in a lawsuit against the state board. The company won the case in trial court but the case is now being appealed, Mr. Kellam explained. While Argonaut may win the case in court, it still will not be allowed to write malpractice or professional liability insurance in Texas unless its rates are lowered and approved by the board.

Argonaut has chosen to withdraw entirely from these lines in Texas, and sent out 90-day advance non-renewal notices to clients. This move will create an even bigger need for the THIE, believes Mr. Kellam, by creating a larger number of hospitals without such insurance. In addition, he said, there are already many hospitals in Texas without any liability protection.

Another major issue in the reinsurance controversy concerns the Joint Underwriting Assn. (JUA), which although required to provide malpractice and liability insurance for those who can't buy it elsewhere, has high rates and small limits on coverage offered, Mr. Kellam said.

The top limit for the total amount of insurance purchased from the JUA is \$300,000. This can be purchased as all malpractice or all general liability, or can be split between the two.

This forces many customers to take the higher limit on one coverage and seek the other from another insurance company.

He commented that it was "not really in the best interest (for the coverage) to be split," both for the companies and the client.

Mr. Kellam pointed out that litigation of claims becomes more complicated when these coverages are handled by different companies, since they are similar.

He further commented that the THIE will write both malpractice

and general liability for its members to help them avoid such problems.

Mr. Kellam expects an answer on the reinsurance question within 45 days and is pushing to resolve the matter before then. "We just have to convince a few people we know what we're doing," he said. "Reinsurers want absolute guarantees, and there is no such thing with insurance."

Regarding the JUA's resistance to offering adequate reinsurance for the THIE, Mr. Kellam commented. "It seems although they've done a substantial amount of work in a short time, they are not overtly receptive to the reinsurance idea on a voluntary basis."



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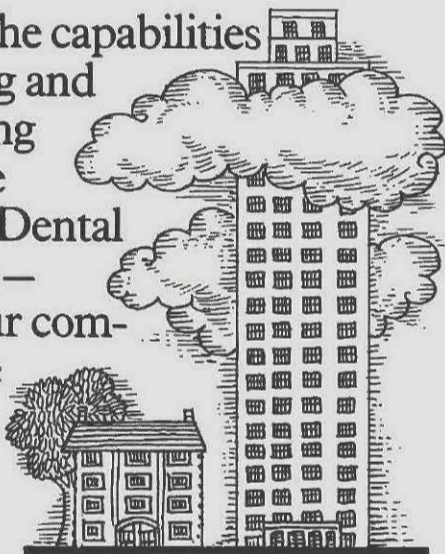
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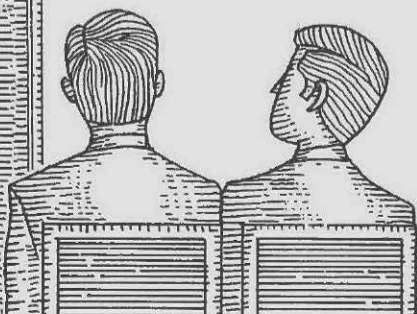
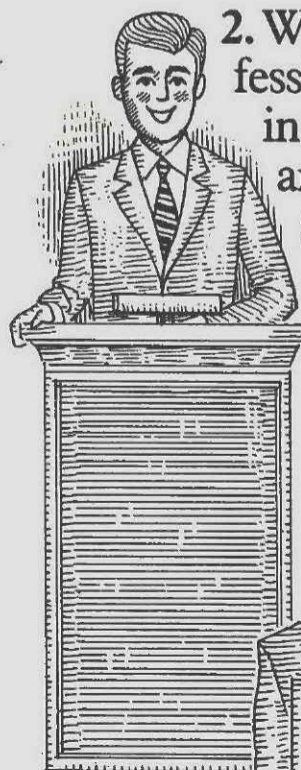
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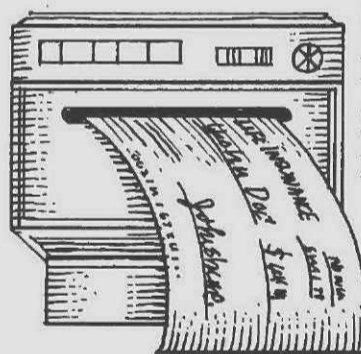
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Info for Buyers issue

If you have not yet submitted data or literature for publication in Jan. 12, 1976 Info for Buyers Issue, please return the coupon below for forms and instructions. All material for publication must be in the hands of the editors no later than Dec. 1, 1975.

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THE ANNUAL INFO for Buyers issue of *Business Insurance* is scheduled for Jan. 12, 1976. In this issue, the editors provide hundreds of informative items about publications and pamphlets available from insurance companies, brokerage firms and service suppliers about topics of interest to risk and insurance managers, and financial executives, planning for contingencies.

The 1974 Info for Buyers issue carried over 200 items of information, which pulled an impressive 25,414 responses from readers requesting copies of the available brochures.

All material relating to planning, funding, controlling, monitoring or prevention of risks and losses must be in the hands of the magazine's editors no later than Dec. 1, 1975. Acceptable material for the Info issue include a variety of commercial property and liability categories, as well as employee benefits classifications.

Surety Assn. ponders banker bond changes

By MARGARET LeROUX

NEW YORK—The Surety Assn. of America (SAA) is seriously considering a proposal to change the banker's blanket bond form to incorporate a new definition of dishonesty and to deal with the problem of covering trading losses, two of the association's executives told *Business Insurance* in an interview.

The association represents 425 insurers—almost all the underwriters of fidelity and surety bonds in the country," Elver Pearson, general manager of the SAA said.

The change in the SAA blanket bond form follows the lead set by Chubb & Son, which announced

similar changes in its banker's bond this summer (*Business Insurance*, June 16).

The changes in both Chubb's form and the planned changes in the SAA form reflect underwriters' reassessment of losses "that had no business being collected," according to Francis LeMunyon, secretary of the association.

Trading losses, he noted, are an example of such losses.

As more and more banks gear up for trading in foreign currencies, the potential for spectacular losses is increasing, he believes.

The question is whether a bank can claim internal dishonesty to collect on a trading loss.

"Is it considered dishonest if an employe makes money by trading foreign currencies?" Mr. LeMunyon asked, adding it seemed to be considered dishonest by some banks only if a large loss occurred.

The association's fidelity and public official advisory committee is working on a definition of dishonesty, Mr. LeMunyon said. Reports on the new definition as well as trading losses are expected by the end of the year, he added.

Internal dishonesty is much more a problem for financial institutions in the long run than losses due to burglaries, robberies and fraud, SAA officials agreed.

Overall, financial institutions' bond loss ratio hasn't been good in recent years. The latest figures the SAA has available indicate a 61.2% loss ratio for financial institutions for 1973.

In comparison, mercantile establishments experienced a 38.9% fidelity bond loss ratio in 1973.

For the banker's blanket bonds, on a gross basis, the association's underwriters were in the red for 1974, Mr. LeMunyon said.

Because banker's blanket bonds are written on a discovery basis (whatever underwriter has the coverage at the time a loss is discovered is responsible, no matter when the loss was sustained), however, there hasn't been the spread of loss in the market as experienced by property insurers.

This makes for interesting competition among underwriters, Mr. LeMunyon noted. "One is relieved when the other guy has the big loss, but never knows when it could be his loss."

The SAA secretary predicted increased rates in the future for banker's blanket bonds. He does not foresee a market restriction in the immediate future, "but if things get worse it could happen."

At present, there is no absence of a market for banker's blanket bonds, the association official said. "But a bank that has experienced a series of losses may not be willing to pay the price of the available bond," Mr. Pearson explained.

The SAA underwriters' bonds are experience rated. "We've had no increase in rates since 1968," Mr. LeMunyon said, but an individual bank's premiums may have increased to account for experience rating.

The best protection a bank has against internal losses and the consequence of higher fidelity bond premiums, is an independent outside audit, the officials said.

The auditors should have complete control—bank management should not be able to set the parameters of the audit—Mr. LeMunyon interjected, "but this costs a lot of money; the ABA (American Bankers Assn.) doesn't champion this idea."



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Gulf out of OIL . . .

Continued from page 1
 ment of OIL's former president, Roy Jackson, who was also a former legal counsel for Gulf. Mr. Jackson resigned this past year from OIL and was replaced by George Yaneff. Gulf resented what they considered shabby treatment of Mr. Jackson by OIL," said one person close to OIL.

OIL's steering committee went against the advice of its consultant in hiring Mr. Yaneff, a source close to the organization pointed out. The consultant advised appointment of someone with a thorough knowledge of insurance to head the organization, while Mr. Yaneff's background is strictly financial, the source said.

OIL's chief executive was unavailable for comment early last week.

What will be the effect of Gulf's departure on OIL? "Financially, negligible; psychologically, considerable," was the assessment of one industry expert.

Thomas C. Allen of Armistead Miller Wallace Inc., petroleum industry insurance brokers, noted that Gulf's withdrawal would hurt OIL in that new members might be deterred from joining the organization.

However, Gulf's participation in the mutual insurer above a \$10 million deductible means the financial effect will not be great, he added.

Mr. Edwards, Gulf's assistant treasurer, said the company's departure "would not have a significant effect on OIL."

Lee Grattan, risk manager for Standard Oil of California, which will be the largest member of

OIL, on an asset basis, upon Gulf's withdrawal, agreed with Mr. Edwards, "I don't think Gulf's withdrawal will have any effect on the organization," he said.

Spokesman for other members of OIL expressed regret at Gulf's departure. "We hate like hell to see them go," a spokesman for a Southwest-based oil company said. "Gulf's a good company."

Another OIL member observed the group is strong enough to carry on without Gulf.

A spokesman for still another major petroleum company expressed doubt that Gulf's action would deter new members from joining OIL.

"If this had occurred in the first couple years of OIL's existence, it might have really hurt the organization," a spokesman for an Eastern-based oil company said, "but now we have a broad enough base; we can exist with or without Gulf." ■

Malpractice limits . . .

Continued from page 1
 seek damages for dynamite bombing and other mining accidents which were prevalent at the time the state was being formed.

Mr. Thomas believes the issues of due process and equal protection under the law will be those debated on the case's appeal. "I don't think the statute will be disposed of on this unique aspect of state constitutional law."

The presiding judge for the case disagreed, however. "No other state has the exact wording (of Article I, Section 18) but the decision could be applicable to other states," said Alfred C. Hagan, judge of the fourth judicial district, Idaho.

Judge Hagan's main objection to the statute is "the arbitrary limitation of liability plus the absence of any judicial or adminis-

trative substitute" for seeking redress for injury, a right dating back to the Magna Charta and not "peculiar" to Idaho law.

He views the \$150,000 limit as "a figure picked out of the air. Even if a person were injured more than that, he could only get that much." A limitation on claims is "acceptable" to Judge Hagan as long as it isn't arbitrary and provided "there is a substitute for redress of injury," he explained.

Mr. Thomas believes the law "discriminates—as many laws do—but it is not arbitrary or unreasonable." Further, he emphasized, the law "serves the public interest."

Judge Hagan's opinion stated that "the ability of an individual to seek redress for a breach of a duty (is) owed as a basic right. These basic rights must be preserved even in times of economic stress concerning a certain segment of the public. . ."

"It may be the right ruling for the wrong reason," Mr. Thomas conceded. "The appellate court can sustain Judge Hagan's decision on other grounds." ■



Gordie Howe

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Premiums skyrocket

DES PLAINES, IL.—Robert Nelson, a broker and administrator of association insurance plans for Larsen Corp. said product liability premiums are increasing 400% to 500% on policy renewals, with the biggest hikes coming in the last 120 days.

Larsen Corp. is administrator of insurance programs for the National Assn. of Wholesalers. About 90 associations participate within that group, including machine tool and automotive supply distributors.

Mr. Nelson cited cases of an East Coast medium sized drug wholesaler with a product liability insurance premium of \$3,000 boosted to \$90,000 on renewal; and automotive supplies wholesaler whose premium on its liability umbrella went from \$15,000 to \$65,000, for a policy limit under \$5 million; and a machine tool distributor whose premium for a \$1 million umbrella policy jumped to \$16,000 from \$4,000 (renewal quote was \$27,000 but a competitive bid got the price down.)

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NEW YORK—When prescription drug benefit plans were introduced some years ago, it was over loud protests by pharmacists who rejected what they termed the forced sharing of risks with underwriters of the plans.

Today prescription drug benefit plans have won grudging acceptance from the pharmacists.

"The sheer number of pharmacists enrolled in such plans indicates their acceptance of them," a spokesman for the American Pharmaceutical Assn. said, "but a lot of them feel forced into a price that doesn't cover their costs."

Despite the lack of wild enthusiasm on the druggists' part, independent prescription drug administrators say the benefit is rapidly growing. One broker who has arranged prescription benefit plans for his corporate clients says, "We'll see it as a very prevalent benefit in the future."

Nabisco is one company that has found the prescription drug plan to be successful and a money saver for the major medical plan as well.

Nabisco made prescription drugs a benefit as a result of negotiations with a union representing approximately 1,000 employees, a company spokesman said.

The benefit is administered by Paid Prescriptions, the largest of the prescription drug benefit administrators, located in Hackensack, N.J.

Each eligible employe was issued a plastic "credit card" with employe name and Social Security number on it. The card must be presented to the participating pharmacist at the time of purchase.

The Nabisco plan, written directly by Paid Prescriptions, includes no deductible and costs the company "about \$5,000 a month," the spokesman said.

At Paid Prescriptions, a spokesman explained that a small deductible, ranging from 50 cents to \$1, is preferable as a deterrent to abuse of the program and as a factor in employe involvement.

Nabisco has realized savings

under the major medical plan as a result of the prescription drug plan which went into effect a year ago, the company spokesman said.

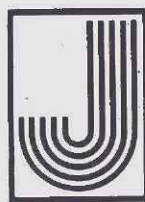
Under the major medical plan, after a deductible of \$100 is realized, the employe pays 20% and the company 80% of all prescription drug costs.

Paid Prescriptions administers 200 health and welfare trust funds covering 600,000 employees. The company recently set up a prescription drug benefit plan for 100,000 employees in District Council 37, New York City.

More than 30,000 of the total 43,000 pharmacies in the U.S. participate in prescription drug plans, the spokesman for the administrator said. ■

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Warn insurers against sex discrimination

NEW YORK—New York insurers were warned against discriminating against insureds on the basis of sex or marital status when they issue, renew, or cancel any policy.

Thomas A. Harnett, superintendent of insurance for the state, notified all licensed New York insurers to be certain to comply with an amendment to the insurance law which became effective Sept. 1, and which prohibits such discrimination.

Associations, groups, and corporations, as well as individuals, have been warned against refusing to issue policies or against cancelling policies because of sex or marital status of the policyholder.

In particular, the superintendent's notice stated that any underwriting or cancellation practices affecting only males or females or only single, married, separated or divorced persons should be corrected to comply with Section 40-C of chapter 564 of the laws of 1975. ■

editorial opinions

Regrettable move

IN WHAT ALL PARTIES concerned admit to be an unusual arrangement, Fairchild Camera & Instrument Corp. has dropped risk management from its payroll and replaced it with the services of its newly appointed broker, Marsh & McLennan (*Business Insurance*, Oct. 6).

The broker, in fact, now has two of its own employees working on the Fairchild Camera premises in Mountain View, Ca. One is a former Fairchild employe (the secretary to the company's last risk manager, who left Fairchild for another job in February.)

The move is regrettable, for it signals a lack of commitment to strong and effective internal risk management on the part of the company. And without that commitment, we must call into question—as some shareholders should, perhaps—the judgment of the company's top management.

From the standpoint of Marsh & McLennan, the move, we're sure, is an accommodating (and profitable) one. We can't quarrel with that. Nor do we suggest that Marsh & MacLennan will give the job anything but its very best effort. The broker will, of course—especially now, with all eyes upon the arrangement.

We agree that there is much risk management talent at the brokerage level. More, in fact, than in any other segment of the insurance business. And we'd be hard pressed to answer the question, "What's best? Ineffective risk management that's internal, or effective risk management coming from the broker?"

But that is not the issue. What is at issue here is the company's commitment to internal risk management that is perpetual in nature and subject to the judgments and approvals of internal management—management responsible and committed to the company, its shareholders and its bottom line. We'll argue that one.

Product liability

IF YOU'RE STILL not a believer in the importance of good, long-range risk management and insurance in the product liability field, take the case of Havir Manufacturing Co. in St. Paul, Mn.

Elsewhere in this issue we report that the manufacturer of small machine tools, namely presses, will soon be liquidated. Reason: Product liability lawsuits and the inability of the company to obtain affordable insurance policies.

The company has thousands of old presses in the field, and lawsuits from accidents on these, says a company official, have multiplied and "brought insurance premiums completely out of the realm of reason."

Havir is not a large company, to be sure (sales between \$2 million and \$3 million a year). But the dilemma it now finds itself in is one that we'll be hearing more about in the years ahead. And there will probably be some big companies involved in similar situations sooner or later.

We're convinced that the product liability problem, as large of a problem as it is today, is but a speck on a horizon that will narrow dramatically, "You ain't seen nothin' yet," as the saying goes.

Ironically, the problem the small St. Paul business has is not really the making of its present owners. The firm has not been sued on any press built in the last six years, since the present owners bought the firm. Nor is it the making of the insurance industry, which can't pay out what it hasn't taken in.

As we've said before, the liability problem runs far deeper than the malpractice crises of the past few months. And it will take more than a surgeon's scalpel to remove the cyst. There must be reform of the tort liability system in this country.

We wonder how many more businesses, large or small, must fail before enough people become sufficiently rattled to take action.

Coincidence?

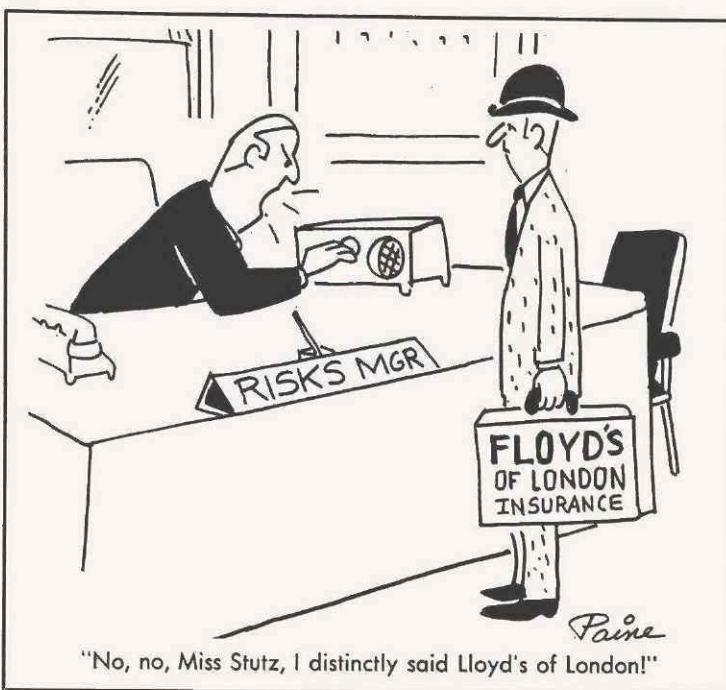
WE AGREE WITH an organization called the Tanker Advisory Center in calling for the Intergovernmental Maritime Consultative Organization of the United Nations to review recent ship sinkings in the Atlantic to determine if changes are needed in the present load line international regulations.

Since November 1969 six large tankers have sunk in one general area of the Atlantic, with a loss of 95 men and over 150,000 tons of oil. In the preceding five year period, only one tanker was lost in that same region.

The reason for the increase in sinkings of loaded tankers in the approaches to the U.S. East Coast may be due to greater traffic density, an apparent decline in the availability of experienced officers worldwide, or more numerous acts of God, says the Tanker Advisory Center.

"But the more probable explanation can be found in the fact that tankers, since mid-1968, following the adoption of the International Conference on Load Lines—1966, are carrying more cargo and riding deeper in the water without any increase in the strength of the tanker."

It's a coincidence that bears investigation.



letters

Letters are welcome. Address letters to the Editor of *Business Insurance*, 708 Third Ave., New York, N.Y. 10017.

Kudos

To the Editor: May I compliment you on the excellent interview you conducted and reported in your issue of Sept. 22 among six top insurance companies. To me, it was the best wrap-up of the immediate and long term problems facing the insurance industry.

Alfred C. Berglund

Insurance advertising manager,
U.S. News & World Report,
Boston, Ma.

* * *

To the Editor: I found the Sept. 22 special report on the property and casualty insurance industry very interesting, and it has been placed in the reading room of the Sydney Lewis School of Business Administration where it can be shared with the other members of the faculty as well as students.

Ruth C. Harris

Director, Virginia Union University,
Richmond, Va.

* * *

To the Editor: "Executives probe insurer problems, challenges" (Sept 22) is an excellent presentation by *Business Insurance*.

The interview points out many of the difficult challenges our industry is facing. As a regional insurer, we found this interview with top insurance executives interesting and helpful. I encourage you to consider an interview of this type on an annual basis.

Robert M. Mauldin

Executive vp. Northwestern Insurance Co., Wilkesboro, N.C.

Fire protection

To the Editor: Mr. E. Sanford Bell's article on insurance company engineering "Fire protection services fall short on quality" (*Business Insurance*, August 25, 1975), not only undervalued good HPR engineering, but it also overestimated engineering provided by the main street stock and mutual insurance companies. Fire protection engineering runs from searching for cigarette butts to a level of sophistication that Mr. Bell has not been exposed to. While I can appreciate his zeal in pushing fire protection consultants, I believe he intentionally or unintentionally overlooks several very important facts.

There is an organization in this country composed of four direct writing mutual carriers that puts together an underwriting survey during initial inspection visits. It takes great pains to do the things that Mr. Bell points out never get done, i.e., it enumerates loss expectancy in dollars as a result of

Continued on page 70

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Teamster benefit policies probed for strange circumstances on cost

NEW YORK—The Teamsters union is being investigated here for buying individual life insurance policies for union members in 1971 and 1972 instead of buying a group policy which would have been three times cheaper.

According to the state insurance department, that practice also funneled death benefits back into a special Teamster trust fund instead of giving them to survivors.

The department's records show that some \$1 million in commission fees for the transactions have "vanished" in a scheme in which the Teamsters paid commissions of up to 90% to unlicensed insurance agent Louis C. Ostrer, whose permit to sell insurance has been

revoked.

Local 295 of the International Brotherhood of Teamsters made the questionable arrangements for its 1,300 members under terms of a three year contract beginning Dec. 1, 1970. The local's leaders have previously been investigated for alleged links to organized crime.

The Teamster local's members work at Kennedy International Airport. Their employers, the freight companies at Kennedy, were required under the contract to make contributions of \$15 a week for each employe during the first year, \$30 a week for each the second year and \$40 a week for each the third year. Some of

the contributions were set aside for severance pay, but the rest went to buy life insurance.

Two New York firms were the sellers: Executive Life Insurance Co., and Trans World Life Insurance Co.

Insurance investigators found that the commissions totaled as much as 90% of the first year's premiums, but that large commission checks paid by the companies writing the insurance were not deposited to bank accounts.

Under pressure from the insurance department in 1973, trustees for the Teamster local insurance fund agreed to insure its members under a group policy written by Prudential Life Insurance Co.

The insurance department said

that from Dec. 1, 1970 until January 1973, Executive Life was paid \$1,096,932. And from July 1, 1971 until January 1973, Trans World was paid \$544,202. Total premiums came to \$1,641,134.

The net cost of the individual policies came to \$1,238,274, after the companies paid \$380,450 in death claims and \$410 in cash surrender value, and a \$22,000 cash surrender value accrued.

If the Prudential group policy had been in effect for the same period the net cost would have been only about \$525,000.

The plan to insure the Teamsters individually was proposed to the union by Louis Ostrer, who had his insurance agent's license taken away in 1967 for improperly diverting more than \$700,000 from Canada Life Assurance Co.

Mr. Ostrer's plan was apparently a device to allow for high payment of insurance commissions to the agent of record. He also had Local 295 form a new corpora-

tion, Fringe Programs Inc., to manage the Teamster trust fund, the insurance department said.

Fringe Programs Inc. ran up administrative costs of more than \$120,000 annually. Trustees of the local's fund had control of death benefits for from five to 10 years, and would dole out payments on a monthly, quarterly or annual basis.

If a family demanded a lump sum settlement instead, it would be forced to discount the value of the policy between 15% and 30%. Under the Prudential plan started in January of 1973, benefits are now paid directly to survivors in a lump sum.

In August of 1971, insurance investigators warned the Teamster local's trustees about Mr. Ostrer's background and told them the commissions being paid were unconscionably high. Three months later the trustees decided to double the amount of insurance for the Teamster members, and to increase commissions from 55% to 90% of the first year's premiums.

The insurance department's investigation of the Teamster insurance fund was fought by Mr. Ostrer on the grounds it violates a 1973 state law that makes such proceedings unconstitutional.

However, the department told *Business Insurance* it intends to pursue an intense investigation under section 37, subdivision L-7 of the state insurance law, which deals with wrongful acts or omissions of trustees or any persons connected with such funds.

The department said recently it might also look into regulation 60 of the insurance department, which is a policy replacement comparison requiring agents to file forms showing that life insurance replacement policies are not more expensive than the policies the insured held before. Many of the Teamster local members were assumed to have had their own life policies before Mr. Ostrer's plan was put into effect.

The New York department says it will also cooperate with the states of Florida and Massachusetts, which are investigating similar irregularities in Teamster insurance funds there. ■

Egyptian office

Marsh & McLennan International Inc. will be represented in Egypt by Ahmed Zake Hilmy, former chairman of the Egyptian Insurance Organization and chairman of an Egyptian underwriting company.

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Can a plastic card be panacea to protect gems and gents?

Hotels heap heavy dollars on heavy risks

By MARIE KRAKOWIECKI

NEW YORK—Liberace's jewels were stolen from one. Singer Connie Francis got raped in one. Out-of-town businessmen get robbed every day in them when the prostitutes they meet there have hearts of larceny instead of gold.

inite risk management approach to security for one of the biggest risk situations encountered in hotels: The convention or trade merchandise exhibit.

Because of the posted schedules of big meetings or dinners that most conventioners attend at the same time, it is relatively easy for thieves to map out plans to rob

exhibitors can work together to prevent losses or crimes against people.

The first thing he suggests is that when the group meets with hotel management in its pre-convention meeting (to decide on rooms, meals, audio-visual equipment and so on) it should insist the hotel's security representative attend the meeting. This is frequently not done, something the Pinkerton vp calls "tragic."

At this meeting, the hotel security person should be given a complete outline of what the major liabilities of the specific conference will be. He should be told if registration money will be collected over the counter, what sort of attractive merchandise or equipment will be on display, and so forth.

After the liabilities are defined, a security system must be developed and plans to interface outside security people with the hotel's own staff should be worked up. One very important feature that must be taken into consideration for the security system is the particular nature of the crime element in the community in which the hotel is located. The same convention could require a completely different security system in a different community.

"Frequently the only thing a convention group does is hire an outside guard service. And it's not unusual for them to pick the kind that offers the rock bottom price,"



The Algonquin Hotel protects its "civilized atmosphere" with ADT's Cardgard system.

Mr. Bilek said. "But that's just not enough. It does not comprise a security system."

If there are sections of the neighborhood around the hotel which are unsafe, Mr. Bilek urges the convention group to warn its participants. Once a man comes to the front desk all bloodied up from being mugged, it's too little too late to hand him a list of recommended restaurants or points of interest in the town, he

warns.

For merchandise exhibits involving displays of valuable materials, Mr. Bilek stressed that some of the most crucial times are the unloading, setting up, exhibiting, night recesses, and the shipping back of goods. Extra guards, including some in plain clothes, should be part of a security system at those times.

According to Dr. Richard Compton, senior lecturer at Cor-

Continued on page 22

SAFETY/SECURITY REPORT

Hotels aren't as safe as they used to be.

There has been a dangerous shift to personal contact crime in hotels, supplementing the old standby room theft committed with stolen keys while the guest is out.

And as the safety/security measures of hotels just aren't measuring up, innkeepers face a liability dilemma that could empty their pockets, too. Lawsuits are pouring in. Insurance premiums are edging up. Three recent court cases involving guest safety have all set precedents, promising to complicate the picture more.

In Washington, the Sheraton Hotel was ordered to pay the largest single damage award ever, \$7 million, when boy scout Thomas Hooks dove from a hotel diving board and became a quadriplegic (*Business Insurance*, June 2).

In New Orleans, a federal court jury found the Downtown Howard Johnson Hotel liable for the avoidable murder of seven guests shot by a crazed sniper in 1973 (*BI*, Jan. 15, 1973). The hotel was found negligent in premises security. Damages of \$11.3 million were asked, although the figures were later scaled down.

The Howard Johnson franchise had hired a night security force. That was of no help; the sniper struck in broad daylight. The decision is on appeal, and is expected to make legal history in innkeepers' liability.

In *Tobin versus Slutsky*, a New York federal circuit court of appeals held the Nevele Country Club's owners liable when an employe sexually molested a 15 year old girl at knifepoint.

The case set a precedent because the judge redefined the state's innkeepers' liability law as it applies to first class resorts. The Nevele is an expensive Catskill Mountain vacation spot.

Citing the owners' obligation to provide reasonable care in protecting guests, the judge ruled that reasonable care means "a high degree of care" in the case of first class hotels.

Hotel security expert Arthur J. Bilek feels the Tobin decision will ultimately change the climate for hotel liability. And he predicts insurance rates will go even higher once lawyers across the nation begin citing the "high degree of care" standard in other litigations.

Mr. Bilek, who was once the director of corporate security for Hilton Hotels, the nation's biggest chain, is currently vp of corporate development for Pinkerton's Inc., Chicago. He is also vice chairman of the American Hotel and Motel Assn.'s security committee.

Mr. Bilek has several concrete suggestions for establishing a def-

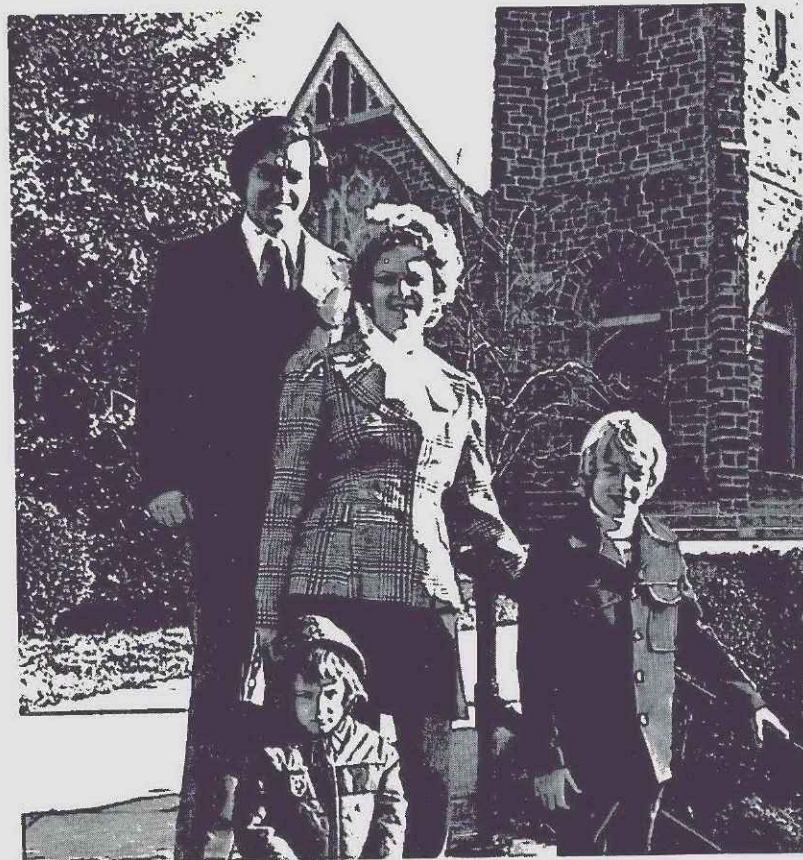
valuable. And in the case of such events as jewelry shows, attended by dealers who bring merchandise to their rooms as well as to exhibit areas, the risk is greater still.

In most states, innkeepers' limits of liability per room are roughly \$2,000 for anything that "mysteriously disappears." So someone like a diamond dealer with costly sample displays could have a problem.

And most hotels seem to feel that the security for anything on exhibit at a merchandise show should be the exhibitors' or the convention group's responsibility.

It's true that when outside security guards are brought in for those purposes, exhibitors rather than the hotel foot the bill. But Mr. Bilek feels there is an approach in which the hotel and the

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Feds wonder: Are banks encouraging robberies?

By RICHARD L. GORDON

WASHINGTON—Soaring bank robbery statistics are serving to focus Congressional attention on bank security methods soon, and the result may be some sharp criticism of the federal bank regulatory agencies charged with enforcing the Bank Protection Act of 1968.

Bankers and their risk managers can be expected to feel the heat as well.

The 1968 law gave the Federal Reserve System, the Federal Home Loan Bank Board, the U.S. Comptroller of the Currency, and the Federal Deposit Insurance Corp. authority to prescribe and enforce minimum bank security standards for the banks they regulate.

Despite the law, however, the bank robbery rate has been climbing dramatically and the United States Justice Department is so dissatisfied with the performance of the bank regulators that it plans direct action on its own.

The Justice Department is particularly concerned that bank regulators apparently have not used the enforcement teeth provided by the 1968 bank security law. The laws allows the regulators to fine banks in violation of security rules up to \$100 for each day of violation.

But Justice Department officials are unaware of any such fines ever being levied, although instances of bank laxity in security measures are not uncommon.

Justice is now monitoring FBI reports of bank robberies, and paying particular attention to cases where security failures are reported.

The department now says that if the bank regulatory agencies fail to fine offending banks, "We're going to go after them (the banks)."

That would mean encouraging local United States Attorneys to file civil suits in federal district courts to collect the \$100 a day fine for security violations.

Justice Department suits probably would arise only in "repeated substantial cases" of security violations, *Business Insurance* was told. One of the ripest areas of laxity in bank security, Justice officials said, is in the use of "bait money."

A letter from the Federal Reserve to the banks that it regulates, mailed last June, pointed out that "frequently, bait money

is not provided for each teller in a bank, or its identification (denomination, serial number, etc.) is not adequate to make it good evidence in a trial."

"That indicates to us," a Justice Department attorney said, "bad faith on the part of the banks—but that might be too strong a word. It's a little bit of slothfulness on their part."

Such comments arouse "strong feelings among both sides" of the bank robbery question—banks and law enforcement officials, the Justice Department official admitted. "We really don't like to be in the position of telling someone how to run their bank properly," he said.

He capsulized the Justice Department attitude on the problem: "If the industry really made an

effort, I'm sure they could come up with something more effective."

The Justice Department has already proposed some definite changes in federal bank security regulations designed to tighten up bank security procedures. Most federal bank security rules now call for "training, and periodic retraining, of employees" without specifying any minimum standards for the training.

Banks would be required to provide a first year minimum of five hours training for each teller and each designated bank security officer. A minimum of two hours of training would be required for each year thereafter. The federal government would certify organizations qualified to provide such training, under the Justice Department proposal.

Current Federal Reserve rules do not specify "surveillance" systems, the Justice Department noted. They only provide that banks should install such other devices as are "appropriate." Justice would change that to require any bank having total deposits of \$25 million or more install and operate surveillance equipment or cameras in all branches. In addition, any branch which has been robbed two or more times in any calendar year shall install cameras if they are not already installed, according to the Justice plan.

Justice wants the cameras tested at least once each week—and wants two bank officers to certify that such tests have been made.

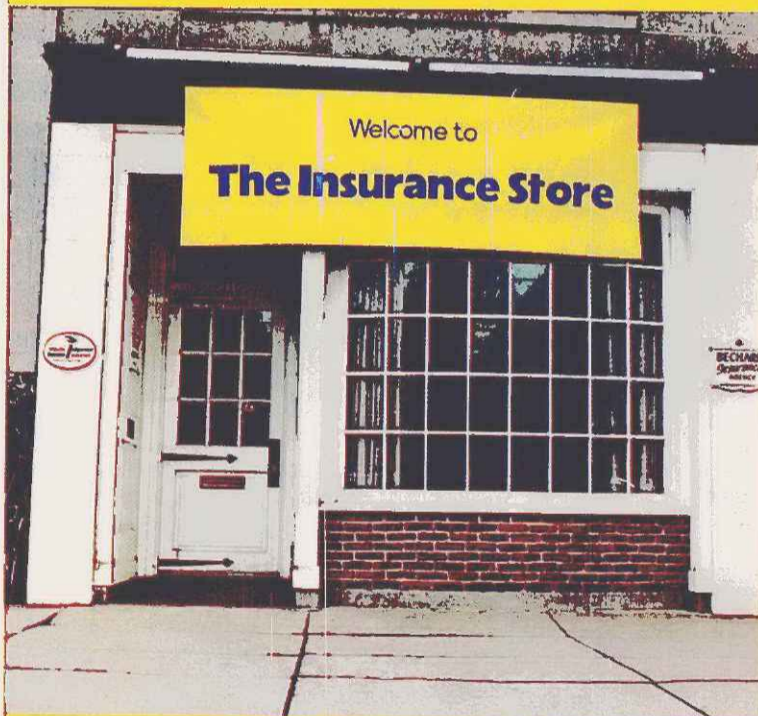
On the question of alarm systems, Federal Reserve rules give banks the latitude to decide on

whether or not to install them. There are also no minimum requirements for servicing or testing alarms except that some schedule is required. Justice's proposal would require all institutions to have an alarm or equivalent device which must be tested at least monthly with bank officers again certifying that tests took place.

On the sensitive matter of bait money, Justice notes that present rules require no periodic checks on bait money information. Justice wants all bait money lists to be checked each month, initialed and dated by two bank officers, including the bank's designated security officer.

These Justice Department proposals and other complaints about bank security are going to surface again—but this time before the House Banking and Currency

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Committee chaired by Rep. Henry Reuss (R-Wi.). Planning for Congressional hearings is underway, but no dates have been set.

The skyrocketing number of bank robberies—there were 2,203 in the first six months of 1975, a 50% increase over 1974's first half—"is not just a child of the recession," Rep. Reuss said recently. "Robberies have increased steadily in good times and bad, nearly tripling in the past decade. Congress needs to explore ways of reversing this trend."

A committee staff member noted that the Bank Protection Act was designed "very clearly" not only to apprehend criminals "but to deter crime. The stress really has been on apprehension," according to the staff member. "Very little has been done that would act as a deterrent. The banks argue that if you put up a lot of deterrents inside the bank, it's only going to make more bank robbers take hostages."

The American Bankers Assn. insurance and protection division specialist, Hollis Bowers, a burly former FBI agent, would agree with at least part of the House staffer's assessment of the bank security problem.

SAFETY/SECURITY REPORT

Bank security measures "are not deterrents," he told this magazine. "They are for the identification and apprehension of perpetrators of crimes. The one thing I'd like to see people get out of their preconceptions is that they are deterrents."

He pointed out that robberies continue to occur although most bandits know that banks have surveillance cameras. "It's universally known that banks have alarm systems," he said.

"If anybody had a device that would guarantee no robberies, it

would be purchased," according to Mr. Bowers.

There are several "devices" now on the market for bank security officers—but they meet mixed reactions among bankers. A draconian measure would be employment of magnetometers—metal detectors—similar to those used in airport anti-hijack security programs. Most bankers feel such a device to be too much of a burden on customers for a very unsure safety increase.

A more acceptable device to some bankers is the clear, bullet resistant plastic screen that would separate tellers and other bank employees from the bank robbers. FBI statistics indicate the bulk of bank robberies occur at bank offices where such screens have not been installed. But Mr. Bowers points out that even banks with the screens have not proven immune to holdups.

The screens are being heavily

promoted by some of their makers, however. The statistics are impressive in some cases. In robbery-prone Detroit, said one screen manufacturer, less than 10% of the banks were protected by security partitions at the end of 1974.

Prior to installation, the manufacturer said, one bank had suffered four robberies in 18 months. "After installing the acrylic walls, there have been no robberies in the past three years. Another bank reported nine robberies in 1974 without the partitions, and no robberies in 1975 with the protective shields."

Although the Bank Protection Act specified that insurers should consider premium incentives in the cost of banker's blanket bonds to encourage better security, little apparently has been done in this area in the seven years since the law was passed.

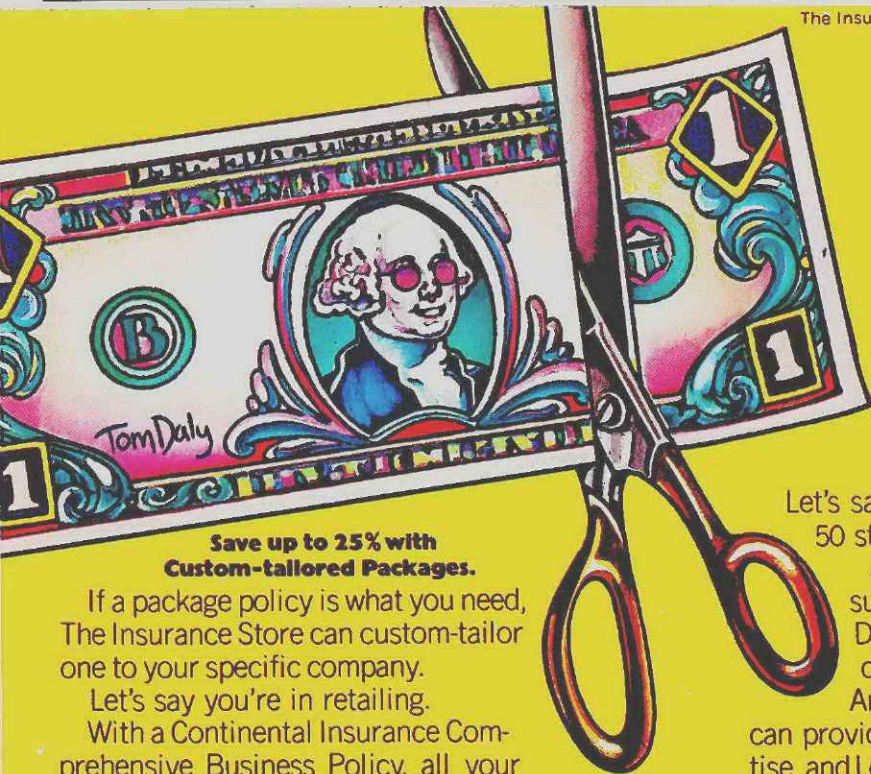
One reason for this is that the bond underwriters "aren't making

it now" on what they charge banks for coverage, according to Edgar W. Armstrong Jr., assistant director of the American Bankers Assn. insurance and protection division.

"About the best you can hope for by complying with the Bank Protection Act is to keep the coverage you now have," Mr. Armstrong said. He added that he had no idea what insurance costs would be if the Bank Protection Act had not been passed.

About 14,000 banks already pay premiums of about \$75 million a year for blanket bond coverage, which protects them against robbery losses and the even more costly problem of losses from fraud and embezzlement.

Mr. Armstrong said the ABA is stressing risk management to its members and encouraging them to self-insure for whatever portion of loss they can handle in view of the high cost of banker's bond coverage.



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May reduce premium for laid up ships

CHICAGO—London marine insurers may be leaning toward a reduction in the amount of premium they return to insureds when ships are laid up, a Lloyd's broker told *Business Insurance* while visiting here late last month.

"We've never dealt with layups of VLCCs (very large crude carriers) before, and now we are facing the biggest layup risks we've ever had. There will continue to be a return of premium, but the amount returned may be less," said John Owen, deputy secretary of Lloyd's Insurance Brokers Assn.

There has not been any alteration yet in the amount of prorated premiums returned for laid-up ships, he added.

Mr. Owen and Chris Dudley, a Lloyd's broker with Leslie & Godwin International Ltd., were visiting the U.S. for nearly two weeks along with 20 other members of the Lloyd's Under-30 group of non-marine underwriters and brokers. During their visit to New York, Philadelphia, Boston, Washington, Montreal and Chicago, the group met with Lloyd's correspondents and attorneys, and visited several leading insurance company headquarters.

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Hotel security . . .

Continued from page 19

nell's Hotel School in Ithaca, N.Y., most hotels suffer more from many small claims than they do from larger ones.

To meet the problem of thefts in individual rooms, some hotels around the country are beginning to experiment with electronic, coded card systems that either supplement the use of standard room keys or replace keys altogether. Two of the better known products are the Telebeam system being used by New York's Americana Hotel, and the Cardgard system put out by the hotel systems division of American District Telegraph (ADT).

The Americana just completed installation of Telebeam in all of its 2,000 rooms. The process took more than two years, but security

director Howard Taylor says it was well worth it.

"We've managed to cut down our thefts by 75% since we started using the Telebeam system," Mr. Taylor said. He noted that the Americana's nearby motor inn, the City Squire Inn, does not use Telebeam, relying instead on a security service, but he did not rule out its eventual adoption there.

Telebeam, made by the Telebeam Co. in Paramus, N.J., supplements regular room keys with a coded card which the guest must insert into a black box inside the room within 30 seconds of entering. That verifies that the rightful occupant has entered the room. If the card is not inserted, the Americana's security console will sound a warning. The guest can reactivate the system before

leaving the room if there are any valuables that need protection.

The Algonquin Hotel, nine blocks south of the Americana, is the first hotel in the city to install a rival system, ADT's Cardgard. (Mr. Taylor said Cardgard was not feasible at the Americana because of its cost).

The Algonquin, an elegant old place with a literary reputation going back to the days when Robert Benchley and Dorothy Parker called it home, says it selected Cardgard more for its sophisticated smoke detection and energy saving options than for any pressing security need.

Philip S. Frey, the Algonquin's controller, revealed however, that the hotel is getting a special lower introductory price for being the first to try the system in New York. He also was informed by his insurance broker and carriers that the hotel's insurance premiums will be lowered somewhat

for installing Cardgard.

Cardgard's basic feature is a credit card-size piece of plastic coded with a series of holes punched into it. It fits into a slot near the door and is used instead of a key. A special code is worked up for each guest who checks in. When the guest checks out, the code is cancelled and the card will no longer open the door. If the guest's card is lost or stolen, a new code can be generated immediately so no thief can use the first card.

The Ramada Inn in Portland Me., and the Colony Beach Tennis Resort in Longboat Key, Fl., already use Cardgard, as does the Orlando Hyatt House Hotel, which handles a large volume of guest traffic from nearby Disney World. The Hyatt House reports good results, with no known major thefts since the Cardgard system has been in use.

Cornell's Dr. Compton, the hotel engineering expert, fears that

somewhere down the line, criminals will be able to beat the electronic coded card system and generate counterfeit mastercards in much the way credit card fraud is now being carried out.

But he says he has not heard of any instances of this happening as yet, and that the card systems are infinitely more secure than the conventional door lock systems now in widespread use. They are infinitely more expensive, too.

Dr. Compton estimates that the various card systems cost between \$200 and \$350 per room, depending on options selected, and may cost more for older hotels where wiring is difficult.

"When hotel managements compare \$350 per room to about \$35 for a conventional lockset, and when some of them have 1,000 or more rooms to consider, bottom line operating expenses scare them away from the card systems," he said.

A New York Times survey estimated that between \$100 million and \$300 million in hotel guests' credit cards and travelers checks are stolen annually, plus about \$500 million in hotel silverware, towels, food and liquor. An obvious security precaution to help cut back these loss areas is increased surveillance.

Some hotels, like the Hyatt Regencies in Chicago, Atlanta, San Francisco and Los Angeles, have designed their buildings in an architecturally open arrangement, with the access halls to all guest rooms clearly visible from the spacious lobby below. Glass-enclosed elevators complete the clear visibility for security guards.

But such arrangements sometimes pose completely new problems. A number of housewives and businessmen have picked the open lobby of the Atlanta Hyatt Regency as a spectacular place to leap to their deaths.

The Atlanta hotel's security people weren't available for comment on the matter, but former employes told *Business Insurance* that the Regency considered a number of complicated security devices to protect guests below from falling bodies.

One assistant manager who says he quit from tension and went to manage a hotel in North Carolina, described a plan to shoot nets out to catch people who jumped. The nets were to be activated when the person would break a photo-electric beam during the fall. The plan was scrapped. When it comes down to it, the basic responses of sharp security people are the best protection against potential suicides.

The hotel has three or four closed circuit television screens going all the time so guards can observe guests' behavior.

The security guards noticed that people who were planning to jump would be fastidious about details like carefully removing their sportscoats or taking off their eyeglasses and setting them aside as they peer over the edge of the rail.

If the guards notice anything like that, they are trained to rush over to where the person is and get them away from the rail.

Protecting people against thefts, protecting people against criminal assault, and sometimes protecting people against themselves is what the whole hotel safety/security business is evolving to these days.

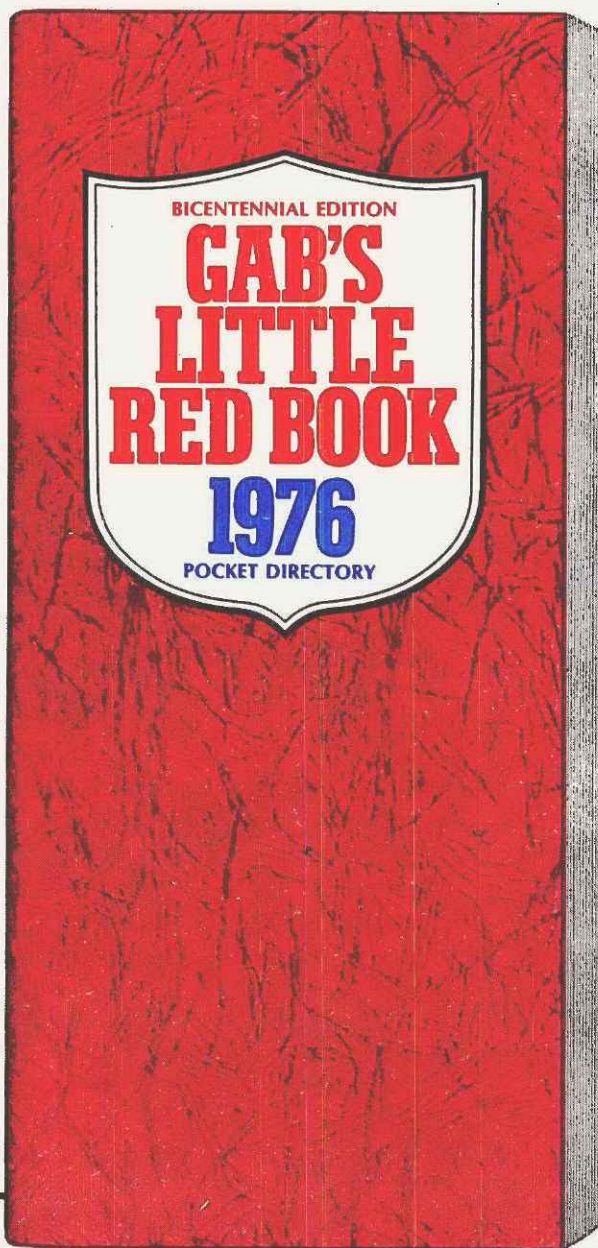
It is becoming an increasingly complicated business, and one which is going to have to take some hard risk management approaches, experts are saying, if hotels are going to make it through the crimewaves and attending lawsuits that have made innkeepers' liability leapfrog. ■

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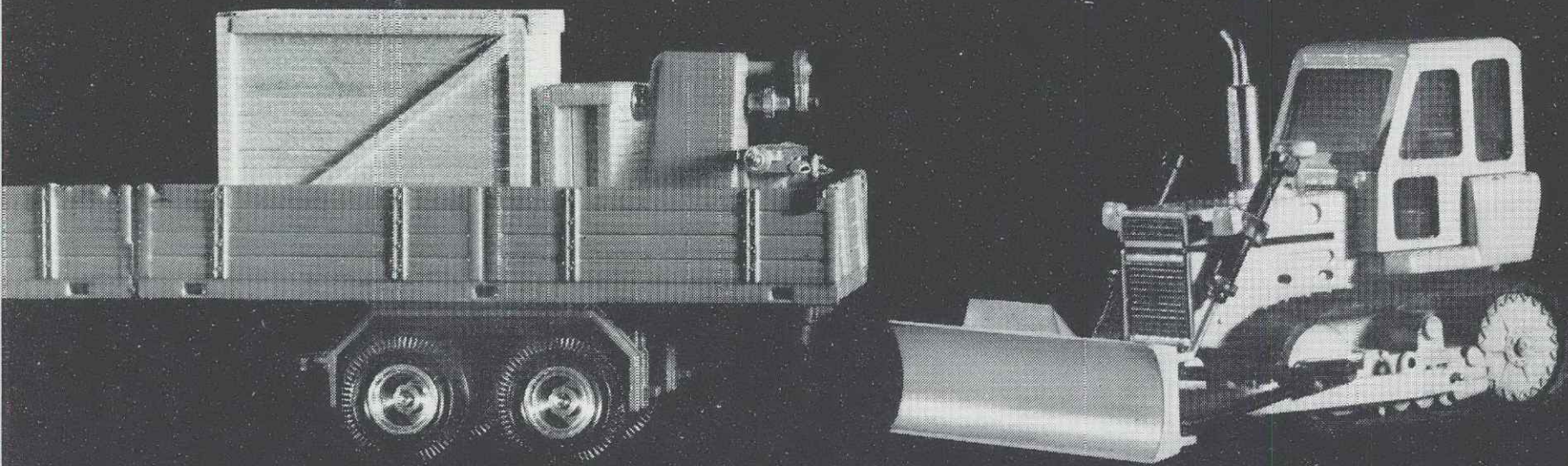
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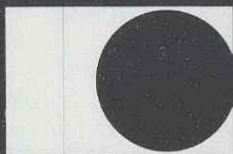
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Vandals, thefts, assaults send retail malls shopping for TV surveillance

By SUSAN ALT

CHICAGO—The eyes of someone are upon you. At least when you're in or near any big regional shopping center.

Security in shopping centers used to mean having a few guards euphemistically called ushers, patrolling the interior of enclosed malls. Developers and managers even played down the role of guards by saying they were used mostly to control the flow of traffic.

But as fear gripped the throats of customers riled by rising car thefts, attacks by muggers in parking lots, vandalism, theft from parked cars, and purse snatchings in broad daylight in-

side malls, shopping center managers had their consciousness raised fast.

For one thing, security at shopping centers is no longer something needed in small doses because of possible "negative" effect on customers. In the last year, shopping centers across the nation have not only beefed up security programs—hiring more guards, installing tv camera surveillance in parking lots, using better alarm and lock systems—at a cost of millions of dollars, but are publicizing the efforts for all they're worth.

The reason? Customers often didn't feel safe at some shopping centers, and retail business began falling off. Since most long term

leases with store tenants are based on a percent of gross sales revenues, owners and managers of malls were hit squarely with the issue: increase security and pull customers back, or the pocketbook will suffer.

"The physical assault (against customers) is something nobody wants to talk about, and it is really a minor problem in terms of the number of people ever attacked compared with the number of shoppers at a center each day. But it can have a very depressing effect on people's willingness to shop at the center," said John Lehrer, a Chicago-based shopping center consultant. Electronic surveillance systems

are being installed in some centers, especially in the ones where there's been a severe problem in the past. But the sophisticated systems are by no means going into all enclosed malls as standard equipment when they're designed. And Mr. Lehrer, for one, believes "it's much more reassuring to customers to see live persons at the center in the form of security personnel."

The dimensions of the problem have changed over the 20-year evolution of shopping centers. Old strip centers didn't lend themselves to loitering. But the enclosed mall has dramatized the risks to customers and their property, as well as exposed shopping center tenants and property to vandalism, theft, arson, assault.

Shopping center property itself is pretty hard to steal or damage, but mall lounges and fixtures still have to be designed so couches and pictures can't be defaced, and lights can't be

kicked or toppled. Some older shopping centers having public restrooms now regret them, and are redesigning so they can't be vandalized. "There's a tendency to think in terms of not having public restrooms any more," says a mall architect. Centers work hard to hold mischief levels down to "reasonable" levels from such things as plant and lightbulb stealing done "for the sheer hell of it."

Luxurious decorous malls are equally inviting to customers and vandals, bona fide spenders and kids skipping school. While some architects and developers are adamant that so-called "internal" theft is the problem of individual retail tenants, most mall owners and managers express concern with overall systems to help prevent shoplifting.

Security systems don't have much effect on insurance premiums, because shopping centers aren't liable per se for events in parking lots or enclosed areas. Neither do they want to be considered negligent, however. Following the McCormick Place fire in Chicago in the mid-1960s, most insurers wouldn't underwrite shopping center risks where enclosed malls weren't sprinklered. So that's a minimal requirement. For a center thinking in terms of sprinklers alone for protection, the cost is currently running 75 cents to \$1 per square foot in an enclosed mall, about double what sprinkler installations cost five years ago.

At the least, then, this requires an investment of \$300,000 to \$500,000 initially, a figure boosted easily to \$1 million or more when it involves a closed circuit system with monitors, two-way radios, fire alarms, water flow alarms, and top quality sprinklers.

A manager of an older center told *Business Insurance* that insurers threatened to cancel coverage on his 10 year old unsprinklered mall unless a system was installed, at a cost of \$550,000. "This meant we were able to at least secure insurance," noted the manager. Fifteen years ago, insurers didn't even require sprinklers in enclosed malls. But now, a single regional center represents a value of \$30 million or more.

At malls encountering the problem of bad publicity because of murders in parking lots or nearby, patrol cars and rotating tv cameras are being added wholesale. Ssome of this type of publicity has caused Joseph C. Donlin, general manager of the nine year old Dixie Mall, on Chicago's suburban south side, to beef up his programs. He says that with more patrol cars working 8 a.m. to midnight and with new tv surveillance, "we have reduced our exposure to assaults against people and property to about three incidents per month from about 10 per month."

The new electronic surveillance system at Dixie Mall in Harvey, Ill., uses a central monitoring board and cameras that pan and zoom in on problems. It was supplied by Seeburg, and chosen for its completeness and flexibility, said Mr. Donlin.

Most shopping mall managers using tv systems with monitors install 15 to 30 cameras for interior shared space and exterior security, and choose the short term leased-purchase with maintenance plan over three to five years. This adds 10% to 15% to the cost of a system, but spreads the outlays over several years.

Dixie Mall upgraded illumination of its parking lot not long ago, too, installing lights giving off five feet of candle power at ground level, costing about \$190,000. Typically, shopping centers

Continued on page 26

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Shopping malls . . .

Continued from page 24

have lights giving off one foot of candle power.

Dixie Mall employs eight full time security officers, and another four to six part time. Three more people were recently employed for the three shifts to monitor the tv system.

"About 70% of our annual expenditure of \$110,000 goes for security personnel," said Mr. Donlin. "I think the trend for centers in general might be changing from about 100% of the expenditure on personnel to 55% for staff, and the rest for electronic surveillance and automated equipment."

Other experts and managers agree with Mr. Donlin. But the shift is not because personnel is being downplayed. It's due to a

need to augment security staff with sophisticated electronic equipment, such as central monitors. And the shift is slow, indeed. Sol Morris, a shopping center architect with Chicago-based Sidney H. Morris & Associates, says in 99 out of 100 centers now operating, there is only a minimum protection system consisting basically of sprinklers. The big regional malls Mr. Morris is currently planning don't call for electronic monitoring systems or tv cameras in parking lots, either.

The 13-year-old Randhurst Shopping Center outside Chicago cites increasing incidents as incentive to install a new parking lot surveillance system scheduled to cost about \$25,000, not including maintenance. Harold J. Carlson, vp and general manager of Randhurst Corp., which operates

three regional malls, says the centers currently only use two-way radios and water flow signals coupled with security personnel ("Please, don't call them guards").

"We think the capital investment and operating cost of the parking lot surveillance system are less than adding the manpower to patrol the lot, because we'd probably need four more people," said Mr. Carlson. Three or four cameras will be needed for the 6,000 space lot. Primary vendor of the system being bought by Randhurst is Jensen, maker of the cameras. Mr. Carlson is also using some Panasonic equipment.

Total dollar losses haven't been big in Randhurst's 13 years, said Mr. Carlson. "These usually aren't large enough to exceed our deductible of about roughly \$1,000. We're looking at incidents of \$50 to \$100." In 1974, Randhurst spent \$104,000 for security per-

sonnel payroll, insurance, vehicle maintenance, uniforms and all; in 1975, this is rising to about \$112,000, increasing mainly in the areas of wages and insurance costs. The center has its coverage with General Accident, for comprehensive general liability, vehicle liability, workers' compensation, and an endorsement for personal liability of employees in case of false arrest or wrongful detention.

Depending on where malls are located, theft of cars from parking lots can run anywhere from 10 to 12 a month for a regional center in the Detroit metropolitan area, to as high as 35 or 40 cars at a few centers around Chicago. One center is known to have had 70 cars stolen in a recent month. Center managers believe there is an "implied responsibility" to shoppers to protect their property. One manager explained that the courts might view a center owner's liability as based on the

fact a shopper is an invitee while at the center. Larcenies from autos in lots are estimated to run between six and 12 a week, on average.

Frank Schaffer vp and general manager of 22-year-old Evergreen Plaza Shopping Center in a Chicago suburb, has cut the rate of car thefts to one a month by adding four fulltime patrol vehicles, and a better lighting system with sodium lights. "We want it lit up like a Christmas tree," he declared. Evergreen spends close to \$300,000 annually for security, including insurance, and has 22 uniformed guards patrolling, about a third more than other centers of similar size.

A highly successful regional mall which installed electronic surveillance long after it was built is Northland in Detroit, operated by Dayton Hudson Properties. Northland, 21 years old and Dayton Hudson's largest center, got camera eyes and monitors two years ago, for an investment of \$200,000. (In fact, the owner is currently completing a project to enclose Northland.) Two of Dayton Hudson's five Detroit malls have electronic surveillance systems.

Peter Kulbaba, security manager for the eastern region of Dayton Hudson Properties, said he employs 30 security officers at Northland, compared with 20 at the other very large mall, Eastland, and 17 to 18 per center for the three smaller units. He spends about \$500,000 a year total for personnel and systems maintenance, over half of this for personnel.

"We will be going the electronic surveillance route in our new shopping centers," he disclosed, "because we think there's a chance of savings on personnel costs over the long run." The computerized monitoring system which Mr. Kulbaba has decided he wants to install can be programmed to handle all shopping center maintenance tasks, including temperature control, doors, fires, smoke, people flow, boiler and machinery maintenance, electrical and water system. The total programmable system requires an outlay of about \$350,000 in a new regional center, about \$200,000 of which is directly related to security.

"We're also thinking now about putting emergency phones in all the parking lots. They would ring directly to the security department," Mr. Kulbaba said. Such a plan would require about 12 phones at a center like Northland with nine lots and some 10,000 parking spaces, at a cost of about \$40,000.

"And it's possible we might increase the number of electronic surveillance cameras (in the lots) to be able to hit the dead spots," he added. Dayton Hudson uses Motorola equipment, each camera costing \$22,000.

Dayton Hudson has a unique system because of its guards, Mr. Kulbaba believes. "There's nobody in the whole country with a security system like we have. Our officers are under state control. They are all deputized police officers, trained for a minimum of 80 hours under state police regulations. So they have the power of arrest (for misdemeanors), while other security guards can only arrest for felony," he commented.

This in-house security force is no cheap proposition for Dayton Hudson. Mr. Kulbaba alone spends \$7,000 to \$8,000 a year just for four annual refresher courses for the officers manning only one center. Initial training costs about \$800 per officer.

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People, not cameras matter in optimum surveillance programs

CHICAGO—"No security system or electronic system is any good unless you've got a good team working for you," declares Harry L. Rockwood, general manager of Lakehurst Shopping Center, one of the biggest regional suburban centers in this area.

Mr. Rockwood, a certified shopping center manager (CSM), was responsible for the installation of a highly sophisticated electronic security system at Lakehurst and recent additions to the system. But he maintains a "good staff" of about 16 full time security people. At least two of them are

working at all times, and during special events Lakehurst has as many as 10 security personnel patrolling the interior of the enclosed mall area.

Some fire and security protection electronics were installed in the two-level center when it was built in 1971. A local firm, Wiggdahl Electric, installed that equipment, which included a Honeywell panel to monitor the sprinkler systems in the four separate building comprising the Lakehurst complex. The system has a flow control alarm, and prints out by computer the location and other

data when the panel is alerted, plus it puts out an audio call to the security staff. It is also hooked up to the local fire station and police station, and puts through automatic calls when alarms are tripped.

"In addition, each store of the 114 in the center, and the 10 nearby stores, has an exterior light to indicate water flow, for watchmen to see when stores are closed," said Mr. Rockwood. Each member of the security staff carries Johnson Radio equipment at all times.

Lakehurst's security offices also contain a Johnson service panel, supplied by Johnson Controls. This is a pneumatic system indicating any machine breakdowns or malfunctions. "It contains idiot lights showing any problems and what they are. That was built into the initial cost of the center, and ties into our heating and ventilating plants," Mr. Rockwood noted.

The newest addition to the

\$80,000 security system at Lakehurst is a system of rotating tv surveillance cameras (10 indoor and five outdoor in parking lots) controlled from the central panel. The cameras pan, and can be used to zoom in on people or cars in the lots "so we can even pick up license plate numbers," says Mr. Rockwood, delighted with his overall system. This equipment came from Diamond Power, Lancaster, Oh., at a cost of about \$50,000 capital investment.

"I visited some malls in California which have exterior tv scanners, and my feeling was that any real problems are on the exterior of the mall," he cited as reasons for the additions to the program. Lakehurst has one patrol car cruising the 6,200-space lot, with the cameras equipped with flood lights for nighttime surveillance and a loudspeaker, so that the control room can talk to people in lots.

"What has been happening in

many centers is that loading docks and parking lots are where the problem really is. Cars are vandalized and stolen. The potential for physical attacks was there and we were concerned about this. My opinion is that if I were building a mall, I would go with outside surveillance even before I build in the inside systems," Mr. Rockwood is convinced.

He said there are "even more sophisticated tv camera systems now" being developed by Diamond, which provide for automatic sequential scanning by cameras so there are never any unwatched spots. If a center is set up for the system, and only needs to install individual new cameras, the investment for this system would be on a cost per camera basis at about \$8,000 each, said Mr. Rockwood. A center like Lakehurst would need about six cameras at a cost of about \$48,000.

Lakehurst is on a lease-purchase plan for its initial built-in fire and security system, and pays about \$150,000 a year for equipment, maintenance, and personnel, with payroll for personnel taking about two-thirds of that.

"I think there's more emphasis being put on electronics," said Mr. Rockwood. "I think they've come a long way."

The systems have also come a long way in helping to reduce incidents of vandalism and shoplifting. Parking lot arrests have nearly tripled while arrests inside the mall, where the highly visible cameras act as a deterrent, have dropped from an average of 25 a month to seven.

The 114 merchants in the center, anchored by four big department stores, said their average theft loss per month is down to 1.2% of gross sales, from a previous rate as high as 4.6%.

"This system is effective because employees are not walking out the back doors and carrying merchandise out when people aren't around at off-hours, so the merchant shoplifting problem is certainly helped," Mr. Rockwood concludes.

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AIG doubles excess cover to \$10 million

NEW YORK—American International Underwriters is doubling its capacity to \$10 million for excess and umbrella coverages written by the specialized casualty lines department.

The department will accept up to \$10 million on worldwide commercial accounts, including the U.S. and Canadian exposures of multinational companies providing the companies have some overseas exposure and have a minimum of \$10 million in underlying insurance coverage.

The excess coverage can also be applied in addition to primary foreign coverages written by AIU provided the limit does not exceed \$1 million.

Risks which do not qualify for the new excess coverage include pharmaceuticals, utilities petroleum and petrochemical exposures.

One broker questioned the value of the increased capacity when it is not available for so many companies whose risks are excluded. "They're the risks that need that capacity, yet they're the ones not able to get it," he said.

A spokesman for AIG noted that he appreciated the fact that these classes are hard to place. "It's most difficult for these classes to obtain high limits of coverage," he explained.

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Safety committees, services impact on costs

CHICAGO—Companies concentrating on safety, offering safety services to employes and sponsoring safety committees, tend to pay substantially less for workers' compensation insurance.

This was the indication from some preliminary findings of expanded safety reports being done by the associations division of the National Safety Council, based here.

Barbaragail Danciewicz, technical specialist for the associations division, last year expanded the industry reports done annually by the NSC to include insurance premium information. The reports began a number of years ago to tally accident frequency rates for a group of related companies in an association.

They have now grown to 20 to 40 page reports which include

data collection, illustrations, and analysis of member companies' accident and illness rates, accident types, safety and health services, safety materials, OSHA citations and penalties, and specific problems such as noise and hazardous materials. From now on, the reports will also routinely include workers' compensation insurance costs and rate comparisons.

The NSC is planning to computerize these studies so that correlations between these data can be drawn. The computerization should be completed by early 1976, said Ms. Danciewicz.

The object of this exercise is to help NSC participants "relate their safety activities to a dollar effect of resource allocation," said Ms. Danciewicz. She is particular-

ly interested in knowing whether such things as OSHA compliance, management attitude or insurance purchases have a relationship to safety records.

The latest set of reports compares average workers' compensation insurance costs per employe per year paid by companies engaging in various safety activities, to costs for those companies without these safety programs.

Of the 12 association reports Ms. Danciewicz compiled for 1974 and 1975, on average those companies with safety activities pay \$100 less per employe per year for workers' compensation insurance. The reports were compiled for groups including the Northeastern Manufacturers Assn., National Utility Contractors Assn., and the Screen Printers Assn. International.

Three questions in the report were correlated to insurance information: Do you have a safety committee? Do you have one person (at least) responsible for your safety program? and Do you have trained first aid personnel?

Ms. Danciewicz said she is interested in correlating other safety responses also, but these three areas were the only ones offering sample, for any valid interpretation. Areas she would like to explore in the future for relationship to insurance costs are the presence of staff industrial hygienists, noise problems and abatement measures, OSHA citations, safety training, and hazardous materials exposures.

In reports completed since insurance questions were added, Ms. Danciewicz found workers'

compensation insurance premiums were far lower, by more than \$100, in fact, per employe per year, when companies said they had safety committees in their plants. There was less of an insurance cost differential evidenced when companies said they had a staff safety manager, and the difference in insurance cost was least when related to trained first aid personnel.

Ms. Danciewicz said she would eventually like to tie these reports by industry in with insurance programs for association members, working closely with insurers underwriting risks for an industry.

For a group like the utility contractors, the report covered 3,000 employes, and found an average workers' compensation premium paid in the industry was \$313 per employe per year. Most firms reporting in this study had under 50 employes.

Companies in the screen printing business were found to pay an average of \$87 for workers' compensation insurance per employe per year, with the highest payments being made in Ohio, at \$166 per employe per year for this industry. Lowest premiums were found in Wisconsin for the screen printers, averaging \$19 per employe per year. About 75% of the companies reporting for this association have less than 50 employes, and the report covered 4,000 employes.

In the lumber industry, workers' compensation premiums were found to average \$309 per employe per year. Companies reporting had an average of 41 employes. ■

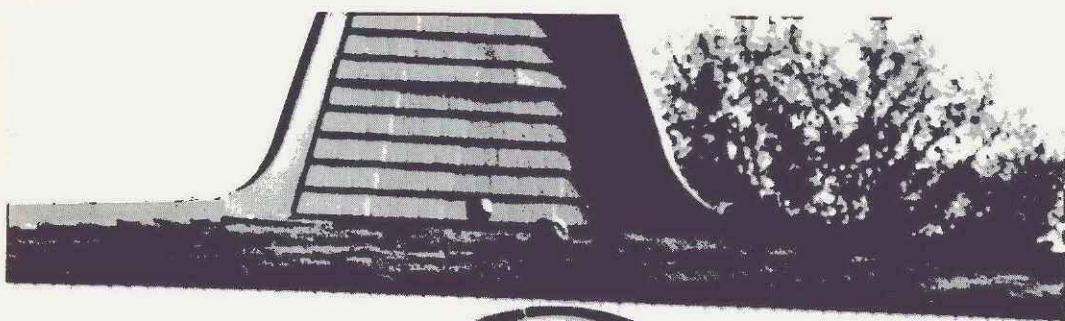
\$115,000 fraud

A \$115,000 fraud against Crum & Forster Insurance Co. was covered in large part by the company's fidelity bond, according to a Crum & Forster spokesman. The policy includes a \$2,500 deductible.

Though he refused to name the underwriter of the bond, the spokesman expressed confidence that most of the amount lost is covered under the policy.

A former Crum & Forster vp for corporate communication and his brother pleaded guilty to charges of scheming to defraud the company of \$115,000. The two allegedly submitted false invoices representing market research for the company.

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Brunswick safety chief sees workers taking more care in rough economy

SKOKIE, IL.—“Workers take more care in bad times so that fewer accidents happen,” believes Mike Krikorian, corporate safety manager for Brunswick Corp., based here.

He thinks part of the reason for the phenomenon is increased fear of being laid off during a recession. “If anyone is laid off it’s usually a younger, less experienced worker. This leaves a workforce composed of older workers who are better trained and have fewer accidents,” he claimed.

With some 30,000 workers at all Brunswick locations, Mr. Krikorian is convinced that “millions of dollars have been saved in lost work time and workers’ compensation insurance,” but he declined

to be more specific than that. He did estimate that his company would have self-insured workers’ compensation coverage “in the next three years.”

At Brunswick, the philosophy that “employee safety is above all profit motives” is firmly established. And no wonder. The message comes from the chairman of the board himself and is “fully supported by all executives,” Mr. Krikorian said.

“The setting of priorities always depends on the top management’s attitudes in an organization,” he observed.

“When we deal with a plant or division concerning safety or security, they’re quite cooperative,”

he continued. “I find that if you make people aware of the problem, it’s enough to generate the proper response.”

At Brunswick, goals and objectives are set and performance is measured against these goals, Mr. Krikorian said. “It gives management some guidelines for general performance ratings, he believes.

Every year, the president’s safety award is presented to the plant location which has demonstrated a record of “highly infrequent accidents” and the ceremony, complete with top corporate brass, is held during working hours, he said.

“The entire subject of loss control has got to become part of the company’s philosophy,” he be-

lieves. “A certified safety professional has got the expertise and skills and should be assigned full responsibility for loss control,” said Mr. Krikorian, whose other duties include industrial security, product safety, industrial hygiene and OSHA compliance.

He utilizes one full-time certified safety professional in most plant and warehouse locations as well as regionally for retail store outlets. He said he has 100 safety administrators.

Mr. Krikorian said he collects all accident data for the company’s workers’ compensation records. “In a sense we audit the insurance company claims for payments to (injured) Brunswick employees. We evaluate the types of accidents that should be paid workers’ compensation benefits.”

Another area on which Mr. Krikorian shared his insights is employee theft, which he views as substantially increasing, and gen-

eral security measures.

He recommended “making it as difficult as possible” for employees to steal by communicating “a tough but positive policy” on preventing thieves from operating effectively.

Make all employees realize that if they’re caught stealing, they’ll “be discharged” and probably “prosecuted,” Mr. Krikorian advised, adding that companies should make the information part of its “official records” on the employee.

“A quick identification of vandalism is important,” he said. The first thing he does when a plant reports vandalism or theft is to “determine how effective the guard force is.” Find out “how much control they have over access to the property,” he added.

Mr. Krikorian uses a checklist for the plant’s perimeters to see, for example, if any part of the fence is broken or damaged. He advised physically walking around the property to see “if products are being thrown over the fence or out of the windows” to be collected later.

Look for ways that material could have been taken out of the facility without being noticed, he suggested. Check if there has been “collusion” with delivery persons or waste collectors. In one case, Mr. Krikorian said he recommended that waste be disposed of through a compressed trash process.

He also advised “establishing firm policies on returned goods—either those which are defective or thought to be defective.” Many companies forget that these products do come back,” Mr. Krikorian said.

“If they are defective and of no further use, have the goods destroyed,” Mr. Krikorian said. “If they can be used, then donate them to charity.”

“You need an inspector or supervisor specifically assigned to inspect the returned goods as they are received. It should be someone in authority,” Mr. Krikorian recommended. ■

A&A buys ECCO

NEW YORK—Alexander & Alexander Inc., New York, merged with ECCO General Agency Inc., a Houston, Tx. insurance agency. The merger is the third largest carried out by A&A since the firm went public in 1969. ECCO’s annual premium volume as revealed in *Business Insurance* is \$24 million, with gross revenues of \$2.1 million.

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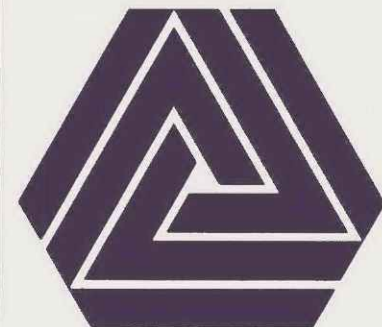
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Retailers broaden use of snares for shoplifters

CHICAGO—Retail chains employ a whole bag of tricks to outsmart the wildest of in-house thieves.

"We are rarely faced with using the psychological stress evaluation procedure in the polygraph (lie detector) mode, because we generally are able to close cases quickly," once they are discovered, said Joseph W. Parker Jr., corporate director of loss prevention for Cleveland-based Gray Drug Stores Inc. Detection is the hard part.

Gray, a chain of 275 drug stores, 40 department stores, four warehouse distribution centers, with a fleet of 110 trucks and some 6,000 employes, battles everything from the \$1 and \$2 theft to the \$20,000 embezzlement. "A typical catch is \$15 to \$20, but then the people we catch stealing often confess to past thefts which put them up to an average of about \$300 over a series of occurrences," says Mr. Parker.

"The biggest problem at any supermarket or discount store is the cashier reducing prices for friends and relatives," according to Sheldon M. Levine, corporate director of security for Waldbaum's Inc., a large chain of 128 supermarkets based in Gericho, Long Island. Although retailers face a growing problem of collusion between employes and outsiders, resulting in theft, "thefts at our units are primarily individual actions," he said.

The problem of outsiders ringing up a \$1 price on a \$3 item for friends and relatives is called "sliding", and is one of the most difficult kinds of stealing to uncover, says Mr. Levine. "They know when management is weakest, when the supervisor is gone for coffee. They can pick their own times.

"Stores are using more shopping services and undercover operations to combat this," he noted. They're also toughening up on management safeguards, and are watching more closely for peculiar signs of sliding, such as customers favoring long lines when short lines are available.

Another problem for retailers is the cashier who overcharges, then skims the money before it goes into the register, pocketing the difference between marked price and register price. That's where the Shopping Service comes in. For \$15 to \$20 per visit per store, a retailer hires a professional "shopper" to enter a store looking like an average customer, go through a checkout lane and watch the cashier's actions.

The average retail chain has its stores shopped at least once a month, and usually twice a month. In stores having a problem with sliding or skimming, professional shoppers will be hired to visit once or twice a week.

The retail industry spends an average of 0.55% of gross sales on loss prevention, and in markets where shoplifting and internal theft are backbreakers, retailers put out as much as 2% of gross sales annually to prevent goods from walking out the door unrequited.

Most chains contract with outside suppliers for services of professional shoppers. Gray Drug, with about \$300 million in sales a year, spends some \$45,000 a year just on that shopping service. Gray spends less than the average on total loss prevention, at about 0.35% of gross sales per year, noted Mr. Parker.

Gray specifies that each visit by a shopper must include a single shop (ringing up and paying

for items normally), a double buy (remembering to purchase an additional item after the cashier has already tallied the receipt, offering the cashier a chance to pocket

SAFETY/SECURITY REPORT

the money for the last-minute items), and a refund purchase (a deletion and refund on an item already rung up.

In addition, Gray Drug has internal undercover operatives

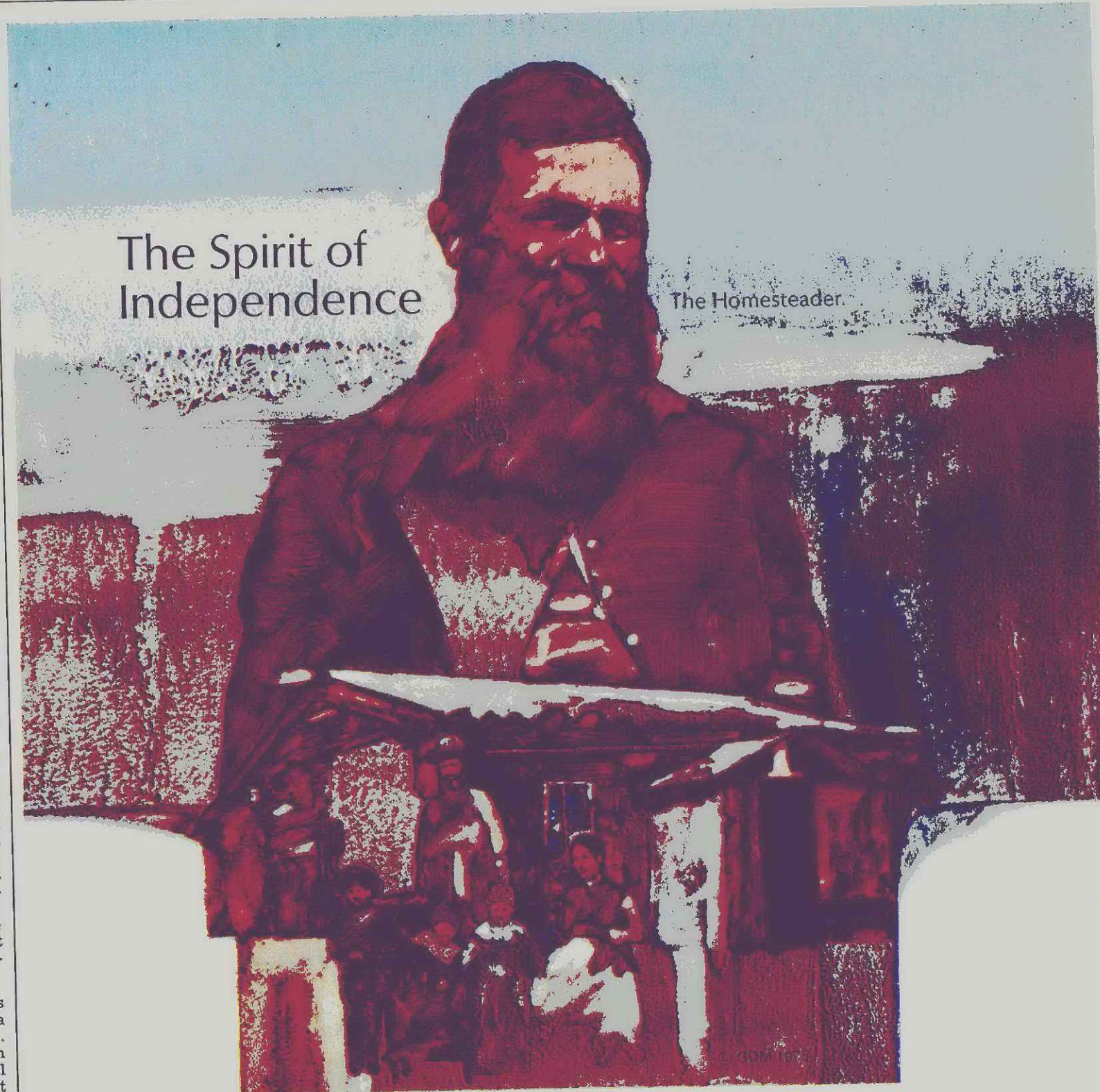
trained in-house. Five regional skilled loss prevention directors inspect each facility and store no less than once a month, to detect cashier sliding by watching for such telltale signs as visible accounting systems used by the cashiers. These might include using pennies to record dollars tallied by thieves for later pocketing, or systems using matchbooks alongside a register, with one match torn out for each dollar stolen. The novice knockdown artist, as retailers dub the offender, uses tally marks on paper.

"Only undercover agents can detect sliding," Mr. Parker is convinced. He noted, however, that in-store tv cameras are being used more frequently for this, so that films can be scrutinized.

Gray Drug also uses informants to combat theft. Usually the informants are loyal employes who feel uncomfortable with knowledge of wrongdoing. Accounting tools are important, says Mr. Parker, to screen cash handling records of each employe. "Excessive shortages are something to watch

for. So is no shortage at all." Other tools of loss prevention include front and back door surveillance, staff observations of store openings and closing, when loss prevention officers watch for meetings in parking lots which might indicate sliding. At closing time, bags are checked as employes leave the store.

A major problem for the whole retail industry is collusion between employes and vendors, which creates the biggest exposure to loss from one theft occurrence, according to Mr. Levine. ■



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Shoplifter says it's a cinch to bypass security

By PAUL R. MERRION

CHICAGO—Shoplifting is easier than ever, says a woman who's been doing it off and on for seven years without getting caught.

"I was so happy when I saw all the stores had electrical security systems," says Erica (not her real name, of course). Along with a group of high-school friends, Erica stole close to \$700 worth of clothes one summer until her cohorts happened to get caught one day while she was luckily seeing a doctor.

"I stopped shoplifting then," Erica says, "but after a few years I noticed how most of the stores had changed to electrical systems. I knew how easy it would be to steal, so I started again when I needed some money during college."

In the two years since returning to her illegal pastime, Erica estimates the value of sweaters, dresses and other outfits she's stolen as "in the thousands of dollars."

After graduating last spring, she's tapered off some, but she says she has stolen and returned for refunds about \$300 worth of clothes in only the last few months. She also keeps some of the outfits or sells them to friends at a fraction of their cost, sometimes even giving them away if they're not to her taste.

Other than a few close calls, no store clerk has suspected the well-dressed 22-year-old who frequents mainly the better department stores in two of the many sprawling shopping centers in suburban Chicago.

Erica is a professional. "You have to hide the tags from the clothes somewhere so the salespeople don't get suspicious and start to notice you," says Erica. If there is a limit of three items that can be taken into a dressing room, she sneaks in four so she can bring out three, hiding the extra hanger by hooking it on one of the other hangers underneath a garment. She pooh-poohs the amateurism of others who leave the hanger: "In the bargain basement, you know they're getting ripped off blind when you see a lot of hangers in the dressing rooms."

The tags on the clothes she hides in a pocket of one of the garments she doesn't take, or she stuffs it behind the mirror frame in the changing booth. "I hate it when a store has bare mirrors."

But what Erica likes is the widespread use of electronic security systems that sound an alarm when a special tag attached to clothes is carried out the door past a sensing device.

"The electrical systems are higher class," she says. "They're nicer for customers, and they're nice for shoplifters, too."

The systems are easy to foil because it is assumed that the tags, which are attached with an everyday tack in a secure press-fit, cannot be pulled apart and removed.

That is absolutely true, as Erica points out, yet it's not necessary to take apart the tag to remove it. She merely carries a razor blade and makes a small slit in the garment to remove the security device. Not only is it easy, the tags are almost always placed in an inconspicuous place: on a seam, near the edge of a garment. A little sewing, and the slit is completely unnoticeable, Erica says. Of course, sweaters offer even less of a problem.

"And on a \$160 leather coat, who cares about a tiny mark?," she asks.

Turning to a display of blouses, Erica points out that some items don't have tags at all.

"I don't see why they use these systems," she says. "People aren't stupid. They're not going to walk out with something that has a security tag on it."

Even if they do, they still might not get caught when the alarm

sounds. The manager of a small boutique in the huge mall center was asked to explain the store's security system and why she uses it.

Taking a pair of pants off the rack, the boutique manager walked out the door to show what the alarm sounds like: a series of

fast, high-pitched beeps, not very loud at all. "Sometimes on Saturdays, when it's busy, somebody could walk out with something and we wouldn't even hear it," the manager says.

"Two months ago we started putting tags on everything," the boutique manager explains. "The home office just bought the sys-

tem for us after we had it on a trial basis for one and a half years. We want to start keeping tabs on people more."

She says the store suffered \$12,000 in inventory shrinkage in the eight months between February and October of this year. (Erica: "If they're getting ripped off that much, the big depart-

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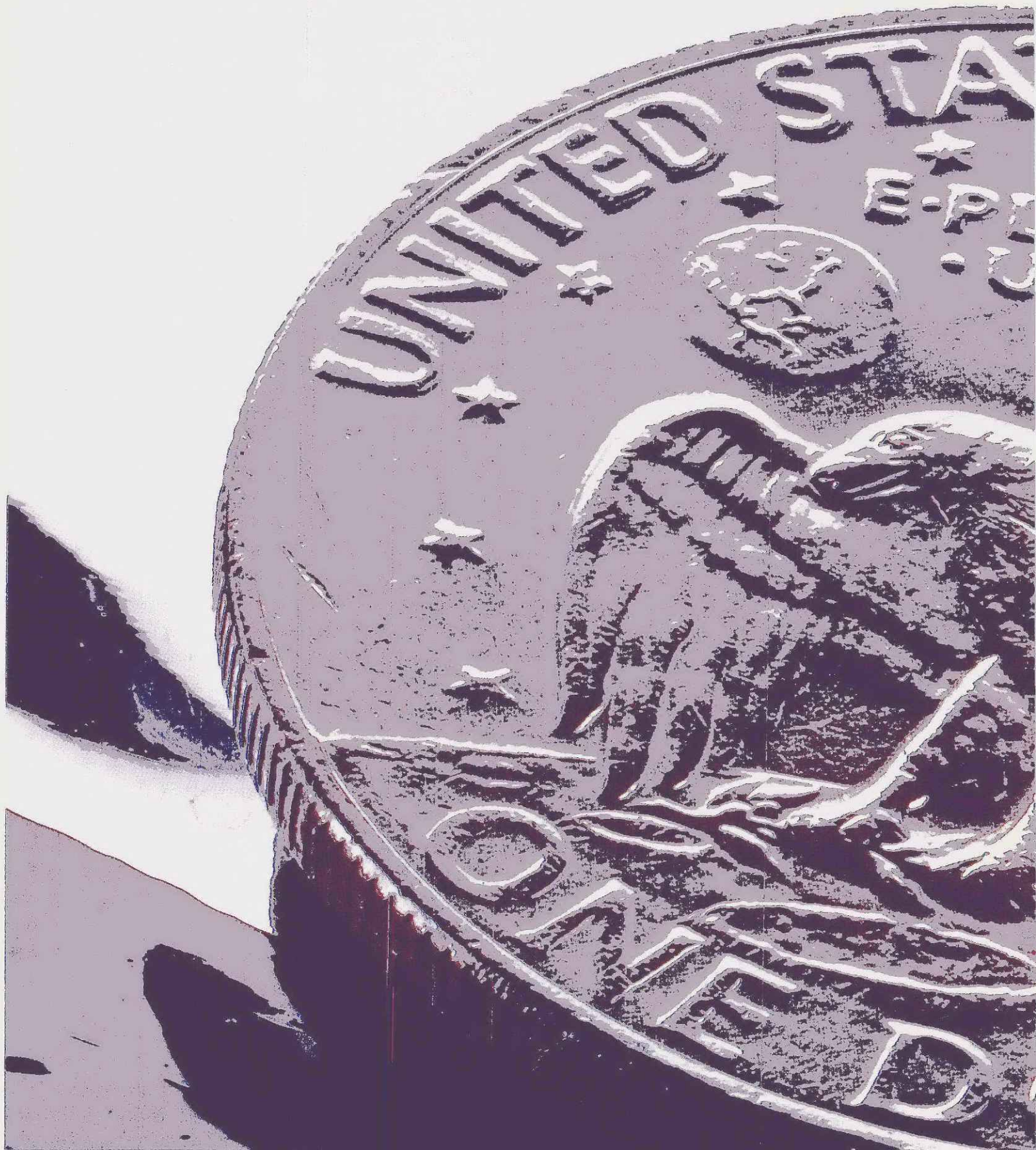
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ment stores must be hit twice as much.")

The boutique manager says losses before the system was installed were \$22,000 over the same time period, but "we haven't caught anybody in two years. Someone would have to be absolutely dumb to walk out with something that has a tag on it."

The electrical system is backed up by a three-item limit in the dressing room, with a numbered

tag system for keeping track of each garment, but as she explained the system a customer approached with two pairs of slacks, a blouse and a dress and the manager helped show her where the dressing room was without questioning the number of items going in.

"You know, you have to be suspicious of everyone—I don't like to be like that," the manager says.

"The system is worth it, but it

could be avoided by having a good person in the dressing room to watch people," she says. She is under pressure, though, to cut costs, and the home office discourages her hiring extra employees, she explains.

Erica agrees the best security is having a person in the dressing room. "I don't like to take the chance when there's no electrical system," she says.

Erica has gone into semi-retire-

ment as a shoplifter, now that her wardrobe is fairly well-stocked and she doesn't need the money as much as she did during college. Beside the front-line defense of having a girl in the dressing room to watch, she suggests other ways to make security tougher.

• Don't place the security tag inconspicuously. It should be in a place where a slit would be noticeable, she says, but the manager of the boutique feels that many people don't care what they

do when they steal, and they will rip off the tag no matter where it is.

• Keep the store neat. "If everything's a mess, you know they won't notice it if something's missing," Erica says.

• Demand receipts when clothes are returned. One of Erica's often-used tactics was to return the item and get a refund, and she says that store clerks hardly ever ask for a receipt or look up her name in the receipt book, unless the garment is very expensive.

• Check the entire contents of a purse, when apprehending a suspected shoplifter. Erica tells of one close call when a security guard asked to see her purse as she was leaving the store with a stolen dress. She had removed the tags, and her story was that she worked as a waitress and needed to carry a change of clothes to her job. An alert guard would have seen that her purse was empty except for the dress. Erica says she has occasionally walked out of a store with her hairbrush in her hand because a garment left no more room in her purse.

• Be suspicious whenever someone takes a long time in the dressing room. "It's impossible to get away with anything if someone's constantly poking their head in to see if you need any help," Erica says.

Like the story of the old storekeeper who used only a cheap lock on his door because it kept honest people honest, and the others would not be stopped by any kind of lock, modern electronic security systems seem to do little more than prevent ordinary shoppers from indulging their momentary whims. The cost of truly preventing theft may be more than most are willing to pay. "What would probably work the best," Erica says, "is some kind of overhead observation system in the dressing room. It wouldn't have to really exist, but if I saw a sign that there was a system like that, I would never steal." ■

Japanese market

Royal Insurance Co., the U.K.'s second largest insurance corporation is going into business in Japan where it will handle insurance for multi-national firms. Reports in London say that leading U.S. and other insurance companies outside Japan are also planning to enter the market, as the Japanese Government is apparently prepared to assist with facilities for overseas entry. Marine, fire, auto and theft will be among lines handled by Royal.

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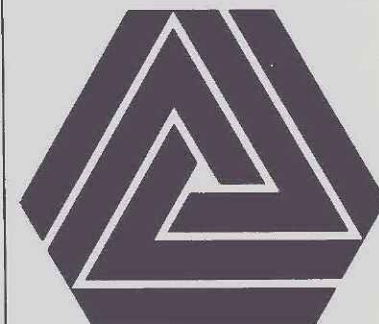
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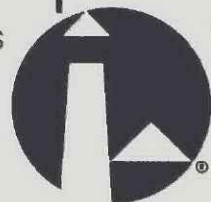
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Loggers have dubious honor of seeing selves on screen, as bad examples

By JOANNE GAMLIN

SACRAMENTO, CA.— Employees of the 300 companies which are members of the Associated California Loggers Inc. (ACL) must pay close attention when they assemble for their casual 'tailgate' safety sessions.

If they don't, they risk having their mistakes show up big as life on the screen.

However, if these same logging employees should be unlucky enough to be injured while laboring in the redwood forest, they can anticipate a helicopter rescue.

The evaluation of loggers' safety habits by video camera and the helicopter rescue service, now only an experiment in Mendocino

County, are key components of an extensive safety program initiated by Associated California Loggers Inc., a high-powered, three-year-old trade association, headquartered here.

"We are now planning a documentary that will depict examples of good and bad logging safety behavior," disclosed Dave Snodderly, executive director of the ACL.

Mr. Snodderly went on to explain in an interview with *Business Insurance* that the air rescue operation is at present only a pioneer project, set up by the ACL in conjunction with the National Forest Service and Employee Benefits Insurance Co.

(EBI), the trade group's underwriter for workers' compensation.

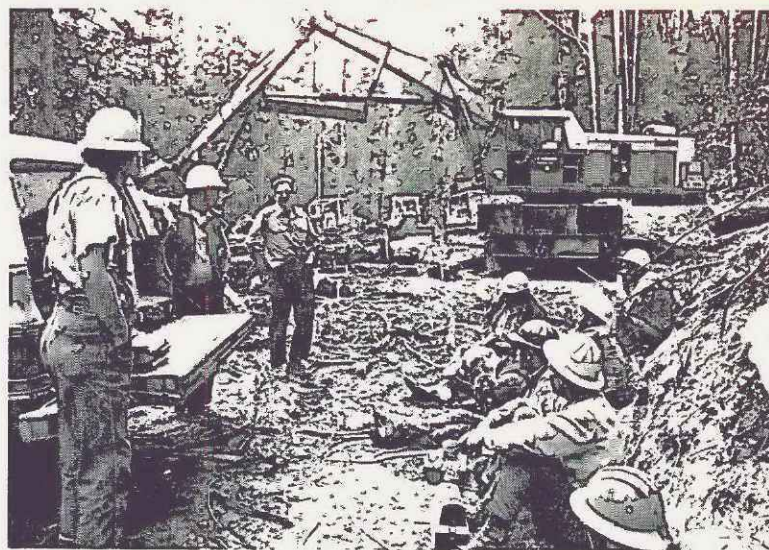
The ACL's role in the helicopter rescue effort, he said, lies in setting up a radio co-op that establishes communication among widely separated loggers who are, naturally, equipped to receive the messages.

California state regulations demand radio communications for men who work in the woods.

Mr. Snodderly said that ACL's other role in the helicopter rescue work is that of guaranteeing the payment of the helicopter dispatcher.

"In the past, if nobody would pay he was liable," he explained.

The young association director,



EBI safety consultants begin tailgate safety meeting for logging crew.

who likens the rescue effort in the redwood forests to the helicopter work in Vietnam, nourishes

big hopes for this innovation service.

"We intend to make it available to loggers everywhere in California," he declared, "and to tie it to ambulance service."

The National Forest Service, among other sources, supplies the helicopters.

The safety program, which is the creation of the association's safety committee and by its carrier, EBI, encompasses the secret video taping, a project of the underwriter's safety man, Cal Cartright.

Mr. Snodderly said that the institution of a three-year safety program was one of the first objectives established when the association's safety committee started talking seriously with EBI in 1973 about the need for a long-term program of accident control to accompany the workers' compensation coverage.

One of the first things which the committee and EBI decided to do, said Mr. Snodderly, was to sharpen training of 'green' employees.

"We also resolved early on that Mr. Cartright would have to set up internal safety programs with each member company," continued the association director, noting that the majority of the ACL's members are smaller, family-operated logging firms employing between 15 and 25 persons.

"Our main objective here was to ensure that the smaller members receive as much attention as the bigger guys," he punctuated.

However, once he is at a member firm's headquarters, Mr. Cartright doesn't waste time attempting to inculcate the junior partners with a zeal for safety.

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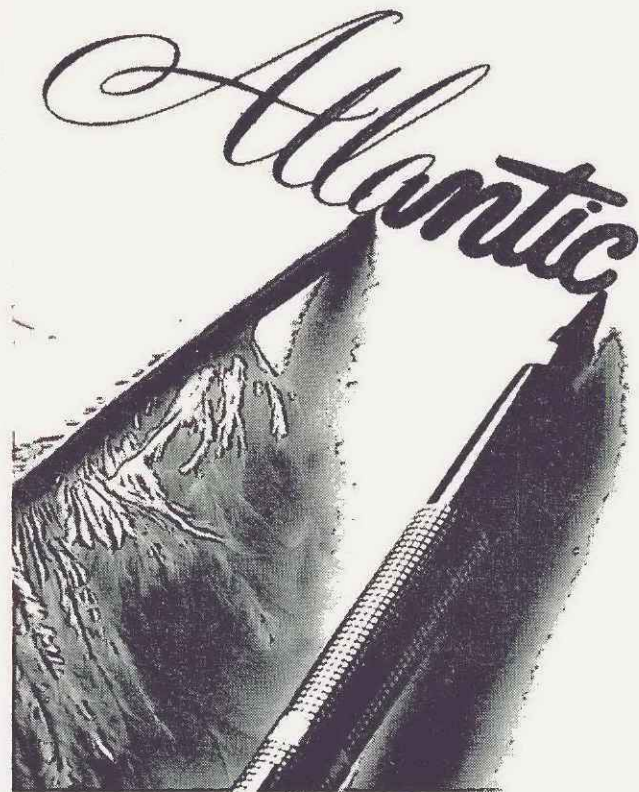
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Rather, he goes directly to the individual who runs the firm.

"As an association, we have the power to put pressure on the guys at the top," he said with some pride.

It is after the head of an association member firm is persuaded to lead a safety effort that Mr. Cartright can go on to organize 'tailgate' meetings. These embrace foremen and the workers.

"These gatherings take place when the foreman drives up in his pickup truck and draws his employees together to discuss safety habits," Mr. Snodderly went on, pointing out that Mr. Cartright's job is to keep careful notes on these 'tailgate' meetings and to record them for Cal OSHA.

The safety man makes it his job to disappear when the meeting dissolves. In reality, however, he hides himself, with his video camera, a reasonable distance from the workers. Protected by the thick brush of the Redwood forests, he can photograph them with his zoom lens, capturing in intimate detail how well the men absorbed the lessons taught at the 'tailgate' meetings.

"He then returns to the group and presents a picture show," said Mr. Snodderly.

Cal Cartright of EBI told this magazine that his company's loss analysis reveals that handling, being struck by a flying object and being struck against an object, in that order, are the chief kinds of accidents to befall ACL member employees.

The nature of the most prevalent accidents? Mr. Cartright said that cuts and lacerations account for 29.3% of the total number of accidents, contusions, for 22.7%, and sprains and strains, 20.4%.

"June is the worst month for accidents, accounting for 22.1% of the total number that occur in a year," he said, adding that fallers, chokers and cat skimmers, in

Prevention is emphasis of health plans

HARTFORD — Preventive health care is being emphasized in two new health plans developed by Travelers Insurance Co.

Called Medical Plus and Comprehensive Plus, both are designed for groups of 25 or more, and may be extended to smaller groups in the future, according to Christian T. Paul, vp at the company.

Medical Plus offers coverage for expanded physician's services, explained Mike Manley, general underwriter. This coverage will fit in with any basic plus major medical plan, said Mr. Manley.

Comprehensive Plus is a package which combines all the elements of Medical Plus and also a comprehensive major medical program, he continued. This plan will cover 100% of the hospital cost and 80% of doctors' charges, with "a \$50 deductible on everything else which pays 80% of those charges," he said.

Features provided in both plans include "broad coverage of doctors' services, including home, office and hospital care," periodic physical examinations, routine pediatric care for children up to age six, ambulatory care benefits, immunizations and injections.

Premiums for the Medical Plus plan could average \$8 a month for an employee and \$13 a month extra for one or more dependents, Mr. Manley said.

Rates for the Comprehensive Plus plan varied too greatly to be quoted, Mr. Manley said. ■

that order, are the kinds of employees most apt to be injured.

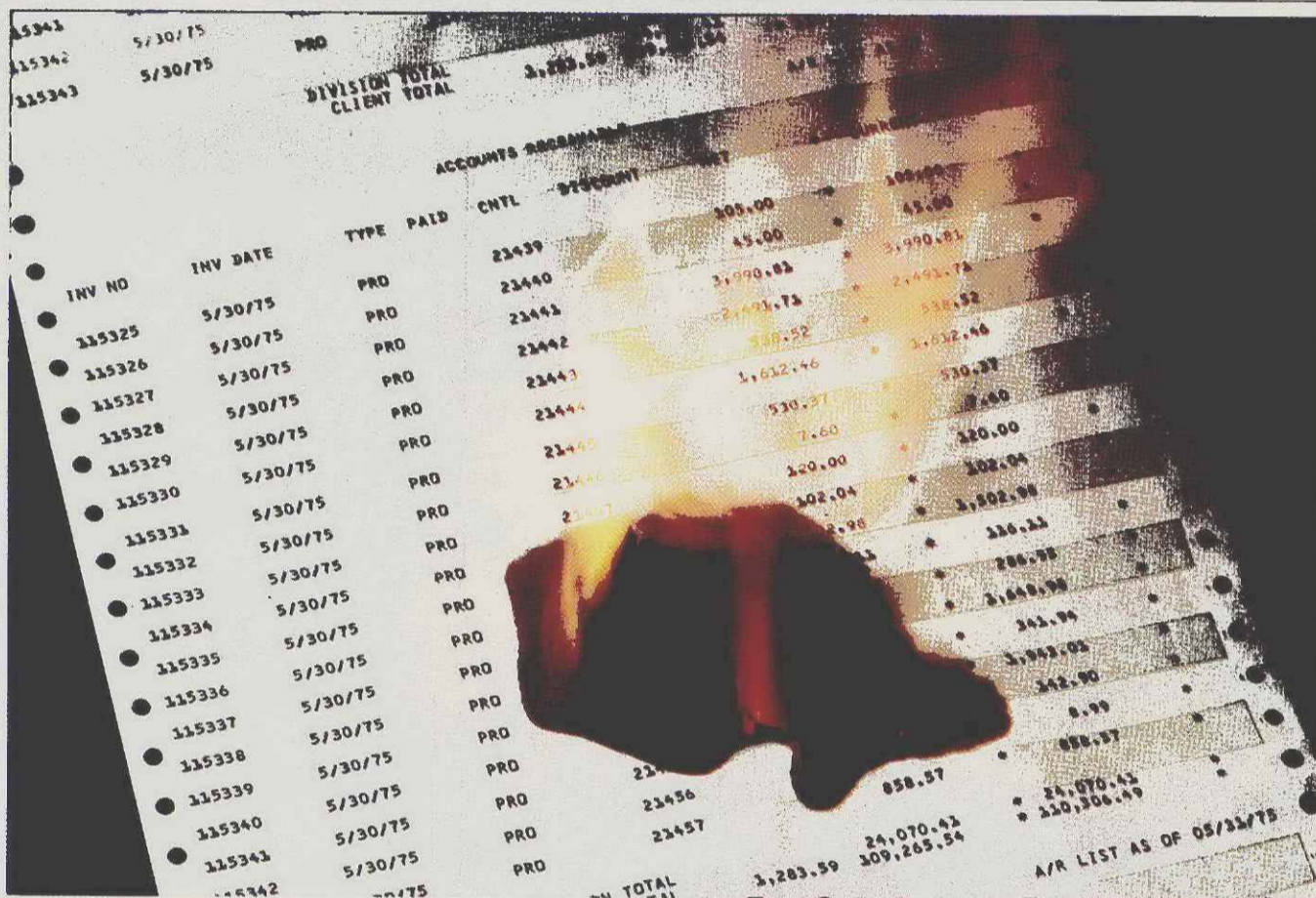
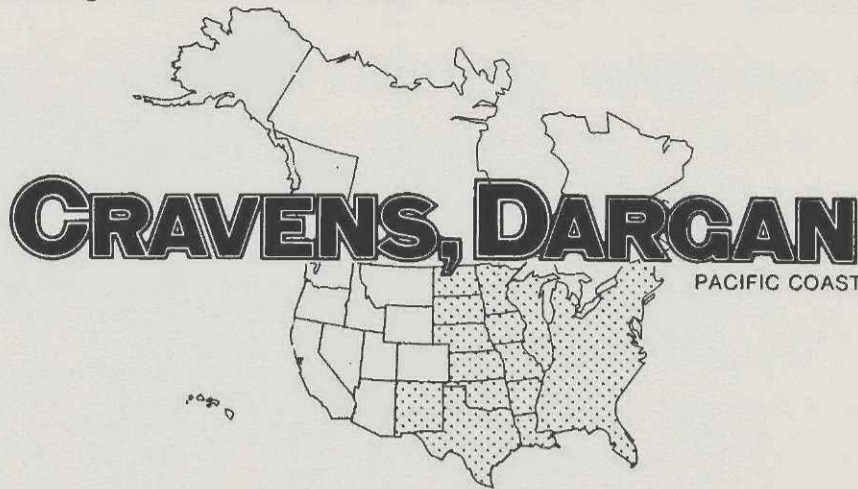
Mr. Snodderly said that the foremost reason why EBI was selected to be the association's workers' compensation carrier two years ago was its comprehensive computer loss analysis, and its specialty approach.

"We expect to pay them approximately \$1.5 million in premiums from this year to mid 1976," he revealed, adding that his group will pay out this figure despite an anticipated reduction in its loss ratio.

Although that figure has not been finally calculated yet, the association director estimated that it will be under 40%. He pointed out that 50% is average for the logging industry.

Moreover, he said that if his association members—who are insured by EBI on an individual basis—do as well loss-wise, as he expects, the group will receive a welcome dividend. ■

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Postpone? Modify? Reject?

Kenner keeps wary eye on new products

By PAUL R. MERRION

CINCINNATI—To make sure that Snoopy's battery-powered doghouse pencil sharpener will never maim a child, Kenner Products safety engineers designed the toy so that it will not operate when the top comes off during cleaning while the blades are exposed.

That's only one example of how a toy was redesigned to make it safer after Kenner's comprehensive product safety operation deemed it potentially hazardous.

Comprehensive is the word to use when describing Kenner's

product safety program because every phase of design and production must be cleared by product safety people before it can proceed to the next step, and they work closely with other engineers to reduce the possibility of making a hazardous toy.

"We have veto power over engineers' designs from a safety standpoint," said Carl Wojahn, director of product safety and quality assurance. "If it's an unsafe toy at some point we don't release it for production."

"That's the whole key," he said. "If the engineers know it can't be

released until it's safe, they're cooperative."

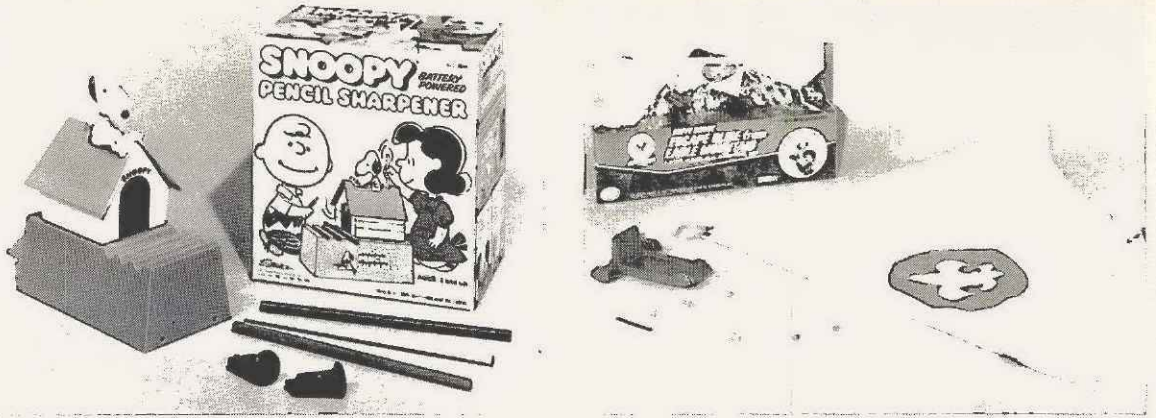
But Mr. Wojahn and his staff do more than send toy ideas back to the drawing board. "We're working with the other engineers so they can work out the safety problems at the same time as the toy is designed," said Mr. Wojahn.

He gave the example of a Boy Scout fashion model—or doll, if you will—that had a hang glider that actually worked as one of the accessories. Mr. Wojahn and his staff determined that it might present a projectile hazard to the eye because of the hang glider's pointed tip.

"It was originally rejected at

the concept stage because of the high energy density that would be produced at the tip of the glider when it hit something," Mr. Wojahn said.

The glider accessory was sent back to the engineers and they designed a large circular ring in front to absorb the shock so a child wouldn't be hurt, he said.



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For employers, Extra Protector costs nothing beyond the routine administration of making one monthly remittance for all the premiums withheld through payroll deduction. In addition to being an added inducement for prospective employees, Extra Protector will generate good will from current employees.

Any plan that does so much for employees and employers has to do something special for the producers. Extra Protector should be an extra special moneymaker for all participating agents and brokers.

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Kenner embarked about two years ago on a program of preventive product safety for both moral and financial reasons. "The company feels morally responsible to produce safe, reliable toys," Mr. Wojahn said. "Whether or not there was a government agency set up (to monitor product hazards) we would still have the system."

At the same time, detecting safety flaws in a toy during the early stages of its development can save the company a lot of money.

"Reworking molds (to remedy a safety defect) can run into tens of thousands of dollars," he said. "There's no way the system is not an effective payoff."

"We also monitor production so a product is not recalled by the Consumer Product Safety Commission," he said. "A major product recall would cost about \$1 million." Mr. Wojahn cited the case of one toy maker that went bankrupt because of a toy recall.

Under the toy industry's unusually short production period, a delay of a few weeks could mean that manufacturing the toy would be postponed until the next year's Christmas season.

Orders for most toys are taken at a toy show in New York held in February, Mr. Wojahn said. The plastic-forming molds are tooled to start production in May and finish by November, in time for the seasonal rush. "If product liability requires redesign, a lengthy delay could make that toy unprofitable," he said.

"With our prevention system we assure that the number of toys that would be postponed until next year would be almost nil," said the director of product safety and quality assurance.

In addition, Kenner's Product Safety Release System—as it's officially called—employs 50 to 75 technicians to inspect for quality, safety and reliability during the manufacturing process.

It usually takes a year to 18 months from the time when a toy is first dreamed up until it reaches production, and during this time, Mr. Wojahn and his staff subject the toy designs to three checklists of possible chemical, physical and microbiological hazards.

Mr. Wojahn has an assistant, Tim Pine, who is the manager of the product safety group. Under Mr. Pine is a full-time safety engineer, plus a safety testing laboratory employing three technicians. Also, Kenner uses three outside laboratories for chemical, biological and toxicological testing: Cannon Laboratories in Pennsylvania, and in Ohio, International Bio-Research Laboratories and Bowser-Morner Laboratories.

On the chemical hazards checklist, toy ideas are examined for materials that may irritate or be toxic to the skin, that would be toxic if swallowed, or that would irritate the eyes, to name a few, according to Mr. Wojahn.

Some of the items on the physical hazards checklist (which is broken down to show mechanical, electrical, thermal and excessive sound dangers): List materials that may break when dropped; toys that may have pinch points (such as a toy chest), parts that may break when pulled; and surfaces that become very hot while a product (such as a toy stove) is being used.

Microbiological hazards are sometimes present, and there is a checklist to screen these also: basically, foods used in the toys—such as a toy stove—are listed, and any plastics that come into contact with food, such as a taffy-pulling machine, must be FDA approved, Mr. Wojahn said.

While the safety assurance program saves the company money in production costs, it is difficult to determine its effect on the product liability insurance premium because Kenner Products, a division of General Mills Fun Group Inc., uses Gold Medal Insurance Co., a captive of General Mills.

The premium, therefore, is based on not only Kenner's loss experience, but that of other divisions of General Mills, as well, according to Mr. Wojahn. However, he said no product liability suits have been filed in the two years he has been at Kenner.

Mr. Wojahn came to Kenner in early 1973, following shortly by Mr. Pine, and the product safety release system was in operation by December of that year. Part of the reason for the quick setup is that they both started working on the system in 1970 when they were working for Mattel Inc., another toy manufacturer.

Mr. Wojahn described how the system was set up: "We embarked on what we're sure is the best preventive-type system. We took children and did child testing to determine the limits of abuse forces as well as normal forces.

"We measured something that had never been measured before,"

he said. "We looked at what kind of a force a kid could apply to pull off a wheel, which is dangerous because there could be something sharp at the end."

Mr. Pine added: "We also looked at the height and the number of times a kid could be expected to drop something. And we wondered whether a child could actually reach in, say, un-

der a hooded knob, and we determined what kind of a force a child could produce there."

The studies they made were supplemented in part by research done at several universities, Mr. Wojahn said.

Mr. Wojahn and his staff keep up with all product safety regulations by subscribing to the Commerce Clearing House Product Safety Guide and the Bureau

of National Affairs Product Safety Guide. "We are totally apprised as to what is happening with the product safety field," said Mr. Pine.

Also, Mr. Pine is serving on a committee of the National Bureau of Standards to develop a toy safety standard. "At Kenner we have adopted the Bureau's standard even though it hasn't been

finished or adopted yet," Mr. Pine said.

Kenner toys also conform to Underwriters Laboratories standards, and Messrs. Wojahn and Pine critique all proposals before the Consumer Product Safety Commission.

"We know that if we comply with the Kenner standard, we are meeting all the other standards as well," said Mr. Pine. ■

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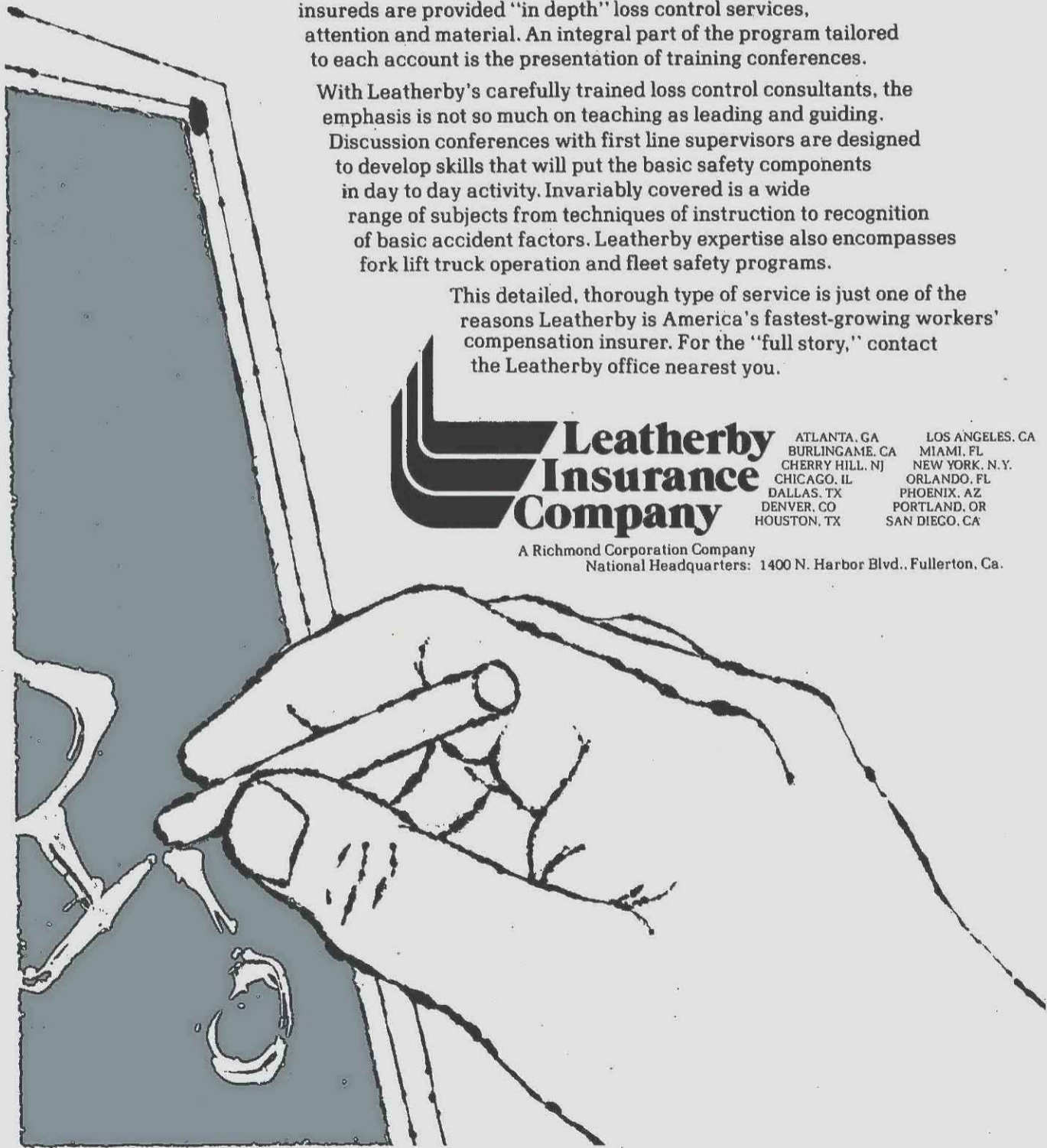
Nat'l. Union insures fight transmission

NEW YORK—As Muhammed Ali once again defended his heavyweight boxing championship title in the match with George Frazier, the National Union Insurance Co. once again insured transmission of the match from Manila.

A "multimillion dollar" business interruption policy insured the closed circuit telecast from ringside in Manila to destinations in approximately 150 viewing places in the U.S. including Madison Square Garden and the Capitol Centre, a spokesman for National Union said.

The contract covered Don King Productions for mechanical breakdown, malfunction of equipment, lines or loss of revenues due to a total loss of the video transmission to all subscribers in the U.S.

Philamgen, a Philippines affiliate of the American International Underwriters group, insured the shipment of video equipment on an all-risk basis from the time it left New York and New Jersey, through transit and location and while enroute back to the U.S. The equipment is owned by Macro Productions and the Hughes Television Corp. ■



Convinced that consumers don't want junk

Retailer uses purchasing power to get safe, quality products

By ELISABETH M. WECHSLER

CHICAGO—A retail discount store executive said he leans on manufacturers with his purchasing power to demand quality products which are safe: "If the manufacturer fails to correct its errors, then we buy elsewhere."

The statement comes from Stephen L. Pistner, president of Target Stores Inc., Minneapolis, which has acted on that policy.

"Three years ago we reevaluated the position that product safety and quality is the customer's problem," Mr. Pistner said. "Irate consumers have been tell-

ing retailers: 'Stop selling us junk. Stop selling stuff that only looks good but doesn't work. Don't tell me something is safe when it isn't.'

"The manufacturer may be cutting back on quality but consumers have said they're willing to pay for it," he said. "When the manufacturer designs something poorly, it hits us right in the pocket book," said the mass merchandising executive, who is also senior vp of Dayton-Hudson Corp., the parent company. "We guarantee what we sell and it's expensive to give refunds and keep records."

It costs Target Stores \$5 to \$10 just for handling a refund. "Maybe we should charge manufacturers a handling fee for product safety," Mr. Pistner said, referring to the practice of grocery stores for processing discount coupons.

Nevertheless, Target Store's sales "are jumping" and he maintains "at least part of the reason is the chain's product quality and safety efforts."

Mr. Pistner told participants at a National Safety Congress session on industrial product safety that his message to manufacturers present was: "Call someone in

your company and tell him to start a product safety program. When this person says he doesn't know what you're talking about, tell him it's his problem and you'll find that a program gets going."

Product quality for this retail chain means that the merchandise sold "should function long and well, and work as well as it looks," he said.

Target Stores instigated toy testing a year and a half ago, Mr. Pistner said. "Sales are up for that period. We only sell toys which are tested," a program which costs the chain over \$200,000 a year.

"Product safety is literally good business," he emphasized. Standards are based on whether "the customer is getting his dollars' worth. Does the garment have a reasonable life span? If a product doesn't pass a standard which we set as a reasonable expectation for each item, then we don't buy the product. Period."

Mr. Pistner related a case history in which Target Stores took a firm, but seemingly risky, stand a year ago. A customer who had been injured reported that a car ramp sold by the store for home use had malfunctioned.

"Instead of passively waiting for another instance to occur" or for the manufacturer to recall the product, Mr. Pistner said the retail chain "immediately" took all the car ramps off the shelf and put an ad in the local newspapers warning customers about the ramps. The ad instructed customers to return the product as soon as possible to Target Stores for a refund.

"It's important for retailers to act swiftly in a situation like this," Mr. Pistner believes. "It helped our organization reinforce its commitment to the consumer," adding that the community and media response was more favorable than he expected.

"Customers responded with gratitude that we acted responsibly with the product recall ad," he said, as if to convince anyone in the audience who still doubted the merit of such an approach.

"We felt a moral obligation to act since the manufacturer didn't act within two or three days," he said. "We handle a sturdier car ramp now," he said. The manufacturer subsequently redesigned its product, he continued. "We sell fewer of them but we sleep better."

Three weeks after the incident, Mr. Pistner said Target Stores got a 23-question form to fill out from the Consumer Product Safety Commission (CPSC), implying that a quicker response was needed.

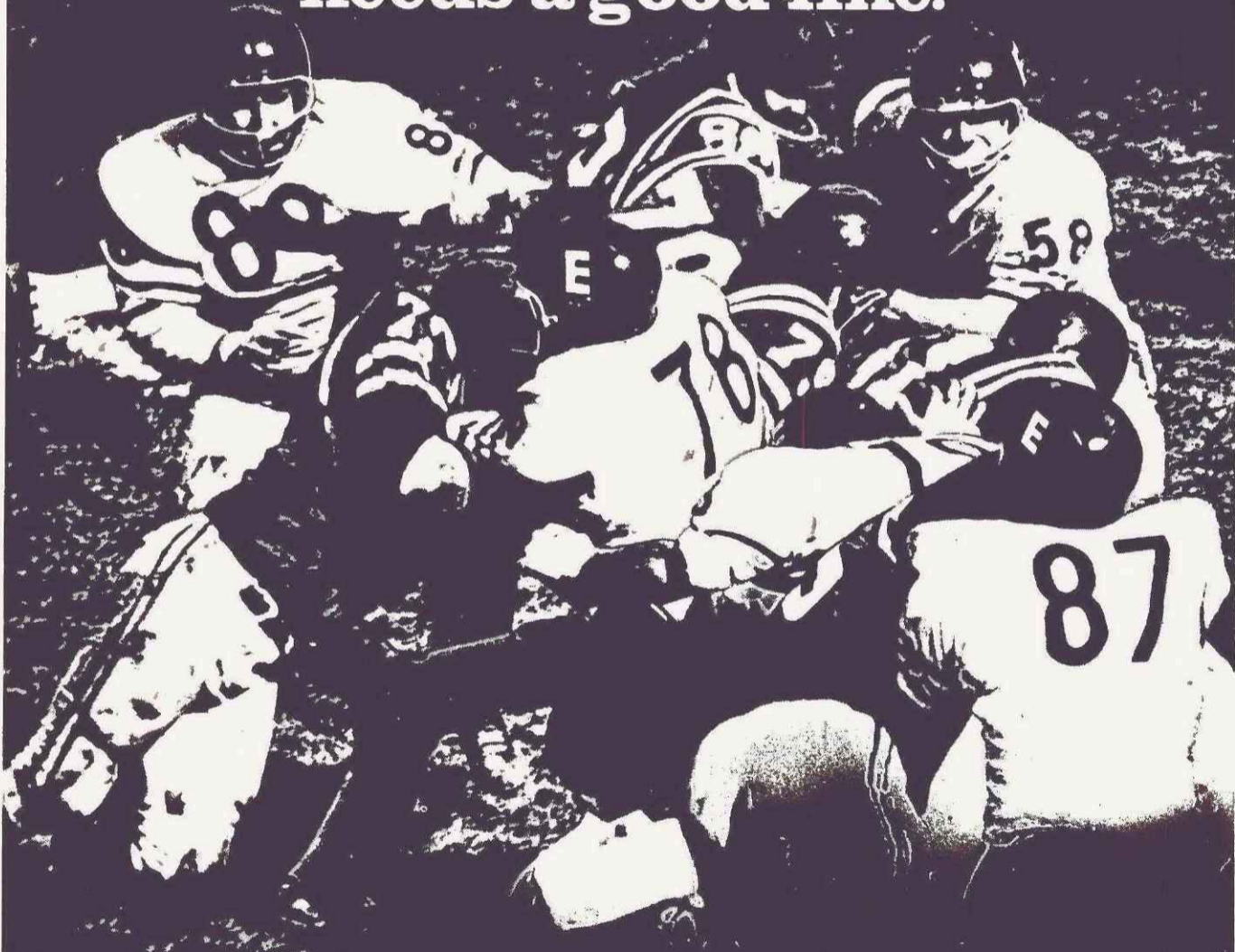
Mr. Pistner believes retailers can "do more than consumer activists can accomplish in 10 years" by taking a firm stand with manufactured items sold in their stores. "Many other retailers are doing this and most manufacturers are cooperative," he added. "Any retailer can get started just by starting."

In contrast to the spirit of swift response to consumer complaints which Mr. Pistner emphasized, a representative of Sears Roebuck & Co. spoke of the need for retailers to be cautious and deliberate.

Sears' motto is "don't panic but don't put your head in the sand either," said George F. Zelazney, corporate product safety coordinator for Sears here.

"If we see that there's a trend for other accidents happening from the same product, then we

Every salesman needs a good line.



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implement some action," he said.

"We give out bulletins to all Sears personnel on the civil and criminal penalties for not complying with federal law," Mr. Zelazney said. Sears has a hot line "for transmission of alleged safety problems" from store personnel around the country to his office.

"We record the necessary information and communicate it to our safety committee," he continued. He admitted that there is "no single product safety engineer" on the seven-member committee, though he said different safety engineers rotate the responsibility.

Fifteen questions are answered about the product in investigating a consumer complaint.

Mr. Zelazney recounted several instances of consumer complaints concerning products purchased at Sears. Most of these were not bona fide complaints because they involved concurrent events which were the real culprits.

An electric drill was reported as giving a customer a severe shock when he operated it in his basement. Mr. Zelazney pointed out that a thorough investigation of the premises turned up a poorly wired socket which the customer admitted he had rigged himself.

"We didn't follow up this complaint with active action except to ask him to get an electrician to rewire the outlet," Mr. Zelazney said.

Another instance stemmed from a complaint to Sears that a transistor radio "caused a house to burn down." Mr. Zelazney described Sears' investigation into the matter, announcing with a humorous lilt at the end of the story that the "real cause of the fire was a candle left burning on the top of the transistor radio."

"There's a public relations standpoint to product safety, but there's also a legal factor," advised Michael Brown, general counsel for the CPSC in Washington, D.C., who spoke after Mr. Zelazney. He referred to the sharp upturn in product liability suits in the last 20 years and corporations increasing difficulty in obtaining insurance.

He quoted a poll conducted by Louis Harris & Assoc. which found that 83% of people on the street believe that "without federal regulations on product safety, there wouldn't be safe products."

Mr. Brown cautioned manufacturers against doing half the job of informing consumers on how to use their products safely. It's not sufficient to enclose a well-written booklet with the product explaining that ear muffs and goggles should be worn when using it, if you have a tv commercial "showing a guy casually using the tool in between having a few beers without wearing the safety equipment," he cautioned.

"The dummy-behind-the-wheel stereotype is not going over well in court," Mr. Brown continued. "Don't hide behind the belief that 'only a fool would do that.' There are more fools in this world than you think and juries identify with them better."

If you are sensitive in listening to customer's complaints "you'll find you can learn from them," Mr. Brown said. "It's very expensive when the jury labels your company a liar because you denied receiving any consumer complaints about a product and the opposite side produces Xerox copies of the letters."

He advised corporations to "put the money on the front end to reap the good things" that come from swift, responsible action. "Have a safety professional high in the organization," he suggested. "Not the same person who designed or marketed the product or a lawyer," he said, "but an engineering

or chemical expert, depending on what the product is."

"It's your responsibility to report an unsafe product or accident that was caused," Mr. Brown said. "Initially, all we need is your name, the product and the potential hazard. You can submit answers to our form later."

"The CPSE wants to know what you're going to do to remedy the problem and where the other widgets are," he continued. "If you don't know, we have to assume the worst, which is that they're already in the consumers' hands. Usually we accept your solution," he said.

Mr. Brown encouraged retailers and manufacturers to participate in the CPSC investigations and establishing of products standards, pointing out that "minority views

are also recorded in the report. "Establish a voluntary standard before the feds arrive," he advised. "Remember, we look at what's available. If you've got a standard, it might become an industry standard. At least it shows you complied with a voluntary standard which is an acceptable defense for a jury."

It's not the CPSC's intent to drive people into bankruptcy," Mr. Brown soothed. "We want to protect people but 900 government employes can't do it without cooperation from everyone."

"Safety is a state of mind and attitude and it must become a habit," said Howard E. Brehm, director of corporate product safety for Whirlpool Corp.'s research and development center.

"Consumers have added safety to the list of factors required in a

product," Mr. Brahm said. Manufacturers need a product safety specialist to test the safety of a product and the safety of machines to make the product.

"We must formalize the process under a supervisor who is a product safety specialist. It shouldn't be the noon time activity of any other group," he emphasized.

"This person must be able to use executive pressure if need be," Mr. Brehm continued. "He must have access to a top operating officer at all times and be an experienced product engineer who is familiar with the internal workings of his company and others in his industry."

"Aside from a good safety policy, there must also be a formal product safety audit," he believes, "with questions designed to evalu-

ate the product's safety throughout its entire life."

At Whirlpool, Mr. Brehm said that an audit is performed on each product once a year—a frequency which he terms "an adequate but minimum requirement for the appliance industry."

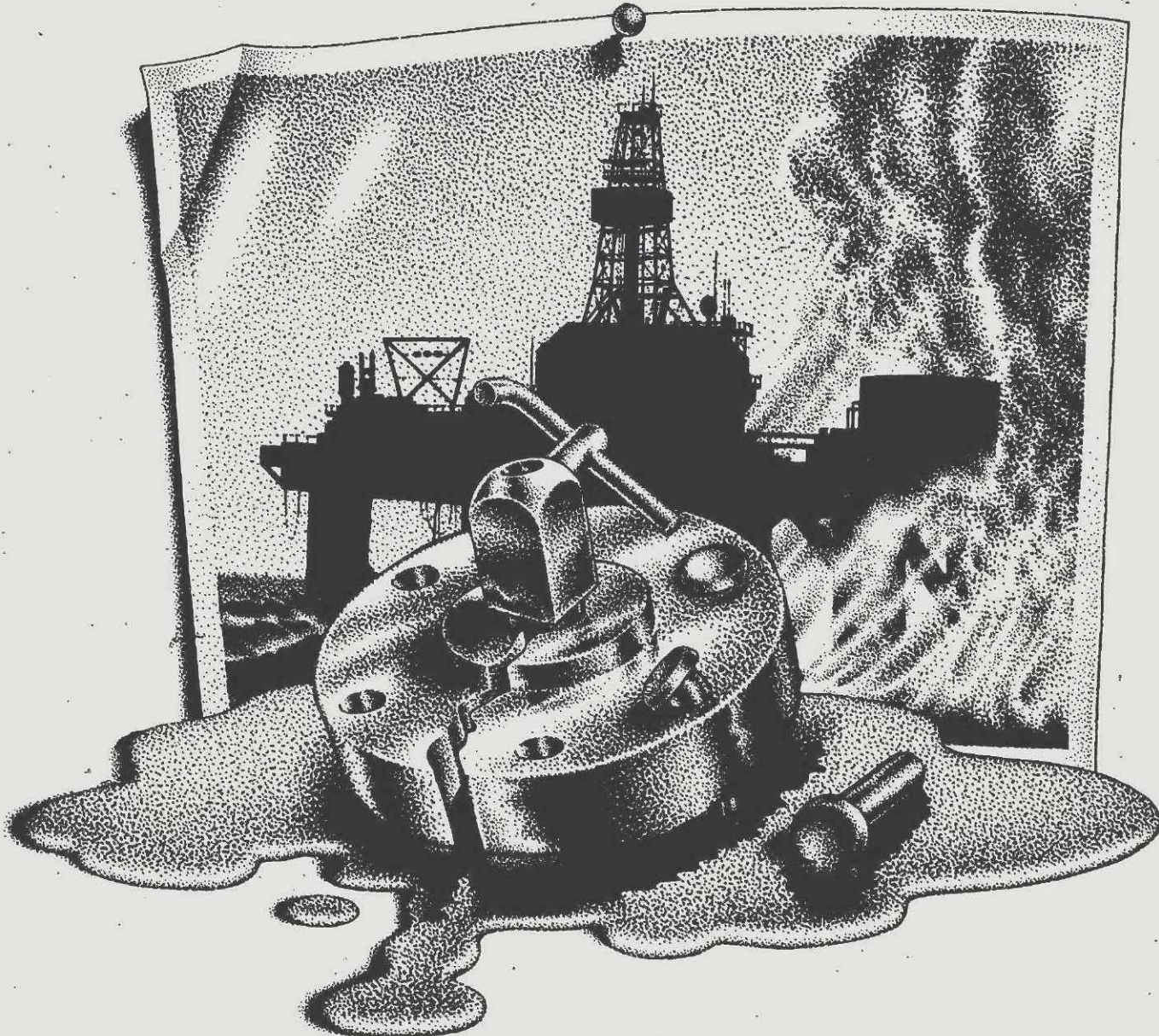
Factors evaluated are: Shipping containers and shipping performance, packaging, human engineering, instructions for use, performance and non-performance characteristics, produceability, reliability and method of disposal.

Mr. Brehm said that at Whirlpool "a product can't get out the door without the audit."

Another area which he believes is important is being able to "identify each product through a unique code system for people all over the country with varying degrees of understanding."

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Womanpower tapped as labor source in burgeoning security guard field

By MARIE KRAKOWIECKI

NEW YORK—Sgt. Celesta Bean packs a gun and works the Dallas area. She's met her share of businessmen who don't think she has any business doing what she does.

But she does it anyway and she does it well. By the time you read this, she will probably have been promoted to lieutenant.

Not Lt. Bean of the police or military. Celesta Bean is one of a growing number of women gaining acceptance as officers and guards with private security firms.

She works for Pro-Tect Security Force in Dallas. (Last April during its annual convention, the Risk and Insurance Management Society hired the firm to watch

over happenings at the Fairmont Hotel.)

Pro-Tect seems to be a leader in using women. Of its 150 officers, approximately 20% are female, according to president Marshall Robinson.

But other private security companies are also latching onto the idea. A decade ago, womanpower was virtually untapped as a labor source in the security guard field. Today, many leading firms report 10% of their total guardforce is female.

Guardsmark Inc., Memphis, even pays its sales people higher commissions if they can persuade reluctant clients to use women.

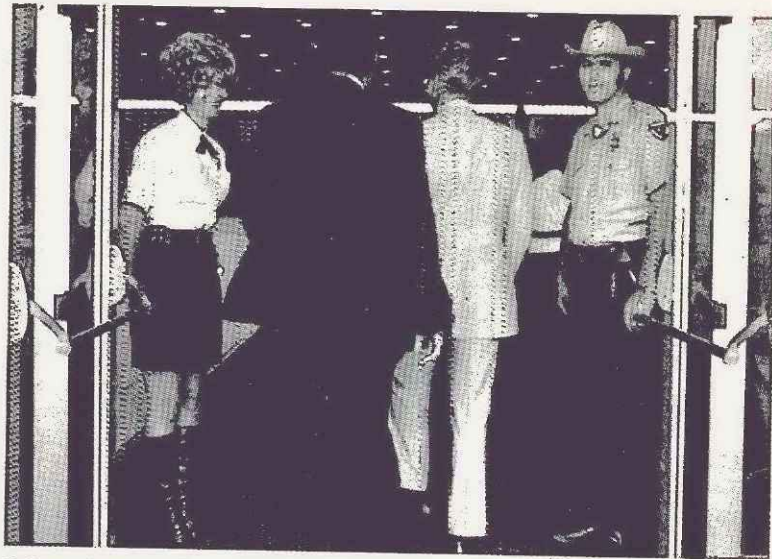
Companies aren't harboring a

burning desire to right the wrongs in the battle of the sexes: the main reason for using more women guards is strictly financial.

The Equal Employment Opportunity Commission backed up the trend with legislative clout, and general social practices encouraged by the feminist movement have filled in the blanks.

One of the oddities of private security work is that it flourishes during periods of recession and high crime. People simply need more protection, and the guard firms make out well. But when their business increases, their labor market is strained. Many find themselves paying out more overtime than they would like.

That's one reason why women



Celesta Bean and partner guard entrance to exhibit area.

are coming on strong in the guard business. They fill an increased demand for guards that lets the

companies cut their overtime costs for their male regulars. Hugh E. Sabel, Guardsmark's vp and general counsel, allows that this is the reason his firm started an active campaign to recruit more women.

Mr. Sabel estimates that over the past five years, Guardsmark's female labor pool has increased at least threefold. Women now comprise about 15% of its overall force.

Women got their first foothold in the security business when a rash of hijackings a few years ago prompted airports around the country to install guards for pre-departure inspection details.

Airport assignments and other non-armed public contact jobs are still the main places security firms use women; but their visibility in those functions is making it easier for them to be accepted for rougher jobs, too.

Burns International Security Services Inc. reports the use of about 10% females companywide. Don Subloski, director of Burns' Chicago-based special services division, which does more ushering than security guarding, estimates his headquarters uses about 60% women.

Similarly, the Wackenhut Corp. of Coral Gables, Fl., reports that although 15% of its guards are women, only 5% of its non-airport force is female. But the prejudice against women with weapons is slowly beginning to erode.

John S. Ammarell, Jr., Wackenhut's executive vp, noted that his firm has women with firearms guarding Internal Revenue Service installations in Atlanta and Memphis.

Guardsmark likes to underplay firearms for both its male and female guards, and pays its sales



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"Call me. Call for Tom Bradshaw at AOA on your next aviation coverage and give me the opportunity to say thank you for at least thinking of us."

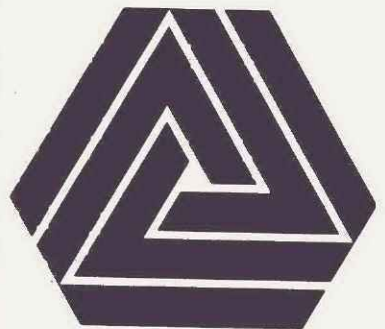
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force a higher commission for getting unarmed accounts. But it notes that the client demand for weapons and armed guards is greater in the South and the West, and to accommodate the demand, Guardsmark gives basic weapon training to all its personnel.

Pro-Tect Security president Marshall Robinson reports that every one of its qualified guards carries a gun. Pro-Tect owns its own training academy, the Texas Security Officers Academy, which Mr. Robinson says is the only one in the state certified for training private security officers in weaponry.

Excluding his own company, which is 20% female, Mr. Robinson says personnel from other security firms who come to take the weaponry training are only about 1% to 2% women.

Client acceptance is the biggest factor. Pro-Tect has had specific requests both for and against armed women guards. A recent liquid propane gas convention in Dallas wanted only female guards, because it thought they would be more reliable.

Shortly thereafter, Pro-Tect was hired to guard a petroleum show and given strict instructions that no female officers were to be used.

Sexism works to the advantage of female guards as much as to their disadvantage, at least in light security situations. Women are chosen more frequently than men for trade shows, conventions, grand openings and the like, according to Burns' Don Subloski, because, well, they look better.

Clients who spend a lot of money on trade show extravaganzas like the National Hardware Show care a great deal for appearances. After investing in flowers, decorative displays and meticulously arranged food tables, they just don't want to ruin the effect with some burly gorilla standing at the door. What they want Mr. Subloski says, is "A pretty little girl who smiles at everyone."

Women are also becoming more popular in crowd control. Experts have found that if a drunk at a football game is asked to leave by a male guard, his likely response will be to take a swing at the guard. But the same request from a woman elicits a meek response. The chance of a drunk punching out a woman, particularly in front of a crowd, is much slimmer.

Similar observations were made by other security firm people. Wackenhut's Mr. Ammerell remarked that women are in increasing demand as inventory control guards at factory rack pits and trucking stations.

Fieldcrest Mills in North Carolina likes to use them at trailer truck entrances. The truck drivers enjoy them more, and fewer fights break out. Some of the drivers took offense when questioned by male guards. When the women pose the same questions, they don't seem to mind at all. And the inventories run smoother. It's just a variation of the old saw about catching more flies with honey than with vinegar, but it makes for better loss control.

But women who want to work as armed security guards meet a lot of stereotyped attitudes, even from relatively sophisticated businessmen, that work to their disadvantage.

Following the RIMS conference where Pro-Tect's women guards were on duty, for instance, an issue of Risk Management Reports gave play to a remark supposedly overheard from a risk manager "staring pointedly at an armed female guard:"

"The only 36-24-36 with a 38!", the bimonthly loose-leaf publica-

tion for risk managers reported in its Current Comment section.

It would appear that client prejudices against female guards are destined to die a lingering death.

One noteworthy postscript should be mentioned here. After the petroleum convention told Pro-Tect it wanted absolutely no part of having any armed women on the premises, president Marshall

SAFETY/SECURITY REPORT

Robinson told them he was putting a woman on duty anyway.

"If you don't like her, you don't have to pay for her services," he said when he gave the assignment to Celesta Bean.

After a day or two of observing Sergeant Bean on duty, the petroleum group asked to make some changes in their security arrangements. They wanted two more women guards.



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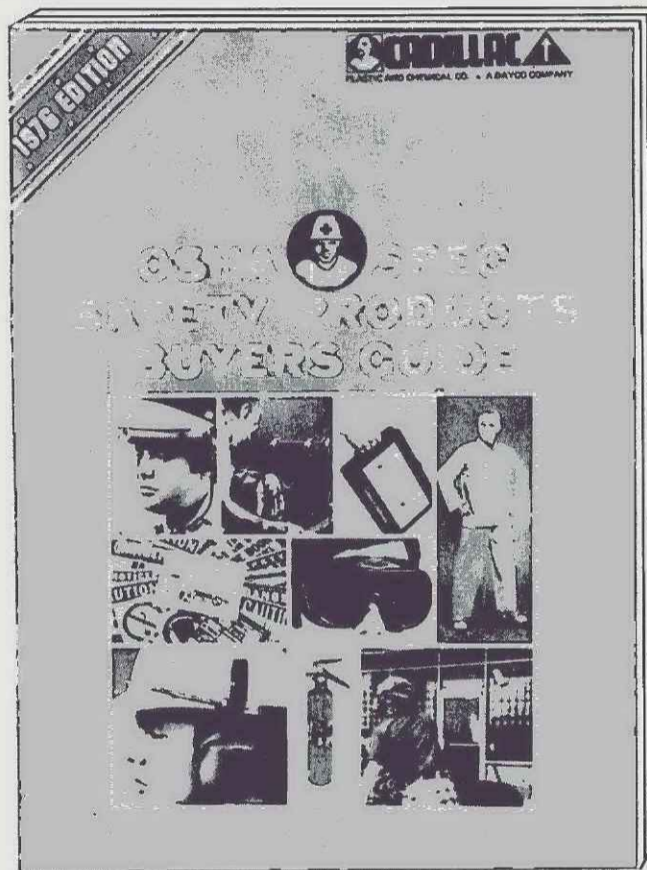
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THE SOURCE



Pizza pie people at Jenos save dough with safety efforts

By MARGARET LeROUX

DULUTH, MN.—“You can't police safety, you've got to instill safety,” Dan Peterson, assistant director of insurance for Jenos Inc. said in an interview.

Apparently he's been successful at his efforts. The maker of frozen pizza saved \$128,000 in workers' compensation premiums in 1974, “hitting the minimum premium three years in a row,” Mr. Peterson commented.

The savings were a result of a retrospective rating plan Jenos has with Employers of Wausau

which insures the company's liability and workers' compensation insurance programs.

The experience modification factor for Jenos workers' compensation has been reduced from 2.05 three years ago to .97 last year, attributable to safety programs the company has instituted and the support upper management has given the programs, Mr. Peterson pointed out.

“We try to place emphasis of the safety function on the line supervisors,” he continued. A training program for all line supervisors includes sessions on insurance,

workers' compensation, quality control and product liability.

Mr. Peterson came to Jenos from Employers of Wausau, where, as a claims adjuster he introduced a non-skid safety shoe program to decrease the number of injuries due to falls by employees on production lines. He completed introduction of the program as Jenos' new assistant director of insurance.

The safety shoe program has been a success, he feels, because employees were involved in the selection of the type and style of shoes.

“They're the ones who wear the shoes, so they're in the best position to tell you what's comfortable and wearable,” the insurance director noted.

Jenos pays for half the cost of the first pair of safety shoes for each employe and the shoes are sold in the company store, where the cost is considerably less than

the retail sale price.

Another safety program the company is proud of is the driver training program.

Jenos has a fleet of 18 semi-trailer trucks and its drivers have accumulated 3.6 million miles of accident-free driving.

Driver selection has been the key to the program, Mr. Peterson explained. “They're all from this area and are familiar with road conditions, which in winter months can be treacherous in the northern Minnesota and Wisconsin locations of Jenos' plants.

The company's main production facilities are in Duluth and the company operates pizza manufacturing plants in Superior, Wis., Sodus, Mi. and Atlanta, Ga.

A reimbursement program and prize points for accident-free miles, provides a tremendous amount of pride and competitiveness among Jenos' drivers, the insurance director said.

A health unit in the company's main Duluth plant is an employe benefit which has also benefited the company's group health and workers' compensation experience.

Staffed by a registered nurse and a paramedic 20 out of 24 hours, the unit is designed to encourage speedy rehabilitation of injured workers.

“The best rehabilitation for an employe able to work is to be back on the job,” Mr. Peterson noted. To effect this sentiment, Jenos will accommodate any restrictions an employe's doctor may place on that employe to facilitate his return to work.

“We had one employe injured on the job who we expected to lose six weeks of work,” the insurance director explained. However, the six week lost time accident turned out to be a loss of only one week by the company's agreeing to limit the injured employe's physical activities on the job.

With the health unit available to check injuries or change dressings on company time, an employe is more willing to utilize it, Mr. Peterson said.

The company gets the benefit of having the employe back on the job sooner than if he relied solely on a private doctor for treatment and the employe gets the time and cost saving benefit of avoiding numerous visits to the doctor's office, he added.

“We've tried to stress the message to employes, ‘if you get hurt on the job, we'll see you get the best medical treatment available,’” the insurance director continued.

Couple “a thorough investigation of all workers' compensation claims that are filed,” with the health care provided on the job and the result has been “a tremendous drop in claims denial,” he noted.

During the course of the interview, Mr. Peterson was interrupted by several phone calls requesting answers to insurance and benefit questions.

“I'm more qualified to handle safety and insurance problems because I deal with them on a day to day basis,” he explained. All claims that are filed in the company end up on Mr. Peterson's desk.

Commenting on the health and safety programs at Jenos, Mr. Peterson concluded, “I'm not a firm believer in paperhanging. If a program's going to be worth a damn, that program's got to be effective.”

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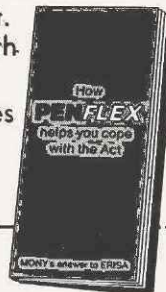
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Braun safety record is best of Wallace units

OAKLAND, CA.—E. C. Braun, a wholly-owned subsidiary of the Sam P. Wallace Co., Dallas, can brag of having the best safety record of any of the Wallace Co. units. And the reason why, say observers, is its long-standing commitment to safety.

Last year, E. C. Braun boasted a dazzling loss ratio, according to Mark Happ, controller and safety coordinator.

explaining that the problem was to see that everyone wore life jackets when near the water and to see that ring buoys were underneath the pier in case rescue operation had to be initiated.

It is attention to such details that is one of the things stressed in the quarterly foremen's meetings, led by Jim Faggiano.

At a recent meeting, for example, an official from the U.S. Department of Health led a 10-

hour discussion of first aid techniques.

Mr. Faggiano said the topics for the last quarterly meeting that took place September 10 were scaffolding, ladders and how to treat eye injuries.

"These meetings are often light-hearted because the foremen are a sophisticated lot," observed Mr. Faggiano who also makes regular, once-a-month inspections of Braun facilities.

Mr. Happ pointed out that cementing the safety effort is a program of education—by literature.

"We subscribe to the CAL-OSHA Reporter from which I clip articles to mail to the fellows in the field," he said. ■

SAFETY/SECURITY REPORT

He said the 1974 loss ratio came to \$1.77 per 100 man-hours, or a remarkable upgrading from what the mechanical contractor had anticipated for that year.

"We had targeted a loss ratio of \$15.17 for 1974," he told *Business Insurance*. He pointed out that the figure of \$1.77 represents a quantum jump from a much more ordinary figure for 1973.

Mr. Happ explained that E. C. Braun has maintained a steady commitment to safety that predates both its acquisition by the Wallace Co. and the selection of Fireman's Fund America as its workers' compensation and comprehensive general liability (CGL) underwriter.

"Fireman's Fund became our workers' compensation and liability carrier in 1970 and set out to successfully streamline our existing safety program," he said, noting that he works in tandem with Jim Faggiano, the underwriter's loss control manager.

The safety program is based on brief, weekly 'tool box' meetings in which Braun's employees, most of whom are temporary, get together to thrash out questions on safety procedures.

Mr. Happ noted that he often supplies the discussion group with safety literature from either the "Safe Foreman," or from "Safety & Security for Supervisors," both educational publications from private firms.

Quarterly meetings, specifically for supervisors, are the other major component of the Braun safety program. Generally, Jim Faggiano presides over these meetings which are all or half day affairs—replete with food on the house—where slides or movies are often the central attraction.

"We pursue an active safety program at Braun not only for our employees, but also for the general contractors we work with," said Mr. Happ. He said that because Braun is a mechanical contractor, employing a lot of temporary workers, the chief hazards stem from sloppy housekeeping.

"Boxes left open, pieces of pipe ends strewn over the ground and wooden scaffolding temporarily abandoned—all represent potential accidents," he related.

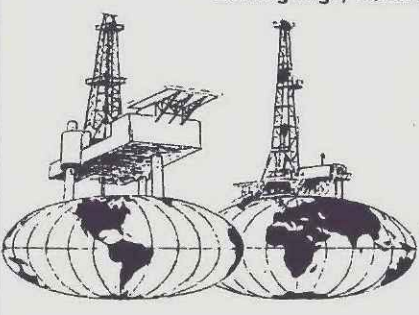
When accidents do occur, he said, they usually result in injury of the back or of the eye. However, Mr. Happ hastened to add that no eye injury has ever resulted in a permanent loss of vision.

Mr. Happ recalled a pipe installation job which Braun did for the Alameda Naval Air Station when the task was to install pipe from a boiler plant to the government carrier, the U.S. Enterprise. The purpose of the piping was to allow the ship to close down its boilers, thus becoming dependent on the plant for supplies.

"We also had to install water, fuel, waste and aviation lines (pipes)," continued Mr. Happ,



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By RICHARD N. BOYD

Project Manager, Product Planning
ADT Security Systems, New York

THE CRIME-PLAGUED, often uninsurable small businesses in our nation's inner cities have a better chance at surviving with the help of newly-developed low-cost security equipment.

Insurance companies don't have to be reminded of the high risk of insuring service stations, pharmacies, liquor stores and the so-called "Mom and Pop" operations subsisting in decaying urban neighborhoods. These businesses have roughly between a 40% and 70% chance of being burglarized in a given year, making it necessary for their insurers to proceed with utmost caution in setting premium levels and renewing old policies. The incidence of loss due to robbery, burglary, and vandalism is reflected in a survey of 1,500 ghetto businesses in Boston, St. Louis, Detroit, Cleveland, Newark, and Oakland, indicating that 50% of these firms carried no insurance, either because it was too expensive or not offered.

Crime figures support the insurer's caution. Burglaries have been costing businesses with less than \$1 million in yearly receipts over \$1 billion in each of the last five years. Losses due to vandalism to inner city stores are almost as great. Such losses have inordinate impact on the health of firms with a modest income base.

With moderately-priced insurance unavailable and security protection generally beyond their budgets, it would appear that these inner city businesses are doomed. And their decay would be only one aspect of the larger economic decline of major cities.

Fortunately, insurers and the businessmen will benefit in coming years from newly-developed security equipment which will provide the small, tightly budgeted firm with good, but reasonably priced protection. The advent of this new security equipment, which began last year, will improve control of losses that lead to so many bankruptcies in addition to making these hard-pressed firms more insurable. The advancements will also impact heavily in the re-



sidential security market.

Two of these innovations are digital transmission systems and computerized central stations, services that will be much prevalent in years ahead.

Most small businesses try to satisfy their security requirement with conventional locks, barriers, and, less often, local alarm protection in which an intruder triggers a loud warning signal at the protected premises only. Costing less than a color television set, a TELEMITTER-based security system provides the small businessman with protection substantially better than local alarm service. ADT's "Mini-Commercial" security system for example which is presently being introduced in Boston, and Houston, uses TELEMITTER as its transmission aspect. (TELEMITTER is not an ADT prod-

uct, but is a transmitting method so named by its manufacturer, which is used by several security companies.)

TELEMITTER is designed to transmit an alarm for a fire, break-in, hold-up or other irregularity to a central station via the business's own telephone lines and without the aid of special alarm circuits. Central station alarm service, preferred over local alarm protection because it guarantees a response to an alarm, usually involves leasing high-quality telephone lines, a practice which adds to the cost of the service. The relative simplicity of the digital transmission type system also assures reasonable installation and maintenance costs.

Like traditional central station service,
Continued on following page

Decides safety is no game, reverses results

By LIBERTY MUTUAL INSURANCE CO.

AS ONE WALKS down Safety Drive at Aurora Products' West Hempstead plant on Long Island, it seems as though the company would have no potential for accidents. Neatness and order are evident everywhere. Aisles are unobstructed between assembly lines, yellow lines define traffic flow along "road ways" identified by street names, and fork lift trucks, with blinking yellow lights giving warning to everyone in the vicinity, move easily, quickly and safely throughout the plant.

It wasn't always that way, though, for this major producer of electric road racing sets, hobby kits, toys and table top games (most notably, the Brunswick Air Hockey game, the toy industry's "Game of the Year" in 1974).

"Prior to 1972," explained David A. Balaban, Aurora's director of industrial relations, "we had a less than exemplary safety record. Faced with the seasonal nature of our business and concomitant turnaround, management recognized that only through a full scale, company-wide safety program, fully supported by man-

agement, could we gain control not only of the frequency of accidents but also their cost."

Complete control of accidents and occupational hazards may not be possible, but Aurora did reduce its accident frequency by 30% between 1975 and 1974. A subsidiary of Nabisco Inc. since 1971, Aurora's experience was one of the largest such reductions in all of Nabisco's domestic plants.

The first step in meeting the company-wide safety goal was hiring Lawrence L. Dener, who has been in the safety field for 20 years, as manager of safety and health.

"We concentrated on putting out 'fires' initially," pointed out Mr. Dener, "but we developed an effective team between company management, our supervisors and our insurance company for dealing as well with overall, ongoing problems. Together we proved that safety works... that it not only reduces accidents and losses, but also enhances production and saves money."

The corporate commitment to a safety effort was emphasized by making each supervisor accountable for the loss record in his or her area. Inter-department budgets are charged back for property damage. A significant factor in rating supervisory job performance is how well the supervisor performs his safety responsibilities. And an award program has been instituted for those supervisors who do an outstanding job.

Aurora also sought assistance from Liberty Mutual Insurance Co., its work-

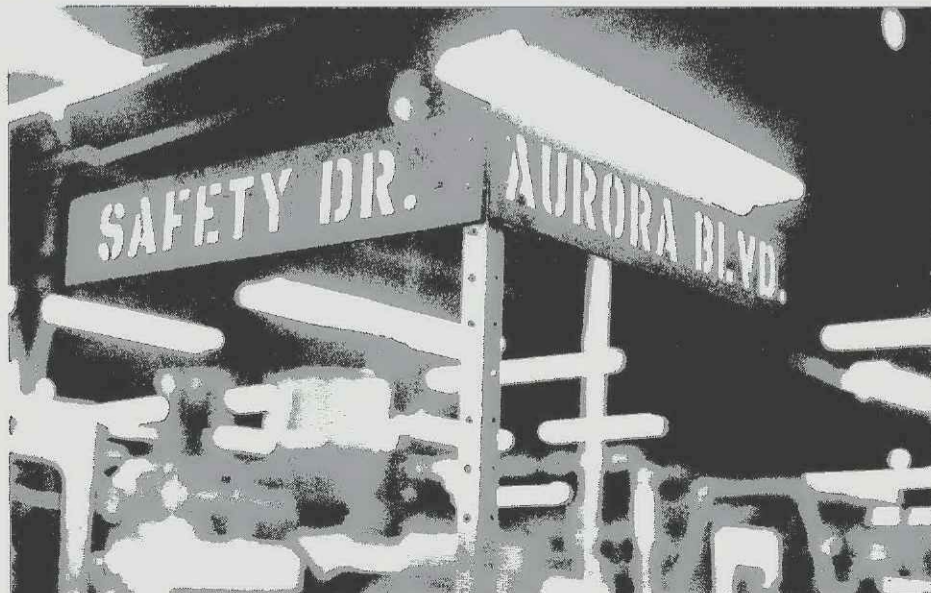
ers' compensation insurance carrier since July, 1973. Liberty loss prevention representatives conducted in-depth job-safety analyses, machine guarding studies and industrial hygiene surveys to help pin point potential and actual loss exposures.

Materials handling, both manual and mechanical, was a leading cause of accidents in Aurora's largely hand assembly production. There is, of course, constant movement of parts and other materials between storage areas and production departments. Aurora uses fork lift trucks throughout its plants and was encountering unnecessary losses and costs from downtime, damage to property, and extra maintenance costs through abuse of the trucks.

An extensive in-house training program has brought this safety and production problem under control. Each fork lift driver, after passing an initial driver evaluation screening, must qualify in the company's certified driver training program. He is responsible for the truck assigned to him. He completes a daily check list on the vehicle's condition and must report any damage or accident that occurs.

Each truck, furthermore, is equipped with a special flashing yellow light on the top. The signal light, which is hooked into the accelerator, operates on a magnetic base. Whenever the driver depresses the accelerator to go forward or backward, the light begins to flash. This provides ample warning to everyone in its path that the truck is moving.

Continued on following page



business insurance

PERSPECTIVE

Small business security . . .

Continued from preceding page

the TELEMITTER-based system employs a variety of sensing devices. For instance it would transmit signals to a central station from magnetic door contacts, that react to unauthorized door openings. The window is a prime point of entry in burglaries, making the foil-type sensors a necessity in the small business. These sensors send a continuous electrical current through the protected glass surface and transmit a signal the moment the glass is broken. Smoke-detectors, designed either for small storage areas or long hallways, or shopping aisles are used. Other sensors detect the slightest pressure of a thief's hand upon a store's safe. Some larger locations are plagued by thieves who hide in the premises until after hours. Their presence is detected by ultrasonic alarms, which fill an area with waves of inaudible high-pitched sound. Should this sound pattern be disturbed, an alarm would be triggered.

If any such sensors are disturbed, TELEMITTER electronically locks onto the telephone line, automatically transmitting a digital signal to a central station. Three different signals for different emergencies

can be sent. As the coded signal comes into the station, an audible and visual alarm alerts security personnel to the emergency while a computer-type automatic printing unit prints a record of the occurrence including date and time, type of alarm and code number of the endangered location. Central station personnel then immediately contact the police. Most important, the system is designed to continue dialing the central station until contact is made and the system receives a formal "go-ahead" to transmit its alarm.

Although robberies have cost small businesses about one-tenth as much as burglaries, they should be protected against because they often involve injury and sometimes fatalities. While the TELEMITTER can be used to transmit a "silent" holdup alarm signal to the central station, this protection can be backed up by some common sense procedures. Law enforcement officials have found that simple precautions, like always looking an approaching customer squarely in the eye, greatly deter the prowling holdup artist. Another good precaution is to remove cash from the re-

gister(s) at least once a day and at varying times, in addition to posting a notice to customers indicating that this is the proprietor's practice.

Response time to an alarm, which ideally is about two minutes in a large metropolis, is of decisive importance since apprehensions are the greatest deterrent to crime. Fortunately, the computerization of central stations will shave precious seconds off this response span, providing better protection. Routine opening and closing signals, which alarm users are usually expected to make daily to their central station, will be handled and recorded automatically, freeing the security personnel to promptly handle emergency alarms. This will help curb holdups especially, since they usually occur at hours when the routine call-ins are heaviest.

The computer will also automatically evaluate several simultaneously-received signals and send the most urgent one into the central station first. So the central station operator loses no time in digging up a police department's phone number or other vital information, the computer instantaneously retrieves and displays this data on a CRT screen.

Considering that the chance for arrest in a burglary is cut in half from the second to fourth minute after break-in, the improved efficiency in handling alarms will

substantially improve protection to the storeowner.

Again, the small storeowner can protect his stock with common sense practices. If valuable goods are moved to remote interiors of the store, daily or every weekend, the burglar must take more time looking for them, increasing his chance for apprehension.

And by leaving large bulky items near points-of-entry, the storeowner discourages theft altogether.

Businessmen selecting protection should bear in mind the findings of a recent survey on the relationship between robberies and burglaries. It found that communities suffering holdups in their stores also suffered burglaries to a great extent. So a robbery experience should be corrected by both robbery and burglary safeguards.

Providing effective protection to the small urban business might be pivotal in reversing the decay of major cultural and financial centers. By securing these premises with electronic protection at reasonable cost businessmen might qualify for insurance policies more equal to policies offered in safer, more suburban areas. By making these center-city enterprises prosperous and thereby generating greater cash flow in their neighborhoods, cities as a whole can be improved. ■

Aurora's safety pays . . .

Continued from preceding page

As in every manufacturing plant, there is a potentially dangerous situation at the loading docks whenever a fork lift is driven into the back of a truck to remove or put in a load. If the truck wheels are not chocked, it could roll away causing the fork lift to tip over or fall between the truck and the dock. At its Hempstead, Long Island, plant Aurora is experimenting with a light system which indicates whether or not a truck's wheels are chocked. If they are not, the light warns the area supervisor and the fork lift driver to stay clear of the truck until the chocks are put in place.

These improvements have meant a savings of approximately 80% from the previous cost of the company's fork lift operations.

Safe materials handling and good housekeeping, of course, are inseparable. Aisles and "road ways" have been laid out throughout the Hempstead plant with visible yellow lines. Street names, too, have been installed to facilitate movement and identify locations of assembly lines. This has proved particularly effective for new employees. All aisles between assembly areas, as well, are kept clear of obstructions so that people and material can move and be moved easily and safely. Slips and falls in these areas have been significantly reduced.

"Another problem we had with materials handling," according to Mr. Denker, "was in the storage area where the various parts for our games are stored until and during the time they are put into production. The way the cartons were stacked and organized was not only hazardous but chaotic."

The area was organized into neat rows with ample width between them for safely maneuvering the fork lifts. Safe stacking procedures were instigated and the stacks are constantly surveyed to insure their stability and accessibility.

For manual material handling, instructions were and are given in the proper use of tools and equipment and where necessary improved equipment is continually being installed. In the plastic molding department, for example, lad-

ders have been installed for use at the feeding hoppers. Since they were put into use, there has not been a single fall from the molding machines.

Liberty Mutual has conducted lectures on biomechanical and ergonomic principles for the industrial engineering and production management. These sessions demonstrated how job efficiency and production could be improved by designing work tasks to match the capabilities of the majority of workers either in existing operations or in planning new ones. As a result, the engineers consult with the industrial relations department when the production line for a new hobby or game is being planned. Any machine guarding installations for hand assembly work, for example, are built in by the maintenance department after consultation between the engineers and the safety manager.

This same cooperation and team effort between management, safety and supervisory people, and the insurer were applied toward industrial hygiene. Liberty Mutual conducted 12 surveys to determine loss exposures from noise, solvent vapors and hazardous materials. Aurora personnel attended several seminars conducted by Liberty on the problems and solutions of working with chemicals, power presses and noise. Among several steps taken, acoustical enclosures have been built around a number of presses, resulting in a considerable noise reduction. On one power press, for example, that reduction was greater than 70%.

The exposure to workers' health from hazardous solvents and other chemicals is not excessive. However, the purchasing department is adopting the use of a material safety data sheet, recommended by Liberty Mutual. In negotiations with vendors, it is used for specifying particular hazards of any materials being sold to Aurora so that the effects of their use can be accurately determined.

At the same time that these specific loss control techniques were being implemented, an in-depth safety training program was established. It began with a 12-hour supervisory safety training program conducted by Liberty Mutual for middle management and line supervi-

sors. The sessions covered supervisors' safety responsibilities under OSHA, the costs of accidents, manual materials handling, employee safety training, productive accident investigation and supervisory plant inspection. The loss prevention techniques learned from these sessions, and similar programs since the initial one, have been and continue to be implemented in each department through weekly safety meetings. Specific ongoing training for new operators in various departments have also been established.

In addition, Mr. Denker, accompanied by the respective supervisors or manager, conducts frequent plant tours of the various departments.

Unsafe conditions are corrected immediately, if possible, or work orders are issued by the department manager to the maintenance department for prompt attention.

Unsafe acts or employees' disregard of safety rules are checked on the spot. Persistent violators are written up by their supervisors using a "Warning Notice System" that could result in punitive action against a flagrant violator.

Realizing, too, that proper job place-

ment helps lessen accident possibilities, Aurora strengthened its medical department under guidelines from Liberty Mutual. The company's full-time nurse conducts pre-placement exams to ensure a proper match between people and specific jobs. She also works closely with local doctors on any accident cases which do occur so that the injured person can get back on the job as soon as possible after their accident.

Overseeing the success of Aurora's loss control efforts has been its executive safety committee. Robert S. Gruchacz, executive vp, acts as chairman; the safety manager is the secretary and every area of the company's line supervision is represented. It meets formally on a monthly basis with a specific agenda. Corporate safety policies are set down. Specific assignments and responsibilities are made to appropriate persons for handling particular problems. The committee also has the power to approve installations of equipment or adoptions of new safety procedures. Its prompt consent and actions have been the major influence in the successful establishment of the company's safety program. ■



The main plastic molding section at Aurora Products' West Hempstead plant.

Fact: It's no good pleading ignorance when reality of product risk dawns

PRODUCT LIABILITY: A MANAGEMENT RESPONSE

Irwin Gray, with Albert L. Bases, Charles H. Martin and Alexander Sternberg (published by AMACOM, 1975, communications division of American Management Assns., 239 pages, \$12.95)

Reviewed By
SUSAN ALT

Corporate executives may view themselves as brilliant professionals, successful beyond expectations by all the yardsticks of performance measurement. Yet "management stupidity" is a major problem—in fact, the major problem—when it comes to recognition, coordination and control of corporate product liability risks, Irwin Gray bluntly declares.

Blissful ignorance, he documents in his book on the subject of product liability, has become a boondoggle for many suppliers of products. "The problem with management is, they don't think they have a problem. They think an insurance company will cover everything," he says in his most chastizing tone.

"That's because they haven't been hit with anything yet," he told *Business Insurance*, lowering his voice menacingly as he focused on the crux of the challenge to management.

His object in writing a tome about a total approach to managing this expensive problem? To draw from all the instances where companies have "been hit" with suits, backbreaking defense costs, multimillion dollar judgments, or denials of claims by insurers, and learn from them what is essential to the defense of a product liability case.

One thing Mr. Gray is not is an alarmist. He would calm those on the edge of panic as they see the constant flow of huge jury awards to plaintiffs injured by products. "The number of jury awards over \$1 million that hold up through appeal is very small," he believes. "The appellate division keeps the brakes on juries."

But that does not diminish the risk, whose dimensions are growing. Charles H. Martin, co-author and a former risk manager, recommends companies have catastrophe insurance against products liability "with as high a number (limit) as possible."

(Mr. Martin spent 21 years with American Cyanamid in risk management positions and is now a consultant working with corporations and trade groups. The other co-authors are Albert L. Bases, a trial lawyer, and Alexander Sternberg, a consultant.)

Corporations facing product liability risks and suits are akin to an army subjected to guerilla attacks. The guerillas choose the time, the place and the vehicle for aggression, while the army has to prepare an all-around defense, the authors maintain.

The book presents a tough critique of management's heretofore lackadaisical approach to the problem. In most firms there is no manager or department coordinating the various steps to be taken in protecting a corporation from large judgments and wide-ranging liability decisions. The company must establish before any suit is filed a clear procedure for defending itself against charges of negligence and liability in product safety cases, says Mr. Gray, a PhD and professional engineering professor and consultant. In his role as consultant, Mr. Gray has been

on both sides of the product liability litigation fence, serving as advisor to corporate attorneys defending product liability cases, and to plaintiff's attorneys mounting products suits.

Companies generally lack an organized approach to products liability defense because "many managers are inclined to underestimate the attacking forces and overestimate their own defense forces," declares Mr. Gray. He lambasts the attitude of "it can't happen here" which dominates the actions (or in this case, inaction) of top management.

When the product liability bomb does explode in the corporate lobby, the company might, in a pinch, be able to defend itself adequately.

ly. But measures used to protect corporate flanks will be the most costly of all solutions, says Mr. Gray: The firm's legal department, outside attorneys, and the defense staff of the firm's insurance carrier.

Legal help from the underwriter, can, indeed, be most effective says Mr. Gray. But the insurer's services will be compensated over the long run by "higher insurance fees and premiums, tougher exclusion clauses and reduced coverage."

This is, to be sure, already happening. Products liability insurance, if available at all, is extremely costly, and deductibles (call them self-insured retentions,

if you prefer) commonly reach into the hundreds of thousands and sometimes millions of dollars.

The authors build a case for extensive preparation by corporations for litigation, and liability. They devote much of their book to the litigation process itself, and how to handle a defense. Among the subjects providing invaluable background for risk managers and other managers concerned with products liability, safety or quality control are: A major part of the volume covers details of how the plaintiff builds a case against a manufacturer or supplier, and how the defendant should respond and build the defense. Another chapter deals with the trial itself, if and when the case gets to trial. (Experts say only a minor portion of all products liability suits go to trial, having been settled beforehand because defendant and insurer fear publicity.)

A 30-page chapter covers the topic of liability insurance, and

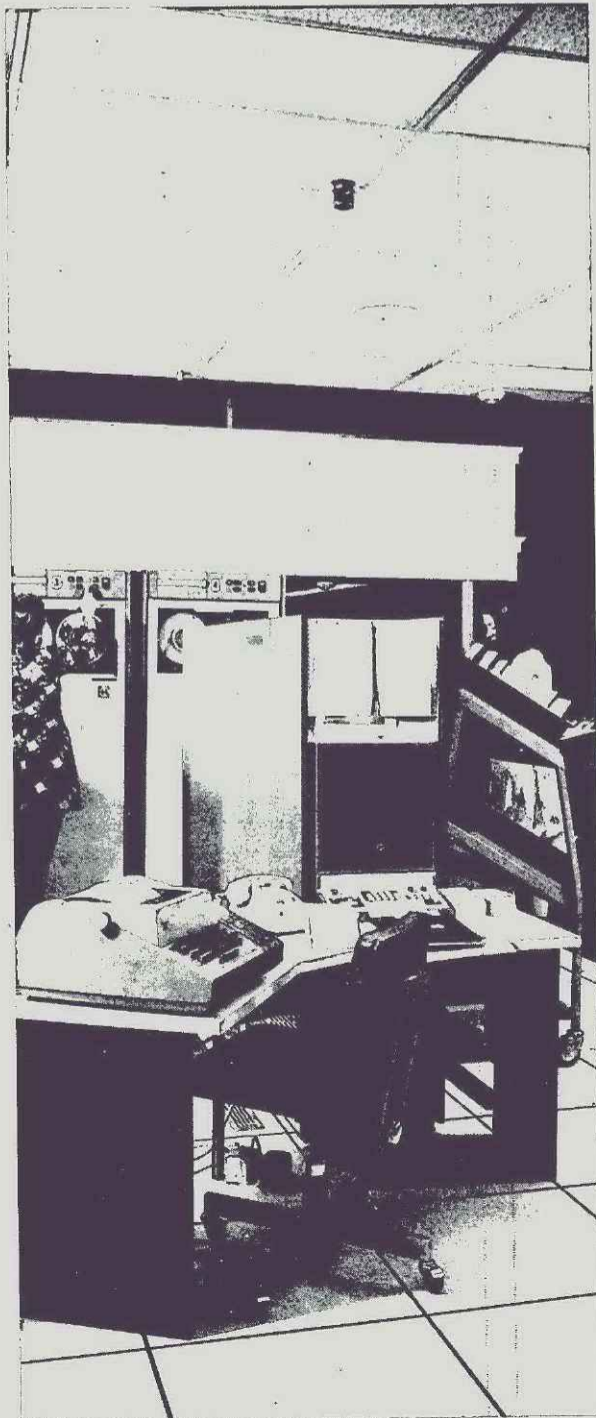
rightfully asks the rhetorical question: The Big Buffer? Two final sections emphasize procedures and approaches to product liability prevention, and the importance of avoiding and minimizing the risks, which can be lowered "to truly insignificant levels" by a concerted effort, say the authors.

The book has a detailed analysis of such things as how corporate and insurance attorneys should interact, how corporate managers should answer questions in depositions and interrogatories as well as on the witness stand, how witnesses should be briefed about the fine points of the product's design, testing and manufacturing process, and now to fend off the opposing attorney's attacks.

Each of the book's seven chapters ends with a list of footnote references. While the book itself tries to cover every inch of ground

Continued on page 52

The greatest hazard from a fire might be the water that puts it out.



Kidde custom-engineers Halon 1301 systems to protect property where you can't afford water damage.

In high-value, high-risk locations—like computer rooms, record storage areas, telephone switching offices—direct damage from a contained fire might be small. But if a sprinkler system soaks electronic and electrical equipment, or data stored on tape or paper, losses could be disastrous.

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Product liability . . .

Continued from page 51

on the management of product risks, the information sources include only a limited listing of publications and sources of frequent, regular news of products liability trends, litigation and insurance. For example, an increasingly common method of financing products liability risk is by the use of an affiliated (or captive) insurance company. No mention was made of the use of insurance companies formed by one firm or a group of firms in an industry to underwrite this risk. The bibliography of the book was its major weak spot.

Mr. Martin, who presumably contributed much of the material in this book on products liability insurance, offers some choice bits of advice which risk managers

would do well to consider, including:

- "The closer you can get to a meeting of the minds (about the scope of insurance coverage and its limitations) with the underwriter by direct personal contact, the better."

- In the event the insurer denies defense or indemnity in a products liability case because of alleged design defect and the policy's exclusion of coverage for design defects, "management's proper response is to demand that the case not be prejudged as to coverage."

- Beware the "sistership exclusion" in standard products liability policies and be cognizant of whether you have specific coverage for this particular liability because "its impact can be deadly indeed."

- Vendor's endorsements in sales contracts can be troublesome for a producer because the vendor's systems and procedures while "doing his own thing" may constitute negligence, and void products liability insurance "for future cases, or (you may) face a complete denial of coverage starting with the claim you have already received."

- For companies involved in international commerce, "an endorsement should be added to most policies to specifically cover an original suit brought anywhere, and to specifically include products produced anywhere in the world, provided that the suit is brought within the U.S., its territories or possessions."

- Basic liability policy wording on coverage for bodily injury "should be broadened by endorsement to read 'personal injury,' which would include libel, slander, false arrest, and other charges as well as punitive damages."

- "Wherever the phrase 'caused by accident' appears, it should be changed to 'caused by occurrence,' which some underwriters will agree to substitute when requested."

The book makes a case, and a good one, for the professional insurance purchaser and the corporate risk manager. It outlines in some detail 11 reasons insurance is one of the "most difficult commodities a company has to purchase on the open market."

Whether the corporation wants to fight each products liability case or whether it prefers to settle the small ones and fight only the biggies, the authors put the greatest possible emphasis on *knowing ahead of time* what route is going to be taken. "The need for precision in drafting the procedures for who tells what and when upon receipt of a threat or claim is so important that we again recommend you meet with your at-

torney to establish appropriate ground rules. Get these rules into the procedure manuals, and have personnel indoctrinated," declare the authors.

This is the whole point of the book. And if that's not good enough, consider this: "More good cases are lost by the defense through unprepared witnesses and attorneys than many an insurer will care to admit."

Risk manager's role

The risk manager should be one of the parts of the total corporate effort to control product liability risks, Charles H. Martin urged. "When I established a product liability control organization for my company some years ago, the product liability manager was at the center of the baseball diamond. I do not think that the risk or insurance manager is necessarily the one to head up this effort, but he certainly must take part in it, and be the progenitor of it, to help develop that role. In the smaller company, the risk or insurance manager may be the best person in the best position to control this effort."

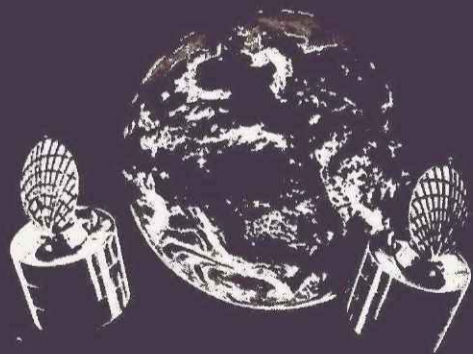
This would be a good book for risk and insurance managers to buy for the purpose of better informing themselves on how pre-planning pays off, then routing it through the ranks of their companies' top managers.

What to do if they still don't think it can happen to your company? Sit down and discuss how a court judgment against you of \$2.5 million would affect earnings per share. Can a firm afford NOT to plan ahead for a contingency like that? The amount is not unrealistic. It's the largest products liability award in the last five years known to have held up through the appeal process, made against Boeing for the estate of a pilot killed in a crash of a Boeing aircraft. ■

Acquire H.W. Black

William M. Mercer, the employe benefit consulting division of Marsh & McLennan Inc. acquired H. W. Black & Associates Inc., an employe benefit and actuarial consulting firm. H. W. Black & Associates, which has offices in Memphis and Nashville will continue to be managed by its former principals, Harold W. Black and Lucian B. Acuff.

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SEE OUR AD ON PAGE 10

Security linked to aid for drug, booze abuser

NEW YORK—Corporate programs that find and help rehabilitate drug and alcohol abusers pay off in increased productivity, fewer on and off the job accidents, savings on payroll and insurance, and less absenteeism and lateness, according to a study released late last month by the Burns Security Institute.

SAFETY/SECURITY REPORT

Spokesmen for a number of insurance companies underwriting such programs and corporate directors of the programs agreed with the Burns report.

Most corporate alcohol and drug abuse programs rely on supervisors of employees with a problem, rather than solely on employee self-referral.

However, some observers advised caution when relating poor job performance to drug or alcohol problems.

Dr. Fern Asma, assistant medical director at Illinois Bell Telephone Co. says, "We look for the problem employee—more specifically, the employee with a job problem—and offer our help. This has proved to be much more successful than looking for employees with specific problems such as alcoholism or drug abuse."

The latter approach can lead to a "witch hunt that defeats any rehabilitative effort," he said.

A spokesman for Employers of Wausau Insurance Co., which has been involved with alcohol rehabilitation programs since 1959, agreed.

"We beat our brains out trying to emphasize to supervisors that they're not to diagnose an employee's problem," he said. Supervisors are trained to look for symptoms, for poor job performance and to refer that employee for counseling rather than to make judgments on their own.

One of the biggest obstacles to the supervisor-referral approach, the Employers of Wausau spokesman admitted, "is that supervisors refuse to recognize the symptoms of alcoholism."

Problem drinking has become so commonplace that it's becoming accepted, he added. "There needs to be more education provided so people realize the importance of this problem."

Carl W. Dahl, director of the Occupational Performance Program for The United Way of Dade County, Fl., noted in the Burns study that "it is only human for a manager or supervisor to be inclined toward covering up for 'dear old Harry or Mary' who has served for many years effectively but recently has begun to fall off in performance."

"We urge management to avoid cover-up on the premise that problems we are talking about are progressive in nature," he said. In addition, "the deeper the employee trouble or problem, the greater the probability he or she will deny it exists or resort to defense mechanisms," he noted.

Dr. Jokichi Takamine, chairman of the committee on alcohol-

ism, American Medical Assn., told those attending a Burns seminar on drug and alcohol abuse, "Your organizations must start to look at people with problems, not in a permissive way . . . not in a kind or paternal way, but in a very healthy, realistic way."

Communications is the key to successful treatment of alcohol or drug abuse, Dr. Takamine noted.

"Unless society changes attitudes in this matter of communication, this problem is not going to ever stay at a plateau, it will continue to get worse," he said. ". . . basically this isn't an industry problem, it's not a management problem, it's not medicine's problem, it is a living problem in its simplest form." ■

risk management reports

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Concern for bottom line means more than "productivity"

At Questor, bonuses depend on safety records

TOLEDO—At Questor Corp. plant managers have more to worry about than producing the most widgets in the shortest time span. Their personal management success and annual bonuses depend on whether they can reduce workers' compensation costs and accident frequency rates.

"The plant manager is directly responsible for reducing the cost of workers' compensation and the frequency of injuries," said Joseph Zuzik, director of occupational safety and health at Questor. The safety results become "part of the individual manager's record," he added.

In the four years Mr. Zuzik has been at Questor, he has worked with top management "to imple-

ment the philosophy of not overriding a safety feature just to get production out."

Probably the reason division heads listen to Mr. Zuzik is that he shares their concern for the bottom line.

Each quarter Mr. Zuzik sends out a safety performance chart to each Questor plant showing "just how much it costs each plant in workers' compensation claims for that period." He credits the technique itself with helping to cut down on accidents.

Safety results are ranked with the best plant listed first. This way, Mr. Zuzik explained, top management can see clearly who has the most effective safety and

health program.

His five-year goal, from 1974 to 1979, is to save \$375,000 in pretax earnings on workers' compensation costs in Ohio, where approximately 6% of Questor's total U.S. workforce is employed at six locations. A self-insured workers' compensation program was instituted there after Mr. Zuzik's arrival.

The mean cost of workers' compensation declined for the company from 6.5 cents per man-hour for all U.S. plants in 1972, to 4.4 cents per manhour in 1973 and to 3.9 cents per manhour in 1974, he said. Figures for 1975 will not be available until December, but Mr. Zuzik expects the favorable trend to continue for

Questor's 13,000 employees.

Mr. Zuzik estimates that the first two years' cost of Questor's safety program since he joined the company was "roughly \$1.5 million," tapering off since then. The approximate annual cost for his department alone is \$50,000, of which almost 25% is spent on travel to various plant locations.

"I talk to nurses at plants where there are serious injuries. I try to get these employees back on the work rolls. Many of them don't want to go back to work after using up their convalescent period," Mr. Zuzik said.

His visits, which take up 60% to 70% of his work schedule, also help pinpoint the reason for acci-

dents resulting in loss of limbs. Any serious injuries are discussed with Questor's risk manager, who supplies Mr. Zuzik with loss run records.

Mr. Zuzik collects the initial accident reports from all 62 domestic plants as well as the OSHA records and combines the information with the closed claims he receives from Fireman's Fund Insurance Co., Questor's workers' compensation carrier.

Monitoring techniques on air and water pollution discharges takes up part of Mr. Zuzik's time. He supervises engineering evaluations on installing new equipment to remedy the problem.

He publishes occupational safety and health bulletins "as needed" to inform plant managers of changes in OSHA regulations. "We abstract OSHA regulations and condense them into something more understandable," he said, adding information from other sources that is pertinent.

A year and a half ago, Questor contested two citations by OSHA for violation in machine guarding. "We had to make some modifications," he admitted.

According to Mr. Zuzik, Questor's standards are often higher than OSHA's. "When we disagree with a standard or feel we have a better way we appeal the ruling, but we've only been in that position twice."

In plants where major changes are needed to bring a facility into compliance, estimated costs of the improvements are included in the plant's annual budget, Mr. Zuzik said. The operating manager of the division must submit a written plan for the changes, including target dates and any required compliance dates. New equipment is inspected for safety and health standards before it is purchased, he said.

Mr. Zuzik believes in telling plants how to correct safety violations with specific suggestions. "There's no sense in telling someone that something is wrong, unless you also show him how to fix it. When we say a caution sign is needed at a certain spot, we include a copy of the caution sign with the report." Then on his next visit to the plant, Mr. Zuzik looks at previous reports to see that the necessary changes were made.

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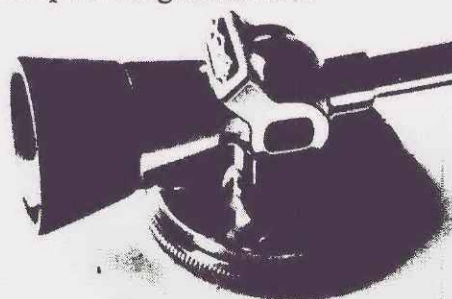
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Mr. Zuzik performs a hazard analysis, which also includes an investigation of industrial hygiene, each year at every plant. "I discuss with the plant manager the major accidents which have occurred and what he's doing to correct the situation."

A two-month "drag period" is needed to obtain necessary accident information from Fireman's Fund, so sometimes Mr. Zuzik must wait to discuss the specific plant's performance record after his annual visit.

The information from the carrier on accidents identifies the location, the employee, the type of accident and the cost of workers' compensation paid out and in reserve.

Six training sessions are held around the country for the safety representative from each plant. The three-day program includes an audio visual presentation on OSHA standards, learning how to detect hazardous work zones and a briefing on following up workers' compensation cases. The safety representative then reports back to the plant safety committee, which is composed of both management and hourly personnel.

Ergonomics, the relationship of man to machine, is one of Mr. Zuzik's high priority concerns. Questor has been known to redesign a tool if it no longer fits the job safely, he said.

He related one instance where a pair of straight pliers used to twist parts together, instead caused the worker to twist her wrists in an unsafe way. Questor's shop redesigned the tool so that parts rather than wrists were twisted.

Asked if Questor ever approached the manufacturer of a

N.M. state bar designs group legal program

SANTA FE, N.M.—All New Mexico state employees will be eligible for legal expense insurance to cover themselves and their families under a pioneering program established by the state bar association in cooperation with state officials.

The plan, which is voluntary, is said to be the first of its kind in the nation involving state employees. The 12,000 workers are eligible for a broad spectrum of legal services.

"Persons protected by the plan will be guaranteed attorneys for the following needs," said James H. Foley, president of Legal Protection Insurance, Norwalk, Ca. It is part of Midwest Mutual Insurance Co., the underwriters for the program:

"Defense of civil actions, personal bankruptcy proceedings, divorce, separation or annulment (plus legal fees up to \$300 for the spouse's attorney), adoption proceedings, defense of drunk driving, defense of felony and misdemeanor charges as well as habeas corpus proceedings and juvenile matters."

State employees who elect coverage will pay \$6.16 a month if they are single and \$8.19 a month for a family.

Administering the program is Prepaid Legal Services Corp., N.M. It is a non-profit entity established by the state bar association to provide legal expense insurance plans for the state.

The first state bar association to provide insured legal expense program was Oregon, also underwritten by Midwest Mutual. ■

tool or piece of equipment to redesign it more safely, Mr. Zuzik said he didn't know of an instance in which this has happened.

SAFETY/SECURITY REPORT

Security is handled by another department, explained Mr. Zuzik, who is a board-certified safety engineer, industrial hygienist and health physicist. He said he has taken graduate courses at the

University of Pittsburgh, New York University and the University of Paris.

Mr. Zuzik is a contributing author to two books published by McGraw-Hill: *The Industrial Pollution Control Handbook*, 1971, and *The Encyclopaedia of Occupational Health and Safety*, two volumes, 1972.

Questor has plants in 18 states and eight foreign countries and manufactures a diverse range of products such as auto parts, baby furniture and bottles, sporting goods, toys and books. ■

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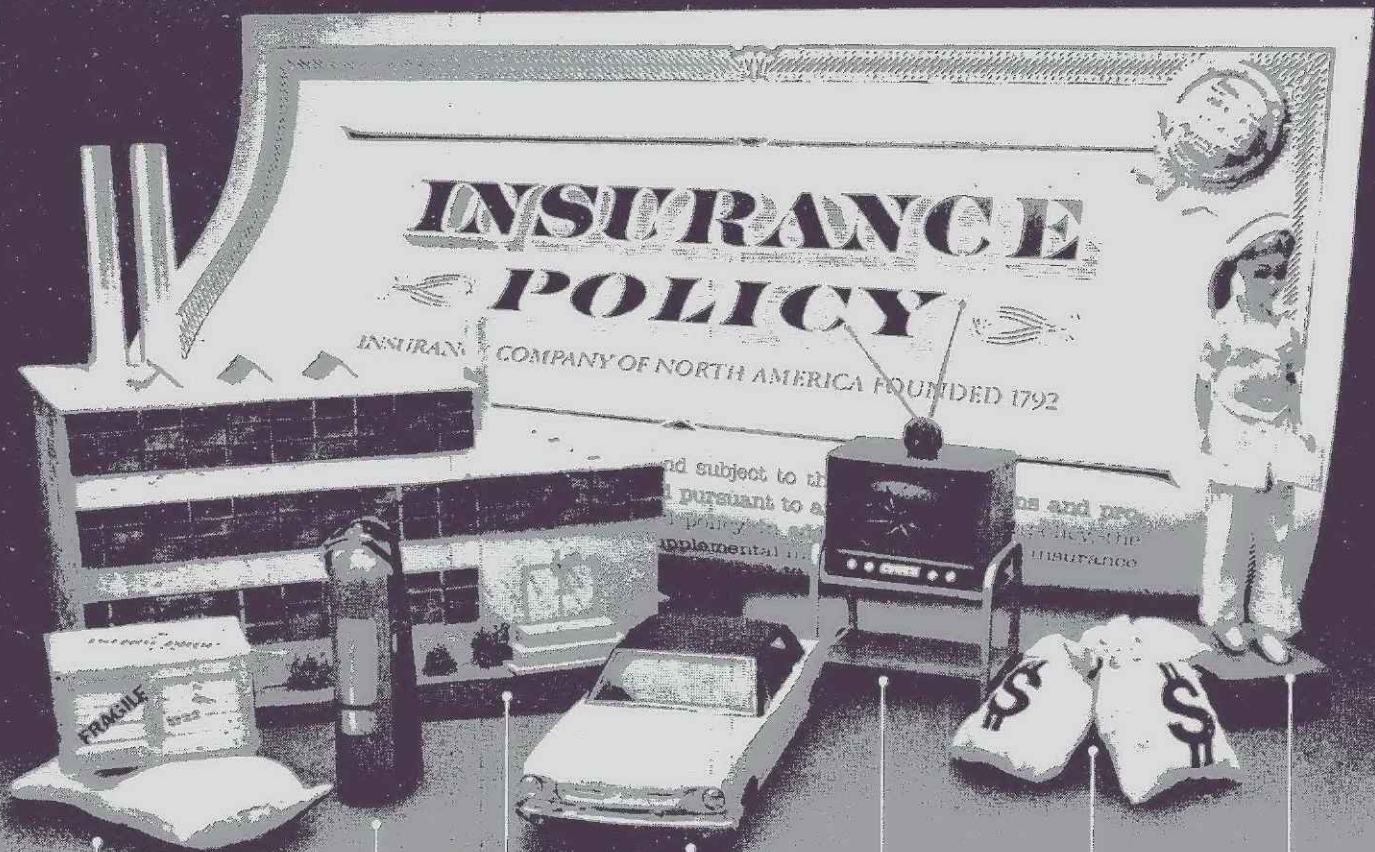
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New variation on lie detector theme dims prospects for potential pilferers

By SUSAN ALT

CHICAGO—There's a new technique being added to the routine pre-employment screening of people who apply for jobs. The process affects white and blue collars alike.

Even top managers answer the questions and go through an additional meeting before they're added to the rolls.

It's all a nice, friendly process to find out what opinions these applicants have on various subjects. Such as stealing. Or having a fellow worker punch the time clock when you're absent.

The interview is part of a procedure being adopted by hundreds of companies nationwide to

combat internal theft, which in the last five years has amounted to much more than "petty" pilferage, indeed. Internal crime committed by employees costs business between \$15 billion and \$50 billion annually, some experts have estimated in their efforts to define a truly monumental problem.

The procedure gaining popularity for more effective pre-employment screening, as well as apprehending thieves when losses are discovered, is called psychological stress evaluation (PSE). In many cases, it's replacing the old polygraph, or lie detector, method of finding the culprits.

Psychological stress evaluation techniques don't engender hos-

tility like the old lie detector method did. Employees as well as employers like it better. "With the polygraph you have to strap a person to a chair. With PSE, the subject can smoke a cigarette, and is comfortable with the interviewer," says Sheldon M. Levine, corporate director of security for Waldbaum's Inc., a 128-store supermarket chain in New York and New England. Mr. Levine quickly points out that he's not knocking the polygraph system, which he used extensively before he went with PSE three years ago.

Another happy user of the PSE method of employee screening is more voluble about the drawbacks of the old polygraph methods.



Richard Goldberg, Advance Industrial Security, conducts PSE test.

"The main disadvantage is that the person tested in many cases becomes hostile," said Joseph W. Parker Jr., corporate director of loss prevention at Cleveland-

based Gray Drug Stores Inc. "We don't want that hostility. We want this to be as palatable to our employees as possible. We don't want to insult or offend them." PSE creates a good atmosphere, "because the employee is just talking to someone" even though the questions are often tough and to the point, and the interviewer is very frank about what this process is for, Mr. Parker told *Business Insurance*.

"But it's very low key," he added.

Gray Drug Stores, with a chain of 275 drug stores, 40 department stores, four major warehouses, a fleet of 110 trucks, and a photo finishing plant, is convinced that screening with PSE works. "We have reduced internal theft tremendously since we started use of PSE for pre-employment screening" four years ago, declared Mr. Parker. "Our gross profits are up for every division" because pilferage has been reduced, he added.

There are two ways PSE is used: For the pre-employment screening, to indicate a need for further investigation of a person, and in the "polygraph mode" after thefts have occurred in a company, to evaluate employees' answers to direct questions about involvement in thefts.

The PSE technique was developed by a firm called Dektor, located in Springfield, Va. Dektor is still the leading supplier of equipment used for PSE. A complete set costs about \$4,000, and includes a recording device used during an interview, then hooked up to a machine which records the stress in a voice in graph form on electrocardiogram (EKG) paper. The analyzer itself costs about \$2,500, well below the tab for the older polygraph. Any

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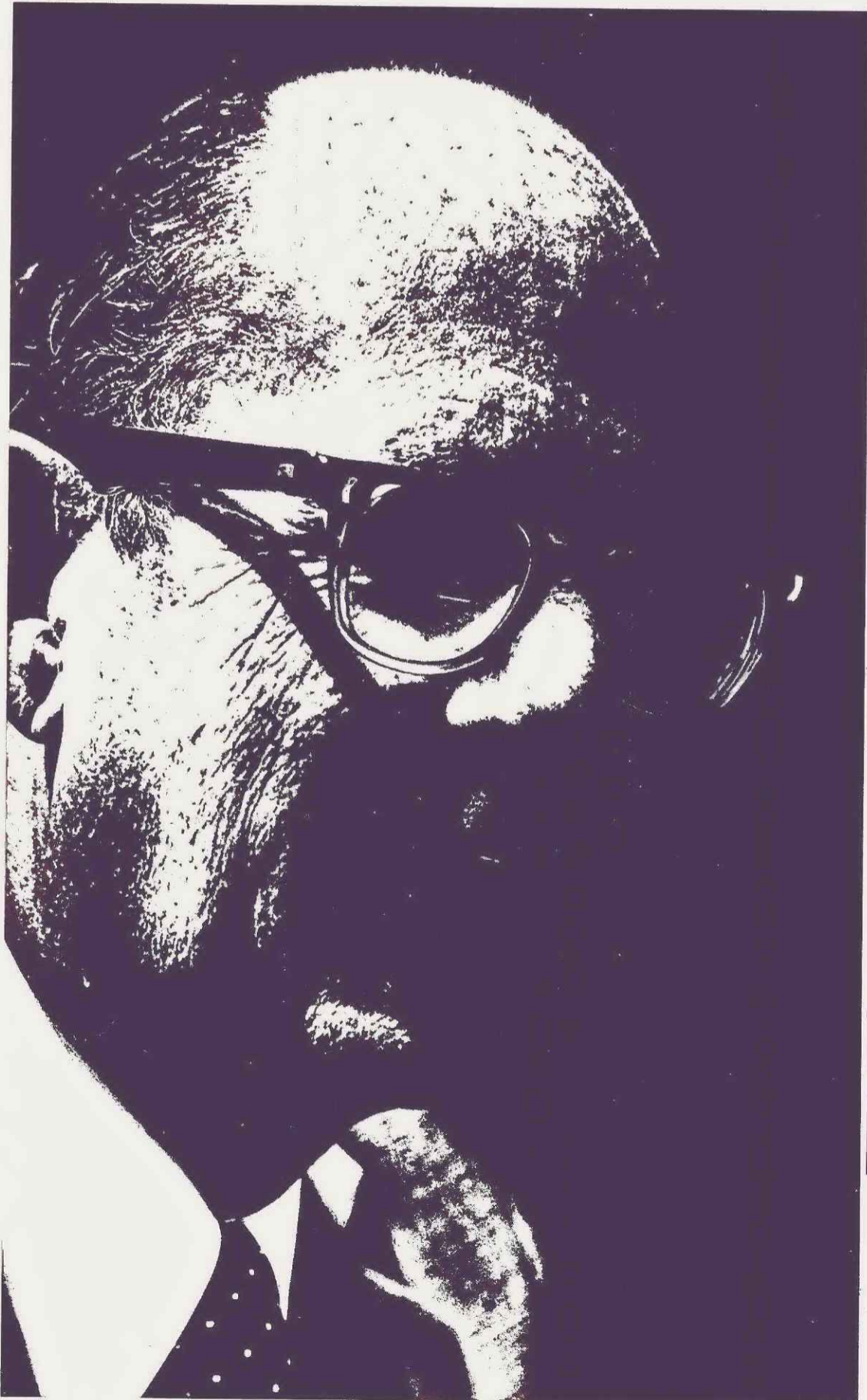
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high quality recorder can be used to make the tape (except a cassette recorder).

Dektor isn't the only supplier of PSE equipment, however. Another firm called Law Enforcement Associates in Belleville, N.J., markets the Mark II voice analyzer which some believers in PSE are now experimenting with.

Furthermore, there are a number of security services specialists using the PSE techniques, among them Burns and Pinkerton's, to screen the people they hire as guards. Some companies offering investigative services and industrial security consulting services contract to provide employers with personnel to conduct interrogations and apply PSE methods, so that companies don't have to purchase equipment and maintain staff fulltime. One of the largest nationwide providers of PSE services is Advance Industrial Security in Atlanta, a division of A-T-O Inc.

Richard Goldberg, Advance's corporate manager of investigations, has performed over 2,000 PSE interviews since the Dektor system was developed five or six years ago. "We are relying more and more on PSE—using it about twice as much as we use the polygraph system," he said. Advance Industrial Security charges \$25 per test to interview and evaluate responses on a pre-employment screening contract basis, said Mr. Goldberg. Cost is \$35 per hour to have Advance administer PSE in a polygraph mode as a post-theft method of investigation, with each employe interrogation or interview running about two hours.

Gray Drug Stores rejects a huge number of job applicants following pre-employment screening procedures, of which PSE is the third in a series of four steps designed to keep the crooks out of the till. Mr. Parker said that of every 100 job applicants at the Gray Drug chain, about 50 are rejected after completing a long, customized questionnaire and a subsequent interview with a manager which lasts about five minutes. Of the 50 who pass these tests, and then go through the PSE screening process, about 10 are placed on "hold" status for further investigation.

"We do hire quite a number of people who have had problems, such as minor drug use or drug experimentation, or minor thefts from former employers, but with PSE, they put us on notice so we can watch them," says Mr. Parker. Gray Drug's total cost of pre-employment screening is less than \$50,000 a year, including all the people needed to administer the PSE procedure. Gray Drug has two sets of PSE equipment.

Increased drug use among employes is one thing convincing Mr. Parker pre-employment screening, particularly PSE, is valuable. He points to a recent study that found 75% of all people tested under PSE admitted some degree of drug use, even though that's normally been a tough thing to get employes to admit.

"For pre-employment purposes we use opinion-type questions. We don't always care what the answer is, because we are looking for an opinion or reaction to an opinion. If a whole series of responses is wrong, then we know we might have a problem, and it indicates an area to be investigated," Mr. Parker offered.

Waldbaum's, too, has a series of pre-employment procedures every applicant must go through, including PSE. The company routinely performs a credit investigation on all applicants, then ad-

ministers the PSE with questions geared to a supermarket operation, eliciting views on such topics as accepting grants from vendors, outstanding debts, stealing inventories, previous criminal record and convictions. A key question is whether the applicant omitted on the application any names of previous employers for any reason.

"There isn't just one test given," said Waldbaum's Mr. Levine. "Different formulations of questions are used, and this pre-employment test takes a minimum of one hour."

Among the advantages of PSE, recites Mr. Levine, are its portability, and its validity if the person being screened has been under the influence of drugs or alcohol. Audio measurement works in any situation, whereas a polygraph or lie detector test might be inconclusive because it's based on such factors as respiration and

Continued on page 58

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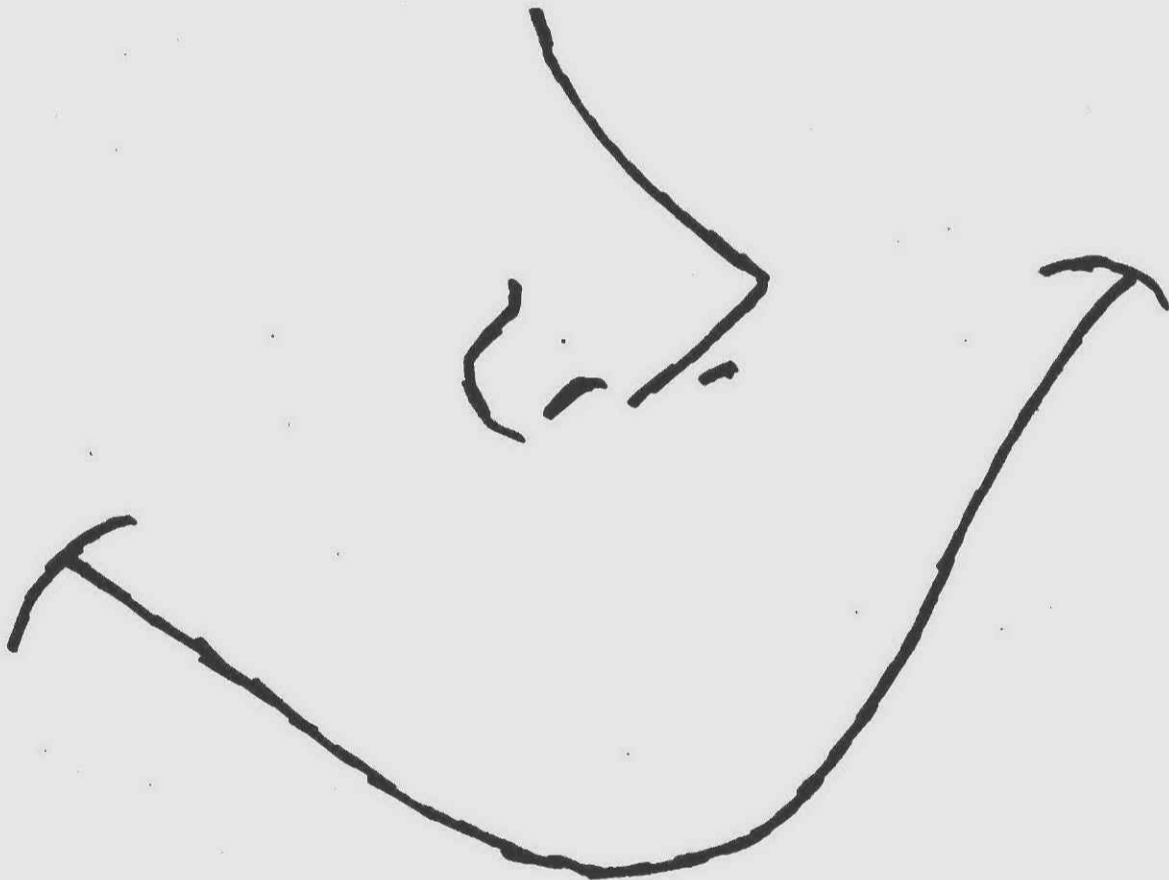
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PSE tests . . .

Continued from page 57

heartbeat, which can vary for reasons other than a person's guilt or innocence.

"With a polygraph, technically anybody who can wiggle his ears can outwit the test," quips Mr. Goldberg, an expert in using both methods. The PSE technique is based on a central nervous system response to questions which cannot be controlled by conscious efforts, the PSE users contend.

PSE results aren't a panacea in all cases, particularly if a company believes in prosecuting employee-offenders. PSE testing evidence is admissible in court only in a few states, although efforts are underway to change the rules of evidence in more states so test results can be used.

PSE is rarely used to test employee involvement in dishonest

acts—although it can be applied that way—at least by firms having tough pre-employment procedures. It's seldom needed. But when it is used, it works, experts say. "Let's say you have an arson in a facility, and there were 15 people working when the fire started. After you spend an hour to an hour and a half with each person who was on duty, you'll know who all was involved," said a security director.

Security officers are careful about using PSE post-employment. "We don't just go on witch-hunts with it," declared Mr. Levine. "There has to be a good reason for a person to be tested, and nobody can be forced to take the test. But the innocent employees want the testing done, too, so they can be cleared. We've been successful in every case we've needed to solve in the last three years."

Mr. Levine attended the Dektor school of counterintelligence to learn the fine points of using PSE.

He is a director of the Dektor PSE users association formed three years ago by 12 charter members. Now having 205 members, the group represents every aspect of security and psychological testing. The president this year is a surgeon, and the group includes quite a number of psychologists and psychiatrists. Many members are retail security directors, while the largest number are from law enforcement and other agencies of government.

Some promoters of PSE are telling security-conscious companies that they can take a do-it-yourself approach to PSE screening, Mr. Goldberg of Advance Industrial Security warned.

"This is pure bull," Mr. Goldberg declares. "The PSE technique cannot be used in a do-it-yourself fashion. It must be administered by a qualified polygraph interrogator in a controlled situation." ■

High rise safety rules seen as detrimental

DEERFIELD, IL.—"The high rise problem is less significant than most people believe," claims Norman J. Kornsand, consulting engineer for Rolf Jensen & Assoc.

The issue, as Mr. Kornsand views it, is not the lack of fire safety regulations for high rise buildings, but the direction the regulations are taking.

"The recent record of high rise fires speaks strongly for change," he said, "but while many of the new rules are good, some are excessive, some are misdirected, and some are inadequate."

In a study conducted with his associates, 124 of the major high rise fires since 1941 were reviewed, 19 of which occurred outside the U.S.

Of these, only nine fires accounted for 497 of the total 626 fatalities for all fires, according to Mr. Kornsand.

"Analysis of the foreign fires showed that the causes (of them) were covered by building codes in the U.S.," he said. These were "highly combustible interior finish, unprotected vertical openings, inadequate exits, and unprotected exits."

The two other factors involved in the U.S. fires were, he continued, "delay in detection and alarm, and human error."

"The level of protection in the codes today is far above that of other countries," he said.

"We're overprotecting our high rises with codes today," Mr. Kornsand claims.

The feeling that code groups are encouraging more restrictive building regulations without consideration to cost or engineering problems is Mr. Kornsand's major complaint.

"It sometimes seems as if the code groups are on a rocket that's gone out of control," he cited in his speech.

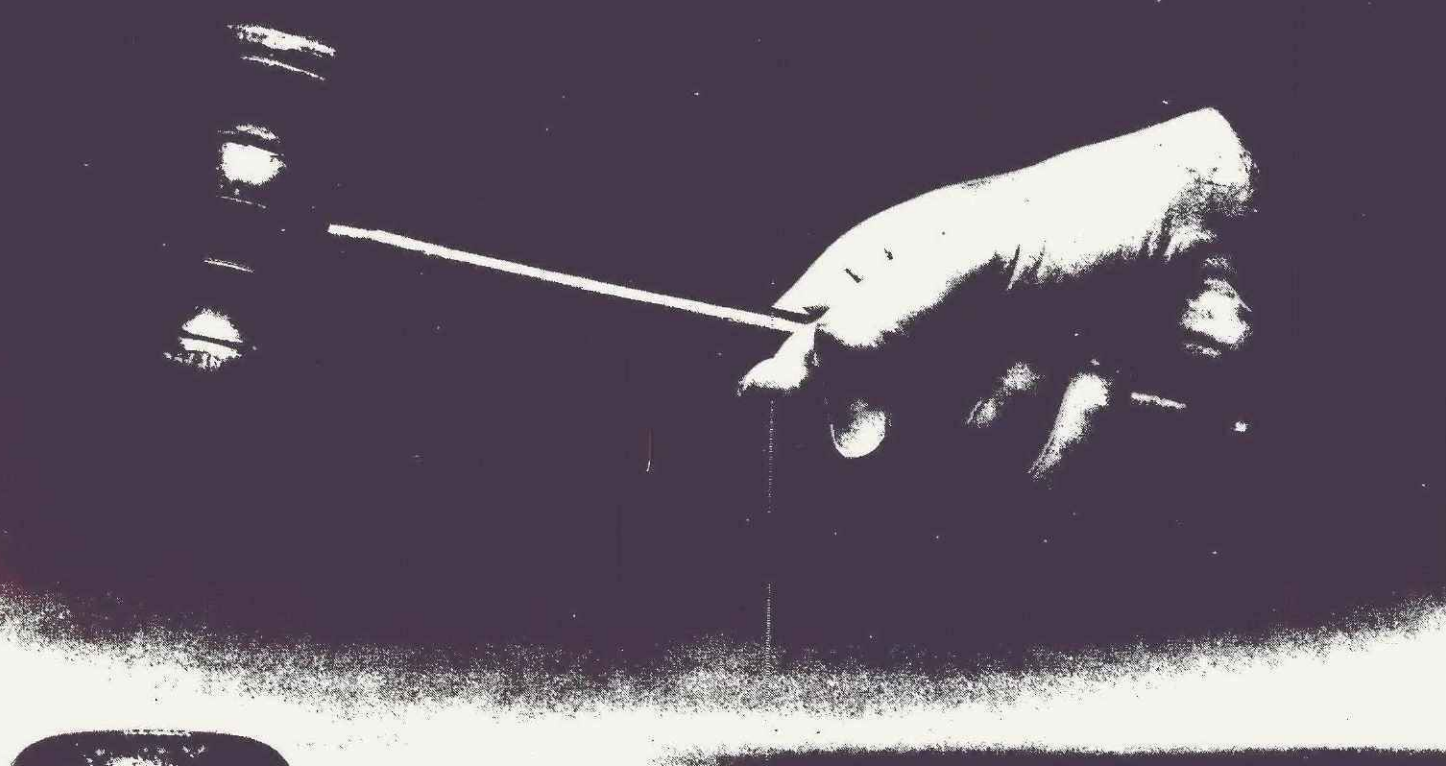
"It has really not been long enough to evaluate the effectiveness of recently adopted high rise provisions or codes since only a handful of buildings have been built meeting the new requirements, and there is practically no fire experience to objectively analyze the effectiveness of the now required systems," he said.

The cost of implementing the new codes is high, Mr. Kornsand commented. "Depending on the building and the system chosen, the new high rise requirements will add \$1 to \$3 per square foot to building cost. More important, they (the codes) may have a major impact in reducing design freedom," he declared.

Acknowledging that "the code officials promulgating high rise requirements undoubtedly are trying to safeguard the public welfare," he believes "these groups do not deal in the harsh realities of financing, return on investment, and design and construction."

As a solution to this problem, Mr. Kornsand proposes that "Architects, engineers, suppliers and contractors should join code groups and actively participate in their meetings." ■

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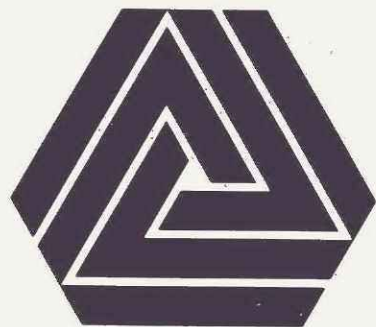
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Safety impetus: Not OSHA, but costs

CHICAGO—Despite the fact that his company had accident frequency and severity rates below average, the prime impetus for better loss control at GE came not from OSHA, but "from the realization that our statistics has reached a plateau and frequency and severity rates were starting to increase," according to Charles B. Chilton, manager of industrial safety engineering at General Electric Co., Philadelphia.

"Costs of workers' compensation were going up and the long term prospects were for more of the same, in spades," he told an industry session at the National Safety Congress here.

Thus, he pointed out, loss control was viewed not as a frilly or only a humanitarian measure "but a contributory factor in

holding down the expense of doing business."

Mr. Chilton, who joined a division of GE five years ago, works in a sector of the company with over 3,000 employees in more than a dozen facilities all the way to

SAFETY/SECURITY REPORT

the Iranian desert. The division's core business is manufacture of re-entry systems for space vehicles.

He cited an example of expense control through loss control in a facility having automatic sprinkler protection with old sprinkler heads installed on a 1-2-3 schedule. Increased industrial building in the vicinity of this facility had downgraded the water supply to

a booster pump "to the point that we anticipated an insurance carrier recommendation for a fire pump and ground storage reservoir at an estimated cost of \$750,000," said Mr. Chilton.

As an alternative, he commented, he calculated the effectiveness and water demand of 212-degree modern spray heads on a 2-3-5 schedule "and (was) able to upgrade our protection at a fraction of what the cost would have been if we had waited until we were locked into complying with insurance regulations."

Mr. Chilton noted that his company doesn't subscribe to the old cliché that the key to the safety program is the line supervisor, a point that makes it different from many others. Although that supervisor is the one on the firing

line, and it's his workers who get injured, to say he is the "key" to the safety effort, in Mr. Chilton's opinion, is "asking an awful lot of someone who doesn't set policy, may not have a full overview of company goals and doesn't have much control over budget allocations and spending priorities."

"It is (the) perception of top managerial priorities that counts," said Mr. Chilton. "When both both workforce and middle management are convinced that loss prevention is on a par with quality and production in the priorities of the 'big boss', you are two-thirds of the way there."

He believes his GE division "has a leg up" on many other firms in this regard, because from top management on down, the hierarchy expects a good safety performance, demands good

safety records and recognizes good safety. Last year, in 7.5 million manhours of work, the division had only four disabling injuries for a frequency rate of 0.53 and a severity rate of 5.82, Mr. Chilton reported. "So far this year we have had two lost-timers, with an injury-free period of more than 4.5 million manhours," he added.

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Contractors' slim profits call for close injury scrutiny

CHICAGO—Persons falling from high places are the most frequent cause of injuries in the building construction field, said Frederick Lorinsir, Johnson & Higgins of Connecticut, citing an analysis of nearly \$2 million in workers' compensation and general liability losses in that industry.

The study also showed falls of persons to be the predominant cause of injuries in terms of severity, he said.

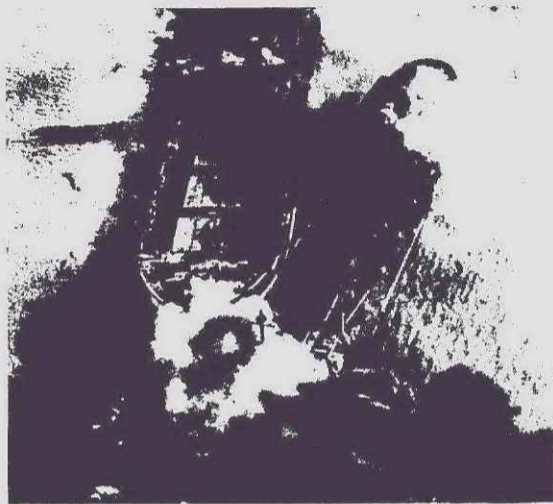
Following on the heels of these causes of injury in the building construction field were falling materials, contact with objects, and manual lifting and carrying, he told an industry session of the National Safety Congress held here.

He indicated that these injury causes deserve even closer scrutiny now, when the climbing cost of construction financing coupled with inflating costs of materials has put increased pressure on home builders' operating margins. "The slimmer these margins become, the more important it is to control the cost of construction site injuries and property losses," Mr. Lorinsir declared.

In the course of his slide presentation, Mr. Lorinsir put particular emphasis on public liability accidents which can erode profit on construction jobs. He showed a picture of a work shed which "formerly was protected from intruders by a chain link fence but because of site grading the fence was removed. There is now open access to the work shed and the radial saw within. A radial saw in an open shed is an invitation to youngsters to try their hand at cutting lumber," Mr. Lorinsir warned, warning that all saws should have a lock-out switch to prevent unauthorized use.

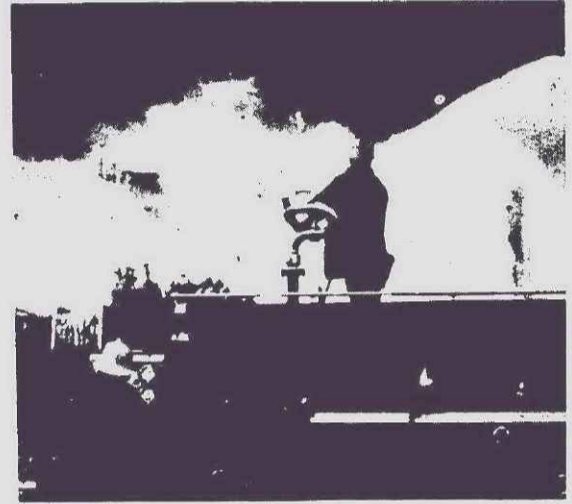
He advised contractors to focus their attention on these areas:

- good housekeeping through all phases of construction, with safe storage of building materials and prompt removal of scrap stock;
- safe ladders and scaffolding, as well as protection for all floor openings;
- correct lifting techniques and coordinated team work in handling heavy lifts as well as use of mechanical handling equipment will reduce the exposures to lifting accidents.



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Swift & Co. perceives safety in money terms

CHICAGO—Selling management on safety is a matter of telling it like it is, in a language managers understand . . . dollars and cents, according to Robert W. Thomas, manager of safety and health for Swift & Co. (Es-mark), speaking at an industry session of the National Safety Congress here.

"What really matters is the bottom line of the annual report.

You know as well as I that when we attempt to develop a prevention program, many times management can't see it," he commented, attributing this to the fact that "nothing has happened yet, there's no loss, it's an intangible."

Mr. Thomas offered concrete results in dollars and cents terms for safety managers to use in developing their programs. Em-

ploy occupational accidents cost his employer \$16.8 million in 1974, he said, or \$67,251 per workday. He reviewed for his audience a breakdown of direct and indirect costs incurred in 1974 from work accidents.

For each division of Swift, Mr. Thomas broke down costs into categories of claims, incurred losses which included expense adjustment and insurer's administrative cost, average cost per claim, manhours exposure, cost per manhour, number of employees in accidents, cost per employee and total cost (incurred and indirect).

For example, the fresh meats division of Swift had the highest number of indemnity claims of any of the six divisions (679) and the highest number of medical only claims (1,775). In dollars, indemnity claims for the fresh meats operations totalled \$1.6 million, and medical only claims were \$116,673. Cost per employee of workplace accidents is calculated as four times the total direct cost incurred, of \$6.9 million for the fresh meats division, with total cost, incurred and indirect, at \$8.6 million for that division alone, which accounted for over half of total company accidents.

Mr. Thomas pointed out that indirect costs—"hidden costs, costs not covered by workers' compensation insurance"—for the whole company totalled \$16,312,735 for Swift & Co. in 1974. "A lot of dollars that can be controlled," he declared.

Telling the story in this fashion with dollars and cents losses "gets management's attention," said Mr. Thomas.

Employees injured

Government safety experts in London were called in to probe the cause of poison fumes which hit six employees at a metal reclaiming plant in Tern Hill, West Midlands, so badly that they had to go to hospital for emergency kidney-failure treatment.

Sees first aid training as top safety tool

CHICAGO—First aid training, besides being required by the Occupational Safety and Health Act, "is an excellent tool in accident prevention," believes Edward E. Kelly, senior safety engineer for Inland Steel Co.'s Indiana Harbor Works.

"To many, first aid training seemed somewhat negative. That is, it showed us what to do after an employee was injured. Efforts to prevent the accident seemed to get lost somewhere," Mr. Kelly told his audience at a session of the National Safety Congress.

But Inland Steel has had a successful first aid training program for years, he said. "It was not instituted because of any requirement," but because it made good sense, he said.

In all training, references are made to the unsafe acts or conditions that caused the injury being treated in the classroom, Mr. Kelly said. "Thus, lessons in safety are constantly used in relation to the first aid training," he believes. The program is also a "fine asset" in regard to off-the-



OSHA regulations specify: "First aid supplies shall be readily available." This welder uses an anesthetic spray on a burn prior to seeking medical aid.

job safety programs, he added.

He cautioned safety managers attending the session that Subpart K of OSHA, which requires first aid training programs, has resulted in citations being issued for failure to comply.

"Whether you think you are in compliance with Subpart K or not, read the OSHA Act and check with your insurance carrier, safety consultant or the U.S. Department of Labor to find out." ■

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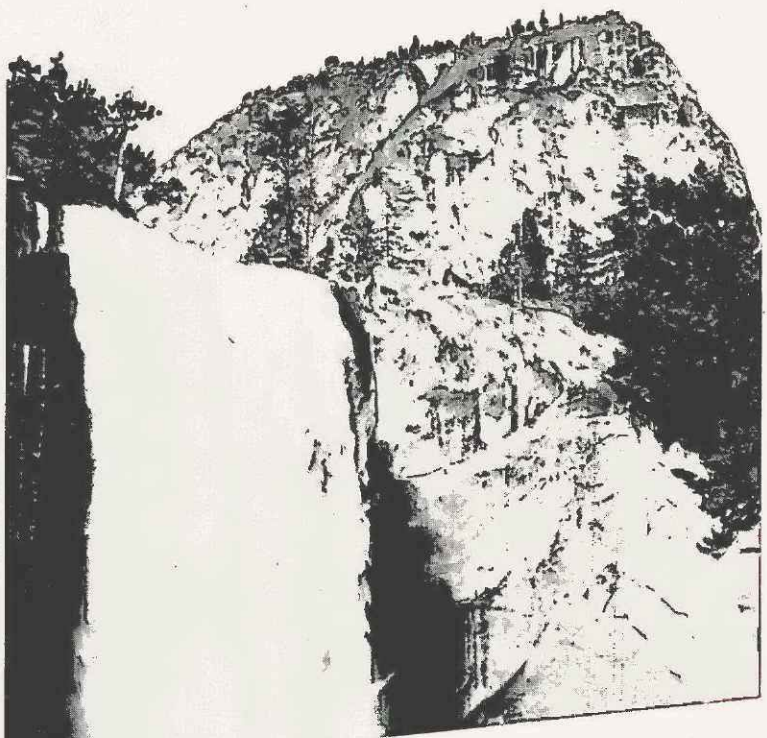
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Crisis in product liability field pushes producers to brink of disaster: Insurer

CHICAGO—There is a crisis in the product safety field, even more serious than the much-publicized medical malpractice dilemma, declared George J. Keller, manager of product services at Employers Insurance of Wausau, in a speech at the National Safety Congress.

"Many manufacturers are being pushed to the brink of disaster by product liability suits that seriously jeopardize their very existence," Mr. Keller said. "They are faced with rising costs of product liability insurance, and in some industries which produce inherently hazardous products, the possibility exists that their product liability insurance cannot

be underwritten at any cost."

Mr. Keller expressed dismay that part of the problem is juries which feel they must "give" something. But he partially excused these juries which "are not prone to weigh facts" by noting that in technical product liability cases, juries often cannot be expected to make sound judgments. "They are completely befuddled by technical terms expounded by technical experts who are not capable of reducing their font of knowledge to everyday lay language."

The basic approach of every manufacturer must be that it is a virtual certainty that there will be an occurrence, somewhere,

sometime that will result in a lawsuit against the producer, Mr. Keller believes. He declared: "We must develop product safety control programs that will minimize the chance of an occurrence that will result in a suit."

Products in use in the marketplace for longer periods of time, which give rise to lawsuits, and claims, could previously be defended in court by establishing that they were manufactured according to the state of the art at the time of production. "The courts have virtually ruled out this defense," said Mr. Keller. "It is therefore necessary for the manufacturer to seek out this old equipment and offer to furnish guards or other safety devices on

a retrofit basis," he urged.

Furthermore, he added, the producer must be able by records to locate the older machines and then prove he offered modification advice or equipment.

He called for legislative relief in this area of product liability for older products, setting some limit of liability from the date of original delivery.

The greatest defensive thrust by manufacturers, however, must be directed towards products being produced today, said Mr. Keller. He suggested these controls:

- If registration or certification is available from outside agencies, has it been obtained for the finished product?
- Does the product conform to all existing standards?
- Are all new products tested prior to marketing?
- Is an effective quality assurance program in existence?

Does it encompass raw materials? The various steps in the process? The end product?

• Is there a final inspection of the product? Random sample? Complete sample?

• Does labeling and warning conform to known standards and regulations? (Mr. Keller cautioned that proper labeling and warning is subject to legal interpretation.)

• Are instructions for handling the product clear and concise, and aimed at the intellectual level of the ultimate user?

• Are sales and promotional literature closely edited to eliminate puffery and unrealistic claims of performance?

• Is there provision for feedback on claims?

• Is there adequate record keeping? Can the product be identified from inception to consumption by batch or serial number, consumer, retailer, wholesaler, etc.?

Firms chided for laxity on plant safety

CHICAGO—An official of the National Fire Protection Assn. (NFPA) chided some companies for inadequate work safety and firesafety controls in their facilities. At the same time, he called on management to quit taking a "calculated risk or chance of having a large costly fire or a visit by a regulatory body with a possible citation" before implementing tough fire protection and safety rules.

"Management must recognize that fire protection is their responsibility and that qualified and competent people must be assigned to fire protection fire prevention and to complying the federal, state and local fire laws and the safety of all occupants" of a plant, said Robert C. Davis, chairman of the NFPA's industrial fire protection section, speaking at the National Safety Congress.

A person only needs to review the citations in the OSHA publication of the Bureau of National Affairs to conclude that there are organizations, particularly in industry, which are "deficient" in many areas, said Mr. Davis. He said he regrets that "we have not succeeded to date in clearly communicating to management the seriousness of the problem" of increasing government control in the field of safety.

The only solution to the problem of broad government regulation is "to take another look at our plants and decide what we can do now and in the future to provide the protection necessary for both life safety and property protection," according to Mr. Davis. ■

Rate problems delay ISO package policy

NEW YORK—Insufficient premiums, notably for crime coverages, resulted in the Insurance Services Office (ISO) postponement of the effective date for its new businessowners package policy for small and medium size companies, according to ISO president Daniel J. McNamara.

The use of an average rate for crime coverages included in the special form of the businessowners policy would produce an insufficient premium for small policies when compared with the corresponding premiums for either single line crime policies or crime coverage under the special multiperil policy, the ISO said.

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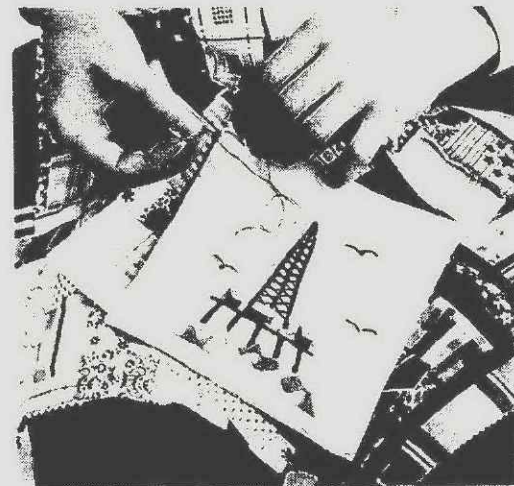
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When you need a better solution.

Names EBI to create loss control program

SAN FRANCISCO—American Building Maintenance Industries named EBI Companies to create a national loss control program covering liability and workers' compensation.

William Petree, risk manager for the company, explained to *Business Insurance* that EBI's major job will be to write a loss control manual aimed at reducing both frequency and severity of

accidents.

He indicated that this is no small goal given the business that his company is in: Service contracting for janitorial work, supplying security guards and extermination services.

Douglas H. Helm, executive vp at EBI, will actually write the manual, Mr. Petree said. "We will then edit it and install the program with EBI's aid," he observed.

It will also be EBI's assignment to set up safety meetings with the 16,000 employees of American Building Maintenance Industries, continued the risk manager. The employees are scattered all over the nation.

"The meetings will take up

such topics as accident prevention, accident review boards and how to funnel information to management," he said.

Mr. Petree explained that his corporation is organized into 24 profit centers, each of which is responsible for its own insurance program.

Thus he's confident that the bait of better experience should act as strong persuasion for the 24 centers to study the safety manual and to take its message to heart.

The reason why EBI Companies was selected for the job, he added, "is the terrific job that they, as our workers' compensation underwriter, did for us in Oregon."

Advise flood cover

Pennsylvania Insurance Commissioner William J. Sheppard advised property owners in flood-prone communities to make arrangements for flood insurance if they have not already done so. He warned that it takes 15 days for a new flood policy to take effect. Only 683 national flood insurance policies were in force when the state experienced extensive flooding in 1972, Mr. Sheppard said.

Truck door monitor to prevent cargo pilferage

NEW YORK—A new security device to monitor the opening and closing of cargo truck doors has recently been introduced by Compu Seal Systems Inc.

The device, called Automatic Door Activity Monitor (ADAM), is to be used as "an aid in curtailing the losses shippers incur due to pilferage, collusion and driver inefficiencies," according to the company.

ADAM is currently being field tested by four major companies, including a large retail department store chain and a toy wholesaler.

Porta Systems and Intelligence Services Inc. had been developing the unit for several years.

The Abraham & Straus department store chain, a division of Federated Department Stores, has already purchased ADAM to be used on contract trucks during transfer operations.

The system can be leased for \$40 per month per truck, or

bought for prices ranging from \$1,000 to \$1,500, depending on the optional items in the system.

ADAM is a small metal box installed on the interior wall and door of a truck. The device works by recording a seal number on tape each time the truck door is opened or closed. This number also includes the time and date of the opening.

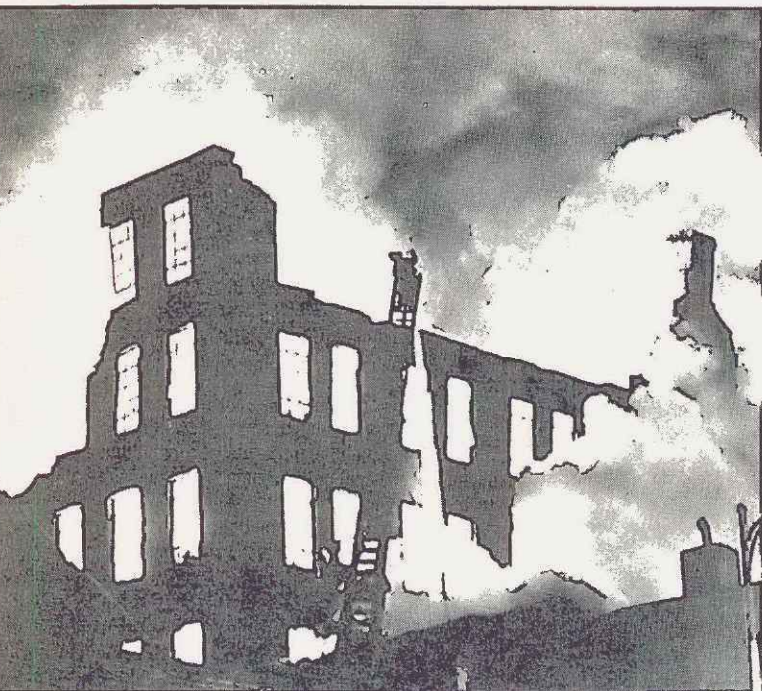
An optional alarm unit is available with the unit.

Advantages obtained by using this system, as cited by the manufacturer are:

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Meat cutters focus on occupational hazards

NEW YORK—The discovery of yet another health threat associated with the use of polyvinyl chloride (PVC) has prompted one safety-conscious union local to demand alterations of workplace equipment by yearend.

Local 342 of the Amalgamated Meat Cutters/Retail Store Employees Union found that the plastic wrap used to package meat produces potentially harmful fumes when it is cut with a hot wire wrapping machine.

The machine burns the plastic from the roll rather than cutting it with a serrated edge. The union claims it has "received numerous complaints from members which indicate that the outbreak of respiratory illnesses may be attributed to the inhalation of PVC fumes."

Harvard University is now undertaking an in-depth study to determine the precise effects of this process, but the study may take as long as five years.

Until this time, however, the union local is pushing for installation of new equipment while the health hazard remains a possibility. Such new equipment would call for use of a lower temperature rod or a regular cutting edge.

Attempts to reduce the hazards members face have long been a tradition for Local 342.

The union local was recently presented with a certificate of recognition from OSHA for its efforts in this area at the fourth annual Safety and Health Conference of the Joint Union-Industrial Safety Committee of the Amalgamated Meat Cutters/Retail Food Store Employees, Local 342.

The conference featured the presentation of the first safety

training film for the retail meat industry, produced by Local 342 in conjunction with the Department of Labor.

"Safety contributes to efficiency and productivity," said Nickolas Abondolo, president of the

SAFETY/SECURITY REPORT

local, in a speech at the conference. He stressed that a "joint educational program" between labor and management will help to reduce injuries.

Mr. Abondolo believes that there exists "a firm commitment by management in this industry to eliminate injuries." However, he also feels that there is often a problem "convincing middleline management, whose only concern

is productivity and profits," of the importance of safety.

The lack of a "formal structure for supervisors to report to management" hinders further emphasis of safety practices, he added.

To alleviate future problems, Mr. Abondolo would like to consult with engineers and contractors in order to recommend safer construction of meat cutting departments.

"When a new store is built, we want input into how it's built," he said.

The major injuries union members face are back injuries and knife cuts. The use of metal mesh gloves and aprons are safety aids developed recently to prevent possible wounds from sharp edges.

Safety training classes are en-

couraged to teach workers how to protect themselves and keep their work areas safe. Preventive maintenance is stressed.

Local 342 has been engaged in safety-related activities for the past six or seven years, according to Mr. Abondolo. They attempted to set up safety regulations approximately one and a half years before the Occupational Safety and Health Administration (OSHA) was created, he said.

"OSHA didn't really do anything for us, except give us a place to hang our hat," Mr. Abondolo said. He explained that now the union local can use OSHA's power to fine violators as a backup to their program.

Union members remain skeptical about OSHA's effectiveness and the federal government's intent to seriously tackle the issue

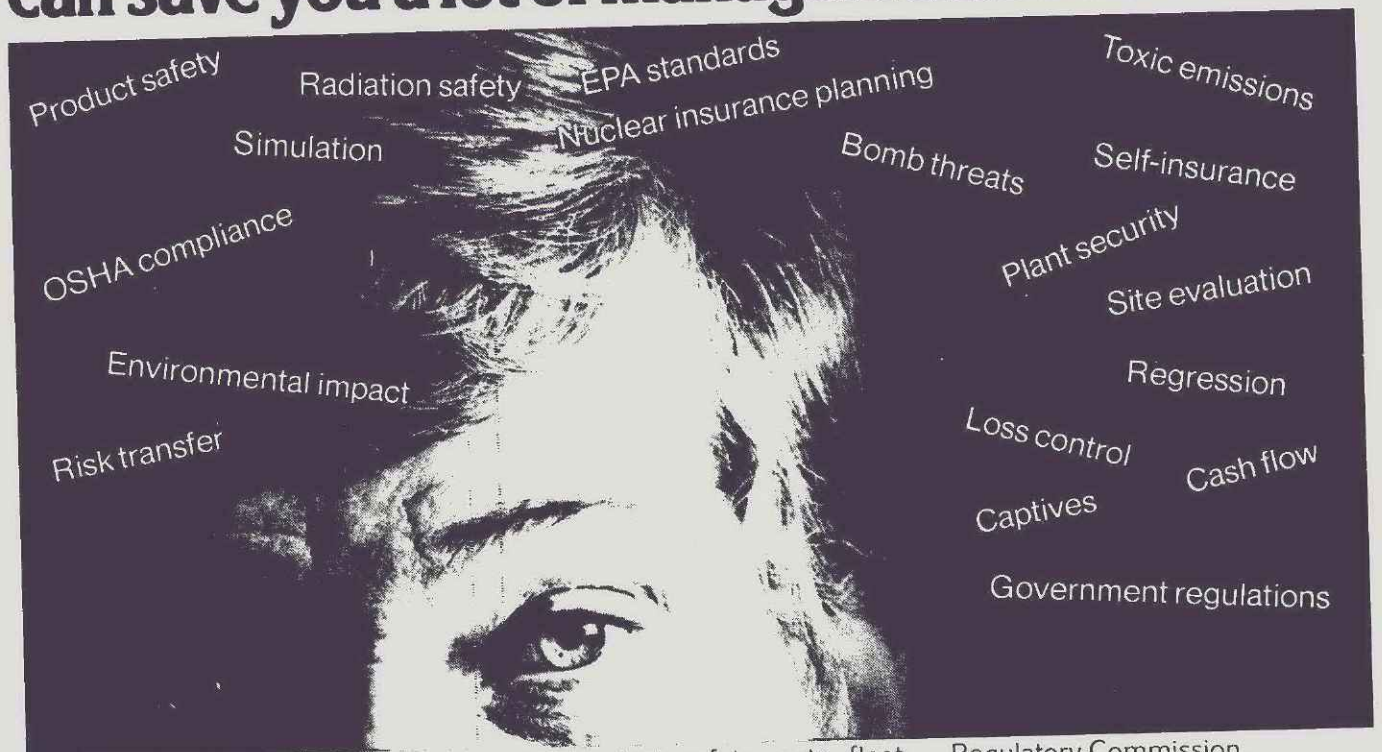
of safety within the meat-cutting industry, since the agency remains so under-staffed and under-funded.

"A lot could be said in criticism of that particular agency," Mr. Abondolo said in his speech, while acknowledging OSHA's limitations.

It is for this reason that the role of the local's safety committee remains important. The committee undertakes its own research projects to determine the effects of various elements upon its members.

Projects the committee will be studying include the effects of noise on the worker in a meat-cutting department, and the effects of cold in refrigerated areas. Proper lighting and ventilation standards are also to be studied. ■

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Aetna agents protest lower commissions

HARTFORD—A unilateral commission reduction that Aetna Life & Casualty Co. made effective in September is now the target of a nationwide protest by a New Jersey group called the Committee of Concerned Aetna Agents (CCAA).

The CCAA is calling for a series of meetings in every state to protest that Aetna's move no longer permits agents to negotiate for a commission different from that granted to other agents, despite the degree of professionalism on a given job.

For most commercial lines of insurance as well as personal lines, the commission reductions amount to about 20%. However, such commercial lines as aviation, marine, surety, and a number of multi-peril packages are not involved in the changes.

The reductions resulted when Aetna stopped using two different schedules for commission rates, and switched instead to a single schedule that it says is midway between the previous rates.

It commented that in the case of individual large commercial accounts brokered by big firms like Marsh & McLennan, for instance, commission negotiations would continue. On large accounts, the negotiated commission is typically lower than the posted rates.

What the CCAA is objecting to is that it will no longer be able to negotiate upward from posted rates. ■

Lloyd's has files on 270 suits against auditors

CHICAGO—There are roughly 270 lawsuits currently open at Lloyd's of London against accountants, an executive of one of the Big 8 auditing firms disclosed in a speech to the Financial Executives Institute here.

Philip L. Defliese, managing partner of Coopers & Lybrand and chairman of the board of the American Institute of Certified Public Accountants (AICPA), told *Business Insurance* he believes most of those 270 suits are

the "nuisance type." He doubts that a large percentage of them are being reserved by Lloyd's for probable losses.

"This number includes all suits in which accountants are named as defendants" in shareholder or class actions, Mr. Defliese noted.

Mr. Defliese said he doesn't believe the insurance markets for accountants' errors and omissions coverage have tightened in recent months because of suits being filed, at least in his firm's instance.

He noted, too, that the problem for auditors is one of dealing with the public's expectations of auditors, a topic currently under discussion by the AICPA's special audit commission. That body is trying to define more clearly auditors' responsibilities.

The potential liabilities of audi-

tors have expanded, or appear to be expanding to a point where accounting firms hardly know how to manage the risks. Peat Marwick Mitchell & Co.'s senior partner Walter E. Hanson said in the latest issue of the firm's internal publication that the ballooning legal liability of auditors is one of the major problems the profession faces.

"There has to be some limitation or the profession is in real trouble," Mr. Hanson stated. "This is not to say that any of us feels we should have carte blanche. Obviously, if we make a mistake we should pay for it. But there has to be some relationship between the fee involved, the magnitude of the engagement, and the liability," he went on to say.

Mr. Hanson noted that some accountants don't want to take on added responsibility for fear of liability, but he doesn't feel this way personally. "I feel we should expand our professional responsibility and try to make people understand what we do," he said, "and I am convinced that when

this occurs auditors' liability will be reduced."

"Accounting firms find themselves in a position where they may have received a fee of \$3,000 and \$300 million worth of (liability) exposure," Mr. Hanson commented. He suggested that one way to correct the problem would be to put some restriction on class action suits, not to stop people from suing if they're damaged, but to encourage responsibility on their side. The British system of forcing the loser in a lawsuit to pay the expenses of both parties' defense costs "cut(s) down on the totally frivolous suits," he believes.

Auto rate hike

Liability and physical damage rates for Rhode Island commercial vehicles will be increased 10%, effective October 29. The overall rate hike was approved by insurance commissioner Peter F. Mulaney, following a July hearing on commercial auto rates. The Insurance Services Office had sought a 13% hike.



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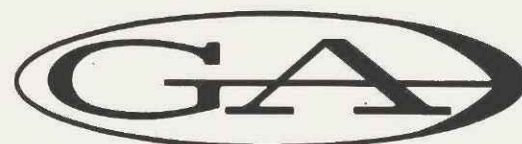
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Reinsurer formed by Signal/Imperial staff assists old employer

LOS ANGELES—Intercontinental Re Inc., a new reinsurance management company formed by the reinsurance staff at Signal and Imperial Insurance Cos., expects to write about \$17.5 million in business in 1976, according to Wolfgang D. Daniel, president.

Mr. Daniel, a former vp of reinsurance at Signal/Imperial, told *Business Insurance* that Intercontinental Re (ICR) boasts a nucleus of three reinsurance companies for which it performs reinsurance management.

He said ICR is supported by these reinsurers for which it has been given underwriting authority. At the same time, he pointed out that ICR "has been given the opportunity by Signal/Imperial to underwrite as of January 1, 1976, all of their continuous reinsurance contracts with the anni-

versary date on or after January 1, 1976, and to write the new and renewal business that otherwise might have been offered to those companies."

He added that Signal/Imperial requested and ICR agreed to help those companies in their endeavors to run off their in-force reinsurance business as consultants on a case-by-case basis.

A citizen of West Germany who was employed in the reinsurance industry in that nation before coming to the United States, Mr. Daniel said that ICR intends to pursue the overseas reinsurance market aggressively.

Indeed, he estimated that of the \$17.5 million which ICR will write next year that \$7.5 million to \$10 million will be derived from business abroad.

"We travel abroad extensively,"

he observed, referring to his firm's 18-member staff.

Two major West German reinsurance companies are being looked at by ICR with the idea that they operate in the United States for the firm.

There is a major problem with this idea, he said. It is that many states have regulations covering primary insurers which by implication extend to reinsurers. And a number of these state regulations specify that insurers be based in the United States.

One reason why he is eager to capture overseas business, said Mr. Daniels, is that he believes that success in reinsurance is directly related to spread of risk.

The \$17.5 million which Mr. Daniel anticipates his firm will write next year is something of a drop from the \$28 million which he said the Signal/Imperial reinsurance department wrote.

Mr. Daniel went on to emphatically deny a previous report in *Business Insurance* that Signal/Imperial had attempted unsuccessfully to sell its in-force reinsurance business (*BI*, Sept. 22).

He said the business was too good for his former employer to sell.

Nevertheless, knowledgeable sources in the Southern California insurance industry, contacted a

second time by this magazine, continued to affirm the validity of the report. ■



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Insurer plans court fight on conservator

LOS ANGELES—Signal and Imperial Insurance Cos., placed under conservatorship by the California insurance department, will fight that action in Los Angeles Superior Court, Larry B. Harvey, senior vp for the companies, told *Business Insurance*.

The law firm of Paul, Hastings, Janofsky & Walker will be a partner in contesting the conservatorship in court, he said. "In addition, we intend to challenge the statutes regarding insurance company reserves," Mr. Harvey pointed out.

Maintaining that Signal/Imperial is not in "hazardous condition" as the insurance department contends and that, in fact, it is not losing money on malpractice insurance, Mr. Harvey said his companies' future is brightened by a new trend that sees jury awards in malpractice cases decreasing.

Wesley J. Kinder, state insurance commissioner, meanwhile, said that a financial contribution will probably be necessary to end the conservatorship. He indicated that he intends to run the companies until something of that nature occurs.

As for the 4,000 to 5,000 doctors who have malpractice insurance through the companies now in conservatorship, Commissioner Kinder said that it is the department's present decision to carry the doctors through the duration of their policies. Yet he made it clear that if he has "to pull the plug"—cancel all the malpractice policies at once—he will do so. ■

Airline buys GAB

United Airlines reached tentative agreement to purchase GAB Business Services, parent company of the General Adjustment Bureau. A spokesman for United said the increased growth potential GAB has experienced in recent years was a significant factor in the acquisition. When stock insurance companies divested themselves of their interest in GAB, the bureau was able to more aggressively solicit the self-insurance and mutual insurance company markets, the airline's spokesman said.

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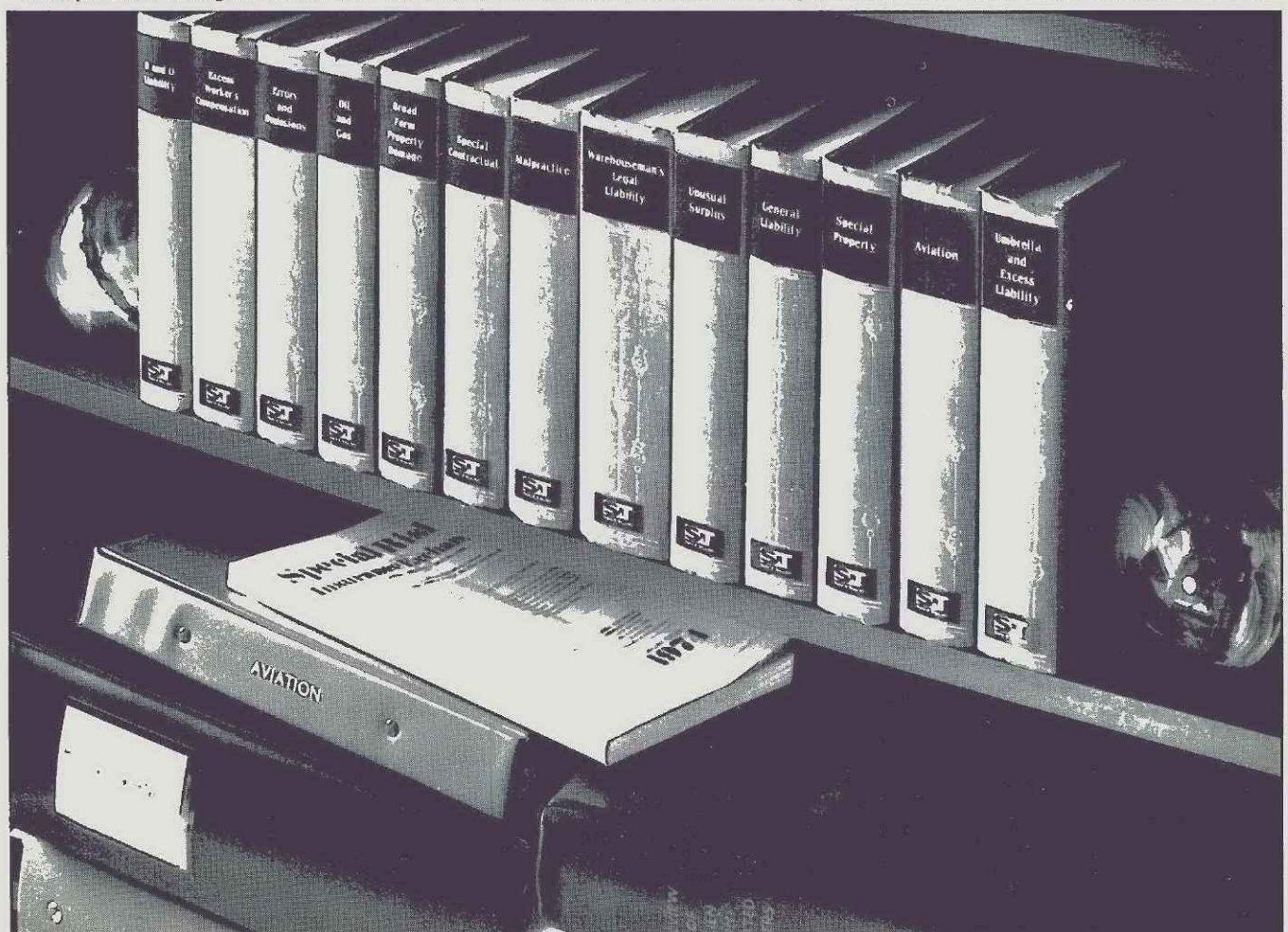
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Collisions are culprit in marine field

TOKYO—The chief cause of heavy marine losses continues to be collisions, said the American Institute of Marine Underwriters (AIUM) in its hull insurance report to the International Union of Marine Insurance.

Claims experience for 1974 showed a rise of 12.5% in the number of major casualties from 1973. These are casualties exceeding \$300,000. There was a 28% increase in the dollar amounts of such casualties, boosting them to

\$35.4 million for the year.

Only seven collision casualties caused a whopping \$11.4 million in losses, the AIMU told the international group. Next in cause of loss was stranding, with five cases amounting to \$9.8 million in losses.

One collision and two strandings, all involving jumbo tankers, caused constructive total losses and one settlement on an unrepaired damage basis. These losses were in a range of \$3 million to \$3.8 million each.

Ship repair costs rose more than 13% on the east coast in 1974, said the report, using data from a salvage association. Gulf coast costs were up over 14%, while west coast costs rose 18.5%. Near the Great Lakes, repair costs rose most, nearly double the east coast rise, with a recorded price increase of over 26%.

Since 1968, repair cost increases have ranged from over 187% for major East Coast ports to nearly 241% for the Great Lakes.

Opportunities for acquiring and maintaining a sufficiently broad premium base are shrinking, at the same time exposures are rising, the AIMU fears. The premium

shrinkage was attributed to depressed shipping conditions and reduced values, producing layups, premature scrappings and deferred building plans.

"Proliferation of high deductibles and various kinds of self-insurance programs further aggravate the premium picture," the AIMU said.

Most shipping accidents occur near land, and are caused by human failure in these concentrated areas of space and time. Various systems established to alleviate congestion and lower the risk of human error have been helpful in lowering losses, the ship itself and the man on the bridge are seen as the keys to the problem. "Making shipboard life more attractive will not only help solve the manning problem, per se, but should also have a salutary effect on the incidence of human failure," the AIMU report stated.

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Social Security benefit takes rising tax load

NEW YORK—A current young new participant in the Social Security system pays for about 70% to 75% of his/her benefit projection with just the employe tax.

This percentage will increase over future years to about 90%, according to William M. Mercer Co., a division of Marsh & McLennan Inc.

In a Mercer Bulletin on Social Security and the private pension system, the division noted that the balance of the combined employe-employer contribution goes to cover prior generations, for whom contributions were far less than adequate.

Since the Social Security Act was signed into law in 1935, minimum monthly benefits have gone from \$10 to \$180 after 30 years of coverage. The basic minimum is \$101.

Similarly, in 1935, the employe contribution rate, equal to the employer contribution, was a maximum of \$30, or 1% to a base of \$3,000.

In 1975, that had increased to a rate of 5.85% to a base of \$14,100, for a maximum amount of \$825.

From the beginning of 1970 to

the middle of 1975, benefits have increased 82%, exceeding the increases in the Consumer Price Index and in wages over this period.

The bulletin noted that compared with the private pension system, Social Security's equality of the employe and employer contributions, the cessation of contributions at a specified earnings level, and the programmed upward progression of future contribution rates are most unusual.

In contrast to the 40 year old Social Security system which is complex, largely unfunded and has wide coverage of the working population, the private system, which is about 30 years old, is generally not very complex, is reasonably well funded, and able to recognize regional and industrial differences. Less than 50% of Social Security pensioners also receive private pensions, according to the bulletin.

It urged that both systems be kept in effect to complement one another, and attacked proponents of a "single system" proposal who would like to merge Social Security with the private pension sector.

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Japan pool writes casualty cover for nuclear ship which had a leak

TOKYO—Liability insurance for the operators of the Japanese nuclear ship Mutsu, which developed a radioactive leak on trials out at sea last year, has been underwritten by the Japan Atomic Energy Insurance Pool.

The limit of liability covered is Yen 6 billion, equal to \$20 million U.S. dollars, on this pioneer effort in marine commerce.

This was announced at the Tokyo conference of the International Union of Marine Insurance, where a formal report on the insurance significance of the incident was presented to members. The report was delivered by Roger Bradley of Lloyd's, who is the I.U.M.I. nuclear observer. It pointed out that the Mutsu sailed Aug. 26, 1974, to carry out trials off the Japanese coastline despite protests by local fishermen.

While 800 kilometres off Honshu radioactive leaks developed, and this encouraged the fishermen to resist even more strongly her return to port. The ship had to be left drifting until the Japanese government reached agreement with the fishermen in October, 1974.

The conditions imposed by the fishermen included relocation of the Mutsu's home port facilities to a new site, and a ban on removing any of its nuclear fuel rods while the vessel was in port. The vessel has been berthed ever since this incident.

Mr. Bradley added: "A new home port has not yet been decided because of the obvious prob-

lems involved, and under these circumstances it is impossible to foretell its future, but I hope it will not be the death knell of the nuclear ship as such."

The radioactive leaks were apparently due to the faulty design of the first shield of the Mutsu's nuclear reactor. Leakage at the rate of 0.2 millirem per hour was detected, and the experimentation at sea was at once cancelled. The control rods have since been dismantled.

Mr. Bradley stated that port risks hull insurance was cancelled and replaced by a navigation hull policy from the date the vessel left Mutsu Port in August last year for sea trials.

The navigation hull policy was

for an insured value of Yen 4.2 billion, or U.S. \$11.7 million, running until March 31, 1975, but no nuclear damage was claimed under this policy. The navigation hull insurance was cancelled and replaced by port risks insurance, without cover for nuclear risks, on Jan. 1, 1975. It ran until last March 31, when it was renewed for another 12 months.

The Mutsu is still moored in its home port with a crew of 33 on board who are engaged on maintenance duties.

Mr. Bradley commented that at the time of the incident he had advised caution over "emotionally charged" reports of the affair, and had predicted that there would be no claim on the policies themselves. ■



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Drake formed to underwrite comml. risks

NEW YORK—Some medium and large commercial accounts have already been picked up by Drake Insurance Co. of New York, which began business here October 1, the company says.

The Drake, a newly acquired affiliate of the Howden Swann Group, was formerly licensed as Seaboard Fire & Marine Insurance Co. of New York, a member of the Continental Insurance Group.

It was purchased by Howden Swann for reorganization at a cost of \$5.5 million, including \$1.5 million above assets for the charter and the company's country-side licenses.

Bernard J. Daenzer, CPCU, director and president of the newly-reorganized insurer, said Drake will handle only commercial accounts. It will offer an expanded admitted market for property, marine and liability insurance, plus occasional special filings. ■

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Time Study Representatives of *Time* magazine will present an overview of the findings of a study on future trends conducted of the RISM membership. (November 21)

Fundamentals of Insurance (November 17-November 19) A pre-conference program designed for those with limited experience in the corporate risk management field.

University of Dallas Risk Management Institute Program "Frontiers of Risk Management" November 17-November 20) An advanced pre-conference risk management program.

Chicago Chapter Dinner Marshall Ratner, President of the Professional Indemnity Agency will address an expanded Chicago Chapter Dinner. (November 20)

FEES. \$100 Total Registration; \$20 Spouses' Registration; \$20 Additional for Spouses' ticket for Silver Anniversary Dinner Dance; \$25 Silver Anniversary Dinner Dance Only. Separate registration required for Fundamentals of Insurance Course and University of Dallas Program (write for details).

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dates for buyers

Nov. 3-5: The National Insurance Conference, sponsored by the American Management Assn., will be held in New Orleans. It will be divided into two sections: general insurance and employe benefits. For further information, contact John Devitt, group program manager, AMA, 135 W. 50th St., New York, N.Y. 10020.

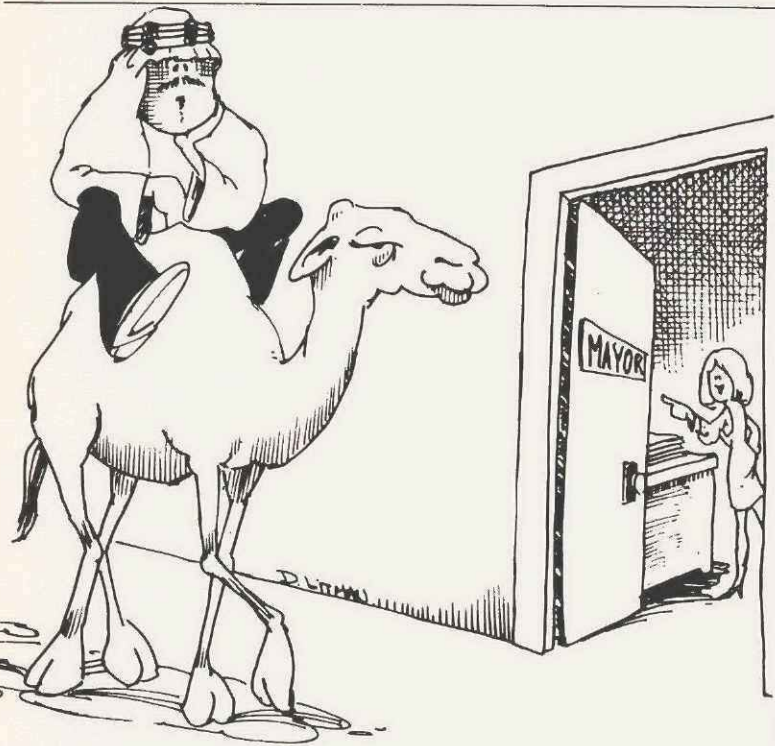
Nov. 3-7: A Basic Safety Management course will be held at INA Corp.'s International Safety Academy in Macon, Ga. Designed for the newly appointed safety person or others who wish to learn the basics of loss control, the course includes sessions on environmental health and OSHA. Tuition is \$360. Write to the academy at 1021 Georgia Ave., Macon, Ga. 31204, for more details.

Nov. 10-12: A seminar designed to provide bank executives with practical knowledge of risk management techniques will be held at the Kellogg West Center for Continuing Education, California State Polytechnic University, Pomona. Sponsored by the American Bankers Assn., the seminar will cover bankers blanket bond coverage, D & O, fiduciary, trust department E & O and safe deposit liability. Telephone reservations are recommended. Contact Edgar W. Armstrong, assistant director, insurance and protection division, American Bankers Assn., 1120 Connecticut Ave., N.W. Washington, D.C. 20036. (202) 467-4048.

Nov. 10-14: The American Society for Industrial Security will hold a comprehensive asset security course in Pacific Grove, Ca. The course will feature concentrated instruction on principles, techniques, and application of crime control and loss prevention. Security vulnerability, general security management, ethics, finance, investigations and terrorism will be among the topics. Cost is \$435 for ASIS members and \$485 for non-members. For further information, contact ASIS, 2000 K St., Suite 651, Washington, D.C. 20006. 202/331-7887.

Nov. 10-21: A comprehensive two-week workshop on fleet motor vehicle accident investigation techniques for representatives of fleet transportation companies is being offered by the Traffic Institute at Northwestern University. The workshop will highlight: How to conduct an on-scene accident investigation; how to gather physical evidence from the damaged vehicle and the roadway, and how to determine what part of the car played a key role in the accident. Tuition is \$425, which includes study and reference materials. Registrations are being handled by the Registrar, Traffic Institute, Northwestern University, 405 Church St., Evanston, Ill. 60204.

Nov. 14-19: The 21st Annual Educational Conference of the International Foundation of Employee Benefit Plans will be held in Honolulu. The three day conference will focus on two vital issues—ERISA and the economy. In all, the conference program will cover 35 different subjects in 131 formal and informal sessions. Only foundation members are eligible to attend; up to 6,000 delegates are expected. For more details, write to the IFEBP at P.O. Box 69, Brookfield, Wis. 53005.



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PBGC issues report forms

WASHINGTON—A revised and combined package of reporting forms is being sent to officials of defined benefit pension plans covered under the plan termination insurance program of the Pension Benefit Guaranty Corp. (PBGC).

The new Form PBGC-1, a two page document, permits the plan official to (1) pay the estimated premium for a plan year beginning on or after September 1, 1976; (2) reconcile the estimated premium previously paid with the actual premium due for a prior plan year; and (3) file PBGC's required annual report.

With the new package, all three requirements can be met in one filing, or in separate filings.

The premium estimate is due within 30 days after the beginning of the plan year or, in the case of new plans, within 30 days after the effective date of the plan.

The premium reconciliation is due within two years and 30 days after the plan year begins. ■

people

The Finsure division of Finserv Corp., a wholly-owned subsidiary of Studebaker-Worthington Inc., New York, named Peter Viscardi, 27, director of administration on Oct. 6. The Finsure division handles the consolidated insurance programs of Studebaker Worthington, a spokesman said. Mr. Viscardi replaces Joseph R. Delia, the former director of insurance who is now risk manager for the state of Pennsylvania (*Business Insurance*, Aug. 25). Reporting to the division's executive vp, Mr. Viscardi is responsible for day-to-day administration of the property/casualty and group benefit insurance programs. He formerly was supervisor-insurance administration at Otis Elevator Co., New York. No replacement has been named to that position.

Frank W. Haley, 53, stepped into the newly-created position of director of safety and loss prevention at the Finsure Division of Finserv Corp., New York, a wholly-owned subsidiary of Studebaker-Worthington Inc. Mr. Haley has overall responsibility for safety and loss prevention at all 26 Studebaker-Worthington subsidiaries, a decentralized group of companies ranging from heavy manufacturing concerns to oil to electrical generating and light manufacturing operations. He reports to Robert H. Dorgan, executive vp of the Finsure Division. Mr. Haley's previous job was with the Midland Glass Co. in Matawan, N.J., where he was corporate safety director. Prior to that, he was assistant director of safety and fire prevention at International Telephone & Telegraph Corp., New York. Mr. Haley's replacement at Midland Glass has not yet been picked.

Kaiser Cement & Gypsum Corp., Oakland, Ca., promoted Marianne Stark, 34, to insurance representative. She has served as insurance administrator since 1973 and her promotion reflects "her ability to grow with the job," according to the insurance manager, her supervisor. She replaces no one in the new position, nor is she replaced by anyone since it is a "merit promotion based on the job's reclassification. Additional responsibilities for her involve workers' compensation and processing seamen's claims. ■

letters

Continued from page 16

each deficiency. It delineates the dollar cost of correcting the deficiency and it then outlines the resulting loss expectancies in dollars after compliance with recommendations.

Further, the engineers do not know the deductible levels or how the insurance program is designed. This makes it a little difficult for them to "orient around the insurance aspects of fire protection".

The economics involved in loss prevention engineering are of paramount importance to these engineers. Cost effectiveness is one of the primary considerations in spite of Mr. Bell's comments to the contrary.

It would appear Mr. Bell is using the "cookbook approach" in looking for clients.

Robert B. Angle
Greensboro, N.C.

Maury Donnelly & Parr

To the editor: Your issue of July 28 is erroneous with respect to our firm, listed under Agent/Broker Profiles on page 74. Commercial business accounted for 69% and 85% of our business, respectively, in the years 1973 and 1974 rather than the 31% and 15% shown.

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Executive vp, Maury Donnelly & Parr Inc., Baltimore, Md.

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RISK AND INSURANCE MANAGEMENT

NOVEMBER 17, 1975

BECAUSE NEARLY EVERY corporation and organization in the country ships goods or products as part of its operations, risk management efforts applied to cargo risks in the last several years have produced radical changes in the way companies manage risks of cargo damage and liabilities resulting from the shipment of goods.

Until recently, there was minimal risk retention of ocean or inland cargo risks. But this has changed. Insurers and insureds alike are looking to higher deductibles, tougher security measures and layers of insurance protection to solve some of the loss problems besetting the cargo property and liability field. Thus, we determined that the subject of cargo insurance and risk management deserved a closeup look at the changing exposures and methods being used to control and fund losses.

The November 17 issue of *Business Insurance* will include a spotlight report on cargo risk and insurance management. Among the topics being surveyed for stories are over-the-road transport risks, for motor carriers and shippers; marine cargo risks, on both ocean and inland waterways, and the

insurance underwriters and products being used to cover those risks; the methods air freight specialists use to manage their risks, and how the companies shipping by air view cargo risks.

We'll take a look at the kinds of contractual agreements risk managers prefer to use in retaining or transferring their cargo risks.

Ports of entry theft problems will be the subject of an investigation by editors of this magazine, to determine what security measures are being taken by the freight carriers, the airports and ocean ports to stem the growing crime theft problem. Are the measures working?

A major problem for both insurers and insureds that we'll be discussing in the cargo issue is the problem of determining what deductible levels to set for cargo property and liability policies.

Readers who have suggestions

REPRINTED FROM AN EDITORIAL WHICH APPEARED IN THE
OCTOBER 13, 1975 ISSUE OF BUSINESS INSURANCE

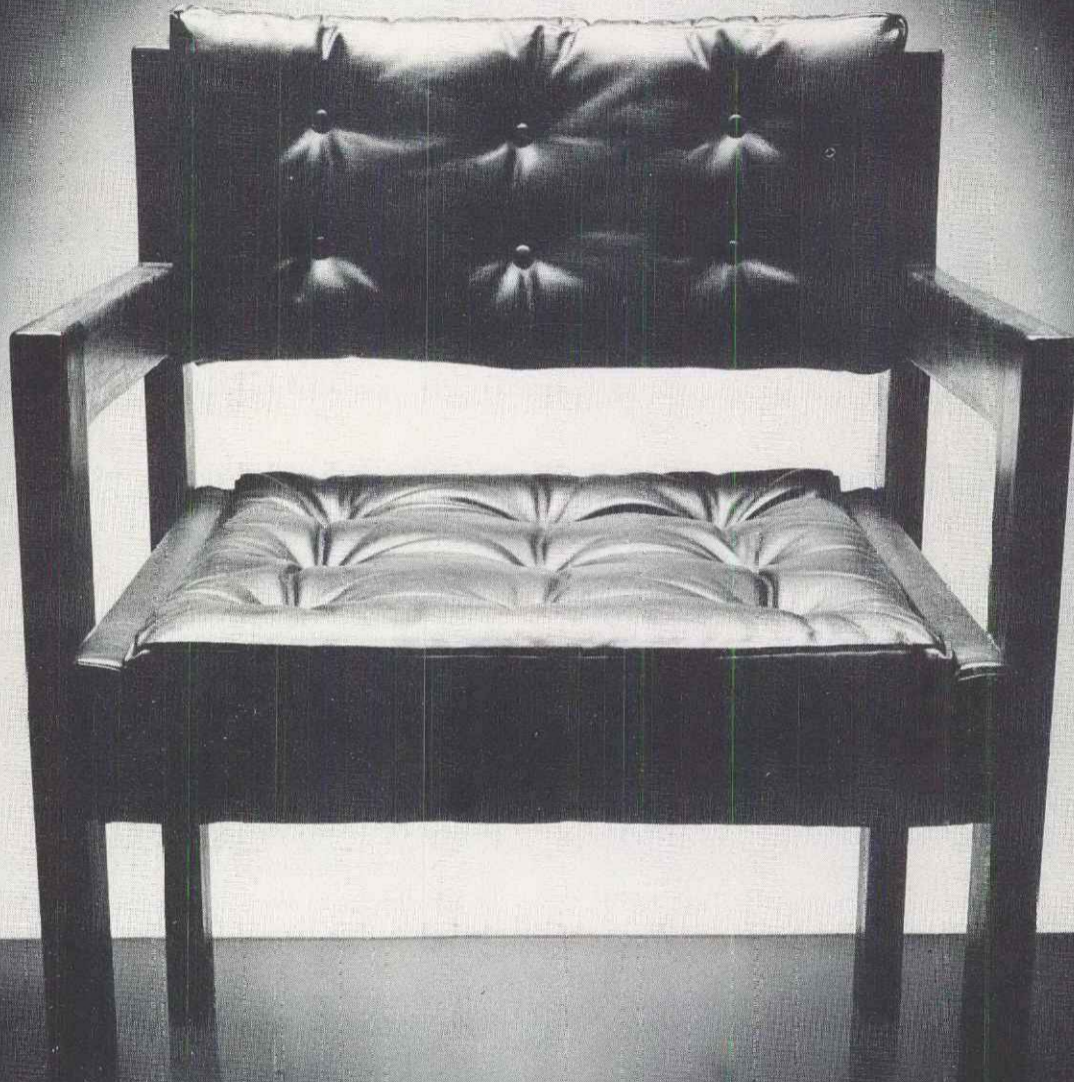
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It's where you seat the account executives who come to sell you group insurance.

And then you start asking some tough questions.

That's where you *really* notice the difference in insurance companies... and in account executives.

Some people may squirm and shuffle in your hot seat.

But not your Continental Assurance Account Executive.

He'll bat 1000 on those tough questions. With straight-

from-the-shoulder talk.

That's because we gave him complete bottom-line responsibility for handling your account. *And* the decision-making authority to carry out that responsibility. The authority to make decisions on underwriting, rates, everything affecting the service you receive.

So call your Continental Assurance Major Group office.

And put one of our Account Executives in the hot seat.

We know he'll keep his cool.

Call your nearest Continental Assurance Co. Major Group Office: Atlanta, Boston, Chicago, Dallas, Detroit, Indianapolis, Kansas City, Los Angeles, Milwaukee, New York, Pittsburgh, Salt Lake City, San Francisco, Washington, D. C.

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