

business insurance

SEPTEMBER 30, 1985

update

Senate passes legislation reauthorizing Superfund

WASHINGTON—The Senate last week passed legislation, H.R. 2065, reauthorizing the federal Superfund Act for five more years.

In passing the legislation on an 86-13 vote, the Senate did not act on a controversial proposal by Sen. Robert Stafford, R-Vt., that would relieve insurers from picking up pollution cleanup costs under comprehensive general liability policies (BI, Sept. 16).

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Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$52 a year

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Alternative care helps firms reduce costs to treat AIDS

By STEVE TARAVELLA

Benefit managers, worried about the exorbitant expense of caring for employees with acquired immune deficiency syndrome, are finding that alternative forms of health care can hold down AIDS treatment costs.

Employers and group health insurers are working with health care professionals to place AIDS patients in alternative care programs like home health care, hospice care and case management programs.

In addition, some employers are beginning screening programs to detect applicants who may contract the AIDS virus, while others are educating themselves and their workforce about AIDS to help prevent the spread of the disease.

Employers are concerned about the rising incidence of AIDS cases because of the high cost of treating AIDS victims.

'I don't think I could think of another situation with the potential for as many \$100,000-plus claims,' says Mr. Keating of Mercer-Meidinger.

"I don't think I could think of another situation with the potential for as many \$100,000-plus claims," observes Robert Keating, principal with William M. Mercer-

Meidinger Inc. in San Francisco.

An AIDS patient is expected to incur an average of \$140,000 in medical bills between the time the patient is diagnosed with the illness and his or her death, which usually comes within two years of diagnosis, experts say.

And, when disability and group life insurance benefits are considered, corporate benefit expenditures to employees with AIDS soar even higher.

Long-term disability plans typically pay benefits equal to 50% to 60% of an employee's salary, and a generous group life insurance plan could yield a benefit equal to more than twice the employee's annual salary.

In Miami, the Dade County Public Schools, whose health plan covers about 21,000 lives, paid out an average of \$50,000 to \$60,000 in death benefits on each of three AIDS-related claims over the past year, estimates Susan N. Weiner, executive director-risk management.

Despite the cost, no employer is known to have altered its health care and other benefit plans to deny coverage for AIDS victims, although some employers are attempting to screen potential employees to determine if they have the AIDS virus.

In addition, group health insurers are not excluding AIDS coverage from their plans (see story, page 61).

"To treat it as anything other than" a serious-but-covered disease "is just to invite tremendous political problems," says Joseph H. Ros-

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Satellite firm sues AIG unit over non-payment of claim

By DOUGLAS McLEOD

LOS ANGELES—Hughes Aircraft Co. is suing Lexington Insurance Co. for \$29 million following Lexington's refusal to settle a total-loss claim on Hughes' disabled Syncom IV-3 satellite.

The lawsuit, filed last month in Los Angeles County Superior Court, seeks to recover Lexington's \$4 million share of the \$84.7 million in coverage written on the satellite.

The probe, also known as Leasat 3, was marooned in its current orbit, 160 miles above the Earth's surface, when an upper-stage rocket failed to ignite after the satellite was deployed in April from a space shuttle (BI, April 22).

Charging that Lexington acted in bad faith in denying the claim, El Segundo, Calif.-based Hughes also seeks \$25 million in punitive damages.

Lexington, a unit of American International Group Inc., is the only one of the 14 underwriters on the Syncom coverage that has refused to tender its policy limits and participate in a salvage plan for the satellite, according to the lawsuit.

Lexington has not filed an answer to the Hughes complaint, and a Lexington official, citing the pending litigation, refused to comment on the insurer's reasons

for denying the claim.

However, Thomas W. Tily, a managing director with Marsh & McLennan Inc., Hughes' broker, said Lexington contended that the claim didn't meet the policy's definition of a total loss.

Other insurers also felt that Syncom IV-3 should not be treated as a total loss under the terms of the policy, sources say. However, the insurers reached a negotiated settlement with Hughes under which they tendered their policy limits.

Hughes, in turn, agreed to assume the \$10 million to \$20 million cost of repairing the satellite and to return a portion of the insurance proceeds if the repairs were successful and the satellite is leased by the U.S. Navy, sources say.

The repairs were performed during a recent space shuttle mission that also launched Leasat 4, the fourth satellite in the Hughes series. It's not yet known if the repairs were successful.

Leasat 4 failed two days after being successfully placed in orbit, and Hughes recently filed another \$85 million total-loss claim on that orbiter (BI, Sept. 23).

While other insurers have paid Hughes \$80.7 million on the Leasat 3 loss, Lexington has refused to pay its portion of the claim or to accept the salvage plan, or

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Insurers await information on Mexican quake losses

By ROBERT A. FINLAYSON

MEXICO CITY—Insurers around the world are awaiting additional information from ravaged Mexico City to assess their losses from the two devastating earthquakes that rocked the Mexican capital.

Losses on reinsurance of earthquake coverage written by Mexican insurers are expected to be broadly distributed among insurers in Europe, the United States and Asia.

However, Munich Reinsurance Co. in Munich, West Germany, says it expects its losses to be "considerable" since it heavily reinsures Mexican property risks. Sources also say that Swiss Reinsurance Co. in Zurich is a heavy reinsurer of Mexican risks.

And, a spokesman for Prudential Reinsurance Co. in Newark, N.J., says Prudential's exposure is "fairly substantial." However, it will take weeks "to get a firm handle on losses," he added.

Prudential reinsured both Mexican insurers that write earthquake insurance and U.S. insurers that write global and difference-in-conditions policies that provide earthquake coverage to U.S. multinational companies, the spokesman explained.

In addition, marine insurers last week were awaiting final news on ships reported lost due to tidal waves that followed the quakes.

However, other underwriters at this point do not expect their reinsurance losses to be catastrophic or do not know the extent of their losses.

Royal Reinsurance Co. Ltd. in London expects its net exposure on reinsurance of Mexican earthquake risks to be about 3 million to 5 million pounds (between \$4 million and \$7 million), which the spokesman termed "quite modest."

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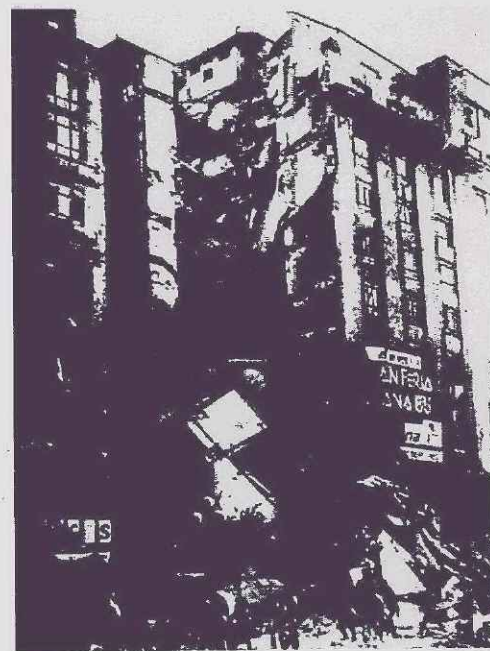


Photo: AP/Wide World

Many underwriters do not expect huge losses despite the quakes' devastation.

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at self-insurance conference**
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update

Senate reauthorizes Superfund

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The Senate also did not consider a recommendation by the insurance industry to make clear that those who contributed waste to a hazardous-waste site were not jointly and severally liable for all damage claims.

The measure does boost excise taxes paid by various industries in order to raise \$7.5 billion to clean up hazardous-waste sites.

Superfund bills are still pending in several House committees.

Great Global tells plan

SCOTTSDALE, Ariz.—Great Global Assurance Co., which reported a \$30 million statutory insolvency in its June 30 quarterly statement, is working with the Arizona Insurance Department on a plan to restore the company to financial health.

The plan involves the sale of Great Global's parent company, The Polaris Cos. of Delaware, and the completion of a loss-portfolio transfer of Great Global's public entity insurance program.

Great Global, which is not in formal rehabilitation, voluntarily stopped writing new business on July 27 and is writing only limited renewal business with the approval of the Arizona department.

The insurer reported a policyholders surplus of negative \$30 million as of June 30, compared with a positive \$4.3 million at the end of 1984. Though Great Global suffered a \$4.4 million net loss for the first six months of 1985, most of the surplus drain was related to the addition of a \$23.3 million liability for unauthorized reinsurance.

"The current financial difficulties were triggered, in a large part, by the liquidation of Northumberland General Insurance Co. in July by New York and Canadian insurance authorities," the company said in an addendum to the quarterly statement.

Reinsurance recoverable from Northumberland accounted for about \$9.6 million of the unauthorized reinsurance liability, according to Roy Gill, Arizona assistant insurance director and chief examiner. Mr. Gill said he expects Great Global eventually will collect at least 75% of the Northumberland reinsurance.

Great Global reported earned premiums of \$8.5 million and direct written premiums of \$57.4 million for the first six months of 1985.

Under a plan outlined in the addendum to its quarterly statement, Great Global will:

- Receive a \$30 million capital infusion following the sale of Polaris to John McKellips, a Minneapolis investor. Mr. McKellips already has placed assets valued at at least \$25 million in an escrow account pending the closing of the sale, which should occur in late October, according to Mr. Gill.

- Conclude a loss-portfolio reinsurance deal covering Great Global's public entity liability business. The transfer, which would add nearly \$10 million to the insurer's surplus, will be concluded in early October, according to Michael Miller, Great Global's general counsel. Mr. Miller and Mr. Gill would not reveal the name of the portfolio reinsurer.

When the plan is completed, Great Global's surplus will amount to at least \$10 million, Mr. Miller said.

"We are extremely optimistic that this will result in the total financial rehabilitation of Great Global," said S. David Childers, Arizona director of insurance.

The Great Global addendum also notes that the insurer's board of directors and officers group will be "reconstituted," though Mr. Miller would not comment on what changes will be made.

Allin M. Karls currently serves as chairman of Great Global, and Clive W. Himsworth is president.

Three NYIE officers resign

NEW YORK—Three senior officers of the New York Insurance Exchange have resigned over differences with exchange President Donald E. Reutershan about the market's operations.

The resigning officers are Peter Bickford, vp, general counsel and secretary; Joan Sugar, vp-information services, who oversaw the exchange computer facilities; and Patricia Witt, vp-audit.

The resignations resulted from "policy differences relating to organizational structure and processing procedures at the exchange that could not be resolved," Mr. Reutershan said in a statement.

Exchange officials declined to elaborate on the differences.

John Cox to head ACE

HAMILTON, Bermuda—John Cox, former executive vp for property/casualty at CIGNA Corp., will serve as chairman of American Casualty Excess Insurance Co. Ltd., the investor-owned insurer being formed to write high excess liability limits, and its holding company, an ACE spokesman says.

ACE, which is incorporated in the Cayman Islands, has been granted two licenses to operate from Bermuda and will begin underwriting in the "imminent future," according to the spokesman.

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Buyers blame insurers for coverage problems

By JERRY GEISEL

WASHINGTON—Commercial insurance buyers and consumer advocates are blaming the property/casualty insurance industry for skyrocketing rates and capacity shortages, adding that the federal government should intervene to provide relief.

Employers told the House Subcommittee on Commerce, Transportation and Tourism this month that poor pricing practices are a key reason why property/casualty insurance rates have soared and why coverage for some commercial lines has become so difficult to obtain.

Hyman Pressman, comptroller for the city of Baltimore, said today's market problems can be traced to insurers' past "imprudent" underwriting practices.

When interest rates were high, insurers junked sound underwriting principles and concentrated on generating more business through cheap rates to cash in on investment opportunities, he said.

"Stated more succinctly, they gambled and lost, and now they want the public to pay for their imprudence by paying higher premiums," he said.

Mr. Pressman, who said the industry is "abusing" the public, called for a congressional investigation and possibly federal regulation of property/casualty insurers.

The 185,000-member American Nurses Assn., which described industry pricing practices as "arbitrary and

capricious," offered another suggestion: a federal reinsurance program for malpractice coverage for nurse-midwives, a line of coverage that is particularly hard to find.

"Regrettably, at this point, we see this as the only viable remedy to this unfortunate predicament," said ANA President Eunice Cole.

Industry critic J. Robert Hunter, president of the National Insurance Consumer Organization in Alexandria, Va., said insurers are boosting rates as part of a strategy to convince legislators that changes in the legal system are needed.

Mr. Hunter said insurers learned a lesson from the product liability insurance crisis of the 1970s when rates also soared and some states subsequently passed legislation making it more difficult to sue product manufacturers.

"They (insurers) learned that state regulators would, during the panic, give away the store. They also learned that state legislators would act to reduce victims' rights in the wake of the panic," Mr. Hunter said.

"They are applying the lessons they learned in the mid-1970s very well today—to day-care centers, to nurse-midwives, to doctors, to product manufacturers. They are petitioning Congress for product liability tort law changes and the states for changes in other tort systems," Mr. Hunter said.

Rather than tolerate insurers' periodic "terrorist"

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Massachusetts comp reform moving ahead

By CAROL CAIN

BOSTON—Supporters of a recently drafted workers compensation reform package, including both business and labor, hope the measure will be enacted by the end of the year.

The bill, H. 6700, which is expected to be taken up by the House Ways & Means Committee this week, was approved Sept. 19 by the Joint Commerce & Labor Committee, which drafted the bill.

The package, which would increase employers' workers compensation costs, calls for a complete restructuring of the state's 74-year-old workers compensation system.

"The system now is archaic. It has not been overhauled since 1911. It's pretty much now a litigation system... basically a little court system with no administration," said Walter Horn, research director for the joint committee.

The measure would replace the current 12-member Industrial Accident Board, which handles both

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RIMS videotape blasts ISO claims-made form

By STEPHEN TARNOFF

NEW YORK—The Risk & Insurance Management Society is circulating a videotape urging its members to fight against the implementation of the Insurance Services Office's claims-made commercial general liability policy form.

The half-hour videotape consists of a discussion moderated by RIMS President Richard Hackenburg, staff vp and assistant treasurer at Allegheny International Inc., that also proposes ways the new form can be changed to better address the needs of insurance buyers.

Participating in the discussion with Mr. Hackenburg are members of a RIMS task force on the new form: Norman Chanzis of American Standard Inc., William Blick Jr. of the Allen Group Inc., and Frank Tierney of Consolidated Natural Gas Co.

The videotape is available free of charge to RIMS chapters nationwide, although chapters are asked to return the tape to the RIMS headquarters in New York when they are finished with it.

RIMS has been a vocal opponent of the new claims-made CGL form, which is scheduled to be implemented Jan. 1. The tape reiterates RIMS' argument that the form will place an undue burden on insurance buyers.

Under a claims-made form, an insurer is responsible only for claims filed during the policy period. In contrast, the occurrence form currently in use affords coverage for any injury that occurred during the policy period, even if the claim is not filed for years after the policy expires.

The new ISO claims-made form will include a retroactive date,

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Congress considers spousal benefits bills

By JERRY GEISEL

WASHINGTON—Congress is one step closer to requiring that employers extend group health care coverage to their employees' divorced or widowed spouses and dependents, as well as to employees who lose their jobs.

The Senate Finance Committee this month approved a piece of legislation that would require employers to extend group health coverage for 18 months to a former spouse after an employee dies or is divorced or separated.

Under the legislation, health care coverage also would have to be offered for 18 months to employees who have lost their jobs, although the bill does not specifically say if this applies to employees who quit or are fired as well as those who are laid off.

If an employer does not meet these two provisions, the company would lose its federal tax deduction for health care coverage expenses.

However, companies could require spouses and former employees to pay 102% of the cost of the coverage, including any costs that were formerly paid by the employer.

For example, if the cost of a company's health care coverage is \$100 per month per employee, the employer could charge spouses and former employees a premium

of \$102 per month.

This extension of health care coverage to dependents and to former employees, which would impose significant administrative burdens on employers, is part of a deficit reduction package approved Sept. 19 by the Senate Finance Committee.

Other benefit provisions in the package, which was expected to receive a bill number late last week before being sent to the Senate floor, would increase the insurance premium that employers with defined benefit pension plans pay the Pension Benefit Guaranty Corp. and would force employers to extend their group health care plans to more older workers and their spouses.

The House Ways and Means Committee already has approved a deficit reduction bill, H.R. 3128, which includes a provision to require companies to extend health care coverage to former spouses and dependents (BI, July 29). But that provision is significantly different than the Senate Finance Committee's provision.

For example, the Ways and Means Committee's bill would require health care coverage to be extended to spouses and dependent children for up to five years after a divorce, separation or death of the employee, compared with the 18-month extension proposed by the Senate panel.

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Right-to-know

Manufacturers say they're ready to comply with federal standard

By JULIE TRUCK and CAROL CAIN

Manufacturing employers are putting the finishing touches on programs to comply with a federal "right-to-know" standard that takes effect next spring.

Employers are forming review committees, taking hazardous material inventories, writing manuals and devising employee training procedures so they can meet the requirement, which goes into effect May 25.

The standard, adopted by the U.S. Occupational Health & Safety Administration, will require many types of manufacturing employers to uniformly inform their employees about hazardous materials found in the workplace (see related story).

OSHA estimates the standard will affect about 300,000 manufacturing facilities throughout the country. These facilities employ about 14 million workers.

In addition, beginning Nov. 25, OSHA will require the manufacturers, distributors and importers of chemicals to assess the hazards of the chemicals they produce or import and pass that information along to their customers.

Companies will initially spend about \$603 million to comply with both rules, an OSHA spokesman said, adding that compliance will cost companies about \$158 million annually thereafter.

Many predict that before long OSHA will expand the scope of the federal right-to-know standard to require all employers—not just manufacturers—to inform employees about the hazardous substances they work with.

Although the right-to-know standard places many burdens on the affected manufacturing employers, companies say they do not think they'll have trouble complying with the rule.

In fact, some observers have applauded the standard, noting that right-to-know will decrease the number of occupational disease claims because of the additional safety information and precautions that will be given to employees.

Many major manufacturers say they have been informing and protecting workers against hazardous substances for decades, long before OSHA developed this standard. Therefore, they contend, they're ahead of the game.

However, Margaret Seminario, associate director of occupational health, safety and social security with the AFL-CIO in Washington, says that while some employers have done a good job in the past, others have done nothing more but collect inaccurate information about hazardous substances and pass it on to employees to

read with little guidance.

Several states already have addressed this deficiency and have passed state right-to-know laws. Manufacturing employers with facilities in those states say they now only have to fine-tune their programs to comply with the federal standard (see story, page 12).

At the heart of the portion of the standard that takes effect next May are four provisions. Manufacturing employers must:

- Obtain from chemical and hazardous-material producers material safety data sheets (MSDSs) and make these sheets available to employees.

- Label containers of hazardous substances with the identity of the material, appropriate hazard warnings and the name and address of the manufacturer or other responsible party.

- Train and inform employees in reading the labels and locating and interpreting MSDSs. In addition, employees must be trained in protection techniques to be used when handling specific hazardous substances.

- Establish a written hazard communication program that includes not only the MSDSs, labels and training plan, but also a list of all hazardous chemicals at a job site and the methods that will be used to inform employees of the hazards of non-routine tasks and the methods that will be used to inform non-employees working at the site.

Although most employers, especially larger companies, expect to have little trouble in complying with the new OSHA standard, they say there could be problems with OSHA's enforcement procedures and that legal challenges may be filed against certain aspects of the law.

Some also fear that employers' liability could increase if MSDSs are incorrect (see story, page 4).

"Inherently there's nothing wrong with employees knowing...but I don't think OSHA is geared up with enough talented people to enforce it," said Mitchell Weingarten, manager of safety and loss prevention for

Continued on next page

The law

Within months, business will have to comply with the 1983 Occupational Safety and Health Administration's hazard communication standard.

Beginning Nov. 25, the law requires chemical manufacturers, distributors and importers to assess the hazards of the chemicals they produce or import and pass that information along to their customers.

The rule also requires manufacturing employers in Standard Industrial Codes 20-39 to provide information on the hazards of the substances in their workplaces to their employees by May 25. The industrial codes divide U.S. industries into 12 divisions and about 99 groups, based on type of business.

The manufacturing industries affected are: SIC 20, food and kindred products; SIC 21, tobacco manufacturers; SIC 22, textile mill products; SIC 23, apparel and other textile products; SIC 24, lumber and wood products; SIC 25, furniture and fixtures; SIC 26, paper and allied products; SIC

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Meet some high-tech trouble-shooters

Employers tackling loss prevention problems can rely on high-tech assistance.

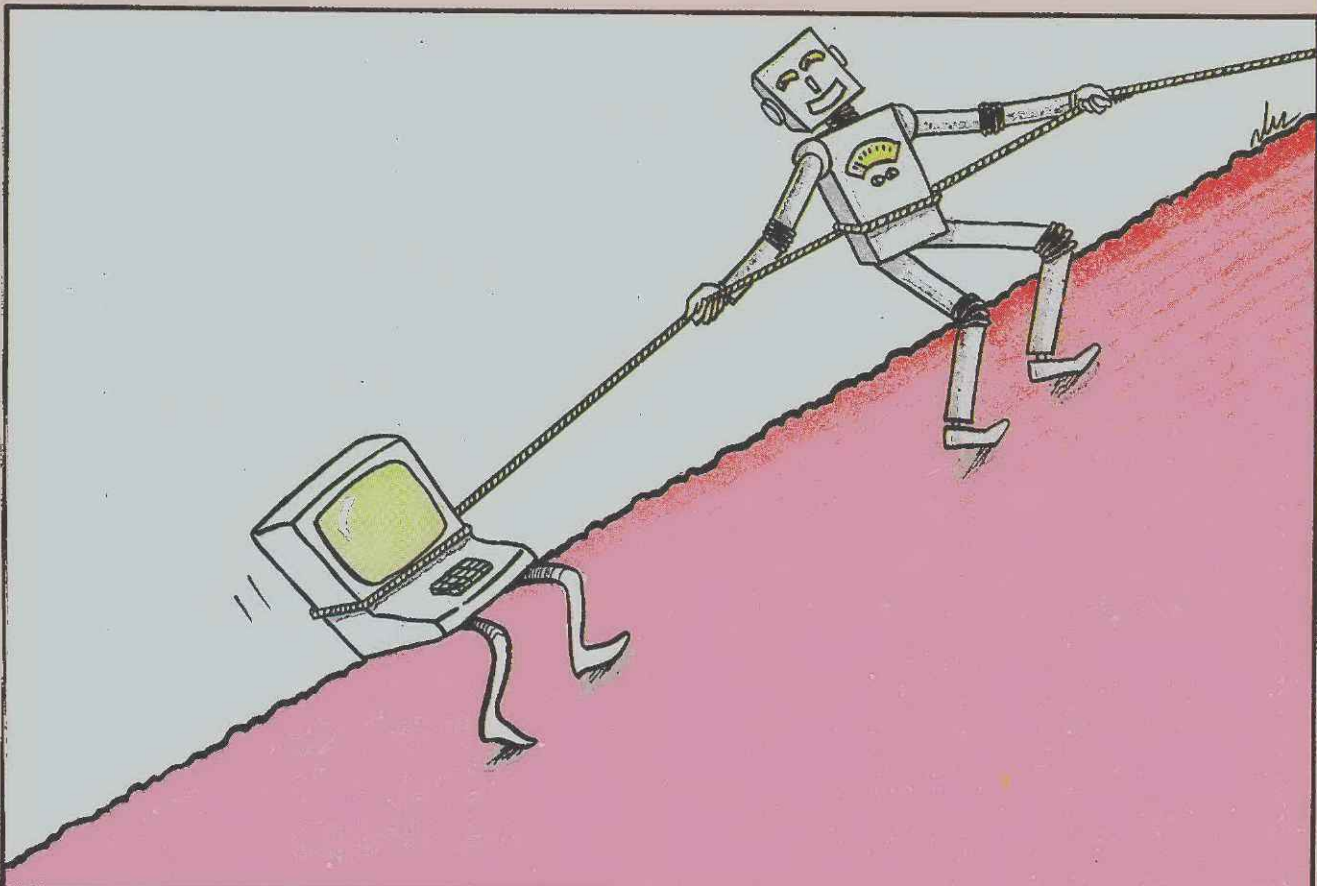
Computer software and robots are beginning to play more active roles in preventing injuries to people and damage to property—and their manufacturers predict even larger roles in coming years.

While risk managers are increasingly depending on computer-driven information systems to pinpoint trouble areas, other computer programs can actually map out the route of a cloud of accidentally released toxic gases, allowing quick emergency action.

Still other software programs are being used to design fire control systems or redesign stressful jobs.

Industrial robots are playing an even more active role in loss prevention. They are pinch-hitting for humans in hazardous situations. So far, their key role has been in the nuclear power industry, but down the road they are expected to be guarding buildings, fighting fires and possibly even mining.

For the story on these high-tech loss-control wizards, see the reports by Associate Editor Diane Lynn Kastiel and Assistant Managing Editor Dave Lenckus, beginning on page 23.



Right-to-know

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SCM Corp. in New York, a diversified manufacturer of consumer and industry products.

Mr. Weingarten said he hopes OSHA will enforce the law fairly, across all industries, and not single out just the chemical industry.

"A chemical is a chemical," Mr. Weingarten said, no matter what type of employer is using it. "We're all in this together."

Besides wondering how OSHA will enforce the standard, employers also are concerned about litigation they say is almost certain to be filed regarding some of the technical aspects of the new rule.

"The new law still is something of a moving target. . . . There are some technical issues still to be plotted out," said Tom Slavin, manager of health and safety for Chicago-based International Harvester Co.

One of those issues is trade secrets and how a corporation can protect those secrets and still disclose information about hazardous substances to employees, he said, adding "the federal government is regulating commerce, in a sense."

"I think this thing will probably bounce back and forth in court a little bit," he added.

Many companies affected by the law have already implemented—or have at least begun to design—their own right-to-know programs, well in advance of the rule's May effective date.

One such company is Duke Power Co., based in Charlotte, N.C. Duke, which makes and supplies electrical power using coal, nuclear and water sources, employs about 20,000 workers.

"When a new material safety data sheet comes in from the field, it's reviewed and then we make our own" MSDS, said Scott Price, the utility's safety manager.

Duke either attaches an addendum to the original MSDS or rewrites the sheet to include additional or more specific information throughout, he said.

For example, if the manufacturer's MSDS recommends wearing a respirator while using the substance, the revised Duke MSDS will specify which type of respirator to wear.

This review and revision is conducted by a review committee established in 1982 under Duke's Hazardous Materials Exposure Control program. Five people—specialists in fire protection, safety, environmental compliance, chemistry and industrial hygiene—sit on the review committee.

In addition, between 100 and 120 other persons are actively involved in the HMEC program.

"Several years ago we realized we needed information available in a short period of time," Mr. Price said in explaining why the program

was developed.

"We're doing the same thing that right-to-know requires: If you're working with chemical 'A,' you go to the book and look it up," he said.

The power company subsequently developed a five-volume loose-leaf notebook, which contains about 2,000 MSDSs. Some 120 copies of the notebook have been distributed to various Duke sites.

The next step at Duke is to put all the MSDS information in its central computer and install access terminals in the various plants. This not only will make it easier to access the information, but also will make it easier to update it, Mr. Price said.

The computerization should be completed by the end of the year, he said.

Another employer that used a committee to help design its corporate hazardous material information program is International Harvester Co.

"We've had a corporate program since 1975," Mr. Slavin said, adding that some IH plants had separate programs before that. "So our approach toward the new OSHA standard is to fine-tune our program."

Each IH plant has a hazardous material committee with representatives from the medical, safety and purchasing departments. Beginning this year, a union representative also sits on the committee.

The job of the committee is to obtain MSDSs from chemical companies and review them, Mr. Slavin said.

IH also is setting up a computerized system to keep track of MSDSs and when hazardous substances are used. The computerized system will inventory the hazardous materials in the plant where they are kept, Mr. Slavin said, adding that some plants have 600 MSDSs, while others have 6,000.

By computerizing the information, the company also will have the advantage of pulling out specific segments to be used for training, Mr. Slavin said. "Within the next two months we expect to become much more automated."

IH also is in the process of developing its employee training program. "We've got to the point of selecting videotapes," Mr. Slavin said. Many of the tapes that will be used to explain the new law and the MSDS and labeling requirements were purchased from outside sources. These "canned" training products are getting "better and better."

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Rule may cause liability exposure

Although many manufacturing employers are expecting few problems complying with the federal right-to-know standard, mistakes in the material data safety sheets required under the rule could expose them to new liability suits.

While the new standard allows users of chemicals to rely on the manufacturers of chemicals to determine the hazards of the substances, "The real liability questions arise when the MSDS is incorrect or if it seems wrong," said Randel Johnson, associate director of loss prevention and control for the National Assn. of Manufacturers in Washington.

"What does a company do with a MSDS it receives with a product it purchases when it believes the MSDS is not accurate?" he asks.

"If you correct the MSDS, you accept responsibility," Mr. Johnson said.

Although he added that most chemical producers "are doing their best" and are issuing accurate MSDSs, errors are more likely at the current time as chemical companies rush to meet OSHA deadlines.

"Things like this in the OSHA standard, I think, will come down to litigation," Mr. Johnson said.

But, in the meantime, the market itself appears to be dealing with the problem of potentially inaccurate MSDSs, Mr. Johnson said.

"Users are going back to suppliers and are saying 'Give us accurate MSDSs or we'll quit buying from you.' They also are putting explicit provisions in contracts with suppliers. . . .for suppliers to accept responsibility for the accuracy of MSDSs," Mr. Johnson said.

Right-to-know

Continued from page 4

Although complying with the new standard means extra work for IH, Mr. Slavin said the federal law is much preferred to the various state laws "that were in disagreement and had different definitions to follow."

Another employer that will be prepared to comply with the new OSHA law by the May deadline is St. Louis-based Monsanto Co. The multinational manufacturer of chemicals, agricultural products and man-made fibers, employs 60,000 people and has 83 plants worldwide.

Monsanto is using a 24-segment "generic" manual to assist plant managers in complying with the law. The manual, which was distributed last year, was designed by Thomas F. Evans, Monsanto's director of environmental health.

Each section of the manual has

Monsanto's 24-segment 'generic' manual to help managers comply with the right-to-know law includes generic pages with blank spaces for the individual plant managers to fill in, said Mr. Evans, who also designed the manual.

generic pages with blank spaces for the individual plant managers to fill in, Mr. Evans said.

For instance, in the section listing the hazardous chemicals in the plants, the manager has to inventory the chemicals in that plant and fill in the pages.

"The manual doesn't tell them how to do it, but what has to be done," Mr. Evans said.

One of the last sections of the manual includes an employee training checklist, he said. "I recommend that one of these sheets be prepared for each employee so then

a supervisor can check off as the training is completed, record the date and maybe even get the employee to sign it."

Employee training itself is conducted in a variety of ways, including tapes, videos and meetings, Mr. Evans said.

"Some individuals will have to get more specific training," he said. "For example, if a mechanic is to take down a pipe that contained a chemical, that department is supposed to have a written procedure."

But employee training and hazard communication are precautions

that Monsanto and other manufacturers have done for some time, Mr. Evans said.

For instance, Deere & Co. in Moline, Ill., has kept on file some form of MSDSs since before 1956, when Charles Peterson, Deere's manager of industrial hygiene, joined the farm and industrial equipment manufacturer.

However, Deere has had to spend more time on its hazard communications program in light of an Illinois right-to-know law that took effect last year and the federal law becoming effective next year, Mr. Peterson said.

"Our biggest job now is to get updated and legitimate MSDSs from the manufacturer," he said.

While Deere & Co. is concentrating on obtaining MSDSs, Niagara Falls, N.Y.-based Occidental Chemical Corp. is zeroing in on employee training.

Written training programs currently are being drafted, said Rob-

ert Donahue, safety superintendent of Occidental's Tacoma, Wash., plant.

The firm also is developing a labeling system that will use a scale of 0 to 4 to show how hazardous a substance is.

But as Occidental began developing its labeling program to comply with the OSHA standard, it decided not to "put all its eggs in one basket," according to Mr. Donahue.

"If we put labels everywhere, what's to say that in six months those labels will still be in place," he said, noting that labels can be bleached by the sun, become dirty and illegible or fall off.

So, the company has designed a system of floor plans that show where all the substances are located throughout the plant, Mr. Donahue said.

Training programs also are on the minds of officials at SCM Corp. Slide/tape shows have been developed in-house, according to Jerry Blacker, manager of industrial hygiene and health.

The slide/tape presentations will be part of a multisession employee training program that will cover the new law, discuss how to interpret MSDSs and explain respiratory protection methods.

Specific programs also will be presented to employees on the handling of various classes of chemicals, Mr. Blacker said.

The sessions are expected to run one hour and will allow time for discussion, he said, adding they already are being used in some plants.

A large part of the industrial community, especially in states where there already have been right-to-know laws like Illinois, won't have a difficult time gearing up for the federal law, notes Sidney Marder, environmental consultant to the Illinois State Chamber of Commerce in Springfield.

He noted that in recent months, attendance at Chamber-sponsored right-to-know seminars has been increasing, adding that such programs are a good way for employers to get a handle on the new law. ■

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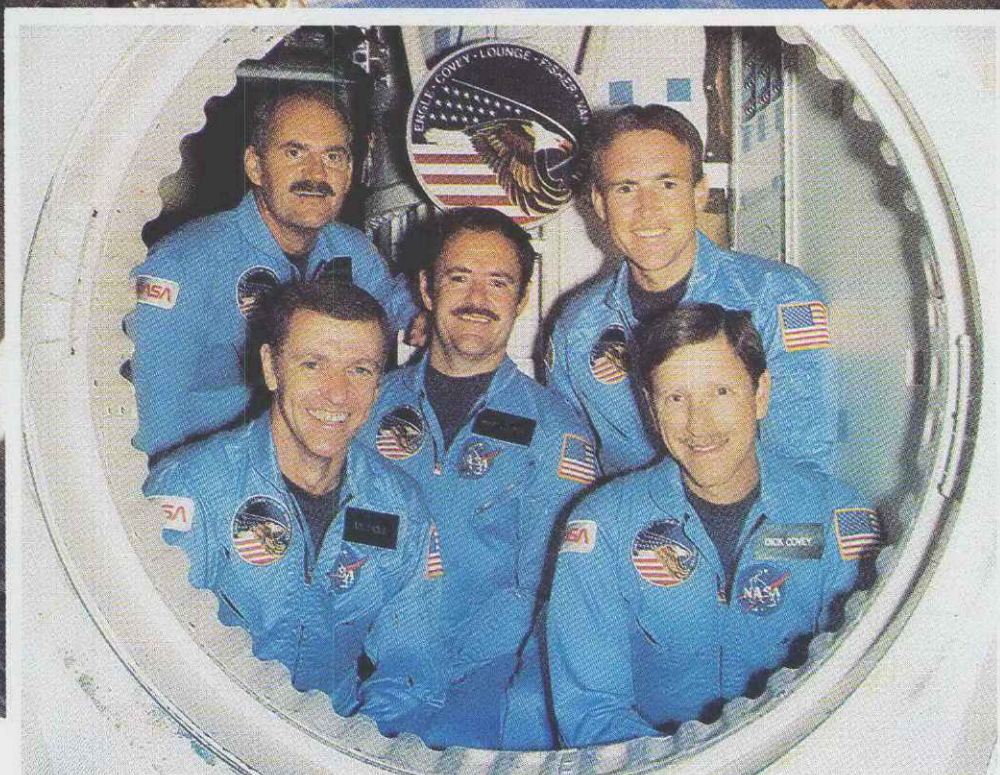
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opinions

A duty to know

RISK MANAGERS, do you know what your company is doing to comply with the new federal right-to-know rule?

You should.

By May 25, manufacturing employers that fall within the Standard Industrial Codes 20-39 are required to develop a written hazard communications program to alert employees to hazardous substances in the workplace and train them to properly handle them.

But, it shouldn't take a mandate from the Occupational Safety and Health Administration to point out that such a program is a big step toward loss prevention. And, risk managers should be the impetus to make sure such procedures are in place.

We are impressed with the steps taken by several employers to provide information and training to employees exposed to hazardous substances. Some interviewed for this week's Spotlight Report on loss prevention have gone beyond the requirements of the rule.

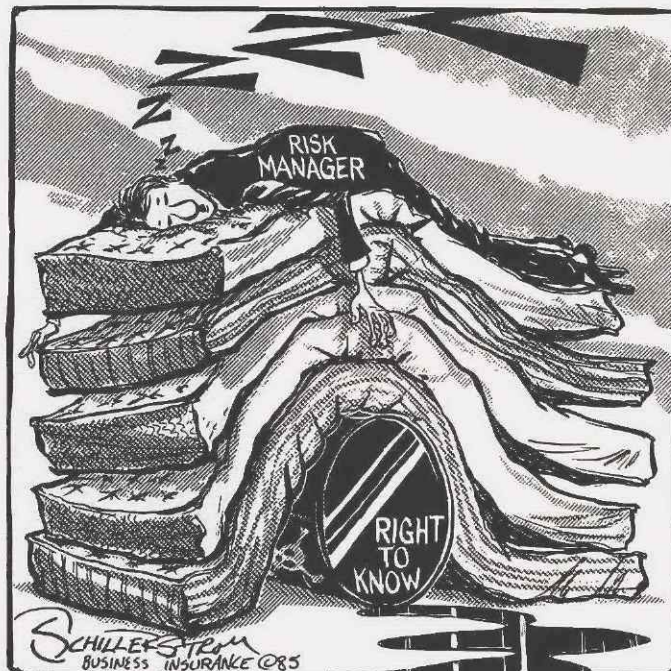
We especially compliment the companies that are utilizing computers to make information more assessable to employees and easier to update as new substances are brought into the workplace.

We also tip our hat to the companies that consider hazard communication important enough to assign special committees to develop good programs. But, we are curious why their committees include industrial hygienists, safety managers, purchasing managers and medical directors—but no risk managers.

Sure, at some large corporations a risk manager's loss-prevention duties are shared with safety managers and industrial hygienists. But, can we assume that the risk manager—who has overall responsibility for minimizing the company's exposure to all and any losses—is receiving reports on all actions taken by the committee and, in fact, has had input on the structuring of the programs?

We would hope so, but that did not seem to be the case when our reporter called risk management departments for information on right-to-know programs.

And, even if a risk manager could get by without having his or her hand in the right-to-know program of a large company with elaborate safety and industrial hygiene departments, it is imperative that he or she



play a leading role at a smaller company.

If there is a right-to-know committee at your company and the risk management department is not represented on it, offer the services of someone from your staff.

And, if no one seems to be pushing to develop a right-to-know program yet, light a fire under management. The deadline for compliance is less than eight months away—and it can take three to six months to put a program together.

Proper employee hazard communication programs can cut losses, but loss-prevention programs are only as strong as management's commitment to them. The risk manager is in the best position to relay management's support and motivate others to make right-to-know programs effective.

His or her influence could be the difference between a program that merely satisfies the letter of the law and one that captures the spirit of it.

As a risk manager, you not only have a right to know how employees are being trained to deal with hazardous substances, you have a duty to know.

letters

Employers being 'gouged' by courts, not insurers

To the editor: I continue to enjoy reading your magazine, since many of the problems are sooner or later duplicated in Canada. I read with interest your article in which J. Robert Hunter, president of the National Insurance Consumer Organization, and consumer advocate Ralph Nader accused property/casualty insurers of "gouging" commercial insurance buyers through unjustified, astronomical rate increases (*BI*, Aug. 26).

While undoubtedly there will be incidents of excessive rate hikes, as I read the article, I could not help but develop the feeling the complaint involves a simple case of moral hypocrisy. The conclusion that sole responsibility for the problem lies with insurers is superficial and deserving of deeper analysis.

In reading similar articles, one notices a deafening silence on the question of the responsibility of the American courts. This was summed up in the Aug. 24 issue of the British Economist magazine, which frankly stated that the biggest disaster for

insurers is the American courts.

As one Lloyd's of London representative recently stated, the U.S. scene amounts to a "sting." By all logic, why would insurers continue to write certain risks at any price when some of your courts are interpreting policy wordings in such a way as to give the policyholder far greater cover than was ever intended by underwriters?

The recent hint that Lloyd's underwriters might pull out of the American liability market is convincing evidence that something must be done about applying controls on the amounts and scope of

awards by U.S. courts.

Regarding the accusation of gouging, one might find rather damning evidence as to the nature of the real gouging that occurs on U.S. liability settlements, when attention is focused on the average percent of the award that goes to the plaintiff's lawyer.

The defect in the situation that now exists is that the system now services plaintiffs' lawyers better than it does the plaintiff or, ultimately, the consumer.

So who's doing the gouging?

David R. Todd
Mississauga, Ontario

Sources play fast and loose with cliches: Reader

To the editor: You're wonderful, *Business Insurance*, and our industry is lucky to have you. But this week's issue (*BI*, Sept. 16) suggests that either your reporters or the people they interview have lost control of the great American cliché.

I have to believe that it was Kathleen Utgoff, the new head of the Pension Benefit Guaranty Corp.—and not reporter Jerry Geisel, who interviewed her—who was concerned that a uniform premium for pension termination insurance would create a "vicious cycle."

I know a circle can be vicious...but can a cycle?

Based on Ms. Utgoff's further comments, her true concern may be a vicious spiral...but then she's an economist, so what can one expect?

But, "vicious cycle" is mild compared to a comment from Bill Watson of Illinois Bell's employee benefit committee, in Diane Kastiel's story on employers' use of Towers, Perrin, Forster & Crosby's "I'm in Charge" program. Illinois Bell, he notes, wants to help its employees avoid dealing with health care providers "in the proverbial land-of-the-slaughter approach." Land-of-the-slaughter?

Could that possibly be "lamb-to-the-slaughter?" One hopes so.

If rules exist to be broken, perhaps clichés do, too. Thank you for breaking a few.

Mary A. Carroll
Vp
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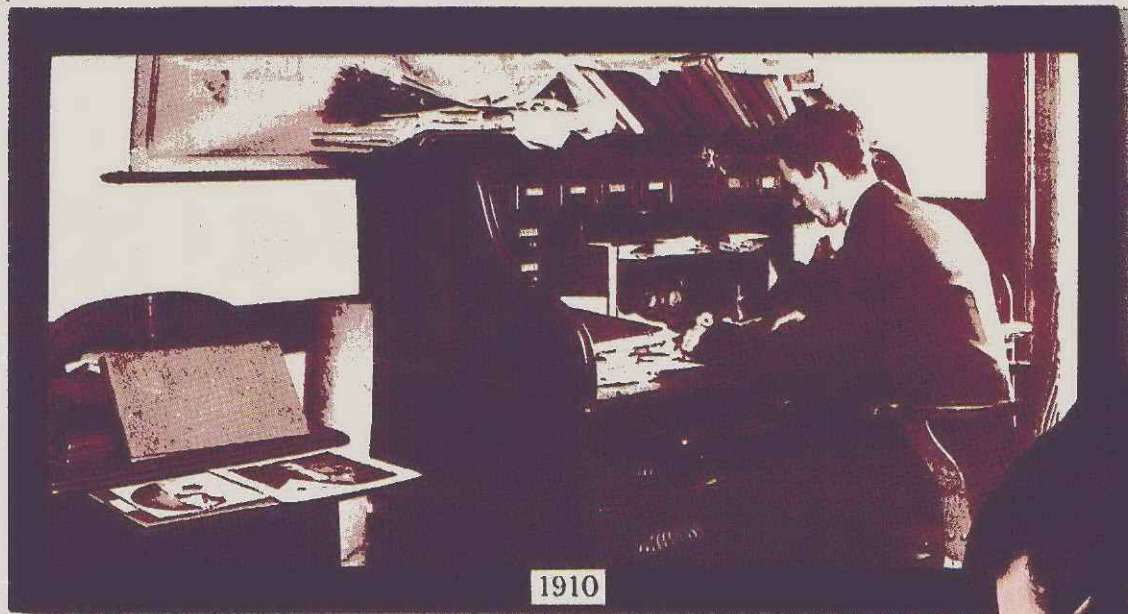
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Prepare now to comply with right-to-know rule

By JULIE TRUCK
and CAROL CAIN

Manufacturers that are not prepared to meet OSHA's hazard communication standard, which takes effect May 25, must act quickly, experts say.

"Time is running out. . . A lot of people don't realize that they must be in compliance by (the deadline)," said Hobart G. Miller, vp of Labelmaster, a Chicago-based division of American Labelmark Co. Inc., which produces identification systems for hazardous materials.

According to that new standard, manufacturing employers that fall within the Standard Industrial Codes 20-39 are required to develop a written employee hazard communication program, also known as a right-to-know program, by May 25.

The program must include provisions for container labeling, material safety data sheets and employee training in reading the labels and MSDSs and in handling the hazardous materials (see story, page 3).

'Employees who are given a voice accept the program more readily,' Ms. Wolf explained.

Mr. Miller says it takes between three to six months to obtain MSDSs from producers of hazardous materials, to prepare labels and to develop an employee training program. And, it could take even longer for larger employers, he adds.

To comply, the first thing an employer should do is obtain a copy of the new rule (Hazard Communication Standard, 29 CFR Part 1910) from the U.S. Occupational Safety and Health Administration, either from its Washington headquarters or from a local state office, said George Gibson, regional manager of field operations for NATLSCO, Kemper Group's risk management, safety and loss-control subsidiary in Long Grove, Ill.

Since several states have enacted similar right-to-know legislation, Mr. Gibson also recommends obtaining copies of these laws from the states' departments of labor (see story, page 12).

Trade associations, like chambers of commerce or manufacturers' groups, also can supply copies of the OSHA rule to its members, and most likely have already done so, Mr. Gibson and others said.

Once the standard is in hand, the second step is to study it, Mr. Gibson said.

Several employers have formed committees composed of labor and management representatives to carry out this step (see story, page 3).

"If employees have a voice from the beginning, it (the hazard communication program) will be accepted more readily," said Pam J. Wolf, casualty/loss control specialist with Kemper Group.

Besides employees, the risk manager also needs to be involved in this process, stresses Haren Kahn, assistant director for governmental affairs for the Risk & Insurance Management Society in New York.

"A lot of risk managers are not aware that right-to-know falls within their department. They see it in safety or in industrial hygiene," Ms. Kahn said.

"The role of the risk manager is increasing. . . It's good to know what kind of exposures and losses there are in the company," she

said.

RIMS has advised its members to become more aware of the implementation of this regulation and to become involved "because right-to-know can lower risks and cut down on claims," she said.

And since so many people are in-

involved in implementing the right-to-know standard within each corporation, someone—such as the risk manager—can serve as a coordinator, especially in communicating this information to corporate executives Ms. Kahn said.

"I see the risk manager playing

an important role in getting everything rolling in the right direction," according to Stephen Wilner, corporate manager for industrial and environmental health at Allegheny International Inc. in Pittsburgh.

Responsibilities will not only in-

clude coordinating the program's direction, but motivating those within a corporation who will carry out the standard's directives, he said.

No matter who is in charge of implementing the right-to-know

Continued on next page

WITH A UAC ADJUSTER THERE'S A LOT GOING FOR



Continued from previous page
law within a corporation—whether it's an individual or a committee—the next step is to take an inventory of chemicals and materials in the plant and compile a list of all hazardous and toxic substances, Ms. Wolf said.

Once a list of hazardous materials is compiled, an employer needs to obtain from the manufacturer the material safety data sheet for each substance.

These material safety data sheets contain information to be used by employers in devising a labeling system that "communicates to employees the health and physical dangers of the chemicals," according to Ms. Wolf.

An MSDS, which is usually one to several pages in length, lists the product manufacturer's name, address and emergency phone number on the top of the first page, along with the trade name of the

product.

However, also included on the MSDS are any synonyms for the product's name, its chemical name, its chemical formula and its chemical family.

The material safety data sheet also lists the proper shipping name, hazard class and identification number as specified by the Department of Transportation.

An MSDS also includes warning statements like "may be fatal if in-

haled, swallowed or absorbed through skin," as well as precautionary measures.

Other information on an MSDS may include:

- Emergency and first-aid procedures, such as: "If inhaled, remove to fresh air. If not breathing, give artificial respiration, preferably mouth-to-mouth. If breathing is difficult, give oxygen. Remove material from eyes, skin and clothing."

- Occupational-control procedures, such as what equipment to wear for eye, skin and respiratory protection.

- Fire protection information, such as the product's flash point.

- Reactivity data, such as materials to avoid placing the substance in contact with.

- Health effects summary, including known human experience and toxicologic data.

- Physical data, such as the product's appearance and odor, its boiling point, freezing point and solubility.

- Spill, leak and disposal information, such as: "Keep product out of sewers, watersheds and water systems."

- Any other additional comments, such as: "Darkens on standing and on exposure to air. Storage in original container is recommended."

It will be up to each individual employer to determine where and how to store the MSDSs, how to label each to communicate emergency information to employees and how to inform workers where to find the MSDS that corresponds to each product.

Communicating all this information to employees through training

'Inadequate employee communication can cause discontent,' Ms. Kahn says.

sessions is the next step to be developed.

"Inadequate employee communication can cause discontent and result in employees unnecessarily contacting the government or agencies regarding perceived hazards," said RIMS' Ms. Kahn in stressing the importance of a good communications effort.

While the federal standard requires that MSDSs only be made available to employees, "the more important problem is teaching people what the information on the MSDS really means," commented Robert G. Carr, president of Carr & Associates, a law firm based in New York.

"It's not sufficient to pass out the federal regulations and the MSDS to those workers that have a high school diploma and say, 'Here's all you need to know, go talk to the union,'" Mr. Carr said.

Once a training and communication program is developed, it must be documented in writing in order to comply with the right-to-know standard.

Also to be included in this written documentation is proof of requests to suppliers for MSDSs and how the employer plans to comply with the standard's directives regarding labeling.

In addition, the documentation must include how the employer plans to inform non-employees working at the site of potential risks.

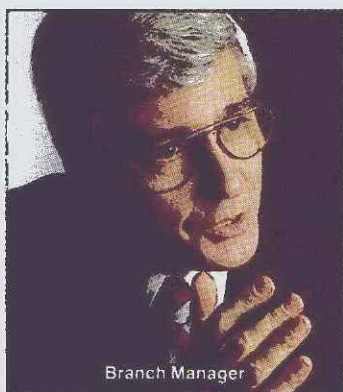
Many employers are attending seminars or taking special one-day classes to obtain assistance in developing their programs, Mr. Gibson said.

He added that NATLSCO, as well as other loss prevention and consulting firms and trade associations, offer classes on how to comply with the law.

Employers, especially smaller companies, should not procrastinate in their efforts to find out what has to be done or how to do it, according to Mr. Gibson.

"Many of the smaller corporations really don't understand the law. They're assuming all these horror stories will happen...so they're waiting," Mr. Gibson commented.

ON THE SCENE, YOU BEHIND THE SCENE.



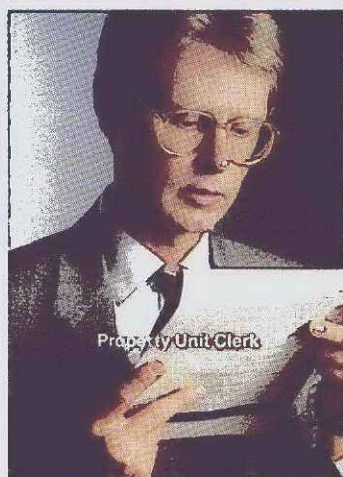
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State standards confusing to employers

By JULIE TRUCK

A growing number of states are establishing their own hazard communication standards, and that can present a hazard of its own for risk managers and employers, especially those that do business in more than one state.

In 1985 alone, legislatures in about 41 states considered hazard communication measures. And, 11 of those states—Alabama, Maryland, Minnesota, Montana, New Jersey, North Dakota, Tennessee, Texas, Vermont, Washington and West Virginia—adopted some form of right-to-know law affecting either employees or the public, according to the Chemical Manufacturers Assn., a Washington-based trade group with 190 members.

Compliance with the various state right-to-know laws is "no picnic," says Thomas F. Evans, director of environmental health for Monsanto Co. in St. Louis. Monsanto has plants in 39 states.

"The whole issue couldn't be more confusing than what you have right now," he said.

The current laws affect employers in two basic groups.

First, under the standards of the U.S. Occupational Safety and Health Administration, chemical manufacturers, importers and distributors are required to assess the hazards of the chemicals they produce and import by Nov. 25 and to pass that information along to their customers in the form of a material safety data sheet.

Secondly, the regulation requires

manufacturing employers in the Standard Industrial Codes 20-39 to provide information to their employees on the hazards of the substances in the workplace by May 25, 1986 (see story, page 3).

However, until the federal law takes effect, manufacturing employers aren't sure who—if anyone—is monitoring hazard communication in a given state.

In some cases, the states are trying to enforce their own laws, but in other cases the states are standing back, waiting for the federal standard to take effect.

A long-term problem for these employers is that 23 states and territories have OSHA authority to enforce their own hazard communication standards. And, eight of those states have stricter standards

than OSHA.

In addition, about 31 states currently have some form of right-to-know law regulating either public or other private employers or mandating that the public be given information about chemical risks area companies may present.

"I think more and more legislatures are realizing the federal OSHA standard is the basis from which they have to build," said Larry F. Gallo, manager of state issues for the CMA.

But, with the profusion of state laws in addition to the federal standard, a risk manager or employer could be hard-pressed to know which directive to follow.

"It's a complex subject, with the different state as well as federal law," said Robert G. Miller, vp of

Labelmaster in Chicago, a unit of American Labelmark Co. Inc., and the leading producer of hazardous materials identification systems.

"It was turning into an area where people were sitting back to see what would happen next."

One of the most confusing problems faces employers doing business in the 23 states or territories that have OSHA approval to enforce and monitor their own hazard communication programs.

Fifteen of these entities—Arizona, Indiana, Kentucky, Nevada, New Mexico, North Carolina, Puerto Rico, South Carolina, Utah, Virginia, the Virgin Islands, Wyoming, Hawaii, Oregon and Michigan—have guidelines identical to the federal guidelines.

But, Alaska, California, Iowa, Maryland, Minnesota, Washington, Vermont and Tennessee have requirements that are more restrictive than OSHA's. Most of them require additional reporting, such as to local fire departments.

In the remaining states that do not have OSHA approval to enforce their own hazard communication laws, the federal law will pre-empt any state laws governing chemical manufacturers, distributors and importers and employers in the manufacturing sector.

"Those states without a state plan are pre-empted in the manufacturing sector," said Patrick Tyson, acting assistant secretary of labor.

This pre-emption was upheld by a May 1985 ruling in the U.S. Court of Appeals in Philadelphia (BI, June 10).

But, it apparently will be up to employers to see that the pre-emption ruling is enforced. An OSHA official who asked not to be identified said OSHA does not plan to take action itself to stop states from enforcing their own right-to-know laws in the manufacturing sector.

"I expect we'll be seeing more suits with employers challenging a non-state-plan state's right-to-know law," the OSHA official said.

The Philadelphia court also ordered the Department of Labor to expand the communication standard to cover workers in other industries outside of manufacturing and to revise what labor leaders charged were unreasonably restrictive trade secret protections in the hazard communication standard.

OSHA has begun revising the trade secret provision, and should be finished by the Nov. 25 deadline, Mr. Tyson said.

And, while expanding the scope of the federal standard to cover other industries in addition to the manufacturing sector is clearly a "fast-track" issue for OSHA, Mr. Tyson said he expects doing so will take at least a year.

But, until OSHA takes control of all industries, "there is no easy answer for anyone," said Jeanne Popp, director of training and editing at Labelmaster.

Some states, in anticipation of an expanded federal hazard communication standard, already are making plans to reduce their control.

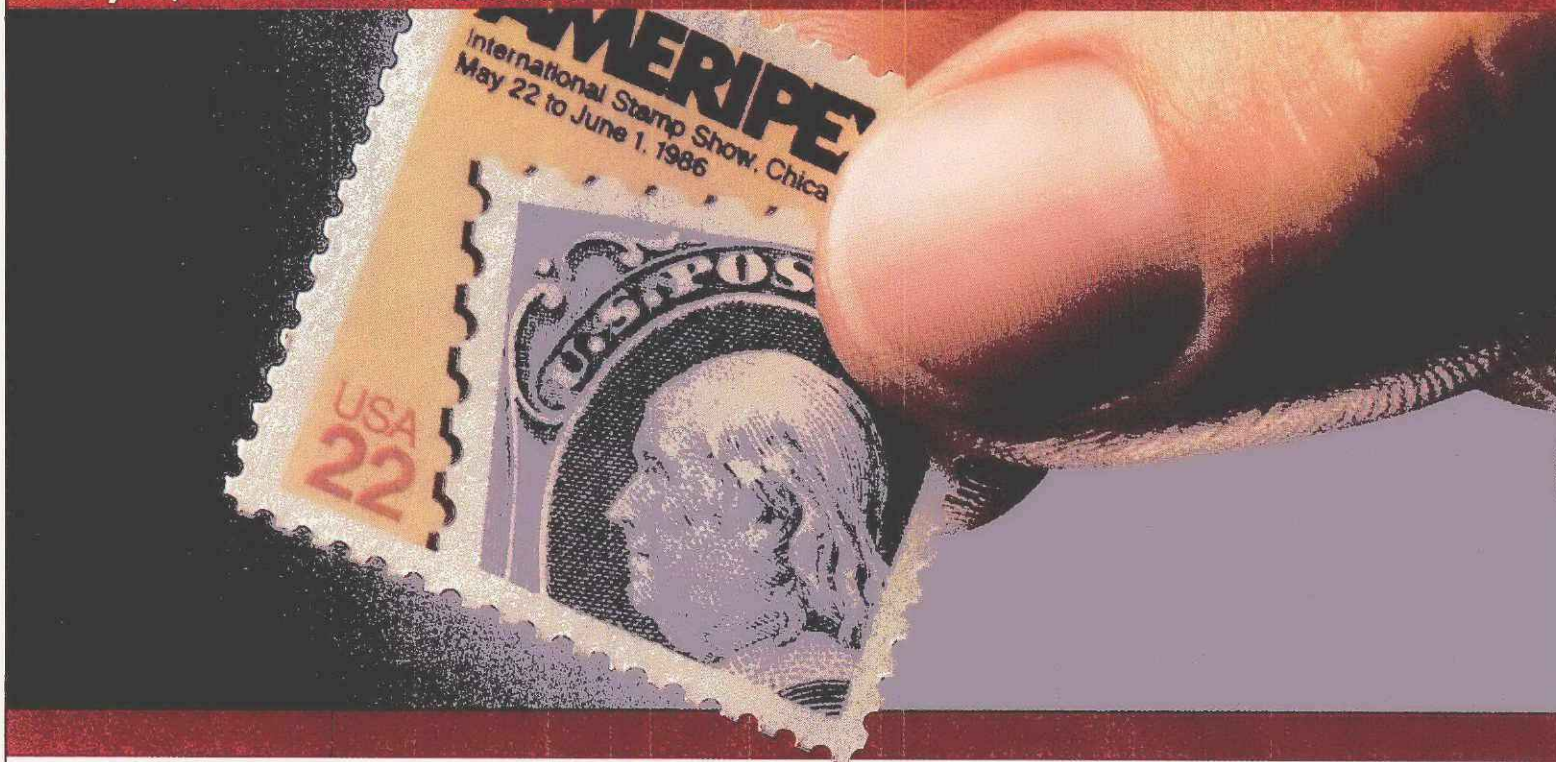
"I'd have to say as (OSHA) broadens their statute, we'll have to keep stepping back in the areas they broaden into," said Emil Caruso, director of the Occupational Safety and Health Division of the Connecticut Department of Labor.

The state has had four statutes monitoring right-to-know in effect since July 1982. These statutes govern all private employers, but will exclude the manufacturing sector once the federal law takes effect.

But, Mr. Caruso said, "The federal standard is not yet in effect, and until it is, our law is what (manufacturers) must abide by."

The state laws require all em-
Continued on page 14

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State regulations

Continued from page 12

ployers in Connecticut to submit a list of the hazardous substances in the workplace to the Department of Labor.

Employers also must train a new employee, within one month of his or her employment, in the safe use of chemicals with which the employee will come in contact; provide the specific chemical name and the symptoms of acute and chronic exposure; and provide a MSDS upon request.

But, unlike Connecticut, some states already have stepped back from regulating the manufacturing sector, leaving those employers "in limbo" until the federal standard takes hold in May, said Ms. Popp.

Illinois is one such state. Although the state has had a comprehensive worker right-to-know law since 1984, the state has relinquished control in the manufacturing sector, said Rod Mutz, department supervisor of the Toxic Substance Division of the Illinois Department of Labor.

As of now, no agency is monitoring or enforcing right-to-know laws for these employees, he said.

"It was a real difficult issue... We were afraid to take a lot of manufacturing employers, bring them to hearings and then have it dragged out in court as to whether or not we could enforce our standard," he said.

As a solution, the department is planning a meeting with the state's attorney general to discuss what stands should be taken, he added.

"It's likely we'll change our position and enforce right-to-know, at least until the federal standard goes into effect," Mr. Mutz said.

The states with extensive right-to-know laws have taken different approaches to the issue of federal pre-emption of state statutes, said the CMA's Mr. Gallo.

"Some states recognized the pre-emption right up front," he said. However, in the case of New Jersey, it took the appellate court decision in Philadelphia to convince the state that the federal standard pre-empted state laws, he said.

While New Jersey no longer enforces its state law in the manufacturing sector, it still requests these employers to educate and train employees in the safe handling of toxic substances on a voluntary basis, a spokesperson said.

New Jersey's right-to-know law, in effect since 1984, now covers all public agencies and private companies in transportation, miscellaneous repair and health services, education, museums and art galleries and wholesale non-durable goods.

"We'd like to be able to cover the manufacturing sector, but right now we're telling people to comply with both," said Richard Willinger, right-to-know coordinator for the New Jersey Department of Health.

And, in two states—Florida and Rhode Island—officials say they have no plans to relinquish control of the manufacturing sector.

"We are going to keep operating just the way we have until there is a court action" challenging the Rhode Island law, said Gwendolyn Weserman, administrator of the Division of Occupational Safety and Health of the Rhode Island Department of Labor.

Both the Florida and Rhode Island programs are similar to the federal standard in requiring employee training and employee access to MSDSs upon request.

"I really think that OSHA will eventually take over (regulating all hazard communication) except in the public sector," said Kean Jallowy, program analyst in Florida's Toxic Substance Information Center, which helps employers implement the law.

But, he added, "Until we're told otherwise, we'll go with our law." ■

Details of OSHA rule

Continued from page 3

27, printing and publishing; SIC 28, chemicals and allied products; and SIC 29, petroleum and coal products.

Also, SIC 30, rubber and plastic products; SIC 31, leather and leather products; SIC 32, stone, clay and glass products; SIC 33, primary metal industries; SIC 34, fabricated metal products; SIC 35, machinery, except electrical; SIC 36, electrical equipment and supplies; SIC 37, transportation equipment; SIC 38, instruments and related products; SIC 39, miscellaneous manufacturing products.

Under the federal standard:

- Chemical manufacturers, distributors and importers must inform their customers of the chemical hazards of each substance through the use of a labeling system that includes the material's chemical and common names, the hazards of the chemical and the name and address of the manufacturer.

Hazardous chemicals are defined as any chemical posing a physical or health hazard.

Chemicals are considered a physical hazard if they are combustible, explosive, flammable, unstable, a compressed gas, an organic peroxide, an oxidizer, pyrophoric or water-reactive.

Health hazards include carcinogenic chemicals or any chemical that at least one scientifically valid study has demonstrated could cause acute or chronic ill-effects.

- Manufacturers also must enclose a material safety data sheet (MSDS) along with the first shipment of a chemical.

MSDSs are one- to two-page documents that must be in English, provide the physical and chemical characteristics of the chemical, known health hazards, exposure limits and emergency and first-aid procedures.

- By May 25, 1986, employers will be required to develop a written employee hazard communication program that includes provisions for container labeling, MSDSs and an employee training program.

The written program also must contain a list of the hazardous chemicals in each area and the means by which the employee will inform employees of the hazards in the workplace.

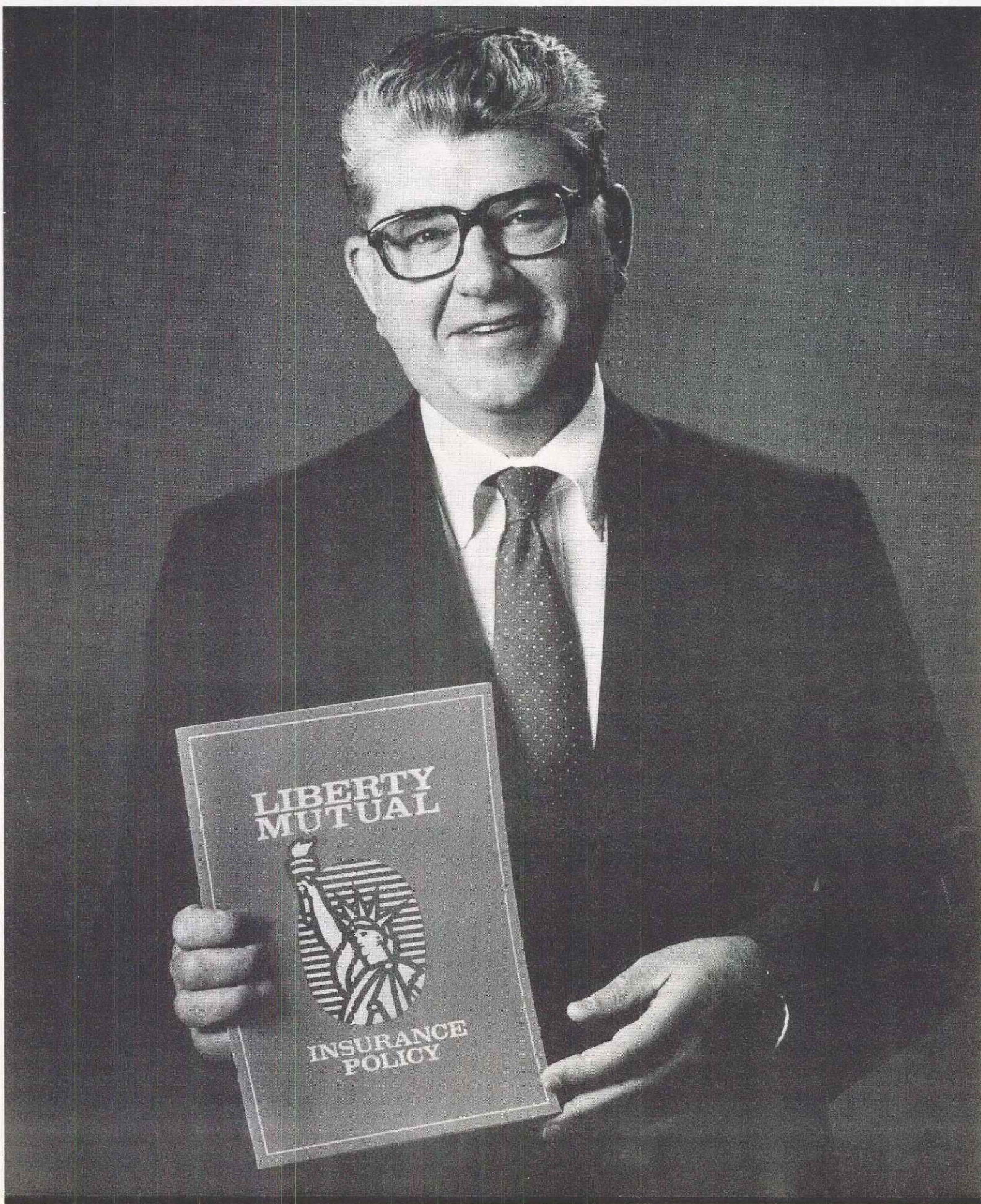
And, the written program also should address how the employer will advise contractors of the hazards in the work area to which their employees could be exposed.

The employee training plan must explain the OSHA law, indicate how employees can obtain and use the available hazard information, special measures employees can take to protect themselves and methods by which employees can detect the presence of a hazardous chemical in the workplace, such as by the product's smell or visual appearance.

Workers must be trained at the time of initial assignment to an area with hazardous substances, and they must be retrained if they are reassigned or when another hazardous chemical is introduced into the workplace.

The federal standard does not allow employees to refuse to work with a substance if they feel they have not been properly trained, but it does allow employees to challenge the information and file a complaint with OSHA.

Fines for failure to comply with the OSHA standard range from \$1,000 per violation to \$10,000 per occurrence for willful violation.



Employers oppose worker monitoring bill

By STEPHEN TARNOFF

WASHINGTON—Employers and business groups oppose a bill that would establish a federal program for notifying, counseling and providing medical monitoring services to workers exposed to hazardous substances.

H.R. 1309, the High Risk Occupational Disease Notification and Prevention Act of 1985, duplicates current federal standards, is too costly and is flawed in its approach, business and insurance groups say.

The bill, sponsored by Rep. Joseph Gaydos, D-Pa., expands federal research efforts to identify workers who risk occupational disease.

First introduced in February, hearings on the bill are scheduled

in October before the U.S. House of Representatives Subcommittee on Health and Safety.

Besides establishing a federal program to notify and counsel workers at risk, the bill also authorizes occupational and environmental health facilities to undertake research, diagnosis, treatment, medical monitoring and family services for employees.

The bill provides that the cost of monitoring and subsequent medical care will be picked up by health insurers or self-insured health programs, and it includes provisions to protect workers against discriminatory practices by insurers or employers.

The proposed legislation focuses on notifying and counseling two groups of workers that risk occupa-

tional disease.

One group includes workers who face an "increased risk." They are defined as those who have a 30% greater chance of contracting a disease than comparable workers not exposed to hazardous substances.

The other group includes workers subject to "high risk," or those with a 100% greater chance of incurring an occupational disease.

Those in the "increased risk" category would be notified of the nature and degree of risk, including the composition and properties of the hazardous agent, the diseases associated with exposure to it, any known latency periods, and the size and nature of the population at risk.

In addition to notification, workers in the "high risk" category are

entitled to counseling information. This would address whether the worker should initiate a personal medical monitoring program and the most appropriate type of monitoring for diseases associated with the risk.

The program, which would be carried out under the Department of Health and Human Services, would be implemented through a national Risk Assessment Board and regional occupational and environmental health centers.

The board would be established within the National Institute for Occupational Safety and Health and headed by NIOSH's director. It also would have four other U.S. Public Health Service employees: an epidemiologist, a toxicologist, an industrial hygienist and a physi-

cian.

The board's functions would include reviewing medical and scientific studies on occupational disease and determining categories of employees who are "increased" and "high" risks.

Services under the legislation would be provided through selected occupational and environmental health centers from among the educational resource centers of NIOSH and the National Institute for Environmental Health Sciences. The centers would be selected by the Secretary of Health and Human Services.

Those familiar with the bill say it is too early to say how much it would cost to implement if it is passed.

However, the bill does say that the cost of notification, testing, evaluation and medical monitoring required by an employee are to be included as covered items in any health care financing system available to the employee through his employer and in individually purchased health insurance plans.

Further, the bill would bar any discrimination against an employee

'We believe federal standards are already in place in this area,' Mr. Roth comments.

in the payment of costs associated with either a medical monitoring program or subsequent treatment.

The legislation does allow health insurers to subrogate claims against workers compensation insurers.

The bill also seeks to protect at-risk employees from discriminatory measures by employers. It provides that workers transferred to less hazardous or non-exposed jobs will retain the same pay rates, benefits and seniority as in their former jobs.

The bill also protects at-risk workers from termination.

The bill provides that any employee found to be discriminated against is entitled to employment and compensation for lost wages, legal expenses and medical monitoring costs.

Those found guilty of discrimination would be subject to fines ranging from \$1,000 to \$10,000 per violation.

In addition, the measure says that notifying an employee that he is in a "high" or "increased" risk population does not constitute a workers compensation claim or toll any statute of limitations relating to that claim, except as provided under specific workers compensation laws.

But, spokesmen for employers and the insurance industry say the bill is unnecessary and would be very costly.

Sam Roth, associate manager-employee relations for the U.S. Chamber of Commerce, said the organization may testify against it during hearings on the bill in October.

"We believe federal standards are already in place in this area," he said. "The legislative response is unnecessary and an overreaction to that issue."

"We don't feel this is necessary," said Thomas Evans, director of environmental health for Monsanto Co. "There are mechanisms to take care of this."

Mr. Roth said there are agencies requiring the same type of information required in the bill, including OSHA and NIOSH, and that

Continued on next page

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Federal proposal

Continued from previous page
some state right-to-know laws are more stringent than existing federal standards covering this area.

Others say the Hazard Communications Standard, promulgated by OSHA, and the Toxic Substances Control Act also require that information about hazardous substances be provided to employees.

Mr. Roth of the U.S. Chamber speculated the bill could be part of a "hidden agenda" by organized labor to harass employers and force the release of information that will benefit labor in its organization drives.

Business groups contend that the legislation's approach to at-risk populations is faulty.

The groups criticize the definition of "increased risk" workers as those with a 30% greater chance of incurring disease than comparable workers, and "high risk" workers

as those with a 100% greater chance.

These are "unscientific and too simplistic," said Gordon Strickland, deputy technical director of the Chemical Manufacturers Assn. in Washington.

"We see very specific flaws in that," he said.

Charles Coakley, senior counsel for the American Insurance Assn., said implementing the legislation will be extremely expensive and could result in a "whole lot of nuisance claims, panic claims," and create a large bureaucracy.

"The cost of implementing this should be enormous, literally in the billions of dollars," he said.

However, a spokesman for the AFL-CIO said the bill should save costs for employers and insurers as well as save lives of workers.

"We certainly are endorsing 1309," said James Ellenberger, assistant director of occupational safety, health and social security for the AFL-CIO. "We are behind the concepts embodied in that bill."

Mr. Ellenberger noted that some diseases have a long latency period between the time of exposure and the time they manifest themselves.

Mr. Ellenberger said the bill provides a way to alert people at risk and provide earlier medical treatment and surveillance, thereby saving lives and reducing medical expenses.

"It will save the parties money," Mr. Ellenberger added. "If it can provide the means of preventing disability and fatal disease, it can save lives, heartbreak and expenses."

"It really is a benefit program for everyone," including employers and insurers, he noted.

Business and insurance groups will get a chance to express their views to Congress at the first of several hearings beginning Oct. 9 before the House of Representatives Subcommittee on Health and Safety.

Further hearings are tentatively scheduled for Oct. 23 and Oct. 30, during which labor groups and government agencies will testify. ■



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Computers helping to solve many loss-control problems

By DIANE LYNN KASTIEL

Computers are slowly but surely helping loss-control professionals solve safety problems and reduce property losses.

Unlike computerized risk management information systems, which primarily serve as number-crunching statisticians, the computer's role in loss control is expanding to that of a quick-draw trouble-shooter that helps solve problems before they escalate.

Although these problem-solving computer applications are still relatively novel among loss-control professionals, these type of programs—which border on what computer experts call “artificial intelligence”—will become much more widespread in the future, experts say (see story, page 22).

“I think (innovations are) on an upward swing,” said Dean Wilson, research consultant at Industrial Risk Insurers in Hartford, Conn.

“The loss-control industry has never changed overnight and it's not going to change overnight over this, but it's definitely on an upward swing.”

Currently, loss-control software programs provide a number of functions, including helping risk and safety managers design fire protection systems and re-design physically demanding jobs (see story, page 23).

But perhaps the most ambitious application of the computer in loss control is in helping companies deal with hazardous materials.

At least two companies produce software programs that help risk and loss-control managers react to the accidental release of hazardous substances. The programs can be used before a release occurs as a training tool or during an actual emergency as an aid to loss-control efforts.

Although the companies marketing the software are happy to discuss these programs, most of the chemical companies and other organizations that use the programs are not, especially in light of the toxic chemical leaks at the Union Carbide Corp. plants in Bhopal, India, and Institute, W.Va.

“Ever since Carbide, anyone in our area has to be careful about giving information to anyone,” said one executive who refused to be identified, but whose company uses a hazardous-material computer program as part of its loss-control effort.

“Nobody is going to want to say anything about anything that has to do with this,” he said.

One of the hazardous-material loss-control programs is known as the Complex Hazardous Air Release Model, or CHARM, developed by Radian Corp., an Austin, Texas, advanced technology company and a unit of The Hartford Steam Boiler Inspection & Insurance Co.

CHARM, a software program that operates on IBM Personal Computers or compatible computers, helps the risk or safety manager develop emergency procedures in case of an accidental release of hazardous chemicals.

“It tells you where (the chemical) gets into the environment, how it gets into the environment and what the impact of all that is,” said Lou Fowler, product line manager for Radian.

CHARM predicts the location, concentration and extent of clouds

of toxic gas that result from hazardous chemical leaks or spills. Specifically, it:

- Provides information on the physical and chemical properties of a hazardous substance.

- Calculates current and future concentrations of hazardous materials in the air.

- Indicates areas where the toxic cloud's concentration necessi-

tates protective actions.

- Provides color displays and hard-copy maps showing the size, direction and concentration of the chemical cloud at any given time after the release.

- Displays and prints out information on emergency procedures and health hazards.

- Lists telephone numbers of

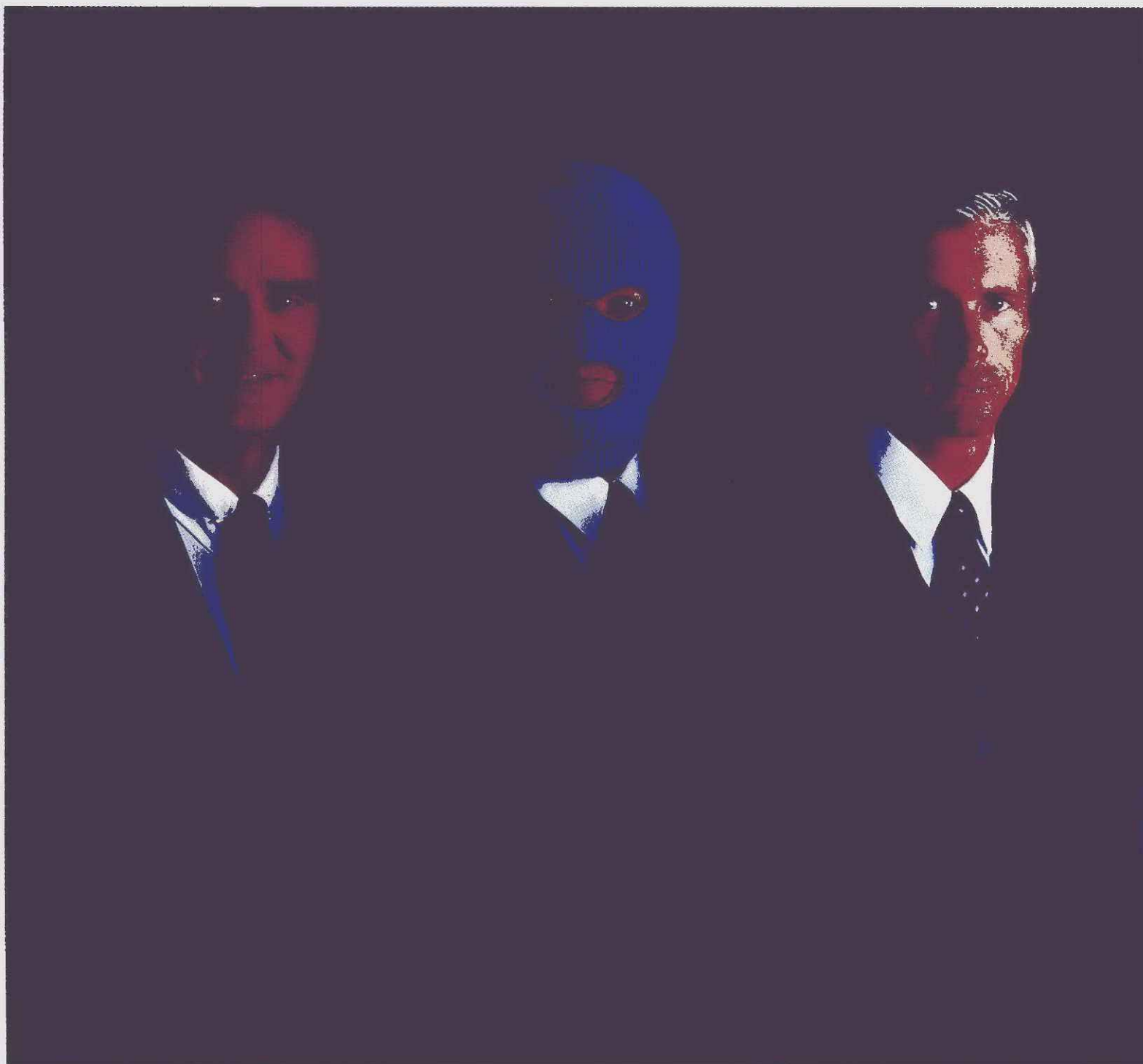
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Using computers

Continued from previous page
authorities and individuals to be notified in the event of an accident.

The information supplied by CHARM can be used as a training tool to teach "behavior patterns" of hazardous substances and the appropriate emergency responses to an exposure in hypothetical situations. Or, it can be used in actual emergency situations to control damage from a release or spill of toxic substances, Mr. Fowler said.

Radian began developing CHARM about three years ago. The program, which costs \$9,500, is used by 55 organizations such as chemical companies like Shell Oil Co., Tenneco Inc. and Dow Chemical Co., as well as governmental bodies like the U.S. Air Force and the city of Houston, Mr. Fowler said.

To use CHARM, the risk or safety manager types information into the computer. This information would include the name of the chemical that was involved in the leak or spill, the time of the incident, whether the chemical was released through a slow leak or a sudden spill and meteorological conditions like the temperature and wind speed at the time of the incident.

In case the operator doesn't know some of these variables, the computer is programmed with a "default" value that fills in these blanks with assumptions based either on "worst case" or "most likely" scenarios. If the operator later identifies missing variables, he or she can update the computer with the correct data.

The program itself is programmed with information on 57 toxic chemicals and compounds. Using this stored information and the information on the specific incident that the computer operator inputs, the program can generate a variety of information that can help the operator deal with the exposure, including the hazards associated with the chemical, what emergency action to take and which governmental agencies to notify.

"The message may say, 'Stay away,' or 'Call so-and-so,' or whatever other emergency precautions are necessary," Mr. Fowler said.

In addition, the software aids emergency response efforts by generating a map on the personal computer's screen that shows the path of the chemical cloud. The computer predicts this path using the meteorological information furnished, Mr. Fowler explained.

Varying concentrations of the chemical within a cloud are represented by different colors on a color monitor or as alternating dark and light areas on a monochrome monitor, Mr. Fowler said. On hard-copy printouts, which the operator can ask the computer to produce, concentration is shown by numbers whose values correspond to concentration levels.

The information provided by these maps can be updated by the operator to allow the program to provide up-to-the-minute response information as meteorological conditions change, Mr. Fowler said.

The emergency response information, which is based on the Department of Transportation's emergency guidelines, covers emergency procedures, health hazards and fire or explosion hazards specific to each of the chemical compounds on which CHARM has data files.

Users can edit this information to fit their specific needs. For example, the computer could be programmed to provide information on procedures to be followed at particular sites, including the names and phone numbers of local authorities to alert.

Because CHARM runs on a personal computer, it can be transported to the site of a chemical spill

or leak, Mr. Fowler said.

CHARM also can be used as a planning tool to help risk or safety managers evaluate existing facilities and transportation routes and design improvements.

CHARM also can help a safety manager determine the best location and type of container for chemical storage, determine the least-hazardous chemical among various alternatives and evaluate the most effective way to contain the chemical in case of an accidental spill or leak.

And it can be used as a training tool by "solving" hypothetical situations created by the user, Mr. Fowler added.

That's how Shell Oil Co. has used CHARM since March at its Deer Park, Texas, oil refinery and chemical manufacturing plant, which employs 3,500 people.

"We use it as one of the tools in training our people to respond to potential problems," said Chuck Rivers, the plant's environmental adviser.

"We input a number of scenarios and use it to train the people who will have to respond to any emergencies that come up. It teaches them how to handle liquid or gas chemical spills in any emergency."

Mr. Rivers said the use of the system as a training tool is a valuable element of its loss-control pro-

gram.

"Our emergency response capability is the result of well-trained people," he said. "We use (CHARM) to train our people and have them ready so that in the event of a real emergency, they can solve the problem without using the computer. It's just like fire drills."

CHARM is more effective as a training tool than conventional training methods like print information, Mr. Rivers said.

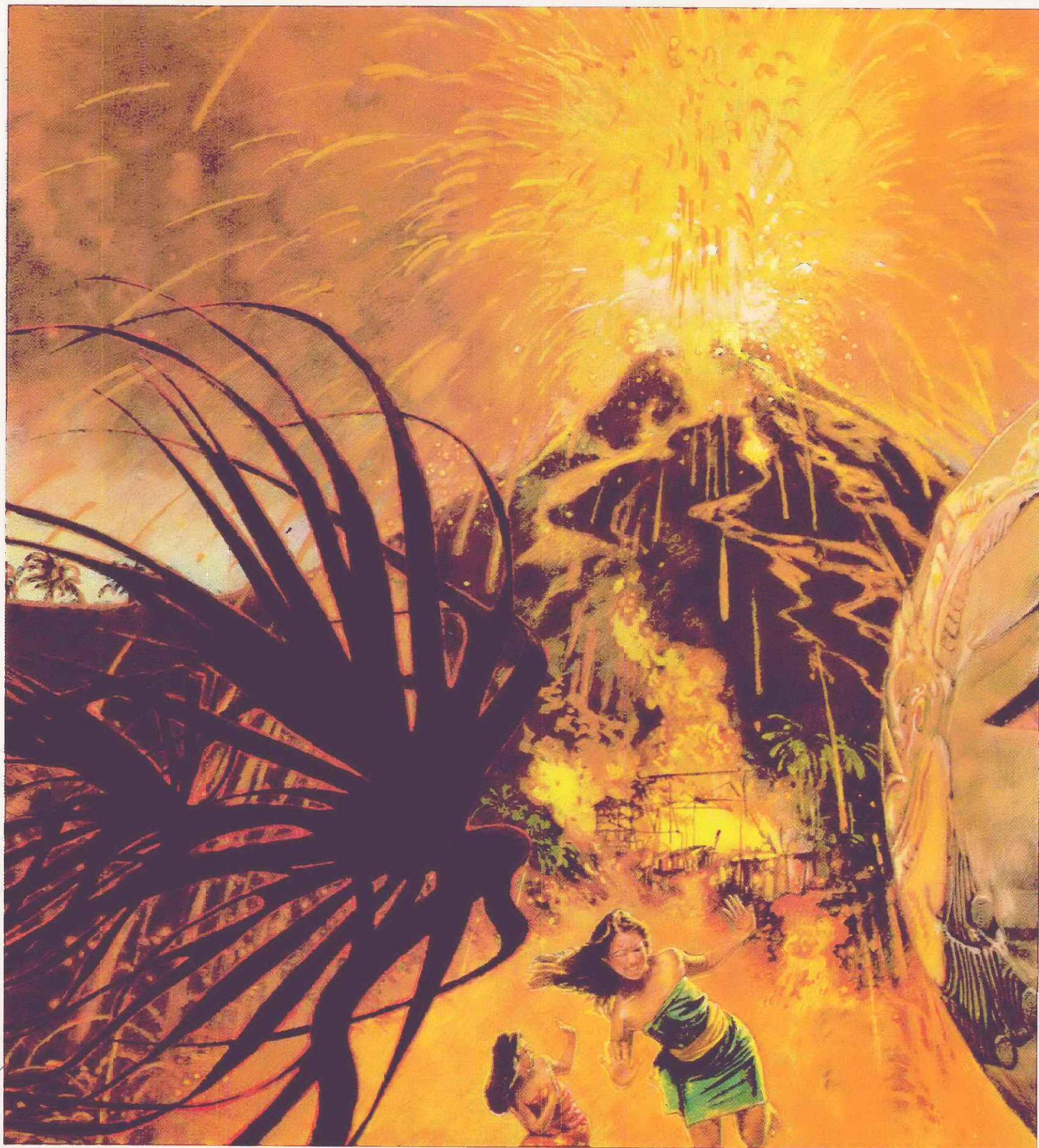
"It's a thing that gets their attention," he said. "We have to make sure they understand what all this stuff means. CHARM is understood by users very well. It asks them

questions so they get real involved and quickly understand what parameters are involved and which ones are important."

Another software vendor, SAFER Emergency Systems in Westlake Village, Calif., markets a similar hazardous chemicals software program that it developed in response to requests by several chemical companies.

SAFER currently is used by at least 40 national and international chemical manufacturers, according to Keith Wadsworth, the company's marketing manager.

"There was this kind of work being done on computers before,
Continued on next page



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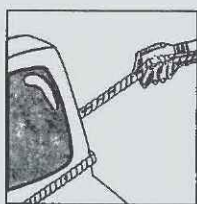
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Continued from previous page but they wanted it to occur right now—like in a minute's time—with real-time meteorological data," Mr. Wadsworth said. "They wanted it done faster, they wanted use of graphs computerized and they wanted stuff on personal computers."

The SAFER program runs on a Wicat microcomputer, manufactured by Wicat Systems Inc. in Orem, Utah. The software, which is individually programmed for each user, has data files on more than 100 chemicals and the equipment used in conjunction with those chemicals, as such the tanks in which they are stored.

The program also includes pre-stored maps of the plant where it is used and the surrounding community.



said.

Unlike CHARM, however, the SAFER system includes at least one meteorological tower—40 feet to 100 feet tall—which is built at the

"The community maps indicate roads and buildings as well as schools and parks—whatever the plant wants," Mr. Wadsworth

plant's site and constantly records and feeds to the computer meteorological data, including wind speed and direction, temperature and relative humidity.

"It's a weather station," Mr. Wadsworth said. "There is at least one at each site, depending on the size of the plant and its needs."

The computer builds data files with this information that can be retrieved and used in case of an accidental release of a hazardous chemical to help the risk or safety manager react to the accident, Mr. Wadsworth said.

For example, if a chlorine tank is leaking due to a faulty valve, "there will be pre-stored data on

that valve and what the release rate will be," Mr. Wadsworth said. "That will be automatically integrated with the meteorological data and (the program) does the dispersion calculations and projects the path of the chemical cloud."

"It can project where it's going, when it's going to arrive there and its concentration levels. On the graphic display, we show what we call the 'footprint.' We actually show where the cloud is going, how fast it's moving and when it's going to get there and how dangerous it is going to be."

"And it does this very, very quickly and accurately—in a matter of minutes," he says.

Before computerization, all this information was available—but from separate sources—and the data had to be integrated "by hand," Mr. Wadsworth explained.

"The information was available in one form or another, manually, but it was not available at their fingertips and it was not available automatically. Computers provide the means to get more information more quickly."

The SAFER system also prints out emergency messages on the computer's screen that tell the safety manager what action to take.

"The messages they want to give will be right there on the computer—and that means clear, effective communication," Mr. Wadsworth said.

"Emergency messages will come up like 'Call the police' or 'Call the fire department.' It will tell you to call them and tell them that in 15 minutes, for example, a cloud is going to reach the school."

"Or, it will say, 'You're going to smell a noxious odor, but there's no hazard. And it will tell them exactly what the odor is going to smell like.'"

The computer also tells the safety professional how serious various injuries or exposures are and what action to take in case of such injuries, Mr. Wadsworth said.

The SAFER system costs \$70,000 to \$90,000, including the cost of the meteorological tower, Mr. Wadsworth said.

Besides the programs that can help risk and safety managers track the release of hazardous substances, a third company, Occupational Health Services Inc. in Secaucus, N.J., provides companies with a data base containing information on 3,600 hazardous chemicals and compounds that can be tapped by a company's computers.

The data base actually provides information on hazardous chemicals in three distinct formats, according to Al Berger, OHS chief executive officer.

The first format, known as HAZARDLINE, lists complete information on the 3,600 hazardous substances, which, according to Mr. Berger, comprise 92% of all the hazardous materials shipped in the United States.

HAZARDLINE incorporates information from chemical manufacturers and government agencies in one data base, Mr. Berger said.

"The data base is fully searchable," Mr. Berger said. "They can go in and say, 'I want to know which chemicals have a route of entry via ingestion,' and it will list them for me."

The second format is comprised of Material Safety Data Sheets which provide similar information as HAZARDLINE but are categorized specifically for loss-control purposes.

"If you know what the chemical is and you don't want to wade through reams of data, you would use the Material Safety Data Sheets, which has the HAZARDLINE data put in a form that eliminates all the superfluous information and shows the information related to safety," Mr. Berger said.

While HAZARDLINE provides thorough information on chemicals and can be used as a training tool, the Material Safety Data Sheets are more useful in helping safety professionals respond to emergency situations, Mr. Berger said.

"When you try to take care of an accident, the problem is you can get a lot of information on the material but unless it's all in one place, you have a heck of a time trying to figure out what to do with it," Mr. Berger said.

"It's not a toxicological problem; it's an information collection problem. Someone has got to sit down and go through 50,000 pieces of data to give them the information they need to be able to respond to these emergencies."

Continued on next page



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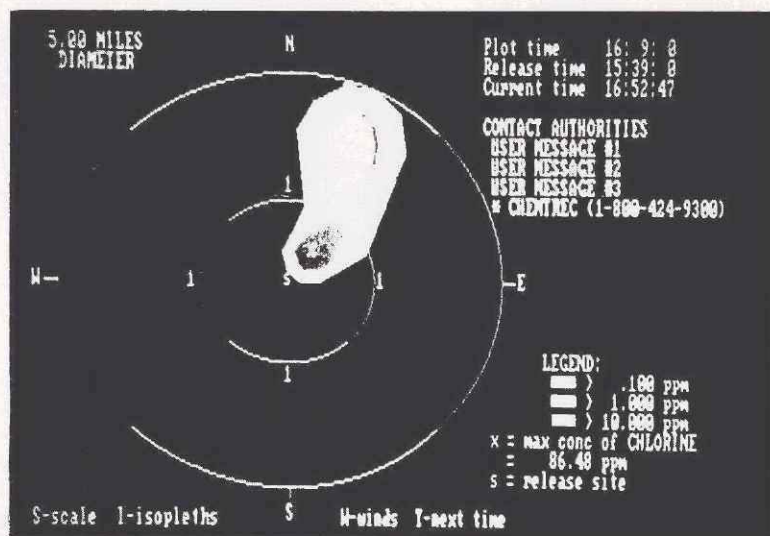


Photo: Radian Corp.

The CHARM computer program developed by Radian Corp. tracks a toxic cloud resulting from accidental release of a dangerous chemical. The computer screen also suggests loss-control measures.

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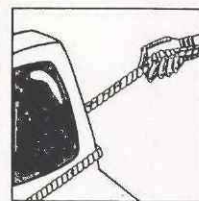
Using computers

Continued from previous page

"The Material Safety Data Sheets can be used to determine how you handle a spill or leak in an emergency situation. It's right there on the worksite and lets you react to the situation immediately. Because it's on-line, you can get access to it right away," Mr. Berger said.

The Material Safety Data Sheets break down all the information on any chemical or compound in the HAZARDLINE data base into:

- Substance identification, which contains information such as the substance's trade names and synonyms, its molecular formula and chemical family.
- Components and contaminants.



- Physical data, such as a description of the substance, its boiling point and its melting point.
- Fire and explosion data, which tells the safety manager at which point the material becomes flammable and how to fight a resulting fire, including listing of the recommended extinguishing agents and how to use them.

- Transportation data, including labeling requirements.
- Toxicity data, which details the substance's effects on humans.
- Health effects and first-aid data, including physical symptoms caused by exposure and detailed information on how to administer first aid.

- Reactivity, both of the substance itself under varying temperatures and pressure levels and of the substance when it contacts incompatible substances.

- Storage conditions to avoid.
- Spill and leak procedures, including how to act around an exposure and how to control or stop a leak.

- Protective equipment, both preventive and combative, needed in case of a spill or a leak, including respirators, firefighting equipment and protective clothing.

The data base's third format of hazardous substance information is Environmental Health News, an on-line newsletter that summarizes information from 13,000 publications, half of which are periodicals and half of which are books.

"Every day we go through the papers and every article that relates to environmental health gets edited and abstracted and added to the on-line data base," Mr. Berger said.

The data base can be accessed by any type of computer with a telephone modem, including a personal computer. The access fee is \$2 per minute. Also, the entire data base can be purchased to be stored in a company's own computer system. ■

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Robots will have big role in loss control

By DAVE LENCKUS

When Czech playwright Karel Capek coined the term "robot" in 1922, he painted a bleak picture of a world taken over by automated, intelligent machines.

But today, industry is eagerly awaiting the development of more sophisticated robots whose function will be to handle hazardous jobs to minimize both human injury and property loss.

Despite Capek's fears, robots won't replace safety professionals, but in the next decade they will assume a lead role in industrial loss prevention.

If researchers and developers can overcome some design obstacles—and they say they will—robots will provide the manpower for such potentially hazardous jobs as cleaning

up radioactive spills, inspecting hazardous-waste dump sites, mining, firefighting, tree felling and guard duty at warehouses and offices, experts predict.

Overall, the use of robots by industry has more than doubled in the last five years. Today, 16,000 robots are used in U.S. industry, nearly 10,000 more than in 1982, according to the Robotic Industries Assn. More than one-third of the installations are in the automotive industry.

Most of the work currently performed by robots is on assembly lines, and the robots usually are

stationary and perform a single task. But robot manufacturers and others studying the use of robots in industry envision multifunctional mobile robots performing jobs and autonomously making decisions when problems arise.

In fact, the nuclear power industry—a leader in the use of robots as more sophisticated loss prevention tools—already is relying on robots to deal with problems that otherwise would expose humans to radioactive materials.

As a field test, several robot prototypes are being used in the cleanup of the Three Mile Island nuclear plant in Pennsylvania. Much of the plant's reactor core was destroyed and many areas in its containment building were left inaccessible following the March 1979 accident there.

Several remote-control robots have been used at TMI to photograph and take radiation readings in contaminated areas, decontaminate a pump cubicle in the basement of the auxiliary building and monitor radiation levels while the water purification system was decontaminated. Other robots are being developed for possible use in the TMI project.

A 19-year-old robot, stationed at a U.S. Department of Energy Oak Ridge, Tenn., nuclear power plant, has been deployed successfully at other nuclear power plants as well but could not maneuver through some of the passages at TMI (see story, page 28).

In addition, the Electric Power Research Institute, the research wing of the Nuclear Regulatory Commission, is testing other NRC-

funded prototypes for possible usage in nuclear power plants nationwide.

The NRC is looking for units that can reduce workers' exposure to radiation by conducting inspections and radiation surveys, said Al Roecklein, a technical assistant in the NRC's office of Nuclear Regulatory Research, division of radiation programs and earth sciences.

Nuclear power plants already utilize single-purpose robotic devices for pipe cutting, welding, inspection and repair and ultrasonic scanning of pipe sections for cracks. But the prototypes being developed would expand the robots' roles.

One of these prototype units, developed by Remote Technology Corp. (Remotec), a 5-year-old Oak Ridge, Tenn., firm, is scheduled for field testing later this year at the Tennessee Valley Authority's Brown's Ferry nuclear power plant in Decatur, Ala.

The tethered, three-wheel remote-controlled surveillance robot will be tested on how well it takes radiation measurements, collects contamination samples for analysis, televises magnified images of components, reads meters in remote locations, monitors sound intensity and frequency levels and records temperature and humidity levels, said Mr. Roecklein.

The robot, dubbed SURBOT, has two arms that can reach out 42 inches with a capacity of 22 pounds at full extension. The slave arms are controlled by master arms manipulated by the operator of the robot.

A 14-foot tower—on which the arms and a television camera and microphone are mounted—extends from the robot's cylindrical base. The robot can rotate 360 degrees.

However, many existing nuclear power plants were not constructed to accommodate mobile robots, said John R. White, president and technical director of Remotec. "We're faced now with a retro-fit system. These plants were designed to challenge even humans."

Another firm developing a robot for use in nuclear power plants is Odetics Inc. in Anaheim, Calif. Its mobile robot will be a version of the company's spider-like ODEX I, which was introduced in early 1983.

The six-legged mobile unit will be controlled by seven microprocessors, one for each leg, plus a central unit.

The robot will be able to step over obstacles 33 inches high and its arm reach will cover the robot's full circumference, from the floor up to 7 feet in height.

It will be designed to squat as low as 36 inches, extend up to 78 inches and make itself as narrow as 21 inches.

A television camera and lighting system will be located on the wrist of the robot's gripper.

The robot will be teleoperated (guided by an operator monitoring television screens) and powered by 24-volt aircraft battery, allowing it one hour of operation without recharging, according to the Odetics.

Odetics expects this prototype to be ready for testing by early 1986.

It will be tested by the Electric Power Research Institute and in addition will be field tested at the Savannah River Laboratory, in Aiken, S.C., which is operated by E.I. du Pont de Nemours & Co. for the U.S. Department of Energy.

It will be used for valve maintenance and radiation waste drum handling.

"In three to five years, robots could be a significant factor in nuclear power plants," Mr. Roecklein said.

The U.S. military also is funding

Continued on page 26

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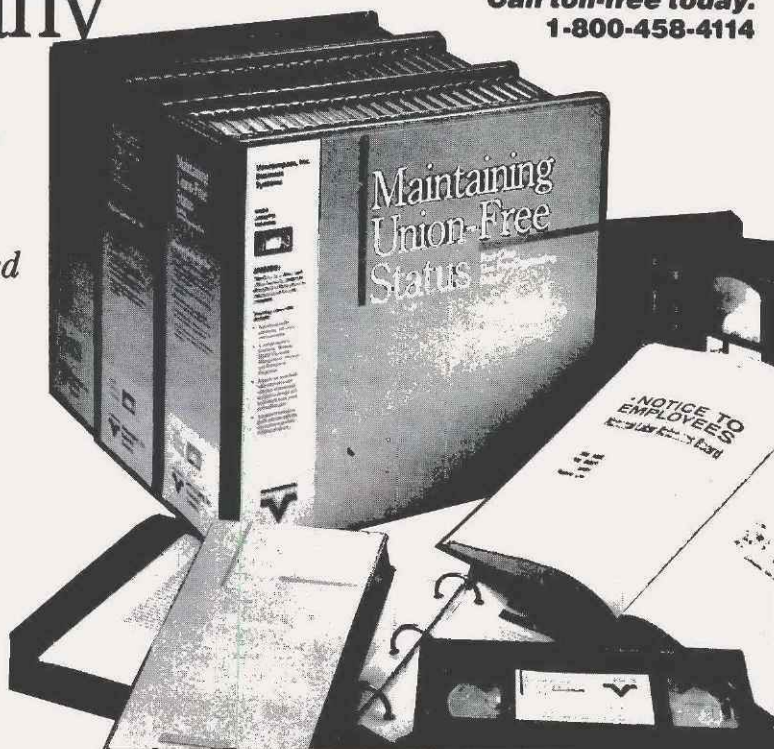
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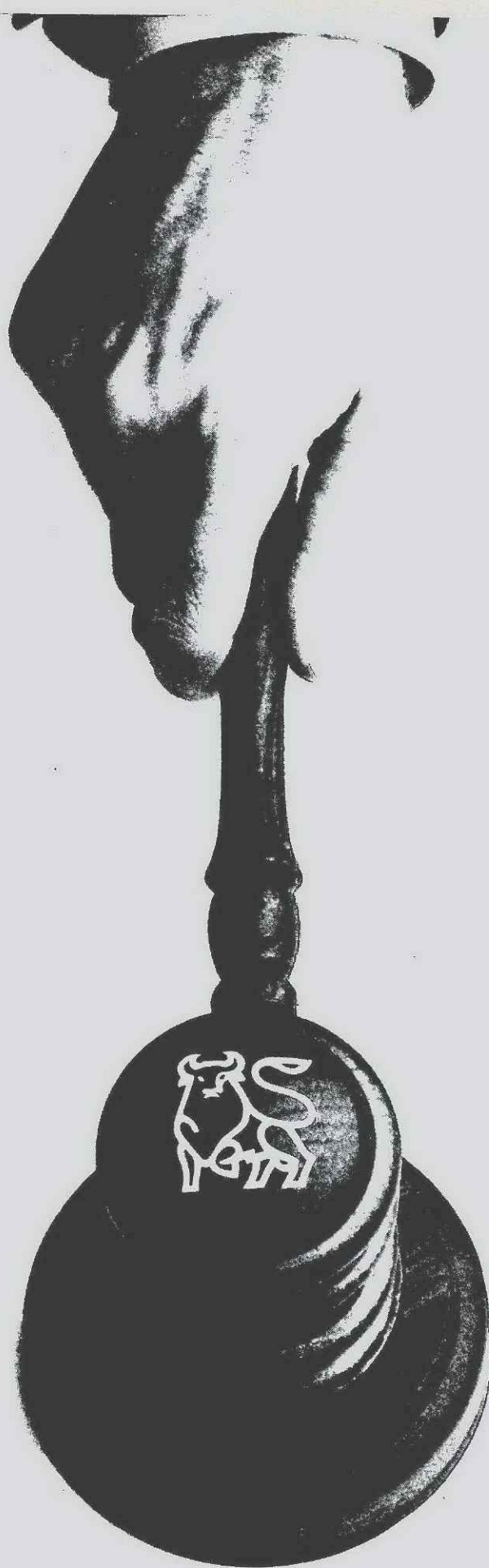
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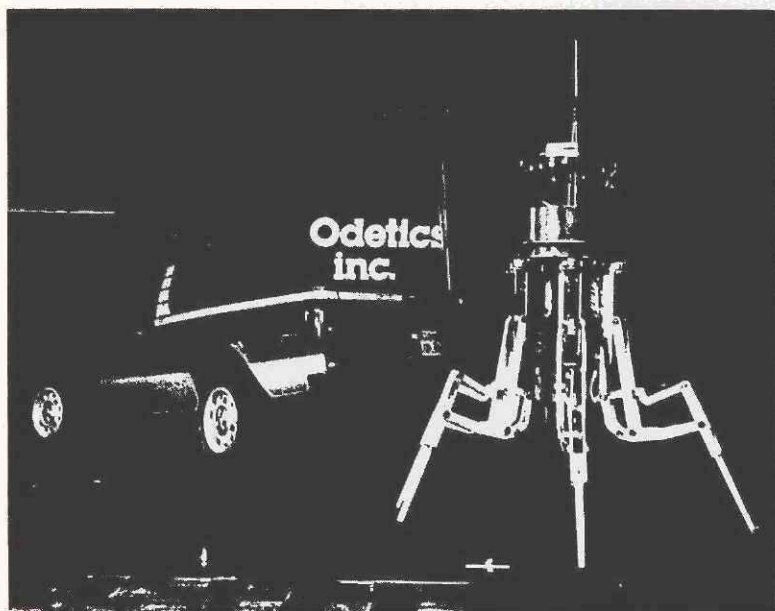
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A spiderlike robot developed by Odetics Inc. of Anaheim, Calif., shows its stuff by lifting up the back end of a pickup truck.

Photo: Odetics Inc.

New robots

Continued from page 24
robotics research, which developers say could result in loss prevention applications for industry and municipalities.

In particular, the Navy would like to see a robot developed to fight fires aboard aircraft carriers. Handling such fires is a concern, since closely parked aircraft are subject to chain-reaction combustion, and detonations scatter heavy burning debris, creating obstacles for firefighters and leading to other detonations.

The Naval Surface Weapons Center, in White Oak, Md., has commissioned Odetics to develop a robotized firefighting system.

The robot probably will be a maneuverable and survivable teleoperated wheeled device that will deliver a hose to a fire and position the nozzle as the teleoperator commands, the company says.

The device could have applica-

tions in municipal firefighting also, a company spokesman said.

The military also has expressed interest in Cincinnati Milicron's tethered robot for dismantling and cutting up planes, trucks and tanks, according to Dale Hendrixson, director of marketing in the robotics division at Cincinnati Milicron in Cincinnati.

A robot is ideal for this job because gas pockets occasionally develop and explode during dismantling operations in vehicle graveyards, Mr. Hendrixson explained.

"A robot can sustain an explosion or be repaired, unlike a human," he said.

Other military applications for multi-functional mobile robots may include weapons carrying, reconnaissance and sentry duty, developers said.

Several robotics developers believe that the civilian version of sentry duty—guarding offices and warehouses—will represent a major future job market for robots.

"We're after the job with low skill levels and high hazards," said John Harding, president of Denning Mobile Robotics in Woburn, Mass. "Guard duty is not a terribly desirable job. It's boring, low paying, requires low skill levels and is potentially dangerous."

He explained Denning's prototype robot sees the world as a set of points. It patrols a programmed route, looking for hazards such as intruders, fire and smoke.

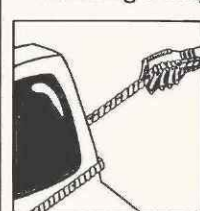
Upon detecting a hazard, it would communicate this information via radio and television signals to a base station.

The robot's on-board computer and map of its environment or world allows it to plan its path around unfamiliar obstacles and set its own path to an unprogrammed destination upon operator command, Mr. Harding said.

Mr. Harding, whose firm is an industrial affiliate of Massachusetts Institute of Technology and Carnegie-Mellon University, hopes to build the first production model by the end of next summer.

"We've demonstrated its capability but not its reliability," he said.

Denning's major engineering



problem is attaining a continuous eight- to 10-hour patrol time. The robot currently operates for two to three hours before encountering

problems with its programmed route, Mr. Harding said.

Denning plans to conduct field tests through 1985 and user tests for the first three to six months next year. Mr. Harding projects selling 100 units in the first year.

Mr. White of Remotec also believes that security will be the biggest field for robotics.

The company's tethered RM-10 robot can be equipped with infrared sensors to detect body heat, and other sensors for detecting motion, voices and smoke.

Other developers envision loftier goals for their robots.

In addition to security guard duty, Dr. Eugene B. Silverman, president of Automated Technology Corp. in Columbia, Md., believes the company's stair-climbing IRIS Surveyor System would prove invaluable in surveilling nuclear power plants, inspecting and sampling hazardous waste storage areas, and investigating and characterizing chemical spills resulting from industrial accidents, including truck and train wrecks.

IRIS, an acronym for industrial remote inspection system, already has been tested by the Electric Power Research Institute.

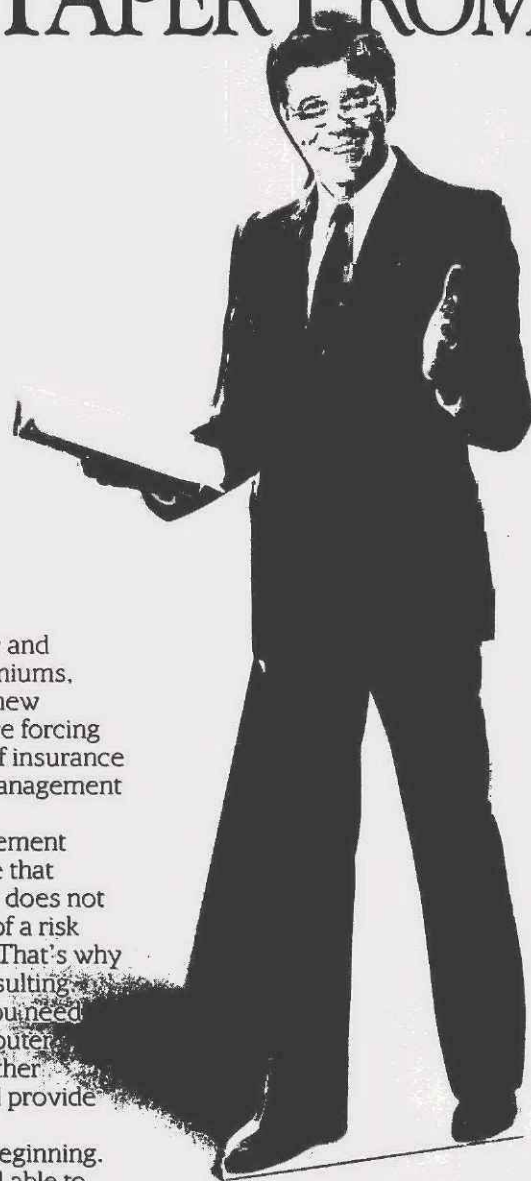
The tanklike device is designed to operate in areas posing physical and signal interference. IRIS subsystems include a stereo-optic visions system, which provides the operator a three-dimensional view of the robot's environment; an arm with a zoom lens inspection camera; two to four video channels; a 16-channel data system; a 14-channel command control system; and sensors for measuring radiation, temperature, relative humidity, light and sound levels.

SCAVENGER, another ATC development, is a portable submersible robotic scrubbing and filtering system, designed for use in electric utilities, chemical plants, water-processing facilities and the process control industry.

The company says the robot's on-board microprocessors enable it to maneuver autonomously, or a teleoperator can intervene. It is designed to scrub tile, granite, vinyl, fiberglass, concrete and steel surfaces and vacuum contaminants in pools, cavities, channels, tanks and pits. It also can remove algae and other obstructions from water inlet and discharge lines.

Continued on page 28

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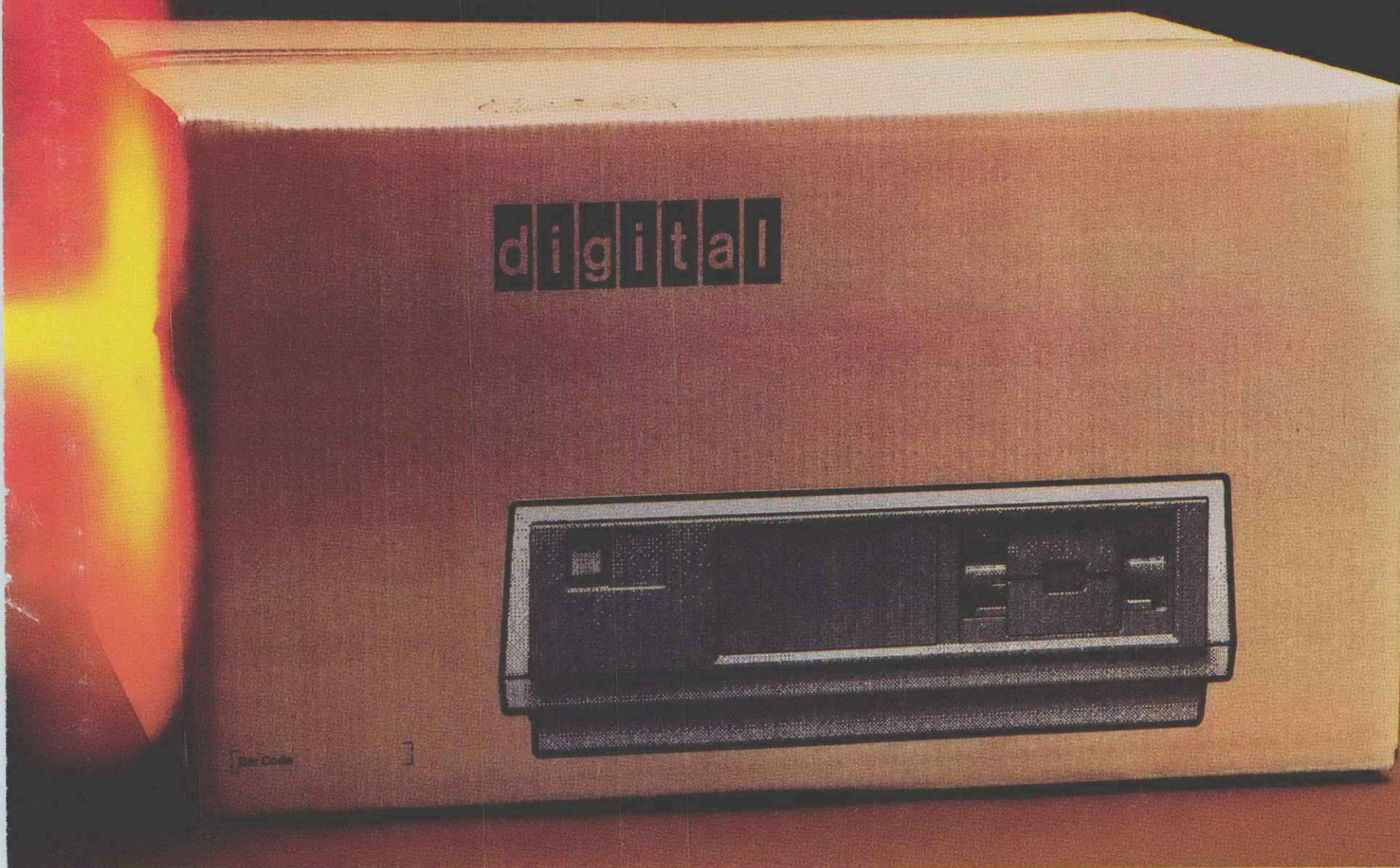
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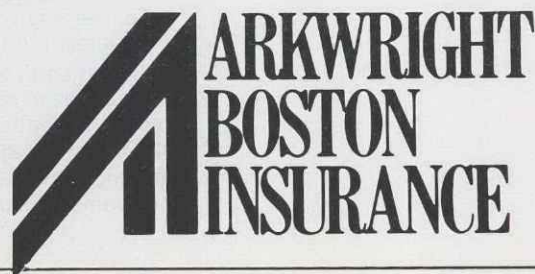
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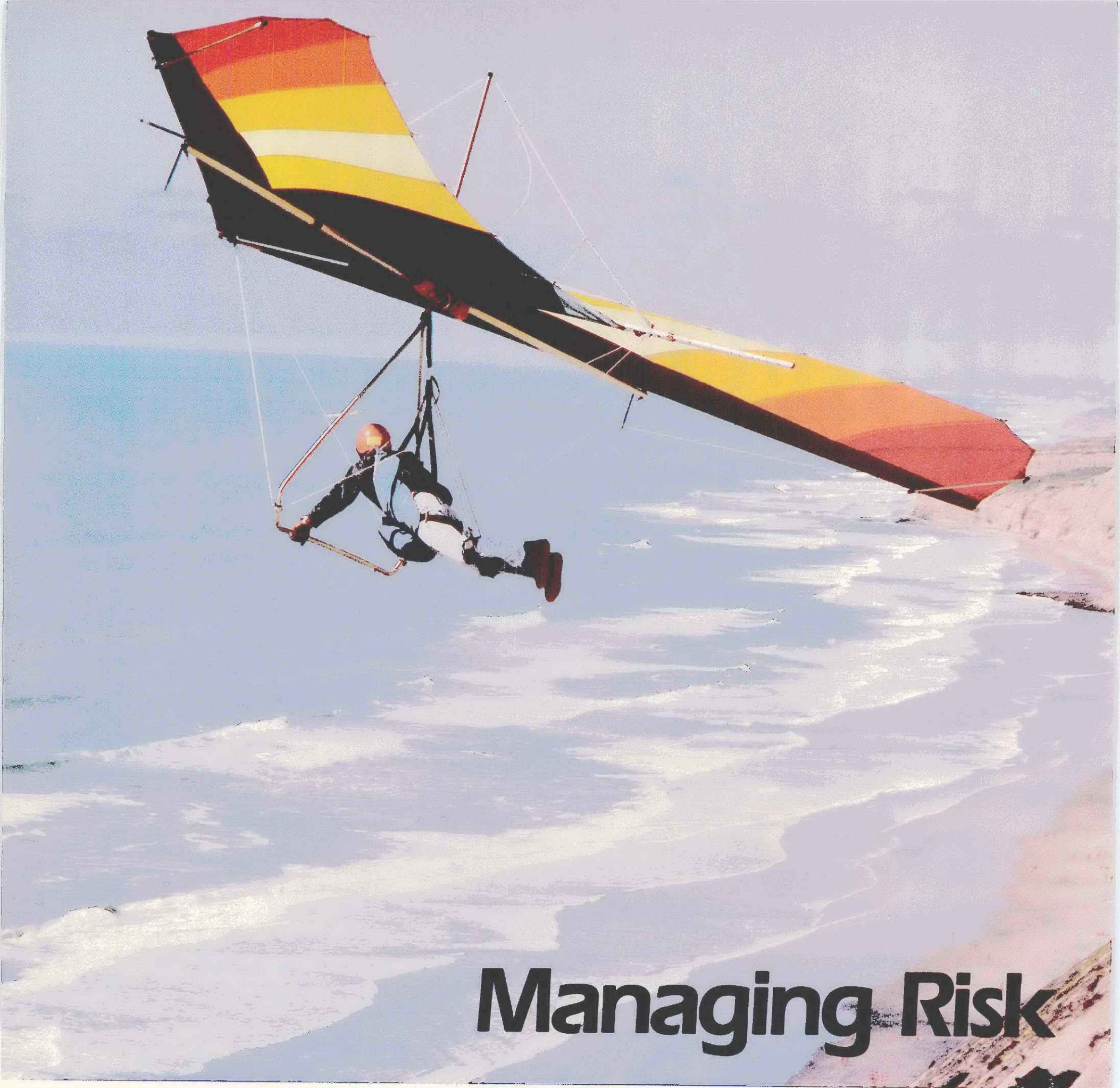
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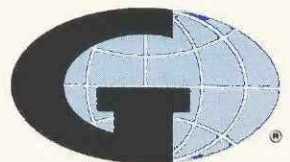
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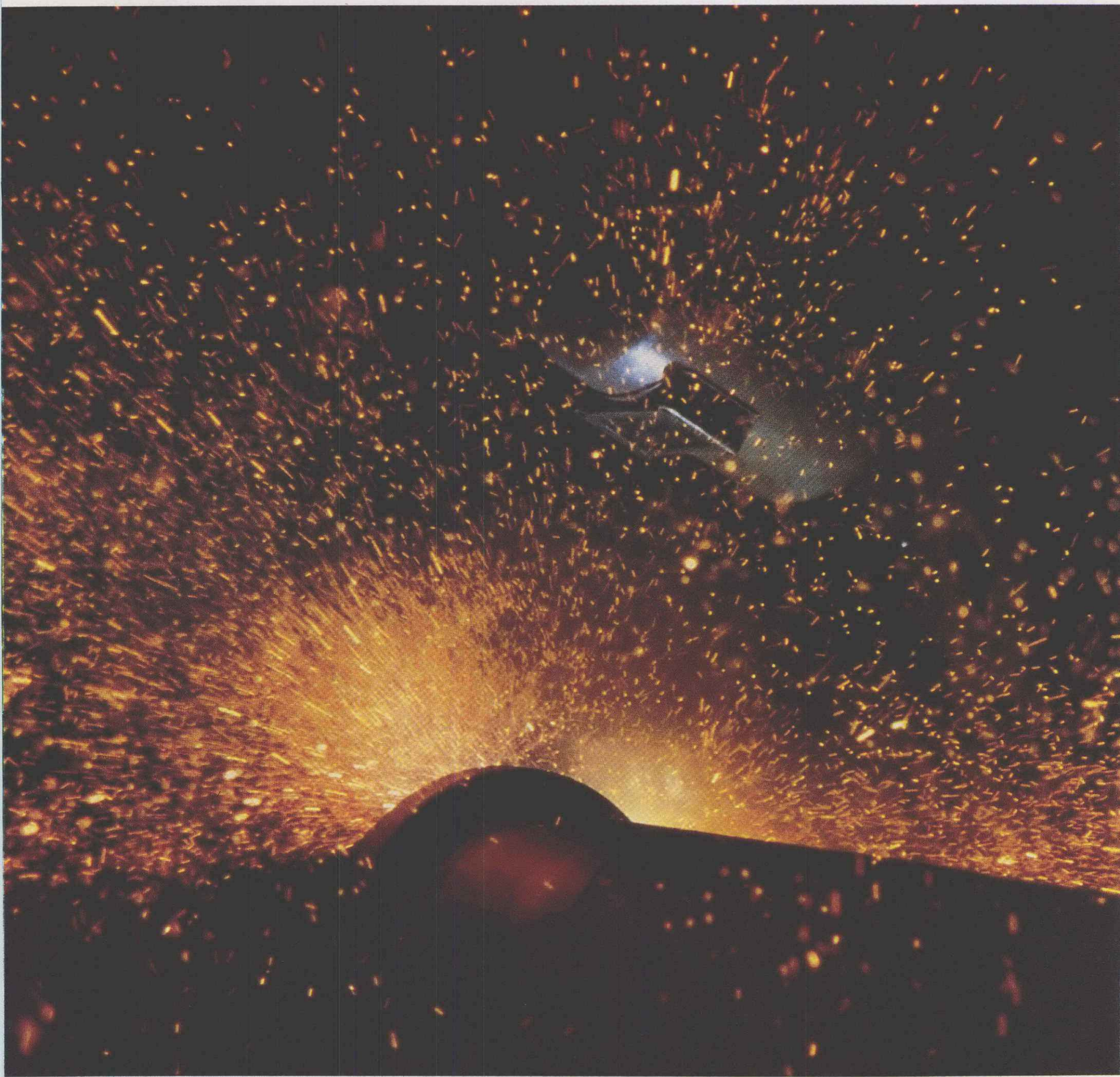
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Robots in loss control

Continued from page 26

Robots also could play a valuable loss-prevention role in mining operations.

For example, Carnegie-Mellon University in Pittsburgh has developed and tested a mobile-base robot in some mining applications. The results were "very promising," according to Irv Oppenheim, an associate professor in CMU's department of engineering.

CMU's latest development, Terregator, is a six-wheel "true" robot, meaning it has the artificial intelligence to function somewhat autonomously. Mr. Oppenheim said. Terregator was precipitated by a TMI cleanup project the university developed.

With the aid of a sonar sensing ring, Terregator was deployed to map a coal mine.

"It was more of a problem than connecting dots," Mr. Oppenheim said. The robot had to contend with freak reflection, people walking past it and bac echoes, which, if interpreted improperly, would have been recorded as walls. It mapped approximately 40 feet of mine walls in an hour.

"It was very promising in that it produced good results," Mr. Oppenheim said.

But, he noted the project "is really just fundamental research of how a mobile robot can navigate in space."

He said developers "would have to start from

scratch" to build a robot that could map 2,000 feet in 12 hours.

Mr. Hendrixson of Cincinnati Milicron also envisions robots in foundries. However, further research is necessary to design robots that can work in such a hostile environment, he said.

And, Odetics envisions robots as foresters, specifically felling trees and bunching the logs and transporting them to landings.

A company spokesman also projects that robots will be utilized to staff permanent space stations and that robots may eventually be capable of flying.

Other industries that could potentially use robots for hazardous duties include the textile, food processing, pharmaceutical, health care, furniture and construction industries, according to the Robotic Industries Assn.

In fact, developers predict that mobile and at least somewhat autonomous steel-collar workers will be on the job in two to three years. Some say five years. Some say longer, depending on the application. But all believe the technology will help, not hinder man, as Capek envisioned.

"The use of surveillance-type robots, in addition to saving worker dosage, may also improve plant safety. They're better at inspections than human beings because they're more accurate than human senses. Second, since you're not exposing humans, you can do more frequent inspections," according to Mr. Roecklein. ■

Herman is 'robot of the hour' in solving radioactive mishaps

By DAVE LENCKUS

When it comes to snuffing out potentially dangerous accidents involving radioactive materials, Herman is the U.S. Department of Energy's Johnny-on-the-Spot.

At 19 years old, Herman is the grandfather of robotic devices utilized to recover radioactive materials at nuclear power plants and other facilities.

Although a design limitation precluded its use in the cleanup effort at the Three Mile Island nuclear plant, Herman has been used successfully in several other less-publicized operations.

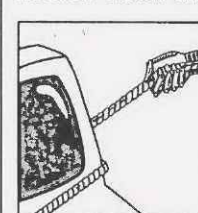
Herman, however, is not quite as sophisticated as the newer generation of mobile-base robots (see story, page 24).

Herman was built to DOE specifications in 1966 for \$76,000 by Programmed & Remote Systems Corp., which, operating as PaR Systems Corp., dissolved in March this year.

The tanklike, teleoperated tethered device is 29 inches wide, 45 inches long and weighs 1,800 pounds. Its manipulator arm with pinchers is mounted on a pole that raises up to 62 inches. The arm extends 50 inches forward and 133 inches vertically.

Herman, which has a 160-pound load capacity and can pull up to 500 pounds, carries two black-and-white video cameras. Herman is housed at the Oak Ridge, Tenn., Y-12 nuclear power plant, which is operated for the DOE by Martin Marietta Energy Systems Inc. However, Herman's major accomplishments have been achieved on temporary duty at other sites.

In a weeklong project in August 1975, Herman recovered a radioactive pellet from an irradiation facility at the University of Rochester in New York. The pellet had been



stuck for about two years in a pneumatic air tube in the underground facility. The problem was caused by a faulty latch.

Herman's teleoperator maneuvered it through the facility's radiation maze—a corridor designed to minimize radiation migration—to the problem.

There, Herman cut several tubes to reach a latch release. It unscrewed the latch cover and released the latch with its pinchers. Then, the pellet was returned to its storage container.

In a one-day effort in November 1976 at the University of the South at Seawee, Tenn., Herman recovered an experimental radiation source from a classroom.

Herman's "hottest source" effort was in May 1981 at the Armed Forces Radiobiology Research Institute in Bethesda, Md. The facility was attempting to radiate a piece of electronics equipment with two racks of radiation sources. One of the racks was successfully lowered into its holding pool, but one became entangled in the rack supporting the electronics equipment. The rack contained 24 radiation sources, said Duncan P. Canada, maintenance engineer in the maintenance and utility division at the Oak Ridge Y-12 nuclear power plant.

Herman was called. First, a mock-up of the facility was built. Over two weeks, Herman's operator practiced untangling the racks. On the day of the operation, Herman entered the facility through a 3-foot-thick door. A lead cave was constructed around Herman before it entered to prevent radiation from escaping. Herman negotiated a catwalk to an elevator, which lowered Herman to the area.

Herman pushed the tangled radiation source rack aside to clear a bar from the rack supporting the electronics equipment. The source rack then descended, but its tangled wires prevented it from descending into the pool fully. Herman then cut the cable.

The robot's latest task was in April 1984 at the Tennessee Valley Authority's Sequoyah nuclear plant in Soddy Daisy, Tenn. Herman was used to dissect and secure a radiation-contaminated tube through which instruments were passed into the reactor's center to obtain flux density readings. Mr. Canada said the public was not in danger during those operations.

Martin Marietta sets Herman's replacement cost at \$500,000. ■

J&H INFOLINE

INFORMATION AND IDEAS ON RISK MANAGEMENT AND BENEFITS FROM JOHNSON & HIGGINS.

NO. 9

Competitive Bidding in a Tight Market:

A new approach is required

Underwriters have become skittish about exposures such as pollution and product liability, waste disposal, and property risks requiring broad form coverage.

They prefer to husband capacity for more familiar coverages that hold out the promise of profit.

Consequently, risk managers are facing dramatic tightening of coverage as well as heavy premium increases.

Ironically, multiple broker competitive bidding—viewed by some as the best way to get favorable rates—may aggravate the situation. The Request For Proposal procedure, mandated for many public sector insurance buyers and favored by some corporate risk managers as well, is a particular culprit. When multiple brokers go into the market competing for the lowest premium for the coverage, the best price rarely surfaces. In fact, underwriters today often will decline to quote under these circumstances.

Underwriters also have become sensitized to the turnover that routinely follows when the buyer is a "shopper." Stability is still important to insurers.

Today's hardened insurance market calls for a professionalism that replaces the obsolescent multiple-broker bidding system with a two phase concept.

In Phase One the brokers compete. The client chooses the one that offers the most appropriate and professional services at the most cost-effective price. The key is to look carefully at the broker's ability to identify, interpret and communicate exposure factors that shape the underwriter's view of the risk. This ultimately will determine the acceptability of the risk and its cost.

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Vendors offering wide variety of information on loss control

info

• "Facts About Backs: Your Guide to a Healthy, Pain-Free Back" is offered by Fax Communications Inc. The 16-page booklet covers **back care**, including safe lifting, body mechanics, good posture, exercises and pain relief. Cost ranges from 79 cents each for 50-79 copies to 42 cents each for 25,000 or more copies. Order from Fax Communications Inc., Department BI, 3279 20th St., San Francisco, Calif. 94110 415-641-7422.

• The Hartford Steam Boiler Inspection & Insurance Co. has a new brochure highlighting the company's approach to helping manufacturers meet the **American Society of Mechanical Engineers' code requirements**. Included in the brochure is a description of

Hartford Steam Boiler's customized, cost-effective programs to help manufacturers of boilers, pressure vessels, pressure piping and nuclear components qualify for ASME code stamps. For a free brochure, write Marketing Services, The Hartford Steam Boiler Inspection & Insurance Co., 1 State St., Hartford, Conn. 06102.

• Assets Protection's new magazine, **Computer Security Products Report**, is available free to individuals in the data processing, communications, computer security and electronic data processing fields. The magazine discusses **computer security equipment** as well as software and services, and it emphasizes field evaluation of products and technological developments. For more information, contact Assets Protection Publishing, P.O. Box 5323, Madison, Wis. 53705.

• "Preventing Illness and Injury in the Workplace" is a 432-page government report prepared by the Office of Technology Assessment. It examines ways to **prevent workplace injury and illness**, including identification of occupational hazards, development of control technologies for reducing or eliminating hazards and incentives that influence decisions to control hazards. The report is available for \$15 from Department 36-NU, Superintendent of Documents, Washington, D.C. 20402; 202-783-3238.

• "For the Sitting Worker" is a 16-page booklet from Dray Publications designed for the sedentary worker. The booklet covers **occupational safety** topics and provides advice on wellness, including how to avoid back problems and stress. Cost ranges from 46 cents each for 50-100 copies to 18 cents each for 10,000 or more copies. Order from Dray Publications Inc., Route 5, Deerfield, Mass. 01342; 413-773-5491.

• "Protecting Workers in Hot Environments," a two-page fact sheet, is available from the Occupational Safety and Health Administration. It describes the stress a worker faces in a **hot work area** and includes precautions for preventing heat stress. For free copies, send a self-addressed label to OSHA Publications, Room S-4203, Frances Perkins Department of Labor Building, Third Street and Constitution Avenue N.W., Washington, D.C. 20210; 202-523-9667.

• A booklet from the Alliance of American Insurers, "Hazard Communications and Employee Right-to-Know Loss Control Guidelines," provides information for employers about compliance with **federal hazard communication standards**. The booklet also includes guidelines for advanced employee safety and health programs. Copies are \$1.30 for Alliance members and \$2.70 for non-members from the Alliance Publications Order Department, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60195-4980; 312-490-8500.

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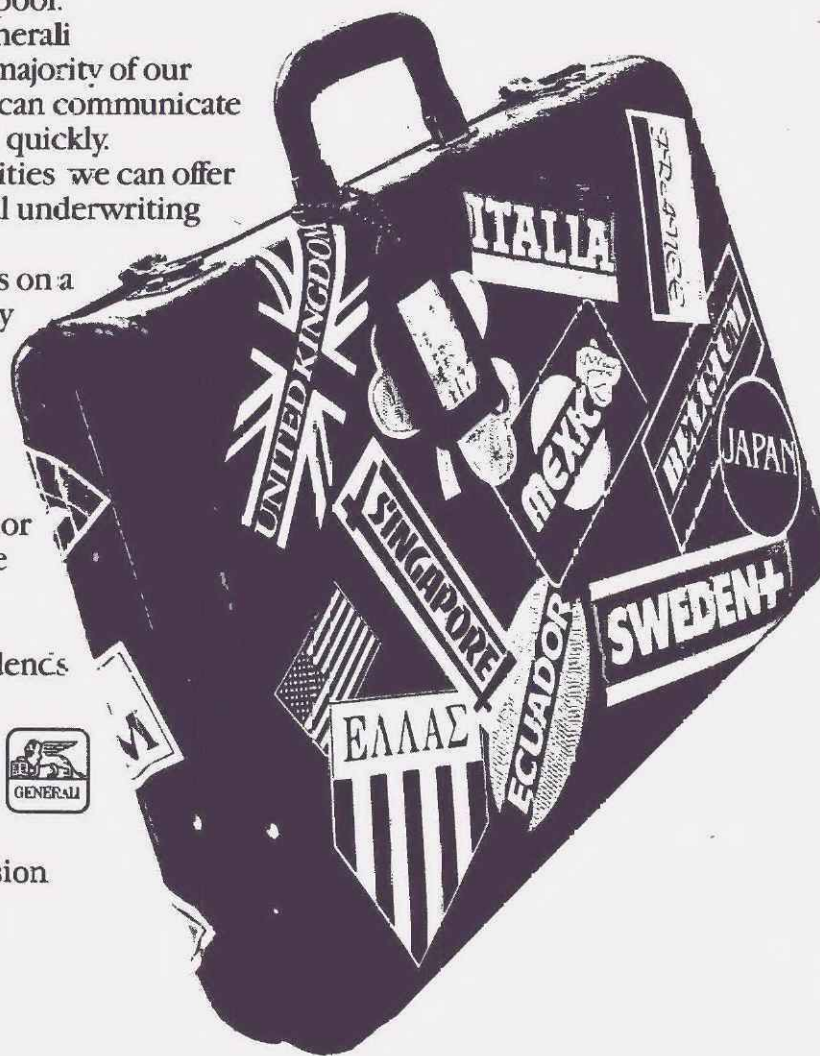
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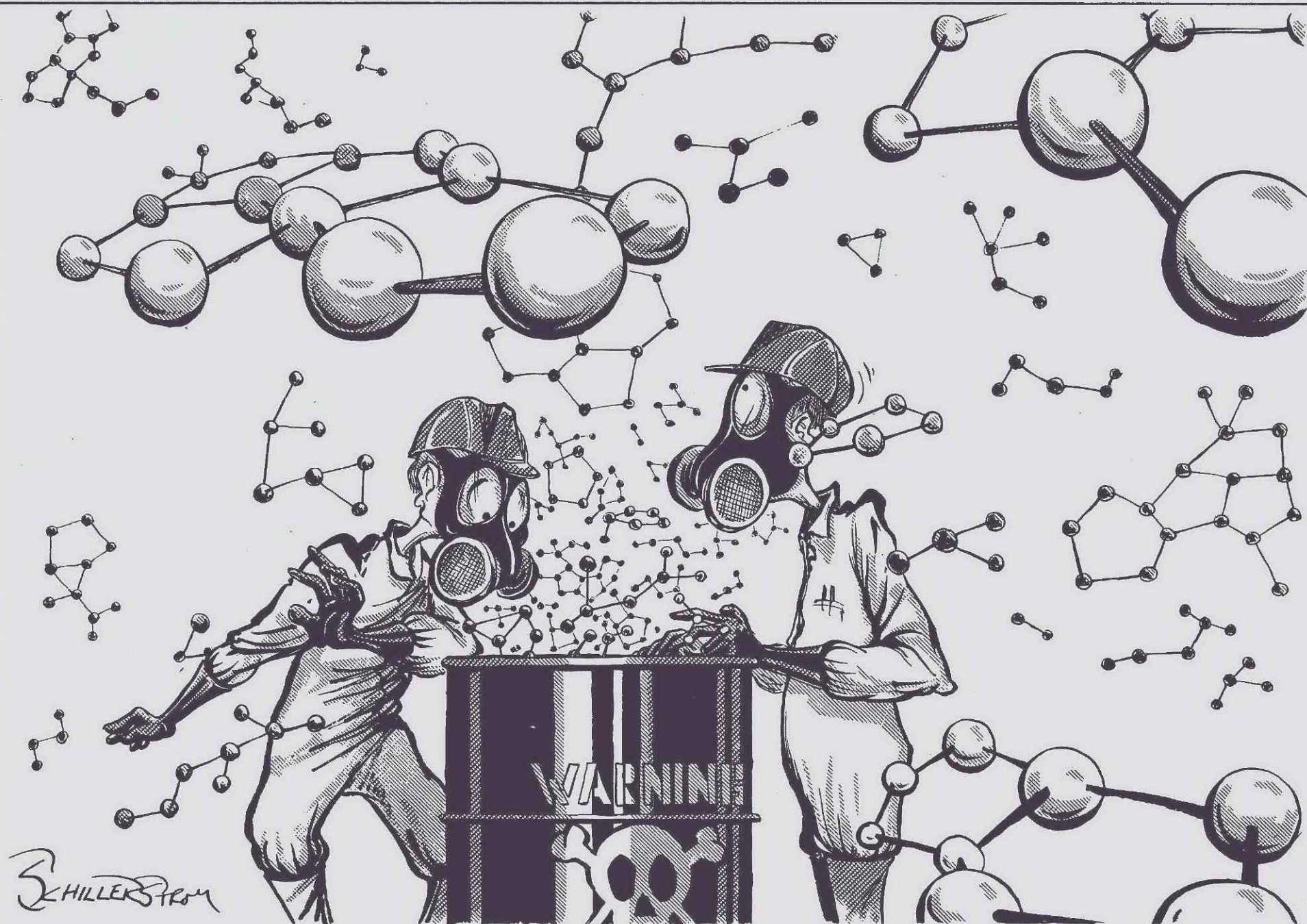
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RIGHT-TO-KNOW

Assessing hazardous substances aids employers and workers

By Howard M. Sandler

ASBESTOS, BENZENE, lead, dioxin... the list of hazardous substances increases every day.

To inform workers and the public about the danger of hazardous substances, the Occupational Safety and Health Administration on Nov. 25 will put into effect the first half of its hazard communication standard. This federal rule is the latest regulatory action in a series of "right-to-know" laws enacted by more than 20 states and a number of cities and local governments.

The bottom line of these rules are that workers, and in many states the public at large, will have access to important information regarding the dangers of chemicals and materials to which they may be exposed.

Although limited to manufacturing employees in its initial scope, the OSHA rule has been pushed by the courts and the National Advisory Committee on Occupational Safety and Health for application to all or most workers, making it probably the most far-reaching standard ever issued by OSHA.

This is especially significant in that it is being put in place during a supposedly non-regulatory administration.

Of the more than 7 million known chemicals, 200,000 or more are in common commercial use. At least 50,000 are known or suspected as harmful just from a toxicologic basis. . . Only the manufacturers know anything about a few of the mixtures they produce, and to date that's been proprietary information.

The essential ingredients of all the right-to-know requirements consist of:

- Hazard determination.
- Material safety data sheets.
- Labeling.
- Employee training.

I urge all readers to become familiar with each basic area, because they are vitally important to understand the entire standard in detail.

On Nov. 25, 10,000 manufacturers, importers and distributors of chemicals must determine if the products they sell are harmful from both a physical standpoint (like flammability) and from a health standpoint (like carcinogenicity). These companies also must provide a variety of information, ranging from information about personal protective equipment to chronic health effects, in the material safety data sheets (MSDS) that must be shipped to the purchaser of the products.

Then, on May 25, 1986, all employer purchasers of these substances must figure out what substances they have, obtain material safety data sheets, label appropriate containers and train employees as to what is there, what it can do and strategies for protecting themselves.

There are more than 7 million known chemicals, 200,000 or more of which are in common commercial use.

And at least 50,000 are known or suspected as harmful just from a toxicologic basis.

The scientific/medical community knows a lot about a few hundred of these chemicals, a moderate amount about a few thousand and very little about the rest.

Only the manufacturers know anything about a few of the mixtures they produce, and to date that's been proprietary information.

Rarely is a worker exposed to only one substance at the workplace. Looking at the numbers, the combinations of chemicals to which workers are exposed are limitless, and the possibilities are at least in the millions.

Mixture effects such as synergism—such as the combined effects of exposure to asbestos and cigarette smoking—and additive, deleterious, promotive and co-carcinogen actions can result from exposure to a combination of chemicals.

Anyone who hasn't been sleeping for the past 20 years realizes the health effects and corporate liability implications of such a scenario.

First, producers of chemical products must either perform and, of course, report toxicity determinations, or at the least they must carefully research a world of mounting literature on a wide variety of subjects.

Evaluation and reporting of this data in the material data safety sheets is critical. Issues such as rapid updating, documentation, written programs and risk assessment all play crucial roles. After all, today's "safe" chemical is tomorrow's asbestos.

Manufacturers of chemicals are in a
Continued on page 39

LOSS-CONTROL LESSON

Company's actions help it quickly recover from crippling explosion

IF EXPERIENCE IS INDEED the best teacher, then risk managers and insurers can learn a lesson from the quick recovery from disaster of the Federal Paper Board Co. plant in Riegelwood, N.C.

In October 1984, a boiler exploded at Federal Paper's Riegelwood mill, the company's largest plant. The explosion, which resulted in a loss totaling more than \$25 million, was one of the most severe boiler explosions the insurance industry has ever seen.

But, by examining innovative options and acting quickly to maintain production at the plant, the mill recovered with speed and efficiency within four months and—a year later—is operating at full production.

Federal Paper, which is fundamentally a pulp and paper company, has operations in forest products, recycled paperboard and folding cartons at its mills and plants in 22 locations throughout the United States. The Riegelwood plant is responsible for 52% of Federal Paper's sales.

Riegelwood produces bleached softwood and hardwood pulps, half of which it converts to bleached paperboard and the other half of which it sells to other pulp and paperboard manufacturers, both domestic and overseas.

Vital to the plant's pulp and paper processing are two operating black liquor recovery boilers, which, through a recycling process, contribute substantially to its supply of raw materials and energy.

Without these boilers, pulp cannot be competitively produced.

The explosion last fall brought down Riegelwood's largest boiler, which was responsible for 60% of the mill's black liquor recovery. Repairs, which required straightening of all the unit's tubes on eight floors, were completed Feb. 28, 1985.

This was an outstanding example of a business promptly recovering from a severe loss. Repairs of this magnitude, requiring extreme precision and accuracy, in most cases would take from six to nine months. At Federal Paper, the repairs were completed in half that time.

The speed with which this task was completed can be attributed to Federal Paper Board's willingness to pursue many options to maintain production levels during repairs.

Although Federal paper had purchased an all-risk policy from Arkwright-Boston Manufacturers Mutual Insurance Co. that covered property damage, business interruption and extra expense, Federal Paper was willing to make decisions on its own and take some risks to continue serving its customers, regardless of insurance concerns.

Besides paper, an end product in paper making is black liquor, which has a value of its own.

The black liquor is burned to recover chemicals that are used to begin converting wood pulp to paper. A byproduct of the chemical recovery is heat, converted to steam, on which the plant relies to operate the mill and to generate electricity.

When the black liquor recovery boiler was damaged, it did not hurt the company's ability to mill paper, but it did mean it would be much more expensive to continue

the process.

The chemicals and fuel required to continue manufacturing paper during the time the recovery boiler was being rebuilt and liquor could not be burned were valued by Federal Paper at more than \$10 million.

Since black liquor is a highly appraised commodity, Federal Paper began pursuing alternatives. It finally came up with four options:

- Selling the black liquor.
- Shipping it to another paper mill to be burned and the chemicals recovered.
- Storing and recycling the black liquor at a later date.

- Shutting down a portion of the plant's production for which the black liquor could not be recycled.

Three of the choices quickly were eliminated by Federal Paper.

Because the

company's main goal was to continue providing the same volume of goods to its clients, shutting down the plant was unacceptable. For both selling and shipping, no other paper mill was interested in purchasing any black liquor at the time.

Storage seemed to be the only alternative where production could continue and some level of the black liquor be recovered.

Federal Paper took advantage of a tank farm in Wilmington, N.C., where it rented storage and began shipping the liquor by barge.

This worked well for 35 to 40 days until the tank space had filled.

In the meantime, the company investigated building a reservoir to hold the liquor on its own property. Federal Paper estimated it would cost \$1.8 million to dig and prepare two ponds with a capacity totaling 85 million gallons.

Excess black liquor generated in the plant would be pumped directly to the ponds, avoiding transportation time and expense. This would allow the paper mill to gradually recycle the black liquor after the boiler restoration.

After Federal Paper realized it could retain all the black liquor that could not be burned in the remaining boilers, the company had to answer another vitally important question: How to generate enough steam to maintain production.

A partial solution was found in two small boilers that had been sitting idle at the plant. They were reactivated at a cost of \$1.6 million, bringing recovery up to 60% to 65% of normal. In addition to the extra 20% to 25% in immediate production gained, the company saved an initial cash output for energy and raw chemicals.

By the time the boiler was repaired, Federal Paper estimated the company had accumulated about 60 million gallons of black liquor that would take several years to process.

Before repairs even started on the boiler, its insurer called on outside consultants to help investigate the cause of the explosion. Both the consultants and Federal Paper analysts determined that water had somehow entered the molten smelt bed, precipitating a violent chemical reaction.

The insurer engaged an expeditor from Sandwell International Inc., a pulp and paper consultant, to work with the boiler contractor, reviewing the paper-making process and producing a critical schedule for completing

repairs.

With a daily business interruption value of \$150,000 at Riegelwood, Federal Paper was able to save time by understanding which jobs would delay the total repair operation and then developing ways to expedite those tasks.

When it came to implementing specific plans to speed things along, specialists worked with the mill's operations manager in calling suppliers and getting people to work.

Like Federal Paper, other companies can take steps to make repair and recovery from a disaster as painless and inexpensive as possible.

For example, both the policyholder and its property insurer can save money if they decide on a course of action quickly and smoothly to put business back in full operation as soon as possible.

There are usually various options to pursue. While one possibility may be good, another may be better, and it's important to be open to trying new things. Adjusters and engineers have a good idea of what can be done, and they can help evaluate the feasibility, time and cost of any plans.

In addition, the policyholder should be ready to make some operational determinations, no matter whether those actions are covered under the property insurance policy.

In the Federal Paper case, with the company's customers being its major concern, management did not wait until the insurance adjusters arrived; they simply looked for alternatives that were economical and could enhance production.

Keeping track of costs for repairs, lost production and extra expense could have been very difficult in this case. But everything that was loss-related was assigned one job number, channeled through Federal Paper's accounting system and reviewed weekly by the adjusters and Arkwright-Boston.

The final insurance payment was made within one month of the boiler explosion; advance payments also were made by Arkwright-Boston to help Federal Paper avoid a cash-flow problem.

Also contributing

to the success of this recovery are pre-accident hazard identification and contingency arrangements at the plant.

Because Federal Paper knew the impact of this exposure and was prepared to take certain emergency measures, the up-front decision-making time was reduced.

This was essential in minimizing further losses at the plant.

Insurance company engineers and loss-prevention philosophy also were able to play an important role.

They were useful in helping understand the impact of the explosion, as well as in expediting repairs.

The insurer worked closely with Federal Paper to ensure the two idle boilers that were brought on line were able to function properly.

Then, while repairs were being made to the large boiler, special trips were made to the black liquor recovery boiler manufacturer to quickly obtain spare parts.

In addition, inspections were performed to make sure it conformed to American Society of Mechanical Engineers standards.

The insurer also recommended ways to add more safety features into the production system used at the plant.

One recommendation was to revise the shutdown and start-up procedure on the boiler to prevent water from

Continued on page 39

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This story—written by Esther J. Sprano, manager in communications at Arkwright-Boston Insurance in Waltham, Mass.—is based on the recollections of Gerry DeFloria, insurance manager for Federal Paper Board Co. in Montvale, N.J.; Michael Rotolo, Arkwright-Boston's assistant vp of Mid-Atlantic region claims; John Kuchar, an Arkwright-Boston account executive in New York; and Roger Sharp, an Arkwright-Boston senior account engineer in Greenwich, Conn.



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HST's MCMS (Medical Claims Monitoring System) software evaluates hospital claims before payment is made and establishes fair and reasonable payment limits for each hospital in the United States. It automatically assigns DRGs based on diagnoses and procedures coded in either ICD-9-CM or CPT.

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- MCMS software individually evaluates each hospital claim. This evaluation process includes the following three distinct components. *First*, the diagnostic, procedural and patient demographic information on the claim is evaluated. This evaluation is done from a *clinical* perspective to determine if the information on

the bill is medically consistent. Thus, a bill would be rejected if the diagnoses do not justify the procedure. *Second*, taking into account both the characteristics of the patient (such as age, complications and comorbidities) and the characteristics of the hospital (such as location and teaching status), a maximum amount to be paid is determined. *Third*, causes of utilization problems are reported, including the identification of questionable admissions, candidates for ambulatory surgery, and weekend admissions.

The standing gold coin, a rare \$20 Saint-Gaudens High Relief, was minted in 1907 at the request of President Theodore Roosevelt. In an effort to tell the world how culturally and artistically advanced the U.S. was then, Roosevelt commissioned the noted designer, Augustus Saint-Gaudens, to design a classic coin symbolic of artistically endowed ancient Rome and Greece. The Saint-Gaudens unique design was emphasized by the date MCMVII, the only time in U.S. history that Roman numeral dating was used on a coin. Only 11,250 specimens were struck in this style. Coin is valued at \$13,500. Coin and paper currency courtesy of Stack's Coin Company of New York City.

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Risk retention: Look closely at exposure

By The Insurance Institute of America

The following question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. It represents the types of questions and possible answers included in the three examinations for the Associate in Risk Management designation.

The following question examines some of the factors—those relating to the nature of loss exposure—which a company should consider in determining the extent to which it wishes to retain particular losses. Many other factors, not discussed here, relate to the nature of the organization and the types and cost of any insurance that may be available as an alternative to risk retention.

Q: An organization's decision on the extent to which it will retain—rather than commercially insure—a loss exposure often is influenced by the characteristics of that exposure.

1. For each of the following characteristics of property or liability loss exposures, explain how that characteristic is likely to affect the extent to which an organization should choose to retain, rather than commercially insure, resulting losses:

- Predictability of loss.
- Size of maximum potential loss from one event.
- Need for specialized loss-control expertise.
- Average time interval between the occurrence of an

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

A.R.M. exercises

accident and the payment of money to restore any resulting damage or harm.

2. To what extent does each of the factors identified above explain whether an organization is more likely to retain its workers compensation exposures than its exposures to boiler and machinery property damage? Explain each factor.

A: 1. The following answers consider separately each of the four characteristics of loss exposure identified in the question, leaving all other considerations aside:

- The greater the predictability of the frequency or severity of losses for one particular exposure—either individual losses or aggregate losses in a specified time period—the more nearly these losses approach a budgetable expense.

Therefore, greater predictability makes retention easier because losses are more likely to fall within the planned retention limits.

- The greater the maximum potential size of loss, the more difficult the complete retention of the loss exposure because an extremely large loss may exceed the funds the organization can generate internally to pay the loss.

However, once the organization has set its retention level for losses from a particular exposure, the maximum size of any potential loss above this retention limit affects only the amount of insurance that the organization should purchase above its maximum retention level.

- A substantial need for specialized loss-control expertise may well cause an organization to insure, rather than retain, loss exposures, provided the insurer is a cost-effective source of such loss-control service.

In order to obtain specialized loss control, the organization may insure an exposure it otherwise would be more inclined to partially or fully retain.

However, if the insurer is not a good source of the loss-control expertise, the need for loss control doesn't have to affect the decision to retain or insure.

- The longer the average interval between a loss and the payment of money to restore that loss, the more likely an organization is to retain the exposure to that loss because of, first, the more time it has after the loss to generate the needed funds internally and, second, the greater the time-value-of-money advantage of being able to disburse the loss payments as needed rather than paying in advance for insurance coverage.

2. The organization is more likely to retain its workers compensation liability exposures than its boiler and machinery property damage exposures:

- In terms of the factors described above, this retention decision could be based on the fact that the greater frequency of workers compensation losses makes them more predictable in the aggregate than are the less-frequent boiler and machinery property losses:

- In most situations, the maximum potential loss from any one workers compensation loss is smaller than the maximum potential property damage loss from a boiler explosion or machinery failure.

- Depending upon the organization's activities, the need for specialized loss-control expertise may be greater for the workers compensation exposures or may be greater for the boiler and machinery exposures, so that in the absence of detailed information, this factor should be considered neutral in this case.

- Typically, the time interval for loss payment is greater for workers compensation losses than for boiler and machinery property damage, tending to reinforce the preference for retaining workers compensation exposures.

Insurer has no duty to explain benefits: Court

The Court of Appeals of Arkansas ruled that a group health insurer had no affirmative duty to explain policy benefits to an insured.

Mary Snow, an employee of TRW Inc., was eligible for group health insurance under which she could elect either individual coverage or, for an additional premium, cover her dependents. She applied for individual coverage in 1974, but in 1979 she requested dependent coverage, completing an enrollment card on which she named her husband. The insurer approved the husband's coverage.

According to Ms. Snow, she failed to designate her son, Michael, as a dependent because she was unaware that he was eligible. Michael sustained an eye injury, and Ms. Snow sought coverage.

The insurer denied coverage because Ms. Snow had failed to enroll or name Michael as a dependent. Ms. Snow sued the insurer but lost in the trial court.

On appeal, Ms. Snow argued the insurer had an affirmative duty to explain policy benefits to her, especially those pertaining to eligible dependents.

However, the court ruled the insurer had done nothing that would cause Ms. Snow's policy benefits to be extended to her son, nor was it under a duty to inform Ms. Snow that she could or should designate him as a beneficiary. *Snow vs. Travelers Insurance Co.*, Court of Appeals of Arkansas, Aug. 29, 1984 (BI/02/S.-\$5).

Pre-existing conditions

The date of diagnosis of a condition was not dispositive for purposes of determining whether coverage under a group health policy was excluded because

of a pre-existing condition, an Arkansas appellate court ruled.

James Fudge obtained coverage under a farm bureau group insurance contract underwritten by Arkansas Blue Cross & Blue Shield. Treatment of conditions existing prior to the effective date of the contract until the contract was in force for at least 12 months were excluded.

Mr. Fudge was admitted to a hospital on Feb. 24, 1982, where he underwent a tonsillectomy. His physician's reports stated he had chronic tonsillitis for many years, but surgery had been delayed because he was an allergic patient.

Mr. Fudge's claim for benefits for the hospitalization was denied by Blue Cross. He sued and won in the trial court.

The appellate court reversed, stating that decisions on pre-existing conditions turn on the active manifestation of the condition, not on the ability to diagnose.

According to the court, Mr. Fudge clearly not only had a condition that manifested symptoms prior to the effective date of the insurance, but he also sought and received treatment for this condition prior to the effective date of the contract. The judgment was reversed. *Arkansas Blue Cross & Blue Shield Inc. vs. Fudge*, Court of Appeals of Arkansas, June 6, 1984 (BI/03/My.—\$5).

Coverage eligibility

A Florida appellate court ruled an employee became "employed" under the terms of a group insurance policy when he was hired and completed necessary

legal briefs

paper work, and thus said he was eligible for cover three months after that date.

On June 16, 1981, Mark Davis filled out an application for employment with Showalter Flying Service. He was interviewed the following day. On July 1, 1981, he was brought in to sign various work-related papers. He was hired that day to report on July 2.

The employer purchased a group hospitalization policy issued by Nationwide Life Insurance Co., which required regular employment for not less than three months for eligibility.

Mr. Davis was injured in an accident on Oct. 12, 1981. He filed for benefits but was denied coverage. Mr. Davis sued but lost in the trial court.

The appellate court reversed that decision, ruling Mr. Davis had requested employment and was given a job on July 1, at which time he was informed of the terms and conditions of his employment. At that time, the court said, a contract of employment existed. *Davis vs. Nationwide Life Insurance Co.*, District Court of Appeals of Florida, April 26, 1984, rehearing denied May 25, 1984 (BI/04/My.—\$5).

Air travel exclusion

An air travel exclusion in a group life insurance policy applied regardless of whether the aeronautical device was engaged in travel or flight, a federal court in Connecticut ruled.

Robert Jurrius was preparing to pilot a private airplane on a business trip. He

began a "cold weather start" of his plane by manually turning the aircraft's propeller to circulate oil to the cylinders of the plane's engines. Mr. Jurrius then boarded the plane and started the engine.

He then turned off the engine and left the plane, but he did not turn off the magnetos. After deplaning, he returned to the front of the plane and manually turned the propeller a second time. The engine started, and Mr. Jurrius was struck and killed by the propeller.

Mr. Jurrius was covered under a group life insurance policy issued by the Maccabees Mutual Life Insurance Co. that excluded coverage for "travel or flight in or on any aeronautical device or conveyance or participation in the operation thereof" except as a passenger on a regularly scheduled aircraft.

Mr. Jurrius' widow filed a claim, which was denied, and later sued. She argued the policy was ambiguous in that one interpretation of the exclusion was that it applied only while the plane was engaged in travel and flight. But, the court concluded that the only reasonable construction of the exclusion was that it was applicable regardless of whether the plane was engaged in travel or flight. *Jurrius vs. Maccabees Mutual Life Insurance Co.*, U.S. District Court for the District of Connecticut, May 18, 1984 (BI/01/A.—\$5).

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

Right-to-know laws also benefit employers

Continued from page 35

different position. On one hand they want to sell their product, so scary descriptions of hazards are not used. However, on the other hand, their liability is great.

There are many private and public on-line data base services on chemicals in use today. Any plaintiffs' attorney using one of these data bases can easily identify at least one study performed according to "scientifically accepted" principles that will be helpful to his or her case that a chemical caused an illness.

If a study was missed and not reported in the material safety data sheets as required under the OSHA hazard communication standard—even if it was disregarded or dismissed by the manufacturer—one can envision charges of conduct that was "willful, wanton, and reckless, with intent" at the least. And, given the current guilty verdicts in the Illinois cyanide tragedy (BI, June 24), conspiracy and other types of criminal charges loom on the horizon.

I personally have reviewed at least 20 material safety data sheets on benzene, a well-known carcinogen, and yet only two or three of the sheets mentioned this fact.

Most of the very large chemical concerns have huge staffs of physicians, toxicologists, industrial hygienists and others who can do a good job in this area. However, scientific opinion is not cast in concrete, and discussions rage at the highest levels in corporations, academia and regulatory agencies about whether substance X is a carcinogen, mutagen and/or reproductive effects agent.

First-aid medical treatment

Howard M. Sandler, M.D., is president of Sandler Occupational Medicine Associates in Gaithersburg, Md., which provides occupational health consultation and support services to the business, legal and insurance communities. Dr. Sandler previously was a medical officer with

National Institute for Occupational Safety & Health and helped write the federal "right-to-know" legislation.



While there undoubtedly will be a rise in workers compensation and toxic tort actions, for companies with genuine interest in workers safety and health, this will be an excellent time to either develop or audit a company's total safety and health program.

recommendations for acute exposures continue to change and regulatory proposals for exposure limits regarding chronic exposure to a substance often are educated guesses, which prompt legal intervention by both business and public interest groups.

However, even with all the talent they have on board, some chemical concerns have asked us to review their process just to see what type of job they are doing. If that's the case, how then do the medium and small businesses perform these tasks without sophisticated resources?

The implications are not much better for the commercial users of these products, which comprise 300,000 manufacturers or the entire workforce, depending upon how the courts and OSHA rule.

Training workers means letting them know, and in most instances, doing your best to make sure they know the dangers of the substances with which they work.

We already have seen a number of toxic tort and workers compensation actions brought as the direct result of implementing state right-to-know regulations.

Sometimes these actions are brought because most of the training companies formed in light of the regulation give just the "bones," no meat.

When the employee asks "What does this mean for me?" there is no one qualified in most workplaces or training companies to discuss relative risk, risk assessment and the many other medical and protection evaluations required.

In some geographic areas, we have seen any case of lung cancer produce a legal action. In one case, a 35-year cigarette smoker who worked in a food warehouse contracted squamous cell carcinoma, and he felt the "dust" in the air caused this condition.

These types of actions are to some

extent due to an increasing acceptance of "everything gives you cancer." Employee training is a good time to dispel these misconceptions.

As mentioned earlier, tort or criminal possibilities can result for the chemical user if:

- The material safety data sheet doesn't list a particular characteristic, such as reproductive effects, that the employer knows about the substance and fails to act on.

- Recommendations about personal protective equipment, such as respirators, are not followed.

The main goals of a good "right-to-know" program are:

- Employee/consumer safety and health.
- Regulatory compliance.
- Avoidance of liability.

To satisfy these goals, companies must develop solid "right-to-know" programs for both outgoing and incoming products.

A written program should be developed for chemical producers detailing:

- Purpose.
- Objectives.
- Policies and procedures.
- Staff.
- Information update for material data safety sheets and labels.
- Regulatory liaison.
- Periodic program audit and review.

The hazard determination aspect of the program must be comprehensive and complete, based on sound toxicologic criteria, performed by qualified individuals and implemented on a continuous basis.

For chemical users a written program is also a must. Documentation of MSDS, receipt of labels and employee training should be required. Chemical inventories must be kept current, and new employees must be trained in the hazards of substances in addition to the usual job

training items.

Most of these recommendations are or can be performed through loss-control engineering and/or health and safety functions, although hazard determination analysis does require special expertise.

Additional information resources, such as Occupational Health Services Inc. in Secaucus, N.J., which produces an on-line data base called HAZARDLINE, and the information services of various governmental agencies, such as the National Library of Medicine's computerized programs, can be extremely useful.

"Right-to-know" requirements are here to stay, whether one likes it or not.

While there undoubtedly will be a rise in workers compensation and toxic tort actions, for companies with genuine interest in workers safety and health, this will be an excellent time to either develop or audit a company's total safety and health program.

For, in reality, the concept of "right-to-know" is really total health and safety in disguise. It makes you:

- Determine what you make and use.
- Assess chemical dangers.
- Take engineering/protective equipment precautions.
- Monitor for hazardous exposures.
- Implement occupational medical programs.

- Analyze and report problems and make adjustments.

- Plan for emergencies.
- Safely dispose of wastes.

In the long-run, it really makes sense to inform corporate users and employees of potential dangers from products, working environments and waste products.

With the explosion in the flow of information these days, nothing stays hidden for long.

Anyone having dealt with the asbestos crisis knows about the potential problem in playing things too close to the vest.

Providing information gives people an opportunity to decide what risks they will or won't take. At the same time an informed workforce is apt to be more safety and health conscious—a benefit to everyone.

In the end with safe workplaces and informed workers, the courts should get a well-deserved rest.

Company quickly recovers from boiler blast

Continued from page 36

entering the smelt bed during start-up.

Another recommendation was instituting black liquor recovery boiler training and testing for operators within the plant.

In addition, some preventive measures were built into the Federal Paper plant before the boiler loss occurred.

When the boiler was installed, Arkwright-Boston encouraged Federal Paper to use state-of-the-art construction and protection, and this extra planning helped prevent further damage.

Although there were two or three people working around the boiler at the time it exploded, there were no injuries or, most importantly, no loss of life.

Arkwright-Boston also developed a maximum foreseeable loss study to help Federal Paper understand what portion of the plant's production depended on the one recovery boiler and what could be done if the boiler failed.

That study recommended that the old boilers—which

Although some claim this boiler explosion could have resulted in a much larger loss and put a serious drain on Federal Paper's business, it ended in a renewed emphasis on some risk management essentials.

were eventually put in use—should be retained and discussed options for storing the black liquor should there be a loss, though the company was fortunate it had extra land for storage and a place to rent while the ponds were under construction.

The multimillion-dollar explosion in the black liquor recovery boiler came at a time when both Federal Paper and Arkwright-Boston were focusing on the need for more attention to loss prevention. And, this large loss has caught the attention of Federal Paper management, and it has subsequently instituted a number of processes to promote the cause of reducing

losses.

One is a corporate statement that the senior management at Federal Paper will support the protection of its property and equipment from potential loss, and that any engineering recommendations presented by its property underwriter will be given priority attention.

Internally, the company also has placed more accountability on all managers—from the plant level up to the senior level—for minimizing or eliminating exposure to certain perils.

Although some claim this boiler explosion, the largest in North America in 10 years, could have resulted in a much larger loss and put a serious drain on Federal Paper's business, it ended in a renewed emphasis on some risk management essentials: state-of-the-art loss prevention engineering and cooperation in dealing with a disaster.

The Perspective section, which is a forum for readers' opinions, is compiled and edited by Copy Editor Alison Kittrell. She can be reached at 312-649-5262.

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Employee medical costs rise under new Western Union pact

benefit beat

Following a nationwide trend in collective bargaining agreements, the new contract between Western Union Telegraph Co. in Upper Saddle River, N.J., and the United Telegraph Workers requires workers and retirees to pay more for health care.

The two-year contract, ratified Sept. 3 and retroactive to Aug. 7, covers 6,500 active employees and 5,500 retired union members nationwide.

The new Comprehensive Medical Expense health care plan created by the contract will take effect Jan. 1, according to William Boyle, director of insurance programs for Western Union. The plan, called CME, requires employees to pay a \$200 per-person deductible, with a \$400 maximum on family coverage.

Employees also must pay 20% of expenses exceeding the deductible, up to an out-of-pocket maximum of \$1,000 for individual coverage and \$1,500 for family coverage. The lifetime maximum benefit is \$750,000.

In addition, employees will contribute toward the premium cost of the coverage according to the following schedule: \$2.97 a week for individual coverage, \$6.66 a week for coverage for an employee and

one dependent and \$9.32 a week for coverage for the employee and more than one dependent.

In addition, the deductibles, out-of-pocket maximums and amount of lifetime benefits will be adjusted to reflect changes in the Consumer Price Index, Mr. Boyle said.

Under the previous contract, workers had separate hospitalization and major medical plans. Workers received first-dollar hospitalization coverage for up to 120 days and 80% reimbursement for expenses incurred after 120 days.

The major medical plan required employees to pay a \$100 per-person deductible, with a maximum of \$300 for families, and 20% of expenses exceeding the deductible, with no out-of-pocket limit. The lifetime maximum health care benefit was \$250,000.

Employees' contribution to their own medical coverage was waived under the old contract. However, they did contribute \$34.14 a month toward the health care premium for dependents between the ages of 19 and 23.

Under the new contract, retirees have a choice of keeping the current medical plan or switching to the CME plan on Jan. 1, Mr. Boyle said. However, if they keep the current coverage, they must contribute more to its premium.

Under the previous contract, the company waived the contribution retirees would have paid for individual medical coverage. Retirees contributed \$35.08 a month for medical coverage for dependents who were eligible for Medicare and \$55.08 a month for dependents who were not.

Beginning Jan. 1, retirees who keep the current medical plan will pay \$17.72 a month for individual coverage if they are eligible for Medicare and \$39.36 if they are not.

However, if they switch to the CME plan, they will only pay \$3.69 a month if they are eligible for Medicare, and \$12.91 if they are not.

Retirees who require coverage for themselves and their spouse will pay \$61.21 a month for the current plan and \$10.26 for the CME plan, provided both the retiree and the spouse are eligible for Medicare.

If neither the retiree nor the spouse is eligible for Medicare, the cost of the current plan will be \$64.39 a month and the cost of CME will be \$28.95.

If the retiree is eligible for Medicare but his or her spouse is not, the cost will be \$42.75 a month for the current plan and \$19.73 for CME.

If the retiree is not eligible for Medicare but his or her spouse is, the cost is \$82.85 a month for the current plan and \$19.48 for the CME plan.

Under the new contract, health maintenance organizations will be made available to retirees. Under the previous contract, HMOs were offered only to active employees.

The new contract also calls for the establishment of a pre-certification program for all non-emergency hospital admissions and a second surgical opinion program that requires second opinions on about 24 common surgical procedures, including hysterectomies and knee surgeries.

If employees ignore the pre-certification or second surgical opinion programs, they must pay 60% of expenses exceeding their deductible, Mr. Boyle said.

The contract also asks employees to contribute to the premiums for

their dental insurance according to the following schedule: 23 cents a week for individual coverage, 54 cents a week for coverage for the employee and one dependent, and \$1.12 a week for coverage for the employee and more than one dependent.

Previously, no contribution was required, except for \$4.55 a month for each dependent aged 19 to 23.

The Telegraph Workers' medical and dental plans are insured by Metropolitan Life Insurance Co.

LTV pensions

A request by LTV Steel Co. in Chicago to defer payment of \$180 million into its pension fund has drawn protests from local steelworkers, although the international union has said the company's action is necessary to safeguard its financial health.

Earlier this summer, LTV asked the Internal Revenue Service to approve a 15-year deferral of the annual payment to the defined benefit pension plan, which was due this month, because of financial hardship.

In response to the request, the United Steel Workers Union locals 1033 and 1011 passed petitions to their 25,000 members protesting the request. The union intended to file the petitions with the IRS.

However, since that time, the international USW has said the deferral is necessary to preserve the financial viability of the company and has discouraged the locals from taking further action in protest of the deferral.

"We've decided, at least for the time being, not to take any opposition to it," said S. Howard Kline, in-house counsel for employee benefits for the USW.

"It's our belief that the company is suffering adverse financial conditions and it is not in the best interest of our members to oppose a deferral of the funding to the pension fund. It may hurt the company's continued viability and the collective bargaining process as well."

Although the locals plan to comply with the national USW's request, they still think the USW should protest the length of time the company wants the money deferred.

Maury Richards, president of the Local 1033, said that although the \$180 million is to be paid back with interest, a deferral will hurt the steelworkers in the long run because federal law precludes companies from improving pension benefits while deferred payments are outstanding.

"We've altered our position and said if a waiver is deemed necessary, we can at least alter the terms (length of time) of the waiver," Mr. Richards said.

"The company says it's faced with a short-term cash flow problem. If that's the case, why do they need a 15-year deferral? If it's short-term and we're going to help them out, it should be to agree to a one-

Continued on page 45

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benefit beat

Continued from page 40
year waiver.

"Start it at one year and see what happens. It can always be renegotiated," he said.

A spokesman for LTV said he wasn't aware of whether the company's financial problems were short- or long-term, but said the company made the request because "we can't make the payment at this time."

In addition, the pension plan also covers LTV's salaried workforce.

CBS retirement offer

About 2,000 employees of New York-based CBS Inc. will be able to take early retirement and receive additional benefits.

The offer was made earlier this month to 7,000 of the broadcasting company's 30,000 employees who are at least 55 years old and will have at least 10 years of service by Nov. 1, the date by which interested employees must accept the offer.

Employees who decide to accept the early retirement offer must retire by Nov. 29.

CBS Inc. pays its employees a pension that is based on a formula that takes into account their age, years of service and their average salary over the last five years of service.

Under the early retirement offer, employees will have five years added to their length of service and two years added to their age under the formula, a CBS spokeswoman said.

For example, if a 55-year-old employee with 20 years of service and an average salary over the last five years of \$40,000 retired, he or she

would receive a pension of about \$7,700 a year under the company's regular retirement plan.

Under the early retirement plan, that same employee would receive \$12,000 a year, according to the spokeswoman, because years of service would increase to 25 and the employee's age, for purposes of the formula, would be 57.

These enhanced benefits are payable for life.

Normally, employees who work at CBS can retire with full benefits at age 62.

According to the spokeswoman, the offer was made in an attempt to help the company reach its goal to reduce overhead expenses by \$20 million annually by the end of 1987.

The company does not have an estimate of how many employees will accept the early retirement offer, according to the company spokeswoman.

Deere forms HMO

Deere & Co. in Moline, Ill., is setting up its own health maintenance organization to provide employees with health care at reasonable costs.

A Deere spokesman said the HMO, which will be a subsidiary of Deere, will be called Heritage Health Plan.

The HMO should open sometime this fall and will have offices in Waterloo, Iowa, and other Midwest cities.

Although he declined to name the other cities in which the HMO will operate, he said nearly all of Deere's 35,000 employees will have access to the HMO.

Deere has offered HMOs to em-

ployees in selected locations since 1978, through both Cedar Valley Health Plan and the Quad City Health Plan, two physician-sponsored HMOs that Deere helped to establish, according to the spokesman.

The coverage for the 17,000 employees that participate in these HMOs will be switched to Heritage as soon as a convenient Heritage HMO is available, according to the spokesman.

Deere pays the full cost of coverage for employees enrolled in the HMOs it currently offers and will continue to pay the full cost for employees enrolled in the Heritage HMO, the spokesman said.

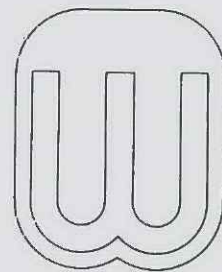
Deere also pays the full premium for employees who participate in the company's traditional fee-for-service health care plan, and the company will continue to offer employees this option, the spokesman added.

The self-insured fee-for-service plan, which offers first-dollar coverage, costs about \$70 a month for individual coverage and \$250 to \$280 a month for family coverage, the spokesman said.

Coverage for individual employees currently enrolled in the HMOs also costs about \$70 a month, but the HMOs offer enhanced coverage, such as wellness care, the spokesman said.

Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write Diane Lynn Kastiel, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5393.

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Consider funding alternatives to captives, expert suggests

By **ROBERT A. FINLAYSON**

SAN FRANCISCO—Risk managers should consider the many alternative funding approaches available from commercial property/casualty insurers before turning to a captive insurance company for coverage, an expert advises.

"A captive is not the 'be all, end all' solution," says C.L. Balkum, senior vp with Corroon & Black Corp.'s Advanced Risk Management Services Division.

"It is a method, but there are many other approaches that will work as well or better, but without the administrative expenses," he says.

Speaking to participants at the

fifth annual Self-Insurance Institute of America conference, held Sept. 9-12 in San Francisco, Mr. Balkum outlined several alternative risk-funding approaches, including retrospectively rated programs; increased self-insured retentions; risk purchasing and risk retention groups; and matching deductible plans.

"None of these things is new," Mr. Balkum said. "But in a tight market, both insurance buyers and brokers are really searching for any mechanism that will get the job done."

Mr. Balkum said that retrospectively rated plans are "still a very attractive option" for many commercial insurance buyers. Under such a

plan, the premium is based on the policyholder's actual loss experience.

Some retro plans provide substantial cash-flow benefits, specifically paid-loss retrospective plans, under which the insured retains a portion of the ultimate premium until losses are actually paid, he said.

A large self-insured retention under an excess insurance program is another risk-funding alternative, Mr. Balkum says, noting that increasing a retention lowers the cost of the excess coverage.

Smaller companies, which typically cannot afford to assume a large self-insured retention for property/casualty exposures and usually are not able to purchase retro plans for commercial insurers, can join risk purchasing and risk retention groups.

Mr. Balkum says he expects risk purchasing and risk retention groups to increase in popularity over the next few years among association and trade groups.

By forming a risk purchasing group, several companies can approach an insurance company en masse, thus giving them greater leverage in holding down premiums, he explained.

Such groups can also pool their risks and assume a larger deductible or retention than any of the individual members could afford, he adds.

Risk retention groups are also a viable—although somewhat limited—alternative for trade groups and associations, Mr. Balkum explains. Such groups, authorized under the federal Risk Retention Act of 1981, operate much like a captive insurance company, he says.

Currently such groups are authorized to write primarily product liability risks, but legislation under consideration by Congress would allow risk retention groups for environmental impairment liability risks.

And, Mr. Balkum adds, the Risk Retention Act also allows risk retention groups for product liability exposures to write some general liability coverage.

Matching deductible programs are a valuable risk-funding alternative for contractors that must obtain insurance coverage to meet bid qualification requirements, Mr. Balkum explains.

Under such programs, the policyholder agrees to a deductible that is equal to the limits of the policy written by the insurer, he said. Typically, the policyholder is required by the insurer to post a letter of credit with the insurer to guarantee that the policyholder will pay the deductible if a claim is made against the policy.

Although there is no transfer of risk under such a plan, the policyholder does receive a policy on the insurance company's paper, which often will satisfy insurance requirements imposed on contractors by governmental authorities, Mr. Balkum says.

Most government authorities that use contractors do not require the contractor to disclose the policy deductible, he adds.

A matching deductible program may be a viable risk-funding alternative for asbestos removal contractors, Mr. Balkum says. Such contractors, who typically work for government authorities that set minimum insurance requirements, have had great difficulties buying general liability and other types of coverage (BI, April 8; March 25). ■

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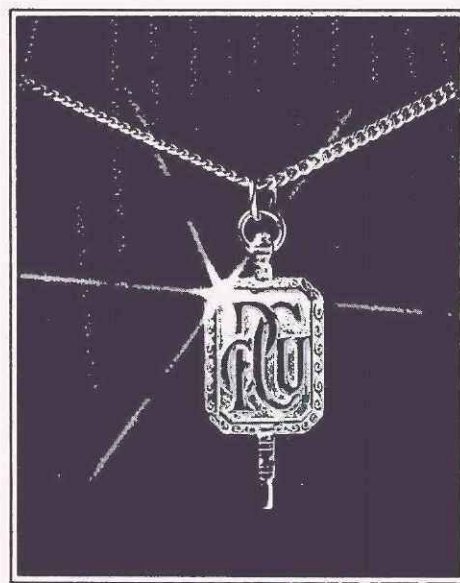
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Midsize firms urged to weigh self-insurance

By ROBERT A. FINLAYSON

SAN FRANCISCO—Many mid-sized companies that have the financial capacity to self-insure property/casualty risks should consider this option in light of the ever-tightening commercial insurance market, risk management consultants say.

"There is a lot of what I call 'latent self-insurance capacity' in the market," Mitchell J. Cole, a consultant with Tillinghast, Nelson & Warren Inc. in New York, told those attending the fifth annual Self-Insurance Institute of America conference.

Companies just below the Fortune 1,000 level that pay \$75,000 to \$100,000 in annual property/casualty insurance premiums have a variety of self-insurance options open to them, he explained.

Mr. Cole said he expects an increasing number of companies to shift their risks into self-insurance programs or group captives over the next few years, and other risk management experts speaking at the SIIA conference agreed.

For example, James B. Davis, chairman and chief executive officer of Corroon & Black's Advanced Risk Management Services Division in Nashville, Tenn., told a conference session that the current tight market is "ripe for self-insurance."

Mr. Davis pointed out that current estimates by the Insurance Services Office predict a severe capacity shortfall in the commercial property/casualty insurance market over the next few years (BI, Sept. 23).

The most optimistic estimates suggest that capacity and pricing will ease in the fourth quarter of 1987, he said, "while the consensus estimate is mid-1988."

And, Mr. Davis maintained that once a company starts a self-insurance program, "it does not come back" to the commercial insurance market.

For instance, Mr. Davis said that in nine years, he has worked with only one company that decided to phase out its self-insurance program.

Self-insurance programs can be very attractive to the mid-sized company, Tillinghast's Mr. Cole says, because they often save a company money, improve cash flow, allow greater control over claims and provide coverage in lines of insurance where capacity is limited and coverage is very restrictive.

He said that "latent self-insurance capacity" exists among mid-sized companies because they:

- Don't take large enough deductibles under commercial insurance policies.
- Fail to use the leverage they have in the insurance and reinsurance markets through trade or regional business associations.
- Don't recognize the savings that can result from the use of risk-control techniques.

He also says that self-insurance groups, including group captives, "will become increasingly popular" with mid-sized companies. He notes that "associations and regional business organizations are asking for more and more (captive) feasibility studies."

The risk management consultant predicted that as many as one-third of the U.S. property/casualty risks will be placed in captives by 1986.

In order for a group captive to be successful, according to Mr. Cole, several key conditions must exist, including:

- A long-term commitment on the part of the participants. Mr. Cole says a captive is not a "quick-fix" solution to the current tight market, but rather must be viewed

as a long-term program that will stabilize insurance capacity and cost for the participants.

- Prudent funding. Not only must the captive be properly capitalized, based on the number of participants and type of insurance written, but premiums charged by the captive must be commensurate with the risk, Mr. Cole explained.

- A commitment to reducing administrative expenses. Mr. Cole said commercial insurance companies typically operate with expense ratios in the 30% to 35% range. "A captive should be able to keep its expenses to about half of that," he said.

- A commitment to risk management. One of the most important factors in a successful group captive, according to Mr. Cole, is controlling losses. The captive's

participants must institute strong risk management programs to hold losses down, he said.

Further, he continued, the companies in the group captive must develop a way to deal with "recalcitrant members" that refuse to control losses.

If all these "pre-conditions" are in place, Mr. Cole explained, the group has a good chance of forming a successful captive.

Once the group captive is ready for operation, participants must make sure that policies will be underwritten properly, Mr. Cole said. This involves development of clear criteria for corporate participation in the captive, institution of consistent rating guidelines and development of terms and conditions that will be acceptable to reinsurers.

Even if reinsurance currently is not available for the type of risk or companies participating in the captive, Mr. Cole suggested that policy terms and conditions be devised so that if the reinsurance market loosens up, the conditions of the policies written by the captive will be acceptable to reinsurers.

"It's better to take care of this up front," he said, rather than trying to change the policy terms and conditions later.

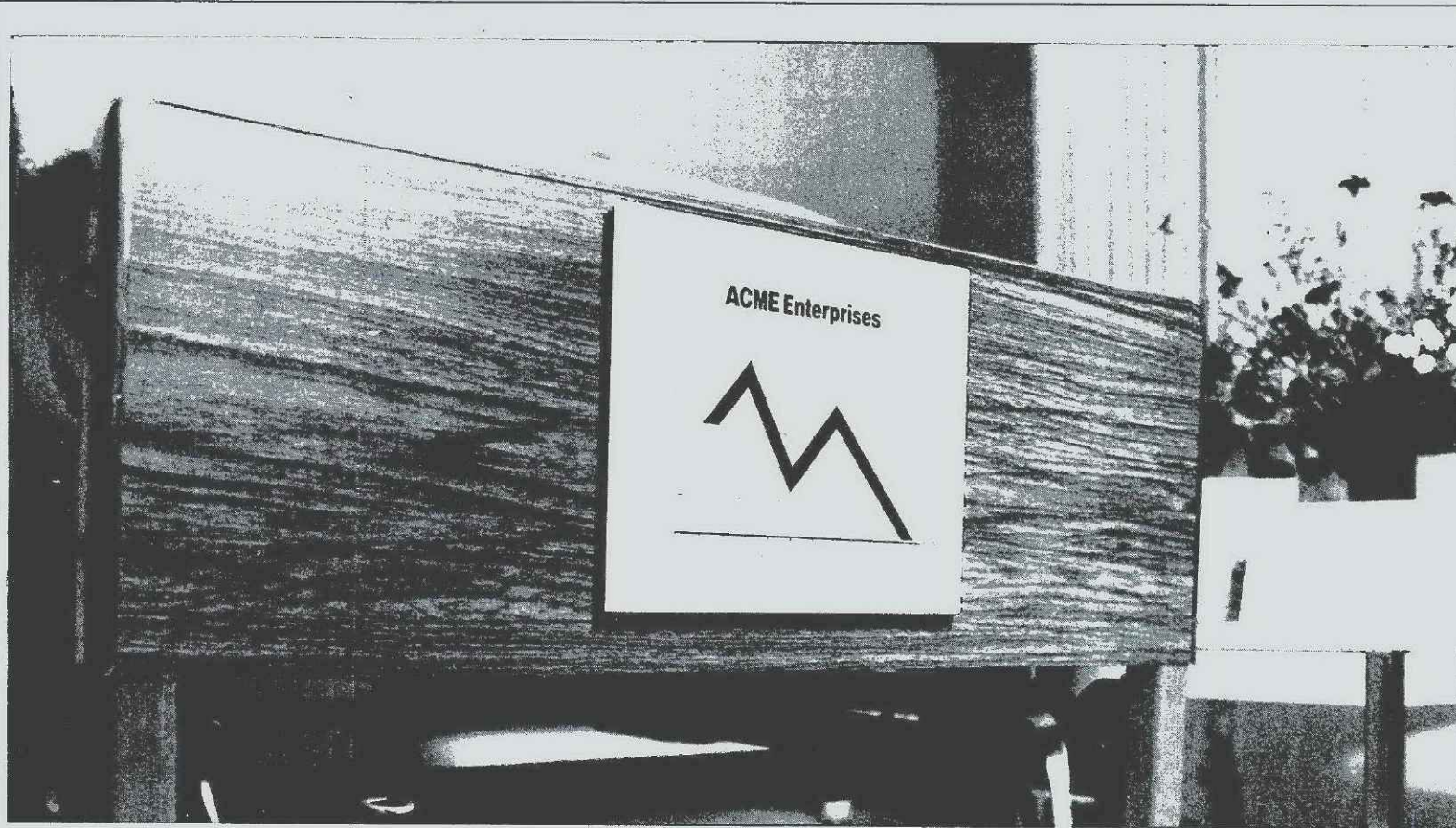
Gaining agreement on policy terms and conditions often proves to be the most difficult step in forming a group captive, Mr. Cole said, noting that one group he is working with on a captive to provide environmental impairment liability insurance has yet to agree on a policy form, even after 20 different drafts.

Finally, for companies that want to stay in the commercial insurance market, Corroon & Black's Mr. Davis offered those attending the SIIA conference some advice that he said will improve their chances of obtaining a favorable quote from an insurer.

He recommends that risk managers start planning for policy renewals early; set definite, achievable goals; and prepare a "professional" underwriting application.

The coverage application must contain enough information to "give the underwriter a feel for the risk" but not so much as to overwhelm the underwriter, he said.

Also, Mr. Davis noted, the risk manager must be prepared to back up the information in the application with supporting data if the underwriter requests it.



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Can an agent play a role in self-insurance?

By ROBERT A. FINLAYSON

SAN FRANCISCO—Can an independent agent serve the needs of a company that wants to self-insure its property/casualty exposures?

Probably not, says a risk manager who addressed the fifth annual Self-Insurance Institute of America conference, held Sept. 9-12 in San Francisco.

Yes, replied an independent agent who spoke to the same session at the SIIA conference.

Edward B. Godwin, vp and risk manager with US Rentals of Irvine, Calif., told attendees that he does not see a role for independent agents in the self-insurance arena because most agents do not have adequate contacts with insurers that write excess coverage and don't generate enough premium

volume to give them clout in the marketplace.

Furthermore, Mr. Godwin says, most independent agents lack the type of sophisticated data processing capacity that self-insured businesses need to evaluate claims and loss reserve data.

Most companies that self-insure their property/casualty exposures "look to medium to large brokers" to help them with their self-insurance programs, he said.

The independent agent, Mr. Godwin maintained, is perceived as "lacking the expertise to handle difficult risks" and as having access to only a limited number of markets.

And, he pointed out, changing that perception will be difficult.

Independent agents' ability to serve the self-insured market is

further hampered by the fact that most agents are not set up to work on a fee basis, according to Mr. Godwin, who points out that self-insured companies usually seek services on such a basis.

Mr. Godwin added that the number of companies that self-insure their property/casualty risks probably will grow substantially over the next few years, "and I'm not sure the independent agent can tap that market."

Independent agent Daniel J. Blum disagreed with Mr. Godwin's assessment, maintaining that independent agents can help self-insured clients find excess insurance and administer claims.

Mr. Blum, president of The Insurance House Inc. in Lafayette, La., and also president of the Louisiana Chapter of the Professional

Insurance Agents of America, said that independent agents with clients that are candidates for self-insurance will educate themselves about this risk-funding alternative to serve their customers' needs.



"There always has to be service," Mr. Blum said, "whether it's self-insurance or traditional insurance, and the client is going to get the best service from an independent agent."

Generally, however, Mr. Blum said that agents who are PIA members think most of their clients are better off sticking with commercial insurance for their property/casualty risks.

"The PIA's attitude about self-in-

surance is that it's not bad, but we think the traditional insurance market offers better solutions," he explained.

And, he added, the PIA believes companies that self-insure their risks should be required to meet the same financial tests and licensing requirements that insurance companies must meet.

If self-insured companies had to meet such requirements, the cost of self-insuring would more accurately reflect the risk-taking involved, Mr. Blum contends.

"My contention is that the pricing is there for a purpose," Mr. Blum said. "If an underwriter determines that a certain dollar is needed to assume a certain risk, I think that dollar is needed whether the risk is in the traditional market or is self-insured."

Independent agents, Mr. Blum explained, are concerned that if self-insured companies do not have to meet requirements similar to those for commercial insurers, it will be difficult for them to return to the commercial insurance market should they decide to do so.

"I've seen it happen over and over again," Mr. Blum explained. "If a company has been self-insured, then there is no credibility to loss information or anything else that happened to them while they were self-insured."

As a result, Mr. Blum says, commercial insurers are often unwilling to write the risks of former self-insurers.

But, Mr. Blum said after the SIIA conference that he is advising the PIA to develop seminars and educational programs to help independent agents cope with a marketplace in which self-insurance is fast becoming an attractive alternative for many companies.

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SIIA conference features exhibits

SAN FRANCISCO—Nearly 650 people explored alternatives to commercial insurance at the fifth annual Self-Insurance Institute of America conference, held Sept. 9-12.

This year the conference was divided into two sessions, with the first few days devoted to property/casualty issues, while the later part of the week focused on employee benefits.

Also featured were some 40 exhibitors ranging from software firms providing the latest developments in computerization of claims management for employee benefits to specialists in negotiating and arranging structured settlements.

At the conference, it was announced that W.B. (Ben) Davenport of Independent Benefit Plans Inc. in Beech Grove, Ind., will become president of the institute in 1986. Mr. Davenport, currently vp of SIIA, will succeed Lynn H. Jennings of Self Funding Administrators Inc. in Maitland, Fla.

Mr. Jennings will subsequently become chairman of the SIIA board, replacing George E. Gale III of Vested Benefits Inc. in Grand Rapids, Mich.

Next year's SIIA conference will be held Oct. 26-Nov. 1 in Denver.

For information about the SIIA, contact James A. Kinder, SIIA executive vp, at P.O. Box 15466, Santa Ana, Calif. 92705; 714-261-2553.

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SIIA plans to challenge state TPA regulations

By ROBERT A. FINLAYSON

SAN FRANCISCO—The Self-Insurance Institute of America plans to file suit in federal court in an attempt to overturn several state laws the group says restrict the ability of employers to self-insure employee benefit plans.

The SIIA contends that at least six states have passed or are considering legislation that indirectly places requirements on employers that unnecessarily duplicate requirements already spelled out in the federal Employee Retirement Income Security Act.

Actually, the new state laws regulate third-party administrators, but the SIIA says the practical effect of the laws is to "impair trade between the states in the benefit area," according to Lynn H. Jennings, who is president of the SIIA and also president of Self Funding Administrators Inc. of Maitland, Fla.

"We believe that the administrative statutes passed in several states are blatant in their disregard of

The SIIA also maintains that the insurance industry has backed several of the new administrative laws covering TPAs in an effort to drive up the cost of self-insuring employee benefits.

"In most of the major bills we have reviewed, we have seen evidence of influence from those members of the insurance industry who believe self-insurance has an 'unfair competitive advantage,'" maintains James W. Duff, chairman of the SIIA's legislative and regulatory committee and president of Creative Risk Management Corp., located in Mount Clemens, Mich.

"We cannot allow our industry to be regulated by special interests," he adds.

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'How many employers can afford to administer their own plans?' Mr. Kinder asks.

ERISA," Mr. Jennings says.

The SIIA's board of directors decided Sept. 12 to commit the group's financial resources to proceeding with the litigation, which will not be filed for several months, according to Mr. Jennings.

The institute is in the process of choosing legal counsel, says Mr. Jennings, who notes that the exact details of where and how the litigation will be filed have not yet been worked out.

Basically, the SIIA's members object to legislation passed or under consideration by Illinois, Michigan, Florida, South Carolina, Arizona and Louisiana that places a variety of licensing, bonding and insurance requirements on third-party administrators.

Such requirements, according to James A. Kinder, executive vp of SIIA, could make administration of a self-funded employee benefits program prohibitively expensive for small and medium-sized employers.

Mr. Kinder says the state requirements duplicate financial responsibility and licensing requirements already placed on employers by ERISA.

Thus, he says, placing additional requirements on companies that administer self-insured benefit plans forces employers to pay these costs twice or take the plan administration in-house, since most of the state administrative statutes exempt in-house administration from the requirements.

"How many employers can afford to budget for and administer their own plans?" Mr. Kinder asks, explaining that many small and midsized employers probably would switch to benefit plans purchased from commercial insurers if they were forced to pay more for plan administration.

Mr. Kinder says the SIIA does not oppose regulation of TPAs, but he says that regulation should be at the federal level so requirements are uniform in all 50 states. Having different requirements in every state would make it very expensive for TPAs to administer employee benefit plans on an interstate basis, he says.

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Reinsurance crunch real, experts agree

By LINDA J. COLLINS

HONOLULU—The reinsurance crisis is real and will continue to plague the insurance industry at least through 1986, a panel of insurance executives predicts.

As part of a discussion of "The Marketplace of Tomorrow" at the Independent Insurance Agents of America's annual convention earlier this month, a panel composed of an insurer, a reinsurance intermediary, an agent and a broker also predicted that:

- Facultative reinsurance capacity will decrease very rapidly during 1986.

- Underwriters at Lloyd's of London will insist on the use of the new claims-made policy by U.S. insurers seeking reinsurance.

- The insurance industry will remain cyclical in nature, although the swings of the cycle may moderate due to better data collection methods and the continued exodus of insurance companies and independent agents from the marketplace.

In addressing the current reinsurance crisis in the United States, James J. Meenaghan, president and chief executive officer of the reinsurance broker John F. Sullivan Co. in Seattle, said that reinsurers' underwriting losses have been more severe than those experienced by direct insurers over the past five or six years.



Mr. Meenaghan

"They've suffered worse underwriting ratios and they've suffered much bigger drops in surplus, or financial capacity, than have the domestic companies in the U.S.," Mr. Meenaghan explained. He added that the loss experience of reinsurers of U.S. casualty business, in particular, has been "absolutely disastrous."

The response of reinsurers to marketplace problems "has either been to withdraw, to severely limit what they do, to raise their prices to the primary companies (or) to restrict the forms of coverage" they offer, Mr. Meenaghan said.

Not only did reinsurers resort to these tactics in 1985, but they "are proposing to put them in effect again next January when the renewals of many of the major companies roll around," he said.

"That very dramatic correction in the reinsurance world translates into, necessarily, a much tougher attitude on the part of the primary companies who provide the products," Mr. Meenaghan predicted.

And, in order for this "natural correction process" to progress, Mr. Meenaghan said the reinsurance capacity crisis will continue for at least another year or two.

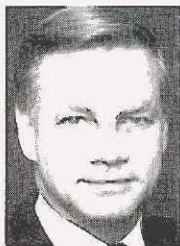
"I'm very confident we're going to see another big round of pricing increases, coverage restrictions, shortfalls in coverage... in other words, companies will not be able to buy all the coverage they want and that, in turn, will cause markets at the reinsurance level and at the primary level to continue to be tight," Mr. Meenaghan added.

Overseas insurance markets also are looking at U.S. business with a jaundiced eye.

"I don't think it's possible at this time to overstate just how negative the reinsurance world is to American casualty business, particularly toward anything that has heavy implications as respects tort liability," says Edward H. Budd, chairman and chief executive officer of The Travelers Insurance Co. in Hartford, Conn.

During a recent visit to Lloyd's

of London, lead underwriters' unanimous message was that members of Lloyd's syndicates have no interest in writing U.S. business because of the reinterpretation of insurance contracts and large awards made by U.S. courts, Mr. Budd said.



Mr. Budd

Facultative reinsurance, in particular, is disappearing very rapidly, he added.

"The feeling, particularly in the foreign markets that don't live day-to-day with our legal system, is that the American legal system is totally out of control as respects the way in which insurance contracts are interpreted," Mr. Budd explained.

"They feel they have absorbed the worst of that economically, and I think they have the facts and figures to prove it."

These factors are spurring for-

eign reinsurers to issue a cry for widespread use by U.S. insurers of the Insurance Services Office's controversial new commercial general liability claims-made policy, which is scheduled for introduction in January.

Mr. Meenaghan said that reinsurers, particularly at Lloyd's of London, are insisting on—rather than simply encouraging—the use of the claims-made form.

"I think that some of the major financial entities in the world... are shell-shocked by the proliferation

of claims they have received for asbestosis, and on and on," Mr. Meenaghan said.

"They're absolutely insisting on a change" to the claims-made form if they are to continue to provide reinsurance coverage to the U.S. marketplace."

The claims-made policy is needed in the industry, Mr. Budd said, because insurance companies have to somehow contain the overall limit on what they are insuring. He added that there also is a defi-

Continued on next page



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Continued from previous page
nite need for the inclusion of defense costs within the CGL policy limits as ISO has also proposed.

"With what has happened with the cost of litigation for certain classes of business, it's ridiculous to attempt to underwrite with a limit on the claim and no limit on the defense, because in many classes of business the defense is what the policyholder really is being protected for," Mr. Budd said.

The critical point, he said, is that insurers must put liability risks back on an insurable basis.

The new form should "enhance the predictability by compressing the time frame with respect to the analysis of data for the occurrence

of claims—not 40 years back and 40 years forward as we have in some lines of business, or even five or 10 years—and also by getting a cap on how much responsibility is really being lifted by the insurance contract," he pointed out.

Mr. Budd added that the whole claims-made form controversy "is being caused by the present liability system, where the concepts of liability keep expanding, and the awards keep expanding...with the result being that it makes it difficult, if not impossible to underwrite. Obviously, if we all work together to make some changes to the civil justice system, that is the right answer."

Agents and brokers, however, do

not see the claims-made form in the same light as insurers and reinsurers.



Mr. McCaffrey

To illustrate the potential problems that may arise with the claims-made policy, Mr. McCaffrey quipped: "First of all, I'm sure

For example, John F. McCaffrey, chairman and chief executive officer of Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y., described the claims-made form as "a loose cannon on a rolling deck."

every one of you in this room, just as I, has a clear understanding of what's going to happen Jan. 1 or July 7, or whenever these things start to come in, and that all the states will be lined up and will approve its use at the same time, so you won't have any problems with various state and regulatory bodies.

"The claims departments in every insurance company will be consistent in the way they view the claims-made situation, and the attorneys, of course, will be so terrified by the claims-made situation that they'll go somewhere else to make money," he joked.

After alluding to all of these potential discrepancies, Mr. McCaffrey said that while Frank B. Hall

does not view the claims-made policy as a realistic solution to the problems facing the insurance industry, it might be the only solution at the present time.

Therefore, the brokerage is engaging in a massive educational effort to inform its employees of the potential implications of the claims-made policy, he said.

Anticipating reductions in coverage with adoption of the claims-made form, large commercial insurance buyers may either retain more risk or use captives on a more widespread basis, Mr. McCaffrey said, "because they may not view claims made as much of insuring anyway, and they may have the funds and may be capable of retaining the risk."

Smaller commercial businesses, on the other hand, will probably turn to trade associations in search of a solution to their coverage problems, he predicted.

Mr. McCaffrey added that although most underwriters are reluctant to write liability risks at present, this situation will change with time.

Once insurers have a chance to bolster their funds sufficiently to recover from their soft-market "disaster mode," good underwriters will once again provide casualty markets for commercial lines clients with favorable loss records, Mr. McCaffrey said.

However, Mr. McCaffrey warned that those lines of business that have experienced poor loss records "will remain difficult" to insure, adding that insurers will "have to get through their treaty renewals in January" before the market shows any sign of improvement.

Another panelist, Richard G. Taylor, the new IIAA president and president of Grant-Hatch & Associates Inc., a Salt Lake City insurance agency, said that while insurance company underwriters on some lines of business have overreacted to rate hikes and reductions in capacity, he said he has more problems with "the lack of communication from the home offices down to their underwriting level."

Despite the huge losses sustained by insurers over the past several years, Travelers' Mr. Budd said he believes the insurance industry will continue to be a cyclical industry. However, certain changes that have occurred in the industry will affect the severity of future cycles.

One such factor is the disappearance, to a degree, of "naive capacity that came into the market" during the last few years, Mr. Budd said.

Many participants that entered the insurance industry weren't well-versed in insurance underwriting, he said, including various industrial concerns, financial institutions and brokerage firms. Subsequently, these new players spurred the fierce competition for business that drove down rates.

In addition, many companies found "that they did not have the currency of data to know where they were in terms of pricing their business," Mr. Budd noted. However, he expects insurers' data collection methods will improve during the hardening market and that this improvement will help even out the cycle.

The continued capacity crunch and unavailability of some lines of coverage could bring "a march on Washington to have the government provide it or to have pools established in the various states," noted panel moderator Joseph P. DeCaminada, president of the Society of Chartered Property & Casualty Underwriters and senior vp of The Atlantic Cos. in New York. ■



Mr. Taylor

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EIL market to deteriorate further: Agent

By LINDA J. COLLINS

HONOLULU—The already meager pollution liability insurance market will deteriorate further over the next three years, an agent predicts.

"Insurance companies, because of their financial condition, don't want to talk about pollution. They don't even want to think about it. They want to devote their energies to rebuild their capital structure to a point that they are secure for the future," said R.C. Riley, chairman and chief executive officer of Peel & Holland Inc., an agency in Benton, Ky.

However, in four to five years, after insurers learn to develop more sound underwriting techniques, "a viable pollution liability market will emerge," he says.

Mr. Riley, chairman of the Independent Insurance Agents of America's special task force on pollution liability, has worked with government officials and insurance industry executives to develop options or possible solutions to combat the pollution liability crisis. He spoke at the IIAA's annual conference earlier this month.

Mr. Riley said that although the U.S. Environmental Protection Agency requires hazardous-waste disposal firms to have liability coverage for sudden and gradual pollution accidents, many businesses



Mr. Riley

do not have coverage, especially for gradual pollution risks.

He noted that gradual pollution is excluded in current general liability policies and that very few markets currently write environmental impairment liability insurance, which primarily covers gradual pollution.

Insurers shied away from providing coverage for gradual pollution in the early 1970s, and in 1973 a gradual pollution exclusion was incorporated into the Insurance Services Office's comprehensive general liability policy, Mr. Riley explained.

The exclusion of gradual pollution was designed, he said, to give insurers more underwriting control because it was becoming increasingly difficult for insurers to calculate their policyholders' exposure

to gradual pollution losses.

However, Mr. Riley said, courts have stretched their interpretation of the phrase "sudden and accidental" to include many instances of gradual pollution.

"Court interpretations have destroyed the intentions of the 'sudden and accidental' wording of the policy and have substantially increased the exposure for certain classes of risks," he said.

In addition, the 1980 Superfund Act complicates the pollution coverage problems, Mr. Riley said.

That law, officially called the Comprehensive Environmental Response, Compensation and Liability Act of 1980, was passed by Congress to provide funds to clean up hazardous-waste sites.

However, Superfund has caused many insurers to flee the pollution

liability coverage marketplace, he said, because the act imposes strict joint and several liability against polluters—and therefore their insurers—on a retroactive basis.

"What that simply means is if an insurer has a client who has dumped his waste into a dump—even if considered state-of-the-art at the time—that is later termed a hazardous-waste site, the insured can be held jointly and severally liable with the very largest contributor to that hazardous-waste site," Mr. Riley said.

Superfund "takes away predictability," Mr. Riley continued. "In other words, the insurance carrier cannot quantify its risks. It takes away all the elements of underwriting."

Because of this uncertainty, he said, the underwriting of pollution liability coverage "threatens the solvency" of some insurers.

Mr. Riley maintained that Superfund is basically "an unfair piece of legislation, but the EPA said that it must have it... in order to enforce cleanup."

Coupled with broad court rulings, "Superfund is the really big bad animal that is causing the pollution (coverage) problems today," he said.

"I don't have any quarrel with an insurance company that says it can't provide pollution coverage under today's judicial environment," Mr. Riley said. "It can't be done."

"Reinsurers in this country, many of whom are in worse shape than primary carriers, simply are not putting their capacity behind pollution exposures," he added.

Because of these problems, ISO has designed its new commercial general liability forms to specifically exclude coverage for both sudden and gradual pollution stemming from the insured's premises and ongoing operations and for the cleanup of hazardous wastes.

The new CGL forms will provide pollution coverage to insureds for completed operations product liability risks, but from a premises and operations standpoint, pollution coverage is excluded, Mr. Riley said.

"ISO's commercial lines committee spent six months writing this one exclusion," he added, stressing how carefully the exclusion is worded.

Exclusion F(1) excludes bodily injury or property damage "arising out of the actual, alleged or threatened discharge, dispersal, release or escape of pollutants."

Exclusion F(2) excludes the loss, cost or expense of government action or request to "test for, monitor, clean up, remove, contain, treat, detoxify or neutralize pollutants."

If an insurer chooses to offer a policyholder pollution coverage through an endorsement to the CGL policies, the insurer can delete exclusion F(1), which would then give the insured premises and operations coverage, Mr. Riley explained. However, there is "no way to delete F(2)," the cleanup exclusion.

Another method that buyers can use to buy back pollution coverage from insurers—if the insurers agree to it—is to purchase an environmental impairment liability policy, Mr. Riley said, though he said he is skeptical that many insurers will offer insureds EIL policies or pollution endorsement to the CGL form in today's chaotic insurance environment.

"The extent and type of pollution coverage available to insureds will ultimately be a function of that insured's individual risk characteristics," he said.

Mr. Riley urged the agents attending the seminar to start at least

Continued on next page

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Continued from previous page
three to six months in advance when trying to place pollution liability coverage for their clients. He also stressed that all information requested by the insurer be completed and substantiated.

"It helps to engage the services of an environmental engineering firm to have them do a pollution assessment of a client.

"It will cost a client somewhere between \$3,000 and \$10,000, but without it, you will not get an environmental impairment liability policy," Mr. Riley warned.

Mr. Riley added that if problems were uncovered as a result of the assessment, the business would have an opportunity to "clean up its act."

Mr. Riley also identified the insurers that still provide environmental impairment liability coverage. They are:

- American International Group Inc. in New York. "AIG is the best-known carrier today in environmental impairment liability," Mr. Riley said.

AIG currently offers maximum limits of \$10 million per occurrence/\$10 million aggregate for a minimum premium of \$10,000, he explained. "But," he warned, "it takes four to six months to get a quote."

- The St. Paul Cos. Inc. through Swett & Crawford Group in Los Angeles. Mr. Riley said that St. Paul's capacity was reduced in July to a maximum of \$1 million per occurrence/\$1 million aggregate for a minimum premium of \$10,000.

- The Pollution Liability Insurance Assn. in Chicago. PLIA, a pool of 41 insurers, provides a maximum of \$6 million per occurrence/\$9 million aggregate for a minimum premium of \$250 to \$4,000, depending upon the class of business, Mr. Riley said.

For a business to be insured by PLIA, Mr. Riley added, it will most likely have to purchase its entire casualty package from the member insurer.

Although PLIA coverage "is not available on a monoline basis," he noted that the minimum premiums required by PLIA are much less than those charged by St. Paul or AIG.

He said that, in addition to these markets, other insurers, like Travelers Corp., "will write coverage on specific cases on larger accounts" if the buyer purchases other coverage from the insurer.

In addition, Mr. Riley said buyers in certain industries can purchase EIL coverage from several other markets:

- Businesses with service station risks can purchase pollution liability coverage through The Planning Corp., a managing general agency in Vienna, Va., which offers a national program underwritten by International Surplus Lines Insurance Co. in Chicago, a Crum & Forster unit.

Mr. Riley said that coverage through the program is "not inexpensive," but the carrier offers maximum limits of \$5 million per occurrence/\$9 million aggregate for both sudden and non-sudden pollution for gasoline stations and distributors.

- Sudden and non-sudden tank leak coverage for petroleum product distributors is available through Federated Mutual Insurance Co. of Owatonna, Minn. Mr. Riley said that this coverage is "very, very competitive. Apparently they have access to some reinsurance that nobody else has."

He added, "They believe that the pollution exposure for the petroleum industry is both quantifiable and insurable." Federated Mutual imposes strict risk management and loss-control procedures, but is offering up to \$1 million of primary coverage and up to \$5 million of umbrella coverage.

- Sudden and non-sudden tank leak coverage for petroleum prod-

uct distributors also is available through the National Petroleum Marketers Insurance Program. The program is managed by Underwriters Management Associates Inc. in Nashville, Tenn., and underwritten through Reliance Insurance Cos. in Philadelphia.

The program offers maximum limits of \$1 million, Mr. Riley said.

- Coverage for hazardous-waste transporters, treatment, storage and disposal operations can be purchased through Environmental Compliance Services Inc. of Downingtown, Pa. The program is underwritten by AIG.

"This program has changed on a monthly basis since last year on what they can and can't" write, Mr. Riley said, "but this is probably, for that type of operation, the only game in town."

"These are the markets known to me at this time," Mr. Riley commented. "I am sure there are some others, but there are very few others."

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update

MULTINATIONALS: BENEFITS AND RISK MANAGEMENT

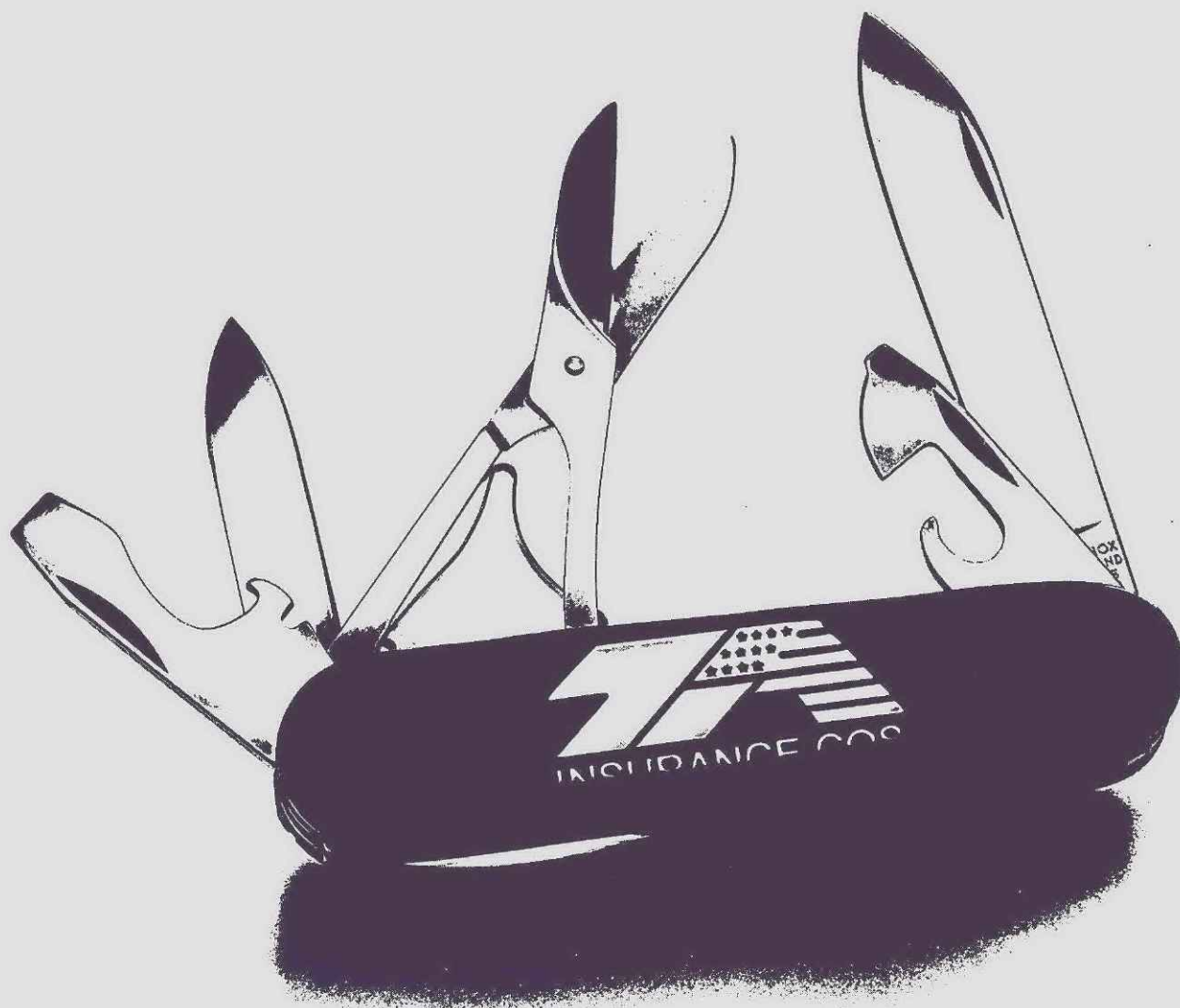
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Hospital network, two insurers team up

American Healthcare Systems, one of the nation's largest not-for-profit hospital networks, is teaming up with two health insurers to offer insured preferred provider organizations, health maintenance organizations and other health care-related products to employers.

Its partners in the venture are Transamerica Occidental Life Insurance Co. in Los Angeles and Provident Life & Accident Insurance Co. in Chattanooga, Tenn.

The companies estimate they will initially invest \$30 million to get

the operation rolling. They haven't yet determined how much each of the three parties will contribute.

AHS, which represents about 1,200 hospitals in 44 states, will control half of the venture through its newly formed subsidiary, American Healthcare Plans in San Diego. Occidental and Transamerica will each control 25%.

The companies hope to have some products in test markets, others available on a regional basis and some available nationwide by early 1986, according to Shawn

Raintree, AHP president.

"We believe the joint venture can secure a significant market share," Mr. Raintree said. "It is not unreasonable to expect \$2 billion to \$3 billion in insurance premiums over the next three to five years."

"We fully expect this enterprise to emerge as the largest integrated health care delivery system in the United States," said H. Carey Hanling, Provident's president and chief executive officer.

The project also includes the formation of an as-yet-unnamed reinsurer, owned by AHP, that will assume a portion of whatever Transamerica and Provident underwrite in the venture.

In addition to offering health care products, the companies also plan to offer employers related insurance products that Mr. Raintree dubs "collateral lines" like, for example, workers compensation, long-term disability and life insurance. Details on these projects have yet to be determined.

The venture is the latest example of hospitals and hospital management companies becoming more

markets

involved in health insurance underwriting (BI, July 22).

HMO certified

Blue Cross of Western New York in Buffalo has been granted certification by the New York Health Department to operate an HMO in western New York state.

The HMO, called Community Blue will serve Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans and Wyoming counties, the same counties served by its parent.

Community Blue will be an individual practice association, in which subscribers are allowed to select from among 700 private physicians that have enrolled in the Community Blue program.

Community Blue is located at 237 Main St., Buffalo, N.Y. 14240.

Crump expands

The Crump Cos. Inc. has expanded its Dallas branch office and created a new subsidiary through the acquisition of the Dallas-based

Ralph Hamm Agency.

Crump has transferred the property/casualty, life and employee benefits operations of the Hamm agency to its own agency, Crump Insurance Services Inc. in Dallas. Hamm's energy industry-related business is the basis of Crump Energy Risks, a new subsidiary that is located in the same building as CIS.

Crump Energy Risks provides property/casualty coverage and risk management services to energy-related companies like oilfield operators and oil exploration projects. Ralph Hamm Jr., formerly president of the Hamm agency, is president of the new company.

Crump Energy Risks is located at 12720 Hillcrest, Suite 812, Dallas, Texas 75230; 214-661-5050.

Licensed in Norway

New Hampshire Insurance Co., a unit of American International Group Inc. based in Manchester, N.H., is now licensed to underwrite insurance in Norway.

The company applied for the license through its Swedish office in 1982, and the Norwegian Parliament earlier this year enacted legislation to allow the company to op-

Continued on next page

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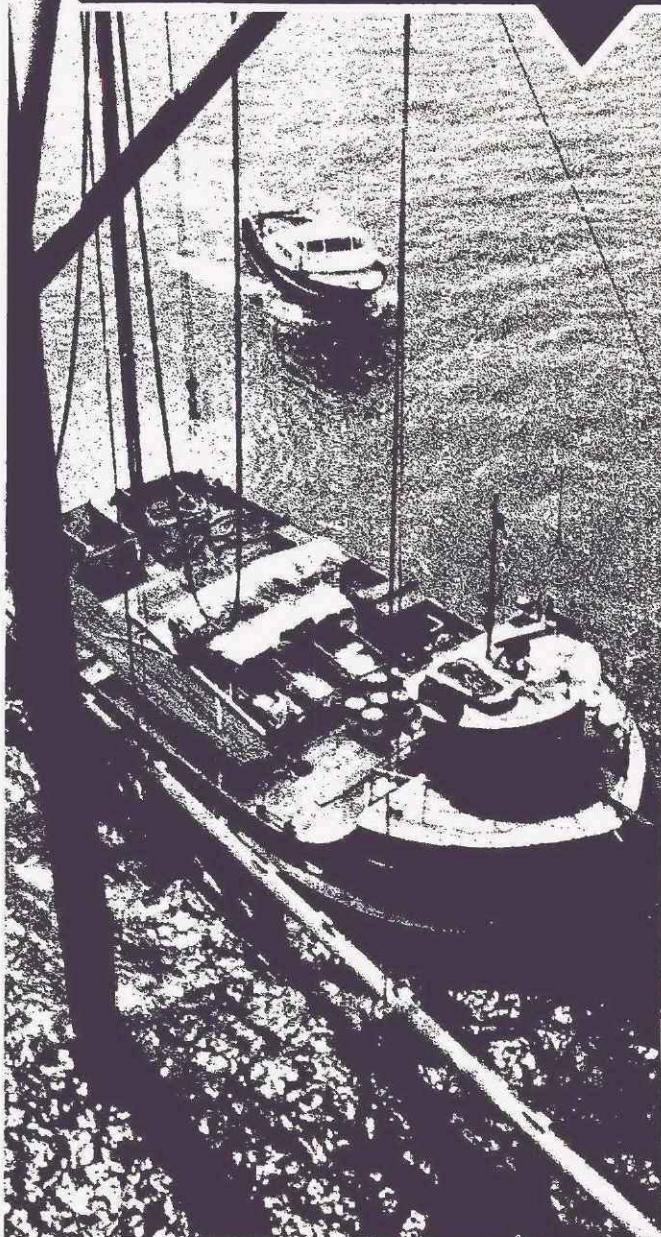


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Correspondents, Lloyd's London

Continued from previous page
erate in Norway.

Bengt Westergren, AIG regional senior vp for Scandinavia, said, "New Hampshire wanted to get into Norway because, with all its oil revenues, it is a fast-expanding country. We feel it offers a unique niche for our products and services."

A new office, which will be located in Oslo, is expected to begin writing business by the end of the year. An AIG spokesman said the insurer would write various commercial coverages, including oil and gas, ocean marine and mining risks.

Benefits department

Broker BCA Insurance has established an Employee Benefits Department at its Ardmore, Pa., headquarters. The department handles group and individual coverages including life, disability, retirement plans, dental, medical and key-man coverages, and specializes in group employee benefit packages.

BCA's address is P.O. Box 488, 44 W. Lancaster Av., Ardmore, Pa., 19003; 215-473-1500.

HMOs merge

Shareholders of Share Development Corp., a company that operates health maintenance organizations, have approved a merger with United HealthCare Corp., another HMO company.

The merger gives Minneapolis-based UHC a total of 31 prepaid health plans in 19 states. The plans have 609,000 members and 12,350 participating physicians, based on June 30 data.

"By joining these two companies, we have established a truly national health care network," said Richard R. Burke, UHC's chairman and chief executive officer.

Under the terms of the transaction, each outstanding common share of SDC stock will be exchanged for 3.7 shares of UHC stock. Each outstanding share of SDC preferred stock will be exchanged for 11.1 shares of UHC common stock.

Following the merger, Mr. Burke will continue in his posts, while Robert K. Ditmore, chairman of SDC, will become UHC's president and chief operating officer.

New name

Commercial insurance brokerage **Woodsmall, Frick & Innis Inc.** of Kansas City, Mo., has changed the company's name to **The Woodsmall Cos.**

Work comp costs up, survey shows

WASHINGTON—The average annual workers compensation benefit cost per covered employee nationwide rose 11.1% from 1981 to 1982, and rose 62.2% from 1978 to 1982, according to the Washington-based National Foundation for Unemployment Compensation & Workers' Compensation.

The average annual benefit cost was \$180 per covered employee in 1982, \$162 in 1981, \$145 in 1980, \$125 in 1979 and \$111 in 1978.

In 1982, West Virginia reported the highest annual average benefit cost per employee—\$399.

The lowest annual average benefit cost for 1982 was reported by Indiana, with an average of \$76.

Also, workers comp benefit costs represented an average of 1.09% of employers' total wages in 1982, up from 1.05% in 1981 and 0.92% in 1978, the study showed.

Workers comp costs represented the highest percentage of total wages in 1982 in Maine, where they were 2.46% of the total.

The smallest percentage in 1982—0.46% of total wages—was reported by Indiana.

Acquisitions

MONY Financial Services, a New York-based life insurer and provider of employee benefit and pension programs, has acquired **Evaluation Associates Inc.**, a Westport, Conn., investment counseling and publishing firm, for around \$10 million.

North American Insurance Agency, headquartered in Oklahoma City, has purchased the **Metro Agency** in Dallas.

Los Angeles-based insurance broker **Howard H. Wood Associates** has acquired brokerages **J.E. Wells & Co.** and **Far West General Agency**, both of Pasadena, Calif.

The insurance adjusting firms of **Cramer Johnson & Associates** and **Dick Wiggins & Associates** have merged to form **Cramer Johnson Wiggins & Associates**. The company is headquartered at 1009 Webster Ave., P.O. Box 7939, Orlando, Fla. 32854; 305-291-1721.

A partnership of seven insurance executives led by Walter Corcoran as managing partner has purchased **MacIntyre, Fay & Thayer Insurance Agency Inc.**, a privately held independent agency in Newton, Mass.

California insurance agencies **Mason-McDuffie Insurance** and **Trans-Pak Insurance** have merged. Under the terms of the merger, Trans-Pak will operate as a subsidiary of Mason-McDuffie and will move into its parent's home office in Pleasant Hill, Calif.

Financial Guardian Inc. has acquired the **James H. Leatzow Agency** of Oak Brook, Ill. Financial Guardian, based in Kansas City, Mo., is the nation's 16th-largest broker based on 1984 revenues.

Palmer & Cay Inc., a Savannah, Ga.-based insurance brokerage, has acquired the Georgia and Florida divisions of **Carswell Insurance Group**, another Savannah-based brokerage. In addition, Carswell announced it is negotiat-

ing to sell **Carswell of Carolina**, a group of South Carolina agencies, to three of the agencies' key employees: William C. Thomas, William C. Inblesby and Scott H. Richardson. Based on its 1984 revenues of \$6.9 million, Carswell Insurance Group was the 42nd-largest U.S. broker in *Business Insurance's* annual survey.

New offices

Towers, Perrin, Forster & Crosby has opened consulting offices in Cincinnati and Charlotte, N.C. The Charlotte office is located at 1910 Charlotte Plaza, Charlotte, N.C., 28244; 704-374-1330. The Cincinnati office is located at 1810 Columbia Plaza, 250 E. Fifth St., Cincinnati, Ohio 45202; 513-381-0111.

M.F. Bank & Co. Inc., an independent salvor and appraiser based in Minneapolis, has opened two new branch offices/warehouses in Maryland and Louisiana. The Maryland branch is located at 8019

Belair Road, Unit 17, Baltimore, Md. 21236; 301-665-3900. The Louisiana branch is at 6245 West Bank Expressway, Marrero, La. 70072; 504-348-9493.

Quinet Life & Casualty Corp. has moved to 9102 N. Meridian St., Indianapolis, Ind. 46260.

The law firm **LeBoeuf, Lamb, Leiby & MacRae** has opened offices at Gateway One, Gateway Center, Newark N.J. 07102; 201-643-8000. It has also opened an office at Metro Park III, 399 Thornall St., Edison, N.J. 08837; 201-494-2400.

The Philadelphia-area regional office of **Arkwright-Boston Manufacturers Mutual Insurance Co.** has moved to Great Valley Corporate Center, 311 Technology Drive, Malvern, Pa., 19355; 215-296-3100.

Am-Re Brokers Inc., a subsidiary of **American Re-Insurance Co.**, has opened a production division at 300 S. Riverside Plaza, Suite 2334 S., Chicago, Ill. 60606; 312-454-5585.

A leading insurance executive discusses safety and the company plane.

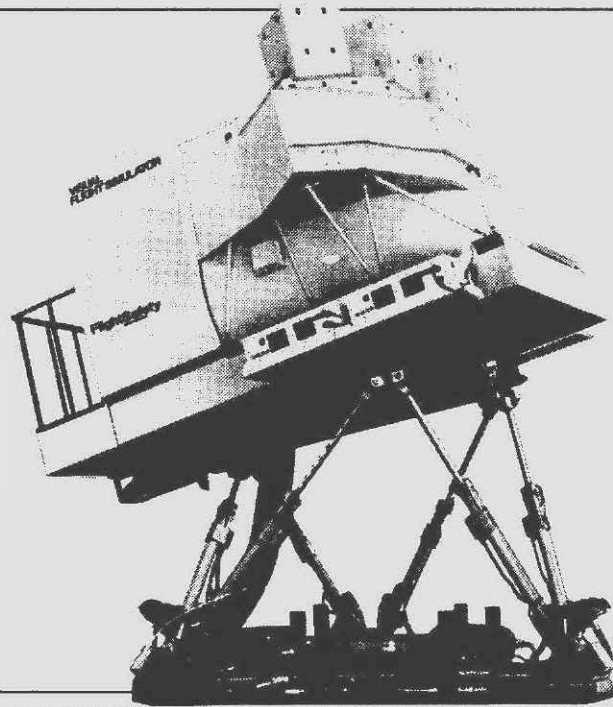
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OCT. 17. The Role of the Employee Benefit Manager as a Change Agent conference in Boston, sponsored by The New England Employee Benefits Council; \$35 for members; \$55 for non-members. The New England Employee Benefits Council, P.O. Box 2594, Boston, Mass. 02208; 617-423-6146.

OCT. 17. RIMS Midwest Regional Conference in Northbrook, Ill., sponsored by the Northeast Illinois Chapter, Risk & Insurance Management Society; \$75, attendance limited to members and prospective members. Dorothy Chmielowski, Tribune Co., Suite 2100, 435 N. Michigan Ave., Chicago, Ill. 60611.

OCT. 17-18. Financial Analysis for Risk Management Decisions seminar in St. Louis, sponsored by The College of Insurance; \$750. Registrar, The College of Insurance, 101 Murray St., New York, N.Y. 10007; 212-962-4111, ext. 303.

OCT. 17-18. Medical Malpractice for Attorneys, Physicians and Risk Managers national institute in Houston, sponsored by the American Bar Assn.'s Tort and Insurance Practice Section Committee on Law and Medicine and the American Society of Law & Medicine; \$325 for members; \$375 for non-members; \$50 for law students. American Bar Assn., National Institutes, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-

6200.

OCT. 18. The New Insurance Services Office Commercial General Liability Policy workshop in Philadelphia, sponsored by The Insurance Society of Philadelphia Inc.; \$90 for members; \$105 for non-members; special rates for three or more registrants from same group. The Insurance Society of Philadelphia Inc., 743 Public Ledger Building, Philadelphia, Pa. 19106; 215-627-5306.

OCT. 18-20. California Chapter of the National Assn. of Rehabilitation Professionals in the Private Sector Regional Conference in Palm Springs, Calif.; \$165 for members; \$175 for non-members. NARPPS, P.O. Box 708, Twin Peaks, Calif. 92391; 714-337-0746.

OCT. 20-25. Fundamentals of Employee Benefits Management course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; \$800. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

OCT. 21-23. Second International Seminar on Strategic Planning for Insurance in London, sponsored by The Geneva Assn. and City Financial, a division of Kluwer Publishing Ltd.; 454 pounds (\$635.95). Caroline Fletcher, City Financial, 7th Floor, Africa House, 64-78 Kingsway,

London WC2B 6BD; 011-441-831-6909.

OCT. 22. Data Workshop and NSDE Briefing in Boston, sponsored by the Health Research Institute; free. Also Nov. 5 in New York, Dec. 10 in Chicago. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

OCT. 22. Association Captives: Answer to the Insurance Crisis? conference in Washington, sponsored by the Risk Planning Group division of Tillinghast, Nelson & Warren; \$300. Micki Briskin, Risk Planning Group, 722 Post Road, Darien, Conn. 06820-4798; 203-655-9791.

OCT. 22-23. Improving Health Care Management in the Workplace conference in Scarsdale, N.Y., sponsored by The New York Business Group on Health; \$345 for members; \$395 for non-members. Work in America Institute Inc., 700 White Plains Road, Scarsdale, N.Y. 10583; 914-472-9600.

OCT. 23. Health Improvement/Prevention Workshop in Boston, sponsored by the Health Research Institute; \$195. Also Nov. 6 in New York, Dec. 11 in Chicago. Workshop Coordinator, Health Research Institute, 49 Quail Court Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

OCT. 23. Advanced "Post-Graduate" Cost Containment workshop in Boston, sponsored by the Health Research Institute; \$195. Also Nov. 6 in New York, Dec. 11 in Chicago. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-

2320.

OCT. 23. Hospital Trustee workshop in Boston, sponsored by the Health Research Institute; \$195. Also Nov. 6 in New York, Dec. 11 in Chicago. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

OCT. 23. Medical Directors workshop in Boston, sponsored by the Health Research Institute; \$195. Also Nov. 6 in New York, Dec. 11 in Chicago. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

OCT. 23. "Worker's Comp: A Review and a Look Ahead" conference in Rolling Meadows, Ill., sponsored by the Illinois Manufacturers' Assn.; \$75; \$63 for each additional registrant from same company. Holly Hays, Conference Coordinator, Illinois Manufacturers' Assn., 175 W. Jackson Blvd., Suite 1321, Chicago, Ill. 60604; 312-922-6575.

OCT. 23. "Substance Abuse in the Workplace: Intervention—Resolution" teleconference sponsored by Macmillan Healthcare Information Symposiums International in association with The Annenberg Center for Health Sciences and Betty Ford Center at Eisenhower; \$225; \$195 for two or more registrants from same organization. Viewing at designated hotels in Los Angeles; San Francisco; Denver; Chicago; Bloomington, Minn.; St. Louis; Dallas; Houston; Arlington, Va.; Atlanta; Boston; Detroit; Pennsauken, N.J.; Cherry Hill, N.J.; Saddle Brook, N.J.; Philadelphia; New York;

and Cleveland. Macmillan Healthcare Information, P.O. Box 35, Florham Park, N.J. 07932; 212-273-2157.

OCT. 23-25. Techniques of Finance and Accounting course in Minneapolis, sponsored by the Risk & Insurance Management Society's Continuing Education Program; \$445 for members; \$545 for non-members. Also Nov. 4-6 in Montreal. Fran Jordan, Administrator-Continuing Education Program, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 23-26. Worker's Compensation Issues seminar in Louisville, Ky., sponsored by the Kentucky Legislative Research Commission; \$150. Charlene Collins, Legislative Research Commission, State Capitol, Frankfort, Ky. 40601; 502-564-8100.

OCT. 24. Health Care Cost Management—An Organizational Approach seminar in New York, sponsored by The New York Business Group on Health; free. The New York Business Group on Health, 622 Third Ave., 34th Floor, New York, N.Y. 10017; 212-808-0550.

OCT. 24-25. Intergovernmental Pool Directors and Trustees seminar in San Francisco, sponsored by the Public Risk & Insurance Management Assn.; \$150. PRIMA Pooling Seminar, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

OCT. 24-25. Self-Funding Your Employee Benefits meeting in San Francisco, sponsored by American Management Assns.; \$620 for members; \$715 for non-members. Registrar, American Management Assns., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

OCT. 24-25. Labor/Management workshop in Boston, sponsored by the Health Research Institute; \$195. Also Nov. 7-8 in New York, Dec. 12-13 in Chicago. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

OCT. 24-25. Aviation Insurance Briefing 1985 conference in London, sponsored by Risk Research Group Ltd.; 276 pounds (\$386). Judith Hobday, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London, EC4V 4DD; 011-441-236-2175.

OCT. 24-26. 38th Annual Profit Sharing Conference in New Orleans, sponsored by the Profit Sharing Council of America; \$515 for members; \$545 for non-members; \$190 for non-delegates. Profit Sharing Council of America, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-3411.

OCT. 28. "Risk Management of PCBs in Electrical Systems" course in Seattle, sponsored by Electro-Test Inc.; \$95. Also Oct. 29 in Portland, Ore.; Nov. 1 in Sacramento, Calif.; Nov. 4 in San Francisco; Nov. 6 in Las Vegas, Nev.; Nov. 18 in Salt Lake City; Nov. 20 in Denver; Nov. 22 in Albuquerque, N.M.; Dec. 4 in San Diego; Dec. 5 in Newport Beach, Calif.; Dec. 6 in Los Angeles; Dec. 10 in Phoenix, Ariz. Electro-Test Learning Center, P.O. Box 159, 3470 Fostoria Way, San Ramon, Calif. 94583; 415-866-8566.

OCT. 28. Commercial General Liability program in New Orleans, sponsored by the International Risk Management Institute Inc.; \$235. Conference Coordinator, International Risk Management Institute Inc., 10300 N. Central Expressway, Building III, Suite 208, Dallas, Texas 75231; 214-363-9656.

OCT. 28-29. PPOs & HMOs: Caveat Emptor conference in Chicago, sponsored by Business Week and Washington Health Letters; \$650. Business Week Executive Programs, PPOs/HMOs, 1221 Avenue of the Americas, 33rd Floor, New York, N.Y. 10020; 212-512-3583.

OCT. 28-29. Conference on Political Risk in New York, sponsored by Frost & Sullivan Inc.; \$595; \$345 for additional registrants from same organization. Victor Hertz, Manager, Political Risk Services, Frost & Sullivan Inc., 106 Fulton St., New York, N.Y. 10025; 212-233-1080.

OCT. 28-30. "Keys to Profit"—Seventh Annual Meeting of the Premium Audit Advisory Service of American Insurance Services Group Inc. in New Orleans; \$150 for employees of subscribing companies; \$250 for others. William F. Hauswirth, CPCU, Manager-Premium Audit Advisory Service, 85 John St., New York, N.Y. 10038; 212-669-0528.

OCT. 28-31. Fifth Annual Construction Insurance conference in New Orleans, sponsored by the International Risk Management Institute Inc.; \$585. Conference Coordinator, International Risk Management Institute Inc., 10300 N. Central Expressway, Building III, Suite 208, Dallas, Texas 75231; 214-363-9656.

OCT. 28-31. National Safety Council Congress and Exposition conference in New Orleans, sponsored by the National Safety Council; \$125 for members; \$175 for non-members. Registrar, NSC, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

OCT. 28-NOV. 1. Developing and Managing a Basic Safety and Health Program course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; \$650. Tommy Thomas, NATLSCO, Route 22 and Kemper Drive, Long Grove, Ill. 60049; 312-540-2400, 800-323-9585.

OCT. 29. Basic Benefits program in Boston, sponsored by the New England Employee Benefits Council; \$175 for members; \$215 for non-members. Benefits Seminar Coordinator, New England Employee Benefits Council, P.O. Box 2594; Boston, Mass. 02208; 617-732-5788.

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business insurance

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business insurance

Congress considers OPIC reauthorization

By JERRY GEISEL

WASHINGTON—Congress is moving to reauthorize the underwriting authority of the Overseas Private Investment Corp., which expires this week.

OPIC, a federal agency that sells political risk insurance to U.S. companies investing in less-developed nations, writes coverages protecting companies' overseas investments against losses resulting from currency inconvertibility, expropriation and war and revolution.

Last week, the House of Representatives, on a voice vote, approved H.R. 3166, which would extend OPIC's underwriting authority through 1989. Full Senate action on a companion bill was expected late last week or this week.

The measure also would allow OPIC to provide coverage for business interruption losses. But, before OPIC could write business interruption coverage, it would have to file reports with the House and Senate Foreign Affairs committees that analyze anticipated losses and proposed rates and reserves.

In addition, OPIC would be prohibited from insuring any project that poses an unreasonable or major environmental, health or safety hazard, or that will result in the significant degradation of national parks in foreign countries.

Under current law, OPIC generally cannot provide coverage for investment projects in countries with a per-capita annual income of more than \$2,950. H.R. 3166 would increase that threshold to \$3,887.

Also, the bill would require OPIC to give preferential consideration to investment projects in countries with a per-capita income of less than \$896, up from the current per-capita threshold of \$680.

OSHA inspects plant

The Occupational Safety and Health Administration is conducting a "wall-to-wall inspection" of Union Carbide Corp.'s pesticide manufacturing plant in Institute, W.Va.

The inspection began Sept. 17 and will continue for several months, said Secretary of Labor William Brock. He added the inspections are being conducted to help prevent leaks and spills at the plant.

An Aug. 11 leak of aldicarb oxime gas at Union Carbide's Institute plant sickened 134 people (BI, Aug. 19).

Asbestos cases rise

The number of asbestos claims pending in federal courts is on the rise, according to the General Accounting Office.

As of Sept. 30, 1984, some 8,995 asbestos-related cases were pending in federal courts, up from 5,885 a year earlier, the GAO says in a report released this month.

Federal courts in fiscal 1984 spent a total of \$10.1 million processing asbestos-related cases.

The number of asbestos cases in which the federal government is named as a defendant also is increasing, the GAO reports.

As of Sept. 30, 1984, some 2,744 cases were pending in which the federal government was a defendant, up from 1,785 cases in 1983.

The Justice Department spent \$5.2 million in 1983 and \$5.9 million in 1984 defending the federal government in asbestos cases.

The number of cases involving the federal government is expected to increase substantially, the report says. It cites a Justice Department estimate that at the end of the 1987 fiscal year, some 11,603 asbestos-related cases will be pending against the federal government.

washington

401(k) contributions

Higher-income workers make larger salary deferrals to 401(k) salary reduction plans than contributions to Individual Retirement Accounts, according to the Employee Benefit Research Institute.

EBRI, a Washington-based benefits think tank, analyzed data collected by the Department of Health

and Human Services on participants in a 401(k) and an IRA.

EBRI found that workers earning between \$30,000 and \$49,999 contributed an average of \$2,363 to a 401(k) plan and \$1,732 to an IRA in 1983. Employees earning more than \$50,000 contributed an average of \$2,261 to a 401(k) plan and \$2,017 to an IRA.

But lower-paid employees con-

tribute more to IRAs than 401(k) plans, EBRI says. For example, workers earning less than \$20,000 made average 401(k) contributions of \$1,277 compared with an average IRA contribution of \$1,320, while those employees in the \$25,000 to \$29,999 range contributed \$1,537 to a 401(k) plan and \$1,775 to an IRA.

Meanwhile, EBRI says fewer than 50,000 people—compared with the 19 million people eligible to participate in a 401(k) plan—would be affected by an earlier Reagan administration proposal to offset

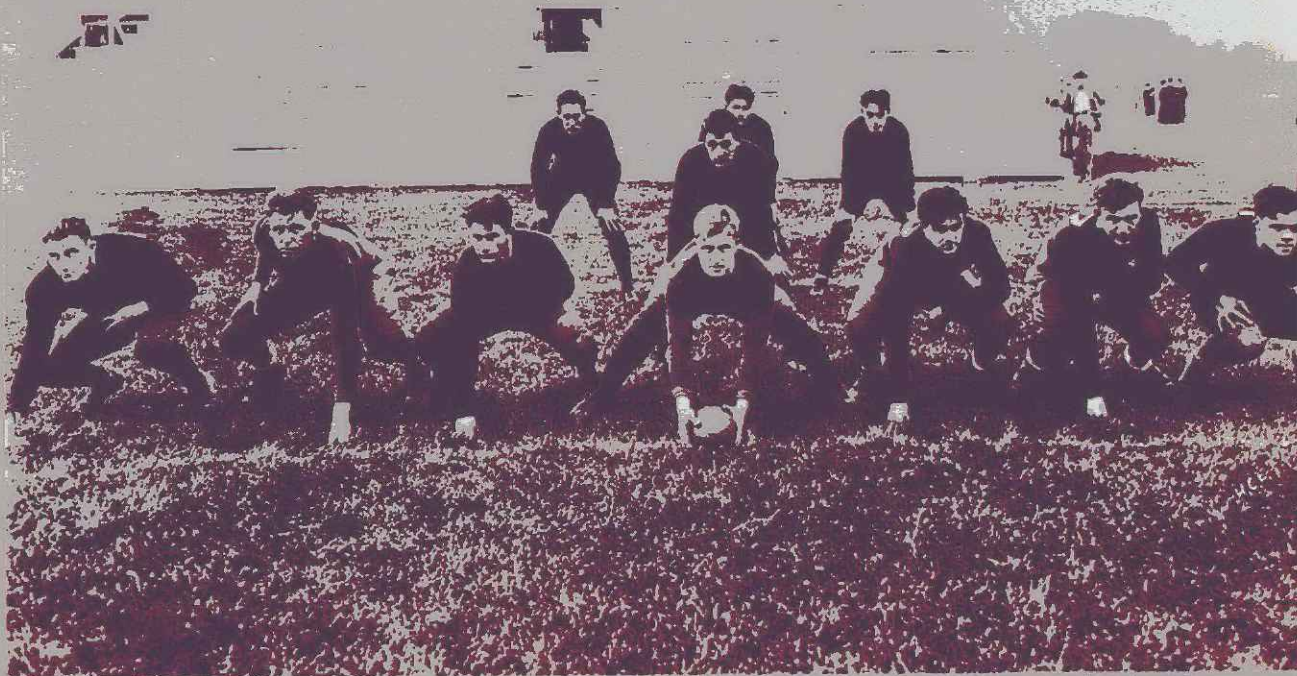
the amount that could be deferred to a 401(k) plan with the amount a worker contributed to an IRA.

Under that proposal, made in May, the maximum annual salary deferral to a 401(k) plan would be slashed to \$8,000 from the current \$30,000 limit and that \$8,000 maximum deferral would be further reduced by any funds an employee contributed to an IRA.

But, the administration earlier this month proposed the total elimination of 401(k) plans as part of its tax reform package (BI, Sept. 9). ■

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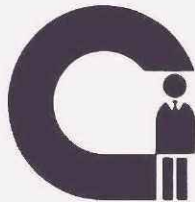
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Health benefit legislation

Continued from page 2

But, the House bill also does not require health care coverage to be extended to former employees.

In addition, the Ways and Means Committee measure would allow companies to charge dependents only 100% of the cost of coverage, while the Finance Committee bill allows companies to charge dependents 102% of the premium.

It's not yet clear how the differences between the two bills will be resolved.

However, experts say it is almost certain that the deficit reduction bill that Congress ultimately approves will contain a provision requiring employers to extend their health care programs.

"Nothing is going to stop these proposals," warns Eric Oxfeld, manager of health care and employee benefits for the U.S. Chamber of Commerce in Washington. "There is no (congressional) opposition to the proposals."

Companies will be surprised when they discover they will have to extend coverage to millions of people who now lack health care coverage, he said.

"The employer plan will become the health plan of the community," Mr. Oxfeld said.

Employers typically extend group health care coverage to spouses when an employee dies. But this coverage usually is extended for a much shorter period of time than proposed in either of the bills passed by the Senate or House panels.

For example, benefit consultant Hewitt Associates in Lincolnshire, Ill., found in 1982 that about two-thirds of 714 surveyed companies offered spouses and dependents group health care coverage after the employee died.

However, a majority of the employers extended coverage for a year or less.

Extension of health care coverage to former employees generally depends on why an employee left his or her job.

For example, coverage usually ceases almost immediately if an employee quits or is fired. But coverage may continue for at least several months if an employee is laid off, said John Hickey, a partner at benefit consultant Kwasha Lipton in Fort Lee, N.J.

In addition, some states require companies to extend health care coverage to spouses and dependents in the event of death or divorce.

For instance, a measure similar to the federal legislation was recently signed by Illinois Gov. James Thompson. That law requires employers to generally extend health care coverage to spouses and dependents for up to two years after a divorce or separation (BI, Sept. 23).

But, these state laws generally apply only to insured plans. The Ways and Means Committee and Finance Committee bills would cover self-funded and insured plans.

The extension of coverage proposed in the House and

'Nothing is going to stop these proposals. There is no (congressional) opposition to the proposals,' warns Eric Oxfeld of the U.S. Chamber of Commerce.

Senate measures "would be a very abrupt change for employers," said David Glueck, a vp with Towers, Perrin, Forster & Crosby in Chicago.

It also would be a very costly change for companies. First, companies would face the administrative burdens of tracking down spouses and former employees to notify them of benefit changes or premium costs.

In addition, companies would have to keep track of premium checks that would come in from spouses or former workers.

"You're talking about an administrative nightmare keeping track of these people who lack an employment connection with a company," said Mr. Glueck.

Experts also worry that a policy of extending coverage to spouses or former workers would result in adverse selection and, ultimately, would drive up the cost of the entire plan.

It is likely that those who opt for coverage will be spouses or former workers who are most likely to use the benefits.

For example, a young, divorced spouse in good health might reject a company's health care program and instead purchase a less-costly, less-generous individual policy, observers say.

But older divorced spouses with major medical problems and facing almost certain high health care bills would be more likely to choose the employer plan, they say.

As a result, the entire plan's experience would be soured and its costs or premiums would rise. And, because of such adverse selection, the amount paid by spouses or former employees who opt for the coverage would not cover their actual costs to the plan, experts say.

In other portions of the deficit reduction measures, the House Ways and Means Committee bill calls for raising the annual PBGC premium to \$8 per plan participant, while the Senate Finance Committee bill proposes an \$8.10 premium.

The current premium is \$2.60.

Both bills also would force employers to give older workers and their spouses, including those over age 70, the choice between enrolling in the corporate health plan to provide their primary coverage or using the federal Medicare program.

Currently, only workers and their spouses between 65 and 69 must be given the option of enrolling in the employer plan for primary coverage in lieu of Medicare.

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AIDS coverage

Continued from page 1

mann, consulting principal at A.S. Hansen Inc. in Deerfield, Ill.

"Hopefully, when you deal with major employers, we have the level of intelligence to recognize this as a serious, epidemic problem," says E.J. Myatt, president of the Employers Health Care Coalition of Los Angeles and benefit planning consultant at Atlantic Richfield Co. in Los Angeles.

Restricting the benefits available to AIDS patients for whatever reason would be "ludicrous" and "irrational," he says. "I'd caution anyone against that."

However, some suggest that employers may someday attempt to restrict health coverage for AIDS patients.

"They'll be searching for ways to alleviate their financial burden," predicts Rick Lee, vp-policy of the Washington Business Group on Health.

Jim McLaughlin, vp-employee benefits at broker Johnson & Higgins in New York, says many J&H benefit clients, alarmed at AIDS diagnoses among their employees, have sought the broker's advice on restricting coverage for AIDS.

But after serious discussion of medical and moral issues—during which the broker may ask, "Would you restrict lung cancer claims for someone who smokes?"—initial panic wanes and the employer decides to continue treating AIDS claims like those for any other disease, he says.

Mr. Lee adds that benefit managers may not attempt to deny coverage for AIDS claims because of "the law of numbers." Although the cases are concentrated in a handful of major metropolitan areas, they are scattered among various employers.

As of last week, the Centers for Disease Control in Atlanta reports 13,402 people are known to have developed AIDS in the United States, more than half of whom have died. And, the CDC projects that 12,000 additional AIDS cases will appear by July 1986.

"I don't know that enough people have grappled with the real implications yet," says Nancy Sullivan, group manager for employee bene-

fits at the California Chamber of Commerce.

But, employers in the cities with the highest incidence of AIDS—New York, San Francisco, Los Angeles, Miami and Newark, N.J.—are becoming familiar with AIDS treatment costs.

"If you went through a San Francisco phone book of major employers, you won't find a company that hasn't had to confront the AIDS issue," observes Kevin O'Grady, vp at the Health Data Institute in Newport Beach, Calif.

These employers are discovering that the cost of AIDS treatment can be reduced through the use of alternative health care procedures like home health care, hospice care and case management programs—even if these alternatives were not previously covered under the employer's health plan.

"Rather than putting the person in the hospital, they might approve coverage or extend coverage in another environment," says Iris Ma-

sotti, project director of the Midwest Business Group on Health in Chicago.

She explains that employers are more likely to "bend the benefit plan" to accommodate alternative forms of treatment for AIDS patients than to make specific plan design changes. In some cases, this means making arrangements ahead of time with the employer's insurers to approve this type of AIDS treatment.

One of the biggest draws to these types of programs is cost savings.

Use of home health care and hospice care can cut treatment costs by \$600 to \$800 daily, depending on the region of the country and the hospital being used, estimates Dr. Mervyn Silverman, former director of health for the city and county of San Francisco and now a private health care consultant.

"It's foolish to cover only the most expensive modalities," says Dr. Silverman. To ignore benefits outside the realm of the traditional

group health plan is "parochial," he says.

AIDS treatment costs can be reduced by 60% to 70% through the use of home health care rather than hospitalization, estimates Gail Gallagher, marketing director of Caremark/Home Health Care of America in Newport Beach, a provider of home health care services.

The company has cared for about 70 AIDS patients since it was founded more than two years ago, she says. Charges for care range from about \$2,000 a month for a patient requiring minimal intravenous fluids and only one type of medication, to about \$10,000 per month for a patient needing many types of medication, pain management, full nursing care and complete nutrition services.

Increased use of out-of-hospital services has made the cost of treating AIDS in the San Francisco area much lower than in other cities, many observers say.

From July 1983 to June 1984, for

example, the city and county of San Francisco spent only about \$266,000 on eight cases of AIDS among municipal employees, an average of about \$33,000 per patient, estimates Randall Smith, executive director of the municipal health service system.

In addition to monetary savings, there are several other advantages to treating AIDS victims outside of a hospital, including:

- Patient safety. Since AIDS patients suffer from depressed immune systems, they are vulnerable to contracting other viruses present in a hospital.

- Convenience. The hospital is not a practical setting for AIDS patients who may require frequent travel for experimental drug therapy.

- Patient comfort. Home health care removes the patient from an institutional setting and places him or her in a familiar environment.

"The last place a person with

Continued on next page

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AIDS hard to track, benefit managers say

Many employee benefit managers are having a hard time monitoring AIDS-related health care expenditures.

Some benefit managers, like Robert M. Zimmerman at Zenith Electronics Corp. in Glenview, Ill., choose not to be told if an employee has acquired immune deficiency syndrome and instead honor the employees' right to confidentiality about their health problems.

Others, like David L. Broadway, director of risk management at Carnation Co. in Los Angeles, say that even if they wanted to know of AIDS diagnoses, it would not be easy to find out. Because of the stigma still attached to AIDS, doctors occasionally honor the patient's request to mask an AIDS diagnosis.

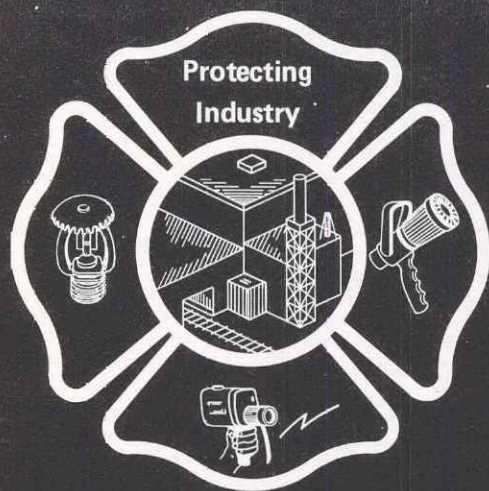
Mr. Broadway says this is similar to a situation in which, rather than diagnosing alcoholism, a doctor says a patient has a "liver ailment" or a "stomach disorder."

Others, like James P. McLaughlin, Johnson & Higgins vp in New York, note that the AIDS diagnosis sometimes is arrived at only after medical claims with numerous other diagnoses are submitted.

Mr. McLaughlin says he came across the file of an employee who had received at least 14 different diagnoses before it was determined he had AIDS. The man, who died shortly after that diagnosis, submitted more than \$100,000 in medical claims, Mr. McLaughlin says.

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AIDS coverage

Continued from previous page
 AIDS wants to be in a hospital situation," says David D. Watt, client services manager at The Equitable Life Assurance Society of the United States' case management division in Brea, Calif.

After urging from representatives of the AIDS Project Los Angeles and the San Francisco AIDS Foundation, Blue Cross of California now covers home health care and hospice care for AIDS patients under two group health products.

The Blues will cover hospice and home health care costs incurred by AIDS patients in their last six months of life, a spokesman explains.

He adds that, in a departure from Blue Cross policy, the coverage will apply to hospice facilities not already designated as preferred providers. This will give AIDS patients greater access to medical professionals familiar with AIDS cases.

Case management programs—in which health care professionals arrange an appropriate, lower-cost alternative to hospital treatment—are also being used in the care of AIDS patients.

"The more we get into some of the extremely high-cost areas, the more case management will be looked on as a possible solution," Ms. Masotti suggests.

Equitable's case management division was formed about 2½ years ago to handle serious injuries, like spinal cord injuries, and is now expanding to include treatment of both AIDS and cancer. Over the past six months, the division has managed the cases of about 12 AIDS patients, said Mr. Watt.

In many instances, the employer and health insurer agree to amend the group insurance contract to give case management professionals the authority to decide what form of care is best for certain illnesses or injuries. The professionals seek "interesting, imaginative approaches" to patient care, he says.

Besides making greater use of non-hospital care, benefit managers are considering screening employees for antibodies to the AIDS virus. People who test positive for the antibodies have a 10% to 20% chance of developing AIDS.

One benefit manager says his firm decided to enact a "fairly intensive" pre-employment screening process, including a test for

AIDS antibodies, after two male employees sharing company living quarters were both diagnosed with AIDS last year.

The benefit manager, who asked to remain anonymous, works at a diversified company with 5,000 employees, about 2,000 of whom are in California.

One of the two men had been employed only for about a month when he was diagnosed as having contracted AIDS last October. Both men also were waiters at a seasonal California resort.

Since employees are eligible to participate in the company's self-insured health plan from their first day on the job, and since coverage does not exclude pre-existing conditions, the employer paid the employee's medical bills—totaling less than \$5,000—until he died about two months later, the benefit manager said. In addition, the man's survivors received a \$5,000 group life insurance policy benefit.

The man's roommate was diagnosed as having AIDS shortly thereafter, and the company paid medical bills and LTD payments until he died about 10 days ago.

The short period of employment before the men were diagnosed was one of several factors that persuaded the company to initiate pre-employment screening, including a physical exam, a health history questionnaire and tests for drug use, hepatitis and the AIDS virus.

"We won't hire people who are sick, no matter what they have. We only hire healthy people," he says.

The company is contracting with outside physicians to evaluate all prospective employees in light of the particular functions that job would require of them. If the physician determines the person is not qualified to handle a certain job—because of AIDS or for any other reason—the person won't be hired.

The benefit manager takes pains to point out that the company is not discriminating against people with the AIDS antibody. He says the doctor administering the exam does not tell the employer if AIDS is the reason the applicant should be denied employment. And, if a person tests positive for AIDS, he or she still could be hired if the doctor judges the candidate is strong enough for the job.

However, a Florida employer was forced to give up its plans to test prospective workers for the

Continued on next page



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If acquired immune deficiency syndrome spurs any increases in group health insurance rates, the increases probably will be applied to particular policyholders rather than across the board, observers say.

For example, a business with 20,000 employees and one AIDS patient probably won't face a rate increase, but if a 500-employee company has five cases of AIDS, its rates may rise, explains James P. McLaughlin, vp-employee benefits at Johnson & Higgins in New York.

And, although some group health insurers are weighing their options, few have made any changes yet addressing AIDS.

"Given the amount of publicity and attention this has received, it's been remarkably quiet in regards to anything specific within our coverages," observes Charles W. Stewart, senior executive vp of Blue Shield of California.

Metropolitan Life Insurance Co. is treat-

ing AIDS group health claims as it would any other claims. "Business as usual" is how Dr. Neal Pickett, the insurer's medical director in New York, describes Metropolitan's position on AIDS.

He said he is unaware of any group health contracts excluding coverage for AIDS.

The Assn. of California Life Insurance Cos. is lobbying state legislators for permission to administer AIDS antibody blood tests under certain conditions during underwriting.

Legislation enacted last April makes test results confidential and prohibits use of the test "to determine insurability or employment."

If the antibodies are present, it means a person has been exposed to the AIDS virus; between 10% and 20% of these people probably will develop AIDS.

The ACLIC fears that an individual who suspects he or she is at risk of contracting AIDS will take the test confidentially, re-

ceive a positive result and "armed with that knowledge he can go to the insurer and the law...prohibits it from finding out what he knows," says President Lewis Keller.

Although the companies' chief concern is individual life insurance policies, he acknowledges that ultimately they could apply the same theory to group policies.

In Wisconsin, life insurers are seeking similar access to AIDS antibody test results by lobbying for an amendment to a rider on the state's budget bill that establishes a law similar to California's.

The presence of the AIDS antibody in a prospective life insurance policyholder is "a fact relating to his health which we feel we should know in order to underwrite," says George Hardy, legislative counsel for Northwestern Mutual Life Insurance Co. in Milwaukee, which writes personal lines life and disability insurance.

Lincoln National Life Insurance Co. in

Fort Wayne, Ind., says it has become more careful in its underwriting of individual life and health insurance policies.

The company is on the lookout for symptoms or experience that might indicate AIDS, says Donald C. Chambers, vp and chief medical director. And, in June the company stopped issuing personal health or life policies to hemophiliacs because of the risk they face of developing AIDS or AIDS-related illness, he says.

The American Council of Life Insurance earlier this month issued a report stating the insurance industry's belief that it should be able to administer medical tests for AIDS and use the results in underwriting.

"Insurance companies do seek to preserve the privilege of administering medical tests—including ones that detect antibodies to the AIDS virus—and using the results to such tests in the same way they use other medical information," the report says.

AIDS coverage

Continued from previous page
AIDS antibody.

In June, the city of Hollywood, Fla., solicited bids for a pre-employment screening program that was to include a test for the AIDS antibody.

The city considered the program for two reasons: to identify individuals who were likely to spread the disease and to protect the city's benefit plans from the "astronomical expenses" incurred by AIDS patients, explains Patrick Mason, the city's personnel representative.

But, the proposal elicited "an outrage" from the Centers for Disease Control, the Federal Drug Administration and the local homosexual community, which staged a protest rally, Mr. Mason said.

The city eventually surrendered its plans and initiated a pre-employment screening program July 1 that does not include the AIDS antibody test.

"It's not hard being the first to do something like this, but it was hard being the only one," Mr. Mason says. "But, never at any time were we looking to discriminate based on sexual preference. We were trying to discriminate just as we do based on multiple sclerosis or any other disease."

If one of the city's 14,000 employees is diagnosed as having AIDS today, he says, the person's medical care will be handled just as any other employee's.

Alternative forms of treatment and health screening aren't the only measures benefit managers are using to hold down AIDS treatment expenses. Many are attempting to educate both management and employees about the disease.

"You can't play ostrich with this—it has to be looked at," says Dr. Leon Warshaw, executive director of the New York Business Group on Health.

Concerned members of the employee coalition, which has more than 250 members, met last week to organize an "AIDS in the Workplace" seminar for employers, tentatively scheduled for Dec. 3.

The seminar will address such issues as the high cost of AIDS treatment, its impact on life and health insurance benefits, employee health screening, social responsibilities of the employer and ways that the employer best can deal with AIDS patients on the job.

The seminar is designed to bring information to employers in "a non-hysterical way," Dr. Warshaw says, suggesting that much of the AIDS information recently circulated by the media hasn't "percolated through" to corporate America.

The San Francisco Bay Area Employers Group on Health, a coalition of about 105 employers, devoted a recent monthly meeting to

Continued on next page

WAREHOUSE FIRES

Several Major Fire Losses of the Last Decade have involved warehouses, which were fully sprinklered and yet completely destroyed. In some cases, the sprinkler system was designed to minimum specifications. In others, the occupancy was changed to a more hazardous storage than originally anticipated. And in still others, temporary storage clogged aisles. A few of these conditions existed in two of the world's largest losses, which are reviewed here:

Automotive Supplies. Fire started in the temporary storage of plastic parts and spread to nearby cans of motor oil in cartons, which were palletized and stored in the aisles. Two employees attempted unsuccessfully to put out the fire with a hose stream from a nearby hose station within the building. A few minutes later, the plant fire brigade arrived and tried to fight the fire but was hampered by storage piled in the aisles. Although sprinklers were operating, the available water densities could not penetrate the intense fire plume generated by the burning plastics and oil. A total of 250 firemen fought the blaze, which continued to rage, overwhelming the sprinkler system and destroying about 18 acres of building. Estimated loss: \$145 million.

Retail Products. A carton of aerosol cans, containing carburetor and choke cleaner, was dislodged from its storage rack, fell to the floor, and split open. One or more cans discharged their contents which became ignited by a nearby electrically powered lift truck. Fire spread quickly over the 15-foot high palletized storage of aerosols, overpowering the existing sprinkler protection. Flaming, rocketing aerosol cans started fires in adjacent storage that included foamed plastic plates, plastic toys, additional aerosols and motor oil.

Within six minutes, the fire alarm had sounded, four sprinkler risers were flowing, the electric fire pump had started, and the fire department was on its way. In the meantime, the warehouse fire brigade entered the building but in less than two minutes was forced out by thick, black smoke. Within 20 minutes, flames broke through the roof and aerosol cans could be seen rocketing through the air. Some 300 firefighters got the blaze under control nine hours later. Estimated loss: \$125 million.

IRI Recently Concluded a Review of Its Major Warehouse Exposures, evaluating the adequacy of existing protection, specifying additional protection as necessary, and isolating exposures that are ticking "time bombs." Here are some of the "time bombs" most commonly encountered:

1. **Aerosol storage** is mixed with otherwise ordinary hazard storage.
2. **Hazard levels** have increased as the result of a change in commodities and their packaging.
3. **Storage height** is greater than planned by protection designers.

Specific suggestions for isolating aerosol storage are available from Mrs. P.A. Sasso, IRI, 85 Woodland Street, Hartford, Connecticut 06102 or telephone (203) 525-2601. Ask for a complimentary copy of **The Sentinel**, 2nd Quarter 1985, which features "The Hazards of Aerosols".

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Reducing AIDS treatment costs

Continued from previous page
a discussion of AIDS.

If the July 11 meeting is any indication, the city's benefit community is taking AIDS seriously.

Representatives of about 50 companies—a better-than-normal turnout—spent about 2½ hours—almost twice the length of a typical meeting—discussing ways they best could deal with AIDS, according to Allison Witzel, manager of benefits at Shaklee Corp. in San Francisco.

"It was incredible," says Ms. Witzel, who organized the meeting. The benefit managers attending the meeting responded with numerous and relevant questions for Dr. Silverman, who spoke at the gathering, she says.

Dr. Silverman encouraged benefit managers to seek out alternative care rather than make complicated plan design changes, Ms. Witzel recalls.

According to Ms. Witzel, the education program has helped remove "this plague mentality" from the workplace, and she suspects additional educational activity will flourish, spearheaded by benefit, personnel and/or corporate medical departments.

One employer that already is taking such a path is San Francisco-based BankAmerica Corp.

The banking giant, with about 61,000 U.S. employees, adopted guidelines in mid-1983 in which it treats AIDS like any other life-threatening illness, but now it is going further.

The company has formed a five-person group of personnel from its employee benefits, corporate health and personnel relations departments to take a pro-active approach to AIDS by stressing employee education.

"We want to make sure the most important information is out there," says Nancy L. Merritt, program manager-personnel relations.

Educational videotapes, brochures and pamphlets are available to division managers, and the company is taking steps to inform managers of the proper use of the company's benefit plan, including sick leave, in regard to AIDS patients.

In a recent issue of its in-house newsletter, BankAmerica discussed the disease "to squelch concerns about contagion" and assured its employees, about 40,000 of whom are in California, that all benefits would apply to AIDS patients, Ms. Merritt reports.

The Midwest Business Group on Health also is tackling the disease via education: The group's communication committee is preparing educational pieces about AIDS for member companies to place in their newsletters.

"The word has been going out in a soft, reassuring way, rather than a big announcement," Ms. Masotti says. "I think people can be very frightened by something that has gained as much attention as something like this."

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Work comp bill

Continued from page 2

the administrative and the adjudicative parts of the state workers compensation system, with a Department of Industrial Accidents. Under that department would be several newly created panels:

- The Division of Administration, which will handle not only the administrative duties of the department, but also initially process disputed workers comp claims.

- The Division of Dispute Resolution, which will be composed of 16 administrative law judges who will consider those cases that could not be resolved by the Division of Administration.

- A four-member Review Board to hear appeals of decisions made by the Division of Dispute Resolution.

The bill also proposes to increase benefits to injured workers. For instance, it calls for raising current benefits to all injured workers or their survivors to 1986 state average weekly wage levels. Currently, benefits are frozen at the level at which they were first awarded.

Benefits would also be increased annually to match increases in the state average weekly wage, though benefits could be increased by no more than 10% a year.

The new bill also creates an Office of Education and Vocational Rehabilitation to review cases and determine whether an injured worker should be referred for rehabilitation.

Incentives are built into the provision so that if either the worker or employer refuses to follow the rehabilitation plan, there would be a financial penalty.

The new bill also establishes a direct-pay system in which insurers must either begin payment of benefits or notify the injured worker of a decision not to do so within 14 days of receipt of a notice of injury.

Several provisions in the proposed bill also cap attorneys' fees or replace current fee structures with flat fees.

The bill also calls for a statute of limitations on the filing of claims. Under the measure, injured workers would have four years from the date of discovery of a disability to file a claim. Currently, there is no claims-filing deadline.

And the measure calls for the creation of a 10-member employer/employee advisory council

to evaluate, monitor and file legislative proposals concerning all aspects of workers compensation.

The new bill also includes provisions that would reverse state Supreme Judicial Court decisions.

One provision of the bill would prohibit the filing of claims by spouses or children of injured workers who seek benefits for loss of consortium, loss of companionship or loss of parental guidance.

Another provision would prohibit benefits for mental disabilities that are a result of layoffs, transfers or demotions.

Business, labor and the governor, which all drafted their own workers compensation reform measures earlier this year (BI, March 11), are supporting the new bill.

"There's a genuine compromise in this package," said Walter Muther, president of the Associated Industries of Massachusetts.

The Boston-based business association has some 3,000 employer members.

"The joint committee brought in some innovative people and there are some well-thought-out positions. . . . The ingredients in here represent substantial reform," he said.

Mr. Muther was referring to workers compensation experts John F. Burton Jr., professor of labor relations at Cornell University in Ithaca, N.Y., and John Lewis, a workers compensation trouble-shooter and non-practicing attorney in Coconut Grove, Fla.

The measure is expected to cost employers between \$50 million and \$70 million for increased benefits and some \$7 million for the administrative changes, said State Rep. Kenneth M. Lemanski, D-Chicopee, who co-chaired the joint committee with Sen. Robert D. Wetmore, D-Barre.

Initially, the new administrative system is expected to be funded with seed money from the state's general revenue.

This money is expected to be reimbursed at a later date from employer assessments, which will be based on payroll and loss experience, Rep. Lemanski said.

Although the bill has strong support from several parties, capital observers expect plaintiffs' attorneys to oppose the measure as it winds its way through the Legislature, though the Massachusetts Bar Assn. says it only will propose technical refinements to the bill.

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A Request for Proposal ("RFP") is now being prepared. Marsh & McLennan, Inc., 1221 6th Avenue, New York, New York, ("MMI") has been retained by Special Master Kenneth R. Feinberg to assist in preparation of the RFP and in evaluation of the claims administration proposals. (MMI and its affiliates will not bid on any contract.) An Advisory Group of five Vietnam veterans has been appointed to advise the Court regarding implementation of the Payment Program.

The RFP will be distributed on or about October 15, 1985. Firms wishing to receive the RFP should send a short letter expressing their interest, summarizing their qualifications and experience, and indicating whether they may be interested in providing claims administration services, investment management services, or both. Letters should be received by the undersigned no later than October 15, 1985.

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Subcommittee hearing

Continued from page 2
market tactics, Mr. Hunter said Congress should consider whether it is time to repeal the McCarran-Ferguson Act, the 1945 law that leaves regulation of the insurance industry largely to individual states.

Insurers, though, defended their pricing practices before the subcommittee, noting the civil justice system is the cause of rising rates and capacity shortfalls.

"Insurers are exhibiting neither panic nor hysteria by taking a conservative stance on writing certain lines of commercial liability coverage," said a statement by the American Insurance Assn. filed with the subcommittee.

"Rather, they are being prudent in the face of unprecedented losses and a rapidly changing operating environment."

The root of current coverage problems is a rapidly changing legal system that has expanded insurers' liabilities, the AIA said.

"Recent court decisions have created new and unpredictable liabilities for property/casualty insurers," the AIA said. "Some decisions have gone so far as to rewrite policy terms and create coverage which insurers never intended to provide and for which no premiums were ever collected."

Frank Nutter, president of the Alliance of

'Recent court decisions have created new and unpredictable liabilities for property/casualty insurers,' the AIA statement says.

American Insurers, cited several reasons for rising commercial property/casualty rates, including court adoption of the theory of strict liability, higher transactional costs to settle cases and a "societal expectation of entitlement for monetary recovery for every 'wrong,' no matter how inconsequential."

Court decisions that have changed policy terms have had a dramatic effect on the ability of reinsurers to provide coverage, added Andre Maisonnier, president of the Reinsurance Assn. of America.

"Insurance policies and reinsurance contracts written in the 1950s and 1960s for relatively low premiums are now responding to court decisions or retroactive legislation to claims which were never anticipated under the contracts. The resulting impact on reinsurance has been traumatic," said Mr. Maisonnier.

The subcommittee hearing, held Sept. 19, was the first congressional hearing on general property/casualty insurance problems since the market tightened last year. Earlier congressional hearings focused on specific lines, like day-care center liability coverage.

Observers believe it is likely that more congressional hearings will follow this month's session, but they doubt if congressional action on any legislative recommendations—such as federal reinsurance programs for certain hard-to-find coverages—is likely any time soon.

"I don't anticipate any legislation to directly intervene in the insurance markets," said Michael Mullen, a former Senate Commerce Committee staff member and now an attorney with the Washington law firm of Crowell & Moring. "I don't think there is a consensus (in Congress) that any legislative action is needed."

However, the subcommittee hearing did give employers an opportunity to illustrate just how much insurance costs have increased in the last year.

Mr. Pressman, the comptroller for Baltimore, said the premium on the municipality's master property insurance policy jumped to \$1.7 million this year from \$315,714 in 1984.

This rate increase came despite good loss history, he said. Between 1967 and 1984, the

city paid \$6.3 million in premiums to its property insurers. During the same period, insurers paid out a total of \$506,000 in claims for an underwriting profit of \$5.8 million, he said.

The city did suffer a fire earlier this year that will result in a claim of approximately \$3.3 million, he said.

"Apparently, the insurance company wishes to disregard the 18-year record of negligible losses and to concentrate on the 1985 fire," Mr. Pressman complained.

The 2,500-American College of Nurse-Midwives told the subcommittee that its insurer—Mutual Fire, Marine & Inland Insurance Co. of Philadelphia—wouldn't renew a master malpractice policy covering nurse-midwives despite few claims filed against members.

The trade group's policy was not renewed because of general conditions in the insurance industry and not because of nurse-midwives' professional performance, said Kate McHugh, chairwoman of the college's Pennsylvania Chapter.

Suits have been filed against only 6% of all nurse-midwives, a number not considered high in the medical field, she said.

Ms. McHugh said that 17 insurers the college contacted since its policy was not renewed declined to provide coverage.

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Administrative:

CEO's presidents and owners... 2,531
Vice-presidents, general managers
and other administrative personnel... 2,547

Financial:

Chief financial officers and vice-presidents of finance... 2,075
Secretaries, treasurers, controllers
and other financial personnel... 6,886

Risk/employee benefits:

Vice-presidents, directors, managers,
and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations... 8,048

Sub-total

22,087
Associations... 804
Government, unions and educational systems... 1,030

Commercial Consumers

Sub-total

23,921
Insurance agents and brokers 9,543
Insurance companies... 6,089
Financial institutions... 536
Actuaries, attorneys, adjusters, appraisers and consultants... 3,464
Others allied to the field... 1,320

TOTAL

44,878

* Source: Business/Occupational breakdown of qualified circulation, May 6, 1985 issue, as submitted to BPA for June 1985. BPA Publisher's Statement.

update

John Cox to head ACE

Continued from page 2

He said that 18 major U.S. corporations have agreed to contribute to ACE's \$200 million authorized capital and that another four to five companies are expected to contribute before ACE starts writing business.

ACE, whose Bermuda licenses cover the operation of a holding company and an insurance company, is expected to release the names of its shareholders soon.

Iowa National Mutual seized

CEDAR RAPIDS, Iowa—The Iowa insurance commissioner cited poor management as the main reason Iowa National Mutual Insurance Co. in Cedar Rapids was placed in rehabilitation Sept. 19.

The 76-year-old insurer writes various property/casualty lines, including auto liability, workers compensation, commercial multi-peril and homeowners insurance.

The insurer, which reported net written premiums of \$129 million in 1984, is licensed in 35 states and active in 15, according to A.M. Best Co.

The Iowa department, which halted claims payments when the insurer was placed in rehabilitation, is looking for a buyer for part or all of the company. Three insurers already have looked at the company but declined to buy it, said Insurance Commissioner Bruce Foudree. If Iowa National Mutual isn't sold within the next few days, it will be placed in liquidation, he said.

"There isn't much you can do when management charts a course of destruction for the company," Mr. Foudree said, noting the insurer has a deficit of between \$40 million and \$60 million.

But Richard H. Durham, who resigned Sept. 9 as the insurer's president, said the company was a victim of the 5-year-old rate war in the insurance industry.

"We beat the industry averages right up through 1983," he said, adding that the "tremendous claims frequency" of the past few quarters put the company on shaky financial ground. The insurer reported a combined ratio of 116.7% in 1984, up from 108.2% in 1983.

Iowa National Mutual's Best's rating was reduced this year to B from A-plus. When the company was placed in rehabilitation, the Best rating was changed to "Omitted."

"We were watching them since Jan. 1 because of a significant drop in surplus," Mr. Foudree said. Policyholder surplus at year-end 1984 totaled \$43.1 million, compared with \$54.2 million at the end of 1983.

"The implications of this (nationwide)... is that triannual audits are not catching these companies. That's why state insurance regulators have to look more closely at automatic data collection," said Mr. Foudree, who also is president of the National Assn. of Insurance Commissioners.

He cited four specific reasons why Iowa National Mutual wound up in financial trouble:

- Bad underwriting practices. "They simply oversold in commercial lines," Mr. Foudree said, noting that written premium volume for the first eight months of this year is \$180 million.
- Underpricing. "Their rating formula was flawed," he said.
- High expenses, with an expense ratio of 41.7% in 1984.
- Underreserving. Mr. Foudree said the insurer is \$34 million to \$50 million underreserved.

Hughes lawsuit

Continued from page 1

alternatives to the plan proposed by Hughes, the aerospace company charges.

Hughes' lawsuit charges Lexington with breaching the insurance contract, breaching its duties of good faith and fair dealing and breaching its fiduciary and statutory duties.

Hughes filed a proof of total loss with Lexington on April 20 and first presented information about the salvage plan on May 8, according to the suit. However, Lexington denied the claim May 14.

The suit charges that Lexington wrongfully failed to pay the claim and that it failed to:

- Conduct a proper investigation of the loss.
- Make a good-faith effort to settle the claim "when liability had become reasonably clear."
- Provide a reasonable explanation for rejecting the claim.
- Assist Hughes in developing and implementing a salvage plan.

Hughes also charges that Lexington violated a section of the California Insurance Code by—among other things—misrepresenting the provisions of the policy.

Lexington's position, according to Mr. Tily, was that Leasat 3 was not a total loss, which is defined in the policy as occurring when "the satellite is not accepted by the United States Navy for service, due to physical loss or damage to the satellite or failure of the satellite to achieve successful orbit."

The policy also defined partial loss as "any loss arising from physical loss of or damage to the satellite during the currency of the policy or failure of the satellite to achieve successful orbit which is not a total loss under this policy."

Gerald Frick, an M&M managing director in New York, said there was a "great debate" between Hughes and insurers—including insurers other than Lexington—about whether Leasat 3 was a total loss.

Underwriters said the satellite could not be declared a total loss

until an attempt had been made to rescue it, Mr. Frick said.

Hughes argued that the satellite became a total loss after an unsuccessful April 17 attempt by shuttle astronauts to activate the defective upper-stage rocket. This attempt was made by the same astronauts who first deployed the satellite on April 13.

"Our position at the time was that we had a total loss under the terms and conditions of the policy," said David Strode, Hughes' risk manager.

However, some insurers argued that this did not constitute a rescue attempt and that Leasat 3 would not be a total loss under the terms of the policy unless repairs that were effected during the August shuttle mission also failed to restore the satellite to its proper orbit, according to Mr. Frick.

Mr. Frick says that Hughes probably could have recovered on a total loss claim without agreeing to the latest rescue mission.

However, there was a "general feeling by Hughes that it would be in their interest to try to work out a deal that would help the underwriters to the extent they could be helped without penalizing Hughes unduly," Mr. Frick said.

Thus, Hughes and all the insurers except Lexington "put the policy aside" and negotiated the agreement by which Hughes collected on its claim and funded the repair mission, and which allowed underwriters the chance to recover their money if the repairs are successful, he said.

The outcome of the Leasat 3 repair mission isn't yet known, but Hughes hopes to soon fire the upper-stage rocket and boost the satellite to its proper orbit 22,000 miles above the Earth's surface.

The four satellites in the Leasat series were insured under a single program brokered by M&M, its London affiliate Bowring Space Projects and other European brokers.

Insurers on the program included eight U.S. companies, Lloyd's of London underwriters and other European insurers, ac-

cording to Mr. Tily.

The U.S. coverage was led by International Technology Underwriters Inc. of Washington, which writes on behalf of 85 insurance companies. Intec took \$27 million of the Leasat 3 risk.

Other U.S. insurers on the risk included Lexington, which wrote \$4 million in coverage; Aviation Office of America, a Crum & Forster unit; and Mutual Marine Office of New York.

Lloyd's underwriters, led by Merrett Syndicates Ltd. and the Ariel Syndicate, provided the remaining coverage along with three French insurers, according to sources.

Coverage on the Leasat program runs from Dec. 31, 1983, to Dec. 31, 1986, according to a copy of the Lexington policy filed with the Hughes lawsuit.

Rates for the coverage were 6.25% for Leasat 1 and 2. The rate was to drop to 5.75% for Leasat 3 and 4 unless underwriters suffered a loss, in which case the rate was to remain 6.25% for all four launches, according to the policy.

The program also offered Hughes a no-claims bonus of 22% equal to premiums paid, which the aerospace company failed to earn because of the Leasat 3 and 4 losses.

Under the Leasat 3 salvage plan, the insurers, with the exception of Lexington, paid their policy limits to Hughes, which agreed to pick up the cost of repairing the satellite.

If the repairs are successful and the satellite is accepted by the Navy, Hughes will return \$32 million to underwriters within 30 days after the acceptance. Underwriters will also receive 50% of Leasat 3's revenues from the Navy over the next four years, according to the plan.

M&M's Mr. Tily said that he expects all insurers, including Lexington, to pay Hughes' \$85 million claim on Leasat 4, which he called "a fairly straightforward matter."

A Lexington official said the company, which also wrote \$4 million of the Leasat 4 risk, has received claim documents from Hughes and is reviewing them. ■

RIMS tape blasts ISO form

Continued from page 2

which will allow insurers to exclude coverage for bodily injury or third-party property damage that occurs before that date, even if the first claim is filed during the claims-made policy period.

And, although ISO intends for the retroactive date to be the inception date of the first claims-made policy, insurers can move the retroactive date forward with subsequent policies.

To prevent coverage gaps under new policies, buyers will be allowed to purchase an extended reporting period endorsement for expiring policies at a cost of up to 200% of the policy premium.

However, the panelists appearing in the RIMS video tape contend that the new policy form may leave policyholders with gaps in coverage when they change over to a claims-made policy from an occurrence policy.

In addition, the videotape also criticizes the new form's exclusion for pollution coverage and an endorsement, scheduled to take effect on July 1, 1986, that would include defense costs within the aggregate limits of the policy.

Mr. Blick calls the defense cost endorsement "over-kill."

Mr. Tierney says the new form also could create problems because it apparently will not coincide with umbrella liability policy forms.

"We see total non-concurrency in the form in turn leading to serious coverage gaps," according to Mr. Tierney.

A new claims-made form being used for umbrella coverage in the London market apparently does not coincide with the ISO claims-made form, he adds (BI, Sept. 23).

ISO has said the claims-made form was designed to cut down on litigation over coverage. However, Mr. Chanzis explains, it probably will result in more litigation.

Instead of offering the claims-made form, Mr. Tierney suggests that the wording of the occurrence form can be "surgically repaired" so that a "marketplace" compromise between risk managers and insurers can be reached.

One possible compromise is that a policy could be triggered either by the first claim against arising out of an occurrence or by the reporting to the insurer of cir-

cumstances that probably will give rise to future claims, Mr. Tierney says.

In this case, all future related claims would be covered under that policy.

This could assure risk managers coverage for reported occurrences or circumstances and prevent them from being locked in with a particular insurer because of fears about gaps in coverage should they change underwriters.

Such a form is already used for directors and officers liability coverage, Mr. Tierney added.

Mr. Chanzis notes ISO already has responded to some of RIMS' objections to the form by, for example, allowing a 60-day free mini-tail and also limiting endorsements in the tail extension.

"We feel RIMS input had a lot to do with bringing about these changes," he said.

In addition, Mr. Chanzis and Mr. Hackenberg also urged risk managers to communicate their opposition to the new form by, for example, testifying at public hearings and contacting legislators and insurance regulators.

For further information about the videotape, contact RIMS at 205 East 42nd St., New York, N.Y. 10017; 212-286-9292.

In a related development, the Independent Insurance Agents of America has stated that it will support—rather than merely not oppose—ISO's claims-made policy if ISO implements changes in how the coverage is triggered.

The IIAA wants ISO to change the policy's wording so that coverage is triggered if a policyholder notifies the insurer within the policy period of a possible claim, rather than filing a formal claim.

However, the agents' association does remain opposed to ISO's proposal to include defense costs within the CGL policy limits, although the association "acknowledges and understands the need for cost containment."

"We are very concerned that the inclusion of defense costs within the CGL's aggregate limits will shift this escalating financial burden onto the shoulders of the insured," said Frederick J. England Jr., the IIAA's immediate past president.

And, Mr. England said this provision "will create many serious problems with respect to the monitoring of future defense procedures." ■

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Insurers await quake losses

Continued from page 1

A Lloyd's of London spokesman says "it's much too early to know" what Lloyd's underwriters' exposure might be, but adds that they do not reinsure Mexican underwriters "to any great extent." If 10% of Mexico City is destroyed, the spokesman said Lloyd's underwriters' losses will be small. But if the quakes ravaged up to 15% of the city, "it could affect us substantially," he says.

Most of the reinsurance written at Lloyd's for Mexican insurers is on an excess-of-loss treaty basis, so Lloyd's can't accurately determine its exposure until the primary underwriters assess theirs, he explains.

Commercial Union Assurance Co. P.L.C. in London said it had no indication what its losses would be.

The Travelers Insurance Co. in Hartford, Conn., expects claims stemming from reinsurance treaties it has with both Mexican insurance companies and with U.S. insurers on Mexican risks, but it could not estimate the extent of its liability.

American Re-Insurance Co. in New York will have some exposure, said a spokesman for Aetna Casualty & Surety Co., American Re's parent, but it will take several weeks before the reinsurer knows the extent of its exposure.

"There are 1 million buildings in Mexico City and about 1,000 of them were seriously damaged," the spokesman explained. "It will take some time to determine who has got the 0.1% that were damaged," he adds.

Others say commercial damage might not be as serious as first thought. "There's no question that there's a lot of damage, but it's not as serious as we might have thought (initially). Widespread destruction just didn't occur in the industrial section," says Sherman (Jerry) Olson, vp with Grupo Seguros La Comercial in New York, one of Mexico's largest insurers.

Earthquake coverage in Mexico is written as an endorsement to standard fire insurance policies underwritten by Mexican insurers. Only Mexican companies are permitted to write primary insurance in Mexico. Some of these companies are government-owned.

Sources say earthquake coverage is expensive and coverage is limited to 75% of the loss with a 2% deductible. The endorsement does not cover business interruption losses stemming from an earthquake.

Most reinsurance of Mexican risks is written on a treaty basis, but multinational businesses might have up to 50% of their insured property value reinsured facultatively, observers say.

Industry sources say that some of the commercial property destroyed in Mexico may not have been insured for earthquake damage because of the high cost of the coverage. Similarly, many homeowners also did not buy the coverage.

U.S. corporations doing business in Mexico buy their basic fire insurance from a local insurer, and have a choice of purchasing the earthquake endorsement from the local insurer or buying difference-in-conditions coverage from an insurer outside of Mexico, usually a U.S.-based international insurer.

Those that do buy the Mexican earthquake endorsement usually also buy difference-in-conditions coverage for the 25% of their property exposure not covered under the quake endorsement and for business interruption risks.

This coverage can be part of a global policy, which combines under one policy several of a multinational's domestic and foreign risks, or it could be purchased separately.

American International Group Inc., CIGNA Corp., Continental Insurance Co. and Royal Insurance all said they wrote direct coverage for U.S. risks in Mexico but did not expect losses to be significant because it appears property damage to Mexican subsidiaries of U.S. corporations was light.

"We still have very little hard information at this point,"

explains John Hughes, senior vp with AIG in New York. He said AIG dispatched a team of six claims experts to Mexico last week.

According to the team, which had to fly to Monterrey, 600 miles north of Mexico City, to gain access to long-distance telephone communications, AIG's clients sustained "very minor" damage. Those clients include a "broad cross-section of the Fortune 500 companies," said Mr. Hughes.

A Travelers spokesman said there is a "possibility" Travelers will receive claims under global or DIC policies it wrote for U.S. companies with operations in Mexico. But, the spokesman said, "We won't know how much until the claims start coming in."

Aetna Life & Casualty Co. in Hartford, Conn., says its losses on a direct basis will be "minimal," according to an Aetna spokesman. This is partly because much of the earthquake coverage it wrote in Mexico was reinsured.

Direct losses to U.S. insurers may be minimal because most of the U.S. operations in Mexico are manufacturing or laboratory facilities located in low-rise buildings that were constructed to be earthquake-resistant.

In addition, many U.S. operations are located in the northern and southern portions of Mexico City, away from the central section that sustained the bulk of the damage. Others are in other sections of the country away from Mexico City.

However, Sheraton Hotel Corp.'s Ixtapa Sheraton Resort sustained "substantial" damage, including the collapse of a large, glass atrium over the hotel lobby, forcing guests to evacuate the 358-room hotel, according to a spokesman for ITT Corp., Sheraton's parent.

John Kapioltas, Sheraton's president and chief executive officer, flew to Mexico last week to survey the damage at the resort, which is on Mexico's Pacific coast, north of Acapulco.

Company officials are awaiting reports from structural engineers to learn the extent of the damage so they can better estimate when the resort may reopen. Spokespersons say the resort will be closed at least six to eight months and perhaps "indefinitely."

Sheraton would not comment on its insurance.

Four other Sheraton-owned or franchised hotels in Mexico, including one in Mexico City, sustained only minor damage, including broken glass and cracks, they said.

Two Nabisco Brands Inc. manufacturing plants suffered damage of between \$1 million and \$2 million, a company spokeswoman said.

The two plants, in Vallejo and Tepeyac, are back in operation, but not yet working to full capacity, she said, adding that none of the 2,000 employees at the damaged plants were injured and two other Mexican plants were totally unaffected.

Some insurers speculate that business interruption losses at U.S. businesses in Mexico could reach millions of dollars, even if physical damage to U.S. operations is minimal, because of the disruption in water and electrical service in many areas around Mexico City.

"There is no question that there will be substantial business interruption in general," said a spokesperson for DuPont Co.

There apparently was very little damage to DuPont's 15-story Mexican headquarters in Mexico City and apparently no damage to its four plants in the Mexico City area, which manufacture fibers, pigments and paints.

But, delays can be expected in importing raw materials to Mexico and transporting products out of the country, including pigments which are manufactured there for all of DuPont's Latin American markets. "It would be difficult to estimate (the costs of delays)," the spokesman said.

DuPont is totally self-insured for earthquake damage worldwide, but meets local governmental requirements regarding insurance, the spokesman added.

But generally, multinational firms interviewed by Busi-

ness Insurance reported minimal disruption of operations.

International Business Machines Corp. had "no significant damage" and no serious injuries to its 250 employees at its manufacturing plant in Guadalajara, said James Conerty, manager of property insurance for IBM. In fact, offices were open the day after the first earthquake struck, he said.

Similarly, Ford Motor Co. reportedly was unaffected by the quake. "All of our plants came out totally unscathed and they're operational," a spokesman said. Ford has a \$1 billion investment in its three major assembly plants in Cuautlan, Hermosillo and Chihuahua and a handful of smaller facilities on the border between Mexico and Texas, he said.

Union Carbide Corp. had no significant damage at any of its 17 manufacturing plants located throughout Mexico, nor to its headquarters in Mexico City, a company spokesman said. And, despite some power outages, all plants were operating at near full capacity, the spokesman said.

Preliminary indications are that Xerox Corp.'s Mexican subsidiary sustained little or no damage to its 12-story headquarters near Mexico City, said a company spokesman.

General Motors Corp. reported "relatively minor" damage including wall cracks and chipped plaster to its Mexican headquarters and a commercial vehicle assembly plant in the Mexico City area.

"We don't anticipate any supply problems," a spokesman said. "We don't anticipate any serious long-term impact."

Chrysler Corp. reports only "slight" damage to a truck assembly plant in Mexico City and "negligible" damage to a car assembly and related plants in Toluca, according to a Chrysler official. However, the company will not know the extent of damage for sure until the plants are fully tested, he said.

The company's earthquake insurance is purchased through Seguros La Comercial. Chrysler has some differences-in-condition insurance for some of its international risks, but the official declined to comment on whether it had it for its Mexican risks.

Meanwhile, executives of the American Hull Insurance Syndicate await final news of any ships lost in the tidal waves that followed the two quakes, said Allen E. Schumacher, chairman of the American Hull Insurance Syndicate.

According to reports received at the International Union of Marine Insurance conference in Tokyo last week, 21 vessels were first reported missing following the quakes. Subsequent reports, however, said that two freighters and eight fishing vessels survived the storm, leaving 11 fishing vessels unaccounted for last week.

Mr. Schumacher, who was at the Tokyo conference, could only guess at the losses that could hit the hull syndicate.

"We only know what we read in the papers," he said. "But, there could be a substantial aggregate loss."

American Hull Insurance Syndicate reinsures 15% of the marine insurance account of Aseguradora Mexicana, he said.

Losses from the Mexican quakes are expected to affect the earthquake insurance market, which already has constricted greatly over the last year.

"International underwriters have to start taking a hard look at earthquake exposures in Mexico, Japan and Chile," says Ken Gorelick, regional manager of the international department at Continental Insurance Co. in Los Angeles.

During the soft market, insurers were "pretty lax" in underwriting earthquake risks, but the Mexican quakes will likely change this, he predicts.

"I know I'm going to be tough with the quake in Mexico," he adds.

Also contributing to this story were Associate Editor Steve Taravella in Los Angeles, Associate Editors Diane Lynn Kastiel and Meg Fletcher in Chicago, London Editor Stacy Shapiro and freelance correspondent John Parry in Switzerland.

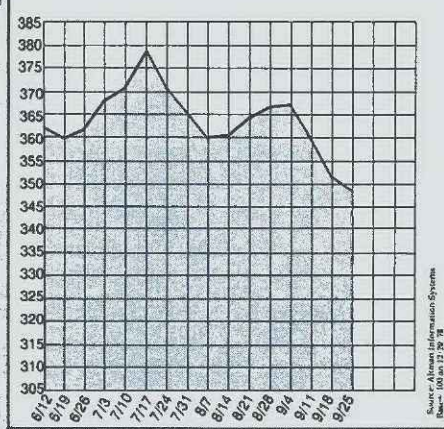
BI Industry Stock Report

September 25, 1985 9/19/85 thru 9/25/85

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Baldwin & Lyons Inc	OTC 60.00	0.0	9.9	0.80	1.3	63.75	60.00	6.2
Corroon & Black Corp	NYSE 45.75	2.5	0.0	1.00	2.2	45.75	44.38	22.8
Crump E H Cos Inc	OTC 28.50	6.5	18.4	0.50	1.8	29.50	26.75	118.2
Emett & Chandler Cos Inc	OTC 13.63	2.8	34.9	0.00	0.0	14.75	13.63	56.3
Gallagher Arthur J & Co	OTC 35.00	-3.4	19.6	0.28	0.8	35.75	35.00	138.6
Hall Frank B & Co Inc	NYSE 27.88	0.5	0.0	1.00	3.6	28.38	27.88	160.0
Marsh & McLennan Cos Inc	NYSE 67.50	-0.6	17.3	2.40	3.6	69.50	67.50	203.6
Poe & Assoc Inc	OTC 8.00	0.0	0.0	0.80	10.0	8.00	8.00	8.9
Reed Stenhouse Cos Ltd	OTC 21.88	0.0	28.4	0.00	0.0	0.00	0.00	0.0
AGENTS/BROKERS	AVERAGE		36.4		2.3			
Conglomerates & Holding Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.(000)
American Express(Fireman's Fd)	NYSE 41.38	1.8	14.3	1.36	3.3	42.63	41.38	4,278.7
Anderson Clayton(Ranger/PanAm)	NYSE 41.00	3.1	30.1	1.32	3.2	41.00	39.38	47.4
Aracno Inc	NYSE 9.13	1.4	0.0	0.00	0.0	9.25	9.00	192.1
Berkley W R Corp	OTC 20.50	3.8	60.3	0.32	1.6	20.50	19.75	201.1
CIGNA Corp	NYSE 52.63	-1.4	74.1	2.60	4.9	54.75	52.63	858.6
City Investing Co. (Home Ins.)	NYSE 7.25	0.0	1.1	0.00	0.0	7.25	7.25	0.0
CNA Finl Corp (CNA)	NYSE 49.63	-1.5	17.2	0.00	0.0	51.63	49.63	143.5
General Re Corp	NYSE 79.50	-0.9	126.2	1.56	2.0	83.75	79.50	538.5
ITT (Hartford Group)	NYSE 32.38	-1.1	9.4	1.00	3.1	33.13	32.38	2,023.4
Sears Roebuck & Co. (Allstate)	NYSE 32.88	-2.6	8.8	1.76	5.4	34.13	32.88	2,148.1
Teledyne Inc (Argonaut)	NYSE 233.25	-2.7	5.0	0.00	0.0	239.25	233.25	203.5
Transamerica Corp	NYSE 27.25	-3.5	14.0	1.68	6.2	28.00	27.25	339.6
Occidental & Fred S. James	NYSE 27.25	-3.5	14.0	1.68	6.2	28.00	27.25	339.6
CONGLOMERATES/HOLDING COS.	AVERAGE		9.5		1.9			
Insurers	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.(000)
Aetna Life & Cas Co	NYSE 44.25	2.3	18.2	2.64	6.0	45.63	44.25	2,331.0
American General Corp	NYSE 28.13	-5.5	8.7	1.00	3.6	29.88	28.13	2,347.7
Ameri Heritage Life Invt Co	NYSE 33.88	1.1	9.9	1.20	3.5	34.00	33.50	15.1
American Indty Finl Corp	OTC 16.50	-7.0	0.0	1.12	6.8	18.25	16.50	27.7
American Intl Group Inc	NYSE 84.38	1.4	22.6	0.44	0.5	86.38	84.38	823.1
Aneco Reins Ltd	OTC 1.25	-9.1	0.0	0.00	0.0	1.38	1.25	0.6
Avemco Corp	NYSE 30.25	-0.8	13.3	0.60	2.0	30.50	30.25	5.2
Business Mems Assurn Co Amer	OTC 25.75	-3.7	7.5	1.04	4.0	26.25	25.38	73.0
Chubb Corp	NYSE 68.88	-1.6	16.8	2.34	3.4	71.75	68.88	528.8
Combined Intl Corp	NYSE 42.25	-2.3	8.0	2.16	5.1	42.88	42.00	189.8
Continental Corp	NYSE 38.25	-5.6	18.7	2.60	6.8	40.75	38.25	821.7
Crown Life Ins Co	OTC 230.00	1.4	13.9	0.00	0.0	230.00	215.00	0.1
Durham Corp	OTC 39.50	-1.3	7.3	1.28	3.2	40.00	39.50	29.6
Farmers Group Inc	OTC 58.00	-3.1	9.9	1.76	3.0	60.13	58.00	369.8
Fremont Gen Corp	OTC 24.00	2.7	0.0	0.48	2.0	24.75	23.88	145.7
Great West Life Assurn Co	OTC 430.00	0.0	11.1	1.60	0.4	430.00	430.00	0.0
Hanover Ins Co	OTC 42.25	-1.7	57.9	0.56	1.3	43.00	42.25	29.2
Hartford Steam Boiler Insnptn	OTC 50.50	3.1	15.9	2.00	4.0	50.50	49.25	31.4
Kans City Life Ins	OTC 24.50	-3.0	9.6	0.87	3.5	24.75	24.50	5.0
Kemper Corp	OTC 52.25	-0.9	15.0	1.80	3.4	54.38	52.25	222.5
Liberty Corp S C	NYSE 29.50	0.9	13.0	0.72	2.4	30.75	29.50	17.2
Lincoln Natl Corp Ind	NYSE 41.25	2.8	9.9	1.84	4.5	41.75	40.50	222.6
Mission Ins Group Inc	NYSE 4.00	-20.0	0.0	0.00	0.0	4.88	3.50	316.2
Monumental Corp	OTC 29.88	-2.0	10.9	1.40	4.7	30.50	29.88	11.5
Nobel Ins Ltd	OTC 11.63	10.7	15.3	0.25	2.2	11.63	10.75	38.0
Northwestern Natl Life Ins	OTC 20.25	-3.6	5.2	0.80	4.0	21.88	20.25	185.0
Ohio Cas Corp	OTC 55.75	-1.3	20.9	2.80	5.0	58.75	55.75	108.2
Old Repl Intl Corp	OTC 27.88	-3.5	7.5	0.74	2.7	29.75	27.88	94.9
Orion Cap Corp	NYSE 24.50	-2.1	0.0	0.76	3.1	24.50	23.88	31.4
Protective Corp	OTC 18.25	-2.7	6.7	0.66	3.6	19.00	18.25	180.1
Provident Life & Acc Ins Co	OTC 26.00	1.1	6.5	0.76	3.2	26.13	23.75	214.6
St Paul Cas Inc	OTC 68.00	-0.9	0.0	3.00	4.4	69.75	68.00	251.4
SAFECO Corp	OTC 37.13	-4.2	12.1	1.60	4.3	38.75	37.13	307.1
Sri Corp	OTC 17.00	-12.3	50.0	0.80	4.7	19.50	17.00	439.9
Seibels Bruce Group Inc	OTC 17.63	-0.7	0.0	0.80	4.5	18.25	17.63	101.6
Statesman Group Inc	OTC 4.25	0.0	0.0	0.15	3.5	4.50	4.13	46.6
Tokio Marine & Fire Ins Co	OTC 194.75	9.4	33.7	1.05	0.5	194.75	177.00	11.2
Torchmark Corp	NYSE 20.00	-8.0	8.4	0.60	3.0	21.63	20.00	511.0
Travelers Corp	NYSE 40.13	-0.3	9.7	2.04	5.1	41.13	40.13	2,202.8
United Fire & Cas Co	OTC 24.50	4.3	21.3	1.20	4.9	24.50	24.50	3.0
United States Fid & Gty Co	NYSE 31.00	-6.1	129.2	2.20	7.1	33.38	31.00	1,102.4
USLife Corp	NYSE 35.13	4.9	7.9	1.04	3.0	35.38	33.63	521.1
Washington Natl Corp	NYSE 23.63	6.8	6.8	1.08	4.6	23.63	22.50	73.7
Zenith Natl Ins Corp	OTC 19.38	2.0	0.0	0.68	3.5	19.38	18.50	57.4
INSURANCE COMPANIES	AVERAGE		17.2		2.4			

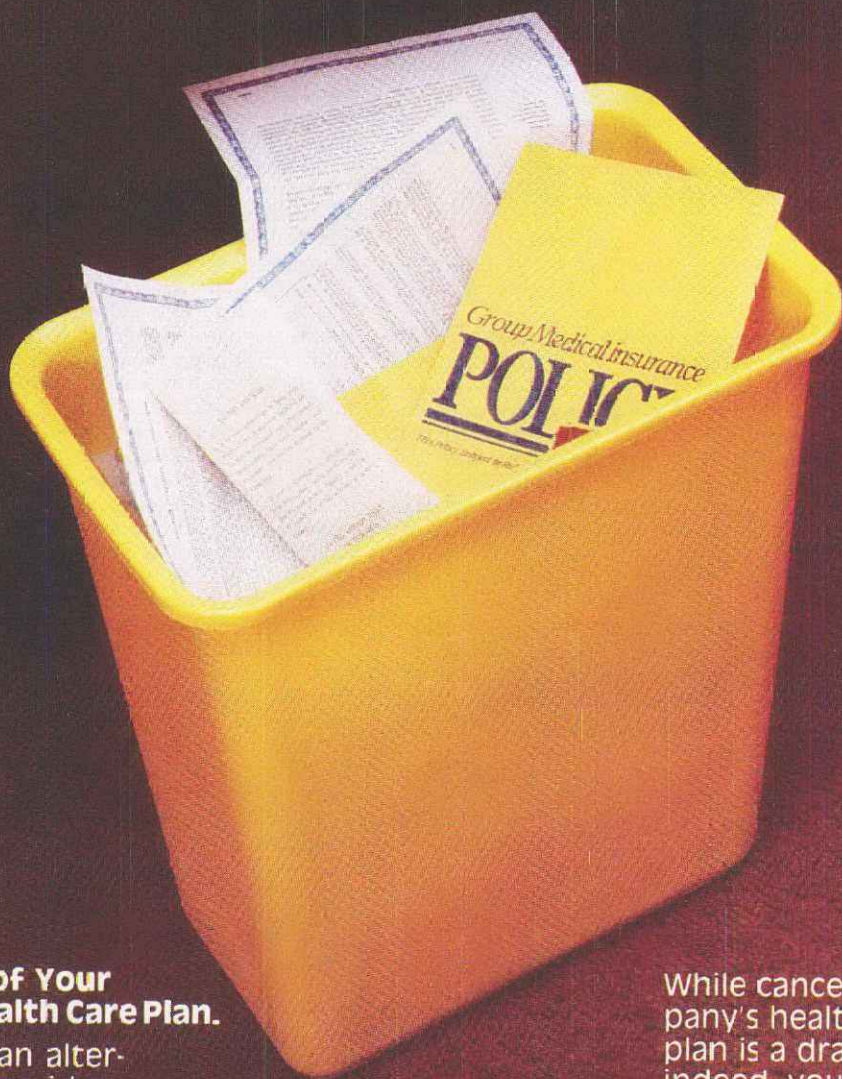
System design: Altman Information Systems

BI Insurance Index



The Business Insurance stock index continued its downward spiral for the third consecutive week. For the period ending Sept. 25, the BI index closed at 348 points, dropping 2.7 points from 350.7 points on Sept. 18. A total of 22 stocks posted gains, 30 stocks declined and five stocks were unchanged. The biggest gains were by Nobel Insurance Ltd., up 10.7%; Tokio Fire & Marine Insurance Ltd., up 9.4%; Washington National Corp., up 6.8%; The Crump Cos. Inc., up 6.5%; and USLife Corp., up 4.8%. The biggest losses were by Mission Insurance Group Inc., down 20.0%; SRI Corp., down 12.2%; Avemco Corp., down 9.1%; Torchmark Corp., down 8.0%; and American Indemnity Financial Corp., down 7.0%. The BI index declined 0.7% for the period.

CANCEL YOUR HEALTH INSURANCE!



Take Control of Your Employee Health Care Plan.

Self-funding is an alternative which provides maximum flexibility in plan design and increases control of your employee Health Care dollars. In-depth plan analyses will allow you to track claims, compare health care providers and assure responsible, quality medical care for your employees. Self-funding with professional third party administration provides increased cash flow. Large claim reserves will no longer be held and invested by your insurance carrier. Instead you establish and hold reserves, gaining competitive earnings on these funds.

Not All Third Party Administrators Are Alike!

Only independent QicClaim Association members provide the wide array of in-depth management information reports available with the QicClaim Health Claims Management System. Their experience in employee health benefits administration, knowledge of available reinsurance markets, and expertise in plan design make them leaders in the employee benefits administration industry.

While cancelling your company's health insurance plan is a drastic step indeed, you need to know more about self-funding and other cost containment ideas. See the listing on this page for the Third Party Administrator near you who's an independent QicClaim Association Member... or ask your broker.



QicClaim Association

The Winning Team
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Ask Your Independent QicClaim™ Association Third Party Administrator.

CALIFORNIA

Sacramento
Concept Administrators, Inc. 916/364-7000

COLORADO

Denver
Mountain States Administration Company 303/368-4500

CONNECTICUT

Glastonbury
Diversified Group Brokerage Corp. 203/659-0381

GEORGIA

Savannah
Jones, Hill & Mercer Insurance 912/236-1551

ILLINOIS

Champaign
Management Services, Inc. 217/351-9233
Chicago
Allied Benefit Systems, Inc. 312/321-5071
Northbrook
Syncor Administrative Services, Inc. 312/291-1230
Palatine
Claims Administration Services, Inc. 312/934-7772
Park Ridge
Insurance Administration Center, Inc. 312/297-2020
Parkside Medical Services Corporation 312/698-4769
Rosemont
BMS Services, Inc. 312/693-5410

INDIANA

East Chicago
Elmer Layden, Inc. 219/397-6920
Elkhart
Pyramid Benefit Services 219/293-5463
Indianapolis
The BeneTech Corporation 317/843-0116
Key Benefit Administrators, Inc. 317/255-3822
Warren Steinborn Associates 317/875-0351
Lafayette
Health Care Administrators, Inc. 317/474-5455

IOWA

Des Moines
Employers Claim & Administrative Services, Inc.
515/286-4400

KANSAS

Overland Park
Power Group Designs, Inc. 913/491-3280

LOUISIANA

Metairie
Associated Health Plans, Inc. of Louisiana 504/885-9365
Funding Benefits Administrative Services, Inc.
504/831-6651
New Orleans
Jack A. Parker & Associates, Inc. 504/596-3166

MARYLAND

Lutherville
BeneChek, Inc. 301/321-6294

MICHIGAN

Detroit
CAM Administrative Services, Inc. 313/567-3200

MISSISSIPPI

Jackson
Benefit Administration Services, Ltd. 601/969-1286

MISSOURI

Kansas City
Woodsmall Benefit Services, Inc. 816/421-7788
St. Louis
DBL Services, Inc. 314/241-8665
Spectrum Benefits, Inc. 314/991-0878

NORTH CAROLINA

High Point
Benefit Plan Services, Inc. 919/889-2003

OHIO

Cleveland
Administrative Service Consultants, Inc. 216/526-2730
J.P. Farley Corporation 216/871-6800
Columbus (Dublin)
Employee Benefit Management Corp. 614/766-5800
Toledo
Benefit Claims Administrators, Inc. 419/255-1400

OKLAHOMA

Oklahoma City
Mutual Assurance Agency, Inc. 405/495-4120
Oklahoma Administrative Services 405/557-0202

PENNSYLVANIA

Bridgeville
Benefit Coordinators Corp. 412/563-6700
Newtown Square
Comprehensive Benefits Service Company, Inc.
215/359-1400
Pittsburgh
Babb, Inc. 412/237-2020

SOUTH CAROLINA

Charleston
Heffron, Ingle, McDowell & Cooper 803/577-2600
Columbia
Planned Administrators, Inc. 803/782-5200

TENNESSEE

Johnson City
Corporate Systems Administration, Inc. 615/282-3420
Memphis
Pittman & Associates, Inc. 901/323-2140

TEXAS

Amarillo
Corporate Systems 806/376-4223
Houston
Insurance Benefit Services, Inc. 713/578-0250

UTAH

Salt Lake City
MICA Benefits, Inc. 801/487-4113

VIRGINIA

Norfolk
Benefit Consultant Services 804/855-8061

WISCONSIN

Appleton
Employee Benefit Claims of Wisconsin, Inc. 414/731-5333
Madison
Preferred Administrative Services, Inc. 608/273-1776
Milwaukee
Employee Benefit Claims of Wisconsin, Inc. 414/273-3541